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THE 2019 LIIC TOP TEN: THE ANNUAL FORECAST OF LODGING INVESTMENT TRENDS AND CHALLENGES

“Hotel Real Estate: Mostly Sunny Days Clouded by Labor Issues”



(Denver, CO) For the past 15 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.

Members are currently extremely active and have the pulse of the market, with 64% of LIIC hotel investors having successfully sold a hotel in the last 12 months and 50% purchased a lodging asset. In defiance of any late cycle concerns, 93% are looking to buy more hotels over the next 24 months.

The hospitality industry’s most 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 (16 offices nationwide) specializing in lodging property sales, debt financing, consulting and litigation support (www.hrec.com). James Few and Morgan Wheeler, Associates in HREC’s Denver office, assisted throughout the process.

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2019 LIIC Top Ten Survey Results:

1. Hotel Real Estate – Mostly Sunny Days Clouded by Labor Issues: Overall, the 2019 LIIC Survey indicates mostly sunny skies for the next 12 months, with labor difficulties squeezing margins in a slower ADR growth environment. An overwhelming 90% believe the limited pool of labor has directly impacted property level gross operating profit in the last 12 months. How can owners solve the labor problem? 67% advise investing more in current employees, 46% suggest targeting young high school talent and 41% believe increased use of immigrants will help.
2. Hotel Property Values Still Increasing: Over the next 12 months, 40% anticipate that lodging real estate values will increase up to 5%. 37% believe values will be flat in comparison to 2018. Similar to last year, Upscale (35%) and Upper Upscale (29%) are preferred targets for buyers today. 40% believe hotel going-in capitalization rates will rise slightly, with 37% believing rates will be flat.
3. Top Three Threats to Your Hotel Investment:
 - I. **Low Unemployment (availability of labor)**: 67% of LIIC members believe the lack of suitable employees is the number one threat to hotel investment. An increase from 49% in 2018 and 26% in 2017.
 - II. **New Lodging Supply/General Oversupply**: The former top investment concern in 2018, new hotel supply, is now a close second (64%).
 - III. **Federal and/or State Minimum Wage Hikes**: In this low RevPAR growth environment, profitability margins are being squeezed quickly and with additional minimum wage hikes on the horizon, LIIC members are worried.
4. Hotel Transactions for Calendar 2019: In an abrupt turnaround from last year, 43% believe the total dollar volume of U.S. hotel transactions in calendar 2019 relative to year-end 2018 will increase, and 28% believe volume will be flat. The total number of assets forecasted to be sold by year-end 2019 is positive, 39% up, 36% flat and 25% down.
5. Hotel Debt: Investors still like the current debt market, with 78% of owners planning to refinance in the next 12 months. 58% believe hotel acquisition lending conditions will be stable with current levels over the next 12 months. Interestingly, 25% believe the availability of debt will improve, frequently citing more debt fund activity.
6. Investors Remain Contradictory on New Hotel Development: While 64% of hotel owners cringe about the negative impact new lodging supply is having on their hotel investments, 67% are pushing forward and believe it is still a good time to build, if selective about product and market. 82% of relevant LIIC members actually have new hotels actively under development, with 85% believing Select Service is the best product type.

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7. Hotel Buyers Frustrated?
Quantity: In a reversal from last year, 36% of investors believe that an “above average quantity” of hotels are available for purchase, 39% at “average quantity.”
Quality: 66% believe the overall quality (desirability to purchase) of assets on the market is average. In the next 12 months, regional owner/operators and major private equity are expected to lead the hotel investment buyer pool in the purchase of Upscale Select-Service hotels.

8. Scary Hotel Markets? LIIC members were asked in which three of the top 25 markets they “would not consider buying a hotel.” This year, LIIC members shuffled their cards, electing the same five scariest markets while merely changing the order:
 - I. *Norfolk/Virginia Beach (33%; up from 4th last year)*
 - II. *Nashville, TN (31%; down from 1st place last year)*
 - III. *St. Louis, MO-IL (28%; down from 2nd place)*
 - IV. *New York, NY (24%; up from 5th place)*
 - V. *Detroit, MI (21%; improving, down from 3rd)*

Sleeper – where to buy? New Orleans! Only one vote against, time to buy in The Big Easy.

9. Opportunity Zone Investment? Trump’s real estate gift, opportunity zones, appears less desirable than anticipated, albeit still significant. 36% of LIIC investors are planning to concentrate future lodging investments within tax advantaged Opportunity Zones.

10. What about a recession? “Once bitten, twice shy” hotel investors still see a national recession in our near future. 43% believe it will occur in 2021, followed by 25% in 2020. A brave, Nostradamus-esque few (19%) do not see a recession in the next four years.

LIIC Bonus Questions:

- Twitter? You won’t reach top hotel investors on Twitter, 78% do not use it at all.

- Pay College Athletes? 55% of LIIC believe NCAA Division I college athletes should be additionally compensated with salaries or stipends. Capitalism rules!

- No to Check-Out! Only 12% of the nation’s top hotel owners visit the front desk to formally check-out after a stay. Labor savings!

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