



# Lodging Performance Outlook 2023

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*Impact of current events on hotel performance and values*

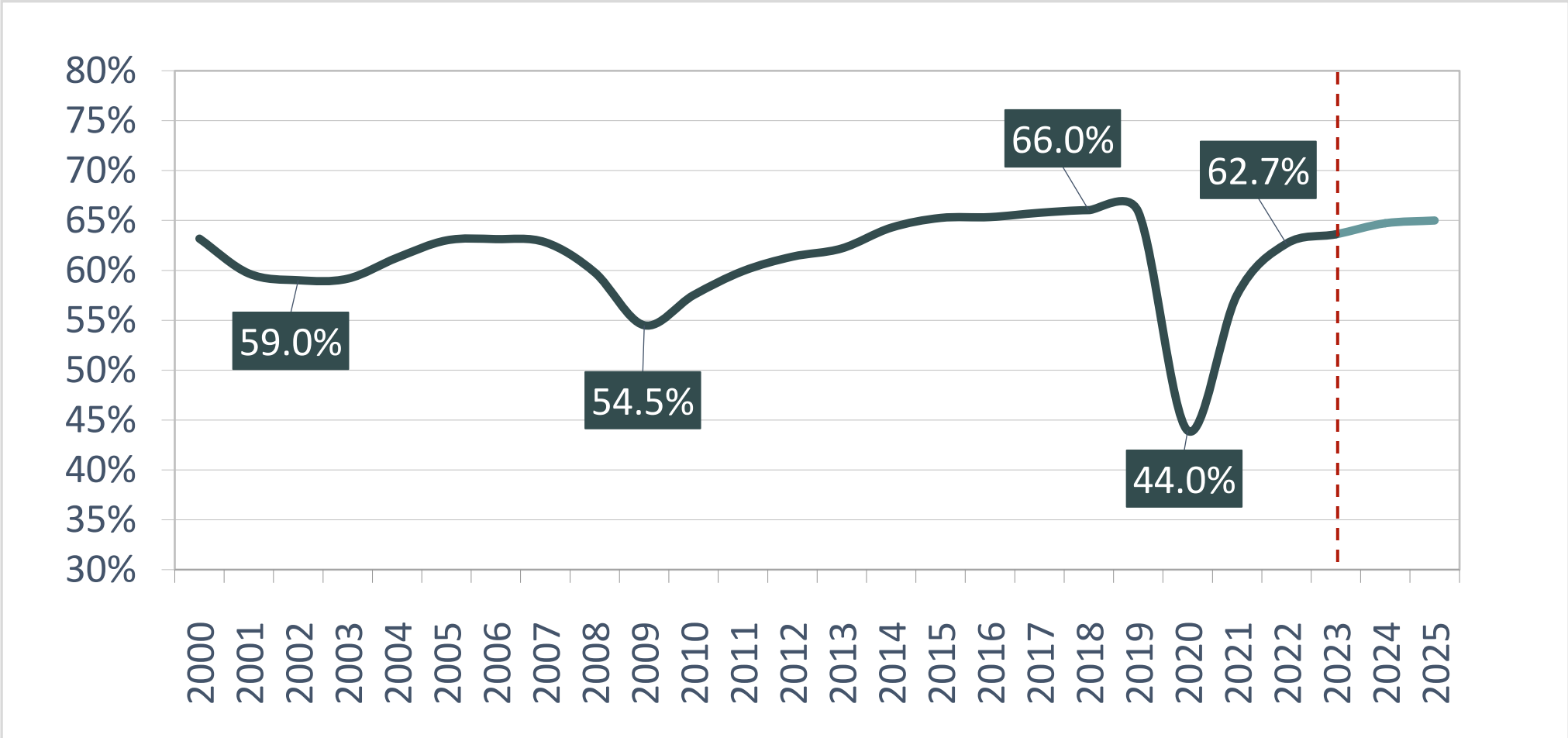
*Luigi Major, MAI | Managing Director - Americas*

*May 2023*

# Occupancy Continues Its Slow Climb



Q1 2023 demand comparisons to Q1 2022 (Omicron) was favorable



Source: STR (Historical), HVS (Forecast as of January 2023)

