

US CAPITAL TRENDS | HOTEL

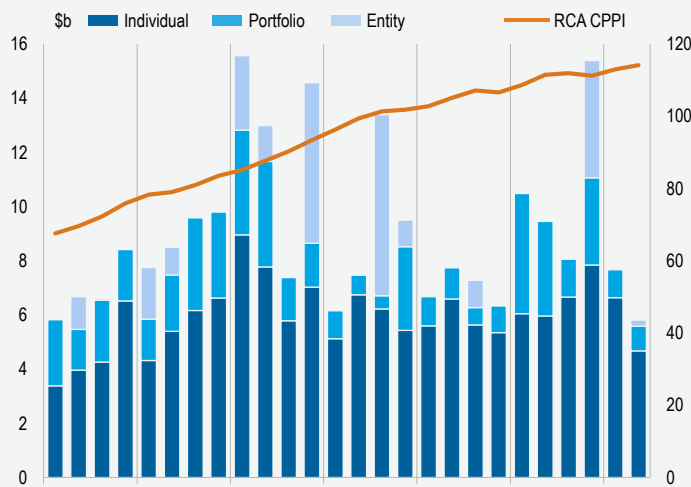
The hotel sector got off to a lackluster start in 2019 with deal volume falling in the first and the second quarters. There was a general pullback across geographies and hotel subtypes, though with no one single reason behind the downturn in activity.

\$5.8b Transaction volume

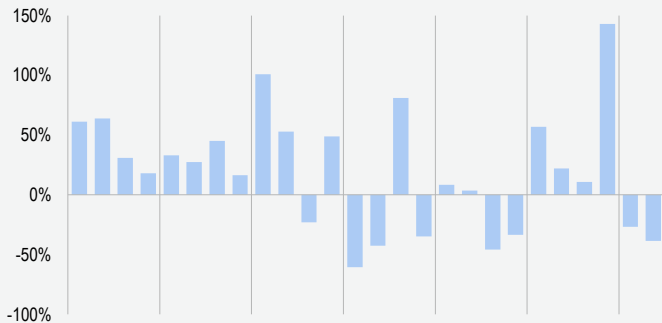
-38% YOY volume change

2.4% YOY price change

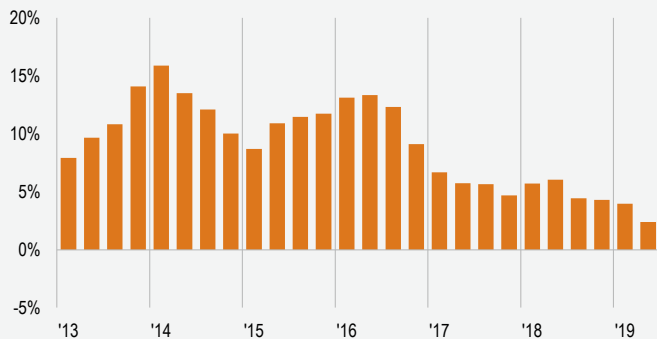
Quarterly Transaction Volume & Pricing



Change in Volume (YOY)



Change in Pricing (YOY)



Uncertainty from financial market turmoil clouded deal activity in the first half of 2019. A steadying of conditions allowed volume to rebound in Q2'19 for other property sectors but not the hotel market. Larger deals where financial engineering may drive a portion of the return were particularly challenged.

Transactions involving portfolio and entity-level sales in Q2'19 were down 67% YOY. In an average second quarter period from 2005 to 2018, such megadeal volume has averaged \$3.8b. The paucity of megadeals in the quarter then was 30% of what might be considered normal activity.

There was one notable entity-level transaction in Q2'19. Notable not so much for the deal volume, but for the buyer. The LVMH Group (which stands for Louis Vuitton Moët Hennessy) bought a global portfolio of hotels, two of which were in the U.S. This purchase is part of an expansion from luxury goods to other business lines catering to luxury consumption.

In other periods, double-digit declines in deal volume might be a sign of some big transaction a year earlier. For the hotel sector though, the double-digit declines are not some echo effect due to a lack of megadeals. The sale of individual assets fell as well – down 22% YOY in Q2'19.

Still, for single asset sales the \$4.7b level for deal activity is not bad. This figure is in line with the average for all second quarter periods from 2005 to 2018.

Hotel prices continued to climb in Q2'19, though barely. The RCA CPPI for the hotel sector was up 2.4% YOY for the quarter, down from the 6.1% YOY pace set a year earlier.

New from Real Capital Analytics: In this report we introduce the RCA Hedonic Series. This enhanced suite of cap rate and pricing metrics provides an alternative to the existing time series, with the goal of more accurately identifying underlying price signals.

