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5 things to know: 10 April 2014

April 10 2014

Highlights

From the desks of the Hotel News Now editorial staff:

- Lesser: Time to lock in long-term financing
- Hawaii hotel revenues hit record highs
- Hotel Stock Index flat in March
- Seibu Holdings slashes size of IPO
- Dallas tops US performance gains

1 Although the overall economic recovery from the Great Recession has been slow and sluggish, the up cycle in the hotel space is well underway. Interest rates still are relatively low, property fundamentals are improving and property prices are rising, which all point to a hotel capital market in full swing as competition heats up between lenders to land deals. Given market uncertainty and the industry's inherent volatility, now is the time to lock in long-term financing, writes HNN columnist Dan Lesser.

Cap rates have eased and are now approaching the low levels demonstrated during the prior peak, after rising dramatically during 2008 and 2009.

Measuring the implied value of \$1,000 of net operating income throughout the past cycle illustrates U.S. hotel values declined roughly 38% off peak levels during late 2008 through late 2009. This calculation solely reflects the changes in typical hotel capital stack structures between debt and equity and the required returns for each position. Although cap rates are down from the dramatic peaks of 2008 and 2009, values continue to be roughly 12% off peak based on changes in hotel capital stack structures and returns.

2 Statewide hotel revenues in Hawaii, which include revenue from rooms, food and beverage, retail, parking and other revenue sources, reached a new record of \$472 million for the month of February, according to the latest "Hawaii hotel monthly flash report" from Hospitality Advisors.

Room revenue in the state reached \$320 million (+5.1%), which also set a new February high. Hotel occupancy for the month was slightly lower than last year at 84.8% (-0.9 percentage points) due in part to a 3% decrease in visitor arrivals as reported by the Hawaii Tourism Authority. Average daily rates climbed to a new February high of \$251.13 (+6.4%). The strong occupancy rate and record ADR led to a new single month revenue-per-available-room high of \$212.96 (+5.3%).

3 Hotel stock performance was flat during March, [according to the Baird/STR Hotel Stock Index](#). The index, which is a composite measure of 15 hotel company stocks, increased 0.1% to 3,253 during the month. It ended 2,013 at 3,177.

Both the MSCI REIT (RMZ) (unchanged) and the S&P 500 (+0.7%) ended March nearly flat as well.

"The Baird/STR Hotel Stock Index reported a positive first quarter, rising 2.4%," said Randy Smith, chairman and co-founder of STR, parent company of HNN. "Hotel performance was steady as we closed out the first quarter. Demand reported healthy growth year-to-date February (+3.9%), well above last year's growth (+2.2%) and above our expected growth for 2014 (+2.3%). We are expecting to see the growth rate slow as we hit summer."

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4 Seibu Holdings, owner of Japanese hotel chain Prince Hotels & Resorts, reduced the size of its initial public offering by at least 73% after its largest shareholder, Cerberus Capital Management, opted out after investors balked at the valuation, [according to Bloomberg](#).

Seibu's owners are seeking as much as 50.1 billion yen (\$491 million) from a sale of 27.8 million shares, according to a filing from the hotel and railway operator Tuesday. They will offer the shares at 1,600 to 1,800 yen (\$15.73 to \$17.70) each, lower than the 2,300 yen (\$22.62) indicative price announced last month.

Cerberus, the company's largest investor with a 35.5% holding, won't sell any stock in the offering, the statement shows. Seibu's owners were originally planning to raise about \$1.8 billion from a sale of as many as 80.9 million shares, according to a prospectus last month.

5 Dallas hotels reported the largest growth in all three key performance metrics during the week of 30 March through 5 April, 2014, [according to data from STR](#).

The market's occupancy rose 21.2% to 71.9%; its average daily rate was up 25.4% to \$110.72; and its revenue per available room jumped 52% to \$79.59.

Overall, in year-over-year measurements, the U.S. hotel industry's occupancy increased 2.4% to 65.2%. ADR rose 4.2% to finish the week at \$112.60. RevPAR for the week was up 6.7% to finish at \$73.46.

Compiled by Patrick Mayock.

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