



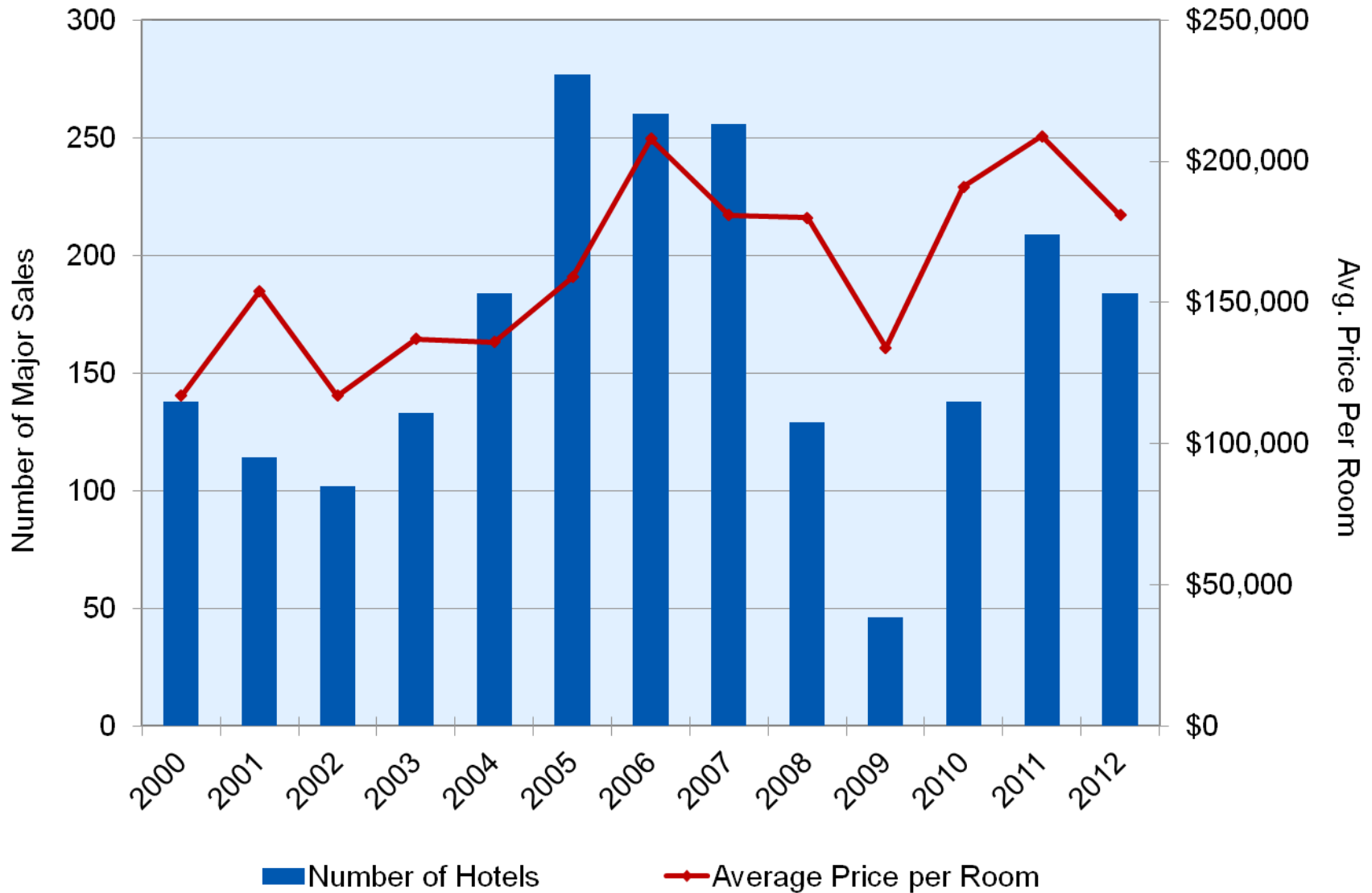
Hotel Values & CAP Rates

Meet The Money® 2013

May 8, 2013 – Sheraton Gateway Hotel Los Angeles

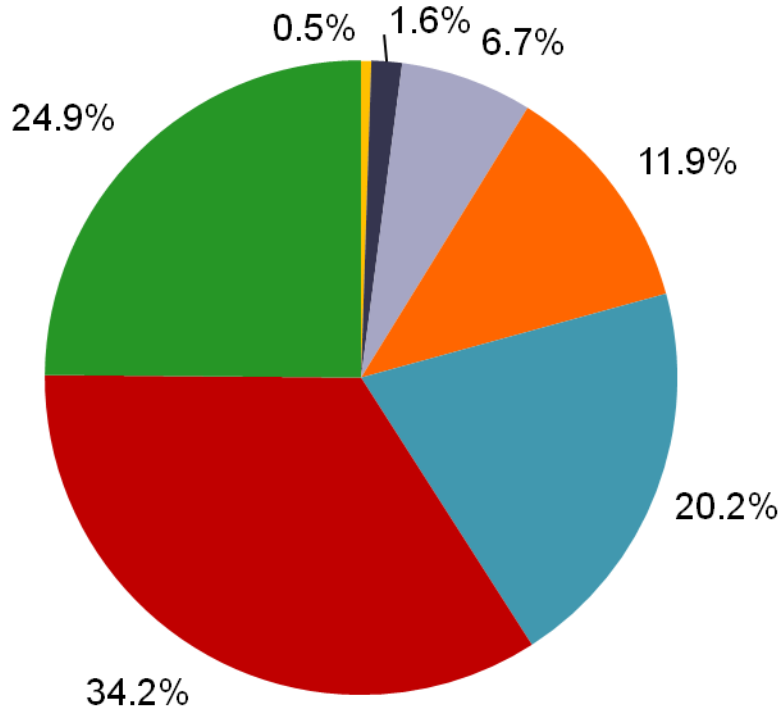
Presented by: *Suzanne Mellen, MAI, CRE, FRICS, ISHC*
Senior Managing Director
Hotel and Casino Consulting and Valuation
HVS San Francisco, Los Angeles, and Las Vegas
415-268-0351
smellen@hvs.com

