

Q1 2019 U.S. Lodging Market Update | By Daniel Lesser

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While the longer economic growth endures, intuitively the risk of recession rises. Despite GDP indicative of a slowing economy during Q4 2019, the U.S. economic expansion which commenced in June 2009, is soon approaching the longest post-World War II expansion with uninterrupted growth. Investors frequently ponder where we are in a cycle. Is the current economic climate most like 1995, 1999, 2000, 2003, 2008 or 2016? While history often rhymes, the reality is we are in 2019, which presents its own set of idiosyncratic risks and opportunities. Many economists have opined that expansions do not die of old age, rather they expire due to an unpredictable event(s) such as shocks to oil prices and/or the bursting of asset bubble(s).



As the U.S. economy goes, so goes the nation's lodging sector fundamentals. Although the hotel industry has been operating at peak levels for several years, accelerated supply growth, which has been readily absorbed in most markets due to the expanding economy, has contributed to weaker than normal average room rate growth. Furthermore, despite shortages of and escalating costs of labor, on average nationally hotel owners and managers have sufficiently controlled other operating costs to achieve the highest levels of gross operating profit margins in more than fifty years. With this said, due in part to rising minimum wage rates, profit margins of numerous assets situated in major U.S. markets have contracted.

The LW Hospitality Advisors (LWHA) Q1 2019 Major U.S. Hotel Sales Survey includes 39 single asset sale transactions over \$10 million, none of which are part of a portfolio. These transactions totaled roughly \$2.7 billion and included approximately 7,900 hotel rooms with an average sale price per room of \$339,000. By comparison, net of the \$1.3 billion trade (\$4.3 million per room) of the Sands Casino Bethlehem, and the \$95 million sale (\$2.375 million per room) of the Soho House Chicago (both of which include substantial revenue from non-rooms related sources), the LWHA Q1 2018 Major U.S. Hotel Sales Survey identified 55 transactions totaling roughly \$2.9 billion including 12,700 hotel rooms with an average sale price per room of \$231,000.

Notable observations from the LWHA Q1 2019 Major U.S. Hotel Sales Survey include:

- Sixteen or more than 40 percent of the total number of Q1 2019 sale transactions occurred in three states;
- With nine Q1 2019 hotel sales, Florida has been the most active transaction market followed by New York and California with four and three trades respectively;
- Subsequent to a reported more than \$500 million acquisition by MSD Capital, Host Hotels & Resorts acquired the 429 room 1 Hotel South Beach for \$610 million or more than \$1.42 million per room from a joint venture between Starwood Capital Group & LeFrak Organization;
- Seven Q1 2019 U.S. hotel sales transacted between \$100 million and \$199 million each;
- An entity led by fashion designer Tommy Hilfiger and Dogus Group, sold the 105 room Raleigh Hotel in Miami Beach for \$103 million or \$980,000 per unit to a joint venture that includes: Deutsche Finance America, Bilgili Holding, and SHVO. The seller acquired the 1940s-era Art Deco-style hotel for \$56.5 million in 2014 with plans to convert the hotel into a private club/hotel hybrid with 87 rooms. Renovation of the property was interrupted by Hurricane Irma resulting in closure of the facility since September 2017;
- Blackstone Group acquired from Pacifica Hotels a leasehold interest in the 452 room Courtyard by

Marriott King Kamehameha's Kona Beach Hotel on the Big Island of Hawaii for \$104 million or \$230,000 per unit. The full-service resort, which is situated on +/- 13 acres of beachfront land, includes five food and beverage outlets and extensive amounts of meeting, retail, and recreational facilities;

- Pebblebrook Hotel Trust sold the 343 room Liaison Capitol Hill in Washington, DC to a partnership between Metrovest Equities and BLDG Management. Based on the trailing twelve-month operating performance for the period ended December 31, 2018 the sale price of \$111.0 million or roughly \$324,000 per unit reflects a 16.9x EBITDA multiple and a 4.9% net operating income capitalization rate (after an assumed annual capital reserve of 4.0% of total hotel revenues). Reportedly the buyer plans to reposition the property into the YOTELPAD Capitol Hill.
- JRK Birchmont Advisors sold the 287 room Holiday Inn Express Nashville-Downtown to Highland Capital Management for \$117.5 million or roughly \$410,000 per unit;
- AVR Realty acquired from Rockbridge Capital the 214 room Hilton Garden Inn Nashville Downtown/Convention Center for \$125 million or \$585,000 per unit, a new per room high water mark for Nashville. During mid-2016, Rockbridge paid \$80.3 million for the newly constructed asset, thus realizing a 56 percent gain of almost \$45 million within a three-year holding period;
- Pebblebrook Hotel Trust also disposed of the 335 room Hotel Palomar Washington, DC for a sale price of \$141.5 million or roughly \$422,000 per unit. Based on the hotel's operating performance for the period ended December 31, 2018 the transaction reflects a 14.9x EBITDA multiple and a 5.9% net operating income capitalization rate (after an assumed annual capital reserve of 4.0% of total hotel revenues);
- A joint venture comprised of AIG & Hidrock Properties & Buccini Pollin Group sold to Ashford Hospitality Trust, Inc., the newly opened 310-unit Embassy Suites by Hilton New York Midtown Manhattan for \$195 million or \$629,000 per key;
- Hotel centric investment entities that were active purchasers and sellers of lodging assets during Q1 2019 include:
 - Apple Hospitality REIT, Inc.;
 - Ashford Hospitality Trust, Inc.;
 - AVR Realty;
 - AWH Partners
 - Blackstone Group;
 - Host Hotels & Resorts
 - Magna Hospitality Group
 - McSam Hotel Group
 - Noble Investment Group
 - Pacifica Hotels;
 - Park Hotels & Resorts Inc.;
 - Peachtree Hotel Group;
 - Pebblebrook Hotel Trust;
 - Rockbridge;
 - Starwood Capital Group.

