



# **The U.S. Lodging Industry - 2009: Been There; Done That; Doing It Again**

*Presented to:*

**The Counselors Of Real Estate**

**Midyear Meetings**

**New York, New York**

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**Daniel H. Lesser**

Senior Managing Director – Industry Leader  
Hospitality & Gaming Group  
CB Richard Ellis, Inc.  
One Penn Plaza, Suite 1835  
New York, NY 10119  
USA  
Phone: 212.207.6064  
Fax: 212.207.6069  
Email: [daniel.lesser@cbre.com](mailto:daniel.lesser@cbre.com)

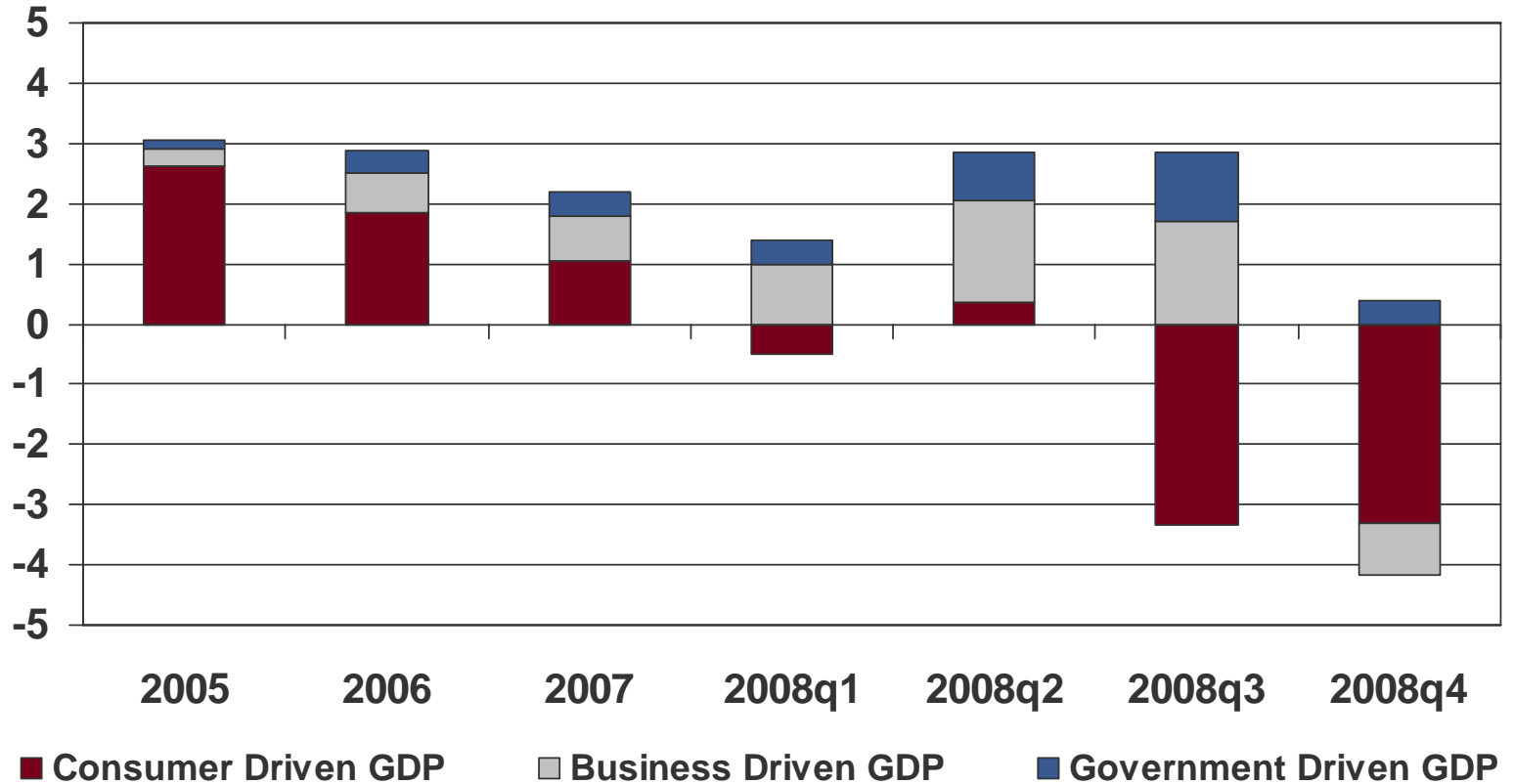
# Agenda

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- **Economic Review**
- **U.S. Lodging Industry Operating Metrics**
- **U.S. Lodging Industry Investment Metrics**
- **Closing Comments**

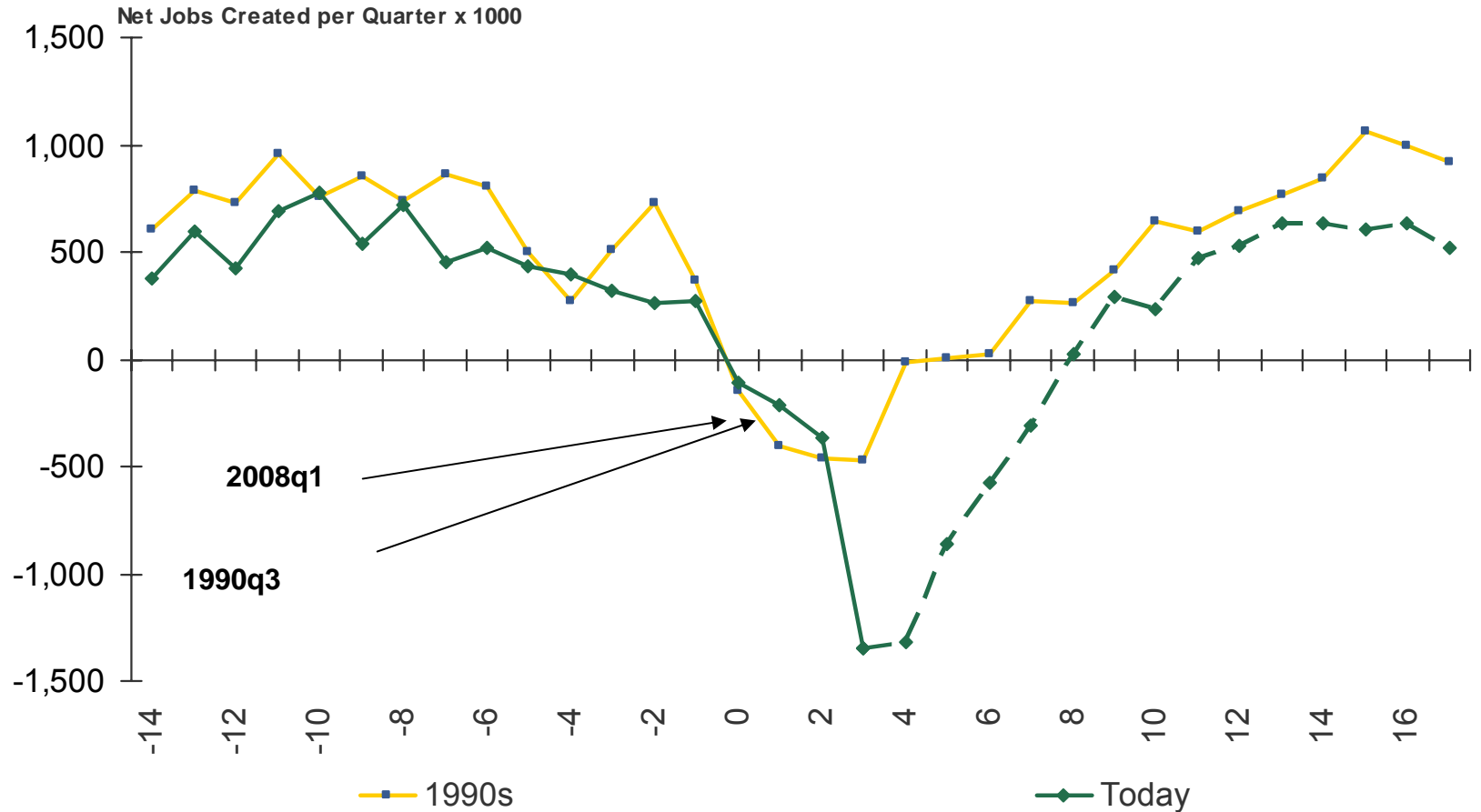
# Business-Driven Economy Succumbs

Contribution to Headline GDP Growth (%)



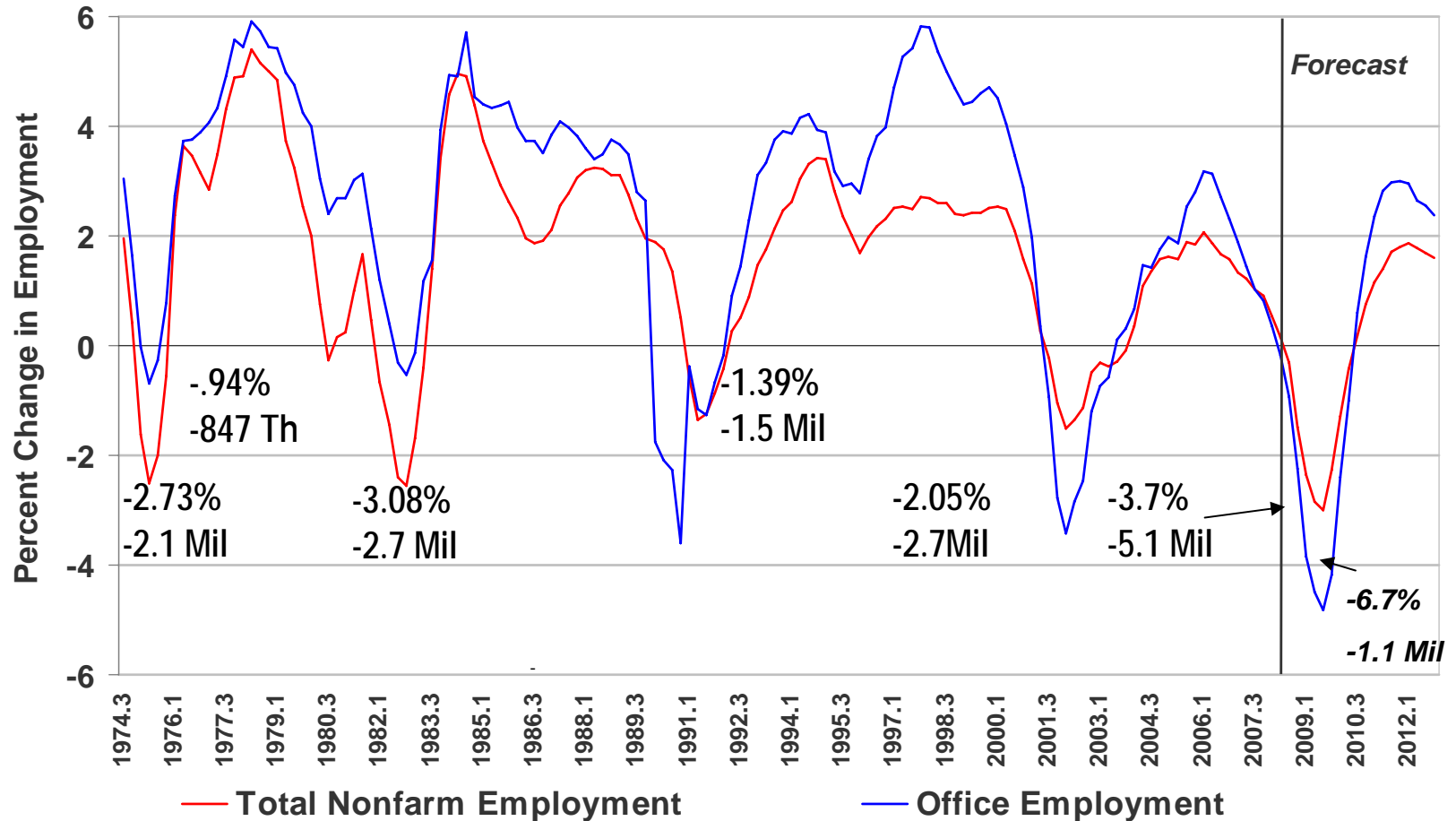
Source: BEA and CBRE Torto Wheaton Research

# A Recession This Deep Cannot Resolve Itself Quickly



Sources: CBRE/Torto Wheaton Research, Bureau of Labor Statistics.

