



Hotel Values & CAP Rates

Meet The Money 2012

May 9, 2011 – Sheraton Gateway Hotel Los Angeles

Presented by:

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Senior Managing Director

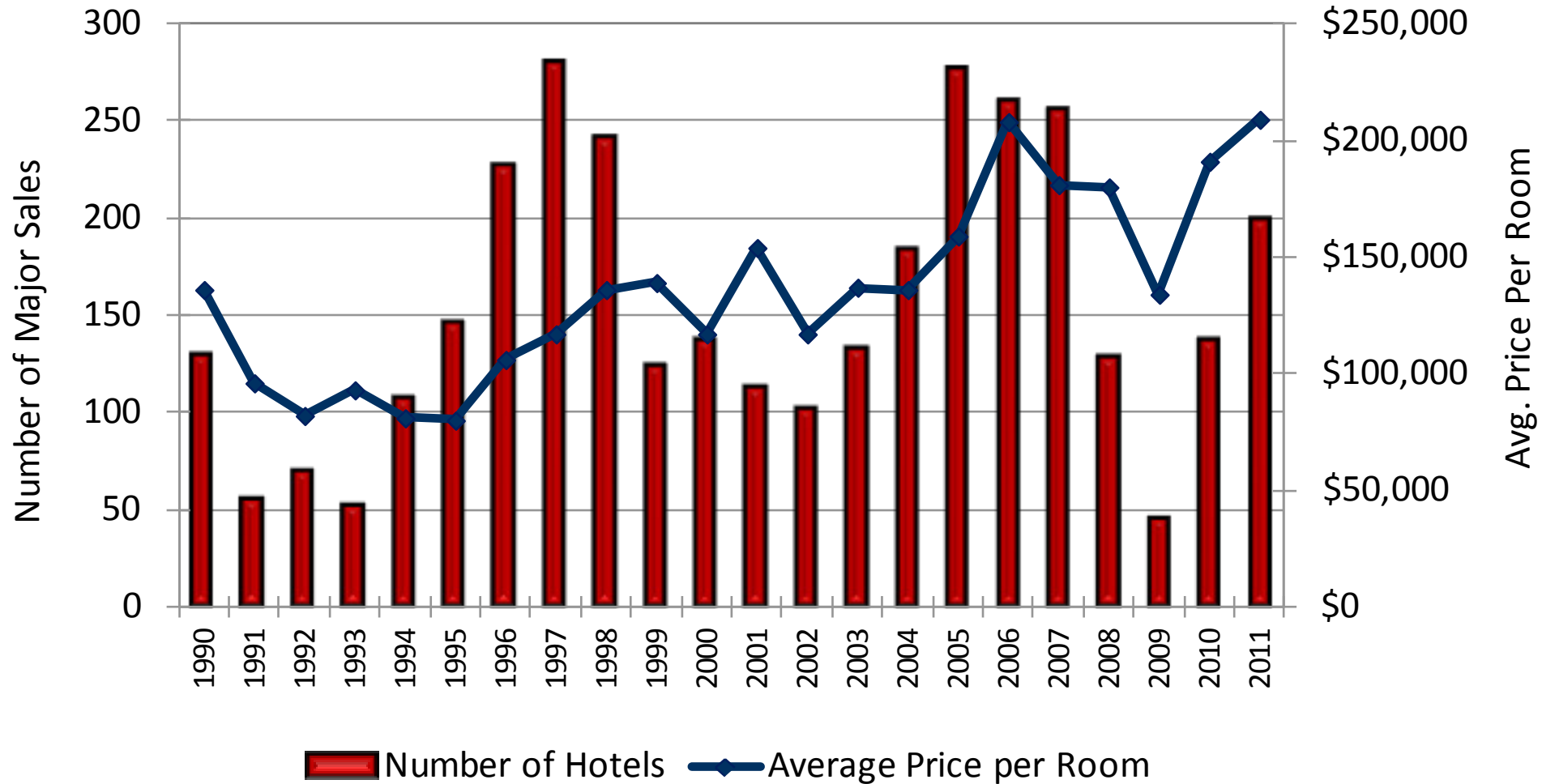
Hotel and Casino Consulting and Valuation

