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SEATTLE

Extended Stay Hotels Files for Bankruptcy

If we needed a stark reminder on just how hard the hotel market is being hit, then Extended Stay of America's bankruptcy filing in June has to be it. With over 680 hotels - 59 in California - it is one of the largest hotel bankruptcy filings in history.

The hotel chain, based in Spartansburg, S.C., filed for Chapter 11 bankruptcy after it concluded it didn't have enough money to pay its lenders and stay afloat.

Under Chapter 11, the company will continue to operate while it restructures.



The Extended Stay property in Orange is one of 59 in California.

The Lightstone Group, owned by David Lichtenstein, bought the chain in 2007 for \$8B - \$1B in cash and \$7B in debt - from the Blackstone Group, a private-equity firm. It was one of the most expensive non-casino hotel acquisitions ever.

Extended Stay has struggled during the recession. Company Rev PAR was down 23.2% for the first five months of 2009 compared to the same period last year.

News Briefs

Sunstone Forfeits W San Diego

Sunstone Hotel Investors decided to forfeit on the 258-room W San Diego after efforts to reach a compromise on the luxury hotel's \$65M securitized mortgage failed. Sunstone, which owns over 40 hotels, bought the W in 2006 for \$96M. Currently worth an estimated \$20M, it has failed to generate enough cash to cover operating costs and debt since 2007.

Sunstone is the first public company to formally offer a hotel back to its lender, but this is believed to be just the tip of the iceberg.

Dana Point St. Regis Resort May Be Sold at Auction

The St. Regis Monarch Beach Resort may be sold at auction if a foreclosure-driven sale moves forward. An affiliate of New York-based Citigroup Inc. is moving to foreclose on the 400-room property, which has about \$300M of debt tied to it.

The luxury property made headlines last year following a well-publicized AIG corporate outing. Makar Properties owns the resort.

Stanford Court in San Francisco in Receivership

A receiver has taken control of the Stanford Court, a Renaissance Hotel, in San Francisco. JER Partners paid about \$93M for the 393-room luxury hotel in January 2007.

Barclays Capital, the lender, said that JER defaulted on its \$89M loan for the acquisition, renovation and operation of the hotel and then basically walked away.

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California Rev PAR Declines Continue in May

California continues to see record Rev PAR declines with many major metropolitan markets seeing even deeper declines in May than in the previous four months.

San Jose/Campbell is being hit extremely hard, down over 31% year-to-date and over 36% down in May alone. Twenty-four out of the 27 California markets tracked by Smith Travel Research show over double digit Rev PAR declines year-to-date and no signs of a bottom yet.

Both tables show the top 20 Rev PAR declines as compared to the same period in 2008.

California Rev PAR Declines May 2009 YTD		California Rev PAR Declines May 2009 Only	
United States	-18.7%	United States	-20.4%
California	-21.5%	California	-22.9%
San Jose/Campbell	-31.2%	San Jose/Campbell	-36.5%
Santa Monica/Marina del Rey	-26.4%	Newport Beach/Dana Point	-27.8%
Newport Beach/Dana Point	-26.1%	Santa Monica/Marina del Rey	-26.5%
South Lake Tahoe	-25.0%	San Diego	-26.1%
Ontario	-24.9%	Vallejo/Napa Valley	-26.0%
Pasadena/Glendale/Burbank	-24.1%	Monterey/Salinas	-25.8%
Oakland	-24.0%	Palm Springs	-25.2%
Santa Rosa	-23.6%	Los Angeles/Long Beach	-24.0%
San Diego	-23.4%	Oakland	-24.0%
Los Angeles/Long Beach	-22.6%	Santa Cruz	-23.8%
Palm Springs	-22.2%	Pasadena/Glendale/Burbank	-23.6%
Santa Cruz	-22.0%	Santa Rosa	-22.9%
San Francisco/San Mateo	-21.9%	South Lake Tahoe	-22.6%
Santa Ana/Costa Mesa	-21.9%	San Francisco/San Mateo	-22.2%
Sacramento	-20.3%	Oxnard/Ventura	-22.0%
Vallejo/Napa Valley	-20.1%	Santa Ana/Costa Mesa	-22.0%
Monterey/Salinas	-19.9%	Sacramento	-21.7%
Oxnard/Ventura	-19.8%	Ontario	-21.4%
Anaheim	-17.4%	Anaheim	-20.9%
Stockton/Modesto	-16.9%	Stockton/Modesto	-19.6%

Source: Smith Travel Research

Property Listings Piling Up

With buyers unwilling or unable to make purchases, property offerings and distressed assets have increased substantially, according to Real Capital Analytics. In April, a total of \$2B of properties in the four major sectors changed hands, but \$11.5B of properties were on the market. Retail properties proved the most difficult to sell, followed by industrial, office and multifamily. California has seen a 30% increase in the number of hotels for sale, but closed transactions are at a record low.

Special Servicing Volumes Up

The volume of securitized loans in special servicing spiked to \$35.4B in May, putting over 5% of all CMBS loans in the hands of special servicers. The CMBS delinquency rate also increased, to 2.4%. The bulk of the increase in special servicing volume came from the transfer of loans on shopping centers owned by General Growth Properties Inc., which filed for bankruptcy and added over 160 properties into the filing.

Commercial Real Estate Loan Defaults Soar

Commercial real estate bank loan defaults recently hit their highest level in 15 years, according to Real Estate Econometrics. The default rate, which doesn't include loans on apartments, rose to 2.25% during the first quarter of 2009. The rate is expected to peak at 5.3% in 2011.



Alan X. Reay

Atlas Hospitality Group

The market leader in California hotel sales

Atlas Hospitality Group, which specializes in the sale of California hotels, was founded by Alan X. Reay in 1997. Since its inception, Atlas has sold more hotels in the state than any other brokerage firm.

Before founding his own company, Reay was the top producing hotel broker at a national firm. Regarded as "the expert" in the California hotel market, he has been quoted in numerous major publications including the *Wall Street Journal*, *Los Angeles Times*, *San Diego Tribune*, *Forbes*, *Bloomberg*, *Real Estate News*, *California Real Estate Journal*, *AAHOA Hospitality*, *Hotel & Motel Management* and

Commercial Property News.

With unrivaled market knowledge and experience, Atlas Hospitality Group's multinational staff provides professional service that adds value to transactions and ensures their successful completion.

If you have any questions or are interested in learning more about the Atlas Hospitality Group's services, please call or e-mail –

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e-Hot Line!

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