# Factors Keeping Sector Under Prior Peak



*A return to prior peak occupancy is not expected in the near term.*



## INTERNATIONAL TRAVEL

Asia



West Coast



## SHORT-TERM RENTALS

Increased Popularity



Siphoning off Demand from Traditional Hotel Sector

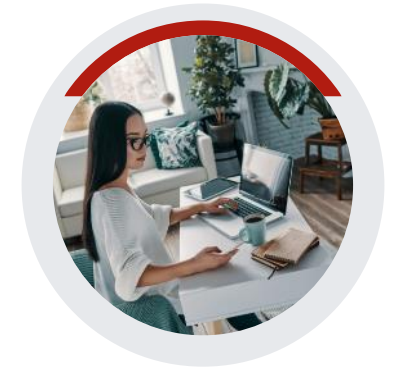


## HYBRID/VIRTUAL MEETINGS

Format Remains



Many Prefer Face-to-Face, Some Would Rather Attend Virtually



## WORK FROM HOME

Proliferation of Remote Jobs



Business Travel Elected on Tuesday/Wednesday

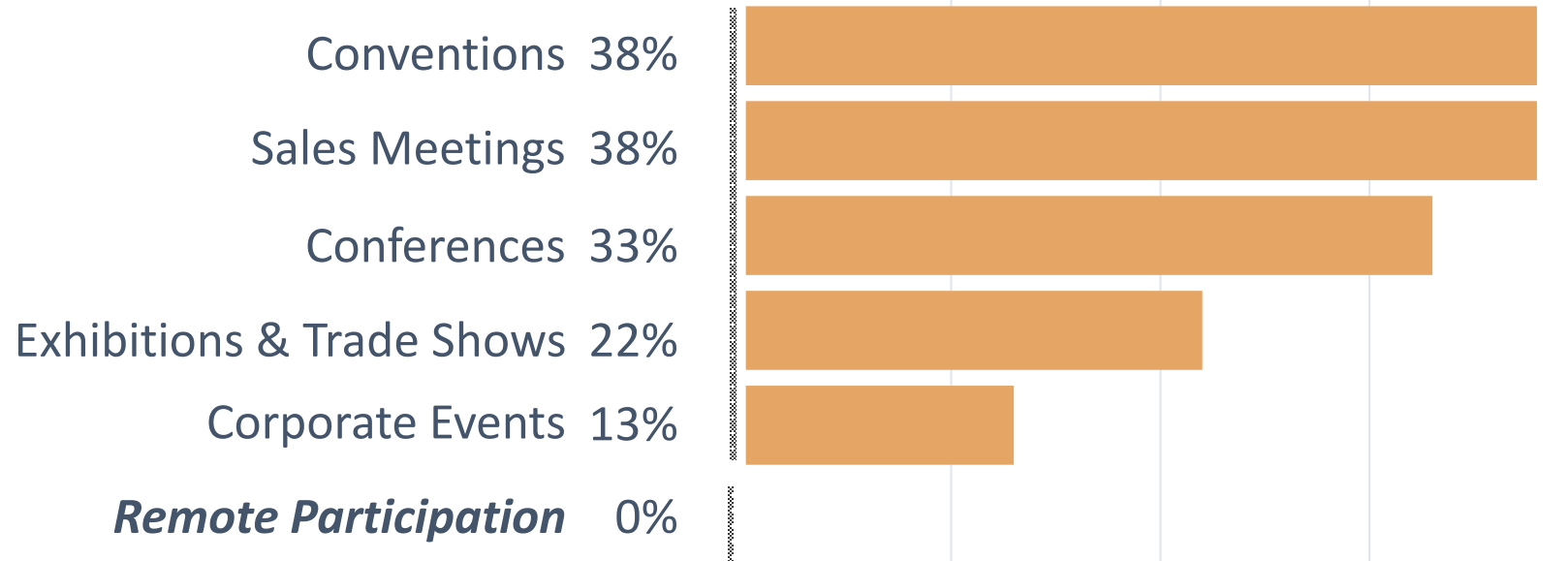
# Group Demand on the Rise



*A Feb/Mar 2023 survey of 350 travelers to business events revealed that more expect to travel in 2023.*

## Estimated Change (2022 vs. 2023)

### In-Person Participation



Source: HVS and Access Intelligence

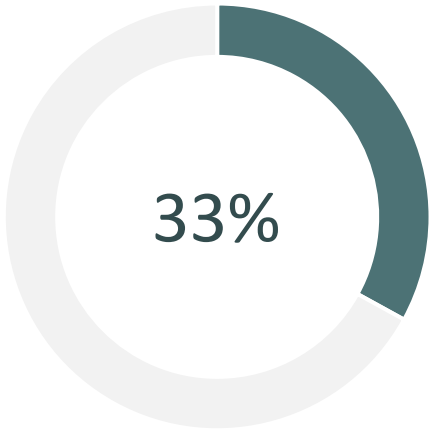
# Many Group Travelers Plan to Extend Trips



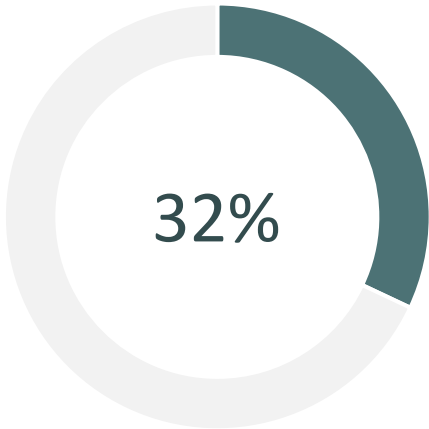
*The reported change from actual 2022 travel to the expected travel in 2023 reflects new trends.*

## When attending business events, are you more or less likely to do the following?

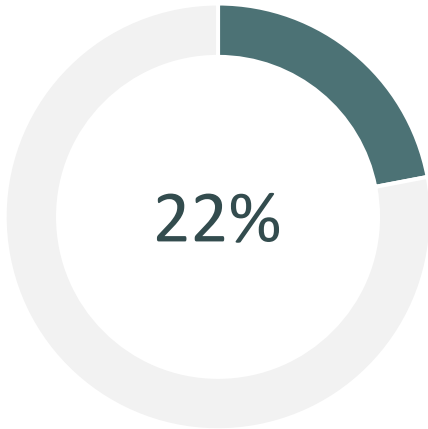
2022 vs. 2023 Net Change\*



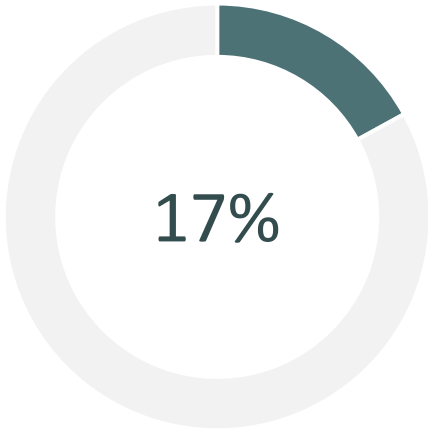
Extend Travel Time for Recreation and Leisure



