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Domain Properties Reports on Revitalized NYC Hotel Market

Spring/Summer 2011

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Spring 2011 has brought a record level of activity to the recovering NYC hotel market. An ever-increasing number of hotel deals point to a revitalized hospitality sector in New York City. The promise of spring should extend into summer and bring further growth and development to hotels in the Big Apple. Alfred Somekh, President of Gehr Development, sums up the general opinion about the NYC hospitality industry.

Gehr Development

"New York is the best hotel market in the United States and we will continue to grow our portfolio in Manhattan,"
says Somekh.

On June 2, Gehr Group announced that Gehr Development, its real estate division, has acquired Four Points by Sheraton Midtown Times Square for $112 million (almost $460,000 per room). Of course, Gehr Development has expressed confidence already in the New York City market with its previous purchases.

Gehr owns 488 rooms in Manhattan. The company's portfolio includes Sky Room Times Square with the area's highest rooftop lounge. In 2009, Gehr Development purchased the Fairfield Inn – an adjacent property to Four Points (its latest NYC acquisition).

Four Points Hotel

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NYC Hotels For Sale

Between April and June 2011, hotel transactions have reached an intense level in New York City. Hospitality properties continue to change hands. A recent HVS study found 54 major hotel transactions (15,760 rooms) year-to-date 2011. If an investor is considering hotels, there might be no time like the present to make that move.

Algonquin Hotel

The famous 174-room Algonquin Hotel has been bought and sold four times in the past 15 years. Yet this landmark property might be about to have new owners again in 2011. The Post reports that HEI Hotels & Resorts will sell the 59 West 44th Street property to Cornerstone Real Estate Advisers - a Mass Mutual-owned investment group. Cornerstone manages 37 hotels and holds a debt portfolio of 34 loans on 45 hotels. In 2005, HEI Hospitality bought the Algonquin for $74 million ($425,000 per room).

Algonquin Hotel

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Cooper Square Hotel

Cooper Square Hotel

The 22-storey Cooper Square Hotel with its 2,900 square foot penthouse and 1,300 square foot wraparound terrace is up for sale. Special features of this magnificent property include a 2,300 square-foot ground floor, exclusive bar on the second floor, 4,000 square foot restaurant, and 360-degree views of the Bowery and more. Designed by Carlos Zapata with custom interior furnishings by Milan-based Antonio Citteri, the Cooper Square Hotel is a rather new property.

Along with other NYC ventures, this hotel struggled during the economic downturn. Yet things have turned around in New York City. Mezzanine lender Westport Capital Partners knew that the time is right for buyers and sellers. The Cooper Square Hotel is expected to fetch a hefty sum.

The property should bring a higher price than even legendary hotels like the Chelsea Hotel with its $80 million price tag. The Cooper Square Hotel has no hotel management contracts in place and the new owners can rebrand this hotel. The Cooper Square Hotel is expected to attract considerable interest even from well-known players in the hotel industry such as Ian Schrager and Rocco Forte.

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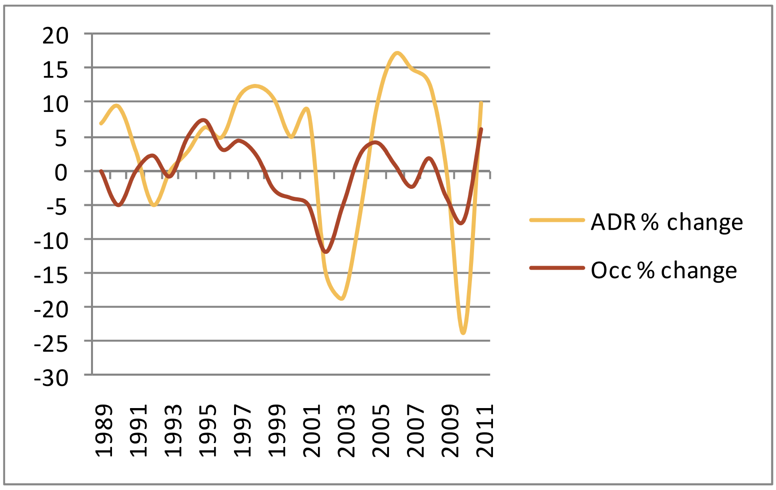
Key Interest

Key investors are willing to buy into a NYC hotel – even if it is recovering from previous challenges. This continued interest is another positive sign of the healthy state of the New York City market. Industry experts cannot deny the recent economic turmoil but they are confident about the future of NYC hotels.

