



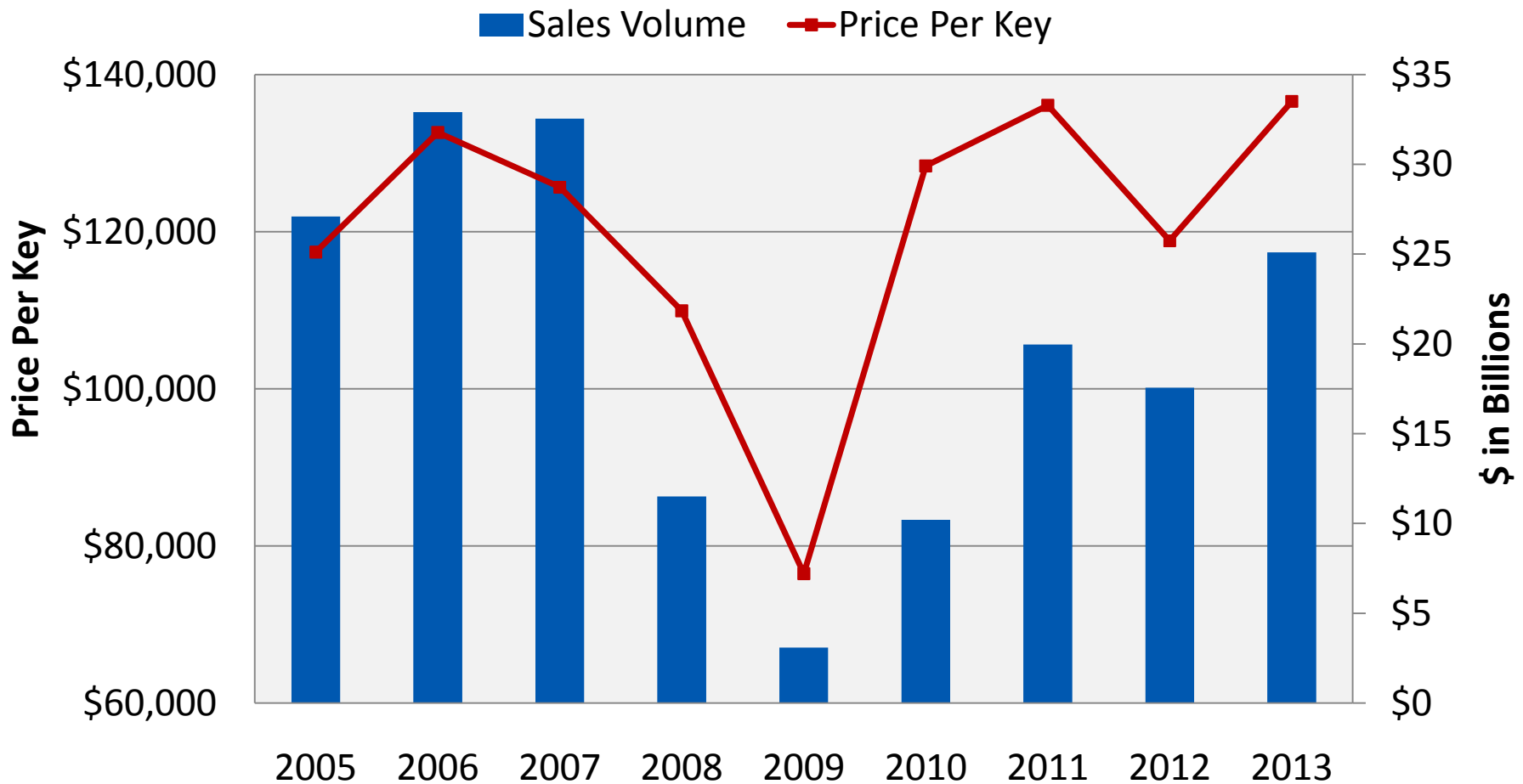
Hotel Values & CAP Rates

Meet The Money® 2014

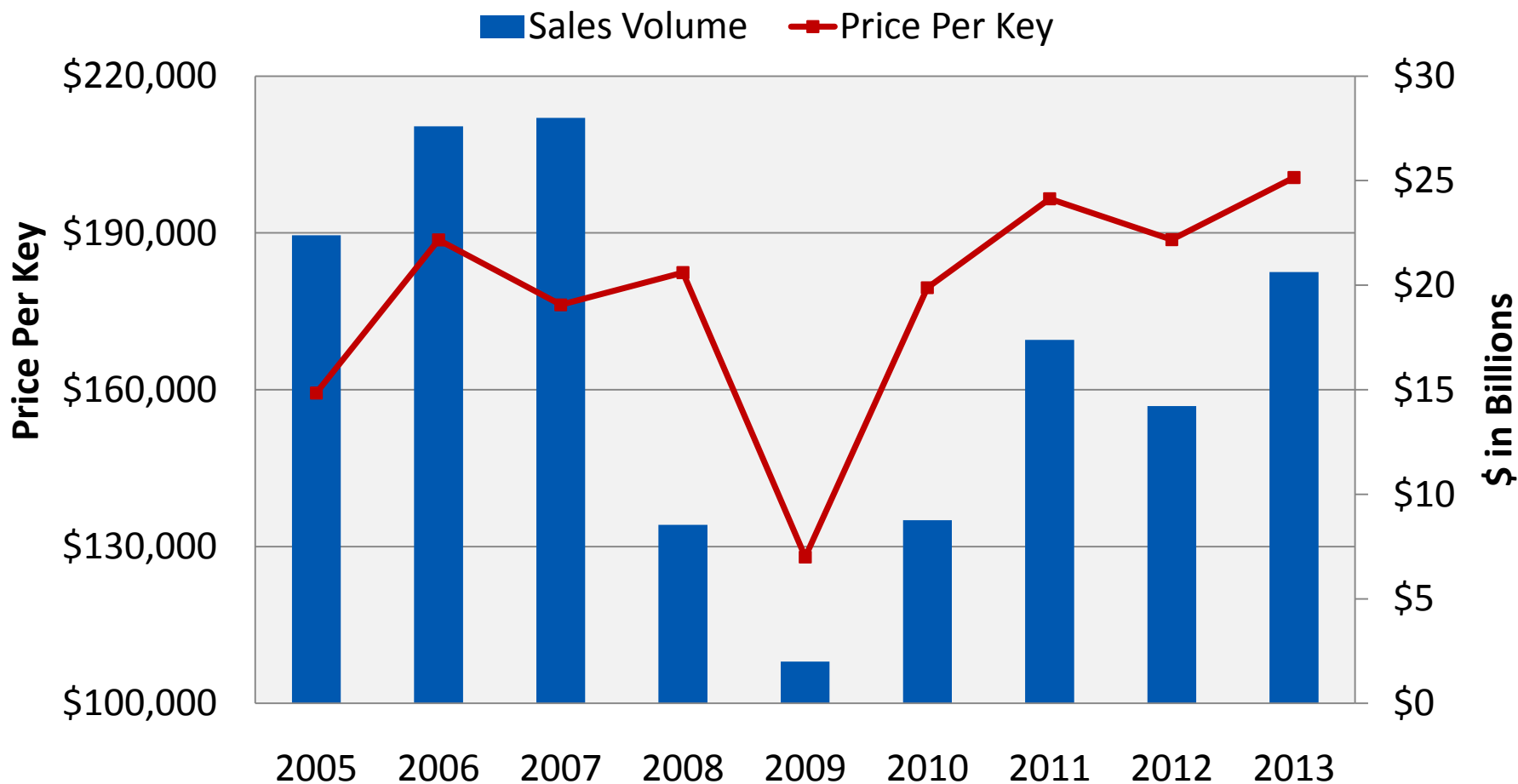
May 7, 2014 – Sheraton Gateway Hotel Los Angeles

Presented by: *Suzanne Mellen, MAI, CRE, FRICS, ISHC*
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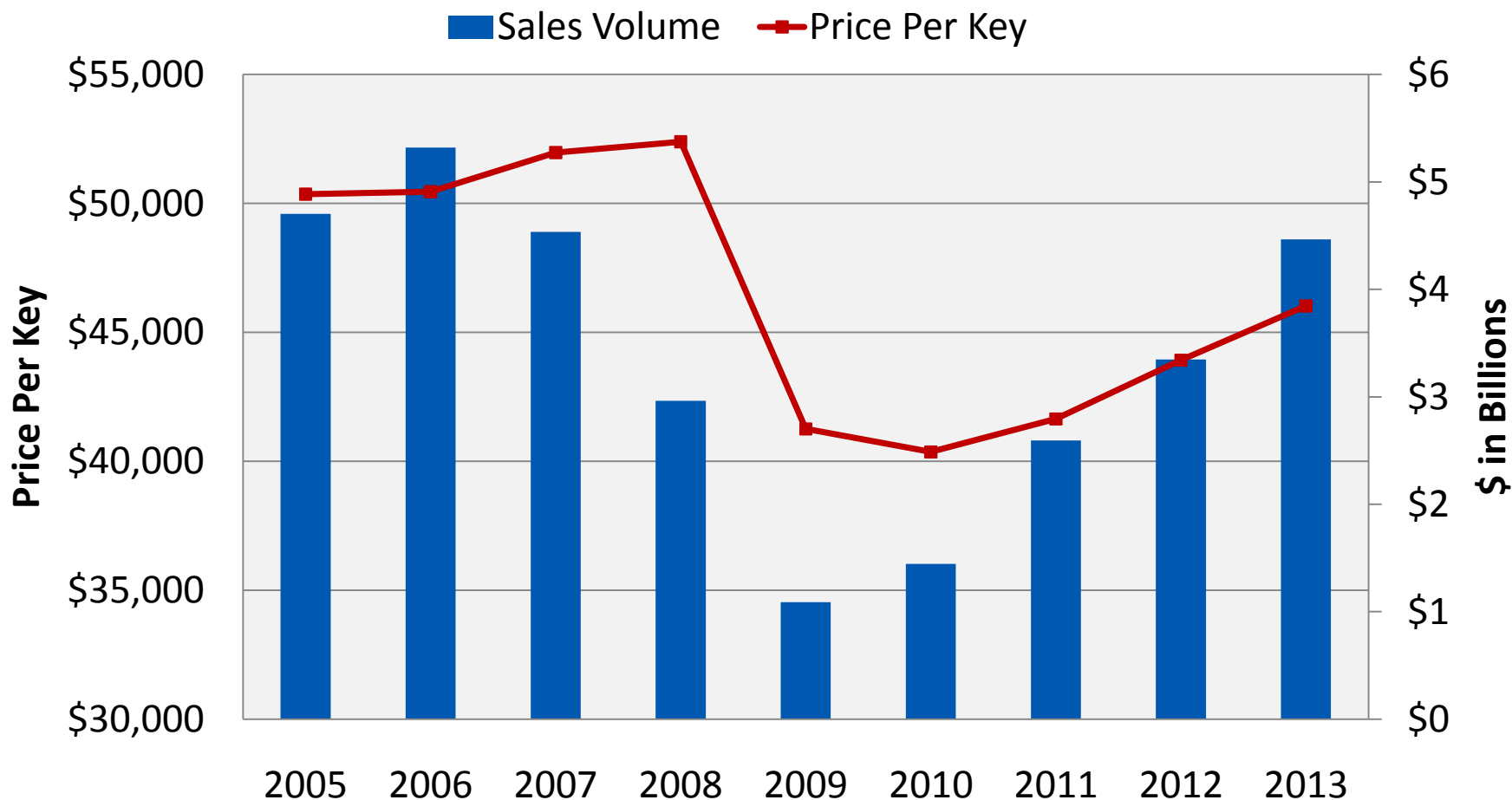
Historical Sales (Total Assets >\$2.5M)



