

THE 2023 LIIC TOP TEN: THE ANNUAL FORECAST OF LODGING INVESTMENT TRENDS AND CHALLENGES

Release Date: May 3, 2023

"Hotel Real Estate: Better Performance than Pandemic Predicted, Slower Debt Challenged Transaction Market"

(Denver, CO) For the past 18 years, 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 \$60 billion of lodging real estate.



The hospitality industry's leading influential investors, lenders, corporate real estate executives, REITs, 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 real estate business (www.liic.org).

Mike Cahill, LIIC co-chairman, produced this year's survey (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 (22 offices nationwide) specializing in lodging property sales, debt financing and consulting. (www.hrec.com). Justin Goodenow and Kunal Shah, Associates in HREC's Denver office, assisted throughout the process.

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2023 LIIC Top Ten Survey Results:

1. **Hotel Property Investment – Debt Uncertainty; Positive Post Pandemic Bounce Back:** Overall, the 2023 LIIC Survey indicates a soft, slower transaction market with prevailing concerns about the hotel debt markets. On the other hand, investors believe post-pandemic performance, both operating fundamentals and investment performance, are better today than anticipated sitting back in June of 2020.
2. **What to Purchase?** Upscale (23%) and Upper Upscale (35%) are preferred target categories for buyers today. 68% believe hotel going-in capitalization rates will rise, yet 37% envisioning only a slight increase. Importantly for the future market liquidity, 94% of investors are trying to purchase at least one hotel over the coming 12 months.
3. **Greatest Four Threats to Your Hotel Investment:**
 - I. **Interest Rate Uncertainty for Acquisition Debt:** 67% of LIIC members believe uncertainty in debt acquisition financing is the number one threat to hotel investment.
 - II. **Mortgage Refinancing Challenges:** Almost half (47%) are currently worrying about refinancing their existing assets.
 - III. **Property Level Employee Recruiting and Retention along with Low Unemployment:** Focusing on cash flow, hotel owners are still struggling with a tough labor market.
 - IV. **Black Swan Event:** Tough to erase the harsh vivid memories of the Great Pandemic and not think about another black swan occurrence.
4. **Hotel Transactions for Calendar 2023?** 56% believe the total dollar volume of U.S. hotel transactions in calendar 2023 relative to year-end 2022 will decrease overall. However, should be noted that 35% see an increase. 53% of survey respondents predict the total number of assets forecasted to be sold by year-end 2023 to decline; yet 28% still envision an uptick. The bid/ask spread in hotel purchase pricing is expected to continue to narrow.
5. **The Future of Hotel Debt?** 42% of investors are hopeful and predict that the availability of hotel debt will become slightly better over the coming year. LIIC predicts that Debt Funds and Private Money will be leading the lending activity charge. Also forecasted is an increase in Mezzanine Lending to top off the acquisition capital stack and to replace capital calls. Assumable debt deals are expected to increase over the next six months.
6. **Some Investors Remain Steadfast on New Hotel Development:** 56% believe now is a good time to identify, tie up and predevelop for construction when conditions warrant. Types of hotels expected to dominate the development pipeline? Extended-stay (especially economy/budget) is number one, closely followed by select service.
7. **Hotel Buyers Frustrated?**

Quantity: In 2023, 53% of hotel investors believe the amount of hotels on the market is below 2022. Yet, a strong 25% believe the quantity is about the same.

Quality: 53% believe the overall quality (desirability to purchase) of assets on the market is worse than 2022.

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8. Where NOT to buy a hotel? LIIC members were asked in which three of the top 25 markets they “would not consider buying a hotel.” A three-way tie occurred for third place.

1. Chicago, Illinois
2. San Francisco/San Mateo, California
3. Detroit, Michigan
3. Minneapolis/St. Paul, Minnesota
3. St. Louis, Missouri/Illinois

Where to buy? #1 Tampa/St Pete, #2 Phoenix; #3 Denver, #4 Boston and #5 Miami.

9. Post Pandemic Hotel Investment Performance? A dominating percentage, 80% of investors, opine that their hotel investments are currently performing better than they anticipated sitting back in time, June of 2020, the heart of the pandemic.

10. Overall impact of Inflation? Interesting comparison, 50% believe inflation is negatively affecting the value of their lodging investments. However, a strong 21% believe inflation is positively impacting the hotel assets they own.

LIIC Bonus Questions:

- **Twitter?** 32% believe in Elon Musk and that his purchase was positive for both Twitter and Free Speech.
- **Artificial Intelligence (AI)** such as ChatGPT has not reached the hotel investment community, 79% of investors not using at all in the normal course of business.
- **2024 Presidential Election?** A toss up, predictions basically 50/50 between whether Democrats or Republicans will win

For additional information, please contact:

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