Recent Trends

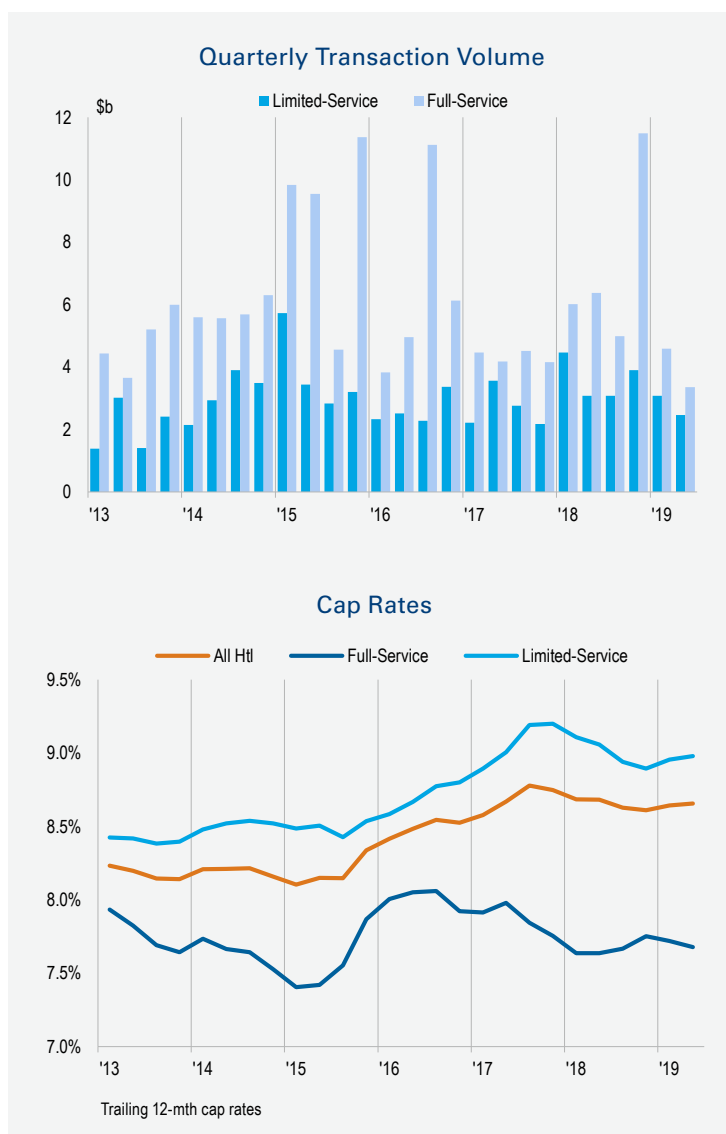
The sharpest declines in deal activity for the quarter were seen in the full-service hotel segments. Sale activity was down 47% YOY for this segment in Q2'19. Deal volume fell the most sharply for megadeals, down 77% YOY. Still, single asset sales acted as a drag on activity as well. This investment activity dropped 23% YOY.

Activity was little better in the limited-service sectors. The best that can be said is that declines were not as sharp as in the full-service sectors. Megadeal activity was down 23% YOY for limited service hotels while the sale of individual assets was down 19% YOY.

Across geographies, the deal activity was down more sharply in the Non-Major Metros. Investment activity in these areas was down 41% YOY on sales of \$4.5b. Even though assets in the 6 Major Metros are more expensive, deal activity did not fall as much in these locales. Investment volume in the major metros was down 29% YOY on sales of \$1.3b.

Hotel cap rates had surged ahead of other property sectors into 2017, posting expansion even as cap rates compressed elsewhere. That expansion of cap rates came about from fears of new construction coming to compete with existing assets. As those fears faded, cap rates compressed again but the pressure towards expansion is back.

The simple average of cap rates is up slightly from the end of 2018. Still, an influx of observations for pricier full-service hotels masks the actual trend.



	Q2'19 Volume				RCA CPPI		Price Averages		
	Q2'19 Volume	YOY Chg	#Props	YOY Chg	1-qtr Chg	1-yr Chg	\$/unit	Cap Rate	YOY Chg (bps)
Hotel	5.8	-38%	373	-23%	1.0%	2.4%	112,250	8.7%	-3
Full-Service	3.4	-47%	71	-35%	1.6%	5.8%	157,403	7.7%	4
Limited Service	2.5	-20%	302	-20%	0.2%	0.4%	79,623	9.0%	-8
6 Major Metro	1.3	-29%	56	-11%	5.3%	0.9%	136,775	7.9%	31
Non-Major Metro	4.5	-41%	317	-25%	-1.0%	1.9%	106,679	8.8%	-13

Trailing 12-mth cap rates

Identifying Underlying Cap Rate Signals

Interpreting trends in cap rates can often be more of an art than a science. Market participants will hear of a cap rate on an asset sale and then do the mental gymnastics to figure out what that pricing metric means for their asset, given the differences in asset quality. The team here at RCA is trying to make this interpretation more of a science.

