

Q1'20

\$4.6b Transaction volume

-43% YOY volume change

The hotel sector is bearing the brunt of the economic crisis wrought by the new coronavirus. Deal activity is falling rapidly as building owners and potential buyers do not want to do deals when nobody is sure what happens next. The headline figures for the market make conditions actually look better than the reality.

The harsh truth about the hotel sector is that investment activity was spinning downward even before the economic crisis hit. Deal volume had fallen at double-digit rates each month starting in November 2019. The cumulative effect was to push deal volume for Q1'20 below the \$5b mark. The last time the market saw so little activity in a quarter was 2012 when the aftereffects of the Global Financial Crisis were still rippling through the market. Conditions in March suggest even harsher conditions ahead.

Transaction activity fell 56% YOY in March with volume less than \$1b. Again, 2012 was the last time that monthly volume was so low. Will it go even lower?

Given information flows, we will not have complete data on April until the third week of May, but so far we have records of only two hotel properties selling in April, with less than 200 rooms in total. The worst month historically for the hotel sector was April 2009 when only \$127m in properties traded hands.

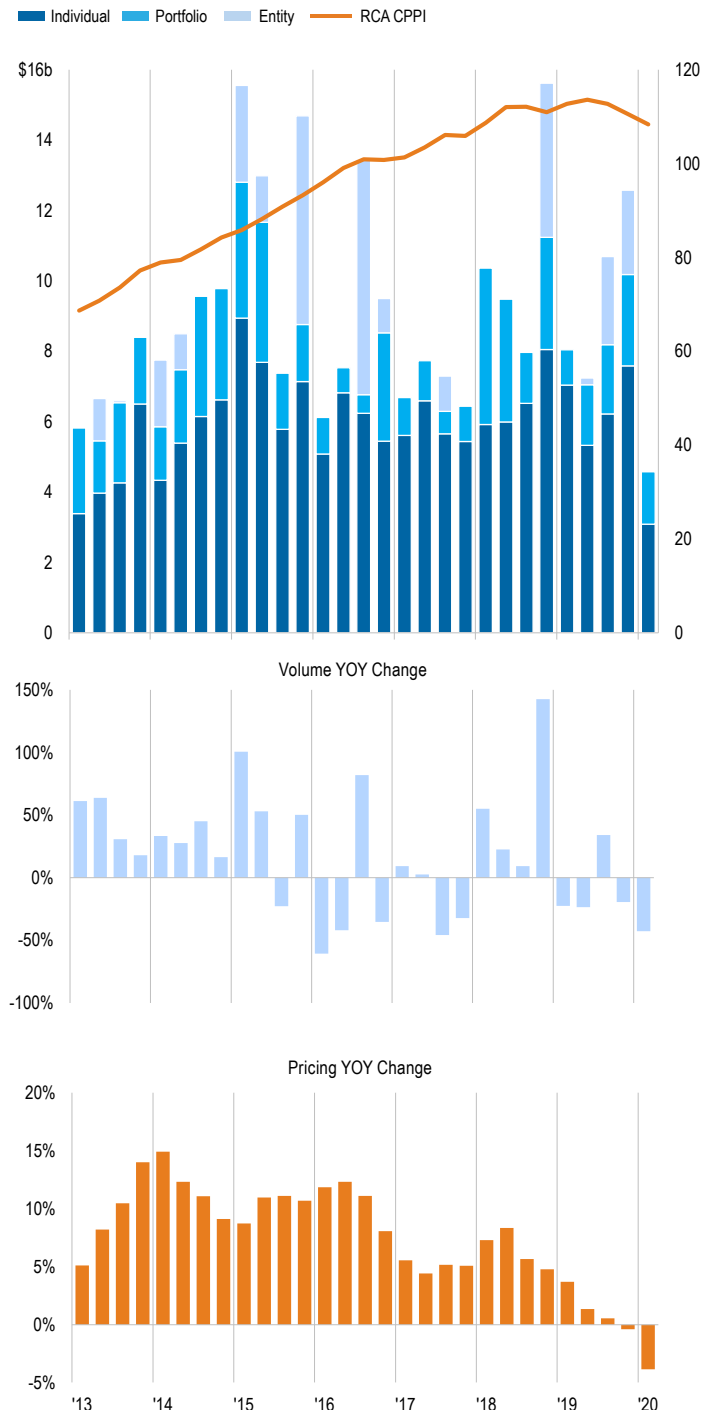
One bright note for the quarter was an increase in portfolio sales. Such deals were up 49% from a year earlier on sales of \$1.5b. Everything has a price though, and this one piece of good news shows that the bedrock of the market, individual asset sales, fared worse than the market totals. Individual asset sales fell at a 56% YOY pace for Q1'20 and at a 73% YOY pace for March.

