

THE WALL STREET JOURNAL.

WEDNESDAY, DECEMBER 24, 2014

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Sternlicht Checks Back in to Hotels

BY CRAIG KARMIN

On a rainy December afternoon, real-estate investor Barry Sternlicht was in his element, surveying the gilded interiors of his soon-to-open Baccarat hotel in Manhattan while telling staff what they did wrong.

Mr. Sternlicht pointed to glass crystal embedded in a lobby wall that didn't work as planned, and wondered aloud about the blonde floor color in the ornate cocktail lounge. As he passed through the luxury hotel's restaurant, he frowned at a stucco wall flecked with crushed-glass near the entrance.

"This has to read red," he said firmly. "It can't read orange."

Mr. Sternlicht, chief executive of private-equity firm Starwood Capital Group and the former CEO of Starwood Hotels & Resorts Worldwide Inc., rarely keeps opinions to himself. But nowadays the stakes are particularly high.

Not only does the Baccarat venture mark Mr. Sternlicht's return to the operations side of the hotel business after nearly a decade in private equity, but he is also on the cusp of making history.

Starwood is in advanced discussions to sell the 114-room property for more than \$200 million, or about \$2 million a room, according to people familiar with the negotiations. On a per-room basis, that would match the 2012 sale of New York's Plaza Hotel as the richest ever in the U.S., according to data provider STR Analytics.

Mr. Sternlicht declined to comment on sale discussions.

Starwood will continue to buy hotels for its private-equity funds, and look to sell them after a few years to return money to investors. When the firm sells the Baccarat hotel, it will keep the brand and maintain the management contracts.

The deal would cap a record year for valuations on U.S. hotel acquisitions.

Hotels sold for an average of \$240,000 a room this year, a record and up 26% from 2013, STR Analytics said. The increase has been driven by heightened demand for high-end properties from foreign and institutional buyers. Total sales in 2014 were about \$20 billion, down from the peak of \$30.5 billion in 2006, on fewer deals.

With about \$37 billion in assets under management, Starwood Capital has become one of the world's largest property investors. The annual net return for Starwood Capital funds since inception in 1991 is about 25%, according to a person briefed on the performance.

Mr. Sternlicht, 54 years old, started out buying office buildings and shopping malls two decades ago. He later expanded into lodging ownership and operations and carved out a reputation for innovations such as the W Hotel, the first boutique chain, and the Heavenly bed by Westin, which turned plush mattresses into a marketing tool.

Mr. Sternlicht left Starwood

Hotels in 2005 to focus on property investing and after disagreements with management. Since then, he said, he has missed managing the operations side of the business. His noncompete agreement with Starwood Hotels expired when he left the board in 2005.

"I wanted to start a hotel company from scratch," he says.

His peers are watching his latest moves closely.

"When Barry left Starwood, he had to start all over again, and not a lot of people can rebound after something like that," says hotelier Ian Schrage, who is widely credited with creating the boutique hotel model. "I'm curious to see what he's going to do." But the business has changed greatly during Mr. Sternlicht's time away.

Every major hotel company now has a lifestyle brand, which are design-focused and appeal to a more-discerning clientele. The high-end market is more competitive than ever. Luxury-hotel operators such as Four Seasons Hotels Inc. are expanding aggressively, and well-funded players from overseas, such as China's Dalian Wanda Group Co., are coming to the U.S.

"You've got to be different," Mr. Sternlicht says. "The guest has to look at a room and know it's your brand right away."

Mr. Sternlicht officially re-enters the fray in February with the opening of the Baccarat in midtown Manhattan, the first of three hotels for this brand, with

debut planned in Rabat, Morocco, later next year and in Dubai in 2018.

The New York property, across the street from the Museum of Modern Art in midtown, has 17 glass chandeliers and 15,000 pieces of crystal stemware from France's Baccarat factory, which Starwood Capital acquired as part of a 2005 purchase of Baccarat SA. Rooms will run from \$900 to \$1,000 a night. The presidential suite will go for \$18,000 a night.

Meanwhile, Mr. Sternlicht is trying to create a new genre with 1 Hotel, expected to open its first properties in Manhattan and Miami during the first quarter. It is a lifestyle brand seeking to appeal to the environmentally conscious guest, where all the wood has been recycled and plants adorn the walls in place of art.

Both Baccarat and 1 Hotel are being run by Starwood Capital's new SH Group hotel-management company.

Mr. Sternlicht got his real-estate start in the 1980s in Chicago before establishing Starwood Capital, which is now in Greenwich, Conn. The investment firm took advantage of the slow recovery in the hospitality sector from the early 1990s recession, buying hotels and hotel operators at reduced prices. It acquired Westin Resorts & Hotels Worldwide for \$780 million and then paid \$10.2 billion for ITT Corp., which owned the Sheraton chain and the St. Regis hotel in New York.