



# Hotel Valuation and Transaction Trends for the U.S. Lodging Industry

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# Value Trend for a Typical U.S. Hotel

	2004	2005	2006
Value Per Room	\$65,000	\$82,000	\$99,000
Percent Change	28%	26%	21%

← Values peaked in 2006

	2007	2008	2009
Value Per Room	\$95,000	\$81,000	\$56,000
Percent Change	-4%	-15%	-31%

← Values bottomed out in 2009

	2010	2011	2012	2013
Value Per Room	\$65,000	\$78,000	\$94,000	\$108,000
Percent Change	17%	20%	21%	15%

← Values recovered to 2006 peak level

← Values increase at a slowing rate

	2014	2015	2016	2017	2018
Value Per Room	\$122,000	\$135,000	\$142,000	\$147,000	\$148,000
Percent Change	13%	11%	5%	4%	0%

# Why Is Hotel Value Growth Slowing?

- Supply growth is accelerating
- Occupancy levels are reaching their cyclical peak
- Hotel values exceeding replacement cost
- Inevitable rise in mortgage interest rates

# Supply Growth Is Accelerating But Not Excessively

Increase in Supply	
1972	4.2%
1973	5.3%
1974	6.4%

Mortgage REITS Overactive

1986	8.1%
1987	3.6%
1988	4.7%

Deregulation of Savings and Loans

2005	-0.1%
2006	0.2%
2007	1.2%