# TWR Forecasts US Job Loses Worse than in Previous Cycles

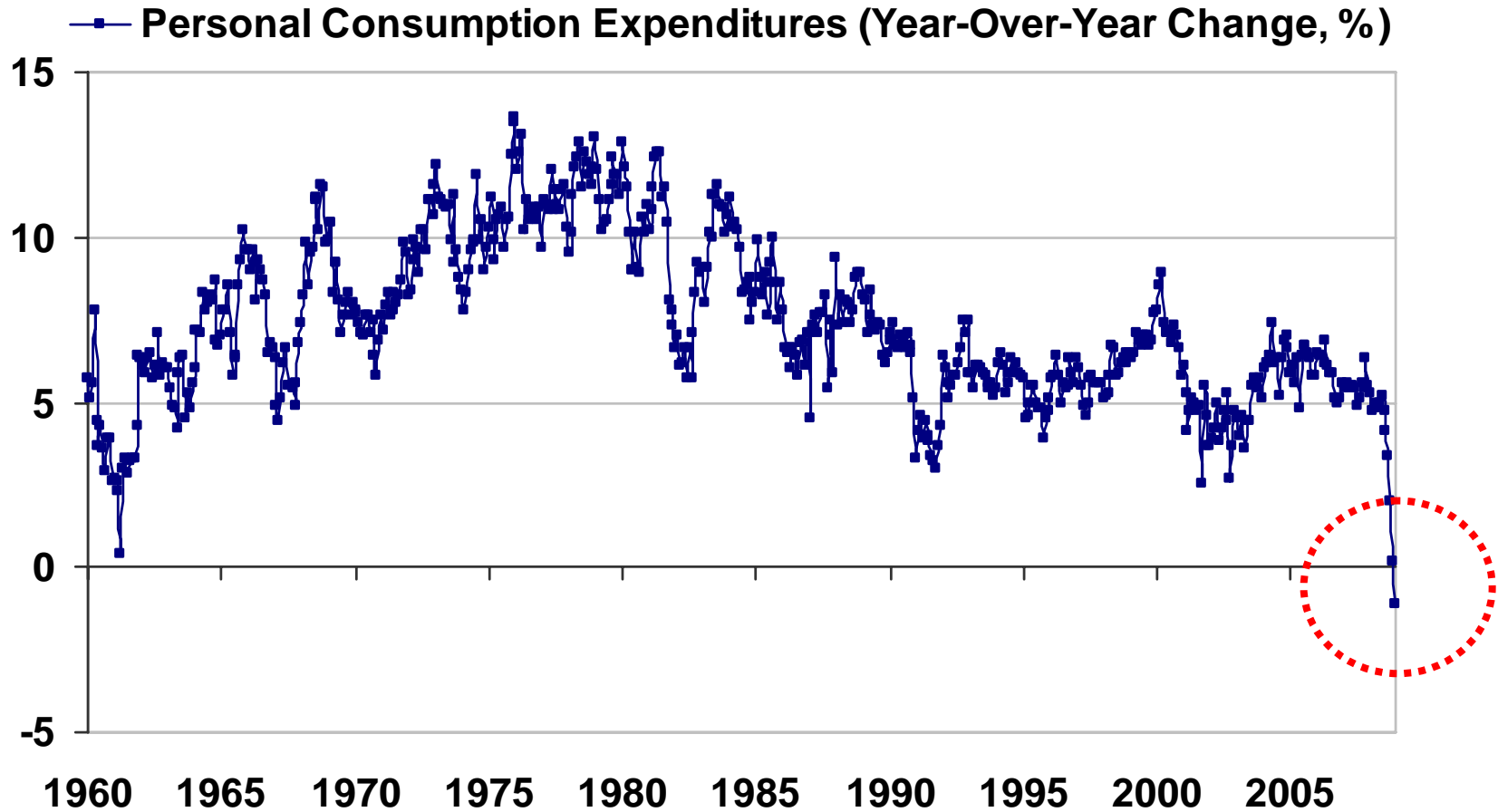


*Office employment disproportionately hit*

*2008 Total Employment down 1.5%*

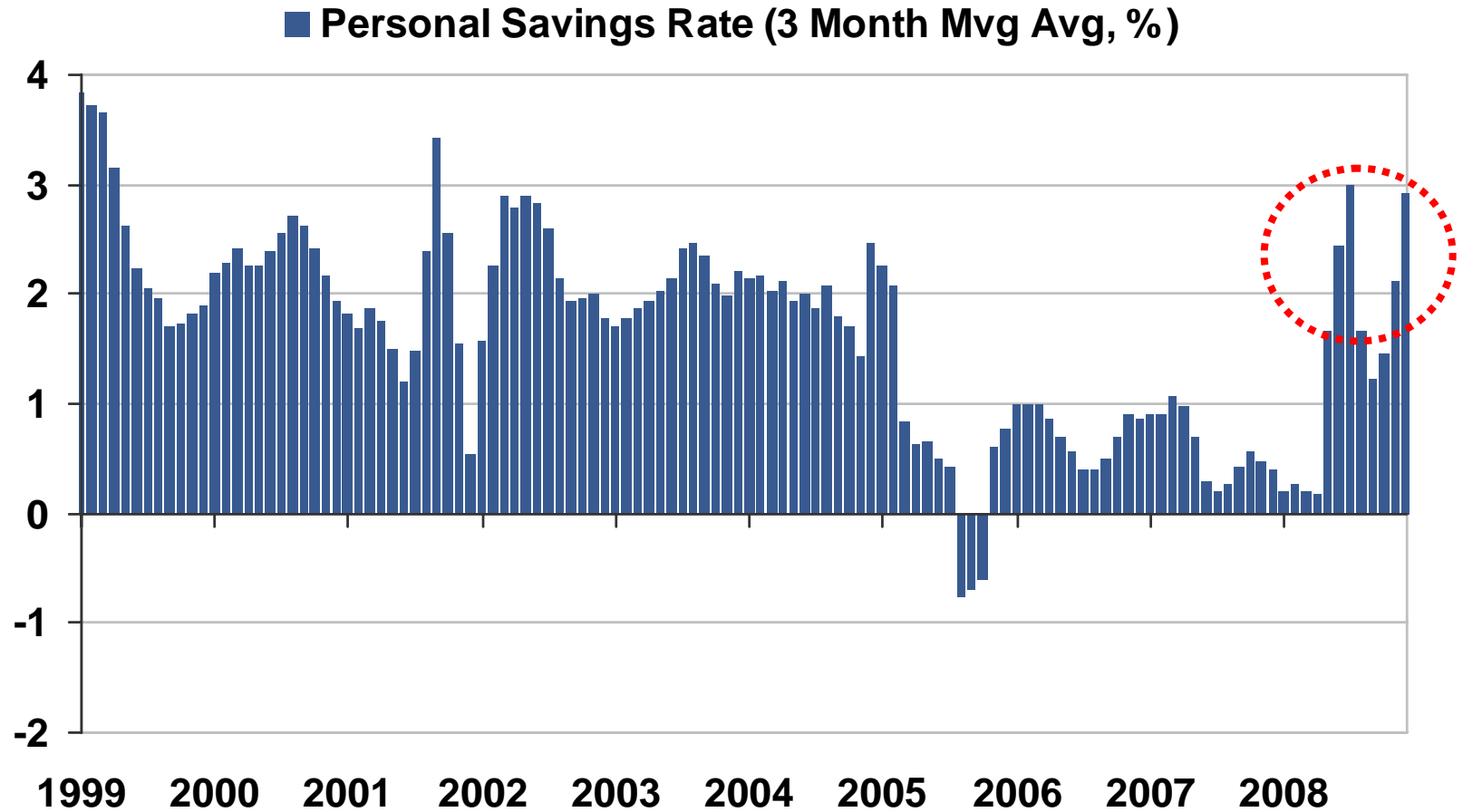
*2008 Office Employment down 2.2%*

# Layoffs and Dwindling Confidence Have Led to Sharply Lower Consumer Spending...



Source: CBRE/TWR, BEA.

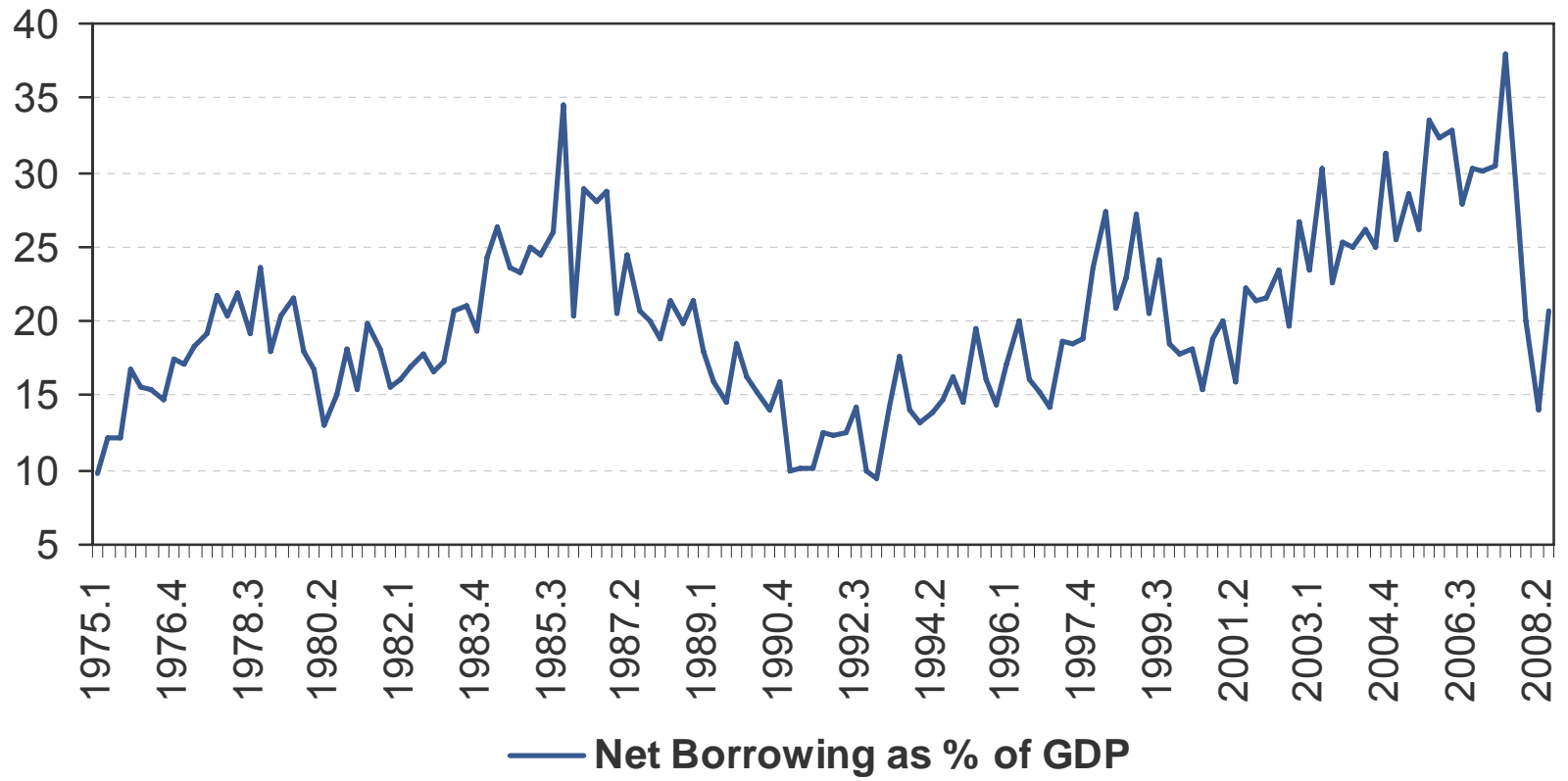
# ... And Higher Savings Rates



Source: CBRE/TWR, BEA.

# Lending Has Shut Down Very Quickly

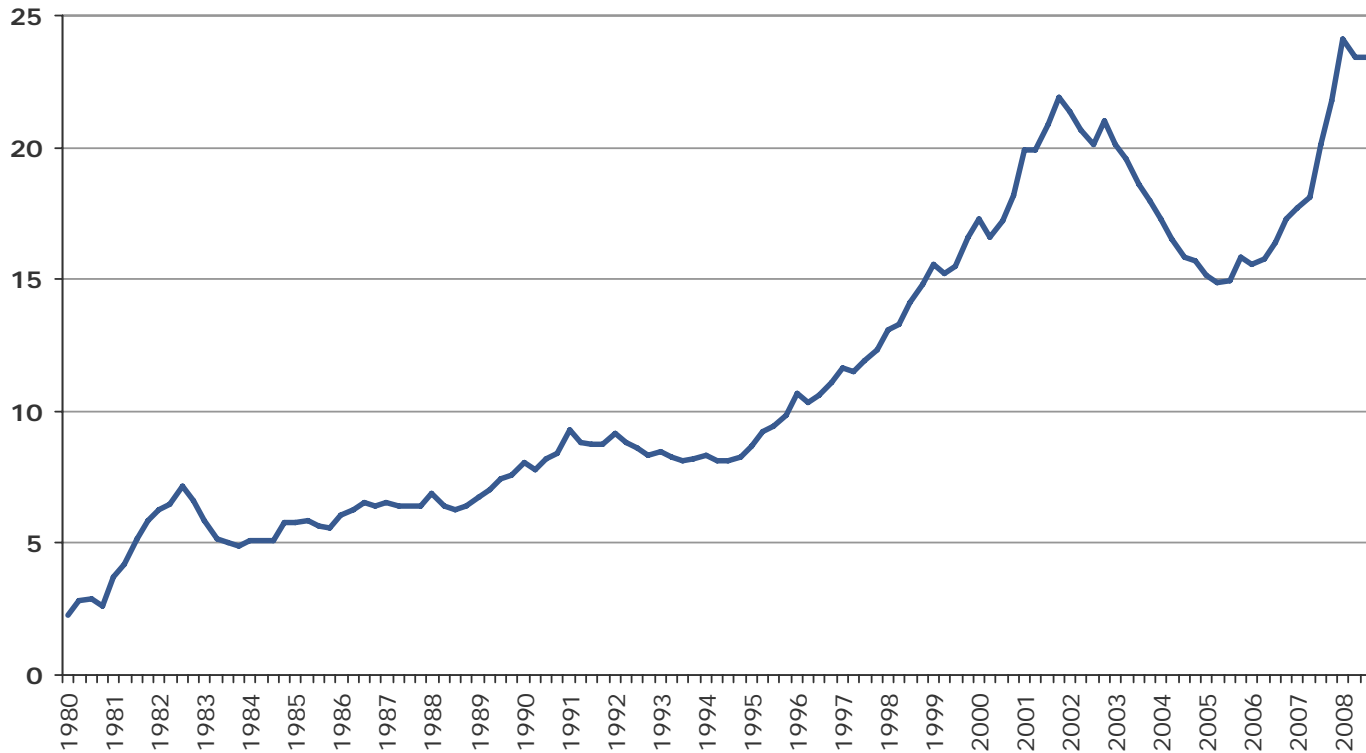
Net Borrowing and Lending as % of GDP



Source: Federal Reserve.

# There is a Lot of Cash on the Sidelines

Money Market Mutual Funds as % of GDP



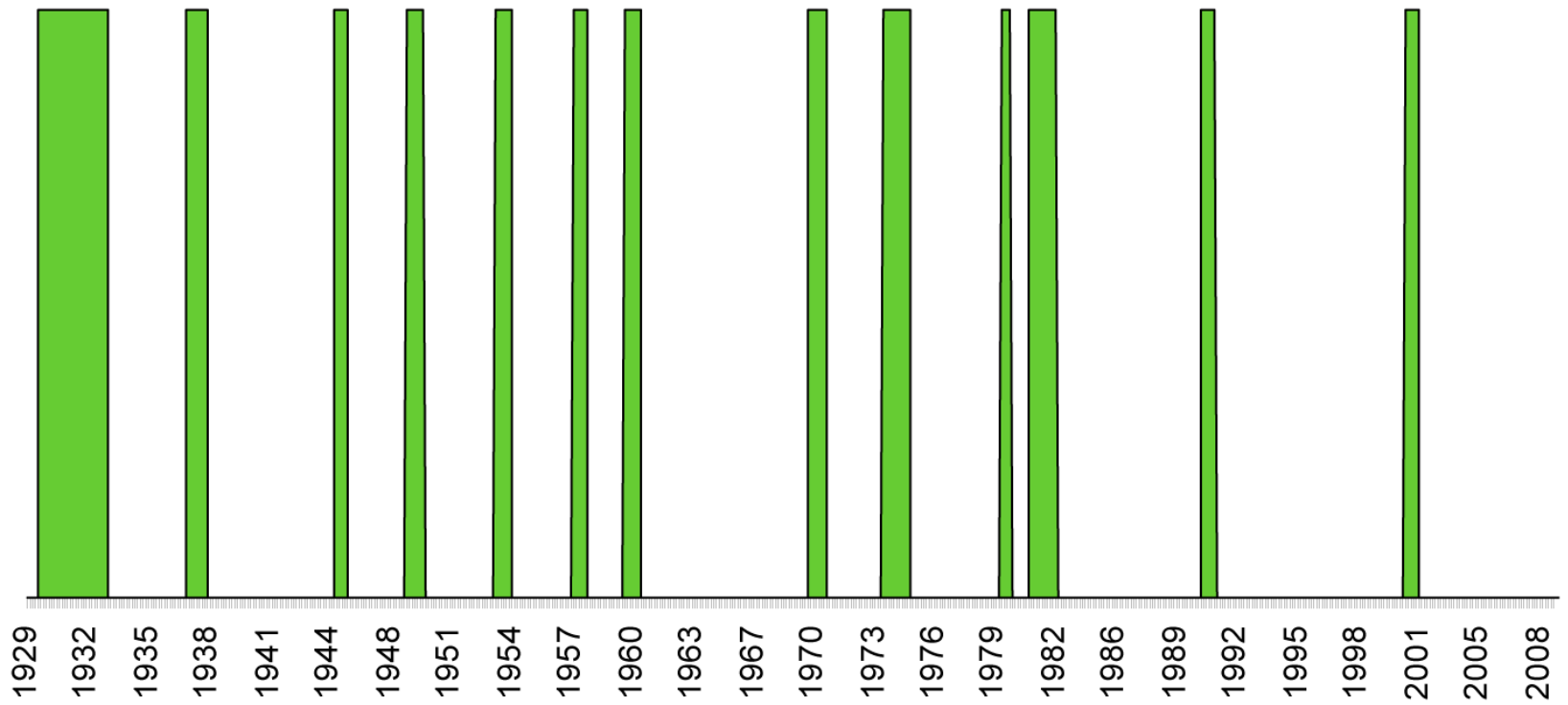
Source: CBRE/TWR, Federal Reserve Bank

# National U.S. Recessions

Dates	Duration
Aug. 1929 to March 1933 (Depression)	43 months
May 1937 to June 1938	13 months
Feb. 1945 to Oct. 1945	8 months
Nov. 1948 to Oct. 1949	11 months
July 1953 to May 1954	10 months
Aug. 1957 to April 1958	8 months
April 1960 to Feb. 1961	10 months
Dec. 1969 to Nov. 1970	11 months
Nov. 1973 to March 1975	16 months
Jan. 1980 to July 1980	6 months
July 1981 to Nov. 1982	16 months
July 1990 to March 1991	8 months
March 2001 to Nov. 2001	8 months

Source: *Smith Travel Research and National Bureau of Economic Research*

# National U.S. Recessions



Source: National Bureau of Economic Research

# U.S. Recessions and Stock Market

Year	Magnitude of Decline	Months of Decline	Months Until Full Recovery
1929 to 1933 (Depression)	83%	34	151
1937	50%	13	58
1946	22%	6	35
1962	22%	6	10
1970	29%	19	9
1974	43%	21	21
1987	30%	3	18
2002	45%	25	40
2008	47%	13*	??