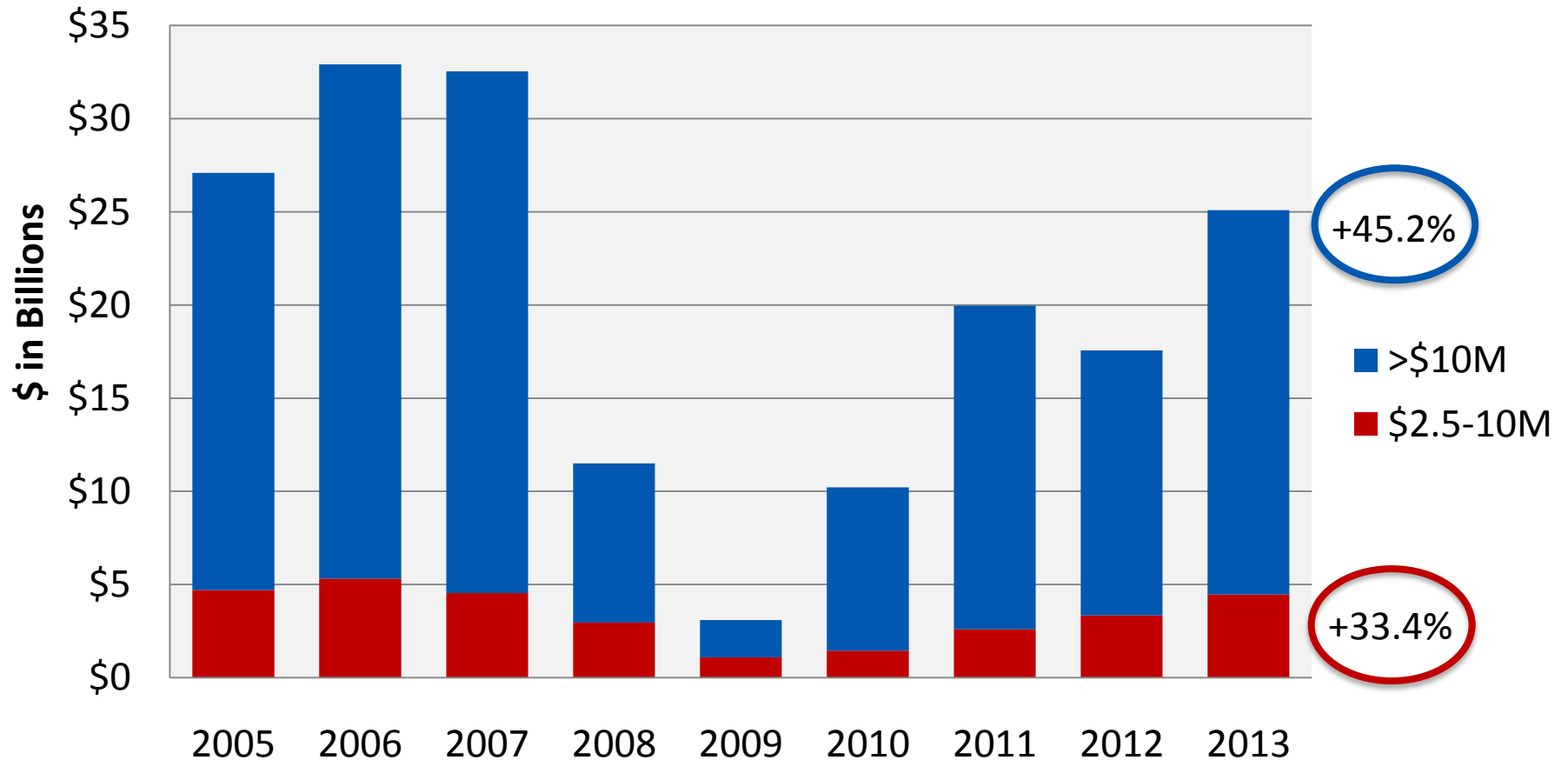
Historical Sales Volume (Assets >\$10M)



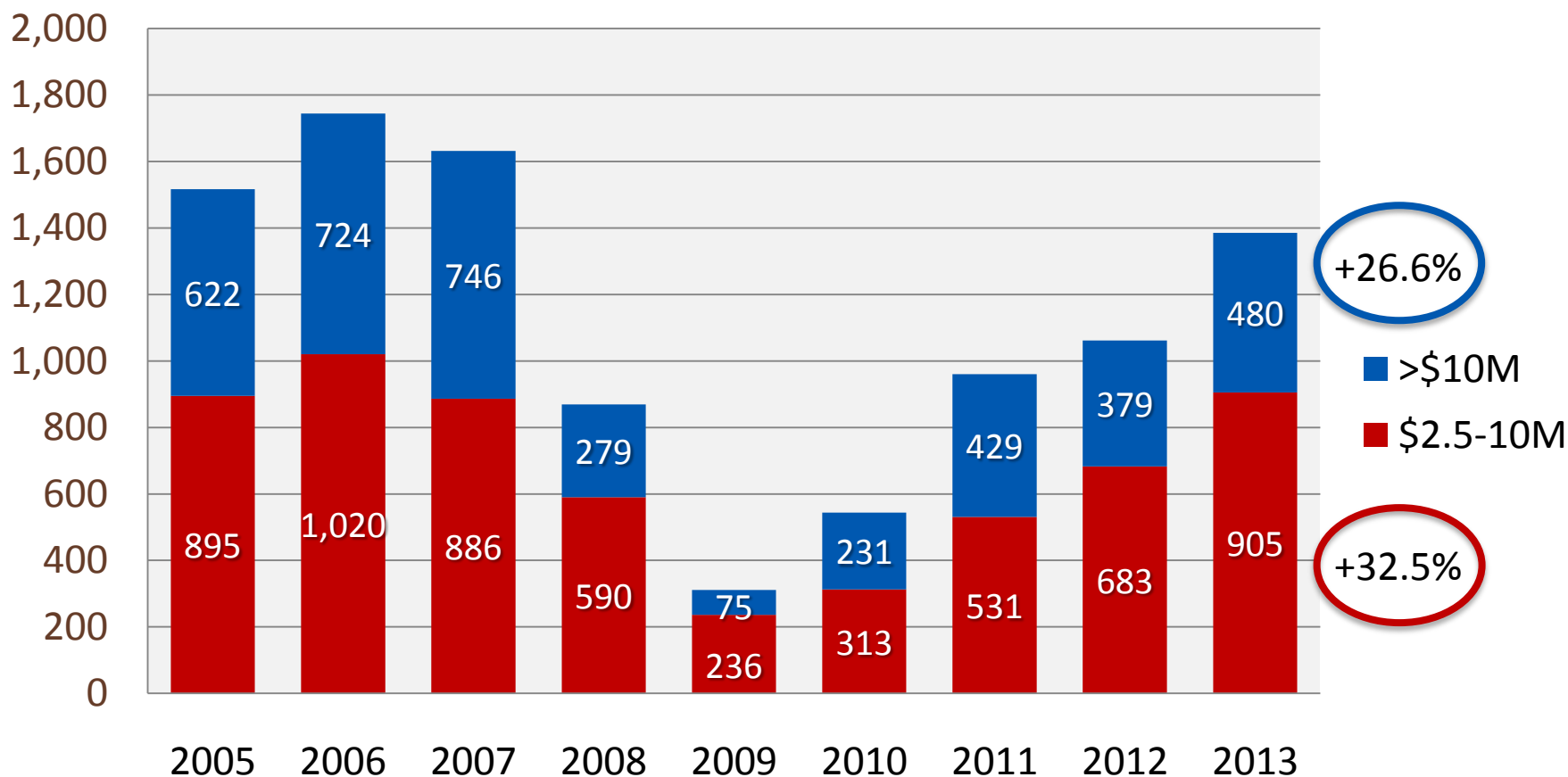
Historical Sales (Assets \$2.5-10M)



