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Hotel investments will remain strong if priced as current underwriting standards dictate

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The transaction market for investments in all real estate segments has changed for the better. Caution from lenders caused by the "sub-prime" loan crisis that has plagued the residential markets has crept into the commercial lending circles. This doesn't mean that the market has chilled or that values for quality assets will go down. It does mean that over leveraged deals and those that can't stand underwriting scrutiny won't get done. For public and private investors, that's not a bad thing.

The investment market is still flush with substantial amounts of private equity. Lenders that maintain the loans on their balance sheets are making loans. The criteria for making these loans haven't changed very much. Presently, the bond market is digesting the loans created by lenders dependent upon the bulk sale of high-yield commercial mortgaged backed securities that mask the flaws in the individual loans. We expect those lenders to be back into the market in the first quarter of 2008.

Hotel transactions will continue to be strong in New England because demand for hotel rooms has continued to be strong. The city of Boston has experienced occupancy rates over 75% with average room rates approaching $200. The cost to construct new hotels has caused several major hotel construction projects to be put on hold. Those that have recently opened like the former Charles Street Jail, the new 300 room Liberty Hotel near Mass. General Hospital and the Renaissance Hotel in the Waterfront Distract have the benefit of opening during a period of very strong hotel room demand.

Other sub-markets in New England are also performing very well and are attracting investors from across the country. Rte. 128/I-95 has a number of hotels on the market with year-end closings scheduled. Portsmouth, NH continues to be a very strong sub-market supported by Liberty Mutual Insurance, and a very strong leisure guest component. Despite recent increases in room supply, the Portsmouth market continues to outperform the rest of the New England. The city of Portland, ME is embroiled in a heated competition to bring a $100 million, four start hotel to its waterfront. Two major full service hotels in that market have been sought out by national investors.

The strongest sub-market throughout New England and probably the entire northeast is Burlington, VT. It is experiencing double digit increases in occupancies as well as room rates despite new supply. A $13 million renovation and conversion from Wyndham to Hilton of the top hotel in that market has caused the entire rate structure of the market to rise. A Courtyard by Marriott opened in May and is experiencing room rates over 25% better than projections. The best news for investors in this market is that fact that no new room supply is projected. With the $200 million/1,200 student expansion of University of Vermont, hoteliers enjoy a very profitable niche.

As Cape Cod starts to close up for the winter, innkeepers can look back on a great summer. The weather cooperated on every major holiday weekend and room rates and occupancies were up over

20% from the year before. Continued great weather well into October enables these innkeepers to stretch their season. Fuel prices caused travelers to remain local which benefited Hyannis, Falmouth and the rest of the Cape greatly.

Unfortunately, the weakness in corporate demand along the I-495 corridors and central Massachusetts continue to plague hoteliers. Boston has experienced a tightening of office space, but 20 miles out of town, there are plenty of empty buildings and demand for hotel rooms is hollow as well. Room demand that was supposed to be created by the new convention centers in Springfield and Worcester have not been produced and hotels are suffering. Luckily, Worcester has benefited from a master plan to bring Bio-Tech into the area as well as UMass Medical Center and a complete resurgence of the downtown. Springfield continues to be weak, with no help on the horizon.

Projecting through the fall to year end, hotel investments will remain strong if priced as current underwriting standards dictate. Strong performance will continue in areas of strong demand and room supply should remain on the back burner in most markets until well into 2008. The leaves might fall, but values associated with quality assets in strong markets will continue to remain in rarified air.

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