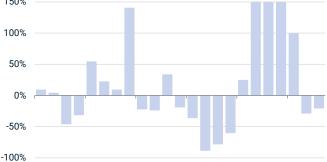
## Q3 2022

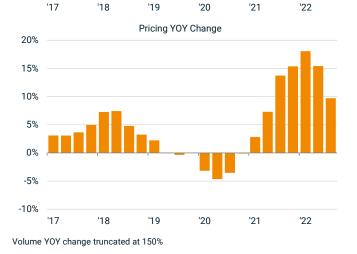
# MSCI (#) Capital Trends US Hotel

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

**Quarterly Transaction Volume and Pricing** 

\$16b 140 14 120 12 100 10 80 8 60 6 40 Δ 20 2 Λ '17 '18 '19 '20 '21 '22 Individual Portfolio Entity RCA CPPI Volume YOY Change 150%





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 2	022	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%		

© 2022 MSCI Inc. All rights reserved. Data believed to be accurate but not guaranteed or warranted; subject to future revision



## **Recent Trends**

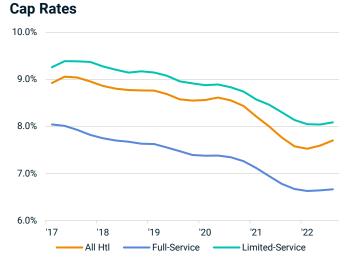
Deal volume outperformed in the limited-service segments in Q3'22, with sales up 3% from a year earlier. Again though, the elevated pace of portfolio sales a year ago was too high of a hurdle to climb this year. Looking instead at individual asset deals, activity grew at a stronger pace, up 13% from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

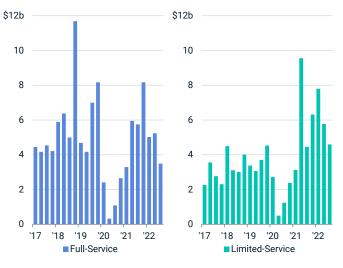
Deals involving the full-service segments were down 39% from a year earlier in the quarter on sales of \$3.5b. This pace of decline was also influenced by the dearth of portfolio activity this year. Looking only at the sale of individual assets, activity was down only 23% from last year.

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.



RCA Hedonic Series

#### Quarterly Transaction Volume by Subtype



#### Q3 2022 Deal Volume and Pricing Summary

		Quarterly	v Volume		RCA	СРРІ	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

Individual Destfalia/Entitu

Inc	dividual	Portfolio	p/Entity		
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 -179	
4	18	11	Phoenix	734	25%
38	13	12	Tampa	722	40%
19	7	13	Orlando	650 -459	2
7	25	14	Chicago	638	17%
5	1	15	Atlanta	616 -319	
86	28	16	Fort Myers	599	224%
36	9	17	Seattle	538 -489	
37	15	18	Broward	518 -89	5
17	29	19	Inland Empire	507	132%
32	27	20	Denver	445 -149	
31	31	21	Napa, CA	418	2101%
21	47	22	Philadelphia	356	59%
15	10	23	San Francisco	-65%	
55	41	24	Charlotte	333	32%
23	11	25	Houston	-619	5

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 Regio	Buyers				Sellers	
Mid-Atlantic	Southeast	Blackstone				CorePoint Lodging
CGI Merchant	BREIT	Highgate Holdings				Brookfield AM
BREIT	SREIT	Cerberus				Blackstone
	GV&A RE Invmts	Starwood Capital				NewcrestImage
Henderson Park		GIC				Host Hotels & Resorts
London + Regional	Clarion Partners	Summit Hotel Properties				Highgate Holdings
Paceline Equity Ptnrs	Harbor Group Int'l	MCR				Cerberus
		BREIT				Hyatt Hotels
M. damage	0	Noble Investment Group				Service Properties Trust
Midwest	Southwest	Sunstone Hotel				Hersha
Blackstone	SREIT	Henderson Park				Magellan Dev Group
Starwood Capital	BREIT	CGI Merchant				Trump Organization
Highgate Holdings	Camden Prop Trust	Island Capital Xenia				Pacific Hospitality Group
Cerberus	Tides Equities	Trinity Investments				Corner Partnership LLC
	•	Pebblebrook Hotel Trust				Northwood Investors
Magna Hospitality	Rise48 Equity	Lodging Dynamics				Park Hotels & Resorts
		KSL Capital Partners				Irvine Co
Northeast	West	Ryman Hospitality				Angelo Gordon & Co.
MCR	MG Properties	Hawkins Way Capital				ADIA
	·	Varde Partners				Ali & Sons
Island Capital	Laguna Point Props	IQHQ				Starwood Capital
Hawkins Way Capital	Tides Equities	Oaktree				Pebblebrook Hotel Trust
Varde Partners	Pacific Urban Invtrs	Magna Hospitality Group				Stratus Properties
Pebblebrook Htl Trust	Waterton Associates	NewcrestImage				Gaw Capital
	Water ton ASSociates		0	1	Ś	\$2b 0 1 \$2b
					-	•

