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US Lodging: Fall 2011 Report Card

By *Daniel Lesser*

There is no shortage of recent news and events which have cast dark clouds on the future of the world. A global economic crisis, rising tensions in the Middle East, and U.S. political uncertainty and rancor have all contributed to a broad crisis of confidence. If the U.S. economy is not currently in a recession, it is certainly at the cusp of slipping into one. On the positive side, despite high unemployment and a largely languishing real estate market, U.S. corporate profits are strong. The 2012 election will produce either a reinvigorated Obama administration, or a new government in Washington DC. Either way, many believe a new era with positive momentum will unfold after the balloting, with American corporations finally deploying cash from liquid balance sheets.

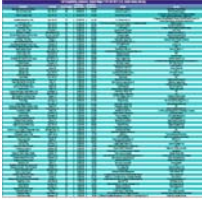
Despite a sluggish economy, U.S. hotel operating metrics have remained positive and many prognosticators anticipate a continuation of this trend. I believe that if in fact we experience another recession, the macroeconomic effects of a double dip will not bode well for short term industry metrics. However, development of U.S. hotels will remain relatively muted for the foreseeable future as economics do not justify new building, and with the exception of EB-5 Immigrant Investor financing and public/private partnership opportunities, construction debt capital will be difficult to obtain for such initiatives. Until the middle of this past summer, the perceived long term upside in the lodging sector resulted in heightened transaction activity and pricing of all types of hotel assets. In particular, major hotel assets situated in gateway U.S. markets were highly sought after by lodging centric REITS that enjoyed the ability to raise relatively low cost capital through IPO's and follow-on offerings. Recent turmoil in world capital markets and a hyper-sensitive stock market has resulted in significant declines in hotel REIT share prices, that subsequently led to the inability to now acquire assets. Several hotel REITs including LaSalle Hotel Properties and Ashford Hospitality Trust have recently been trading at large discounts to unlevered asset value, and have announced stock repurchase programs. Management of these entities perceives a strategic opportunity to create shareholder value by selling assets and reinvesting in their own portfolios.



LW Hospitality Advisors (LWHA) continuously monitors the major U.S. hotel sale transaction market. The

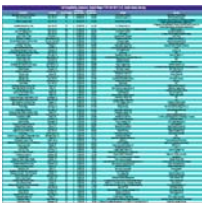
LWHA YTD Q3 2011 Major U.S. Hotel Sales Survey illustrated below, includes 83 single asset sale transactions over \$10 million each that are not part of a portfolio allocation. These transactions totaled more than \$6.7 billion, and include over 26,000 hotel rooms with an average sale price per room of approximately \$260,000. By comparison, the YTD Q3 2010 survey identified 67 transactions totaling more than \$3.5 billion including 18,900 hotel rooms with an average sale price per room of \$185,000.

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Trade activity of U.S. lodging assets declined dramatically during this past Q3 2011 as illustrated on the following table:

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It is interesting to note that during Q3 2011, in addition to a dramatic decline in total number of trades and total dollar volume of major sales, the average size deal was more than 50 percent below prior quarters of the year. Furthermore, the average price per room sold in Q3 2011 was significantly below prior quarters of the year.

Other notable observations from the 17 major deals included in the LWHA Q3 2011 Major U.S. Hotel survey are as follows:

- Thirteen transactions or more than 75 percent, included assets located on both U.S. coasts and Hawaii;
- Six transactions or more than one third, included assets located in California, and
- The Hyatt on Capitol Square in Columbus, Ohio traded for 35 percent or \$10.5 million lower than what it previously sold for during 2007.

Several previously announced noteworthy U.S. hotel sale transactions that were slated to close during Q3 2011 have yet to be effectuated including:

- Host Hotels & Resorts \$442 million acquisition of the Grand Hyatt in Washington DC;
- LaSalle Hotel Properties \$405.5 million purchase of the Park Central in New York;
- Chatham Lodging Trust's \$24.9 million acquisition of the Residence Inn Pittsburgh University Medical Center.

