

The Current State of Hotel Real Estate: Better than It Looks

Every month brokers from the more than 30 firms in Hotel Brokers International (HBI) meet via conference call to discuss the latest trends. This exchange of information helps them better understand local, regional and national conditions and accelerate the deal-making process.

This article is an “eavesdrop” on the latest call with brokers from around the country discussing their take on the current state of hotel real estate in face of all the credit issues. Here are the key take-aways:

- ***The hotel real estate industry is in the typical seven-year cycle; 2009-10 will likely mirror 2002-03 in terms of pricing and number of transactions***— “While hotels are not selling for prices obtained at the cycle’s 2007 peak, values are similar to 2005-06 and still offer a win-win situation for sellers and buyers,” said H. Brandt Niehaus, HBI President and President of Huff, Niehaus & Associates, Inc., Louisville, Ky.
- ***HBI brokers have good inventory and access to solid, qualified buyers with cash***— Despite the reporting that buyers have all stepped to the sideline and there is no credit available, HBI brokers, who deal for the most part in the vast mid-section of the hotel market, are finding just the opposite and currently have more than 150 properties listed for sale. “New buyers are entering the market. For example, both China and Korea have lifted restrictions that previously prohibited their citizens from taking money out of their countries for international investment, which will bring new investors with money to the market,” said Fred F. Ferrarini, president, ProCom Lodging Brokers, Inc., Paso Robles, Calif.
- ***Deals under \$15 million remain readily financeable, but financing for new development ranges from difficult to nearly impossible to obtain***—This is not the best

of times to seek development financing. Traditional lenders, such as local banks, are reticent to invest in an unproven project in the current uncertain economy. However, lenders remain quite active in financing hotels under \$15 million with cash flow. HBI brokers around the country report that financing is available from a number of sources.

- ***The spread between buyers and sellers is narrowing and cap rates are increasing—***
“Buyers are no longer purchasing on projected cap rates, but are now requiring trailing 12-months,” said William W. Moyer, director, Donohoe Real Estate Services, Washington, D.C. “Cap rates are higher than in the past 24 months.”
- ***There is much less gloom and doom on Main Street than on Wall Street—*** “The only way I know the U.S. is in a recession is to watch the news. We’re still getting deals done and are on pace to have a typical year,” said Steve Blue, president, Scoggin Blue LLC, Las Cruces, N.M. “This is not what you’re hearing if you’re listening to the news. The fact is there are still a lot of opportunities available for buyers and sellers.”

HBI has a whole sees significant opportunities for hotel investors in the coming year of 2009 which also happens to be HBI’s 50th anniversary year. As cycles go, there are always opportunities for those with cash and the fortitude to endure the downturn of the hospitality cycle and reap the benefits of excellent returns in the years that follow. As one member said, “Those in the business of hotel investment will be buying and selling even in the downturn because that is where some of the greatest returns can be made. If investors sit on the sidelines they will miss out.”