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	Туре	Volume(\$m)∆	\$/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

<sup>a</sup> 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**

Marcus & Millichap

JLL

#### By Hotel Investment Volume

Mid-Atlantic	Full-Service		Limited-Service		All Hotel		
Newmark							
JLL	JLL		CBRE		CBRE		
CBRE	CBRE		Hunter		JLL		
Hunter	Eastdil Secured		Marcus & Millichap		Hunter		
Eastdil Secured	Hodges Ward Elliott		Newmark		Eastdil Secured		
	Newmark		Colliers International		Marcus & Millichap		
	Hunter		JLL		Hodges Ward Elliott		
Midwest	Cushman & Wakefield		Hodges Ward Elliott		Newmark		
CBRE	The Plasencia Group		Berkadia		Cushman & Wakefield		
Marcus & Millichap	Marcus & Millichap		Eastdil Secured		Colliers International		
JLL	Colliers International		Paramount Lodging		Berkadia		
Hunter	Berkadia		HREC		Paramount Lodging		
Eastdil Secured	HREC		Cushman & Wakefield		The Plasencia Group		
	Walker & Dunlop		Avison Young		HREC		
	Paramount Lodging		Mumford Company		Avison Young		
Northeast	Sonnenblick Eichner Co		Atlas Hospitality Group		Atlas Hospitality Group		
	SVN®		Coldwell Banker Commercial®		Mumford Company		
JLL	Avison Young		NewGen Advisory		Coldwell Banker Commercial®		
CBRE	Atlas Hospitality Group		HVS		Walker & Dunlop		
Newmark	Marquee Group		Savills		NewGen Advisory		
Marcus & Millichap	Crystal Inv't Property		Global Real Estate Advisors		SVN®		
Berkadia	Tabani Realty		NAI Vegas		HVS		
	Coldwell Banker Commercial®		Marquee Group		Sonnenblick Eichner Co		
	HVS		The Plasencia Group		Marquee Group		
Southeast	NAI Vegas		NorthMarq		Savills		
Hunter	Mumford Company		SVN®		NAI Vegas		
CBRE Hodges Ward Elliott		0 2 \$	64b	0 2 \$	4b	0 4 \$8b	

## **By Number of Hotel Properties**



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.



#### Jim Costello

Chief Economist, Real Assets Research

Alexis Maltin Head of Americas, Real Assets Research

Haley Crimmins Vice President, Real Assets Research

**Wyatt Avery** Senior Associate, Real Assets Research

Michael Savino Senior Associate, Real Assets Research

**Cole Barker** Analyst, Real Assets Research

#### 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.

### About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process. To learn more, please visit www.msci.com.

US Capital Trends® Copyright © 2022 MSCI Inc. (MSCI). All rights reserved. This report contains information (the "Information") sourced from MSCI, its affiliates or information providers (the "MSCI Parties") and may have been used to calculate scores, ratings or other indicators. The Information is for internal use only, and may not be reproduced or/ redisseminated in any form, or used as a basis for or a component of any financial instruments or products or indices or for any other commercial exploitation, without MSCI's express written consent. The MSCI Parties do not warrant or guarantee the originality, accuracy and/or completeness of any data or Information herein and expressly disclaim all express or implied warranties, including of merchantability and fitness for a particular purpose. The Information is not intended to constitute investment advice or a recommendation to make (or refrain from making) any investment decision and may not be relied on as such, nor should it be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. None of the MSCI Parties shall have any liability for any errors or omissions in connection with any data or Information herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. MSCI Notice and Disclaimer.