

MEET LEADERS. MAKE DEALS.



Michael Cahill

Lodging Industry Investment Council

24th Annual  May 5-7, 2014
Sheraton LAX

MEET THE MONEY[®]
National Hotel Finance &
Investment Conference

2014

BREAKOUT YEAR FOR HOTEL DEVELOPMENT AND DEALS



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SPECIAL PRESENTATION



The LIIC Top 10

Michael Cahill

CEO and Founder

HREC – Hospitality Real Estate Counselors

www.hrec.com

Michael Torres

Associate Analyst

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“Obamacare” Continues to Increase Hotel Labor Costs:

- 90% believe “Obamacare” (Affordable Care Act) will continue to increase hotel labor costs
- 38% anticipate a significant increase (5 to 10%); 40% forecast moderate impact on labor costs (1 to 5%); 12% believe the impact will be more than 10%
- Less than 10% believe no impact and 0% believe will save hotel’s money



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Future of “True Group” Demand is Positive:

- “True Group”: blocks 10 and use meeting space
- STR data flat or minimal growth
- 77% of respondents believe that true group demand is growing and will continue to moderately perform over the next two years
- Increase in true group demand should produce incremental asset value for full-service hotels with meeting space



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Quality of Hotel Product on Market is Average: Quantity Above Average:

31% believe **quality** of hotel product on the market is “slightly better” than 2013 — down from last year’s 41%

However:

- 35% believe **quantity** of product is “average quantity”
- 41% believe **quantity** of product is “above average quantity”

Big Picture: we are overall roughly 50% of peak 2007 overall lodging real estate transaction volume



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New Hotel Development Accelerating Rapidly:

- For the next 12 months, more than two-thirds (70%) of LIIC believe it's a good time to build/develop hotels as long as you are selective about product and market
- Down from last year, only 18% believe it is better to buy existing hotels than build
- Buyers starting to resist pricing for existing assets in certain submarkets threatened with 25% to 35% increase in supply



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Hotel Investors Love Marriott Rewards:

- New question this year: Hotel investors and brand frequency programs
- 52% consider the Marriott Rewards guest frequency program the best in the industry
- Hilton Honors came in second at 13%
- 24% indicated a hotel brand's frequency program "does not matter"

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Hotel Lenders are Back; Increasingly Aggressive:

- Favorable hotel debt is playing a major role in increasing hotel values
- 83% believe availability of debt lending will continue to get better in the next 12 months with 59% believing “slightly better” and 24% predicting “much better”
- 68% expect loan/value ratios to increase allowing for greater investment leverage
- Buyers with more powerful debt capabilities and relationships winning deals, especially portfolios



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Volume of Transactions Nationwide Forecasted to Continue Increasing Through 2015:

Hotel asset sales volume for projected 2015 vs. 2014 actual/forecast:

- 83% believe volume will increase – 32% are highly optimistic anticipating volume growth over 10%
- Market movement, fluidity and volume will be strong in 2015 but concerns of new supply may hamper volume in some markets
- 90% anticipate future purchases over the next 12 months resulting from “typical acquisition channels (equity investor to equity investor via brokers)”
- Only four years ago, 82% of investors looking at REO’s or purchasing notes



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Equity Rates Heading Down?

- 46% believe equity investment hurdle rates are headed downward
- 41% believe rates will stay the same
- Rationalization due to upward pricing pressure?
- Equity players are happy: 87% believe their recent hotel purchases are meeting/exceeding original expectations



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Trend of Strongly Increasing Hotel Property Values Forecasted to Continue:

- 98% of respondents believe that lodging real estate values will continue to increase over the next 12 months, with 81% of responders predicting values to increase up to 10%
- Compared to 2013, results indicate a similar high level of confidence in the continued increase in hotel property values over the next 12 months
- Value growth is anticipated to be greatest in the luxury/upper-upscale/upscale category



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Is 2014 the new 2005? Longer, Slower Cycle?

- 69% of LIIC members believe we are firmly implanted in the 5th to 6th inning of the current lodging investment cycle
- 50% believe 2005 is most similar past cycle year and 39% stated 2006
- 52% believe hotel real estate values will not peak until 2017 or later
- Extended Cycle, in the good innings?
- “The Window is Wide Open and It’s Beautiful Outside; déjà vu 2005?”



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LIIC Bonus Forecast:

Who will win the 2014 NHL Stanley Cup?

- #1** – Boston Bruins (Current Vegas Payout 5 to 2)
- #2** – Anaheim Ducks (12 to 1)
- #3** – New York Rangers (6 to 1)

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SPECIAL PRESENTATION

For a copy of this survey presentation,
please send an email to the following:

Mike Cahill
mcahill@hrec.com

or

Michael Torres
mtorres@hrec.com

For more information on LIIC,
please see our website:

www.liic.org

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