Purchasing a hotel is a major investment but buyers want to take the plunge. The Big Apple is recognized as an established and sound market over time. At present, the short term and long term look profitable for hotel owners in this major center.

NYC Properties

New York City is a vibrant hotel market. In fact, buyers are even picking up parcels of land in this dynamic environment. On May 25, Sherwood Equities confirmed their purchase of a NYC vacant development site in partnership with Fidelity Real Estate



Long-term occupancy and ADR percent changes – 12-month moving average

Source: HVS, STR Global and National Bureau of Economic Research

Group for over $42 million. Situated at 356 10th Avenue, the land is close to the West Side rail yards. The Related Companies, recognized developer of the yards, is going ahead with plans for the site.

New Development

New development can be witnessed everywhere in New York City. The active pipeline is no longer at a standstill in this thriving marketplace. New construction is becoming the norm in the Big Apple. Industry experts say that these developments will be economically feasible for investors. The state of the market is perfect for NYC development.

Renewed Interest

The Sherwood and Fidelity purchase is an example of renewed interest in NYC properties. Prior to the recession, real estate investor Gary Barnett had assembled that parcel of land. Barnett planned to build a mixed-use tower (over 60 stories) designed by architect Steven Hall.

In 2010, Barnett returned the site to Barclays - the British bank with about $30 million senior mortgage against the property. Sherwood and Fidelity's acquisition of 356 10th Avenue could look like a premium to the parcel’s senior mortgage. Today's price, however, is much less than Barnett's original investment.

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"We're buying in at a very attractive cost basis that will allow us flexibility in our development plans," explains Nelson.

Ryan Nelson, Sherwood's senior vice-president of acquisitions and development, elaborates on the benefit of their recent NYC deal.

Changing Hands

Hotel Chelsea is another NYC hotel that changed hands amidst the recent transaction frenzy. The new Hotel Chelsea proprietor is New York real-estate investor Joseph Chetrit. According to insider reports, the sale price was $80 million. Like so many other hotel owners in New York City, Chetrit has more than one NYC property in his portfolio. Recently, he upgraded the Empire Hotel.

Park Central Hotel

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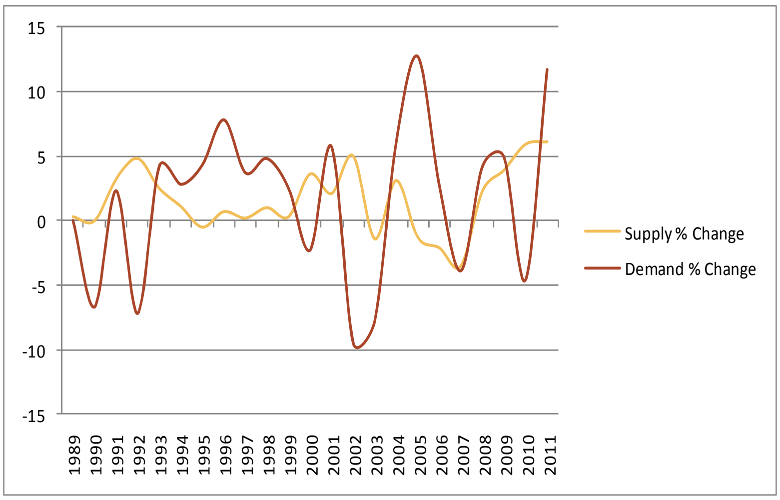
Lower East Side

New York City is a flourishing hotel market. An in-depth look at specific areas of the city gives a detailed perspective of the overall situation. Recently, Brack Capital Real Estate acquired the development site for its Manhattan project - a 290-room Hotel Indigo at 180 Orchard Street. Their latest acquisition came with a $46 million price tag.

