



Hotel Valuation and Transaction Trends for the U.S. Boutique Lodging Industry

October 2011

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Copies of Presentation

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www.hvs.com/boutiquehoteldevelopmentconference

Value Trend for a Typical U.S. Hotel

	1987	1988	1989	1990	1991	1992
Value Per Room	\$37,000	\$37,000	\$38,000	\$32,000	\$27,000	\$30,000
Percent Change		0.0%	2.7%	-15.8%	-15.6%	11.1%
	1993	1994	1995	1996	1997	1998
Value Per Room	\$33,000	\$37,000	\$45,000	\$50,000	\$59,000	\$60,000
Percent Change	10.0%	12.1%	21.6%	11.1%	18.0%	1.7%
	1999	2000	2001	2002	2003	2004
Value Per Room	\$61,000	\$69,000	\$52,000	\$52,000	\$51,000	\$65,000
Percent Change	1.7%	13.1%	-24.6%	0.0%	-1.9%	27.5%
	2005	2006	2007	2008	2009	2010
Value Per Room	\$82,000	\$100,000	\$95,000	\$81,000	\$56,000	\$65,000
Percent Change	26.2%	22.0%	-4.7%	-14.6%	-31.3%	17%
	2011	2012	2013	2014	2015	
Value Per Room	\$84,000	\$104,000	\$123,000	\$136,000	\$151,000	
Percent Change	28%	25%	18%	11%	11%	

Recession: Peak to Valley – Change in Value Per Room 2006-2009

Rank

1	WPB – Boca Raton	(\$148,000)
2	Las Vegas	(\$142,000)
3	Phoenix	(\$122,000)
4	Chicago	(\$108,000)
5	Oahu	(\$102,000)
6	Tucson	(\$86,000)
7	San Diego	(\$85,000)
8	New York	(\$83,000)
9	Fort Lauderdale	(\$76,000)
10	Jacksonville	(\$75,000)
27	United States	(\$43,000)

Rank

43	Houston	(\$19,000)
44	Albuquerque	(\$15,000)
45	Cincinnati	(\$14,000)
46	Denver	(\$14,000)
47	Portland	(\$13,000)
48	San Francisco	(\$10,000)
49	Austin	(\$8,000)
50	Pittsburgh	\$3,000
51	Washington DC	\$23,000
52	Buffalo	\$27,000

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Projected Change in Value Per Room 2011

The Recovery Lifts Hotel Values in All Markets

Rank

1	San Francisco	\$51,000
2	Oahu	\$41,000
3	New Orleans	\$34,000
4	San Diego	\$34,000
5	Chicago	\$26,000
6	Miami	\$25,000
7	Phoenix	\$25,000
8	Orlando	\$23,000
9	Anaheim	\$22,000
10	Los Angeles	\$22,000

18 United States **\$18,000**

Rank

43	Raleigh-Durham	\$9,000
44	Nashville	\$8,000
45	Memphis	\$8,000
46	Norfolk	\$8,000
47	Tucson	\$7,000
48	Indianapolis	\$7,000
49	Buffalo	\$6,000
50	St. Louis	\$6,000
51	Sacramento	\$4,000
52	Albuquerque	\$4,000

Recovery: Change in Value Per Room 2010-2015

Invest in Convention Destinations

Rank

1	San Francisco	\$233,000
2	Oahu	\$185,000
3	New York	\$180,000
4	San Diego	\$128,000
5	Phoenix	\$126,000
6	Las Vegas	\$118,000
7	Chicago	\$114,000
8	New Orleans	\$114,000
9	San Antonio	\$105,000
10	Dallas	\$103,000

19 United States **\$85,000**

Rank

43	Nashville	\$56,000
44	Memphis	\$54,000
45	Indianapolis	\$53,000
46	Miami	\$53,000
47	Cincinnati	\$52,000
48	Milwaukee	\$50,000
49	Norfolk	\$42,000
50	St. Louis	\$40,000
51	Buffalo	\$40,000
52	Albuquerque	\$32,000

Long-Term Hold: Average Annual Compounded Growth in Value 1987-2015

<u>Rank</u>			<u>Rank</u>		
1	Austin	10%	43	Orlando	3%
2	New York	9%	44	Buffalo	3%
3	Miami	9%	45	Tucson	3%
4	Houston	7%	46	Indianapolis	3%
5	Denver	7%	47	Philadelphia	2%
6	San Antonio	7%	48	Richmond	2%
7	Oahu	7%	49	Albuquerque	2%
8	Portland	7%	50	Detroit	2%
9	San Francisco	6%	51	Norfolk	1%
10	New Orleans	6%	52	Long Island	1%

19 United States 5% and 15% with market timing

Highest-Value Cities – Value Per Room

<u>2006 – Peak</u>		<u>2009 – Valley</u>		<u>2015 – Projected Value</u>	
New York	\$383,000	New York	\$300,000	New York	\$575,000
Oahu	\$337,000	Washington DC	\$264,000	San Francisco	\$539,000
San Francisco	\$240,000	Oahu	\$236,000	Oahu	\$488,000
Washington DC	\$240,000	San Francisco	\$230,000	Washington DC	\$363,000
San Diego	\$230,000	Boston	\$195,000	Boston	\$354,000
Miami	\$220,000	Miami	\$162,000	San Diego	\$278,000
Boston	\$215,000	San Diego	\$145,000	Miami	\$254,000
Chicago	\$198,000	Los Angeles	\$128,000	Los Angeles	\$251,000
Los Angeles	\$193,000	Austin	\$126,000	Chicago	\$239,000
WPB – Boca Raton	\$193,000	Seattle	\$119,000	Seattle	\$225,000

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Major U.S. Sales Rebounded in 2010

