

## Think tank tabulates top issues

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**NATIONAL REPORT**—The Lodging Industry Investment Council released its annual top 10 list of lodging investment trends and challenges.

The members of LIIC represent acquisition and disposition control of billions of dollars in lodging real-estate. Some of the hospitality industry's most influential investors, lenders, corporate real-estate executives, real-estate investment trusts representatives, public hotel employees, brokers and significant lodging equity sources are represented on the council. LIIC serves as an industry think tank servicing the hospitality business ([www.liic.ws](http://www.liic.ws)).

This year's survey was compiled by Mike Cahill, LIIC co-chair. Cahill is president and founder of HREC—Hospitality Real Estate Counselors, a national hotel and casino advisory and brokerage firm specializing in lodging property sales, debt refinancing, consulting,

appraisals and litigation support.

Members of LIIC voted on topics, and the top 10 issues and challenges are:

**1 Hotel value increases moderating:** Sixty one percent of LIIC members believe hotel values, as a whole, will increase for the next 12 months; 32 percent believe hotel values will be flat. These results are in sharp contrast to last year's survey where almost all LIIC members forecasted value growth. Multiple respondents still believe that increasing hotel construction costs will drive up the desirability of buying existing assets in contrast to building new.

**2 Upper-upscale sector is hotel investor favorite:** Eighty one percent of LIIC respondents believe hotels in the upper-upscale segment will increase in value over the coming year. Sixty three percent anticipate that values for hotels in the economy sector will be flat.

**3 Hotel investment market peaking:** Lodging industry real-estate leaders believe the hotel investment cycle is at or close to reaching its pinnacle. Eighty-seven percent of survey respondents believe values will peak during the next 12 months.

**4 Quality and volume of product to buy?** Survey results indicate a lack of consensus with respect to the quality and volume of hotel-acquisition opportunities. With respect to quality of hotels available for purchase, hotel investors were all over the board from seeing an abundance of "pigs with very nice coating of lipstick" to "very high" quality assets. The volume of hotels appears to be very tenuous with responses ranging from "high by historic standards" to "thin." Many buyers are concerned about "soft sellers" testing the market, who are not really motivated to sell.

**5 Interest rates will rise:** LIIC members clearly forecast hotel mortgage interest rates to rise over the next 12 months although the significance and magnitude of the increase appears debatable. Ninety-seven percent of respondents forecast interest-rate increases. Members believe rising rates finally will begin to have a negative impact on hotel values. Hotel loan-to-value ratios are anticipated to remain stable.

**6 Equity return rates have bottomed out:** Both unleveraged and leveraged equity investor return requirements appear to be stable for the next 12 months. This is good news for buyers who might not have to continue to cut yield expectations to obtain quality product. However, several investors are concerned that increasing yields available from alternative investments might begin to cause a flight out of the hotel capital



Mike Cahill, LIIC co-chair and president and founder of HREC—Hospitality Real Estate Counselors, revealed the council's top issues during the Meet the Money Conference in May.

market to other products.

**7 Happy buyers:** Hotel investors who have purchased assets over the past 24 months appear happy with the performance of their acquisitions. Eighty-five percent of respondents said their purchases are "generally meeting expectations." A large portion of buyers said their acquisitions are surpassing budgets and investment return hurdles.

**8 New supply is coming:** LIIC members envision new hotel construction (number of rooms under construction) will peak in 2008, with 2009 to follow as another big year.

**9 Room rates will grow:** Based on overwhelming survey results (94 percent), the next 12 months will see continued real (better than inflation) room-rate growth. The flow-through from this rate growth should increase the profitability of hotel investments significantly. In select markets, many investors are anticipating double-digit rate growth.

**10 Still a good time to buy hotels?** Fifty-eight percent of respondents believe that "Yes, it is still a good time to buy hotels if you are selective." In contrast to past surveys, there has been a surge in doubt with 23 percent responding, "Maybe, but the acquisition must present a compelling case."

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