

Capital Trends

US Hotel

9.7% YOY price change
 \$8.1b Transaction volume
 -21% YOY volume change

Hotel deal volume fell in the third quarter despite trends in consumer activity that should spell good news for the sector. Every week last summer there were stories on the nightly news about airline delays as people began to travel again. Such travel should increase demand for hotel room nights. Still, even as forces that should drive income were growing, the forces impacting the financing of hotels were facing the equivalent of airport delays.

Despite the headline figures showing a double-digit decline in deal volume for the quarter, investor demand for the sector was actually stronger when one looks to trends in individual asset sales. These deals are underwritten one building at a time based on the health of the asset, the city where it is located, and other features like the branding. Such individual asset sales were down only 7% from a year earlier in Q3'22.

The actual level of individual asset sales was healthy as well. In the five years before the pandemic, deal volume for such structures averaged \$6.1b for each third quarter period. The \$6.7b of individual asset sales for the quarter was actually higher than any of the third quarter periods in the five years before Covid-19.

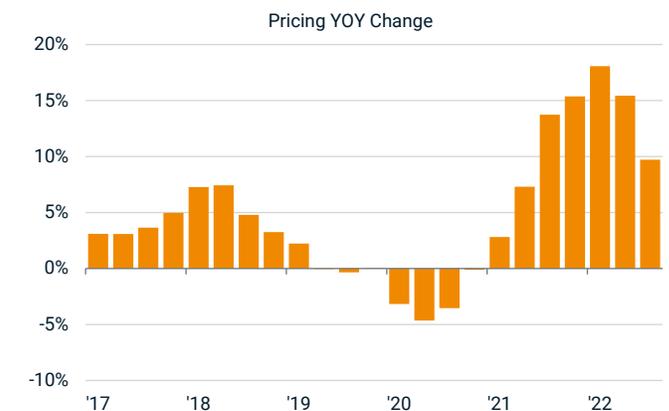
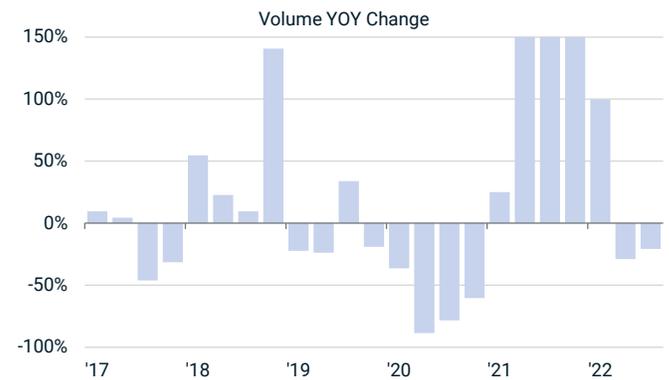
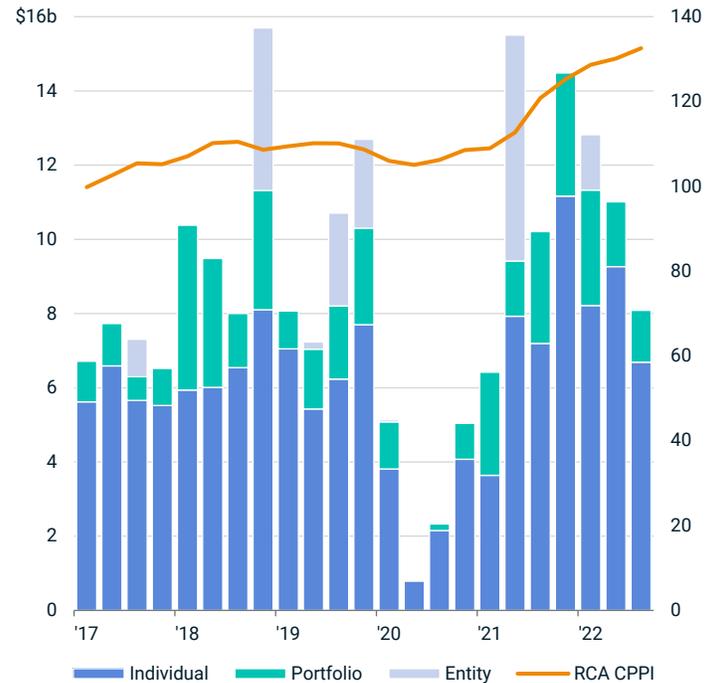
The headline figures look as bad as they do in part due to an unusual pace of portfolio deals a year earlier. In Q3'21 there were three portfolio deals involving 1,000 or more units. There was nothing earthshattering about any one of those portfolio deals. But with three such deals hitting at once, Q3'21 was the third most heavily traded quarter for portfolio deals over time. That pace set a year earlier was simply too high of a hurdle to climb when financing challenges hit in 2022.