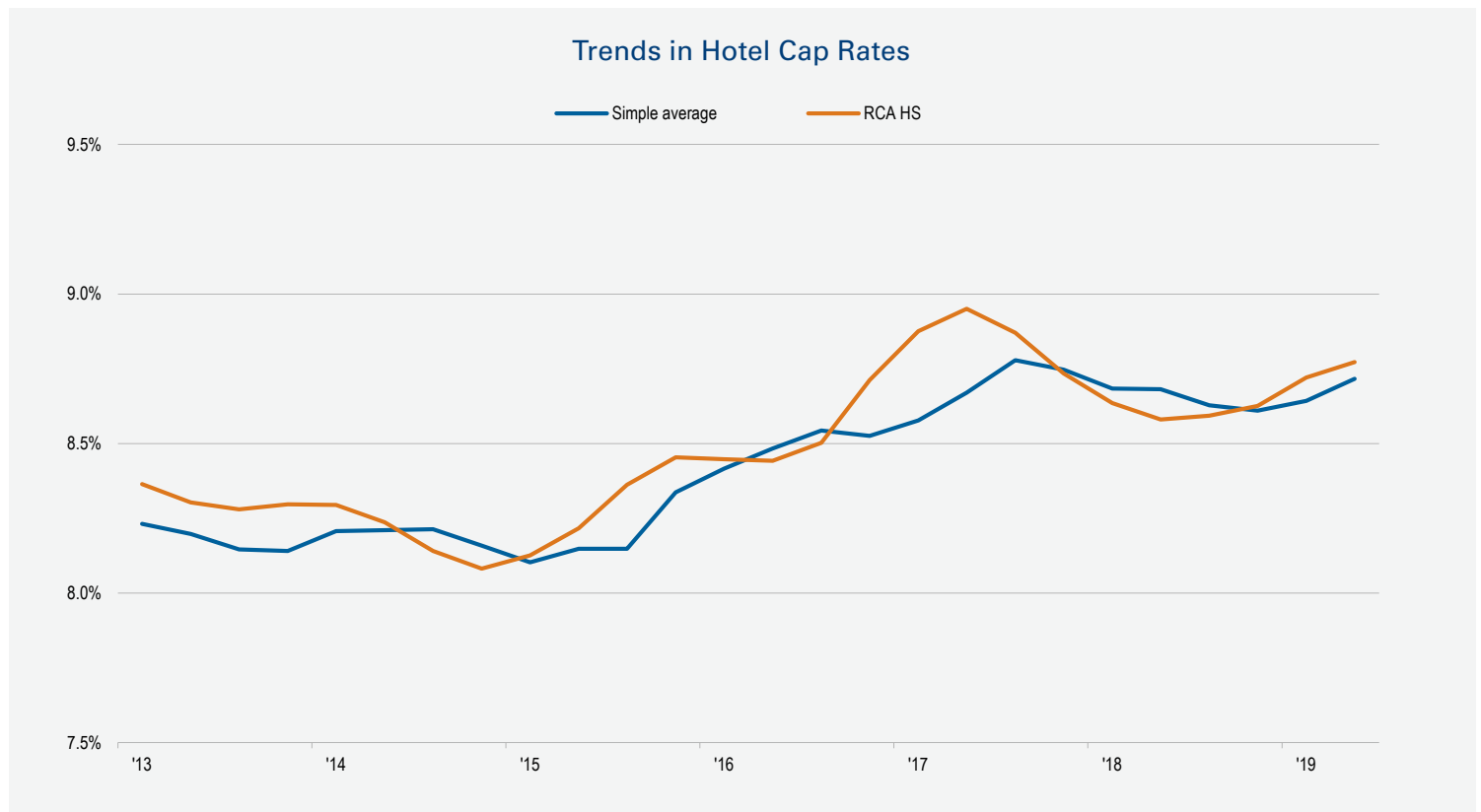
Leveraging advances in the data sciences world, Real Capital Analytics has built a cap rate series for the hotel sector that controls for differences in cap rates due to features such as subgeography, size, age and other quality components. A full description of the methodology behind this RCA Hedonic Series (RCA HS) cap rate measure is available here.

The key issue to note is that this measure is showing an expansion in hotel cap rates – an expansion that had started

earlier than previously available data would suggest. The compression in cap rates, which had happened after the fears around new construction went away, led to a low point for cap rates in Q2'18.

This RCA HS cap rate for the hotel sector hit a low of 8.6% and has expanded to 8.8% in Q2'19. The simple average of hotel cap rates hit a low point in Q4'18 as the series involved a 12-month trailing average to smooth out jumps due to changes in asset quality.

A 20 bp increase in hotel cap rates over the last year is not much of a change. Still, when combined with the slowdown in deal volume, it does suggest that some repricing is underway, with owners accepting a bit of a discount when they need to sell.



Top Markets

Palm Beach moved up to #2 in the rankings of top markets for the H1'19. The story behind this move is much the same story as some other big movers on the list. With overall deal volume down, one high priced hotel transaction can easily move a market in the rankings. For Palm Beach, the Waldorf Astoria Boca Raton sale drove the growth.

Miami moved to #3 in the rankings for the first half of 2019, up from the #34 position in 2018. The 1 Hotel South Beach sold for \$610m in February, a transaction which drove 71% of all deal volume in Miami for the year so far.

New Orleans moved up to #4 on the list from #42 in 2018. Here, the impact of one deal was more pronounced, with

the sale of the Hyatt Regency New Orleans accounting for 76% of all deal activity for the year so far.

Los Angeles posted a sharp decline in deal activity for the first half of 2019 and moved down from the #4 position in the rankings to #20. Normally deal activity in Los Angeles is much higher.

San Francisco also posted a decline in deal activity for the first half of 2019, down 70% YOY. This fall pushed the market down from the #2 position in 2018 to #7 for the first half of 2019.

