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San Francisco's tourism buzz energizes hotel sales

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San Francisco hotels brought in the big bucks this year.

Selling for more than \$230,000 per key, the six largest deals made waves, while a number of hotels were bought above asking price — a clear indication of the city's desirable real estate market. With more hotels up for grabs, the industry's momentum should continue into next year.

"The city has an incredible buzz now," said [Anwar Elgonemy](#), director of investments for Equinox Hospitality. "It's similar to the frothy days of the dot-com boom."

This year, that buzz trickled down to the city's hotel industry, which saw double-digit revenue growth and the highest ever occupancy and room rates. Occupancy topped 80 percent for the year ending in August, while average room rates are on track to hit to \$171.

The number of hotels changing hands shot up as a result, as everyone was clamoring for a piece of the market.

Among 2012's biggest hotel deals, the storied Fairmont San Francisco in Nob Hill sold for \$200 million in May.

[Oaktree Capital Management LP](#) acquired the hotel along with real estate investor [Michael Rosenfeld](#) and his Woodridge Capital Partners LLC. The group took the hotel off the hands of [Maritz, Wolff & Co.](#), which originally invested in the property in 1998 together with Kingdom Holding, which retained its interest in the deal.

"The timing was good to invest," said [Thomas Klein](#), the Fairmont's general manager, speaking about the deal. "With no new hotels, the market is extremely buoyant right now."

Klein added that the new owners now plan to invest \$15 million to \$20 million over the next year to remodel the historic hotel's 591 guest rooms.

Other notable deals of the year include the now closed Hotel Milano, which was acquired by [Pebblebrook Hotel Trust](#) for \$58 million, and is now in construction to become Hotel Zetta under the Viceroy Group. The group is spending between \$11 million and \$12 million to renovate the 116-room boutique hotel in SoMa. Pebblebrook also recently took Hotel Palomar for \$58 million.

Earlier this year, Hotel Rex was acquired by [DiamondRock](#) for \$29.5 million. The Parc 55 Wyndham also was sold to the New York-based [Blackstone Group](#) for \$235 million, by the [Rockpoint Group](#) after it defaulted on its debt. Blackstone, which owns the [Hilton Worldwide](#) chain, holds 75 percent of the 1,015-room hotel. Rockpoint held on to the rest after investing \$10 million of new equity.

The Ritz-Carlton, Hotel Clift, the Harbour Court and Triton Hotel, among others, are still looking for buyers.



Renee Frojo covers hospitality, restaurants, retail and nonprofits for the San Francisco Business Times.