"This prime development site presents an untapped opportunity to create a project that will benefit neighborhood residents while adding value to the area overall,"
says Hera.

The new boutique brand hotel is expected to open in 2013. This Lower East Side venture is a joint project with InterContinental Hotels Group - one of the hospitality industry's most respected groups. Issac Hera, chief executive of Brack Capital Real Estate, explains the benefits of owing high-quality property in New York City.

Generally, everyone benefits from NYC developments – hotel owners, leisure tourists, corporate guests, surrounding neighborhoods, and the city as a whole.



Long-term supply and demand percent changes – 12-month moving average

Source: HVS, STR Global and National Bureau of Economic Research

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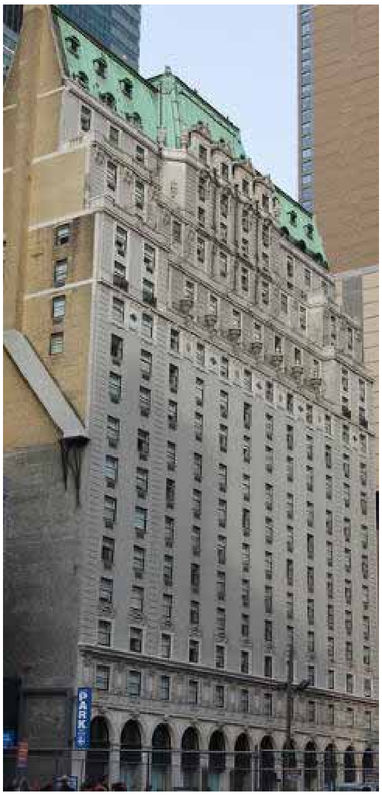


Paramount Hotel

InterContinental is responsible for renowned hotel brands such as InterContinental Hotels & Resorts, Crowne Plaza Hotels & Resorts, Hotel Indigo, Holiday Inn Hotels & Resorts, Holiday Inn Express, and Staybridge Suites, as well as Candlewood Suites. This company brings hotel brands to targeted markets across the globe. InterContinental 'knows' hotels and recognizes the continued potential and profitability of NYC hotels.

InterContinental Hotels group holds an extensive portfolio in New York City. The company's New York portfolio includes The James New York Hotel (27 Grand St.), The Greystone Hotel (212 W. 91st St.), The Olcott (27 W. 72nd St.), the Element (555 W. 59th St.), and the Hilton Garden Inn (63 W. 35th St.), as well as 15 Union Square West and 90 West St.

DiamondRock Development

DiamondRock Development is concentrating in earnest on the NYC hotel market. On May 16, Diamond Rock announced that the company has entered into a purchase and sale agreement to acquire the 712-room Radisson Lexington Hotel New York for a contractual purchase price of $335 million. The deal is expected to close toward the middle of June.

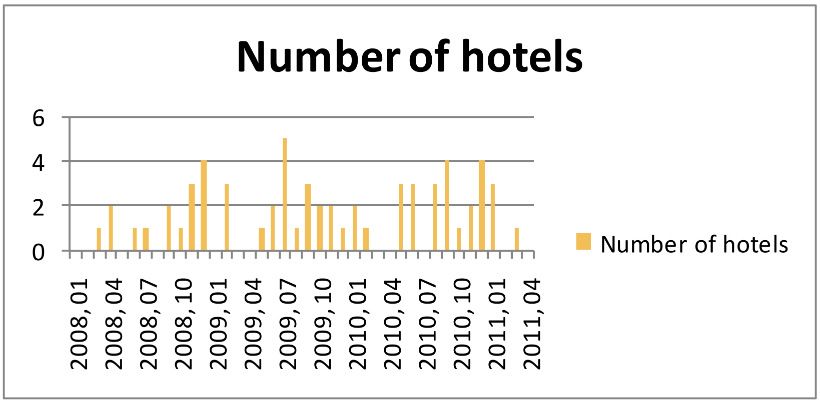
During the Company's anticipated 2011 period of ownership, this property is expected to earn approximately $15.8 million in EBITDA. Highgate Hotels, the hotel's operator, will retain its management under a specific agreement. Most likely, DiamondRock figures that it has funded a jewel of a deal with this latest purchase.

