

Q3 2018 U.S. Lodging Market Update

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By Daniel Lesser

What started as a bursting of the U.S. housing bubble between 2006 and 2007 and mushroomed into a failing subprime mortgage/credit market, ultimately resulted in the worst financial crisis since the Great Depression of the 1930s. Ten years ago, the Great Recession of 2008/2009 was ushered in by a full-blown international banking crisis sparked by the collapse of blue-chip investment banks Bear Stearns and Lehman Brothers. Through the end of Q3 2018, Wall Street is enjoying another heyday as profits for commercial banks are at a record high, the stock market is in its longest bull run in history, the U.S. economy is humming, and the Trump administration's deregulation and tax cuts rule the day. Furthermore, the globe is awash with diverse pools of debt and equity capital that increasingly favors real estate as a preferred vehicle for returns on and of capital.

High levels of U.S. consumer and business confidence are being fueled in part by low unemployment rates and rising wages both of which continue to have positive effects on the demand for U.S. hotel room night demand. Additionally, new transient hotel room supply continues to rise at a rate lower than the increase in demand, resulting in growth and record setting levels of national occupancy, average room rate, and revenue per available room, and a near term outlook of more of the same.

The LW Hospitality Advisors (LWHA) [Q3 2018 Major US Hotel Sales Survey](#) includes 57 single asset sale transactions over \$10 million, none of which are part of a portfolio. These transactions totaled \$6.4 billion and included approximately 15,300 hotel rooms with an average sale price per room of \$419,000. By comparison, the LWHA Q3 2018 Major US Hotel Sales Survey identified 44 transactions totaling roughly \$2.6 billion including 11,400 hotel rooms with an average sale price per room of nearly \$240,000.

Notable observations from the LWHA Q3 2018 Major US Hotel Sales Survey include:

- With thirteen major Q3 2018 hotel sales, Florida has been the most active transaction market followed by New York and California with eight and seven trades respectfully;
- Eighteen of the 57, or almost one third of Q3 trades, were for greater than \$100 million each;
 - Eleven of the Q3 trades were between \$100 and \$200 million.

- Two of the Q3 trades were between \$200 and \$300 million;
 - Brookfield Asset Management acquired the 339-unit PGA National Resort & Spa in Palm Beach Gardens, FL for \$233 million, or \$687,000 per key from Walton Street Capital who procured the property in 2006 for \$170 million, and purportedly spent \$89 million on renovations, for a total basis of \$259 million;
 - Extell Development Company purchased the 405 room Four Seasons Resort and Club Dallas at Las Colinas for \$235 million, or \$580,000 per unit from Blackstone who acquired the asset in 2014 for \$150 million from CW Capital Asset Management. The previous owner, who had defaulted on a \$175 million loan, had a reported basis of \$290 million in the property.
- Five of the Q3 trades were for more than \$300 million;
 - A joint venture which includes GFI Capital and Elliott Management acquired the 729 room Parker New York hotel for \$405 million, or more than \$550,000 per key from The Jack Parker Corporation who originally developed and opened the property in 1981;
 - MSD Capital acquired the 426 room 1 Hotel South Beach for \$500 million, or roughly \$1.2 million per key from a partnership that included Starwood Capital Group, Invesco, and the Lefrak Organization;
 - Gulf State of Qatar owned Katara Holding purchased NYC's iconic 282 room Plaza Hotel for \$600 million, or more than \$2.1 million per room from a partnership between Sahara U.S. Corp., Ashkenazy Acquisition Corp., and Kingdom Holding Co. The sale marked the final chapter in a multi-year global saga surrounding the Plaza Hotel's ownership;
 - Blackstone acquired the 1,002 room JW Marriott San Antonio Hill Country Resort & Spa for \$650 million, or roughly \$650,000 per unit from a joint venture between Miller Global Properties & Principal Real Estate Investors that reportedly spent \$565 million to develop the project during the mid-2000's;
 - A joint venture between Lubert-Adler & RIDA Development procured the 1,047 room Boca Raton Resort and Club, A Waldorf Astoria Resort for \$1 billion, or \$955,000 unit from Blackstone;
- Sophisticated hotel centric investors continue to execute capital recycling strategies

within the lodging sector. Entities that are active purchasers and sellers of hotels include: Blackstone, Brookfield Asset Management, Hyatt Hotels Corporation, MCR Development, Noble Investment Group, Procaccianti Group, Rockbridge, Starwood Capital Group, Summit Hotel Properties, and Woodbine Development.

Pebblebrook Hotel Trust's (PEB) winning \$5.2 billion bid to acquire LaSalle Hotel Properties (LHO) is a significant Q3 2018 portfolio transaction. PEB prevailed following a series of offers that followed its first attempt to purchase LHO during Q1 2018. The bidding war for LHO between PEB and Blackstone was intriguing given that it occurred nine years into an economic expansion.

Limited availability of employees coupled with a dramatic escalation in costs of labor and increasing insurance and property tax expenditures represent significant challenges for the sector. While rising interest rates create upward pressure on inflation and operating expenses, the continuous repricing of room nights positions lodging as a favorable investment hedge against any decrease(s) that may occur in the purchasing power of money.

Although no one knows when, the duration, and depth of recessionary effects on the U.S. and other global economies, and the risk for such phenomena is higher now than it has been for more than five years. Global trade policy tensions, an emerging market debt crisis, and/or an unforeseen shock may occur, however any black swan event(s) would need to be large and sustained to undermine growth in the U.S. economy. As long as U.S. economic expansion endures, the outlook for lodging fundamentals will remain positive resulting in continued deployment of domestic and foreign investment, and institutional capital into single assets and portfolios of all types and locations of U.S. hotels.

View the [LW Hospitality Advisors Q3 2018 Select Major U.S. Hotel Sales Survey](#).

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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