HVS San Francisco and Las Vegas

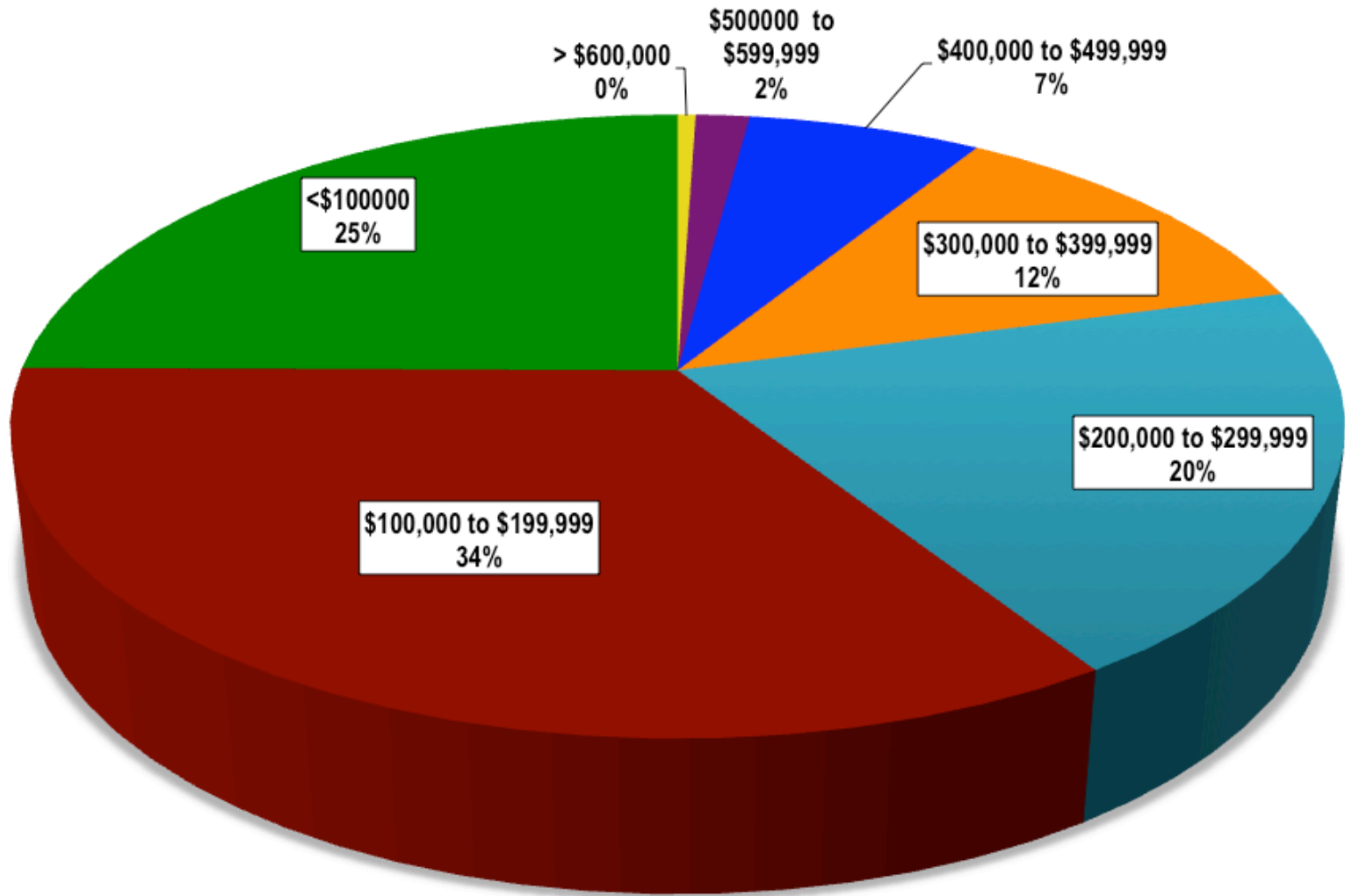
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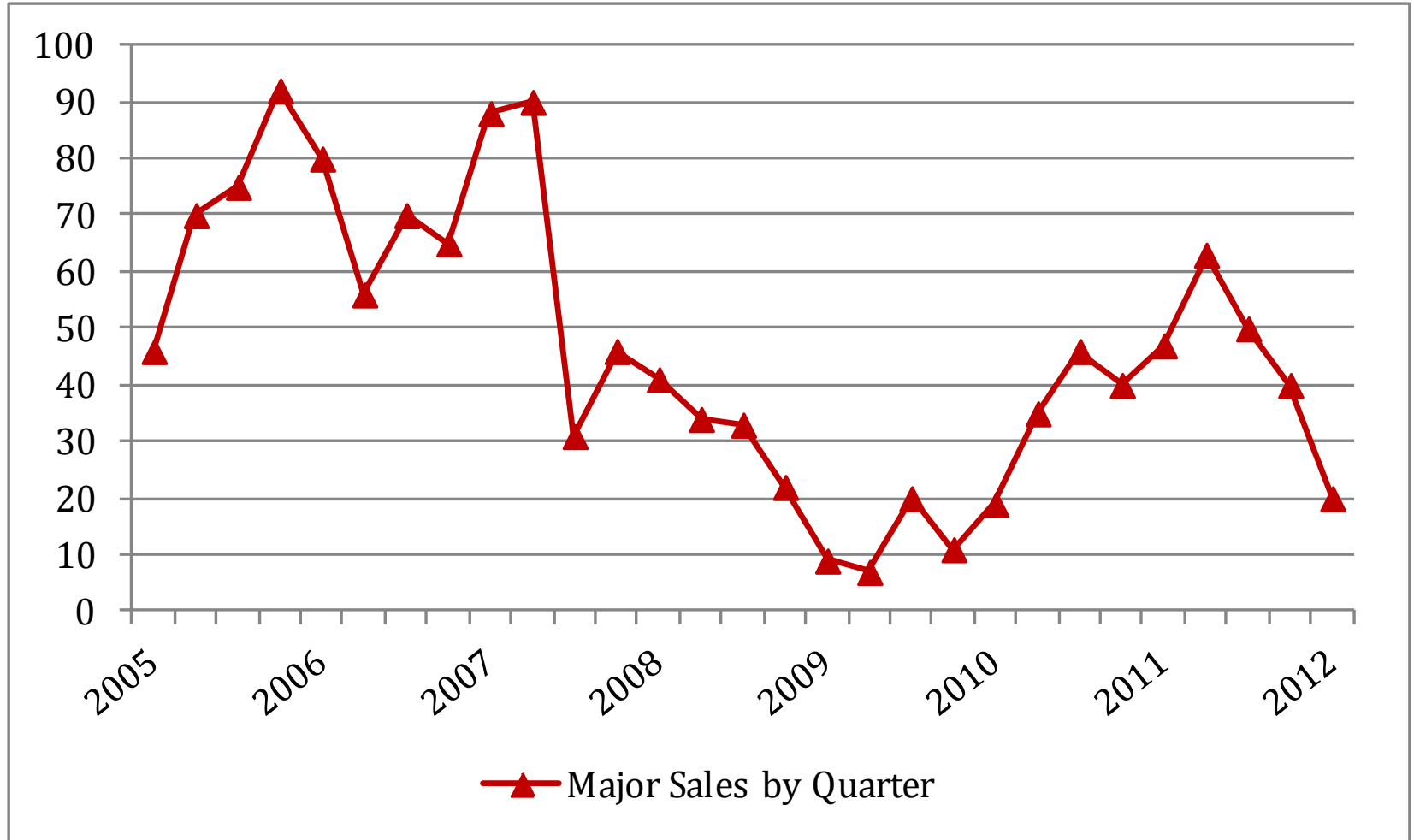
Major Hotel Sales Transactions



2011 - No. of Sales By Price Per Room



Major Sales by Quarter



Source: HVS

Major Sales by Quarter



Source: HVS

Major Hotel Sales Transactions

Year	Number of Hotels	% Change	Average Price per Room	% Change
YTD April 2012	20	-58.3%	212,000	3.3%
YTD April 2011	48		205,000	
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%
2002	106	1.0%	112,000	-30.4%
2001	105	-30.0%	146,000	20.5%
2000	150	17.2%	116,000	-27.6%
1999	128	-46.9%	148,000	8.1%
1998	241	-13.9%	136,000	14.0%
1997	280	23.3%	117,000	9.4%
1996	227	54.4%	106,000	24.5%
1995	147	36.1%	80,000	-1.3%
1994	108	103.8%	81,000	-14.8%
1993	53	-24.3%	93,000	11.8%
1992	70	25.0%	82,000	-17.1%
1991	56	-56.9%	96,000	-41.7%
1990	130		136,000	

