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Here we go, hook line and sinker - by James O'Connell

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James O'Connell

As I review my 1099 before filing my 2023 tax returns, all I can say is “I’m glad THAT’s over!” The hotel transaction markets for those 12 months and the first half of 2024 were the worst in memory. The good news is that after 18 months of bouncing along the bottom like a lead weight on a Cod Jig, we are experiencing an upsurge in activity and have started to reel in some deals.

We have survived the massive inflation and skyrocketing borrowing costs and interest rate cuts have become a factor rather than increases. The economy is rebounding and more and more companies are feeling strong enough to apply the pressure and demand a return to the office. People are actually traveling for business again which has returned “Corporate Transient” back to the primary segment of hotel room demand in most markets. Corporate Group business has returned to its 2019 levels. As the rest of the world opened up, post Covid “revenge travel” has given way to a more normal, strong, seasonal market segment. We recently experienced a seasonal, select service hotel in Northern Maine that enjoyed a six month average daily room rate in excess of \$500 per night!

Hotel demand in 2024 is strong enough that union labor leaders feel comfortable making a lot of noise outside many Boston hotels. The numbers show that hotel guests are covering their ears and walking on by.

The 50 basis point interest rate cut in September kick-started the capital markets. Banks are back in the business of lending. Balance sheet lenders who took the last eighteen months off, are back in full force and money is flowing out the door. In anticipation of further interest rate cuts, investment bankers have hit the road, equity is being raised and more deals will be done.

Investors return hurdles remained the same throughout this cyclical downturn and with lower borrowing costs, those hurdles can now be overcome. As we enter 2025, the search for quality assets to trade will broaden. A active, frothy transaction market with lower borrowing costs produces satisfactory Direct Cap Rates and improves the value of existing cash flows.

A prime example indicator of an increase in transactions is the fact that the recent Lodging Conference, held in Phoenix, experienced a record setting +3,000 attendees for October 7th through 10th. Hotel investors, brokers, management companies and assorted industry experts assembled in 109 degree temperatures to fill their deal pipelines as we migrate to the holiday season. With the budgeting season well underway, hotel brokers are primed for a very busy 2025.

The last industry segment to experience a resurgence is new construction for hotels. The major brands have seen the pipeline for new product and have adapted by creating new “conversion” brands. The cost to construct has made many markets infeasible to build. At the epicenter of New England hotel guestroom demand, the city of Boston, the cost to build a select service hotel exceeds \$600,000 per room. That’s before the city permitting boards force developers to sign union labor agreements which adds exorbitant expenses and causes further infeasibility. The lack of new supply is always good for existing hoteliers but as the inventory ages out, convention business deteriorates, leisure travelers choose other venues and the city begins its inevitable decline. San

Francisco is an excellent example of what happens to a great city when the burden of restrictive government policies becomes too much for developers to absorb. Take a walk through the once majestic Union Square and all you remember is the filth and stench.

We've bounced off the bottom and we're trolling instead of jigging! In 2025, we'll leave the bottom fish behind and set a new course for the big game sport fish! Maybe a few trophies even get mounted on your wall, back in your old office!

James O'Connell is a principal of HREC Investment Advisors, a national hospitality and real estate company specializing in hotel brokerage and capital markets transactions. He is charged with managing the New England region and works with over 50 HREC hotel brokers in 15 offices around the country.

In June of 2000, Jim founded O'Connell Hospitality Group, LLC a regional hotel brokerage company which exclusively represented hotel REIT's, institutional investors, private equity firms and high net worth individuals. He and his team are responsible for over \$1 billion in hotel transactions.

OHG merged with HREC Investment Advisors in September, 2016. Jim remained a principal within the newly expanded firm. He has spent his entire career selling hotels and credits his initial experience of managing hotel dispositions for the former Bank of New England and RECOLL Management Corp.

He is a 1982 graduate of Massachusetts Maritime Academy and holds a Master's License for Unlimited Tonnage Vessels. He is a devoted husband celebrating 30 years of marriage and is the proud father of two very successful, fine young men.

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