Earnings Recaps

REIT execs: Hotel deals market dominated by sellers

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Officials from the U.S. hotel industry's real estate investment trusts view the transactions market as mainly "a seller's market," but said during Q1 earnings calls that they see few opportunities to make wholesale changes to their portfolios.

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REPORT FROM THE U.S.—As executives from hotel real estate investment trusts discussed their companies' first-quarter earnings, a common theme emerged: Investors are hesitant to pursue transactions, whether that's as a buyer or as a seller.

At this point in the lodging cycle, REITs are by and large comfortable with the state of their hotel portfolios, as executives echoed concerns of few value-add opportunities on the market and little to prune from their asset stables.

Here's a rundown of some of their comments to investors and analysts, pulled from transcripts from their companies' earnings calls.

Ashish Parikh, CFO, Hersha Hospitality Trust
"During the first quarter, we sold two assets and acquired the Annapolis Waterfront Hotel. … In February, we closed on the sale of 140-room Hyatt House in Gaithersburg, Maryland, for $19 million. This disposition was initiated during our 24-month recycling campaign, but the sale took additional time to close as the hotel was repurposed by the buyer into an alternative real estate use, requiring special zoning from municipality. Additionally, in March, we closed on the sale of the 81-room Hampton Inn Financial District in Manhattan for $32.4 million. We remain bullish on the Manhattan lodging market. However, this was an opportunistic sale, and allowed us to redeploy proceeds into stock buybacks at very attractive pricing, pay down debt and make a strategic acquisition at a

more favorable cap rate. … Later in March, we purchased 150-room Annapolis Waterfront Hotel for $41.5 million."

Neil Shah, president and COO, Hersha Hospitality Trust
"The debt side is very attractive right now for privatizations or for any kind of scale, lodging investments. The big wall of maturities in 2017 passed, and now there is great demand for new lodging paper and lodging credits in the capital markets. And so, there is significant appetite. Pricing has gotten even better than the middle of last year or the fall of last year, which we took advantage of on our New York City refinancing on the $400-million kind of loan or $350-million loan. … The debt capital is there. It's not the kind of debt capital that was around in 2006 and 2007, where you were getting up to 90% and you were paying just a couple of hundred basis points of spread over the base rate back then for that level. … It's still kind of reasonable leverage levels but it's open and available.

"On the equity side, we all read about how much equity is on the sidelines. And we know of the major opportunity funds (by which) a lot of lodging investments have raised some very significant new funds. International capital, even outside of China, we've seen great activity out of Korea and out of European pension funds. So, their equity capital is there. It just hasn't seen the conviction yet; we just haven't seen major privatizations in lodging yet. And I think the biggest challenge is that a lot of the public companies are big companies. And when you are having to aggregate and have the conviction on a $2-billion, $3-billion check, that's tough. There is only a handful of players in the space that can operate."

Richard Stockton, president and CEO, Braemar Hotels & Resorts
"Well, there's a lot (of mergers-and-acquisitions talk) going on. It's interesting to look at it from our perspective. And we're kind of on the sidelines, as I think you know. With us, where we're trading, I think as we said in the past, our shares are significantly under what we would or what even you would put as intrinsic value or fair value. It doesn't make it that easy to pursue acquisitions. That said, there's always the opportunity for someone to see that and approach us. And we haven't ruled that out. That certainly could happen. But at the moment, there's nothing new to report on that front."

Jeremy Welter, COO, Braemar Hotels & Resorts
"I'd say that our pipeline is probably the thinnest expense since I've been here. Sellers … in many cases, have heightened expectations on pricing. So I would characterize our posture as browsing at the moment. We were definitely looking at some things that are in the market. Frankly, we've got a lot of CapEx underway this year. And we'll focus very much on organic growth within the portfolio, including our major renovation projects and, in the case of Ritz-Carlton, St. Thomas, a rebuilding project. So yes, I would characterize our acquisitions activity is rather light."

Marcel Verbaas, chairman and CEO, Xenia Hotels & Resorts
"Over the last two years, we've sold a fair number of assets. And we're not necessarily opposed to that, but we think that there's a lot of value that we can derive from our portfolio, there's a lot of value that we can create, and that we are creating through the things that we've done in the portfolio. And the renovations (are) one piece of that. Clearly, we'll look to maximize valuation for the company for the shareholders over the long term, and we'd consider some of that.

