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# THE 2017 LIIC TOP TEN: THE ANNUAL SURVEY OF LODGING INVESTMENT TRENDS AND CHALLENGES

## *“Hotel Real Estate: Forecasting Clear Skies with Some Clouds and Slightly Cooling Temperatures”*



(Denver, CO) For well over a decade, the members of the hotel industry's preeminent think tank, “LIIC – The Lodging Industry Investment Council,” are annually surveyed to develop a list of the major hotel investment opportunities and challenges for the coming year. This exhaustive survey results in the LIIC Top Ten; a highly regarded profile of investment sentiment and attitudes for the lodging industry for the forthcoming 12 months. Altogether, the members of LIIC represent direct acquisition and disposition control of well over \$40 billion of lodging real estate.

Members are highly active and have the pulse of the market, with 45% of LIIC hotel investors having successfully purchased a hotel in the last 12 months and an additional 16% having made offers but not been the winner. Moreover, 76% plan to sell a hotel over the next 24 months.

The hospitality industry's most influential investors, lenders, corporate real estate executives, REIT's, public hotel companies, brokers and significant lodging equity sources are represented on the Council. LIIC serves as the leading industry think tank for the lodging business ([www.liic.org](http://www.liic.org)).

Mike Cahill, LIIC co-chairman, produced this year's survey ([www.mikecahill.com](http://www.mikecahill.com)). Mr. Cahill is CEO and Founder of HREC – Hospitality Real Estate Counselors, a leading international hotel and casino brokerage and advisory firm (16 offices nationwide) specializing in lodging property sales, debt financing, consulting, appraisals and litigation support ([www.hrec.com](http://www.hrec.com)). Nate Shartar and Alexander Cammarata, Associates in HREC's Denver office, assisted throughout the process.

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## 2017 Top Ten LIIC Survey Results:

1. Hotel Real Estate: Forecasting Clear Skies with Some Clouds and Slightly Cooling Temperatures: Overall, the 2017 LIIC Survey is more positive than 2016 and starkly different than the peak year survey in 2015. Responses reveal a calmness, compared with wide spread nervousness in April 2016. Chinese investment is expected (36%) to slow slightly and Brexit's impact on US hotels is considered slight. Private Equity followed by Listed REITs are predicted to dominate the purchase of Upscale to Luxury hotels; while, Regional Owner/ Operators are projected to dominate the purchase of Economy to Upper Midscale hotels.
2. Movement in the Hotel Real Estate Cycle?: Most investors (68%) believe we are still in the extra innings of the current cycle which began in 2009; however, an astute, highly intelligent minority (32%) believe we have begun a new cycle. Projections for the US economy are positive, with 60% forecasting GDP growth averaging greater than 2% over the next 24 months.
3. Asset Pricing Bid/Ask Settles, Values Flat to Maybe Increasing: Over the next 12 months, 54% project that lodging real estate values will be flat in comparison to 2016. However, a sizable group (36%) forecast a slight increase in values (up to 5%). Favorite investment target, Upper Upscale lodging properties.
4. 2017's Greatest Threats to Hotel Investment?: The top three threats on the horizon:
  - I. **New Lodging Supply:** 90% of LIIC members cited new hotel supply as the current and dominant top investment concern. Hypocritically, 81% are building new lodging assets.
  - II. **Increasing Interest Rates:** With interest rates increasing gradually up to 100bps over the next 12 months, sellers need to understand the impact on asset pricing for hotels they are looking to sell.
  - III. **Government Mandated Minimum Wage Increases:** Investors (28%; down from last year) are threatened by government mandated minimum wage increases and the corresponding impact on hotel operating costs (74% anticipate a gradual negative impact over the next five years).
5. Hotel Transaction Market Continues Slight Cooling: 52% of responders forecast the total dollar volume of U.S. hotel transactions in calendar 2017 will be down relative to year-end 2016 and 22% believe volume will be flat. Similarly, 46% believe the number of assets sold to be down; while, 32% anticipate the number of assets sold to be flat.

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6. Hotel Debt Available, Yet Less Favorable: Hotel investors are “debt leery” causing 56% to seek refinancing of existing debt over the coming year even though 52% believe the optimum refinance window closed in the last six months. Owners have more concern with interest rate increases on senior debt than lender’s available leverage percentages.
7. Lodging Development Marches Along: Investor attitude stays positive on the concept of building new lodging properties. As to developing hotels, 66% of LIIC responds “yes, if you are selective about product and markets”. Respondents are putting their money behind their votes, with 81% of relevant LIIC members having new hotels actively under development.
8. Want to Buy a Hotel? Quantity and Quality: Quantity: 42% of investors believe that a “below average quantity” of hotels are available for purchase closely followed by 44% at “average quantity.” Quality (desirability to purchase): 52% believe the quality is average and 28% suggest negatively “slightly worse than 2016”.
9. Markets NOT to Invest in?: LIIC members were asked which of the top 25 markets they “would not consider buying a hotel” in:
  1. Houston, TX (64%)
  2. Nashville, TN (32%)
  3. Detroit, MI (28%)
  4. New York, NY (28%)
  5. St. Louis, MO-IL (28%)Sleeper - where to buy? New Orleans! Not one vote against recorded
10. Marriott and Starwood Merger? If you own a Starwood branded hotel, 36% surprisingly believe the value of Starwood lodging investments have increased specifically due to the merger. On the other hand, the primary concern (22%) stressing hotel owners is decreasing negotiating leverage with Mega Marriott going forward.

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### LIIC Bonus Questions:

Looking forward, the “hotel investment illuminati” predict:

- Buyers paying package (5 or more hotels) premium? Maybe not anymore, 53% say no and 47% yes.
- Congrats to the 13% of LIIC members that last year predicted the Trump Presidential victory; interestingly, 44% now say the Trump Administration is positively affecting hotel ownership.
- When staying at a hotel on a multiple day business trip, LIIC’s greatest “Pet Peeves” are **(1)** painfully slow internet, **(2)** uncomfortable bedding, and **(3)** noise (hallways, PTACs, and outside traffic). Other “Peeves” include paparazzi, breakfast not starting early enough, and the cost of items in the snack shop being too expensive.

*For additional information, please contact:*

LIIC – The Lodging Industry Investment Council

[www.liic.org](http://www.liic.org)

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