Source: Center For Research In Security Prices (University of Chicago)

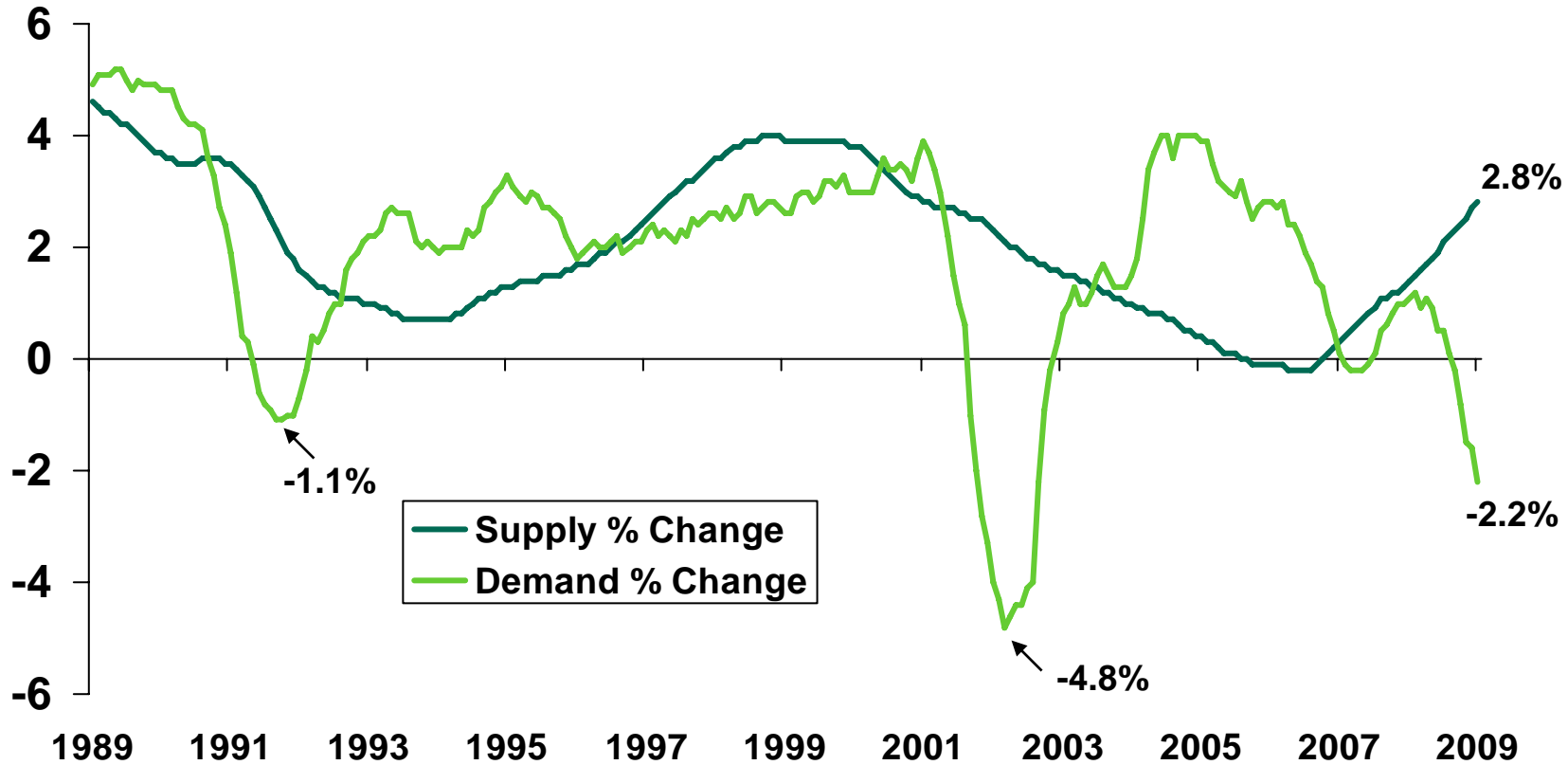
\* To date.

# **U.S. Lodging Industry Operating Metrics**

# Total United States

## Room Supply/Demand Percent Change

Twelve Month Moving Average – 1989 to January 2009

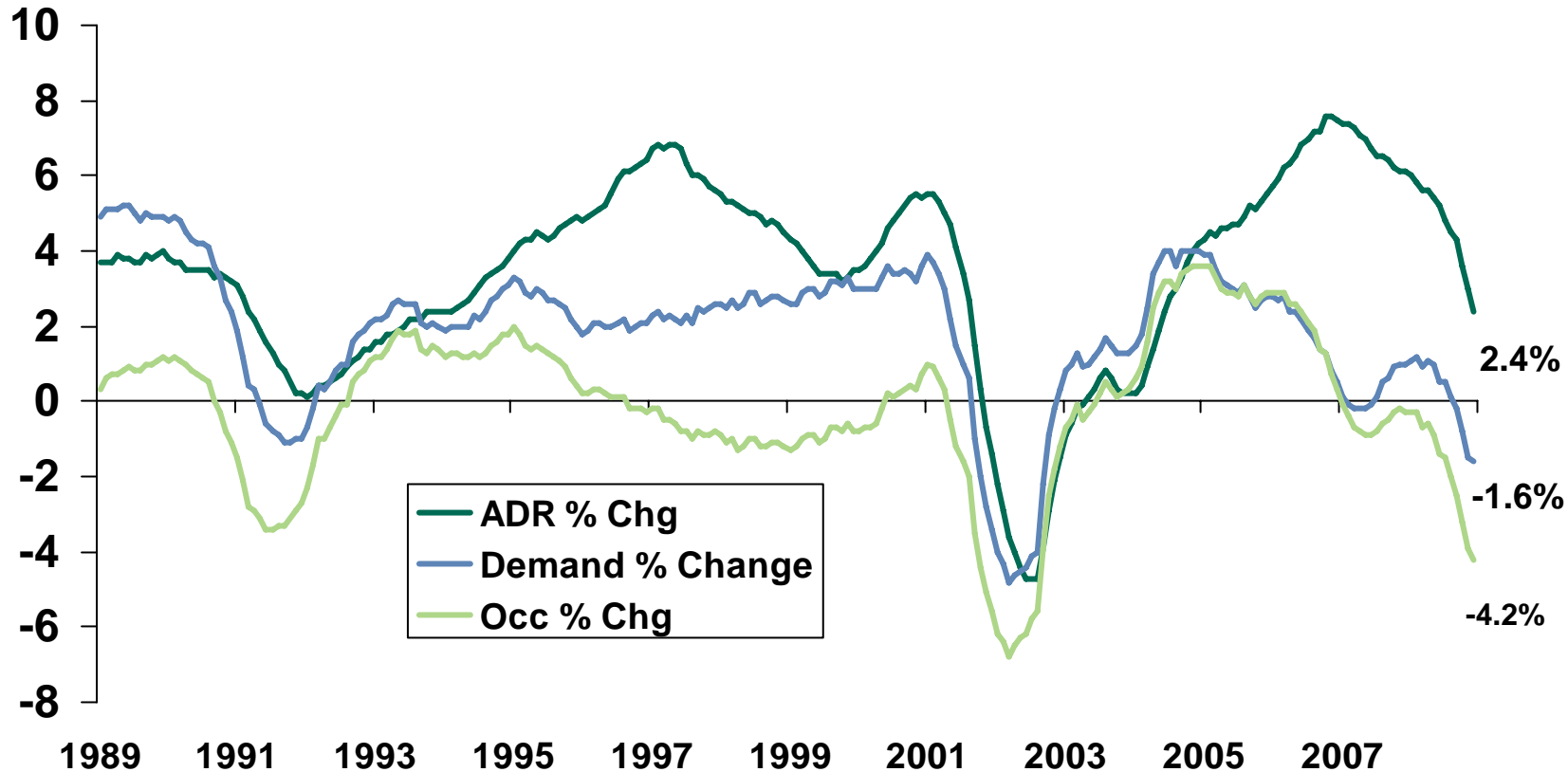


Source: 2009 Smith Travel Research, Inc.

# Total United States

## Room Demand/Occ/ADR Percent Change

Twelve Month Moving Average – 1989 to December 2008

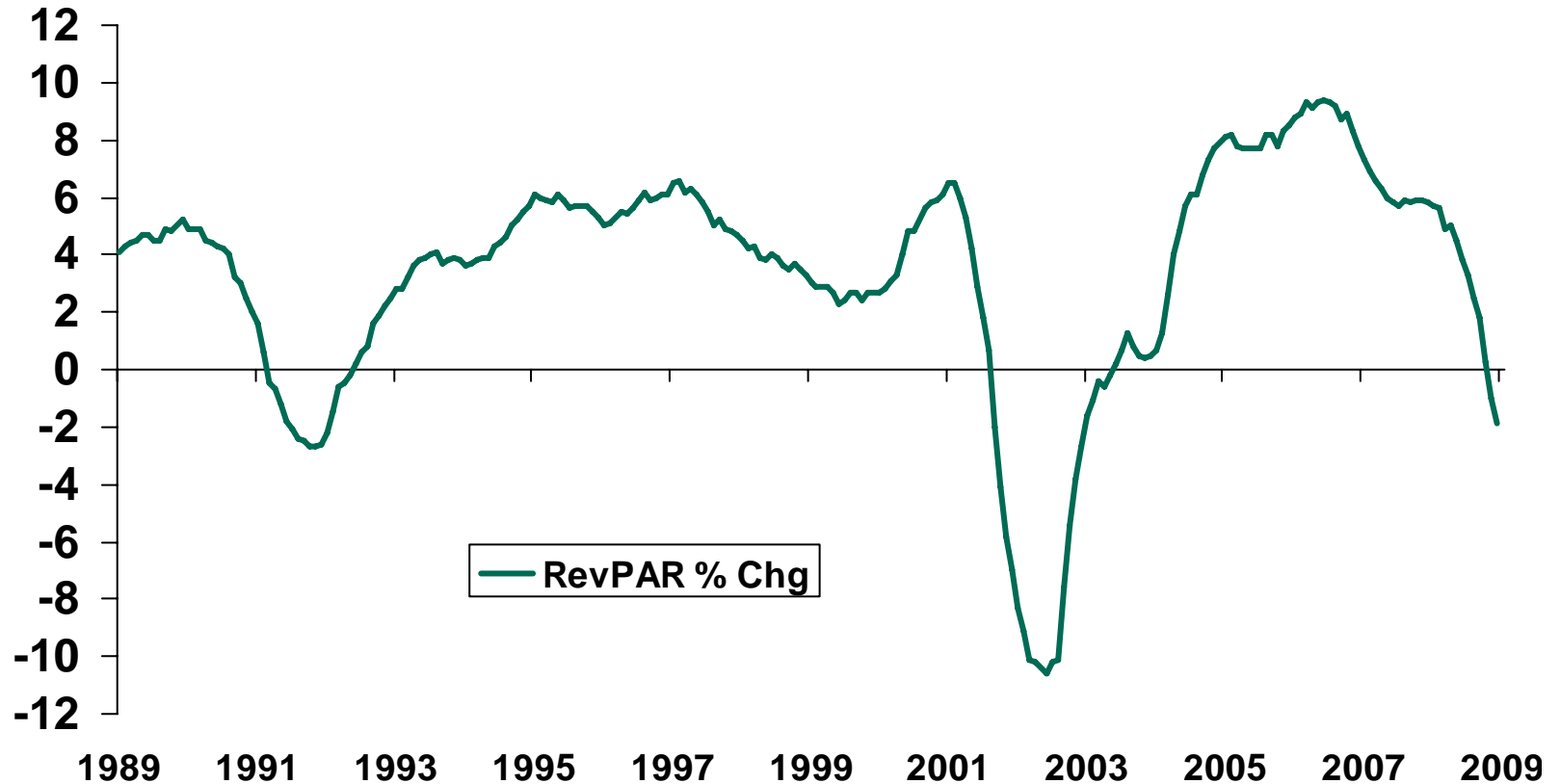


Source: 2009 Smith Travel Research, Inc.

# Total United States

## RevPAR Percent Change

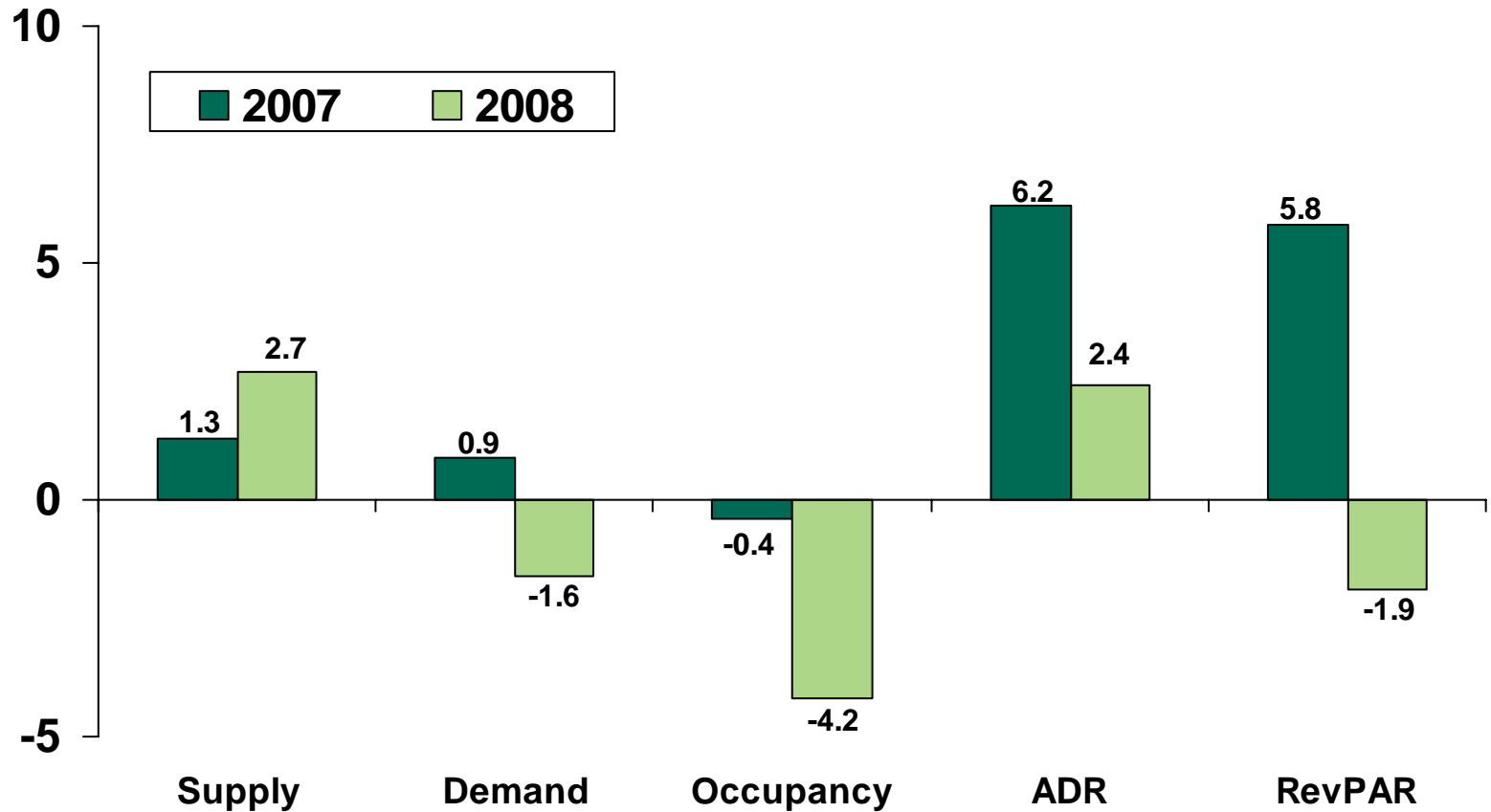
### Twelve Month Moving Average – 1989 to December 2008



Source: 2009 Smith Travel Research, Inc.

# Total United States

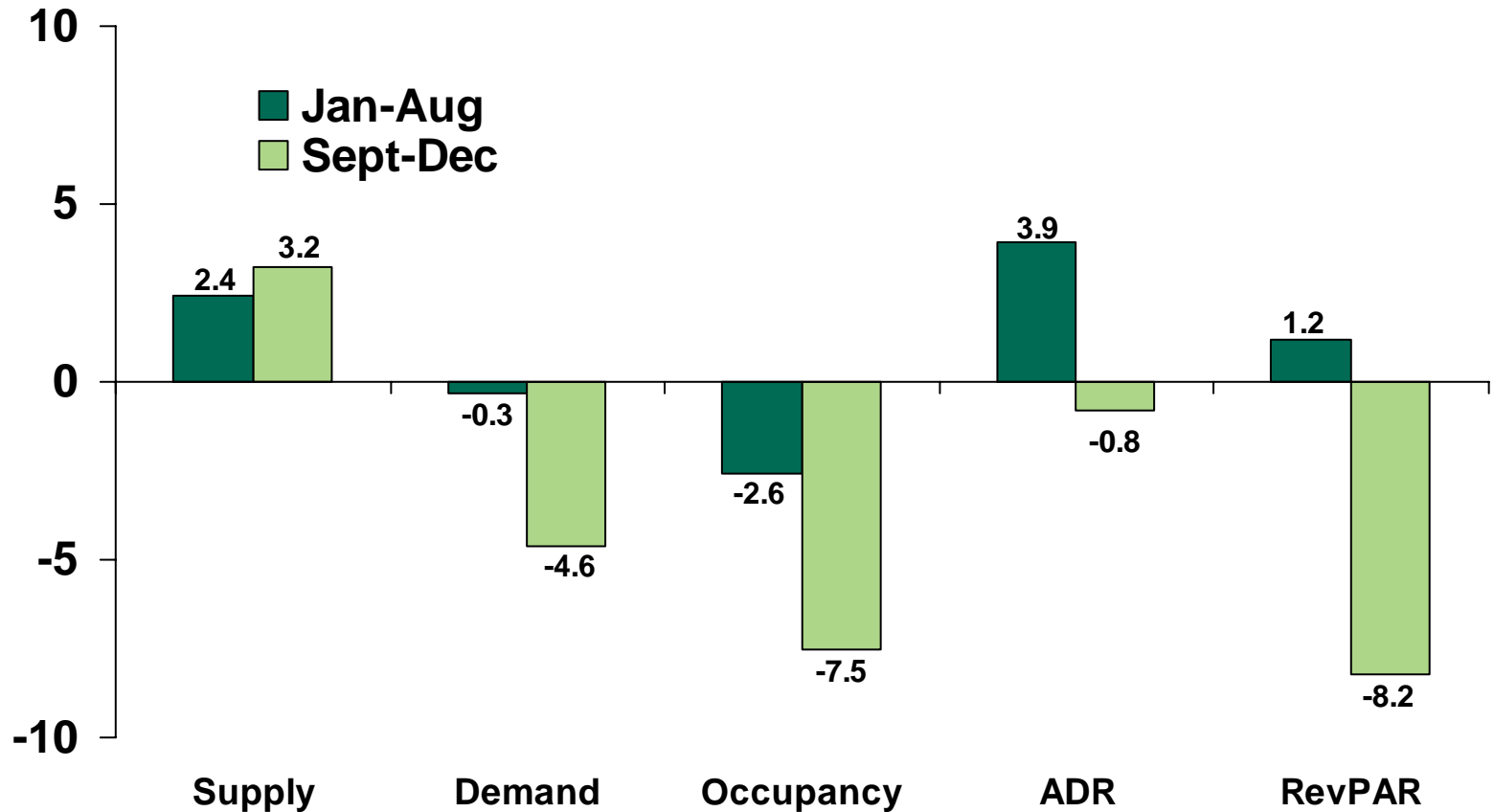
## Key Performance Indicators Percent Change December YTD



Source: 2009 Smith Travel Research, Inc.

