



## U.S. Lodging Industry - 2016



*Presented by:*

**Daniel Lesser**, President & CEO

**LW Hospitality Advisors®**

200 West 41<sup>st</sup> Street, Suite 805

New York, NY 10036

USA

(212) 300-6684 X101

[daniel.lesser@lwhadvisors.com](mailto:daniel.lesser@lwhadvisors.com)

[www.lwhospitalityadvisors.com](http://www.lwhospitalityadvisors.com)

June 29, 2016





# Hotels: What Makes Them Different?

## Operating Business

Unlike other classes of real estate, hotels typically contain hundreds (in some cases over one thousand) of employees. Properties are reliant on the quality of management, the brand, the employees and other factors.

## No Credit

Hotels do not benefit from long-term leases or credit tenancies; the inventory is sold on a daily/nightly basis resulting in a high degree of revenue and net income volatility.

## Compounded Complexity

The success of a hotel investment is heavily influenced by multiple parties, each of which may have competing and/or complimentary interests in the underlying property. In addition to the traditional interests of owner/sponsors, third party equity investors, and lenders, additional complexity is derived from the interests of the property manager and/or brand. These complexities can result in competing economic and operating influences that may not be common to other forms of real estate investment.

## Highly Leveraged, High Fixed Cost Business:

Regardless of whether a hotel property is 10% occupied, or 100% occupied, ownership is still exposed to fixed costs.

## Reliance On Other Intermediaries:

The hotel business is directly tied to uncontrollable “outside” parties including travel agents, internet sites, etc.

## The Hotel Industry is a Complex and Volatile Business



## *Random Dan Lesser Thoughts*

---

- If you bought between '09 and '11 consider selling now
- Hotels are fundamentally long term hold assets
- Off market does not equal below market
- Be vigilantly aware of new supply
- Brand overload
- Without Airbnb data its impact cannot be fully defined
- A hotel company should merge with Airbnb
- Flight to yield expanding to secondary/tertiary markets
- Increase implementation of fees and surcharges
- Independent hotel instantly becomes a new brand
- Industry obsession with “millennials” and “lifestyle”
- “Newbies” once again entering the hotel space
- Industry should aggressively raise room rates
  - Airline industry moves in tandem

# U.S. Hotel Industry Macro Overview

|                          | 1/1/2009     | 11/1/2012           | 3/31/2016               |
|--------------------------|--------------|---------------------|-------------------------|
| <b>Economy</b>           | Contracting  | Expanding (Slowly)  | Expanding (Modestly)    |
| <b>Jobs</b>              | Declining    | Increasing (Slowly) | Increasing (Modestly)   |
| <b>Consumer Spending</b> | Declining    | Increasing          | Increasing              |
| <b>Business Spending</b> | Declining    | Increasing          | Leveling off            |
| <b>Supply Growth</b>     | Accelerating | Muted               | Low & Accelerating      |
| <b>Room Night Demand</b> | Declining    | Record Levels       | Continued Record Levels |

| <b>U.S. Hotel Performance</b> | 2008   | 2009    | 2010   | 2011   | 2012   | 2013   | 2014   | 2015   | Projected 2016 | Projected 2017 |
|-------------------------------|--------|---------|--------|--------|--------|--------|--------|--------|----------------|----------------|
| <b>Supply</b>                 | ▲ 2.6% | ▲ 3.2%  | ▲ 2.0% | ▲ 0.6% | ▲ 0.5% | ▲ 0.7% | ▲ 0.9% | ▲ 1.1% | ▲ 1.7%         | ▲ 1.9%         |
| <b>Demand</b>                 | ▼ 1.9% | ▼ 5.8%  | ▲ 7.8% | ▲ 5.0% | ▲ 3.0% | ▲ 2.2% | ▲ 4.5% | ▲ 2.9% | ▲ 2.3%         | ▲ 2.1%         |
| <b>Occupancy</b>              | ▼ 4.4% | ▼ 8.7%  | ▲ 5.7% | ▲ 4.4% | ▲ 2.5% | ▲ 1.5% | ▲ 3.6% | ▲ 1.7% | ▲ 0.6%         | ▲ 0.2%         |
| <b>ADR</b>                    | ▲ 2.7% | ▼ 8.8%  | ▼ 0.1% | ▲ 3.7% | ▲ 4.2% | ▲ 3.9% | ▲ 4.6% | ▲ 4.4% | ▲ 4.4%         | ▲ 4.3%         |
| <b>RevPAR</b>                 | ▼ 1.8% | ▼ 16.7% | ▲ 5.5% | ▲ 8.2% | ▲ 6.8% | ▲ 5.4% | ▲ 8.3% | ▲ 6.3% | ▲ 5.0%         | ▲ 4.5%         |

Source: (Data Only) STR, Inc.

