

## **Market Dynamics Spur Hotel Investment Activity**

While the cyclical nature of the hospitality industry might suggest a weakening profits picture – particularly after the strong growth period experienced throughout 2006 – optimism among industry investors remains high. Geographic variations aside, the outlook for hotel performance, according to forecasts from global business advisor PricewaterhouseCoopers, is that 2007 will be another record-breaking year with increased profitability achieved via revenue growth and rate growth.

Professionals negotiating the acquisition and disposition of properties agree. In response to a recent survey, the savvy brokers at Hotel Brokers International ([www.hbihotels.com](http://www.hbihotels.com)), Kansas City, MO, point to a number of trends that are affecting short- and longer-term market dynamics, from both the buy and sell sides. Among key indicators are increasing average daily rates (ADRs), mounting interest in development and land sites, a shortage of listing inventory, and more focus on specific markets and market segments. “Existing hotels in good markets that can be repositioned with a new brand will be a large number of transactions in 2007. The all in cost per room after renovations will be below replacement costs. The increasing RevPARs (revenue per available room) in 2007 and 2008 allow an investor to maximize their return on equity invested,” explains H. Brandt Niehaus, CHB, president of Louisville, KY-based Huff, Niehaus & Associates, Inc.

Ronald R. McCord, CHB, president at Milmark Hotel/Motel Investments, LLC, Oconomowoc, WI, contends that realistic sellers can generate considerable buyer competition for properties at realistic prices. “[However, we’re] not seeing much over-paying for assets,” he asserts. With correctly priced properties, HBI brokers note that buying demand remains particularly strong in the Northeast, Mid-Atlantic, South Central, and Northwest areas of the United States, with the North Central and Upper Midwest regions seeing more stabilization in both sales and values.

In many instances, the average turnaround time is incentivizing deals between buyers and sellers; others are experiencing constraints as a result of underwriting expectations. Last year, the length of time required to sell a hotel was approximately three to five months. Current HBI President Charles H. Fritsch, CHB (who is also president of MBA Hotel Brokers, Glenwood, MD), says, “The length of time on the market will increase due to sellers’ demand for aggressive pricing, [as well as] ever-increasing lender documentation and third-party report timelines.” Tim Duffy of Fairfield, IA-based MBA Hotel Brokers, concurs, adding, “[The timetable is] up to five months due to lender requirements, slower appraisal and survey time, franchise punch lists, etc.”