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THE WEEKLY UPDATE ON THE INSTITUTIONAL MARKETPLACE

RANKINGS

Hotel Sales Down 22% From Record Year; Eastdil Retains Crown

Large hotel sales dropped by 21.6% last year amid concerns about the economy and a maturing market, but industry pros see signs of a rebound.

A total of $21.7 billion of hotels traded last year, down from the all-time high of $27.7 billion in 2015, according to **Real Estate Alert's** Deal Database, which tracks transactions of $25 million and up. **Eastdil Secured** continued its reign as the most-active broker.

Despite the decline, it was still the second busiest year on record for hotel sales. The year's total was boosted by Anbang Insurance's $5.5 billion acquisition of most of the Strategic Hotels & Resorts portfolio from Blackstone in an off-market deal that accounted for 25% of all hotel sales. The volume figure for 2016 would have been substantially higher if it included Starwood Capital's sale of a stake in a $2 billion portfolio of select-service hotels to China Life and partners in an unbrokered deal. That transaction wasn't included because the price and the size of the stake haven't been disclosed.

The volume handled by brokers, meanwhile, plummeted by 43%. The five biggest brokers in the sector maintained their positions from the 2015 ranking, but market shares shifted as the top three all saw their sales drop by half or more.

Eastdil's sales were down 57%, to $4.3 billion. The perennial leader's market share declined to 30.9%, from 40.9% the previous year. JLL saw its volume plunge 51%, to $3.3 billion, pushing its market share down to 23.6% from 27.7%. Hodges Ward Elliott logged a 52% decline in sales to $2.1 billion, giving it 15.2% of the brokered business, down from 18.2%.

Fourth-place HFF's volume was also down, but only by 1.6%, so its market share rose to 9.1% from 5.3%. And CBRE bucked the trend with a 29% increase in sales, to $1.1 billion, good for an 8.3% share, up from 3.6%.

To be sure, it was unlikely that 2016 sales could match the previous year's record pace, which was fueled by multiple blockbuster sales, including Anbang's $2 billion acquisition of the Waldorf Astoria New York. "2015 was a year of record liquidity, the highest since 2007," said Arthur Adler, managing director and chief executive of the Americas at JLL. "History shows that a repeat of that level of transaction volume was unlikely."

But market pros also pointed to a dip in investor confidence that carried over from late 2015. Buyers were concerned about whether the market cycle was reaching its peak and about slowing growth in hotel revenue. "Investors buy hotels when they can underwrite improved performance through a combination of sound fundamentals and aggressive asset or property management," said **Lawrence Wolfe,** a senior managing director at Eastdil. "A year ago the risks of a recession were more pronounced, negatively impacting how investors underwrote investments."

Revenue per room increased 3.2% nationally last year, according to STR — down from 6.2% in 2015 and 8.2% in 2014. A projection by STR and Tourism Economics forecasts 2.5% growth this year and 2.6% in 2018.

The slowdown in growth factored into potential buyers' calculations, driving valuations down to the point that sellers were less willing to transact. That stifled activity, particularly in major markets where prices had risen rapidly in prior years — such as New York, where sales fell 42% last year to $3.8 billion from 2015's astronomical $6.6 billion.

Meanwhile, lending tightened up in the first half amid volatility in financial markets. Hotel REITs, hit by falling stock prices, curtailed buying. And sales of large select-service hotel portfolios — a big driver of volume in the previous couple of years — slowed dramatically because some of the biggest buyers were "full up digesting those acquisitions and were no longer seeking similar portfolios," noted Adler of JLL.

But investors and brokers alike say a shift toward greater confidence began in the second half and accelerated following the election of President Donald Trump and the subsequent stock market rally. The perception is that a less-regulated business environment, tax cuts and increases in infrastructure spending could all boost the economy, and the hotel industry.

"Regardless of anyone's political views, it seems clear that there is some optimism around the potential new policies that could lead to more volume," said Eric Hassberger, chief operating officer at AJ Capital in Chicago.

"There's a much better outlook on the economy," said Monty Bennett, founder and chairman of Ashford Group, which includes publicly traded REITs. "Increased business confidence

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would boost travel and group bookings and give revenues a lift," he said.

Other positive signs: REITs began to step up acquisitions again in the second half, a trend that's expected to continue this year and help widen the buyer pool. And lending conditions for hotels became more favorable again.

In addition, it appears that buyers and sellers have come closer on valuations. "Owners have a full understanding where pricing is, and there will be more liquidity and more capital in the market, resulting in an increased flow of assets coming to market and strong transaction activity," Adler said.

That sets the tone for volume this year to match or slightly exceed 2016's total. "Entering this year, the outlook is more upbeat, and we expect positive capital flows into lodging from both domestic and international sources," Wolfe of Eastdil said.

The rankings are based on hotel transactions that closed last year and involved full or partial stakes valued at $25 million or more. When multiple brokers shared a listing, the dollar credit was divided evenly, but each broker was credited with one transaction. Only brokers for sellers were given credit. Portfolio transactions were included if the overall price was at least $200 million or if at least one hotel in the portfolio had a value of at least $25 million. ❖

Top Brokers of Hotels in 2016

Brokers representing sellers in deals of at least $25 million

		2016 Amount ($Mil.)	No. of Hotels	Market Share (%)	2015 Amount ($Mil.)	No. of Hotels	Market Share (%)	'15-'16 % Chg.
1	Eastdil Secured	$4,277.5	42	30.9	$9,940.9	145	40.9	-57.0
2	JLL	3,273.1	43	23.6	6,736.1	205	27.7	-51.4
3	Hodges Ward Elliott	2,113.4	27	15.2	4,417.0	57	18.2	-52.2
4	HFF	1,258.5	25	9.1	1,279.4	25	5.3	-1.6
5	CBRE	1,146.3	19	8.3	884.4	19	3.6	29.6
6	Cushman & Wakefield*	698.6	14	5.0	44.0	1	0.2	1,487.7
	Cushman & Wakefield (pre-merger)			0.0	28.0	1	0.1	
7	RobertDouglas	496.3	7	3.6	53.3	1	0.2	831.1
8	Savills Studley	134.8	3	1.0	57.0	1	0.2	136.5
9	HREC Investment	98.6	2	0.7	58.0	2	0.2	70.0
10	Plasencia Group	80.5	1	0.6	110.0	3	0.5	-26.8
11	Mahoney Commercial	80.0	1	0.6	0.0	0	0.0	
12	Marcus & Millichap	58.2	1	0.4	0.0	0	0.0	
13	Hunter Hotel Advisors	50.8	2	0.4	270.4	17	1.1	-81.2
14	Colliers International	38.5	1	0.3	60.2	2	0.2	-36.0
15	Paramount Lodging	33.5	1	0.2	70.0	1	0.3	-52.1
16	Newmark Grubb	25.6	1	0.2	66.4	2	0.3	-61.4
	OTHERS	0.0	0	0.0	249.9	6	1.0	
	Brokered Total	**13,864.1**	**183**	**100.0**	**24,325.0**	**484**	**100.0**	**-43.0**
	No Broker	7,825.8	45		3,335.9	34		134.6
	TOTAL	**21,689.9**	**228**		**27,660.9**	**518**		**-21.6**

* DTZ acquired Cushman and assumed its name on Sept. 1, 2015. The $44 million figure for 2015 is the total for DTZ and post-merger Cushman.