Several previously announced noteworthy U.S. hotel sale transactions have reportedly been terminated during Q3 2011 including:

- Host Hotels & Resorts contract to acquire the St. Regis Monarch Beach in Dana Point, CA
- Cerberus Capital Management and Chatham Lodging Trust in August abandoned a \$1.12 billion deal to buy Innkeepers USA Trust which includes 64 hotel assets

Despite a sluggish economy, U.S. lodging industry fundamentals continue to be fairly strong. Given a myriad of global and domestic issues, the verdict on short term future industry performance is far from clear. Any downturn in U.S. hotel metrics that may occur will be moderated by limited new hotel development. Share prices of publicly traded hotel focused REIT's do not currently justify acquisition activity, and they are effectively now out of the market. Large sums of raised private capital funds, and overseas investors from throughout the globe are now better positioned to deploy capital into hard U.S. assets including hotel investments, which have traditionally offered superior risk adjusted returns. The world is awash with liquidity, which to some extent will back fill the void left by REITS who until recently were flush with cash and extremely acquisitive. The United States has always been, and will always be the safest place on the planet to invest. Furthermore, urban 24/7 markets such as New York, Boston, Washington DC, and San Francisco are highly sought after as many hotel assets trade at below replacement cost. Finally, when one considers the recent trade of the W London – Leicester Square at roughly \$1.6 million per room, U.S. inner city hotels appear relatively inexpensive.

Daniel H. Lesser is president & CEO of New York City-based LW Hospitality Advisors LLC. He may be reached at daniel.lesser@lwhadvisors.com. Opinions expressed in this article are the author's own.

