

**California Lodging Investment Conference**

# **The State of the California Hotel Industry**

**March 7<sup>th</sup>, 2019**

Presented by

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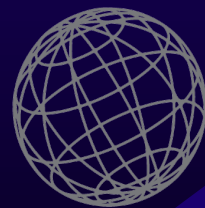
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# 2018 Predictions

- Decline in number of transactions and sales volume
  - *Individual sales down 24%*
  - *Sales volume down 10%*
- Sales price per room will go up 5-10%
  - *Median price per room up 17%, a new California record*

# 2018 Predictions

- Interest rates will go up
  - *Prime rate went from 4.5% to 5.5%, up 22.2%*
  - *5-, 10- and 30-year Treasuries remained flat to slightly down*
- Rev PAR increases to level off
  - *California Rev PAR went up 3.8% in 2018, as compared to 2.1% in 2017*

# Market Rates

	03/18	03/19
<b>Prime Rate</b>	<b>4.50%</b>	<b>5.50%</b>
<b>5-Year US Treasury</b>	<b>2.65%</b>	<b>2.51%</b>
<b>10-Year US Treasury</b>	<b>2.92%</b>	<b>2.69%</b>
<b>30-Year US Treasury</b>	<b>3.15%</b>	<b>3.05%</b>

# 2018 Review

# 2018 CRE REIT Stock Performance

**Poor 2018 despite strong year for hotel industry**

Single Family Rental	-12.8%
Office	-13.7%
Data Center	-16.0%
Shopping Center	-16.3%
Hotel	-17.5%

# 2018 Hotel REIT Stock Performance

Ashford Hospitality Trust	-40.6%
Summit Hotels	-36.1%
Apple Hospitality	-27.3%
RLJ Lodging Trust	-25.4%
Pebblebrook Hotels	-23.8%
Sunstone Hotels	-21.3%
Xenia Hotels	-20.3%
Hospitality Properties Trust	-20.0%
Diamondrock Hospitality	-19.7%
Hotel REIT Average	-17.5%
Host Hotels & Resorts	-16.0%
Chesapeake Lodging	-10.1%
REIT Sector Average	-10.0%
Park Hotels & Resorts	-9.6%
Ryman Hospitality	-3.4%
Hotel REIT Average	-17.5%
REIT Sector Average	-10.0%

# 2018 Hotel Operator Stock Performance

Marriott	-20.0%
Hilton	-10.1%
Hyatt	-8.1%
Choice	-7.8%
Hotel C-Corp Average	-15.0%



