

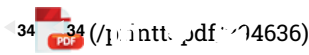


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Experts' outlook on current hotel development landscape

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Experts on a panel at the Hunter Hotel Conference shared their takes on where hotel development stands in the current cycle, and addressed topics such as modular construction, labor and more.



(From left) Ben Rubin, of Noble Investment Group; Matt Whiting, of Hilton; Matt Crossway, of Stonerhill; and Mark Tiedemann, of MWT Architect, spoke on a development panel at the Hunter Hotel Conference. (Photo: Hunter Hotel Conference/Ben Rose Photography)



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ATLANTA—There's still room to build hotels in the current cycle, but projects need to be the right types in the right markets, sources said.

On the "Development from those involved" panel at the Hunter Hotel Conference (<http://hotelnewsnow.com/Articles/294516/Hunter-Hotel-Conference-2019>), Ben Brunt, principal and EVP at Noble Investment Group, said "all the easy money has been made" at this point in the cycle and getting a project done is a little more challenging, but it's not impossible.



"(We're) paying attention to locations and markets where we can also kind of create an incentive package, whether it's through working with a county and municipality or a brand or what have you, that can help bring our basis down to something we feel is underwritable at this point," he said. (<http://hotelnewsnow.com/Articles/294516/Hunter-Hotel-Conference-2019>)

Matt Wehling, SVP of development, U.S. and Canada at Hilton, said "development is in check and I think we're in a healthy spot, actually."

"I think we're in a building situation," he said. "Hotels are performing well and development has slowed a little bit in the last two years, so I think we're poised for some steady growth."

Compared to the last cycle when the industry was going into a downturn, Mathew Crosswy, president of Stonehill Strategic Capital, said the "leverage is totally different."

"Inflating your land base, getting loans at 80% to 85% of cost, the equity has to pencil for both a leverage return and an unleveraged return," he said.

Factors affecting development

Labor is affecting every part of the industry (<http://hotelnewsnow.com/Articles/294495/Owners-brands-worry-about-rising-costs-recession>), including development.

Mark Tiedemann, CEO at MWT Architect, said the labor shortage is affecting roles such as housekeeping inside the hotel, and roles outside, such as construction.

"Unfortunately we're pushing the people that we want in the country out and then ... we have a shortage of labor in the construction industries and we don't have a younger generation actually moving into those roles because the next generation, they don't want to carry concrete cement bags over to the job site or carry block or dig ditches or holes, and that's what we really need."

He said that increasing the labor pool with legal workers from other countries could help lower costs.

Brunt added that developers have to be somewhat optimistic and explain to others involved in a project why now is a good time to develop.

"You've got to believe in your market and your project, and certainly if you're going to project 2% RevPAR growth and 2% expense growth, you'll never get anything done," he said. "There has to be some level of optimism in your underwriting, and you need to be able to back it up and articulate to all the various folks why this makes sense and why now when construction costs are high. It's about spending a lot of time thinking about your market and there has to be a reason to develop."

Dual brands

The development of dual brands has been popping up more frequently in the industry, especially in the last 12 months or so.

When talking about efficiencies associated with building and operating a dual brand, Wehling said "two specific demand niches need to exist in a market to be able to develop a dual brand."

"Whether it's extended stay and transient and upscale and transient vs. midscale extended stay, two distinct demand niches need to be in place in order to (build a dual brand). Not just the efficiencies you might enjoy in back of house," he said.



Each brand in a dual brand has its own identity in the public spaces, Brunt said, and the efficiencies really come through in staffing. One GM often runs both hotels, one sales team sells both hotels and a lot of back-of-house functionality is shared, he said.

Misconceptions in modular construction

Some people believe modular construction saves time and money on a project, but panelists said that's not necessarily the case—at least not right now.

"I love that everybody talks about modular, modular, modular. Modular has been around for a long time," Tiedemann said. "The key kicker here is there's only about six to seven plants in the United States that are producing modular ... How many people are doing hotels through modular? Not that many. So to send out the dream that you can save money and do modular, it's not there."

People will eventually be able to save money on modular, he said, and there is demand for modular construction, which is being pushed by the labor shortage.

"If you wait a year or two to get your modular project out there and interest rates don't click up in a couple years, yeah it's a good thing. If you're just starting now, you know there's 40 people ahead of you from last year that are waiting," he said.

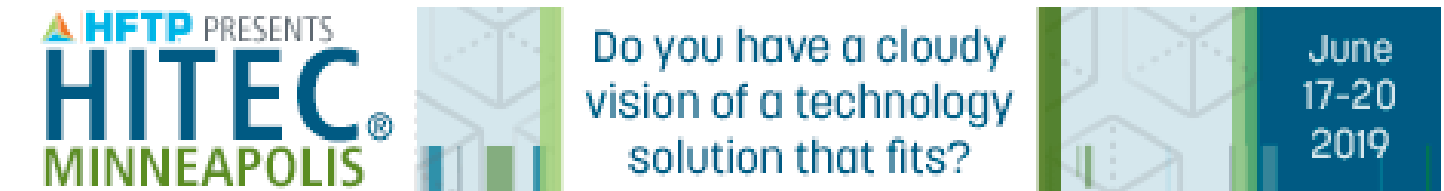
Wehling added that the "biggest misconception is that (modular) is cheaper to build ... the reality is that it's not."

The efficiencies of modular construction come in the delivery and the actual carry cost, he said, but since so few companies are doing modular in the U.S., developers have to wait in line to get their project delivered.

"If you can wait 18 months, you might as well start building in traditional fashion," he said.

The modular companies are expanding and this will eventually be less of a problem and more time and cost efficient, Wehling said.

- [Click here to read more on obstacles to modular construction.](http://www.hotelnewsnow.com/Articles/292228/Modular-hotel-construction-faces-some-bumps-in-the-road)
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