

Q1 2018 US Lodging Market Update, Strong Fundamentals

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The US lodging industry continues to enjoy the benefits of strong economic fundamentals as metrics on spending, global trade, and various manufacturing indices signal that America's economy is poised for further growth. The US labor market continues to generate new jobs and further optimism is evident given the recently passed *Tax Cuts and Jobs Act*. US demand for leisure and business (transient, group meeting, and convention) travel accommodations has continued to rise with growth in demand outpacing supply through the first quarter of 2018. Demand for transient accommodations in several markets (such as Houston and South Florida) has been enhanced by continued natural disaster-induced demand and strong resort performance driven by in part by closures and devastation still evident in the Caribbean.

The LW Hospitality Advisors (LWHA) Q1 2018 Major U.S. Hotel Sales Survey includes 57 single asset sale transactions over \$10 million, none of which are part of a portfolio. These transactions totaled roughly \$4.3 billion and included approximately 13,100 hotel rooms with an average sale price per room of \$332,000. While the data speaks for itself, I feel it is important to note that the numbers are skewed by inclusion of the \$1.3 billion trade (\$4.3 million per room) of the Sands Casino Bethlehem, and the \$95 million sale (\$2.375 per room) of the Soho House Chicago. Net of the two trades (which include substantial revenue from non-rooms related sources) results in total Q1 2018 U.S. transaction volume of roughly \$2.9 billion and approximately 12,700 hotel rooms with an average sale price per room of \$231,000. By comparison, the LWHA Q1 2017 Major U.S. Hotel Sales Survey identified 54 transactions totaling roughly \$3.6 billion including 13,200 hotel rooms with an average sale price per room of nearly \$273,000. Eleven major Q1 2018 hotel sales occurred in Florida, followed by 7 in California, and 5 each in Maryland and New York.

Record low interest rates, though climbing recently, have continued to fuel a search for yield that is drawing capital into commercial real estate, particularly hotels, from other asset classes and global investor capital inflow to the U.S. However, there has been a dearth of new product for sale as vigorous debt markets offering stretch pricing and covenant light structures, provide existing sponsors refinancing opportunities and little motivation to transact a change of ownership. As interest rates increase, refinancing options become less attractive and current owners may seek to take advantage of current pricing to recycle assets.

During the past eight years, the relationship of U.S. hotel supply and demand has been favorable, though of late, the gap between demand and supply growth has narrowed considerably and while occupancy growth has slowed, higher average daily rates are anticipated to keep driving revenue per available room. Rising development costs coupled with constrained development financing and potential negative trade/tariff implications will raise the feasibility threshold for new hotel development.

Sector challenges include an acute amount of uncertainty, both international and domestic, which may exert negative pressure on the performance of the U.S. lodging industry. Moreover, negative sentiment related to traveling to and from the United States given the Trump administration's stringent policies on immigration and tourism visas is detrimental to the sector. While an anticipated weakening of the U.S. dollar may lift inbound international travel, it would then have a negative impact on domestic consumer spending, forcing consumers to shift discretionary spending away from the lodging sector. Additionally, higher operating costs including labor and property taxes along with pockets of geopolitical instability and economic slowdown are likely to pose headwinds.

Finally, several notable U.S. portfolio mergers and acquisitions facilitated by sophisticated, experienced, long term hotel centric investors bodes well for the sector. Examples include:

- Host Hotels & Resorts \$1 billion (\$703,000 per room) contract to purchase three significant Hyatt hotels, including: the 301 room Andaz Maui, the 668 room Grand Hyatt San Francisco, and the 454 room Hyatt Regency Coconut Point;
- Brookfield Asset Management \$767.7 million acquisition of 107 WoodSpring Suites (former Value Place) properties;
- Choice Hotels International \$231 million acquisition of the WoodSpring Suites brand and franchise business;
- Wyndham Hotel Group's recent \$170 million acquisition of AmericInn and soon to be acquired La Quinta Inns & Suites franchise and management businesses for \$1.95 billion;
- RLH Corporation \$27 million agreement to acquire the Knights Inn brand from Wyndham Hotel Group;
- Intense interest from numerous public lodging REITS and private equity firms to acquire LaSalle Hotel Properties (LHO)

The views expressed in this column are the author's own and not that of ALM. Daniel Lesser is president and CEO of LW Hospitality Advisors LLC, based in New York City.

