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New York City OFF Market Hotels For Sale

NEW YORK CITY
FLOURISHING HOTEL MARKET


First Quarter Report 2011

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Within the **NYC hotel market**, the first quarter of 2011 has been filled with endless activity and countless transactions. Indeed, New York City ranked as the top global city for foreign real estate investment for 2011. New York had made third place in the rankings during 2010.

January-March 2011 NYC Hotel Sales

- The New Year started out on a promising note with the purchase of the **Doubletree Metropolitan** by U.S. billionaire Robert L. Johnson. **RJ Development**, controlled by Johnson, founder of the Black Entertainment Television network, paid \$335 million for this Midtown hotel with its splendid architecture. Since 2008, Johnson's company has bought three Manhattan hotels. Johnson purchased the **Hilton Garden Inn** at 63 W. 35th St. and the **Fashion 26 Hotel** at 152 W. 26th St. for more than \$100 million each. RLJ Development President, Thomas J. Baltimore Jr., explained that the purchases fit the company's investment plan to buy high-caliber real estate.
- The Maryland-based **DiamondRock Hospitality** Company has been delving big-time into NYC developments during the first months of 2011. In January, industry reports confirmed that the company was planning to purchase a hotel property under development on West 42nd Street in Times Square. Depending on the number of guest rooms (probable 250 to 300 guest rooms, \$450,000 each), the contractual price was to range between \$112.5 million and \$135 million. In addition, on March 14, DiamondRock Hospitality Group announced that it had the right of first refusal to buy the adjacent **Knickerbocker Hotel**.
- The estate of **Leona Helmsley** sold the **New York Helmsley** to **Host Hotels and Resorts Inc.** for \$313.5 million. The buyer is a S&P 500 and Fortune 500 company, the largest lodging real estate investment trust, and one of the largest owners of luxury and upper upscale hotels. **Host Hotels and Resorts** owns 104 properties (62,000 rooms) in the US and nine

international assets.

Starwood Hotels and Resorts Worldwide, Inc.

will take over the management of this Midtown Manhattan hotel. Host Hotels allocated \$50 million for renovations. This luxury hotel, however, is still a

good deal considering its prime location and popularity with guests.



- Barry Sternlicht's **Starwood Capital** bought **1414 Ave. of Americas** for \$72 million and planned to turn it to a hotel (its original purpose). Earlier, Ian Schragar and Norman Sturner of **Murray Hill Properties** wanted to create a hotel at the site on the southeast of W. 58th Street by Central Park. In November 2007, Murray Hill bought the building for \$120.5 million. The firm took a loan of \$65 million that was transferred to **RCG Longview**, local mortgage investors, in July 2010. The deed for 1414 Ave. of Americas was signed by an executive from RCG Longview which also took back a \$36 million mortgage on the property. Schragar was not involved in this recent project.
- In a deal that closed in mid-February, Michael Steinhardt and his investment partner, Allan Fried, purchased two former American Stock Exchange buildings for \$65 million. The investors paid cash for the properties. Fried said, however, that they might look for financing at a later date. The partners plan a retail complex, 174-room boutique hotel, and 60-storey residential tower. Construction is expected to start within a year and the project will take two years for completion. The investor pair did not divulge the expected cost of construction.
- In March, **Starwood Capital** and **Tribeca Associates** agreed to purchase the site of the former **Donnell Library** on West 53rd Street. The buyers plan to build a \$400 million hotel/condominium/library at the location. Originally, **Orient-Express Hotels** had agreed to buy the site from the **New York Public Library** for \$59 million. Paul White, president and CEO of Bermuda-based Orient-Express, has confirmed that the economic

