

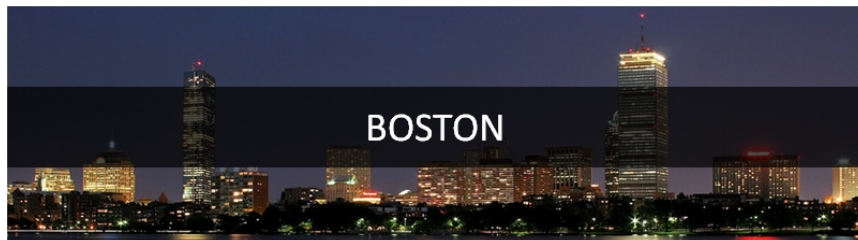
Access HVS Boston Key Takeaways

April 18, 2016 / By Erich Baum , Brian F. Bisema



The hotel markets of Boston, Massachusetts; Rhode Island; and Portland, Maine have been performing at elite levels, say hotel experts at the recent HVS conference in Cambridge, Massachusetts. Still, some struggles remain, chiefly related to new supply.

Hotel experts at the recent Access HVS networking event in Cambridge, Massachusetts, reported on the strengths and challenges of major New England hotel markets, as well as insights into hotel financing in this region.



Boston's hotel market, which spans some 400 hotels and 50,000 rooms, has beaten the national average for RevPAR gains since 2011. "Demand has grown, while supply has not," said HVS Senior Vice President **Erich Baum, CRE**. "This dynamic has helped make Boston the 5th top market nationally in terms of RevPAR strength."

Residential development has been creating competition for hotel development in central areas of Boston, and the area's suburban hotels have been performing strongly as well, reported Baum.

Boston hotels are currently trading at an average of \$500,000 per key, which testifies to the strength of the local transactions market.



Rhode Island is among the standout markets in New England, having realized growth in virtually every metric over the last several years. On average, Rhode Island hotels achieved 67.7% in occupancy, \$135.05 in average rate, and \$91.43 in RevPAR in 2015. Occupancy gains led the nation, with a 6.6% increase in 2015.

"This growth must be taken in context," said HVS Vice President **Preston Puleo**. "While these figures represent the highest levels the state has ever achieved, when adjusted for inflation, they are still well below the prior peak of 2000/01."

Nevertheless, the growth is encouraging. Rhode Island's gains in hotel occupancy and average rate translated

Summary

Access HVS Networking Event in Cambridge reveals strengths and challenges for New England markets.

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into the second-highest statewide RevPAR growth rate in the nation, behind Oregon.

One factor aiding in the increases has been a limited introduction of new hotels. Experts anticipate the lull in new supply to continue in the near term, as construction costs remain very high in the market and Rhode Island's economic and population growth show signs of slowing. Tax breaks for construction, however, are aimed at narrowing the feasibility gap for new hotel builds.



"Portland's economy essentially boils down to lobster and lodging," said HVS Senior Vice President **Brian Bisema**. *"Travel to the market has been strong in recent years, and developers have responded with consistent construction of new hotel supply."*

Hotel inventory in Portland has nearly doubled since 2009, and demand has risen along with it. A significant number of new hotels entered the market in 2014, but the rooms were absorbed the next year.

Nevertheless, Portland hoteliers have voiced some concern about the rapid, perpetual introduction of new supply. With all the focus on new construction in the market, only two hotels have transacted in the last five years.



Joe O'Loughlin, Financial Advisor with Wells Fargo in Boston, reported that the market has strong fundamentals, a position supported by brokers active in the market. Financing for hotels will be more challenging in 2016, O'Loughlin said, with the "people-focused" business of construction lending requiring strict due diligence on the part of developers.

Stabilized loans are more profitable for banks than construction loans, while debt is becoming more expensive and cap rates are going up. Resorts are especially risky to finance in the current environment, said O'Loughlin, though lenders are pursuing urban select-service hotels.

Matt Crosswy, Principal with Stonehill Strategic Capital, noted "some dislocation" in the credit markets. New regulations have forced some banks to pull back on construction loans, and this has opened up new opportunities for private financing. "The natural exit for most of Stonehill's clients is the conduit market," Crosswy said, "though conduit spreads are rising with the high supply of CMBS loans."

Stonehill Strategic Capital, a vertically integrated private lender, recognizes the strong fundamentals in hospitality, notably with regard to rising average rates.



Overall, hotel performance has been trending upward for the past several years for markets in New England, while supply has remained in check. Portland's hotel market defies the latter trend, however, with a near

doubling of the number of hotels in just five to six years. Issues like the saturation of gaming and casino-driven hotels in and around Providence could stem demand going forward, and the transactions market has slowed, notably in Boston and Portland.

Strong fundamentals, however, should continue to drive financing for new construction in the next several years. As long as this development stays focused to avoid oversaturation, experts at the Access HVS event in Cambridge agreed that the prospects for New England's hotel industry remain optimistic.



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About **Erich Baum**



Erich Baum is a Senior Vice President with the HVS Boston office and has performed and overseen thousands of hotel appraisal and consulting assignments throughout North America, including an extensive list of assignments involving residential components and property tax appeal cases. Erich co-authored the 2001 edition of the Appraisal Institute's hotel valuation textbook, has written numerous articles on issues related to hotel appraisal and consulting, and regularly serves as an expert witness. Erich is a state-certified appraiser, and is a graduate of Cornell's School of Hotel Administration. For more information, contact Erich at +1 (603) 502-6625 or [\[email protected\]](#).

About **Brian F. Bisema**



Brian Bisema is a Managing Director and Partner with HVS Boston. Brian brings over 15 years of hotel expertise, delivering appraisals, valuations, and consulting services that provide clients with credible results to make confident investment decisions. He has completed hotel valuations and appraisals on hotel real estate with an aggregate value of over \$20 billion. For more information, contact Brian at +1 (781) 454-8930 or [\[email protected\]](#).