



Hotel Industry Trends & Predictions

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The 2014 HVS-STR Hotel Valuation Index (HVI)

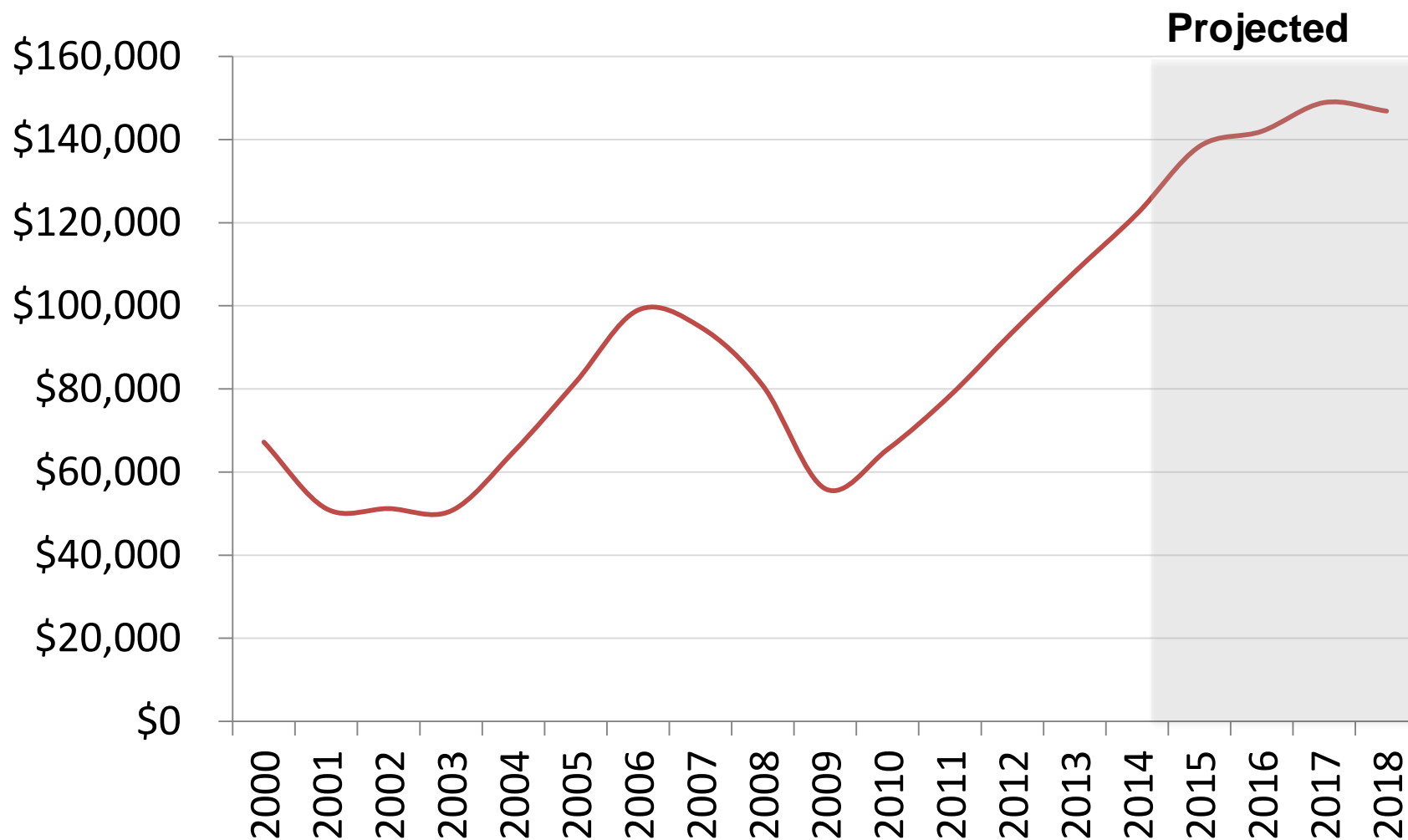
The HVI measures changes in value and provides a tool for identifying hotel acquisition and disposition opportunities