Major Hotel Sales Transactions

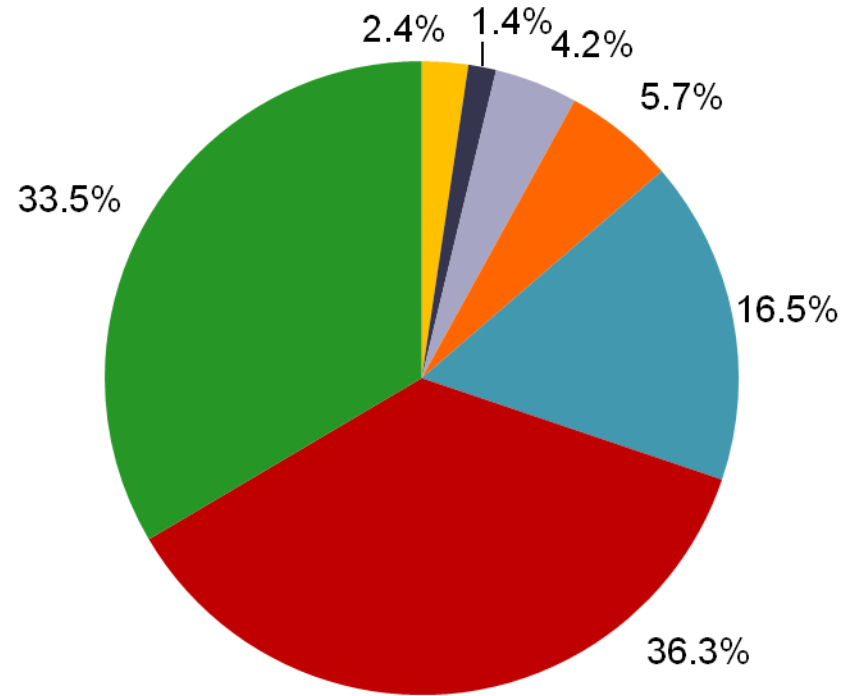


Number of Sales By Price Per Room

2011



2012



> \$600,000

\$400,000 to \$499,999

\$200,000 to \$299,999

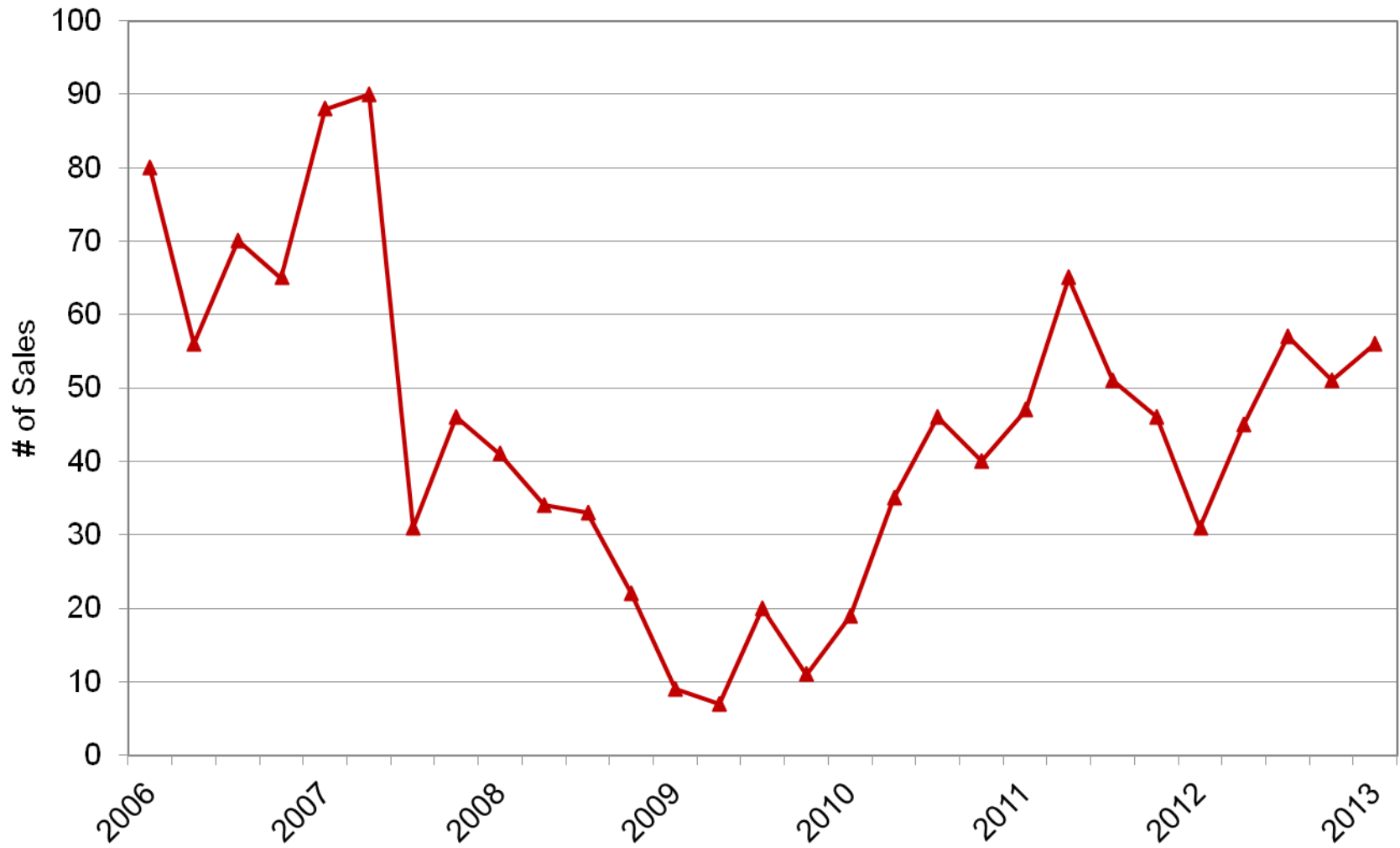
< \$100,000

\$500,000 to \$599,999

\$300,000 to \$399,999

\$100,000 to \$199,999

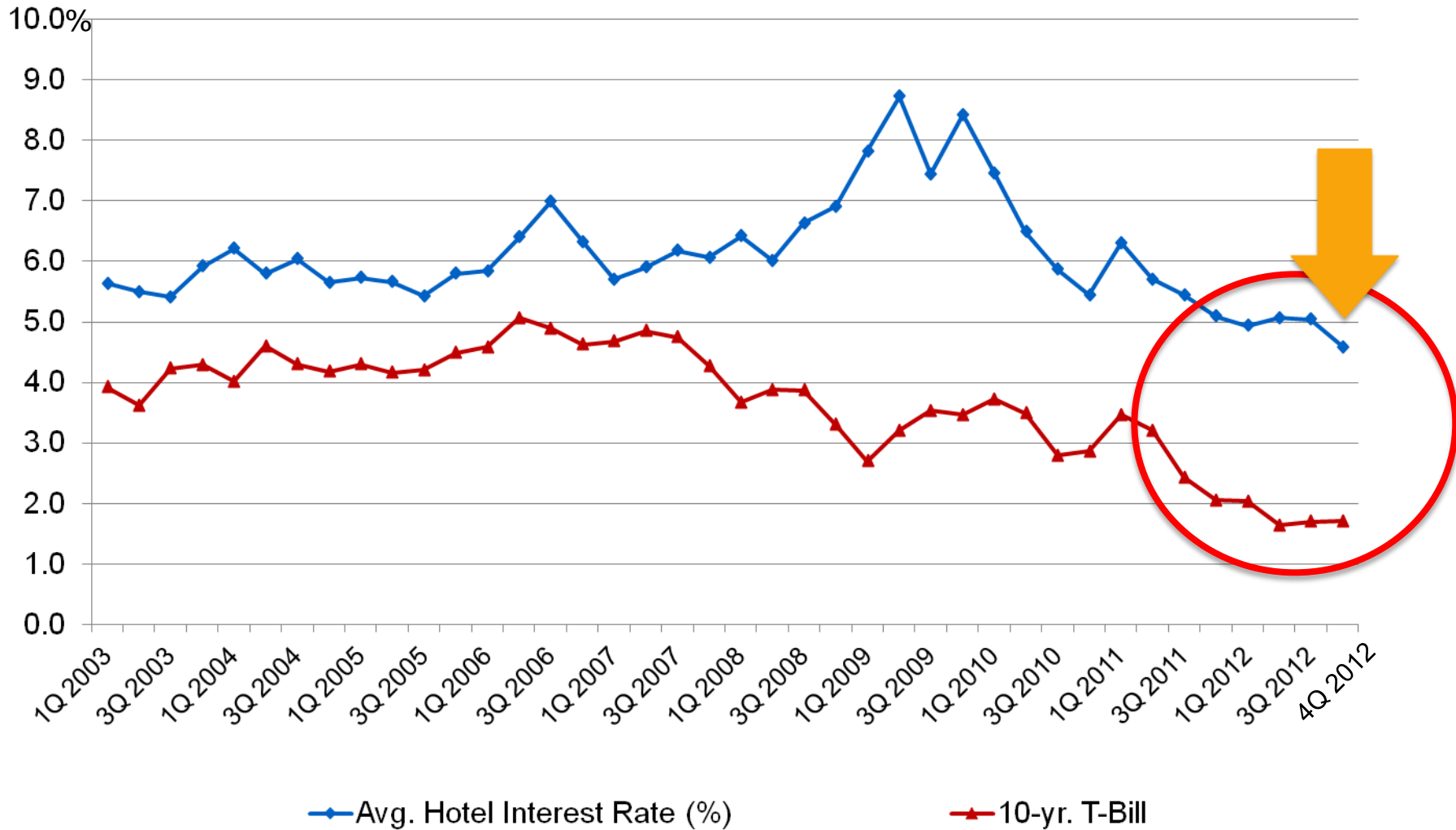
Major Sales by Quarter



Major Hotel Sales Transactions

Year	Number of Hotels	% Change	Average Price per Room	% Change
YTD April 2013	56	180.0%	183,000	-15.8%
YTD April 2012	20		212,000	
2012	184	-7.5%	181,000	-15.5%
2011	199	54.3%	209,000	6.2%
2010	129	180.4%	196,000	31.6%
2009	46	-59.6%	134,000	-31.3%
2008	114	-54.8%	176,000	-9.7%
2007	252	-6.7%	193,000	-4.7%
2006	270	-18.4%	202,000	16.8%
2005	331	75.1%	168,000	19.0%
2004	189	33.1%	136,000	2.2%
2003	142	34.0%	133,000	15.8%