"But as we sit here today, we think that there's a lot of growth that we can get out of the portfolio, and we're comfortable with the portfolio. … At this point, it's still a little bit similar to what I talked about in the last quarter, which is to the extent that we find very interesting acquisition opportunities that we think have greater growth opportunity for us, that might get us a little bit more interested in selling some additional assets. But we'll continue to look at: Do we prune some assets on the low end of the portfolio? We certainly are the type of company that doesn't just sit back. … It's just very comfortable to be saying, 'This is it, we're not reshaping the portfolio any further.' … We will continue to look to upgrade the portfolio over time, and that will be our mindset as we go forward."

James Risoleo, president, CEO and director, Host Hotels & Resorts
"We closed on the previously-discussed three-hotel portfolio of iconic Hyatt properties on 29 March. (We are) recycling out of low-RevPAR, low-growth and high-CapEx assets into these high-RevPAR, high-growth and low-CapEx hotels at roughly the same cap rate with an outstanding use of capital and instantly upgraded the overall portfolio.

Host finalizes Hyatt deal, raises guidance in Q1

"Although still early in our ownership, the Hyatt portfolio is performing above our initial underwriting. Keep in mind, this is before we begin implementing many of the value enhancement initiatives we identified in our underwriting. We are encouraged by early results and look forward to enhancing performance and value at these fantastic properties.

"Looking forward, we are maintaining our disciplined approach to capital allocation and are not including any additional purchases in our revised full-year guidance. We anticipate closing on the previously-announced sale of the W New York this month for $190 million.

…

"We track every deal in the market even if it's not an asset that we may be interested in acquiring. We're getting a fairly good sense of what's happening on the acquisition side—the bid-ask between buyers and sellers and the debt capital markets are strong. So, as we sit back and think about what does that mean to us, I'll start with a premise that we're very comfortable with the portfolio that we have today.

"That said, we would certainly be opportunistic sellers if we could achieve pricing on an asset or group of assets that exceeds our hold value. We look at every hotel at least on an annual basis, if not more frequently, to draw a point of view of what that asset is worth to us. And if we see the pendulum swinging in a way that we may be able to meaningfully beat those hold values, then of course, we would take advantage of that opportunity."

Jon Bortz, chairman, president and CEO, Pebblebrook Hotel Trust
"We've probably had an increase in inbound calls from private equity groups. I would say that those are generally smaller groups—in many cases, with small funds or focused on more individual property efforts. In some cases, they're owner-operators who are sponsoring the fund.

Pebblebrook CEO lays out argument for merger in Q1 call

"And as we follow the transaction market from both sides, I would say for our kinds of assets—meaning good quality assets, high quality assets in major institutional cities—there's fairly robust demand on the buy side and relatively a limited supply offerings.

"So, it's probably gone back to being a seller's market, and that's probably aided by continuing healthy debt markets even with base rates going up. In many cases, spreads have narrowed offsetting that to some extent."

Ross Bierkan, president and CEO, RLJ Lodging Trust
"As I mentioned earlier, we made significant progress on our key strategic initiatives this quarter. We successfully completed the sale of two legacy FelCor assets in the quarter for $119.2 million. And as the merger closed, we sold three properties for almost $300 million at a weighted average EBITDA multiple of 15.2 times.

RLJ Lodging to build on momentum gained in Q1

"These assets included The Fairmont Copley Plaza in Boston, the Embassy Suites Marlborough, and the Philadelphia Sheraton Society Hill. Our most recent transaction, the Philadelphia Sheraton, was sold for $95.5 million, which represented a 14.7-times EBITDA multiple and a 5.6% cap rate on 2017 actuals.

"We successfully realized additional value in this asset by leveraging our relationships to unencumber the asset from management and provide the buyer with an up-branding opportunity within the Marriott family.

"Our ability to secure an attractive valuation beyond simply capitalizing the trailing cash flows is a great example of our thoughtful approach to driving incremental value to the non-core assets as we bring them to market.

