



## **Host buys downtown Hyatt for \$570 million**

**By THOR KAMBAN BIBERMAN**, The Daily Transcript  
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High-end lodging company **Host Hotels & Resorts Inc.** has agreed to buy the 1,625-room Manchester Grand Hyatt San Diego for \$570 million.

The transaction for the hotel adjacent to the Convention Center includes cash, the repayment of existing loans and the issuance of common and preferred operating partnership units, the Bethesda, Md.-based company said Tuesday in a statement. Hyatt will continue to operate the hotel that is expected to keep its name.

When asked about the price, Alan Reay, **Atlas Hospitality Group** president, said what works out to about \$300,000 per key is still below replacement cost.

"This is a good sign that the market is recovering," Reay said.

Reay noted that **Sunstone Hotel Investors** (NYSE: SHO), which recently lost the W Hotel in downtown San Diego in a deed-in-lieu-of-foreclosure action, had hoped to purchase the Hyatt but was unable to put a deal together.

Robert Rauch, a hotel developer and consultant, also says \$300,000 per key is a good price for the hotel.

"It doesn't sound too far off. The hotel is the largest in the city and it will do very well," Rauch said, adding, "I don't think you'll see trophy properties trading for a steal."

Rauch said while it might have made little sense to purchase hotel properties between September 2008 and September 2010 when the fundamentals were still collapsing, real estate investment trusts such as Host (NYSE: HST), opportunity funds, management firms and high profile partnerships are each positioning themselves to buy these upscale assets.

Host expects the transaction to close in March, pending approval by the San Diego Unified Port District.

The Hyatt, like many luxury hotels, has seen its revenue per available room (RevPAR) decline significantly during the past three years as rates and occupancies dropped to levels not seen in many years.

“In 2009 the occupancy probably dipped down into the 50s,” Reay recalled, adding that it has currently rebounded to the 70 percent+ range. “RevPAR and occupancies are recovering for the luxury hotels and it’s a V-shaped recovery.”

Faced with a heavy debt load and rates that hadn’t fully recovered, hotel developer Douglas Manchester announced last June he would be giving up his majority stake in the hotel in exchange for interests in Hyatts in Atlanta and Chicago.

Manchester had also sold his majority stake in the San Diego Marriott Hotel and Marina for about \$93 million in 2008 to Host Hotels but retains control of the Grand del Mar Resort in the Carmel Valley area.

The developer also built the First National Bank Building and is the master developer of the Broadway Complex master plan, which calls for Navy and civilian office development along with hotels and retail.

All told, Manchester entities have developed over \$2 billion in assets in 11 states, founded two banks and established a diverse investment portfolio.

Host Hotels meanwhile, reportedly the largest U.S. lodging real estate investment trust, has been looking to acquire high-end properties across the country.

Last month Host said it would purchase the 775-room New York Helmsley Hotel in midtown Manhattan for \$313.5 million, and it agreed to buy the W New York Union Square in July with partners including **Istithmar World PJSC**. That hotel had been placed into Chapter 11 bankruptcy protection in March of last year only a day before the asset was to be foreclosed upon. *Crains* reported it was acquired for a mere \$2 million of mezzanine debt in December 2009. The W New York Union had sold for a reported \$285 million in 2006.

As for why this is a good time to buy such properties as the Manchester Grand Hyatt, the Helmsley and the W New York Union Square, Edward Walter, Host's president and chief executive officer, said the time to strike is when the iron is getting warm, rather than already hot.

"Early-cycle acquisitions tend to add the best value," Walter said during a call with analysts and investors Tuesday. "We have a strong pipeline of acquisition opportunities."

Host Hotels also expects to complete the acquisition of seven midscale and upscale hotels in New Zealand in February for about \$145 million, including \$80 million of mortgage debt, the company said Tuesday. The properties are located in New Zealand's main commercial, political and tourist centers, including Auckland and Wellington. The hotels will be operated by **Accor SA** under the Ibis and Novotel brands.

Host's net loss narrowed to \$6 million, or 1 cent a share in the fourth quarter 2010 from a loss of \$72 million, or 12 cents a share for the like quarter a year earlier.

Revenue climbed to \$1.49 billion in the fourth quarter of 2010 from \$1.33 billion in the fourth quarter of 2009. The REIT also plans to pay a 2-cent quarterly dividend in the first quarter, up from 1 cent, and expects an aggregate dividend in 2011 of between 10 cents and 15 cents per share.

Host's stock price closed Tuesday at \$18.87 per share -- down 79 cents or 4.02 percent on the day. The stock has ranged from \$11.18 to \$19.88 per share during the past 52 weeks.

-- *Bloomberg News contributed to this report.*