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The 2012 HVS Regional Hotel Summit Series: A Review

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Between February and July of 2012, ten HVS consulting and valuation offices hosted a series of hotel valuation summits in U.S. hotel markets from coast to coast. Panels of hospitality experts from HVS and other hotel brokerages, firms, and companies spoke to regional hoteliers on topics ranging from hotel lending parameters to performance trends and value projections for U.S. hotels. The following summarizes what came to light about the mindsets and ambitions of hotel owners, lenders, buyers, and sellers in 2012.

Hotel Lending

If one subject was at the forefront of each summit, it was hotel lending. Hotel owners wanted to know where to obtain funds for renovations, such as property improvement plans (PIPS), which were extended during the recession and now need to be completed, and developers had the same questions concerning capital for new hotel projects.

Owners of hotels whose performance has been picking up still find it difficult to secure loans due to limited financing options, low loan-to-value levels, and stringent underwriting standards. The delta between bid and ask remains wide in some cases. Most lenders and financial firms remain hesitant about making loans on proposed hotel projects, though the few that are active have been very busy. The general sentiment is that lenders have their eye on the big economic picture; that is, how the progress or potential changes of the U.S. and European economies going forward will impact the U.S. hotel market in various ways. In the current environment, SBA lending is becoming more prevalent in financing hotel projects. “One panelist really brought SBA lending into the spotlight in St. Louis,” said Dan McCoy, head of HVS’s office in the city, “and it’s becoming more and more apparent that SBA financing is an avenue hoteliers should explore.” Panelists at the Portland Summit agreed that financing for new construction continues to be essentially non-existent with an expectation that lending on proposed deals would remain muted for another 18 to 24 months.

Many investors, brokers, and buyers looking for solid deals have focused on distressed hotel assets. Though distressed hotels can take some time to turn around, buyers with access to capital may be able to realize good returns by repositioning assets with strong fundamentals. One irony is that renovations have been shown to improve the performance of many hotels, though lending for renovations remains scarce. “Renovations and PIPs can improve the value of a hotel asset, as well as RevPAR,” said Mike Brophy, host of the HVS summit in Atlanta. “Assets that have recently undergone renovations are outperforming their competitive sets.” Jerod Byrd, who manages HVS Philadelphia, noted two sides to the PIP issue. “Brands are starting to require PIPs that had been postponed during the worst of the recent recession,” he said, “and lenders are weighing PIP costs versus the possible loss of a hotel’s flag.”

Hotel Values, Performance, and Supply

HVS leaders led presentations on hotel values and performance in Atlanta, Columbus, Dallas, Denver, Houston, Miami, Minneapolis, Philadelphia, Portland, and St. Louis. Presentations also highlighted the status of new hotel supply, in their respective markets. Additions to new hotel supply peaked in 2009. As in the wake of the 2001/02 economic downturn, new supply additions gradually slowed following the most recent recession. But even with the abundance of supply, strong demand growth through 2011 meant that the overall drop in occupancy was only slight. Demand recovery has been so rapid, in fact, that 2011 marked an all-time high for the number of rooms sold nationwide.

Summary

Nearly 500 hotel owners, lenders, brokers, and developers joined with other hotel experts from HVS and major brands to discuss current and future trends in the U.S. hotel industry.

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These facts surprised some lenders and many hoteliers, particularly those in the limited- and select-service sectors, given the continued challenges of operating a profitable hotel in the current economic environment. “Some operators and owners felt as if things had been getting worse, not better,” said Brett Russell (HVS Denver), “even though many markets were in fact experiencing a recovery.”

Supply additions remain muted thus far into 2012, with no sizable new supply expected until 2015/16; at the same time, demand, average rate, and RevPAR are trending upward. These are good signs that the industry is on its way to recovery, though it will be some time before the positive effects really sink in with hoteliers.

In terms of percent change, U.S. hotel values saw double-digit year-over-year rises in 2010, 2011, and 2012. Investors and developers are especially attuned to value conclusions and projections for existing and proposed hotels because of how they bear on the question of whether to build or buy. Transactions and development activity is most lively in the accessibly priced lower tiers and in regions poised for rapid growth. “Brokers gave the impression that the market was most active with assets valued below $2 million,” said Tanya Pierson (HVS Minneapolis), “and in energy-boom markets like North Dakota and Montana.”

Conclusion

The direction and pace at which the U.S. hotel industry’s recovery is heading will come into sharper focus in the summit series planned for 2013. The 2012 HVS Regional Hotel Valuation Summit series brought in nearly 500 delegates, and the questions they most uniformly voiced had to do with where and when to invest and where to find financing. Whether lending will return in force hinges on the ever-shifting—but at present improving—nature of hotel values, market performance, and activity in the transactions market, particularly with respect to distressed assets. In the near term, average rate has room to grow. With demand having seen such a fast pace of return over the past two years, occupancy in many markets also has the potential for a significant rise, especially given the halt in new supply. HVS forecasts that, nationwide, hotel occupancy will continue to rebound and average rate growth will gain momentum through 2015/16. As hotel lenders, developers, and owners begin to recognize these trends and see them substantiated at their own properties and in their home markets, the U.S. lodging industry’s long-term performance should return to, and even surpass, the heights of the past decade.