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## **The performance of New England hotels just keeps getting better and better**

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What a wonderful time to be in the hotel business! It is the summer and the livin is easy! The performance of New England hotels just keeps getting better and better. A weak Euro and a weak Canadian dollar are proving to be no problem for regional hoteliers. According to Pinnacle Advisors and their Pinnacle Perspective, the Boston market is enjoying record setting performances. In June the market ran 90.3% occupancy and an average daily rate of \$286.77, up 11.2% from last year. The year to date, June 2015 occupancy is running at 79.8% at \$242.18, up 7.7%. The year to date numbers are outstanding when you consider the atrocious weather we experienced this past winter and spring.

If there ever was a time that new supply was needed in the Boston market, it is now. The hotels that have opened in 2015, like the new "Envoy," a Marriott Autograph Collection hotel in the Waterfront District, have experienced operating performance that far exceeds the projections made for debt underwriting. The pipeline for new hotels is jammed with upscale select service properties that want to take advantage of strong occupancies without having to provide meeting space and other expensive amenities.

Although residential is the dominant component of many mixed use developments, hotels are included as a compliment within the mixed use developments throughout Boston and the suburbs. A new Fairfield by Marriott in the Northpoint section of Cambridge, a Residence Inn under construction in Watertown's, Arsenal Mall redevelopment, a Hilton Garden Inn in Brookline's hospital district and three hotels in Somerville's Assembly Square area, to name just a few. The new Residence Inn and Towne Place Suites in Chelsea are on a record setting performance pace. Others proposed or in process for the Ink Block, Alewife Station in Cambridge, a TBD in the Waterfront Sq. project in Revere. A boutique hotel and a Residence Inn proposed for Burlington near the Burlington Mall. Another Residence Inn in Waltham as well as one in Braintree. Along I-495, the steel is up for a Courtyard by Marriott in Littleton across from IBM and a Homewood Suites is under construction in front of the Solomon Pond Mall entrance in Marlboro as well as a Residence Inn in Bridgewater.

Debt is flowing and consequently, so are the deals. Unfortunately for developers, construction costs are mounting by the month and those that know how to contain costs will be the winners. Boston construction costs are over \$400 s/f. Non-union suburban construction is increasing as well. Construction costs combined with hotel brands loading up on "standards" and upscale levels of furnishings and finishes, it is impossible to construct a hotel for under \$100,000 per room now. Many of the proposed deals under review face certain extinction before they come out of the ground due to increased costs. That's a good thing if you worry about over supply.

"Over supply" is a phrase reserved for those Other cycles. In this cycle, we won't see any over building. The cycle is on a roll and it is just going to keep rolling along! The experts predict that this

cycle will top out in 2018, three years from now. So a protracted permitting process could cause developers to complete construction just in time for the peak of the market.

Existing hoteliers need to be aware of a new trend that has become a groundswell affecting everything in its path. The Millennial Generation is impacting the hotel industry, similar to the Baby Boomers of the 60's. AirBNB, Uber and all things mobile are all changes brought about by the new generation. Hotels are focused on communal space and less emphasis on guestrooms. The guestroom is becoming utilitarian. A soft bed and a clean bath. But the lobby has to WOW them. High energy food & beverage outlets with quiet places for internet connecting are preferred. The two most important aspects for Millennial hotel guests is a great bartender and a lot of outlets to recharge batteries. Travelers from 30-50 years old have already established brand loyalty. It's the 20 year old's that the hotel companies are after, with the goal of keeping them for a lifetime.

O'Connell Hospitality Group, LLC, (OHG) was formed in 2000 and has grown to become one of the nation's top real estate firms specializing in hotel investment transactions. In that time, O'Connell has presided over more than \$2 billion of hotel investments ranging from oceanfront resorts, major urban hotel projects and suburban, upscale-limited service hotels.

Previous to OHG, James O'Connell was senior managing director for Insignia ESG/Hotel Partners and ran the hospitality practice in the northeastern U.S. region. He is a proud alumnus of RECOLL Management Corp., where he managed hotel dispositions from the failed Bank of New England, an active member of the International Society of Hospitality Consultants, and a REFA sponsor. He is a 1982 graduate of Massachusetts Maritime Academy.

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