

Partner Sought for NY Hotel Purchase

Madison Capital, which has the right of first refusal to buy the Novotel New York Times Square hotel, is looking for an equity partner to back the acquisition.

The company has hired New York advisory firm **Ackman-Ziff** to line up a partner willing to supply 80-90% of the equity needed for the purchase.

The 480-room hotel, which is encumbered with a long-term management contract, has an estimated value of up to \$200 million, or \$417,000/room. The owner, **Accor** of France, listed it with **Jones Lang LaSalle Hotels** last month.

New York-based Madison assumed its right of first refusal in 2006 when it bought the leasehold interest in about 100,000 square feet of retail and office space on the lower four floors of the property.

Market players initially speculated that the hotel could fetch as much as \$650,000/room, or more than \$300 million, based on the recent recapitalization of a nearby hotel — the 460-room Doubletree Guest Suites Times Square — by **Sunstone Hotel Investors** of San Aliso Viejo, Calif.

But investors who have since kicked the tires at the Novotel don't consider the Doubletree comparable. They think a more likely price range is \$150 million to \$200 million.

The Novotel site, at Broadway and West 52nd Street, was previously occupied only by a four-story building owned by a development firm, **Brody-Lewis Co.** In the early 1980s, Brody-Lewis sold the development rights above the building to Accor, which constructed the hotel. Brody-Lewis retained a long-term leasehold interest in the original space and was given the right of first refusal on the hotel. It later sold the leasehold interest and the right of first refusal to Madison.

Madison leases the space in the original portion of the property to retail and office tenants. The retail occupants include McDonald's, Duane Reade and New York Sports Club. The hotel has a separate entrance, at 226 West 52nd Street.

Madison, led by founders **J. Joseph Jacobson**, **Philippe Weissberg** and **Richard Wagman**, invests in high-end retail and mixed-use properties in New York and other urban markets. The firm also sources, originates and acquires senior and subordinate debt, as well as equity positions in real estate. ♦

San Diego Tower Pitched as Core Play

RREEF is marketing a San Diego office tower that could attract bids of close to \$100 million.

The 326,000-square-foot property, at 110 West A Street in the central business district, is being pitched to core investors pursuing well-located properties with investment-grade tenants.

The occupancy rate is 91%, with about 74% of the space leased to credit tenants. The roster includes the State of California, **Commonwealth Financial**, **Sempra Energy** and the federal **Social Security Administration**. Leases on only about 9% of the space roll over within two years.

There is some long-term upside potential. The offering in-

cludes adjacent land zoned for an additional 161,000 sf of office space. But any expansion would likely be years away. The office occupancy rate is an anemic 81% in the downtown submarket and 80% citywide.

Market players expect bids to weigh in at about \$300/sf, or \$98 million. RREEF, an investment-management arm of **Deutsche Bank**, has given the listing to **Eastdil Secured**.

The 18-story property, known as 110 Plaza, was built in 1972 and underwent a major renovation in 2001. RREEF acquired it in 2005 from a **Lehman Brothers** partnership for \$88.6 million, or \$273/sf. ♦

Lodging Capital Plans Buying Binge

Lodging Capital, infused with cash by **Berkshire Realty Ventures**, plans to team up with institutional investors to assemble a large portfolio of hotels in major cities and resort locations.

Boston-based Berkshire Realty has acquired a majority stake in the operating platform of Lodging Capital, which will enter joint ventures to buy some \$500 million to \$750 million of hotels over the next 18-24 months. The strategy is to seek value-added returns by targeting distressed or underperforming properties.

Lodging Capital will kick in roughly 5-10% of the equity, with much of that provided by Berkshire Realty. While Berkshire Realty will have a stake in the deals going forward, it didn't acquire an interest in Lodging Capital's existing portfolio of properties and debt investments, which are owned through separate joint ventures.

The initiative will look to purchase hotels that need renovation or repositioning, or whose owners need cash. It will also consider acquiring debt to take over the underlying collateral and providing equity to troubled owners.

In some cases, Lodging Capital will use leverage of up to 65%. But in its first acquisition with Berkshire Realty, it joined with an unidentified partner this month to pay \$35.5 million of cash for the 447-room Hilton Rye Town in Rye Brook, N.Y. The seller, Dallas hotel REIT **Ashford Hospitality**, used the proceeds to pay down debt. Lodging Capital plans to kick off a renovation of the Westchester County hotel's lobby, restaurant and other common areas.

Lodging Capital, based in Chicago, was launched in 2005 by industry veterans **David Sims**, **Bradley Falk** and **Steve Kisielica**, who leads property acquisitions. **Ian Davis**, a principal, will continue to seek out debt plays. Over the last six years, Lodging Capital has acquired nine hotels totaling 3,108 rooms, including a Le Meridien in Chicago and a Four Seasons in Austin, Texas. The firm also purchased debt backed by eight hotels with 2,093 rooms.

Berkshire Realty is a newly launched arm of Berkshire Group, a 40-year-old private equity and real estate investment firm. The investment in Lodging Capital is the first by Berkshire Realty, which is led by senior partner **Larry Ellman**. The parent firm has invested some \$10 billion in properties and companies, mostly via commingled funds that invest exclusively in multi-family properties. ♦