# Total United States

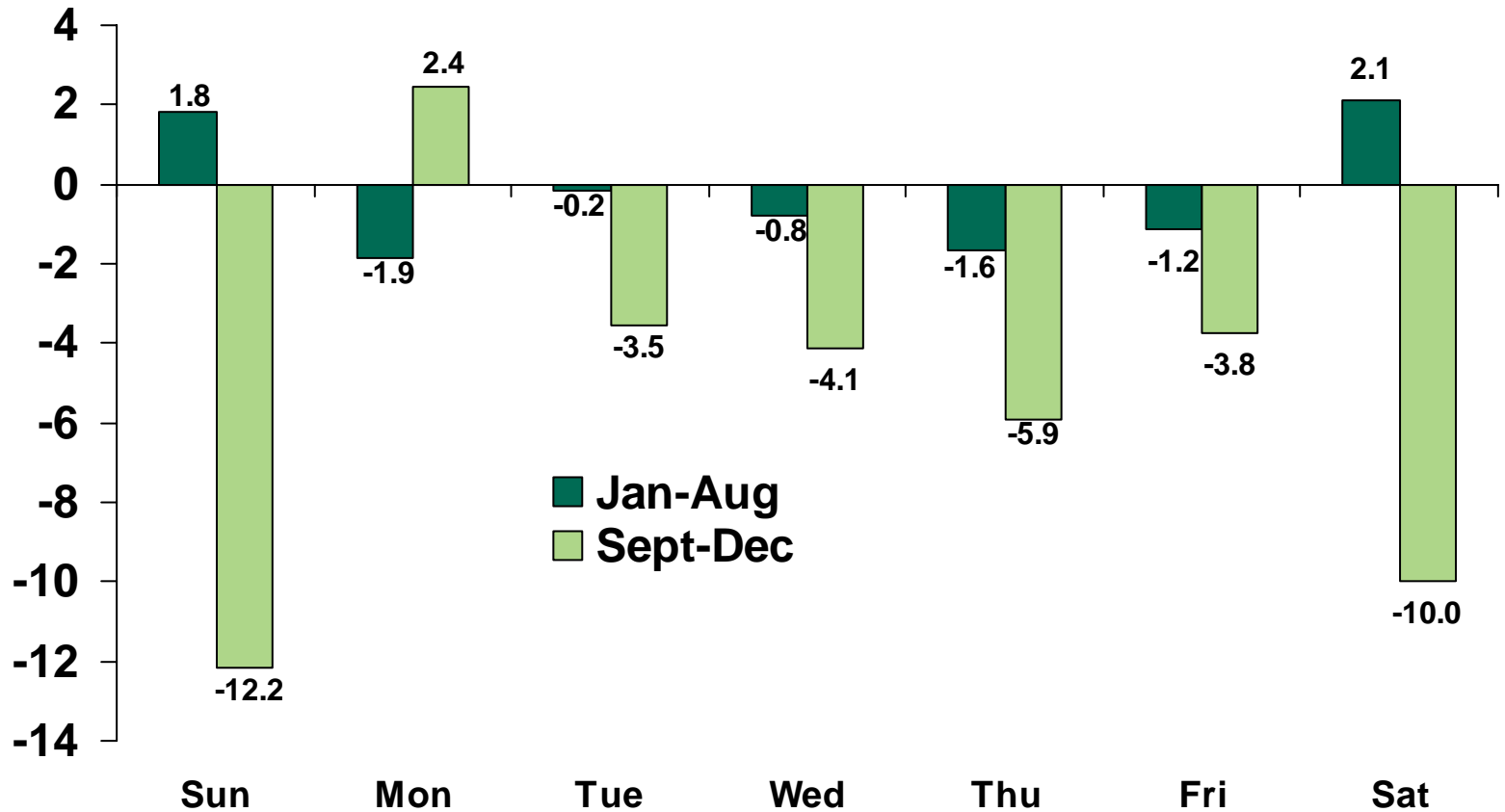
## Key Performance Indicators Percent Change 2008 – First 8 Months vs. Last 4 Months



Source: 2009 Smith Travel Research, Inc.

# Total United States

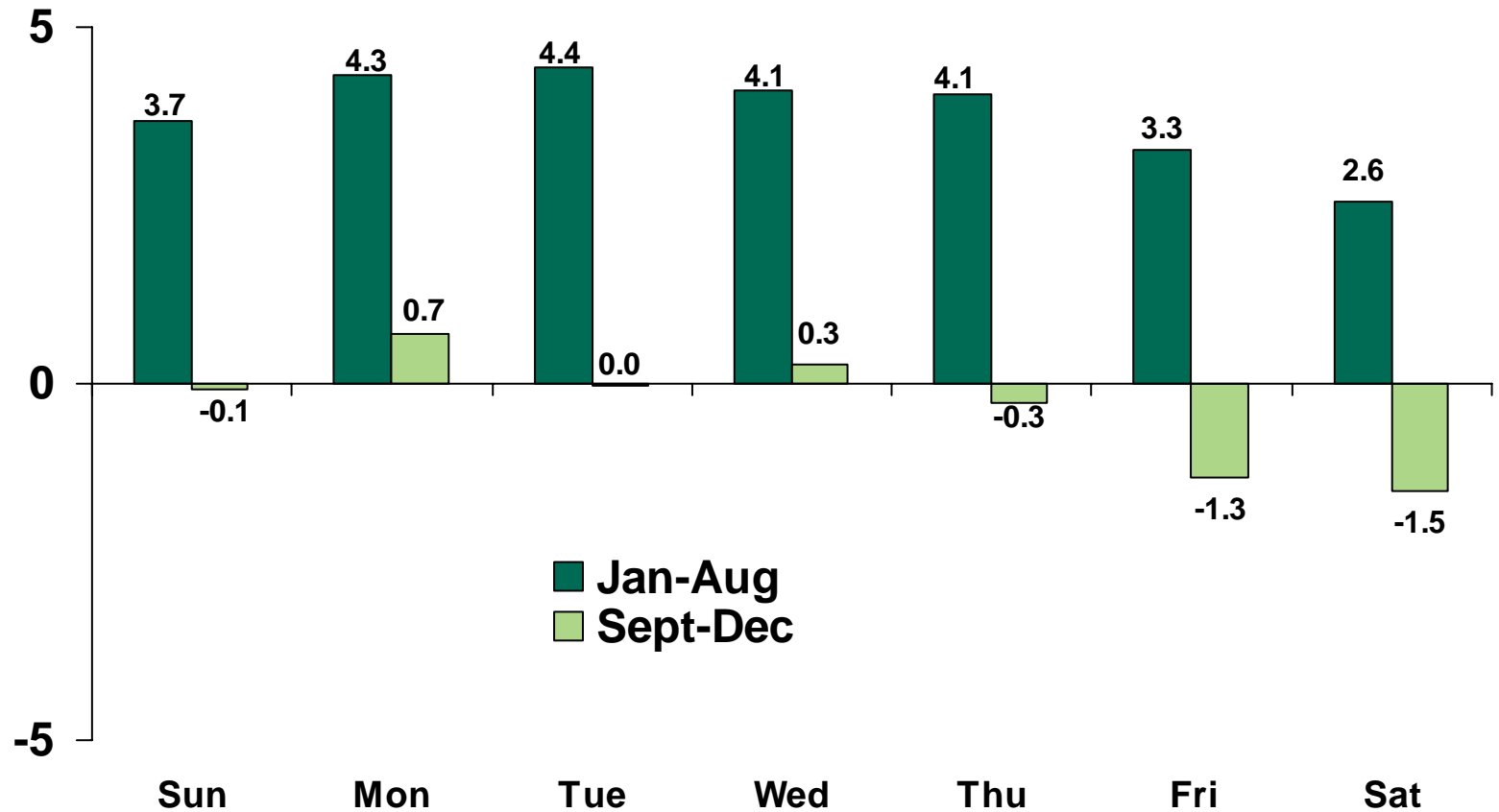
## Demand Percent Change – Day of Week 2008 First 8 Months vs. Last 4 Months



Source: 2009 Smith Travel Research, Inc.

# Total United States

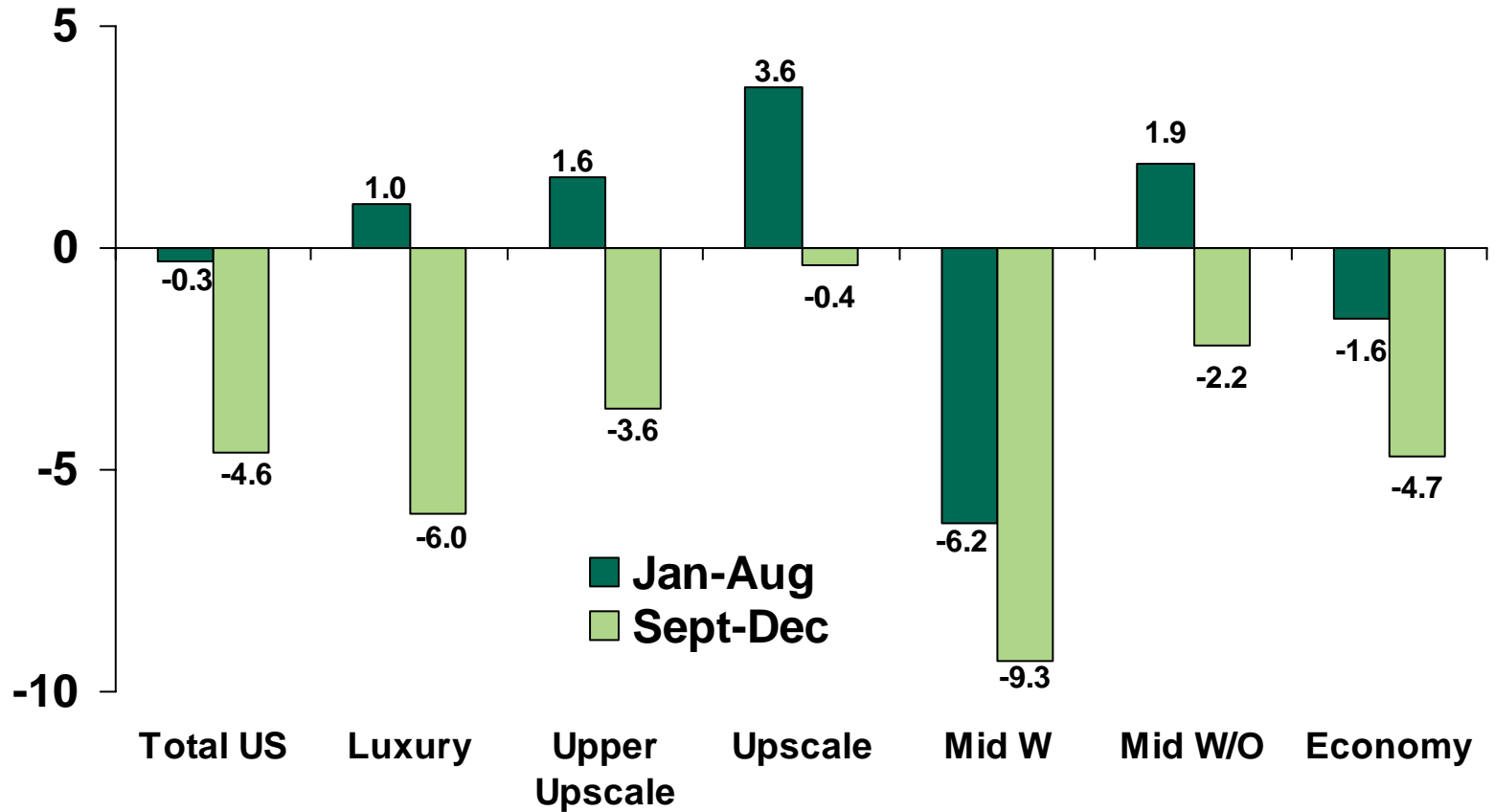
## ADR Percent Change – Day of Week 2008 First 8 Months vs. Last 4 Months



Source: 2009 Smith Travel Research, Inc.

# Total United States

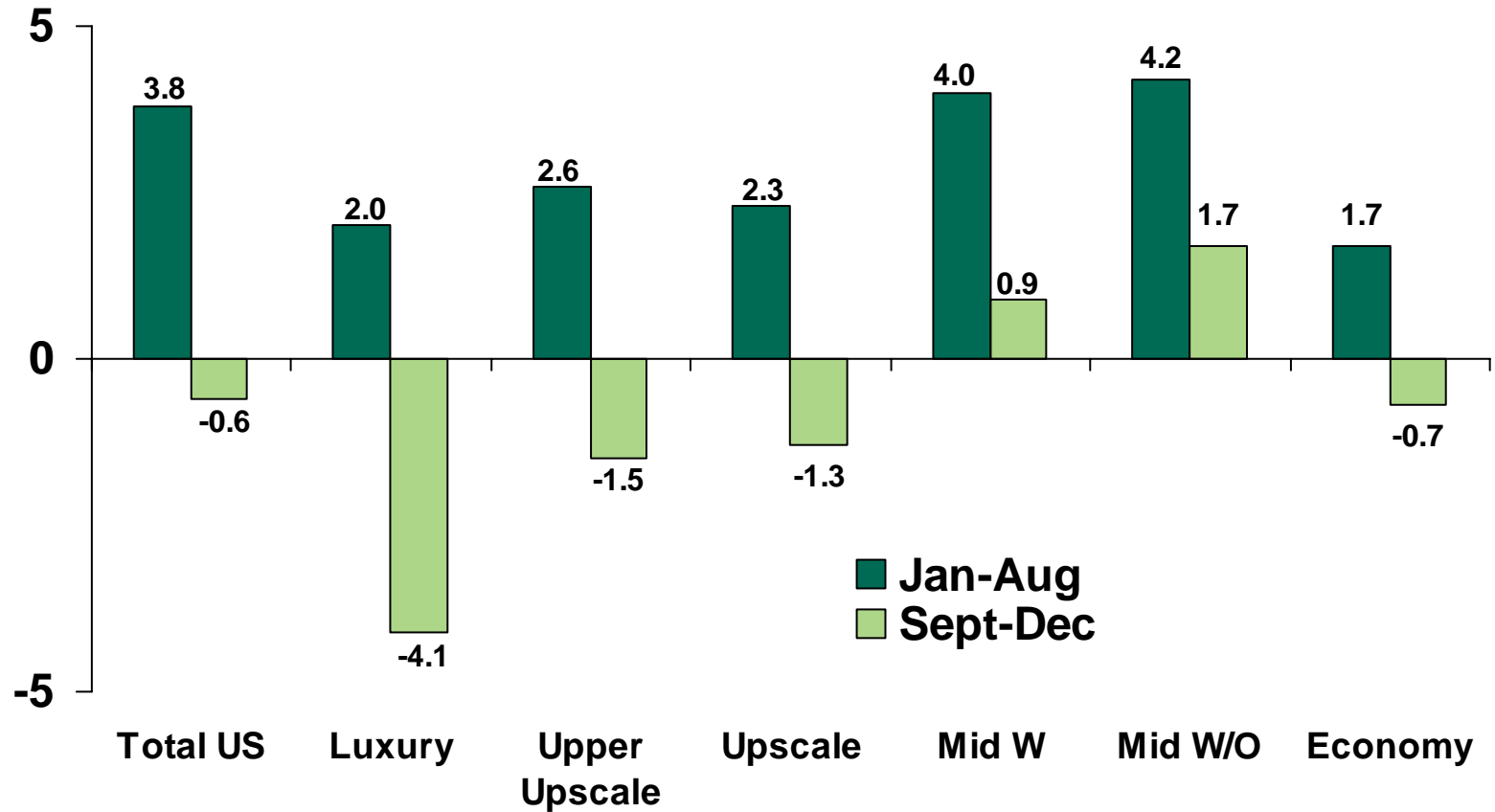
## Demand Percent Change – Chain Scale 2008 First 8 Months vs. Last 4 Months



Source: 2009 Smith Travel Research, Inc.

