



nerej

Buyers patiently wait for sellers to decide if this is the time to put their properties up for sale

July 23, 2008 - Spotlights

Ever wonder what it would be like to be the only single guy in a room full of bride's maids? Put your hotel on the market right now, price it correctly, and you'll get that feeling. Buyers are plentiful. Well capitalized and with financing in place, these investors wait while sellers lament missing the top of the cycle.

The market is very quiet right now as the angst caused by uncertain credit markets keep people from making decisions. A survey done by HVS International showed that in the first quarter of 2007, there were 183 hotel transactions over \$10 million. In the first quarter of 2008, only 43 hotels of that size were sold. Hotel brokers remain positive by thinking it could be worse, we could be trying to sell 4 mpg RV homes!

The timing is perfect to build hotels. Although materials costs increased approximately 30% in the past eighteen months, subcontractors are plentiful. Labor is available and pricing for construction projects have become very competitive. Local banks have been willing to lend money as long as the sponsorship is strong and the project is well capitalized. Equity contributions have risen from twenty percent to 35%; however, fundamentally, this market correction is a positive move as it insures the long term viability of the project.

Then things are bad for some, it's good for others. Investors with a five to seven year holding period will do very well if they close deals in the second half of 2008 and into 2009. This summer is a GREAT time for hotel owners to take advantage of a very quiet market. Presently there is a gap between the value expectations of the many hotel owners and investment return requirements of the buyers so the supply of good hotel investments is low. IRR thresholds have risen from +/-15% to +20%. This is a tough message to bring back to hotel owners who witnessed hotels in their competitive set selling for lower cap rates just last year.

Why should hotels owners sell? At what point will hotel values return to 2006-07 levels? Put one way, if you have kids in high school right now, they will probably graduate college before we get back to that level. We hear that Europeans will travel the US to take advantage of the weak dollar, however airfares "across the pond" have skyrocketed and the reputation of long lines through U.S. Customs deters much of that travel. Here at home, John Q. Public has figured out that it costs \$4.50 to drive about 15 miles. Driving to Cape Cod instead of out west is not an alternative for many strapped consumers. If they travel by air, they have to add 10% to the airfare just to check one bag. Baby Boomers were taking cash out of their homes and traveling the world. But with falling home values, the equity they built up over years has evaporated. They are staying put.

The last drop in hotel values was caused by a massive, sudden terrorist act. In order to get our country rolling again the Fed cut interest rates. There was a tax rebate to stimulate the economy. The dollar was high and oil prices were low. Now, we are in a weak economy, but there are no quick

fixes this time. Raising interest rates would raise the value of the dollar and decrease oil prices but it would cause the foreclosure of hundreds of thousands of homes and probably bankrupt Fannie Mae and Freddie Mac. As oil goes up so does the price of corn and everything else as well. At what point do we worry about inflation?

Maybe it's not politically correct to say, but the crystal ball in the O'Connell Hospitality Group's office shows that the point at which the economy turns around, people start traveling again and hotel values rise, is the point at which the first of our American soldiers comes home from Iraq and stays home. That is when governments and investors around the world will see that the US will redeploy billions of dollars back into the US economy instead Iraq. That is when things will turn around. If you share a view that this will happen in the short term, then hold. If you believe that the timing is right to sell your hotel, give us a call, we have a great new RV parked right out back.....

Jim O'Connell, ISCH, is the president of O'Connell Hospitality Group, LLC. Boston.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540