Q2 2019 U.S. Lodging Market Update

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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;
- Remarkedly, 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.

View the results.