The hotel is located in a prime location at the corner of Lexington Avenue and 48th Street in the heart of Midtown Manhattan. The Radisson Lexington is in excellent condition. Its present owners had invested $54 million into the property during the past twelve years.

As a further show of confidence in the NYC hotel market, DiamondRock Hospitality has agreed to purchase the former Knickerbocker Hotel at 1466 Broadway. The asking price would be based on the number of rooms approved for construction. The price tag would be between $112.5 million and $135 million.

Colorful Market

The Dutch hotel chain, CitizenM, plans a huge "budget luxury" hotel (90,000 square feet, 315 rooms) at a site on the Bowery and



New supply – january 2008 to march 2011

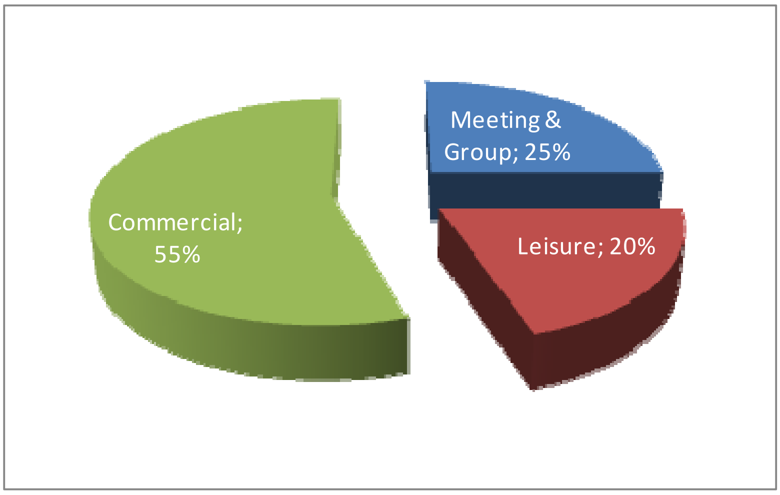
Source: HVS, STR Global and National Bureau of Economic Research

Delancey Street. This innovative hotel hopes to attract "mobile citizens of the world" who are seeking "affordable luxury." The rooms are expected to have wall to wall windows, LCD flatscreens, rainshowers, oversized beds, and a unique feature - rooms (controlled by "mood pads") that can change colors. This interesting project will begin soon and be completed by 2012.

Designing a NYC Hotel

Spring/summer 2011 is shaping up to be one of the most exciting periods in the New York City hospitality industry. New developments, innovative accommodations, and major renovations have surfaced everywhere in the city. Even the landmark MetLife Clock Tower (modeled after St. Mark's Campanile in Venice) is getting a new look. This NYC building is changing from clock tower to luxury hotel with the help of designer Tommy Hilfiger who bought 5 Madison Avenue for $170 million.

In the hotel industry, the commercial segment would register the strongest growth in 2011



Source: HVS, STR Global and National Bureau of Economic Research

A New York Palace

Every category of hotel works in New York City. The market is 'there' for all types of lodging in this metropolis. CitizenM's recent acquisition emphasizes budget luxury while Northwood Investors LLC seeks out world-renowned luxury with its purchase of the New York Palace Hotel. This 899-room upscale Manhattan property is selling for $400 million ($444,938 per room).

Springtime in NYC Hotels

Early spring saw the beginning of a surge of activity in hotel transactions. One of the spring sales involved the sale of Holiday Inn Express Wall Street at 126 Water Street and Hampton Inn Financial District. Hotelier Sam Chang's Metro Six Hotel LLC, an affiliate of McSam Hotel Group, sold the hotels to Pennsylvania-based Hersha Hospitality.