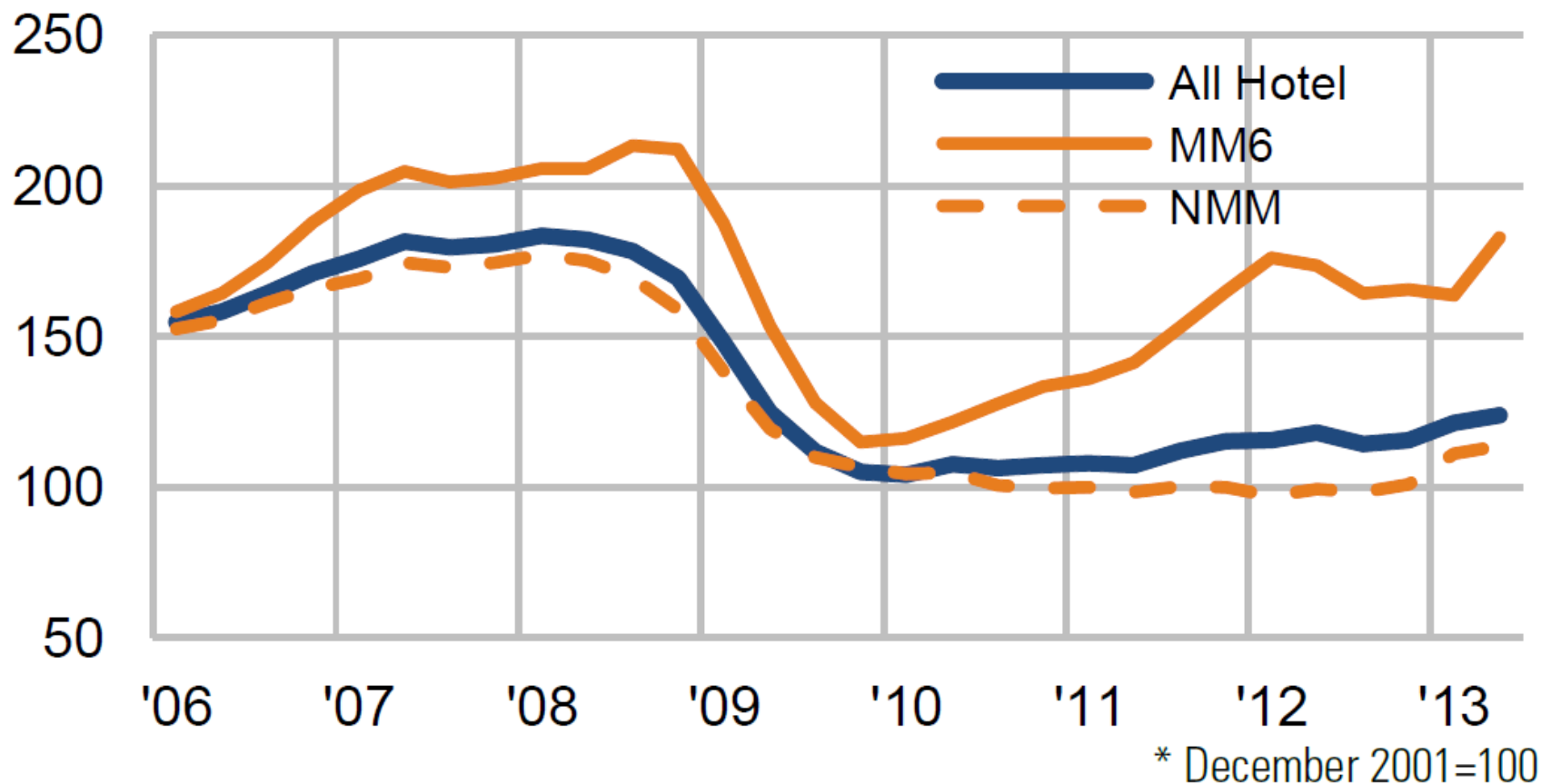
Comparison of \$ Sales Volumes



Comparison of # Properties Sold

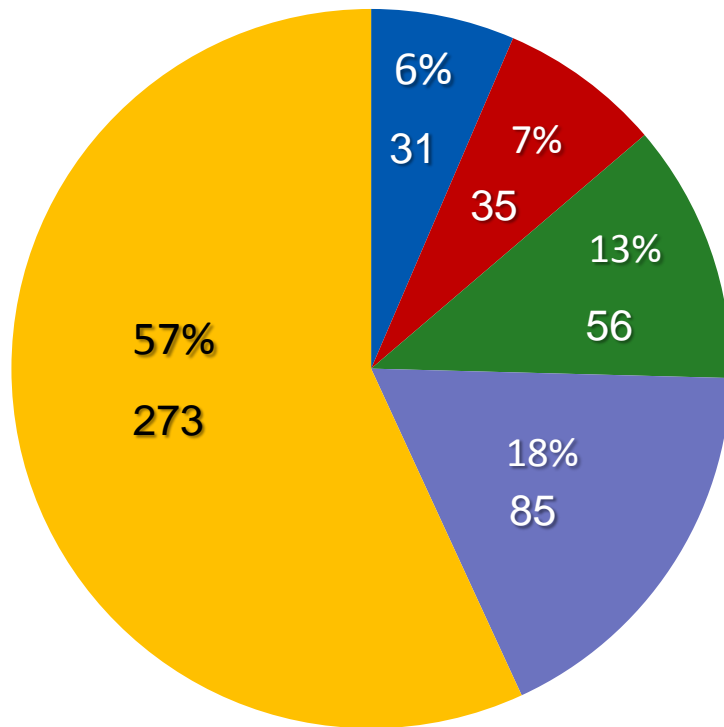


MM Hotel Outperforming in 2013

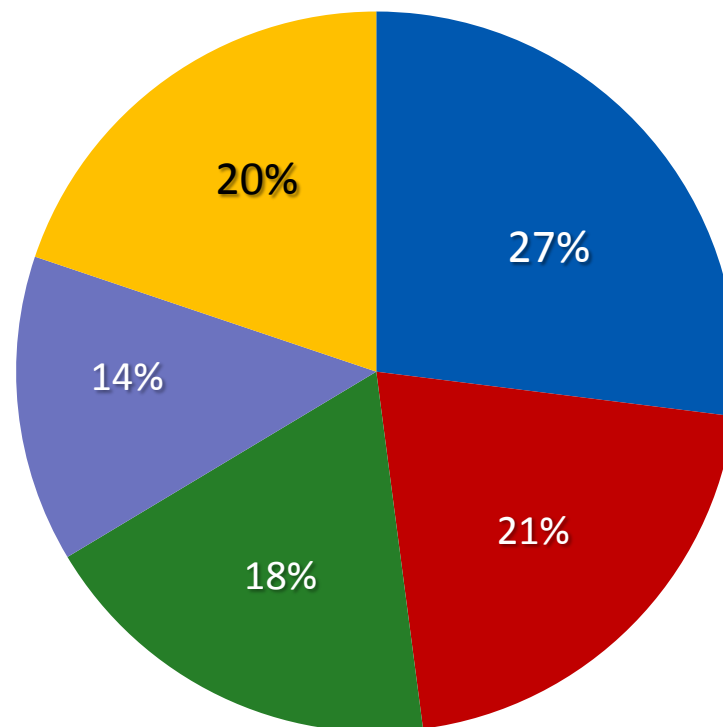


2013 Sales by Total Price Paid: \$10M+

Count

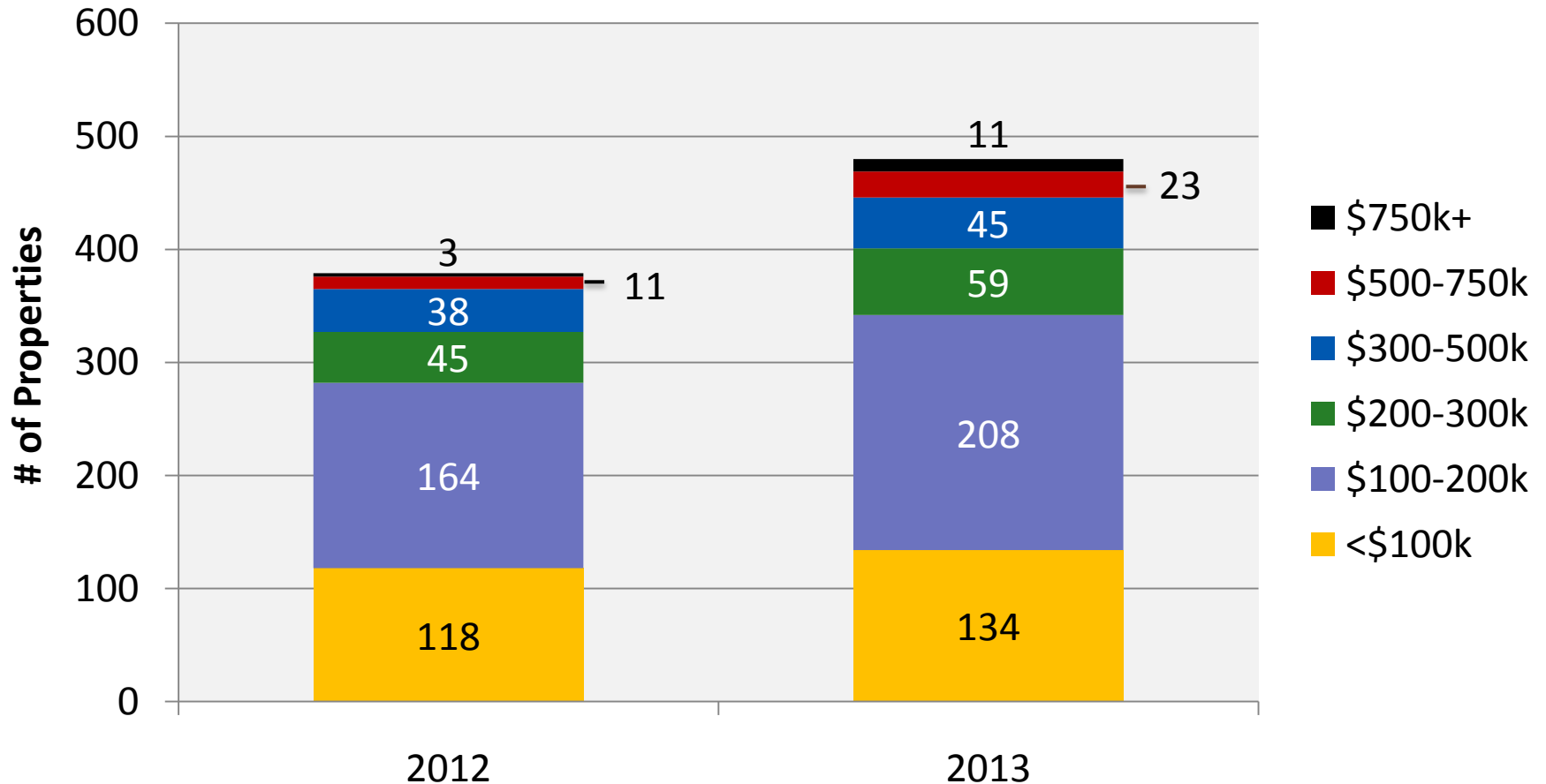


Volume



- > \$200M
- 100 to 200M
- 50 to 100M
- 25 to 50M
- 10 to 25M

2013 Sales By Price Per Room: \$10M+



Prices Exceeding \$1 Million Per Key



Park Lane Hotel, Manhattan, NY
\$1,090,909 per key



Langham Place Fifth Avenue, Manhattan, NY
\$1,070,093 per key



Calistoga Ranch, Napa Valley, CA