# Total United States

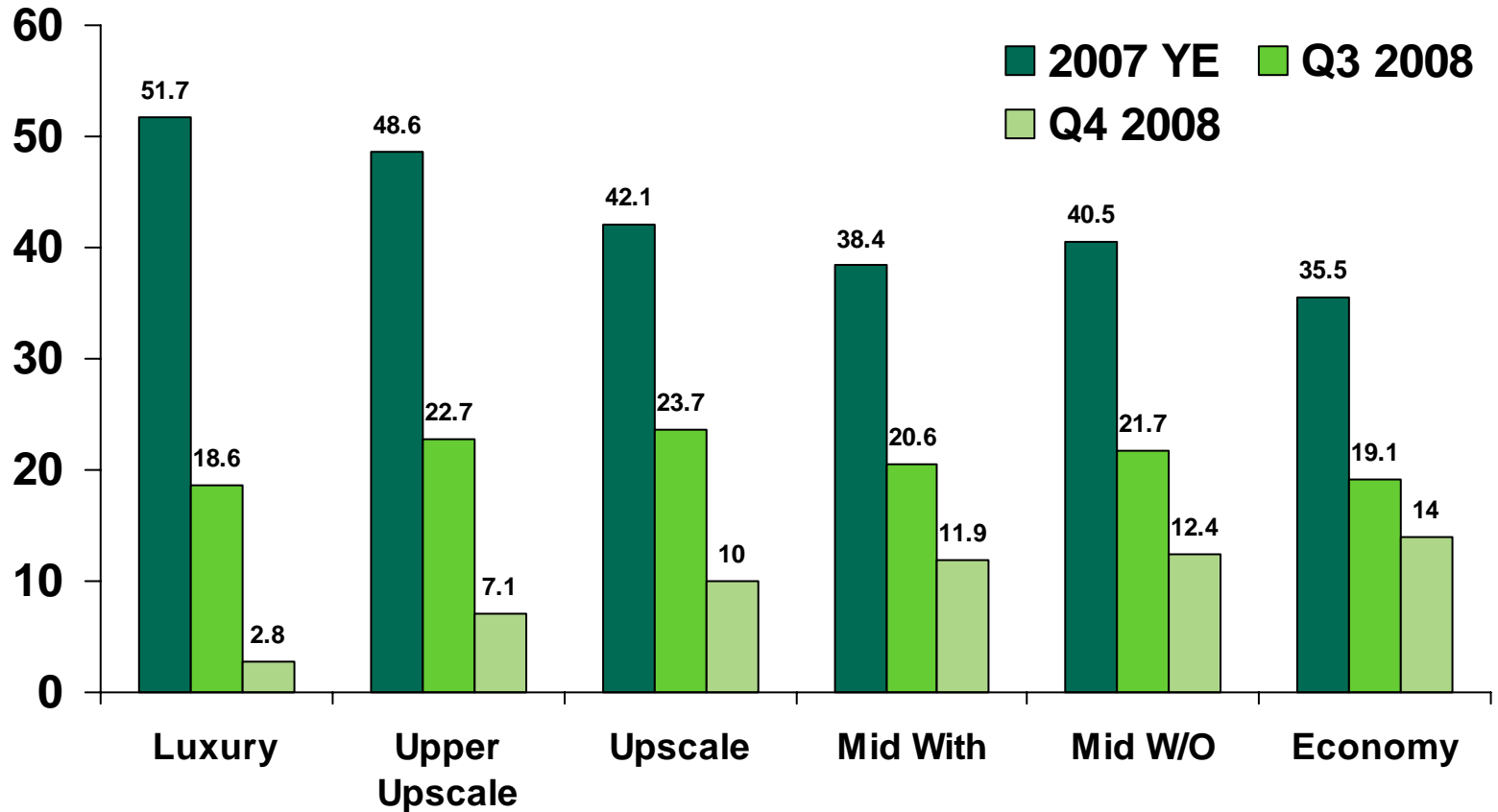
## ADR Percent Change – Chain Scale 2008 First 8 Months vs. Last 4 Months



Source: 2009 Smith Travel Research, Inc.

# Increasing Occupancy and ADR

## Chain Scales – Percent of Properties Year End 2007 – 3rd & 4th Quarters 2008

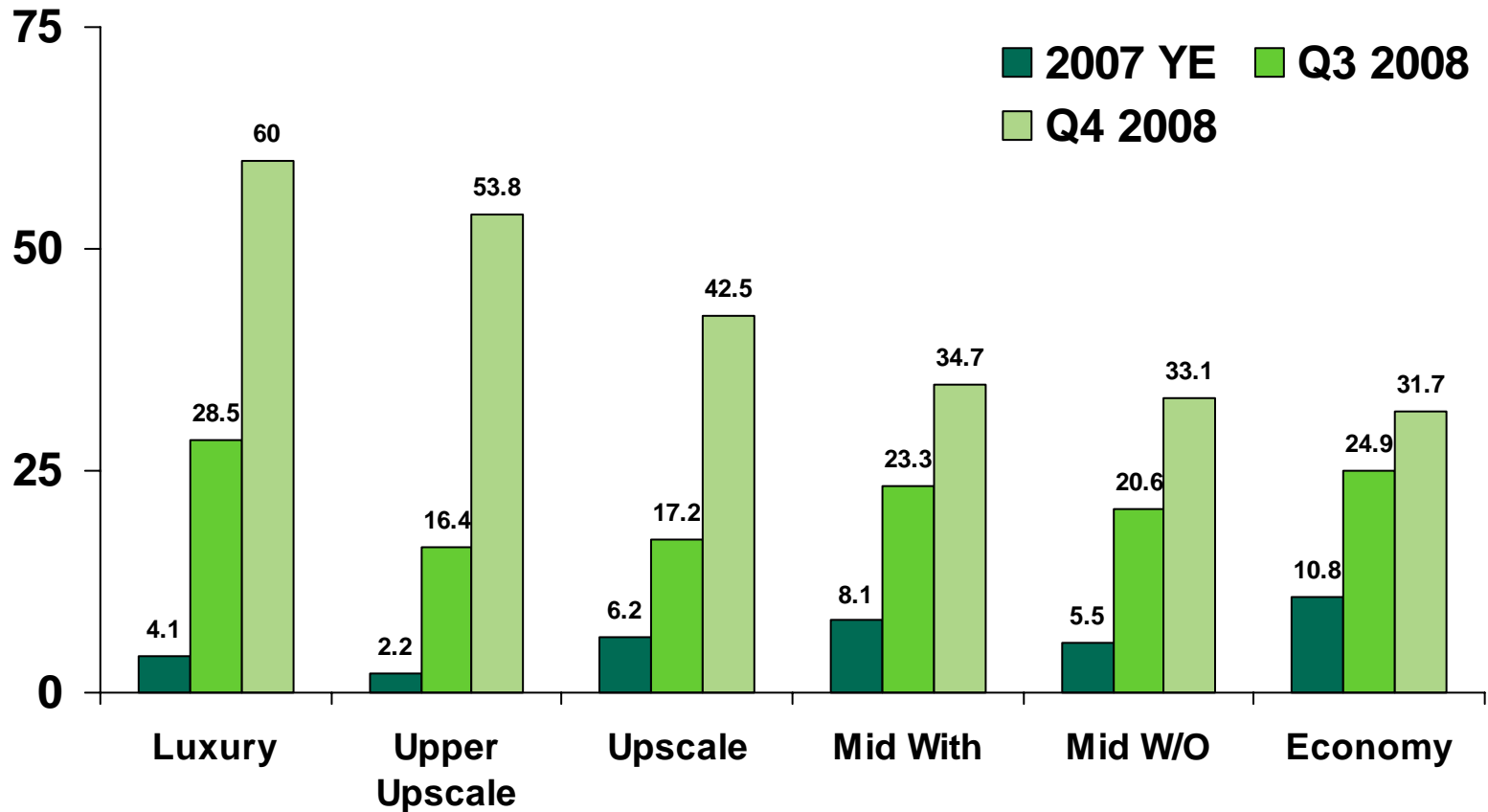


Source: 2009 Smith Travel Research, Inc.

# Declining Occupancy and ADR

## Chain Scales – Percent of Properties

Year End 2007 – 3rd & 4th Quarters 2008

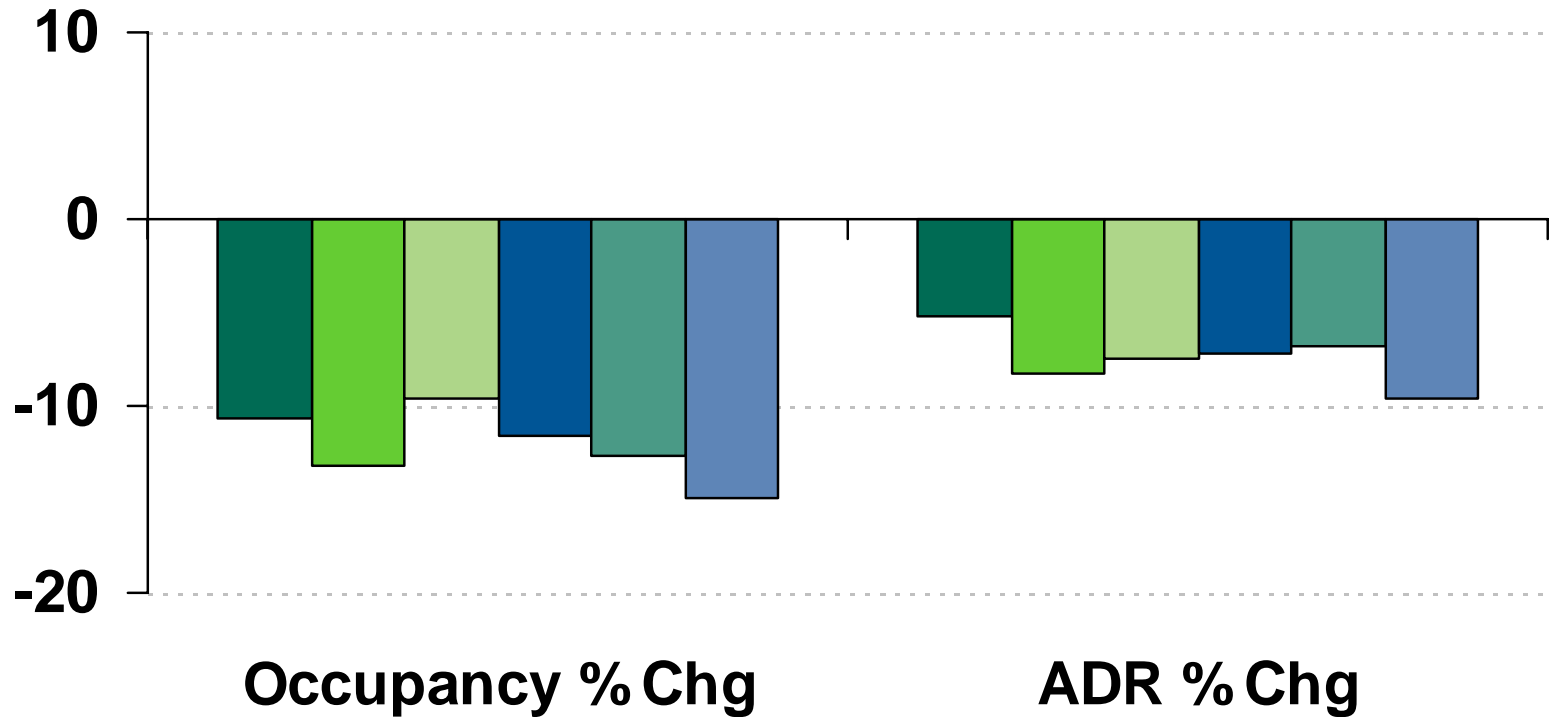


Source: 2009 Smith Travel Research, Inc.

# Total United States

## Occupancy and ADR Percent Change YTD through 3/7

■ Jan YTD   ■ 2/7   ■ 2/14   ■ 2/21   ■ 2/28   ■ 3/7

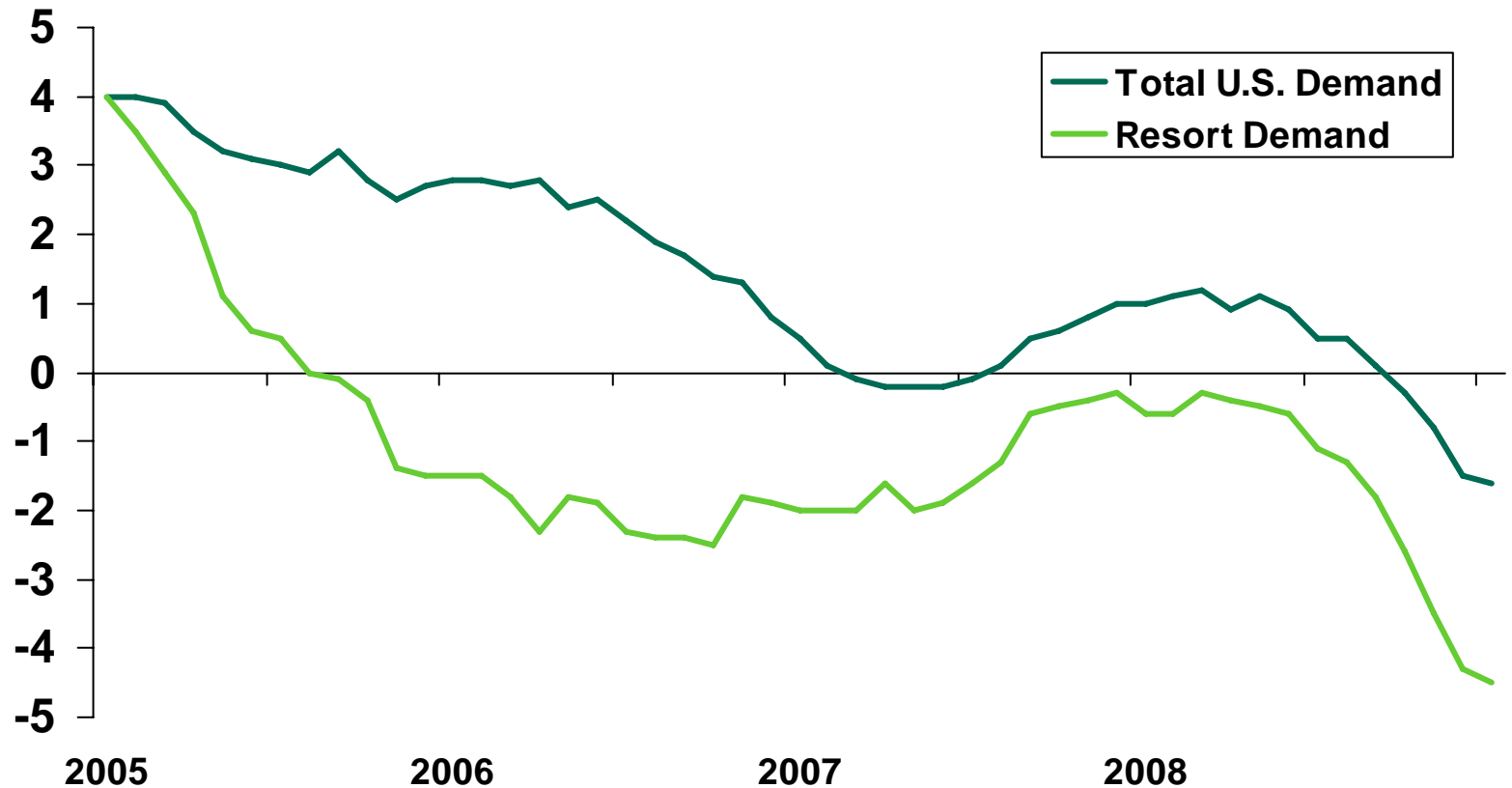


Source: 2009 Smith Travel Research, Inc.

# Total U.S. vs. Resort Locations

## Demand Percent Change

### Twelve Month Moving Average – 2005 to December 2008



Resort Demand Drops Faster / More Steeply

Source: 2009 Smith Travel Research, Inc.