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LW Hospitality Advisors: Select Major YTD Q3 2011 U.S. Hotel Sales Survey							
PROPERTY	LOCATION	NO. OF ROOMS	ESTIMATED SALES PRICE	ESTIMATED PRICE/ROOM	BUYER	SELLER	
Manchester Grand Hyatt San Diego	San Diego, CA	1625	\$ 570,000,000	\$ 350,769	Host Hotels & Resorts	Manchester Financial Group	
New York Palace Hotel	New York, NY	899	\$ 400,000,000	\$ 444,939	Northwood Investors LLC	Brunei Investment Agency	
Radisson Lexington Hotel	New York, NY	712	\$ 335,000,000	\$ 470,506	DiamondRock Hospitality	JV Blackstone Group/ Goldman Sachs/Highgate Holdings/Oxford Capital Partners/Chartres Lodging Group	
Doubletree Metropolitan Hotel	New York, NY	755	\$ 335,000,000	\$ 443,709	RLJ Development LLC	JV Highgate Holdings/Whitehall Goldman Sachs/Rockwood Capital LLC/Oxford Capital Partners, Inc/Chartres Lodging Group	
YOTEL New York	New York, NY	669	\$ 315,000,000	\$ 470,852	JV IFA Hotels and Resorts, Kuwait Real Estate Co. & United Investments	Related Company	
New York Helmsley Hotel	New York, NY	775	\$ 313,300,000	\$ 404,258	Host Hotels & Resorts	Helmsey Enterprises, Inc.	
Paramount Hotel	New York, NY	597	\$ 275,000,000	\$ 460,637	RFR Holding	JV Walton Street Capital & Highgate Holdings	
Jumer's Casino & Hotel	Rock Island, IL	205	\$ 180,000,000	\$ 878,049	Delaware North Companies	Jumer Family	
Mondrian Los Angeles	West Hollywood, CA	237	\$ 137,000,000	\$ 578,059	Pebblebrook Hotel Trust	Morgans Hotel Group Co	
San Juan Marriott Resort & Stellaris Casino	San Juan, Puerto Rico	525	\$ 133,000,000	\$ 253,333	Rockwood Capital	American International Group	
Royal Palm Hotel	Miami Beach, FL	409	\$ 130,000,000	\$ 317,848	KSL Capital Partners	Sunstone Hotel Investors	
W Chicago - City Center	Chicago, IL	368	\$ 128,800,000	\$ 350,000	Chesapeake Lodging Trust	Starwood Hotels & Resorts Worldwide	
Hilton Alexandria Mark Center	Alexandria, VA	496	\$ 121,000,000	\$ 243,952	Crow Holdings Realty Partners V LP	Amstar	
Intercontinental Montelucia Resort & Spa	Scottsdale, AZ	293	\$ 115,000,000	\$ 392,491	KSL Capital Partners	Eurohypo AG	
Four Points by Sheraton Midtown Times Square	New York, NY	244	\$ 112,000,000	\$ 459,016	Gehf Group	N/A	
Westin Gaslamp Quarter	San Diego, CA	450	\$ 110,000,000	\$ 244,444	Pebblebrook Hotel Trust	Starwood CMBSI LLC	
Bacara Resort & Spa	Santa Barbara, CA	360	\$ 104,000,000	\$ 288,889	JV Ohana Real Estate Investors & Rockpoint Group, LLC	ADCO	
Cheeca Lodge & Spa	Islamorada, FL	214	\$ 102,000,000	\$ 476,636	Northwood Investors	N/A	
St. Regis Washington DC	Washington DC	182	\$ 100,000,000	\$ 549,451	Westbrook Partners	Barclays Capital	
JW Marriott San Francisco Union Square	San Francisco, CA	337	\$ 96,000,000	\$ 284,866	Thayer Lodging Group	Ashford Hospitality Trust	
JW Marriott New Orleans	New Orleans, LA	494	\$ 93,800,000	\$ 189,879	Sunstone Hotel Investors	JV Clearview Hotel Capital/Starr International USA Investments LLC	
Westin Pasadena	Pasadena, CA	350	\$ 92,000,000	\$ 262,857	HEI Hotels & Resorts	MPG Office Trust, Inc.	
Sheraton Universal Hotel	Universal City, CA	451	\$ 90,000,000	\$ 199,557	Shenzhen New World Group	Low Enterprise	
W Boston Hotel	Boston, MA	235	\$ 89,500,000	\$ 380,851	Pebblebrook Hotel Trust	Sawyer Enterprises	
Argonaut Hotel	San Francisco, CA	252	\$ 84,000,000	\$ 333,333	Pebblebrook Hotel Trust	N/A	
Algonquin Hotel	New York, NY	174	\$ 82,000,000	\$ 471,264	Cornerstone Real Estate Advisors	HEI Hotels & Resorts	
Viceroy Santa Monica	Santa Monica, CA	162	\$ 80,100,000	\$ 494,444	LaSalle Hotel Properties	Kor Group	
Hotel Chelsea	New York, NY	250	\$ 80,000,000	\$ 320,000	Chertit Group	N/A	
JW Marriott Denver at Cherry Creek	Denver, CO	186	\$ 72,600,000	\$ 370,408	DiamondRock Hospitality	Sage Hospitality Resources	
Napa Valley Marriott Hotel and Spa	Napa, CA	275	\$ 72,000,000	\$ 261,818	Inland American Lodging Group, Inc	Lighthouse Lodging Group	
San Diego Marriott La Jolla	La Jolla, CA	360	\$ 71,000,000	\$ 197,222	HEI Hotels & Resorts	Cornerstone Real Estate Advisors	
Red Lion Hotel On Fifth Avenue	Seattle, WA	297	\$ 71,000,000	\$ 239,057	Low Enterprises	Red Lion Hotels Corp.	
Fairmont Dallas	Dallas, TX	545	\$ 69,000,000	\$ 126,606	Inland American Lodging Group Inc	Pacific Coast Capital	
Courtyard Washington Capitol Hill/Navy Yard	Washington DC	204	\$ 68,000,000	\$ 333,333	Chesapeake Lodging Trust	N/A	
Continental Oceanfront South Beach Hotel	Miami Beach, FL	251	\$ 61,000,000	\$ 243,028	JV Cube Capital & InSite Group	N/A	
Hilton Garden Inn Courthouse Plaza	Arlington, VA	189	\$ 60,000,000	\$ 317,460	CP-IPERS Arlington Hotel LLC	Courthouse Hotel Properties	
Hilton Garden Inn Denver Downtown	Denver, CO	221	\$ 58,500,000	\$ 264,706	Apple REIT Ten	Stonebridge Companies	
W San Diego	San Diego, CA	258	\$ 56,000,000	\$ 217,054	Rockpoint Group	TOP 24-W Hotel San Diego SPE LLC	
Hotel Indigo San Diego	San Diego, CA	210	\$ 55,500,000	\$ 264,286	Chesapeake Lodging Trust	InterContinental Hotels Group	