\$1,100,000 per key

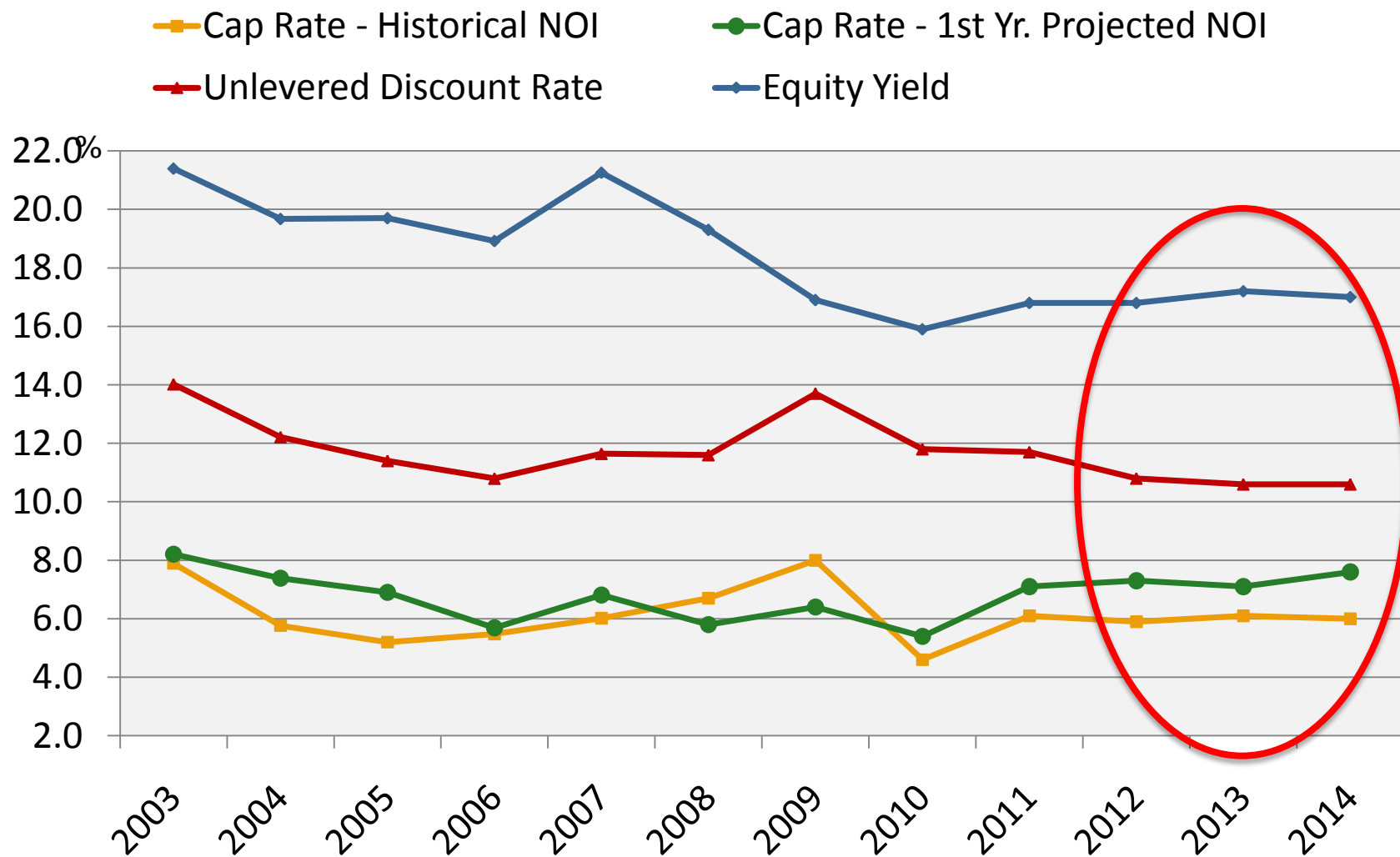
Major Hotel Sales Transactions (Assets \$10M+)

Year	Number of Hotels	% Change	Average Price per Room	% Change
1Q 2014	118	31.1%	\$188,555	-13.3%
1Q 2013	90		\$217,508	
2013	480	26.6%	\$202,742	10.4%
2012	379	-11.7%	\$183,657	-3.3%
2011	429	85.7%	\$189,861	9.3%
2010	231	208.0%	\$173,769	21.3%
2009	75	-73.1%	\$143,229	-19.7%
2008	279	-62.6%	\$178,449	3.2%
2007	746	3.0%	\$172,880	-6.4%
2006	724	16.4%	\$184,687	18.6%
2005	622		\$155,661	

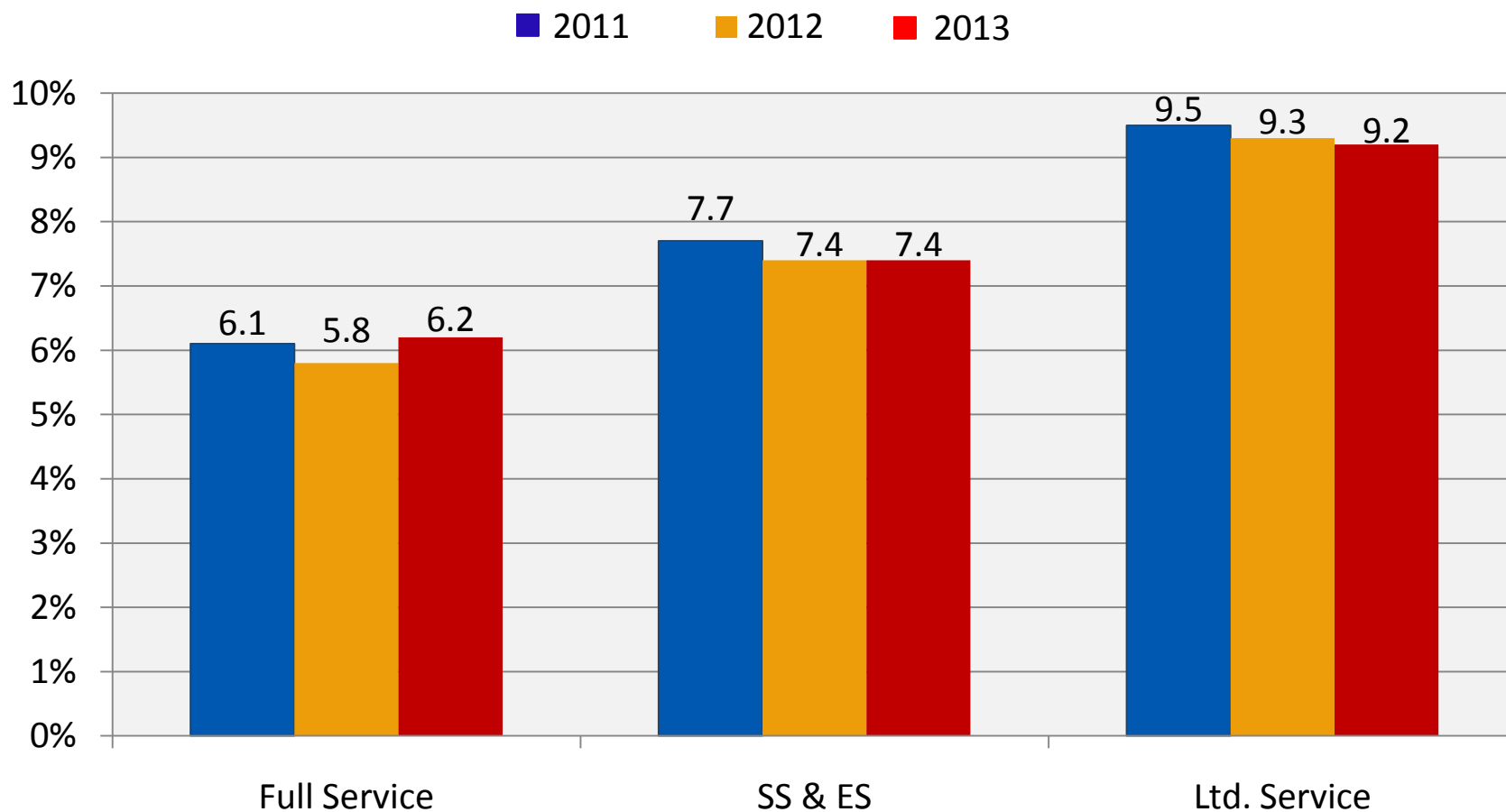
Cap and Discount Rates – Select Set of Full Service Hotels