Most Active Hotel Markets H1'19

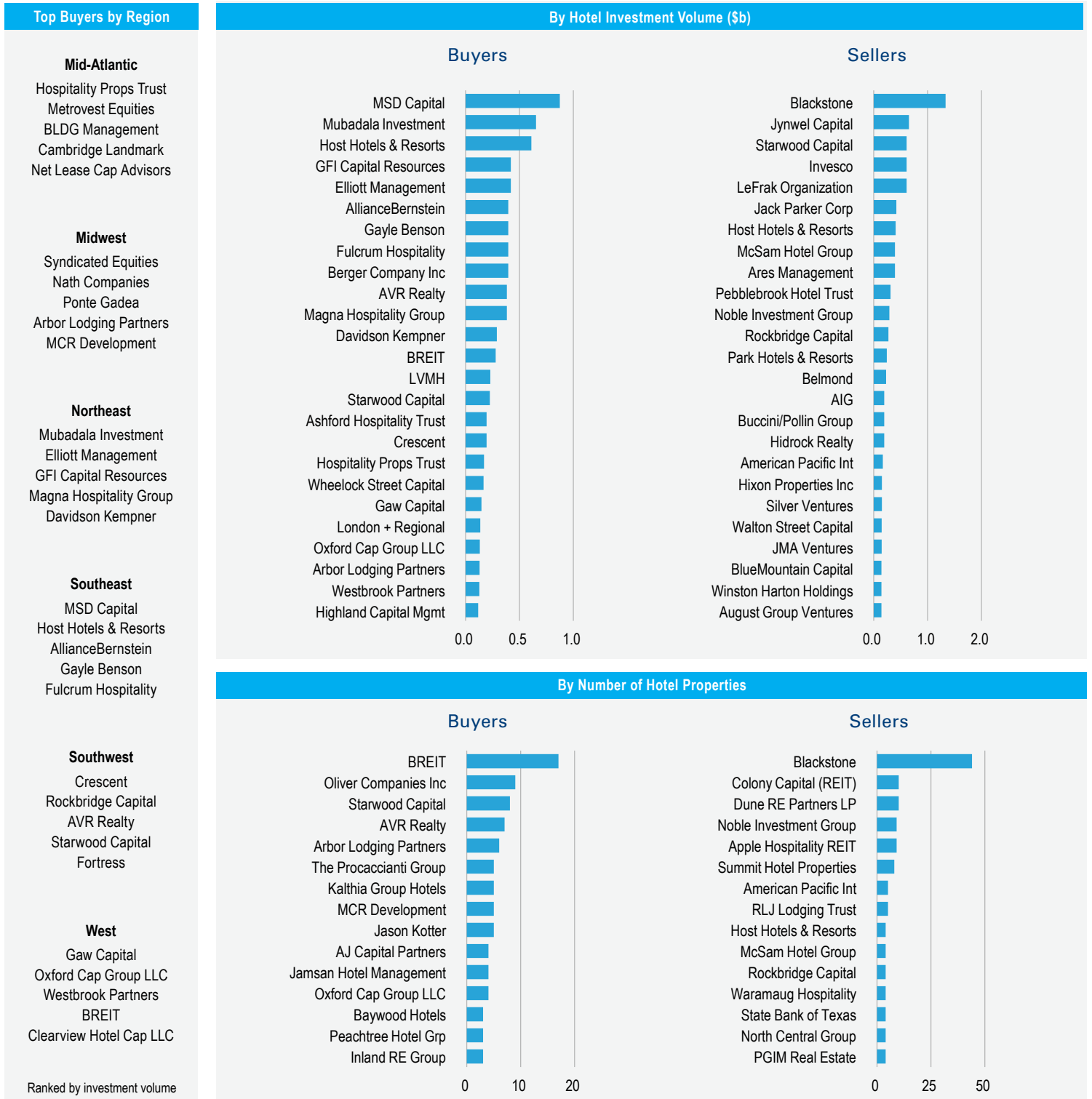
2014	2018	H1'19	Market	Sales Volume (\$m)	YOY
1	1	1	Manhattan	2,054	67%
36	24	2	Palm Beach Co	935	453%
5	34	3	Miami/Dade Co	857	722%
47	42	4	New Orleans	521	942%
13	11	5	Chicago	332	-11%
9	13	6	San Diego	312	279%
4	2	7	San Francisco	295	-70%
26	25	8	Nashville	273	38%
17	14	9	Tampa	263	43%
25	7	10	DC	252	-29%
32	16	11	San Antonio	228	234%
10	39	12	Orange Co	226	232%
24	9	13	Denver	223	-38%
21	28	14	No NJ	217	144%
19	20	15	Philadelphia	210	-43%
37	43	16	Minneapolis	187	15%
18	33	17	San Jose	185	-37%
8	10	18	Dallas	171	-67%
11	15	19	Atlanta	161	-59%
6	4	20	Los Angeles	161	-43%
3	18	21	Broward	156	-65%
14	5	22	Boston	156	-63%
68	49	23	Sacramento	154	24%
20	17	24	Seattle	140	-73%
61	44	25	Santa Barbara	139	778%