	Number of Hotels	Number of Rooms	Average Price Per Room
1998	241	78,865	\$136,000
1999	125	35,901	\$139,000
2000	138	37,443	\$117,000
2001	117	29,668	\$153,000
2002	105	31,626	\$111,000
2003	135	35,489	\$136,000
2004	191	61,324	\$140,000
2005	279	83,354	\$158,000
2006	265	80,523	\$203,000
2007	256	64,872	\$191,000
2008	121	24,228	\$175,000
2009	47	13,882	\$162,000
2010	145	34,811	\$188,000
YTD 2010	100	23,777	\$183,000
YTD 2011	125	30,933	\$204,000

Hotel Transactions 2011

Property Name	City	State	Rm. Count	Price Per Room
Royalton	New York	NY	168	\$496,000
Morgans	New York	NY	114	\$496,000
Viceroy Santa Monica	Santa Monica	CA	162	\$494,444
Helmsley Hotel	New York	NY	775	\$404,516
Hilton San Diego Bayfront	San Diego	CA	1,190	\$399,160
Holiday Inn Express Wall Street	New York	NY	112	\$358,031
Manchester Grand Hyatt	San Diego	CA	1,625	\$350,769
Argonaut Hotel	San Francisco	CA	252	\$333,333
Royal Palm	Miami Beach	FL	409	\$317,848
Capitol Hill Suites	Washington	DC	152	\$312,500



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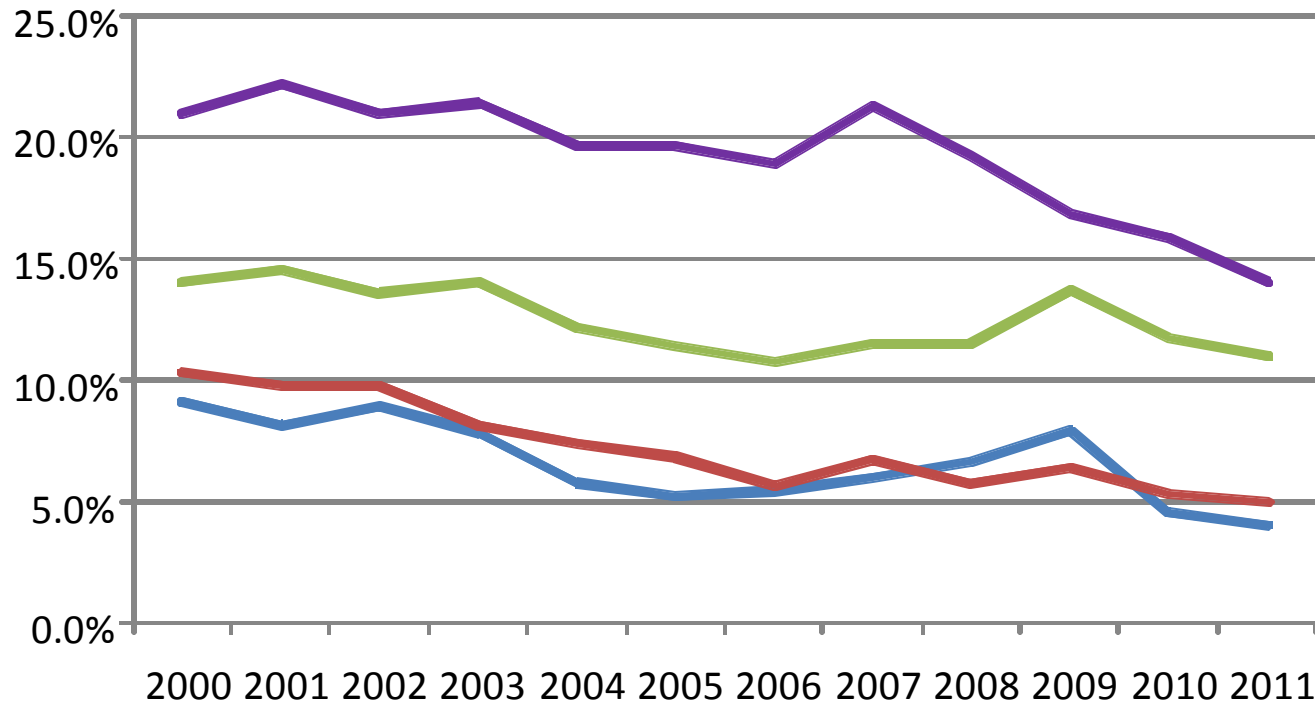






Where Do We See Cap Rates Today?

	Overall Capitalization			Terminal	
	Rate Based On:		Equity Yield	Cap Rate	Discount Rate
	T-12	Year One			
Luxury	3% - 5%	5% - 7%	12% - 15%	6.5% - 8%	9.0% - 10.5%
Upper Upscale	4% - 7%	6% - 8%	14% - 17%	8% - 9.5%	9.5% - 11.5%
Upscale/Mid-Scale	5% - 8%	7% - 9%	16% - 19%	9% - 11%	11% - 12.5%



U.S. Capitalization Rates at Historic Lows



	2011	
Cap T-12	4.0%	
Cap Year One	5.0%	
Discount Rate	10.5%	
Equity Yield	15.0%	

Why Are Cap Rates So Low?

“8% is the new 10%.”

