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So what is happening in U.S. hotel transactions?

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According to data compiled by TransActions Data Services, a division of Hotel Brokers International, both the number of transactions and hotel values were down for the industry as a whole in 2009. The number of hotels sold was down 45.3% from 2008. This equates to a 62.5% drop since an industry high set in 2007. The value of all hotels sold (total dollar volume) dropped more than half from \$9.9 billion in 2008 to \$4.4 billion in 2009. This compared to \$21.9 billion in 2007, which was nearly five times greater than 2009 on just three times as many sales. Price per room fell 26% last year and nearly 38% since 2007. Average price per room for hotel sales went from \$99,000 in 2008 to \$73,000 per room.

Transactions of economy and midscale hotels have been decreasing in number since 2005 when they posted 383 sales for the industry. In 2009, the number of economy and midscale transactions were down to only 199. That was 38% less than 2008 which was the same percentage reduction as for all hotels. Midscale saw average price per room drop from \$79,000 to \$64,000 per room or 19%; however, the bright spot might be the economy hotels. Economy brands saw an increase in transactions and price per room from \$34,000 to \$35,000 per room.

Much of these decreases are due to two things: (1) decreasing hotel revenues and profits which make them less appealing to buyers and lenders, and (2) the banks are not financing hotel transactions without SBA guarantees. The result is transaction volumes and values have plummeted. The financial lending absence is due in one part to the negative revenue trends.

“With an expected industry average decline in REVPAR again for 2010, we anticipate hotel values to drop further,” says Tony DeGeorge, President of Greene, Canfield, DeGeorge, Ltd. and President of HBI. “But with SBA guarantee loans of \$2.0MM, the ABVI properties worth up to \$2.75MM can get financed with 20% - 30% down depending on the sale price and qualifications of the buyer,” says DeGeorge.

Commercial properties price index shows 2009 values are barely 5% ahead of 2001 values, but were tracking back up in 4Q. According to Real Capital Analytics, \$32 billion of hotels were in default as of January which includes only \$2.5 billion of assets that have become REO. The West region has the largest amount of distressed hotel debt followed by the Southeast and Midwest.

Lenders are hopeful that improving hospitality business will reward them for working with most borrowers to get through 2010. Undoubtedly many will not make it and the distressed number will rise in 2010.

While hotel revenues are expected to rebound in 4Q 2010, hotel values will not likely increase for 12 to 18 months.

About the Author: *H. Brandt Niehaus is president of Huff, Niehaus & Associates, Inc., a Louisville-based full-service hotel real estate investment firm. Niehaus, a past president of HBI, has been named HBI's Top Regional Broker seven of the past 11 years.*