Activity is not likely to pick up much because pricing has not fully adjusted to the current environment. The RCA CPPI for the hotel sector fell 3.9% from a year earlier in Q1'20. By comparison, the price component of the FTSE Nareit Equity Lodging/Resorts index fell 54% YOY in March. This comparison is not meant to imply that this fall in company prices is "right", but it does suggest that owners looking to sell assets will – if they can – wait until conditions improve. All signs point to a frozen hotel market.

In This Issue:

We address the COVID-19 crisis and discuss the outlook for cap rates and the impact on construction. The top brokers and transactions of the first quarter are ranked.

Quarterly Transaction Volume & Pricing



To read RCA analysis on the impact of the coronavirus on commercial property markets, go to [RCA Insights](#) and tag *Coronavirus*.

Recent Trends

The hotel sector is different from other property types in a number of ways, but one critical difference is that cap rates were already rising in the environment of falling interest rates. After hitting a low of 8.1% for this cycle in early 2015, hotel cap rates rose for two years and have bounced around between 8.6% and 8.8% since. Hotel cap rates averaged 8.7% in Q1'20.

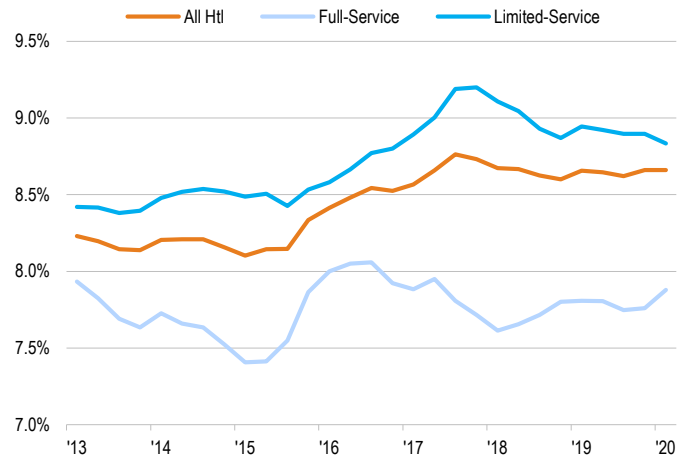
While cap rates were rising, the 10yr UST was generally falling and moved from an average 2% level in Q1'15 to 0.9% in Q1'20. The growing spread between hotel cap rates and the risk-free rate of the 10yr UST is indicative of an asset class where investors were already becoming less enthralled by the income potential for the assets.

By segment type, cap rates for full-service hotels averaged 7.9% in Q1'20 while those for limited-service hotels averaged 8.8%. In both cases, these levels are not the highs seen in this cycle. Limited-service cap rates peaked at 9.2% in 2017 while those for full-service properties peaked at 8.1% in 2016. Cap rate increases from the current levels would likely go higher than those previous peaks if the impact to hotel revenue from the economic crisis is long-lived.

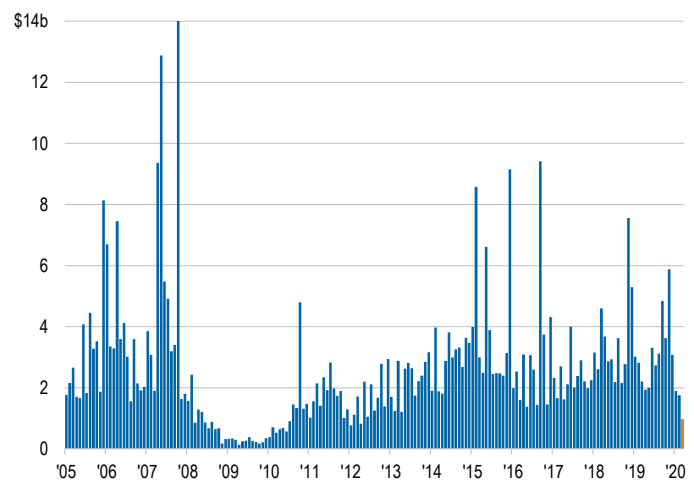
Cap rates and their spread to the 10yr UST move in response to a number of factors, but when income grows, that spread to the 10yr UST tends to narrow as investors get excited about the potential for additional income growth. With income for hotels hampered both in the short term from the stay-at-home orders and in the intermediate term from reduced consumer activity in the recession, momentum will be behind cap rate increases.