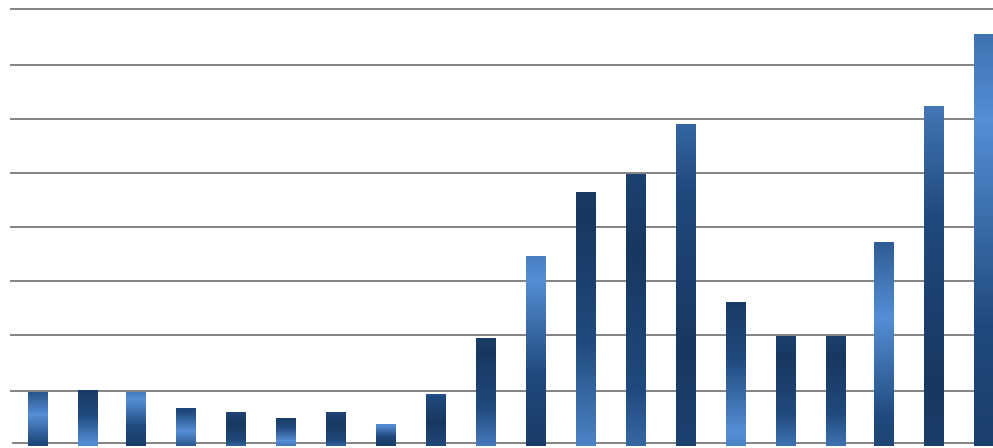
Anne Lloyd-Jones, HVS

Why Are Cap Rates So Low?

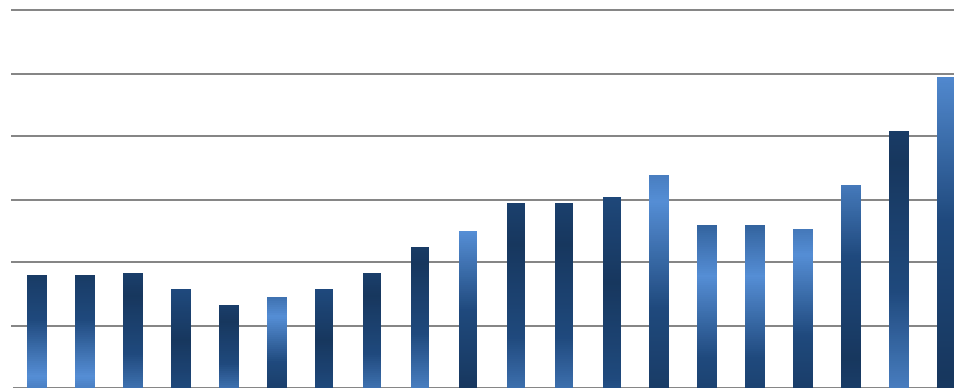
- Mortgage interest rates are at historic lows**
- Equity capital is plentiful – more buyers than sellers**
- Current NOI levels are depressed and don't reflect upside**

Value Volatility- Change in Value Year to Year

New York- Highly Volatile



United States- Moderately Volatile



**The Higher the Value Volatility
the Higher the Risk**

**But Higher Risk can Sometimes
Produce Greater Benefits**

Volatility Index

Rank

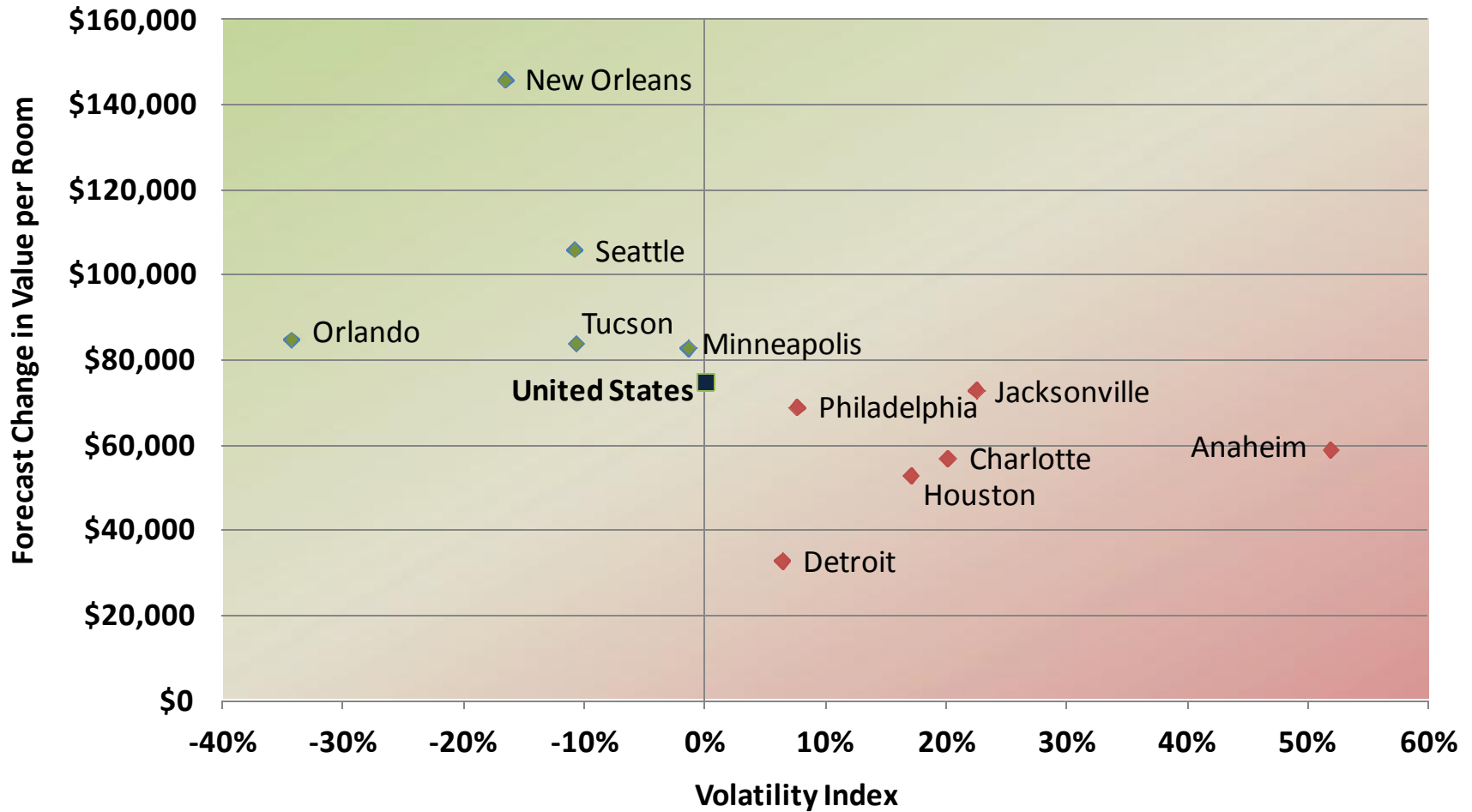
1	New York	131%
2	Miami	82%
3	Los Angeles	64%
4	Las Vegas	61%
5	Anaheim	52%
6	Omaha	47%
7	Austin	46%
8	San Jose	39%
9	San Diego	35%
10	Washington DC	33%