In our report for August, we noted that the coupon on 7/10yr fixed rate commercial mortgages stood at 5.4% in July, a figure that has continued to face upward pressure. The 10yr UST, for instance, jumped from an average 2.9% in July to 3.5% in September. As shown on the following page, cap rates have remained at low levels, limiting the investment benefits from leverage.

Transaction Volume Summary

	Q3 2022		YTD 2022	
	Vol (\$b)	YOY	Vol (\$b)	YOY
Hotel Total	8.1	-21%	31.9	-1%
Full-Service	3.5	-39%	13.8	-8%
Limited-Service	4.6	3%	18.2	6%
Single Asset	6.7	-7%	24.2	29%
Portfolio & Entity	1.4	-54%	7.7	-42%

Quarterly Transaction Volume and Pricing



Volume YOY change truncated at 150%

Recent Trends

Deal volume outperformed in the limited-service segments in Q3'22, with sales up 3% from a year earlier. Again though, the elevated pace of portfolio sales a year ago was too high of a hurdle to climb this year. Looking instead at individual asset deals, activity grew at a stronger pace, up 13% from last year on sales of \$3.6b.

The benefits from leverage were stronger for the limited-service segments of the hotel market in Q3'22 relative to that seen for the full-service segments. Cap rates for limited-service hotels fell in the quarter, with the RCA Hedonic Series cap rate down 20 bps from a year ago at 8.1%. At that level, the spread to the coupon on 7/10yr fixed rate commercial mortgages stood at 270 bps. That spread is not as good as the 480 bps of spread seen a year earlier, but it is still better than that for full-service hotels.

Cap rates for full-service hotels fell from a year earlier as well, with the RCA Hedonic Series cap rate down 10 bps to an average 6.7%. With the lower cap rates, there was only a 130 bps spread to mortgage rates for the quarter. This narrower spread provided less benefit from leverage and transaction volume reflected that pricing issue.

Deals involving the full-service segments were down 39% from a year earlier in the quarter on sales of \$3.5b. This pace of decline was also influenced by the dearth of portfolio activity this year. Looking only at the sale of individual assets, activity was down only 23% from last year.

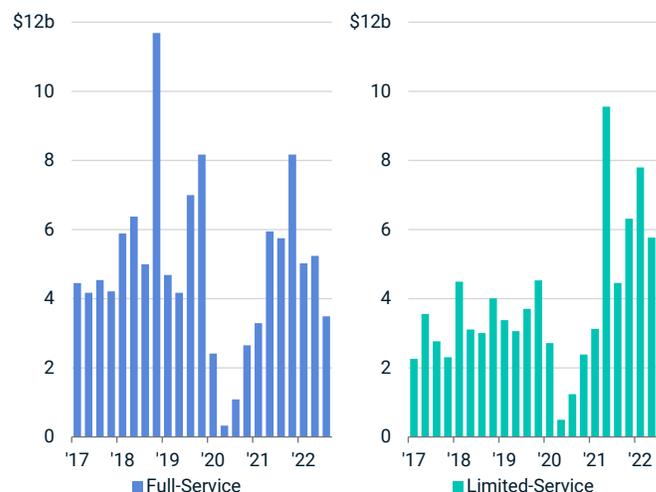
Despite declines in deal volume and challenges to financing assets, prices continued to climb in the quarter. The RCA CPPI for the hotel sector was up 9.7% from a year earlier. Still, the pace of growth is decelerating. The annualized pace of change between Q3'22 and Q2'22 stood at only a 7.7% increase. The deceleration of price growth has been underway for more than a year now.