# *U.S. Hotel Industry SWOT Analysis- Strengths*

Little if any empirical evidence the U.S. is near recession



# *U.S. Hotel Industry SWOT Analysis- Strengths*

---

The industry has been in a 'Goldilocks' equilibrium



# *U.S. Hotel Industry SWOT Analysis- Strengths*

---

Construction is limited, but escalating



# *U.S. Hotel Industry SWOT Analysis- Strengths*

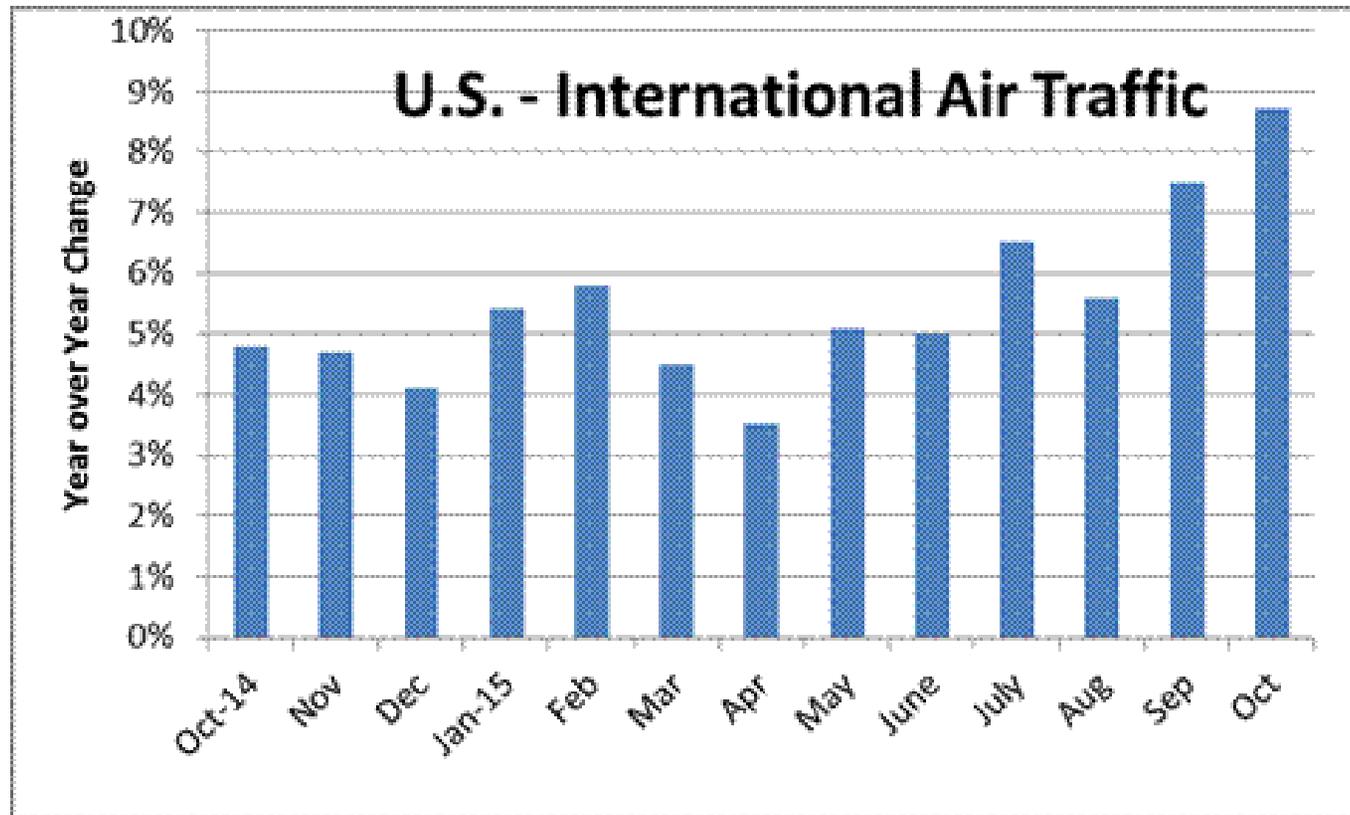
---

Gasoline prices are declining



# U.S. Hotel Industry SWOT Analysis- Strengths

Increasing International air traffic to/from U.S.

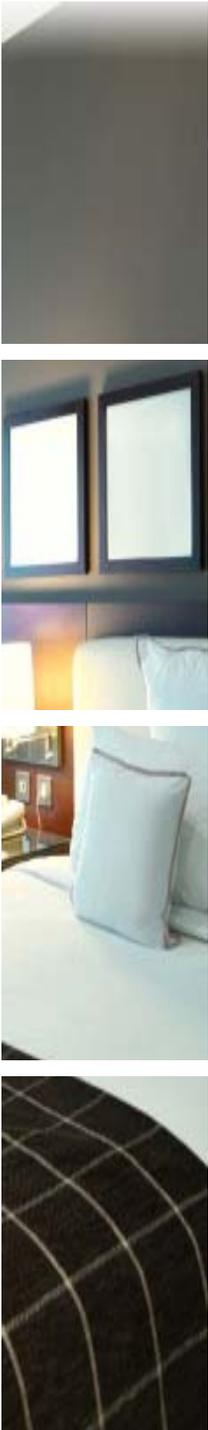


Source: travel.trade.gov

# *U.S. Hotel Industry SWOT Analysis- Strengths*

---

USA is the world's beacon for safety and security



# *U.S. Hotel Industry SWOT Analysis- Strengths*

---

Industry experiencing strong group demand, and record high occupancy levels



# U.S. Hotel Industry SWOT Analysis- Strengths

Inbound overseas capital chasing yield



# U.S. Hotel Industry SWOT Analysis- Strengths

## Record setting hotel prices



# *U.S. Hotel Industry SWOT Analysis- Strengths*

Technology helps increase efficiency  
and maximize profits



# *U.S. Hotel Industry SWOT Analysis- Weaknesses*

---

Uncertainty as no one really knows



# U.S. Hotel Industry SWOT Analysis- **Weaknesses**

---

Underwhelming U.S. economic recovery



# *U.S. Hotel Industry SWOT Analysis- Weaknesses*

Strong U.S. dollar value renders travel to America more costly and hampers exports



