hotelAVE
Asset Value Enhancement

January 27, 2017

Did you miss the 2017 Americas Lodging Investment Summit (ALIS)?

Don't worry. Just read hotelAVE's Key Conference Takeaways!

- **The new administration -** There is uncertainty around the new administration's policies, expected to last through mid-year--particularly around trade and import tariffs and the resulting impact on travel. The administration's pro-growth agenda is expected to have a positive impact on lodging, however, particularly if GDP growth goes beyond the ~2% we have seen over the past few years.
- **No recession -** We may have skipped a recession this cycle. A soft landing occurred in July 2016, and we could be in the beginning phase of a new cycle. The first half of the year is expected to post 2-3% RevPAR growth and the second half is anticipated to be a positive surprise as the new administration's economic and fiscal agenda becomes clearer.
- **Flat transaction volume -** Transaction volume is expected to be flat compared to 2016. Expect to see capital shifting more to single assets transactions and fewer portfolio deals. Debt Capital Markets are fully open. However, underwriting is stringent and lenders are more focused on business plans. Debt spreads have widened about 100 bps over the past six months.
- **Active REITs -** REITs will be active this year due to an increase in their stock valuations and a decrease in the cost of capital. Some REIT consolidation is expected, however, depending on whether the acquirer can lower the overall cost of capital of the combined entity and increase access to capital.
- **Value add opportunities -** Value add opportunities are central to this new cycle. Asset management will take center stage. All sources of capital and all participants in the capital stack are laser focused on business plan initiatives that will create additional value beyond market and brand growth. A dearth of value add opportunities may frustrate investors with higher yield requirements in 2017.
- **Rising interest rates -** Rising interest rates are projected to impact cap rates

by a magnitude of 30-50 bps. Additional factors such as rising costs and slowing RevPAR growth are expected to have a further impact of 25 bps, for a combined cap rate increase of, at most, 80 bps. There is some debate as to whether there is further cap rate adjustment or whether the market has already factored in expected interest rate increases on going in yields.

- **Brand proliferation -** New brand proliferation continues more in response to developer appetite and brand franchise fee growth objectives than consumer demand. Marriott is committed to keeping all 30 brands, but the positioning of each brand continues to be refined.
- **Development and conversion activity -** New development activity is expected to moderate substantially and conversion activity is expected to increase. Brands are continuing to push conversion brands and soft brands, increasingly contributing key money and mezzanine financing to grow in target markets.
- **Brands versus the OTAs -** The relationship between brands and the OTAs is expected to change significantly over the next 12 to 18 months--for the better. Expedia has 400,000 hotels listed on its site, while all Marriott brands list only 6,000.
- **Some costs are rising -** Three costs will go up this year: the cost of money, the cost of labor, and the cost of construction. Investors are searching for strategies to manage all three.

Managing to forward trends is one way we maximize hotel profitability. To learn more about hotelAVE and our exceptional asset management and consulting services, please contact us or visit our website at www.hotelAVE.com.

Best Regards,

Michelle Russo

Michelle Russo | Founder & CEO, CHAM, MAI, CHA
e: mrusso@hotelAVE.com| www.hotelAVE.com
hotelAVE | Providence - New York - Los Angeles
333 Westminster Street | Suite 3 | Providence, RI 02903 | p +1 401.865.6900
f +1 401.865.6999 | m +1 401.556.7900