2008	2.4%
2009	2.8%

Real Estate Financing Boom but Minimal Construction Lending

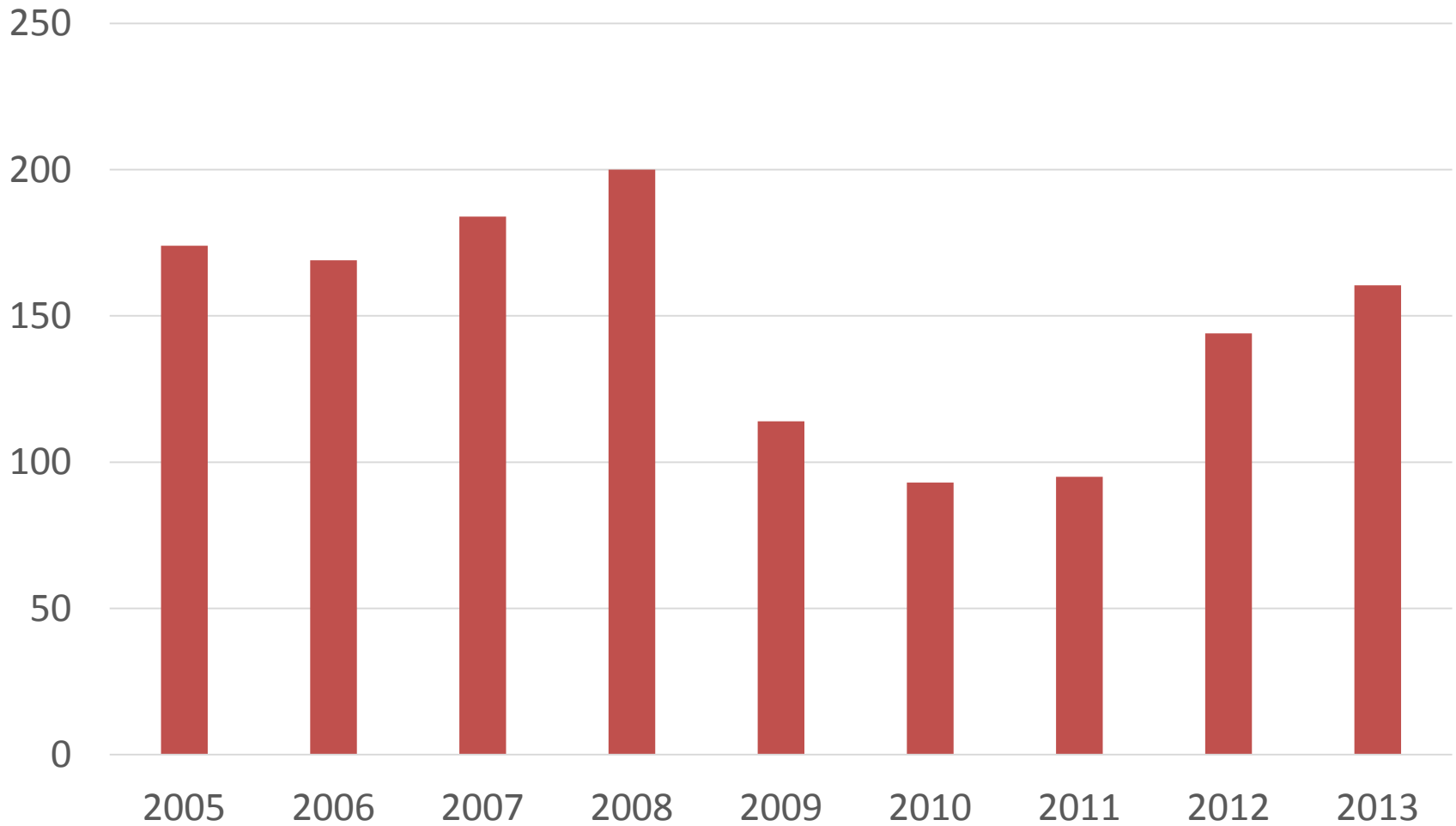
2011	0.5%
2012	0.4%
2013	0.7%

Gradual Supply Acceleration

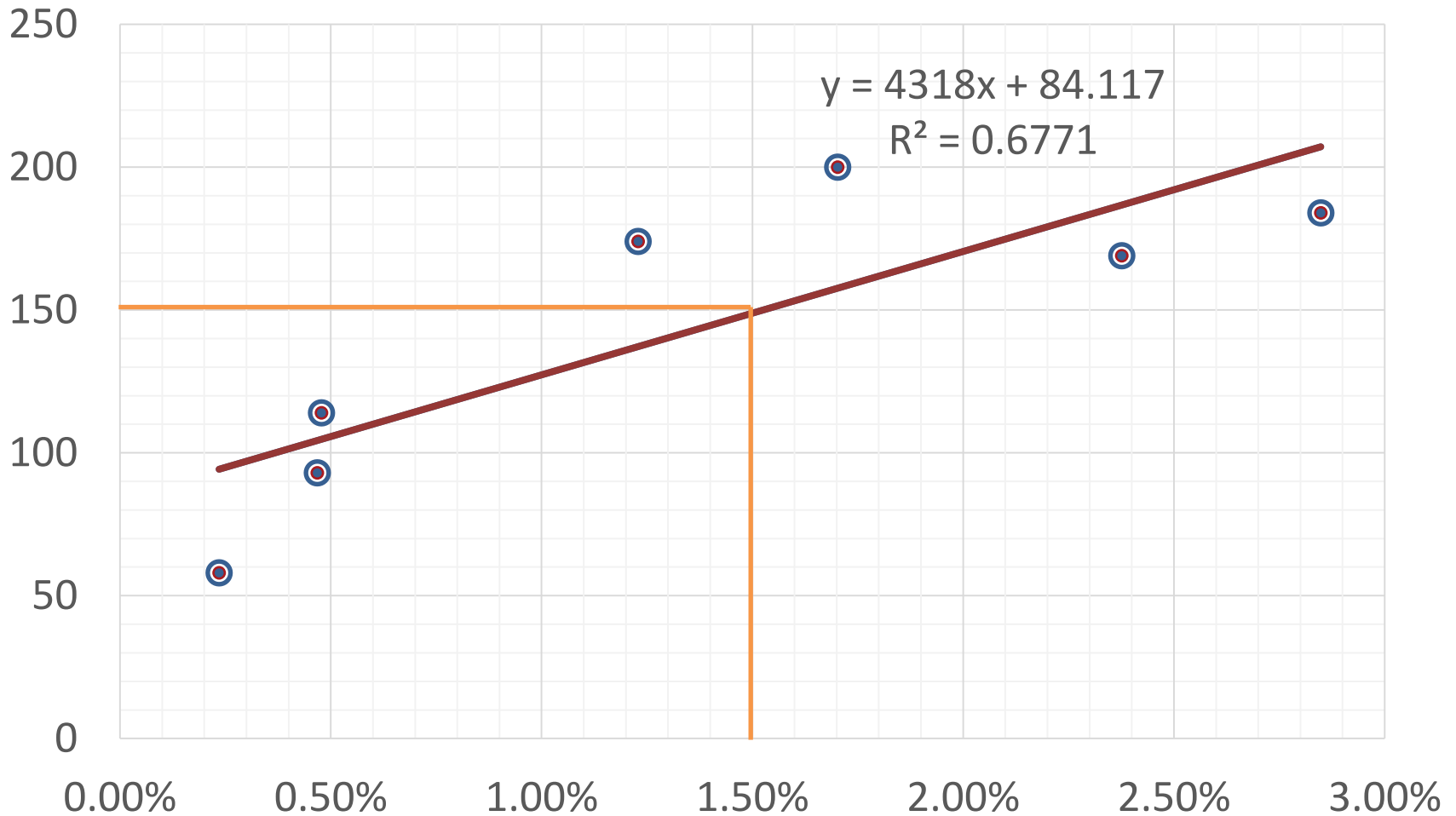
2014	0.9%
2015	1.5%
2016	1.5%
2017	1.8%

HVS Forecasts Continue to Reflect Slow Supply Growth

# Annual Feasibility Studies Are Gradually Recovering

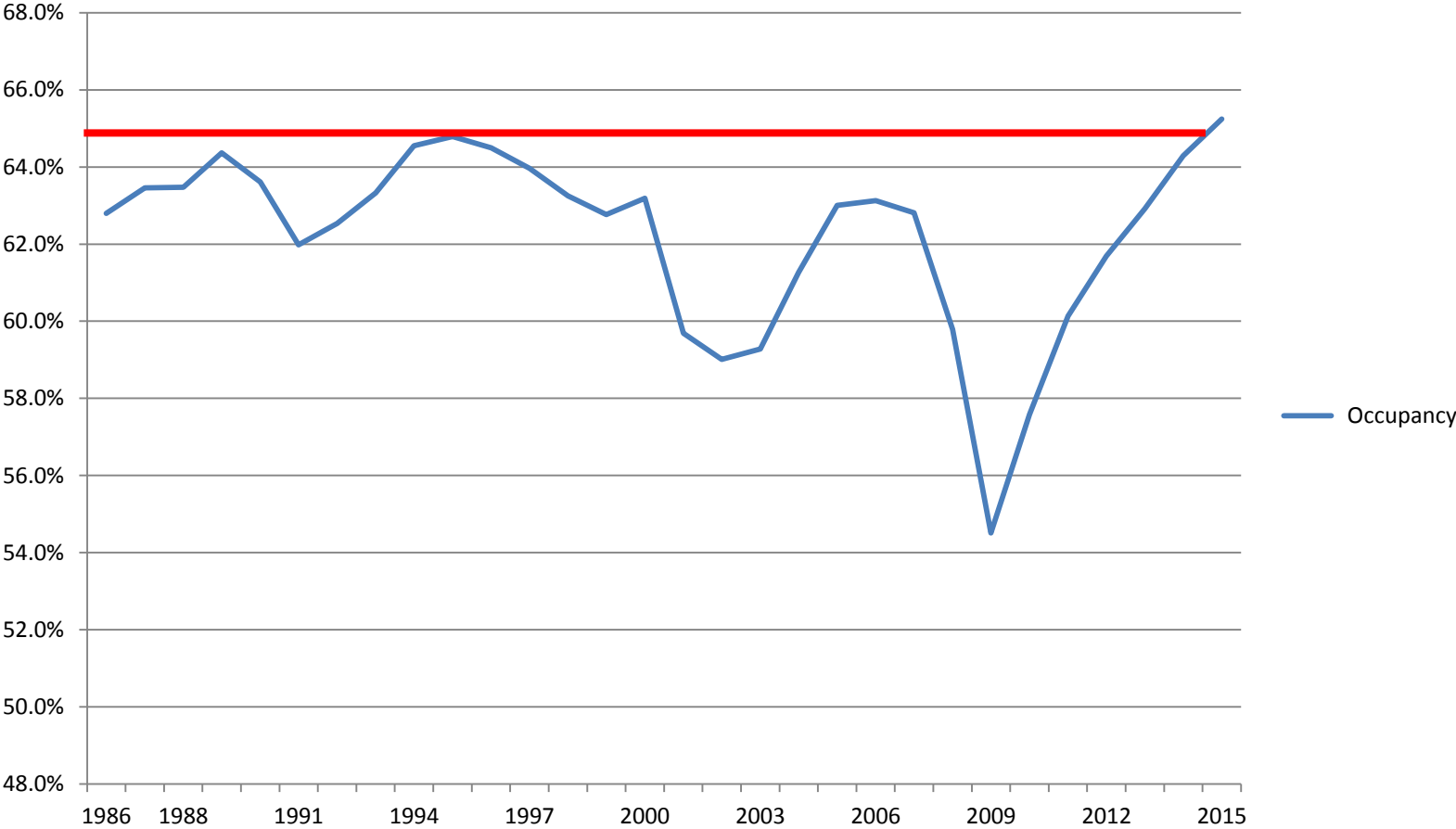


# Supply Growth Will Be Gradual

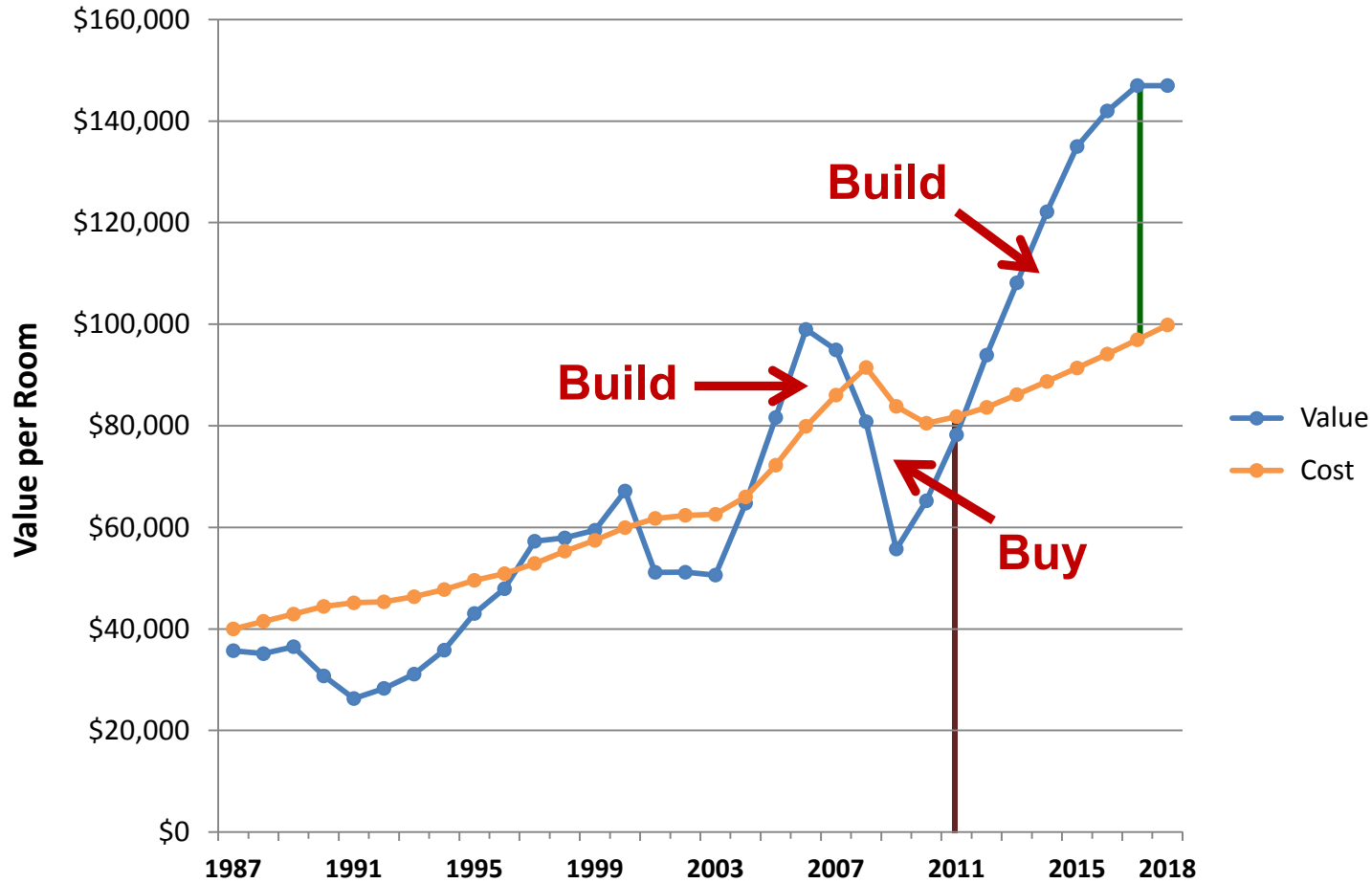


# Occupancy Levels Are Reaching Their Cyclical Peak

### Stabilized Occupancy



# Hotel Values vs. Hotel Costs: When to Build and Buy?





# Impact on Value From Rising Interest Rates

	5% Interest Rate			6% Rate		
	Loan to Value	Rate	Weighted Average	Loan to Value	Rate	Weighted Average
Mortgage Constant	70%	7.0%	4.90%	70%	8.5%	5.95%
Equity	30%	10.0%	3.00%	30%	10.0%	3.00%
Cap Rate			7.90%			8.95%
Net Income Per Room			\$1,000			\$1,000
Indicated Value per Room			12,658			11,173
Change in Value			\$12,700			\$11,200
						-11.8%

# What Do These Hotel Value Trends Mean To Investors?

- US hotel value growth is moderating, however opportunities exist in individual markets
