

What factors are behind \$1 million/key deals?

 hotelsmag.com/Industry/News/Details/99757

Hotels: News

By [Guest Contributor](#) on 6/21/2021

During the first half of 2021, there have been four single asset hotel sales in the United States recorded with a per room transaction amount greater than US\$1 million dollars, two of which were for more than US\$2 million per key.

Contributed by Dan Lesser, LW Hospitality Advisors, New York

Considering the COVID-19 pandemic and subsequent downturn in lodging industry performance metrics, these sales transactions and record pricing are intriguing. There have only been six hotel trades ever with a price over US\$2 million per room, and a total of 35 hotel transactions for greater than US\$1 million per key.

Noteworthy observations include:

The June 2021 announcement of Hyatt Hotels Corp. acquisition of Ventana Big Sur, an Alila Resort in Big Sur, California for more than US\$2.5 million per unit represents a new high-water mark in the U.S.

During April 2021, Sunstone Hotel Investors (SHO) purchased the newly constructed 130-room Montage Healdsburg in California's Sonoma County for US\$265 million or US\$2.038 million per key. It is worth noting that upon stabilization, SHO expects to generate a 6% to 7% net operating income yield on total invested capital.

Additional record submarket per unit pricing has been established with the sales earlier this year (2021) of The Four Seasons Resort Orlando at Walt Disney World Resort in Orlando, Florida, and the Mountain Chalet Aspen in Aspen, Colorado, for US\$1.374 million per room and US\$1.079 million per key, respectively.

In 2006, the US\$2.263 million per key sale of The Four Seasons Resort Hualalai in Ka'upulehu-Kona, Hawaii, was the first single asset U.S. hotel trade greater US\$2 million dollars per key.

Between 2015 and 2019, three additional US\$2 million plus per unit sales of the Baccarat Hotel in New York; The Plaza in New York; and the Montage Beverly Hills, Beverly Hills, California, round out the six such trades ever to occur.



California, Hawaii, and New York are three states where single U.S. asset hotel sales greater than US\$2 million dollars per room have transpired.

With 14 hotel sales above US\$1 million dollars per unit, or 40% of the 35 analogous trades nationally, New York City is the dominant U.S. market where such transactions have occurred.

The recent sale of Ventana Big Sur for over US\$2.5 million per unit is roughly 85% greater than the US\$1.358 per room trade of the asset during 2015.

The US\$1.1 million dollar per room sale of the Mayflower Hotel in New York as a residential condominium development site during 2004 was the first U.S. hotel sale ever for greater than US\$1 million dollars per room.

The 2006 sale of the W Hotel Union Square for US\$1.056 per room was the first U.S. hotel sale ever, for continued use as a transient lodging facility.

The single largest hotel sale ever in the U.S. was the 2014 US\$1.95 billion acquisition by China's Anbang Insurance Group of the Waldorf Astoria New York in New York.

During 2015, six U.S. hotels sold for greater than US\$1 million dollars per room, followed by 2017 when five trades greater than US\$1 million dollars per room occurred, and 2019 when four hotels sold for greater than US\$1 million dollars per room.

Six states, namely California, Colorado, Florida, Hawaii, Massachusetts and New York are where all U.S. hotel sales greater than US\$1 million per room have occurred.

The soon-to-be-opened 85-room Four Seasons Resort Napa Valley in Calistoga, California, is rumored to be a target acquisition for a handful of investors, with competing bids upwards of US\$170 million or US\$2 million per key. In February, real estate fund manager Alcion Ventures reportedly was selling the 85-room hotel with broker and investment bank Eastdil Secured marketing the property.

Twenty years ago, the notion of a U.S. hotel selling for more than US\$1 million dollars per key seemed inconceivable. However, during the 21st century, as many domestic and international institutional investors perceive the business of investing in luxury U.S. hotels to be exceedingly attractive, the price threshold of US\$1 million per room has been broken on dozens of occasions. Furthermore, during the past five years and irrespective of the recent pandemic, hotel trades of more than US\$2 million per room are a developing trend in the sector.

Continuously rising costs of construction material and labor costs are a significant factor placing upward pressure on the value of existing luxury U.S. hotels. Although distinctive hotels in the U.S. have and continue to become pricier on a per unit basis, values tend to be less than iconic hotels in Europe and Asia. While investors have become comfortable with million dollar-plus per room valuation of select U.S. lodging facilities, it is important to recognize that hotel pricing is not determined on a unit basis, but rather predicated upon perceived durability of cash flow and resulting yield on equity.