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THE 2015 LIIC TOP TEN:
THE ANNUAL SURVEY OF LODGING INVESTMENT TRENDS AND CHALLENGES

"Carpe Diem: Hotel Investors Bask in Rare & Glorious Sunshine"

(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 60% of LIIC hotel owners having successfully purchased a hotel in the last 12 months and 47% 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 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 (15 offices nationwide) specializing in lodging property sales, debt financing, consulting, appraisals and litigation support (www.hrec.com). Michael Torres & Kyle Halbrook, Associates in HREC's Denver office, assisted throughout the process.

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2015 Top Ten LIIC Survey Results:

1. Carpe Diem: Hotel Investors Bask in Rare and Glorious Sunshine!: Overall, the 2015 survey results reveal the most positive view of the foreseeable future in the history of the LIIC membership surveys. The current U.S. lodging investment market is fluid, hotel property values are still forecasted to increase significantly over the next 12 months, and the underlying operating revenue fundamentals continue to exceed previous expectations. 81% of investors having purchased hotels in this cycle believe their investments are "meeting or exceeding original expectations".

2. Movement Along the Hotel Real Estate Cycle?: For the past two years, hotel investor attitude has reflected a lodging investment cycle version of "the *Groundhog Day* movie," where we were real estate cycle stagnant. When using the baseball game analogy, LIIC members in past surveys believed we were solidly grounded in the 5th to 6th innings of the current lodging investment cycle. When asked the same concept but worded differently, past surveys indicated 2005 was the most similar year in past cycle. This year, the percentage indicating we are currently in the 7th or 8th inning has increased (to 45%) and also, now 39% perceive the current cycle position to be reflective of 2006. So positively, the hotel cycle clock remains ticking slowly, albeit slight acceleration and movement is clearly evident. When will hotel property values peak? 39% believe 2017 is the year, but positive thinkers abound, with 29% forecasting a peak not until 2018 or later.

3. Hotel Property Values Forecasted to Continue to Increase: Almost all of respondents (98%) believe that lodging real estate values will continue to increase over the next 12 months, with 92% of responders predicting values to increase up to 10%. Of particular significance is that 51% believe values will be in the high end of the range, from 5% to 10%. Similar to the 2013 and 2014 surveys, value growth is anticipated to be greatest in the luxury/upper-upscale/upscale category. Interesting adjunct, 43% believe hotel equity rate of returns requirements will continue to decline.

4. Greatest Threats to Ruin a Beautiful Day?: The top three threats to ruin the beautiful hotel investment climate:

    I. *Increasing Interest Rates*: 54% of LIIC members cited the potential for greater cost of debt as the top concern.
    II. *US Currency Strength*: The impact of the strong US dollar via decreased inbound foreign tourism and other economic impacts was number two at 44%.
    III. *Government Mandated Minimum Wage Increases*: Investors (34%) are threatened by government mandated minimum wage increases and corresponding impact on hotel operating costs.

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However, it should be noted that concerns about the impact of new supply is also prevalent on the minds of lodging investors, although mainly in specific market areas, not as a national average. 47% of active hotel buyers have not purchased an asset specifically due to new supply worries in that asset's competitive set.

5. 2016 Banner Year for Hotel Transaction Volume? China?: In the survey, roughly half (49%) believe calendar 2016 U.S. hotel transaction dollar volume will be up to 10% higher than year-end 2015 levels. Relative to off-shore investment in U.S. lodging assets, 67% predict China to be the leading international source of buyers; followed by Middle East (17%) and Asia (outside of China) at 8%. According to LIIC responders, off-shore investors are "most interested in full-service hotel assets" and are "primarily interested in coastal markets, but slightly increasing investing in non-coastal markets."

6. Active Hotel Lending Fuels Upward Pricing and Increasing Deal Volume: Lenders are actively playing their role in the capital stack and assisting equity investors to produce yield at strong pricing levels. Over half (51%) believe that "debt availability will become slightly better" over the coming year. However, 69% believe it will become more costly, with interest rates increasing up to 100 bps for both acquisition debt and re-financings. Borrowers may be able to offset increasing interest rates with greater leverage, as 49% predict loan/value ratios will continue to climb. CMBS lending is also predicted to become increasingly prevalent with "new desks" popping up weekly.

7. Hotel Purchasers Becoming Developers: With many existing hotels generating cash flow levels that are now capitalizing into values above replacement cost, significant money and energy has shifted into building new lodging assets. Significantly, over half of the applicable LIIC membership has shifted time, money and energy into also building new properties. 53% have new hotels actively under development, with74% of these projects beyond the initial planning stage. Where do they want to build? 55% cited the Pacific Coast as the preferred place to be.

8. What is on the Market? Quality and Quantity Above Average!: Up slightly from the 31% positive response in last year's survey, 35% now find the quality (desirability to purchase) of hotels on the market to be slightly better now than 2014. However, 51% of responders find the amount of lodging real estate on the market to be of "above average or record breaking in terms of quantity." Interesting that the high values are not translating more successfully into great percentages of market perceived superior assets being marketed.

9. The Continued Resurrection of "True Group" Demand: 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, 84% believe that true group demand has risen like a "Phoenix from the Great Recession" and will continue to bloom. Great news for value-add investors who like full-service lodging assets!

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10. Why Invest in Hotels?: We decided to go old school, back-to-the-basics with a question in this year's survey. So we asked the group, "Just why do investors put their money into hotel real property?" Top four reasons (out of many) in order of popularity as follows:
    I. Yield! Successful hotel investments produce greater returns than other real estate classes (78%).
    II. Upside: Hotels can raise their rates overnight, producing immediate upside (39%).
    III. Control: Better management can produce greater returns (27%).
    IV. Sexy: Highly attractive to investors, great pitch story (14%).

LIIC Bonus Question:
Where do the "hotel investment illuminati" like to stay? Based solely on brand, 61% of the lodging industry's top hotel money sources would stay at a *Four Seasons* branded property when vacationing at a destination resort hotel. *Ritz-Carlton* was a distant second, surveying at 22%.

For additional information, please contact:

LIIC – The Lodging Industry Investment Council
www.liic.org

Co-Chairmen
Mike Cahill, CEO & Founder, HREC: mcahill@hrec.com
Sean Hennessey, CEO, Lodging Investment Advisors: shennessey@lodgingadvisors.com
Jim Butler, Partner, JMBM - Jeffer Mangels Butler & Mitchell, LLP: jbutler@jmbm.com

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