



### TRANSACTION PRICES CONTINUE TO ACCELERATE AS CAP RATES ARE AT PRE-RECESSION LOWS

For the sixth consecutive quarter, year-over-year (YoY) selling prices have accelerated. There were 110 transactions across all chain scales that reported a selling price in Q1 2011. The overall average selling price was at a record high of \$125,946 per room. This is a 30% YoY increase from Q1 2010's \$97,084 per room and a 14% increase over the 2010 year-end total of \$110,827.

47% of the 110 transactions were in the top 25 markets, the highest percentage LE has ever recorded. 37% were in Upscale and higher chain scales. 21 hotels greater than 200 rooms, or 19% of the total, sold at a cyclical high average of \$181,680 per room.

For the 110 hotels that reported a selling price, a total of \$2,186M was invested in the industry. REITs accounted for 54% of that total or \$1,178M, while Privately Held Equity Funds were next at \$707M. Together, they accounted for a whopping 86% of the total \$2,186M invested. Equity Funds were the biggest sellers, followed by Privately Held Hotel Companies, with a combined \$1,636M or 75% of the total.

Competition in the top markets for large luxury and upscale hotels, both full and select service, is fierce. For institutional investors, the cost of debt is at a record low. REITs, in particular, have comparatively low yield requirements. Coupled with their ability to pay up front for some future performance, REITs have quickly pushed cap rates to pre-recession lows.

However, overall selling prices continue to be unnaturally inflated due to an abnormally small number of sales in the lower chain scales where operations have not as yet recovered sufficiently to be a driver of valuations and where Main Street financing is still restrained.

### IT'S AN OPPORTUNE TIME TO BE A BUYER - A GOOD TIME FOR SELLERS AS WELL

To date, the current lift in valuations can largely be attributed to lower cap rates derived from record low interest rates on debt and lower equity yield requirements. Nonetheless, from a buyer's perspective, we are at that singular time in every lodging cycle where attractively priced hotels with little downside risk are generally available, but where most of the lodging recovery and operating upside has yet to be realized. Making investments like this at the beginning of a new cycle is precisely the formula for the traditional 5-7 year institutional holding period.

Paradoxically, for current ownership groups, it can also be a great time to be a seller of larger, well-located hotels in the top markets, if their financial and/or lending situation permits. Chances are their hotel is only in the beginning stages of recovery and requires reinvestment dollars for renovation and/or market repositioning, which often necessitates a refinancing event that can be difficult to consummate. A sale today in a rather fluid market replete with qualified buyers is often the best strategy to sidestep complex ownership issues. For some owners, it can amount to a once-in-a-cycle opportunity that cannot be missed.

There is another reason why owners of larger, well-located properties might consider selling. If they continue to hold their assets, the hoped for future valuation lift, derived from improvements in operating performance, might be somewhat mitigated by higher cap rates caused by rising lending rates and equity yield requirements, as market conditions are expected to change further downstream. This could be particularly true for REITs, as shareholders will likely make demands to increase dividends in the future.

### CONTACT LODGING ECONOMETRICS (LE) ABOUT AN ONLINE, CUSTOMIZED TRANSACTIONS DATABASE

The global lodging industry and real estate investment community rely on LE as trusted advisors and as a source for the latest Transaction Intelligence necessary to construct successful acquisition and disposition strategies. The most current Transaction Activity that meets your like-kind hotel specifications can be identified and presented to you in a sortable Desktop Database and continue to be updated in real time for all:

- Ownership Groups that have like-kind assets that you may consider approaching for acquisition opportunities;
- Ownership Groups that are actively seeking properties like your own, should you be considering an asset disposition strategy;
- Sales Comps for the most recent Transactions that meet your specifications as to chain scale, property size and region of the country.

With your customized online Desktop Database, you will always be able to verify the most current prices being paid for like-kind assets. You will also have at your fingertips those Ownership Groups who are actively buying and selling real estate and know which to contact about potential interest in your acquisition/disposition strategies.

**For more information about LE's Transactions Database, please call us at: 1.603.431.8740 ext 25 or email us at [info@lodgingeconometrics.com](mailto:info@lodgingeconometrics.com).**

### Transactions - Average Selling Price Per Room

	2009	2010	Q111	Q110	VAR
Total Transactions & Transfers <sup>1</sup>	515	1,317	239	137	102
Less Other Transactions & Transfers <sup>2</sup>	94	825	129	50	79
<b>Transactions with a Reported Selling Price</b>	<b>421</b>	<b>492</b>	<b>110</b>	<b>87</b>	<b>23</b>
<b>Average Selling Price/Room</b>	<b>\$58,246</b>	<b>\$110,827</b>	<b>\$125,946</b>	<b>\$97,084</b>	<b>\$28,862</b>

(1) Includes all transactions and property transfers reported into the public domain.

(2) Includes transactions without a reported selling price and all M&A transfers.

### Lodging Industry Investment

Transactions with a Reported Selling Price

\$ 000,000s	As Buyers			As Sellers		
	2009	2010	Q111	2009	2010	Q111
<b>Privately Held Companies</b>						
Equity Funds <sup>2</sup>	638	1,683	707	235	1,223	945
Hotel Companies <sup>2</sup>	204	1,486	94	717	2,367	691
Individual Owners <sup>2</sup>	1,289	1,184	199	986	1,928	258
<b>Publicly Traded Companies</b>						
REITs <sup>1</sup>	198	2,808	1,178	335	640	56
Hotel Companies <sup>2</sup>	119	0	0	179	572	135
<b>Other Entities<sup>2</sup></b>	<b>213</b>	<b>433</b>	<b>8</b>	<b>209</b>	<b>864</b>	<b>101</b>
<b>Total Dollar Volume<sup>1</sup></b>	<b>2,661</b>	<b>7,594</b>	<b>2,186</b>	<b>2,661</b>	<b>7,594</b>	<b>2,186</b>

\*Excludes M&A (1) Net Buyers for Their Portfolios (2) Net Sellers for Their Portfolios

### Notable Transactions & Property Transfers

- A joint venture of **Paulson & Co., Winthrop Realty Trust and affiliates of Capital Trust Inc.** acquired eight world-class luxury resort properties from Morgan Stanley. The resorts were part of the earlier CNL portfolio purchased in 2007 by Morgan Stanley. Terms were not disclosed.
- A joint venture between **Ashford Hospitality Trust and Prudential Financial Inc.** purchased 28 luxury and upper upscale hotels (8,084 rooms), formerly known as the Highland Hospitality Portfolio, from an affiliate of the J.E. Robert Company, Inc. for \$1,300M.
- Summit Hotel Properties LLC sold a portfolio of 65 upscale and midscale hotels located in 19 states to their **newly formed REIT called Summit Hotel Properties Inc.** The original public offering was for 26 million shares at \$9.75 per share.
- In Q1, **seven hotels sold at a selling price greater than \$300,000 per room.** One of them was a midscale hotel, the 129-room Holiday Inn Express in New York City. At \$339,885 per room, it was the third highest selling price recorded in the quarter.