

Outlook for Lodging Accommodations

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Outlook for Lodging Accommodations



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- **Introduction/Lodging Overview**
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Hotels: What Makes Them Different?

Operating Business

Unlike other classes of real estate, hotels typically contain hundreds (in some cases over one thousand) of employees. Properties are reliant on the quality of management, the brand, the employees and other factors.

No Credit

Hotels do not benefit from long-term leases or credit tenancies; the inventory is sold on a daily/nightly basis.

Compounded Complexity

The success of a hotel investment is heavily influenced by multiple parties, each of which may have competing and/or complimentary interests in the underlying property. In addition to the traditional interests of owner/sponsors, third party equity investors, and lenders, additional complexity is derived from the interests of the property manager and/or brand. These complexities can result in competing economic and operating influences that may not be common to other forms of real estate investment.

Highly Leveraged, High Fixed Cost Business:

Regardless of whether a hotel property is 10% occupied, or 100% occupied, ownership is still exposed to fixed costs.

Reliance On Other Intermediaries:

The hotel business is directly tied to uncontrollable “outside” parties including travel agents, internet sites, etc.

The Hotel Industry is a Complex and Volatile Business

Macro Overview

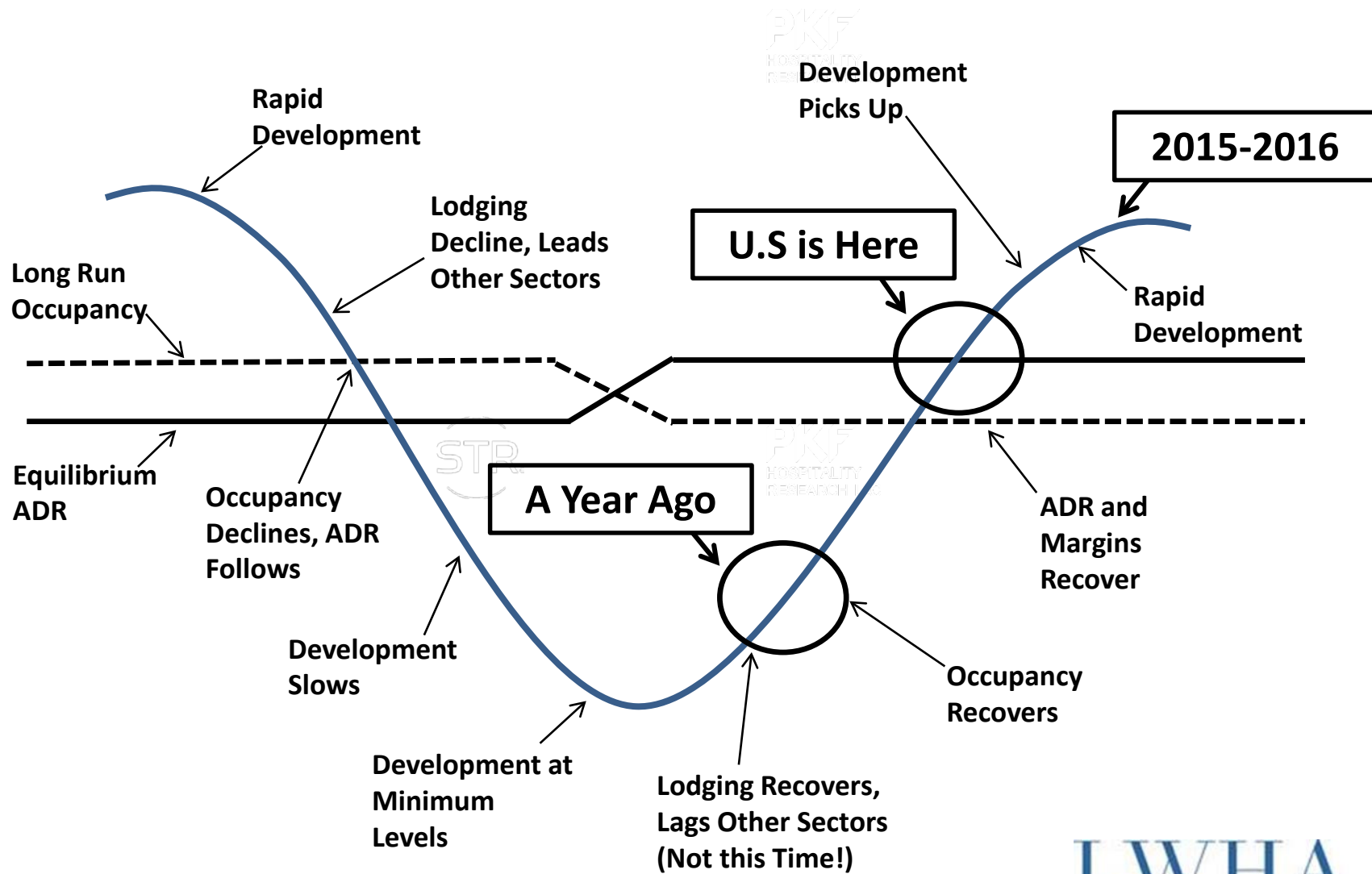
	1/1/2009	1/1/2011	11/1/2012	1/1/2014
Economy	Contracting	Expanding	Expanding (Slowly)	Expanding (Still Slowly)
Jobs	Declining	Declining	Increasing (Slowly)	Increasing (Still Slowly)
Consumer Spending	Declining	Expanding	Increasing	Increasing
Business Spending	Declining	Expanding	Increased (Now Stagnant)	Accelerating
Supply Growth	Accelerating	Stabilized	Muted	Accelerating (Modestly)
Room Night Demand	Declining	Growing	Record Levels	Continued Record Levels