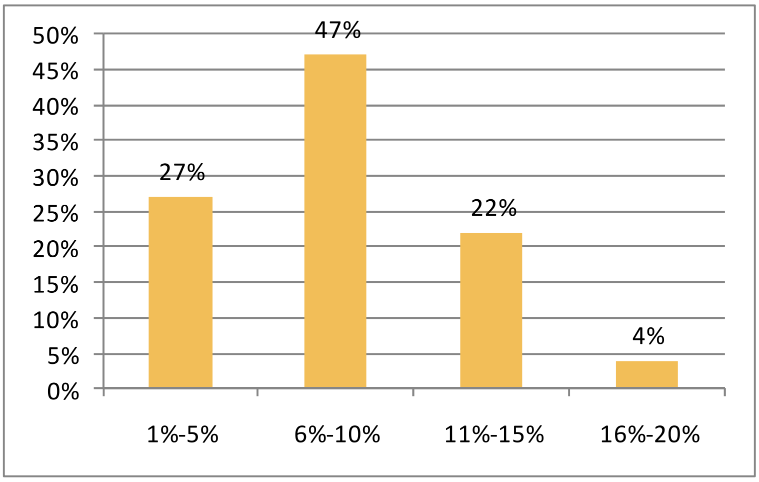
The 112-room Holiday Inn Express Wall Street was bought for about $36.7 million ($328 thousand per key) plus closing costs and fees. The sale price was paid in cash and the hotel was purchased unencumbered by mortgage debt. As well, Hersha Hospitality purchased the 81-room Hampton Inn Financial District for $32.4 million.

Recent NYC Hotel Transactions

On June 1, Related Companies transferred space in the 60-storey MiMA tower to Yotel - the European pod hotel chain. On June 3, Yotel opened the doors to a 669-room hotel offering 170 square feet rooms for about $150 per night. The European company paid $263 million for their new space in New York City.

Situated at 5 West 46th Street NY 10036, the 597-room Paramount Hotel, one of the biggest boutique hotels in the hospitality industry, has been sold to well-known developer Aby Rosen. The new owner's portfolio includes the Seagram Building and Lever House. The sellers' (Walton Capital and Highgate Holdings) asking price was $275 million. Obviously, the Paramount will face competition from other large neighborhood hotels but Rosen hopes to restore the landmark property to its 1980s glory days. The Paramount was one of the first hotels opened by former nightclub impresarios Ian Schrager and Steve Rubell.

47% of hotel executives consider that RevPAR is expecting to increase of six to 10 percent in 2011 compared to 2010



Source: HVS, STR Global and National Bureau of Economic Research

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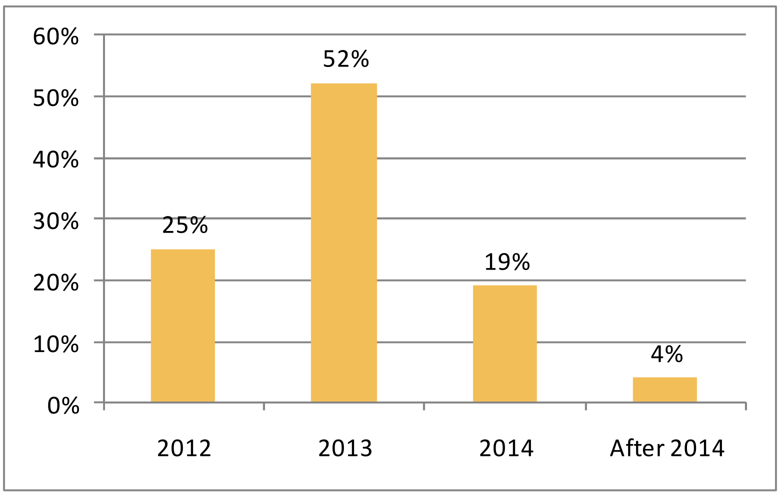
On June 6, LaSalle Hotel Properties confirmed that the company had signed a Purchase and Sale Agreement to acquire the Park Central Hotel for $405.5 million. The acquisition of the 934-room, urban full service hotel on Seventh Avenue in midtown Manhattan will be subject to Lasalle's "due diligence" as well as closing requirements and conditions. Yet if all goes to plan, the deal will close towards the end of the third quarter of 2011.