Cap Rates



RCA Hedonic Series

Quarterly Transaction Volume by Subtype



Q3 2022 Deal Volume and Pricing Summary

	Quarterly Volume				RCA CPPI		Price Averages		
	\$b	YOY Chg	#Props	YOY Chg	1-qtr Chg	1-yr Chg	\$/unit	Cap Rate	YOY Chg (bps)
Hotel	8.1	-21%	504	-15%	1.9%	9.7%	140,043	7.7%	-10
Full-Service	3.5	-39%	106	-24%	0.5%	3.4%	191,834	6.7%	-10
Limited Service	4.6	3%	398	-13%	2.1%	11.7%	113,322	8.1%	-20
6 Major Metro	2.2	-11%	77	-10%	-0.6%	3.5%	183,777		
Non-Major Metro	5.8	-24%	427	-16%	2.8%	10.8%	128,761		

RCA Hedonic Series cap rates

Top Markets

Through the first three quarters of 2022, six hotel markets surpassed their previous high-water mark for investment sales. The #1 market for hotel investment, Dallas, is one such market. Megadeal activity was behind more than half of the total hotel investment in Dallas, but a streak of individual sales was also evident. With nearly 50 hotel sales for the year to date, more hotel transactions have closed in Dallas than in any other U.S. market.

Manhattan claimed the #4 rank in the list of top hotel markets, rising two spots from its year-end position. Unlike Dallas, the foundation for investment in Manhattan was not megadeal activity but rather the sale of individual assets. Indeed, a ranking based on single asset sales alone would put Manhattan top. Still, all is not bright for Manhattan’s hotel market. Assets sold out of distress comprised 30% of the market’s hotel investment. The largest of such deals was the \$85m sale of the Hilton Times Square. This price reflected a 65% discount to the \$242.5m price tag it had in 2006.

Like Manhattan, Chicago at #14 saw its fair share of distressed hotel trades. Sales of financially-troubled hotels accounted for over 10% of Chicago’s hotel investment through the first three quarters of the year. Here, the most significant such deal was the \$33.9m sale of the Hilton Orrington Evanston. The hotel had been acquired for \$60m in 2015, and was financed with a \$40m CMBS loan. At the time of sale, the remaining balance of the loan exceeded the sale price and the lender, CITI 2016-GC37, was forced to realize a loss.

It’s not all doom and gloom for the hotel sector. For six hotel markets, a higher count of hotel sales closed in the first three quarters of 2022 than in any year prior. Such markets include #3 Austin, #5 Nashville, #8 Orange County, #16 Fort Myers, #21 Napa, and #24 Charlotte. For Austin, Nashville, Fort Myers, and Napa, the additional deal flow translated into record investment volume.

Most Active Markets Year to Date 2022

2020	2021	YTD'22	Market	Sales Volume (\$m)	YOY Change
13	8	1	Dallas	1,576	106%
2	2	2	Los Angeles	1,257	30%
16	3	3	Austin	1,036	1%
1	6	4	Manhattan	1,032	14%
10	20	5	Nashville	948	141%
11	5	6	San Diego	897	1%
8	24	7	Boston	893	90%
9	16	8	Orange Co	820	20%
3	12	9	DC	784	34%
12	4	10	Miami/Dade Co	784	-17%
4	18	11	Phoenix	734	25%
38	13	12	Tampa	722	40%
19	7	13	Orlando	650	-45%
7	25	14	Chicago	638	17%
5	1	15	Atlanta	616	-31%
86	28	16	Fort Myers	599	224%
36	9	17	Seattle	538	-48%
37	15	18	Broward	518	-8%
17	29	19	Inland Empire	507	132%
32	27	20	Denver	445	-14%
31	31	21	Napa, CA	418	2101%
21	47	22	Philadelphia	356	59%
15	10	23	San Francisco	339	-65%
55	41	24	Charlotte	333	32%
23	11	25	Houston	333	-61%

Markets in orange denote record high volume for the first nine months of the year; YOY change truncated at 150%.

