

Trends

San Diego deals lead U.S. sales

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Hotel and Motel Management

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Pebblebrook Hotel Trust purchased the 450-room Westin Gaslamp Quarter, San Diego, in April for \$110 million.

San Diego—The sale of the Sè Hotel in San Diego for \$49 million to an affiliate of Kimpton Hotels & Restaurants, which was announced in mid-July, is the latest in a spate of deals in California and, particularly, in San Diego. Together with New York, San Diego is the most active U.S. hotel sales transaction market so far this year with a combined 17 major deals totaling \$3.1 billion for the two markets, roughly half the total dollar volume for the country, according to LW Hospitality Advisors in its 2011 mid-year report.

San Diego has always been perceived as a highly desirable venue for group meetings and conventions as well as leisure patronage. While it suffered during the downturn, the market has rebounded, said Daniel Lesser, president and CEO of LWHA.

"Pre the downturn, San Diego was very much at the top of the spectrum of very desirable hotel markets and then it came crashing down with a very striking low that occurred quite swiftly and quite deeply," he said. "That has now turned around. The underlying economics of hotel operations in San Diego is improving quite dramatically."

Also, the number of distressed hotel transactions occurring during the downturn has created opportunities for investors, with a tremendous amount of money raised to come into the hotel space to take advantage of perceived opportunities to achieve superior risk adjustment returns, he added.

By segment, transaction activity in California is across the spectrum, said Robert Rauch, president of San Diego-based hospitality consultancy R.A Rauch & Associates.

"[Real estate investment trusts] have been picking off high-profile assets such as Hyatt and Hilton along San Diego's waterfront, but also, they have been targeting 'non-trophy assets' such as Hilton Garden Inn, Homewood Suites, Marriott Residence Inn and Courtyard by Marriott," he said. "I see this pattern continuing this year as REITs have so much cash. Once these REITs have set the bar regarding capitalization rates, opportunity funds will be able to purchase these assets with a more predictable return on investment."

"The markets seeing the most value are San Francisco—up in both [revenue per available room] and booking pace by 20 percent—and the west side of Los Angeles—up 12 percent in both. San Diego, while up only 8 percent in RevPAR and booking pace, did not drop as far as San Francisco during the recession. Secondary and tertiary markets dropped quite a bit during the Great Recession and have had little investor interest," he added.

Major deals

The biggest deal in the U.S. so far at press time was the purchase of the 1,625-room Manchester Grand Hyatt San Diego by Host Hotels & Resorts for \$570 million. Other notable transactions in San Diego were the acquisition of the Westin Gaslamp Quarter by Pebblebrook Hotel Trust—a principal purchaser in U.S. hotel transactions this year—the W San Diego by Rockpoint Group and the Hotel Indigo San Diego by Chesapeake Lodging Trust.

Other notable deals include the sale of the Mondrian Los Angeles to Pebblebrook Hotel Trust, the JW Marriott San Francisco Union Square to Thayer Lodging Group and the Viceroy Santa Monica to LaSalle Hotel Properties.

Future outlook

At the start of 2011, real estate services firm Jones Lang LaSalle Hotels predicted that hotel transaction volume will reach up to \$13 billion in the Americas in 2011. With more than \$6 billion already completed, this could be surpassed.

"I see the transaction activity clearly continuing and maybe even heating up a little bit in the near term," Lesser said. "There is still a lot of distress in the system and still a number of workout situations that need to get straightened out and as long as the pipeline continues to be quite full of deals that were done at the peak of the market that need to be worked out, there is going to be a continuous amount of robust activity as new capital comes into the space and basically recapitalizes deals at a new basis level."

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