

Boston's Hotels Hit The Big Time

Sunday, March 29, 2015, 3:00am

Commercial Interests

Real Estate Investors List City As Fifth Hottest Market Nationwide

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Sales of downtown Boston condos are shattering records, while Cambridge is bursting at the seams with new research and lab centers – but it's Greater Boston's hotel market that has investors seeing green right now, and for good reason.

Real estate investors list Boston as the fifth hottest hotel market in the country, behind only the usual suspects – New York, Oahu, San Francisco and Miami – a new survey by PwC and the Urban Land Institute finds.

By contrast, Boston's office market came at No. 11, single-family homes at No. 14, apartment and condos at No. 21 and industrial property at a more distant No. 26.

Sure, the rebounding economy certainly helps, as does the diverse mix of industries, from higher education to high tech. But, ironically, the Boston area's reputation as a difficult place to build, combined with steadily increasing hotel room rates, is also working to whet the appetites of investors.

"Boston, from an investors' standpoint, has a couple really potent attractions," said David McElroy, a senior vice president specializing in the sale of hotels at CBRE/New England brokerage group. "It is considered a very high barrier to entry market."

Boston's climb to No. 5 is all the more amazing given the size of the market – it is one of the smallest in terms of total hotel rooms of the nation's big cities – as well as the depths to which it fell after the Great Recession. With 53,000 hotel rooms, the Boston area is by far the smallest hotel market of the nation's top five.

The years after the crash of 2008 were tough ones – the W Hotel declared bankruptcy even before it opened and the Renaissance Boston Waterfront was taken over in 2011 by its lenders after the owner defaulted on his payments.

In a sign of the times, the Renaissance Boston recently hit the market, with the hotel's lenders now looking for a



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payback as room rates surge across the Boston area, sources say.

Constant Demand, Little Competition

Overall, most Boston area hotel owners are choosing to hang onto their properties as the good times roll, driving up demand for the few that land on the sales block.

“Sellers are a little more in the catbird seat right now,” McElroy said.

The average daily hotel rate in the nation’s top 25 markets in 2014 was \$141, compared to more than \$176 in Boston. That rate, in turn, was up from \$164 in 2013, notes Tom Engel, president of the T.R. Engel Group, a Boston-based hotel consulting firm, citing Smith Travel Research.

RevPAR, or revenue per available room, jumped nearly 11 percent in Boston compared to 8.7 percent in the top 25 markets overall. And the occupancy rate at Boston area hotels is now above 75 percent, compared to 72.4 percent nationally.

“It’s a precipitous difference,” Engel said of the numbers. “I call this a small market with big shoulders. It’s not a New York or a Miami – its image exceeds its popularity.”

Interestingly, while the big luxury condo/hotel towers are grabbing most of the headlines, that’s not necessarily what’s catching the eyes of hotel investors and developers these days. Rather, it’s a class of hotels a step down or two from the luxury brands, called “premium select service.”

As jargon goes, that’s a mouthful.

But the basic concept is a hotel with the outward trappings of an upscale establishment, but without the fancy restaurant, ballroom and other services that make for top of the market room rates.

For example, breakfast is self-serve, unimaginable at a Four Season, but, then again, if you’re in town for business, you’re in a hurry anyway.

“They don’t have the huge ballrooms or 24/7 restaurants and that drives down the operating costs and the cost to build,” said Patrick Moscaritolo, president of the Greater Boston Convention and Visitors Bureau.

It’s faux luxury, with the ostentatious look and fancy names, but are prices that are a little less likely to break your wallet. The target market is business travelers and tourists out for a weekend away.

The Seaport is seeing a flurry of construction of these faux luxury brands, as well as outlying areas like Logan International Airport and Chelsea.

Starwood is building a 300-room Aloft hotel and a 180-room Element near the convention center and the waterfront,

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Aloft and Element hotels on D Street in Boston are expected to open later this year.

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The 180-room Element Hotel on D Street in the Seaport District.

while Marriott is moving ahead with a 134-room Envoy hotel that will settle in next to the Barking Crab.

“We have a lot of strong fundamentals in Boston,” said Andrea Foster, senior vice president and practice leader of BBRE Hotels/PFK Consulting USA.

But for investors, maybe the best part of building a hotel in Boston is just how so darn hard it is. High land costs and lots of red tape effectively create a gauntlet for would-be hotel developers. If you can make it through and get your new hotel permitted and built, you’ve got it made.

You’re not likely to see a competitor building on the next block anytime soon given the “barriers to entry,” as developers politely call the long and often contentious permitting process overseen by the Boston Redevelopment Authority.

“We have a client who owns a hotel property and would love to expand, but does not want to go through that torture treatment known as the BRA,” said one local hotel industry wag.

But maybe the biggest attraction for investors is just how steady demand is in the Boston hotel market. The diverse makeup of the Boston-area economy is also a draw, signaling to investors that hotel demand is more likely to hold up compared to other, one-industry towns. The giant Boston Convention and Exhibition Center also helps to drive demand, bring in a steady flow of meetings and shows. The result is that hotel demand in the Boston area is pretty even.

Investors looking at Boston see not just booming biotech and tech companies, but also some of the world’s top hospitals and one of the nation’s largest collections of top colleges and universities.

“The balance is what is pretty interesting about the Boston market,” said Fran Kanter, whose firm, CHM, owns hotels and advises other industry operators. “It’s a really nice mix of business.”

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