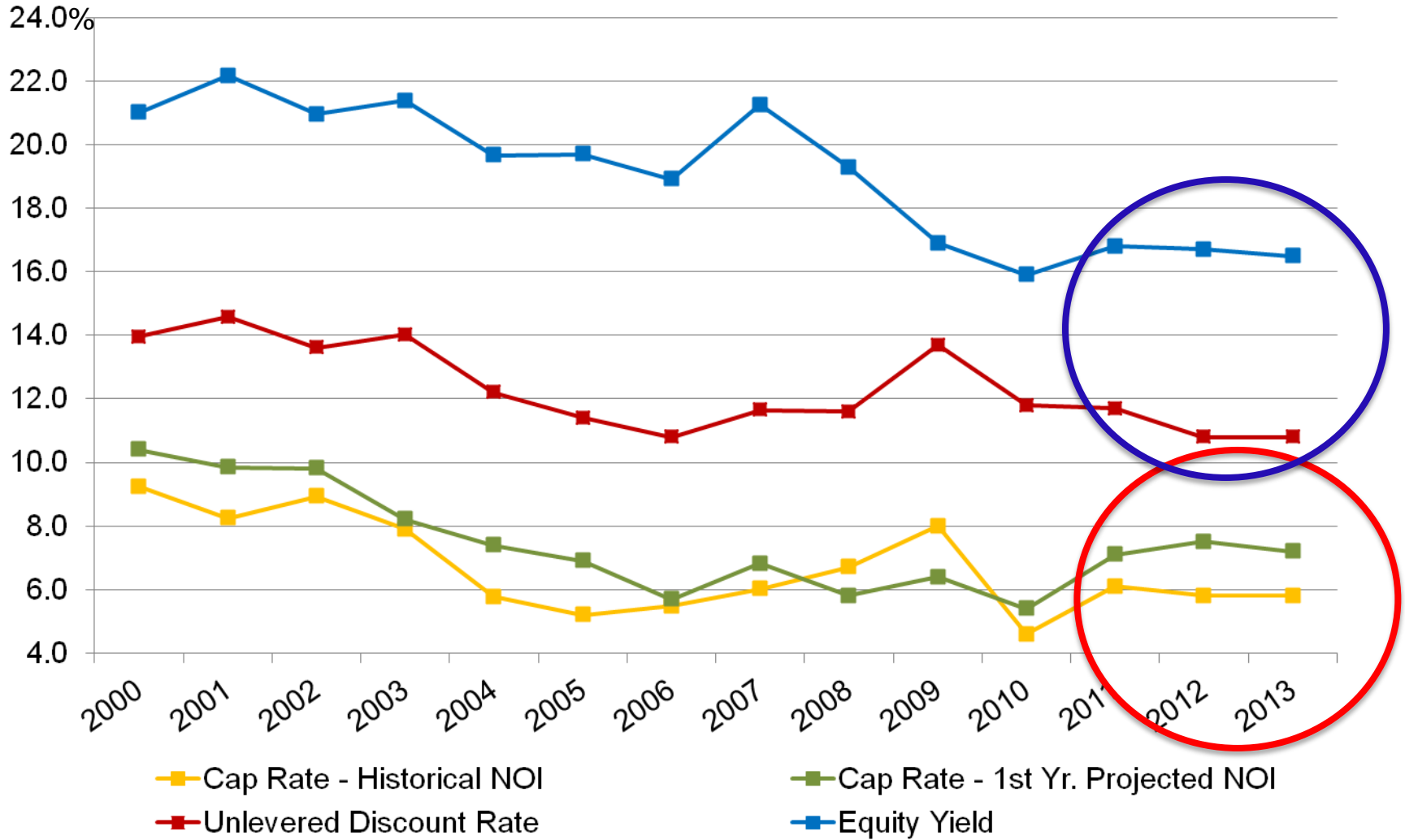
Hotel Mortgage Interest Rates



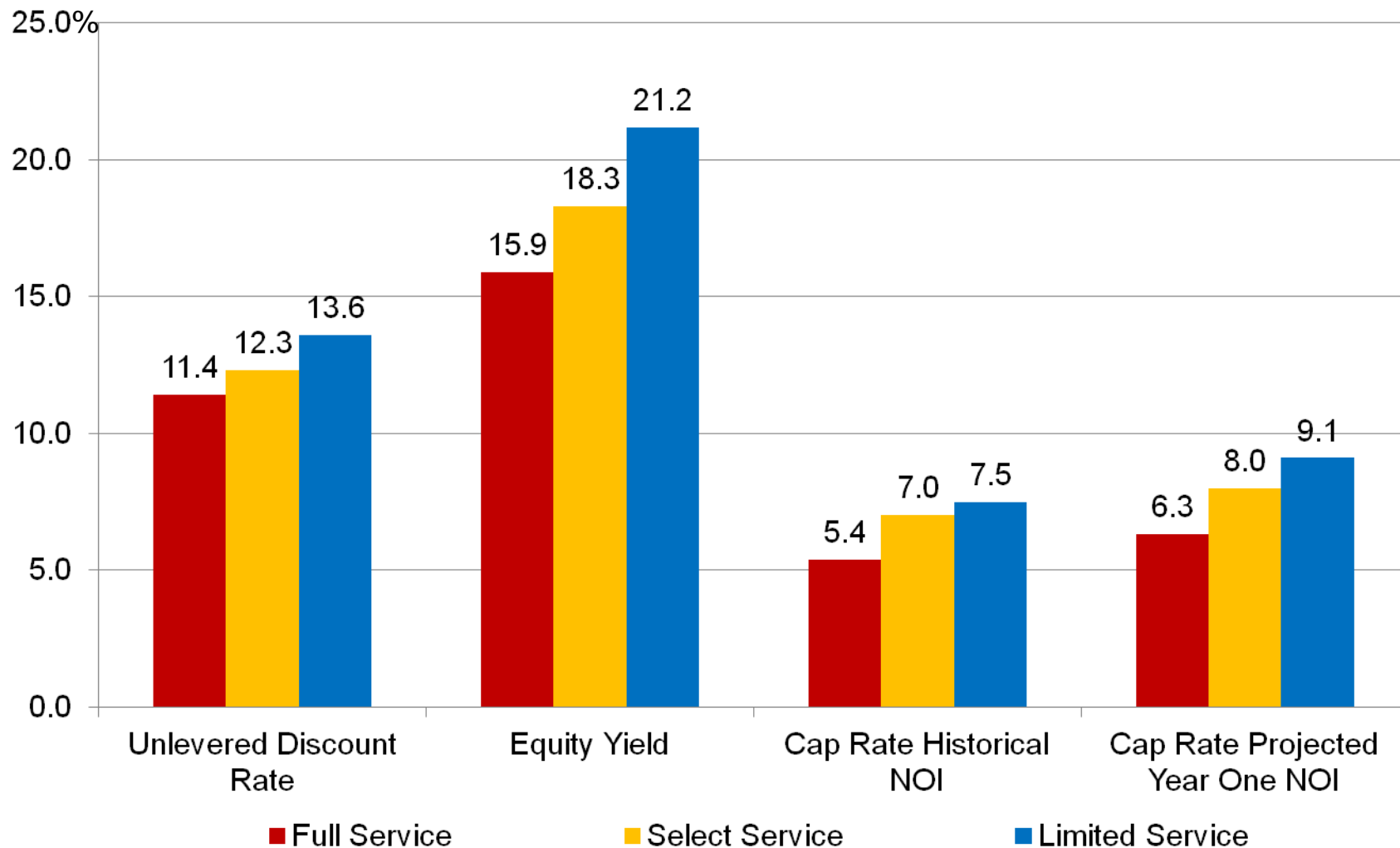
Cap and Discount Rates – Select Set of Full Service Hotels