HVS Focuses on Value

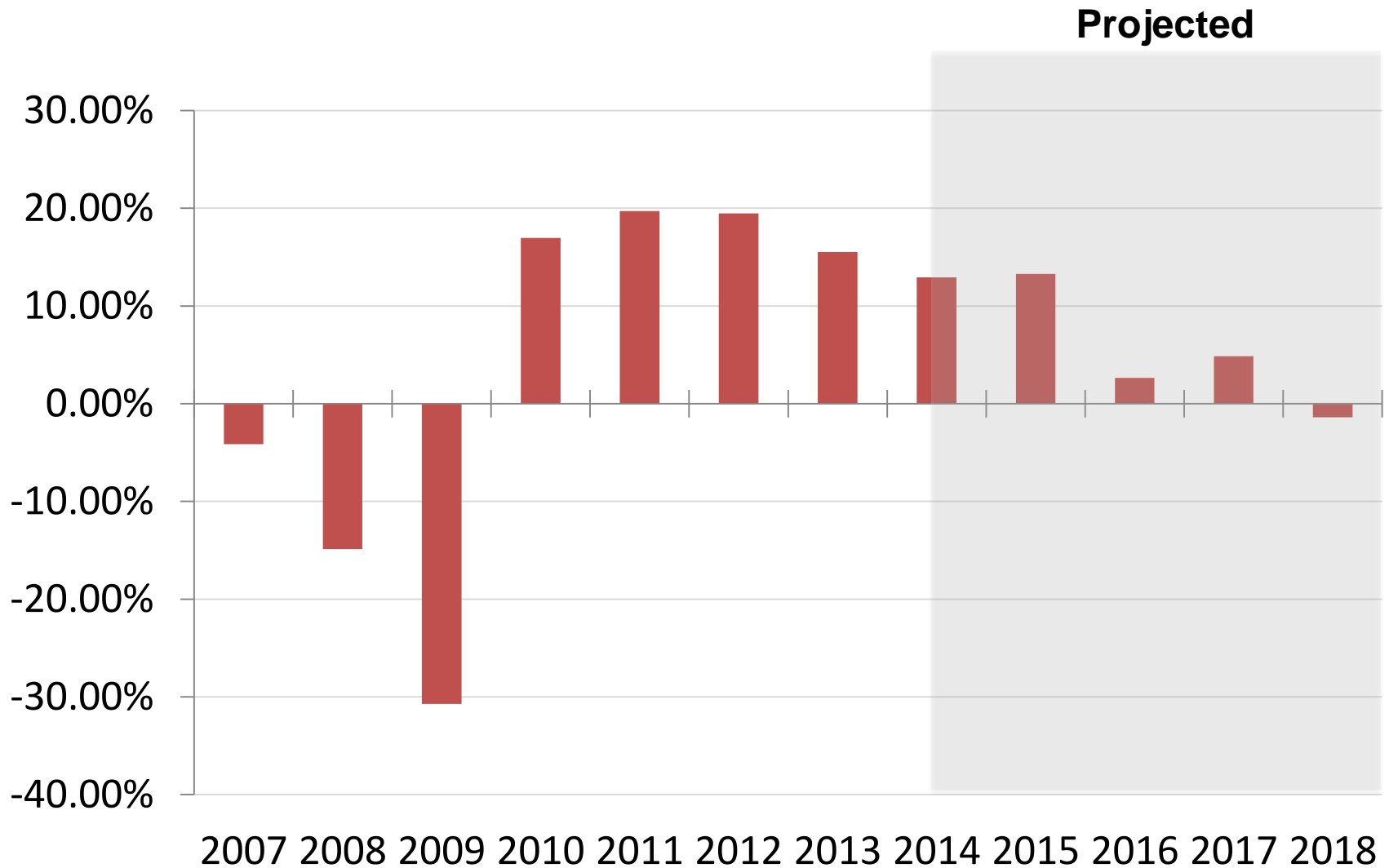
- Every year HVS values thousands of hotels throughout the world
- In the U.S., the HVI shows the value of a typical hotel in 65 markets from 1987-2018



U.S. Hotel values projected to taper slowly over next four years



Eight to nine years of continual value growth



Softening around Seventeen (2017)

