



Hotel Industry Trends & Predictions

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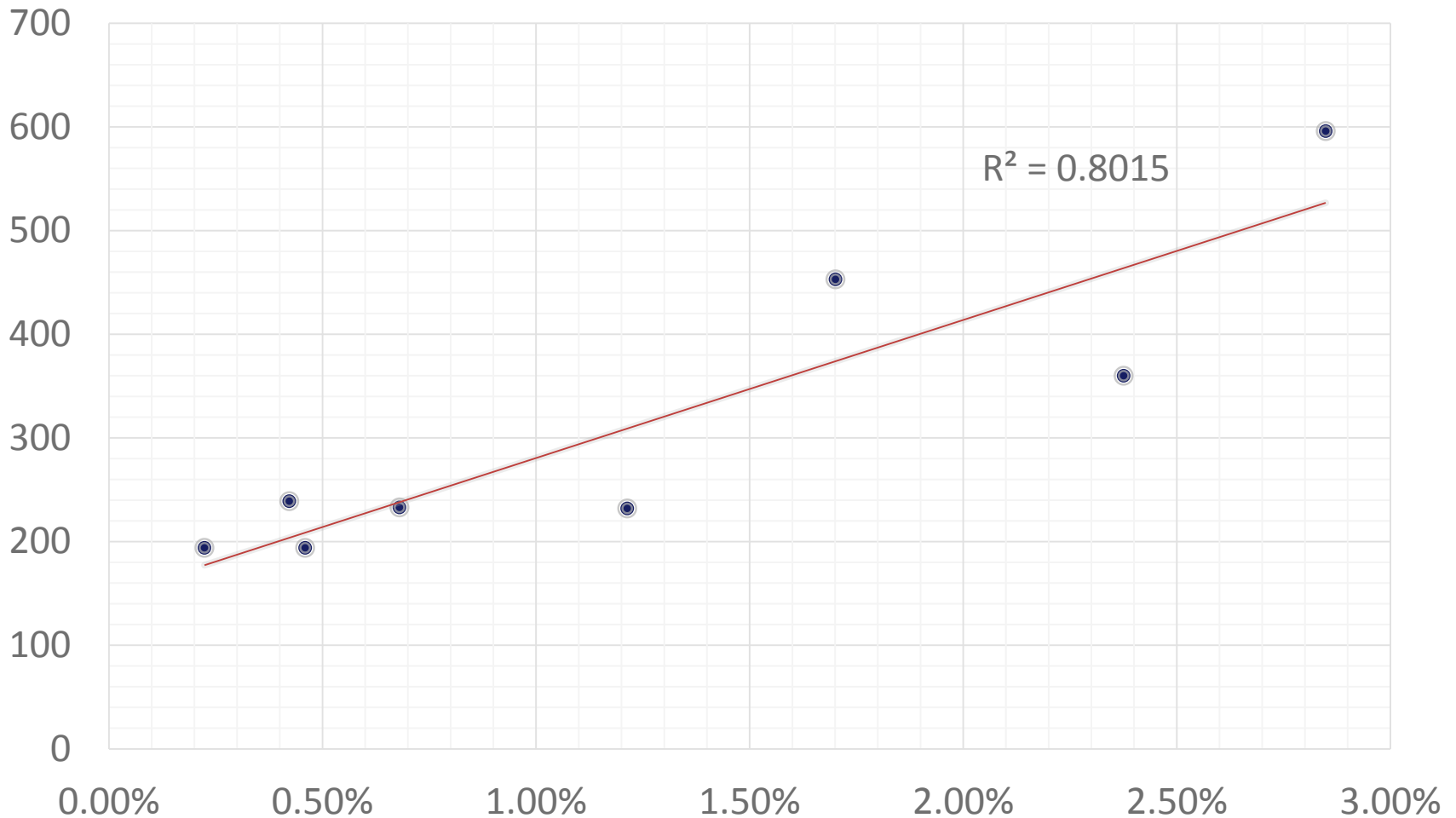
Five key takeaways

1. Supply and demand will be in equilibrium towards the latter part of 2016 or early 2017 for the USA
2. Hotel values are beginning to taper
3. West coast markets to show the greatest value increase through 2019
4. 40% of markets won't appreciate above anticipated inflation over next four years
5. CMBS continues to increase its share of hotel lending