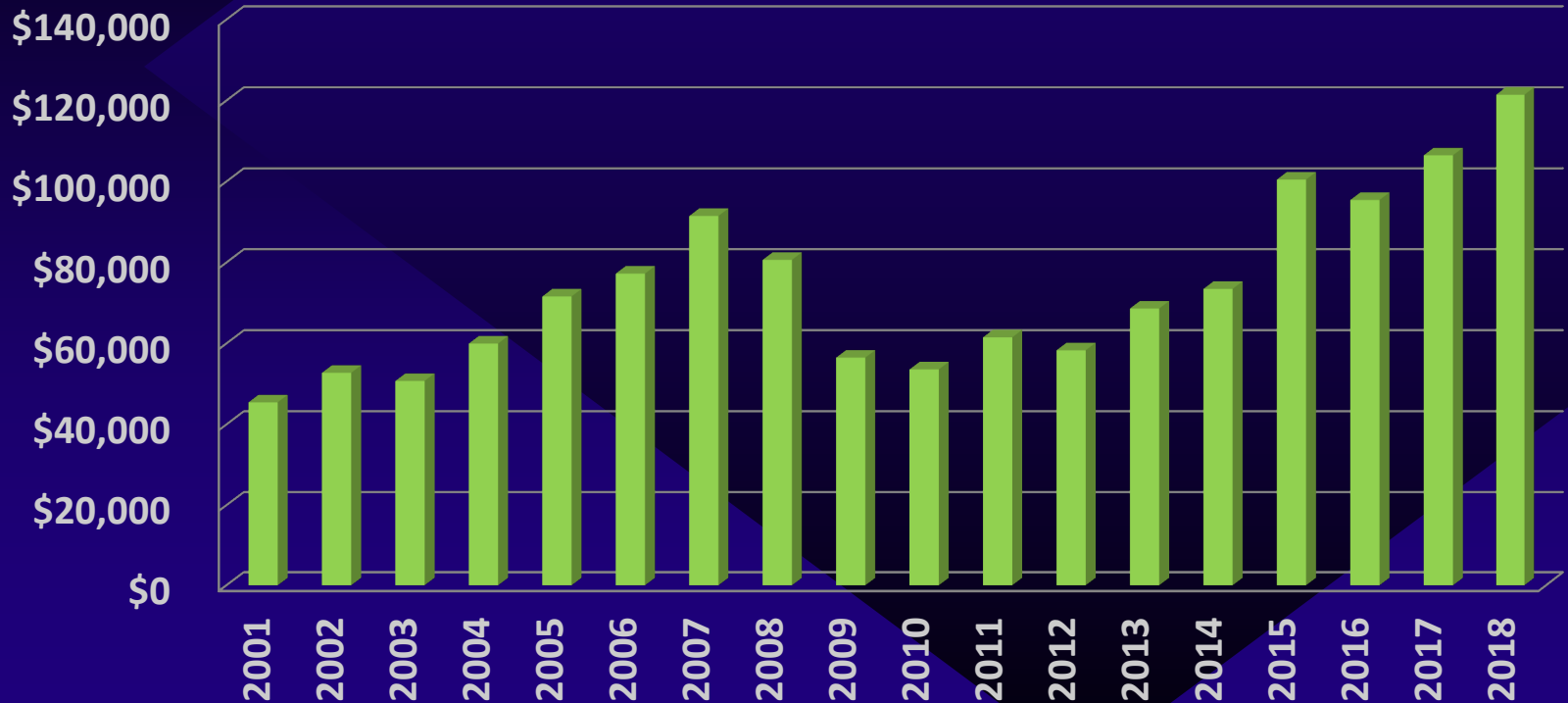


# **2018 California Hotel Sales Highlights**

- **New record set for highest price per room**
- **Total dollar volume declined 10%**
- **The number of individual sales declined 24%**

