

Pace of Hotel Real Estate Transactions Slowing, Midscale Segment Remains Most Active

The slowing economy and the credit crunch had a significant impact on the number of hotel real estate transactions in the 2008 first half. According to Hotel Brokers International (HBI) TransActions Data Services Division, a total of 206 hotels sold in the 2008 first half for an aggregate \$4.58 billion, less than half of the 486 hotels sold for more than \$15.7 billion in the first six months of 2007. HBI's TransActions Data Services Division tracks all publicly announced transactions.

“Larger transactions, those of more than \$10 million, have declined significantly, with only 73 deals above that amount reported in the first half, compared to 258 in the same period last year,” said H. Brandt Niehaus, CHB, president of HBI and Louisville-based Huff, Niehaus & Associates, Inc. “Mid-market hotel transactions declined, but there still is a lot of active trading taking place, especially in the \$10 million and under range.”

Midscale properties without food and beverage transactions were down from 77 in the first half last year to 44 for the same period in 2008. Price per room declined from \$79,849, to \$76,919 in 2008. Economy hotel transactions dropped more than 65 percent with 21 sales taking place in the 2008 first half, compared to 67 for the first six months a year ago. On the positive side, price per room improved to \$32,202 from \$30,181 in the 2007 first half.

“HBI has not seen the sharp declines experienced by the hotel brokerage community as a whole, with our brokered sales in the second quarter actually rising 10 percent,” Niehaus said. “We are seeing a lot of brokers who traditionally don't deal in or have experience in transactions of under \$10 million now seeking listings in this category. That, probably more than anything, describes the current ‘big-box’ hotels market. Fortunately, we have seen minimal impact on our business.”

Capitalization rates for the 2008 first half rose to 10.2 percent from 9.3 percent in last year's first half. "Any time there is a significant shift in the economy, the expectations gap between buyer and seller widens. The buyer is looking ahead at the economy for his pricing and the seller is looking at the past year. Currently, there is about a 50 to 100 basis point spread between buyers and sellers.

"At the risk of sounding self-serving, buyers and sellers need brokers more than ever in today's market," he noted. "A third party can build the necessary bridges and find creative ways to get deals done."