<u>U.S. Hotel Performance</u>	2008	2009	2010	2011	2012	2013	Projected 2014	Projected 2015
Supply	▲ 2.6%	▲ 3.2%	▲ 2.0%	▲ 0.6%	▲ 0.5%	▲ 0.7%	▲ 1.2%	▲ 1.6%
Demand	▼ 1.9%	▼ 5.8%	▲ 7.8%	▲ 5.0%	▲ 3.0%	▲ 2.2%	▲ 2.3%	▲ 2.1%
Occupancy	▼ 4.4%	▼ 8.7%	▲ 5.7%	▲ 4.4%	▲ 2.5%	▲ 1.5%	▲ 1.1%	▲ 0.5%
ADR	▲ 2.7%	▼ 8.8%	▼ 0.1%	▲ 3.7%	▲ 4.2%	▲ 3.9%	▲ 4.2%	▲ 4.2%
RevPAR	▼ 1.8%	▼ 16.7%	▲ 5.5%	▲ 8.2%	▲ 6.8%	▲ 5.4%	▲ 5.3%	▲ 4.7%

Source: (Data Only) Smith Travel Research

Hotel Market Cycle

U.S. Passing through Long Run Averages

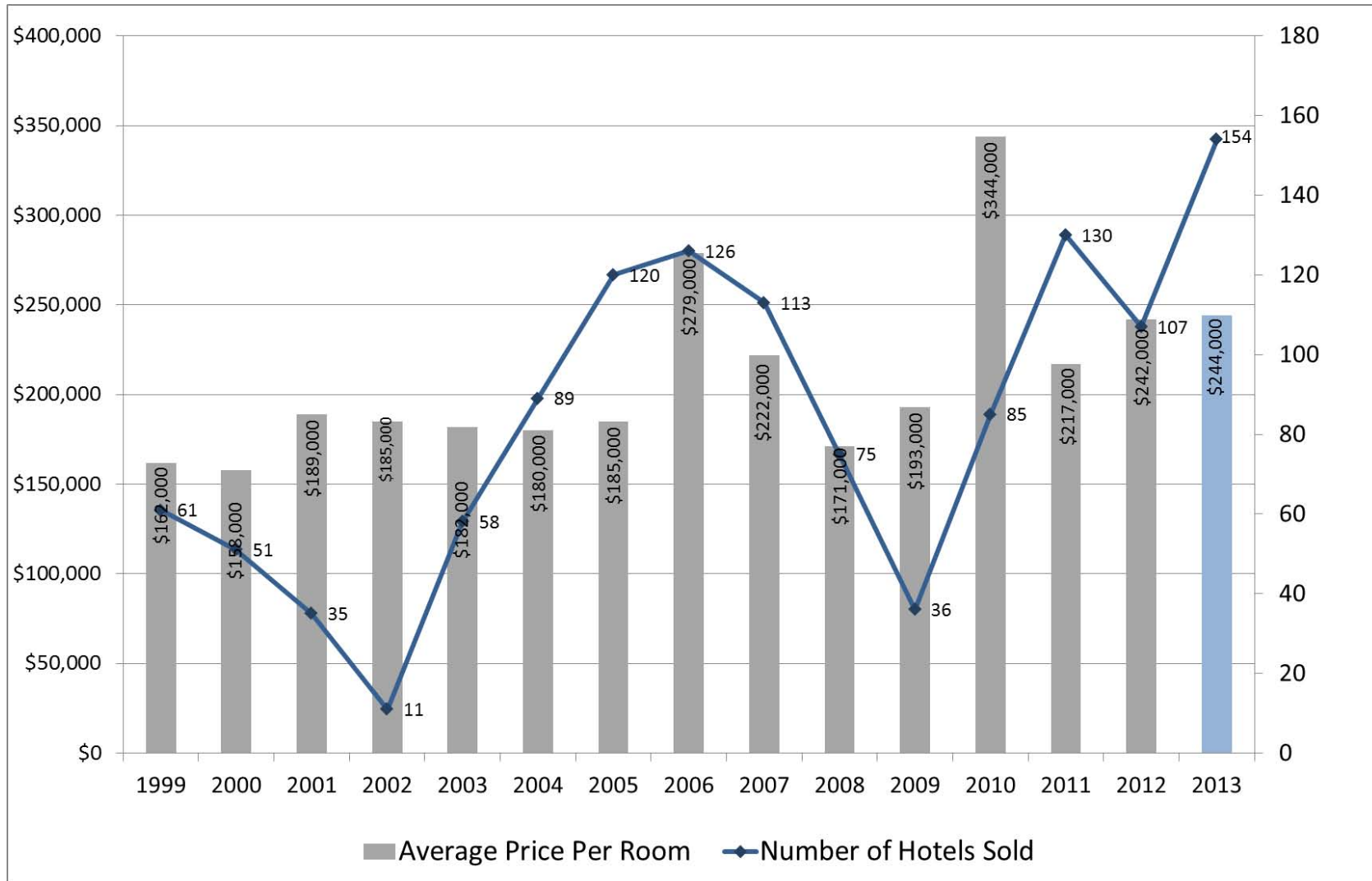


Source: PKF Consulting USA



LW Hospitality Advisors 2013 Major U.S. Hotel Transactions

Major Hotel Sales Transactions 1999-2013



2013 Major U.S. Sales - Top 10 by Total Price

Qtr.	Property	Location		No. of Rooms	Estimated Sales Price	Estimated Price/Room	Buyer	Seller
Q3	Peabody Orlando	Orlando	FL	1641	\$717,000,000	\$436,929	Hyatt Hotels Corp.	UST Hotel Joint Venture Ltd.
Q3	Park Lane Hotel	New York	NY	605	\$650,000,000	\$1,074,380	Witkoff Group	Estate of Leona Helmsley
Q2	Hyatt Regency Waikiki Beach Resort and Spa	Honolulu	HI	1230	\$450,000,000	\$365,854	Blackstone Group	JV Whitehall Street Real Estate Funds & Hyatt Hotels Corp.
Q4	Philadelphia Marriott Downtown	Philadelphia	PA	1408	\$305,000,000	\$176,188	JV Oaktree Capital & Clearview Hotel Investors	Host Hotels & Resorts, Inc.
Q1	Atlanta Marriott Marquis	Atlanta	GA	1663	\$293,000,000	\$176,188	N/A	Host Hotels & Resorts, Inc.
Q4	Hyatt Regency San Francisco	San Francisco	CA	802	\$262,500,000	\$237,417	Sunstone Hotel Investors, Inc.	JV Rockpoint Group & Donald Saunders
Q2	Boston Park Plaza Hotel & Towers	Boston	MA	1053	\$250,000,000	\$237,417	Sunstone Hotel Investors, Inc.	JV Rockpoint Group & Donald Saunders
Q3	Setai Fifth Avenue	New York	NY	214	\$229,000,000	\$1,070,093	Great Eagle Group	Bizzi & Partners Development
Q3	Westin Galleria & Westin Oaks	Houston	TX	893	\$220,000,000	\$246,361	Inland American Lodging Group	Walton Street Capital
Q4	Waldorf Astoria Naples	Naples	FL	474	\$200,000,000	\$975,000	Northwood Investors LLC	Blackstone Group LP

Source: LW Hospitality Advisors has compiled the above information from sources deemed reliable, and the information is thought to be correct, however LWHA cannot warrant absolute accuracy of all the data. Use of this information without verification from original sources is at your own risk.

2013 Major U.S. Hotel Sales - Top 10 by Number of Rooms

Qtr.	Property	Location		No. of Rooms	Estimated Sales Price	Estimated Price/Room	Buyer	Seller
Q1	Atlanta Marriott Marquis	Atlanta	GA	1663	\$293,000,000	\$176,188	N/A	Host Hotels & Resorts, Inc.
Q3	Peabody Orlando	Orlando	FL	1641	\$717,000,000	\$436,929	Hyatt Hotels Corp.	UST Hotel Joint Venture Ltd.
Q4	Philadelphia Marriott Downtown	Philadelphia	PA	1408	\$305,000,000	\$216,619	JV Oaktree Capital & Clearview Hotel Investors	Host Hotels & Resorts, Inc.
Q2	Hyatt Regency Waikiki Beach Resort and Spa	Honolulu	HI	1230	\$450,000,000	\$365,854	Blackstone Group	JV Whitehall Street Real Estate Funds & Hyatt Hotels Corp.
Q2	Boston Park Plaza Hotel & Towers	Boston	MA	1053	\$250,000,000	\$237,417	Sunstone Hotel Investors, Inc.	JV Rockpoint Group & Donald Saunders
Q4	Renaissance St. Louis Grand Hotel	St. Louis	MO	917	\$26,000,000	\$28,353	800 Washington LLC	N/A
Q3	Westin Galleria & Westin Oaks	Houston	TX	893	\$220,000,000	\$246,361	Inland American Lodging Group	Walton Street Capital
Q4	Hyatt Regency San Francisco	San Francisco	CA	802	\$262,500,000	\$327,307	Sunstone Hotel Investors, Inc.	JV Dune Capital Management & DiNapoli Capital Partners
Q4	Sheraton Gateway LAX	Los Angeles	CA	802	\$96,000,000	\$119,701	Hazens Real Estate Group	Long Wharf Real Estate Partners
Q4	Astor Crowne Plaza	New Orleans	LA	693	\$114,000,000	\$164,502	Starwood Capital	LNR Property LLC

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2013 Major U.S. Hotel Sales -Top 10 by Price Per Room