Supply and Demand

Predicting the turning point for the shift in the hotel cycle

The growth of new supply is correlated to the amount of proposed hotel assignments



Takeaway #1

We believe supply and demand will be in equilibrium towards the latter part of 2016 or early 2017 for the USA

Market supply/demand equilibrium will be staggered across the country

2015

- Boston
- Houston
- Miami
- New York

2017

- Dallas
- Denver
- Los Angeles
- Washington

2016

- San Francisco
- Chicago
- Seattle

2018

- Austin
- San Diego
- Tampa

Beyond 2018

- Las Vegas
- Milwaukee
- New Orleans
- Philadelphia
- Phoenix
- Salt Lake City

New York provides the highest entrepreneurial incentive for new construction

New York	30%
Austin	20%
Brooklyn	20%
Denver	15%
New Orleans	15%
Orlando	12%
Chicago	10%
Los Angeles	10%
Washington D.C.	10%
Atlanta	5%
Dallas	5%
Fort Worth	5%
Houston	5%

The 2015 HVS-STR Hotel Valuation Index (HVI)

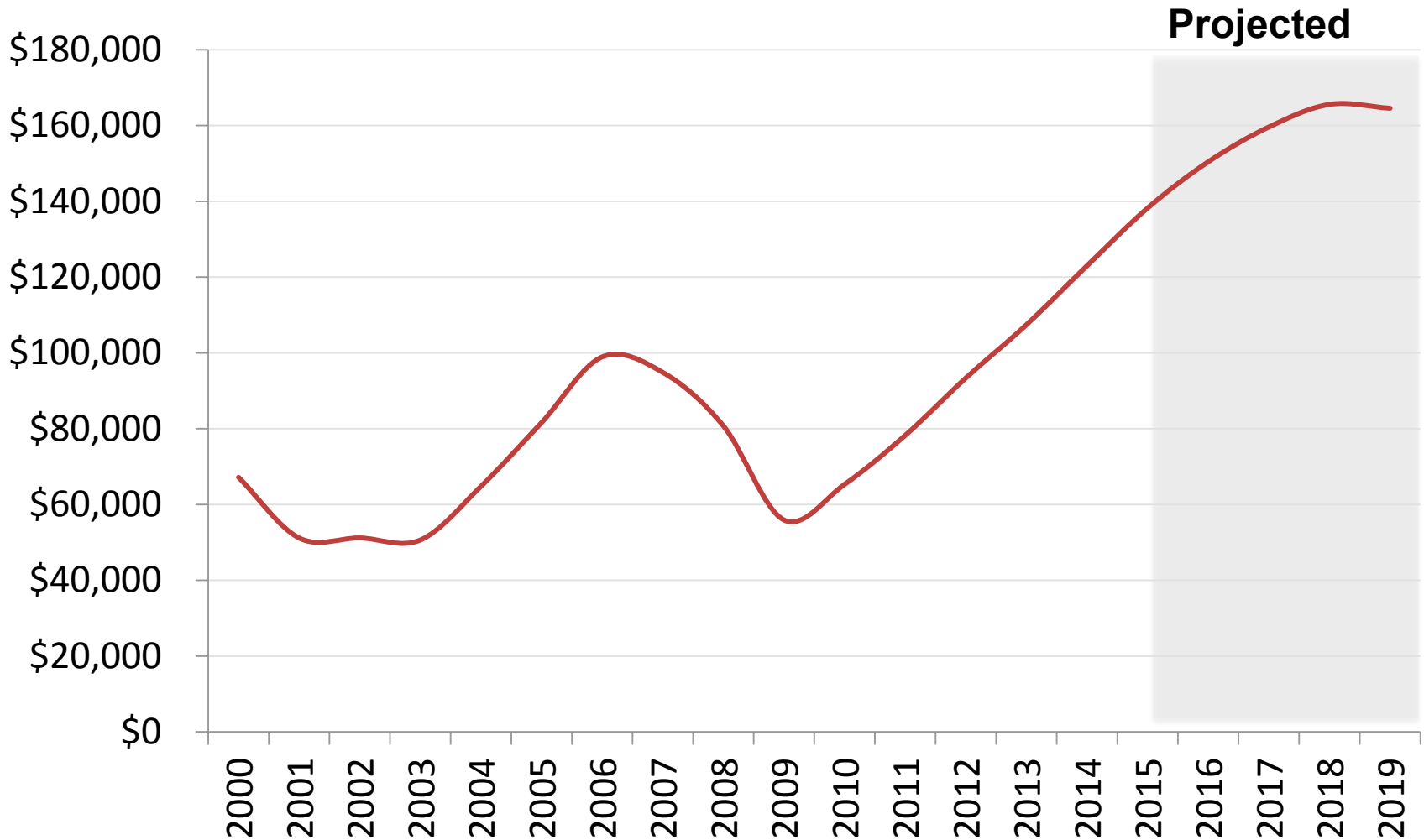
The HVI measures changes in value and provides a tool for identifying hotel acquisition and disposition opportunities

