

Hotel Brokers Forecast A Better 2010

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The hotel brokerage community thinks 2010 will be a better year for them than was '09. After all, they reason, it couldn't get much worse. Indeed, according to [Jones Lang LaSalle Hotels](http://www.joneslanglasallehotels.com) (<http://www.joneslanglasallehotels.com>), just \$9 billion in global hotel transactions were completed last year, down substantially from \$25 billion in 2008. The firm projects worldwide transactions volume will rise to about \$12 billion this year.

“The number of transactions will definitely increase in 2010,” says John Sturgess, chief development officer and managing director of [Hunter Hotels](http://www.hunterhotels.net) (<http://www.hunterhotels.net>). “Confidence is building that the bottom has passed. Owners, developers, management companies and others have been positioning themselves for the recovery and don't want to miss the opportunity.”

Other factors will also fuel the upturn, say some brokers. Financing may finally be loosening up, particularly through the various Small Business Administration programs. A healthy dose of confidence should help, too.

“We're finally hearing some good news from the media,” says Joe Epstein, president and founder of [First American Realty Associates](http://www.firstamrealty.com) (<http://www.firstamrealty.com>). “The combination of good economic news and more positive hotel news should send a signal to lenders that the worst may be over.”

Veteran broker Ron McCord believes buyer and seller motivations will spur sales. “This is definitely a buyers' market, and they'll negotiate based on reduced prices and cap rates,” says McCord, president of Wisconsin-based [Milmark Hotel/Motel Investments](http://www.milmark.com) (<http://www.milmark.com>). “The differences in pricing and sales will be influenced by motivated sellers and buyers who are trying to time the turnaround.”

Teague Hunter, president of [Hunter Realty Associates](http://www.hunterhotels.net), (<http://www.hunterhotels.net>) sees subtle shifts in owner psychology that will spur more sales this year than in '09. “A lot of owners who have been barely hanging on will begin to lose their grip,” he says. “Many of them who just a few months ago said they would never give up are beginning to see the realities of the marketplace.”

The thaw in transaction volume should start at the low end of the market, beginning with what

Eric Belfrage calls “bite-sized deals. According to Belfrage, vice president of [CB Richard Ellis Hotels \(http://www.cbre.com/eric.belfrage\)](http://www.cbre.com/eric.belfrage), “Activity will largely start in the \$1-million to \$5-million range, growing from there as lenders ferret out ‘doable’ deals and begin to feel comfortable with real estate and the lodging industry specifically.”

Others, like Sturgess, believe most transactions will be in the select service midscale through lower upscale segments because “these transactions will be in the sub-\$15 million range and because these were the strongest growth segments for the industry in the past 15 years.”

Of course, much of the hotel real estate that will hit the market in the coming months belongs to owners of distressed properties looking for exits. “Those hotels that were fully leveraged in the peak of the cycle and those with poor operating performance will have cash-flow issues,” says Belfrage. “Lenders that extended terms in 2009 hoping for market improvements may be facing larger REO portfolios. Operators who are doing the best they can given the market conditions and are achieving reasonable RevPAR yields may earn a reprieve, as lenders realize the assets can’t be managed any more effectively under their ownership and an interim management scenario.”

Despite these positive projections, few transactions will occur until the credit markets loosen. Most brokers see local and regional lenders as the obvious source of most hotel funding in the near future.

“There’s no such thing as a hotel lender or a national hotel lender any more,” says Epstein. “As a result, we’ve gone full circle as an industry as most of the funding will once again originate within 50 to 100 miles of the deals. Just as it was in the beginnings of this industry, we’re now a Main Street business.”