

Forecasters Predict an Ideal Climate for Hotel Investment

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The hotel industry is entering 2011 with a renewed sense of optimism. After reaching a trough in mid-2009, lodging demand has rebounded more quickly, and average demand levels in 2010 are estimated to be only 1.1 percent behind 2007. This recent demand growth has set the stage for the next phase of recovery, which is expected to be driven by solid room rate growth. PricewaterhouseCoopers' recent forecast predicts occupancy to increase 2.5 percent (after an increase of 5.7 percent in 2010), ADR to grow 4.8 percent, and RevPAR to increase by 7.4 percent, the highest since 2006.

This recovery is welcome news to hotel owners and investors who have been challenged by the effects of the worst economic recession in more than 75 years. Now that both the economy and industry performance are improving, astute investors are preparing for one of the best times to buy hotels in history. According to John O'Neill, Ph.D. of Penn State's well-respected School of Hospitality Management and author of the highly regarded Penn State Index, 2011 hotel values will increase 7.5 percent industry-wide, and an impressive 11 percent in the economy segment.

There are further reasons why 2011 will present investors and owner/operators with the best buying climate in recent memory:

Financing: Lenders are returning to the industry. New and improved SBA 7A and USDA programs offer hotel buyers comfortable leverage and reduced fees. Interest rates remain low, and the lodging industry is attracting ever increasing interest from local and regional commercial banks.

Tax Treatment - The Small Business Jobs Act of 2010 allows for up to \$500,000 in business expenses (as well as a 50 percent bonus on certain depreciable property) to be written off for 2011. The self-employed are also given additional preferential tax treatment for health care insurance expenses beginning in 2011.

In addition, brokers like the capable members of Hotel Brokers International are now listing and marketing many bank REO properties. Many of these properties in temporary financial distress will be sold at significant discounts. Acquisitions from bank REO departments are handled a bit differently than typical hotel purchases, so rely on your broker to guide you through the process.

Of course, many of the properties coming on the market in 2011 and 2012 will make excellent conversion opportunities for the Americas Best Value Inn and the Vantage family of brands. By working with HBI brokers and Vantage's franchise team, entrepreneurial hoteliers can capitalize on one of the best hotel investment climates ever seen.

About the Author: Joe McCann is president of Philadelphia-based Optimum Hotel Brokerage LLC and president of Hotel Brokers International.