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Property prices top issue for think-tank members

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LODGING INDUSTRY INVESTMENT COUNCIL

NATIONAL REPORT—The think-tank members of the Lodging Industry Investment Council are surveyed yearly to develop a list of the major hotel investment opportunities and challenges for the coming year.

The results of the survey are:

1. Hotel property prices: Almost all LIIC members predicted that hotel values will continue their upward growth over the next 12 months. This is being facilitated by improving hotel operating performance, an abundance and diversity of aggressive buyers and a cooperative lending climate.

2. Availability and quality of hotel assets: The volume and quality of hotel assets on the market is anticipated to improve only slightly. Buyers are hoping that sellers will put more quality, institutional product located in gateway cities on the market. Off-the-market deals are being aggressively pursued as buyers attempt to circumnavigate the competitive bidding process produced by brokered deals.

3. Where are we in the cycle? From the hotel operations cycle perspective, top-line revenue growth should fuel strong bottom-line growth for the next several years. In terms of the real-estate pricing cycle, the results ranged from "we are peaking now" to 2009. A significant number believe we are nearing the cycle peak in terms of asset pricing.

4. Brand standards: The hotel brands are expected to be very strict with lodging owners in terms of requiring huge expenditures to maintain increasingly stringent product standards. Members see no relief in sight for hotel owners. Expensive product improvement plans from major lodging franchisors still remain a threat to investment yields.

5. Interest rates: Almost uniformly, members believe that increasing room rates, higher cash flow from improving operations and possibly decreasing equity yield requirements will mitigate any potential interest rate increases.

6. Required equity return: Equity investor return requirements will continue to be low by historic standards due to pressure from competing buyers with an abundant supply of capital. Unleveraged equity yields from 10 percent to 12 percent are common with cash-on-cash returns dropping to 6 percent to 8 percent for highly desirable assets. Leveraged equity investor return requirements in the mid-to high-teens will remain commonplace for institutional assets with proven cash flow.

7. How are investments faring? Across the board, investors are happy with cash-flow performance of recent acquisitions and most state that newly acquired assets are meeting or exceeding original projections.

8. Whither condo hotels? The condominium hotel craze is expected to flourish until perhaps some problem deals or investor lawsuits. Many members express concern that this trend might not have legs in its current form beyond a couple of years, but many members active in this market contradict this. They believe that condo hotels have an enduring place, particularly at the upper end of the product segment.

9. Occupancy and average daily rate: Hotel occupancy levels are forecasted to increase 2 percent to 3 percent over the next 12 months. LIIC members anticipate average room-rate growth to be the major push over the next year with ADR growth nationally possibly hitting 6 percent. Some owners and investors anticipate that room rates might hit double-digit growth in select markets.

10. Where are the opportunities? In general, the market areas with the greatest investment potential are major metropolitan areas on the East and West coasts. Specific markets in which to buy assets now include New York, San Francisco, Los Angeles, Orlando and Honolulu.

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