Markets in orange denote record high H1 volume in H1'19

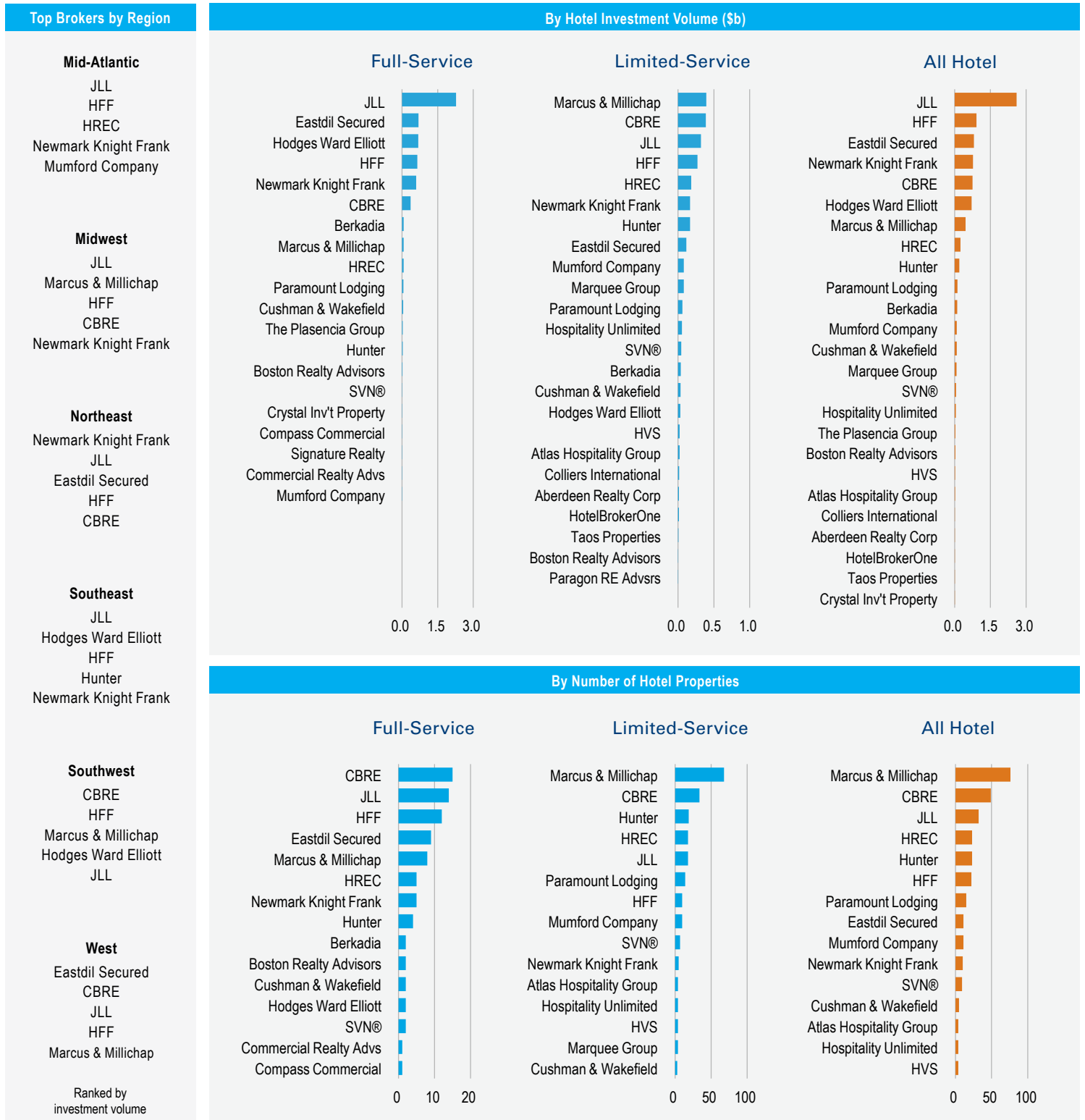
Market Table | All Hotel

All Hotel Transactions Reported Closed		Volume				Pricing					
H1'19		Vol (\$m)	YOY Change	# Props	YOY Change	Price Per Unit			Cap Rate		
						Low	Avg	High	Low	Avg	High
Mid-Atlantic	Baltimore	109.8	-39%	10	11%	34,023	88,321	152,011			
	DC	252.5	-29%	2	-60%	323,615	372,394	422,338	4.9%	5.4%	5.9%
	DC MD burbs	56.5	-31%	4	0%	71,186	92,727	100,621			
	DC VA burbs	118.6	-86%	10	-17%	29,891	80,042	137,363			
	Philadelphia	209.9	-43%	8	14%	48,571	88,080	115,833	7.5%	7.8%	8.1%
	Pittsburgh	27.3	-22%	5	67%	46,647	59,046	82,353			
	Richmond/Norfolk	47.9	-63%	5	-58%	25,424	46,047	80,097	6.4%	7.6%	8.7%
	Tertiary Mid-Atlantic	240.6	61%	35	35%	22,358	73,283	226,923	7.5%	9.5%	13.0%
	Total	1,063.1	-50%	79	1%	22,358	99,094	422,338	4.9%	8.5%	13.0%
Midwest	Chicago	332.3	-11%	24	26%	27,500	109,257	375,397	9.3%	9.6%	9.8%
	Cincinnati	36.7	-42%	3	-75%	78,395	99,762	114,078			
	Cleveland	50.7	13%	5	-17%	36,991	81,948	132,615			
	Columbus	19.8	-21%	3	-25%	47,619	57,531	73,370			
	Detroit	18.0	-58%	4	0%				7.0%	7.7%	8.4%
	Indianapolis	46.6	-80%	6	-65%						
	Kansas City	2.7	-97%	1	-92%						
	Minneapolis	187.4	15%	14	27%	47,273	110,179	198,063			
	St Louis	7.2	-95%	2	-85%				8.8%	9.6%	10.4%
Tertiary Midwest	414.9	-54%	76	-32%	16,071	59,985	156,250	8.7%	10.2%	11.5%	
Total	1,116.2	-47%	138	-34%	16,071	79,203	375,397	7.0%	9.7%	11.5%	
Northeast	Boston	155.6	-63%	8	0%	86,567	201,220	1,000,000	5.9%	7.0%	8.2%
	Hartford	7.4	-8%	2	0%	32,743	38,684	47,403			
	Long Island	26.8	-63%	2	-33%	58,929	94,943	118,670			
	Manhattan	2,053.8	67%	9	-10%	375,969	504,156	629,688			
	No NJ	217.4	144%	10	25%	41,481	143,144	237,226	5.3%	6.6%	7.9%
	NYC Boroughs	78.1	-11%	3	-25%	115,190	316,194	471,545	6.9%	7.0%	7.1%
	Stamford		-100%		-100%						
	Westchester	57.1	360%	2	0%	86,937	99,035	139,421			
	Tertiary Northeast	360.7	23%	46	92%	17,029	73,683	337,931	5.9%	9.2%	11.2%
Total	2,956.9	32%	82	32%	17,029	203,109	1,000,000	5.3%	7.9%	11.2%	
Southeast	Atlanta	160.9	-59%	10	-62%	46,479	125,387	200,397	7.2%	9.5%	11.0%