SELECT MAJOR U.S. HOTEL SALES SURVEY - Q1 2018

Q	PROPERTY	LOCATION		NO. OF ROOMS	ESTIMATED SALES PRICE	ESTIMATED PRICE/ROOM	BUYER	SELLER
Q1	Kimpton Hotel Palomar	Phoenix	AZ	242	\$80,000,000	\$330,579	DiamondRock Hospitality Company	N/A
Q1	Portofino Inn & Suites	Anaheim	CA	190	\$26,000,000	\$136,842	N/A	N/A
Q1	Wyndham Anaheim Garden Grove	Garden Grove	CA	376	\$61,000,000	\$162,234	Khanna Enterprises	Pacific Hospitality Group
Q1	Laguna Riviera Beach Resort	Laguna Beach	CA	41	\$21,000,000	\$512,195	Ferrado Laguna LLC	Laguna Riviera Inc.
Q1	Residence Inn by Marriott Sacramento Airport Natomas	Sacramento	CA	126	\$23,500,000	\$186,508	Welcome Group Inc.	N/A
Q1	Fairmont San Jose	San Jose	CA	805	\$223,500,000	\$277,640	SJ SC Holdings	Light Tower Associates
Q1	Embassy Suites by Hilton San Rafael Marin County	San Rafael	CA	230	\$37,900,000	\$164,783	Hotel McInnis Marin LLC	Marin Hotel Owner LLC
Q1	The Landing Resort & Spa	South Lake Tahoe	CA	77	\$42,000,000	\$545,455	DiamondRock Hospitality Company	N/A
Q1	Best Western Plus Plaza	Longmont	CO	210	\$11,500,000	\$54,762	Shamin Hotels	N/A
Q1	Beacon Hotel	Washington	DC	199	\$59,700,000	\$300,000	JV Rockpoint Group and Three Wall Capital	Capital Hotels
Q1	Renaissance Dupont Circle Hotel	Washington	DC	355	\$80,800,000	\$227,606	Thayer Lodging	Carey Value Added S.I.
Q1	Boca Raton Marriott at Boca Center	Boca Raton	FL	256	\$69,300,000	\$270,703	AVR Realty Co.	Carey Watermark Investors
Q1	Hampton Inn & Suites Destin	Destin	FL	130	\$31,500,000	\$242,308	Key International	McNeill Hotel Co.
Q1	Sheraton Suites Fort Lauderdale at Cypress Creek	Fort Lauderdale	FL	253	\$18,250,000	\$72,134	Equity Management Partners	Platinum Equity
Q1	Universal Palms Hotel	Fort Lauderdale	FL	195	\$13,000,000	\$66,667	4900 Powerline LLC	Universal Hotel Inc.

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Q1	Hampton Inn & Suites Fort Myers-Colonial Blvd.	Fort Myers	FL	102	\$13,900,000	\$136,275	HRC Hotels LLC	N/A
Q1	Aloft Jacksonville Airport	Jacksonville	FL	136	\$13,500,000	\$99,265	Gehr Hospitality	Peachtree Hotel Group.
Q1	The Hall South Beach	Miami Beach	FL	163	\$58,200,000	\$357,055	Grup Peralada	Rockwood Capital
Q1	Sheraton Suites Fort Lauderdale Plantation	Plantation	FL	263	\$24,660,000	\$93,764	Everwood Hospitality Partners,	Fillmore Capital Partners
Q1	Ritz-Carlton Sarasota	Sarasota	FL	266	\$171,000,000	\$642,857	Ashford Hospitality Prime	N/A
Q1	DoubleTree Suites by Hilton Hotel Tampa Bay	Tampa	FL	203	\$34,000,000	\$167,488	Rocky Point Hospitality LLC	Tampa Falcon LLC
Q1	Holiday Inn Express & Suites Trinity	Trinity	FL	87	\$12,200,000	\$140,230	Trinity 123 LLC	MPH Hotels
Q1	Aston Waikiki Beach Hotel	Honolulu	HI	645	\$200,000,000	\$310,078	N/A	Xenia Hotels & Resorts, Inc.
Q1	Soho House Chicago	Chicago	IL	40	\$95,000,000	\$2,375,000	JV Shapack Partners & AJ Capital	Sino-Ocean Land
Q1	Chicago Marriott Schaumburg	Schaumburg	IL	398	\$35,500,000	\$89,196	JV Arbor Lodging Partners & Middleton Partners	Investcorp US Real Estate.
Q1	Chandler Inn	Boston	MA	55	\$24,900,000	\$452,727	N/A	N/A
Q1	Harbor View Hotel	Edgartown	MA	130	\$30,000,000	\$230,769	Upland Capital Corporation	Scout Harbor View Property LLC
Q2	Annapolis Waterfront Hotel	Annapolis	MD	150	\$41,500,000	\$276,667	Hersha Hospitality Trust	Brookfield Thayer Lodging
Q1	Embassy Suites Baltimore Inner Harbor & The Grand	Baltimore	MD	300	\$37,960,000	\$126,533	N/A	JV Chartres Lodging Group LLC & Garrison Investment Group LP