Winthrop Realty Trust has invested in the Sofitel Hotel. The company invested $5.76 million and received a 50% economic interest in a $71.5 million mezzanine loan held by Concord Debt Holdings secured by an interest in the hotel. The loan is encumbered by a $56.2 million repurchase obligation.

Morgans Hotel Group Co has closed the sale of two Midtown Manhattan hotels – Royalton and Morgans. The buyer was an affiliate of FelCor Lodging Trust Inc. The proceeds of the sales came to $140 million ($496,000 per room). Morgan Hotels will continue to operate both hotels under a 15-year management agreement. Richard A. Smith, President and CEO of FelCor, says that this purchase is an example of REITs entering new markets.



Source: HVS, STR Global and National Bureau of Economic Research

52% of hotel executives are considering that RevPAR would return to its pre-recession (2008) level between 2012 and 2013

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Hotel Investment Convention NYC

"Being an investor … if you wait for the all-clear sign, it's generally too late."
Says Gray

The 33rd annual New York University International Hospitality Industry Investment Conference took place In New York City from June 5-June 7, 2011. Considered the world's premier conference dedicated to the hospitality sector, the convention was attended by over 600 participants including industry leaders, entrepreneurs, investors, and professionals from around the world.

The main message to come out of the conference was that the time is right for hotel investment. Jonathan Gray, senior managing director and co-head of real estate for The Blackstone Group, suggested that this current period of recovery is perfect timing for investment.

Barry Sternlicht, chairman and CEO of Starwood Capital Group, admits to being concerned about the state of the global economy, Yet Sternlicht emphasizes that he will still pursue hotel acquisitions. Sternlicht lists New York as one of the "really great markets."

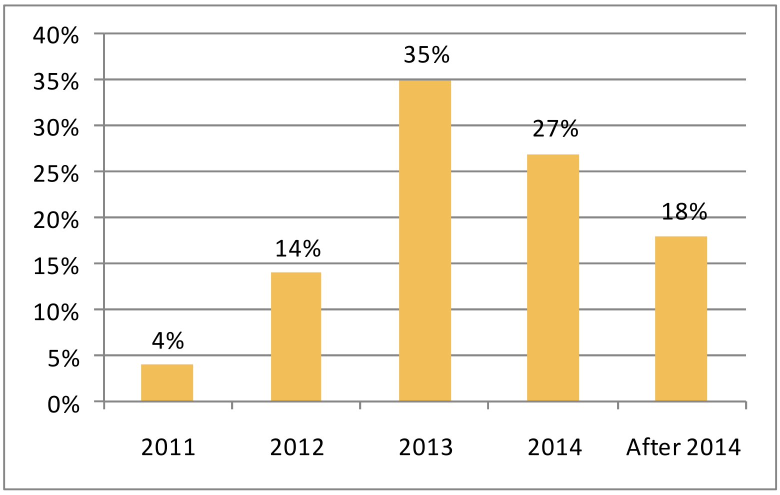
REIT executives at the conference said that their lack of leverage (and sometimes, lower cost of capital) helped them develop acquisition strategies. Executives suggested that these advantages would last for the next couple of years.

Endless Opportunities

The opportunities for hotel buyers and sellers are never-ending in the current NYC market. Tourism statistics, occupancy rates, room rates – all three should continue to rise during the remainder of spring and into summer. During April, average daily NYC room rates increased to $236.41 from $217.19.

Between 2011 and 2013, HVS forecasts a definite rise in RevPAR driven by increasing ADR. At present, one third of 'revenue per available room' stems from increasing ADR and continued growth is expected in the future. According to Mark Lomanno, CEO of STR, ADR should rise above US$100 to US$102.21 during 2011. By the end of 2012, ADR should be above the previous peak in 2008 of US$107.35.