	Cap Rate based on Historical NOI		Cap Rate based on 1st Yr. Projected NOI		Unlevered Discount Rate		Equity Yield	
2013	5.8	%	6.9	%	10.7	%	17.1	%
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	
2000	9.2		10.4		14.0		21.0	

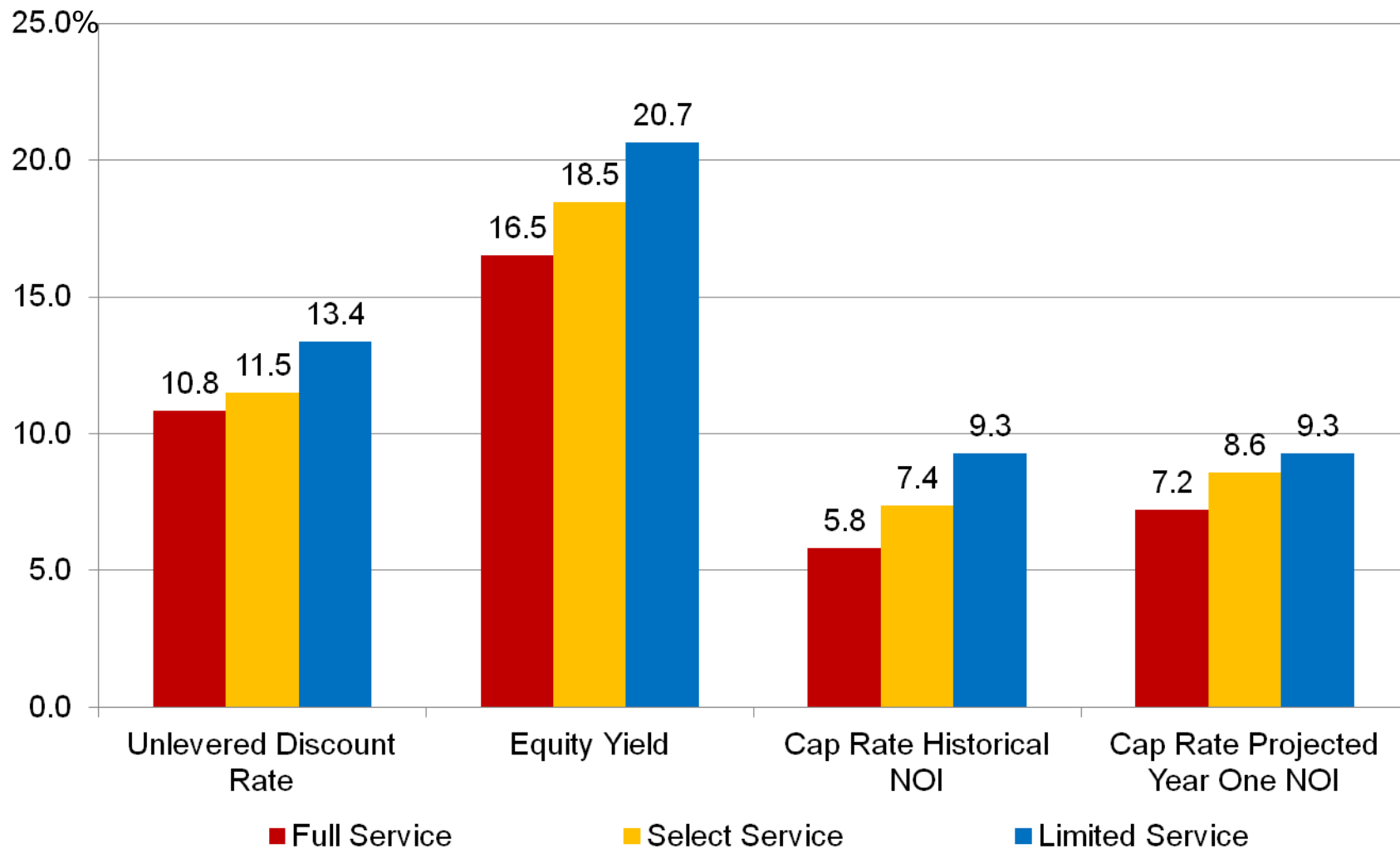
Cap and Discount Rates – Derived from Select Full Service Sales



