

Deals Continue at High Pace

Although the economy is slowing, hotel real estate transactions continue at a high pace, according to Hotel Brokers International (www.hbihotels.com), the nation's largest hotel brokerage organization with more than 30 offices coast to coast.

“For the first four months of the year, our brokers nationwide continued to see a lot of activity, especially owners considering selling their properties,” said H. Brandt Niehaus, CHB, president of HBI and Louisville-based Huff, Niehaus & Associates, Inc. “Our total sales were off slightly through April, but not statistically relevant. However, the dollar volume was significantly higher.”

Cap rates for all hotels are moving higher, up 20 basis points in the first four months of 2008, compared to the same period a year ago. There currently is about a 75 to 100 basis point difference between the buyer and seller, which is normal when the economy slows. HBI brokers expect that gap to narrow if the economy continues to remain soft.

Transactions are taking longer to complete, due to a more difficult financing climate. Sellers can expect a transaction to take 30 to 90 days longer than the norm of approximately six months to sell a hotel from listing to closing.

The credit crunch meltdown has impacted the financing market. Higher equity requirements, now in the 25 to 30 percent range, are common. However, experienced owners with a proven operating track record still are able to obtain mortgages. Local banks, especially if they have an established relationship with the owner, currently are the best source. SBA loans also are available for deals under \$10 million to \$12 million. Interest rates remain at very attractive rates from a historical perspective. However lenders are seeking more documentation. Personal guarantees are becoming more common.

Limited-service properties, like Americas Best Value Inn, remain the most sought after property type. Cap rates for this segment, currently range from 9 to 12 percent, depending on location and age of the hotel.

HBI brokers agreed that it remains a good time to be both a buyer and seller. Cap rates are increasing, but prices are still significantly higher than they were several years ago, and the industry continues to generate record profits. All that favors the seller.

“For buyers, if you are in the business of investing in hotels, why stop buying?” Niehaus said. “If the deal you are considering makes sense in today's market, then you likely will be buying one or more hotels per year. Five years from now, you will own an additional five to 10 hotels with much higher values, and never look back.”