



Hotel Valuation and Transaction Trends For the U.S. Lodging Industry

**Steve Rushmore, MAI, FRICS, CHA
President and Founder
HVS**

**372 Willis Avenue
Mineola, NY 11501
516-248-8828 ext. 204
srushmore@hvs.com**

www.hvs.com

June 2008

Value Change – United States



| | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> |
|-----------------|-------------|-------------|-------------|-------------|
| Value Per Room | \$69,000 | \$52,000 | \$52,000 | \$52,000 |
| Percent Change | 13% | -24% | 0% | 0% |
| Change Per Room | \$8,000 | (\$17,000) | \$0 | \$0 |
| | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
| Value Per Room | \$65,000 | \$82,000 | \$100,000 | \$95,000 |
| Percent Change | 27% | 25% | 21% | -5% |
| Change Per Room | \$13,000 | \$17,000 | \$18,000 | (\$5,000) |
| | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
| Value Per Room | \$91,000 | \$98,000 | \$115,000 | \$124,000 |
| Percent Change | -4% | 8% | 17% | 8% |
| Change Per Room | (\$4,000) | \$7,000 | \$17,000 | \$9,000 |

Impact of the Mortgage Crisis on the Value of a Typical Hotel in the U.S.



| | <u>Mortgage Constant</u> | <u>Loan to Value</u> | <u>Equity Dividend</u> | <u>Cap Rate</u> | <u>Change B.P.</u> | <u>Net Income (+000)</u> | <u>% Chg.</u> | <u>Value Per Room</u> | <u>% Chg.</u> |
|------|--------------------------|----------------------|------------------------|-----------------|--------------------|--------------------------|---------------|-----------------------|---------------|
| 2005 | 7.5% | 70% | 7.8% | 7.6% | | \$6,236 | | \$82,000 | |
| 2006 | 7.2% | 80% | 7.8% | 7.3% | -30 | \$7,303 | 17% | \$100,000 | 22% |
| 2007 | 9.0% | 65% | 7.8% | 8.6% | +130 | \$8,122 | 11% | \$95,000 | -5% |
| 2008 | 10.0% | 65% | 7.8% | 9.2% | +60 | \$8,394 | 3% | \$91,000 | -4% |
| | 2006 Cap & 2007 NI | | | 7.3% | | \$8,122 | | \$111,000 | 11% |
| | 2006 Cap & 2008 NI | | | 7.3% | | \$8,394 | | \$115,000 | 21% |

Change in Value Per Room: 2007



Rank

| | | |
|----|----------------|-----------|
| 1 | New York | \$126,000 |
| 2 | Miami | \$49,000 |
| 3 | San Francisco | \$46,000 |
| 4 | Boston | \$44,000 |
| 5 | Washington, DC | \$22,000 |
| 6 | Los Angeles | \$21,000 |
| 7 | Chicago | \$12,000 |
| 8 | San Jose | \$11,000 |
| 9 | Las Vegas | \$10,000 |
| 10 | Huntsville, AL | \$9,000 |

Rank

| | | |
|----|-----------------|------------|
| 57 | Phoenix | (\$18,000) |
| 58 | Tampa | (\$18,000) |
| 59 | San Antonio | (\$19,000) |
| 60 | Baltimore | (\$21,000) |
| 61 | Fort Lauderdale | (\$22,000) |
| 62 | Oahu | (\$23,000) |
| 63 | Sacramento | (\$24,000) |
| 64 | Tallahassee | (\$25,000) |
| 65 | WPB-Boca Raton | (\$45,000) |
| 66 | New Orleans | (\$49,000) |

38 USA (\$5,000)

Percent Change in Value: 2007



Rank

| | | |
|----|----------------|-----|
| 1 | New York | 33% |
| 2 | Miami | 21% |
| 3 | Boston | 20% |
| 4 | San Francisco | 19% |
| 5 | Huntsville, AL | 16% |
| 6 | Buffalo | 12% |
| 7 | Los Angeles | 11% |
| 8 | Charlotte | 9% |
| 9 | Washington, DC | 9% |
| 10 | San Jose | 8% |

Rank

| | | |
|----|----------------|------|
| 57 | Atlanta | -13% |
| 58 | San Antonio | -13% |
| 59 | Detroit | -15% |
| 60 | Tampa | -17% |
| 61 | Sacramento | -22% |
| 62 | Dayton, OH | -22% |
| 63 | Greensboro, NC | -23% |
| 64 | WPB-Boca Raton | -23% |
| 65 | Tallahassee | -35% |
| 66 | New Orleans | -42% |