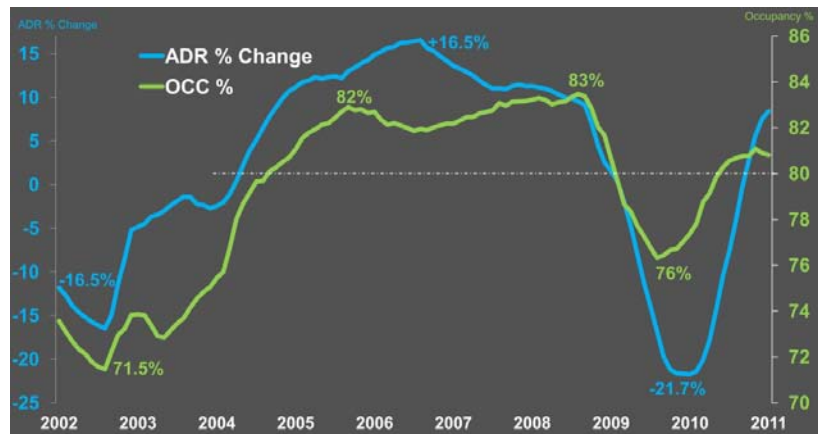
climate at the time interfered with that venture. In 2011, however, Starwood Capital's willingness to take on this conversion is evidence of the firm's confidence in the future of **NYC hotels**.

- Boutique hotel owner and operator **Morgans Hotel Group Co.** have agreed to sell Its **NYC Morgans and Royalton** hotels to **Felcor Lodging Trust** (a lodging real estate investment trust). Earlier this week, Felcor announced that it will offer 24 million shares to fund a pending acquisition expected to close during the second quarter. In a U.S. Securities and Exchange filing, the company confirmed their agreement to purchase in the range of 300 upscale hotel rooms in Manhattan for almost \$140 million. At the end of last year, the Royalton and Morgans Hotels provided 282 guest rooms. Morgans, one of the original boutique hotel companies, has a heavy debt load and plans to sell a portion of its real estate. The firm will continue to manage both hotels. In the past, larger firms such as **Marriott International Inc.** and **Starwood Hotels & Resorts** have followed a similar business model. On March 31, Morgans shares were almost flat at \$9.85 on Nasdaq but Felcor shares were up 1% at \$6.12 on the New York Stock Exchange.