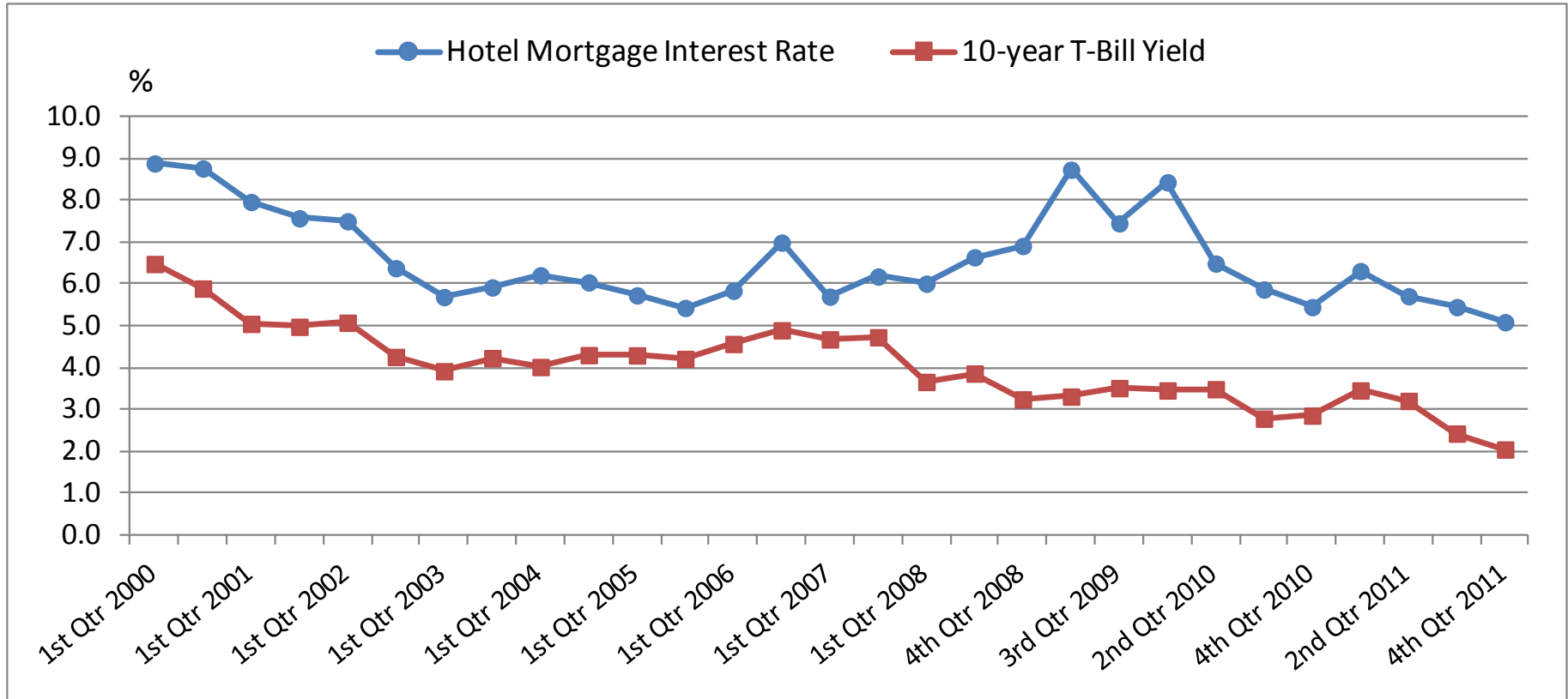
Roller Coast from Q2 2011 to Q2 2012

- Year ago market was robust, with REIT acquisitions driving transaction activity
- Low interest rates, competitive lender frenzy and positive outlook drove cap rates down
- Market stalled in summer of 2011 due to debt crisis in US and Europe
- Many lenders and most REITS withdrew from the market
- Cap rates rose and value gains moderated

Market Reactivated

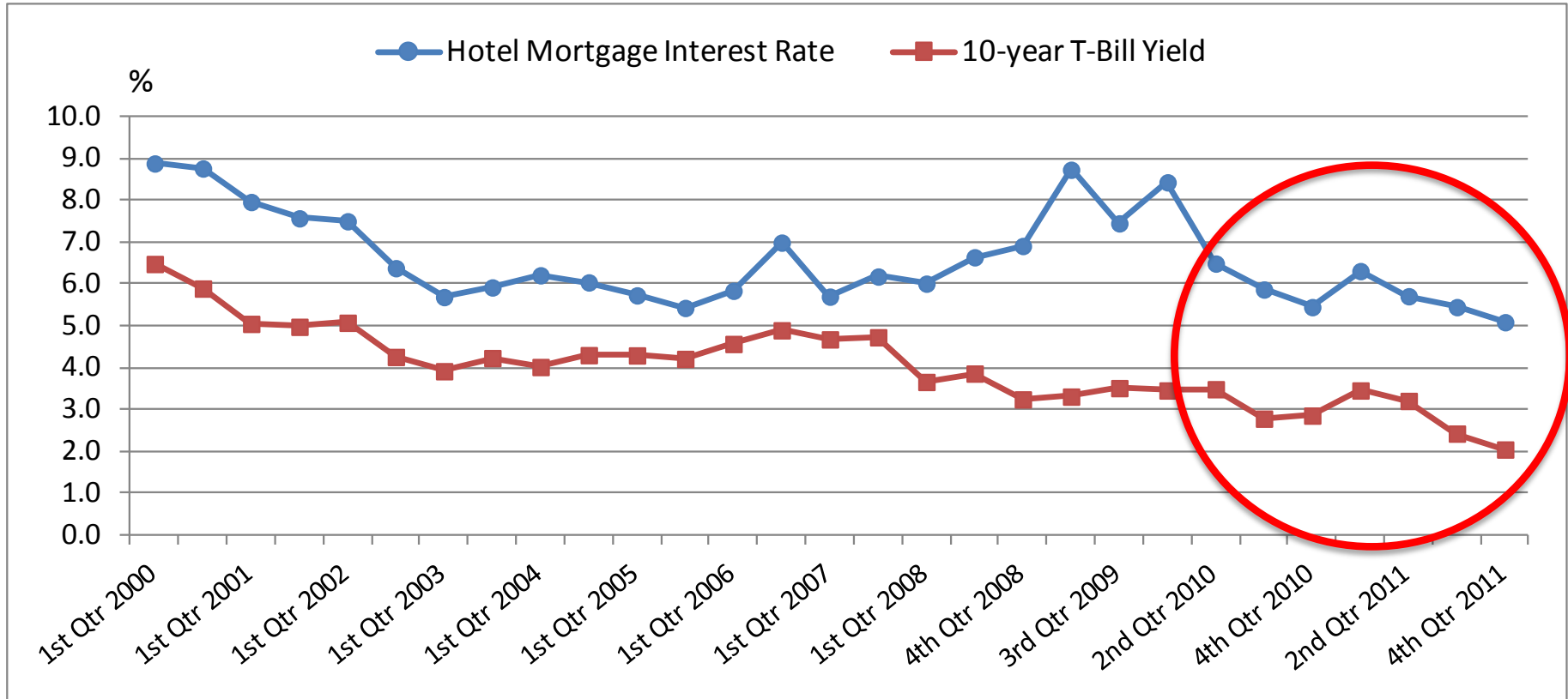
- After slow winter, market activity is on upswing
- Capital readily available; investors wait for property to come to market
- Some REITS in disposition mode, creating opportunity for private investors
- Lenders have returned to the market with interest rates more favorable than a year ago
- Lower interest rates and rise in hotel NOI has resulted in stabilization of cap rates

Hotel Mortgage Interest Rates



Source: ACLI / HVS

Hotel Mortgage Interest Rates



Source: ACLI / HVS

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
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

