



Hotel Sales Should Reach Record Levels This Year, Says Brokerage Executive

Oct 1, 2007

By: Eugene Gilligan, Senior Editor

A still-strong desire on the part of investors to acquire lodging assets means that hotel transactions should reach record levels this year, said Charles Fritsch, president of Hotel Brokers International, the nation's largest hotel brokerage organization.

Fritsch, in an interview with *CPN* at last week's Lodging Conference in Phoenix, said that Hotel Brokerage International projects hotel real estate sales, excluding acquisitions of corporations, to increase approximately 8 percent this year over last year's figure of \$25 billion.

While hotel prices have increased in recent years, investors still find lodging assets attractive. "Many investors are finding that they can buy hotels below replacement cost," he said. In that scenario, Fritsch, who also is president of MBA Hotel Brokers, said that buying existing assets remains attractive.

"If you want to build a new hotel, you're looking at a two to three year period where no cash flow is being generated," Fritsch said.

The credit crunch could have an impact on higher-end hotel sales, Fritsch said, while guest demand could soften slightly in smaller markets. But acquirers of mid-market hotels are still able to acquire Small Business Administration loans to finance their purchase of mid-market hotels.

A major focus of Hotel Brokers International will be to increase its international network, to serve an industry that is becoming more global, Fritsch said. Hotel owners, who once tended to want to own their portfolios near their homes, made nationwide expansion a priority in the 1990's, and now are expanding globally. Major U.S. hotel companies are also continuing to expand internationally, while overseas-based brands are increasing their presence in the United States.

"We've seen Taj Hotels and Jumeirah moving into the U.S.," Fritsch said.

According to HBI, sales of major portfolios have risen through the first eight months of 2007, with 19 reported through the first eight months of this year, for \$4.7 billion, compared to nine portfolios at the same period last year, which sold for \$968 million. For 2006, 19 portfolios were sold, totaling \$2.5 billion.

Fritsch said macroeconomic trends will play a big part in the hotel industry's health. A rise in interest rates will likely slow the pace of hotel transactions, and he projects that transaction activity will be dampened by a slowing economy, even if interest rates are cut.