



LIIC TOP TEN

Mike Cahill

**Lodging Industry
Investment
Council**

GETTING TO THE WINNER'S CIRCLE – MARATHON, SPRINT, OR OBSTACLE COURSE?

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Special Presenter

The LIIC Top 10

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Is Cuba Hot for Investment?:

U.S. developers will approach Cuba with cautious optimism.

- 75% predict future U.S. based lodging activity for the island country.
- Mixed feedback about building aggressiveness—36% feel developers will build “slowly and conservatively”, while 25% are worried about the market becoming “overdeveloped.”
- Major development concerns include navigating the Cuban bureaucracy (43%) and the Country’s aging infrastructure (17%).

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Scary Markets NOT to invest in:

- Houston, TX (47%)
- Norfolk/Virginia Beach, VA (38%)
- Detroit, MI (36%)
- New York, NY (30%)
- St. Louis, MO (26%)

Smart Buyers think Contrarian?

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Hotel Properties on the Market? Quantity and Quality:

47% of investors believe **quantity** of hotels is available for purchase is “above average.”

However:

42% believe **quality** of hotel product on the market is “average”—with 28% suggesting products on the market are “slightly worse than 2015.”

More hotels of questionable saleability on the market?

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Development Horizon becoming Cloudy with Chance of Rain:

First time since 2009, investors softened on the concept of building new lodging properties.

- 53% believe it is a good time to build a hotel “If you are selective about product and market.”
- 42% do not believe developing hotels makes sense any longer.

Interestingly, 68% of applicable LIIC Members have hotels actively under development.

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Hotel Lending Remains Active and Available, Yet Tightening:

Hotel investors are worried about acquisition financing.

- 55% see “debt availability becoming worse.”
- 32% forecast lending will be “stable with current level.”
- 57% predict loan/value-cost ratios will go down.
- 66% believe senior debt interest rates will “increase slightly” over the next 1 to 2 years.

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Hotel Transaction Market Volume Headed Down:

- In calendar year 2016, 64% believe that hotel transaction dollar volume will be down from 2015 levels.
- The number of assets traded in 2016 is also expected to be down from year-end 2015 levels.
- Sharp contrast to 2015 when all forecasts were still for positive growth in both number and dollar volume.

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2016's Greatest Threats to Hotel Investment?:

1. New Lodging Supply: 77% of respondents (has not been in the top 3 threats since 2007).
 - 69% have abandoned specific acquisition transactions in the last 12 months because of new supply issues.
2. Government Mandated Minimum Wage Increases: 36% of respondents (up from third in 2015 with 34% of respondents).
3. Increasing Interest Rates: 30% of respondents.

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Trends Reversed?: Hotel Property Values:

- For the first time since 2010, 36% believe that lodging real estate values will be flat over the next 12 months.
- 26% believe hotel property values will increase slightly (0%-5%), while 19% believe values will decrease slightly.
- The luxury/upper-upscale/upscale segment is viewed most positively in the investment community, consistent with 2013, 2014, and 2015 surveys.

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Movement Along the Hotel Real Estate Cycle?:

- The current lodging industry investment cycle is experiencing significant movement.
- The past two years' surveys showed we were in the 5th to 6th inning and indicated 2005 as the most similar year in the last cycle.
- This year, 68% of responders believe we are in the 7th to 8th inning and 17% believe we are in the 9th inning.
- 62% of respondents believe the most similar year in the past cycle was either 2006 (34%) or 2007 (28%).

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Hotel Investors: Active yet Cautious in Underwriting and Pricing:

- In striking contrast to 2015's unbridled optimism, 2016 survey results reveal investors are now underwriting more carefully and pricing an uncertain future into their acquisition bids.
- Market participants still remain positive and active.
- Creation of Bid – Ask spread?

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LIIC Bonus Questions:

Looking forward, the “hotel investment illuminati” predict:

- The Denver Broncos will NOT repeat as Super Bowl Champions in 2017 (87%)
- Hillary Clinton predicted to be our next president (72%), Trump coming in second with 13%;
- AC by Marriott will be the most successful lifestyle brand from the Hotel Company (licensor) perspective;
- Marwood? 58% of LICC believe the Marriott-Starwood merger will “hurt” hotel owners.

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