

**US Hotel Construction Pipeline Sets Record. Franchise Sales: Stellar**  
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U.S. Construction Pipeline Sets Another Record at 5,011 Hotels with 654,503 Rooms - Hotel Companies Ready to Reap Benefits of Repositioning Strategies

Lodging Econometrics (LE), the Global Authority for Hotel Real Estate, released its latest report to the Lodging Industry, announcing the New Construction Pipeline in the United States set a record at 5,011 projects / 654,503 rooms, making Q3 the fifth consecutive record-setting quarter.

'Guestroom counts in the Pipeline are 31% higher than the last peak in 1999," said Patrick Ford, President of Lodging Econometrics. "However, the project count is an astonishing 47% greater. Factoring in cancellations and postponements - and New Hotel Openings of 228 Hotels / 23,187 rooms - the overall Pipeline accelerated by 375 projects / 43,162 rooms quarter-over-quarter (QoQ).'

Ford continued, '1,459 projects / 209,306 rooms presently Under Construction and those Scheduled to Start Construction in the Next 12 Months - 2,390 projects / 286,948 rooms - are both at record levels. New Project Announcements during the third quarter are at a record high of 817 projects / 102,305 rooms.'

'Surpassing 5,000 projects in the Pipeline is a milestone event," said Ford. 'It reflects the surge of select service and mid-market brands developed earlier, as well as a number of new, contemporary brands launched in recent years. Designed to meet the changing requirements of today's business and leisure travelers, these new brands are rapidly gaining favor with developers,' Ford explained.

Ford further commented that the much-discussed credit crisis has not - as yet - significantly affected those hotels already in the Pipeline or impacted developers announcing new projects. Today, developers believe that, while construction financing may be more expensive in the short run, interest rates can be expected to stabilize at a modestly higher, yet still attractive level after the markets re-price for risk and resolve their problems.

**A Decade of Strategic Repositioning: Set to Pay Off for Major Hotel Companies**

Years ago, the four largest hotel companies - Marriott, InterContinental, Hilton and Starwood and- decided to convert from owning hotel real estate assets to providing branding and managerial services to the development and investment communities. This leaves the risks and rewards of real estate ownership with investors who are better able to bridge the ups and downs of economic cycles. For the hotel companies, the strategy minimizes the cyclicity of earnings and emphasizes sustainable fee income streams more in line with the quarter-to-quarter demands of a publicly traded company, which should reward shareholders with a higher valuation.

First emphasized by Marriott in the 1990's - and now being aggressively pursued by other companies - the new strategies resulted in the creation of a family of branded lodging products at multiple price points across numerous chain scales.

Construction Pipeline - Recently Announced Brands - Project & Room Counts				
Company	Brand	Segment	Projects	Rooms
InterContinental	Hotel Indigo	Upscale	32	6,078
Starwood	aloft	Upscale	55	8,055
	Element	Upscale	14	2,005
Hyatt	Hyatt Place	Upscale	52	6,385
Choice	Cambria Suites	Upscale	49	7,100

Source: Lodging Econometrics, Portsmouth, NH, USA, the Global Authority for Hotel Real Estate.

This has led to burgeoning Pipelines with the potential for generating ever-expanding fee income streams. Repositioning strategies can take years to accomplish. The process is essentially complete at Marriott, and moving to completion at Hilton and InterContinental. Also, to a lesser extent at Starwood, who will selectively develop hotels- particularly in resort destinations with a residential component.

**A Variety of Brands at Different Price Points: Key to Company Growth**

Each company benefits from a flow of franchise fees, but those that have iconic brands in the luxury and upper upscale sectors have another potential revenue stream. They offer professional management services and often can command management and performance-based incentive fees that drive their earnings even higher.

Marriott, with 665 projects / 88,605 rooms in the Pipeline, has the greatest potential for combined franchise and management fee income. Of the 51 luxury and upper upscale projects not owned by Marriott, 24 have chosen Marriott as their management team, a 47% success rate. Starwood follows, with a 39% success rate.

Additionally, in the upscale sector, Marriott has 13 projects larger than 200 rooms in the Pipeline and has been selected to manage nine of them. No other company, as yet, has a management contract in that sector for a property they don't own.

For calculating franchise fee income, Marriott with its strong family of brands has the greatest market share, as measured by room count, in both the upper upscale and upscale segments. In the luxury segment, project counts for Marriott's Ritz-Carlton run second to Starwood's total for its three luxury brands.

InterContinental is indisputably number one in the mid-market segment- with a whopping 830 projects / 77,818 rooms spread across their revived Holiday Inn Brand, Candlewood Suites, and the popular Holiday Inn Express- which has the largest counts of any brand in the Pipeline at 461 projects / 38,447 rooms. Hilton follows with the popular Hampton Inn and Suites, with 372 projects / 34,194 rooms.

Hilton also holds a comfortable position in other segments. With Hilton Garden Inns and Homewood Suites, it is second to Marriott in upscale and third in upper upscale, with Hilton, Embassy Suites and Doubletree.