Source: HVS

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
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
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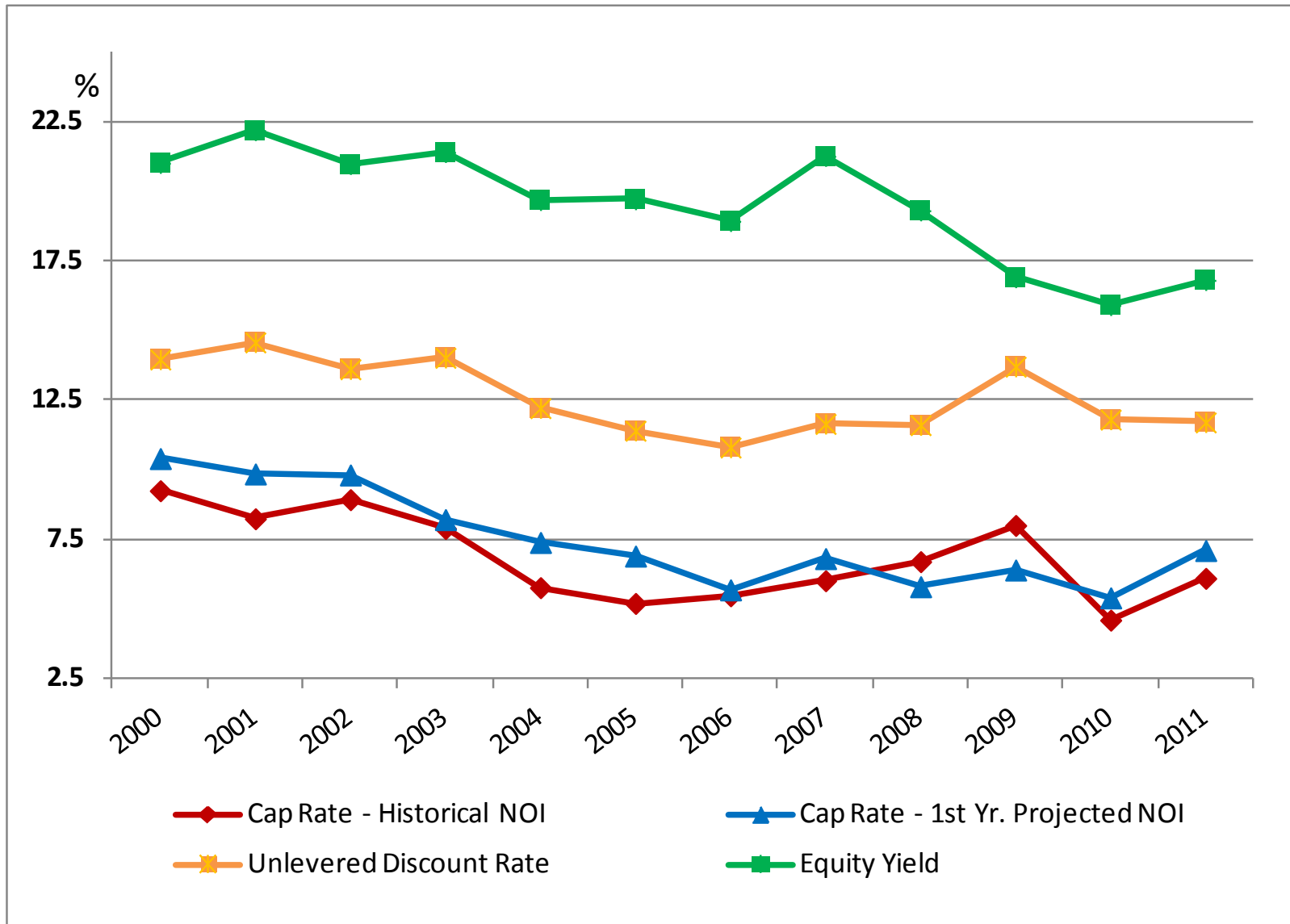
Source: HVS

Cap and Discount Rates – Select Set of Full Service Hotels

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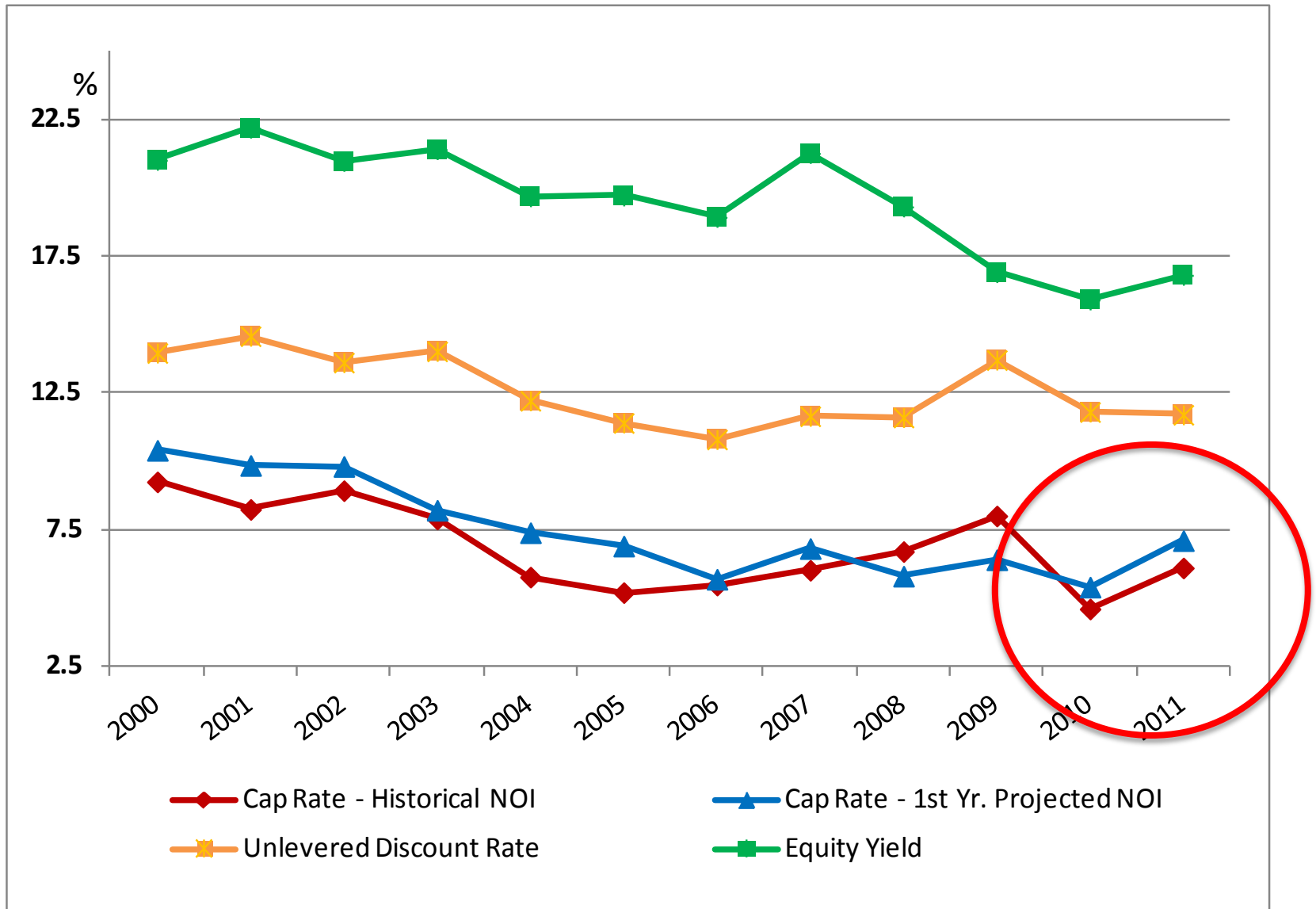
Source: HVS