Current threats to the U.S. lodging industry include (but are not limited to): continued international trade tensions and effects from tariff rate implementation, domestic and international political uncertainty, natural disasters, terrorism, maturation of Airbnb as it delves deeper into the mainstream hotel market, and OTA pricing transparency placing negative pressure on room rate growth. The sector continues to be challenged with continued historically low unemployment and rapidly rising wages, as well as property tax and insurance expenses increasing at levels well above underlying inflation. Although the nation is experiencing a slowdown of inbound international demand, domestic air passenger growth remains steady. Notwithstanding a cautious

backdrop due to a variety of heightened macro/growth concerns, hotel financing continues to be widely available with debt providers competing by narrowing spreads even with interest rates falling once again. Furthermore, an array of investable foreign and domestic equity is broadly available as record amounts of capital chases yield.

While the fundamentals of the U.S. lodging industry are simultaneously favorable to buy, sell, refinance, and develop a variety of lodging product types, and the near-term outlook for lodging remains positive, given a myriad of global and domestic issues that can rapidly develop into full blown crises, short term future industry performance is fragile.

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SELECT MAJOR U.S. HOTEL SALES SURVEY - Q1 2019

Q	PROPERTY	LOCATION		NO. OF ROOMS	ESTIMATED SALES PRICE	ESTIMATED PRICE/ROOM	BUYER	SELLER
Q1	Clarendon Hotel and Spa	Phoenix	AZ	105	\$19,500,000	\$185,714	N/A	Bethel Holdings
Q1	Pointe Hilton Squaw Peak Resort	Phoenix	AZ	563	\$51,400,000	\$91,297	N/A	Park Hotels & Resorts Inc.
Q1	Residence Inn by Marriott Anaheim Hills Yorba Linda	Anaheim	CA	128	\$25,500,000	\$199,219	Pacifica Hotels	N/A
Q1	AC Hotel by Marriott San Jose Downtown	San Jose	CA	210	\$95,400,000	\$454,286	AVR Realty	Rockbridge Capital
Q1	Hilton Santa Cruz/Scotts Valley	Santa Cruz	CA	178	\$50,000,000	\$280,899	Ashford Hospitality Trust, Inc.	N/A
Q1	Hyatt Place Boulder/Pearl Street	Boulder	CO	150	\$50,450,000	\$336,333	Starwood Capital Group	Noble Investment Group
Q1	Kimpton Hotel Palomar	Washington	DC	335	\$141,500,000	\$422,388	N/A	Pebblebrook Hotel Trust
Q1	Liaison Capitol Hill	Washington	DC	343	\$111,000,000	\$323,615	JV Metrovest Equities & BLDG Management	Pebblebrook Hotel Trust
Q1	Renaissance Fort Lauderdale Cruise Port Hotel	Fort Lauderdale	FL	236	\$61,890,000	\$262,246	JV DoveHill Capital Management, LLC & Starwood Real Estate Income Trust, Inc.	Noble Investment Group
Q1	Bali Hai Beach Resort	Holmes Beach	FL	42	\$16,890,000	\$402,143	Bali Hai JV LLC	Bali Hai Corporation
Q1	SpringHill Suites by Marriott Jacksonville Airport	Jacksonville	FL	104	\$11,900,000	\$114,423	LRP Hotels	Baywood Hotels
Q1	Pullman Miami Airport Hotel	Miami	FL	281	\$48,650,000	\$173,132	London & Regional Properties	N/A
Q1	1 Hotel South Beach	Miami Beach	FL	429	\$610,000,000	\$1,421,911	Host Hotels & Resorts	JV Starwood Capital Group & LeFrak Organization
Q1	The Raleigh Hotel ¹	Miami Beach	FL	105	\$103,000,000	\$980,952	JV Deutsche Finance America & Bilgili Holding & SHVO.	JV Tommy Hilfiger & Dogus Group