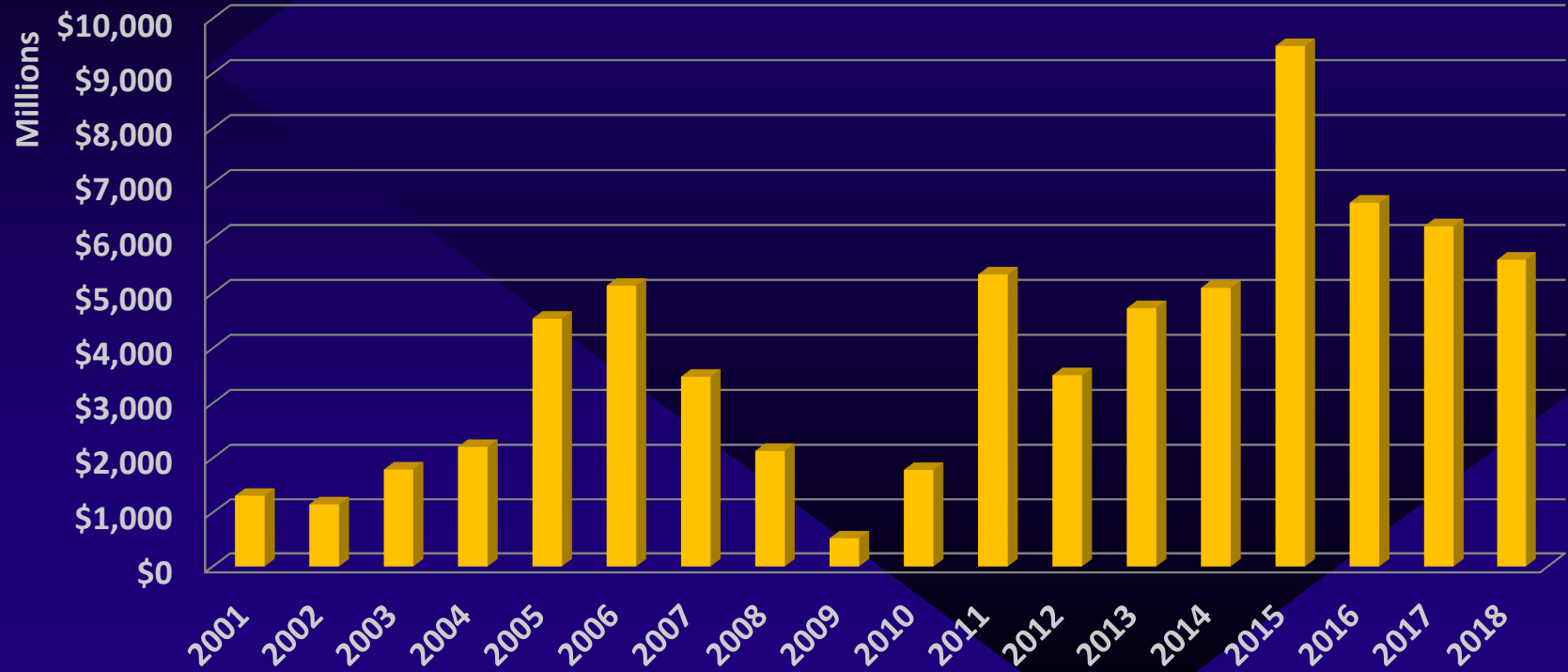
# Historical Sales Chart

## Median Price per Room



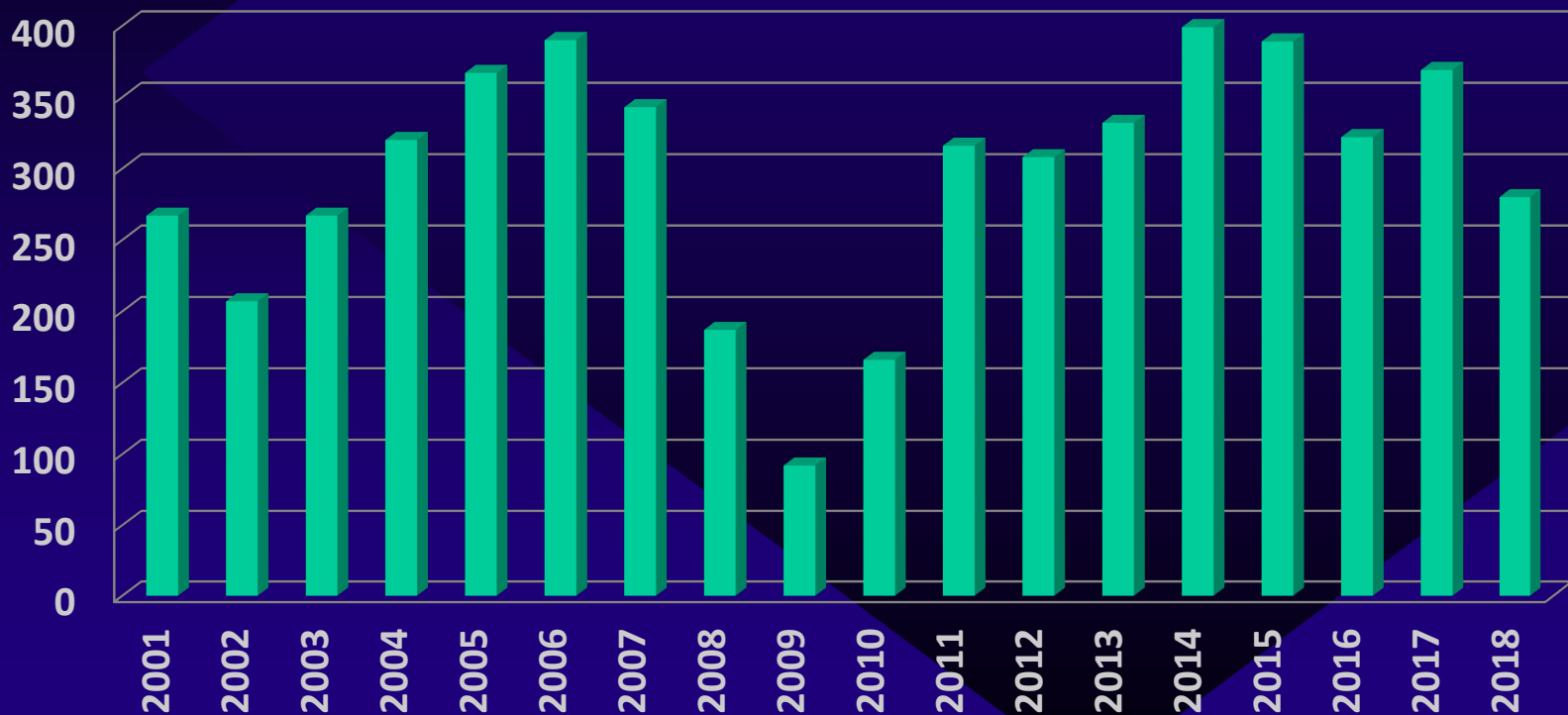
# Historical Sales Chart

\$ Volume



# Historical Sales Chart

# Sales



# **Notable 2018 California Hotel Sales**

# Grand Hyatt

San Francisco



662 rooms / \$869,167 per room

# Park Central

San Francisco



**681 rooms / \$462,849 per room**



# Fairmont

San Jose



805 rooms / \$310,559 per room

# Park Hyatt Aviara

Carlsbad



**329 rooms / \$516,717 per room**

# Cavallo Point

## Sausalito



**142 rooms / \$1,068,415 per room**



# DoubleTree Suites

## Santa Monica



253 rooms / \$608,696 per room

# La Quinta Resort, a Waldorf Astoria

La Quinta



796 rooms / \$165,327 per room



# **2018 California Median Sales Price per Room**

<b>California</b>	<b>\$121,439</b>
<b>Santa Clara County</b>	<b>\$276,671</b>
<b>San Mateo County</b>	<b>\$262,743</b>
<b>San Francisco County</b>	<b>\$230,769</b>
<b>Alameda County</b>	<b>\$214,671</b>
<b>Orange County</b>	<b>\$162,963</b>
<b>Los Angeles County</b>	<b>\$150,000</b>
<b>San Diego County</b>	<b>\$115,385</b>
<b>Riverside County</b>	<b>\$96,897</b>
<b>San Bernardino County</b>	<b>\$66,750</b>

# Rev PAR Performance

United States	+3.0%
California	+3.8%

## Top 10 California Markets / Based on % Increase

Monterey/Salinas	+10.0%
Santa Rosa	+9.6%
Redding/Chico	+9.5%
San Jose/Campbell	+8.2%
Ontario/Airport	+7.0%
Santa Cruz/San Jose Area	+6.8%
Stockton/Modesto	+6.2%
Fresno	+5.7%
Palm Springs	+5.5%
San Diego	+5.0%

Source: Smith Travel Research



# Top California Rev PAR Markets

<b>Santa Monica/Marina del Rey</b>	<b>\$278.75</b>	<b>+4.7%</b>
<b>Napa Valley</b>	<b>\$239.22</b>	<b>+4.3%</b>
<b>San Francisco/San Mateo</b>	<b>\$203.56</b>	<b>+4.2%</b>
<b>Newport Beach/Dana Point</b>	<b>\$167.97</b>	<b>+1.7%</b>
<b>San Jose/Campbell</b>	<b>\$164.96</b>	<b>+8.2%</b>

Source: Smith Travel Research

# Lowest California Rev PAR Markets

Stockton/Modesto	\$71.74	+6.2%
Fresno	\$67.90	+5.7%
Redding/Chico	\$67.11	+9.5%
