

Increased availability of capital led to more deals in 2013

Outlook strong for transactions in '14

As the worldwide economic recovery broadens, U.S. GDP and employment growth are strengthening. Housing continues to strongly improve and global capital continues to seek safe havens with the U.S. at the fore. As of year-end 2013, the U.S. Federal Reserve has commenced reduction or "tapering" the size of its bond buying program, known as quantitative easing, which if expanded, may once again elevate investor anxiety. Although the challenge of continued political brinkmanship and dysfunction in Washington, DC are threats that may undermine confidence in the U.S. economy, underlying fundamentals will strengthen somewhat. Many believe that by the middle of 2014, strong economic growth will place upward pressure on inflation, and thus on the Federal Reserve to raise interest rates. While rising interest rates and re-

sultant higher pricing of debt would certainly have an effect on housing and commercial real estate pricing, a stronger economy will also bring higher earnings, lower unemployment and increased consumer confidence and spending. Lodging fundamentals benefit from a strong economy and with the continuous re-pricing of guestrooms, hotel investments represent a terrific hedge against inflation.

Property values

Large sums of all types of capital-chasing limited opportunities have caused a surge in hotel property values which, in many markets, have already approached or are close to reaching peak levels. Blackstone Group LP's Hilton Worldwide Holdings Inc. year end 2013 raise of \$2.35 billion in a record initial public offering for the lodging industry clearly reflects investor interest in the space. Acquisitions are being driven by an increased availability of relatively inexpensive debt financing, and with five consecutive years of increasing RevPAR, early-cycle buyers will be looking to sell, and bake in healthy returns.

The LW Hospitality Advisors (LWHA) 2013 Major U.S. Hotel Sales

Survey includes 154 single-asset sale transactions over \$10 million each that are not part of a portfolio allocation. These transactions totaled roughly \$11.0 billion, and include approximately 45,000 hotel rooms with an average sale price per room of nearly \$243,000. U.S. hotel transaction activity has increased steadily as by comparison, the LWHA 2012



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Major U.S. Hotel Sales Survey identified 107 transactions totaling roughly \$6.0 billion including 27,000 hotel rooms with an average sale price per room of \$242,000. Comparing 2013 with 2012, total dollar volume has increased 85%, the number of trades has risen by 45%, and sales price per room has remained flat.

U.S. hotel transaction activity has clearly gained traction since 2009 during which 36 hotels that included 18,600 rooms traded for a total of only \$2.3 billion or an average sale price per room of \$193,000. It is interesting to note that while deal volume declined during 2012, sales price per key rose compared with 2011, and that while deal volume dramatically increased during 2013, sales price per key experienced no change.

Sector challenges

Known near-term sector challenges include the Affordable Care Act's rollout and the increasing government efforts to raise the minimum wage for employees. Furthermore, hotel brands that, due to the severe recession, previously allowed for delays in product improvement program executions are now fully enforcing such requirements as 2014 capital expenditures for U.S. hotels

are expected to exceed the prior record level spent in 2008. Finally, global geopolitical risk will always be an investment factor.

Barring any shock(s), the U.S. lodging industry will benefit from continued growth in corporate profits, a rise in personal income, increasing international visitation and relatively little new supply. Continued strong RevPAR growth, relatively little new development, open credit markets for cash flowing assets and the lessening of perceived investor risk will fuel an elongated lodging cycle that will drive increases in hotel property values to new highs. Foreign investment into U.S. hotels is being led by Asia and the Middle East. Investment targets include high barrier-to-entry markets, such as large institutional quality assets, coastal gateway metropolitan areas and urban and resort locations.

At this point in the cycle, as urban 24/7 hotel investment opportunities have become expensive and highly competitive to secure, secondary markets are among the most compelling return opportunities in the U.S. lodging sector. Later this year, as multiple portfolio listings currently being marketed transact, valuation for these types of assets will become transparent.

During the past 30 years, Lesser has specialized in real estate appraisals, economic feasibility evaluations, investment counseling and transactional services of hotels, resorts, conference centers, casinos and timeshare properties on a worldwide basis. Lesser provides services to corporate, institutional and individual clients and municipalities 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; property tax assessment appeal evaluations; economic impact studies; deal structuring; and fairness opinions. He is president & CEO of LW Hospitality Advisors.

Notable observations from the LWHA 2013 Major U.S. Hotel Sales Survey include:

- Major metropolitan areas including Boston, Honolulu, New York, Orlando and San Francisco have been the most active transaction markets.

- New York had 11 major single-asset trades for a total of \$1.8 billion or an average price per key of roughly \$725,000.

- San Francisco had seven major sales followed by Honolulu with five, four in Boston and two in Orlando. Interesting to note: These four markets achieved price per room averages of between \$330,000 and \$375,000.

- 10 2013 transactions totaling more than \$3.6 billion sold for more than \$200 million each, compared with 2012 when six sales occurred for more than \$200 million each, totaling \$1.9 billion.

- Hyatt Hotels Corporation's \$717-million acquisition of the 1,641-room Peabody Orlando represents the largest sum ever paid for a single non-gaming U.S. hotel.

- \$100M+ per room U.S. hotel pricing is becoming more prevalent than ever before as evidenced by the four 2013 U.S. trades that occurred at approximately one million dollars per room including: Calistoga Ranch Napa, CA (\$1.1 million per room), the Park Lane Hotel New York (\$1.074 per room), the Setai Fifth Avenue New York (\$1.070 million per room), and the London West Hollywood (\$975,000 per room).

Furthermore, it has just been announced that Starwood Hotels & Resorts Worldwide, Inc. has sold the St. Regis Bal Harbour in Florida for roughly \$1.014 million per room.

- Five supertanker (1,000 plus room) hotels were sold; it is noteworthy that there are roughly 70 1,000 plus room non-gaming hotels in the U.S.

- The Boston Park Plaza Hotel & Towers was acquired by Sunstone Hotel Investors Inc. for \$250 million, almost double the price it sold for two years ago.