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Buying Hotel Growth in NYC – Investors Strategy for Growth Manhattan Hotel Real Estate

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234 5th Ave 2nd Floor
New York, NY 10003
Tel. 212-741-9700
www.Domain-Properties.com

INTERESTED INVESTORS - RECOVERING SECTOR - REVENUE GAINS - PROMISING FUTURE

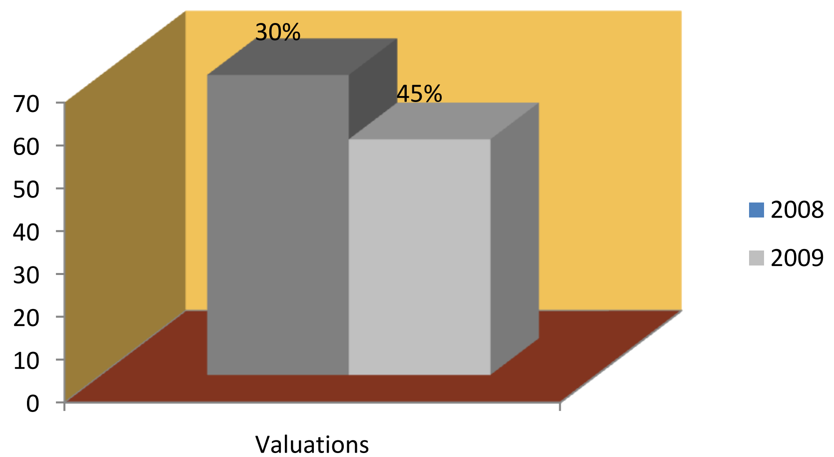
Buying Hotel Growth in NYC - Investors Strategy for Growth in Manhattan Hotel Real Estate

Investors and buyers are showing intense interest in New York City hotels. The Manhattan hotel industry is well on its way to recovery. Hotel buyers are looking forward to revenue gains and a promising future. Although market capitalization rate provides a reliable estimate of value, investors in the New York City hotel sector have a different goal in mind. Their main focus is sales growth rather than the current market cap rate.

The New York City hotel industry appears to be flourishing and investors have not missed the signs. They do not seem to mind handing over substantial sums for NYC hotels. Although it is still possible to find less expensive NYC hotels, buyers do not even mind dabbling in luxurious properties.

Recent statistics show that there is a demand for luxury hotels. The more economic growth in the future, the better the luxury market. Customer demand will buoy up this upscale sector.

Investors are interested in the luxury market in major centers such as New York. Since valuations in the upscale market fell 30% in 2008 and 45% in 2009, its return should be as impressive as the decline. **Investing in a NYC hotel** might just lead to a big windfall. Even if investors have to wait awhile for huge paybacks, owning Manhattan property is worth the time and effort.

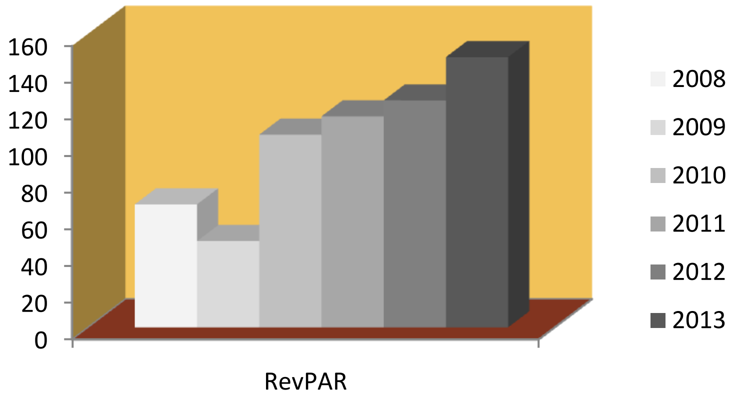


CURRENT YEAR WINDS DOWN - OVERALL CONFIDENCE IN NEW YORK CITY HOTEL SECTOR RISES

Generally, the US hospitality sector is experiencing a rebound. There had been exceptiona decreases in RevPAR (revenue per available room). As well, hotel prices had fallen more than any other level of the commercial market. Actually, hotel prices had declined to an amount almost half their purchase price at the peak periods in 2006 and 2007.

