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INDUSTRY RESEARCH

The US Lodging Industry: Mid-Year 2011

By *Daniel Lesser*

Lesser

NEW YORK CITY-With the global economic recovery slipping into lower gear, the US is experiencing a lethargic and delicate fiscal improvement of its own. Myriad international and domestic issues continue to exert negative pressures on the American financial system. Some of the most significant issues currently facing the world markets include: the economic solvency issues of Greece; ongoing tensions throughout the Middle East; and the looming August 2 deadline for Congress to raise this nation's statutory debt ceiling. The last is to avoid what many fear would be a catastrophic crisis of confidence if the US were to default, even technically on its debts. The national jobless rate continues to be persistently high and US home prices have yet to form a bottom. That's the bad news; the good news is that

according to a recent CNN Money survey, corporate America's balance sheets will continue to improve, and earnings for S&P 500 companies are on track to rise 13% this year.

Even with a sluggish economy, US hotel occupancy, average rate, and resultant RevPAR is anticipated to remain positive. With the development of new supply of US hotel rooms relatively muted for the foreseeable future, lodging fundamentals are rebounding as corporate and group meeting business continue to increase from cyclical lows. The perceived long-term upside in the lodging sector has resulted in heightened transaction activity and pricing of all types of hotel assets.

LW Hospitality Advisors (LWHA) continuously monitors the major US hotel sales transaction market. The LWHA YTD Q2 Mid Year 2011 Major US Hotel Sales Survey includes 65 single-asset sale transactions over \$10 million, each that are not part of a portfolio allocation. These transactions totaled more than \$6 billion, and include over 22,000 hotel rooms with an average sale price per room of approximately \$274,000. By comparison, the YTD Q2 Mid Year 2010 survey identified 42 transactions totaling a mere \$1.8 billion including 11,700 hotel rooms with an average sale price per room of \$158,000. Trade activity of US lodging assets continues to outperform on a quarter over quarter and year over year basis.

Notable observations from the LWHA YTD Q2 Mid Year 2011 Major US Hotel survey include:

- 17 major US hotel sale transactions greater than \$100 million occurred in the first half of 2011, compared with 10 during all of 2010, and only five which were consummated during each calendar year 2008 and 2009;
- New York and San Diego are the most active US hotel sales transaction markets with a combined 17 major deals totaling \$3.1 billion, or roughly half of the total dollar volume for the nation so far this year;
- **Pebblebrook Hotel Trust** is the **dominant acquirer of major US hotel transactions** with six so far this year totaling over 1,500 rooms and aggregate purchases of over \$500 million. **Chesapeake Lodging Trust** follows with four acquisitions totaling close to 1,000 rooms for an aggregate amount of just over \$300 million;
- The St. Regis Washington DC was purchased by **Westbrook Partners for \$100 million**, or 40% less than the \$170 million previously paid by **Claret Capital**, a private equity firm based in Ireland, who acquired the hotel at the peak of the market in 2007;
- Available capitalization rate data in connection with several recent major US hotel trades are illustrative of the low cost of REIT capital and/or perceived upside of urban hotel assets in top US markets:

- Pebblebrook Hotel Trust acquired the following assets:
 - Mondrian Los Angeles at a forward 12-month capitalization rate of 5.6% to 6.1%, and an estimated 20% to 25% discount to replacement cost;
 - W Boston at a forward 12-month capitalization rate of 4.5% to 5%, and an estimated 30% discount to replacement cost;
 - Viceroy Miami at a forward 12-month capitalization rate of 5.1% to 6%, and an estimated 50% discount to replacement cost;
 - Hotel Monaco Seattle at a forward 12-month capitalization rate of 4.5% to 5%, and an estimated 30% to 35% discount to replacement cost;
 - Westin Gaslamp Quarter San Diego at a forward 12-month capitalization rate of 5.9% to 6.4%, and an estimated 25% to 30% discount to replacement cost.
- **DiamondRock Hospitality Company** acquired the following assets:
 - **Radisson Lexington Hotel in New York** at purchase price that represents a 6.7% capitalization rate on forecasted 2012 net operating income;
 - **JW Marriott Denver at Cherry Creek** at a purchase price that represents a 7.5% capitalization on forecasted 2012 net operating income.
- Newly formed **RLJ Lodging Trust** acquired the following asset:
 - Hampton Inn Houston - Near The Galleria at a purchase price that represents an 8.3% capitalization rate on 2010 net operating income.