Rates of Return – Derived from Actual 2011 Sales



Rates of Return – Derived from Actual 2012 Sales

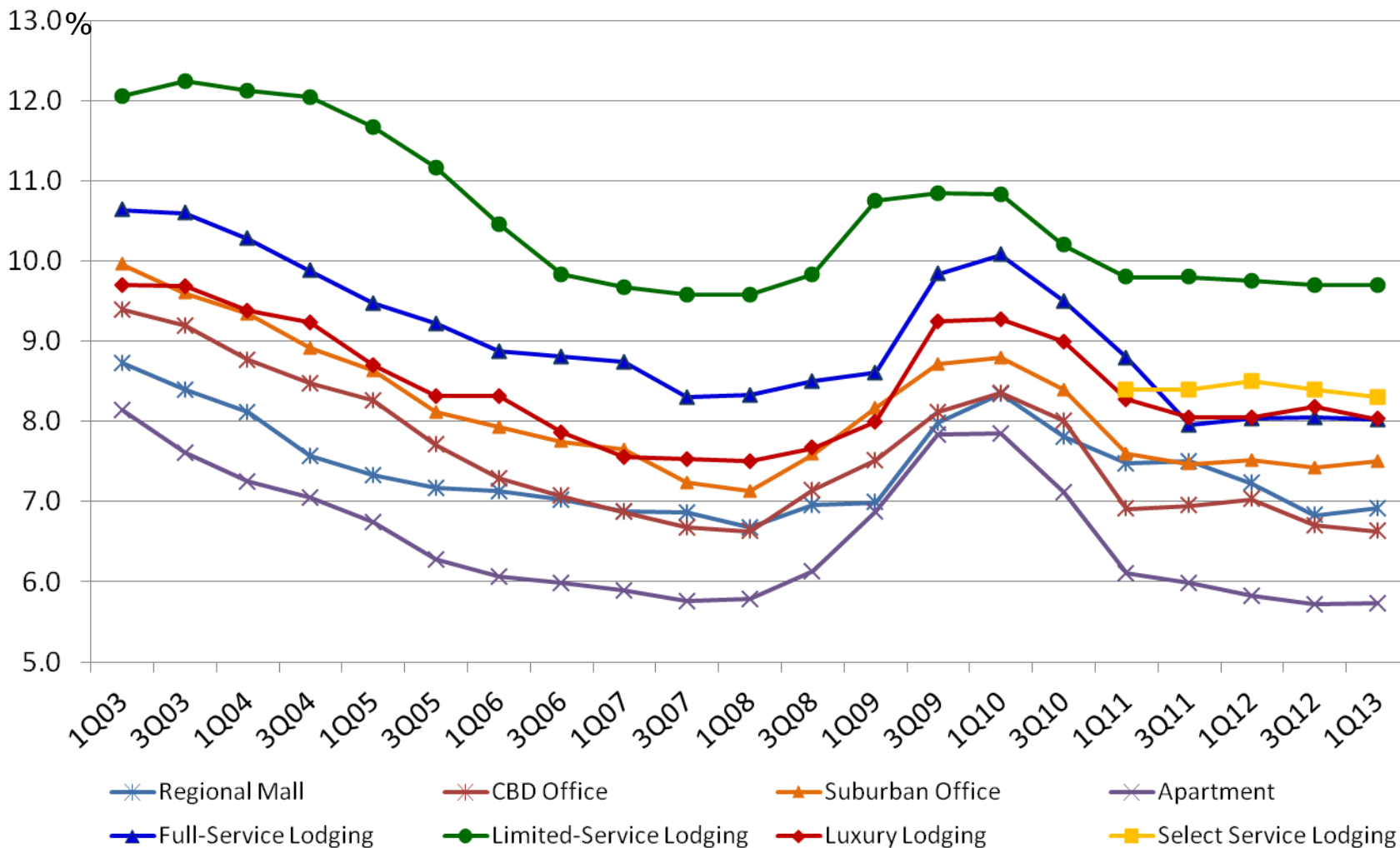


Average and Range of Cap Rates on Historical NOI by Tier

Property Type	2012		2011	
	Average (%)	Range (%)	Average (%)	Range (%)
Full Service Incl. Luxury	5.8	1.5 - 11.7	5.4	0.05 - 10.9
Select Service & Extended Stay	7.4	4.0 - 11.7	7.7	3.2 - 12.6
Limited Service	9.3	3.7 - 12.2	9.5	.03 - 30.0

