

U.S. Lodging Industry - 2016 Offensive or Defensive Game Plan?



Presented by:

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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 resulting in a high degree of revenue and net income volatility.

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



Random Dan Lesser Thoughts

- If you bought between '09 and '11 consider selling now
- Hotels are fundamentally long term hold assets
- Off market does not equal below market
- Be vigilantly aware of new supply
- Brand overload
- Without Airbnb data its impact cannot be fully defined
- A hotel company should merge with Airbnb
- Flight to yield expanding to secondary/tertiary markets
- Increase implementation of fees and surcharges
- Independent hotel instantly becomes a new brand
- Industry obsession with “millennials” and “lifestyle”
- “Newbies” once again entering the hotel space
- Industry should aggressively raise room rates
 - Airline industry moves in tandem
- Except for MTM...Too many hotel conferences

U.S. Hotel Industry Macro Overview

	1/1/2009	11/1/2012	3/31/2016
Economy	Contracting	Expanding (Slowly)	Expanding (Modestly)
Jobs	Declining	Increasing (Slowly)	Increasing (Modestly)
Consumer Spending	Declining	Increasing	Increasing
Business Spending	Declining	Increasing	Leveling off
Supply Growth	Accelerating	Muted	Low & Accelerating
Room Night Demand	Declining	Record Levels	Continued Record Levels

U.S. Hotel Performance	2008	2009	2010	2011	2012	2013	2014	2015	Projected 2016	Projected 2017
Supply	▲ 2.6%	▲ 3.2%	▲ 2.0%	▲ 0.6%	▲ 0.5%	▲ 0.7%	▲ 0.9%	▲ 1.1%	▲ 1.7%	▲ 1.9%
Demand	▼ 1.9%	▼ 5.8%	▲ 7.8%	▲ 5.0%	▲ 3.0%	▲ 2.2%	▲ 4.5%	▲ 2.9%	▲ 2.3%	▲ 2.1%
Occupancy	▼ 4.4%	▼ 8.7%	▲ 5.7%	▲ 4.4%	▲ 2.5%	▲ 1.5%	▲ 3.6%	▲ 1.7%	▲ 0.6%	▲ 0.2%
ADR	▲ 2.7%	▼ 8.8%	▼ 0.1%	▲ 3.7%	▲ 4.2%	▲ 3.9%	▲ 4.6%	▲ 4.4%	▲ 4.4%	▲ 4.3%
RevPAR	▼ 1.8%	▼ 16.7%	▲ 5.5%	▲ 8.2%	▲ 6.8%	▲ 5.4%	▲ 8.3%	▲ 6.3%	▲ 5.0%	▲ 4.5%

Source: (Data Only) STR, Inc.

U.S. Hotel Industry SWOT Analysis- Strengths

- Little evidence U.S. is near recession
- Industry has been in a 'Goldilocks' equilibrium
- Construction limited however escalating
- Declining gasoline prices
- Increasing inbound foreign visitation
- U.S. is worlds beacon for safety & security
- Availability of equity and low cost debt
- Inbound overseas capital chasing yield
- Record setting hotel prices
- Strong group demand
- Technology increase efficiency and profits

U.S. Hotel Industry SWOT Analysis- Weaknesses

- Underwhelming U.S. economic recovery
- Strong U.S. dollar
- OTA's place negative pressure on room pricing
- Rising influence of labor unions
- Rising hotel property taxes
- International brands expanding competition

