

# Q3 2017 U.S. Lodging Market Update

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By Daniel Lesser

As the world's economy strengthens, the outlook for America is bright, evidenced by heightened business and consumer confidence. Today, the U.S. is a goldilocks economy with GDP growth anticipated to remain between 2 and 3 percent, unemployment forecast to remain stable, and little evidence of inflation or deflation. While the Federal Open Market Committee has held the federal funds rate flat, experts expect several small increases through 2019. Some prognosticators perceive current record setting U.S. stock market indices may indicate exuberance, and a signal of a peak in the business cycle with potential for economic recession ahead. Much hinges on whether or not the Trump administration is able to complete its tax reform proposal, which promises to simplify the code, make it more business-friendly, and provide breaks for the middle class to increase their disposable income.

U.S. lodging sector metrics continue to indicate growth in demand for transient hotel accommodations. The increases in demand have been offset by a growing supply pipeline, leaving the expectation for 2017 occupancy to be flat compared to 2016 levels. Hotel room rates nationally are increasing at a rate of roughly 2.5 percent, resulting in RevPAR growth of similar levels. These trends are anticipated to remain unchanged through 2018 after which increases of new supply should wane.

During the recent past, inbound international visitation has declined due in part to a chilling effect of government travel and immigration restrictions in addition to the strength of the U.S. Dollar. However, as of late, the dollar has begun to weaken. Recent natural disasters including Hurricanes Harvey and Irma resulted in widespread property damage throughout Texas and Florida, and increased the demand for hotel rooms as many residents seek temporary places to stay. Furthermore, FEMA workers and other clean-up/recovery crews have been provisionally housed in hotels within the affected regions. Additionally, wildfires in Northern California have displaced many homeowners who are now sheltering in hotels throughout the area.

Compared with 2015, U.S. hotel transaction activity continues to be muted as bid/ask spreads remain sufficiently wide pushing sellers to opt for refinancing as opposed to disposition. The acquisition environment for U.S. hotels remains extremely competitive with strong pricing for quality assets.

The [LW Hospitality Advisors \(LWHA\) Q3 2017 Major US Hotel Sales Survey](#) includes 44 single asset sale transactions over \$10 million, none of which are part of a portfolio. These transactions totaled roughly \$2.6 billion, and included approximately 11,600 hotel rooms with an average sale price per room of \$227,000. By comparison, the LWHA Q3 2016 Major US Hotel Sales Survey identified 44 transactions totaling roughly \$2.7 billion including 11,400 hotel rooms with an average sale price per room of nearly \$240,000. Comparing Q3 2016 with Q3 2015, the number of trades, total volume, and the average sales price per room have all remained relatively static.

Notable observations from the LWHA Q3 2017 Major U.S. Hotel Sales Survey include:

- With 10 trades, Florida has been the most active transaction market followed by California with 5 sales, and North Carolina and New York with 3 each;
- Two, million dollar plus per room trades were announced including Sunstone Hotel Investors, Inc. acquisition of Oceans Edge Key West Hotel & Marina and Gaw Capital's purchase of the Standard High Line Hotel New York;
- There were six individual trades greater than \$100 million, which totaled close to one billion dollars;

- The Royalton New York was acquired for \$55 million or \$327,000 per room by a joint venture between Rockpoint Group and Highgate. During 2011, FelCor Lodging Trust purchased the 168 unit Royalton New York for \$88 million or \$525,000 per room, a 38 percent decline in value during the six year hold period;

The nearly nine year recovery from the Great Recession is one of the longest periods of economic growth in modern U.S. history. While some have been predicting a looming recession for more than a year, macroeconomic indicators do not suggest any decline in the near future, and many foresee a strong, stable economy. With several parts of the world experiencing unconventional monetary policies such as negative interest rates, enormous pools of capital are circling the globe searching for yield. History has proven that at a market basis, patient money invested in U.S. transient lodging provides compelling risk adjusted returns. Furthermore, while little anticipation exists for inflation to occur during the foreseeable future, the constant repricing of hotel room nights offer a hedge against any rise of prices for goods and services that may develop during over the long term.

## About Daniel Lesser

Daniel H. Lesser, President & CEO of LW Hospitality Advisors LLC (LWHA), brings more than 35 years of expertise in a wide range of hospitality operational, investment counseling, valuation, advisory, and transactional services. He provides services to corporate, institutional, and individual clients as well as public agencies on all facets of hospitality real estate including: litigation support and expert testimony, site evaluation, highest and best use analysis, appraisals for mortgage, acquisition, and portfolio management, workout strategies, operational analysis, development consulting, property tax assessment appeal evaluations, economic impact studies, fairness opinions, deal structuring, and negotiation of management and franchise agreements. Mr. Lesser had been retained in connection with a broad variety of lodging assets throughout the Americas, as well as in Europe, the Middle East and Asia.



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