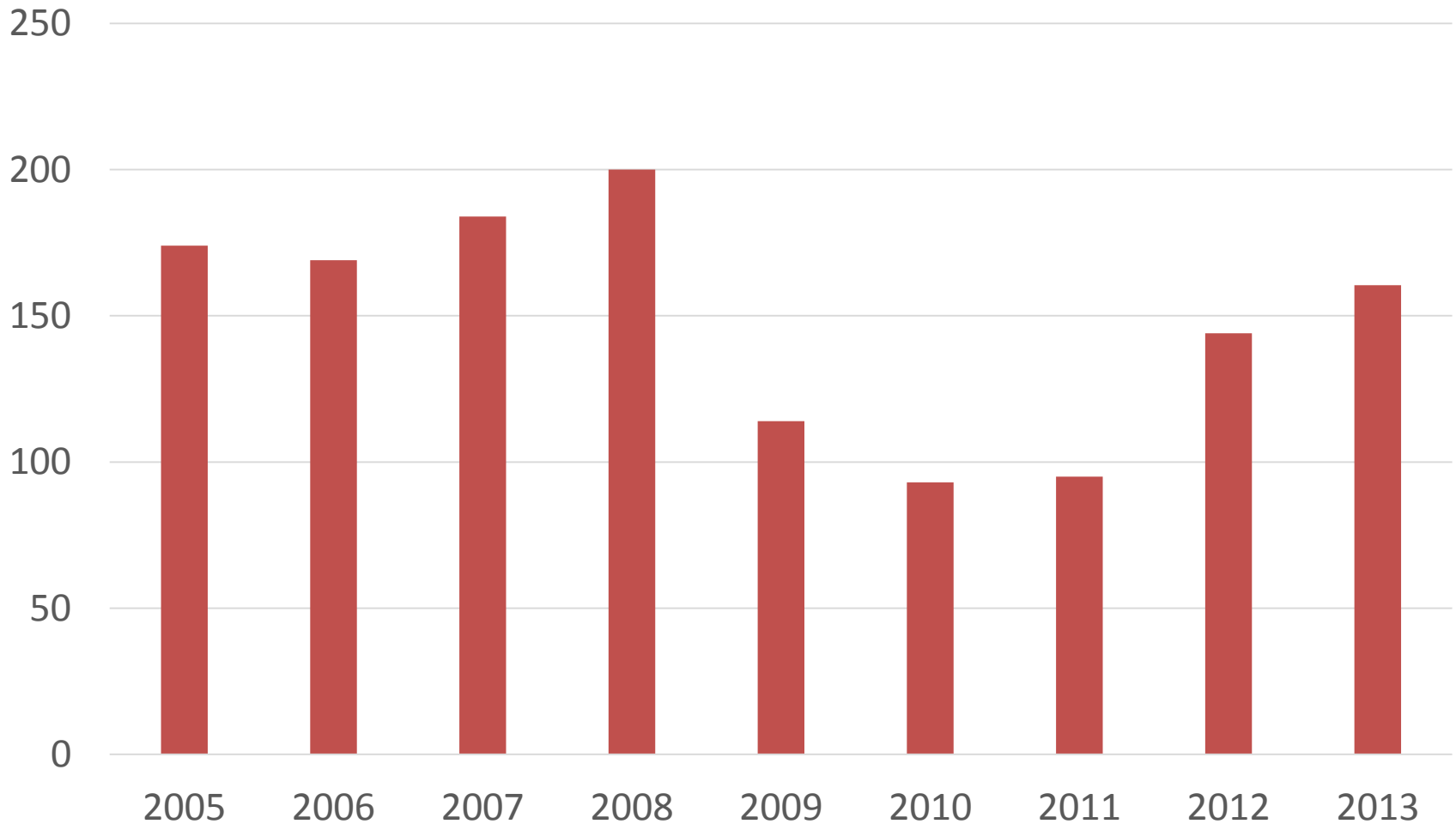
Positive Impact

- Economic recovery will continue to gradually improve

Negative Impact

- Interest rates will slowly increase
- New supply will gradually increase

Annual feasibility studies are gradually recovering



Florida markets were hot in 2013

<u>Rank</u>	<u>City</u>	<u>Value</u>
1	Sacramento	43%
2	Tallahassee	41%
3	West Palm Beach	33%
4	Jacksonville	32%
5	Phoenix	27%
6	Detroit	27%
7	Houston	26%
8	Nashville	25%
9	Dallas	25%
10	San Francisco	24%
United States		16%