Deal activity has been falling faster in the 6 Major Metros than in the smaller markets of the U.S. This disparity is in part an issue about New York. Deal activity froze first in Manhattan early in 2020 in response to a high profile loan default for a hotel under development in Times Square. Investors were uncertain what the recent trends in new supply coming to the market and the disruptive influences of the likes of Airbnb would do hotel investments moving forward.

Cap Rates



Monthly Transaction Volume



October '07 deal volume \$29.5b

Hotel Deal Volume and Pricing Summary

	Q1'20 Volume		RCA CPPI				Price Averages		
	\$b	YOY Chg	#Props	YOY Chg	1-qtr Chg	1-yr Chg	\$/unit	Cap Rate	YOY Chg (bps)
Hotel	4.6	-43%	355	-17%	-2.0%	-3.9%	91,880	8.7%	0
Full-Service	2.2	-53%	58	-39%	0.2%	0.5%	104,926	7.9%	10
Limited Service	2.4	-28%	297	-11%	-2.6%	-5.1%	83,204	8.8%	-10
6 Major Metro	1.0	-70%	55	-29%	-2.9%	-5.8%	95,262	7.8%	-10
Non-Major Metro	3.6	-24%	300	-15%	-1.3%	-3.8%	90,821	8.8%	0

Price average is 4-qtr trailing

Construction Activity Heading Into a Downturn

Markets with high levels of construction moving into the economic downturn may face more distress situations and pricing challenges as the crisis ends. Being caught without a chair when the music stops is never fun.

Development is one of the most profitable forms of commercial real estate investment ... when everything works. Taking a piece of land not fully engaged in a local economy and putting in place the structures that allow a denser and higher value-added use of the land can generate tremendous return on investment. The timing, however, must be just right. If one is unlucky enough to bring an asset to market just as the economy retracts, it is much more painful than losing a game of musical chairs.

Honolulu leads the U.S. for hotel construction starts over the last 12 months. The value of hotel starts in Honolulu was just more than double the value of starts in the next largest market for construction starts, Los Angeles. The story in Honolulu,

however, is not about a large wave, so to speak, of products coming to market but of one big project. The Atlantis resort under construction in Ko Olina accounts for 60% of the value of hotel starts in Honolulu over the last 12 months.

In Los Angeles, by contrast, there were 10 projects kicked off in the last 12 months. Most of these projects have less than 200 rooms under development apiece but the Fig + Pico project by the Lightstone Group is slated to bring 1,153 rooms to the market in Q2'21.







Dallas is the market with the largest number of hotels started in the last 12 months. The 43 hotels started here tend to be smaller assets with fewer than 150 rooms. The largest under development has 600 rooms. This project is by American Airlines and just south of DFW, the major hub for this air carrier.

Top Markets for Hotel Construction Starts and Acquisition Activity

Market	# Projects	Starts Volume (\$m)	YOY	Market	Sales Volume (\$m)	YOY
Honolulu	3	2,412	15876%	Phoenix	1,616	-1%
Los Angeles	10	1,043	10%	Manhattan	1,565	-69%
Dallas	43	879	-21%	Orange Co	1,555	447%
Nashville	26	822	-52%	San Francisco	1,245	-4%
Atlanta	28	761	55%	Los Angeles	1,152	-31%
Orlando	15	748	-28%	Miami/Dade Co	1,137	12%
DC	11	742	378%	Palm Beach Co	1,125	330%
Miami/Dade Co	14	693	-48%	New Orleans	1,080	354%
Manhattan	6	681	-87%	Chicago	1,066	5%
Seattle	10	649	137%	Boston	1,051	-30%
Houston	26	631	26%	Dallas	990	10%
Memphis	8	530	253%	Seattle	988	129%
Charlotte	16	487	22%	Atlanta	984	76%
Boston	10	485	-65%	San Diego	774	-26%
NYC Boroughs	13	479	-57%	Denver	695	-38%
Phoenix	17	466	34%	Nashville	667	10%
Chicago	11	462	-32%	Tampa	613	-35%
Portland	11	446	63%	San Antonio	610	-18%
Salt Lake City	4	427	367%	DC	587	-60%
Austin	17	392	-40%	DC VA burbs	550	20%
San Diego	6	361	-85%	Houston	540	5%
San Jose	5	332	-30%	Portland	523	96%
Napa, CA	3	280	2%	Las Vegas	384	-36%
Jacksonville	16	256	5%	Minneapolis	337	31%
Broward	5	253	-45%	Cincinnati	336	132%

