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NYC Plaza saga continues to unwind

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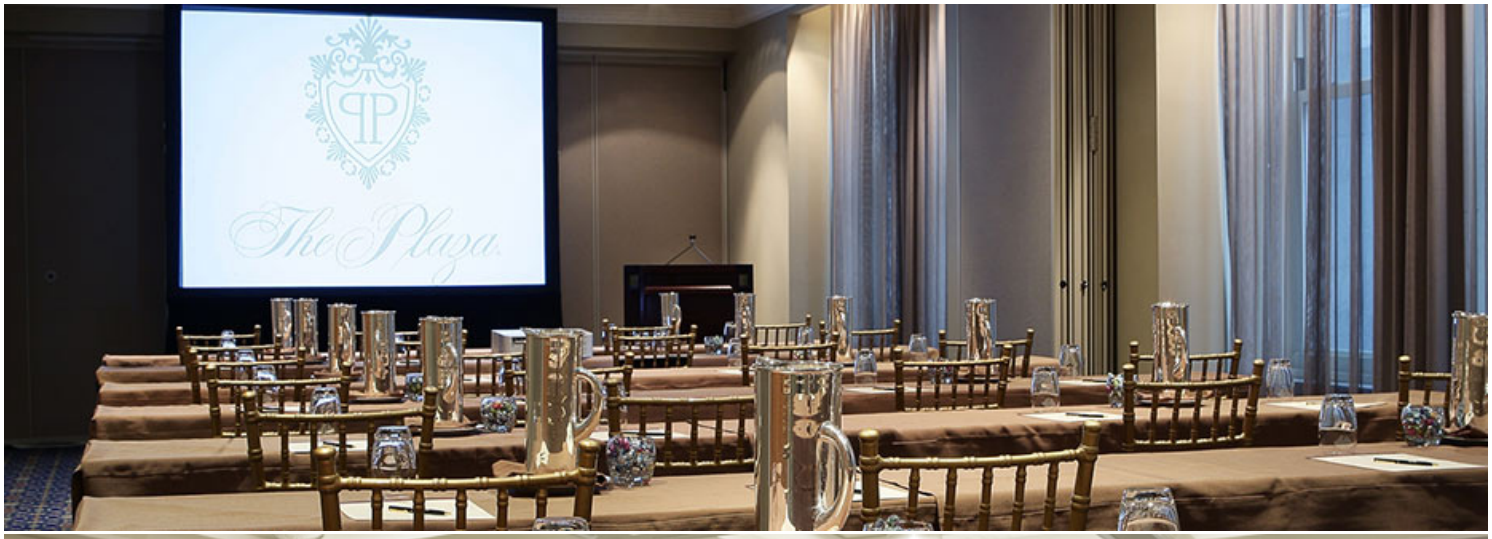
Another strange chapter has been written in the long, winding tale of the New York Plaza hotel and Subrata Roy, whose Sahara Group owns the property.



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NEW YORK CITY—The turning, topsy-turvy, turbulent tale of New York City's iconic Plaza hotel has taken yet another twist.

A ragtag investment group (comprising sports agent David Sugarman, a wealthy Indian family and Pras Michel, a founder of the Grammy-award-winning hip-hop group the Fugees) have offered a one-year, $1.6-billion loan to the Plaza's owner, the Sahara Group, the executives of which have been full to the gunwales with their own drama of late. A chunk of the money from the loan would go toward securing the release of Subrata Roy, the head of Sahara, who has been jailed for the past nine months on contempt of court charges related to the alleged failure to repay investors.

Sugarman, the sports agent and member of the Mirach Capital Group that is making the loan, has said in the press that his firm's endgame is to ultimately wind up with control of the Plaza, as well as two other hotels owned by Sahara: the Dream (also in New York City), and London's Grosvenor House.

The problems stem from regulators in India claiming Roy's company did not submit for regulation two privately placed bonds valued at $4 billion, in which some 30 million investors contributed money. Indian law requires that investments involving 50 or more people be regulated by the Securities and Exchange Board of India.

Roy was ordered to repay those investors. Sahara said it did, and a caravan of 127 trucks carrying purported documents verifying the identities of the investors brought Mumbai's traffic to a halt, according to reports.

The Supreme Court of India, however, doubted the validity of the evidence put forth by Sahara and, in March of this year, Roy was imprisoned. He has remained in custody since, for Sahara's lack of paying the $1.6 billion in bail asked by India officials.

Sahara intends to put nearly $900 million of the Mirach loan toward retiring debt held by Bank of China Limited. The rest would be used as bail to help spring Roy from prison.

If Sahara is unable to pay back with interest the one-year, $1.6-billion loan, ownership of the three hotels would transfer to Mirach Capital Group.

Sahara acquired the Plaza in 2012 for approximately $570 million. The property underwent a $450-million, top-to-bottom refurbishment in 2008.

In August, the Wall Street Journal reported the Sultan of Brunei made a $2-billion offer for Sahara's hotels, though a spokesman for the Sultan refuted that report. The next month, Sahara officials, according to news reports, said they'd rather mortgage their assets than sell them, in an effort to raise the bail needed to secure Roy's release.

Paying for performance

Dan Lesser, president and CEO of New York City-based LW Hospitality Advisors, said investors are clamoring the world over to grab real estate in the hot New York hotel market. According to data tracked by STR, Hotel News Now's parent company, occupancy among the city's hotels year-to-date October was up 0.4% to 85.1%; average daily rate increased 2.5% to $258.87; and revenue per available room grew 2.9% to $220.39.

"Let's face it, there's blood in the water at this point," Lesser said. "With that said, some people would say there's always blood in the water."

Lesser said he's heard some mention that Mirach might be getting a steal if it makes a play for the three hotels. He doesn't think "steal" is the best descriptor.

"There's not an opportunity to steal anything at all in Manhattan," he said. "No one's going to walk away from here with a bargain."

Fellow New York deals expert Bradley Burwell, a VP at CBRE Hotels' office in the city, said capitalization rates in New York City have hovered around 5% for the past few years. That said, the city has approximately a 250-basis point cap rate differential from the rest of the nation and it's difficult for

potential buyers to not underwrite that development.

"Because cap rates are so consistently low and cash flow is strong, we're seeing more and more full-service or boutique transactions at or near $1 million per room," he said. "We're seeing just about every select-service deal getting done at or well above $500,000 a room. That's the new norm."

Indeed, the New York City market has seen some high-priced trades of late. Some of the big-money deals tracked by HNN's U.S. hotel transactions list this year include:

- China-based Anbang Insurance Group Company Limited's proposed $2-billion deal for another iconic New York City property, the Waldorf-Astoria New York;
- the sale in February of Hotel 373 to an offshore investment fund for more than a half-million dollars per room; and
- Carey Watermark's May acquisition of the Courtyard by Marriott Times Square West for more than $400,000 a key.

According to data tracked by LWHA, transaction volume in New York City in 2014 is up about 9% when compared to 2013.

"I've been doing this for 30 years, and I've never seen a market as hot as (New York City) is today," Lesser said. "The amount of capital coming in is enormous. The fundamentals of the industry in New York are like nothing I've ever seen."

Burwell said changes in laws and regulations around the globe are helping to encourage the worldwide interest. For example, he said, the Chinese government has increased the cap on which a China-based insurer can invest outside the country.

Going forward into 2015, Lesser said he expects the New York City transactions market to remain robust.

"I think it's fair to say that even if there's a geopolitical shock, if anything what that might do is ramp up that (flight to safety) notion further," he said.