

HOTEL VALUATION ISSUES AND TRENDS

Presented to: HBI

Presented by:

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2007 in Summary

- \$48 billion in hotel sales transactions
- \$35 billion in 2006

Jones Lang LaSalle Hotels

HBI 2007 Hotel Sale Averages

- \$4,559,000 price (\$3,918,000 in 2006)
- \$57,680 per room (\$40,391 in 2006)
- 95 rooms (97 rooms in 2006)
- 60% occupancy (58% in 2006)
- \$75 ADR (\$62 in 2006)
- \$448,257 NOI (\$379,000 in 2006)
- 10.0% cap rate (10.3% in 2006)
- 3.31 RRM (3.26 in 2006)
- Mostly economy/limited service properties

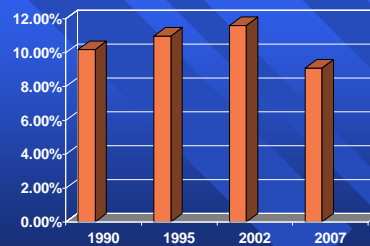
Valuation Technique Preference

Technique	Rank	Preference
Direct Capitalization	1	34%
Yield Capitalization	2	25%
Equity Yield	3	15%
First-year Cap	4	13%
Other	5	7%
Percent of Cost	6	3%
GIM	7	2%
RRM	8	2%

Hotel Investment Criteria

Year	2007	2002	1995	1990
Cap rate	9.1%	11.6%	11.0%	10.2%
Discount	13.0%	14.6%	14.6%	15.0%
Holding pd.	8.2 yrs.	7.6 yrs.	6.3 yrs.	9.6 yrs.
Debt cover	1.4	1.5	1.4	1.3
Rev growth	4.1%	1.4%	3.9%	4.8%
Exp growth	2.9%	2.6%	3.4%	4.7%
Loan/value	69.8%	65.0%	69.1%	69.0%
Interest rate	7.0%	8.2%	9.6%	11.5%

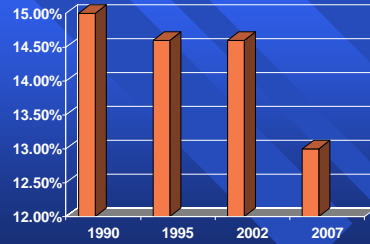
Cap Rate Trends



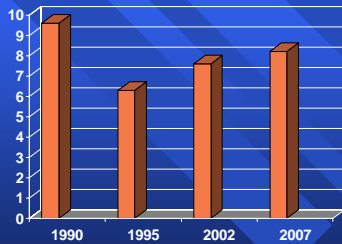
What Affects Cap Rates?

- Debt (mortgage)
 - interest rates (7-8% fixed)
 - loan-to-value ratios (65-70%)
- Equity (ownership)
 - perception of the future
 - supply of product for sale

Discount Rate Trends



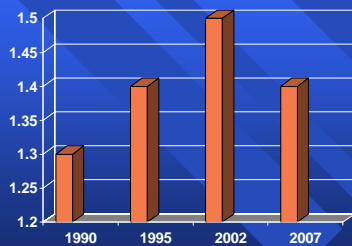
Holding Period Trends



Debt Considerations

- Business risk
- Need for financial flexibility
- Risk aversion
- Tax considerations

Debt Coverage Ratio Trends



2008 Forecast

- 1,213 new hotels (138,665 rooms) in 2008
- 969 new hotels (96,031 rooms) in 2007
- Decreased transaction volume anticipated
- *"nominal slowdown for hotels in 2008"*
(Laurence Geller, CEO, Strategic Hotels)
- *"The earnings recession has already arrived"*
(David Rosenberg, Economist, Merrill Lynch)
- Smith Travel projects a 5.2% RevPAR increase

Penn State Index

The PSI contains over 2,500 hotel sale transactions from 1990 through 2007. For the 12-month period prior to each transaction, the database includes:

- ADR (mean = \$92.91),
- occupancy rate (mean = 65.8 percent),
- NOI (mean = \$8,044 per room),
- sale price (mean = \$84,868 per room),
- capitalization rate (mean = 9.55 percent),
- room revenue multiplier or RRM (mean = 3.46),
- number of guest rooms (mean = 210),
- property age (mean = 20 years old),
- location (city, state, and region),
- hotel type as defined by Smith Travel Research (economy, midscale without F&B, midscale with F&B, upscale, upper upscale, and luxury), and
- brand affiliation.

Penn State 2008 Index of Hotel Values

Hotel type	Value per room
Overall	\$105,618
Luxury	\$382,606
Upper Upscale	\$192,205
Upscale	\$131,458
Midscale with F&B	\$76,731
Midscale w/out F&B	\$85,922
Economy	\$30,485

Quick Hotel Valuation

\$1/\$1,000 ADR Rule-of-thumb

Actually depends on type of hotel:

- \$1/\$700 for economy/limited service hotels
- \$1/\$600 for midscale hotels
- \$1/\$900 for full service hotels and all-suite hotels with food and beverage
- \$1/\$1,000 for all-suite hotels w/out F&B

Quick Hotel Valuation

Automated Valuation Model (AVM):

- - \$42,873 (constant)
- + NOI per room x 5.615
- + ADR x 615.039
- + # of rooms x 33.693
- + occupancy x 234.891
- = estimated value per room

Comfort Inn, Port Richey, FL



Comfort Inn, Port Richey, FL

97 rooms

Trailing 12-month:

- Occupancy of 60%
- ADR of \$65
- NOI of \$546,332

Quick Hotel Valuation

ADR Rule-of-thumb:

- \$65 ADR x \$700 for economy/limited service hotels
- = \$45,500/room (\$4,400,000 total)

Quick Hotel Valuation

Automated Valuation Model (AVM)

- - \$42,873 (constant)
- + (\$546,332 NOI/97 rooms) x 5.615
- + \$65 ADR x 615.039
- + 97 rooms x 33.693
- + 60% occupancy x 234.891
- = \$46,092 value per room (\$4,500,000 total)

Quick Hotel Valuation

- Quick hotel value estimates range from \$4,400,000 to \$4,500,000.
- Epilogue:
 - In 2007, the hotel was listed for sale by Tony DeGeorge, CHB, of Greene, Canfield, DeGeorge, Ltd., for \$4,750,000 (\$48,969/room)
 - The hotel actually sold on August 22, 2007 for \$4,500,000 (\$46,392/room)

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