"We continue to be encouraged by the transaction landscape. Ample liquidity and a lack of quality product available in the market are driving strong interest in several of our assets. As a result, our disposition pipeline remains very active. We are on pace to sell the remaining non-core assets by Q1 2019. And we anticipate a combination of these non-core assets plus other opportunistic sales will generate an incremental $200 million to $400 million of proceeds in 2018."

Daniel Hansen, chairman, president and CEO, Summit Hotel Properties
"I'd say that we are somewhat of a transaction-focused company. So, we are always in the market for acquisitions. The ability to do more or less is a function of the … stated EBITDA, net debt-to-EBITDA range. So, that is certainly one of the governors that we have.

"Opportunistically, I think it's clearly more of a seller's market than a buyer's market. So, as we look at opportunities, we're having more challenging time finding those value-add components that give us the outlook that would get us more constructive on acquiring. So, I think at this point still a balanced capital recycling, as we telegraphed in the past, is about the best way to expect things to shape up.

…

"We look at hotels as a way to create value for shareholders. We are not trying to build a monument to ourselves. We don't view things as a forever hold. There are times to buy and times to sell, and in environments like today where the typical middle of the fairway acquisition is harder to find, we may be looking a little bit more around the edges, and that might mean more of a ramp story—maybe not … a real low RevPAR, but maybe slightly below the RevPAR that we've transacted in the past, (where) we still feel there is a value to add there, and maybe a per-key price that's a little higher than we had in the past because we feel like there's a story there, and it has growth left to be delivered.

"So, I think that creativity around opportunities gives us that flexibility to look at something that might be a soft brand or an independent that we could convert to a soft brand. We are big believers in the brands. We think loyalty drives guest behavior. We've got a great relationship with Marriott, Hilton, Hyatt and IHG, and explore a lot of opportunities. So, I would say that there's a lot of optionality that we have as we are looking at hotels."

Douglas Kessler, president and CEO, Ashford Hospitality Trust
"Our strategy remains focused on our effort to enhance shareholder value. We will continue to own and acquire predominately upper-upscale, full-service hotels at a RevPAR of generally less than two times national average. We are not purposefully chasing the highest RevPAR hotels because we see trade-offs in RevPAR and yield. We will remain disciplined on new deals as we balance expected returns (with) underwritten growth in our cost of capital. We are active in seeking deals in the marketplace, but the pipeline is stemmed from the start of the year and the environment remains very competitive.

Ashford Trust sells two in Q1, focuses on renovations

"Switching to dispositions, we believe selling hotels is an economic strategy to enhance value, not simply to achieve a stated portfolio objective. As a result, our asset sales are financially calibrated. … Through these sales of mostly lower RevPAR select-service and some full-service hotels we believe we've improved the overall quality of the portfolio.

…

"We've always been looking to be an acquirer of hotels. That is something that's been a consistent theme for us, and we do weigh the balance of stock price, the direction that the industry is headed … (with) the yield that we can buy the asset for and the growth potential of the asset. … We've been very disciplined, not having acquired any hotels since 2015 and being a net seller. I think going into this more of a net-sale phase, what we looked at in terms of where the industry fundamentals are headed and where the economy was headed looked itself different (in) 2016 versus 2017 and now accelerating into 2018.

"I think if you look at some of the macro factors, which were obviously influencing our view of where the direction of the lodging industry is headed, (it's) heavily influenced by things like the amount of non-residential fixed investment. The unemployment rate, consumer confidence and even recent surveys that we've seen that indicate travel standards may grow as much as 2.6%, with 64% of the surveyed budgeting for growth in their budget. So I think that those are reasonable indicators for us to evaluate when looking we're looking at underwriting any hotels today—slightly different RevPAR forecast than we might have used, let's say, late into 2016 or early 2017.

"The deal pipeline is still … very thin. … So we have to be selective in what we're looking at, and it's still a very competitive environment. So, comments have been that we continue to look, and hopefully we will find accretive investment opportunities to grow the platform. That's always been part our strategy, and nothing is really different today than what it's been in the past."

James Francis, president and CEO, Chesapeake Lodging Trust
"My general view is that it's still a seller's market, and there are pockets of capital that are interested … in different kinds of assets in different markets in different opportunities.

"So, I think if we think we can attract a bid on an asset that's well inside of how our equity trades and we think a very attractive offer, I think you could see us prune a couple of hotels this year.