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Q1	Holiday Inn Baltimore BWI Airport	Linthicum Heights	MD	137	\$15,800,000	\$115,328	N/A	N/A
Q1	Westin Baltimore Washington Airport - BWI	Linthicum Heights	MD	260	\$34,000,000	\$130,769	Frontier Development & Hospitality Group LLC	N/A
Q1	Westin Washington National Harbor	Oxon Hill	MD	195	\$55,500,000	\$284,615	Capstone Development LLC	SREE Hotels
Q1	DoubleTree by Hilton Hotel Minneapolis - University Area	Minneapolis	MN	141	\$38,300,000	\$271,631	AIG Global Real Estate Investment Corp.	JV Reuter Walton Companies & CPM Cos.
Q1	Four Points by Sheraton Mall of America Minneapolis Airport	Richfield	MN	146	\$12,825,000	\$87,842	MOA Hospitality Group	N/A
Q1	Holiday Inn	Rochester	MN	173	\$18,200,000	\$105,202	EKN Development Group	N/A
Q1	Fairfield Inn & Suites by Marriott Greensboro Wendover	Greensboro	NC	98	\$11,500,000	\$117,347	WeCare Hotels	N/A
Q1	Hampton Inn & Suites Buffalo Airport	Buffalo	NY	109	\$12,150,000	\$111,468	Manga Hotels	Baywood Hotels
Q1	Hilton Garden Inn Long Island City Queensboro Bridge	Long Island City	NY	183	\$60,000,000	\$327,869	Lightstone Group	JV Sagamore Capital & Ranger Properties
Q1	Comfort Inn Midtown West	New York	NY	89	\$29,200,000	\$328,090	McSam Hotel Group	M&R Hotel Management
Q1	Hampton Inn Manhattan-Seaport-Financial District	New York	NY	81	\$32,400,000	\$400,000	Shamin Hotels	Hersha Hospitality
Q1	W New York	New York	NY	697	\$190,000,000	\$272,597	JV Capstone Equities & Dune Real Estate Partners	Host Hotels & Resorts, Inc.
Q1	The Porter Portland	Portland	OR	294	\$149,000,000	\$506,803	Union Investment	N/A
Q1	Eagle Crest Resort	Redmond	OR	100	\$12,000,000	\$120,000	Eagle Crest Acquisition Group	JV Northview Hotel Group & Oaktree Capital LLC

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Q1	Sands Casino Resort Bethlehem	Bethlehem	PA	302	\$1,300,000,000	\$4,304,636	Wind Creek Hospitality	Las Vegas Sands Corp.
Q1	Sheraton Philadelphia Society Hill Hotel	Philadelphia	PA	364	\$95,500,000	\$262,363	Buccini/Pollin Group	RLJ Lodging Trust
Q1	Newport Marriott	Newport	RI	320	\$88,000,000	\$275,000	N/A	N/A
Q1	Hilton Memphis	Memphis	TN	405	\$31,000,000	\$76,543	Linchris Hotel Corp.	Davidson Hotels & Resorts
Q1	Homewood Suites by Hilton Nashville-Downtown	Nashville	TN	107	\$48,500,000	\$453,271	AVR Realty Co	Sun Development & Management Corporation
Q1	Park Tower Inn	Pigeon Forge	TN	154	\$10,000,000	\$64,935	N/A	N/A
Q1	TownePlace Suites Austin North/Tech Ridge	Austin	TX	122	\$19,750,000	\$161,885	Condor Hospitality Trust, Inc.	MB Hospitality (AUSN), LP
Q1	Residence Inn Alexandria Old Town/Duke Street	Alexandria	VA	240	\$72,000,000	\$300,000	AVR Acquisition Corp.	N/A
Q1	Hyatt Centric Arlington	Arlington	VA	318	\$79,700,000	\$250,629	Sotherly Hotels LP	N/A
Q1	Westin Tysons Corner	Falls Church	VA	407	\$62,000,000	\$152,334	JV Sefira Capital, Driftwood Acquisitions & Development & Merrimac Ventures	CWCapital
Q1	AC Hotel by Marriott Seattle Bellevue/Downtown	Bellevue	WA	234	\$87,000,000	\$371,795	Ishin Aju Hotel Bellevue LLC.	WPPI Bellevue AC, LLC
Q1	Red Lion Hotel Pasco ¹	Paco	WA	279	\$13,100,000	\$46,953	JV JODH's Development, LLC & RRR Investment, LLC	RL Pasco, LLC
Q1	Motif Seattle	Seattle	WA	319	\$145,000,000	\$454,545	N/A	Cornerstone Real Estate Advisers LLC
Q1	Courtyard Milwaukee Downtown	Milwaukee	WI	169	\$20,500,000	\$121,302	MCR Milwaukee LLC	Amoroso Companies

1) Sale included adjacent vacant lot

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