Developers considering boutique hotels in downtown Baltimore

Jen Degregorio

With rising interest rates and fears that the housing boom is fizzling, developers are considering hotel uses for a number of Class-B office buildings in downtown Baltimore that previously might have gone to residential conversions.Donald R. Kann, principal of Baltimore architectural firm Kann &Associates Inc., said he has received quite a few calls in the last five months about potential hotel conversions in the city's central business district. Kann & Associates is now working on designs for three boutique hotel projects, the developers of which are applying for federal and state historic tax credits to help fund the rehabilitation process. Kann declined to name the developers or hotel brands, but he said the projects would come as a surprise to many who expected the buildings to convert to residential use.If you look at the bigger picture, the economic evaluation of these buildings, the options are to retain them as Class-B office, to convert them into apartments, to convert them to condos or to convert them to hospitality hotels, Kann said.At this time it appears that the most desirable is the hotel, he said.That's no surprise to those who follow the city's hospitality industry. Occupancy rates are more than 70 percent, according to a 2005 State of Downtown report by the Downtown Partnership of Baltimore. And the average room rate grew to $167 per night, up from $150 in 2004, the report said.That compares to the national average of 61 percent occupancy and a room rate of about $86 per night in 2004, according to the most recent statistics available from the American Hotel & Lodging Association.Baltimore is a very good market, said Mary Jo McCulloch, president of the Maryland Hotel & Lodging Association.Part of the reason is that Baltimore is underserved, with only about 6,500 rooms citywide, McCulloch said.Combined with travelers' growing desire to visit Baltimore - tourism was up nearly 4 percent last year, according to the Downtown Partnership report - a lack of hotel space translates into hefty profits for hotel owners and operators, McCulloch said.Developers have not ignored this. Five major hotel projects are expected to come on line by 2008, representing $552 million of investment and 1,500 new hotel rooms, according to the Downtown Partnership report.Those projects include the city-backed Convention Center Hotel, Springhill Suites, the Inn at Camden Yards, the Four Seasons Hotel and Residences and Hilton Gardens and Homewood Suites, both at Harbor East.With the projects ranging from full-service to smaller boutique brands, the market likely will not have trouble absorbing the extra space, McCulloch said.But she offered one caveat.You can't have them all open their doors in the same year, McCulloch said. The market has a very hard time absorbing that without cutting prices to the point where it hurts.The flood of new hotel rooms has not frightened developers.According to Kann, developers see an unfulfilled demand for boutique hotels, which generally offer fewer than 150 rooms in an upscale atmosphere.Even with the city building the big, behemoth Convention Center Hotel, it will play to a completely different audience than the boutique hotels, said Robert Aydukovic, vice president of business and economic development for the partnership for the Downtown Partnership. I wouldn't be surprised if at least one or two more started construction in the next year or two, he said.Aydukovic said he has heard of at least three projects in the central business district that have not yet been made public.Developer J. Joseph Clarke, who is attempting to build a boutique hotel at the Recreation Pier in Fells Point, is not surprised that developers are looking for opportunities downtown.The consumer mindset has changed a great deal, and it tends to favor hotel use away from full-service hotel facilities, said Clarke of JJ Clarke Enterprises Inc. People are more interested in a really good room and a really nice facility and, frequently, high style.The centerpiece of Clarke's $40 million project is a 145-room hotel by San Francisco's Kimpton Hotels & Restaurants LLC.Conversion of old, downtown buildings is a good idea because the units wind up being quite large, Clarke said.State historic tax credits can sweeten development deals, which tend to be more expensive than residential projects, Clarke said.The Recreation Pier project was boosted by $3 million in state historic tax credits.The developers Kann's company is working with are nearing completion of their tax-credit proposals and will know in the coming months whether their hotel projects are a go, Kann said.Some of them are national franchises and some are individual people who might have a small chain of hotels that they're interested in expanding, he said of the hotel brands that might come into the projects.Whatever the brand names, the projects themselves offer one message, according to McCulloch.Boutique hotels usually mean that you have a pretty healthy market, she said.It's interesting to us that in the central business district people have started to evaluate things other than residential uses, Kann said. People are trying to understand where the edges of the housing market are.