Homewood Suites Seattle Convention Center	Seattle, WA	195	\$ 53,000,000	\$ 271,795	Chesapeake Lodging Trust	N/A	
Best Western Tuscan Inn at Fishman's Wharf	San Francisco, CA	221	\$ 52,500,000	\$ 237,557	Walnut Hill Group	Abacus Lodging Investors LLC	
Hotel Monaco Seattle	Seattle, WA	189	\$ 51,200,000	\$ 270,899	Pebblebrook Hotel Trust	JV AEW Capital Management & Stonebridge Companies	
Se San Diego	San Diego, CA	161	\$ 49,000,000	\$ 304,348	Kimpton Hotels & Restaurants	5th Avenue Partners	
Capitol Hill Suites	Washington DC	152	\$ 47,500,000	\$ 312,500	Herhsa Hospitality Trust	AEW Capital Management	
Courtyard Los Angeles West Side	Culver City, CA	260	\$ 47,500,000	\$ 182,692	Herhsa Hospitality	Force-Oakleaf LP	
Courtyard Denver Downtown	Denver, CO	177	\$ 46,000,000	\$ 259,887	DiamondRock Hospitality	Sage Hospitality Resources	
Renaissance Hotel Downtown	Pittsburgh, PA	291	\$ 45,400,000	\$ 156,014	RLJ Development LLC	Sage Hospitality Resources	
Holiday Inn Express Fifth Avenue	New York, NY	125	\$ 43,870,000	\$ 350,960	Walnut Hill Group	Magna Hospitality Group	
Hotel Adagio	San Francisco, CA	171	\$ 42,250,000	\$ 247,076	Chesapeake Lodging Trust	Joie De Vivre Hospitality	
Residence Inn Los Angeles LAX/Manhattan Beach	Manhattan Beach, CA	176	\$ 40,000,000	\$ 227,273	Investcorp Real Estate	N/A	
Hilton Dallas/Park Cities	Dallas, TX	224	\$ 40,000,000	\$ 178,571	Apple Nine Hospitality Ownership Inc	RM Crowe	
Trump Marina Casino & Hotel	Atlantic City, NJ	728	\$ 38,000,000	\$ 52,198	Landry's Inc.	Trump Entertainment Resorts Inc.	
Holiday Inn Express Hotel New York City - Wall Street	New York, NY	112	\$ 36,700,000	\$ 327,679	Herhsa Hospitality	Metro Six LLC (McSam Hotel Group)	
Ocean House Hotel	Westerly, RI	49	\$ 36,600,000	\$ 746,939	Ocean House Hotel Partners LLC	Bluff Ave LLC	
Viceroy Miami	Miami, FL	148	\$ 36,500,000	\$ 246,622	Pebblebrook Hotel Trust	N/A	
Hilton Rye Town	Rye Brook, NY	447	\$ 35,500,000	\$ 79,418	Lodging Capital Partners LLC	Ashford Hospitality Trust	
Xona Resort Suites Scottsdale	Scottsdale, AZ	431	\$ 34,000,000	\$ 78,886	Sunstone U.S. Opportunity (No. 3) Realty Trust	N/A	
Hotel Monaco Baltimore	Baltimore, MD	202	\$ 33,000,000	\$ 163,366	Kimpton Hotels & Restaurants	Baltimore & Charles Associates	
Huntington Hilton	Huntington, NY	304	\$ 32,000,000	\$ 105,263	JV Dow Hotel Co. & Prudential Insurance Company	MassMutual	
Holiday Inn Hotel & Suites Anaheim	Anaheim, CA	255	\$ 26,250,000	\$ 102,941	Urban Commons Anaheim	Anaheim Resort Hotel	
Sheraton Kauaui Bay Resort and Spa	Kauiua-Kona, HI	521	\$ 26,200,000	\$ 50,288	Kona Surf Partners LLC (Avenue Capital Management II L.P.)	JV Arlen Capital LLC & Brickman Associates	
Charleston Marriott Town Center	Charleston, WV	352	\$ 25,500,000	\$ 72,443	Inland American Lodging Group, Inc	Forest City Enterprises Inc.	
Residence Inn Midtown Atlanta	Atlanta, GA	160	\$ 25,250,000	\$ 157,813	Noble Investment Group	Windsor Capital Group Inc.	
Grand Bay Hotel	Miami, FL	177	\$ 24,000,000	\$ 135,593	Terra Grove Communities	Novacastalgalia	
Wyndham Hotel Pittsburgh-University Place	Pittsburgh, PA	198	\$ 20,750,000	\$ 104,798	RLJ Development LLC	N/A	
Hampton Inn Houston - Near The Galleria	Houston, TX	176	\$ 20,300,000	\$ 115,341	RLJ Lodging Trust	Ashford Hospitality Trust	
Sheraton Bloomington Hotel	Minneapolis, MN	564	\$ 20,000,000	\$ 35,461	Platinum Equity	LaSalle Hotel Properties	
Hyatt on Capital Square	Columbus, OH	400	\$ 19,500,000	\$ 48,750	Driftwood Hospitality Management	Hertz Columbus Two	
Embassy Suites Phoenix Tempe	Tempe, AZ	224	\$ 19,000,000	\$ 84,821	JV O'Neill Hotels & Resorts Ltd & Sunstone Realty Advisors	FelCor Lodging Trust	
Lotus at Diamond Head	Honolulu, HI	51	\$ 18,500,000	\$ 362,745	N2885 LLC (JV Nobuka USA Inc. & Katsuhiko Kinoshita)	Unity House Inc.	
Embassy Suites Chicago-North Shore/Deerfield	Deerfield, IL	237	\$ 18,000,000	\$ 75,949	JV Montclair Hotel Investors & Oaktree Capital Management	C-III Asset Management LLC	
Fairfield Inn & Suites	South Bend, IN	119	\$ 17,500,000	\$ 147,059	Apple REIT Ten	KRG/White LS Hotel	
Hotel Theodore	Scottsdale, AZ	189	\$ 16,250,000	\$ 85,979	Sydell Scottsdale LLC (Yucapa Companies, LLC)	Wells Fargo Bank NA	
Golden Gate Inn	Brooklyn, NY	150	\$ 15,500,000	\$ 103,333	Brooklyn Amity School	Krishna Management	
Delaware Park Hotel & Suites	New Castle, DE	191	\$ 15,000,000	\$ 78,534	Herhsa Hospitality Trust	N/A	
Continental Bayside Hotel	Miami, FL	243	\$ 13,500,000	\$ 55,556	JV Insite Group & Carlyle Group	RFR Holding Corporation	
Hotel New Orleans	New Orleans, LA	170	\$ 12,475,000	\$ 73,382	HRI Properties and Interwest Capital Corporation	Hotel New Orleans Partnership in Commendam	
DoubleTree by Hilton	Wilmington, DE	217	\$ 12,000,000	\$ 55,300	JV Driftwood Hospitality Management LLC & AGRE U.S. Real Estate Fund, LP	Credit Union Liquidity Services	

