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Lodging | North America

Takeaways from Call with Hotel Broker HREC CEO

We hosted a call with Mike Cahill, Founder and CEO of HREC, a hotel brokerage firm w/ 17 US offices, and Co-Chairman of the Lodging Industry Investment Council, whose members control >\$60 billion of Lodging real estate. 5 key takeaways were:

- 1) Hotel transaction market stalled.** HREC had 88 exclusive listings as of mid-March and was offering out another ~20 hotels off-market. It did not close on a single transaction in April, the first month in memory where nothing traded. HREC still gets 5-10 emails / day from potential buyers, but sees them as likely more "shoppers than buyers" that may well look to re-trade. That said, finding willing sellers at this point is the greater bottleneck, but HREC is putting tertiary market assets (where performance has not and is not expected to be as bad as gateway city big box hotels) on auction sites and expects to see demand.
- 2) Consensus view is that hotel prices are ~30% lower.** When surveying the broader investment council, it appears that consensus is that hotel values are ~30% lower. There is no general agreement around what the exact financials are that drive this viewpoint, especially given the lack of trades, but the view is also that clearing cap rates have expanded ~300bps.
- 3) Debt markets are somewhat open.** Traditional local / community banks generally won't lend for hotels right now, but private bridge loan lenders are willing to finance deals. These lenders are generally looking for 8-9% interest, and willing to go up to 60% loan-to-value.
- 4) Customers still want housekeeping.** Talking to a hotel owner on the beach in FL that had 70% occupancy last weekend, the front desk asked all its customers whether they would want housekeeping over the weekend and 70% still said yes.
- 5) Brands, especially Hilton and Marriott, are still favored.** Buyers (and lenders) generally still favor the stronger brands and the concessions these brands are giving their owners during these unprecedented times are being appreciated. There is potential that brand standard PIPs (profit improvement plans) may be deferred for as long as 2 years.

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