

# Q2 2019 U.S. Lodging Market Update

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Daniel Lesser | August 06, 2019

By Daniel Lesser

With 121 consecutive months of growth through Q2 2019, the U.S. economy is now in record territory for the longest expansion period in history. The decade long economic expansion has been fueled in part by job growth, record low unemployment rates, and low interest rates in the capital markets. During the first half of 2019, America has continued to add jobs, albeit at a slower pace compared to last year. U.S. consumer confidence remains vigorous and stock market indices continue to set record high levels. To mitigate the risks of slower global growth and trade-policy uncertainty, during the near term, the Federal Reserve is widely expected to reduce interest rates. While current economic indicators are a healthy backdrop for the lodging industry, the duration of this expansion has rendered many economic pundits now fearful of the U.S. entering a recessionary environment during the near term. With this said, most anticipate that when a recession does occur, it will be less severe than the Great Recession of 2009-2009.

During Q2 2019, the U.S. lodging industry experienced generally positive performance metrics with a slight 0.1 percent decline in occupancy and modest increases in average daily rate (ADR) and revenue per available room (RevPAR). The sectors first half of the year resulted in occupancy levels remaining relatively static along with weak pricing confidence resulting in lackluster RevPAR growth, however growth, nonetheless.

The LW Hospitality Advisors (LWHA) Q2 2019 Major U.S. Hotel Sales Survey includes 35 single asset sale transactions over \$10 million, none of which are part of a portfolio. These transactions totaled roughly \$2.6 billion and included approximately 9,100 hotel rooms with an average sale price per room of roughly \$286,000. By comparison, the LWHA Q2 2018 Major U.S. Hotel Sales Survey identified 44 transactions totaling roughly \$3.5 billion including 11,200 hotel rooms with an average sale price per room of \$315,000.

Noteworthy observations from the LWHA Q1 2019 Major U.S. Hotel Sales Survey include:

- Fifteen or more than 40 percent of the total number of Q2 2019 sale transactions occurred in two states;

  - With ten Q2 2019 hotel sales, Florida continues to be the most active transaction market followed by five trades in California;

- Remarkably, during the thirty years I have compiled the Major U.S. Hotel Sales Survey, Q2 2019 is the first time that a NYC hotel did not trade. NYC is experiencing a

challenging environment for hotel investment due to an extraordinary rise in labor costs;

Two significant Q2 trades include: MSD Partners, L.P. \$875 million (\$836,000 per unit) acquisition of the 1,047 room Boca Raton Resort and Club, A Waldorf Astoria Resort from Blackstone, and the \$400 million (\$335,000 per unit) acquisition of the 1,193 room Hyatt Regency New Orleans by a syndicate comprised of AllianceBernstein & GMB Properties, The Berger Co., & Fulcrum Hospitality from Poydras Properties Hotel Holdings Co.;

Additional hotel centric investment entities that were active purchasers and/or sellers of lodging assets during Q2 2019 include:

- AJ Capital Partners
- Brookfield Asset Management
- CrossHarbor Capital Partners LLC
- EOS Investors LLC
- Hospitality Properties Trust
- Host Hotels & Resorts
- London + Regional Properties
- Noble Investment Group
- Park Hotels & Resorts Inc.
- Peachtree Hotel Group
- Pebblebrook Hotel Trust
- Procaccianti Companies
- RLJ Lodging Trust
- Walton Street Capital

In the face of macroeconomic uncertainty which is weighing on U.S. hotel sales transaction volume, and debates about whether the market has reached its final leg in this cycle, the market is flush with record levels of relatively inexpensive liquid capital to fund deals across all hotel asset types. Lodging debt and equity providers are intensely competing to win investment opportunities with some more able or willing to loosen their underwriting standards. Furthermore, robust debt markets which offer attractive refinancing options, tend to dampen hotel sale transaction activity as owners can become motivated sellers only if aspirational pricing is realized.

Notwithstanding sluggish top-line fundamentals and continued cost pressures, underlying hotel real estate values have held relatively steady while buyers have taken a more cautious outlook. However, sophisticated lodging investors with access to large amounts of dry powder equity on the sidelines coupled with white hot debt markets, are supportive of still attractive levered returns. Reports of frenzied bidding for the 15-property former Strategic Hotels & Resorts luxury hotel portfolio owned by Anbang Insurance Group is indicative of

how eager investors still are to deploy capital into U.S. hotels. The fact is that over a long-term basis, commercial real estate and particularly hotels offer superior risk adjusted yields compared with other investment classes focused on value-add opportunities.

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## SELECT MAJOR U.S. HOTEL SALES SURVEY - Q2 2019