Travel with Family and Friends



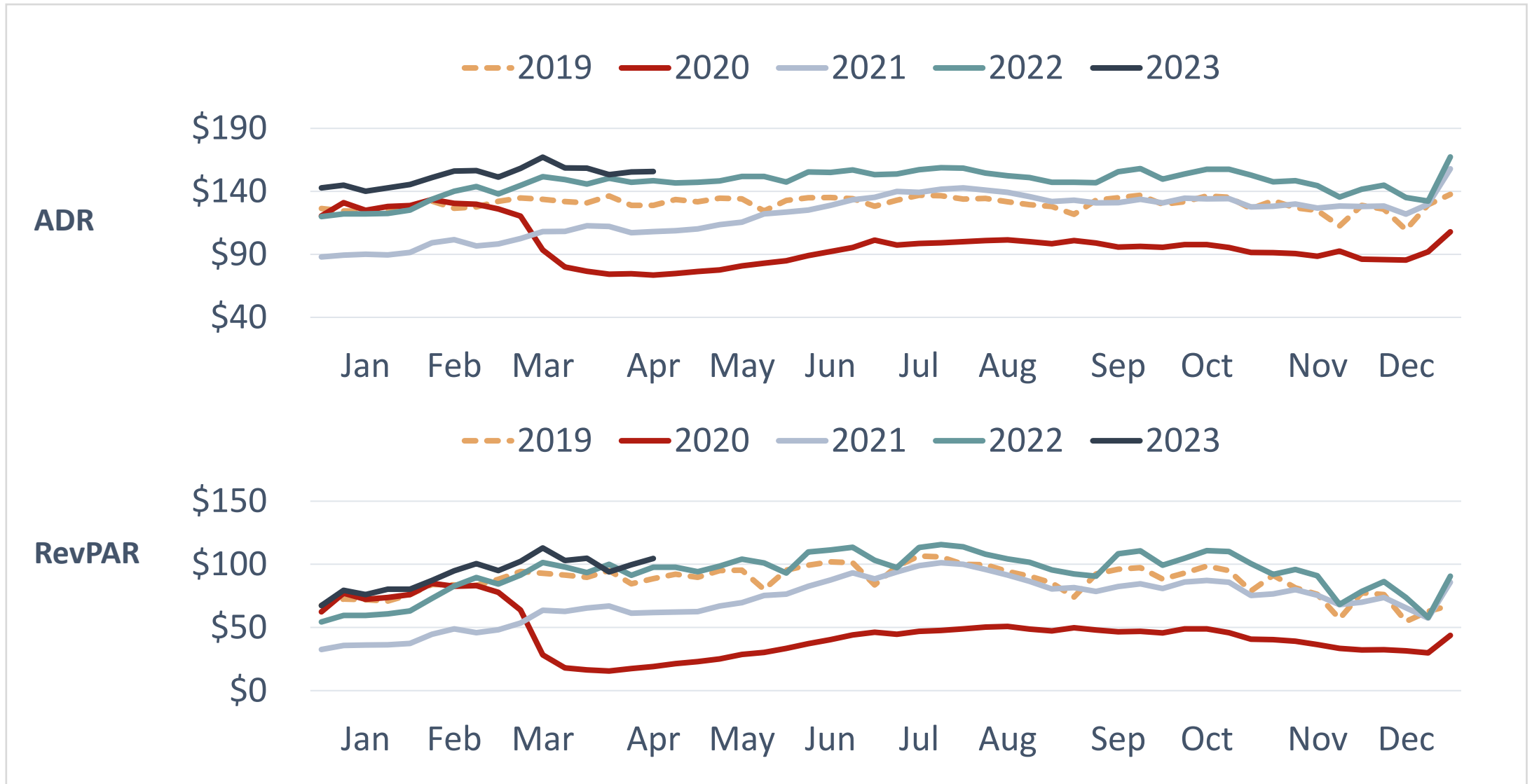
Extend Travel Time for Work



Book Short-Term Accommodations

\* Weighted average of all respondents by type of event

# ADR Driving RevPAR Gains



Source: STR

# 2022 RevPAR Set a New Industry High



*Occupancy lags ADR recovery, with ADR having surpassed the 2019 level in 2022.*

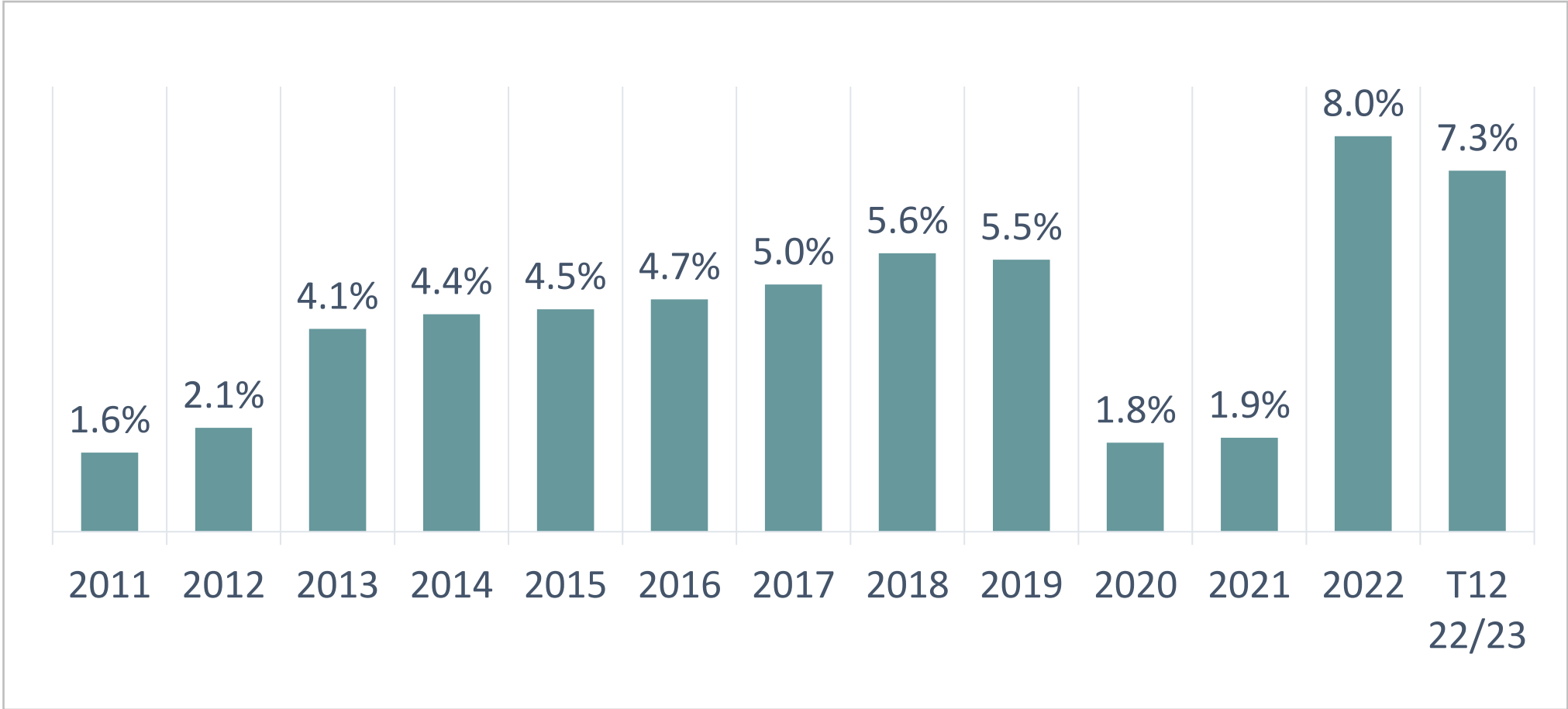
Year	Occupancy	ADR	% Chg	RevPAR	% Chg
2019	65.9%	\$131		\$86	
2020	44.0	103	-21.1%	45	-47.4%
2021	57.5	125	21.0	72	58.3
2022	62.7	149	19.1	93	29.8
<b>2023</b>	<b>63.6</b>	<b>154</b>	<b>3.6</b>	<b>98</b>	<b>5.1</b>
<b>2024</b>	<b>64.7</b>	<b>158</b>	<b>2.8</b>	<b>103</b>	<b>4.6</b>
<b>2025</b>	<b>65.0</b>	<b>163</b>	<b>3.0</b>	<b>106</b>	<b>3.5</b>

Source: STR (Historical), HVS (Forecast as of April 2023)