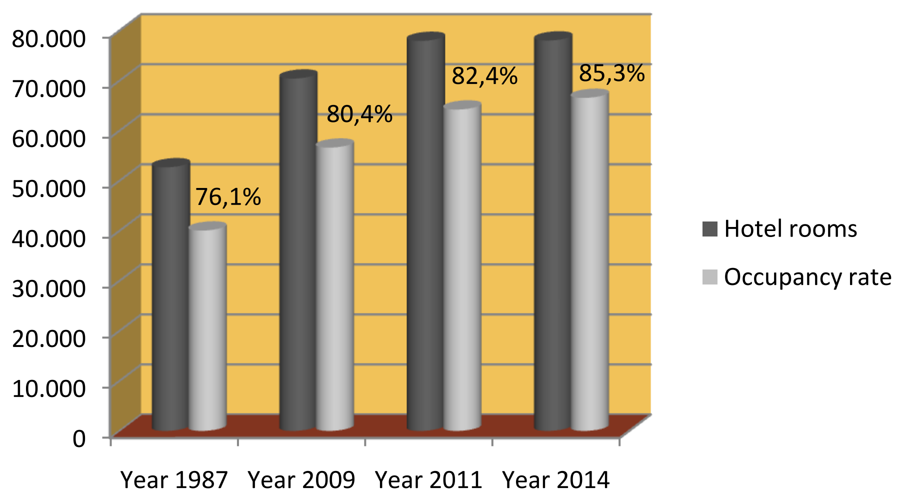
Yet current investors do not seem to be concerned about any increased prices. They just want to be part of the vibrant NYC real estate scene. The Manhattan hotel industry is a very attractive market.

New York City will remain a popular tourist and corporate destination in the coming years. In fact, 31 properties (7,523 rooms) are expected to be developed in New York City between 2010 and 2011. That number is 10.7% of the 2009 NYC room count. By the end of 2011, Manhattan will have 77,943 hotel rooms.



Indeed, the hotel industry is improving throughout the country. According to New York-based **Real Capital Analytics Inc.**, **hotel sales** jumped 136% in the first half of 2010 compared to the previous year. Hotel occupancies in the top 25 U.S. markets climbed to 65% from January-September 2010. The occupancy rate was 61% in the same period during 2009. RevPAR increased 6.3% to $75.79.

An analysis of historical data and a review of the proposed developments suggest that there will be at least 78,025 Manhattan hotel rooms by 2014. That number will translate to 24,287,163 occupied rooms with an occupancy rate of 85.3% and a RevPAR of $288.95



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Several recent sales nationwide have involved first-class properties in prime markets. Plenty of buying has been going on in the hotel industry. In fact, 236 transactions were completed between January-June 2010.

As a percentage of the total CRE property sales, hotel purchases come in as 10% of overall transactions. Across the country, many **hotel sales** involved **distressed properties**. Banks want to pass on troubled hotels because they are more expensive to maintain compared to apartments and offices.

Distressed properties are still expected to account for a significant percentage of **hotel sales** in 2011. Certain investors are interested in this category of hotel. Various high-end hotel properties were sold during the past year. Several of those hotels were purchased in distressed circumstances.

Doubletree Metropolitan Hotel

Yet in New York, the more desirable properties are also in demand. Investors are vying for upscale Manhattan properties. Maybe they could get a better deal in other U.S. cities and towns but people want to invest in a global center.

REITs and other hotel buyers do not mind paying a higher price in Manhattan compared to a lower price for property in another city. REITs might be the primary buyers of hotels on the market.

Arabia believes that publicly traded REITs will be a significant buyer of hotels over the next few years. It is an incredible opportunity for any investor to be able to own a NYC hotel. Investors feel the attraction of New York City. They realize that business travelers and tourists will feel the same magnetism.

Confidence breeds confidence. As the economy improves, corporate travel numbers will rise for Manhattan. It has been proven that corporate travelers play a huge part in driving the hotel sector.

The overall positive hotel performance in 2010, especially in New York City, was due to a shift in group demand. The Big Apple is a major meeting destination. Meeting planners avoided such locations in 2008 and 2009.