LW Hospitality Advisors: Select Major YTD Q3 2011 U.S. Hotel Sales Survey

PROPERTY	LOCATION	NO. OF ROOMS	ESTIMATED SALES PRICE	ESTIMATED PRICE/ROOM	BUYER	SELLER
Park Manor Suites	San Diego, CA	82	\$ 11,500,000	\$ 140,244	Inn at the Park, LLC	Gentry Associates, LLC
Pelican Inn & Suites	Cambria, CA	48	\$ 10,250,000	\$ 213,542	Pacifica Hotel Company/Invest West	Moonstone Hotel Properties
Crowne Plaza Boston North Shore & CoCo Key Water Resort	Danvers, MA	366	\$ 10,100,000	\$ 27,596	Lignistone Group	JV Sage Hospitality Resources/Wave Development/Hexagon Investments
Crowne Plaza Hotel Cleveland City Centre	Cleveland, OH	470	\$ 10,000,000	\$ 21,277	JV Sage Hospitality Inc. & Optima Management Co.	Lehman Brothers Holdings Inc.
Hampton Inn Jacksonville I-95 Central	Jacksonville, FL	118	\$ 10,000,000	\$ 84,746	N/A	Ashford Hospitality Trust

Source: LW Hospitality Advisors (LWHA) has compiled the above information from sources deemed reliable, and the information is thought to be correct, however LWHA cannot warrant absolute accuracy of all the data. Use of this information without verification from original sources is at your own risk.

Notes:

- 1 Hotel Closed At Time Of Sale
- 2 Hotel Was Never Opened
- 3 Hotel Was Purchased For Conversion To A School

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LW Hospitality Advisors: Select Major YTD Q3 2011 U.S. Hotel Sales Survey

Quarter	Total Trades	Total Rooms	Average Size Property	Total \$ Volume	Average Size Deal	\$ Volume Per Room
Q1	29	11,138	384	\$ 2,642,370,000	\$ 91,116,207	\$ 237,239
Q2	37	11,088	300	\$ 3,455,600,000	\$ 93,394,595	\$ 311,652
Q3	17	3,941	232	\$ 677,975,000	\$ 39,880,882	\$ 172,031
Totals	83	26,167	315	\$ 6,775,945,000	\$ 81,637,892	\$ 258,950