Qtr.	Property	Location		No. of Rooms	Estimated Sales Price	Estimated Price/Room	Buyer	Seller
Q4	Calistoga Ranch	Napa	CA	50	\$55,000,000	\$1,100,000	JV Auberge Resorts, AJ Capital Partners, William P. Foley II, & Michael Uytengsu	Olympus Real Estate Partners
Q3	Park Lane Hotel	New York	NY	605	\$650,000,000	\$1,074,380	Witkoff Group	Estate of Leona Helmsley
Q3	Setai Fifth Avenue	New York	NY	214	\$229,000,000	\$1,070,093	Great Eagle Group	Bizzi & Partners Development
Q3	London West Hollywood	West Hollywood	CA	200	\$195,000,000	\$975,000	Northwood Investors LLC	Blackstone Group LP
Q4	Hawks Cay Resort ¹	Duck Key	FL	177	\$133,800,000	\$755,932	Carey Watermark Investors Incorporated	Behringer Harvard
Q2	James New York	New York	NY	114	\$85,000,000	\$745,614	Brack Capital Real Estate	Prudential Finance
Q4	Hyatt Key West Resort and Spa	Key West	FL	118	\$76,000,000	\$644,068	Inland American Lodging Group, Inc.	Hyatt Hotels Corporation
Q2	Pier House Resort and Caribbean Spa	Key West	FL	142	\$90,000,000	\$633,803	Ashford Hospitality Trust, Inc.	Richard E. Jacobs Group
Q2	Lake Placid Lodge	Lake Placid	NY	30	\$19,000,000	\$633,333	Ocean Properties	Ramsfield Hospitality Finance
Q1	Flatotel ²	New York	NY	289	\$180,000,000	\$622,837	JV Chetrit Group LLC & Clipper Equity LLC	JV Rockpoint Group, Atlas Capital Group & Procaccianti Group

Source: LW Hospitality Advisors has compiled the above information from sources deemed reliable, and the information is thought to be correct, however LWHA cannot warrant absolute accuracy of all the data. Use of this information without verification from original sources is at your own risk.

¹ Hawks Cay includes 177 resort guestrooms and a resort residential management program that includes over 250 two-three-and four-bedroom villas

² Buyer plans to convert hotel to extended stay corporate suites

2013 Major U.S. Hotel Sales Top 5 Markets

Location		No. of Sales	No. of Rooms	Estimated Sales Price	Estimated Price/Room
New York	NY	11	2,501	\$1,808,200,000	\$722,991
Honolulu	HI	5	2,530	\$866,000,000	\$342,292
San Francisco	CA	7	2,452	\$808,500,000	\$329,731
Orlando	FL	2	1,975	\$742,700,000	\$376,051
Boston	MA	4	1,719	\$569,300,000	\$331,181

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2011 – 2014 Quarterly Sales Trends

LW Hospitality Advisors: Select Major 2011-2014 U.S. Hotel Sales Survey						
Quarter	Total Trades	Total Rooms	Average Size Property	Total \$ Volume	Average Size Deal	\$ Volume Per Room
Q1 2011	36	14,368	399	\$ 2,767,520,000	\$ 76,875,556	\$ 192,617
Q2 2011	42	12,828	305	\$ 3,649,400,000	\$ 86,890,476	\$ 284,487
Q3 2011	21	4,538	216	\$ 812,175,000	\$ 38,675,000	\$ 178,972
Q4 2011	31	9,072	293	\$ 1,632,439,000	\$ 52,659,323	\$ 179,943
Q1 2012	26	7,271	280	\$ 1,871,050,000	\$ 71,963,462	\$ 257,330
Q2 2012	27	5,401	200	\$ 1,080,400,000	\$ 40,014,815	\$ 200,037
Q3 2012	28	7,464	267	\$ 1,739,635,000	\$ 62,129,821	\$ 233,070
Q4 2012	26	6,572	253	\$ 1,783,850,000	\$ 68,609,615	\$ 271,432
Q1 2013	26	7,389	284	\$ 1,885,240,000	\$ 72,509,231	\$ 255,141
Q2 2013	38	10,927	288	\$ 2,647,740,000	\$ 69,677,368	\$ 242,312
Q3 2013	38	11,330	298	\$ 3,341,600,000	\$ 87,936,842	\$ 294,934
Q4 2013	51	15,304	300	\$ 3,019,560,000	\$ 59,207,059	\$ 197,305
Q1 2014	31	8,071	260	\$ 2,498,105,000	\$ 80,584,032	\$ 309,516
Q2 2014	42	12,835	306	\$ 4,546,790,500	\$ 108,256,917	\$ 354,249
Q3 2014	42	11,006	262	\$ 3,880,050,000	\$ 92,382,143	\$ 352,540

