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THE 2024 LIIC TOP TEN:
THE ANNUAL FORECAST OF LODGING INVESTMENT TRENDS AND CHALLENGES

Release Date: May 8, 2024

"Hotel Real Estate Investment: Improving Slightly yet Stagnant in Key Sectors"

(Denver, CO) For the past 19 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 (23 offices nationwide) specializing in lodging property sales, debt financing and consulting (www.hrec.com). Kunal Shah and George Davis, Associates in HREC's Denver office, assisted throughout the process.

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2024 LIIC Top Ten Survey Results:

1. **Hotel Property Investment – Currently Stagnant with Slightly Positive Improvements Expected over the Coming 12 Months:** Overall, the 2024 LIIC Survey indicates a slightly improving transaction market with stagnation in many sectors. Although interest rates have decreased slightly and debt is available, the highly desirable assets have not entered the transaction portal due to lingering hangovers from debt market costs. Underlying this occurrence is the challenging bid/ask spread for premium acquisition targets. However, improving daily, more hotel owners are looking to explore selling properties and are accepting pricing reality. Overall, aggregate hotel volume transaction levels are forecasted to be up 10% or potentially greater by year-end 2024.

2. **Greatest Four Threats to Your Hotel Investment:**

   I. ***Interest Rate Costs for Acquisition Debt:*** 68% of LIIC members are struggling with the cost of mortgage financing for their prospective deals.

   II. ***Change-of-Ownership PIP Mandates from Brands:*** Costly and expansive PIPs from brands have emerged as a hotel investment threat for buyers and sellers.

   III. ***Availability of Suitable Acquisition Assets in Your Targeted IRR Range:*** The ability of buyers to find premium purchase opportunities that achieve targeted IRR pro formas is challenging, as a function of the wide bid-ask spread.

   IV. ***Mortgage Refinancing Challenges:*** Related to number one, investors are struggling to rationalize holding current hotels when refinancing at current terms.

3. **Hotel Cap Rates and Transactions Market?** Hotel going-in acquisition cap rates appear to have stabilized, with 64% viewing cap rates as stable or increasing slightly over the next 12 months. 75% anticipate the total *dollar volume* of U.S. hotel transactions will increase overall by year-end 2024 relative to year-end 2023. 30% see the total *dollar volume* increasing over 10%. Commensurately, 74% of survey respondents predict the total *number* of assets sold by year-end 2024 to also increase.

4. **Impact of Hotel Debt?** Surprisingly, 79% of LIIC hotel owners responded that unfavorable debt refinancing terms have not impacted their decision to sell a property over the last year instead of holding. 57% still plan to refinance their existing debt in the next 12 months. Debt availability looks positive with 94% predicting stability or improvement. CMBS, debt funds and private money are forecasted to increase their lending significantly over the next 12 months.

   Among all current CMBS hospitality loans, 9% are on the watchlist due to a Debt Service Coverage Ratio (DSCR) of 1.25 or lower. The percentage of CMBS hospitality loans is greater than any other asset class (office - 7; industrial - 7%; retail - 5%).

   Source: CoStar, as of March 2024

5. **Impact of Inflation?** 73% of investors believe our current inflationary environment has resulted in a value reduction and missing target IRRs for their hotel property investments. 54% of respondents believe overall hotel operating fundamentals are worse than the pre-pandemic environment.

   As of March 2024, year-over-year CPI grew by 3.48% whereas ADR only grew by 0.36%. Thus, expense growth has outpaced revenue growth, creating a challenging environment for investors to hit their targeted IRR range.

   Source: CoStar & Federal Reserve Bank of St. Louis, as of March 2024

6. **What Do Lodging Investors Want?** Upper Upscale (44%) is the preferred target scale for buyers today; followed by Upscale at 19%. In terms of what will transact, available hotels to purchase indicate that actual transaction volume will be roughly an equal spread from Midscale to Upper Upscale.

7. **Hotel Buyers Struggling Finding Product?**

   Quantity: 71% estimate that the quantity (number of hotels) on the market is similar to or only slightly better than 2023.

   Quality: Of particular note, over half of those surveyed feel the quality (desirability to purchase) is the same as 2023, showing a slow release to market for highly desirable acquisitions.

   As of March 2024, there were 2,300 hotels sold in the U.S. over the last 12 months. This number is down 37% when compared to the twelve months ending March 2023. Sales volume over the same period was down by an even larger percentage of 45%.

   Source: CoStar, as of March 2024

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8. **Where to buy a hotel?** LIIC members were asked in which of the top 25 markets they "would consider buying a hotel." A three-way tie occurred for third place.

    1. Boston, Massachusetts
    2. Tampa, Florida
    3. Nashville, Tennessee
    3. New York, New York
    3. Phoenix, Arizona

    Where NOT to buy? #1 St. Louis, #2 San Francisco, #3 Minneapolis, #4 Detroit and #5 Chicago and Los Angeles (tied).

    Of the markets to buy in, New York experienced the greatest 12-month ADR change as of March 2024. Of the markets to NOT buy in, San Francisco stood out as the only market where ADR decreased during the same period.

    Source: CoStar, as of March 2024

9. **New Hotel Development?** Over the next 24 months, extended-stay hotels are expected to be dominant (45%) followed by upscale select-service (33%). 50% of LIIC believes it is a good time to identify, tie up and pre-develop for new construction projects.

    Per Future Market Insights, the global market value for extended-stay assets was $54.5B in 2023. Forecasting to 2033, the market value will be $166.6B – an astounding compound annual growth rate (CAGR) of 11.8% over the next 10 years. For reference, the CAGR from 2018 to 2022 was only 6.5%.

10. **Hotel Guestroom Demand?** Positively, 65% are cautiously optimistic that corporate travel is on a strong path to finalize recovery to pre-pandemic levels, and 74% anticipate that the group travel segment is going to achieve the fastest RevPAR growth over the next 12 months.

LIIC Bonus Questions:

- **2024 Presidential Election:** 50% of LIIC anticipate that a Republican will win the 2024 presidential election, while 44% foresee a Democratic win, leaving 6% to favor other outcomes.
- **Public Hotel REIT Stock:** Not buying, 61% would not consider buying public hotel REIT stock today with their personal investment accounts.
- **Daily Housekeeping?** When you check into a Midscale to Luxury transient hotel, 43% of hotel investors still do not assume you will be provided with automatic daily housekeeping.

References:

- *https://www.futuremarketinsights.com/reports/extended-stay-hotel-sector-overview#:~:text=As%20of%202023%2C%20the%20global,11.8%25%20from%202023%20to%202033*
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