Past 12 months for starts and for acquisitions

Market Table *All Hotel*

All Hotel Transactions Reported Closed		Volume				Pricing			Cap Rate		
Q1'20		Vol (\$m)	YOY	# Props	YOY	Low	Avg	High	Low	Avg	High
Mid-Atlantic 	Baltimore	29.2	-61%	3	-40%	26,020	72,372	145,253			
	DC	349.7	39%	4	100%	165,152	461,379	533,333			
	DC MD burbs	31.7	55%	4	100%						
	DC VA burbs	20.6	-66%	2	-50%	27,792	71,476	102,679			
	Philadelphia		-100%		-100%						
	Pittsburgh	28.4	114%	5	150%	16,854	41,910	58,559			
	Richmond/Norfolk	28.8	-22%	4	33%	20,492	61,107	102,083	8.5%	9.5%	11.3%
	Tertiary Mid-Atlantic	104.5	-26%	11	-48%	33,505	87,995	387,821			
	Total	592.9	-21%	33	-21%	16,854	158,609	533,333	5.9%	9.7%	13.1%
	Midwest 	Chicago	63.3	-49%	15	15%	16,917	40,170	183,333	8.8%	9.8%
Cincinnati		41.4	35%	2	0%	41,284	42,485	52,650			
Cleveland			-100%		-100%						
Columbus		10.3	71%	2	100%	42,308	44,617	46,524			
Detroit		12.9	-28%	2	-50%	45,455	57,589	67,200	7.2%	7.7%	8.4%
Indianapolis		90.5	297%	5	0%	8,065	116,940	149,809			
Kansas City		29.1	205%	5	150%	38,318	50,136	56,343			
Minneapolis		35.8	-64%	6	-14%	39,130	58,925	78,788			
St Louis		6.2	77%	1	0%						
Tertiary Midwest		191.3	-9%	39	0%	20,161	45,426	195,699	9.1%	9.3%	9.6%
Total	480.8	-15%	77	0%	8,065	51,711	195,699	7.2%	8.7%	10.8%	
Northeast 	Boston	99.5	34%	5	0%	43,981	180,182	336,624			
	Hartford	43.1	1066%	2	100%						
	Long Island		-100%		-100%						
	Manhattan		-100%		-100%						
	No NJ	30.5	-77%	2	-75%	112,500	125,514	138,211			
	NYC Boroughs	10.0	-83%	1	0%						
	Stamford										
	Westchester		-100%		-100%						
	Tertiary Northeast	186.7	-8%	19	-27%	25,000	47,720	87,054			
	Total	369.9	-85%	29	-44%	25,000	97,521	336,624	4.4%	8.5%	12.7%
Southeast 	Atlanta	250.1	426%	11	83%	33,333	160,551	377,066			
	Broward	28.7	-65%	3	50%	150,000	196,575	262,500	6.0%	7.2%	8.4%
	Charlotte	5.8	-81%	1	-67%						
	Jacksonville	27.0	-2%	4	0%	23,333	53,453	112,782			
	Memphis	9.4	57%	1	0%						
	Miami/Dade Co	240.0	-69%	2	-67%	542,986	610,687	697,674			
	Nashville	128.0	-49%	4	0%	34,167	226,496	370,594			
	Orlando	116.2	148%	7	40%	19,461	71,128	123,810	7.6%	8.9%	10.2%
	Palm Beach Co	22.6		2		54,357	82,558	118,750			
	Raleigh/Durham	48.0	88%	4	33%	35,652	97,000	238,593			
	Tampa	17.0	-86%	2	-60%	63,492	115,646	154,762			
	Tertiary Southeast	506.4	17%	46	-21%	27,132	106,147	534,759	7.1%	8.5%	11.5%
	Total	1,399.2	-25%	87	-10%	19,461	134,037	697,674	6.0%	8.4%	11.5%
Southwest 	Austin	32.1	13%	4	0%	44,266	49,096	54,713			
	Dallas	123.0	74%	9	-18%	54,403	125,118	255,034			
	Denver	12.1	-92%	2	-71%	55,000	109,054	355,000			
	Houston	45.8	1%	9	50%	14,815	45,047	108,686			
	Phoenix	198.0	-48%	6	-14%	53,977	155,963	264,550			
	San Antonio	75.6	91%	8	60%	25,510	88,790	177,419			
	Tertiary Southwest	210.8	-32%	37	-18%	12,315	62,919	156,944	7.5%	9.4%	11.7%
	Total	697.4	-32%	75	-12%	12,315	83,085	355,000	7.5%	9.2%	11.7%
West 	East Bay		-100%		-100%						
	Inland Empire	70.5	100%	5	-29%	68,053	126,982	223,884	7.8%	8.1%	8.4%
	Las Vegas	314.8	588%	1	-67%						
	Los Angeles	108.5	-6%	8	0%	78,947	151,537	318,056			
	Orange Co	55.4	-20%	4	0%	68,471	91,989	163,366	9.5%	9.9%	10.3%
	Portland	12.0	-87%	2	0%	62,500	78,431	89,888			
	Sacramento	46.9	-67%	4	0%	80,822	135,913	178,168			
	Salt Lake City	36.8	75%	2	0%						
	San Diego	137.5	45%	5	150%	88,333	286,364	388,883			
	San Francisco		-100%		-100%						
	San Jose	126.6	-32%	2	-33%	281,250	328,701	333,003			
	Seattle	28.9	-78%	4	-33%	39,286	84,257	114,286			
	Tertiary West	134.2	-62%	17	-47%	22,599	87,746	695,000			
Total	1,072.0	-20%	54	-29%	22,599	142,805	695,000	7.8%	9.0%	10.3%	
Total	Total US	4,612.1	-43%	355	-17%	8,065	107,209	697,674	4.4%	8.8%	13.1%

