After Selling Billions In Apartments, RADCO Is Jumping Into Hotels

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A prolific Southeastern multifamily investor and operator, RADCO Cos. has taken advantage of the demand for apartments and sold $3B of its portfolio since 2019. Now RADCO is pivoting to an asset class with a lot less stability: hotels.

RADCO purchased the DoubleTree by Hilton Atlanta hotel in Roswell for $13.75M from an unidentified real estate fund. Constructed in 1985, the DoubleTree is seven stories and has 174 rooms, 7,800 SF of meeting space, a restaurant and bar, and an outdoor pool.

RADCO CEO Norman Radow said the hotel sector, as battered as it has been during the coronavirus pandemic when 1 in 4 hotels were reported by Trepp to be behind on mortgage payments, has the potential to offer the kind of returns akin to what investors experienced with multifamily investments during the rebound from the Great Recession.

“It's 2012 all over again,” Radow said. “We believe in the next three or four years, both the retail consumer and the capital markets will return to the hotel sector.”

The entity that owns the property, NHH CMS Roswell LP, shares an address with MainLine Investment Partners in Pennsylvania, which purchased the hotel in 2008 for $11.25M, according to Fulton County Tax Assessor records.

For multifamily owners, the time is ripe to sell, Radow said. Buyers continue to flock to the Sun Belt for apartments, a commercial real estate segment that appears to have resisted the worst of the industry's troubles caused by the pandemic. Rising rents have investors bidding aggressively on what hits the market — the average price per unit rose 12% in the third quarter to $143,700 in Metro Atlanta, according to Marcus & Millichap (https://www.marcusmillichap.com/research/market-report/atlanta/atlanta-3q21-multifamily-market-report).

But those same fundamentals proved to be a conundrum for RADCO: Buying apartments had become too expensive for its return thresholds, Radow said. But with $500M and antsy investors at his disposal, Radow said he had to pivot to new opportunities in the hospitality market. And RADCO is not alone.

“We have seen a tremendous increase in the number of multifamily investors looking at hotels. Probably the most I've seen in my 30-year career brokering hotels,” said Michael Cahil, the CEO of hotel and casino advisory firm HREC.

Already, investor activity in the hotel sector across the U.S. has returned to pre-pandemic levels, according to a Marcus & Millichap report (https://www.marcusmillichap.com/research/special-report/2021/07/hospitality-midyear-outlook). Prices remain depressed from 2019 levels, with the average room trading for $114,700 as of the third quarter of 2021 versus $138,800 for the same period in 2019.

Cahil said HREC has arranged the sale of 52 hotels for $500M so far this year, a pace that is slightly behind the typical $1B in annual transactions the firm would handle before the coronavirus. Cahil said he expects the volume to reach upward of $800M as investors look to the sector as a cheaper investment play compared to other commercial real estate assets.

But investors also are not encountering an overly distressed sales market that they are able to bottom-feed on pricing, said Debbie Cannon, the director of hospitality at the J. Mack Robinson College of Business at Georgia State University.

“My impression, and what I see from looking at the transactions, [is] we are not at all in a bargain-basement-pricing with hotels,” Cannon said. “We are in a recovery. We're in an actual strong recovery.”

That is especially true of Sun Belt states like Georgia, where travel was quicker to recover and population growth has been strongest.

"Amid the turbulence created by the pandemic last year, hotels in the warm climates of California, Florida, Georgia and Texas led transactions,” Marcus & Millichap Research Analyst Cody Young wrote in the firm's midyear report. “For investors who amassed capital in preparation for a wave of distress, competition for the lower-than-expected number of assets in acute financial trouble will limit the downward pressure on pricing.”

Still, there is pressure for some current owners to sell their hotels, especially those who are facing the need to upgrade their buildings, often required in their franchise agreements, creating an inroad for RADCO, Radow said.

“There's all these capital needs that the current owners simply cannot afford to do,” he said.

Hotel stays surged back during the summer (https://www.bloomberg.com/news/articles/2021-07-14/u-s-tourism-is-rebounding-from-pandemic-fed-s-beige-book-finds) as Americans took advantage of the vaccine and easing restrictions to travel again. But an expected return of business travel has yet to materialize and leisure travel is slacking off once more as children return to school, said LeMonica Hakeem, the CEO of the hotel consulting firm Conekt Hospital.

Between Aug. 15 and 21, the average hotel occupancy dropped 9.1% to 64.7% nationally, according to STR (https://str.com/press-release/str-us-hotel-results-week-ending-21-august), with the average revenue per room falling by 4.5% to $86.43 per night.

“I think it is lasting longer than we all expected and I think it's going to last longer because of the delta variant,” Hakeem said. “It's still going to be an uphill battle for those operators who, one, can't rely on business travel and, two, [can't rely on] the leisure travel now.”

Despite virus concerns affecting travel and hotel stays, Cahil said the ones more pressured to sell are the operators that were already facing troubles with their operations prior to the pandemic.

“If your hotel was iffy pre-Covid, then you're more likely to put it on the market,” he said. “If an owner is willing to accept or is able to get 2019 pricing, a lot of owners say, 'Hey, let's just move on.'”

Radow said RADCO, — which made its first foray into hospitality in 1994 (https://skylineviews.typepad.com/skyline_views/2009/11/atlanta-firms-tries-to-salvage-2-billion-in-distressed-real-estate.html) when it bought the Four

Seasons Midtown Atlanta out of foreclosure, selling it a handful of years later — is in talks to buy another Atlanta hotel property and plans to spend $100M on new hotel deals over the next year.

"We're looking all throughout the Southeast, and we'll even go national for the right kind of deal," Radow said. "The sweet spot is we're looking for good opportunities, and that's a very broad box."

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