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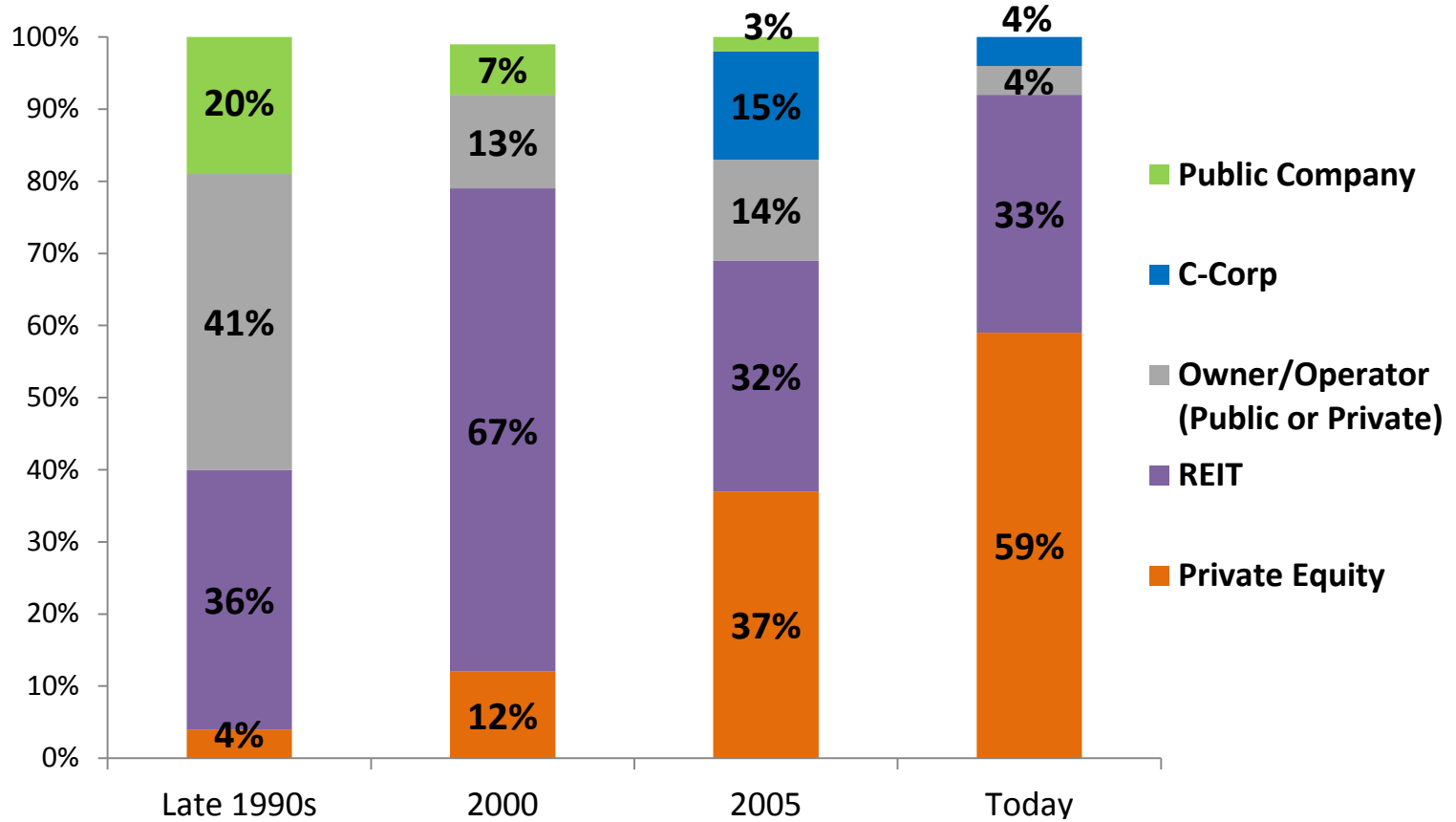
Hotel Valuation Trends

- Hotel values surpassing prior peaks
- Cap rate compression
- Availability of capital
- New construction trends



Hotel Ownership Increasingly Consolidated

Proportion of Rooms Owned by Investor Type for 10 Largest Hotel Owners



Approximate share of U.S. institutional quality room stock owned by 10 largest owners

14%

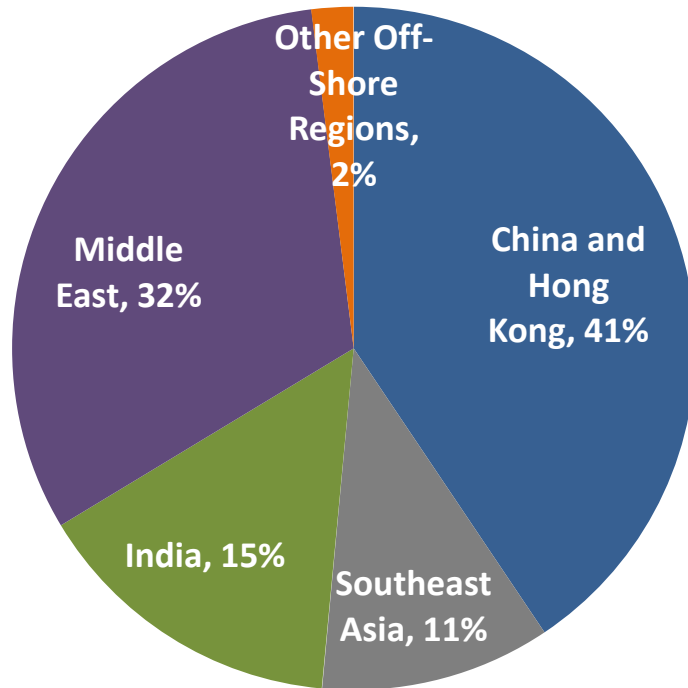
27%

44%

44%

Off-Shore Investment into U.S. Hotel Market

Off-Shore Investment into U.S. Since 2010



Investment Targets:

- Coastal gateway markets
- Urban locations and resorts
- Institutional quality assets, often unbranded
- Single assets

