



MEET THE MONEY®
National Hotel Finance &
Investment Conference



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Mike Cahill

**Lodging Industry
Investment Council**

**THE WINDOW
OF OPPORTUNITY
IS OPEN**
**CHOOSING
THE RIGHT DEALS**



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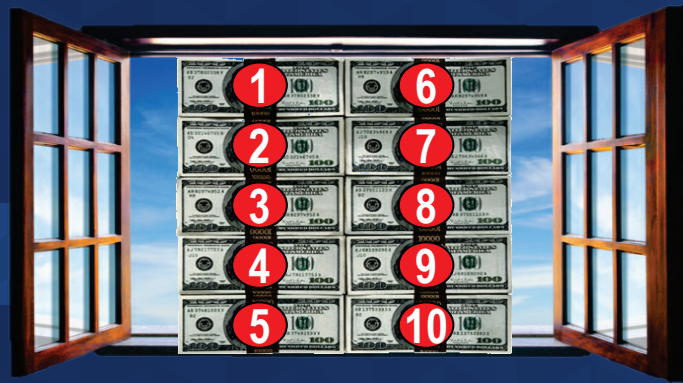


Special Presentations

**THE WINDOW
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*CHOOSING
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Special

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The LIIC Top 10

Michael Cahill

CEO and Founder
HREC - Hospitality Real Estate Counselors
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Michael Torres
Associate Analyst

Kyle Halbrook
Associate Analyst





2015



Why Invest in Hotels?:

Back-to-the-Basics Question

- Yield! Successful hotel investments produce greater returns than other real estate classes (78%)
- Upside: Hotels can raise their rates overnight, producing immediate upside (39%)
- Control: Better management can produce greater returns (27%)
- Sexy: Highly attractive to investors, great pitch story (14%)

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The Continued Resurrection of “True Group” Demand:

“True Group”: blocks of 10 rooms or greater **and** use meeting/function space

- 84% believe that true group demand has risen “like a Phoenix from the Great Recession” and will continue to bloom
- Great news for value-add investors who like full-service lodging assets

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What is on the market? Quality and Quantity Above Average:

35% believe **quality** of hotel product on the market is “slightly better” than 2014 — up from last year’s 31%

However:

51% of responders find the amount of lodging real estate on the market to be of “above average or record breaking in terms of **quantity**”

- More hotels of questionable quality on the market?

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Hotel Purchasers Becoming Developers:

- More than half of applicable LIIC membership has shifted resources into building new lodging assets
- 53% of respondents have new hotels actively under development with 74% of these projects beyond the initial planning stage
- Ideally Where?: 55% cited the Pacific Coast as the preferred place to be

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Active Hotel Lending Fuels Upward Pricing and Increasing Deal Volume:

- 51% believe that “debt availability will become slightly better”
- 69% believe it will become more costly, with interest rates increasing up to 100bps
- 49% predict loan/value ratios will continue to climb
- CMBS also predicted to become increasingly prevalent

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2016 Banner Year for Hotel Transaction Volume? China?:

- In calendar year 2016 49% believe that hotel transaction dollar volume will be up to 10% higher than year-end 2015 levels
- Respondents predict leading international source of buyers to come from the following:
 - China – 67% of respondents
 - Middle East – 17% of respondents
 - Asia (outside of China) – 8% of respondents

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Off-shore investor trends:

- “Most interested in full-service hotel assets”
- “Primarily interested in coastal markets, but slightly increasing investing in non-coastal markets”
- Yield vs. Prestige?
- Perceived Locational Security?
- Welcome China to Suburban America?

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Greatest Threats to Ruin a Beautiful Day?:

1. Increasing Interest Rates: 54% of respondents
2. US Currency Strength: 44% of respondents
3. Government Mandated Minimum Wage Increases: 34% of respondents

Supply Also Concerning:

- New supply prevalent on investors' minds
- 47% of active hotel buyers have not purchased an asset specifically due to new supply worries

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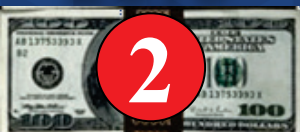
Hotel Property Values Forecasted to Continue to Increase:

- Almost all responders (98%) believe hotel values will continue to increase over next 12 months
- 92% of responders predict values to increase up to 10%
- About half (51%) of responders believe values will be in the 5%-10% range
- Similar to the 2013 and 2014 surveys, value growth is anticipated to be the greatest in the luxury/upper-upscale/upscale category

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Movement Along the Hotel Real Estate Cycle?:

- Last two years reflected a lodging version of “the *Groundhog Day* movie”
- Past surveys showed we were in the 5th to 6th inning and indicated 2005 as the most similar year in the last cycle
- This year 45% of responders believe we are in the 7th to 8th inning with 35% comparing 2006 to be the most comparable year

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- 39% believe that hotel property values will peak in 2017
- 29% forecast hotel property values to peak in 2018 or later

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Carpe Diem: Hotel Investors Bask in Rare and Glorious Sunshine!:

- 2015 survey results reveal the most positive view of the foreseeable future in the history of the survey
- Operating revenue fundamentals continue to exceed previous expectations
- 81% of investors having purchased hotels in this cycle believe their investments are “meeting or exceeding original expectations”
- Most disciplined cycle in our lifetime?

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LIIC Bonus Question:

Where do the "hotel investment illuminati" like to stay?

Vacationing at a Destination Resort

#1 – Four Seasons (61%)

#2 – Ritz-Carlton (22%)



1 Carpe Diem: Hotel Investors Bask in Rare and Glorious Sunshine!

2 Movement Along the Hotel Real Estate Cycle?

3 Hotel Property Values Forecasted to Continue to Increase

4 Greatest Threats to Ruin a Beautiful Day?: Increasing Interest Rates, US Currency Strength, and Gov't Mandated Wage Increases

5 2016 Banner Year for Hotel Transaction Volume? China?

6 Active Hotel Lending Fuels Upward Pricing and Increasing Deal Volume

7 Hotel Purchasers Becoming Developers

8 What is on the Market?: Quality and Quantity Above Average!

9 The Continued Resurrection of "True Group" Demand

10 Why Invest in Hotels?: Yield!, Upside, Control, and Sexy



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