During the next several years as the sector recovery matures, US lodging industry fundamentals are anticipated to continue to rebound resulting in a prolonged rise in sale transaction volume of an array of hotel assets. Pricing of major US hotel properties is rising and gaining momentum as investors that were able to hold on during the downturn now bring assets to market. Furthermore, savvy sponsors who acquired properties at or close to the recent market bottom are now executing exit strategies to monetize robust returns that have been realized during a relatively short holding period. Publicly-traded hotel-centric REIT's flush with cash have been highly acquisitive. Finally, large sums of raised private capital funds are competing to invest in the sector seeking superior risk adjusted returns during the current up cycle. Urban 24/7 markets such as New York City; Boston; Washington, DC; and San Francisco are once again perceived as darling hotel investment markets with assets trading at relatively low capitalization rates, however still below replacement cost. As special servicers continue to work through problem legacy deals and effectuate sale transactions in a rising market, investor demand for US hotels is expected to move beyond the coasts and spread into the middle of America where pricing has been much slower to recover. Sophisticated hotel investors never lose sight of the inherent risks of the lodging industry which is highly cyclical. With the continuous repricing of room rates, external events such as terrorism and natural disasters can cause sudden market dislocations and have an immediate impact on hotel profitability.

To view LW Hospitality Advisors' 2011 YTD Q2 (Mid-Year) Hotel Sales report, click on the pdf below.

Daniel Lesser is the president and CEO of LW Hospitality Advisors based in New York City. The views and opinions expressed in this article are the author's own.