### Newly Announced Brands: Gaining Traction

Companies with a family of brands designed and seeded in the last cycle have now grown to critical mass, with hefty Pipeline totals that will drive earnings. Developer reception to the new, contemporary brands announced in the last few years has been positive. These new upscale entries are attractive to developers, because cost-effective designs can be placed in both CBD's and Suburban locations, where there is sufficient rate elasticity to cover escalating land acquisition and construction costs.

Construction Pipeline by Company & Brand - Project & Guest Room Counts										
	Luxury		Upper Upscale		Upscale		Mid Market		Total Pipeline	
	Projects	Rooms	Projects	Rooms	Projects	Rooms	Projects	Rooms	Projects	Rooms
<b>Marriott</b>	11	2,167	43	16,055	407	50,114	204	20,469	665	88,605
	Ritz-Carlton		Marriott Renaissance		Courtyard Residence Inn SpringHill Suites		Fairfield Inn TownePlace Suites			
<b>InterContinental</b>	8	3,447			151	18,326	830	77,818	989	99,591
	InterContinental		-----		Crowne Plaza Hotel Indigo Staybridge Suites		Holiday Inn Candlewood Suites Holiday Inn Express			
<b>Hilton</b>	1	500	55	14,648	266	32,407	372	34,194	694	81,749
	Waldorf/Astoria		Hilton Embassy Suites Doubletree		Hilton Garden Inn Homewood Suites		Hampton Inn & Suites			
<b>Starwood</b>	17	4,453	64	15,664	89	12,546			170	32,663
	W Hotel St. Regis Luxury Collection		Sheraton Westin Le Meridien		aloft Element Four Points		-----			

Source: Lodging Econometrics, Portsmouth, NH, USA, the Global Authority for Hotel Real Estate

It takes more than a decade to develop a new brand to critical mass. The numbers are an impressive start for these companies who recently strategized to fill out their product line.

These new brands have the design, technology, marketing and reservation prowess of the major hotel companies behind them. They also have experienced franchise sales teams and a roster of interested client developers in place. Today, it is nearly impossible to create a new brand without the resources that a major hotel company provides. Developers can't risk an unaffiliated brand and lenders generally won't approve it. Being affiliated with a family of brands is also essential for developers who hope to successfully navigate the financing shoals ahead.

### Major Hotel Companies: Ready to Reap the Benefits of Repositioning

The next four years, perhaps longer, will be a period of significant fee income growth for the major hotel companies. Each company has between 20-26% of their existing guestroom census count - currently scheduled as New Hotel Openings - coming from the Pipeline.

Three things will push growth percentages even higher: first, most projects labeled "independents" in the Pipeline will make branding decisions, second, New Project Announcements into the Pipeline will continue to be strong, and third, future reflaggings of existing hotels are yet to be calculated into each company's forecast.

With New Hotel Openings scheduled to exceed 135,000 rooms in 2008 and 165,000 in 2009, years of intense development activity will now begin to pay off with an accelerated flow of franchise fee income. For companies like Marriott and Starwood, a flow of significant management and incentive fee revenue will come to fruition as well.

The repositioning of these companies from owners of hotel real estate to companies providing branding and management services will soon be complete- unlocking increased value for their shareholders.

### Credit Crunch: Causes Little Impact on Pipeline to Date

Generally, any tightening of credit conditions increases the number of project cancellations and postponements for projects in the Pipeline. For the third quarter, only minor increases above trend line were noticed, but nothing of significance. It will take another quarter, or two, before credit-related changes are felt in the Pipeline.

New Projects Announcements into the Pipeline are expected to remain strong, as developers generally view the economy as healthy, but slowing. Not surprisingly, franchise sales teams are reporting one of their best years.

For existing Pipeline projects, if a developer already has a construction loan commitment and if the lender chooses not to renegotiate, construction will likely start. If a loan has not yet been secured, the developer will encounter delays. Lenders who securitize their mortgages will be on the sidelines until more clarity emerges in the financial markets.

For developers with deep relationships with lenders, they may expect anywhere from a half to a full percentage point increase in interest rates. Cash investment requirements increasing to 25-35% will mean lower loan-to-value and higher debt-coverage ratios. As a result, the financial feasibility for current Pipeline projects will change. Investment returns will need to be recalculated. In some cases, developers may not be able to meet the now-higher-than-expected cash investment hurdles- and new partners may need to be found in order to proceed with the project. The net result will be project delays. The period of easy credit is over.

LE anticipates an increased flow of cancellations and postponements in the fourth quarter and during the first half of next year. Generally, the impact will be greater for larger projects. Smaller projects that can be financed in the local community will fare better.

When all is said and done, a more normal lending environment will result. Financing will be more difficult to obtain. The experience and credit worthiness of the developer, the quality of the project, the branding, and the management selections will take on added importance with lenders.

It's a serious correction for the financial markets and for real estate values. But - through Q3 - it hasn't yet had a significant impact on the economy or the U.S. lodging Pipeline.

Lodging Econometrics (LE) of Portsmouth, NH is the global authority for hotel real estate. LE conducts Supply Side research for all markets, developers and brands and companies in: U.S., Canada, Mexico, Central America and the Caribbean, Europe, Asia, Middle East, South America, and Africa.

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