Source: Jones Lang LaSalle

Hotel Capital Stack Returns/Price Movements

	2005	Early 2006	Late 2006	Early 2007 (Peak)	Late 2007	Mid 2008	Late 2008	Late 2009	Late 2010	Mid 2011	Late 2012	Late 2013
DEBT												
Debt To Value	60%	70%	75%	80%	75%	65%	55%	55%	65%	65%	65%	70%
Interest Rate	6.00%	6.50%	6.20%	5.75%	6.50%	7.10%	8.00%	8.00%	6.50%	5.50%	5.25%	5.00%
Amortization	25	30	I/O	I/O	30	25	25	25	25	25	25	25
Debt Constant	7.73%	7.58%	6.20%	5.75%	7.58%	8.56%	9.26%	9.26%	8.10%	7.37%	7.19%	7.02%
EQUITY												
Equity To Value	40%	30%	25%	20%	25%	35%	45%	45%	35%	35%	35%	30%
Equity Dividend	10.00%	10.00%	9.00%	8.00%	9.00%	10.00%	11.00%	11.00%	9.00%	8.00%	8.00%	7.00%
Weighted Average Cost Of Capital (WACC)	8.64%	8.31%	6.90%	6.20%	7.94%	9.06%	10.04%	10.04%	8.42%	7.59%	7.47%	7.01%
Implied Value of \$1,000 NOI	\$11,575	\$12,035	\$14,493	\$16,129	\$12,597	\$11,034	\$9,956	\$9,956	\$11,881	\$13,175	\$13,379	\$14,264
% Change WACC From Previous Period	N/A	-3.80%	-17.00%	-10.10%	28.00%	14.20%	10.80%	0.00%	-16.20%	-9.82%	-1.53%	-6.20%
% Change WACC From 2005	N/A	N/A	-20.10%	-28.20%	-8.10%	4.90%	16.30%	16.30%	-2.60%	-12.14%	-13.48%	-18.85%
% Change WACC From Peak	N/A	N/A	N/A	N/A	28.00%	46.20%	62.00%	62.00%	35.80%	22.42%	20.55%	13.07%
% Change Value From Previous Period	N/A	4.00%	20.40%	11.30%	-21.90%	-12.40%	-9.80%	0.00%	19.30%	10.89%	1.55%	6.61%
% Change Value From 2005	N/A	N/A	25.20%	39.30%	8.80%	-4.70%	-14.00%	-14.00%	2.60%	13.82%	15.58%	23.23%
% Change Value From Peak	N/A	N/A	N/A	N/A	-21.90%	-31.60%	-38.30%	-38.30%	-26.30%	-18.31%	-17.05%	-11.56%

Source: LW Hospitality Advisors

Hotel Price Changes (Implied Value Of \$1,000 NOI)

