www.REBusinessOnline.com March 2016 · Volume 12, Issue 1

TEXAS REAL ESTATE BUSINESS®
Connecting Real Estate in Texas

HOTEL DEVELOPERS FOCUS ON NEW STRATEGIES

Dual-branded hotels, millennial marketing top trends in Texas hospitality.

By Haisten Willis

Hospitality development in Texas has been growing along with the rest of the state's economy. However, with challenges such as increased competition due to brand proliferation and new labor issues, along with the impact that falling oil prices are having in some parts of the state, it's a rapidly changing real estate sector.

Statewide, hospitality demand in 2015 was projected to grow 2.5 percent, according to Marcus & Millichap Research Services. The figure is much lower than the 5.8 percent growth seen in 2014.

At the end of 2015, average revenue per available room (RevPAR) across the Lone Star State was $67.12, up from $64.47 in 2014. Hospitality revenue growth in Texas in 2014 was 10.1 percent, compared to the 6.3 percent growth seen in 2015.

"Everybody in the industry is still optimistically looking forward to another year of growth in 2016," says Hank Wolpert, vice president of Hospitality Real Estate Counselors (HREC), an advisory and brokerage company that specializes in the lodging and gaming industries. The company operates offices throughout the country, including in Dallas and Austin.

While occupancy, demand and revenue growth all grew in 2015, Dallas and Austin are clearly the strongest markets for investment sales in Texas.

see HOSPITALITY, page 30

The Radisson Hotel Dallas - North was renovated in 2015. The hotel is located in Addison and includes an on-site artisan cuisine restaurant, the Harvest House.

GENERAL CONTRACTORS EXPECT STRONG YEAR

In spite of low oil prices, construction activity remains strong throughout Texas.

By Haisten Willis

Hill & Wilkinson is building the new Nokia corporate headquarters in Plano. The project will include a 214,780-square-foot office building and a 44,700-square-foot lab.

General contractors in Texas report healthy revenue growth and project another strong year in 2016 thanks to population increases and the continued strength of the state's economy.

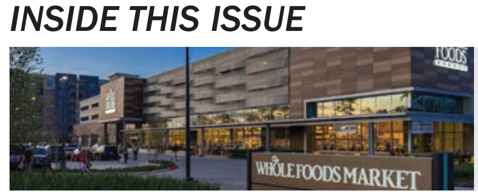
While concerns linger over the low price of oil and increasing materials costs, the Lone Star State's economy remains very strong overall, especially in markets such as Austin and Dallas where ties to the oil and gas industry are weaker.

Hill & Wilkinson, a Dallas-based general contractor, is building multiple corporate headquarters buildings in the Dallas/Fort Worth area, including the national headquarters for Kubota, a Japanese manufacturer of tractors and other heavy equipment. The company is relocating it U.S. headquarters from California to the Dallas suburb of Grapevine. The $50 million project will include a three-story, 125,000-square-foot office building and a 68,000-square-foot research and development facility, according to the Dallas Morning News. It will house more than 400 employees.

"Kubota already has an office presence in the area, but I expect we will be finished with the new headquarters by the end of this year," says Paul Driscoll, CEO of Hill & Wilkinson.

see CONTRACTORS page 28

INSIDE THIS ISSUE



Retail, Restaurant Activity in The Woodlands is Robust *page 26*

Pay Your Fair Share (and No More) of Property Taxes *page 27*

Austin's Multifamily Market Shows Even Growth is Bigger in Texas *page 25*

HOSPITALITY from page 1

Occupancy in Austin averaged 73.8 percent in 2015, up from 72.4 percent in 2014, according to STR. In Dallas, average occupancy was 70.6 percent in 2015, up from 67.8 percent the year before. The two leading markets are positioned for further gains in all key performance metrics.

According to Source Strategies, a company that maintains a Texas hotel database, Austin's occupancy rose 12.2 percent year-over year from the third quarter of 2014 to the third quarter of 2015, reaching 75.1 percent. Over the same time period, occupancy in Dallas rose 3.8 percent, reaching 67.4 percent.

Impact of Oil

Houston's hospitality market is not faring as strongly as Dallas or Austin due to the collapse of oil prices affecting jobs in the oil and gas industry.

While segments of the Houston economy not associated with oil and gas are expanding, that growth has not generated sufficient room demand to make up for a loss of occupancy from energy-related travel.

According to STR, Houston's average occupancy in 2015 was 68.5 percent, down from 72 percent the year before. San Antonio's average occupancy was flat at 64.9 percent both years.

In 2015, HREC brokered the sale of the Crown Plaza Northwest-Brookhollow, a full-service hotel in Houston.

"There was strong interest in the property even though it was at the start of worries about oil prices," says Wolpert. "The deal involved a $10 million renovation to position the hotel better in the market. There is still interest n the Houston market even though it's slowing down a bit."

