Release Date: May 6. 2014

LIIC
LODGING INDUSTRY INVESTMENT COUNCIL

# THE 2014 LIIC TOP TEN:
## THE ANNUAL SURVEY OF LODGING INVESTMENT TRENDS AND CHALLENGES

### "The Window is Wide Open and It's Beautiful Outside; Deja Vu 2005?"

(Denver, CO) For well over a decade, the members of the hotel industry's preeminent think tank, "LIIC – The Lodging Industry Investment Council", are annually surveyed to develop a list of the major hotel investment opportunities and challenges for the coming year. This exhaustive survey results in the LIIC Top Ten; a highly regarded profile of investment sentiment and attitudes for the lodging industry for the forthcoming 12 months.

Altogether, the members of LIIC represent direct acquisition and disposition control of well over $40 billion of lodging real estate with 57% of LIIC members having successfully purchased a hotel in the last 12 months and an additional 13% having made offers but not closing (so 70% are highly active in the current hotel real estate transaction world just as buyers).

The hospitality industry's most influential investors, lenders, corporate real estate executives, REIT's, public hotel companies, brokers and significant lodging equity sources are represented on the council. LIIC serves as the leading industry think tank servicing the lodging business (www.liic.org).

Mike Cahill, LIIC co-chairman, produced this year's survey (www.mikecahill.com). Mr. Cahill is CEO and Founder of HREC – Hospitality Real Estate Counselors, a leading international hotel and casino advisory and brokerage firm (14 offices nationwide) specializing in lodging property sales, debt financing, consulting, appraisals and litigation support (www.hrec.com). Michael Torres, an Associate Analyst in HREC's Denver office, assisted throughout the process.

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## 2014 Top Ten LIIC Survey Results:

1. Is 2014 the new 2005? Longer, Slower Cycle? When using the baseball game analogy, 69% of LIIC members believe we are firmly implanted in the 5th to 6th inning of the current lodging investment cycle. When asked the same concept but worded differently, 50% believe 2005 is the most similar past cycle year and 39% stated 2006. Of note is that last year's 2013 survey also resulted in a game timing estimate of the 5th to 6th inning. So apparently, the hotel cycle clock is ticking slowly. This situation may be both highly positive and unique; potentially indicating an extended cycle, with more years than usual for us to look out the wide open window and enjoy how beautiful the hotel investment world is. This theory is further reinforced by 52% of responders believing hotel real estate values will not peak until 2017 or later.

2. The Trend of Strongly Increasing Hotel Property Values Forecasted to Continue: 98% of respondents believe that lodging real estate values will continue to increase over the next 12 months, with 81% of responders predicting values to increase up to 10%. Segmented, 47% of total responders predict a strong value increase from 5% to 10% and 34% of total responders suggest a 0-5% increase. Compared to the 2013 Top Ten, survey results indicate a similar high level of confidence in the continued increase in hotel property values over the next 12 months. Value growth is anticipated to be greatest in the luxury/upper-upscale/upscale category.

3. Equity Rates Heading Down? When asked "where unlevered hotel equity rate of return requirements are headed?" interestingly, 46% believe these investment hurdle rates are headed downward. 41% forecast they will remain the same. Overall, hotel equity players seem to be a happy group, with 87% believing that their recent hotel purchases are meeting/exceeding original expectations.

4. Volume of Transactions Nationwide Forecasted to Continue Increasing Through 2015: In the survey, 83% believe that calendar 2015 overall hotel asset sales volume will be greater than actual/forecasted year end 2014 level. Of particular note is that 32% are highly optimistic – anticipating volume growth over 10%. General consensus is that market movement, fluidity, and volume will be strong in 2015 but growing concerns of rapidly accelerating new supply could hamper transaction volume and/or asset pricing in certain markets. Deal sourcing for hotel buyers has also shifted dramatically over the last four years, with 90% of investors anticipating future purchases over the next 12 months resulting from "typical acquisition channels (equity investor to equity investor via brokers)". In 2009, 82% of hotel investors forecasted buying lodging product from lenders either as REO's (Real Estate Owned) or in the form of notes/distressed debt.

5. Hotel Lenders are Back; Increasingly Aggressive: Favorable hotel debt is playing a major role in hotel value increases. 83% of those surveyed believe the availability of hotel debt lending will continue to get better in the next 12 months, with 59% believing

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"slightly better" and 24% predicting "much better." 68% of responders expect loan/value ratios to increase allowing for greater investment leverage. Investors are looking forward to heightened lender competition for their debt business.

6. Hotel Investors Love Marriott Rewards: From the viewpoint of a lodging real estate investor (specifically not a hotel guest), 52% of responders consider the Marriott Rewards guest frequency program the best in the industry. Surprisingly, the closest competitive program was Hilton Honors which ranked a far second at 13%. Even more shocking was that 24% indicated a hotel brand's frequency program "does not matter" as a priority in their hotel investment decision.

7. New Hotel Development Accelerating Rapidly: For the next 12 months, more than two-thirds (70%) of the LIIC Council believe it's a good time to build/develop hotels as long as you are selective about the product and the market. Only 18% believe it is better to buy existing hotels than to build as a general rule of thumb, down from 23% in last year's survey.

8. Quality of Hotel Product on Market Is Average/Quantity Above Average: Down from the 41% positive response in last year's survey, 31% now find the quality (desirability to purchase) of hotels on the market to be slightly better now than in the previous year. The majority of responders (43%) find the amount of lodging real estate on the market to be of "average quality." Of note is that 76% believe that the magnitude of lodging real estate on the market is "average quantity" (35%) or "above average quantity" (41 %).

9. Future of "True Group" Demand is Positive: If one defines "True Group" Demand as both blocks of 10 rooms or greater **and** using meeting/function space either at the property or nearby convention center, 77% believe that true group demand is growing and will continue to moderately perform as such over the next two years. As a result, full-service hotels with meeting space should generate additional cash flow, producing incremental asset value over the coming two years over their select service competitors.

10. "Obamacare" Continues to Increase Hotel Labor Costs: 90% of LIIC members believe Obamacare (Affordable Care Act) will continue to increase overall hotel labor costs in 2014. Broken down, 40% believe the increase will be moderate (1%-5%), 38% believe the increase will be significant (5%-10%), and 12% believe the impact will be more than 10%. None of the respondents were of the opinion that Obamacare would decrease their labor expenses and a mere 10% answered that it would have no impact.

**LIIC Bonus Forecast**: Boston Bruins are favored to win the 2014 NHL Stanley Cup, followed by the Anaheim Ducks, and the NY Rangers. 20% of LIIC members do not care about professional hockey enough to refuse to answer this particular survey question.

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