# U.S. Hotel Industry SWOT Analysis- **Weaknesses**

---

OTA's are propagating negative pressure on room pricing



# U.S. Hotel Industry SWOT Analysis- *Weaknesses*

Rising influence of unions



**UNITE  
HERE!**



## *U.S. Hotel Industry SWOT Analysis- Weaknesses*

---

Hotel property taxes are rising



# U.S. Hotel Industry SWOT Analysis- *Weaknesses*

Entry of international brands increasing competition



Pestana

HOTELS & RESORTS



# *U.S. Hotel Industry SWOT Analysis- Opportunities*

---

Industry well positioned to  
react to any inflation



# *U.S. Hotel Industry SWOT Analysis- Opportunities*

---

Pricing power rests with owners/operators negotiating corporate rates



# U.S. Hotel Industry SWOT Analysis- *Opportunities*

There are physically and/or functionally obsolete hotel products situated on excellent sites/locations



# U.S. Hotel Industry SWOT Analysis- Opportunities

## Hotel Company Mergers & Acquisitions



# U.S. Hotel Industry SWOT Analysis- Opportunities

## Hotel Company Mergers & Acquisitions



# U.S. Hotel Industry SWOT Analysis- Opportunities

## Ancillary Charges & Fees

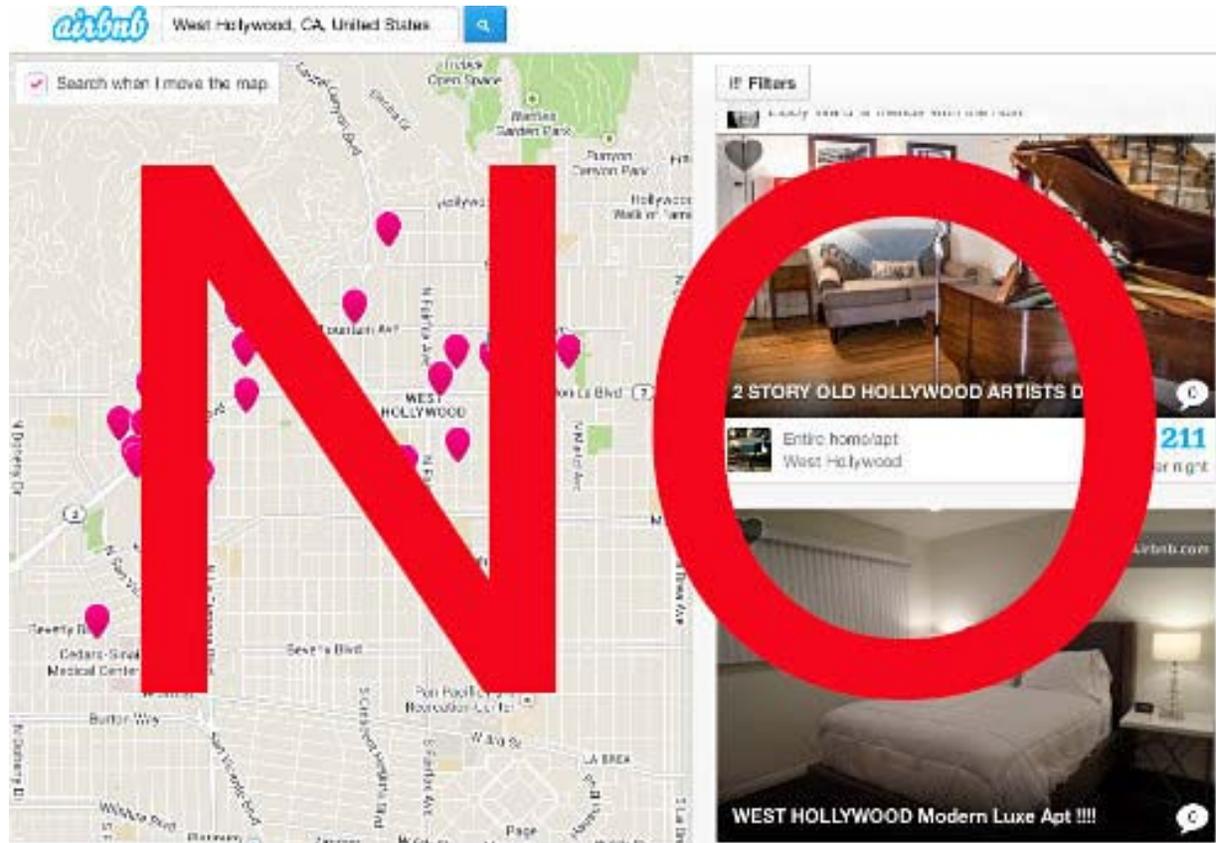


Cruise



# U.S. Hotel Industry SWOT Analysis- Opportunities

## Blowback against Airbnb



# U.S. Hotel Industry SWOT Analysis- Opportunities

Rise of secondary markets provides opportunities

## U.S. Markets to Watch

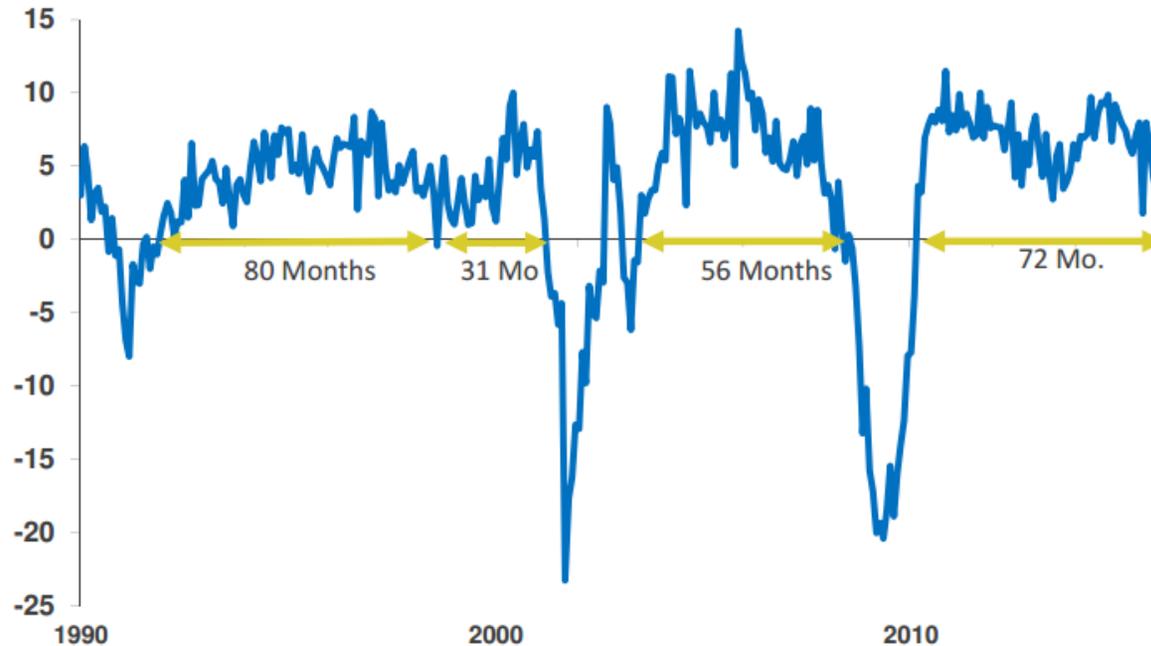
| Total Rank | Market             | Category Rank |             |              |
|------------|--------------------|---------------|-------------|--------------|
|            |                    | Investment    | Development | Homebuilding |
| 1          | Houston            | 1             | 1           | 2            |
| 2          | AUSTIN             | 2             | 4           | 1            |
