Real Estate ALERT

Real Estate Alert
Hotel Sales Fall 29%; JLL Leads Broker Race
By: Alison Waldman
July 31, 2019

A dearth of large hotel listings led to a 29% drop in first-half sales, but market pros see potential for a rebound in the remaining months of the year.

Just $7.7 billion of trades closed by June 30, according to Real Estate Alert's Deal Database, which tracks sales of $25 million and up. Along with the slow activity came a shuffling of the broker rankings.

JLL took the lead with $2.5 billion of deals, an increase of 22% over the same period last year. Amid the market's overall decline, that pushed the firm's share of brokered trades to 37.5%, up from 23.2%. HFF, which was acquired this month by JLL, doubled its first-half activity, closing $1.1 billion of trades to stand in second place with a 16.1% market share. Hodges Ward Elliott was third with $828.7 million (up 12%), a 12.3% share.

Defending champion Eastdil Secured took the hardest hit with an 82% drop in sales, to $738.7 million. That put it in fourth place with a market share of 11%, down from 44.7% a year ago. But since July 1, Eastdil already has $1.7 billion of hotel deals either closed or under contract with hard deposits — more than double its first-half tally. Newmark, which launched an expanded hotel platform last year, came in fifth with $707.3 million and a 10.5% share, up from 0.4%.

The first half's volume amounted to just 35% of last year's $21.6 billion of total activity, leaving the market a long way to climb just to break even. But that's what most brokers believe will happen. "This is going to be a second-half-of-the-year story," said Gilda Perez-Alvarado, chief executive of JLL's hotels practice in the Americas. She said the firm has a "flurry" of closings scheduled for July through September, and a pipeline of listings from owners looking to close by yearend. Ultimately, she expects 2019 sales to be flat with last year.

That's a far cry from the outlook at the start of the year, when late-2018 volatility in the stock market and a rise in borrowing costs made buyers wary and deterred would-be sellers from rolling out listings. "The decline in transaction activity in the first half of 2019 was attributed to uncertainty that persisted from the fourth quarter of 2018 and temporary challenges in the debt market," said Louis Stervinou, an Eastdil managing director. "The broader macro market has rebounded considerably and had a positive effect on pricing and transaction volume that will result in increased volume for the second half."

Interest rates declined in the second quarter and could drop further, with the Federal Reserve expected to trim its benchmark rate this week. That's motivating more owners to bring hotels to market, believing that investors flush with equity and with access to cheap debt will be at the ready.

"It does feel like there is rising momentum in the market," said Daniel Peek, who became president of Hodges Ward's hotel practice in June. "The economy is doing reasonably well, interest rates are low. It just seems we are in a good environment for increased sales volume."

But low interest rates won't fuel transactions if buyers and sellers can't agree on pricing. While low-cost debt "generally motivates deals . . . it clearly did not happen in the first six months of the year," said Tyler Morse, chief executive of hotel owner-operator MCR of New York. "I think it is due to seller expectations. Sellers have had stars in their eyes, and they don't seem to be moving off of what they think value is."

Buyers remain concerned about the current lengthy cycle potentially hitting a speed bump, about rising costs from increasing wages and property taxes, and in some markets, downward pressure on occupancy and room rates as new supply comes on line. "The general sentiment is that we are toward the end of the cycle," said Matt Mering, who joined Chicago-based Waterton in April as an executive vice president to oversee its planned expansion into the hotel sector. Those factors "have caused underwriting standards to be a little more conservative than they were a year ago."

While overall hotel performance remains strong, revenue growth is slowing. From April through June, occupancy rates nationwide were roughly flat with the same period last year, at an average of 70%, while rates grew just 1.2% to $133.01/room, according to STR. Revenue increased 1.1% during that period.

"We're still in an expansion cycle, but . . . profitability is of significant concern in a lot of markets," according to an STR report issued last week. The industry has posted revenue growth for 110 of the last 112 months, with only minor declines this past September and June, the research firm said. That rivals the longest expansion cycle in industry history, which lasted 112 months from December 1991 to March 2001.

One wildcard that could boost second-half volume is Anbang Insurance's effort to unload its U.S. hotel portfolio. The embattled Chinese insurer, advised by Bank of America, is marketing 15 luxury hotels as a single package, valued at around $5.5 billion. A sale could create a cascade of deals if the buyer were to flip some of the properties. But market pros think it's unlikely that a trade of the portfolio would close by yearend, given its size and complexity.

Meanwhile, the brokerage rankings could be in for further shake-ups, thanks to JLL's absorption of HFF. Their first-half sales, if added together on a pro forma basis, amounted to 53.7% of brokered activity. But shortly before the merger, Peek, who led HFF's hotel platform, jumped to Hodges Ward, and roughly a half-dozen HFF brokers followed suit.

Newmark is continuing to build out its own hotel group, after recruiting a team of Eastdil brokers in New York and Washington. And within the last week, Eastdil hired Andy Wimsatt as a managing director in Washington. He previously headed the national institutional hotels group at CBRE (see The Grapevine on Page 1).

"It's pretty telling when the brokers start merging, and people start changing shops," observed one acquisitions pro. "When you see the shuffle, that means there's less product out there, and business is slower."

The rankings are based on transactions that closed during the first half 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 trades were included if the overall price was at least $200 million or if at least one property in the portfolio had a value of at least $25 million