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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 Rye 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	\$ 28,200,000	\$ 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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