

# With development stalled, owners are looking to buy

Despite the economic turmoil that affected world capital markets in 2011, hotel owners sold properties at record-breaking prices in the top 25 metropolitan statistical areas. Real estate investment trusts were the major buyers around the country, with DiamondRock Hospitality paying \$335 million for the 712-room Radisson Lexington Hotel New York. Earlier this year, Jones Lang LaSalle estimated that hotel transactions in the U.S. would rise 28 percent in 2011 compared to 2010. Through June 2011, REITs had invested \$4.1 billion in hotel transactions, according to JLLH. Developers, however, have been faced with difficulty breaking ground in 2011. High commodity and labor costs, coupled with properties in secondary and tertiary markets selling close to replacement cost, have limited new domestic hotel development.

—Andrew Sheivachman

**Naveen Kakarla**, president and CEO, Hersha Hospitality Management

#### Recent projects:

- Hyatt 48 Lex, New York City [shown below]
- Hotel Monticello, Washington, D.C.

**HM:** What are the top three trends that will shape your success in 2012?

**NK:** Increase in rate and reduced reliance on [online travel agents] will shape our business in 2012. Given

stabilized occupancy in nearly all of our markets, despite the economic uncertainty, we have opportunity to push rate and to reduce our use of certain lower-priced segments in 2011. Corporate transient travel, which led the recovery, will continue especially in gateway markets. We expect several corporate sectors like consulting and technology to increase their hotel [use] significantly in 2012. Travelers are now considering value in all pricing tiers—our urban and near-urban select-service focus will benefit from corporate travelers who need to travel but mind costs.

**HM:** What will be the biggest challenge facing owners in 2012?

**NK:** Many owners, especially in suburban markets, will face pending loan maturities and a reluctance of lenders and servicers to extend given overall uncertainty or coming capital needs.

**Jeff Kolessar**, SVP of development, GF Management

#### Recent projects:

- Holiday Inn Pittsburgh Airport
- Ramada Plaza Hartford (Conn.) Downtown
- Holiday Inn Charlotte (N.C.)

**HM:** What are the top three trends that will shape your success in 2012?

**JK:** We will continue to hire talented employees, focus on the acquisitions of hotels and continue to grow our third-party management portfolio.

**HM:** What are the biggest challenges facing owners in 2012?

**JK:** The lack of refinancing capital with the upcoming loan maturities, along with franchisors remaining firm on [property improvement plan] requirements and new brand standards. An unstable U.S. and world economy, as well.

**Doug Dreher**, president and CEO, The Hotel Group

“We’re smart at managing revenue and prudent on the expense side as well.”

**Doug Dreher**, president and CEO, The Hotel Group



#### Recent projects:

- DoubleTree Hotel South Bend (Ind.)
- Hilton Suites Brentwood (Tenn.)

**HM:** What are the top three trends that will shape your success in 2012?

**DD:** We’re smart at managing revenue and prudent on the expense side as well. The other piece, which is certainly a trend, is franchise requirements. But beyond the requirements, we’re spending good dollars on the capital front [for] transformational renovations. We have to maintain the mojo and esprit de corps.

**HM:** What will be the biggest challenge facing owners in 2012?

**DD:** The rising expenses and costs of operating—be it real estate taxes, benefit costs or food costs. On the top line there’s a whole lot of uncertainty about demand. STR just announced a revision downward in growth and now you have the perfect storm of rising expenses and uncertainty with demand.

**Cole Fach**, VP of development, Buffalo Lodging Associates

#### Recent projects:

- Hampton Inn Portland/Downtown-Waterfront, Portland, Ore.
- Courtyard by Marriott Buffalo (N.Y.) Airport
- Homewood Suites Boston/Canton

**HM:** What are the top three trends that will shape your success in 2012?

**CF:** Low supply growth, increased group business and air travel capacity.

**HM:** What will be the biggest challenge facing owners in 2012?

**CF:** Growing [gross operating profit] in a

market with unsure demand.

**Rob Hayes**, SVP of corporate finance and strategy, Ashford Hospitality Trust

#### Recent projects:

- Embassy Suites Houston
- Ritz-Carlton Atlanta
- Hilton St. Petersburg (Fla.) Bayfront

**HM:** What are the top three trends that will shape your success in 2012?

**RH:** The health and resiliency of the U.S. economy, the impact of the European debt crisis and that the continued difficulty in developing hotels benefits existing owners.

**HM:** What will be the biggest challenge facing owners in 2012?

**RH:** It’s not too original, but our biggest concerns are the U.S. economy and the impact of the European debt crisis. **HM**



“Travelers are now considering value for their dollar in all pricing segments.”

**Naveen Kakarla**, president and CEO, Hersha Hospitality Management

## trends

- With the strength of global markets still uncertain, buyers are cautious but willing to spend in primary and secondary markets.
- Demand has risen in 2011, but is not certain to rise in 2012 given the European economic crisis.
- Development has slowed to a trickle in the U.S., but there are still opportunities to build in areas with tax breaks and untapped transient and corporate demand.
- Renovations will abound in 2012 because brands are less likely to ignore PIP requirements.