

Hotel brokers ready for active year

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It seems like any discussions about the hotel industry are underlaid by rumblings about the current cycle's end, but brokers remain upbeat about the direction of the business.

"Overall, the market remains very active," according to Jen-

nifer Church, president of Milmark Hotel/Motel Investments and head of Hotel Brokers International. "We are pleased to see not only returning experienced buyers active, but also many new first-time buyers."

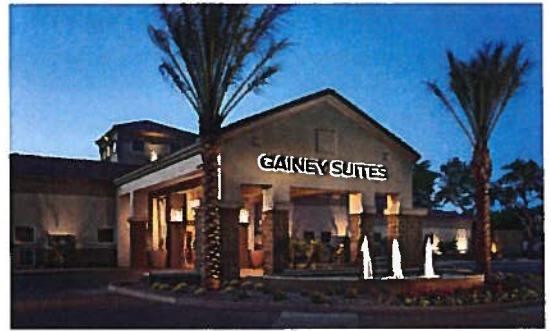
Mike Cahill, CEO and founder of HREC-Hospitality Real Estate Counselors, also was

happy with 2018's performance.

"2018 [proved] to be a strong year, with fantastic transaction volume increases over a good 2017," he said. "For brokers, the main challenge is securing quality hotel listings."

2019 OUTLOOK

The new year is expected to bring



HREC brokered the sale of the Gainey Suites Hotel in Scottsdale, Ariz., to Sonesta International Hotels Corporation in November.

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more of the same as 2018, at least to start with.

"First-quarter 2019 looks to be a continuation of the strong sales activity," said Teague Hunter, president of Hunter Hotel Advisors. "There is market change in the air, but there are buyers and sellers for each economic peak or valley. If the Fed holds interest rates steady through the first half of 2019, like they are rumored to do, this will be a positive sign for buyers."

Church also mentioned interest-rate increases as an issue that has the potential to put a drag on transaction volumes.

"Early on, we anticipate continued activity with the demand we are seeing from buyers," she said. "There are many other factors that could impact the transaction page in the near future, some having a perceived positive impact, like trade agreements, and others having a negative impact, like interest-rate increases."

According to Cahill, the good times aren't nearly over yet.

"So goes the economy, so goes the hotel industry," he said. "At minimum, 2019 and 2020 will beautifully replicate 2018, but anticipate achievable 10 percent annual growth levels in overall transaction volume, barring unforeseen macro events."

WHAT AND WHERE

What buyers are looking for encompasses a variety of types of hotels and locations.

"High-end luxury assets in gateway cities will create a bidding war, so will 1- to 5-year-old select-service [hotels] in urban cores within the top 25 markets,"

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2019 transactions

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Cahill said. "Niche buyers like extended-stay product and other Hilton- or Marriott-branded assets that are not older than seven years."

Older-generation branded hotels that franchisors no longer want are tough sells, he said, and if there's not a plan for the buyer

for the assets, pricing will suffer. Church said she typically sees the most demand for Hilton, Marriott, Hyatt and IHG brands from the larger and corporate buyers, while brands such as Best Western, Choice and Wyndham are in demand for individual and smaller portfolio buyers. What's not popular? Exterior-corridor

properties and hotels in very small markets.

"Extended-stay properties continue to be popular due to the efficient operation model and corresponding margins," Hunter said. "Full-service assets are by their nature more complex and therefore offer buyers more opportunity to add value through operations or capital expenditures."

As far as geographic loca-

tions, Florida remains hot, and Nashville, Tenn.; Austin, Texas; Atlanta; and Denver are active, according to Hunter.

"Some firms are pressing the pause button on coastal areas that are just beginning late-season hurricane recovery," he said. "And the California wildfires created unknown chaos in a very strong market, which we expect to see pick back up after damage assessments are completed."

Church said she and colleagues are seeing demand for primary and secondary markets, university towns and areas where there is a solid group/corporate and leisure mix that results in hotel business seven days a week.

"College towns and state capitals are high on the target list for many investors," Cahill said. "A city like Madison, Wis., which is both, is a blessing for a hotel broker to get a listing in." **HM**



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DESPITE STRENGTH, OBSTACLES PERSIST

No matter how good the environment, a hotel transaction isn't always smooth sailing. Here are the challenges brokers believe buyers and sellers are facing in the current climate.

"A [property improvement plan] can often add unpredictable change to any transaction. Our guidance takes expected PIP requests into account, but close alignment with the flag will make the process run smoothly. Property taxes and increasing labor costs also need to be considered."

— Teague Hunter, president, Hunter Hotel Advisors

"Probably the top three challenges currently would be the tight labor market, large PIPs and rising interest rates."

— Jennifer Church, president, Milmark Hotel/Motel Investments and head, Hotel Brokers International

"Three major challenges: (1) the economy—how long will the ride continue?; (2) [capital expenditures] and brand PIP requirements; and (3) potential net operating equipment erosion due to increasing labor costs in a low RevPAR growth environment."

— Mike Cahill, CEO and founder, HREC-Hospitality Real Estate Counselors