

Evidence of COVID's impact on U.S. hotel values

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What's the Deal By Daniel Lesser

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(The views and opinions expressed in this blog are strictly those of the author.)

The onset of the COVID-19 pandemic earlier this year has for the most part resulted in a reset in lodging property values. The paucity of arm's length hotel sale transactions this year has hindered price discovery and resulted in many market participants struggling to determine an applicable discount to pre-COVID levels. Generally, sellers have expressed willingness to consider a 10% to 15% discount, while buyers are interested in transacting at a 20% to 40% reduction to pre-COVID values.

During the past eight months, a half dozen U.S. hotel sale transactions have produced market evidence of pandemic-induced value erosion.

The Buccini/Pollin Group (BPG) acquired the 622-room **Renaissance Baltimore Harborplace Hotel** in Baltimore, Maryland, for US\$80 million (US\$129,000 per unit). In January, BPG signed a contract to purchase the hotel for US\$100 million. In March, when the COVID-19 crisis hit the U.S. in earnest, seller Sunstone Hotel Investors Inc. agreed to lower its clearing price, resulting in a 20% decline.



BentallGreenOak, Flank Management LP and Geolo Capital announced in June the acquisition of the **Hutton Hotel** in Nashville, Tennessee, in an all-cash US\$70 million (US\$280,000 per room) purchase price. The seller, Watermark Lodging Trust (formerly known as Carey Watermark Investors Inc.), reportedly acquired the property in 2013 for US\$73.6 million. According to The Wall Street Journal, “The 250-room hotel was valued between US\$90 million to US\$100 million before the COVID-19 outbreak, according to people familiar with the matter.” The most recent trade indicates a decrease in value of more than 20%.

In September, Magna Hospitality Group purchased the 310-key **Embassy Suites by Hilton New York Manhattan Times Square** in New York City for a reported purchase price of US\$115.1 million (roughly US\$371,000 per unit). The seller, Ashford Hospitality Trust Inc., acquired the property in early 2019 for US\$195 million, representing a 41% erosion of value during its 18-month hold.

A joint venture comprising Highgate and Rockpoint Group sold to MCR the 168-room **Royalton New York** hotel for a reported US\$40.8 million (US\$243,000 per unit). During the past decade, the property has sold twice, representing a decline in pricing on each occasion. The current seller had acquired the asset for US\$55 million in 2017 from FelCor Lodging Trust Inc., which in turn had paid US\$88 million for the property in 2011. Although due to a variety of reasons the hotel was financially challenged prior to the pandemic, the most recent sale represents a more than 25% decrease in value.

In November, Mansueto Properties, an entity created to hold the real estate holdings of Joe Mansueto, founder and executive chairman of Morningstar, acquired from Walton Street

Capital the 215-key **Waldorf Astoria Chicago** for US\$54 million (US\$251,000 per unit). In September 2019, a seller-sponsored debt fund foreclosed on a defaulted US\$90 million loan, encumbering the property, which previously sold in 2015 for approximately US\$112 million or more than 50% higher than the most recent trade.

In April, Xenia Hotels & Resorts terminated a proposed US\$100.5 million sale of the 492-key **Renaissance Austin Hotel**. In November, the Axton Group acquired the property for US\$70 million, a 30% deterioration of value within a seven-month period.

The previously described Q2 and Q3 2020 U.S. hotel sales indicate a market derived erosion of hotel values of between 20% and 50%, due in part to the negative effects of the COVID-19 pandemic. With this said, a remarkable recent trade is Blackstone's sale of the 299-key **Residence Inn by Marriott Arlington Pentagon City** in Arlington, Virginia, for US\$148.5 million (nearly US\$500,000 per unit) to Acorn Development LLC, a subsidiary of Amazon that plans to demolish the 24-year-old high-rise hotel and incorporate the 1.5-acre site into its HQ2 PenPlace Development.

In mid-2019, Blackstone purchased the property for US\$99.1 million from Host Hotels & Resorts Inc. The latest transaction represents an approximate 50% profit within one year for Blackstone. What is intriguing about the most current sale is that Amazon's HQ2 plans were widely known when HST sold the asset to Blackstone for nearly US\$50 million less only one year ago.

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