Top Players and Deals Year to Date 2022

Top Hotel Buyers and Sellers

Buyers by Region

Mid-Atlantic	Southeast
CGI Merchant	BREIT
BREIT	SREIT
Henderson Park	GV&A RE Invmts
London + Regional	Clarion Partners
Paceline Equity Ptnrs	Harbor Group Int'l
Midwest	Southwest
Blackstone	SREIT
Starwood Capital	BREIT
Highgate Holdings	Camden Prop Trust
Cerberus	Tides Equities
Magna Hospitality	Rise48 Equity
Northeast	West
MCR	MG Properties
Island Capital	Laguna Point Props
Hawkins Way Capital	Tides Equities
Varde Partners	Pacific Urban Invtrs
Pebblebrook Htl Trust	Waterton Associates

Buyers



Sellers



Ranked by investment volume.

Methodology: Rankings are based on the pro-rated share of the total property or portfolio value. In the case of joint ventures, full credit is assigned to each investor. For more information please visit the MSCI Real Capital Analytics website.

Top Hotel Single Asset Property Sales

Property	Location	Size	Type	Volume(\$m) ^A	\$/unit	Buyer	Seller
1 Trump International Hotel	Washington, DC	263 units	HTL	375.0	1,425,856	CGI Merchant	Trump Organization
2 Sheraton New York	New York, NY	1,746 units	HTL	373.0	213,631	MCR JV Island Capital	Host Hotels & Resorts
3 W Hotel	Nashville, TN	346 units	HTL	328.5	949,422	Xenia	Magellan Dev JV Corner Partnership
4 Austin Block 21	Austin, TX	251 units	HTL	260.0	1,035,857	Ryman Hospitality	Stratus Properties
5 Naples Grande Beach	Naples, FL	474 units	HTL	248.0	523,207	Henderson Park	Northwood Investors
6 Sheraton Boston	Boston, MA	1,216 units	HTL	233.0	191,612	Varde Ptnrs JV Hawkins Way Cap	Host Hotels & Resorts
7 Andaz Miami Beach	Miami Beach, FL	339 units	HTL	232.0	684,366	Sunstone Hotel	Hyatt Hotels
8 Hyatt Regency La Jolla	San Diego, CA	419 units	HTL	227.3	542,363	IQHQ	Gaw Capital
9 Four Seasons	Vail, CO	110 units	HTL	198.0	1,800,000	MSD Capital	Angelo Gordon & Co.
10 Four Seasons Resort	Irving, TX	431 units	HTL	-	-	Partners Group JV Trinity Invmts	Extell
11 Gurney's Newport	Newport, RI	257 units	HTL	174.0	677,043	Pebblebrook Hotel Trust	Metrovest Equities JV BLDG Mgmt
12 Conrad Nashville	Nashville, TN	234 units	HTL	170.5	728,632	Northwood Investors	Propst Props JV Chartwell Hospitality
13 Wyndham Grand Resort	Clearwater, FL	343 units	HTL	170.0	495,627	JEMB Realty Corp	K & P Partners
14 Hilton San Diego Bayfront	San Diego, CA	1,190 units	HTL	-*	-	Sunstone Hotel	Park Hotels & Resorts
15 Inn on Fifth	Naples, FL	119 units	HTL	156.0	1,310,924	Pebblebrook Hotel Trust	Gulf Coast Commercial Corporation

^A 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 Excludes development site sales