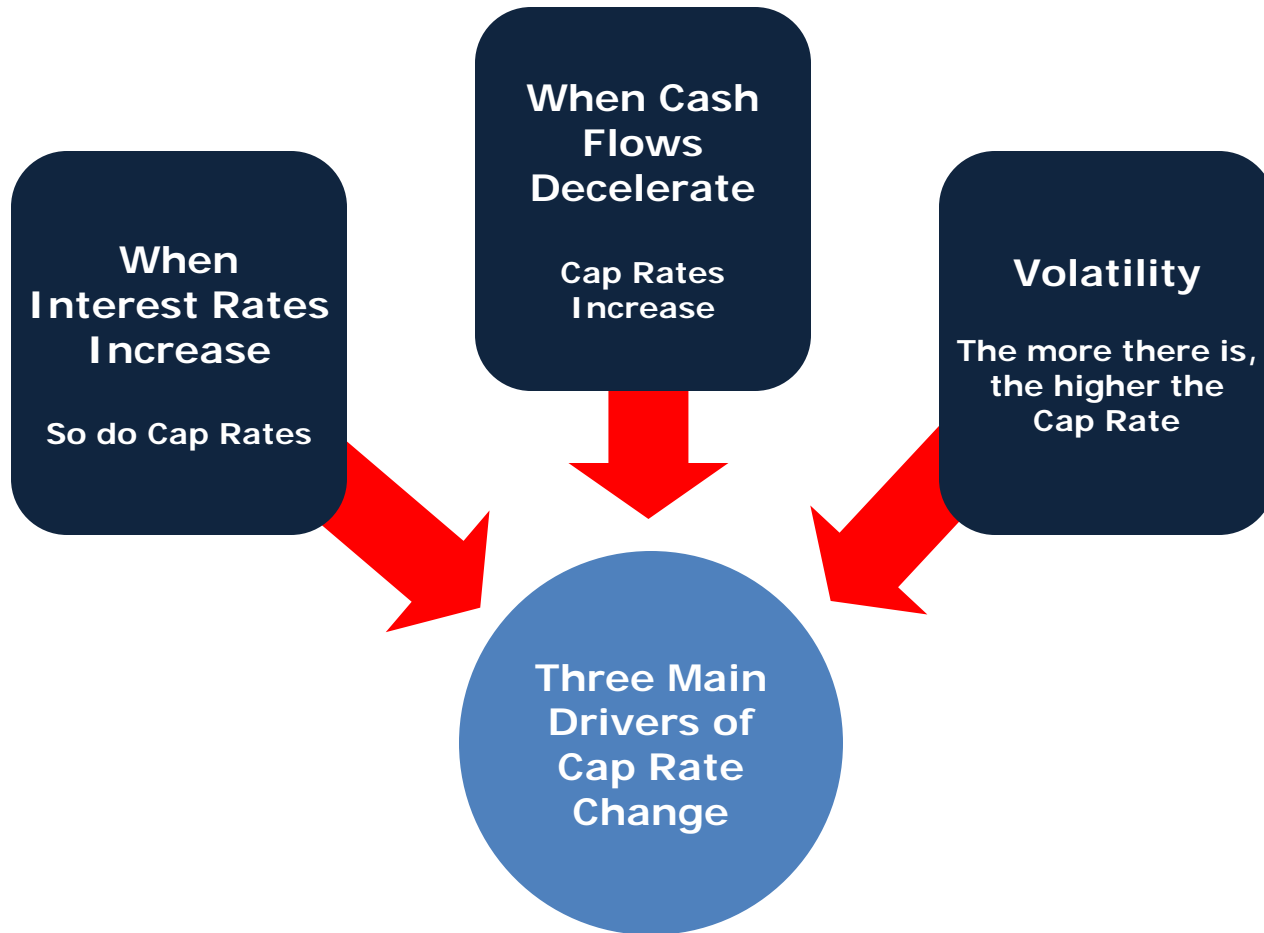
Change in Weighted Cost of Capital

Change in NOI

	2005	Early 2006	Late 2006	Early 2007 (Peak)	Late 2007	Mid 2008	Late 2008	Late 2009	Late 2010	Mid 2011	Late 2012	Late 2013
	8.64%	8.31%	6.90%	6.20%	7.94%	9.06%	10.04%	10.04%	8.42%	7.59%	7.47%	7.01%
25.00%	\$14,469	\$15,043	\$18,116	\$20,161	\$15,746	\$13,793	\$12,445	\$12,445	\$14,852	\$16,469	\$16,724	\$17,830
20.00%	\$13,891	\$14,442	\$17,391	\$19,355	\$15,116	\$13,241	\$11,947	\$11,947	\$14,258	\$15,811	\$16,055	\$17,117
15.00%	\$13,312	\$13,840	\$166,678	\$18,548	\$14,486	\$12,689	\$11,450	\$11,450	\$13,663	\$15,152	\$15,386	\$16,404
10.00%	\$12,733	\$13,238	\$15,942	\$17,742	\$13,856	\$12,138	\$10,952	\$10,952	\$13,069	\$14,493	\$14,717	\$15,691
5.00%	\$12,154	\$12,636	\$15,217	\$16,935	\$13,226	\$11,586	\$10,454	\$10,454	\$12,475	\$13,834	\$14,048	\$14,977