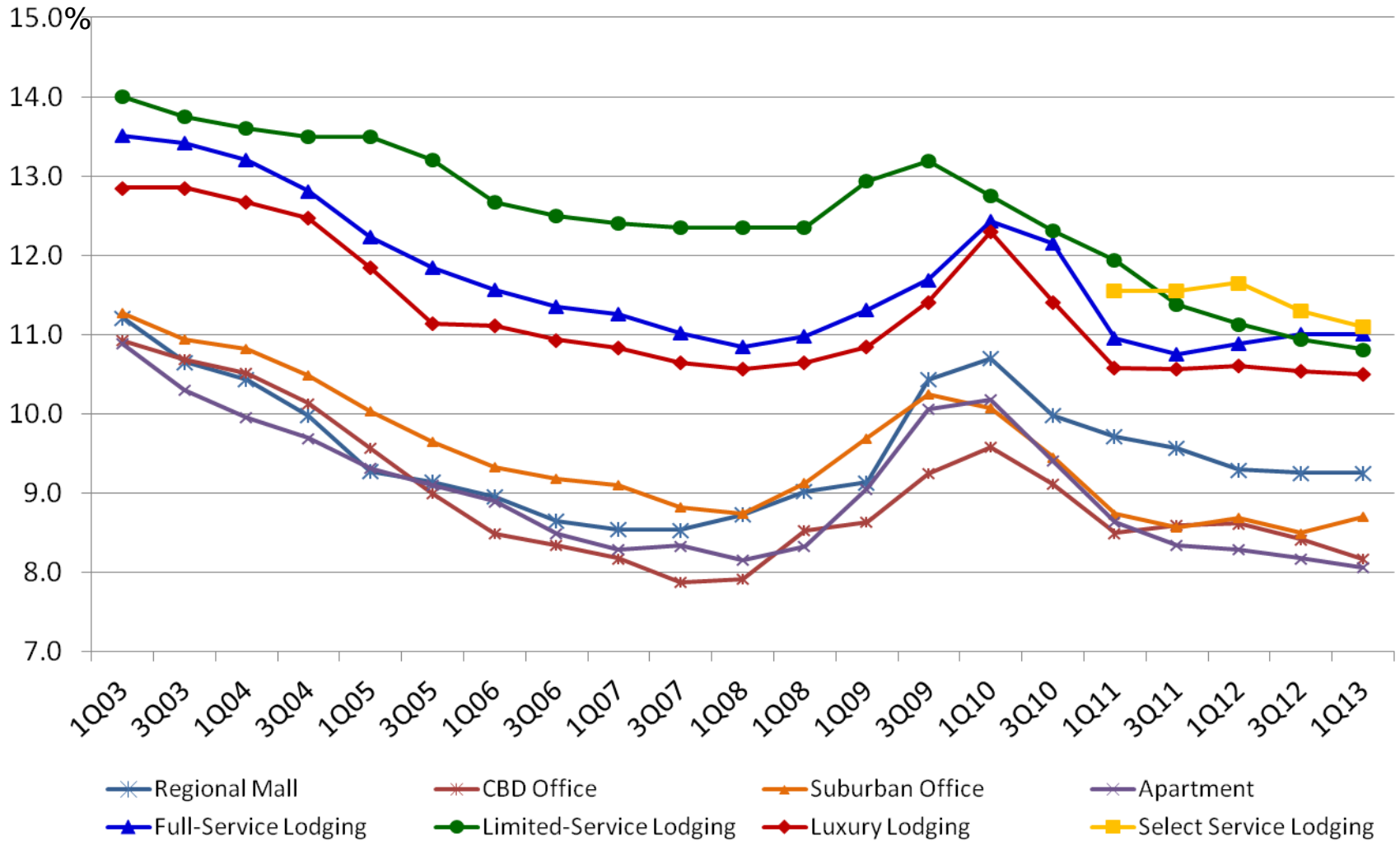
Source: HVS San Francisco

Capitalization Rates – PWC Investor Survey

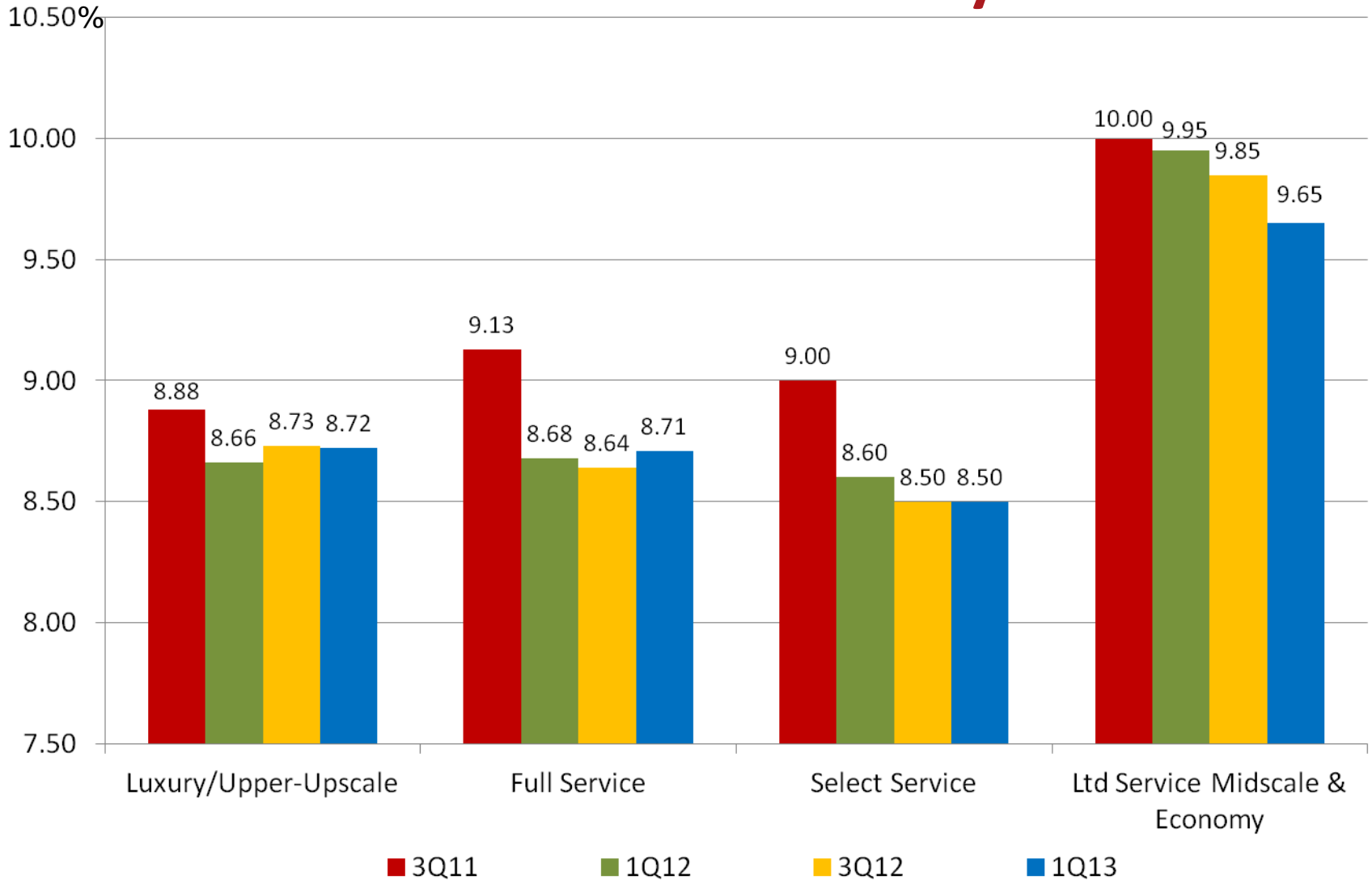


Source: PWC Real Estate Investor Survey

Discount Rates – PWC Investor Survey



Average Residual (Terminal) Cap Rates – PWC Investor Survey



Typical Select Service Valuation

	TTM		1st Year	
	Historical		Forecast	
	2012/13		2013/14	
Occupancy (Paid Rooms):	80%		80%	
Average Rate:	\$101.04		\$108.38	
RevPAR:	\$80.45		\$87.79	
Days Open:	365		365	
Occupied Rooms (Paid):	35,747 %Gross		36,365 %Gross	
REVENUE				
Rooms	\$3,612	95.4 %	\$3,941	95.6 %
Other Operated Departments	176	4.6	182	4.4
Total Revenues	3,788	100.0	4,123	100.0
DEPARTMENTAL EXPENSES *				
Total	999	26.4	1,015	24.6
DEPARTMENTAL INCOME	2,789	73.6	3,108	75.4
UNDISTRIBUTED OP. EXP.				
Total	1,122	29.6	1,270	30.9
HOUSE PROFIT	1,667	44.0	1,838	44.5
Management Fee**	152	4.0	165	4.0
INCOME BEFORE FIXED CHARGES	1,515	40.0	1,673	40.5
FIXED EXPENSES				
Total	361	9.5	395	9.6
NET INCOME	\$1,155	30.5 %	\$1,278	30.9 %

*Departmental expenses are expressed as a ratio of departmental revenues.