Cap and Discount Rates – Derived from Sales



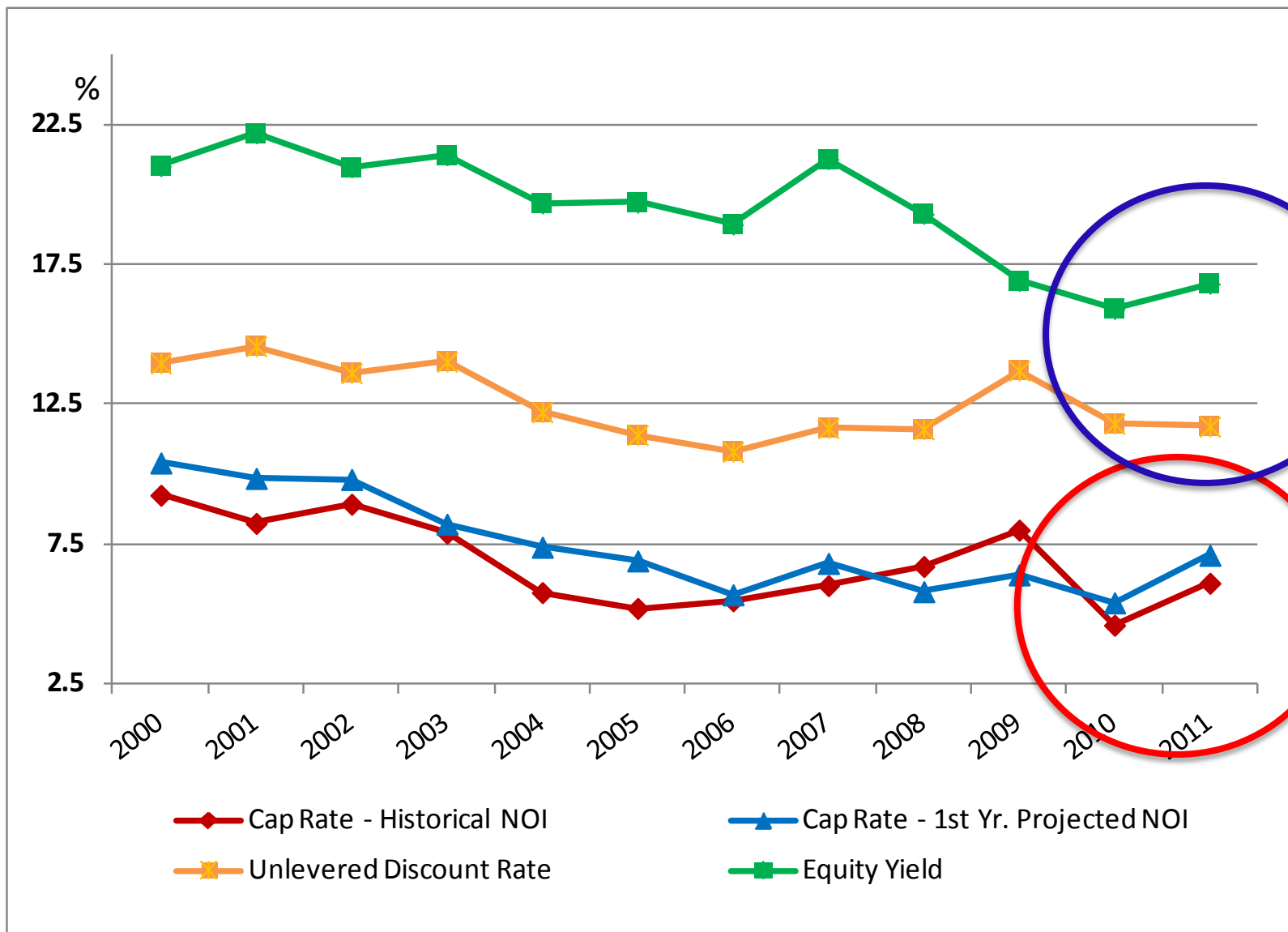
Source: HVS

Cap and Discount Rates – Derived from Sales



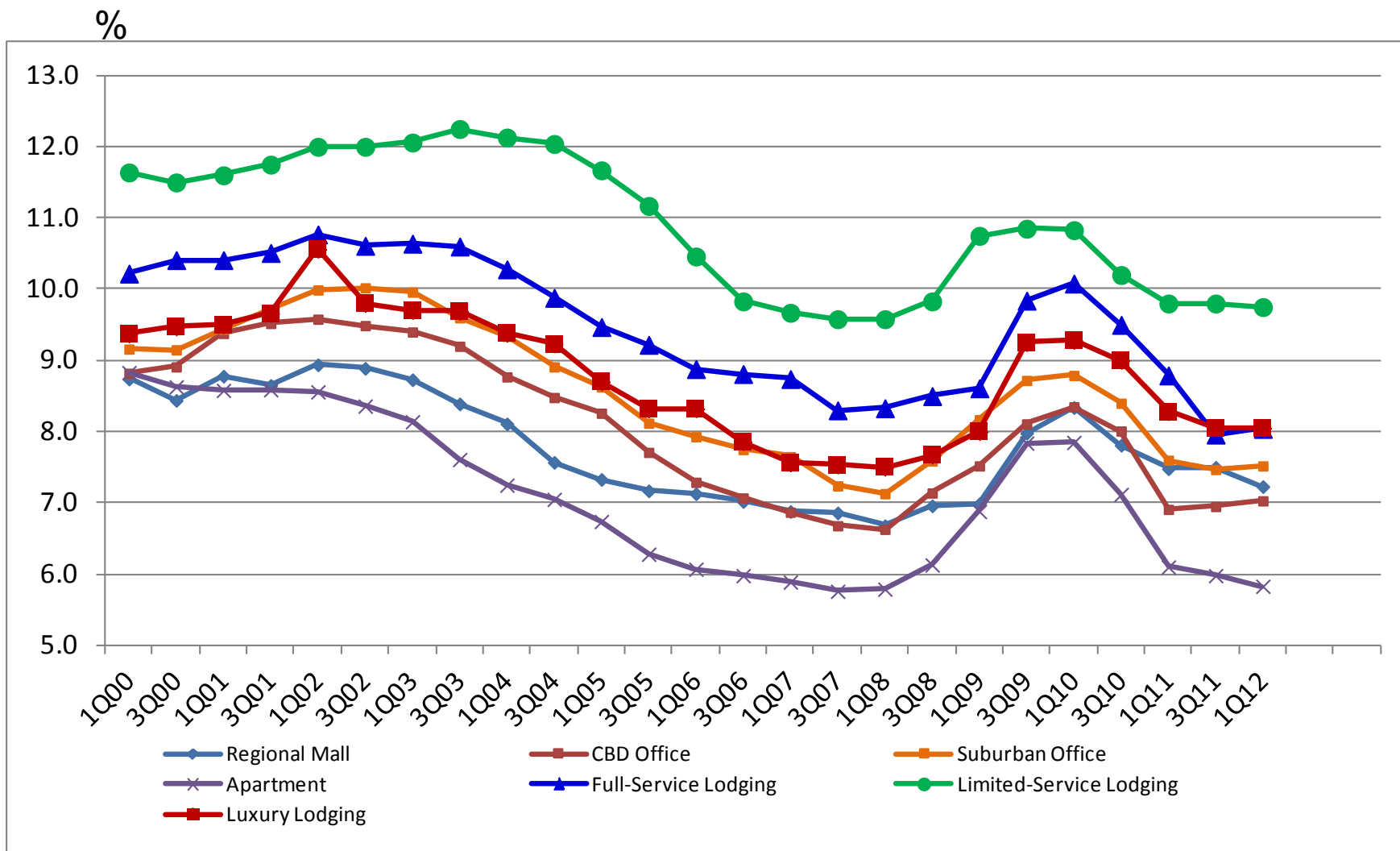
Source: HVS

Derived Cap and Discount Rates



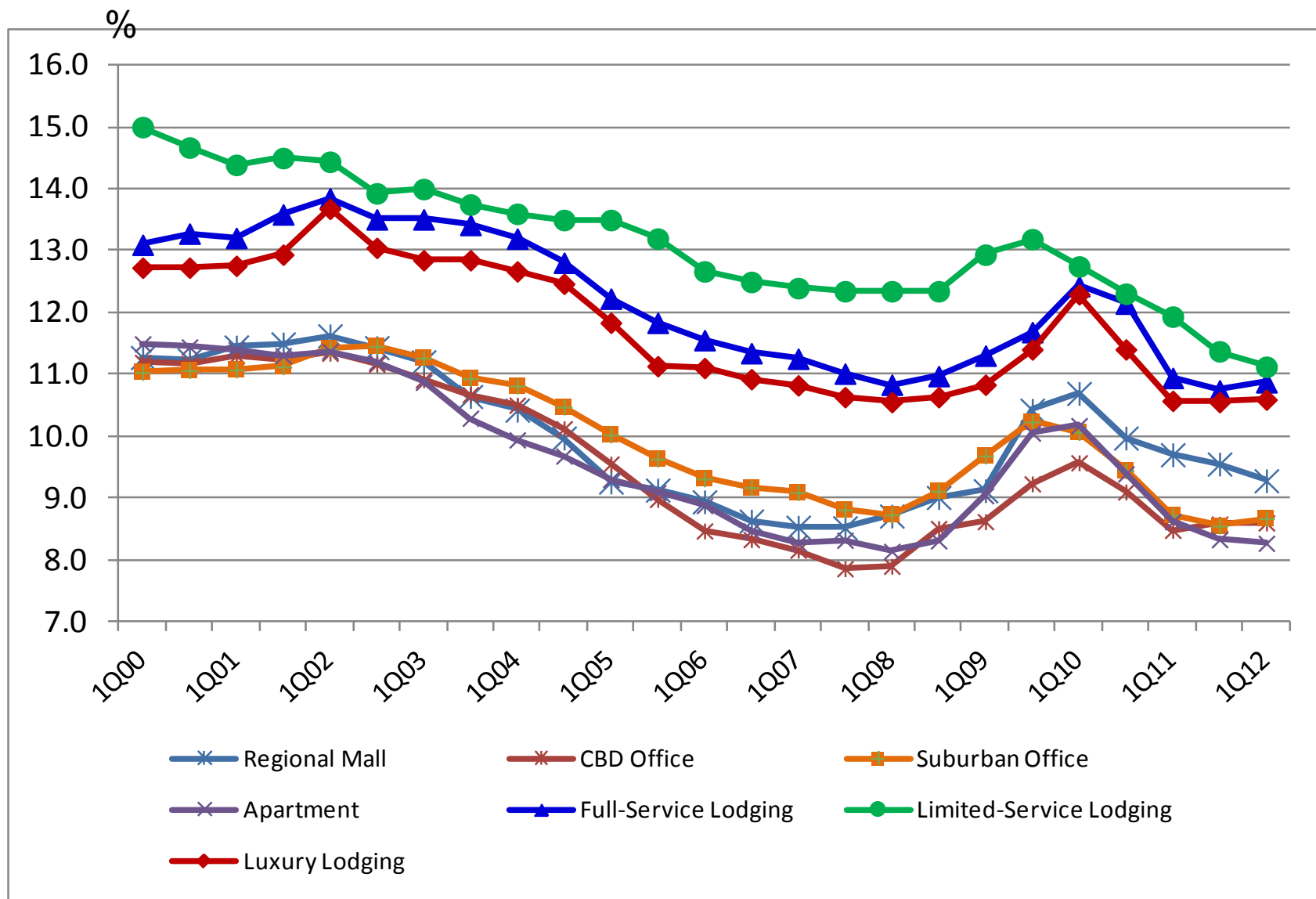
Source: HVS

Capitalization Rates – PWC Investor Survey



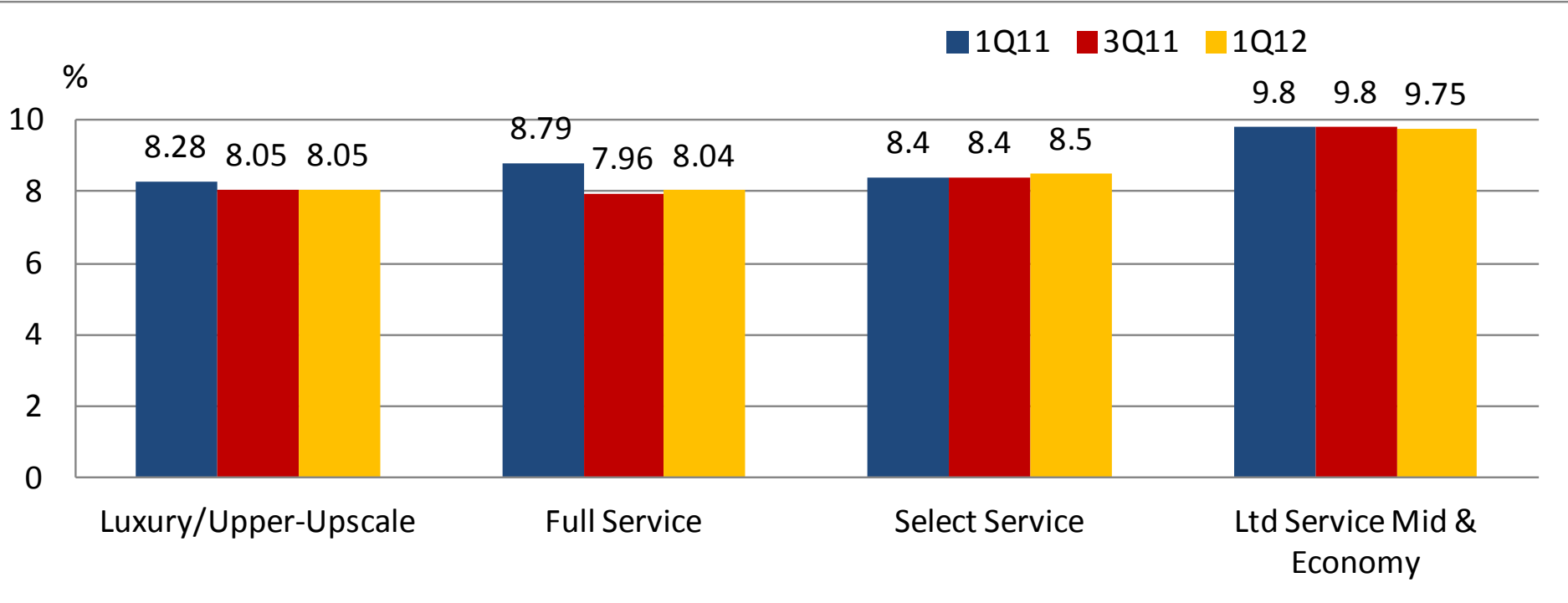
Source: PWC Real Estate Investor Survey

Discount Rates – PWC Investor Survey



Source: PWC Real Estate Investor Survey

Average Capitalization Rates – PWC Investor Survey



Source: PWC Real Estate Investor Survey



Select Service Products Proving Highly Attractive



Hilton Garden Inn, Omaha, NE
\$168,000 per room



Courtyard, Culver City, CA
\$183,000 per room



Hyatt Place, Birmingham, AL
\$128,000 per room

Select Service
Hotels Accounted for
Over 40% of the # of
Major Sales
Transactions in 2011