Top Deals Q1'20

Property Sales

	Property	Location	Size	Type	Volume (\$m) ^Δ	\$/unit	Buyer	Seller
1	Shelborne South Beach	Miami Beach, FL	221 units	HTL	120.0	542,986	King St Cap Mgmt JV Cedar Cap Ptnrs	WP Carey REIT
2	Thompson Hotel	Washington, DC	225 units	HTL	120.0	533,333	Union Investment	Geolo Capital JV JW Capital
3	fmr Seagull Hotel	Miami Beach, FL	172 units	HTL	120.0	697,674	Blue Horizon Investors	OZ Holdings JV JHG Holdings
4	Hilton San Jose	San Jose, CA	353 units	HTL	117.6	333,003	GEM Realty	Han's Holdings Group
5	Zota Beach Resort	Longboat Key, FL	187 units	HTL	-	-	Ocean Properties Ltd	Rockwood Capital
6	Embassy Suites Georgetown	Washington, DC	197 units	HTL	90.4	458,756	EOS Investors	Park Hotels & Resorts
7	Hotel Palomar San Diego	San Diego, CA	211 units	HTL	82.1	388,883	Brookfield AM	KHP Cap Partners
8	Sheraton Indianapolis	Indianapolis, IN	524 units	HTL	78.5	149,809	Highline Hospitality Partners	Garrison Investment Group
9	Hotel Indigo Nashville	Nashville, TN	160 units	HTL	59.3	370,594	JMI Realty	Winston Hospitality OBO
10	Hyatt House	Nashville, TN	217 units	HTL	58.2	268,088	Noble Investment Group	Mountain Shore Props
11	Holiday Inn & Suites	Orlando, FL	390 units	HTL	46.2	118,462	Insite Group	AVR Realty
12	Residence Inn	Fort Worth, TX	149 units	HTL	-	-	LCRE Capital	Blackstone
13	Millennium Cincinnati	Cincinnati, OH	872 units	HTL	36.0	41,284	Port of Greater Cincinnati Dev Authority	CDL
14	Hammock Beach Resort	Flagler Beach, FL	333 units	HTL	-	-	K & P Partners	Lubert-Adler
15	AC Hotel By Marriott Raleigh	Raleigh, NC	135 units	HTL	32.2	238,593	ARA US Hospitality Trust	Concord Hospitality JV Kane Realty
16	Hilton Garden Inn Salt Lake	Salt Lake City, UT	172 units	HTL	-	-	Varick 1 LLC	White Lodging
17	SpringHill Suites by Marriott	Boise, ID	238 units	HTL	32.0	134,454	Buggsi Hosp Group et al	Apple Hospitality REIT
18	The Bellmoor Inn & Spa	Rehoboth Beach, DE	78 units	HTL	-	-	EOS Investors	Beacon Hospitality (DE)
19	The Castle	Orlando, FL	216 units	HTL	-	-	Waramaug Hospitality	LNR Property Corp
20	Holiday Inn Express & Suites	Atlanta, GA	173 units	HTL	24.4	140,751	Meltzer Properties	Jay Patel
21	Fairfield Inn & Suites	Savannah, GA	146 units	HTL	23.0	157,534	Encore Enterprises	North Point Hospitality
22	The Bristol Hotel	San Diego, CA	102 units	HTL	23.0	225,490	Kamla Hotels	OSM Investment
23	Days Inn By Wyndham	Los Angeles, CA	72 units	HTL	22.9	318,056	Shamina Investments	Shiau Trust
24	Red Lion Hotel Anaheim Resort	Anaheim, CA	314 units	HTL	21.5	68,471	J Street Hospitality	Red Lion Hotels
25	Hilton Phoenix/Mesa	Mesa, AZ	260 units	HTL	21.5	82,692	Linchris Hotel Corp	Quorum Hotels & Resorts JV SunAmerica