	Broward	156.3	-65%	8	0%	46,258	179,503	472,727	7.0%	7.5%	8.0%
	Charlotte	36.5	-61%	4	-60%	38,510	68,634	125,201			
	Jacksonville	27.5	-59%	4	-56%	26,471	45,082	114,423	7.9%	9.5%	11.2%
	Memphis	11.9	-92%	3	-70%	14,917	20,017	28,043			
	Miami	857.0	722%	11	83%	65,500	620,529	1,431,925	6.1%	6.8%	7.2%
	Nashville	273.4	38%	7	0%	28,750	278,658	584,112			
	Orlando	78.6	-75%	8	-58%	22,053	58,945	255,905	7.8%	9.3%	11.6%
	Palm Beach	934.6	453%	3	-40%	100,000	704,827	835,721			
	Raleigh/Durham	64.4	86%	6	20%	41,623	114,964	307,090	9.0%	9.3%	9.6%
	Tampa	262.9	43%	9	-10%	56,349	187,228	278,125			
	Tertiary Southeast	1,377.7	-19%	111	-39%	17,434	103,731	402,143	5.7%	9.3%	12.9%
	Total	4,241.6	10%	184	-38%	14,917	184,363	1,431,925	4.2%	8.9%	12.9%
Southwest	Austin	45.3	-86%	8	-60%	27,389	52,772	83,077	8.9%	9.1%	9.2%
	Dallas	170.6	-67%	19	-50%	41,117	76,711	103,571	7.5%	8.9%	12.4%
	Denver	222.7	-38%	13	-7%	53,279	174,943	603,896			
	Houston	127.6	-32%	17	21%	41,322	58,690	88,889			
	Phoenix	132.4	-88%	10	-63%	18,182	72,259	183,962	5.2%	6.5%	8.2%
	San Antonio	228.0	234%	10	67%	26,829	199,172	320,675			
	Tertiary Southwest	530.2	-46%	80	-16%	17,500	88,783	400,000	8.0%	9.4%	12.2%
	Total	1,456.7	-59%	157	-27%	17,500	106,446	603,896	5.0%	8.9%	12.4%
West	East Bay	115.4	83%	4	33%	68,966	212,961	378,571	5.9%	7.8%	9.4%
	Inland Empire	76.4	-74%	10	0%	45,946	72,329	241,071			
	Las Vegas	66.3	-71%	4	-20%	92,342	120,917	168,010			
	Los Angeles	160.8	-43%	14	27%	46,882	129,505	462,000			
	Orange Co	226.3	232%	7	17%	92,958	227,679	342,056	7.2%	7.8%	8.3%
	Portland	101.6	-60%	4	-33%	66,667	185,153	241,219			
	Sacramento	153.9	24%	5	-38%	68,966	229,376	607,647			
	Salt Lake City	43.2	-41%	3	-57%						
	San Diego	312.4	279%	9	29%	75,595	228,660	350,835	6.4%	7.8%	9.2%
	San Francisco	295.1	-70%	6	-54%	242,052	470,609	816,774			
	San Jose	185.4	-37%	3	0%	129,860	311,580	469,048			
	Seattle	139.7	-73%	8	-58%	79,412	144,885	241,745			
	Tertiary West	780.0	-71%	67	-29%	24,309	138,182	406,250	6.0%	7.8%	9.4%
Total	2,656.5	-55%	144	-25%	24,309	179,863	816,774	5.9%	8.1%	11.4%	
Total	Total US	13,490.9	-32%	784	-27%	14,917	149,766	1,431,925	4.2%	8.8%	13.0%

