



LIIC's top 10 list of lodging investment trends and challenges

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Since 2003, the members of the hotel industry's preeminent think tank, "LIIC – The Lodging Industry Investment Council," are surveyed annually 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.

All together, the members of LIIC represent acquisition and disposition control of billions of dollars in lodging real estate. 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 hospitality business (www.liic.ws).

The 2009 survey was compiled by LIIC's co-chairman, Mike Cahill. Mr. Cahill is CEO & Founder of HREC – Hospitality Real Estate Counselors, a leading international hotel and casino advisory and brokerage firm specializing in lodging property sales, debt refinancing, consulting, appraisals and litigation support (www.hrec.com).

- 1. Lodging real estate investment will get worse before it gets better:** Overall, hospitality investors believe that recession will last for 6 to 9 more months, hotel values will continue to decline, operating fundamentals will deteriorate further and debt financing will be difficult for the foreseeable future.
- 2. Lodging real estate values continue to drop:** 81% of respondents believe that hotel real estate values will continue to decrease over the next 12 months, with 52% predicting a significant decrease of over 5%. In terms of chain scale, upscale hotels are forecasted to have the largest value drop. Anticipated sharp decreases in RevPAR and a lack of available debt financing appear to be the primary drivers for past and future value declines.
- 3. Deals gone bad?** 96% of investors believe their assets purchased in 2007 and 2008 are "underperforming compared to expectations;" a stark contrast when compared to previous years but expected results given the environment.
- 4. Beginning of new investment cycle?** First time in five years, 61% believe we are in the first inning of a new hotel real estate investment cycle. On the other hand, 39% are unsure if we have either reached the bottom of the last cycle or if we have made it through the first inning already (there is currently no game). 44% of members believe the economic recession will be over within 9 months and 56% are more pessimistic, predicting the recession will last up to 18 months.
- 5. Quality and volume of product to buy?** The quality (desirability) of assets on the market appears to have diminished significantly in 2009 compared to 2007 and 2008. 38% believe that hotels on the market are average quality but 55% believe they are below standards. Compounding the quality issue, 88% believe the quantity of available product is "below average" and "low."
- 6. How will you invest in hotels today?** 41% of the group is planning on acquiring assets directly from lenders (REO) with an equal percentage of respondents seeking to acquire notes (loan-to-own and performers). In terms of financing, 44% of respondents intend to do all cash deals, 31% will seek traditional mortgage financing or traditional plus mezzanine and 25% claim that they are sidelined because they cannot find debt financing. Of particular note, 92% of investors indicated that they had not closed a deal in 2009.
- 7. Interest rates will increase:** 56% of the LIIC think tank believes hotel interest rates will increase over the next twelve months. Interestingly, 15% believe interest rates are "going down" and the remainder of the group predict that interest rates will remain "flat." Hand-in-hand, 87% of respondents believe loan/value ratios will either "remain level" (66%) or "decrease" (21%).
- 8. Debt availability?** Consistently among responders, the mortgage capital crisis dominated concerns. The lack of availability was first, followed by cost (interest rates), amount (loan/value ratios) and need for recourse by sponsors.
- 9. Equity return rates increasing:** Continuing a trend seen for the first time in 2008, majority (67%) of respondents believe that unlevered equity rates will increase over the next 12 months. Respondents generally pointed to increased perceived risk as the driver of increased equity rates of return requirements.
- 10. Hotels under construction have peaked:** 68% of the LIIC Think Tank believes that new hotel construction (amount of rooms actually under construction) has already peaked. Another 24% believe the peak will be reached in 2009.

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