0.00%	\$1,575	\$12,035	\$14,493	\$16,129	\$12,597	\$11,034	\$9,956	\$9,956	\$11,881	\$13,175	\$13,379	\$14,264
-5.00%	\$10,997	\$11,433	\$13,768	\$15,323	\$11,967	\$10,482	\$9,458	\$9,458	\$11,287	\$12,517	\$12,711	\$13,551
-10.00%	\$10,418	\$10,831	\$13,043	\$14,516	\$11,337	\$9,931	\$8,961	\$8,961	\$10,693	\$11,858	\$12,042	\$12,838
-15.00%	\$9,839	\$10,229	\$12,319	\$13,710	\$10,707	\$9,379	\$8,463	\$8,463	\$10,099	\$11,199	\$11,373	\$12,125
-20.00%	\$9,260	\$9,628	\$11,594	\$12,903	\$10,077	\$8,827	\$7,965	\$7,965	\$9,505	\$10,540	\$10,704	\$11,411
-25.00%	\$8,682	\$9,026	\$10,870	\$12,097	\$9,447	\$8,276	\$7,467	\$7,467	\$8,911	\$9,882	\$10,035	\$10,698

Source: LW Hospitality Advisors

Where are Cap Rates Going?



Capitalization Rate Survey

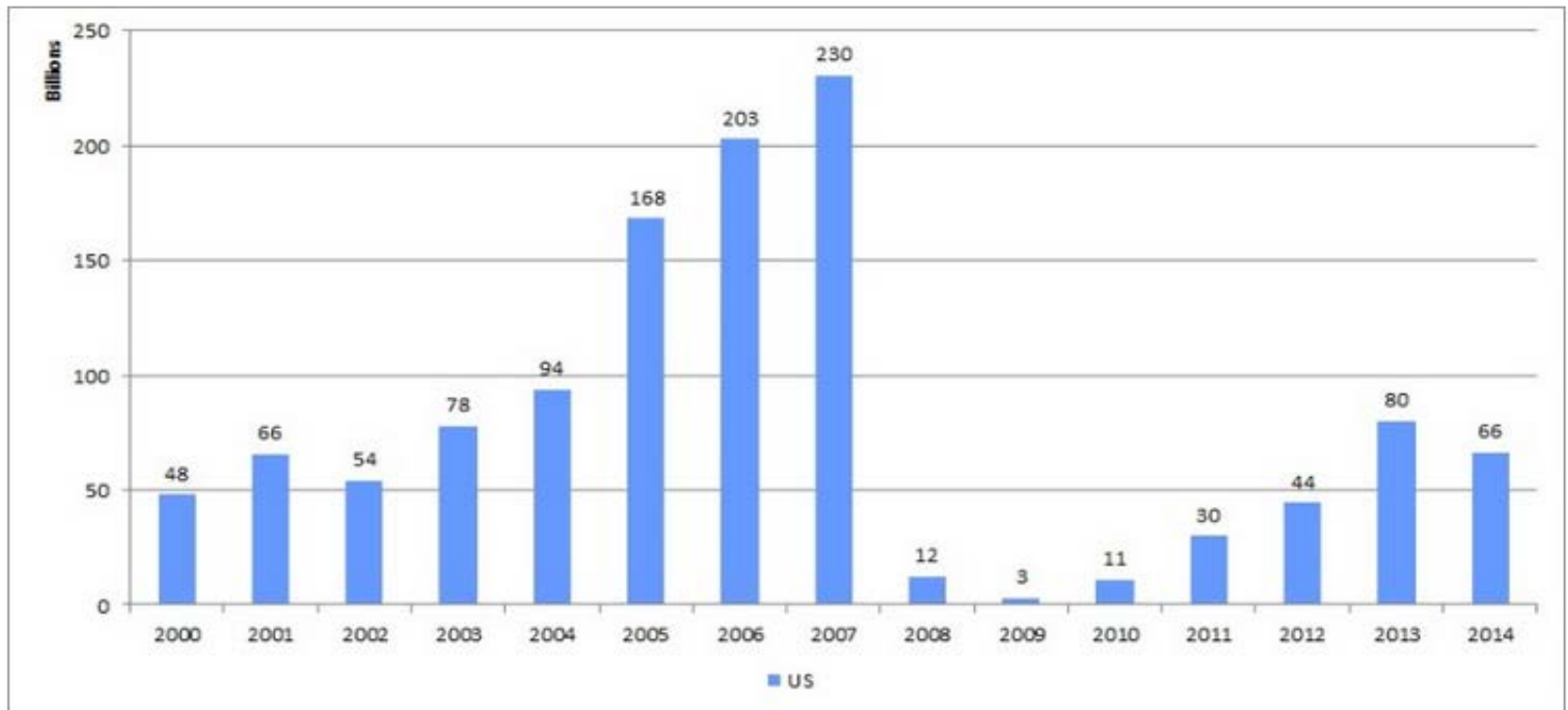
Table 34
NATIONAL FULL-SERVICE LODGING SEGMENT
 Third Quarter 2014