| 3          | San Francisco      | 3             | 2           | 5            |
| 4          | DENVER             | 5             | 5           | 4            |
| 5          | Dallas/Ft. Worth   | 9             | 8           | 3            |
| 6          | Los Angeles        | 6             | 6           | 6            |
| 7          | CHARLOTTE          | 7             | 7           | 7            |
| 8          | Seattle            | 4             | 3           | 17           |
| 9          | Boston             | 8             | 9           | 14           |
| 10         | RALEIGH/DURHAM     | 16            | 17          | 9            |
| 11         | ATLANTA            | 17            | 15          | 10           |
| 12         | Orange County      | 13            | 14          | 15           |
| 13         | Nashville          | 21            | 12          | 13           |
| 14         | New York-Manhattan | 15            | 10          | 22           |
| 15         | San Jose           | 19            | 19          | 11           |
| 16         | PORTLAND, OR       | 26            | 21          | 8            |
| 17         | Oakland-East Bay   | 11            | 20          | 24           |
| 18         | Chicago            | 14            | 13          | 28           |
| 19         | Miami              | 10            | 16          | 40           |
| 20         | San Diego          | 20            | 33          | 16           |



# U.S. Hotel Industry SWOT Analysis- *Threats*

U.S. lodging expansion now in its seventh year

- Current expansion 16 months longer than the previous expansion however 8 months shorter than the '90s expansion, as of February 2016



Total U.S., RevPAR % Change, 1/1990 – 02/2016

Source: STR, Inc.