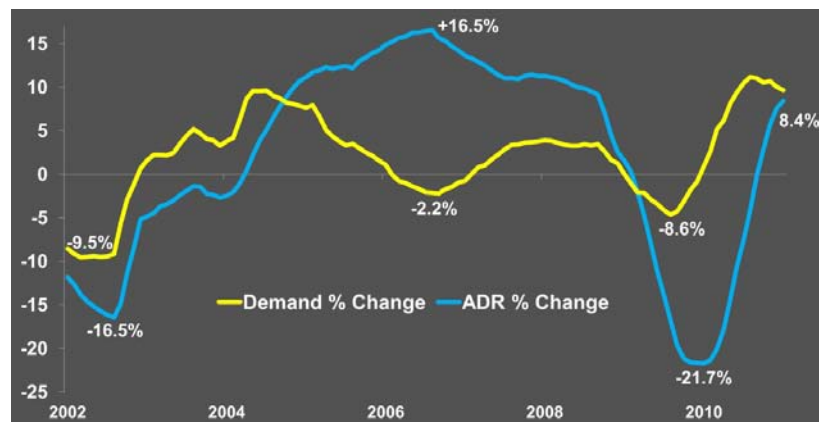


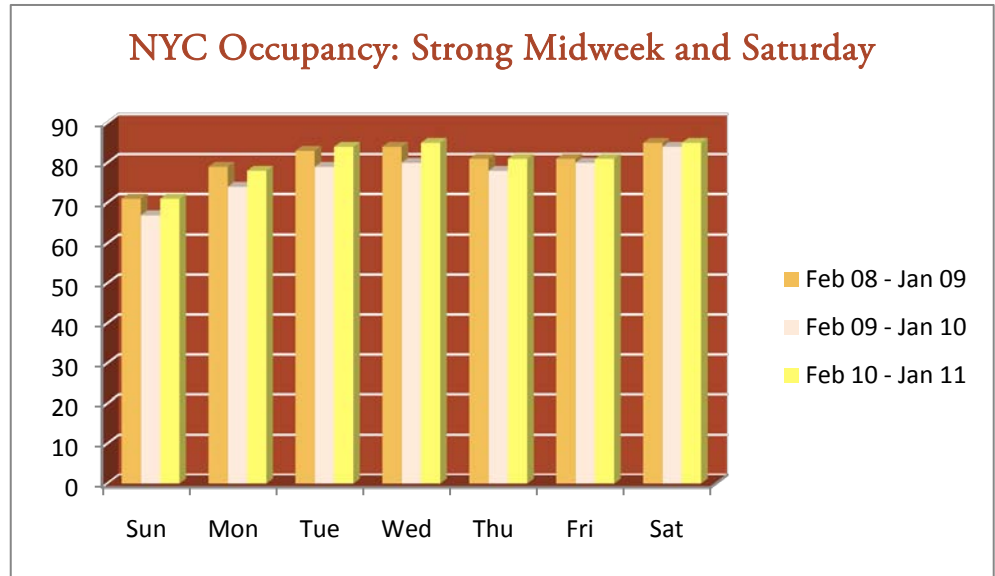
Current NYC Hotel Market

With an occupancy rate as high as 88.4%, the **NYC hotel market** reflects a hot industry. New York City room and vacancy rates are highest in the country. **STR Global**, a company tracking supply and demand data for the hotel industry, reported that New York had the highest hotel occupancy rate among the top 25 U.S. markets as of March 2010. The **Big Apple** has been the top tourist destination in the US for the past two years. Forty-eight million tourists visited the city in 2010.



The NYC hospitality industry is thriving in this recovering economy. Statistics suggest higher occupancies during the coming year. According to **STR**, the **NYC hotels** were bouncing back from the recession at the end of last year.

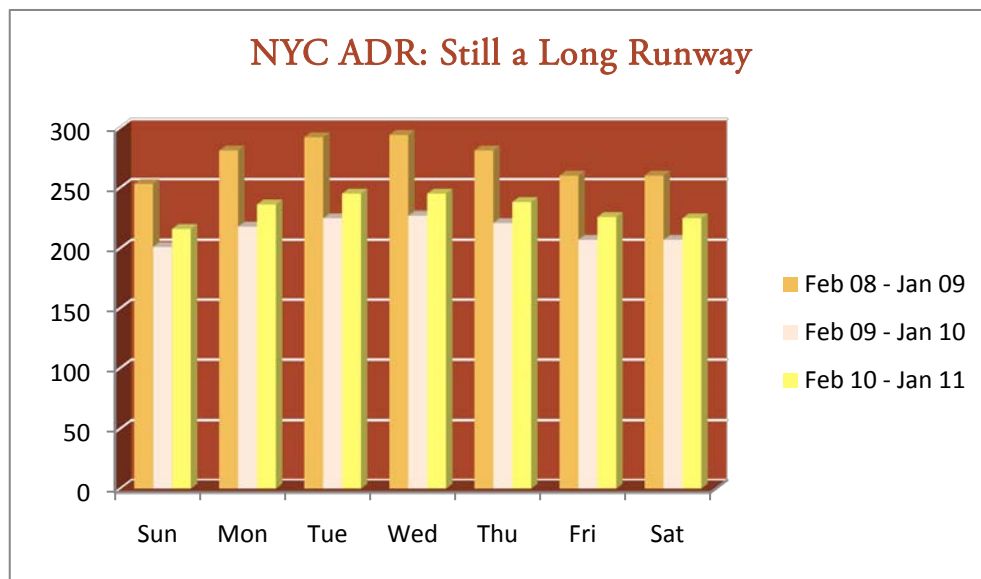




Year-end revenue came in at 18% more than the previous year. Despite the fact that the early months of the year are often synonymous with a weak market, January and February 2011 showed a rise in all areas. January occupancy (average daily rate) and (revenue per available room) increased as much as 13.4% over January 2010.