Change in Investment Parameters

Loan/Value	65%	65%	70%
Amortization	25	25	30
Term	10	10	10
Interest Rate	5.00%	4.00%	4.00%
Terminal Cap Rate	9.00%	9.00%	9.00%
Transaction Costs	3.0%	3.0%	3.0%
Equity Yield	19.0%	20.0%	22.5%
Value Per Room	\$130,000	\$130,000	\$130,000
Cap Rate on Historical NOI	7.5 %	7.5 %	7.5 %
Going-In Cap Rate on 1st Yr.	8.3 %	8.3 %	8.3 %
Unlevered Discount Rate	11.1 %	11.1 %	11.1 %

Old Hotel Declining Market - Impact on Discount and Cap Rates

	2012/13 TTM 3-31-13		2012	Calendar Year
Days Open:	365		365	
Paid Occupancy:	63.7%		66.6%	
Average Rate:	\$99.11	Percentage	\$98.69	Percentage
RevPAR:	\$63.11	of Revenue	\$65.69	of Revenue
REVENUE				
Total	10,647	100.0	10,970	100.0
DEPARTMENTAL EXPENSES*				
Total	4,464	41.9	4,571	41.7
DEPARTMENTAL INCOME				
	6,182	58.1	6,399	58.3
UNDISTRIBUTED OPERATING EXPENSES				
Total	3,553	33.4	3,663	33.4
HOUSE PROFIT				
	2,630	24.7	2,736	24.9
Management Fee	275	2.6	285	2.6
INCOME BEFORE FIXED CHARGES				
	2,355	22.1	2,451	22.3
FIXED EXPENSES				
Total	729	6.8	445	4.0
NET INCOME				
	\$1,155	10.8 %	\$1,523	13.9 %

Old Hotel Declining Market - Impact on Discount and Cap Rates

VALUATION INPUT	
Loan/Value	60%
Amortization Term	25 10
Interest Rate	5.00%
Terminal Cap Rate	11.50%
Transaction Costs	3.0%
Equity Yield	21.0%

Old Hotel Declining Market - Impact on Discount and Cap Rates

VALUATION INPUT	
Loan/Value	60%
Amortization Term	25 10
Interest Rate	5.00%
Terminal Cap Rate	11.50%
Transaction Costs	3.0%
Equity Yield	21.0%

VALUATION OUTPUT	
Unlevered Discount Rate	12.9%
Overall Rate (Historical NOI)	9.9%
Overall Rate (Year 1 NOI)	8.0%

Hot Hotel Low Barriers to Entry - Impact on Discount and Cap Rates

	2011/12	TTM	2011	
Number of Rooms:	135		135	
Occupancy:	86.9%		88.3%	
Average Rate:	\$147.10	% of	\$116.17	% of
RevPAR:	\$127.76	Revenue	\$102.58	Revenue
REVENUE				
Total	6,221	100.0	4,987	100.0
DEPARTMENTAL EXPENSES				
Total	1,067	17.2	940	18.9
DEPARTMENTAL INCOME				
	5,154	82.8	4,046	81.1
UNDISTRIBUTED OPERATING EXPENSES				
Total	1,319	21.2	1,143	22.9
HOUSE PROFIT				
	3,835	61.6	2,903	58.2
Management Fee	187	3.0	150	3.0
INCOME BEFORE FIXED CHARGES				
	3,648	58.6	2,753	55.2
FIXED EXPENSES				
Total	536	8.7	474	9.5
NET INCOME				
	\$3,001	48.2%	\$2,230	44.7%

Hot Hotel Low Barriers to Entry - Impact on Discount and Cap Rates

VALUATION INPUT	
Loan/Value	65%
Amortization	25
Term	10
Interest Rate	5.00%
Terminal Cap Rate	11.00%
Transaction Costs	3.0%
Equity Yield	21.5%

Hot Hotel Low Barriers to Entry - Impact on Discount and Cap Rates

VALUATION INPUT	
Loan/Value	65%
Amortization	25
Term	10
Interest Rate	5.00%
Terminal Cap Rate	11.00%
Transaction Costs	3.0%
Equity Yield	21.5%

VALUATION OUTPUT	
Unlevered Discount Rate	11.5%
Overall Rate (Historical NOI)	11.5%
Overall Rate (Year 1 NOI)	13.6%

Hot Hotel High Barriers to Entry - Impact on Discount and Cap Rates

	2012		2011	
Number of Rooms:	575		575	
Paid Occupancy:	87.8%		86.7%	
Average Rate:	\$218.10	Percentage	\$195.31	Percentage
RevPAR:	\$191.38	of Revenue	\$169.40	of Revenue
REVENUE				
Total	53,784	100.0	47,565	100.0
DEPARTMENTAL EXPENSES*				
Total	17,077	31.8	15,865	33.4
DEPARTMENTAL INCOME				
	36,707	68.2	31,699	66.6
UNDISTRIBUTED OPERATING EXPENSES				
Total	9,935	18.5	9,280	19.5
HOUSE PROFIT				
	26,772	49.7	22,420	47.1
Management Fee	1,876	3.5	1,665	3.5
INCOME BEFORE FIXED CHARGES				
	24,896	46.3	20,755	43.6
FIXED EXPENSES				
Total	4,570	8.5	4,329	9.1
NET INCOME				
	\$20,326	37.8 %	\$16,427	34.5 %

Hot Hotel High Barriers to Entry - Impact on Discount and Cap Rates

VALUATION INPUT	
Loan/Value	70%
Amortization	30
Term	10
Interest Rate	4.25%
Terminal Cap Rate	8.00%
Transaction Costs	2.0%
Equity Yield	18.0%

Hot Hotel High Barriers to Entry - Impact on Discount and Cap Rates

VALUATION INPUT	
Loan/Value	70%
Amortization	30
Term	10
Interest Rate	4.25%
Terminal Cap Rate	8.00%
Transaction Costs	2.0%
Equity Yield	18.0%

VALUATION OUTPUT	
Unlevered Discount Rate	9.58%
Overall Rate (Year 1 NOI)	6.7%
Overall Rate (Historical NOI)	6.0%

In Summary

- Capitalization rates and discount rates have reached a point of stabilization
- Cap rates for individual assets can run counter to industry trends depending on property and market outlook
- 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
- 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

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

smellen@hvs.com

415-268-0351

Thank You!

Suzanne R. Mellen, MAI, CRE, FRICS, ISHC

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 34 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.