- Good time to refinance or sell either this year or in 2015
- Better to build than to buy

# Projected Change In Value Per Room: 2013 - 2017

Rank

1	Miami	\$266,000
2	Oahu	\$177,000
3	San Francisco	\$161,000
4	New York	\$134,000
5	West Palm Beach	\$92,000
6	Boston	\$83,000
7	Fort Lauderdale	\$69,000
8	Austin	\$67,000
9	Anaheim	\$62,000
10	Tampa	\$59,000

Rank

56	Tucson	\$10,000
57	Rochester	\$9,000
58	Tallahassee	\$7,000
59	Dayton	\$7,000
60	Portland	\$2,000
61	Norfolk	\$500
62	New Orleans	\$200
63	Cleveland	(\$2,000)
64	Detroit	(\$3,000)
65	Huntsville	(\$13,000)

19	United States	\$41,000
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## Top U.S. Cities - Value Per Room - 2013

Oahu	\$610,000
San Francisco	\$600,000
New York	\$481,000
Miami	\$456,000
Boston	\$390,000
Los Angeles	\$306,000
San Jose	\$247,000
Chicago	\$228,000
Washington DC	\$228,000
Austin	\$226,000

### Overview:

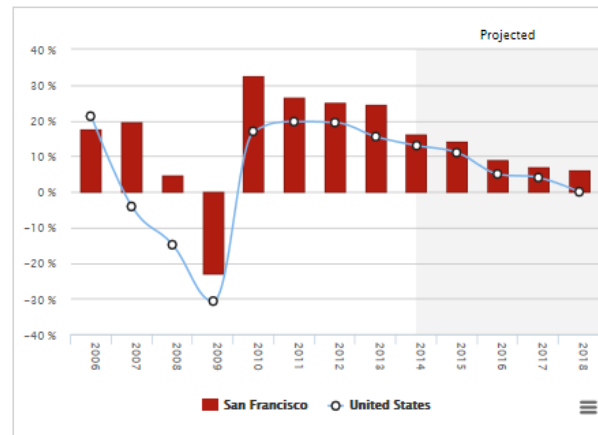
The San Francisco hotel market (defined as San Francisco and San Mateo Counties) continues to be one of the strongest in the U.S., with market-wide occupancy expected to reach 85% in 2014 and average rate expected to hit the \$200 threshold after four straight years of high single-/low double-digit rate growth. San Francisco currently has the strongest economy in the U.S., driven by the market area's thriving technology sector. Buoyed by the resurgence of the local economy, numerous public and private developments are underway that will further enhance the desirability of San Francisco as a place to work and live, though its high cost of living remains a challenge. Despite the market's high RevPAR, additions to supply have been limited, as residential and office uses can currently support higher land values than hotel development. Of the fifteen hotel projects totaling roughly 2,000 rooms proposed for the city, only three totaling less than 500 rooms are currently under construction; of these three projects, two entail the renovation of existing hotels. With high barriers to entry keeping supply increases in check, we anticipate that the value of San Francisco hotels will continue to appreciate over the next four years, albeit at slower rates than in the recent past.

