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IN PERSON

She Helps Hotel Operators Sleep Easier

By Steve Adams | Banker & Tradesman Staff | Jun 12, 2016

Rachel Roginsky
Title: Owner and Principal, Pinnacle Advisory Group
Age: 58
Experience: 30 years

Rachel Roginsky gives advice to investors who want to buy hotels and tips on how to run them profitably after they do. Roginsky is owner of Boston-based Pinnacle Advisory Group, which provides a wide range of services to the hotel industry. Roginsky worked in the restaurant industry for the Victoria Station chain and joined accounting firm Pannell Kerr Forster before founding Pinnacle in 1991.

Q: What's the fastest-growing piece of Pinnacle's business right now?

A: Right now we're busiest with developers hiring us to do market feasibility studies for hotels. We're also busy with acquisitions. When [someone wants] to buy a hotel, they hire us to do market and financial due diligence: what it's worth and what to do with it. That's the bulk of our business right now. We also do asset management: when the market's good, they want to renovate and reflag. We're in the up market of the cycle. That's the good part of Pinnacle: when there's a down cycle we're just as busy doing appraisals and workouts.

Q: What goes into an acquisition analysis?

A: The first thing we look at is the flag, the brand. What we're seeing today is a couple of things: if they want to stay in the branded side of the business, there's a lot of new brands to look at. Marriott has about 20 brands right now. Hilton has 20. So you don't necessarily need to be a Hilton anymore. They have a lot of brands within the brands. Another thing hotels are looking at is: do we need to have a brand? Can we be independent? With technology and the type of travelers today, you may be able to do equal or better than the brand and not have to pay for the cost of the brand.

Everybody who buys a hotel has a story to tell. They're either looking to improve the top-line performance or they're looking at better operations, how they can reduce the costs.

Q: Where are the cost-cutting opportunities?

A: Technology can certainly save on labor. Check-ins that you do on the phone; you can order room service through your phone. Labor is the biggest cost of a hotel.

Q: Why is the suburban hotel development market taking off?

A: The suburbs are seeing a lot more new supply. It's about an 8 percent increase throughout the Boston suburban market. We hadn't seen that in a long time. With the recovery there are opportunities to develop. There's less land in Boston and it's very costly. We actually have a pretty old supply of hotels in the suburbs. With these new brands, people are looking at putting in new hotels which typically steal from the old hotels.

Q: What's the threshold that supports new construction?

A: It's a combination of occupancy and room rates. It is the RevPAR and we are now seeing the suburbs' occupancy at a peak above the last peak, and we've seen strong rate growth the last couple of years. It's surpassed the last peak. Hotels are sold out three nights a week now. The one thing about the suburbs is it's still missing the leisure demand generators. Hotels do well with sports teams and friends and family, but it's generally more rate-sensitive.

Q: Will the trend toward boutique hotels continue downtown?

A: Following the Boston trends, we've had very little new supply compared to many other markets. The new hotels we're seeing are boutique: the Envoy is a Marriott, but it's a very cool hotel. We have an older supply in Boston. Development and land costs are very high, and operating costs are very high.

Q: Who's providing hotel development financing?

A: For new development, it's banks. The issue is for new development, they're recourse loans, so it's not always that desirable. For non-recourse, it's probably a debt fund like Ares (Management). But they are expensive and it has to be the right sponsor, the right location. It is harder today to finance new construction than it was a year ago.

Q: Some hotels are getting rid of full-service restaurants, cafés and even desks in response to changing lifestyles and demographics. Is that permanent?

A: There's two major trends. One is the whole advent of the Millennials and what they want. It's less focused on your room. You don't need a desk anymore. They're going to go down to the lobby and listen to music and have a beer and work with others. Hotels are taking away things that used to be in the room and putting more amenities in the public space. That means the hotel is going to be smaller. More free wi-fi, more rooftop bars, more fun. Fewer sit-down restaurants. Bars are profitable, moreso than restaurants.

Q: Are brands being diluted by all of the new hotel flags?

A: That's why we are seeing more boutique hotels. It's not just the dilution of the brands. You can find a hotel a lot quicker online and make your reservation than you could five years ago. You don't need the brand as much for marketing purposes. Brands are 20-year franchise agreements, so it costs the owner money to convert to whatever the brand wants that year.

Roginsky's Top 5 Favorite Tennis Players:

Serena Williams
Jimmy Connors
Venus Williams
Andre Agassi
Novak Djokovic