Rank

43	Salt Lake City	-20%
44	Portland	-21%
45	Kansas City	-24%
46	Indianapolis	-28%
47	St. Louis	-30%
48	Richmond	-30%
49	Orlando	-34%
50	Albuquerque	-44%
51	Buffalo	-46%
52	Cincinnati	-50%

28 United States 0%

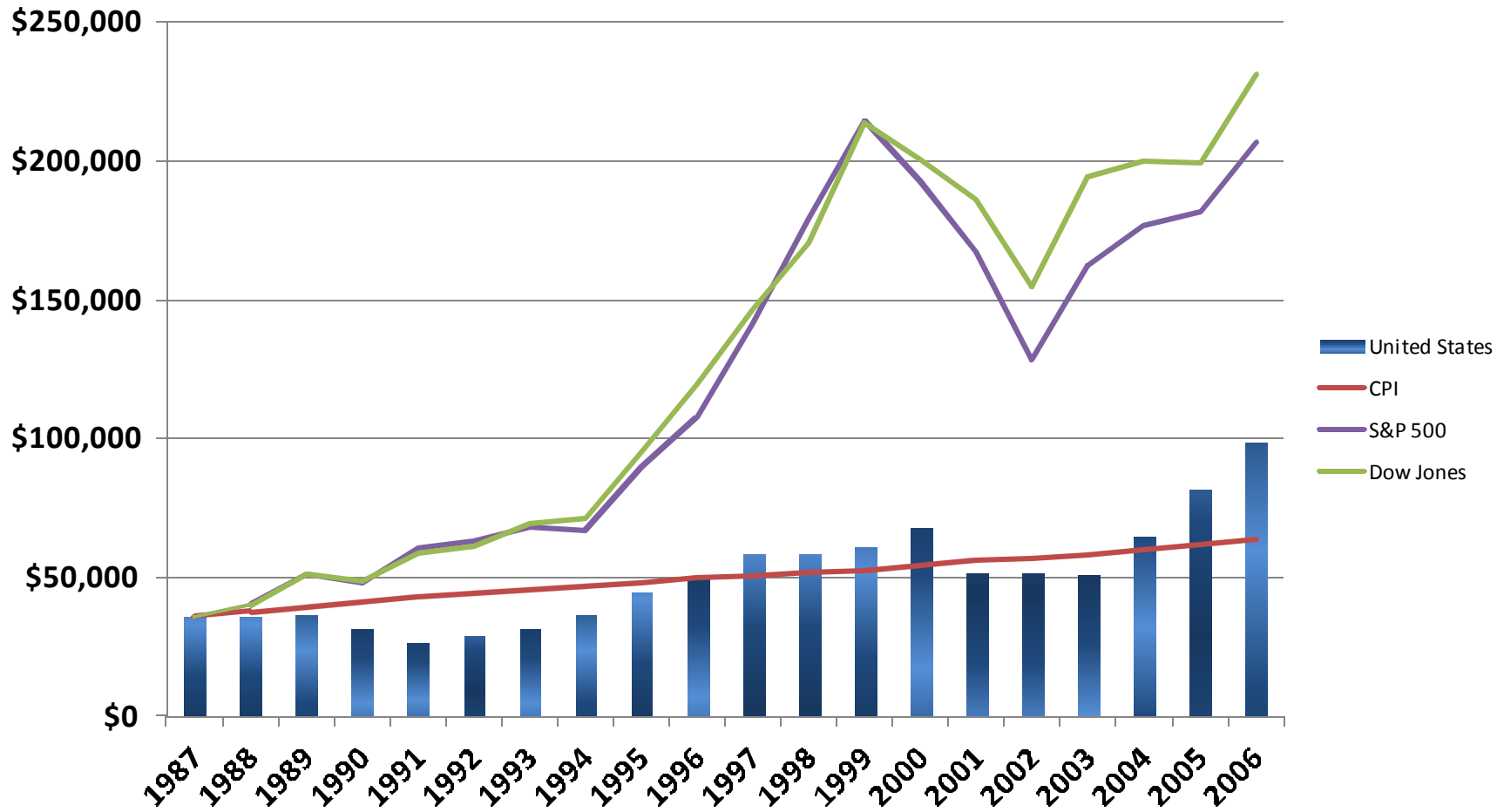
Risk vs. Return: Low Volatility High Growth vs. High Volatility Low Growth



“So many investors, brokers and money managers hate to admit it, but the best place for the average retail investor to put his or her money is in Index Funds.” **Warren Buffett, Omaha, NE**

