

Hotel Industry to Remain Profitable in 2008

No doubt 2007 will be remembered as the year of the mega-merger. Private equity funds and REITs generated one high-profile deal after another, contributing solidly to the more than \$60 billion in hotel real estate sales. Often overshadowed by the headline-grabbing mega-deals was an equally strong real estate market for individual hotel and portfolio transactions.

According to data compiled by Hotel Brokers International's TransActions Data Services Division, the industry saw more than 730 properties bought and sold during the year at an average price per room of \$117,000 – a six percent rise in the number of sales and an increase of eight percent in total dollar volume over 2006.

"Hotel real estate transactions were quite active at the individual property and portfolio levels," said H. Brandt Niehaus, CHB, president of Huff Niehaus & Associates, Inc. and president of Kansas City-based Hotel Brokers International (www.hbihotels.com). "Despite growing concerns about the national economy, hotel real estate remained strong throughout the year. The industry was profitable – HBI alone experienced a 20 percent increase in dollar volume of sales."

Time on the market for HBI-brokered hotels averaged six months in 2007, and Alan Brock, CHB, Brock Hotel Group, Grapevine, Texas, expects the period to remain about the same in 2008, although he noted that the industry will see tighter lending standards. "Loan closings will take longer since more documentation will be needed to close a deal," he said.

Moving into 2008, HBI brokers expect hotel real estate transactions to continue at a brisk pace. "With the sub-prime mortgage crisis and an expected slowing of economic growth," said Niehaus, "we expect to see an increasing number of properties changing hands. Because of a shifting economy, we also expect to see new buyers coming to the market as the real estate cycle progresses. Cap rates are liable to inch upward from the 7.5 percent to 10 percent range we saw in 2007. Financing requirements also have moved up, returning to more historic norms of 25 percent to 30 percent equity. Financing is still readily available, especially for experienced owner-operators."

Financing for transactions under \$15 million is largely provided through SBA loans and local banks. "The hotel industry is still profitable," said Niehaus, "interest rates are low and most lenders will continue to lend in their backyards. Conduit loans for bigger deals may not be as readily available, but we see little change in financing for hotels in the lower end of the scale."

All indicators point to an active transactions market. Charles H. Fritsch, CHB, President, MBA Hotel Brokers, Glenwood, Maryland, said, "There are no signs that the hotel industry will be slowing down significantly in the near future. While there is a little softening in demand, supply growth remains generally quite low, which is allowing continued strong growth in average daily room rate, profitability and, therefore, investment interest."