Transaction activity remains strong in San Francisco, with buyers competing heavily for the limited amount of assets for sale and sellers seeking to monetize their investment gains. Twenty-three hotels totaling \$2 billion in transaction volume have sold since January of 2012, including such significant assets as the Hyatt Regency (highest total price paid at \$262,500,000 or \$327,000 per key) and the Vitale (highest price per key at \$650,000, for a total of \$130,000,000). High investor interest continues to put downward pressure on capitalization rates, driving up hotel values to peak levels. As San Francisco is viewed as one of the nation's top gateway cities, hotel investors consider it to be an essential market for their portfolio. Barring any unforeseen glitch in the technology sector, the future looks bright for this vibrant city.

### Valuation Trends and Predictions:

	<u>San Francisco</u>	<u>United States</u>
Previous Year	+24% (10 of 65)	+16% (32 of 65)
Growth in 2014	+16% (8 of 65)	+13% (20 of 65)
Growth in next 4 years	+26% (24 of 65)	+38% (12 of 65)

Change In Value For Market:



### For more information, please contact:



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

Year	Number of Hotels	Average Price Per Room
1Q 2014	118	\$188,000
1Q 2013	90	\$217,000
2013	480	\$202,000
2012	379	\$183,000
2011	429	\$189,000
2010	231	\$173,000
2009	75	\$143,000
2008	279	\$178,000
2007	746	\$172,000
2006	724	\$184,000
2005	622	\$155,000