1) Hotel closed and undergoing renovation since September 2017 Hurricane Irma

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Q1	Home2 Suites by Hilton Orlando Airport	Orlando	FL	128	\$20,700,000	\$161,719	Apple Hospitality REIT, Inc.	Sunbelt - 2OF, LLC
Q1	Home2 Suites by Hilton Pensacola I-10 at North Davis Hwy	Pensacola	FL	106	\$17,500,000	\$165,094	Encore Hospitality	General Hospitality Services
Q1	Hampton Inn Ft. Lauderdale/Plantation	Plantation	FL	128	\$21,600,000	\$168,750	Peachtree Hotel Group	Midas Hospitality
Q1	New Otani Kaimana Beach Hotel	Honolulu	HI	125	\$23,900,000	\$191,200	BlackSand Capital	N/A
Q1	Courtyard by Marriott King Kamehameha's Kona Beach Hotel	Kailua,	HI	452	\$104,000,000	\$230,088	Blackstone Group	Pacifica Hotels
Q1	Ivy Boutique Hotel	Chicago	IL	63	\$23,600,000	\$374,603	Avantgarde Hospitality LLC	Branko Tupanjac
Q1	SpringHill Suites by Marriott Chicago Lincolnshire	Lincolnshire	IL	161	\$21,500,000	\$133,540	Lodging Opportunity Fund REIT	Robert Finvarb Companies
Q1	Nantasket Beach Resort	Hull	MA	107	\$14,800,000	\$138,318	Newport Hotel Group	Nantasket Resort, Inc
Q1	Residence Inn by Marriott Boston Tewksbury/Andover	Tewksbury	MA	130	\$15,000,000	\$115,385	Sawyer Realty Holdings	Blackstone Group
Q1	Embassy Suites by Hilton ²	St. Paul	MN	208	\$29,000,000	\$139,423	Drury Hotels Company, LLC	Platinum Equity
Q1	Hampton Inn & Suites Downtown St. Paul	St. Paul	MN	160	\$31,700,000	\$198,125	Apple Hospitality REIT Inc.	Vista Host
Q1	DoubleTree by Hilton Hotel Charlotte Airport	Charlotte	NC	171	\$14,000,000	\$81,871	Phoenix American Hospitality	N/A
Q1	Paper Factory Hotel ³	Long Island City	NY	125	\$60,000,000	\$480,000	The Collective	Sela Group

2) Property slated to be converted into a Drury Plaza Hotel

3) Property acquired for conversion to co-living facility

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Q1	Embassy Suites by Hilton New York Midtown Manhattan	New York	NY	310	\$195,000,000	\$629,032	Ashford Hospitality Trust, Inc.	JV AIG & Hidrock Properties & Buccini Pollin Group
Q1	Fairfield Inn & Suites New York Manhattan/Times Square South & SpringHill Suites New York Manhattan/Times Square South ⁴	New York	NY	576	\$274,300,000	\$476,215	Magna Hospitality Group	McSam Hotel Group
Q1	Residence Inn by Marriott ⁵	Plainview	NY	170	\$20,500,000	\$120,588	Capitol Seniors Housing	Greenbriar Associates LLC
Q1	Mainstay Hotel & Conference Center	Newport	RI	200	\$14,340,000	\$71,700	JV Dovetail + Co & JEM Holdings	Harry & Peter Kyriakides
Q1	Holiday Inn & Suites Columbia - Airport	West Columbia	SC	122	\$11,000,000	\$90,164	Naman West Columbia LLC	Capital Hospitality LLC
Q1	Holiday Inn Express Nashville-Downtown	Nashville	TN	287	\$117,500,000	\$409,408	Highland Capital Management	JRK Birchmont Advisors
Q1	Hilton Garden Inn Nashville Downtown/Convention Center	Nashville	TN	214	\$125,000,000	\$584,112	AVR Realty	Rockbridge
Q1	Hampton Inn San Antonio-Downtown (River Walk)	San Antonio	TX	169	\$16,000,000	\$94,675	BH Hospitality Management LLC	Magna Hospitality Group
Q1	Courtyard by Marriott Fredericksburg Historic District	Fredericksburg	VA	98	\$18,800,000	\$191,837	N/A	Palmer Gosnell Hospitality LLC
Q1	Embassy Suites by Hilton Seattle Bellevue	Bellevue	WA	240	\$59,100,000	\$246,250	Parkview International	AWH Partners
Q1	WoodSpring Suites Seattle Everett	Everett	WA	122	\$16,600,000	\$136,066	N/A	Everett Hotel Holdings LLC
Q1	TownePlace Suites by Marriott Milwaukee Oak Creek	Oak Creek	WI	112	\$14,800,000	\$132,143	JV Kothe Real Estate Partners / Great Lakes Management Group / Lokre Development	Drexel Square Hotel Group Inc.

4) Property is a new dual branded hotel facility

5) Property slated to be converted into a independent senior living facility