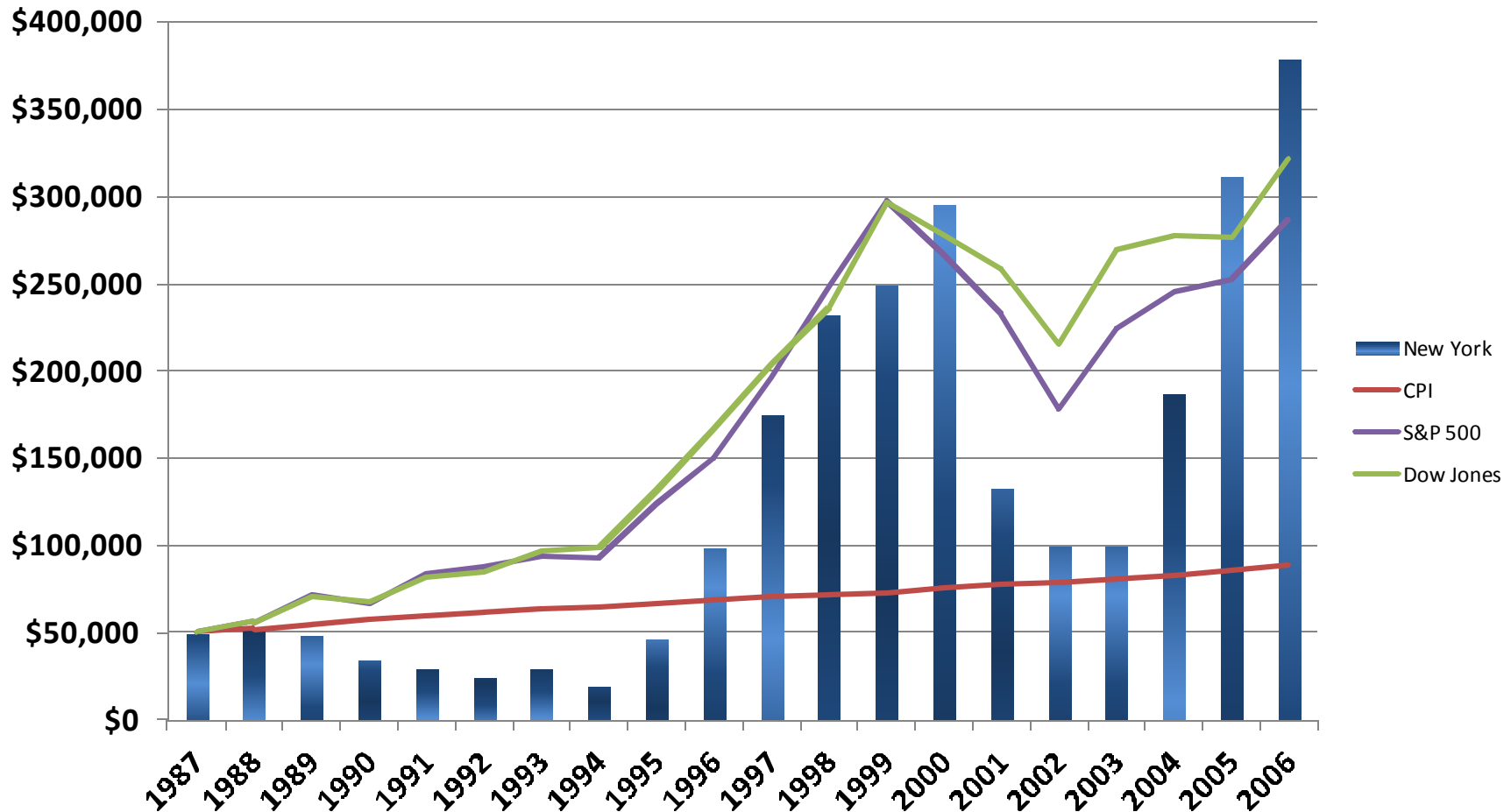


HVI Value: United States (Volatility Index 0%) Compared to CPI, S&P 500, & Dow Jones