36 USA -5%

Change in Value Per Room: 2007-2012



Rank

| | | |
|----|-----------------|-----------|
| 1 | New York | \$357,000 |
| 2 | San Francisco | \$255,000 |
| 3 | Boston | \$180,000 |
| 4 | Oahu | \$117,000 |
| 5 | San Jose | \$109,000 |
| 6 | Seattle | \$102,000 |
| 7 | Fort Lauderdale | \$98,000 |
| 8 | Los Angeles | \$98,000 |
| 9 | Tucson | \$96,000 |
| 10 | San Diego | \$95,000 |

41 USA \$42,000

Rank

| | | |
|----|----------------|------------|
| 57 | Cleveland | \$20,000 |
| 58 | Norfolk | \$19,000 |
| 59 | Buffalo | \$19,000 |
| 60 | Hartford | \$15,000 |
| 61 | San Antonio | \$14,000 |
| 62 | Richmond, VA | \$13,000 |
| 63 | Syracuse | \$8,000 |
| 64 | Dayton, OH | \$3,000 |
| 65 | Greensboro, NC | \$2,000 |
| 66 | Las Vegas | (\$14,000) |

Percent Change in Value: 2007-2012



Rank

| | | |
|----|-----------------|------|
| 1 | New Orleans | 129% |
| 2 | San Francisco | 88% |
| 3 | Tucson | 87% |
| 4 | Detroit | 84% |
| 5 | Oakland | 83% |
| 6 | San Jose | 76% |
| 7 | New York | 70% |
| 8 | Boston | 69% |
| 9 | Minneapolis | 69% |
| 10 | Fort Lauderdale | 68% |

40 USA 44%

Rank

| | | |
|----|----------------|-----|
| 57 | Miami | 26% |
| 58 | Hartford | 24% |
| 59 | Washington, DC | 24% |
| 60 | Richmond, VA | 15% |
| 61 | Chicago | 13% |
| 62 | Syracuse | 13% |
| 63 | San Antonio | 11% |
| 64 | Dayton, OH | 8% |
| 65 | Greensboro, NC | 4% |
| 66 | Las Vegas | -6% |

Highest-Value Cities



| Rank | | 2000 Value Per Room | | 2007 Value Per Room | | 2011 Value Per Room |
|-------------|----------------|------------------------------------|----------------|------------------------------------|----------------|------------------------------------|
| 1 | San Francisco | \$331,000 | New York | \$509,000 | New York | \$823,000 |
| 2 | New York | \$303,000 | Oahu | \$332,000 | San Francisco | \$505,000 |
| 3 | Boston | \$294,000 | San Francisco | \$289,000 | Oahu | \$430,000 |
| 4 | San Jose | \$238,000 | Miami | \$278,000 | Boston | \$404,000 |
| 5 | Long Island | \$191,000 | Washington, DC | \$263,000 | Miami | \$348,000 |
| 6 | Oahu | \$169,000 | Boston | \$260,000 | Washington, DC | \$317,000 |
| 7 | Washington, DC | \$168,000 | San Diego | \$217,000 | San Diego | \$303,000 |
| 8 | San Diego | \$159,000 | Los Angeles | \$217,000 | Los Angeles | \$296,000 |
| 9 | Chicago | \$153,000 | Chicago | \$211,000 | Seattle | \$259,000 |
| 10 | Stamford, CT | \$152,000 | Las Vegas | \$211,000 | San Jose | \$245,000 |

Index of Volatility: Relative Risk



Rank

| | | |
|----|--------------|-----|
| 1 | St. Louis | 12% |
| 2 | Syracuse | 12% |
| 3 | Albuquerque | 13% |
| 4 | Richmond, VA | 13% |
| 5 | Buffalo | 13% |
| 6 | Cincinnati | 13% |
| 7 | Baltimore | 14% |
| 8 | Santa Fe | 14% |
| 9 | San Diego | 14% |
| 10 | San Antonio | 14% |

USA 15%

Rank

| | | |
|----|----------------|-----|
| 57 | Tallahassee | 24% |
| 58 | Detroit | 24% |
| 59 | Charlotte | 24% |
| 60 | WPB-Boca Raton | 25% |
| 61 | Austin | 26% |
| 62 | Oakland | 27% |
| 63 | San Francisco | 28% |
| 64 | Miami | 31% |
| 65 | San Jose | 37% |
| 66 | New York | 42% |

