5 things to know: How much CapEx do you need?

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Chad Sorensen, principal at CHMWarnick and president of ISHC, talks CapEx at the Hotel Data Conference. (Photo: Kerry Woo)

Highlights

- REITs spend more on CapEx than non-REITs.
- CapEx spend varies across location types.
- Full-service hotels 1 to 5 years old saw the lowest spend at 0.5%.

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NASHVILLE, Tennessee—The standard 4% capital-expenditure reserve for hotels is not enough, according to a speaker at the recent Hotel Data Conference.

Chad Sorensen, principal at CHMWarnick and president of ISHC, presented findings from "ISHC CapEx 2014: A study of capital expenditures in the hotel industry" compiled by the International Society of Hospitality Consultants and the Hospitality Asset Managers Association.

The study covered a six-year period from 2007 through 2012. Here are five things you need to know from the research, which Sorensen shared during the "Is 4 % enough? CapEx historical trends and what the future holds" presentation.

1. More than 4% spent on CapEx

In each one of the six years, CapEx spend exceeded 4% for all properties included in the study (more than 500 hotels in the United States).

CapEx spend was the highest in 2008 at 11.6%. After 2009, there began to be a pullback in spend, where it went from 7.9% in 2009 to 5.5% in 2010. It crept up to 6.8% in 2011, and 2012 ended with CapEx spend of 9.7%.

2. REITs spent more than non-REITs

Real estate investment trusts over the six-year period spent more on CapEx than their non-REIT counterparts.

During the study period, REITs spent 9.5% on CapEx, while non-REITs spent the standard 4%. The total sample, by comparison, spent 8.3%.

On a per-room per-year basis, REITs spent $4,965 on CapEx, while non-REITs spent $1,171. The total sample, by comparison, spent $3,702.

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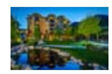
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When asked whether the numbers supported the theory that REITs typically purchase hotels that require more work, Sorensen said: "I think it's more the model. They had it reserved to continue through the downturn. The time to do it is in the downturn if you can afford to."

3. Location matters
CapEx spend varied across different location types, Sorensen said.

Resort hotels spent 9% of total revenue on CapEx, followed by airport hotels at 8.5%. Urban hotels spent 8.1%, while suburban hotels spent 8% and interstate hotels were at 6.5%. Small town/metro hotels spent the least on CapEx at 5.7%.

4. Mid-ADR hotels spent more
For all properties in the sample size, those hotels with an average daily rate of $100 to $125 saw the highest CapEx spend of total revenue at 9.5%.

Hotels with an ADR of more than $125 followed at 8.5%. Properties with an ADR of less than $100 spent the least on CapEx at 6.9%.

5. There are differences for full and select service
Full-service properties translate to a higher CapEx spend than select service.

The highest CapEx spend for full-service hotels was 12.2% in 2008. Select-service hotels spent the most on CapEx during 2009 at 5.7%.

Sorensen said select service is very different from full service when it comes to CapEx due to the newness of the product.

Not surprisingly, more CapEx was spent on select service as properties aged. Properties aged 1 to 5 years saw a CapEx spend of 0.8%; 5.5% for 6 to 10 years; 5.2% for 11 to 20 years; and 5.7% for properties aged 21 years and older.

Full-service hotels 1 to 5 years old saw the lowest spend at 0.5%. The highest spend was for 26- to 30-year-old hotels at 10%.

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