	Cap Rate based on Historical NOI		Cap Rate based on 1st Yr. Projected NOI		Unlevered Discount Rate		Equity Yield	
		%		%		%		%
2013	6.1	%	7.1	%	10.6	%	17.2	%
2012	5.8		7.2		10.8		16.5	
2011	6.1		7.1		11.7		16.8	
2010	4.6		5.4		11.8		15.9	
2009	8.0		6.4		13.7		16.9	
2008	6.7		5.8		11.6		19.3	
2007	6.0		6.8		11.6		21.3	
2006	5.5		5.7		10.8		18.9	
2005	5.2		6.9		11.4		19.7	
2004	5.8		7.4		12.2		19.7	
2003	7.9		8.2		14.0		21.4	
2002	8.9		9.8		13.6		21.0	
2001	8.2		9.8		14.6		22.2	

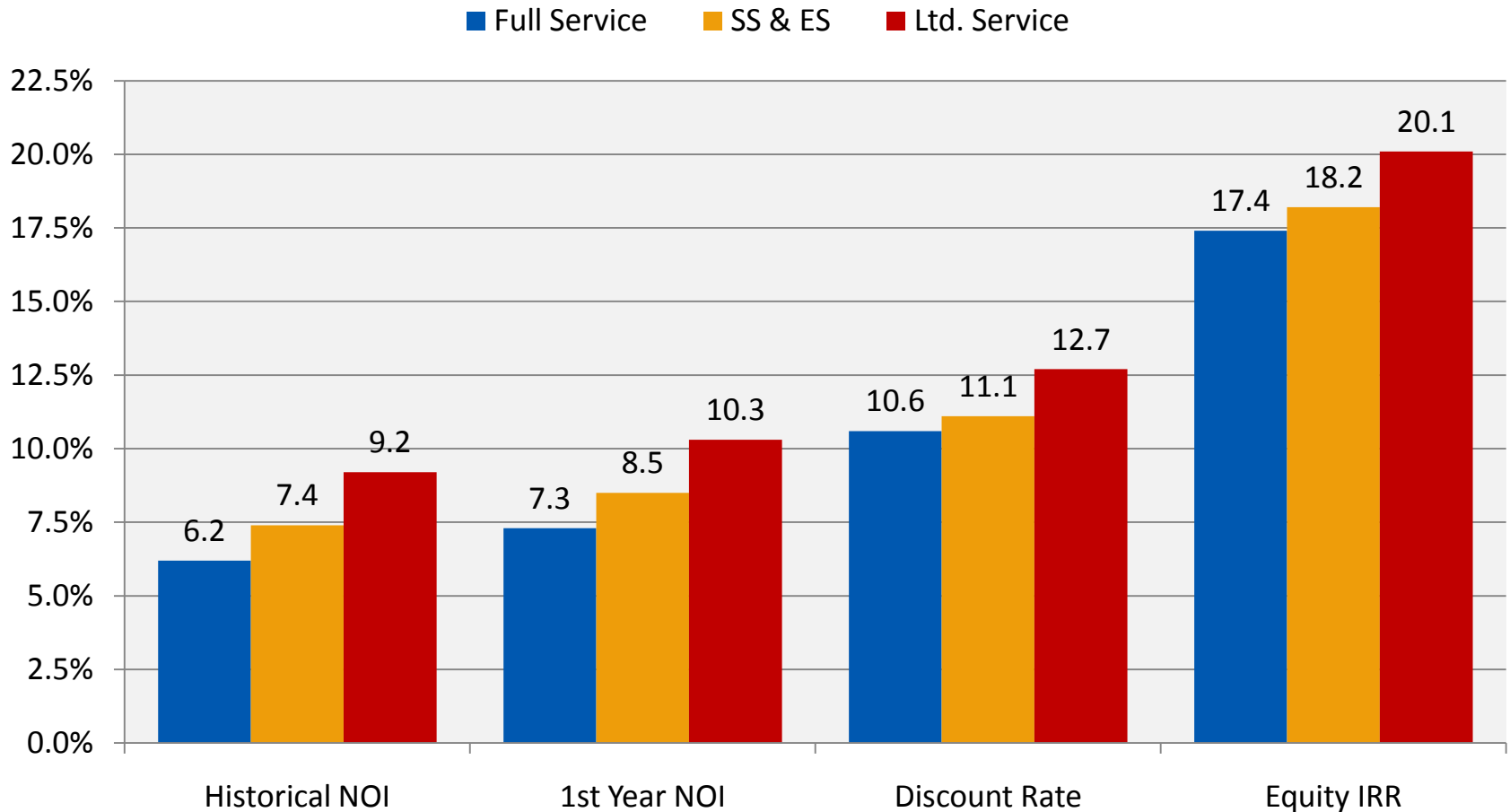
Cap and Discount Rates – Derived from Sales