HVS Focuses on Value

- Every year HVS values thousands of hotels throughout the world
- In the U.S., the HVI shows the value of a typical hotel in 65 markets from 1987-2018



Takeaway #2 – U.S. Hotel values will continue to taper over the next four years



Warmer climates show largest growth in 2014

<u>Rank</u>	<u>City</u>	<u>Value</u>
1	Tallahassee	27%
2	Fort Lauderdale	24%
3	San Jose	24%
4	Detroit	24%
5	Phoenix	23%
6	Sacramento	22%
7	Oakland	19%
8	Kansas City	18%
9	Seattle	18%
10	San Francisco	18%



Smaller northeast markets showed slowest growth in 2014

<u>Rank</u>	<u>City</u>	<u>Value</u>
65	New Haven	-3%
64	Rochester	-1%
63	Buffalo	2%
62	Tucson	4%
61	Syracuse	4%
60	Baltimore	4%
59	New York	5%
58	Dayton	5%
57	Memphis	6%
56	Charlotte	6%

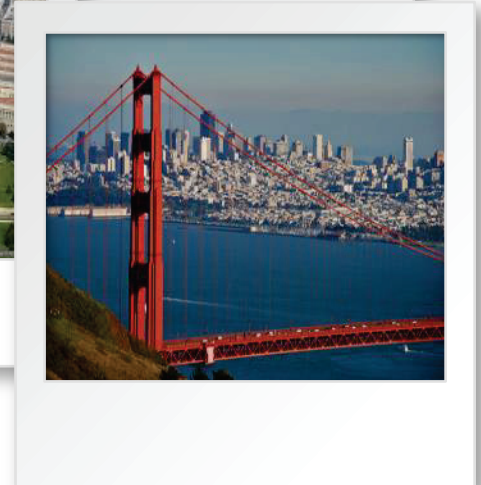
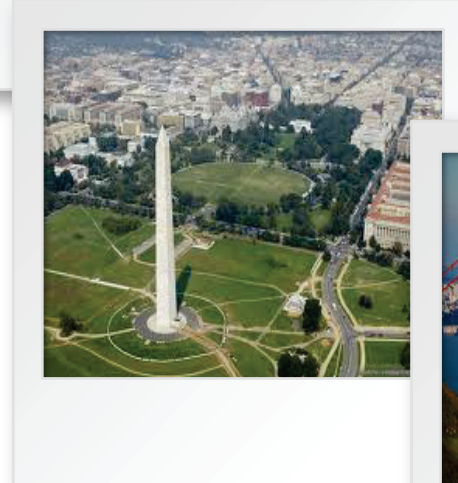
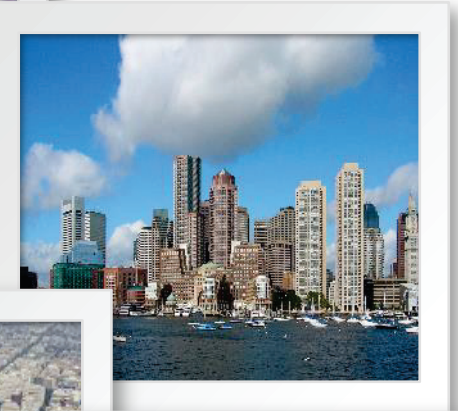
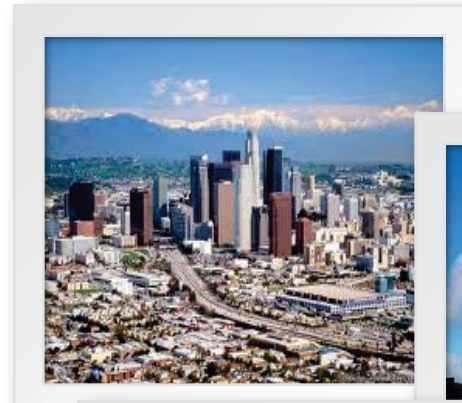
Takeaway #3 - West coast markets to show the greatest value increase through 2019