Houston will soon host two major events that are sure to fill hotel rooms: The 2016 NCAA men's basketball Final Four and the 2017 Super Bowl. Expansion of downstream energy sector businesses, such as petrochemical plant expansions, will also drive occupancy.

Smaller markets in the Permian Basin and Eagle Ford Shale have been hit the hardest, as many have very little to drive their economy outside of oil.

"Some hotels near the oil fields are barely seeing a handful of guests a day," says Chris Gomes, vice president of investments in Marcus & Millichap's Dallas office. "That's a pretty dark situation."

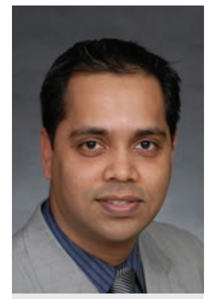
Patrick Bajdek, vice president of development for Dallas-based Hospitality Management Corp. (HMC), agrees.

"Basically all of the new development of hotels has stopped near the oil fields," says Bajdek. "The reverse is now starting to happen. We are starting to see some foreclosures."

According to Source Strategies, San Angelo's hotel occupancy was down 37 percent year-over-year during the third quarter of 2015, while Odessa was down 33 percent and Midland was down 32 percent. During the same period, Houston occupancy dipped 3.4 percent to 65.3 percent, while San Antonio occupancy fell 1.8 percent, reaching 64.5 percent.

Statewide, occupancy in hotels located in oil and gas markets declined 5.1 percent in 2015, while hotels in non-oil and gas markets saw a 7.9 percent jump.

"Part of the problem is that some of the smaller oil markets had up to 80 percent occupancy at an average price of $190 per night," says Bajdek. "Prior to the boom they'd have one hotel with 40 rooms, 60 percent occupancy at $40 per night. It's happening in North Dakota and you're seeing the same thing here. Wherever oil was, they're starting to suffer."



Chris Gomes
Marcus & Millichap

Overall, the slowdown in the oil industry is pushing investors more toward the major markets in Texas. According to Marcus & Millichap, in the first half of 2015 roughly 60 percent of all hospitality real estate transactions occurred in Austin, Dallas, Houston and San Antonio, up from less than half of all statewide deals the year before.

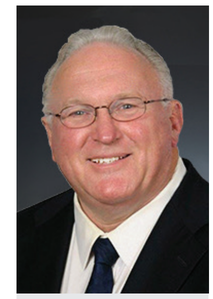
Marketing to Millennials

HMC is a privately held provider of management solutions involved in two hotels currently under construction. The first is a Holiday Inn Express in the Austin suburb of Round Rock, and the second is a Hotel Indigo in Frisco, just north of Dallas.

"Right now we're very focused heavily on Dallas and Austin," says Bajdek.

The Hotel Indigo will include 110 rooms and will be six stories tall. It will also include Blacklands Bar & Grill, according to Community Impact Newspaper.

Hotel Indigo, along with brands like Aloft, Tru by Hilton, Moxy Hotels and EVEN Hotels, is part of a growing niche in the hospitality sector known as lifestyle hotels. The Highland Group defines lifestyle brands as "prescribed franchised products that are adapted to reflect current trends."



Patrick Bajdek
HMC

Bajdek says the growth in these types of select-service hotel brands is part of a larger trend toward catering to millennials.

Hank Wolpert
HREC

"These hotels are geared toward the younger traveler," says Bajdek. "The lobbies will have ping pong or foosball, for example. You're starting to see that trend with some of the new brands. What you're not seeing is a lot of full-service hotels. They're hard to finance and they are not as profitable as select-service or limited service hotels."

Select-service hotels have lean operating models, which is important when demand and occupancy may be pressured. High apartment occupancy in major markets could also lead to expanded interest in extended-stay hotels.

Wolpert agrees that all of the major hotel companies are now catering to millennials.

"Everyone wants to see exciting lobbies and different food and beverage options," he says. "They are not going after Baby Boomers. It is affecting hotel design dramatically."

Another trend is a move toward dual-branded hotels, where two hotel brands exist in a single structure. The approach saves on operating costs as both hotels can share amenities such as a pool and fitness facilities, and labor costs can be combined to an extent.

"We see dual-branded hotels popping up everywhere," says Gomes. "They allow the developer to create a lot of synergies and common use between the brands within the structure."

One example is a co-branded lifestyle hotel being developed near Dallas Love Field airport. It will include more than 220 rooms and have both the Aloft and Element flags.

Overall, the hospitality sector in Texas remains strong, and Wolpert sees no reason for that to change any time soon.

"Most people I speak with in the hospitality industry think we're in the sixth or seventh inning, not the ninth inning," says Wolpert. "The fundamentals of the industry are very strong right now." ■

Construction will begin in May on a dual-branded Hilton Garden Inn/Home2 Suites located on the corner of Holcombe Boulevard and Almeda Road in the Texas Medical Center. Dual-branded hotels are one of many new trends in hospitality construction.