October 3, 2008

AIG American General  
9/22/2008 - 9/30/2008

Invoice Summary

Description	Invoice Amount	Paid	Balance Due
<b>MASTER #1</b>			
Rooms	\$ 189,375.30		\$ 189,375.30
Comp Rooms per Contract	\$ (2,478.60)		\$ (2,478.60)
Attrition per Contract	\$ 58,373.12		\$ 58,373.12
Gratuities	\$ 2,949.00		\$ 2,949.00
<b>MASTER #2</b>			
Banquets	\$ 147,901.71		\$ 147,901.71
<b>MASTER #3</b>			
In Room Dining + Lobby Lounge	\$ 3,066.71		\$ 3,066.71
Seasonal Hill Tavern	\$ 5,016.32		\$ 5,016.32
Monarch Bayclub	\$ 1,900.99		\$ 1,900.99
<b>MASTER #4</b>			
Spa Genesis	\$ 23,380.00		\$ 23,380.00
Salon Vogue	\$ 1,488.00		\$ 1,488.00
Golf	\$ 6,939.09		\$ 6,939.09
Paid Out	\$ 33,485.00		\$ 33,485.00
PSAV	\$ 21,219.36		\$ 21,219.36
Summit Limo	\$ 101.50		\$ 101.50
Shipping	\$ 1,228.21		\$ 1,228.21
<b>Sub Total</b>	<b>\$ 442,115.50</b>		<b>\$ 442,349.71</b>
Deposit		\$ (402,701.04)	\$ 40,648.67

**Total Amount Due \$ 40,642.67**

Please be so kind as to remit payment for the current balance due to:

The St. Regis Resort, Monarch Beach  
One Monarch Beach Resort Drive  
Dana Point, CA 92629

# Total United States

## Active Development Pipeline – Rooms/Change From Last Year

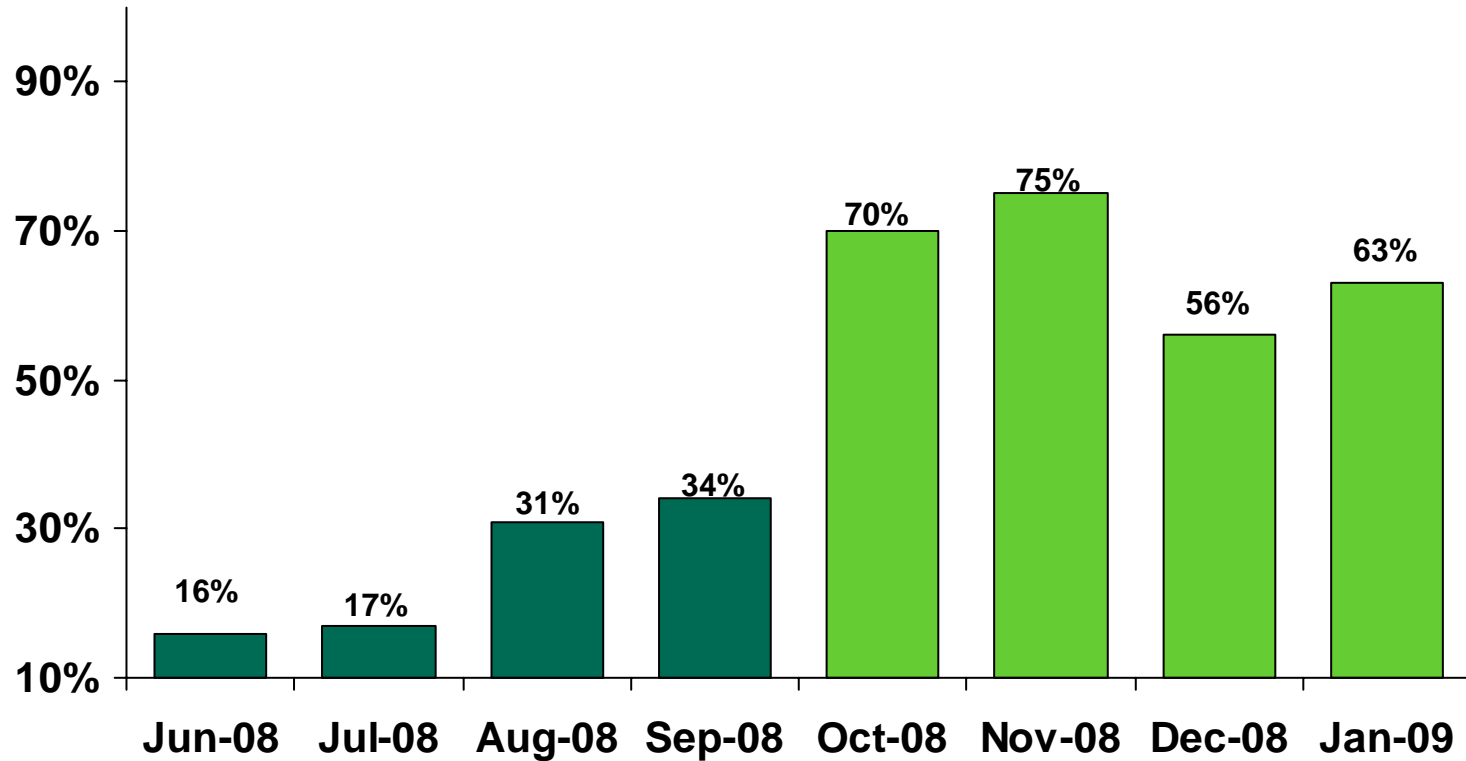
Phase	December 2008	December 2007	Difference	% Change
In Construction	185,119	211,694	-26,575	-12.6%
Final Planning	88,539	83,985	4,554	5.4%
Planning	339,234	319,963	19,271	6.0%
Active Pipeline	612,892	615,642	-2,750	-0.4%
Pre-Planning	139,951	124,472	12,729	12.4%
<b>Total</b>	<b>752,843</b>	<b>740,114</b>	<b>12,729</b>	<b>1.7%</b>

Source: STR / TWR / Dodge Construction Pipeline

# Total United States

## Abandoned Rooms

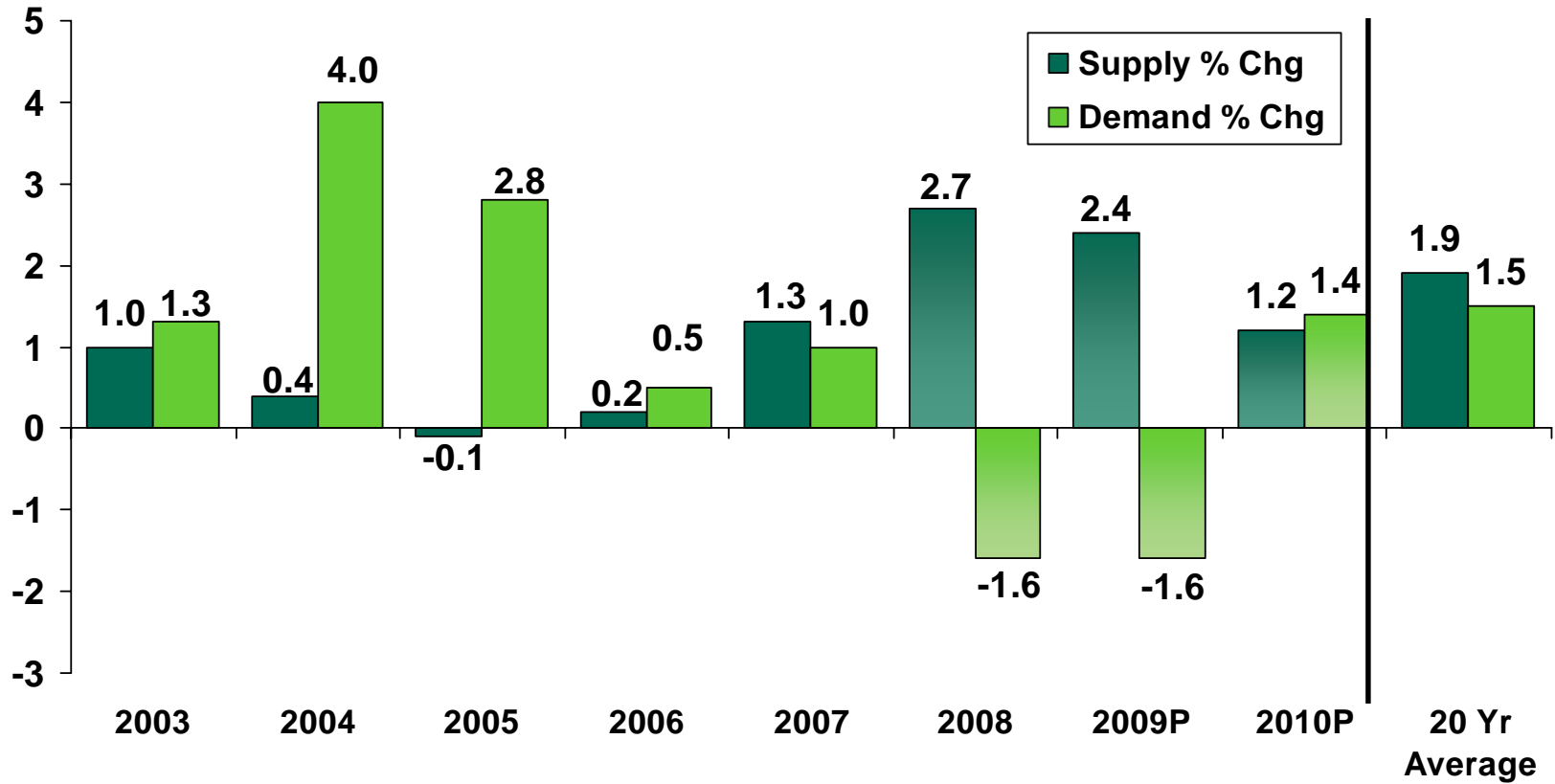
### Year-over-year percent change



Source: STR / TWR / Dodge Construction Pipeline

# Total United States

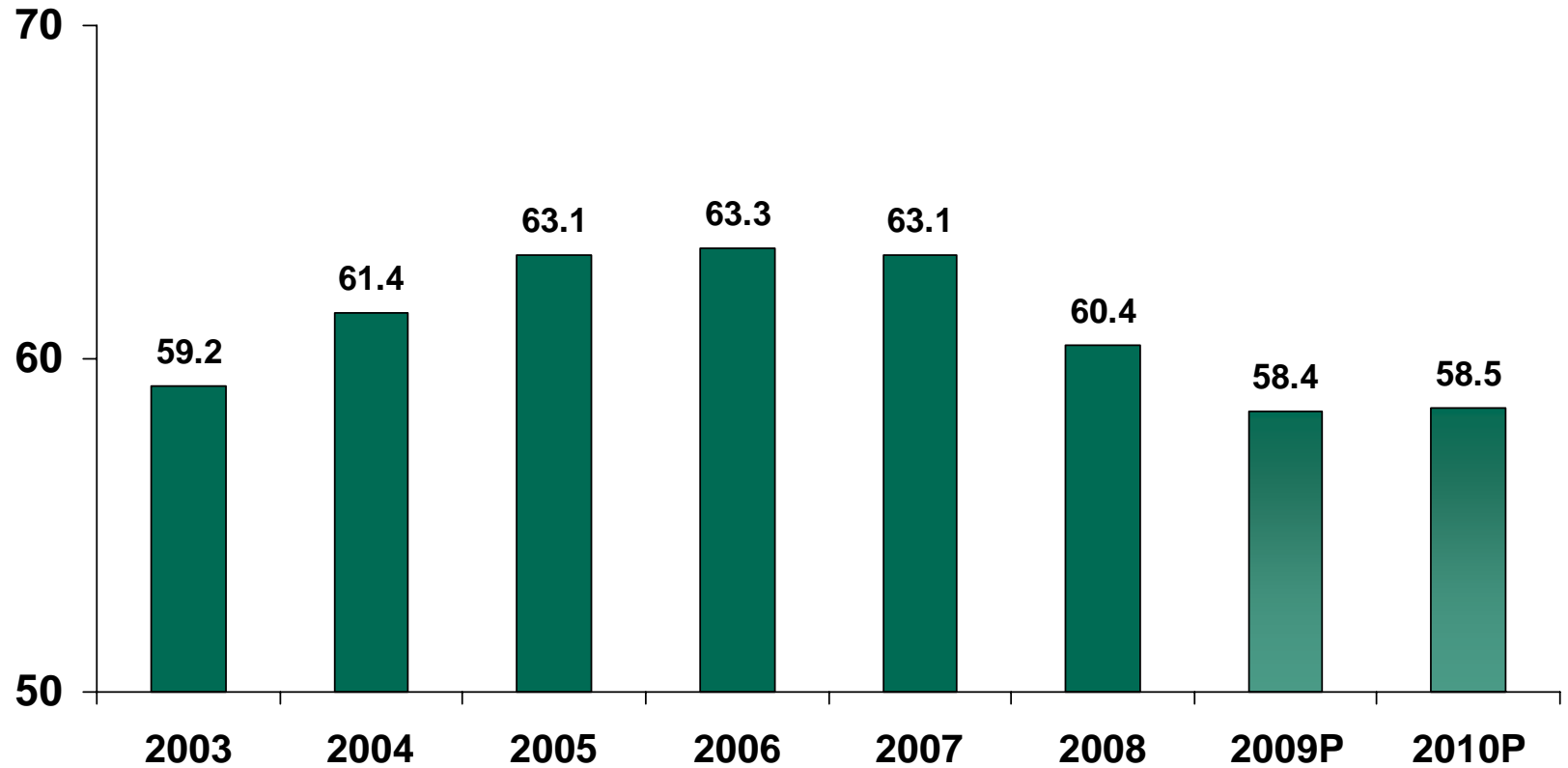
## Supply/Demand Percent Change 2003 – 2010P



Source: 2009 Smith Travel Research, Inc.

# Total United States

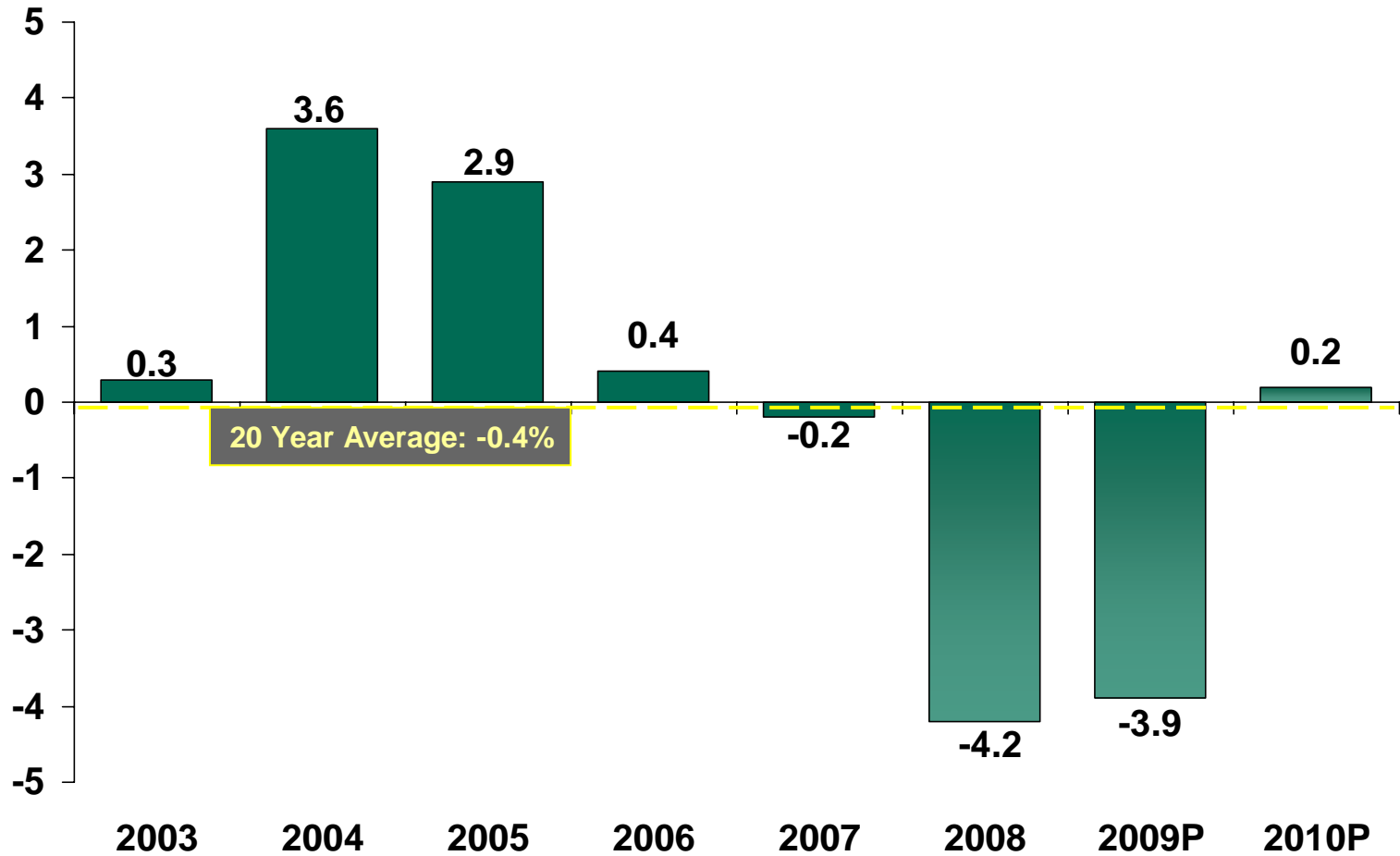
## Occupancy Percent 2003 – 2010P



Source: 2009 Smith Travel Research, Inc.

