Hotel News Now

Independent Insights

A deep dive into independent hotel transactions

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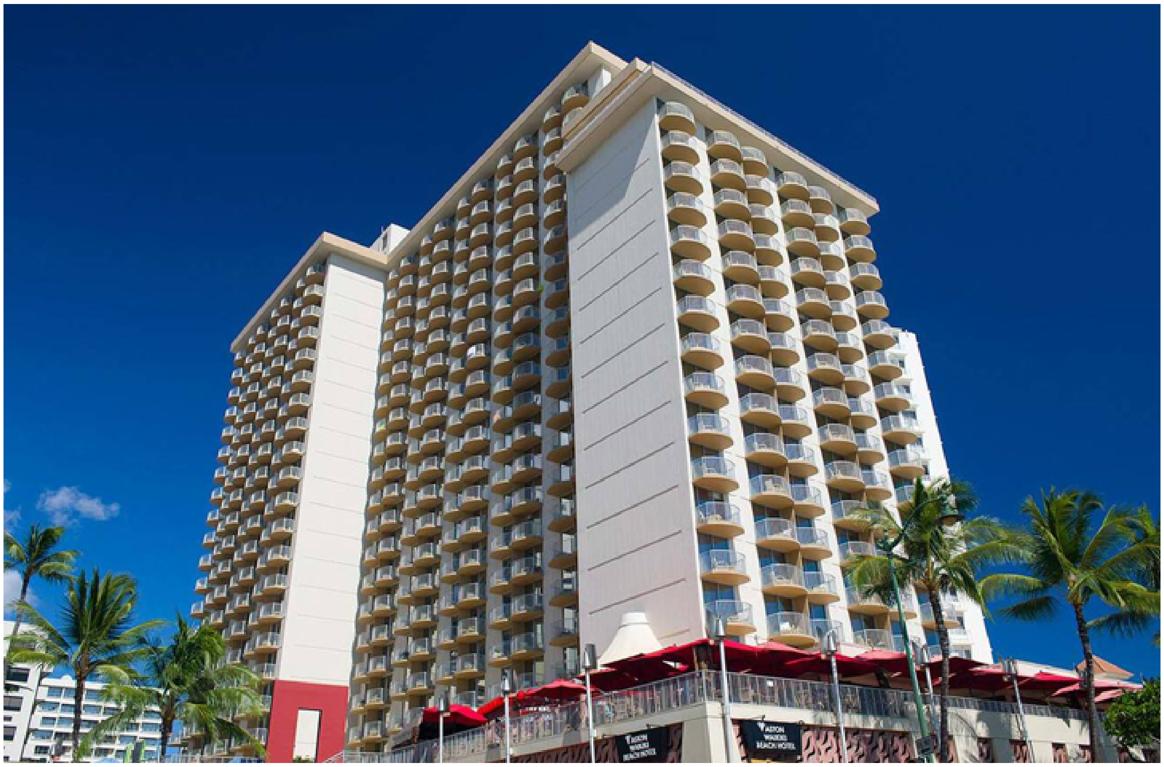
The pace of hotel deals is up in 2018, and independent hotels are finding their place on the pie chart.



By Alicia Hoisington

REPORT FROM THE U.S.—Hotel transactions in the United States are on the rise.

In fact, the pace of deals in the U.S. was up 93% during the first trimester of 2018, according to JLL. But where do independent hotels fit into the mix?

Sources said there is a broad-based appetite for hotels across the nation, and independents fit into that mix. But whether independents are transacting at an increased pace remains to be seen.

"It's not a trend. If you had a pie chart, there's a certain fixed portion of the market that prefers and requires these types of independent boutique hotels," said Daren Hebold, managing director of LUX Companies. "I don't know if it's growing in respect to others. I would guess it's a static segment."

Hebold said he has been dealing with the same buyer groups continuously looking at his deals. He brokers transactions primarily between $3 million and $20 million, he added.

When Daniel Lesser, president and CEO of LW Hospitality Advisors, started in the hotel business nearly 40 years ago, he said that the notion of an independent hotel was a dying phenomenon.

"You either were branded or you were sliding down a negative slope, if you will," he said. "Over the years, the notion of an independent has done a complete 360."

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But the thirst for independent hotel deals is a market-by-market story, Lesser added.

“From an investment standpoint, institutional investors have clearly embraced independent hotels,” Lesser said. “LaSalle (Hotel Properties) is a great example. The fact that it’s being so heavily bid in the marketplace speaks volumes by institutional investors.”