Derived Cap Rates Steady



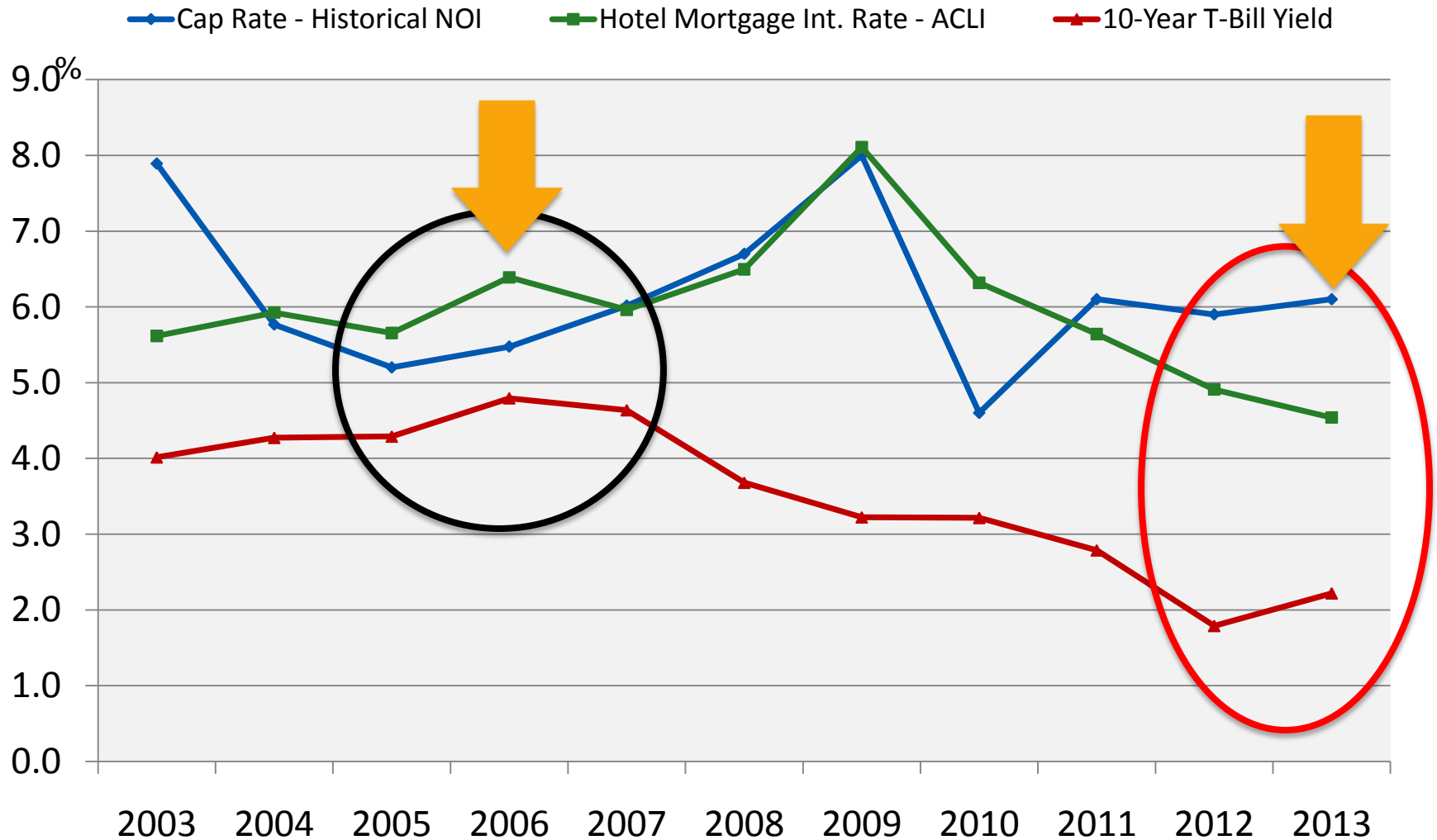
Comparative Rates of Return - 2013



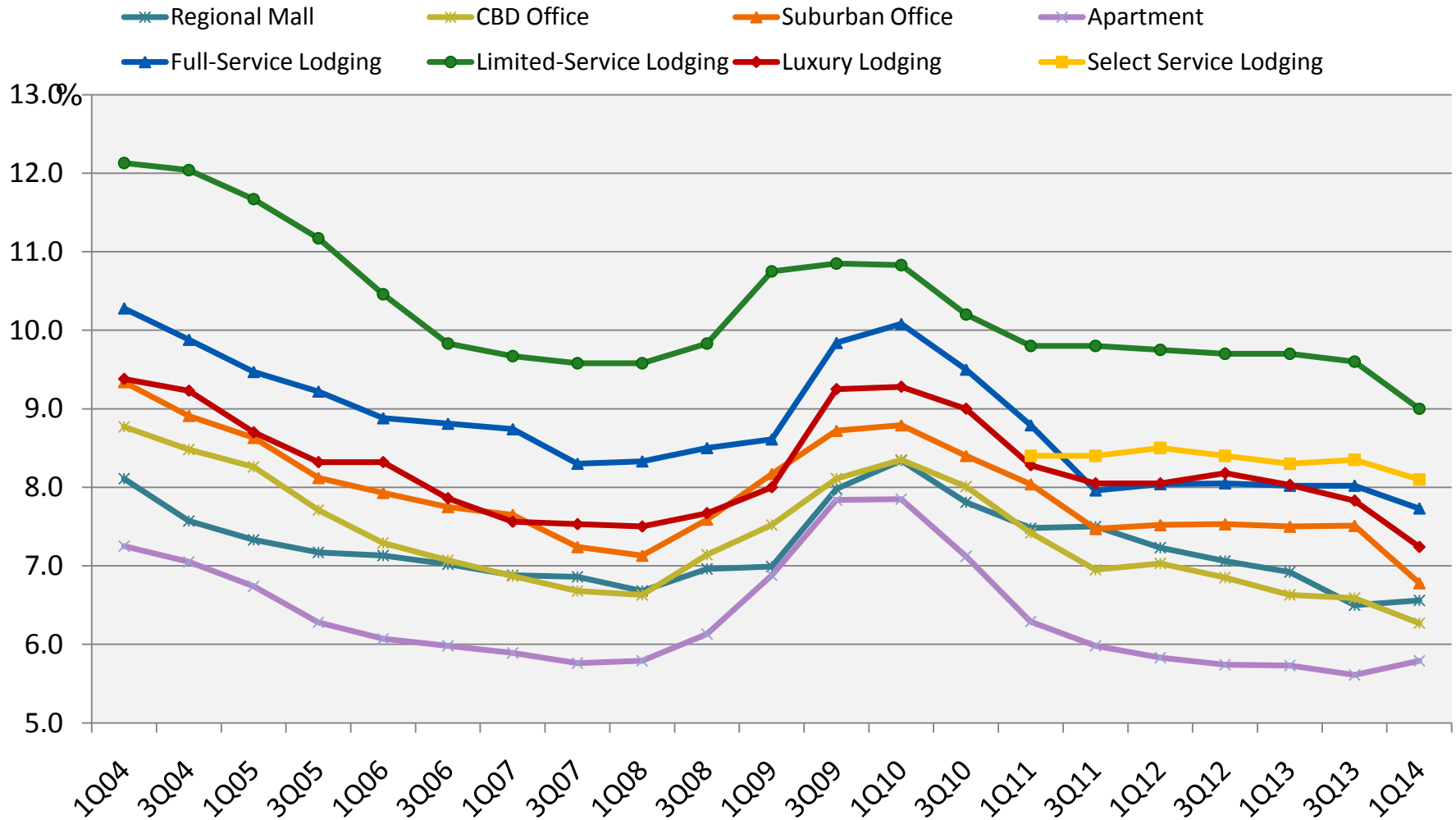
Wide Range of Cap Rates on Historical NOI

Property Type	2013		2012		2011	
	Average (%)	Range (%)	Average (%)	Range (%)	Average (%)	Range (%)
Full Service Incl. Luxury	6.2	2.9 - 7.9	5.8	1.5 - 11.7	6.1	0.05 - 10.9
Select Service & Extended Stay	7.4	2.5 - 14.2	7.4	4.0 - 11.7	7.7	3.2 - 12.6
Limited Service	9.2	5.4 - 12.9	9.3	3.7 - 12.2	9.5	0.03 - 30.0

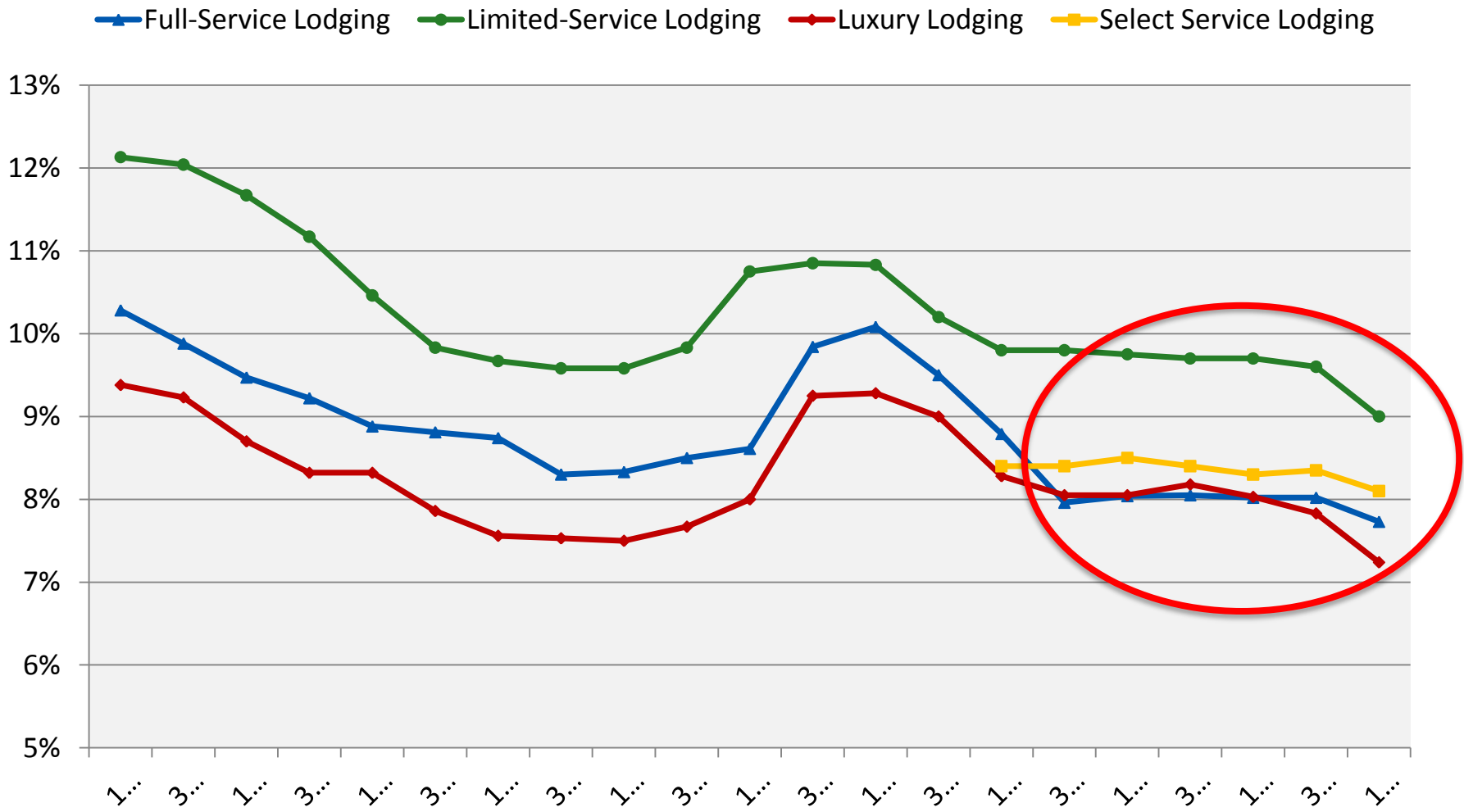
Cap Rates Remain Above Hotel Mortgage Interest Rates



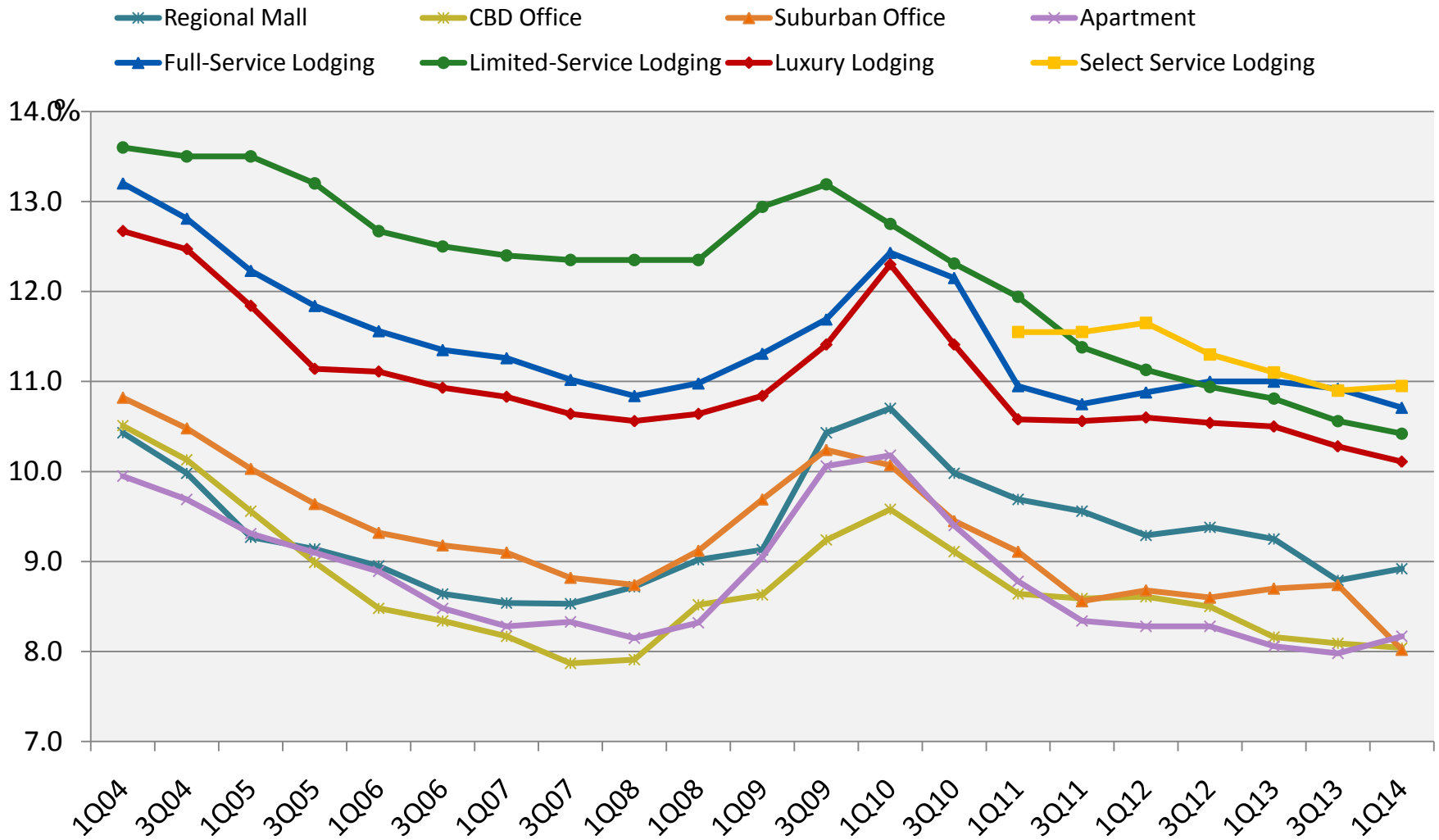
Capitalization Rates – PWC Investor Survey