During the first month of 2011, the average daily hotel room rate was \$217 - a 6.3% rise from January 2010. Hotel occupancy was 66.0% in the first month of 2011. The biggest rise in the average daily hotel room rate was in higher-priced hotels charging more than \$325 per night.



The present ADR is \$276.07 in New York City. The cost of a room for the night has increased more in New York than anywhere else in the country. During March 2010, the revenue per available room increased 19.1% from the end of 2009 to an average \$178.60 per night. The rate rose another 8.2% (biggest increase in the US) as of last December.

Independent Properties

There is no shortage of supply in the New York City hotel market. At least 33 new **NYC hotels** will open in 2011. More than half of these ventures are independents, The new properties have tremendous potential with the stabilizing market in the **Big Apple**. The real winners will outshine the competition. Numerous independent hotels have opened since the beginning of 2011.

Mondrian SoHo - One example of an independent property is the unique Mondrian SoHo owned by **Morgans Hotel Group Company**. This luxurious 270-room hotel opened on March 1 and is off to a profitable start with strong demand and a high occupancy rate. The Mondrian Soho caters to a fashionable clientele.

Gansevoort Park Avenue NYC - Each independent hotel must carve out its own niche in the **NYC hotel** scene. The 249-room Gansevoort Park Avenue NYC (owned by the **Gansevoort Hotel Group**), another upscale independent hotel, opened officially in February 2011. This “ultimate urban resort” enjoyed high occupancy following its initial opening in September 2010. This luxury hotel is expected to experience continued success because of its intense focus on providing optimal luxury.



Successful NYC Hotels

The New York City hospitality industry can accommodate varied hotel types including luxury, boutique, and economy brands. Every hotel category can be successful in this thriving metropolis. **NYC hotel** guests have a variety of needs (corporate and leisure) as well as different budgets.

Business travelers and vacationing guests will require distinct types of hotels. Obviously, specific hotel brands might do better during certain periods such as peak tourist season. Yet **NYC hotels** are known as consistent high performers.



Shoreham-Hotel

NYC Hotels In Progress

Nolitan Hotel – The **NYC hotels** under construction hope to share in the profitability of the dynamic market in the Big Apple. The 10-storey Nolitan Hotel, the first hotel located in the Nolita (north of Little Italy) neighborhood,

plans to entice people to the dining and shopping possibilities in this distinct area of New York City. Patrik Horstmann, GM of the 55-room Nolitan Hotel is focused on creating an exceptional, customer-friendly establishment. Unique hotels in New York City have an outstanding chance of benefiting from the current market.

32 Pearl St. – A new 80-room Hampton Inn is coming to Lower Manhattan (the second Gene Kaufman-designed Hampton in the area). Prestigious hotelier, Sam Chang, plans the development in an Art Deco residential building that he owns already in the neighborhood. Recently, Chang secured a development loan from Philadelphia-based **Hersha Hospitality Trust** to proceed with construction. When the establishment opens in late 2011, Hersha Hospitality Management will operate the hotel. Hersha Hospitality Trust owns the **Hampton Inn** at the South Street Seaport as well as the **Holiday Inn** on Maiden Lane.



In April 2011, **TRYP**, part of the **Sol Melia** group with a huge presence among European business travelers, is opening a 173-room property (345 W 35th St.) near Times Square in Lower Manhattan. NH-Hotels, based in Spain and well-known in Europe and Latin America, has additional property in New York. International investors favor the Big Apple for the same reasons as local investors. At a 2011 ALIS (American Lodging Investment Summit) panel, international hotel operators explained that New York City is the place to make a global statement. Demand is the key word that describes the **NYC hotel market**.

And More New NYC Hotels...

