

2010 Brought a Dramatic Increase in Hotel Sales

What a difference one year can make! At the close of 2009, the hotel real estate industry was experiencing a ten year market low with the number of hotels sold down by 42% and sales dollar volume down by 55%. Fast forward to today; Hotel Brokers International's TransActions Data Services, reports the number of hotel sales up by close to 90% in 2010, with a total of 524 hotels selling for \$11.7 billion. Average selling price per room was \$100,000, an increase of 35%.

2010 data reveals an increase of sales in all hotel segments. The most dramatic rise occurred in the upscale and luxury property segments which more than doubled. The average price per room for upscale hotels increased by 38%; luxury properties increased 34%. As in previous years, midscale and economy hotels comprised the majority of transactions. The number of economy hotels sold increased 18% and midscale rose by 77%. Price per room, however, decreased for economy hotels by 10% and decreased 8% for midscale hotels with food and beverage. Midscale hotels without food and beverage remained relatively stable.

According to Smith Travel Research, overall hotel performance improved in 2010 with a year ending RevPAR of \$56.47, a 5.5% increase. But based on HBI's data, this rise was primarily the result of improved performance by upscale and luxury hotels. RevPAR rates continued to decline for economy hotels from \$24.27 to \$19.54, while rates for midscale hotels remained stable, ending the year at \$41.15.

Occupancy rates for economy hotels dropped 15% to 43.85%, while those for midscale hotels were comparable at 56.21%. ADR for economy hotels was similar to those of the previous year at \$47.63. The rate for midscale hotels rose to \$80.60 from \$74.68.

According to Joe McCann, president, Optimum Hotel Brokerage and president of HBI, occupancy and ADR for limited-service hotels began to improve late in the year. "Selling prices were lower for limited-service hotels as financial improvements continued to be constrained by the economy," he said. "Purchasers of midscale and economy hotels are typically individual investors and smaller institutions and for these individuals, financing was difficult to obtain as lenders exercised stricter underwriting."

Will an upward trend continue? The recurring sentiment among HBI brokers: 2011 is a good year to purchase. Bill Moyer, vice president, Donohoe Real Estate Services, states, "2011 will see a significantly higher amount of transactions as cash and low leverage buyers are in a favorable position to make acquisitions, especially in the mid-market and upper-market segments." Moyer also pointed out that fund managers have been sitting on cash and are now in hot pursuit of properties. "Hopefully this means that prices will be going up and sellers will feel better about letting go of their properties," he added.

McCann expects that demand will increase in the majority of markets. The increasing demand will allow operators to recover some ADR. He noted, "A number of operators in larger markets are forecasting 5% or greater RevPAR increases."

Most HBI brokers agree that the industry will continue to improve in 2011. Hotel industry fundamentals are improving and new construction of hotels is at an all time low increasing the competition for existing properties. Alan Brock, president, Brock Hotel Group commented, "Buyers with the courage to buy now will be highly rewarded in a few years."