# Total United States

## Occupancy Percent Change 2003 – 2010P



2009 Smith Travel Research, Inc.

# Total United States

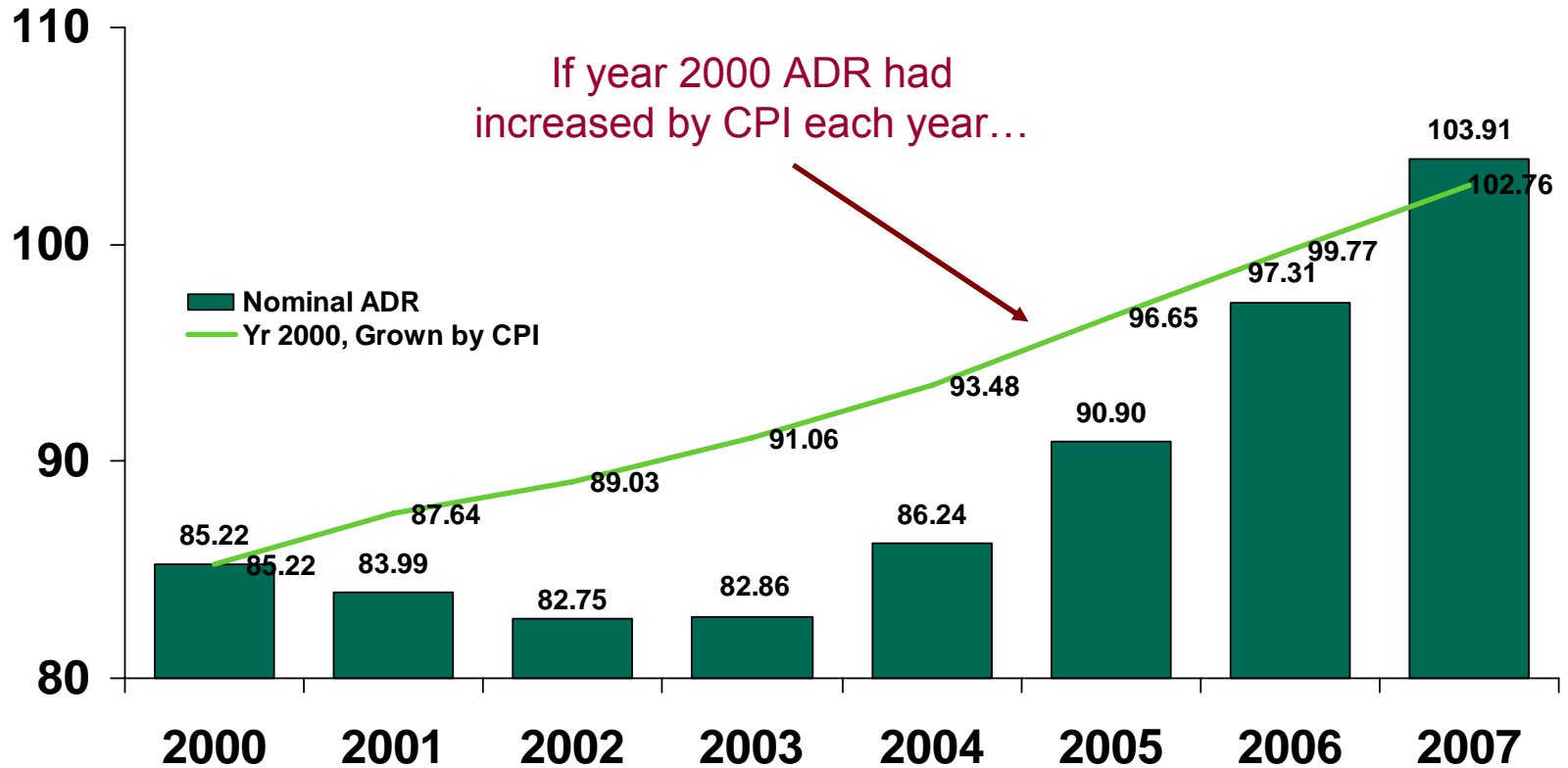
## ADR Percent Change 2003 – 2010P



Source: 2009 Smith Travel Research, Inc.

# Total U.S. Room Rates

## Actual vs. Inflation Adjusted 2000 - 2007



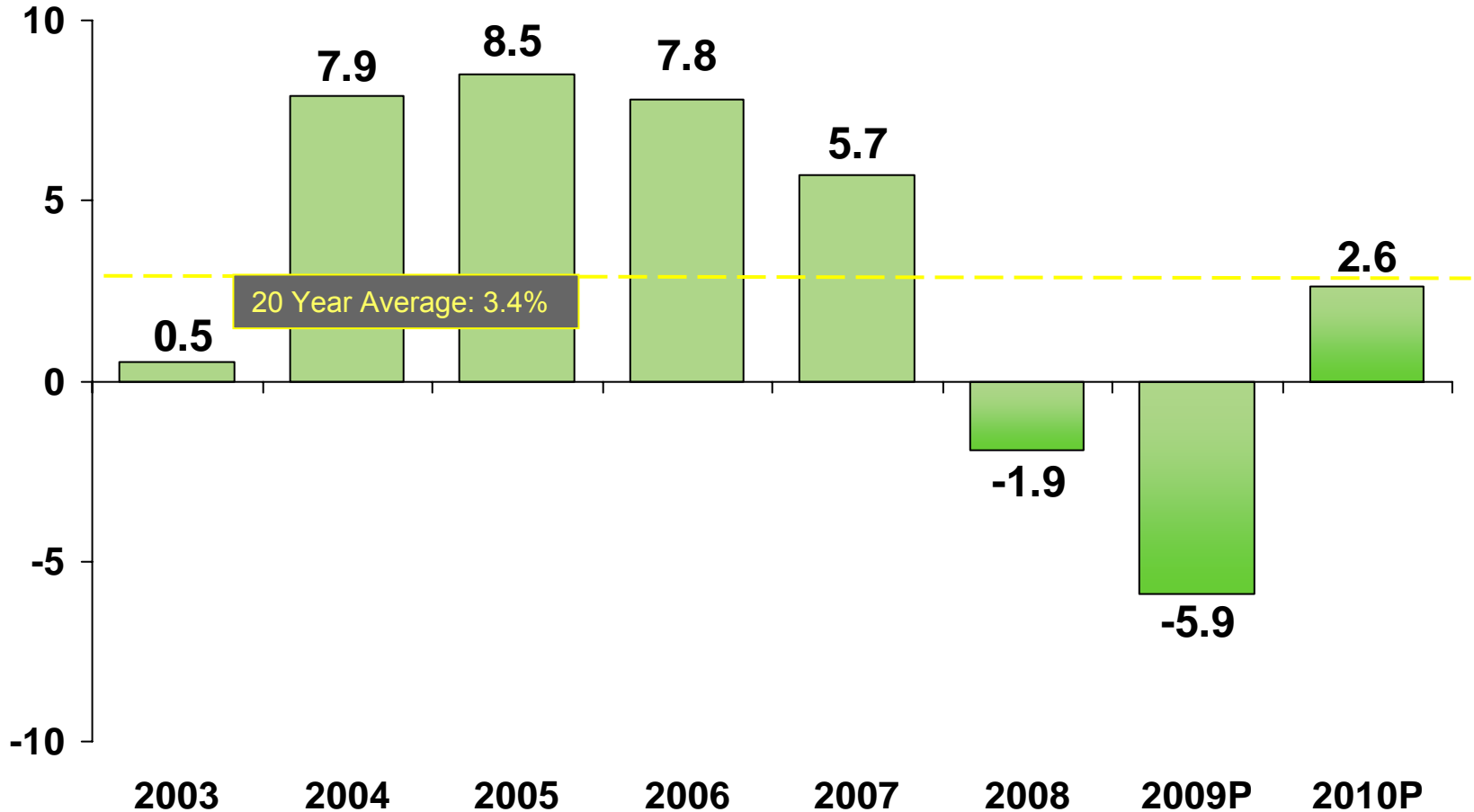
**Rate cuts on '01 Were Felt for 6 Years**

Source: 2009 Smith Travel Research, Inc.

# Total United States

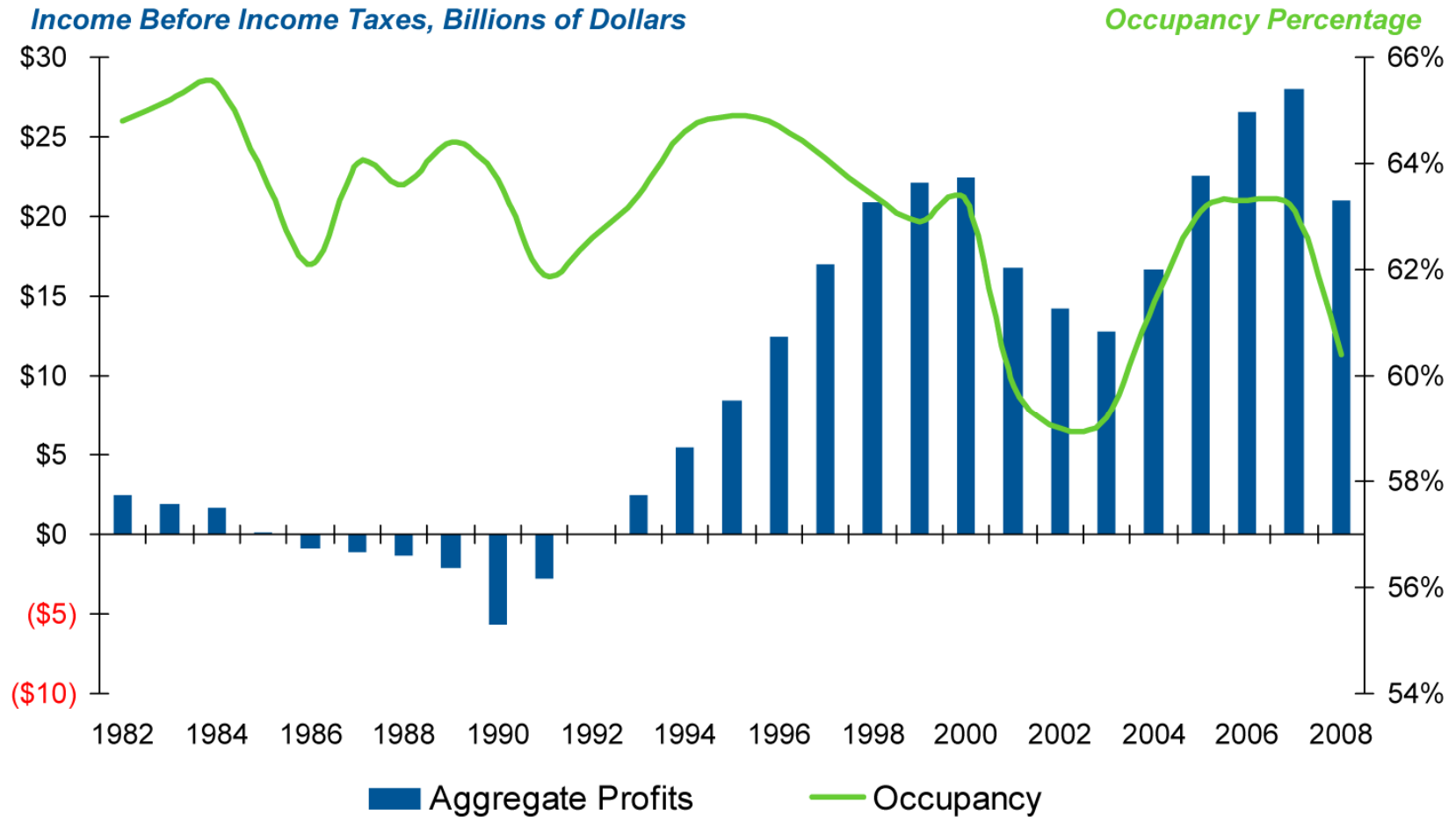
## RevPAR Percent Change

2003 – 2010P



Source: 2009 Smith Travel Research, Inc.

# Long-Term Occupancy Levels and Profits



Note: STR change in method in 2002.

Source: 2009 Smith Travel Research, Inc.

# “Obama Effect”

## Washington DC Market

Date	RevPAR % Change	Additional Rooms Revenue (millions)
Saturday 1/17	264%	\$13.4
Sunday 1/18	464%	\$21.2
Monday 1/19	317%	\$22.7
Tuesday 1/20	182%	\$18.6
<b><u>Total</u></b>		<b><u>\$75.8</u></b>

Source: 2009 Smith Travel Research, Inc.

# **U.S. Lodging Industry Investment Metrics**

# 2009 Travel Trends

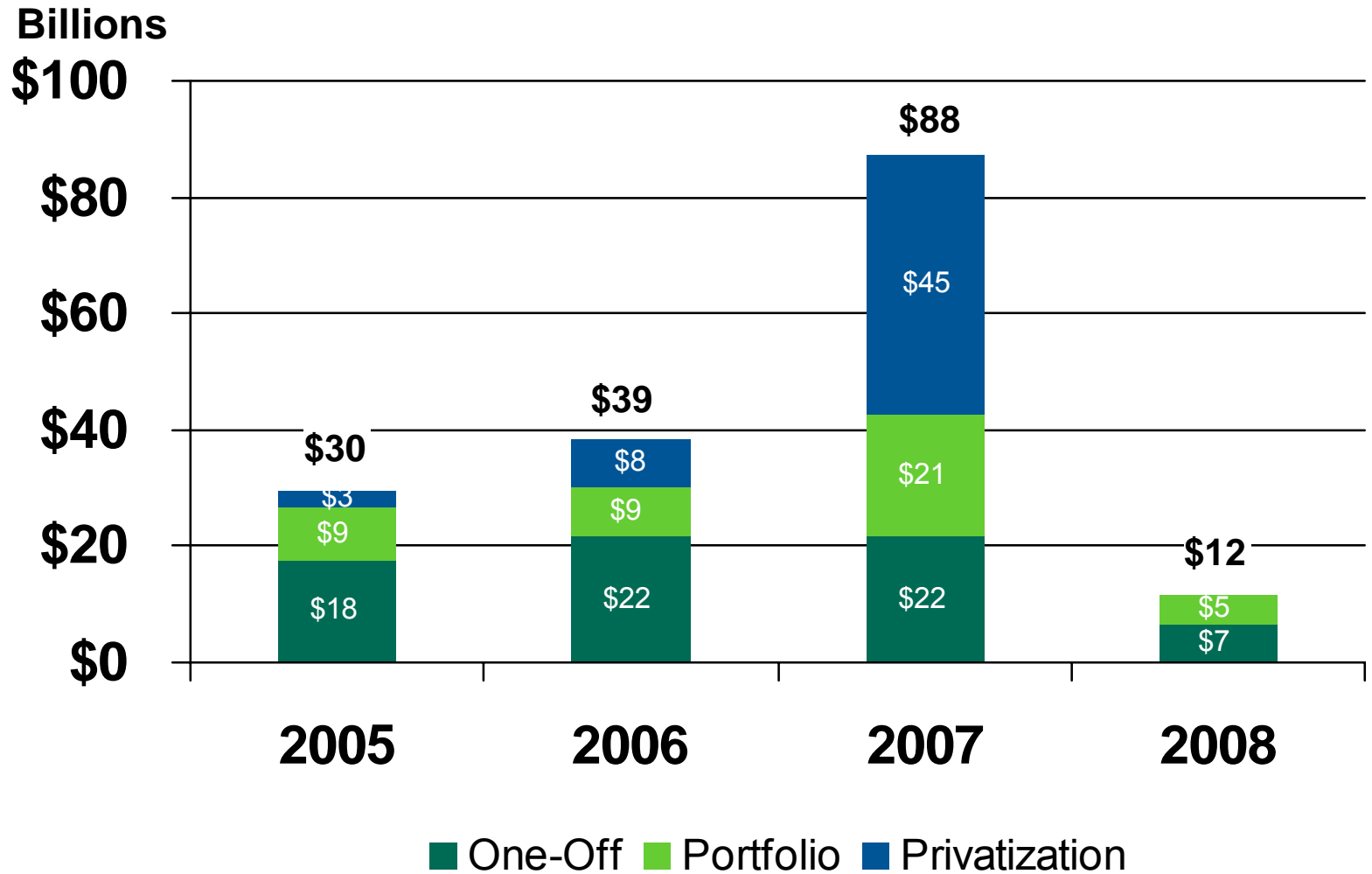
- Air Travel on Sale
- Air/Lift Capacity Cuts to Continue
- Ancillary Fees Proliferate
- Trimming & Downgrading Travel Spending
- Pursuing The Road Warrior
- International Bargains Abound
- Increase in Empty Hotel Rooms & Rental Cars
- Decline on Meetings and Attendance
- Right-sizing the Regional Jet
- Resurgence of Internet Fares

# U.S. Recessions and Lodging Cycles

U.S. Recessions	Months	Lodging Cycles	Months
Dec. 1969 to Nov. 1970	11	Feb. 1969 to Feb. 1971	24
Nov. 1973 to March 1975	16	Aug. 1974 to May 1975	9
Jan. 1980 to July 1980	6	Oct. 1979...	-
July 1981 to Nov. 1982	16	... to May 1982	31
July 1990 to March 1991	8	Feb. 1990 to March 1991	13
March 2001 to Nov. 2001	8	Sept. 2000 to Sept. 2003	37