Low Volatility Index and High Change in Value Between 2007-2012



| <u>Volatility Index</u> | | <u>Change in Value Per Room</u> |
|--------------------------------|---------------|--|
| 16% | Seattle | \$101,000 |
| 14% | San Diego | \$94,000 |
| 14% | Santa Fe | \$60,000 |
| 16% | Portland, OR | \$56,000 |
| 14% | Baltimore | \$48,000 |
| 15% | United States | |

High Volatility Index and Low Change in Value Between 2007-2012



| <u>Volatility Index</u> | | <u>Change in Value Per Room</u> |
|--------------------------------|----------------|--|
| 21% | Greensboro, NC | \$2,000 |
| 22% | Hartford | \$14,000 |
| 21% | Chicago | \$28,000 |
| 24% | Tallahassee | \$31,000 |
| 24% | Charlotte | \$38,000 |
| 15% | United States | |

U.S. Major Transactions History



| <u>Year</u> | <u>Number of Hotels</u> | <u>Number of Rooms</u> | <u>Average Price Per Room</u> |
|-----------------------|-------------------------|------------------------|-------------------------------|
| 1998 | 241 | 78,865 | \$136,000 |
| 1999 | 128 | 34,408 | \$148,000 |
| 2000 | 148 | 39,759 | \$125,000 |
| 2001 | 117 | 29,608 | \$153,000 |
| 2002 | 105 | 31,626 | \$111,000 |
| 2003 | 121 | 33,292 | \$138,000 |
| 2004 | 178 | 56,822 | \$141,000 |
| 2005 | 237 | 71,531 | \$160,000 |
| 2006 | 249 | 76,137 | \$203,000 |
| 2007 | 243 | 61,539 | \$193,000 |
| <i>YTD April</i> 2006 | 96 | 27,637 | \$197,000 |
| <i>YTD April</i> 2007 | 105 | 26,283 | \$227,000 |
| <i>YTD April</i> 2008 | 20 | 3,696 | \$169,000 |

All U.S. Sales: 10-Year History



| Year | Number of Hotels | Number of Rooms | Average Price Per Room |
|-----------------------|-------------------------|------------------------|-------------------------------|
| 1998 | 234 | 51,101 | \$95,000 |
| 1999 | 222 | 31,203 | \$83,000 |
| 2000 | 254 | 33,300 | \$80,000 |
| 2001 | 196 | 39,163 | \$127,000 |
| 2002 | 323 | 59,483 | \$77,000 |
| 2003 | 312 | 59,960 | \$97,000 |
| 2004 | 605 | 115,703 | \$89,000 |
| 2005 | 522 | 111,934 | \$126,000 |
| 2006 | 485 | 106,955 | \$163,000 |
| 2007 | 445 | 83,256 | \$154,000 |
| <i>YTD April</i> 2006 | 180 | 37,514 | \$157,000 |
| <i>YTD April</i> 2007 | 193 | 35,349 | \$181,000 |
| <i>YTD April</i> 2008 | 43 | 6,557 | \$115,000 |

Top 10 Major Sales: 2007 & 2008

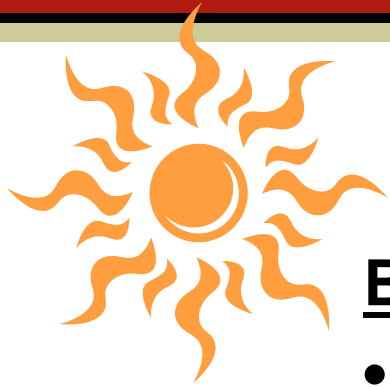


| <u>Rank</u> | <u>Hotel</u> | <u>City</u> | <u>State</u> | <u># Rooms</u> | <u>Total Price</u> | <u>Price/Room</u> |
|-------------|---------------------|-------------|--------------|----------------|--------------------|-------------------|
| 1 | Maui Prince Hotel | Makena | HI | 310 | \$575,000,000 | \$1,855,000 |
| 2 | Mandarin Oriental | New York | NY | 248 | \$340,000,000 | \$1,371,000 |
| 3 | Hard Rock Hotel | Las Vegas | NV | 647 | \$770,000,000 | \$1,190,000 |
| 4 | Mayflower Inn & Spa | Washington | CT | 30 | \$30,000,000 | \$1,000,000 |
| 5 | Dylan Hotel | New York | NY | 107 | \$78,000,000 | \$729,000 |
| 6 | Lodge at Cordillera | Edwards | CO | 56 | \$35,000,000 | \$625,000 |
| 7 | Ritz-Carlton | Boston | MA | 273 | \$170,000,000 | \$623,000 |
| 8 | Marriott Long Wharf | Boston | MA | 402 | \$228,200,000 | \$568,000 |
| 9 | Hotel Jerome | Aspen | CO | 92 | \$52,000,000 | \$565,000 |
| 10 | Haywood Park Hotel | Asheville | NC | 33 | \$18,500,000 | \$561,000 |