Referring to REITs, **John Arabia**, managing director at **Green Street Advisors**, says:

"They are fairly well capitalized and have access to attractively priced capital."

The expensive markets kept them away but they returned in 2010 to enjoy lower room rates.

The **Big Apple** is bound to draw crowds and profits for the hotel sectors. With the current market conditions, everyone (buyers, sellers, investors) are in a win-win situation. If investors can find determined sellers, they have won half the battle.

"Right now is a particularly attractive time to be lending to the hotel sector,"

says **Christopher Jordan**, head of hospitality banking at San Francisco-based **Wells Fargo**.

Investors can still get a favorable deal in Manhattan hotels. There has been an increase in private **hotel sales** and no downward trend is expected in 2011. While investors are interested in NYC hotels, **JPMorgan Chase & Co.** and **Wells Fargo & Co.** want to increase financing for hotels.

Generally, lenders are "actively seeking to place debt on high-quality, well-located hotels."

The hotel industry is in favor with lenders for varied reasons. The sector is performing better than any other commercial product. As well, hotels have an advantage over other commercial real estate. Unlike office or retail properties, these establishments can boost rental rates and take advantage of economic growth.

Other forms of commercial real estate involve multi-year leases. With offices and retail buildings, lenders cannot tell where the rent rates will reset but they can have a clear view of the hotel's operations. In addition, recent interest rates have helped loan losses to be less for lodging. Unlike different commercial properties, hotels are financed frequently with floating-rate debt.

Hotel Chelsea

"We are definitely making loans on hotels. Revenue and occupancy trends have been very strong across the U.S.,"

says **Jon Strain**, head of capital markets for **JPMorgan's** commercial real estate group.

Regardless of the reasons why lenders prefer hotels, NYC properties are benefiting from their renewed interest. **The Hilton Times Square** completed a $92.5 million, 10-year loan in November. The senior loan carried a fixed interest rate of less than 5% and was secured through **Bank of America Merrill Lynch**. This loan replaced financing set to mature this month.

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HVS Career Network (HCN) has also noticed the recovering economy. The network sees a growing demand for mid-management recruitment for hotels. As the hospitality industry recovers, HCN assists clients to build the best possible workforce providing an exceptional service for every guest.

HCN is a division of **HVS Executive Search** - the world's largest hospitality retained search firm with offices around the world.

As well, **PKF Hospitality Research** shows U.S. lodging demand growth at 7.8% for 2010. Combined with a rise in occupancy rates, a RevPAR increase of 6.4% is included in their latest forecast. With their December 2010 edition of **Hotel Horizons®**, **Colliers PKF Hospitality Research (PKF-HR)** edged up its previous forecasts by 0.8% for U.S. hotel performance to the end of the current year.

The RevPAR is measured for 50 U.S. hotels used in **PKF-HR** statistics. Of course, New York is the star of this show. If New York City is removed from the equation, the RevPAR forecast drops from 6.4%-5.4%. New York's ADR is expected to rise 6.6% this year. NYC will be just one of ten markets to enjoy an ADR increase during 2010.

They also project a promising outlook for US hotels during future years. In 2011, the pace of RevPAR growth might slow down and year-over-year comparisons could seem less robust in the coming year. Yet the hotel industry will still enjoy a favorable period into the foreseeable future.

The hotel sector is expected to be one of the leaders in the recovering economy. Within recent months, several hotels have been raising room rates. Generally, increases of this type signal a rebounding industry.

Hotel Sofitel, New York

Presently, more than 40 private equity funds are hunting for deals in the hotel sector. Almost 50% of the group had been planning to invest in 2007 or early 2008. At that time, the sector experienced a downturn. In 2010, they want to invest in a recovering industry. Buyers want to purchase hotels now.