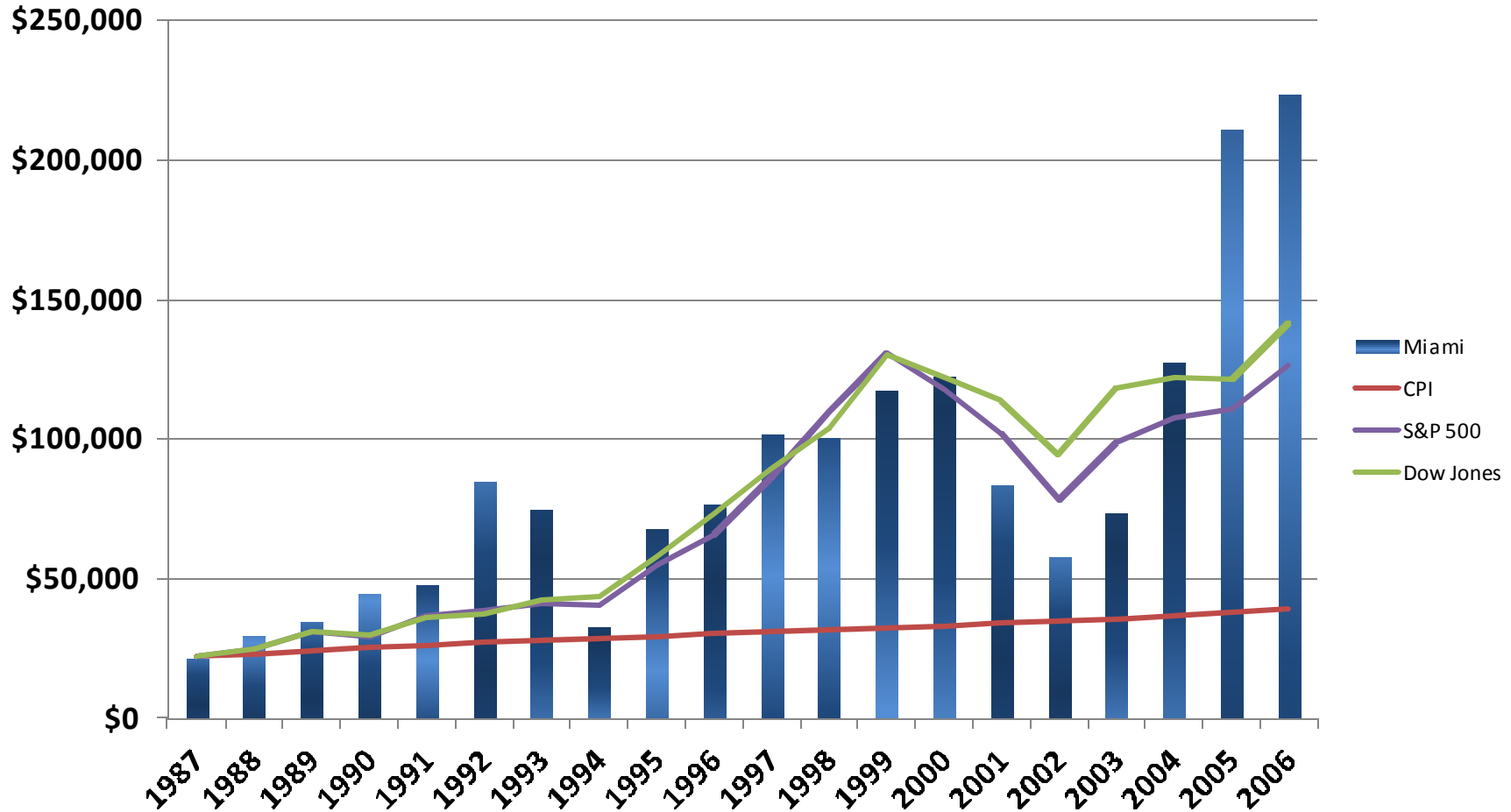


Source: HVS

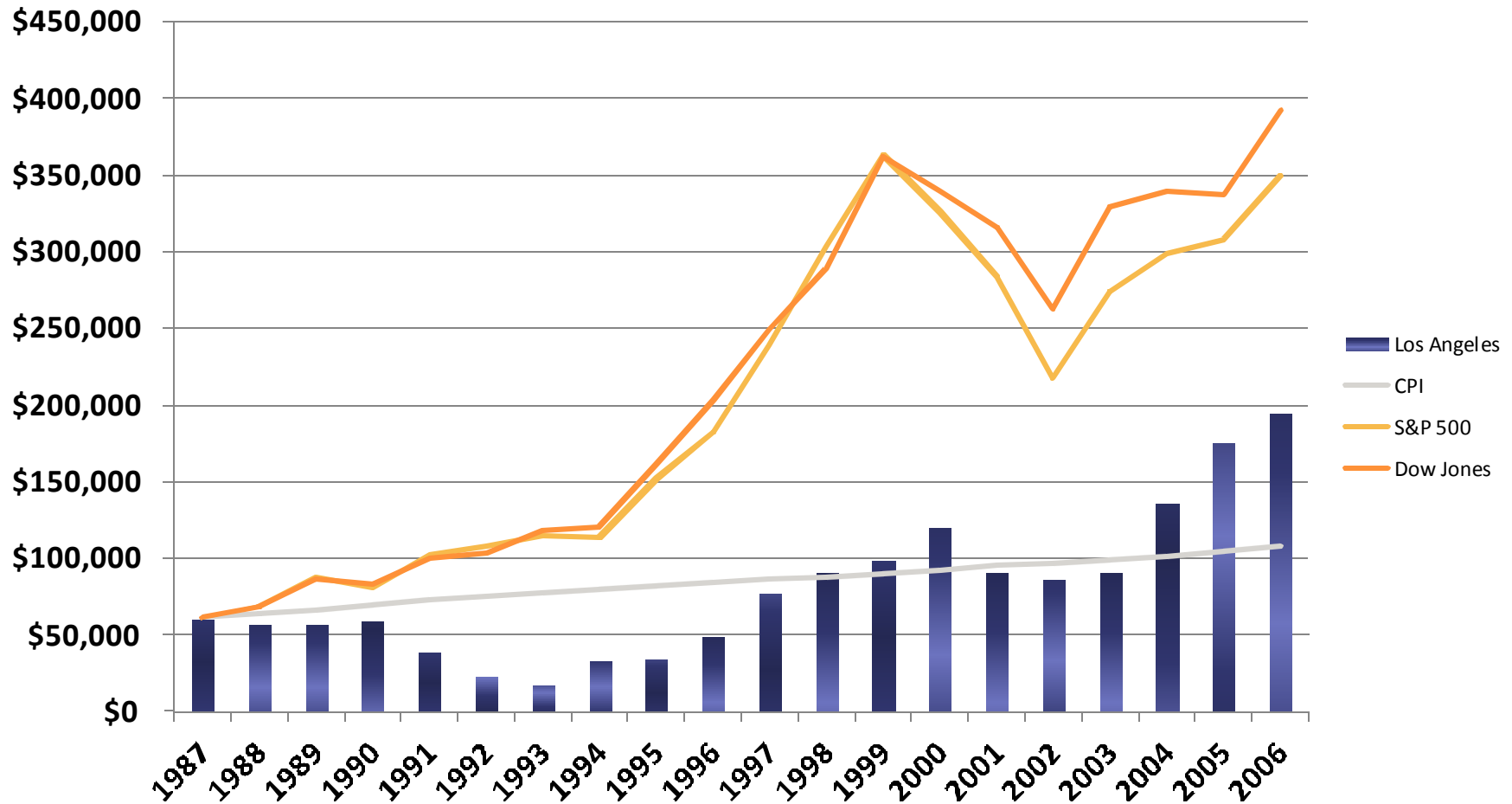
HVI Value: New York (Volatility Index 131%) Compared to CPI, S&P 500, & Dow Jones