<u>Rank</u>	<u>City</u>	<u>Value</u>
1	Tucson	72%
2	Oakland	48%
3	Richmond	47%
4	Raleigh-Durham	47%
5	Winston-Salem	46%
6	Phoenix	45%
7	Sacramento	45%
8	San Diego	45%
9	Norfolk	45%
10	St. Louis	41%



Takeaway #4 - 25 of 65 markets won't appreciate above anticipated inflation over next four years

<u>Rank</u>	<u>City</u>	<u>Value</u>
65	Houston	-20%
64	Tallahassee	-14%
63	Miami	-12%
62	New York	-3%
61	New Haven	-3%
60	Jacksonville	-2%
59	Fort Lauderdale	-2%
58	Indianapolis	-2%
57	Hartford	1%
56	Chicago	1%



United States - New York

Overview:

New York City occupancy is at an all-time high in spite of a significant increase in supply over the last few years; however, RevPAR growth is expected to be moderate in the next couple of years due to additional supply slated to enter the market. As of March 2014, RevPAR was still lower than the September 2008 peak level. We forecast that RevPAR will return to previous peak level by mid-2015.

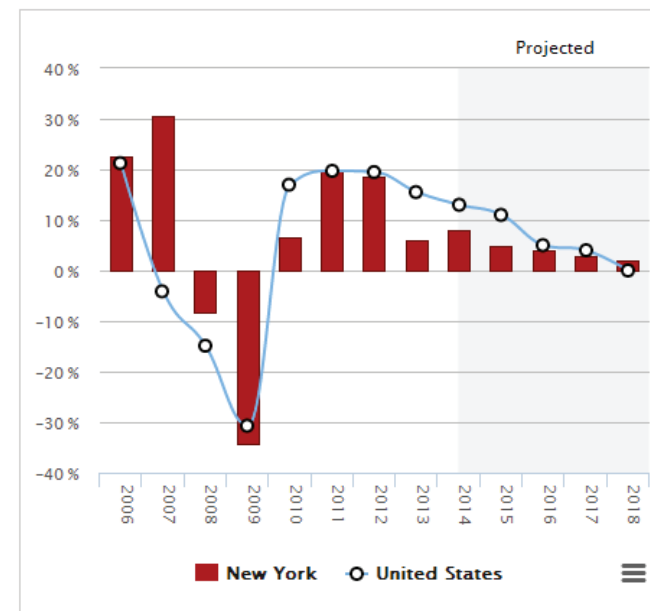
Transaction activity remains strong in Manhattan, with buyers competing heavily for assets and sellers seeking to maximize their investment gains. High investor interest, particularly from Asia and the Middle East, continues to put downward pressure on capitalization rates, driving up hotel values to peak levels. As Manhattan is viewed as the nation's top gateway city, hotel investors from all over the world consider it to be an essential market for their portfolio. Transaction activity is expected to increase over the next couple of years due to increased interest from investors and more assets available for sale.

We anticipate that the value of New York City hotels will continue to appreciate over the next few years, albeit at a slower pace than in the recent past. With a few exceptions, hotels in New York City are priced above replacement cost. Manhattan remains the top hotel investment market in the US and one of the most attractive in the world.