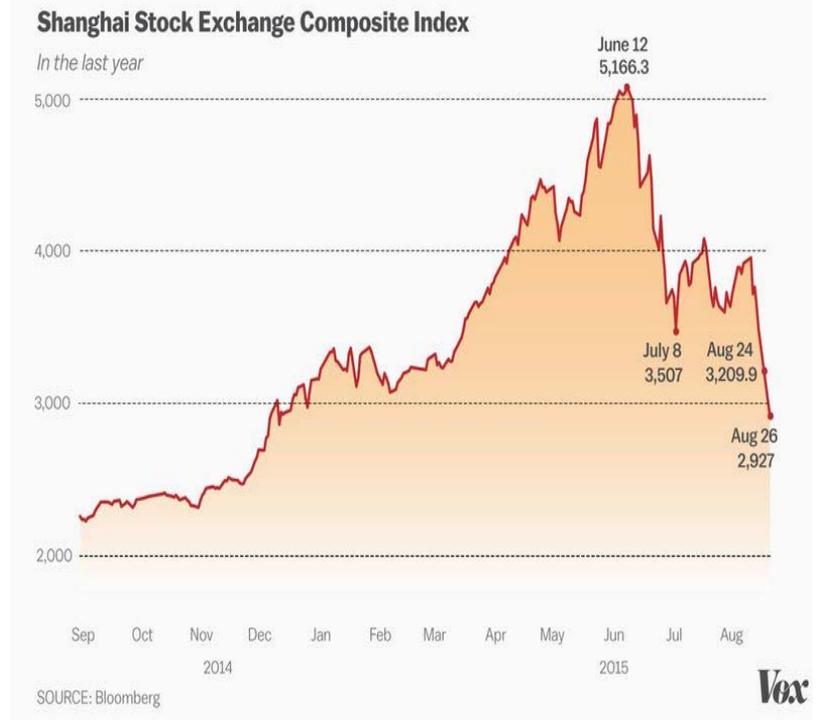
# *U.S. Hotel Industry SWOT Analysis- **Threats***

## Rising Interest Rates & Tighter Underwriting



# U.S. Hotel Industry SWOT Analysis- **Threats**

Volatile overseas economies could result in a unpredictable U.S. economy



# *U.S. Hotel Industry SWOT Analysis- **Threats***

---

There will be another recession  
between now and 2020



# *U.S. Hotel Industry SWOT Analysis- Threats*

Unusually low oil prices a drag on economies for significant portions of U.S.



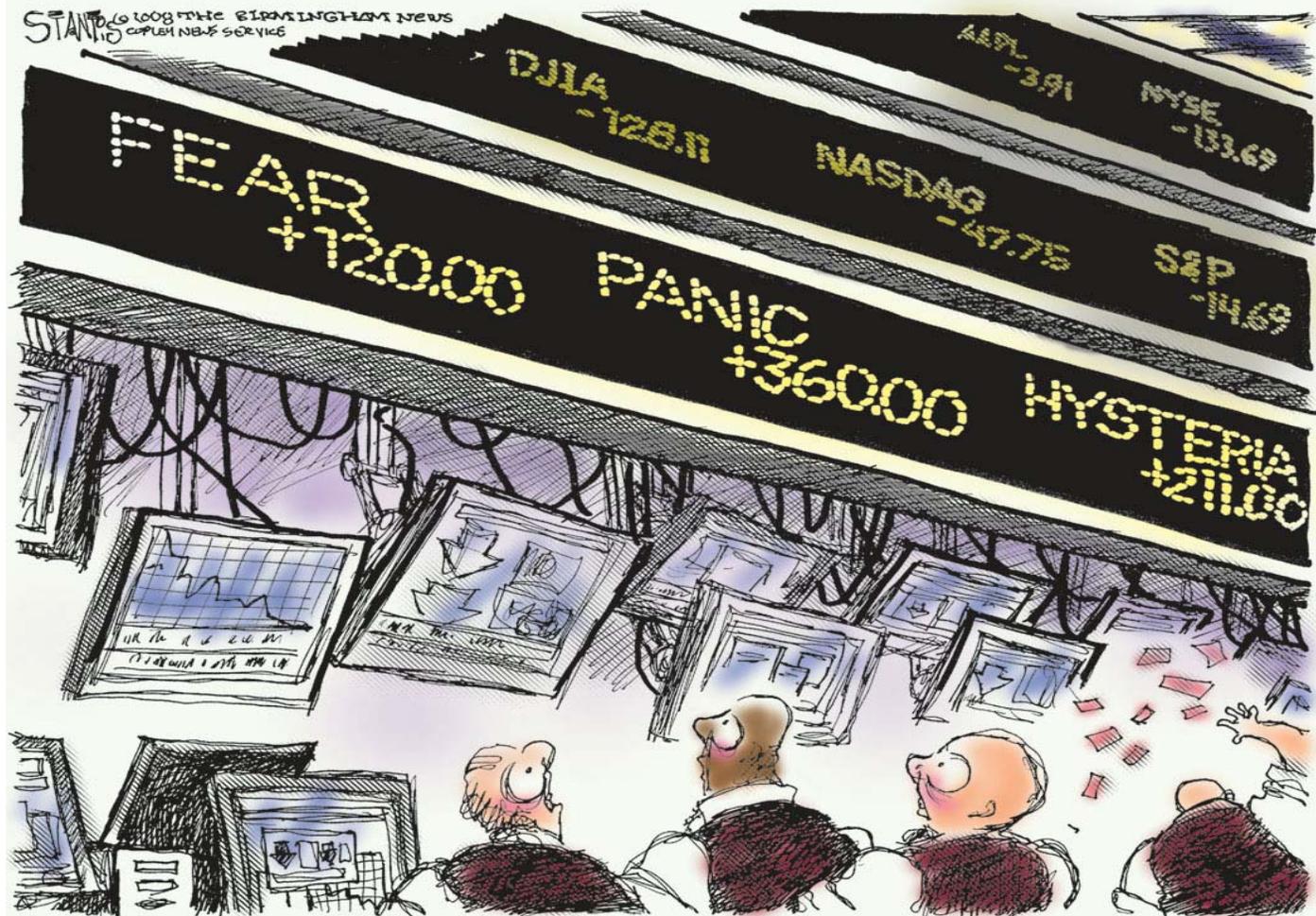
# U.S. Hotel Industry SWOT Analysis- **Threats**