# New Hotel Supply Constrained by Growing Construction Costs



*Construction costs inflation significantly increased in 2022*



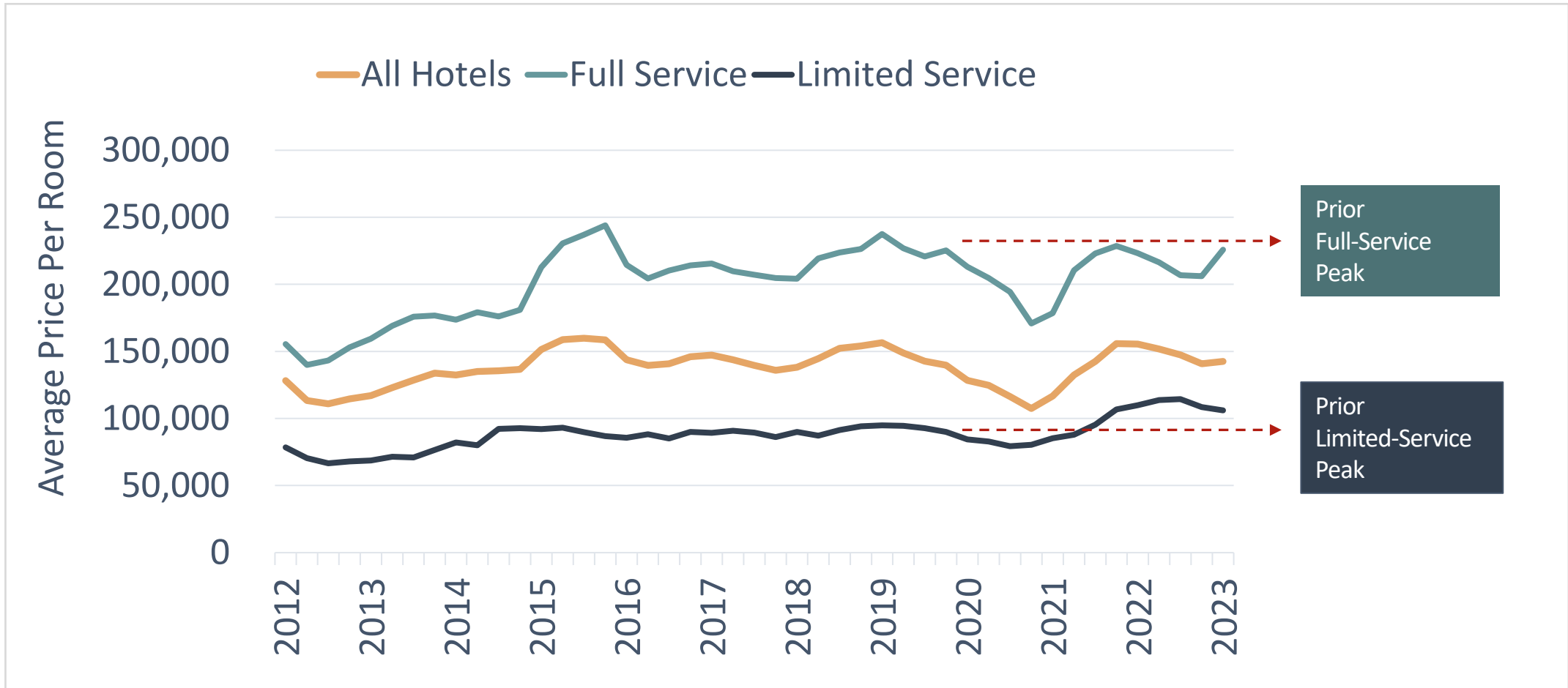
Source: Building Turner Cost Index (Third Quarter 2022)