Eureka/Crescent City	\$66.80	-5.8%
Bakersfield	\$50.37	+3.6%

Source: Smith Travel Research

# Rev PAR in Relation to Median Price per Room

- From 2008 to 2018
  - U.S. Rev PAR ↑29.9%
  - California Rev PAR ↑51.5%
- From 2008 to 2018
  - California median price per room ↑50.5%

# Rev PAR in Relation to Median Price per Room

- More upside in lower Rev PAR markets versus higher Rev PAR markets over the long term?
- From 2008 to 2018
  - Santa Monica Rev PAR ↑52.5%
  - Bakersfield Rev PAR ↑27.7%

# 2019 Forecast

# Clouds on the Horizon

- **December 2018 retail sales sink 1.2%, the worst plunge since 2009**
- **Economists predict a recession by 2020**
- **Home mortgage originations at lowest level since 2014**
- **A record 7 million Americans are 90 days behind on auto loan payments**

# California Hotel Sales Decline

- 2018 individual hotel sales down 24%
- 2<sup>nd</sup> steepest decline in hotel sales
- 2008/2009 – Hotel sales declined 52%
- 2019 YTD hotel sales ↓63%
- 2009 YTD hotels sales ↓66%

# Reasons for Decline in Number of Sales

- Prices at record high
- Buyer and seller expectations out of sync
- 2018 saw a high percentage of buyers completing 1031 exchanges
- Entering 2019, far fewer 1031 exchange buyers
- Lenders more cautious



# Reasons for Decline in # of Sales

- Interest rates expected to rise
- Expenses already increasing – Especially labor
- Fewer motivated buyers
- New supply pressure
- Fewer motivated buyers

# Chinese Investment Pullback

- Dalian Wanda sells One Beverly Hills



# Chinese Investment Pullback

- DTLA Oceanside Plaza halts construction



# Chinese Investment Pullback

- Anbang selling \$5.5 billion luxury hotel portfolio, including



Westin St. Francis – San Francisco



Loews Santa Monica Beach Hotel

# Issues to Look for in 2019

- Cap rates will rise
- Values will be flat or decline
- The number of individual sales will fall
- Early signs of distress
- Hotels and markets most vulnerable

**Any Questions....**

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