Top Buyers and Sellers | H1'19



Top Brokers | H1'19



Methodology: Full credit assigned to each broker when multiple brokers involved. For partial-interest, volume is based on the pro-rated share of the total property or portfolio value. Based on sell-side representation. The transaction volume of brokerage firms that have merged are left unconsolidated before the merger date and are attributed to the surviving or newly formed company after the merger date. For more information please visit the RCA website.

Top Deals | H1'19

Property Sales

Property	Location	Size	Type	Volume (\$m) ^Δ	\$/unit	Buyer	Seller
1 Waldorf Astoria Boca Raton	Boca Raton, FL	1,047 units	HTL	875.0	835,721	MSD Capital	Blackstone
2 Park Lane Hotel	New York, NY	631 units	HTL	- *	-	Mubadala Investment	Jynwel Capital
3 1 Hotel South Beach	Miami Beach, FL	426 units	HTL	610.0	1,431,925	Host Hotels & Resorts	Starwood Cap JV LeFrak Organization
4 Le Parker Meridien New York	New York, NY	729 units	HTL	420.0	576,132	GFI Capital Resources JV Elliott Mgmt	Jack Parker Corp
5 Hyatt Regency New Orleans	New Orleans, LA	1,193 units	HTL	395.0	331,098	AllianceBernstein JV Berger Co Inc	Ares Management
6 Westin NYC Grand Central	New York, NY	774 units	HTL	291.0	375,969	Davidson Kempner	Host Hotels & Resorts
7 Embassy Suites Hotel	New York, NY	310 units	HTL	195.0	629,032	Ashford Hospitality Trust	Hidrock Realty JV Buccini/Pollin Group
8 Westin Riverwalk Hotel	San Antonio, TX	474 units	HTL	-	-	Crescent	Silver Ventures JV Hixon Properties Inc
9 Hyatt Regency La Jolla	San Diego, CA	419 units	HTL	147.0	350,835	Gaw Capital	Walton Street Capital JV JMA Ventures
10 Kimpton Hotel Palomar	Washington, DC	335 units	HTL	141.5	422,338	Hospitality Props Trust	Pebblebrook Hotel Trust
11 Loews Regency	San Francisco, CA	155 units	HTL	126.6	816,774	Westbrook Partners	Loews Hotels
12 Hilton Garden Inn	Nashville, TN	214 units	HTL	125.0	584,112	AVR Realty	Rockbridge Capital
13 Holiday Inn Express	Nashville, TN	287 units	HTL	117.5	409,408	Highland Capital Mgmt	Birchmont Cap Advisors
14 Hilton Tampa Downtown	Tampa, FL	521 units	HTL	117.1	224,760	Walton Street Capital	CrossHarbor Capital
15 YotelPad Capitol Hill	Washington, DC	343 units	HTL	111.0	323,615	BLDG Mgmt JV Metrovest Equities	Pebblebrook Hotel Trust
16 Hyatt Place	New York, NY	510 units	HTL	108.0	211,704	Magna Hospitality Group	McSam Hotel Group
17 Courtyard Marriott	Kailua Kona, HI	452 units	HTL	105.6	233,600	BREIT	Invest West Financial JV Geyser Hldgs
18 Raleigh Hotel	Miami Beach, FL	105 units	HTL	103.0	980,952	SHVO JV Bilgili Holding	Hilfiger Hosp Group JV Dogus Hldg A S
19 AC by Marriott San Jose	San Jose, CA	210 units	HTL	98.5	469,048	AVR Realty	Rockbridge Capital JV TPG Capital
20 Embassy Suites	Tigard, OR	356 units	HTL	85.9	241,219	Aimbridge Hospitality JV Parkview Cap	August Grp Ventures JV Winston Harton
21 Marriott San Diego	San Diego, CA	353 units	HTL	85.7	242,776	Driftwood Hospitality	Wheelock Street Capital
22 Sheraton	Philadelphia, PA	757 units	HTL	82.3	108,653	Cambridge Landmark	Blackstone
23 Newport Beach Marriott	Newport Beach, CA	254 units	HTL	78.0	307,087	Clearview Hotel Cap LLC	Host Hotels & Resorts
24 Homewood Suites by Hilton	Anaheim, CA	214 units	HTL	73.2	342,056	Prospera Hotels	Nexus
25 Eurostars Magnificent Mile	Chicago, IL	216 units	HTL	72.5	335,648	Ponte Gadea	Neighborhood Dev

