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TOP STORY

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DUBAI DOLES OUT DOLLARS FOR W

Peter Slatin

Much attention was devoted October 5 to the bids that were due for MetLife's proposed sale of its Stuyvesant Town and Peter Cooper Village apartment complexes. The bidding action was so hot and heavy that the CB Richard Ellis executives running the show for MetLife couldn't make it to their firm's 100th anniversary bash. Instead, they were busy opening envelopes from a range of buyers expected to offer around \$5 billion for the 11,000 units. **Whatever the eventual deal, it is almost sure to set a price record** and perhaps – to trot out a phrase that hasn't been heard in at least five minutes – shift the pricing paradigm.

For example: hotel prices. Scant blocks from Stuyvesant Town sits the **270-unit W Union Square, owned by the Related Cos.** and an institutional partner and operated by Starwood. Related and Starwood acquired the 1911 building, at the northeast corner of Park Avenue South and 17th Street, from Guardian Life (yes, another insurance giant) in 1999 and opened the W in November 2000. Toda, says Tom McConnell, of Cushman & Wakefield's hotel advisory group, "it's the best realized W in the country, in terms of ADR (average daily rate) and annualized revenues." The hotel's buildout was a gut renovation under the direction of architect David Rockwell, who also designed



The 1911 Guardian Life Building became the W Union Square in 2000.

the flagship W on Lexington Avenue and 50th Street.

Now, showing how older buildings can set new pricing standards, the W Union Square has been sold to Dubai's voracious Istithmar for more than \$1 million a key.

Neither Istithmar nor Related could be reached for comment. But sources say that, after Related had first explored a sale in 2005 and then pulled back, the big-spending Dubai group stepped forward with the necessary cash. And the sale is likely to be just the first of a dynamic – and dynamically expensive – double deal: Istithmar is also closing in on an acquisition of the Mandarin Oriental at Time Warner Center, which is 50% owned by Related and its partner there, Apollo Real Estate Advisors. Sources say that deal, which has been under way for at least seven months, is hung up on a variety of issues, including management. "It's a little more cumbersome," hints one person familiar with the discussions.

Though few dispute the worthiness of the exclusive 252-room Mandarin – open for less than two years in Related's Time Warner Center – for the seven-figure-a-room pricetag, most market watchers were taken aback that the W could have reached that mark as well. The rooms, and the room rates, at the W are considerably smaller than those at the Mandarin, which opened for business with a rack rate of \$595 in 2004.

"It's the benchmark a lot of people have been waiting for," says John Bralower, president of Carlton Hospitality Group in Manhattan.

According to Real Capital Analytics, Manhattan hotels this year – excluding the W deal and a few other recent transactions yet to close – are trading at an average of \$547,000 a key, up from \$407,000 in 2005.

Nationwide, hotels are booming, and the industry is in excellent shape, notes Bjorn Hanson, head of the leisure and hospitality



Is Istithmar about to buy the Mandarin Oriental at Time Warner Center?

practice at PricewaterhouseCoopers.

"Occupancy is at the highest level since 1965," he says. Companies "are making a lot more money, room rates are higher while interest rates and debt levels are lower, properties are run better, and food and beverage margins are higher. It's a much better managed industry" than ever before.

Just how healthy the overall market is can be seen in Hanson's forecast. Although he thinks 2006 will be the peak year in what has been a strong upcycle, with revPAR (revenue per available room) growing at its fastest pace since 1987, the sector is not going to lose luster anytime soon. Hanson's group predicts supply growth won't match demand until 2008, when both will be at roughly 2%. For 2007, he says, construction will increase just supply by just 1%, versus a typical 2.2% rate of growth, with lenders still skittish about the highly cyclical hotel market. Meanwhile, he says, "occupancy rates will continue to increase, and revPAR will accelerate attractively" – at its best pace since 1981.

And in New York City, with occupancy at 85% and racing, investors are snapping up hotels, says Hanson – and not necessarily for the operating revenue, which is a bonus. "The thought is that this is pretty safe real estate."

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