## Global Stock & Bond Market Turmoil

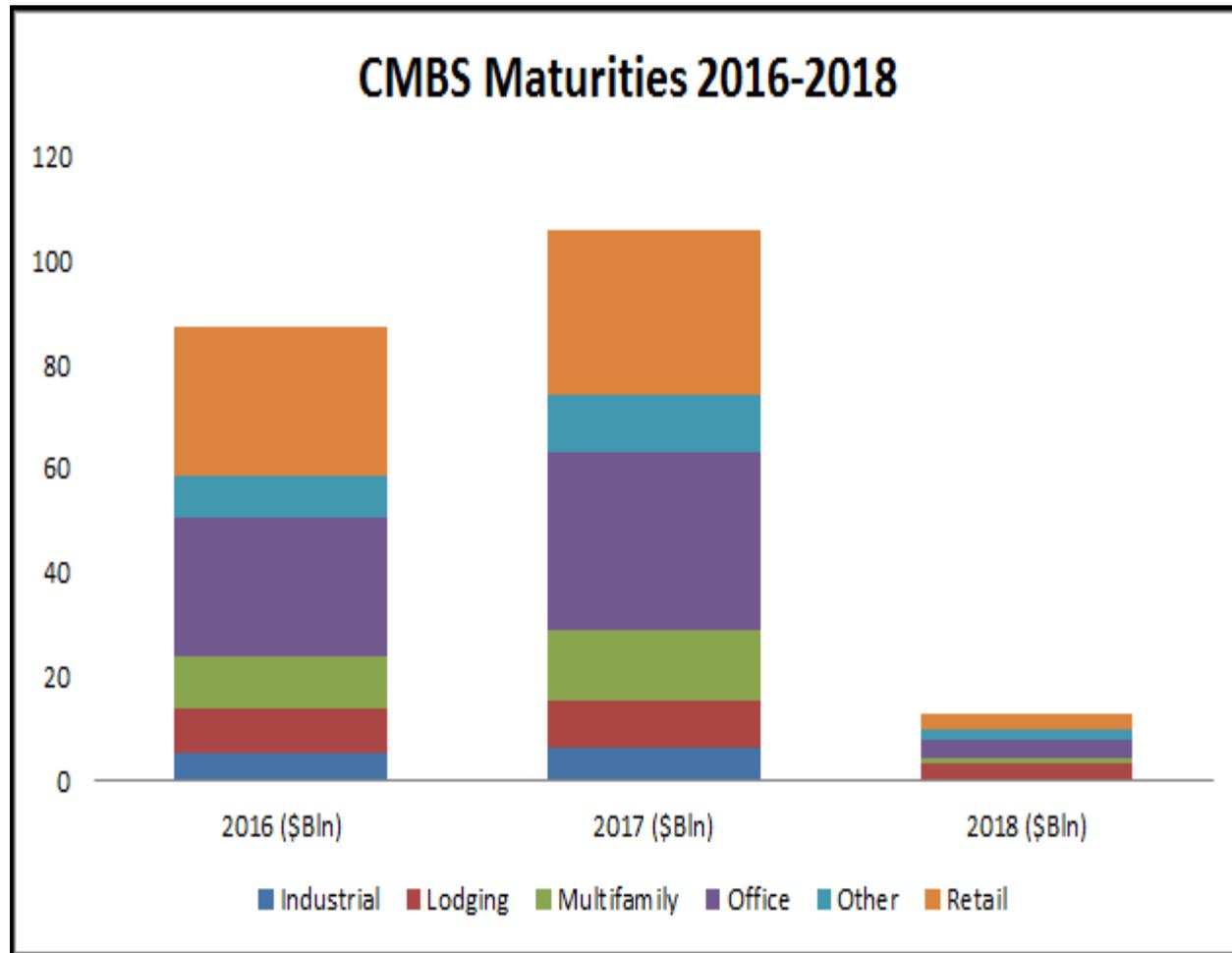


# U.S. Hotel Industry SWOT Analysis- **Threats**

## Investor Fear



# U.S. Hotel Industry SWOT Analysis- *Threats*



# U.S. Hotel Industry SWOT Analysis- **Threats**



# U.S. Hotel Industry SWOT Analysis- *Threats*

Labor unrest disrupts the industry



# *U.S. Hotel Industry SWOT Analysis- **Threats***

Cyber security risk

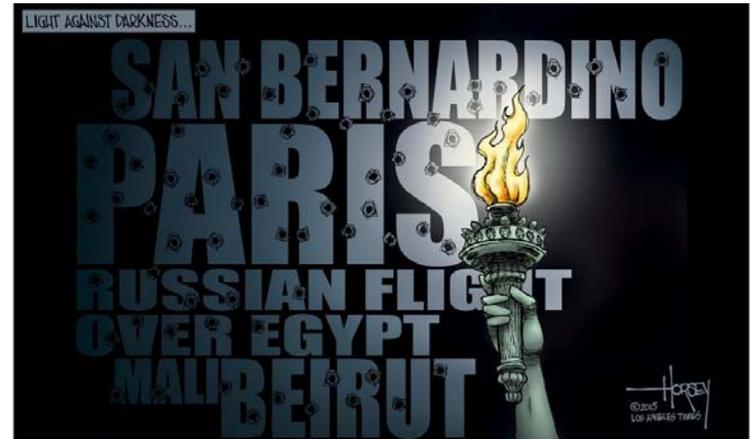


# *U.S. Hotel Industry SWOT Analysis- Threats*

Brands pushing standards updates,  
increasing costs for franchisees



# U.S. Hotel Industry SWOT Analysis- *Threats*



# U.S. Hotel Industry SWOT Analysis- *Threats*



# U.S. Hotel Industry SWOT Analysis- *Threats*

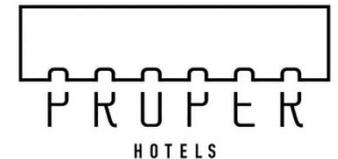