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

Top Brokers Year to Date 2022

By Region

Mid-Atlantic

Newmark
JLL
CBRE
Hunter
Eastdil Secured

Midwest

CBRE
Marcus & Millichap
JLL
Hunter
Eastdil Secured

Northeast

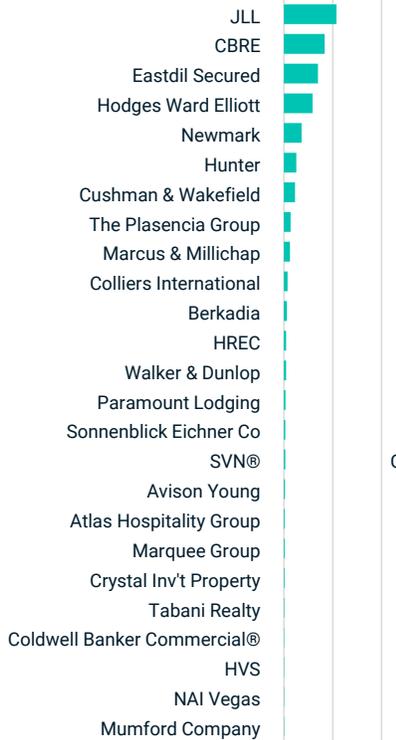
JLL
CBRE
Newmark
Marcus & Millichap
Berkadia

Southeast

Hunter
CBRE
Hodges Ward Elliott
Marcus & Millichap
JLL

By Hotel Investment Volume

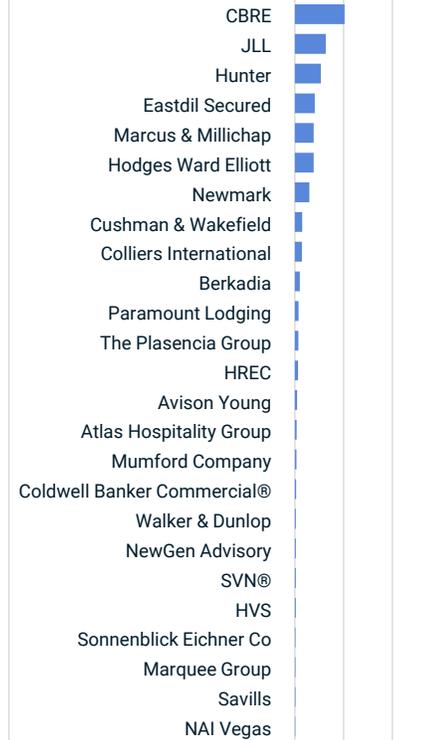
Full-Service



Limited-Service



All Hotel



By Number of Hotel Properties

Full-Service

Southwest

CBRE
Marcus & Millichap
Hodges Ward Elliott
Eastdil Secured
Newmark



Limited-Service

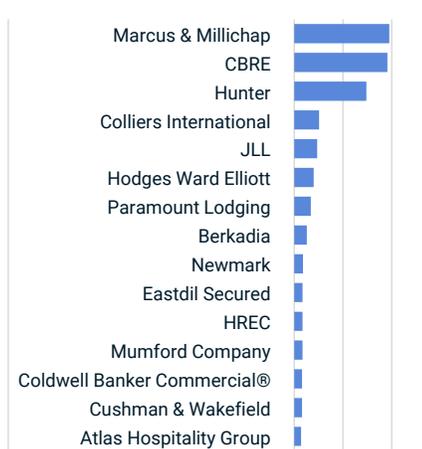
West

CBRE
Hunter
Eastdil Secured
JLL
Hodges Ward Elliott

Ranked by investment volume



All Hotel



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 on rankings please visit the MSCI Real Capital Analytics website.

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Methodology

Data based on properties and portfolios \$2.5m and greater unless otherwise stated. Data as of Oct. 18, 2022 unless otherwise stated.

About Capital Trends

Capital Trends reports analyze and interpret trends in the global real estate market. 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, Australia, Europe and Global Capital Trends are published quarterly.

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