

Hotel Brokers International's Transactions Activity Outpaces Industry Through 3Q

The year 2008 will be known for its sharp downturn in hotel real estate transaction activity. That trend is expected to rebound as 2009 progresses.

Through the first nine months of 2008, the most recent period for which data is available, hotel real estate transactions activity nationwide declined by more than 67 percent, according to Hotel Brokers International (HBI) Transactions Data Services Division. Hotels sales activity among member brokers also declined during the period, but at a far lesser rate than the industry average. A primary reason for the difference is due to the continued availability of financing for mid-market hotels, which includes Americas Best Value Inn - branded hotels, account for the majority of properties.

“Hotel transactions under \$15 million, which makes up the bulk of the hotel industry inventory, as well as HBI’s sales, continue to get done because financing, primarily from local banks, continues to be available,” said Jeff Westgor, CHB, president of HBI and Minneapolis-based Westgor & Associates, Inc. “The key is to have a proven track record as an operator and a long-term relationship with the lender. Strong, major brands also are preferred product types.”

For the 2008 first three quarters, HBI tracked 216 public transactions across the industry, compared to 582 in the same period a year earlier. Average transaction size declined from 199 rooms to 167 rooms and the average price per room fell to \$108,000, compared to \$120,000. Total dollar volume for the 2008 first three quarters was \$6.4 billion, compared to \$17.4 billion.

“We expect 2009 to start off a little slowly and then begin to pick up as the year progresses,” he said. “Our members have been in contact with more than 100 financial institutions in the past few months. They find that a lot of loans will be coming due in 2009 and the properties now are assessed lower than the loan value, and banks will likely take many of those properties back and place them on the market. With the hotel economy expecting to have a tough year, the gap between buyers and sellers will likely narrow.”

Westgor noted that closing of transactions continues to take one to two months longer to wrap up than in 2007. “Lenders are being more cautious and require more equity, usually 30 percent or more. We see that trend continuing through 2009. The key exception is SBA loans under \$10 million, which require as little as 20 percent equity. Fortunately, interest rates are declining and are at historically attractive rates. As in past down cycles, cash is king.”