

Panel: Portfolio sales will lead 2H deal market

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Story Highlights

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Five Rosewood assets that reportedly traded for US\$841,000 per key top the list.

On the private-equity side, the debt market has gotten a lot healthier.

NASHVILLE, Tennessee—As the U.S. hotel transaction market continues to gain steam, panelists at the third annual Hotel Data Conference in Nashville, Tennessee, said the type and size of hotel deals is about to go through a radical change.

Until this point, the transactions market recovery has been led by single-asset sales and by product in top 25 U.S. markets. That's about to change as panelists predicted the second half of 2011 will see significantly more portfolio sales. And buyers will be willing to look in secondary and tertiary markets as well.

Real-estate investment trusts, which made up the top five buyers in the first half of 2011, "are beginning to look at secondary markets," such as Denver and Pittsburgh, said Jamie Schwartz, VP of HVS San Francisco.

He said single-asset sales represented 90% of the hotel transaction market in the first half of 2011. "That's about to change—we're about to see an uptick in portfolio sales."



That analysis was echoed by Evan Weiss, executive managing director of LW Hospitality Advisors, who pointed to Hyatt Hotels Corporation's purchase of the LodgeWorks portfolio and Hong Kong-based New World Development's purchase of five hotels and the Rosewood Hotels & Resorts management arm as kick-starts to a portfolio fire sale. The five Rosewood assets reportedly traded for US\$570 million, or US\$841,000 per key.

Whether it be portfolio sales or single-asset sales, the transaction market continues to heat up, panelists agreed. From the first half of 2010 to the first half of 2011, the number of hotels dealt increased 77.4%. The average price per room went up 21.2% in that same timeframe, according to HVS.

The transaction price per room initially increased in 2010 "because the flow of distressed assets that was expected never really materialized," Schwartz said.

Now, in 2011, hotels are primarily being purchased by REITs and sold by a number of different organizations, including private owners, REITs and special servicers who have taken over foreclosed assets and aren't set up to manage the asset.

Capitalization rates, Schwartz said, are at lows never seen before. "They're not record lows but they're down there," he said.

But ultimately, the panelists agreed, the market is driven by the price buyers are willing to pay. The Best Western in San Francisco, operated by Kimpton Hotels & Resorts, for instance, was reportedly bought for US\$34 million and then sold a year later for US\$53 million.

"REITs are buying assets at prices that don't make sense," Weiss said.

Jim Merkel, president and CEO of RockBridge Capital, said REIT purchase prices are skewing seller perception. He said right now is one of the worst markets for sellers because "borrowers and banks are unpredictable."

Debt market

On the private-equity side, Merkel said the debt market has gotten a lot healthier and the commercial mortgage-backed securities market has started to come back.

"Over the past six weeks, spreads have widened," he said.

Debt has normalized, and stronger banks are being more proactive in their lending, he said. On top of that, the cost of capital remains at historical lows.

But the debt market is nowhere near where it was in 2007. Merkel said that's a good thing.

"In 2006 and 2007 we talked about, 'That's crazy,' and it was crazy," he said. In 2004, 2005 and 2006, he said, deals were done based on relationships. Then, sometime around late 2007, "we didn't care about relationships."

"A stable loan environment creates a more predictable lending environment," he said, noting that lenders in the current environment are extremely selective.

"And the strength of the borrower matters," added Dan Hansen, CEO of Summit Hotel Properties.

Hansen said the recently erratic stock market makes revenue management much more important. Because second-quarter earnings haven't been as good as everyone predicted at the beginning of the year, hoteliers must really work their rate-occupancy mix.

"The weakness in the stock market has created more focus on efficiency and profitability," he said.