# Prices Exceeding \$1 Million Per Key



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

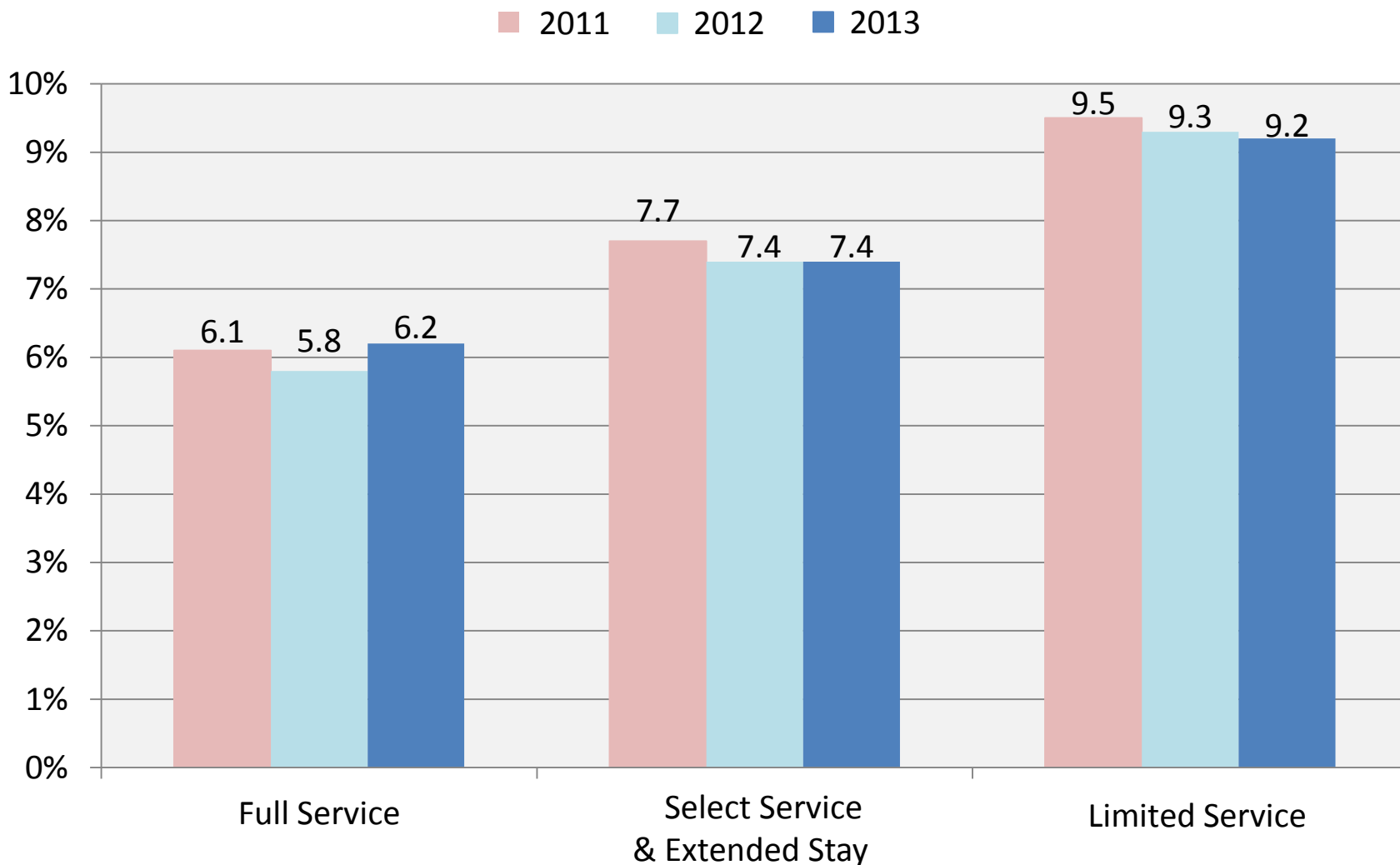


Langham Place Fifth Avenue, Manhattan, NY  
\$1,070,093 per key



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

# Derived Cap Rates Remain Unchanged





# Where To Buy, Sell And Build

## Buy

Miami  
Tampa  
Orlando  
Atlanta  
Phoenix

## Sell

Cleveland  
Detroit

## Build

Anywhere you can get construction financing

# Summary of Findings - U.S. Hotel Industry

- ▶ **Hotel values continue to grow but at a slowing rate**
- ▶ **The future of mortgage interest rates – the big unknown**
- ▶ **Don't worry about future supply growth – the lack of construction financing is likely to continue**
- ▶ **Ideal conditions for another strong transaction year – activity is expected to equal or exceed that of 2013**
- ▶ **Availability of debt will continue, with lender competition putting pressure on interest rates and loan-to-value ratios**

# **The Future Looks Good For The U.S. Hotel Industry**



# HVS Hotel Management Contract Survey

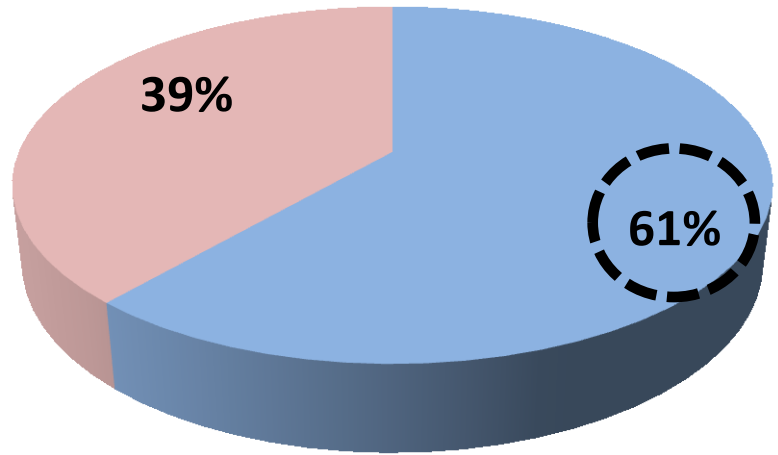
**USA | Europe | India | APAC**

*May 2014*

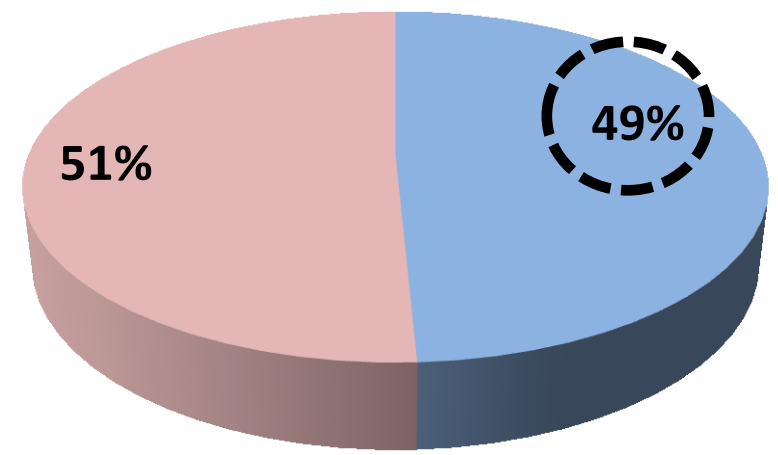
*HVS India*

# Provision for Owner's Priority

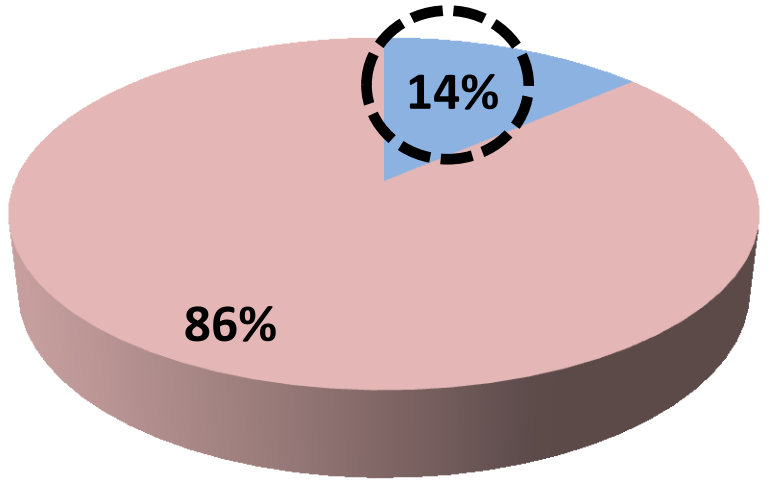
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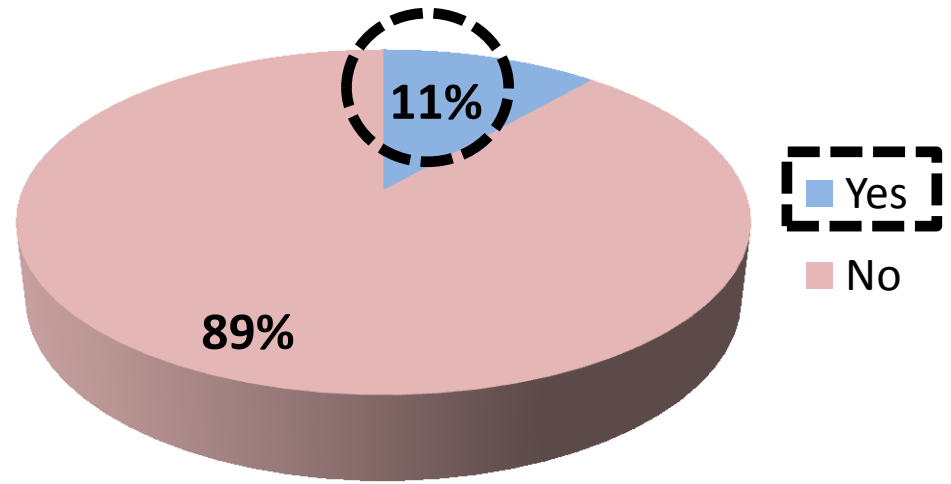
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India