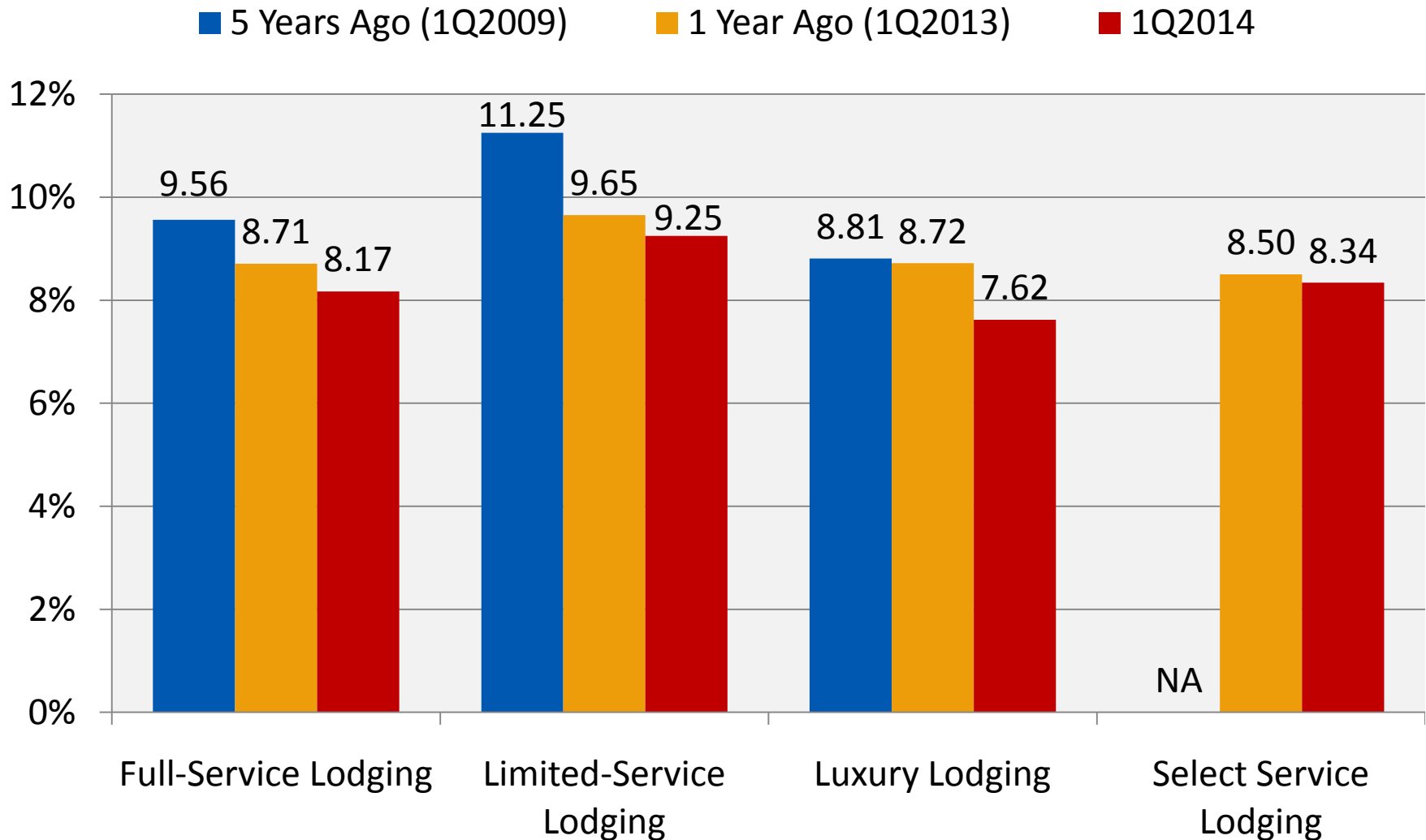
Trend in Hotel Cap Rates – Survey Range Impacts Average