Michael Bellisario, senior research analyst of hotel real estate investment trusts and C-Corps at Robert W. Baird & Company, said Pebblebrook Hotel Trust’s pursuit of LaSalle—which has accepted a deal to be acquired by Blackstone—has brought more eyes and interest to the hotel transactions space in general. Interest is coming from hotel REITs, private equity and foreign capital, excluding Chinese capital to the U.S.

What’s transacting—and where

Whether there is an increased interest in independent assets might still be out for debate. But what is clear is this: Deals are getting done.

Three independent hotels notched spots on the list of top 10 deals by price so far this year, according to data compiled by STR, parent company of Hotel News Now. Integrated Properties bought Atlantic City’s 1,399-room Revel Hotel & Casino in January for $200 million, making it the sixth-biggest deal in the U.S. The 645-room Aston Hotel Waikiki Beach also sold for $200 million in March to Highgate and Rockpoint Group. And the 10th-biggest deal in the U.S. came from Hilton Grand Vacations’ buy of the 208-room Quin hotel in New York City for $175 million in January.

The big deals are in line with what Bellisario has seen from the independent hotel transactions landscape, but that doesn’t surprise him, as he said many of these types of hotels are naturally in urban gateway markets that offer higher occupancy and rate opportunities.

But independent resort hotels that are in drive-to markets are also seeing an investment surge, Bellisario said. For example, he cited DiamondRock’s buy of The Landing Resort & Spa in Lake Tahoe, California, for $42 million this past March, as well as two resorts in Sedona, Arizona, for $97 million the previous year.

When broken down by price per room, six independent hotels earned a spot in the top 10 deals this year in the U.S., according to STR:

- the 208-room Quin sold for $841,346 per room (New York City, No. 2 spot);
- the 43-room Riff Chelsea sold for $639,535 per room (New York City, No. 4 spot);
- the 77-room The Landing Resort & Spa sold for $545,455 per room (Lake Tahoe, No. 6 spot);
- the 36-room Riff Downtown sold for $533,333 per room (New York City, No. 7 spot);
- the 41-room Laguna Riviera Beach Resort sold for $512,195 per room (Laguna Beach, No. 8 spot); and
- the 294-room The Porter Hotel sold for $506,122 per room (Portland, No. 9 spot, soft-branded Curio Collection by Hilton)

While Lesser said the usual suspects in terms of the top 25 markets—Boston, Chicago, Miami, Los Angeles and San Francisco—are seeing independents trade hands, some secondary markets are looking to the advantages of operating as independents.

“From an economic perspective, it boils down to analysis,” he said. “Which way do you produce more profits, as an independent or a branded hotel?”

What about the little guy?

While the big deals are the ones to make headlines, it’s important not to forget the smaller trades happening across the country between $3 million and $20 million. Those deals tell a different story from the trophy asset grab.

“It’s about a consolidation of ownership,” Hebold said. “Sellers are generally legacy mom-and-pop or single-asset ownership groups. They’ve had the property for a long time and haven’t grown their portfolio.”

The buyer profile for these smaller assets comprises midsize multi-property ownership groups that maybe own 10 to 25 hotels, he said.

“These guys are the most hungry, in my experience, to acquire properties,” Hebold said. “That segment of ownership group during this economic cycle has hit its stride accumulating capital. They have set up a successful management structure and can grow from a handful of hotels. They have a property management structure for the first time to be able to grow. Couple that with the fact that everyone is enjoying cheap debt.”

But the real story, Hebold said, is why these sellers are exiting the industry. In some cases, it’s about a dissolution of partnerships that have run their course so that liquidating the asset is the best option.

But the mom-and-pop types, those selling assets in the $3-million-to-$10-million range, are burned out, he said. These sellers might be a husband-and-wife team who have owned a small hotel for a few years. Hebold said he typically sees these owners look to exit after holding for seven years, which he said is the general burnout rate for smaller-asset owners.

Finally, he said small owners are selling their properties because they aren’t able to keep up with technology and marketing evolutions.

“When you only own one asset, you’re not going to hotel conferences; you’re not researching software or (property management systems); you’re not getting increased buying power from vendors. You don’t have access to cheapest capital,” Hebold said.

Single-asset owners also have a difficult time keeping their properties looking in top shape, especially when they don’t have to follow brand standards, he added.

“They don’t have brand standards that force you to keep up. A lot of owners chose a PMS 15 years ago and are still using it. Or they did a (property-improvement plan) 17 years ago and have since just been doing soft goods,” Hebold said. “No one held their feet to the fire like franchises might do.”

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