"As far as the use of capital … certainly we can pay down the credit facility. We'll look at acquisitions, but I wouldn't say we're counting on an acquisition

… as far as the use of capital right now, again with it generally being more of a seller's market. We pay down the credit facility and hold on to any additional or debt associated with the property and hold on to the additional cash in the short run."

Tom Baltimore, president and CEO, Park Hotels & Resorts
"As announced on our last call, we sold 12 non-core hotels in the first quarter of gross proceeds of approximately $379 million … to meaningfully improve the overall quality of our portfolio. The portfolio RevPAR (is) increasing $7 dollars to $169. We determined that the best use of proceeds from our non-core asset sales was to take advantage of the dislocation in our stock, buying back 14 million shares from H&A as a part of their secondary offering in early March at a significant discount to net asset value.

Park to sell more hotels on road to brand diversity

"This successful transaction was accretive to earnings, eliminated the perceived equity overhang on our stock broadened our shareholder base and ultimately helped to narrow the valuation gap with our peers.

"Continuing our success, I am pleased to report that we recently entered into a contract to sell the Hilton Berlin—a hotel we own in a joint venture. Pricing was very strong and … the sale (is) expected to generate gross proceeds of roughly $367 million—or 19.8 times 2017 EBITDA multiple, equating to a 4.5% cap rate before adjusting for CapEx requirements. Closing is expected to occur in the coming weeks, with net proceeds to Park expected to be approximately $140 million, with Park likely to declare a special dividend in the aggregate range of $80 million to $90 million subject to Board approval.

"Following the sale, Park will have an ownership interest in just four hotels outside of the U.S., accounting for approximately 1% of the EBITDA, down from 14 hotels and 5% respectively held at the beginning of the year.

"I am incredibly proud of the results achieved by our teams since we initiated marketing of our non-core portfolio last fall and our seamless execution on multiple sales given the strong institutional demand for lodging real estate and the success of our Phase 1 disposition program. We are currently initiating a second phase of potential sales which could include another five to eight non-core assets accounting for $30 million to $40 million of EBITDA. Our plan would be to recycle proceeds utilizing a 1031 exchange to acquire properties with a focus on improving overall portfolio quality, while enhancing brand and operator diversity."

Mark Brugger, president, CEO and director, DiamondRock Hospitality
"In 2016, the company made the strategic decision to enhance its overall portfolio by selling three non-core hotels for $275 million at a 12.8 times EBITDA multiple of 6.6% NOI cap rate including deferred capital. The strategic plan was to reinvest that money into higher quality hotels with superior NAV growth potential. The sold hotels had an average RevPAR of just $120 as compared to current portfolio RevPAR that is about 50% higher than that. Since we executed on those dispositions, we (have) acquired four hotels for approximately $220 million. These hotels have average RevPAR of $219 almost $100 higher than the sold hotels. The four new hotels collectively outperforming in the first quarter with RevPAR growth of 6.3%.

"Our first deployment was the off-market acquisition of the L'Auberge de Sedona and Orchards Inn, Sedona. These hotels are great examples of DiamondRock's strategy of focusing on supply constraint markets late-cycle to reduce risk and ride what we believe will be a sustained trend towards experiential resource outperformance. … We estimate that NAV has increased over $10 million or approximately 11% since our acquisition just over a year ago.

"Continuing with our redeployment program, we recently executed two acquisitions during the first quarter: The Landing Resort & Spa at Lake Tahoe in California and the Hotel Palomar in Phoenix, Arizona. The Landing is a boutique luxury resort in one of the best locations in the Lake Tahoe market. … The market is supply insulated and has grown at a 9% RevPAR CAGR over the last five years. …

"The other acquisition in the first quarter was the Hotel Palomar in Phoenix, Arizona. This is the best hotel and best location in Downtown, Phoenix. … We're bullish on the Phoenix market. Phoenix is the 12th largest MSA in U.S., and demand growth in the city has been among the fastest in America, with a 7% RevPAR CAGR since 2012. Lack of new supply has been another attractive part of the Phoenix story with less than 1% supply growth over that same period. … This deal is off market, and we believe we bought it at attractive pricing. The acquisition price represents a 12.6 times multiple a budgeted 2018 EBITDA. We've just begun implementing our value add program, and we're making property-level operational changes to enhance performance."