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Smaller investors make inroads as large investors wait on the sidelines - by James O'Connell

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James O'Connell

This summer we have a tale of two hospitality transaction markets. It appears that the investors looking at projects under \$25 million is very strong and demand for those investments is very strong. But the more sophisticated the deal is, the fewer investors there are. When asked why there is a such a dramatic drop off, the answer is “Uncertainty.”

During the last quarter of 2024 and the first quarter of 2025, the transaction market for larger deals above \$25 million was excellent. Hotel sales in Boston and across the region were happening. Debt has been prevalent at every level. There is actually pressure on some lenders to place funds! This is one of those rare occasions where we are searching for equity, not debt.

According to a recent article by Costar, in the first quarter of 2025, hotel transaction pace for deals under \$50 million made up 47% of transaction volume, according to a JLL Investment Trends report. HREC Investment Advisors sold more than 50 hotels in the first quarter of 2025. All were in the mid-market segment for property sales under \$50 million.

Uncertainty is the watchword for investors over \$50 million. Typically, an acquisition of one hotel in that range or a small package of multiple properties will have a Product Improvement Plan associated with it. The Brand was lenient during COVID, but those properties are all starting to look dated. The cost of a renovation plan has risen significantly in the past few years and the talk of fair-trade deals and tariffs has caused those costs to increase again. Investors are having a difficult time underwriting these transactions because they don't know if it's best to purchase furniture in North Carolina or Northern China. President Trump's negotiating style has caused investors to watch and wait.

On April 2nd, the day that tariffs went into effect, was also the day that the market for over \$50 million properties evaporated. Despite the fact that the stock market is actually higher today than it was on April 2nd, it has not been a catalyst for investors to return to the market.

While we wait and watch, operational trends have begun to flatten out. According to Pinnacle Perspective, for the first 5 months of the year, hotels ran a 72% occupancy in Boston which was flat to 2024. Room rates were up a bit, which caused RevPar to be up a very respectable \$202, however it was only a 2.7% increase. Very healthy, especially including the first three weaker, winter months, Boston remains one of the strongest markets in the country.

Even better for existing hotel owners is the fact that uncertain economic policy helps to keep new construction projects from coming out of the ground. The strong performance is very promising, but costs continue to outpace those performance increases. As an example, many hotels have experienced +40% increases in insurance costs. The lack of new supply allows for a clear runway for existing hotel owners and enable them to produce favorable investment returns.

The Big Beautiful Bill was passed and along with it came lower taxes which hopefully will stimulate the economy and get people traveling again. As the end of July draws near, we should better understand the effect of the lack of Canadian travelers has had on the New England region. Places like Bar Harbor, Mid-Coast Maine and coastal New Hampshire all benefit from summer travel by Canadians. Hopefully they'll understand that the President wanting to make Canada the 51st state was just a negotiating ploy.

Hotel owners should enjoy a solid performance in 2025. Nothing spectacular, just good solid room rate and occupancy increases that will allow them to rest easy before the snow flies. With interest rates in the 7% range and plenty of debt available, the family offices and regional owners can enjoy a respite from the large private equity and the groups with a lower cost of funds.

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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