The majority of the hotel executives are anticipating that Net Operating Income (NOI) would recover and return to its prerecession level between 2013 and 2014



Source: HVS, STR Global and National Bureau of Economic Research

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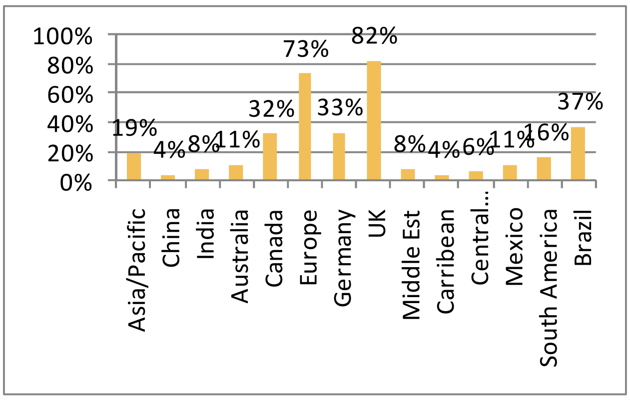
Overall Recovery

The recovery in the hotel industry extends to all metrics. Since last year, the hospitality sector is showing a record-breaking number of room sales. Initial statistics from the Booking Channel Analysis indicate that most of the demand and revenue for chain hotels in 2010 originated from property-direct channels (54.3% - demand, 46.5% - revenue). The total 52 markets covered by HVS will experience room value increases. Steve Rushmore, president and founder of HVS, says that the estimated increase will be 28% in 2011 to US$84,000 per room.

Manhattan Leads

Savvy investors are focused on acquiring upscale hotels in gateway cities across the country. Manhattan is the leader in U.S. hotel transactions. Manhattan has year-to-date sales over $1 billion (a quarter of the nation's high-quality urban hotel trade volumes). After all, the region is known as the world's financial capital with a diverse and extensive economic base.



Source: HVS, STR Global and National Bureau of Economic Research

The majority of international travelers originated from Europe, with most of these visitors coming from the United Kingdom. Brazil and Canada followed in the ranking.

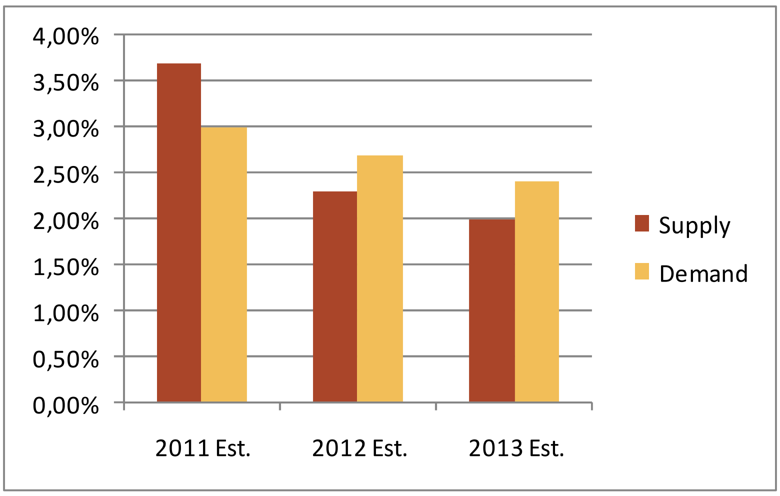
Conclusion

Manhattan Hotel Market

The Manhattan hotel market is making a strong recovery. The growth and development evident in spring 2011 will extend into the summer and beyond. Investors need not be scared away by the intense activity in the marketplace.

Hotel owners will face competition but the NYC market can handle the influx of new hotels. Hotel profitability should not be a concern for New York City owners. This city is not expected to lose its appeal any time soon.

New York City is a magnet for leisure tourists and corporate travelers including international guests. During 2010, European travelers (as well as guests from Canada and Brazil) accounted for 35% of business. An increase in NYC tourism over the past six to twelve months is driving economic growth in this key market.



Forecast of supply and demand – 2011 to 2013

Source: HVS, STR Global and National Bureau of Economic Research

The city is expected to entertain at least 50 million guests by 2012. A rebound in tourism has an overall boom effect from the number of hotel occupancies to the level of employment in the hospitality industry. Indeed, a stronger tourism market in Manhattan means a better outlook for tourism on the national level.

New developments or major hotel renovations are bound to pay off in the Manhattan marketplace. The NYC hotel sector will remain a revitalized market in the near and distant future. Invest in NYC hotels for short term and long term gains.

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