

News

Transaction pace picks up in Q1 2010

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REPORT FROM THE U.S.—Investor appetite will demand hotel sales in 2010 and 2011, according to two hotel brokers contacted by HotelNewsNow.com. New figures indicate that deals are getting done, despite market challenges.

[Jones Lang LaSalle Hotels](#) reported that US\$1 billion in hotel real estate has transacted in the Americas region during first quarter 2010, representing 29 percent of the its full-year forecast of US\$3.5 billion. JLLH tracks deals worth more than US\$10 million.

- Read [JLLH press release](#)



These numbers seem to confirm what brokers are experiencing.

“Without question we will see a robust 2010 relative to 2009 throughout the year,” said Kevin Mallory, senior managing director of [CBRE Hotels](#).

A new attitude came in January, said Mike Cahill, CEO and founder of [HREC](#).

“It was a fresh start for everyone ... and it’s now being realized in actual deals,” he said. “There will be a gradual uptick in 2010 and 2011 will be a strong transaction year.”

Appetite is high

Investor appetite is very high, Mallory said.

“New capital aimed at the lodging sector from new (real-estate investment trusts), add-on offerings at existing REITS, new sector funds, institutional allocations, family offices and private equity allocations points to heavy investor interest in the sector,” he said. “It is easy to count cumulative new equity formed for the sector in

excess of eight to 10 times last year’s gross transaction activity.”

High-quality, branded, and well-located hotel assets will increasingly garner the interest of international investors in 2010, the JLLH report said. The export of Asian capital, in particular, is expected to become more prevalent as investors seek to acquire assets at favorable prices.

“The limited stock of quality assets available for sale is creating a synthetic sellers’ market, whereby there is significant equity competing for property, which is resulting in assets trading at low cap rates, albeit at deep discounts to replacement cost,” said Arthur Adler, managing director and CEO-Americas for Jones Lang LaSalle Hotels, in a press release.

People need to do deals, Cahill said.

“They need to buy and sell stuff to turn a living,” he said. “2009 was a denial and shock year. Now people are accepting this is the way of the world.”

This inherent demand is helping the chain scale segments in different ways, Mallory said.

“The lower segments of the market continue to be robust as buyers induce full recourse debt,” he said. “Upper-segment activity is

concentrated in workouts as special servicers and balance sheet lenders work with existing borrowers. This will shift in the future as discussions mature and assets will either be worked-out or will be recapitalized outside of existing ownership.”

Regional trends

Atlas Hospitality Group’s 2010 forecast outlined a strong turnaround in California.

In 2010, Atlas expected dollar volume to double and sales activity to increase to between 150 to 175 transactions, following the 92 deals completed during the past year. More than half of those deals will be lender sales, according to the California Hotel Sales Survey Year-End 2009.

Indeed, there are quite a few distressed assets to be dealt with. The latest count is 1,505 hotel properties distressed in the U.S. worth US\$36.4 billion, according to Real Capital Analytics as of 29 March.

“Part of the problem on the West Coast is we’re just not seeing a lot of hotels on the market,” Cahill said. “There is a lot of demand.”

The Midwest and Southeast are showing the most activity, Cahill said.

The pace of hotel sales in Florida has been accelerating since the fourth quarter 2009, according to a study from HREC Investment Advisors. Since September there have been 21 transactions representing US\$173 million in volume. In the first three quarters of 2009 there were only 15 transactions representing US\$182 million.

Delinquencies in Florida with CMBS securitized debt have reached 17 percent, which represents a volume of some US\$1.4 billion in distressed hotel loans, the HREC report indicated. CMBS debt represents between a quarter and a third of all hotel financing in the state.



Kevin Mallory