Proliferation of new hotel brands is increasing competition



OE COLLECTION



QUORVUS  
COLLECTION



HYATT CENTRIC™



# U.S. Hotel Industry SWOT Analysis- **Threats**

Travel industry disrupters



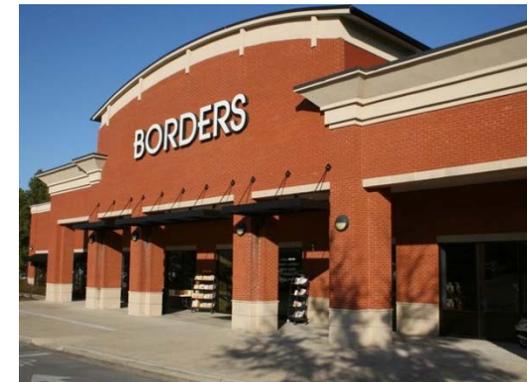
# U.S. Hotel Industry SWOT Analysis- *Threats*

## Expedia & Priceline Consolidations



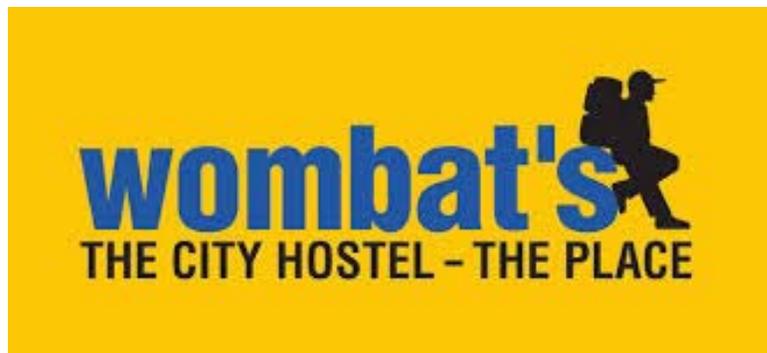
# U.S. Hotel Industry SWOT Analysis- *Threats*

Obsolescence risk that is difficult to understand



# U.S. Hotel Industry SWOT Analysis- *Threats*

The number of hostels is steadily increasing



# *U.S. Hotel Industry SWOT Analysis- Threats*

NLRB Browning-Ferris ruling altering definition of "joint employer"