Upscale Extended-Stay Garnering High Prices



Homewood Suites Conv. Ctr., Seattle
\$272,000 per room



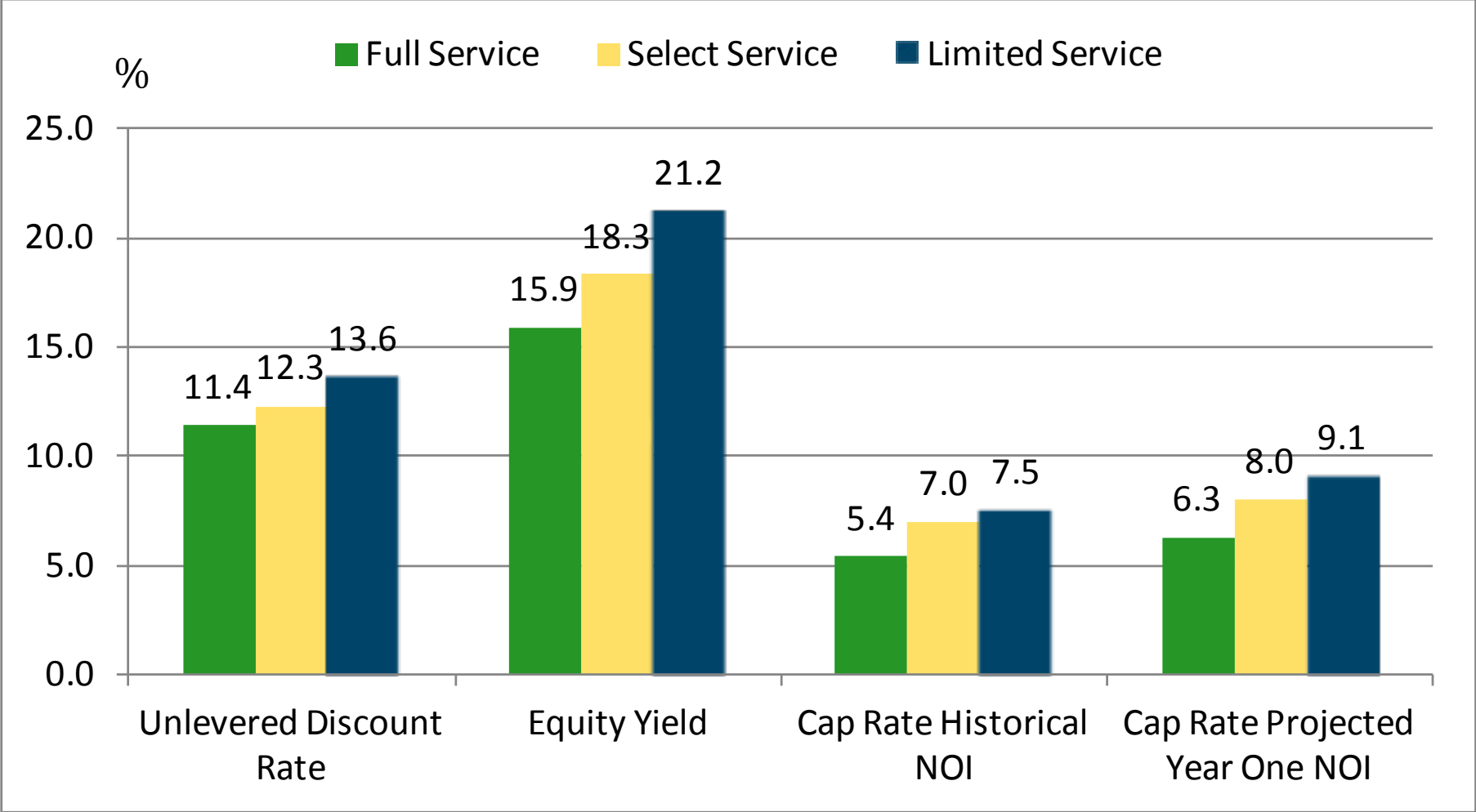
Residence Inn Tysons Corner Mall, VA:
\$255,000 per room



Homewood Suites, Knoxville, TN
\$146,000 per room

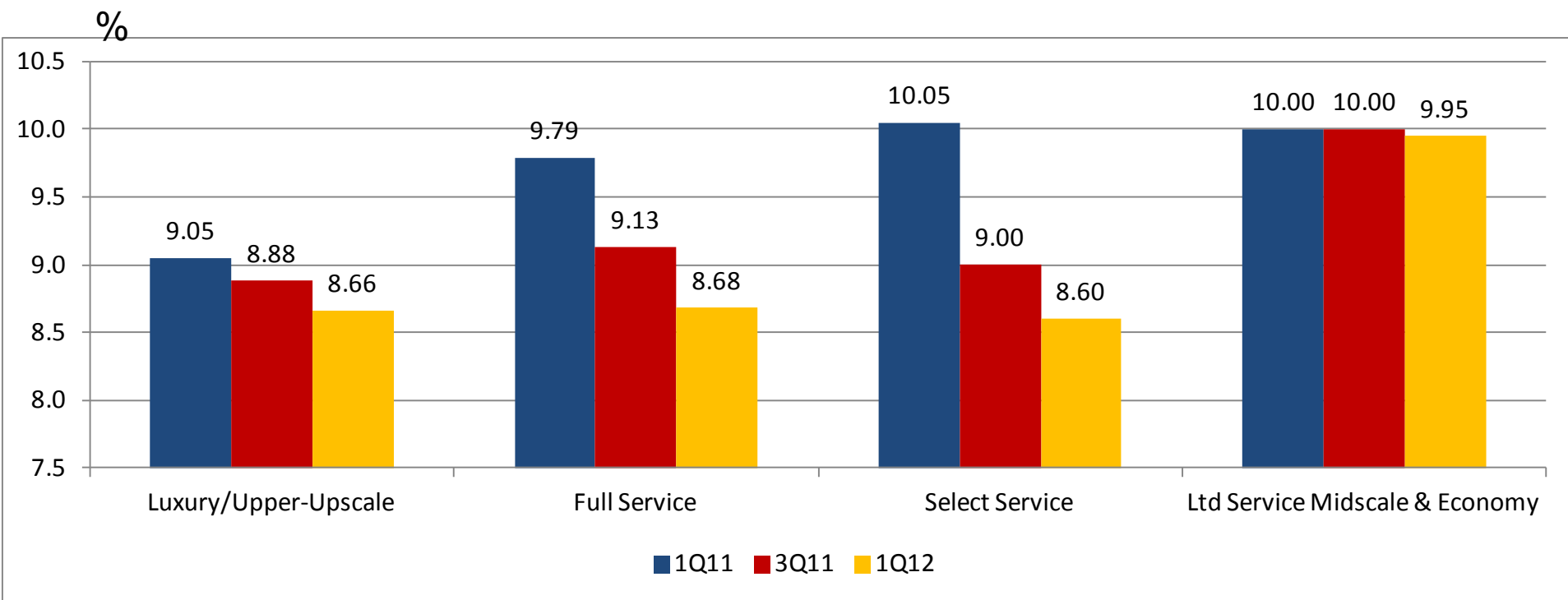
Proposed New
Supply is
Concentrated in the
Broadly Defined SS
Product Category