# Value Recovery Takes Different Trajectories



*Limited-service sector surpasses prior peak, while full-service sector below prior peak.*



Source: Real Capital Analytics

# Market shocks caused by Fed's Hiking Cycles

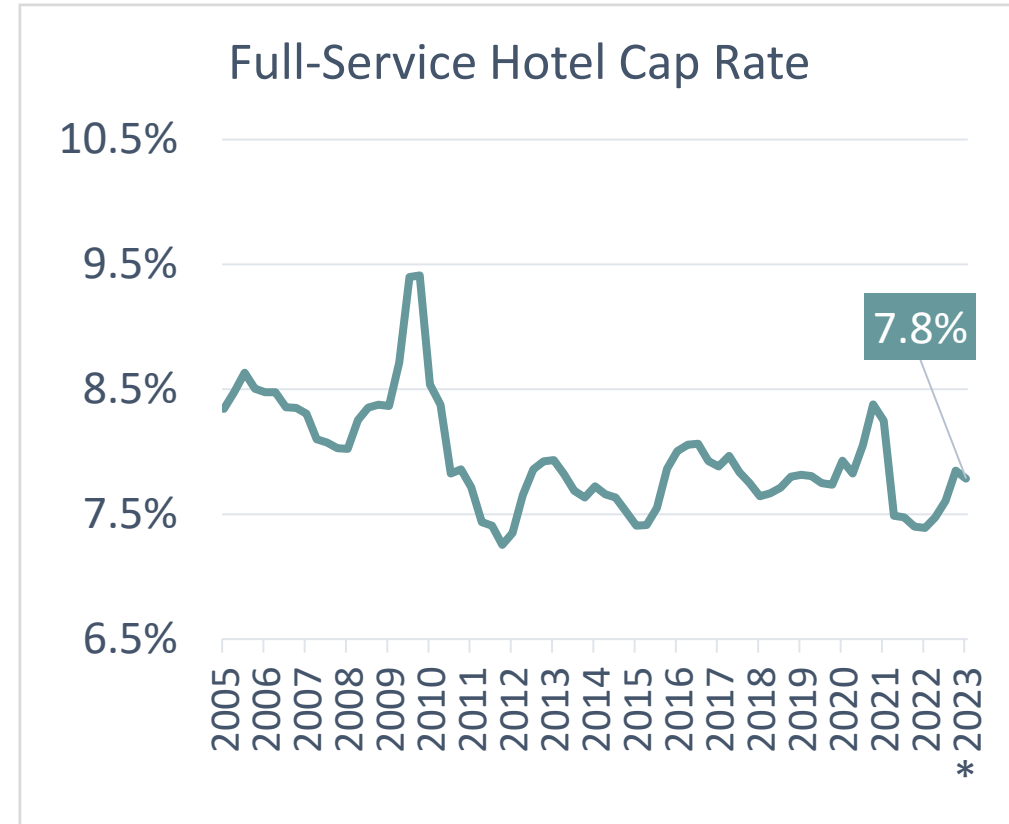
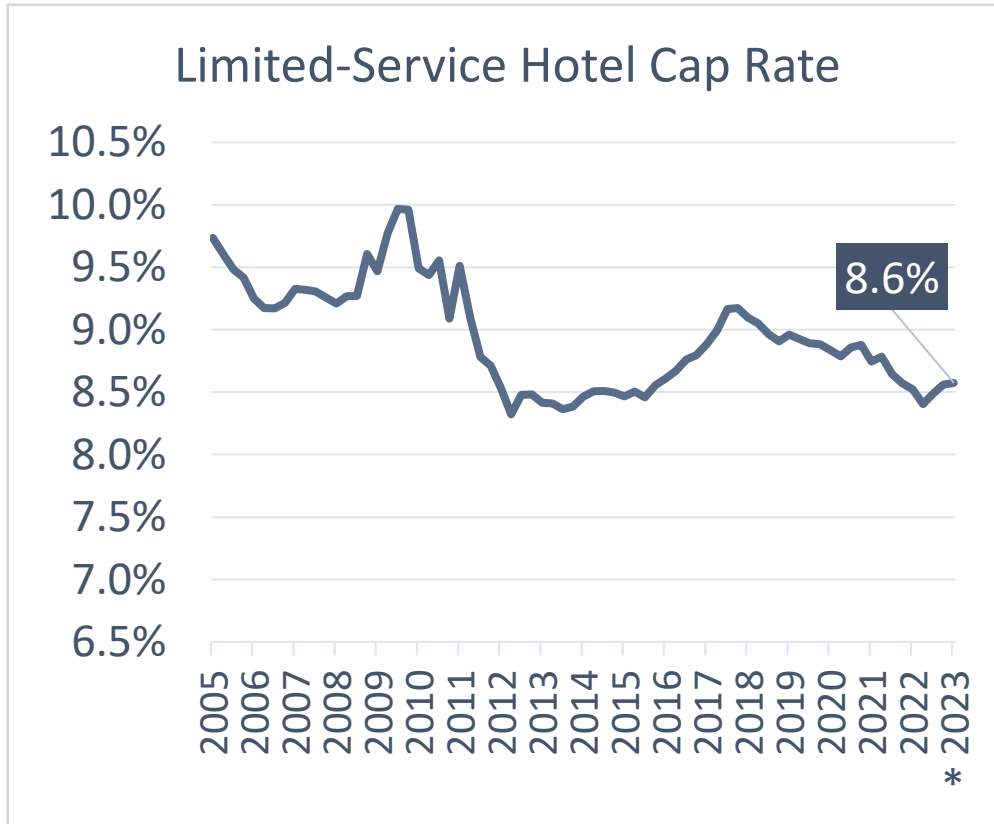


