

DEAL FLOW

Select-service hotels continue to drive transactions market

BY KERRY MEDINA
@KMEDINATRAVELS

2017 is expected to be flat for U.S. hotel transactions, at least according to JLL's Q4 2016 U.S. Lodging Investment Outlook, which forecasts \$29 billion in U.S. transaction activity in

2017—a repeat of the market's 2016 performance.

Meanwhile, lenders continue to exhibit caution in a market where the gap between supply and demand is narrowing. The effect of the Trump administration on hotel investment is also

proving impactful as ambiguity surrounds potential modifications to real estate taxes, interest rates and labor costs.

"Investors are seeing more risk, not only because cap rates have moved against the seller and buyers are still looking for

stronger cap rates, but because of the uncertainty surrounding interest rates, the political climate domestically and internationally, tax deductions and income tax rates," said Herb Warmbrodt, principal at HREC Investment Advisors. "This is giving inves-

tors pause and we're seeing this across the board."

FOREIGN CAPITAL

The new administration has, however, committed to extending the EB-5 program, at least through September 30. So foreign investment driven through this immigrant visa program is still a viable option for the capital stack of new hotel developments. But the future of the program in its current form may change because members of Congress are negotiating a reform package that would raise the minimum investment from \$500,000, revise the definition of what constitutes a "targeted employment area" to allow investments at the minimum level and establish visa "set-asides" for investments in certain rural and distressed urban areas.

(The optics of Jared Kushner's sister, Nicole, pitching investment opportunities to Chinese business owners by touting the EB-5 program can't help. Jared Kushner is a White House adviser and President Trump's son-in-law.)

Despite the incertitude surrounding regulatory changes and Trump policy, certain trends are still holding strong—a topic that will be examined at the 2017 NYU International Hospitality Industry Investment Conference.

SELECT SERVICE IN

Marriott's Residence Inn, Hilton's Homewood Suites and their ilk aren't just brands in the investment community, but buzzwords. According to Bryan Younge, managing director and national practice leader at Colliers International, full-service hotels are too much of an expense to develop and too much of a drain to operate unless they have close proximity to a convention center.

"Business and leisure travelers are just as happy at select-service properties and those with suite products are a good option for families," he said. "Dual-branded properties with two select-service hotels have



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First Hospitality Group and Hilton have combined to bring Hilton's first triple-brand hotel, consisting of a Hilton Garden Inn, Hampton Inn by Hilton and Home2 Suites by Hilton, to Chicago's McCormick Place.

also been successful attracting a wider base of travelers and that's a major development trend that will continue into the future."

Atlanta-based Stonehill Strategic Capital has several of these dual-brand deals in the works, which Principal Mat Crosswy explained work well as new builds despite labor and material driving up costs. In fact, select-service hotels account for the bulk of new rooms under construction, according to the Q4 JLL Investment Outlook. "Lenders like us invest 70- to 75-percent debt or just finance the construction loan or a bridge loan until the asset is stabilized," Crosswy said. "In some markets, it's justified, but there's also a deep supply pipeline.

These dual-branded projects—fast evolving to triple-brand projects like the Hilton Garden Inn, Hampton Inn by Hilton and Home2 Suites by

Hilton announced for Chicago's McCormick Place in January—are becoming a mainstay in urban markets, and are gaining in some secondary markets.

BEYOND GATEWAY CITIES

Even beyond the scope of select- and limited-service properties, investors are still betting on tier 2 and tier 3 markets. In February, commercial banking firm Conlon Capital closed \$49 million in non-recourse commercial-mortgage-backed-securities loans for eight hotels, six of which are located in secondary and tertiary markets.

HREC Investment Advisors also has several projects in tertiary markets that Warmbrodt said have seen interest from national investors who are looking to small metro markets because they expect projects in these areas to drive better yield. He also said that adaptive reuse is taking

hold in these markets, including Kansas City, where HREC is located.

Stonehill Strategic Capital also has five historic reuse projects in its pipeline, a growing trend that's developed in tandem with the revitalization of downtown urban centers across the country.

"The goal is to get into a historic building with character, renovate and convert it to a hotel, hopefully at a discount because there are different federal state and city incentives to help with the overall investment," Crosswy said. "But there's still a lot of risk because you never know what you'll find in the walls, so you want to partner with the right sponsors to mitigate the risk and you're already starting to see pressure at the state and federal levels on the credits associated with these projects." **HM**

Kansas City is a market where adaptive-reuse projects are prevalent.



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NEWS BRIEFS

1 Pod Hotels opened the Pod DC, a 245-room microhotel located in the Chinatown/Penn Quarter neighborhood in Washington, D.C. Modus Hotels, a lifestyle hotel group based in the city, owns and operates the hotel.

2 Seattle's Columbia Hospitality purchased six management agreements and other assets from Coastal Hotels, a privately held hospitality management company. The acquisition increases Columbia Hospitality's portfolio to 37 properties.

3 G6 Hospitality celebrated the opening of its 1,400th Motel 6, in Crowley, La. G6 saw strong growth in the first quarter, with the Crowley property part of 34 new locations opened during this time period.

4 Omni Hotels & Resorts acquired Time Warner's 50-percent interest in the Omni Atlanta Hotel at CNN Center, and now has full ownership and management of the property. Omni partnered with Turner Broadcasting in 2000 to acquire the hotel's south tower, later building the 600-room north tower, which opened in 2003. The property has 1,059 guestrooms and suites.

5 The Element by Westin Huntsville (Ala.) is open on the top floors of the hotel complex of the Westin Huntsville. Both hotels are managed by Crescent Hotels & Resorts. This is the first dual-property complex in the country that comprises both the Westin and Element brands in one location.



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