

Hotel Sales Brokers See Caution Signs

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The pace of hotel transactions has stalled in the coronavirus crisis. Financed deals that were underway at the time have continued to move forward, but transactions in any other phase of the process are either on hold or are proceeding with caution, say experts.

Coronavirus crisis stalls the pace of transactions as buyers and sellers face uncertainty

“If you have your property already listed, there’s probably not a whole lot of downside to letting the process proceed, but there really is no process at this point.” Daniel Lesser, LW Hospitality Advisors

The COVID-19 pandemic is impacting the hotel industry in different ways. When the World Health Organization declared the new coronavirus a global pandemic on March 11 and President Trump declared a national state of emergency two days later, the pace of hotel transactions quickly slowed.

Financed deals that were underway at the time have continued to move forward, but transactions in any other phase of the process are on hold or are proceeding with caution, say experts.

Daniel Lesser, founder, president and CEO of LW Hospitality Advisors, said the crisis has redefined the hotel transaction process.

“If you have your property already listed, there’s probably not a whole lot of downside to letting the process proceed, but there really is no process at this point,” Lesser said.

“The capital markets for hotel financing are shut down – unless there are buyers out there who are willing to pay all cash. But that begs the question do they want to pay market value or liquidation value? There’s a big difference. Market value is predicated upon the definition of willing buyer, willing seller neither acting under duress. If financing is not available then that clearly is a distress factor.”

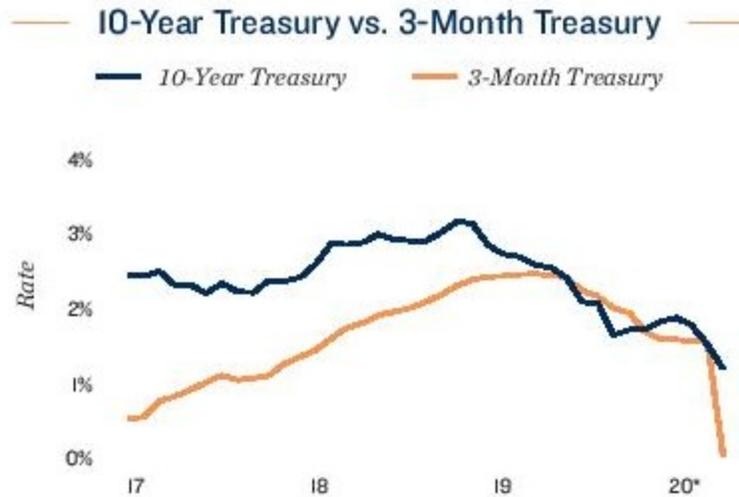
Part of the buying due diligence is spending time at a hotel to study how it does business. Most buyers believe they can enhance and improve a property’s business performance, Lesser said. But with many hotels closed, doing little business or being used for alternative purposes such as health care, due diligence is on hold.

Marcus & Millichap, a national commercial real estate broker, published a report this week that reveals the new-coronavirus crisis has altered investor sentiment.

Hotel owners are facing tremendous business challenges. As a result, buyers and sellers have realigned their expectations.

Here are a few trends Marcus & Millichap see taking shape:

- Given the rapid growth of COVID-19 infections in major cities, investors are turning away from urban and primary metro markets and shopping for deals in less densely populated areas.
- Prospective sellers are taking this time to complete value-add renovations and repositioning to be prepared for when the crisis eases and the industry is in a comeback.
- Investors are adopting a new view of assets in the midscale and economy segments, said the report. In a previous Long Live Lodging report, STR and other data analysts noted hotels in lower-priced tiers are seeing higher occupancies and RevPAR compared to high-end properties in meeting and convention markets. Though groups, business and leisure transient travel are off the table at this time, essential travelers such as truck drivers, first responders and health-care workers comprise some of the current demand for room nights, however slight.



Hotel investments continue to offer a substantial premium relative to government bonds, especially given the recent decline in U.S. Treasury yields to historical lows, said Marcus & Millichap in a recent report. The 10-year Treasury in March broke below the 1 percent threshold for the first time. Meanwhile, the average cap rate on recent hotel trades remains above 8 percent. (Graphic: Marcus & Millichap)

Carter Willcox, a sales associate with Mumford Company, said prices that have expanded out of reach for some investors over the past few years are aligning with the new reality. The spread between the owner’s ask and what an investor is willing to pay might be narrowing.

While owners should not consider an unadvised change in their listing price, the business crisis is influencing the perceived value owners had of their asset before the coronavirus pandemic.

“Owners who currently have hotels listed who are eager to sell are taking second looks at offers that we had on the table say, a month ago, that may have been fair but below what they wanted to accept at that time,” Willcox said.

“There’s always been a slight disconnect between what the current owner and seller of the property would like to get and what a buyer would like to pay. We make sure every property we bring to market has a list price based on underlying fundamentals and historical operating statistics.”

Hotel Buyer Composition*



The chart featured in a report by Marcus & Millichap shows the changing composition of hotel investors of \$2.5 million and higher over the past six years. “Many institutions are slowing their activity to await further information, lessening the competition for listings among private buyers who may be able to pursue previously unavailable opportunities,” said the report. (Graphic: Marcus & Millichap)

Willcox agrees that hotel deals with financing in place before the coronavirus crisis, are going to close. In most other cases, prospective sellers and buyers are cautious.

“In terms of listings, we’re seeing high levels of caution,” he said. “Current owners of hotels listed for sale are more concerned with regaining stable operations than selling. But that doesn’t mean they’re not interested if the right offer comes along on a property they’ve already got listed.”

In its report, Marcus & Millichap notes, “While rapidly changing circumstances encourage vigilance, buyers and sellers should also be looking to the horizon.

“Ultimately, a hotel investment is a multiyear endeavor. The hospitality sector is highly resistant and has recovered from downturns in the past. The 2008 financial crisis birthed the most prosperous decade of hotel performance in recent memory, and there are no signs that suggest the sector will not also rebound once the current threat abates.”

Once the crisis eases, investment opportunities might become more democratic and attainable for would-be investors who were shut out of the market by high prices, Willcox said.

“Since 2017, especially in the economy and independent properties we’ve seen large increases in average sale price and average price-per-room metrics,” he said.

The rising prices were good for sellers as they “translated to big premiums,” especially on lower-priced properties, Willcox said. But they “created a tough market for first-time buyers and owners of one to two maybe three properties who are looking to increase the value of their portfolios.”