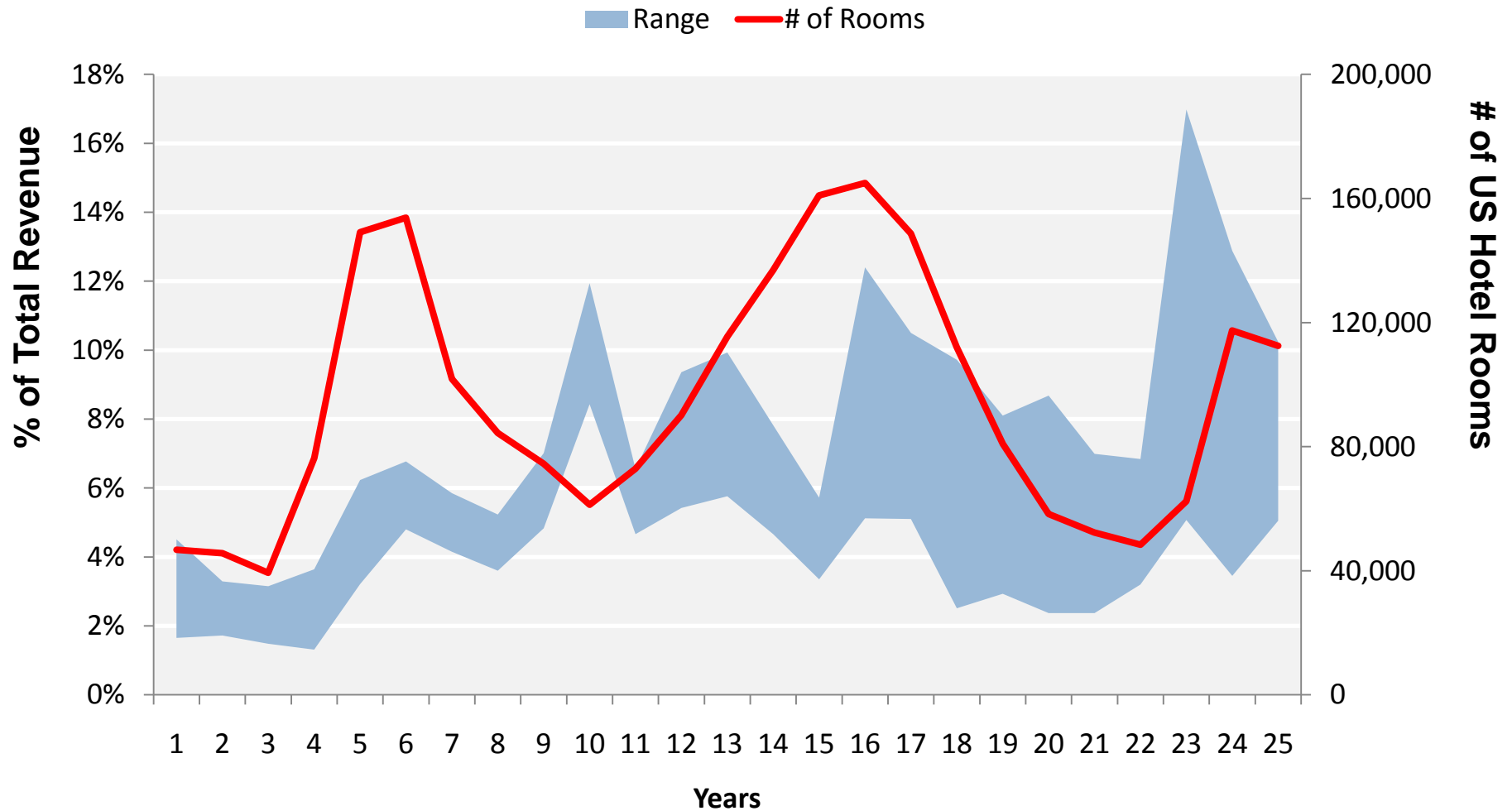
Discount Rates – PWC Investor Survey



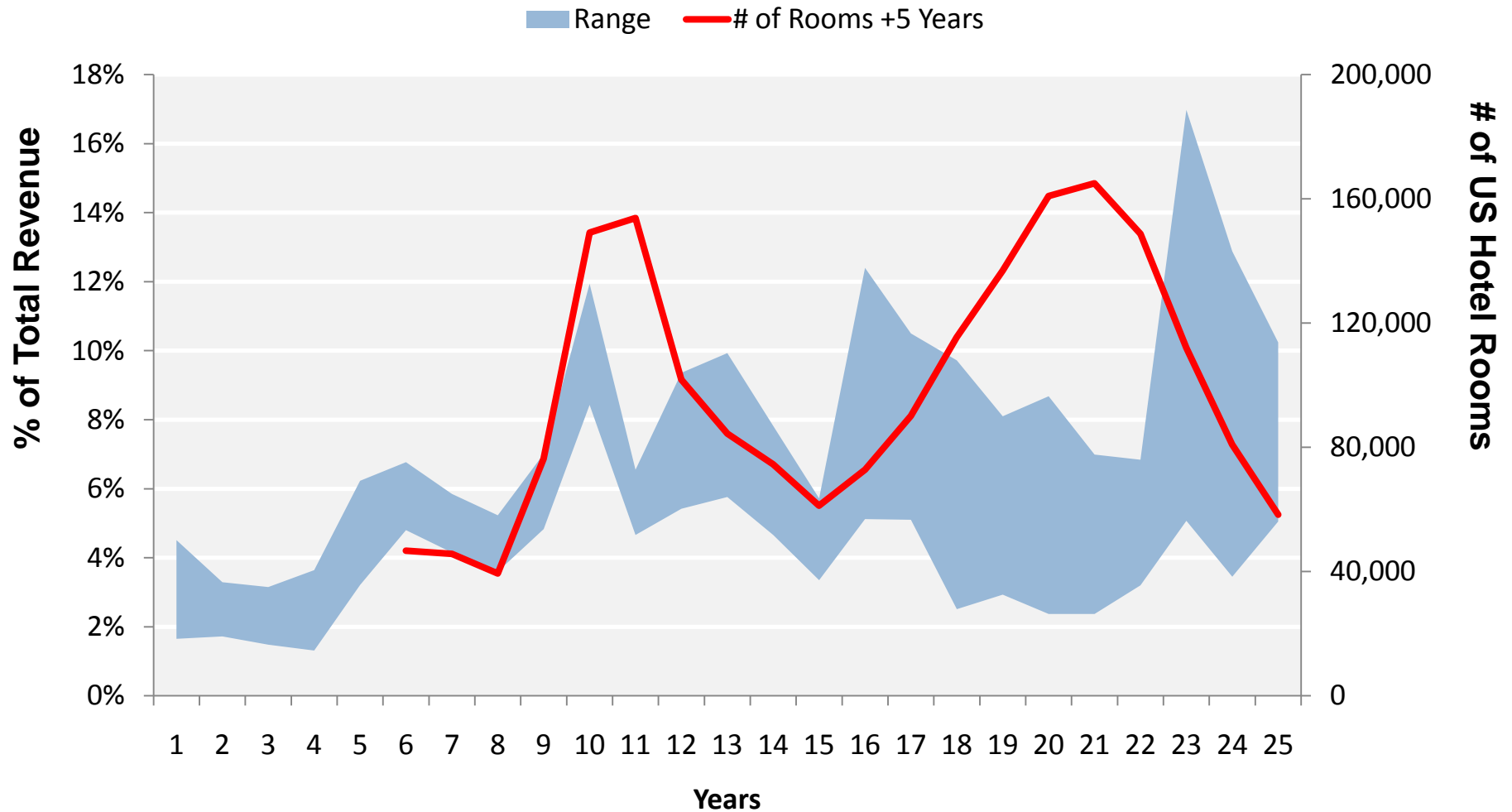
Downward Trend in Residual Cap Rates



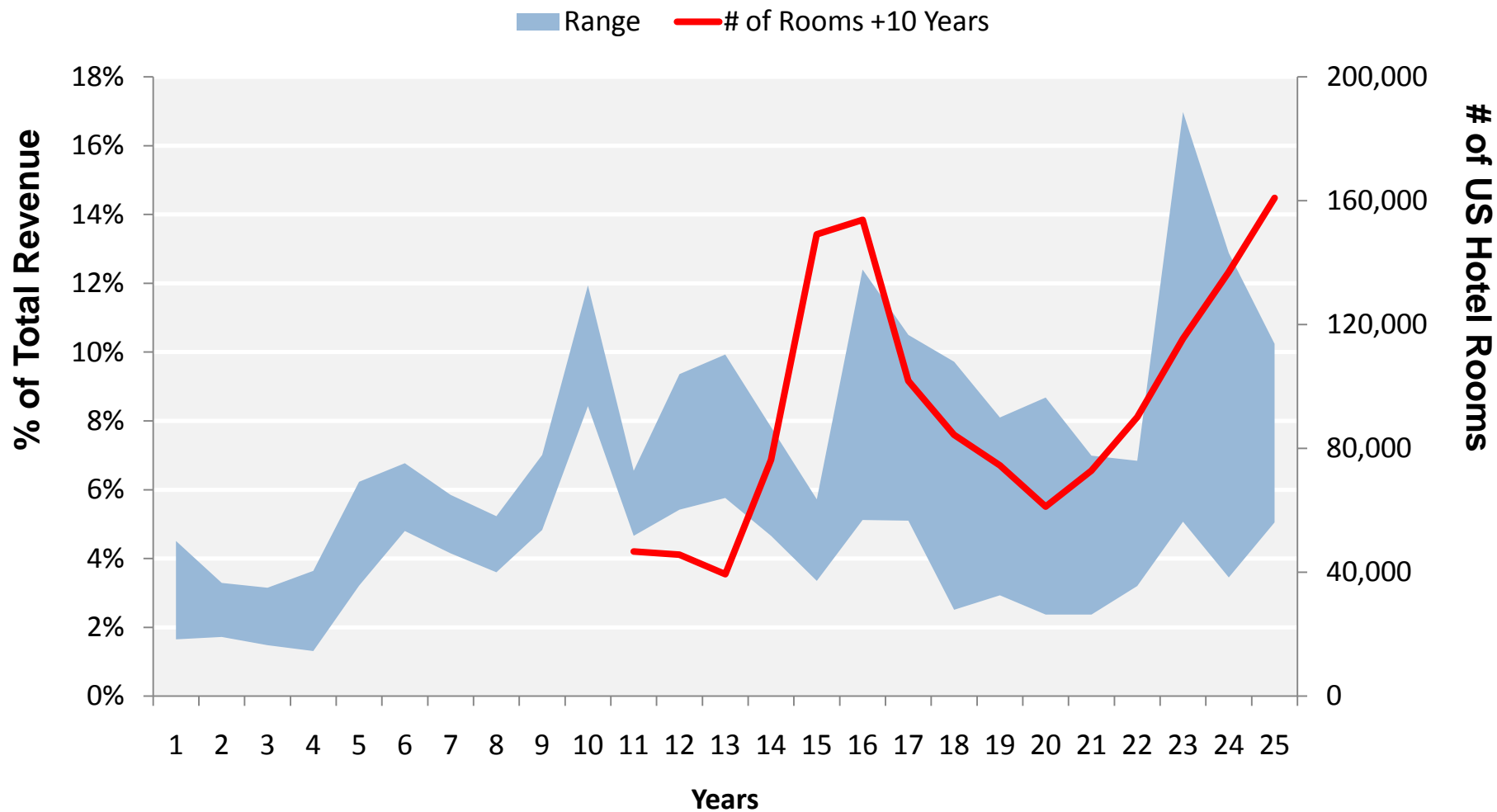
Cap Ex Impacts Cap Rates and Values



Cap Ex Impacts Cap Rates and Values



Hotel Lender Composition – Past 5 Years



Percentage of Appraised Hotels Requiring Cap Ex* Upon Sale and Cap Ex as % of Purchase Price

Hotel Product Type	% w/Expected Cap Ex* Upon	Average Cap Ex* as % of Purchase Price
Full Service	82	15
Select Service	76	13
Limited Service	71	12

* Capital expenditures above and beyond reserve for replacement

Valuation Scenarios – Impact of Terminal Cap Rate

Valuation Input			Differential
Loan/Value	65%	65%	
Amortization	25	25	
Term	10	10	
Interest Rate	5.50%	5.50%	
Terminal Cap Rate	11.00%	9.00%	200 bps
Transaction Costs	3.0%	3.0%	
Equity Yield	19.0%	19.0%	
Valuation Output			
All In Value Before Cap Ex	9,700,000	10,400,000	7.2%
All In Value Per Room	115,000	126,000	
As Is Value After Cap Ex	7,700,000	8,400,000	9.1%
As Is Value per Room	92,000	102,000	
Reversionary Sales Price	11,400,000	13,900,000	21.9%
Unlevered Discount Rate	11.2%	11.5%	30 bps
Overall Rate (All In TTM NOI)	8.3%	7.8%	50 bps
Overall Rate (All In Year 1 NOI)	8.6%	8.0%	60 bps
Overall Rate (As Is-TTM NOI)	10.5%	9.6%	90 bps
Overall Rate (As Is-Year 1 NOI)	10.8%	9.9%	90 bps

Cap Rate Differential – “As-Is” vs. “All-In”

Hotel Product Type	Cap Rate on Historical NOI		Range of Cap Rate Differential	Cap Rate on 1st		Range of Cap Rate Different
	"As Is" After Cap Ex	"All In" Before Cap		"As Is" After Cap	"All In" Before	
Full Service	6.2%	5.4%	20 - 180	7.2%	6.4%	10 - 230
Select Service	7.7%	6.9%	20 - 160	8.7%	7.8%	30 - 190
Limited Service	8.9%	8.1%	10 - 190	10.6%	9.5%	30 - 160

Summary

- Ideal conditions for another strong transaction year – activity expected to equal or exceed that of 2013
- Wide array of buyers will continue to pursue hotel investments
- More sellers will come to the table as sales prices near peak pricing
- Availability of debt will continue, with lender competition putting pressure on interest rates and loan-to-value ratios
- Interest rates expected to rise only moderately – no major concern
- Capitalization rates expected to remain steady despite rise in NOI due to availability of capital and buyer competition for quality assets
- Values will continue to rise driven by ADR and profit gains coupled with low cost of capital and increasing leverage
- Values likely to peak within next two to three years

Please, Call Me or e-mail Me With
Any Questions

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Thank You!

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Suzanne R. Mellen is the Senior Managing Director of Consulting & Valuation for HVS San Francisco, Los Angeles, and Las Vegas, and President of HVS Gaming Services. HVS is a full-service consulting and valuation firm specializing in hotel, gaming, and hospitality properties worldwide. HVS offices under her leadership are renowned for excellence and integrity. Ms. Mellen has appraised thousands of hotels, gaming assets, and related real estate over the past 35 years. She has authored numerous articles and is a frequent lecturer and expert witness on the valuation of hotels, casinos, and related issues.

Ms. Mellen has a B.S. degree in Hotel Administration from Cornell University and holds the following designations: MAI (Appraisal Institute), CRE (Counselor of Real Estate), FRICS (Fellow of the Royal Institution of Chartered Surveyors), and ISHC (International Society of Hospitality Consultants). Suzanne Mellen's professional experience includes consulting and appraisal positions with HVS New York, Morgan Guaranty Trust, Laventhol & Horwath, and Helmsley-Spear Hospitality Services, Inc. in New York City and Harley-Little Associates in Toronto, Canada.