LOUIS HOSPITALITY MANAGEMENT

The 188-suite Residence Inn by Marriott in St. Louis, which opened earlier this year, was the city's first extended-stay property. An increase in midmarket transactions will take deal volume away from the top tier, according to Geoff Davis.

Editor's outlook

By Paul Rusnak
ASSOCIATE EDITOR

Steady as we go. Although the effervescence of 2006 might make 2007 feel a little flat, the robust hotel real-estate market will continue to produce deals with froth. High-end hotel asset trading is expected to slow opening the door for more mid-tier deals. Unprecedented double-digit RevPAR gains should dip a little based on a growing supply beginning to come online.

Hotel sales: Deal or no deal?

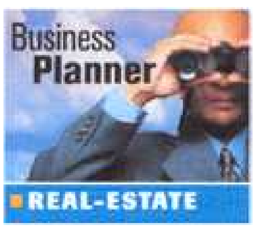
By Paul Rusnak
ASSOCIATE EDITOR

As the dust settles from the furious pace of lodging transactions in 2006, the outlook for the hospitality real-estate market in 2007 appears to be taking on a similar form, according to several members of the International Society of Hospitality Consultants.

Eric Belfrage, v.p. for CB Richard Ellis' Columbus, Ohio, office, said the real-estate market has a Jekyll-and-Hyde personality.

"Hotel real-estate is very cyclical," he said. "It's either great or in the tank."

The numbers don't lie. Deal-activity figures have shown the industry is swimming along just fine. Transaction action in 2006 set records. Geoff Davis, president of HREC Investment Advisors, said the frantic pace is likely to carry over into the new year despite apprehension that the joyride is nearing an end.



PART OF A SERIES

"There's a lot of people who think there's going to be a natural cooling," he said. "We're not seeing that now. Deal activity is not showing signs of abating."

The industry has prospered over the past few years with double-digit revenue-per-available-room growth. Teague Hunter, executive v.p. for Atlanta-based Hunter Realty, said this trend, among others, will flatten in 2007.

"Everything is slowing," he said. "The rate of growth is slowing in operations and room revenue. [RevPAR growth] is still good, it's just not as torrid of a pace."

Jim Burba, president of the Burba Hotel Network, said 2007 will be a good year.

"I don't think it will be better than '06," he said. "Capital and liquidity in the market are still there."

An increase in midmarket transactions will take deal volume away from the top tier, altering the market's appearance, according to Davis.

"It's going to look a lot different," he said. "There's going to be [fewer] trophy assets trading."

Belfrage said, given the current stability of the financial climate, changes in the supply pipeline should be monitored.

"The economy is going to stay pretty good," he said. "New supply is going to be the real story going forward."

Richard Warnick, president of Warnick & Co., agreed.

"There will be an increase in new development," he said.

According to Warnick, factors driving the trend include: continued industry performance; aggressive pricing of existing assets in relation to cost to develop; continued availability of equity capital; more debt financing available; and the slowing growth rate in construction costs.

"Construction costs are still incredibly high," Warnick said. "The rate of increase is likely to moderate somewhat."

He added that likely will not be the case in heavily unionized markets like New York and also in Las Vegas, where construction costs aren't moderating.

The proliferation of new hotel brands is helping spur development. Warnick said there will be an increased presence of new luxury hotel brands.

prusnak@questex.com

Trends to watch for in '07

1. New development
2. Slowdown in residential real-estate
3. Cooling of condo-hotel craze

Online Extra! For the full real-estate outlook story, visit *www.HotelMotel.com/bizplanner*

Quotable

"'07 should cool off some because there's only so much product people are pushing out there."

GEOFF DAVIS, president of HREC Investment Advisors

Pipeline leaders

Markets with highest construction activity (2007 open date)

Market	Number of rooms
Las Vegas	4,022
Washington, D.C.	2,483
Texas (East)	2,169
New York	1,892
Orlando	1,877
Riverside-San Bernardino, Calif.	1,617
Miami-Hialeah, Fla.	1,594
Detroit	1,555

Sources: Smith Travel Research, TWR Dodge

Keep on chuggin'

Reasons for transaction volume to remain strong in 2007

- Large amount of equity chasing deals
- Debt financing is abundant, inexpensive
- Continuing RevPAR gains
- Growing supply pipeline not a factor yet

Source: Richard Warnick, Warnick & Co.

STARWOOD HOTELS AND RESORTS WORLDWIDE

aloft (rendering shown here), Cambria Suites, Hotel Indigo and NYLO have become household names in hotel circles, indicating a growing interest in lifestyle and boutique hotels. The interest will continue, according to Jim Burba.