

Is now the right time to build a hotel?

Labor costs, interest rates, inflation and a lack of general contractor availability have hoteliers thinking twice

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OWNER

Brent McDowell

VP of hotel support

McNeill Hotel Company

So, is now the time to build? The short answer is no, according to Brent McDowell, VP of hotel support at McNeill Hotel Co., which has completed ground-up development of seven new hotels since 2016. “That’s from the standpoint of inflation, supply chain issues and commodity costs. We don’t have good clarity if these will become favorable in the future or not. For example, where will interest rates be over the next 12 to 36 months?” he said.

The other things to consider, according to McDowell, are the availability of general contractors, their subcontractors and construction labor, as well as overall construction cost. “Some of the most attractive markets in which to build a hotel are, for obvious reasons, among the hottest housing markets in the nation, which can severely strain construction availability and pricing. We are also witnessing an inflationary impact on real estate and land costs,” McDowell added.

McDowell said choosing a location involves a balance between opportunities like population growth, major new employers or government services, or under-representation of a given brand with post-development barriers to entry for others. And the more demand drivers, the better. That means a major new or expanding employer, car plant, university, medical center or state government—combined with site availability—can drive the right timing.

McNeill’s focus right now is developing selectservice and extended-stay properties in secondary and tertiary markets. “Our sweet spot is college towns, which tend to have more stabilized, less volatile demand. Research facilities and major college football never hurt,” McDowell said. “However, in our development model or analysis, we always look closely at input costs, whether it’s land, commodities, construction or financing. We’ve found this to be a key factor in longer-term asset value and return on investment, especially in our core area of select-service and extended-stay properties.” HM