	CURRENT	FIRST QUARTER 2014	1 YEAR AGO	3 YEARS AGO	5 YEARS AGO
DISCOUNT RATE (IRR)*					
Range	9.00% – 13.00%	9.00% – 12.00%	9.50% – 12.00%	9.00% – 12.00%	10.00% – 14.00%
Average	10.71%	10.71%	10.92%	10.75%	11.69%
Change (Basis Points)		0	- 21	- 4	- 98
OVERALL CAP RATE (OAR)*					
Range	6.00% – 11.00%	6.00% – 10.00%	6.00% – 10.00%	6.00% – 10.00%	6.50% – 14.00%
Average	7.81%	7.73%	8.02%	7.96%	9.84%
Change (Basis Points)		+ 8	- 21	- 15	- 203
RESIDUAL CAP RATE					
Range	6.50% – 11.00%	6.50% – 11.00%	6.50% – 12.00%	6.00% – 12.00%	7.50% – 12.00%
Average	8.29%	8.17%	8.75%	9.13%	10.22%
Change (Basis Points)		+ 12	- 46	- 84	- 193

Source: PWC Real Estate Investor Survey

2000 – 2014 U.S. CMBS Loan Issuance

U.S. CMBS Issuance by Year



Source: CRE Finance Council CMBS Report

CMBS Loans & Typical Hotel Financing Terms

CMBS by Property Type

Property Type	Original Balance	Allocation	Current Balance	Allocation
Retail	\$ 383,236,831,341	27.12%	\$ 168,723,095,549	29.77%
Office	\$ 377,115,757,999	26.68%	\$ 155,170,746,478	27.38%
Multi-family	\$ 246,049,511,597	17.41%	\$ 94,854,132,096	16.74%
Hotel	\$ 189,182,799,172	13.39%	\$ 70,856,945,551	12.50%
Other	\$ 151,324,034,499	10.71%	\$ 52,574,827,231	9.28%
Industrial	\$ 57,328,895,862	4.06%	\$ 22,695,734,780	4.00%
Healthcare	\$ 8,976,075,210	0.64%	\$ 1,849,402,572	0.33%

Source: CRE Finance Council CMBS Report

TYPICAL FINANCING TERMS

	<u>Leverage</u>	<u>Interest Rate</u>	<u>Equity Yield</u>	<u>Total Property Yield</u>
Trophy (Top 3%)	70 to 75%	4.5 to 5%	17 to 20%	9 to 9.5%
High Quality	65 to 70%	4.25 to 5.25%	17 to 20%	9.75 to 10.75%
Middle Quality	60 to 65%	5 to 6%	18 to 20%	11 to 12%
Lower Quality	60%	5.5 to 6.5%	18 to 21%	> 12%

Source: HVS

Good News Outlook

Supply Growth: Below Average through 2016

Demand Growth: Above Average through 2016

Occupancy: Above Average through 2016

ADR Growth: 2X Average through 2016

RevPAR Growth: 2.5X Average through 2016



Conclusion/Outlook

Economic Environment

- Tepid growth which appears to be losing steam

Lodging Fundamentals

- Demand is strongly rebounding
- Construction accelerating
- RevPAR is growing

Investor Interest

- Public REITs
- Private Equity Funds
- Sovereign Wealth Funds
- Non-traded REITs
- Family Offices

Capital Markets

- Robust lending environment has led to more refinancing than transaction activity
- Lower cost of debt at higher leverage has increased equity returns
- Near term outlook is favorable as far as cost and availability of capital

Transaction Activity

- Capitalization rates and discount rates have reached a point of stabilization
- Values expected to continue to rise at moderate rate primarily due to RevPAR gains
- New supply and/or economic factors are starting to impact cap rates and values in some markets



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