Valuation Trends and Predictions:

	<u>New York</u>	<u>United States</u>
Previous Year	+6% (51 of 65)	+16% (32 of 65)
Growth in 2014	+8% (47 of 65)	+13% (20 of 65)
Growth in next 4 years	+21% (57 of 65)	+37% (21 of 65)

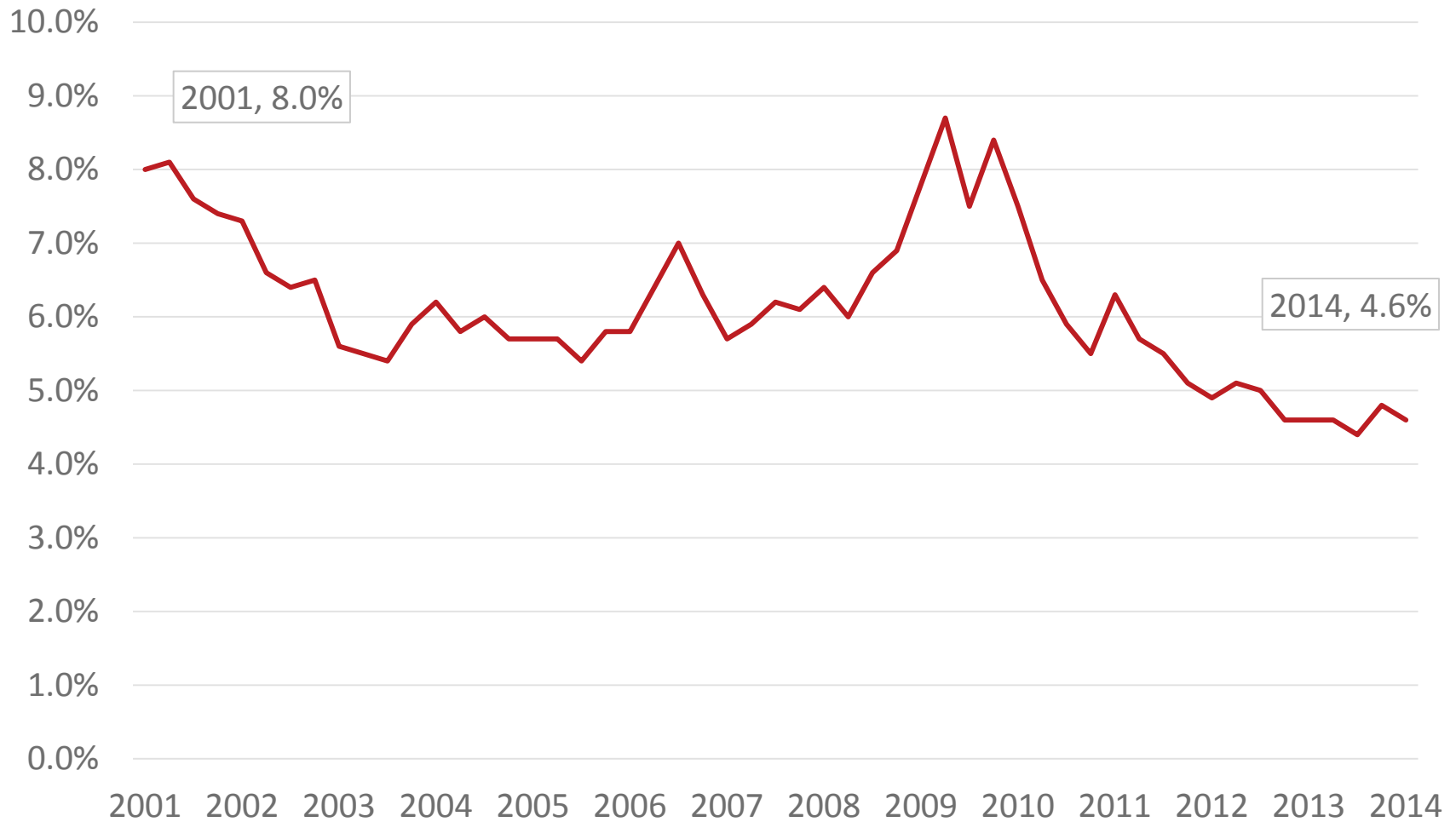
Change In Value For Market:



