



23rd Annual

MEET the MONEY

2013



Michael Cahill

HREC



New Strategies for a New Economy





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The LIIC "Top 10"

Michael Cahill

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www.hrec.com

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“Obamacare” to Increase Hotel Labor Costs:

- 86% believe “Obamacare” (Affordable Care Act) will increase hotel labor costs
- 48% anticipate a significant increase (5 to 10%) while 38% forecast moderate impact on labor costs (1 to 5%)
- Only two people out of the entire survey population believe it will decrease labor expenses.



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Federal Sequestration to Negatively Impact Hotel ADRs

- Sequestration (budget cuts to federal spending) is anticipated to negatively impact certain hotel owners
- Concerns for those markets heavy on visiting federal employees
- 55% believe sequestration will cause ADR to decrease (1 to 5%) in markets that rely heavily on government spending
- Direct and indirect impact



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Quality of Hotel Product on Market has Marginally Improved:

Improvement Trend continues similar to 2011 and 2012:

- 41% believe **quality** of hotel product on the market is “slightly better” than 2012

However:

- 41% believe **quantity** of product is “average quantity”.
- 36% believe **quantity** of product is “below average quantity”

Sellers are anticipated to be 86% traditional equity owner to equity owner either off-market or through a broker

Where did the much heralded great Lender/Special Servicer selling bonanza go?



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Federal Sequestration to Selectively Impact Hotel ADRs
“Obamacare” to Increase Hotel Labor Costs



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New Hotel Development Becoming a Major Factor:

- For the next 12 months, more than two-thirds (72%) of LIIC believe it's a good time to build/develop hotels as long as you are selective about product and market
- Reversing trends from the last three years, only 23% believe it is better to buy existing hotels than build
- Although macro stats show overall lower increase, from street level seems new hotels are popping up quickly in all the highly desirable markets



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Quality of Hotel Product on Market Is Average or Slightly Better
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Preferred Hotel Markets to Buy?

- Buyers identified two preferred general hotel locations
- First, not surprisingly, was “large coastal gateway city”
- Interestingly, #2 was University/College towns as a preferred macro market.
- Therefore, a hotel located adjacent to a major university with views of the ocean in Los Angeles logically is brokerage Nirvana



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Hotel Lenders are Back!

- Favorable hotel debt is playing a major role in increasing hotel values
- 94% believe availability of debt lending will continue to get better in the next 12 months with 71% believing “slightly better” and 24% predicting “much better”
- 59% expect loan/value ratios to increase allowing for greater investment leverage
- “All cash” purchases are expected to decline to the lowest percentage of the last five years of surveys



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Buy in Large Coastal Gateway Cities and/or College Towns?
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The Ballgame is Half Over!:

- 67% of respondents believe we are firmly implanted in innings 4 to 6 of current lodging investment cycle
- Similar to last year's survey, uncertainty is evident as to when the hotel real estate market will peak and duration of the cycle
- 31% believe values will peak in 2015, 45% in 2016, and 19% saying 2017 or beyond
- So, only two or three years left in this up cycle?



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In 2014, Lodging Transaction Volume will Continue to Increase:

Hotel asset sales volume for projected 2014 vs. 2013 actual/forecast:

- 86% believe volume will increase – 31% are highly optimistic anticipating volume growth over 10%.
- Market movement, fluidity and volume will be strong in 2014 but concerns of new supply may hamper volume in some markets
- 70% believe REIT volume will increase moderately/significantly while only three members believe it will decrease



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Hotel Investors/Owners Still Worrying

- Compared to the 2009-2012 surveys, owners & investors are less anxious/nervous but still are worried
- Top concerns include: 1) uncontrollable increases in operating costs and unionization 2) sluggish economy exacerbated by sequestration and Obamacare 3) buyer stress from delusional seller pricing expectations 4) hotel brand pressure from relentless PIP mandates and 5) new hotel supply impact
- 90% believe bloated DJIA will be near or below current levels as of May 1, 2014



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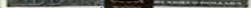
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Hotel Property Values Will Increase Significantly:

- 98% believe that hotel real estate values will increase over the next 12 months, with 64% predicting a significant increase of 5 to 10%
- Compared to 2012, results show a more confident and robust view of hotel property value increases from “slight” to “significant”
- Value growth greatest in luxury/upper upscale/upscale category

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Hotel Investors/Owners Less Anxious but Still Worrying
In 2014, Lodging Transaction Volume will Continue to Increase
The Ballgame is Half Over!

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LIIC Bonus Forecast:

Who will win the 2013 MLB World Series?

#1 – Boston Red Sox (Current Vegas Payout 14 to 1)

#2 – Atlanta Braves (8 to 1)

#3 – Three-way Tie

San Francisco Giants (11 to 1)

New York Yankees (16 to 1)

Washington Nationals (11 to 1)

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For more information on LIIC,
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www.liic.org



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