Property	Rooms	Location	Neighborhood	Opening
Flatiron Hotel		1141 Broadway	Lower Manhattan	Mar-11
The Charles		893 Broadway	Lower Manhattan	Mar-11
HotelAmericano		516 W 27th St	Lower Manhattan	Apr-11
Hyatt 48Lex		517 Lexington Ave	Midtown East	Apr-11
Dream Downtown		346 W 17th St	Lower Manhattan	Apr-11
Yotel New York Times Square		440 W 42nd St	Times Square Area	May-11
Wyndham Garden Hotel New York		93 Bowery St	Lower Manhattan	Jun-11
Holiday Inn New York City Midtown		30 W 31st St	Lower Manhattan	Aug-11
Hampton Inn Manhattan Downtown Financial District		32 Pearl St	Lower Manhattan	Sep-11
Allen Street Hotel		139 Orchard St	Lower Manhattan	Oct-11
Holiday Inn Express New York		509 -13 W 43rd St	Times Square Area	Dec-11
The NoMad Hotel		1170 Broadway	Lower Manhattan	Dec-11
Hyatt Union Square		134 4th Ave	Lower Manhattan	Dec-11
The Axel Hotel		510 W 42nd St	Times Square Area	Dec-11

Zoning for NYC Development

New hotel developments will be cropping up in neighborhoods that were zoned originally as industrial commercial areas. Chelsea and Tribeca are two areas which have been rezoned to encourage development. In January, **Choice Hotels International** announced the scheduled 2013 opening of **Cambria Suites** in New York (one of the first two in the city). Another **Cambria Suites** will appear at Times Square.



NYC Hotels: 2010-2011

During 2010, over 30 new properties (6,200 rooms) opened in New York City. Almost 50 million tourists visited the **Big Apple** last year. This figure represented a 6.8% increase from 2009 and resulted in the sale of 25.7 million room nights. The city set a record for new hotel developments and sales and had an average occupancy rate of 85%.

According to **Smith Travel Research**, 40 properties (6,500 rooms) are under construction in New York City. As of February 2011, the city has 86,232 rooms in its active inventory. Hotel development is active throughout the five NYC boroughs - Manhattan, Queens, Brooklyn, the Bronx, and Staten Island. Recent new openings include the **Chatwal New York**, **Setai Fifth Avenue**, **Aloft Harlem**, W Downtown, **Element New York Times Square West**, **Courtyard New York Manhattan/SoHo**, **Sheraton Brooklyn**, and other superb NYC hotels.



NYC Hotels: 2011-2014

During August 2010, **PricewaterhouseCoopers** projected strong growth for the NYC lodging industry in 2011. The PricewaterhouseCoopers prediction was based on a forecast from Macroeconomic Advisers which projected a revival during the current year. According to the February 16 Hotel Intelligence New York report released by **Jones Lang LaSalle Hotels**, the volume of hotel deals will double during 2011 in New York City.

This year's hotel deal volume is expected to run between \$1.9 billion and \$2.4 billion. The most hotel transactions in the US will take place in Manhattan. Between 2011 and 2014, a higher number of hotel transactions are expected to occur in New York City. Wall Street banking activity will drive the activity and numerous existing real estate loans will come due within the next three years.

The transactions will cover everything from luxury properties to less expensive real estate. Investors will welcome low prices for luxury hotels. Regardless of prices, however, smart investors are willing to pay for **NYC hotels**.

Buyers recognize the upward trends in this dynamic market. New York City has a strong reputation on the national and international scene. The historical strength of this vibrant market speaks for itself.

Conclusion

The NYC hospitality market is recovering at a steady pace. An increase in corporate travel is a driving factor behind the continuing growth in New York City hotels. According to **STR**, hotel occupancies in the leading 25 U.S. markets increased 65% during the first nine months of 2010 compared with the same period in 2009. The **Big Apple** is a top market.

Since investors are showing interest in the hospitality industry, all signs point to a rebounding market in New York City. ETC advises to "take encouragement from the broad range of positive signals." The recovery predictions have been confirmed by the U.S. Department of Labor Office of Research and the European Travel Commission.

Of course, the state of the NYC hospitality industry is not measured by one real estate deal or even ten transactions. The strength of the market is determined by the overall showing with hotel deals in the Big Apple. There is every reason to have the utmost confidence in the **NYC hotel market**.

Average Hotel room sold in New York City is now \$500k per room.