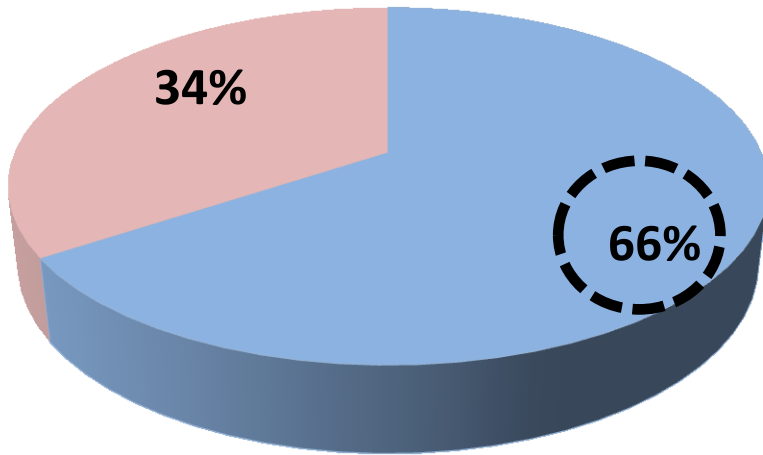
APAC



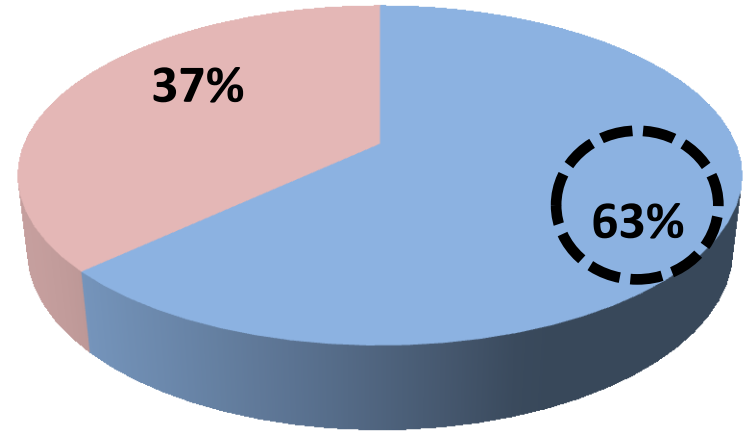
■ Yes  
■ No

# Provision for Operator Performance Test

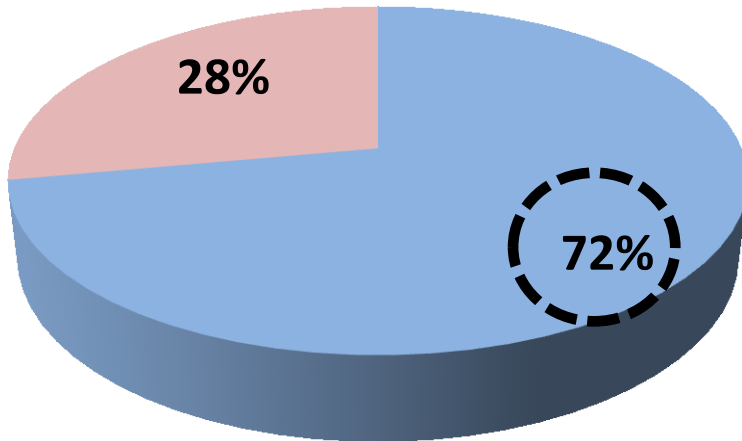
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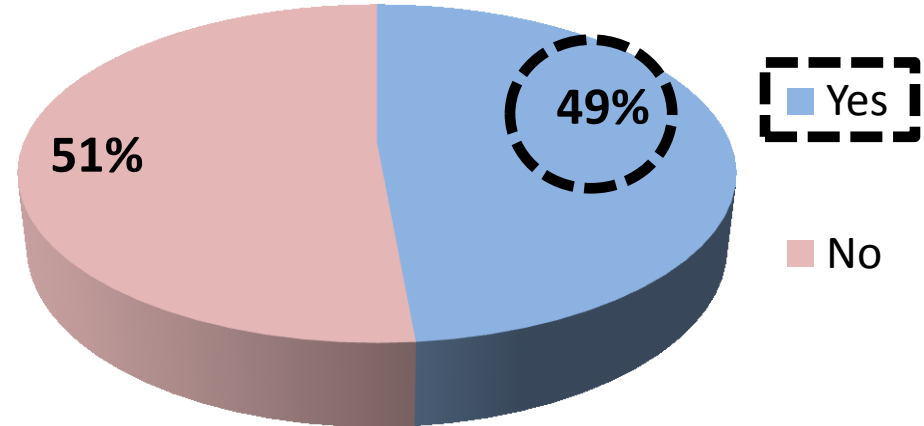
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India