Rates of Return Derived from Actual Sales 2010 - 2012



Source: HVS

Average Residual (Terminal) Cap Rates PWC Investor Survey

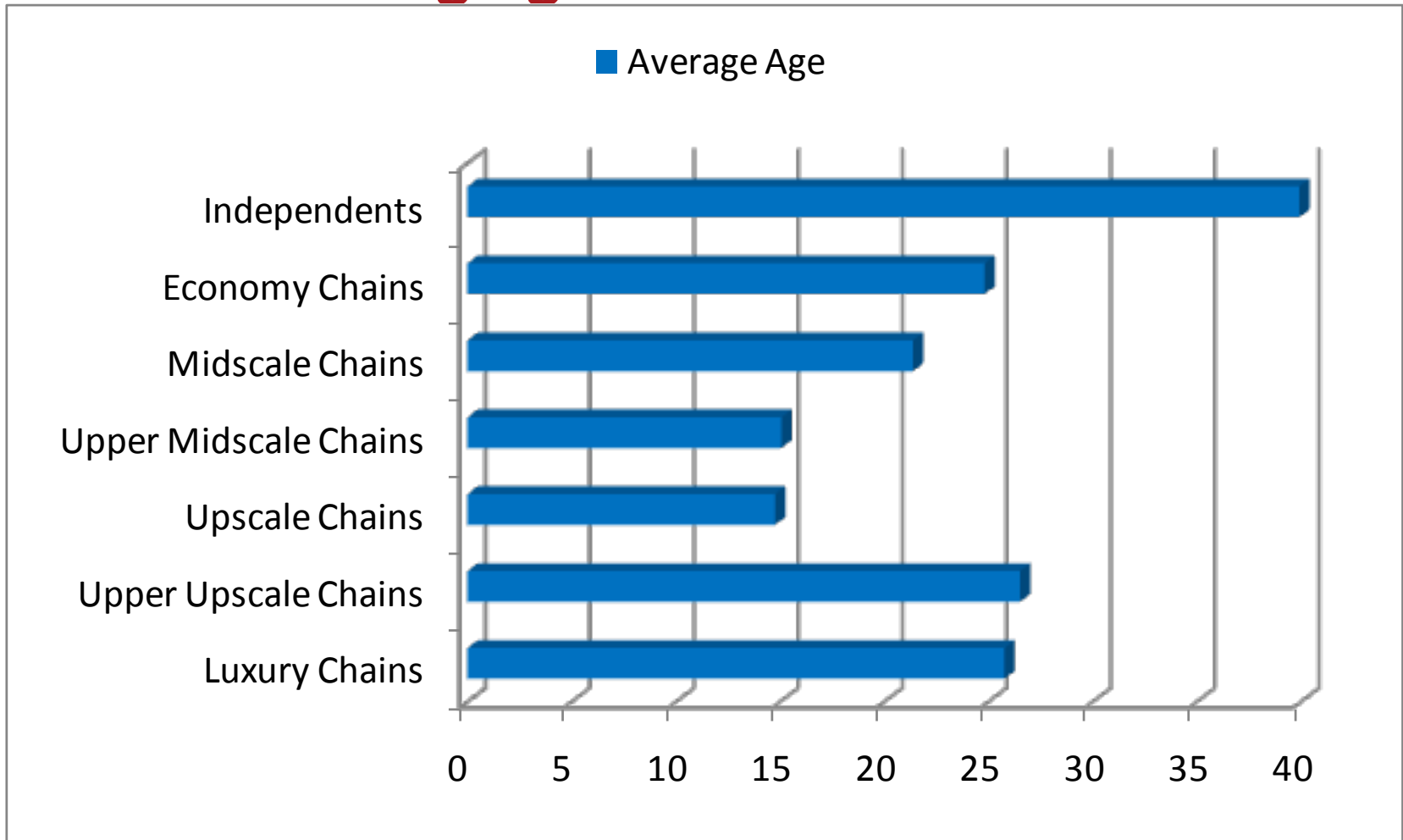


Source: PWC Real Estate Investor Survey

Potential Rise in Cost of Capital May Limit Future Appreciation

	2012	2013	2014	2,015	2,016
NOI Increase	13.4%	15.6%	10.8%	7.9%	6.2%
Interest Rate	5.25%	5.75%	6.25%	6.75%	7.25%
Mortgage Constant	6.63%	7.00%	7.39%	7.78%	8.19%
Equity Cash on Cash	6.0%	7.0%	8.0%	9.0%	10.0%
Loan-to-Value	70%	70%	75%	75%	75%
Cap rate	6.4%	7.0%	7.5%	8.1%	8.6%
Value Per Room	193,821	206,103	212,029	213,325	212,094
% Change		6.3%	2.9%	0.6%	-0.6%

Aging US Hotel Stock



Increase of Reserve
from 4% to 7%
Decreases Value NPV
by 10%

Change in Investment Parameters

Valuation Input	Q2 2011	Q2 2012
Loan/Value	65%	70%
Amortization	25 Years	25 Years
Term	10 Years	10 Years
Interest Rate	6.00%	5.25%
Terminal Cap Rate	9.50%	9.00%
Transaction Costs	2.00%	2.00%
Equity Yield	17.0%	18.0%

Impact on Discount and Cap Rates

7% Increase In Value With Same NOI

Valuation Output	Q2 2011	Q2 2012
Valuation Output	\$86,400,000	\$92,600,000
Value per Room	\$171,000	\$183,000
Unlevered Discount Rate	10.81%	10.11%
Overall Rate - Historical NOI	6.5%	6.1%
Overall Rate (1st Year NOI)	7.3%	6.8%
Debt Coverage Ratio (TTM NOI)	1.24	1.34
Debt Coverage Ratio (Year One)	1.45	1.46
Debt Yield	11.5%	10.5%

As of Q2 2012:

- Lower interest rates
- Increasing leverage
- Rising income levels
- Capitalization Rate Stabilization

Outlook

- Market picking up steam – anticipate increase in sales and refinancing as 2012 progresses
- CMBS active again, resuming competitive lender environment and driving down interest rates for strong cash flowing hotels
- Outlook is favorable, with only a 50 bp rise in T-bill rate projected through Q2 2013
- Values expected to continue to rise due to combined effect of RevPAR gains and favorable lending environment
- Capitalization rates should remain stable over the remainder of 2012

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

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Thank You!

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Suzanne R. Mellen is Senior Managing Director of Consulting & Valuation for HVS San Francisco 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. Under Ms. Mellen's leadership, HVS San Francisco and Las Vegas have become renowned for excellence and integrity. 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.

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). She has been appraising hotels, gaming assets and related real estate for over 30 years, has authored numerous articles, and is a frequent lecturer and expert witness on the valuation of hotels, casinos and related issues