Q	PROPERTY	LOCATION		NO. OF ROOMS	ESTIMATED SALES PRICE	ESTIMATED PRICE/ROOM	BUYER	SELLER
Q2	Hotel Amarano Burbank	Burbank	CA	132	\$72,900,000	\$552,273	N/A	Pebblebrook Hotel Trust
Q2	Hyatt Place Emeryville/San Francisco Bay Area	Emeryville	CA	175	\$66,250,000	\$378,571	N/A	N/A
Q2	Courtyard by Marriott Fairfield Napa Valley Area <sup>1</sup>	Fairfield	CA	137	\$19,900,000	\$145,255	N/A	N/A
Q2	Westin Mission Hills Golf Resort & Spa	Rancho Mirage	CA	512	\$27,000,000	\$52,734	N/A	Host Hotels & Resorts, Inc.
Q2	Hawthorn Suites by Wyndham Victorville	Victorville	CA	75	\$10,500,000	\$140,000	N/A	SL Hotels, LLC
Q2	Kimpton Rouge Hotel	Washington	DC	137	\$42,000,000	\$306,569	N/A	Pebblebrook Hotel Trust
Q2	Boca Raton Resort and Club, A Waldorf Astoria Resort	Boca Raton	FL	1047	\$875,000,000	\$835,721	MSD Partners, L.P.	Blackstone
Q2	The Mayfair at Coconut Grove	Coconut Grove	FL	179	\$46,800,000	\$261,453	Brookfield Asset Management	TriGate Capital & Copperline Partners
Q2	Mayan Inn	Daytona Beach	FL	112	\$10,500,000	\$93,750	Blue Water Hospitality	Equity Management Partners
Q2	Fort Lauderdale Marriott North	Fort Lauderdale	FL	315	\$49,000,000	\$155,556	London + Regional Properties	Procaccianti Companies
Q2	Renaissance Fort Lauderdale Cruise Port Hotel	Fort Lauderdale	FL	236	\$66,000,000	\$279,661	JV DoveHill Capital Management & Starwood Real Estate Income Trust Inc.	Noble Investment Group
Q2	Bali Hai Beach Resort	Holmes Beach	FL	42	\$16,890,000	\$402,143	Bali Hai JV LLC	Bali Hai Corp.

1) Transaction included an adjacent 1.9-acre development parcel.

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Q	PROPERTY	LOCATION		NO. OF ROOMS	ESTIMATED SALES PRICE	ESTIMATED PRICE/ROOM	BUYER	SELLER
Q2	Quality Suites Near Orange County Convention Center	Orlando	FL	154	\$11,600,000	\$75,325	N/A	N/A
Q2	Palm House Hotel <sup>2</sup>	Palm Beach	FL	79	\$39,600,000	\$501,266	London + Regional Properties	160 Royal Palm LLC
Q2	Hilton Tampa Downtown Hotel	Tampa	FL	520	\$112,250,000	\$215,865	Walton Street Capital	CrossHarbor Capital Partners LLC
Q2	Holiday Inn Palm Beach-Airport Conference Center	West Palm Beach	FL	200	\$20,000,000	\$100,000	AD1 Global	Phillips Palm Beach Inc.
Q2	Hilton Atlanta Airport	Atlanta	GA	507	\$101,000,000	\$199,211	N/A	Park Hotels & Resorts Inc.
Q2	Dana Hotel & Spa	Chicago	IL	216	\$72,500,000	\$335,648	Ponte Gadea	Rebel Hospitality
Q2	Hyatt Regency New Orleans	New Orleans	LA	1193	\$400,000,000	\$335,289	JV AllianceBernstein & GMB Properties & The Berger Co. & Fulcrum Hospitality	Poydras Properties Hotel Holdings Co.
Q2	Kimpton Onyx Hotel	Boston	MA	112	\$58,300,000	\$520,536	Stonebridge Companies	Pebblebrook Hotel Trust
Q2	The Roberts Collection	Nantucket	MA	58	\$25,100,000	\$432,759	Blue Flag Partners	N/A
Q2	Cambria Hotel Minneapolis Maple Grove	Maple Grove	MN	129	\$11,500,000	\$89,147	Harshal Patel	N/A
Q2	Hampton Inn Rochester	Rochester	MN	103	\$12,500,000	\$121,359	Sahaj Hotel Group, LLC	1755 S. Broadway LLC
Q2	Franklin Hotel Chapel Hill	Chapel Hill	NC	70	\$20,000,000	\$285,714	AJ Capital Partners	Wintergreen Hospitality

2) Property was closed at the time of sale.

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Q	PROPERTY	LOCATION	NO. OF ROOMS	ESTIMATED SALES PRICE	ESTIMATED PRICE/ROOM	BUYER	SELLER	
Q2	Rosewood Inn of the Anasazi	Santa Fe	NM	58	\$23,200,000	\$400,000	Friedman Capital	Chow Tai Fook group
Q2	Lucky Dragon Hotel and Casino <sup>3</sup>	Las Vegas	NV	203	\$36,000,000	\$177,340	Don Ahern	Snow Covered Capital
Q2	Howard Johnson by Wyndham Bronx	Bronx	NY	45	\$11,000,000	\$244,444	Sedgwick Hotel Corp.	Seven Hills Hospitality Group LLC
Q2	The Time Nyack	Nyack	NY	133	\$18,530,000	\$139,323	Juniper Capital Partners LLC	EMC Hotels and Resorts LLC
Q2	Philadelphia 201 Hotel (former Sheraton Downtown Philadelphia)	Philadelphia	PA	757	\$77,400,000	\$102,246	Cambridge Landmark	Blackstone Group
Q2	Best Western Plus University Inn & Conference Center	Clemson	SC	149	\$10,500,000	\$70,470	N/A	N/A
Q2	Kingston Plantation: Hilton Myrtle Beach Resort & Embassy Suites Myrtle Beach Oceanfront Resort	Myrtle Beach	SC	640	\$156,000,000	\$243,750	EOS Investors LLC	RLJ Lodging Trust
Q2	DoubleTree Suites by Hilton Hotel Nashville Airport	Nashville	TN	138	\$13,400,000	\$97,101	JV Wexford Lodging Advisors & Trinity Private Equity Group	Hospitality Ventures Management Group
Q2	Hilton Garden Inn Roanoke	Roanoke	VA	117	\$13,925,000	\$119,017	Daly Seven	South Peak Hotel
Q2	Courtyard by Marriott Springfield	Springfield	VA	191	\$20,200,000	\$105,759	Excel Group	Regua LP
Q2	Crowne Plaza Milwaukee West	Wauwatosa	WI	198	\$30,000,000	\$151,515	Hospitality Properties Trust	Peachtree Hotel Group

3) Property was closed at the time of sale.