

Independents hotel development slow moving

By Patrick Mayock, February 2011

INTERNATIONAL REPORT—Development financing is hard to come by for all segments of the hotel industry. For independent properties, it's even harder.

“Good times or bad, the lenders are the ones that realized they wanted a brand. Why? Because they wanted somebody else besides them watching the hotel,” said Teague Hunter, president of Hunter Realty Associates.

Even for low-end budget brands, lenders still want hotel chains to police owners to keep standards up and the property in good condition, he said.

“The brand forces you to spend money when you otherwise might not have wanted to,” Hunter said. Hotels owners might complain, but the customers will come back to a well-maintained property.

For those reasons and more, banks are less willing to lend for development of non-branded assets.

“I think (financing is) very much still skewed to the brands,” said Linda Bruno, a consultant who specializes in independent hotels as managing director of Consultare International Limited.

Robert Barnard, a partner at PKF's London office, shared a similar sentiment. There is little appetite to build any hotels in the current market—even less so if the property is not branded, he said.

As of December 2010, there were 22,666 unaffiliated hotels comprising 1.5 million rooms in STR's existing United States hotel development pipeline. While that represents a 1% increase compared to December 2009, the number of projects under construction fell 43.1% year-over-year.

U.S. independent hotel pipeline projects

	Existing supply	In construction	Final planning	Total pipeline
December 2010	22,666	66	74	977
December 2009	22,436	116	60	1,164

Note: The total active pipeline data includes projects in the in construction, final planning and planning stages, but does not include projects in the pre-planning stage.

Source: STR

Creative financing

Still, the development landscape has improved somewhat from 2009 and early 2010.

IDM Group, which lends management and advisory services to independent hotel owners, finally was able to secure the necessary financing to complete a project that had been on sabbatical for almost a year, said Craig Nedderson, the company's founder and president.

“The landscape from what we see is any development financing from traditional regional bank, local bank, and commercial bank lending is pretty much not going to happen again this year,” he said. “Everything you read says that and every banker we talk to echoes that, but we do have some investment partners that are able to pursue these projects without using that particular form of financing.”

There exists “creative ways” to get properties off the ground—most often in the form of private equity, Nedderson said. “Deals will get done.”

“People are talking again. ... They continue to pursue opportunities,” said Sean Skellie, IDM Group’s VP of business analysis. That wasn’t the case a year ago, he added.

Pushed out to market

In the absence of ground-up construction, owners and developers would be wise to pursue conversions, Bruno said. There are a lot of old and tired properties that need repositioning, she added.

Many of those assets were forced out of brand affiliation, because they didn’t spend the money required to meet brand standards, Hunter said. “The brands have kicked them out.”

As of December 2010, brands converted out 3,314 luxury rooms (compared with 774 rooms converted in). On the other end of the market, 33,425 economy rooms were converted out of brand affiliation (compared to 31,879 rooms converted in), according to STR.

Those numbers might be muted, according to Lana Yoshii, VP of content development at Hendersonville, Tennessee-based STR.

“I suspect, generally speaking, that because everybody’s concerned about franchise-fee streams that, as a general rule, stuff might be sticking around a little longer than they would have during good economic times when they could have replaced that deal,” she said.

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