Portfolio Sales

	Buyer	Seller	Location	# Props	Type	Volume (\$m) ^Δ
1	Brookfield AM	Pebblebrook Hotel Trust	Multiple, USA	2	HTL	282.1
2	Arbor Lodging Partners JV GFH Financial Group	Blackstone	Multiple, USA	12	HTL	-
3	SW Value Partners	Rockpoint Group	Phoenix	3	HTL	162.0
4	Noble Investment Group	Blackstone	New Orleans, LA	3	HTL	112.5
5	EOS Investors	Kennebunkport Resort Collection	Portland, ME	9	HTL	-
6	Kamla Hotels	Troesh Family Foundation	Moreno Valley, CA	2	HTL	43.7
7	ARA US Hospitality Trust	Concord Hospitality	San Antonio, TX	2	HTL	-
8	Kamla Hotels	OSM Investment	Multiple, CA	2	HTL	35.0
9	Plamondon Companies	Springwood RE Services	Frederick, MD	2	HTL	-
10	Columbia Property Trust	Normandy RE Partners	Multiple, USA	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

Property Name Address Location	Units Year Built Notes	Price \$/Unit Qualifier	Owner/Buyer Seller Broker
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Mid-Atlantic

Residence Inn 315 Elden St Herndon, VA	168 1988 Limited-Service	\$17,250,000 \$102,679 confirmed	Stonebridge Companies JV The Pinkard Group by CBRE from LNR Partners
Motel 6 York North 125 Arsenal Rd York, PA	99 1982 Limited-Service	\$3,500,000 \$35,354 confirmed	Baywood Hotels from Blackstone by Hunter

Midwest

Crowne Plaza Madison 4402 E Washington Ave Madison, WI	226 1987 Full-Service	\$6,500,000 \$28,761 confirmed	North Central Group from Investcorp JV Interstate Hotels & Resorts by Hunter
La Quinta Inn & Suites 2801 Hillside Dr Delafield, WI	96 1997 Limited-Service	\$6,000,000 \$62,500 confirmed	Jagdishkumar M Patel from CorePoint Lodging by CBRE

Southeast

Hyatt House 525-533 5th Ave S Nashville, TN	217 2019 Full-Service	\$58,210,500 \$268,251 approximate	Noble Investment Group from Mountain Shore Props by Berkadia
Fairfield by Marriott 295 Hwy 74 N Peachtree City, GA	81 2016 Limited-Service	\$12,066,500 \$148,969 confirmed	Griffin Stafford Hospitality from Kasandas Properties by Hunter

Southwest

fmr America's Rehab Campus 6944 E Tanque Verde Rd Tucson, AZ	113 2001 Full-Service	\$16,750,000 \$148,230 approximate	STORE Capital (REIT) from America's Rehab Campuses
Papago Inn 7017 E McDowell Rd Scottsdale, AZ	58 1964 Full-Service	\$5,000,000 \$86,207 approximate	Jay Olson from Wirta Hospitality

West

Red Lion Hotel Anaheim Resort 1850 S Harbor Blvd Anaheim, CA	314 1968 Full-Service	\$21,500,000 \$68,471 confirmed	J Street Hospitality from Red Lion Hotels by CBRE
Holiday Inn Express 12960 Day St Moreno Valley, CA	104 2018 Limited-Service	\$18,575,000 \$178,606 confirmed	Kamla Hotels from Troesh Family Foundation by Berkadia

No notable recent deals seen for the Northeast.

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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](#).

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