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# THE 2016 LIIC TOP TEN: THE ANNUAL SURVEY OF LODGING INVESTMENT TRENDS AND CHALLENGES

## *“Hotel Investors: Active yet Cautious in Underwriting and Pricing”*



(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.

Members are highly active and have the pulse of the market, with 57% of LIIC hotel investors having successfully purchased a hotel in the last 12 months and 38% currently having additional acquisitions under a purchase and sale contract.

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 for the lodging business ([www.liic.org](http://www.liic.org)).

Mike Cahill, LIIC co-chairman, produced this year’s survey ([www.mike-cahill.com](http://www.mike-cahill.com)). Mr. Cahill is CEO and Founder of HREC – Hospitality Real Estate Counselors, a leading international hotel and casino advisory and brokerage firm (15 offices nationwide) specializing in lodging property sales, debt financing, consulting, appraisals and litigation support ([www.hrec.com](http://www.hrec.com)). Kyle Halbrook & Nate Shartar, Associates in HREC’s Denver office, assisted throughout the process.

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## 2016 Top Ten LIIC Survey Results:

1. Hotel Investors: Active yet Cautious in Underwriting and Pricing: In a striking reversal from 2015's unbridled optimism, the 2016 results reveal that investors are now underwriting more carefully and pricing an uncertain future into their acquisition bids. However, market participants, as a whole, remain positive and active.
2. Movement in the Hotel Real Estate Cycle?: After the past two years, when investors believed we were "real estate cycle stagnant" and solidly grounded in the 5th to 6th innings of the current lodging investment cycle, the 2016 survey is sensing strong movement. Today, 68% believe we have moved along to the 7th/8th innings and 17% go further, believing we are in the 9th inning. Similarly, 42% believe hotel real estate values peaked in 2015 and 28% believe values are currently peaking in 2016. When asked the same concept but worded differently, the current survey indicated 2006 (34%) was the most similar year in past cycle, with 2007 following closely behind at 28%.
3. Trends Reversed: Hotel Property Values?: In sharp contrast to last year, and for the first time since 2010, 36% believe that lodging real estate values will be flat over the next 12 months. 26% see a slight increase (0 to 5%) and incredibly 31% are forecasting decreasing values. Similar to the 2013, 2014 and 2015 surveys, the luxury/upper-upscale/upscale property investment category is viewed most positively.
4. 2016's Greatest Threats to Hotel Investment?: The top three threats on the horizon:
  - I. **New Lodging Supply:** 77% of LIIC members cited new hotel supply as the current and dominant top investment concern. New supply has not been in the top 3 threats in the survey since 2007. Astonishingly, 69% have abandoned specific acquisition transactions in the last 12 months because of new supply issues.
  - II. **Government Mandated Minimum Wage Increases:** Investors (36%) are threatened by government mandated minimum wage increases and the corresponding impact on hotel operating costs. Up from third place last year.
  - III. **Increasing Interest Rates:** Worries about increasing debt costs enters the list, as 30% perceive higher interest rates as a threat.
5. Hotel Transaction Market Volume Headed Down: In the survey, 64% of responders forecast the total dollar volume of calendar 2016 U.S. hotel transactions will be down from year-end 2015 levels. This is mirrored in terms of number of assets traded, also forecasted to be down by 64% of investors. Sharp contrast to last year's survey where all forecasts were still for positive growth.

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6. **Hotel Lending Remains Active and Available, Yet Tightening:** Hotel investors are worried about acquisition financing, with 55% seeing “debt availability becoming worse” and 32% forecasting lending will be “stable with current level.” Loan-to-value and loan-to-cost ratios are predicted by 57% to go down, creating pricing pressure from lower leverage. 66% believe senior debt interest rates will “increase slightly” over the coming 1 to 2 years.
7. **Development Horizon becoming Cloudy with Chance of Rain:** For the first time since 2009, investors have softened on the concept of building new lodging properties. As to developing hotels, 53% say “yes, if you are selective about product and markets”. However, a sizable percentage of investors (42%) do not believe developing hotels makes sense any longer. For reference, 68% of relevant LIIC members have new hotels actively under development.
8. **Hotel Properties Currently on the Market? Quantity and Quality:** Quantity: 47% of investors believe that an “above average quantity” of hotels is available for purchase followed by 26% at “average quantity.” Quality: 42% believe the quality (desirability to purchase) is average and 28% suggest negatively “slightly worse than 2015.” This trend is typical, as investors get pickier going into a recession and some hold-out sellers are rushing non-strategic product onto the market.
9. **Markets NOT to Invest in?:** LIIC members were asked which of the top 25 markets they “would not consider buying a hotel” in:
  1. Houston, TX (47%)
  2. Norfolk/Virgina Beach, VA (38%)
  3. Detroit, MI (36%)
  4. New York, NY (30%)
  5. St. Louis, MO-IL (26%)
10. **Is Cuba Hot for Investment?** Cuba appears prime for hotel development with 75% of LIIC members predicting future U.S. based lodging activity for the island country. Mixed feedback on building aggressiveness however, with 36% thinking “slowly and conservatively” and 25% worried about the market becoming “overdeveloped too quickly.” Major development concerns are 1. Navigating the Cuban bureaucracy and 2. The country’s aging infrastructure.

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### LIIC Bonus Questions:

Looking forward, the “hotel investment illuminati” predict:

- Overwhelmingly that the Denver Broncos will NOT repeat as Super Bowl Champions in 2017 (87%);
- Hillary Clinton will be our next president (72%), but 13% think it will be Donald Trump;
- AC by Marriott will be the most successful new lifestyle brand from the Hotel Company (Licensor) perspective;
- Marwood? 58% of LIIC believe the Marriott – Starwood merger will “hurt” hotel owners.

*For additional information, please contact:*

LIIC – The Lodging Industry Investment Council  
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