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INVESTMENT & ASSET MANAGEMENT

## HOTELS & RESORTS

### Morgan Stanley Builds \$10B Deal Portfolio with Global Properties, Capital

By Robert Cummings,  
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New York—Peter Krause admits to a longstanding fascination with the world's great hotels. It's an appropriate avocation for the man in charge of Morgan Stanley's lodging and leisure group.

Since Morgan Stanley Realty formed a hotel specialty group in 1986, the unit has completed 57 transactions totaling over \$10 billion in sales, financings and acquisitions. In the recent past, the unit has represented British Air in its purchase of the Manhattan Viscount hotel, recapitalized SAS Hotels and sold a former Ottoman palace in Istanbul, Turkey, for conversion into a hotel. The hotel group has led other, well-publicized hotel deals, including:

- The sale of the Hotel Bel-Air in California to an affiliate of Sekitei Kaihatsu, a Japanese hotel company, for \$115 million. Morgan Stanley represented the owners, the Rosewood Property Co., in the sale, which grossed a record \$1.25 million per room.
- The \$56 million sale of the Copley Plaza Hotel in Boston for John Hancock Mutual Life Insurance Co.
- The \$2.3 billion acquisition of Motel 6 by Accor, the French lodging conglomerate. Morgan Stanley represented Accor.
- The sale of the Watergate Hotel in Washington, DC to Trusthouse Forte Plc. and Nikkei Securities, as part of the mammoth British National Coal Board's

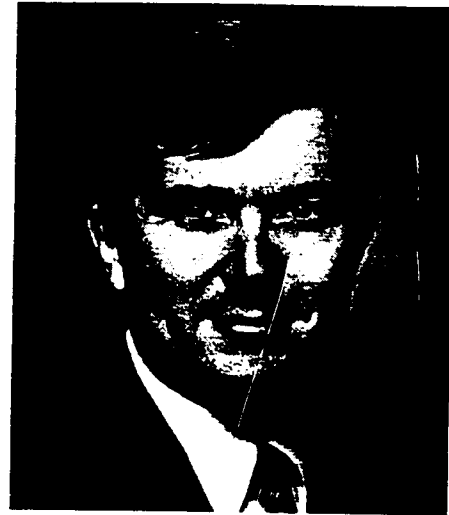
divestiture of its American holdings.

The group, headquartered in Manhattan, targets international deals through its offices in London, Los Angeles, Tokyo and Hong Kong. "We were a domestic company until about six years ago," Krause said. Now there are more than 85 Morgan Stanley Realty professionals worldwide.

The firm's international reach became increasingly important as domestic capital pools dried up. In the last 12 months alone, the lodging and leisure group closed nine deals with a total face value of \$3 billion. The capital for those deals came from three Asian sources, four European investors and two Middle Eastern sources, Krause said.

Morgan Stanley renamed its hotel group the lodging and leisure group early in 1990 to reflect its work with golf course sales, stadiums, ski resorts and casinos. "We went from being just a broker of individual hotel assets, to a full-service investment bank serving the worldwide hospitality and leisure industries," Krause noted. Working along those lines, Morgan Stanley managed a \$198 million bond issue for the financing of Orioles Stadium in Baltimore; recapitalized the Aspen Skiing Co. to the tune of \$120 million; and sold the Hyatt Grand Champions hotel and tennis stadium in Indian Wells, Calif., for \$66.5 million.

The group's toughest deal to date was probably the Inter-Continental Hotel sale. Morgan Stanley was engaged by



Peter Krause heads Morgan Stanley Realty's lodging and leisure group, a unit that has closed 57 transactions valued at over \$10 billion in its five year history.

Inter-Continental's parent company, Grand Metropolitan Plc. to sell 110 hotels in 45 different countries. Just to make things interesting, Grand Metropolitan allowed only 8 weeks to get the properties under contract. The Morgan Stanley team, headed by Krause, Paul Kazilionis, a principal at the firm, and Jim Allwin, managing director in charge of Morgan Stanley Realty, were jetting around the world to establish the value of each property and bring the deal in by deadline. They did, and the \$2.2 billion deal closed on time. "That was grueling," Krause recalled.

Unlike other purely real estate firms, Morgan Stanley Realty has, and uses, the advantage of a built-in client base. The company is in constant contact with potential corporate clients through the mergers and acquisitions, capital markets and public finance divisions of the investment house, Krause said. And it makes full use of those connections. "It's really a team effort and a team success," he pointed out.