HVI Value: Miami (Volatility Index 82%) Compared to CPI, S&P 500, & Dow Jones



HVI Value: Los Angeles (Volatility Index 64%) Compared to CPI, S&P 500, & Dow Jones



Markets That Exceeded the Dow: 1987 to 2006

(All in the top 7 most volatile markets)

	<u>% Change 1987-2006</u>
Dow Jones	543%
Miami	918%
Austin	744%
Omaha	740%
New York City	658%
Las Vegas	554%

Markets That Exceeded the Dow: 1987 to 2006

(All in the top 7 most volatile markets)

	<u>% Change 1987-2006</u>	
Dow Jones	543%	
Miami	918%	
Austin	744%	
Omaha	740%	Home of Warren Buffett
New York City	658%	
Las Vegas	554%	

Buy

- San Francisco
- Oahu
- Phoenix
- New Orleans
- Las Vegas
- New York

Sell

...but not until 2012-2013

- Albuquerque
- Buffalo
- Norfolk
- Nashville
- St. Louis

Build

If you have financing available, start building now to open 2013-2014

Rushmore Observations

- Hotel demand continues to grow
- Construction financing is still scarce
- Limited growth of new hotel supply
- Extended period of increasing hotel values
- Don't be afraid of low cap rates
- If you missed the bottom, there is still plenty of upside available
- Now is the time to buy
- Don't sell until 2012-2013

Analyzing Hotel Financial Statements

Chain vs. Boutique

	Hotel Chain		Boutique	
Occupancy	92.0%		82.0%	
Average Rate	\$ 256.00		\$ 251.00	
REVPAR	\$ 235.52		\$ 205.82	
Revenues	\$ Per Room	Percent	\$ Per Room	Percent
Rooms	\$ 85,742	59.2%	\$ 75,155	79.7%
Food & Beverage	\$ 1,529	1.1%	\$ 18,865	20.0%
Telephone	\$ 459	0.3%	\$ 303	0.3%
Total Revenue	\$ 87,730	60.6%	\$ 94,323	100.0%
Departmental Expenses				
Rooms	\$ 20,209	23.6%	\$ 18,819	25.0%
Food & Beverages	\$ 2,258	147.7%	\$ 12,484	66.2%
Telephone	\$ 684	149.0%	\$ 194	64.0%
Total Departmental Expenses	\$ 23,151	16.0%	\$ 31,497	33.4%
Departmental Income	\$ 64,579	44.6%	\$ 62,826	66.6%
Undistributed Operating Expenses				
Administrative & General	\$ 7,549	5.2%	\$ 9,871	10.5%
Marketing	\$ 2,861	2.0%	\$ 4,084	4.3%
Franchise Fees	\$ 6,295	4.3%	\$ -	0.0%
Prop. Oper. & Maintenance	\$ 2,967	2.0%	\$ 3,542	3.8%
Energy Costs	\$ 1,930	1.3%	\$ 3,077	3.3%
Total UDOEs	\$ 21,602	14.9%	\$ 20,574	21.8%
Income Before Fixed Charges	\$ 42,977	29.7%	\$ 42,252	44.8%

Analyzing Hotel Financial Statements

Boutique

Vs.

Foreign Chain

Vs.

Major Boutique

	Boutique		Foreign Chain		Major Boutique	
Occupancy	80.0%		84.0%		87.0%	
Average Rate	\$ 374.00		\$ 350.00		\$ 332.00	
REVPAR	\$ 299.20		\$ 294.00		\$ 288.84	
Revenues	\$ Per Room	Percent	\$ Per Room	Percent	\$ Per Room	Percent
Rooms	\$ 109,891	75.9%	\$ 108,354	114.9%	\$ 105,267	123.6%
Food & Beverage	\$ 33,117	22.9%	\$ 19,503	20.7%	\$ 21,615	25.4%
Telephone	\$ 1,836	1.3%	\$ 1,312	1.4%	\$ -	0.0%
Total Revenue	\$ 144,844	100.0%	\$ 129,169	136.9%	\$ 126,882	149.0%
Departmental Expenses						
Rooms	\$ 27,344	24.9%	\$ 26,111	24.1%	\$ 32,433	30.8%
Food & Beverages	\$ 19,086	57.6%	\$ 18,638	95.6%	\$ 22,381	103.5%
Telephone	\$ 1,297	70.6%	\$ 1,369	104.3%	\$ -	0.0%
Total Departmental Expenses	\$ 47,727	33.0%	\$ 46,118	48.9%	\$ 54,814	64.4%
Departmental Income	\$ 97,117	67.0%	\$ 83,051	88.0%	\$ 72,068	84.6%
Undistributed Operating Expenses						
Administrative & General	\$ 17,445	12.0%	\$ 6,447	6.8%	\$ 12,526	14.7%
Marketing	\$ 4,609	3.2%	\$ 4,430	4.7%	\$ 8,741	10.3%
Franchise Fees	\$ -	0.0%	\$ 3,070	3.3%	\$ -	0.0%
Prop. Oper. & Maintenance	\$ 7,695	5.3%	\$ 6,470	6.9%	\$ 5,063	5.9%
Energy Costs	\$ 4,563	3.2%	\$ 4,442	4.7%	\$ 5,000	5.9%
Total UDOEs	\$ 34,312	23.7%	\$ 24,859	26.4%	\$ 31,330	36.8%
Income Before Fixed Charges	\$ 62,805	43.4%	\$ 58,192	61.7%	\$ 40,738	47.8%

Analyzing Hotel Financial Statements

Competent Boutique

Vs.