U.S. Hotel Industry SWOT Analysis- Opportunities

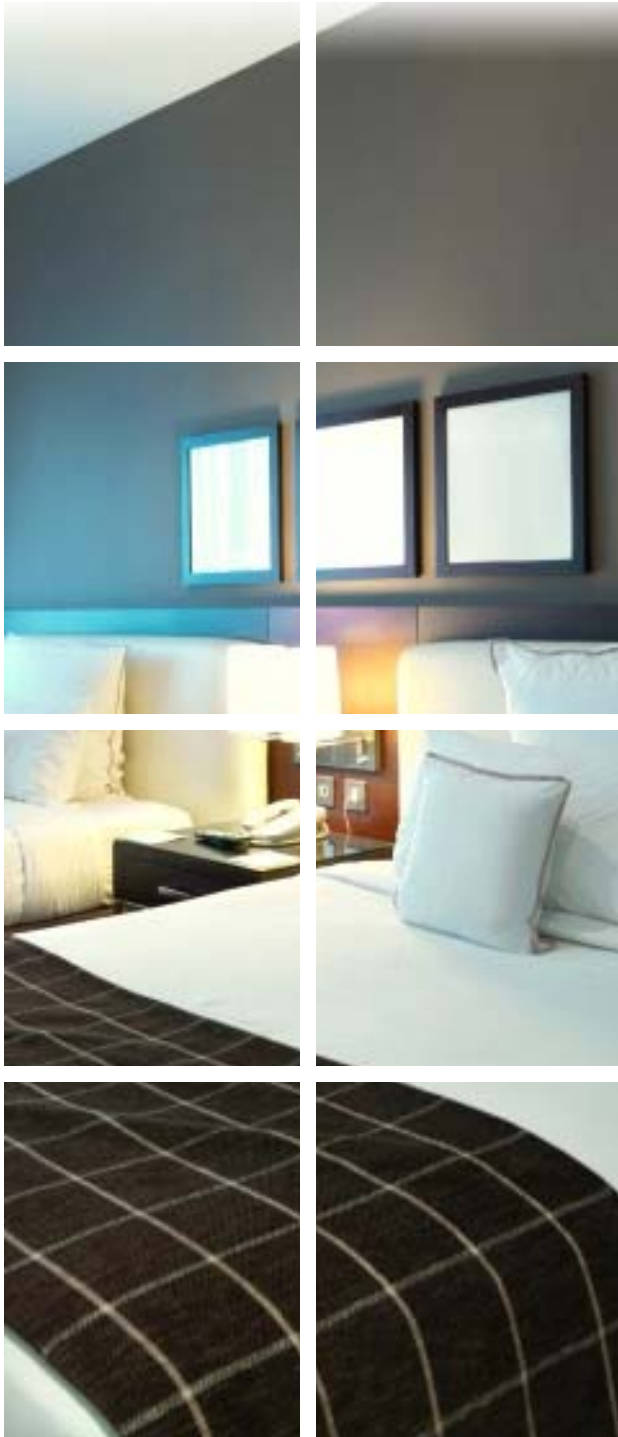
- Industry well positioned to react to any inflation
- Pricing power with owners/operators negotiating corporate rates
- Physical and/or functionally obsolete hotel product situated on excellent sites/locations
- Hotel company/REITs ripe for M&A
- Unlock value: Hilton to spin off owned hotel into REIT
- Virtual reality has become an ROI reality
- Exhibition and trade show business driving convention hotel developments
- Ancillary revenue opportunities similar to airlines
- Industry blowback against Airbnb
- Rise of secondary markets provides opportunities

U.S. Hotel Industry SWOT Analysis- Threats

- U.S. lodging expansion now in its seventh year
- Rising interest rates & tighter underwriting
- Volatile overseas economies creates unpredictable U.S. economy
- There will be another recession between now and 2020
- Unusually low oil prices a drag on portions of U.S. economy
- Global stock & bond market turmoil; Investor fear
- CMBS maturities: 2016 – 2018
- U.S. bank risk retention
- Labor unrest
- Cyber security risk
- America's crumbling infrastructure; airport, roads, electric
- Brands pushing standards updates
- Event risk: terrorism and/or war
- Proliferation of new hotel brands
- Airbnb, Homeaway and other travel industry disrupters
- Obsolescence risk that is difficult to understand
- Rise of hostels
- NLRB Browning-Ferris ruling altering definition of "joint employer"

Final Thoughts





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