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Hotel market starts to stir

Two inns sold out of foreclosures

San Francisco Business Times - by [Sarah Duxbury](#)

The year has opened with a flurry of Bay Area hotel sales.

This week, JP Sethi closed on the **Sheraton Pleasanton Hotel**, which was in foreclosure, and **SIMA Corp.** in Santa Barbara placed the winning \$11.4 million bid to buy Sausalito's 63-room **Casa Madrona Hotel** at auction.

In late January, a group represented by **Abacus Lodging Investors**, which also is a minority owner, bought the 220-room **Tuscan Inn** in Fisherman's Wharf from Kimpton Hotels.

The burning question is whether these sales are part of a larger, positive trend that the market is again moving, or if the transactions are mere coincidence.

"The way these things go is the lender usually ends up making the highest bid and taking the property back," said Mark McDermott, senior managing director with **PKF Capital**. "The (sale of Casa Madrona) to a private party as opposed to going back to the lender, along with the others that have just occurred, could be an early indication of where the market could go this year."

Alan Reay, president of **Atlas Hospitality Group**, forecasts that over half of all hotel sales in 2010 will be of distressed properties, with owners forced to sell.

The lender took control of the 170-room Sheraton Pleasanton in June 2009. Close to \$13 million was owed on the property; the sale price was close to the amount of debt on it. Actual terms were not disclosed. The hotel sold in 1997 for \$15.4 million.

Henry Bose, managing director at PKF Capital, represented the seller and said that the deal was seller financed, which helped the sale close.

San Francisco's Tuscan Inn was not a distressed property, but it had a \$30 million loan maturing and Kimpton determined that it was better for investors to sell the property, which it built in 1990, than refinance or extend the loan.

"We have no plans to sell any other hotels at this time," said Ben Rowe, Kimpton's chief financial officer. "In this situation, we did feel we were able to get a price where it did make sense to sell."

Terms were not disclosed. Kimpton will continue to manage the property.

While the spread between buyers and sellers is shrinking, brokers say, a gap remains. That could keep the transaction pace slow, especially if lenders do not foreclose on properties.

The **Four Seasons** in San Francisco could be foreclosed at any time, since Millennium first defaulted on its \$90 million loan back in June 2009.

"A lot of hotels are being foreclosed on, but very, very few are being resold because lenders are not willing to take the prices they need to take today," Reay said. "It's really a price problem."

Though there is lots of capital looking for hotel deals, inventory remains tight.

"We're seeing some increase in transaction activity out there, but the substantial shift the market has been anticipating is not there yet," Rowe said. "We are anticipating to buy more hotels over the course of the year."

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