Source: Board of Governors of the Federal Reserve System (US)

# Cap Rates Climb Given Debt Costs



*Strong hotel performance and competition have somewhat offset debt costs.*

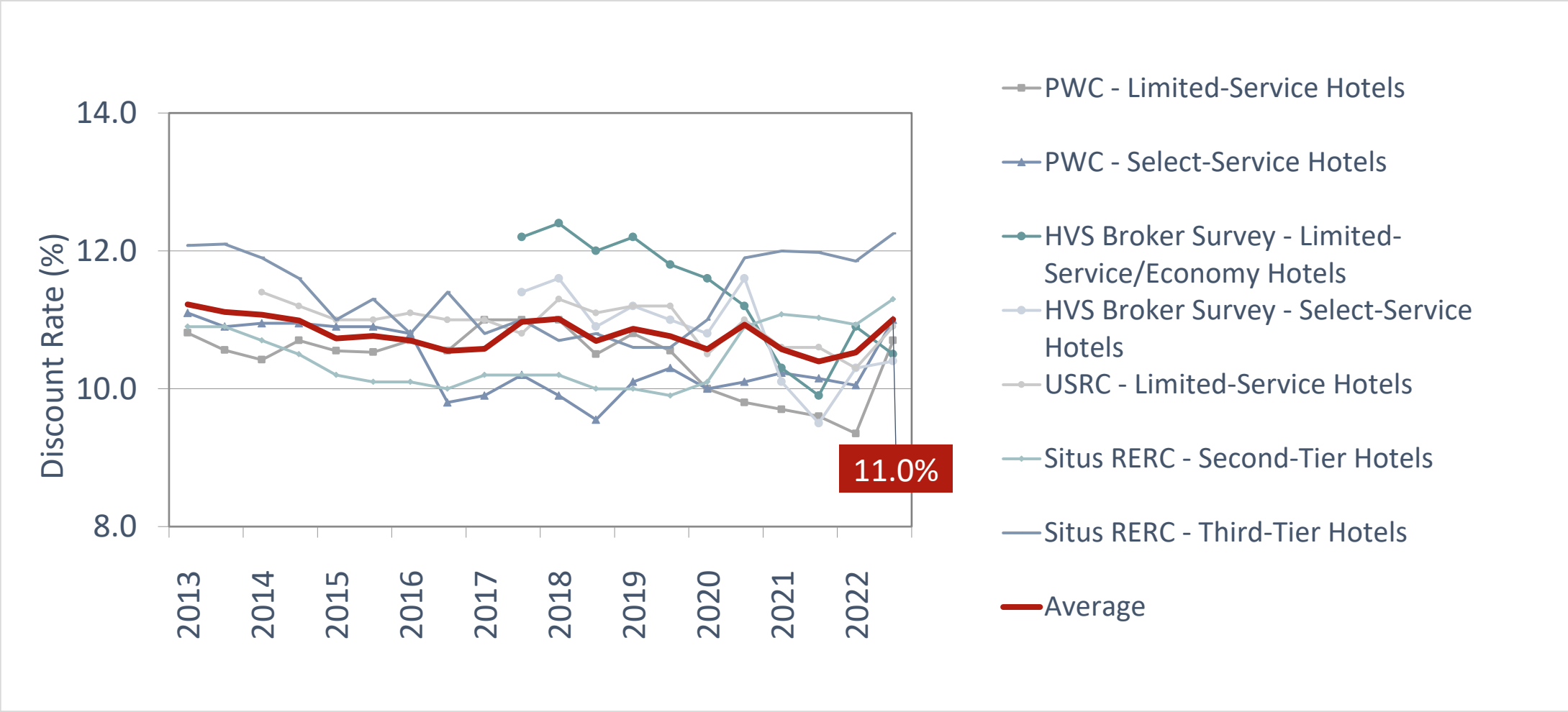


Source: Real Capital Analytics, \*Preliminary Data

# Discount Rates on the Rise for Limited/Select



With 1H 2022 Discount Rates At Their Lowest, Values Peaked Mid-Year 2022

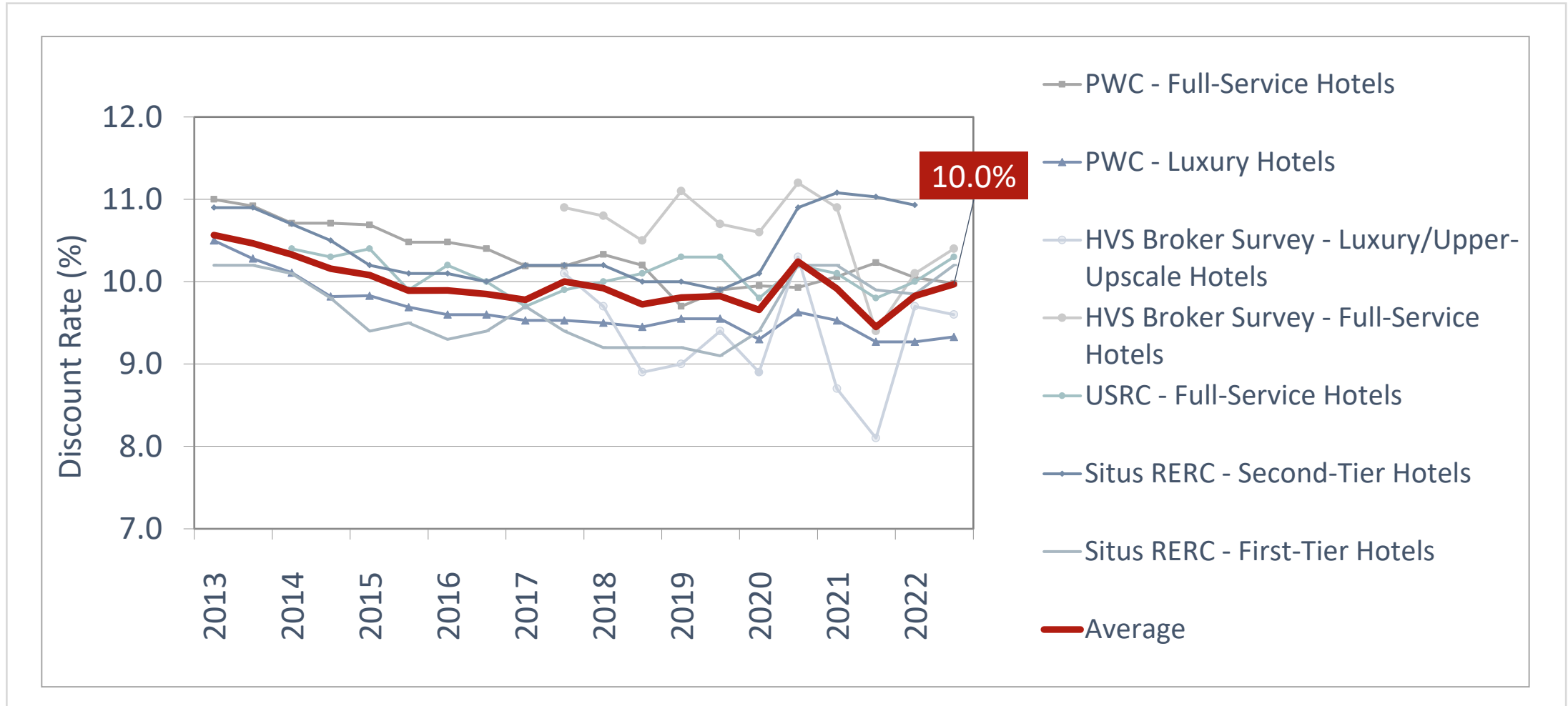


Source: PWC, HVS, USRC, Situs RERC

# Discount Rates Lower For FS/Luxury



*A rise in discount rates for these categories is a return to normal.*



Source: PWC, HVS, USRC, Situs RERC

# Refinancing Expectation Tempers The Discount Rate



*An assumed refinancing can allow a buyer to justify a higher contract price today.*