Hotel Financing and Appraisal Rates (Year End)



| | <u>2006</u> | <u>2007</u> | <u>2008</u> |
|--|-------------|-------------|-------------|
| Mortgage Interest Rates | 6.0%-6.75% | 6.5%-7.0% | 7.0%-8.0% |
| Amortization | 20-30 Years | 15-25 Years | 15-25 Years |
| Loan to Value | 70%-80% | 60%-70% | 55%-70% |
| Equity Yield | 15%-18% | 16%-19% | 16%-19% |
| <u>Capitalization Rates</u> | | | |
| Luxury | 5.0%-6.5% | 6.5%-8.5% | 7.0%-9.0% |
| Mid-Rate | 7.0%-9.0% | 8.5%-10.5% | 8.5%-11.0% |
| Budget | 8.0%-11.0% | 9.5%-12.0% | 10.0%-12.5% |



Buy

- New Orleans
- New York
- Boston
- San Francisco
- Miami
- San Jose
- Seattle
- Baltimore



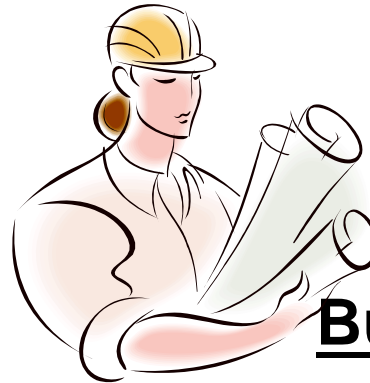
Sell

- Las Vegas
- San Antonio
- Richmond, VA
- Greensboro, NC
- Hartford
- Norfolk



Caution

- Cleveland
- Syracuse
- Dayton, OH



Build

- Oahu
- Almost anywhere, if you can get financing and the value per room is greater than the construction cost

Cost to Develop a 5-Star Hotel



200-Room Luxury Hotel
 100 Condos - 2,000 Sq. Ft./Condo
 Branding Lift - 25%
 Market Selling Price/Sq. Ft. \$1,000

Hotel

| | <u>Rooms</u> | <u>Per Room</u> | <u>Total</u> |
|-------|--------------|-----------------|----------------------|
| Cost | 200 | \$1,000,000 | \$200,000,000 |
| Value | 200 | \$750,000 | <u>\$150,000,000</u> |
| | | Gap | \$50,000,000 |

Condo

| | <u>Units</u> | <u>Sq. Ft./Unit</u> | <u>Total</u> |
|----------------------------------|--------------|---------------------|-----------------|
| | 100 | 2,000 | 200,000 Sq. Ft. |
| Market Selling Price/Sq. Ft. | | | <u>\$1,000</u> |
| Total Sellout Price | | | \$200,000,000 |
| Brand Lift Selling Price/Sq. Ft. | | | <u>\$1,250</u> |
| Total Sellout Price | | | \$250,000,000 |
| Difference in Selling Price | | | \$50,000,000 |

15 Worst U.S. Housing Markets



| <u>Rank</u> | | <u>Estimated Decline in 2008 Values</u> |
|-------------|--------------|---|
| 1 | Las Vegas | -19% |
| 2 | Miami | -18% |
| 3 | Detroit | -17% |
| 4 | Phoenix | -16% |
| 5 | Riverside | -15% |
| 6 | San Diego | -15% |
| 7 | Sacramento | -14% |
| 8 | Naples | -14% |
| 9 | Anaheim | -14% |
| 10 | Los Angeles | -13% |
| 11 | Palm Beach | -12% |
| 12 | Atlanta | -12% |
| 13 | Boston | -12% |
| 14 | Fresno | -11% |
| 15 | Indianapolis | -11% |

- Hotel values have bottomed out – great time to buy, if you have financing.
- Hotel financing will be a major challenge for 12 more months.
- Most proposed hotel projects will be put on hold for 12 or more months.
- Gap between bid and ask – sellers don't believe their hotels have declined in value.
- Very few transactions will occur for another 12 months.
- If you don't have to sell, hold on for another 2 to 3 years.