Portfolio Sales

Buyer	Seller	Location	# Props	Type	Volume (\$m) ^Δ
1 BREIT	RLJ Lodging Trust	Multiple, USA	-	HTL	-
2 Magna Hospitality Group	McSam Hotel Group	New York, NY	2	HTL	274.3
3 LVMH	Belmond	Worldwide	2	HTL	-
4 Starwood Capital	Noble Investment Group	Multiple, USA	8	HTL	226.0
5 Wheelock Street Capital	Park Hotels & Resorts	Multiple, USA	2	HTL	166.0
6 Oxford Cap Group LLC	American Pacific Int	San Francisco, CA	4	HTL	131.0
7 Arbor Lodging Partners	Summit Hotel Properties	Multiple, USA	6	HTL	129.8
8 Braemar Hotels & Resorts	Kennedy Wilson	Colfax-Monumental Ridge, CA	1	HTL	103.3
9 Oliver Companies Inc	Apple Hospitality REIT	Multiple, USA	9	HTL	95.0
10 Syndicated Equities JV Nath Companies	Dow Hotel Company JV PGIM Real Estate	Rosemont, IL	2	HTL	-

^Δ When prices are not known, estimated prices are used in the ranking but are not shown. Volume is adjusted pro-rata for partial interests although \$/unit reflects 100% valuation.

* Partial interest ** Forward sale

The number of buyers or sellers shown on a deal is truncated to two. For full deal and player information go to the RCA website.

Selected Recent Transactions



Hampton Inn, Hershey, PA



Newport Beach Marriott, Newport Beach, CA

Property Name Address Location	Units Year Built Notes	Price \$/Unit Qualifier	Owner/Buyer Seller Broker
Mid-Atlantic			
Hampton Inn 749 E Chocolate Ave Hershey, PA	110 1999 Limited-Service	\$15,784,865 \$143,499 approximate	O Innovative Hospitality from S Blackstone by ↔ HREC
Four Points by Sheraton 56 S Old Baltimore Pike Christiana, DE	120 2014 Limited-Service	\$13,900,000 \$115,833 approximate	O SSN Hotels from S Crown Bank by ↔ HREC
Midwest			
Residence Inn 200 Grand Ave Saint Paul, MN	100 2018 Limited-Service	\$12,751,200 \$127,512 confirmed	O Inland RE Group from S Kaeding Mgmt Group
Holiday Inn Express 9840 Norma Ln Woodbury, MN	102 2000 Limited-Service	\$9,350,000 \$91,667 confirmed	O Somitex LLC from S Harshal Patel
Southeast			
Hilton Atlanta Airport 1031 Virginia Ave Hapeville, GA	504 1989 Full-Service	\$101,000,000 \$200,397 confirmed	O Wheelock Street Capital from S Park Hotels & Resorts by ↔ JLL
Hampton Inn & Suites 15505 Front Beach Rd Panama City Beach, FL	182 2017 Limited-Service	\$41,090,000 \$225,769 approximate	O Wesley Spruill from S Innisfree Hotels by ↔ Hunter
Southwest			
TRU By Hilton 1950 S Santan Village Pkwy Gilbert, AZ	98 2019 Limited-Service	\$12,735,000 \$129,949 approximate	O Jason Kotter from S HCW Development
SpringHill Suites by Marriott 1470 Dry Creek Dr Longmont, CO	90 2005 Full-Service	\$10,200,000 \$113,333 approximate	O Blackstone from S RLJ Lodging Trust
West			
Newport Beach Marriott 500 Bayview Cir Newport Beach, CA	254 1988 Full-Service	\$78,000,000 \$307,087 confirmed	O Clearview Hotel Cap LLC from S Host Hotels & Resorts by ↔ Eastdil Secured
Courtyard By Marriott 3150 Garrity Way San Pablo, CA	149 1996 Limited-Service	\$31,895,000 \$214,060 confirmed	O Indep Htl Owners Assoc by ↔ Marquee Group from S Pacific Hotel Mgmt by ↔ Marquee Group

No notable recent Northeast hotel deals

Jim Costello, Senior Vice President [Contact](#)

Robert M. White, Jr., Founder & President

Alexis Maltin, Senior Manager, Analytics

Wyatt Avery, Senior Analyst

Willem Vlaming, Senior Analyst

Haley Crimmins, Senior Analyst

Michael Savino, Analyst

Shane Omundsen, Analyst

Aamash Haroon, Analyst

Matthew Benz, Analyst

About Real Capital Analytics

Real Capital Analytics (RCA) is the authority on the deals, the players and the trends that drive the commercial real estate investment markets. Covering all markets globally, RCA delivers timely and reliable data with unique insight into market participants, pricing and capital flows. The most active investors, lenders and advisors depend on RCA's market intelligence to formulate strategy and to source, underwrite and execute deals. An industry pioneer since 2000, RCA has offices in New York, San Jose, London and Singapore. For more information, visit: rcanalytics.com

About Capital Trends

Capital Trends reports analyze and interpret trends in the global real estate market using RCA's comprehensive data. US Capital Trends is a monthly edition comprising an overview of the U.S. market and separate reports on the five main property types. Asia Pacific, Europe and Global Capital Trends are published quarterly.

Methodology

Data based on properties and portfolios \$2.5m and greater unless otherwise stated. For RCA Hedonic Series methodology [click here](#).

For the most current data and even more options for analysis, visit: rcanalytics.com