Only a handful of declining markets in 2013

<u>Rank</u>	<u>City</u>	<u>Value</u>
65	Huntsville	-18%
64	Norfolk	-7%
63	Richmond	-6%
62	Washington DC	-5%
61	Philadelphia	-3%
60	Tucson	1%
59	Charlotte	1%
58	Pittsburgh	1%
57	Buffalo	2%
56	Baltimore	2%
United States		16%



Growth this year is expected to come from secondary and tertiary markets

<u>Rank</u>	<u>City</u>	<u>Value</u>
1	Tallahassee	36%
2	Tampa	29%
3	Phoenix	23%
4	Indianapolis	22%
5	Oakland	19%
6	Austin	17%
7	Winston-Salem	16%
8	Minneapolis	16%
9	St. Louis	16%
10	Orlando	16%
United States		13%

Secondary and tertiary markets to show the greatest value increase through 2018

<u>Rank</u>	<u>City</u>	<u>Value</u>
1	Richmond	58%
2	Tampa	53%
3	Hartford	52%
4	Tallahassee	51%
5	Jacksonville	49%
6	Phoenix	47%
7	Norfolk	47%
8	Las Vegas	46%
9	Orlando	38%
10	Atlanta	38%
United States		36%



21 of 65 markets won't appreciate above anticipated inflation over next four years

<u>Rank</u>	<u>City</u>	<u>Value</u>
65	Cleveland	-5%
64	Detroit	0%
63	Portland	0%
62	Huntsville	2%
61	Seattle	2%
60	Los Angeles	4%
59	Chicago	4%
58	Nashville	5%
57	San Antonio	6%
56	New Haven	6%
United States		36%



Typical financing terms

	<u>Leverage</u>	<u>Interest Rate</u>	<u>Equity Yield</u>	<u>Total</u> <u>Property Yield</u>
Trophy (Top 3%)	70 - 75%	4.75 – 5.5%	15 - 18%	9 - 9.5%
High Quality	65 - 70%	5 – 5.75%	17 - 19%	9.5 - 11%
Middle Quality	65 - 70%	5.25 – 5.75%	18 - 21%	10.5 – 11.5%
Lower Quality	60 - 65%	5.5 - 6%	19 - 23%	12+%

2014 Franchise Cost Guide

Ongoing financial commitments to brands

Hard

- Royalty fee
- Reservation fee
- Marketing fee
- Frequent traveler program fee
- Misc fees for training, conferences
- **10 - 15% of Rooms Revenue**

Soft

- Royalty fee
- Reservation fee
- **2% of Rooms Revenue**

All of our costing data comes from UFOC's – Uniform Franchise Offering Circular



- Initial Fee
- Royalty Fee
- Reservation Fee
- Marketing Fee
- Frequent Traveler Fee
- Misc. Fee

Property Assumptions

Average room count



Occupancies & Average Rate



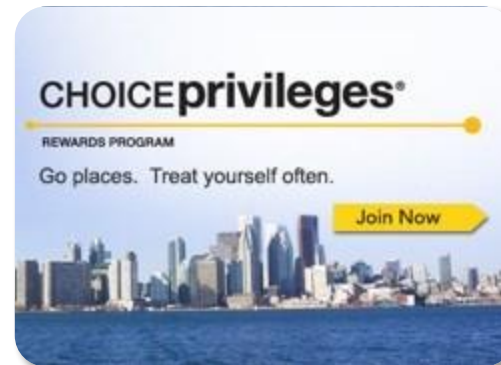
Average length of stay



Food and Beverage as a percentage of rooms revenue



Loyalty program guests



Reservation sources



Our Findings...

- The Franchise Fee Publication will be published in June.

Final thoughts on franchise fees

- Franchise fees as a percentage of rooms revenue have been increasing and will negatively impact hotel values
- Franchisors must fully leverage their guest loyalty programs to create more value:
 1. Take ownership interests into greater consideration for guest perks
 2. Full service properties can factor potential overall profitability of guest when quoting room rates



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