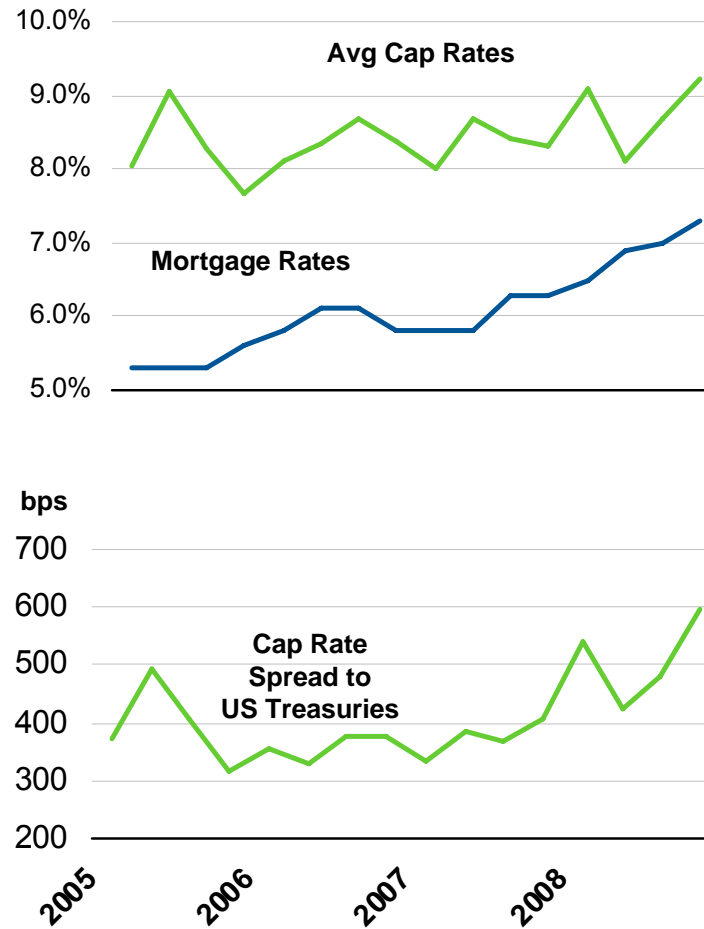
Source: *National Bureau of Economic Research*

# U.S. Hotel Property Sales



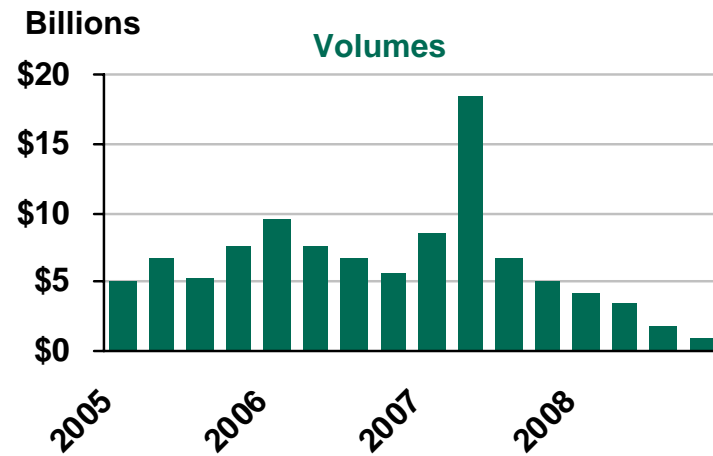
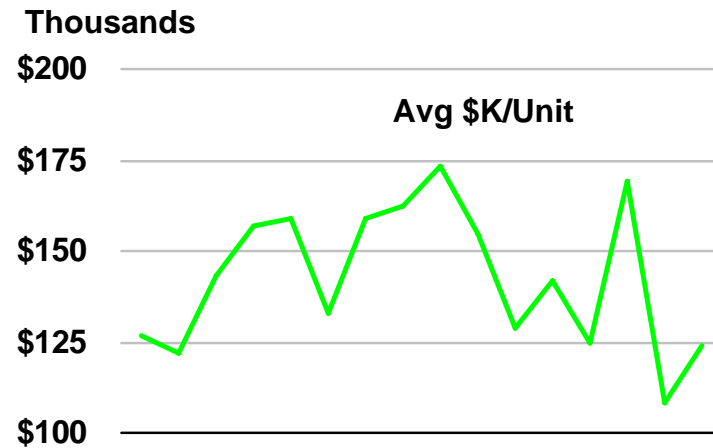
Source: Real Capital Analytics, Inc. 2009

# U.S. Hotel Investment Diagnostics – Cap/Mortgage Rates



Source: Real Capital Analytics, Inc. 2009

# U.S. Hotel Investment Diagnostics – Price Per Unit/Sales Volume



Source: Real Capital Analytics, Inc. 2009

# U.S. Hotel Transaction Considerations in 2009

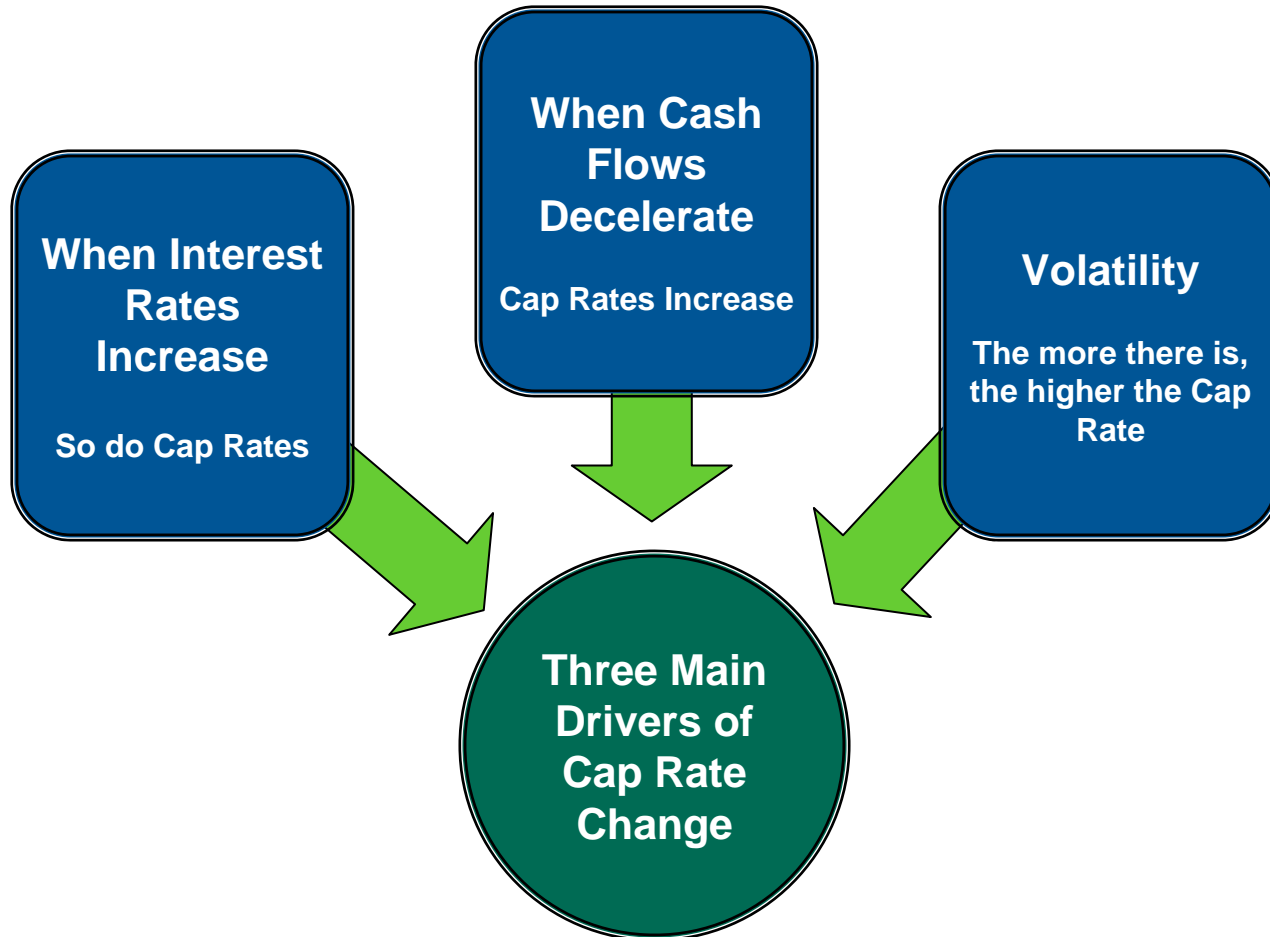
## ■ Seller:

- Have the right price expectations (the peak is long gone)
- Select a closer, not just a buyer
- Need to be flexible on timing, particularly for the closing period
- Closely monitor operations—to insure close of escrow

## ■ Buyer:

- Have the right price expectations (just because it is for sale does not mean it is a fire sale; “for sale” ≠ “fire sale”)
- Be aware that there is still competition in the market
- Demonstrated ability to close is extremely important

# Where are Cap Rates Going?



# Hotel Cap Rates

	<u>Trailing 12 Months</u>		<u>Implied Cap Rate</u>
	<u>\$</u>	<u>% of Gross Revenues</u>	<u>Assumed \$50 Million Sale</u>
Gross Revenues	\$18,000,000	100.00%	
<b>GOP Before Mgt Fees and Reserves</b>	<b>\$4,320,000</b>	<b>24.0%</b>	<b>8.6%</b>
Gross Management Fee	\$540,000	3.0%	
Incentive Management Fee	\$180,000	1.0%	
Reserve for Replacement	\$900,000	5.0%	
<b>NOI After Base Management Fee</b>	<b>\$3,780,000</b>	<b>21.0%</b>	<b>7.6%</b>
<b>NOI After Base &amp; Incentive Management Fee</b>	<b>\$3,600,000</b>	<b>20.0%</b>	<b>7.2%</b>
<b>NOI After Base &amp; Incentive Management Fee &amp; Reserves</b>	<b>\$2,700,000</b>	<b>15.0%</b>	<b>5.4%</b>
	<u>Projected Year One</u>		<u>Implied Cap Rate</u>
	<u>\$</u>	<u>% of Gross Revenues</u>	<u>Assumed \$50 Million Sale</u>
Gross Revenues	\$20,000,000	100.00%	
<b>GOP Before Management Fee</b>	<b>\$5,200,000</b>	<b>26.0%</b>	<b>10.4%</b>
Base Management Fee	\$600,000	3.0%	
Incentive Management Fee	\$200,000	1.0%	
Reserve for Replacement	\$1,000,000	5.0%	
<b>NOI After Base Management Fee</b>	<b>\$4,600,000</b>	<b>23.0%</b>	<b>9.2%</b>
<b>NOI After Base &amp; Incentive Management Fee</b>	<b>\$4,400,000</b>	<b>22.0%</b>	<b>8.8%</b>
<b>NOI After Base &amp; Incentive Management Fee &amp; Reserves</b>	<b>\$3,400,000</b>	<b>17.0%</b>	<b>6.8%</b>

# U.S. Hotel Capital Stack Returns and Price Movements

	2005	Early 2006	Late 2006	Early 2007 (Peak)	Late 2007	Mid 2008	Late 2008
<b>DEBT</b>							
Debt to Value	60%	70%	75%	<b>80%</b>	75%	65%	55%
Interest Rate	6.00%	6.50%	6.20%	<b>5.75%</b>	6.50%	7.10%	8.00%
Amortization	25	30	I/O	<b>I/O</b>	30	25	25
Debt Constant	7.73%	7.58%	6.20%	<b>5.75%</b>	7.58%	8.56%	9.25%
<b>EQUITY</b>							
Equity to Value	40%	30%	25%	<b>20%</b>	25%	35%	45%
Equity Dividend	10%	10%	9%	<b>8%</b>	9%	10%	11%
<b>Weighted Average Cost of Capital (WACC)</b>	8.6%	8.3%	6.9%	<b>6.2%</b>	7.9%	9.1%	10.0%
<b>Implied Value of \$1,000 NOI</b>	\$11,575	\$12,035	\$14,493	<b>\$16,129</b>	\$12,597	\$11,034	\$9,956
% Change WACC from Previous Period	N/A	-4%	-17%	<b>-10%</b>	28%	14%	11%
% Change WACC from 2005	N/A	N/A	-20%	<b>-28%</b>	-8%	5%	16%
% Change WACC from Peak	N/A	N/A	N/A	<b>N/A</b>	28%	46%	62%
% Change Value from Previous Period	N/A	4%	20%	<b>11%</b>	-22%	-12%	-10%
% Change Value from 2005	N/A	N/A	25%	<b>39%</b>	9%	-5%	14%
% Change Value from Peak	N/A	N/A	N/A	<b>N/A</b>	-22%	32%	38%

# U.S. Hotel Capital Stack Returns and Price Movements (cont.)

## Change in Weighted Cost of Capital

	Early 2007						
	<u>2005</u> 8.6%	<u>Early 2006</u> 8.3%	<u>Late 2006</u> 6.9%	<u>(Peak)</u> 6.2%	<u>Late 2007</u> 7.9%	<u>Mid 2008</u> 9.1%	<u>Late 2008</u> 10.0%
<b>25.0%</b>	\$14,469	\$15,043	\$18,116	<b>\$20,161</b>	\$15,746	\$13,793	\$12,445
<b>20.0%</b>	\$13,891	\$14,442	\$17,391	<b>\$19,355</b>	\$15,116	\$13,241	\$11,947
<b>15.0%</b>	\$13,312	\$13,840	\$16,667	<b>\$18,548</b>	\$14,486	\$12,689	\$11,450
<b>10.0%</b>	\$12,733	13,238	\$15,942	<b>\$17,742</b>	\$13,856	\$12,138	\$10,952
<b>5.0%</b>	\$12,154	\$12,636	\$15,217	<b>\$16,935</b>	\$13,226	\$11,586	\$10,454
<b>0.0%</b>	<b>\$11,575</b>	<b>\$12,035</b>	<b>\$14,493</b>	<b>\$16,129</b>	<b>\$12,597</b>	<b>\$11,034</b>	<b>\$9,956</b>
<b>-5.0%</b>	\$10,997	\$11,433	\$13,768	<b>\$15,323</b>	\$11,967	\$10,482	\$9,458
<b>-10.0%</b>	\$10,418	\$10,831	\$13,043	<b>\$14,516</b>	\$11,337	\$9,931	\$8,961
<b>-15.0%</b>	\$9,839	\$10,229	\$12,319	<b>\$13,710</b>	\$10,707	\$9,379	\$8,463
<b>-20.0%</b>	\$9,260	\$9,628	\$11,594	<b>\$12,903</b>	\$10,077	\$8,827	\$7,965
<b>-25.0%</b>	\$8,682	\$9,026	\$10,870	<b>\$12,097</b>	\$9,447	\$8,276	\$7,467

Change in NOI

# U.S. Hotel Price Change Since Peak (Early 2007)

## Change in Weighted Cost of Capital

	Change in Weighted Cost of Capital			
	Early 2007 (Peak) 6.2%	Late 2007 7.9%	Mid 2008 9.1%	Late 2008 10.0%
25.0%	25.0%	-2.4%	-14.5%	-22.8%
20.0%	20.0%	-6.3%	-17.9%	-25.9%
15.0%	15.0%	-10.2%	-21.3%	-29.0%
10.0%	10.0%	-14.1%	-24.7%	-32.1%
5.0%	5.0%	-18.0%	-28.2%	-35.2%
0.0%	0.0%	-21.9%	-31.6%	-38.3%
-5.0%	-5.0%	-25.8%	-35.0%	-41.4%
-10.0%	-10.0%	-29.7%	-38.4%	-44.4%
-15.0%	-15.0%	-33.6%	-41.8%	-47.5%
-20.0%	-20.0%	-37.5%	-45.3%	-50.6%
-25.0%	-25.0%	-41.4%	-48.7%	-53.7%

# Closing Comments

- Forecast 2009 national US hotel occupancy of 58% would be lowest level since 1971
- Near term compression of average daily rates
- Near term supply/demand imbalance will drag average rate growth
- Right sizing of hotel operational expenses
- Reduced spending on capital expenditures
- Lowest room starts since 1993; capital market turmoil slows new construction for next several years
- Industry profits will decline during 2009, third period since 1980's
- Airline capacity cuts are real and expected to continue in 2009
- Relief in oil prices helps, but impact is minimal
- Not much available product currently on the market for sale, but attractive investment opportunities invariably will surface
- Not as many distressed assets as one might think; at least not yet
- Hotel owners do not want to be perceived as selling in distress or a fire sale
- Available hotel investment capital has better options today (e.g., higher yielding notes, loan portfolios)
- **KEEP THE FAITH**



# **The U.S. Lodging Industry - 2009: Been There; Done That; Doing It Again**

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**Daniel H. Lesser**

Senior Managing Director – Industry Leader  
Hospitality & Gaming Group  
CB Richard Ellis, Inc.  
One Penn Plaza, Suite 1835  
New York, NY 10119  
USA  
Phone: 212.207.6064  
Fax: 212.207.6069  
Email: [daniel.lesser@cbre.com](mailto:daniel.lesser@cbre.com)