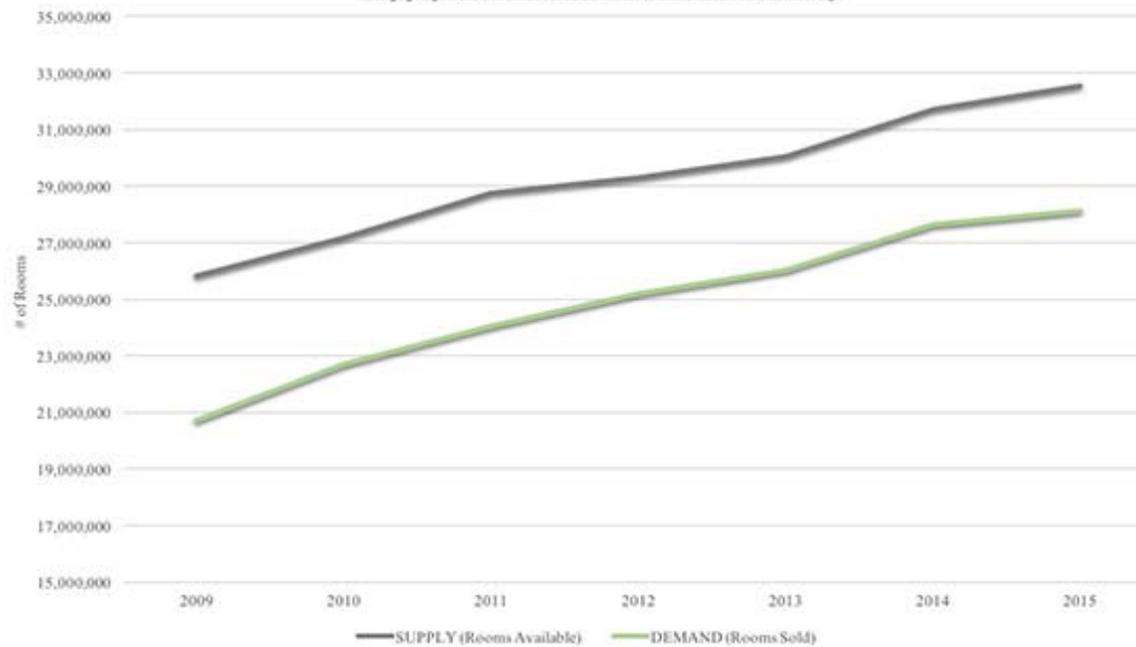


# Manhattan Performance

| Manhattan Hotel Trends |           |          |          |
|------------------------|-----------|----------|----------|
| Year                   | Occupancy | ADR      | RevPAR   |
| 2006                   | 85.5%     | \$271.08 | \$231.77 |
| 2007                   | 86.5%     | \$304.52 | \$263.41 |
| 2008                   | 85.9%     | \$310.65 | \$266.85 |
| 2009                   | 81.6%     | \$240.50 | \$196.25 |
| 2010                   | 85.4%     | \$256.65 | \$219.18 |
| 2011                   | 85.3%     | \$275.53 | \$235.03 |
| 2012                   | 87.9%     | \$284.14 | \$249.76 |
| 2013                   | 88.9%     | \$294.21 | \$261.55 |
| 2014                   | 89.3%     | \$295.75 | \$264.10 |
| 2015                   | 88.5%     | \$293.62 | \$259.85 |

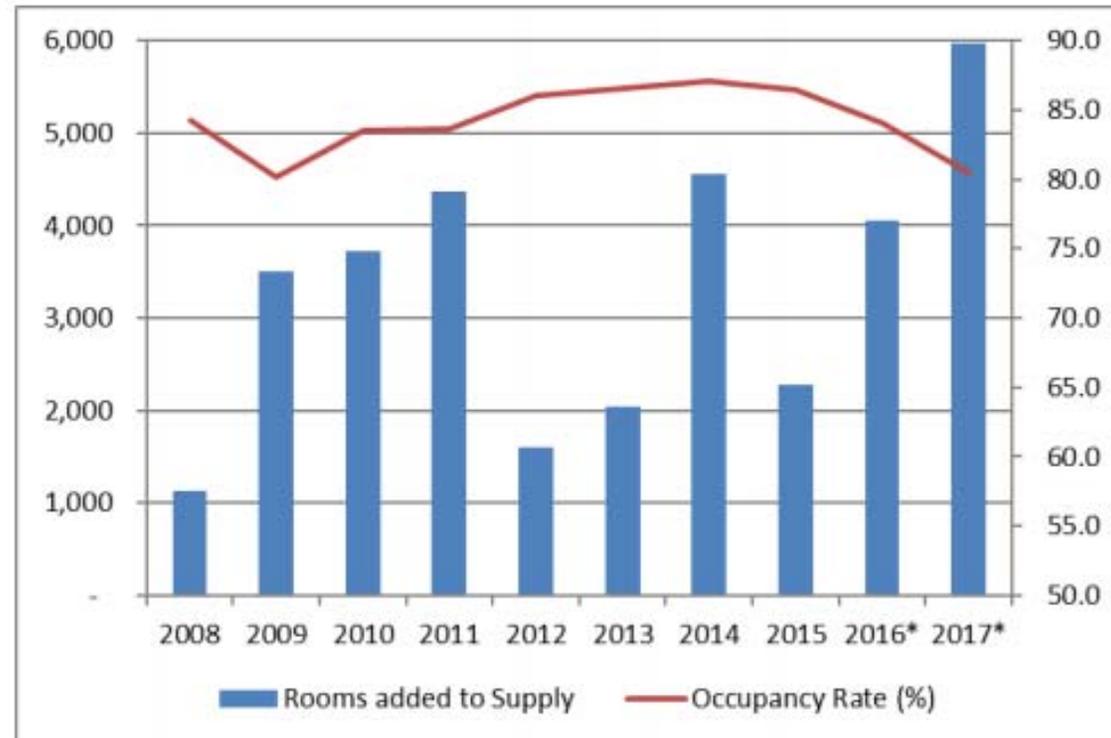
Source: CBRE Hotels; Compiled by LW Hospitality Advisors

Supply v. Demand: Room Availability



Source: NYC & Co; TRData; STR

# Manhattan Occupancy vs. New Supply



Source: Morningstar Credit Ratings, LLC & STR

## *Final Thoughts*

---





## U.S. Lodging Industry - 2016



*Presented by:*

**Daniel Lesser**, President & CEO

**LW Hospitality Advisors®**

200 West 41<sup>st</sup> Street, Suite 805

New York, NY 10036

USA

(212) 300-6684 X101

[daniel.lesser@lwhadvisors.com](mailto:daniel.lesser@lwhadvisors.com)

[www.lwhospitalityadvisors.com](http://www.lwhospitalityadvisors.com)

June 29, 2016