Incompetent Boutique

	Boutique Competent		Boutique Incompetent	
Occupancy	82.0%		83.0%	
Average Rate	\$ 251.00		\$ 213.00	
REVPAR	\$ 205.82		\$ 176.79	
Revenues	\$ Per Room	Percent	\$ Per Room	Percent
Rooms	\$ 75,155	51.9%	\$ 64,404	68.3%
Food & Beverage	\$ 18,865	13.0%	\$ 15,830	16.8%
Telephone	\$ 303	0.2%	\$ -	0.0%
Total Revenue	\$ 94,323	65.1%	\$ 80,234	85.1%
Departmental Expenses				
Rooms	\$ 18,819	25.0%	\$ 26,426	41.0%
Food & Beverages	\$ 12,484	66.2%	\$ 14,851	93.8%
Telephone	\$ 194	64.0%	\$ -	0.0%
Total Departmental Expenses	\$ 31,497	21.7%	\$ 41,277	43.8%
Departmental Income	\$ 62,826	43.4%	\$ 38,957	41.3%
Undistributed Operating Expenses				
Administrative & General	\$ 9,871	6.8%	\$ 8,170	8.7%
Marketing	\$ 4,084	2.8%	\$ 1,043	1.1%
Franchise Fees	\$ -	0.0%	\$ -	0.0%
Prop. Oper. & Maintenance	\$ 3,542	2.4%	\$ 1,936	2.1%
Energy Costs	\$ 3,077	2.1%	\$ 2,213	2.3%
Total UDOEs	\$ 20,574	14.2%	\$ 13,362	14.2%
Income Before Fixed Charges	\$ 42,252	29.2%	\$ 25,595	27.1%

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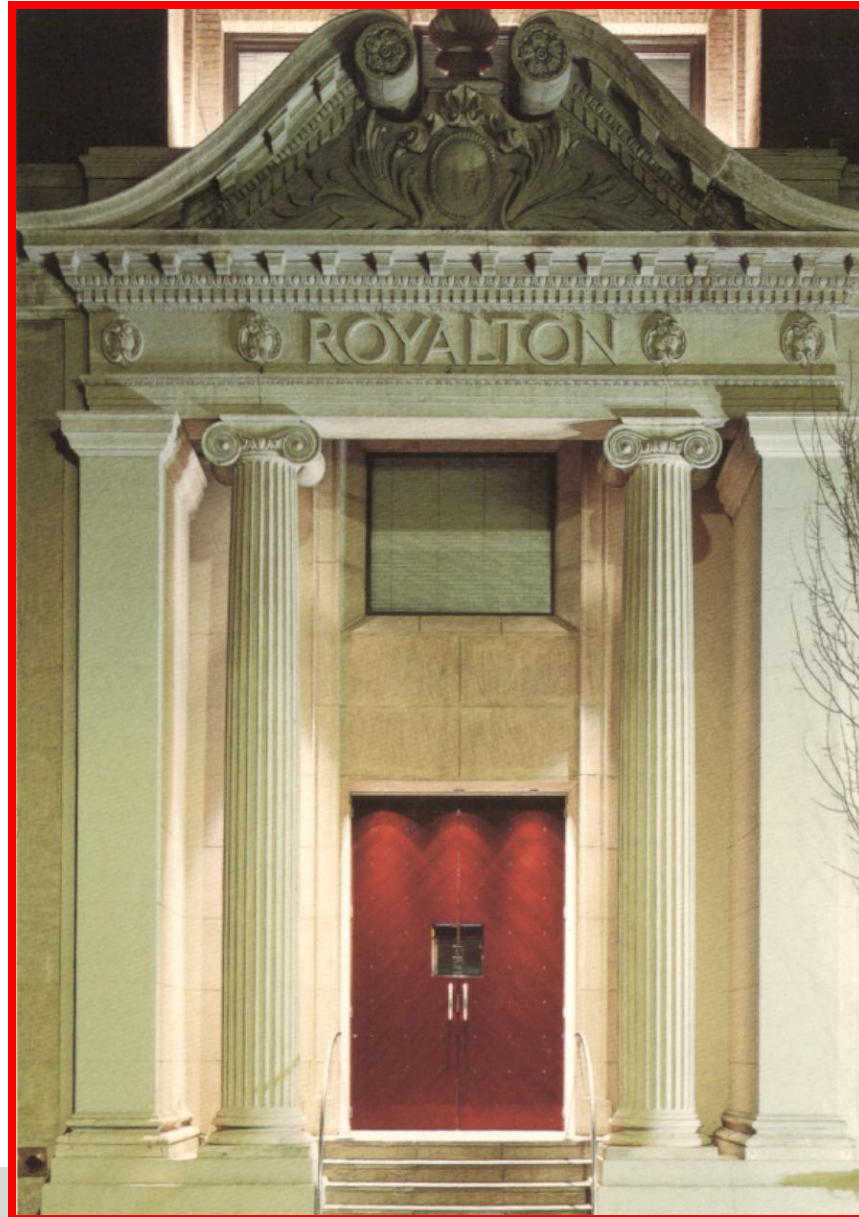
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- Independent, upscale, <150 rooms, comfortable decor

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- Independent, upscale, <150 rooms, comfortable decor
- High-quality, trendy lounge & restaurant, celebrity chef

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- High-quality, trendy lounge & restaurant, celebrity chef
- King-size bed, thick mattress, down comforter, at least eight large pillows

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- Front desk staff must be either unemployed actors or models.

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- High-quality, trendy lounge & restaurant, celebrity chef
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- Front desk staff must be either unemployed actors or models.
- They all must dress in black and wear communications headsets.



Thank You

