

When Will Deal Flow Start Again?

The hotel real estate market has been compressed since the credit crunch surfaced in late summer 2007. At the ALIS hotel conference in late January, industry forecasts were certainly less than optimistic. For 2009, RevPAR is estimated to decline from between 5.5 and 11.7 percent.

However, in all phases of the economy there are both opportunities and challenges. On a historical basis, declining RevPAR usually is followed by lower prices in consideration of the declining Net Operating Incomes. Cap rates are rising in general, especially for larger assets. “Ultimately, the gap between buyers and sellers will narrow and investors will see the value going forward,” said Jeff Westgor, president of Hotel Brokers International (HBI) and president of Minneapolis-based Westgor & Associates.

“Currently, the key to unlocking deal flow is not so much price as it is debt financing availability,” he noted. “Fortunately, mortgage loans for hotels under \$15 million remain fairly accessible. Terms are more restrictive and come with increased borrower requirements. Personal guarantees are common.

“One of the things evident at ALIS was that no one knows for sure when the economy will begin to rebound,” he said. “That uncertainty remains unchanged today, which has sent a lot of people to the sidelines, creating opportunities for others. Contrarian investors are gearing up as evidenced by the announcement of several major opportunity funds being formed in the past few months.”

With that as background, HBI’s current outlook for 2009 is that the first and second quarters will be the least active of the year, with the transaction pace gradually building throughout the year. There are a number of hotels with loans coming due this year, which will further impact the flow of transactions. Once credit markets begin to thaw, deals will accelerate, which is likely to happen by year-end or early in 2010.

“If you are a seller, now is a good time to list your property with a hotel broker from a pricing viewpoint,” he said. “Given the government infusion of capital into the market, interest rates will eventually begin to climb when the Fed’s try to counteract inflation.

“If you are a buyer, pricing is extremely attractive, and we should be approaching the bottom of the market within the next 12 months. Nobody can perfectly time the bottom, which makes the market attractive now. With development grinding to a halt and less new supply coming on-line, there will be stronger upside for new owners, especially during the early phases of the recovery. There still are a lot of questions about the future, but for the savvy investor, these could be the best of times for some time to come.”