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| LW Hospitality Advisors: Select Major YTD Q2 (Mid Year) 2011 U.S. Hotel Sales Survey | | | | | | | |
|--|-----------------------|--------------|-----------------------|----------------------|--|--|--|
| PROPERTY | LOCATION | NO. OF ROOMS | ESTIMATED SALES PRICE | ESTIMATED PRICE/ROOM | BUYER | SELLER | |
| Manchester Grand Hyatt San Diego | San Diego, CA | 1625 | \$ 670,000,000 | \$ 350,769 | Host Hotels & Resorts | Manchester Financial Group | |
| New York Palace Hotel | New York, NY | 839 | \$ 400,000,000 | \$ 444,939 | Northwood Investors LLC | Brunei Investment Agency | |
| Radisson Lexington Hotel | New York, NY | 712 | \$ 335,000,000 | \$ 470,506 | DiamondRock Hospitality | JV Blackstone Group, Goldman Sachs, Highgate Holdings | |
| Doubletree Metropolitan Hotel | New York, NY | 755 | \$ 335,000,000 | \$ 443,709 | RLJ Development LLC | JV Highgate Holdings/Whitehall Goldman Sachs/Rockwood Capital LLC | |
| YOTEL New York | New York, NY | 669 | \$ 315,000,000 | \$ 470,852 | JV IFA Hotels and Resorts, Kuwait Real Estate Co. & United | Related Company | |
| New York Helmsley Hotel | New York, NY | 775 | \$ 313,300,000 | \$ 404,258 | Host Hotels & Resorts | Helmsley Enterprises, Inc. | |
| Paramount Hotel | New York, NY | 597 | \$ 275,000,000 | \$ 460,637 | RFR Holding | JV Walton Street Capital & Highgate Holdings | |
| Jumer's Casino & Hotel | Rock Island, IL | 205 | \$ 180,000,000 | \$ 878,049 | Delaware North Companies | Jumer Family | |
| Mondrian Los Angeles | West Hollywood, CA | 237 | \$ 137,000,000 | \$ 578,059 | Pebblebrook Hotel Trust | Morgans Hotel Group Co | |
| San Juan Marriott Resort & Stellaris Casino | San Juan, Puerto Rico | 525 | \$ 133,000,000 | \$ 253,333 | Rockwood Capital | American International Group | |
| Royal Palm Hotel | Miami Beach, FL | 409 | \$ 130,000,000 | \$ 317,848 | KSL Capital Partners | Sunstone Hotel Investors | |
| W Chicago - City Center | Chicago, IL | 368 | \$ 128,800,000 | \$ 350,000 | Chesapeake Lodging Trust | Starwood Hotels & Resorts Worldwide | |
| Hilton Alexandria Mark Center | Alexandria, VA | 496 | \$ 121,000,000 | \$ 243,952 | Crow Holdings Realty Partners V LP | Amstar | |
| Intercontinental Montelucia Resort & Spa | Scottsdale, AZ | 293 | \$ 115,000,000 | \$ 392,491 | KSL Capital Partners | Eurohypo AG | |
| Four Points by Sheraton Midtown Times Square | New York, NY | 244 | \$ 112,000,000 | \$ 459,016 | Gehr Group | N/A | |
| Westin Gaslamp Quarter | San Diego, CA | 450 | \$ 110,000,000 | \$ 244,444 | Pebblebrook Hotel Trust | Starwood CMBSI LLC | |
| St. Regis Washington DC | Washington DC | 182 | \$ 100,000,000 | \$ 549,451 | Westbrook Partners | Barclays Capital | |
| JW Marriott San Francisco Union Square | San Francisco, CA | 337 | \$ 96,000,000 | \$ 284,866 | Thayer Lodging Group | Ashford Hospitality Trust | |
| JW Marriott New Orleans | New Orleans, LA | 494 | \$ 93,800,000 | \$ 189,879 | Sunstone Hotel Investors | JV Clearview Hotel Capital/Starr International USA Investments LLC | |
| Westin Pasadena | Pasadena, CA | 350 | \$ 92,000,000 | \$ 262,857 | HEI Hotels & Resorts | MPG Office Trust, Inc. | |
| Sheraton Universal Hotel | Universal City, CA | 451 | \$ 90,000,000 | \$ 199,557 | Shenzhen New World Group | Lowe Enterprises | |
| W Boston Hotel | Boston, MA | 235 | \$ 89,500,000 | \$ 380,851 | Pebblebrook Hotel Trust | Sawyer Enterprises | |
| Argonaut Hotel | San Francisco, CA | 252 | \$ 84,000,000 | \$ 333,333 | Pebblebrook Hotel Trust | N/A | |
| Algonquin Hotel | New York, NY | 174 | \$ 82,000,000 | \$ 471,264 | Cornerstone Real Estate Advisors | HEI Hotels & Resorts | |
| Viceroy Santa Monica | Santa Monica, CA | 162 | \$ 80,100,000 | \$ 494,444 | LaSalle Hotel Properties | Kor Group | |
| Hotel Chelsea | New York, NY | 250 | \$ 80,000,000 | \$ 320,000 | Chetrit Group | N/A | |
| JW Marriott Denver at Cherry Creek | Denver, CO | 196 | \$ 72,600,000 | \$ 370,408 | DiamondRock Hospitality | Sage Hospitality Resources | |
| Red Lion Hotel On Fifth Avenue | Seattle, WA | 297 | \$ 71,000,000 | \$ 239,057 | Lowe Enterprises | Red Lion Hotels Corp. | |
| Courtyard Washington Capitol Hill/Navy Yard | Washington DC | 204 | \$ 68,000,000 | \$ 333,333 | Chesapeake Lodging Trust | N/A | |
| Continental Oceanfront South Beach Hotel | Miami Beach, FL | 251 | \$ 61,000,000 | \$ 243,028 | JV Cube Capital & InSite Group | N/A | |
| Hilton Garden Inn Courthouse Plaza | Arlington, VA | 189 | \$ 60,000,000 | \$ 317,460 | GP-IPERS Arlington Hotel LLC | Courthouse Hotel Properties | |
| Hilton Garden Inn Denver Downtown | Denver, CO | 221 | \$ 58,500,000 | \$ 264,706 | Apple REIT Ten | Stonebridge Companies | |
| W San Diego | San Diego, CA | 259 | \$ 56,000,000 | \$ 217,054 | Rockpoint Group | TOP 24-W Hotel San Diego SPE LLC | |
| Hotel Indigo San Diego | San Diego, CA | 210 | \$ 55,500,000 | \$ 264,286 | Chesapeake Lodging Trust | InterContinental Hotels Group | |