	CURRENT FINANCING TERMS	REFINANCING TERMS
Loan/Value	60%	70%
Amortization	30 Years	30 Years
Term	10 Years	10 Years
Interest Rate	7.0%	5.5%
Terminal Cap Rate	8.5%	8.5%
Transaction Costs	1.5%	1.5%
Equity Yield	16.0%	17.0%
Total Property Yield	11.3%	9.8%
Years of Refinancing		4 Years
<b>Overall Discount Rate</b>	<b>10.5%</b>	

# Discount Rate Trends in 2022/23



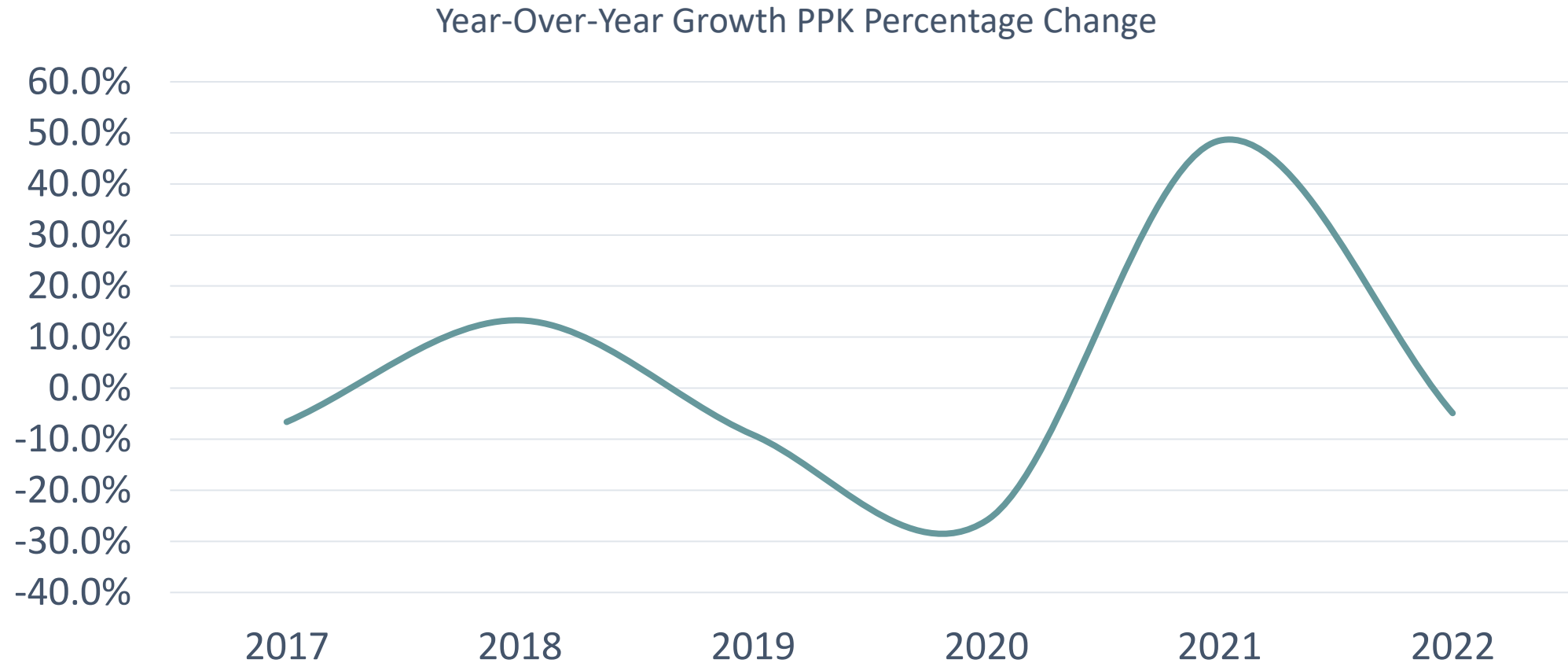
*Impact of Interest Rate Increases and Lower Loan-to-Value Ratios on the Cost of Capital*

	Q2 2022			Q3 2022			Q4 2022		
<b>Interest Rate</b> <b>Amortization</b> <b>Debt Service Constant</b>	5.25%			6.00%			7.00%		
	25 Years			25 Years			25 Years		
	0.07191			0.7732			0.08481		
	LVT	RATE	WACC	LVT	RATE	WACC	LVT	RATE	WACC
<b>Debt</b> <b>Equity</b> <b>WACC (Weighted Average</b> <b>Cost of Capital)</b>	65%	0.07191	0.04674	65%	0.07730	0.05025	60%	0.08481	0.05089
	35%	0.16000	0.05600	35%	0.16000	0.05600	40%	0.16000	0.06400
	<b>10.27%</b>			<b>10.62%</b>			<b>11.49%</b>		
<b>Indicated Value based on</b> <b>\$1M EBIDTA</b> <b>Change in Value from Q2</b>	<b>\$9,733,000</b>			<b>\$9,412,000</b>			<b>\$8,704,000</b>		
				<b>-3.3%</b>			<b>-10.6%</b>		

# Value Gains Decelerating



*Rising debt costs, discount rate, and cap rates, resulting in decelerating values increases*



Source: MSCI





**Thank you!**

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