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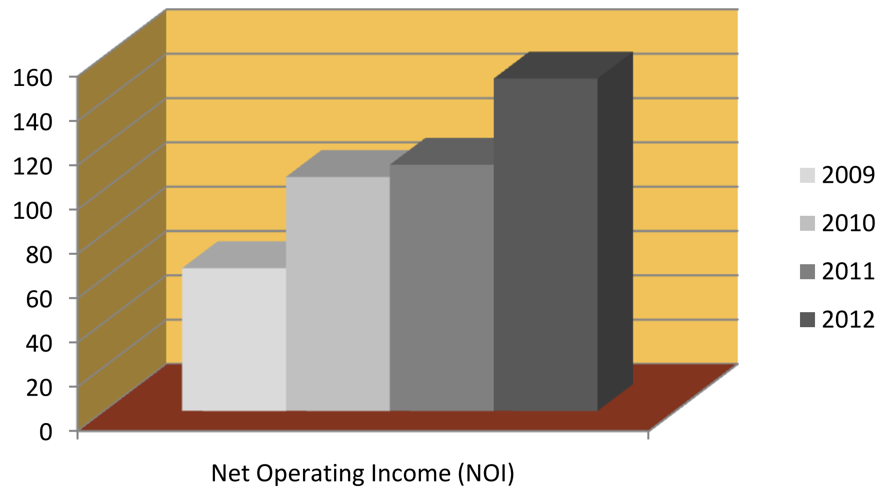
Once the economy is operating at its full potential, everybody will be interested in the market. The wise investor will be quick to grab the opportunity today. In fact, industry experts say that investors' intention to make acquisitions in the lodging sector is at a five-year high.

When hotels posted year-over-year growth in occupancy during February 2010 and RevPAR turned positive in March, the hotel industry began to spring back to life. In July 2010, American hotels sold "the most room nights ever sold in one month." Of course, NYC hotels are not anywhere near a peak period.

Today's RevPAR is only 75%-85% of 2007 RevPAR. Business, however, has improved in New York City hotels. Without a doubt, the hotel sector is in the recovery stage.

By the end of 2010, **PKF-HR** is projecting that the average hotel in the U.S. will see a 5.6% increase in net operating income (NOI). These figures show a definite difference from 2009 and its 35.4% decline. **PKF-HR** is expecting the pace of profit growth to pick up in 2011. They are projecting a hotel NOI increase of 11.1% and that rate is predicted to rise by more than 15% in 2012 and 2013.



The entire industry welcomes the sooner-than-expected increase in room revenue as well as the rise in NOI. After the challenges of 2009, U.S. hotel owners and investors are looking forward to industry growth. This year's turnaround will be the start of gains in hotel revenue and profits that will continue in the future.

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The following list gives examples of recent hotel sales in New York City.

- In July, **Host Hotels & Resorts Inc.**, owner of **Ritz-Carltons in San Francisco** and **Phoenix**, agreed to buy the **W New York Union Square** with partners including **Istithmar World PJSC**.

- In September, **JRK Hotel Group** sold the 193-room **Hotel Roger Williams** at 131 Madison Avenue to **LaSalle Hotel Properties**. LaSalle acquired the hotel's leasehold interest for $90 million along with almost $4.5 million in other costs. JRK acquired the property in 2003. They retained management of the hotel.

- **Danske Bank** sold the historic **Knickerbocker Hotel** in New York City as distress property to **Highgate Holdings** in partnership with **Ashkenazy Acquisition Corp.** and **Crown Acquisitions**. The joint venture bought the landmark building for $180.5 million. **Danske Bank** took over the property in March after owner **Istithmar World Capital**, a branch of **Dubai World**, defaulted on its $300 million mortgage.

- **Hersha Hospitality Trust**, a Pennsylvania real estate investment trust, announced in January 2010 that it planned to spend $110 million to buy two **Midtown** hotels developed by Sam Chang. **Hersha** would pay $54.3 million for the 184-room **Hampton Inn** at 337 West 39th Street and $55.5 million for the next-door 188-room **Candlewood Suites**.

- In April, **Starwood Hotels** announced that it had sold two **Midtown Manhattan** hotels. **St. Giles Hotels** bought the **W New York - The Court** and **W New York - Tuscany** for $78 million. This sale of 39th Street properties involved some of the first hotels to operate under the W banner.

Our Perspective – Domain Properties is a trusted source for people who want to buy, sell, or rent NYC properties. We have an expert team ready to assist with OFF MARKET NYC hotel transactions. For the most up-to-date information about the Manhattan hotel scene, contact Haim Yagen at 646-403-4441.

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