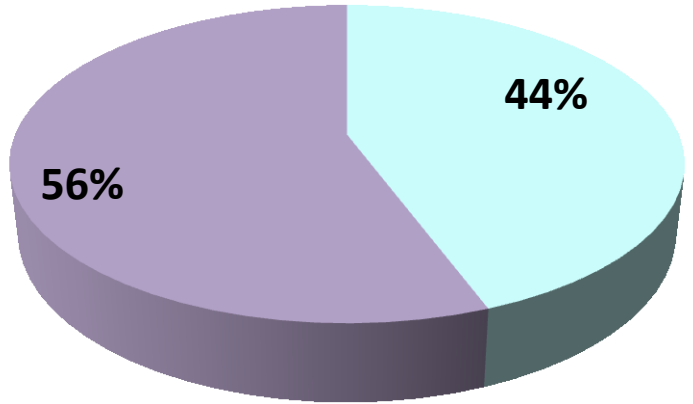


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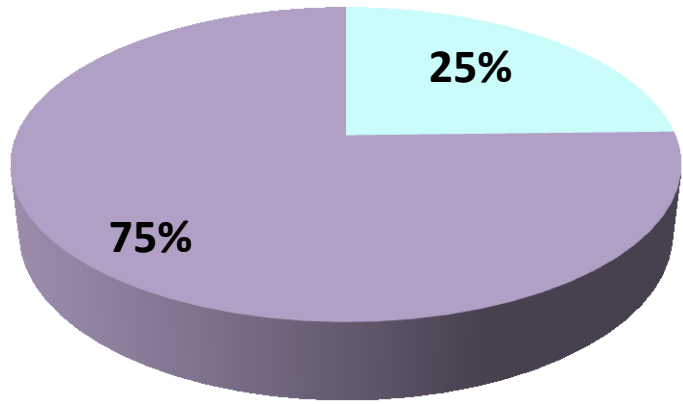


# Operator Termination for Non-Performance and Upon Sale

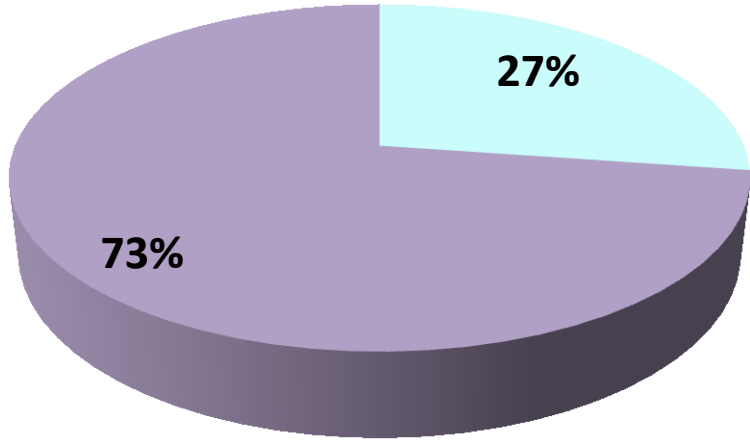
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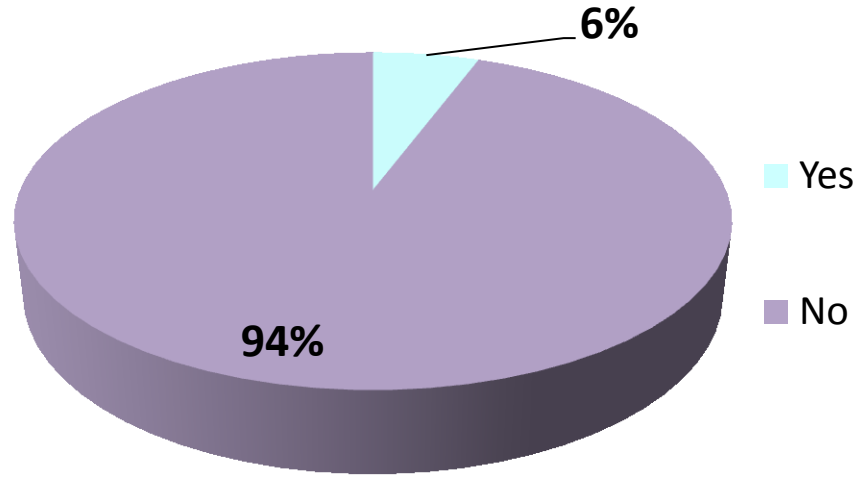
Europe



India



APAC





Thank You