| Homewood Suites Seattle Convention Center | Seattle, WA | 195 | \$ 53,000,000 | \$ 271,795 | Chesapeake Lodging Trust | N/A | |
| Best Western Tuscan Inn at Fishman's Wharf | San Francisco, CA | 221 | \$ 52,500,000 | \$ 237,557 | Walnut Hill Group | Abacus Lodging Investors LLC | |
| Hotel Monaco Seattle | Seattle, WA | 189 | \$ 51,200,000 | \$ 270,899 | Pebblebrook Hotel Trust | JV AEW Capital Management & Stonebridge Companies | |
| Se San Diego | San Diego, CA | 161 | \$ 49,000,000 | \$ 304,348 | Kimpton Hotels & Restaurants | 5th Avenue Partners | |
| Capitol Hill Suites | Washington DC | 152 | \$ 47,500,000 | \$ 312,500 | Hersha Hospitality Trust | AEW Capital Management | |
| Courtyard Los Angeles West Side | Culver City, CA | 260 | \$ 47,500,000 | \$ 182,692 | Hersha Hospitality | Force-Oakleaf LP | |
| Renaissance Hotel Downtown | Pittsburgh, PA | 291 | \$ 45,400,000 | \$ 156,014 | RLJ Development LLC | Sage Hospitality Resources | |
| Holiday Inn Express Fifth Avenue | New York, NY | 125 | \$ 43,870,000 | \$ 350,960 | Walnut Hill Group | Magna Hospitality Group | |
| Residence Inn Los Angeles LAX/Manhattan Beach | Manhattan Beach, CA | 176 | \$ 40,000,000 | \$ 227,273 | Investcorp Real Estate | N/A | |
| Hilton Dallas/Park Cities | Dallas, TX | 224 | \$ 40,000,000 | \$ 178,571 | Apple Nine Hospitality Ownership Inc | RM Crowe | |
| Trump Marina Casino & Hotel | Atlantic City, NJ | 728 | \$ 38,000,000 | \$ 52,198 | Landry's Inc. | Trump Entertainment Resorts Inc. | |
| Holiday Inn Express Hotel New York City - Wall Street | New York, NY | 112 | \$ 36,700,000 | \$ 327,679 | Hersha Hospitality | Metro Six LLC (McSam Hotel Group) | |
| Ocean House Hotel | Westerly, RI | 49 | \$ 36,600,000 | \$ 746,939 | Ocean House Hotel Partners LLC | Bluff Ave LLC | |
| Viceroy Miami | Miami, FL | 148 | \$ 36,500,000 | \$ 246,622 | Pebblebrook Hotel Trust | N/A | |
| Hilton Fye Town | Rye Brook, NY | 447 | \$ 35,500,000 | \$ 79,418 | Lodging Capital Partners LLC | Ashford Hospitality Trust | |
| Xona Resort Suites Scottsdale | Scottsdale, AZ | 431 | \$ 34,000,000 | \$ 78,886 | Sunstone U.S. Opportunity (No. 3) Realty Trust | N/A | |
| Hotel Monaco Baltimore | Baltimore, MD | 202 | \$ 33,000,000 | \$ 163,366 | Kimpton Hotels & Restaurants | Baltimore & Charles Associates | |
| Huntington Hilton | Huntington, NY | 304 | \$ 32,000,000 | \$ 105,263 | JV Dow Hotel Co. & Prudential Insurance Company | MassMutual | |
| Sheraton Keauhou Bay Resort and Spa | Kailua-Kona, HI | 521 | \$ 26,200,000 | \$ 50,288 | Kona Surf Partners LLC (Avenue Capital Management II L.P.) | JV Arlen Capital LLC & Brickman Associates | |
| Charleston Marriott Town Center | Charleston, WV | 352 | \$ 25,500,000 | \$ 72,443 | Inland American Lodging Group, Inc | Forest City Enterprises Inc. | |
| Wyndham Hotel Pittsburgh-University Place | Pittsburgh, PA | 198 | \$ 20,750,000 | \$ 104,798 | RLJ Development LLC | N/A | |
| Hampton Inn Houston - Near The Galleria | Houston, TX | 176 | \$ 20,300,000 | \$ 115,341 | RLJ Lodging Trust | Ashford Hospitality Trust | |
| Sheraton Bloomington Hotel | Minneapolis, MN | 564 | \$ 20,000,000 | \$ 35,461 | Platinum Equity | LaSalle Hotel Properties | |
| Embassy Suites Phoenix-Tempe | Tempe, AZ | 224 | \$ 19,000,000 | \$ 84,821 | JV O'Neill Hotels & Resorts Ltd & Sunstone Realty Advisors | FelCor Lodging Trust | |
| Embassy Suites Chicago-North Shore/Deerfield | Deerfield, IL | 237 | \$ 18,000,000 | \$ 75,949 | JV Montclair Hotel Investors & Oaktree Capital Management | C-III Asset Management LLC | |
| Fairfield Inn & Suites | South Bend, IN | 119 | \$ 17,500,000 | \$ 147,059 | Apple REIT Ten | KRG/White LS Hotel | |
| Hotel Theodore | Scottsdale, AZ | 189 | \$ 16,250,000 | \$ 85,979 | Sydel Scottsdale LLC (Yucaipa Companies, LLC) | Wells Fargo Bank NA | |
| Golden Gate Inn | Brooklyn, NY | 150 | \$ 15,500,000 | \$ 103,333 | Brooklyn Amity School | Krishna Management | |
| Delaware Park Hotel & Suites | New Castle, DE | 191 | \$ 15,000,000 | \$ 78,534 | Hersha Hospitality Trust | N/A | |
| Park Manor Suites | San Diego, CA | 82 | \$ 11,500,000 | \$ 140,244 | Inn at the Park, LLC | Gentry Associates, LLC | |
| Crowne Plaza Boston North Shore & CoCo Key Water Resort | Danvers, MA | 366 | \$ 10,100,000 | \$ 27,596 | Lightstone Group | JV Sage Hospitality Resources/Wave Development/Hexagon Investments | |
| Crowne Plaza Hotel Cleveland City Centre | Cleveland, OH | 470 | \$ 10,000,000 | \$ 21,277 | JV Sage Hospitality Inc. & Optima Management Co. | Lehman Brothers Holdings Inc. | |

Source: LW Hospitality Advisors (LWHA) has compiled the above information from sources deemed reliable, and the information is thought to be correct; however, LWHA cannot warrant absolute accuracy of all the data. Use of this information without verification from original sources is at your own risk.

Notes:

- 1 Hotel Was Purchased For Conversion To A School
- 2 Hotel Was Never Opened

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