MARKET REPORT

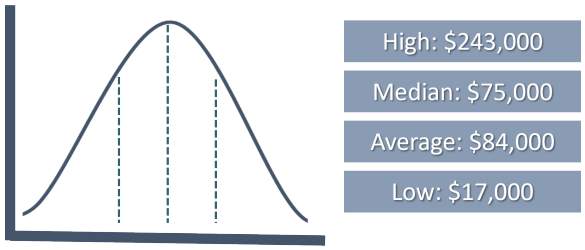
Hotel Conversions to Residential Use Heat Up

APRIL 11, 2023

As economy and budget hotels are nearing the end of their economic life, some properties are finding new capital for renovations from buyers seeking to convert properties to residential use. In this article, we provide a sample list of hotels that have gone through this metamorphosis.

As economy and budget hotels are nearing the end of their economic life, some properties are finding new capital for renovations from buyers seeking to convert properties to residential use. We have compiled a sample list of hotels that have gone through this metamorphosis, illustrated at the bottom of this article. These transactions reflect the following range of prices per room.

Price Per Key for Hotel to Residential Conversions

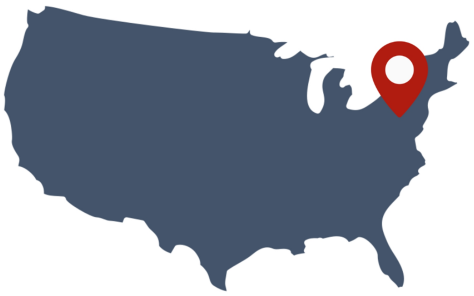


Source: HVS

We want to caution buyers, particularly municipalities that may not be savvy hotel buyers, not to overpay for these assets, as these dated hotels should be available at a relatively good price. Municipalities, city managers, housing authorities, and the like should partner with a firm like HVS to negotiate the best possible deal.

The upside of a residential conversion can be significant, particularly for a budget hotel operating at a below-market occupancy and average room rate whose owner is paying a significant portion of the limited rooms revenue to maintain a brand affiliation that is not providing much benefit. Not only could a struggling lodging property transition to a much higher occupancy with residential use, but the buyer could also eliminate significant brand affiliation and other overhead costs. Of course, an important box for a buyer to check before considering a project like this is confirming that this type of conversion is legally permissible by the zoning designation, building codes, and other local regulations, among other factors. A feasibility analysis should also be undertaken once a renovation project cost has been determined.

Latest Residential Conversions



Northeast

By Conversion Use

134 Rooms to Timeshare Property
259 Rooms to Senior Housing
263 Rooms to Apartments
291 Rooms to Residential Housing
299 Rooms to Office Building
655 Rooms to Residential/Student Housing
876 Rooms to Mixed-use Multi-Family Development
1,152 Rooms to Multi-Family/Apartments/Condos
1,207 Rooms to Low Income/Emergency Housing

TOTAL: 5,139 Rooms



Southeast

By Conversion Use

200 Rooms to Veteran Housing
476 Rooms to Apartments

TOTAL: 676 Rooms



Midwest

By Conversion Use

117 Rooms to Mental Health Care
127 Room to Multi-Family Housing
203 Rooms to Senior Housing
218 Rooms to Affordable Housing (estimated)
263 Rooms to Apartments

TOTAL: 928 Rooms



Texas

By Conversion Use

121 Room to City Supportive Housing
126 Rooms to Assisted Living
214 Rooms to Vivo Living Multi-Family
232 Rooms to Apartments
308 Rooms to Low-Income/Emergency Housing

TOTAL: 1,001 Rooms



West

By Conversion Use

N/A Rooms to County Shelter
21 Rooms to Women's Shelter
49 Rooms to Student Housing
76 Rooms to Temporary Housing
148 Rooms to Housing
211 Rooms to Affordable Housing
223 Rooms to Apartments
312 Rooms to Low-Income/Emergency Housing
477 Rooms to Interim Housing
512 Rooms to Multi-Family Housing
1,035 Rooms to Interim to Permanent Housing
1,349 Rooms to Other (Information not Available)
2,531 Rooms to Permanent Housing

TOTAL: 6,796 Rooms

Source: HVS

If you are in the market for a lodging property to convert to residential use, I urge you to contact HVS to help you with the acquisition of your property. We have experts who can assist you in avoiding the pitfalls that can turn a good idea into an unfortunate outcome.