<http://hvi.hvs.com>

Financing Trends and Terms

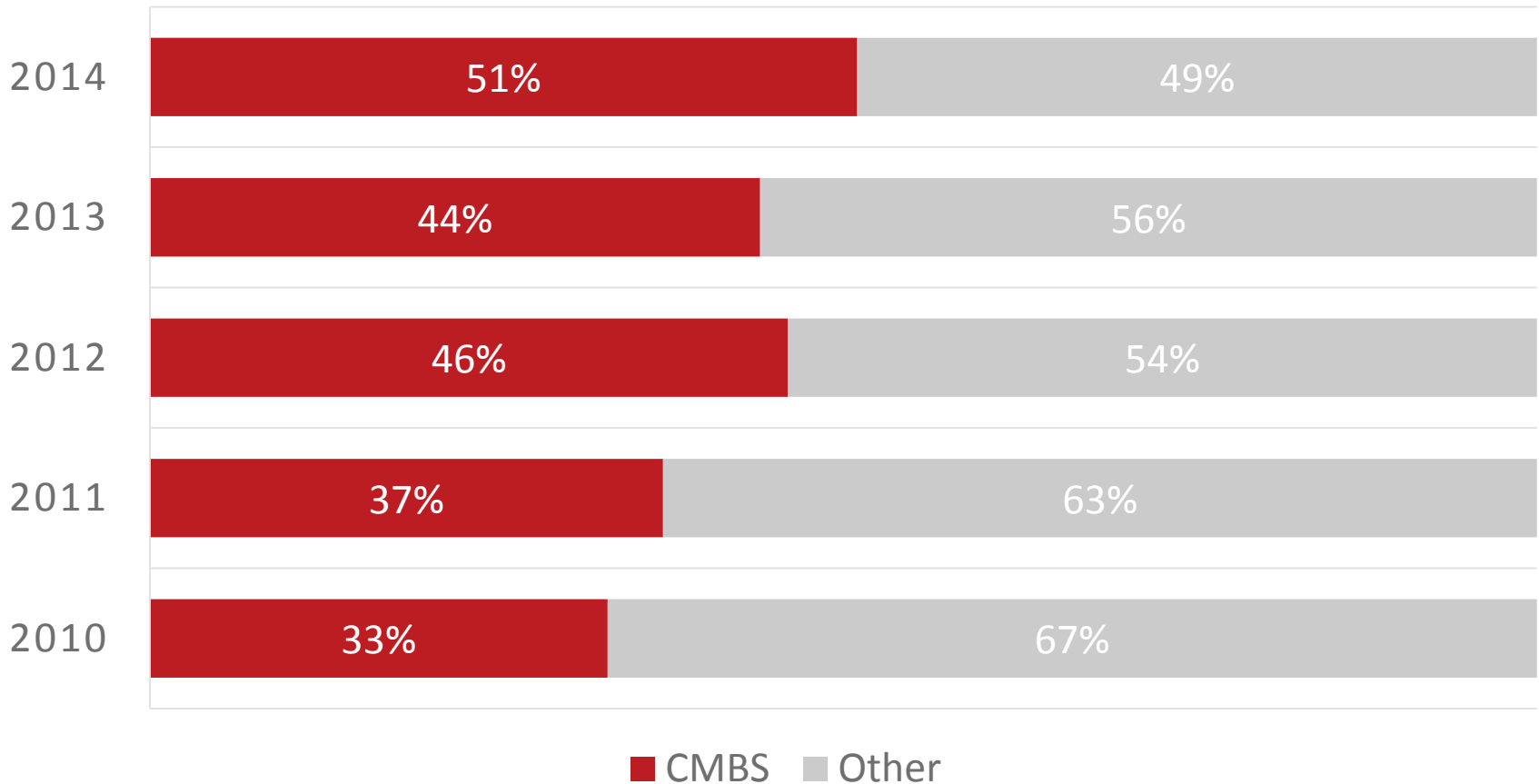
Typical hotel interest rates at lowest level in history



Typical financing terms

	<u>Leverage</u>	<u>Interest Rate</u>	<u>Equity Yield</u>	<u>Total Property Yield</u>
Trophy (Top 3%)	70 - 75%	4.25 – 5.0%	16 - 18%	8.5 - 9.5%
High Quality	65 - 70%	4.5 – 5.25%	17 - 19%	9.0 - 10%
Middle Quality	65 - 70%	4.75 – 5.25%	18 - 21%	10.0 – 11.5%
Lower Quality	60 - 65%	5.0 – 5.5%	19 - 23%	11.5+%

Takeaway #5 - CMBS continues to increase its share of hotel lending, exceeding 50% of the market's dollar volume in 2014





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