Pent-up Demand Expected to "Thaw"
Hotel Real Estate Sales in 2009 Second Half

After a dismal hotel real estate transaction market in 2008, which has continued into 2009, a light may be appearing at the end of the tunnel, according to data and an updated outlook from Hotel Brokers International (HBI), the nation's largest brokerage organization.

HBI's TransActions Recap 2009, a comprehensive annual report on hotel real estate activity, indicates that the on-going deep recession and lack of financing were the two major factors behind a 55 percent drop in hotel transaction dollar volume in 2008 to $9.9 billion. However, based on mounting evidence of a thaw in the credit markets and early indications from The Fed of a recovery in the making, HBI believes transaction volume in the 2009 second half should improve as buyers gain greater access to financing.

"Without a doubt, this has been the most challenging time for the hotel industry in our 50-year history, with the late 80's/early 90's a close second," said Jeff Westgor, CHB, president, Westgor & Associates, Minneapolis, and president of HBI.

The credit crunch had the biggest impact in 2008 on larger dollar transactions, those over $10 million. According to HBI data, sales of upscale and luxury hotels were off 57 percent, while sales of economy and mid-market properties, which account for the lion's share of HBI transactions, remained comparatively stable, down 11.2 percent.

In 2008, HBI recorded 481 hotel sales industry-wide, down 35 percent, compared to 736 transactions in 2007. The average hotel had 146 rooms and sold for a price per room of $99,000, a 15 percent decline. The economy and mid-market hotels' price per room held up, posting a slight increase from $42,000 in 2007 to $44,000 in 2008.

Sales of mid-market properties accounted for nearly 50 percent of all 2008 hotel transactions. The most popular hotel segment was select-service without food and beverage, with 140 transactions.

Other 2008 Highlights include:

- Industry-wide cap rates increased from 9.21 percent to 9.49 percent by year-end 2008. HBI brokers believe that cap rates will continue to rise in 2009, as performance fundamentals and asset values decline and lenders demand more stringent underwriting criteria.
- Financing continued to be available for select-service hotel transactions through regional banks and lenders using Small Business Administration and USDA loans.
- Sales of hotels under $10 million remained relatively strong in 2008, falling by only 8 percent.
- Hotels in secondary markets (population of 50,000 to 150,000) held their value, with an average price per room of $95,000 vs. $96,000 in 2007.

Westgor noted that the need for an experienced hotel broker is greater than at any time in this century. “A lot of brokers outside the industry jumped on the bandwagon earlier in the cycle and largely have moved on,” he said. “In today’s environment, a broker needs to understand the impact of the economy on hotel performance and the financial complexities of structured debt or alternative forms used to finance challenged assets. HBI clients benefit because we have navigated successfully through numerous economic cycles and understand the specific knowledge and skill sets needed to weather the storm.”