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FRANCHISE FACT FILE

DISTRESSED OPPORTUNITIES

MARKETING CLASSIC

# LODGING HOSPITALITY

Ideas for Hotel Developers & Operators

## MEETING EXPECTATIONS

Hotels See  
Return In  
Group Business,  
But Will It  
Ever Be  
The Same?

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A meeting room set up for the Elite Meetings Alliance at Terranea Resort in Rancho Palos Verdes, CA.





## O'NEILL ON VALUATION

# PROBLEM APPRAISALS

**A recent survey of hotel capital providers found that appraisals remain the biggest factor in their lending decisions.** The survey, which was sponsored by Hotel Source, a Chicago-based hotel real estate brokerage and advisory services firm, found that appraisals are even more important to lenders than a hotel's net operating income (NOI) or broker's opinion of value. This news should be informative to hotel owners and managers, and reassuring to those who appraise hotels, but the study also indicated there's room for improvement in hotel appraisals.

The Hotel Source survey suggested there are a couple of common shortcomings in many hotel appraisals. First, according to Hotel Source, because some appraisers arrive at a theoretical approach to value, they don't accurately convey true market value. "There is a business-specific knowledge that is oftentimes overlooked," says Steven Marx, president of Hotel Source. Often, appraisers undervalue hotels because they fail to recognize the business component.

A second problem cited by the survey is that many appraisers don't have specific knowledge of the lodging industry. This problem could be a direct cause of the first problem, as well as having other implications. The optimal resolution for hotel owners and lenders alike is for hotel appraisals to be conducted by appraisers who specialize in that property type.

While hotels are labor intensive, they're also better able to quickly react to and take advantage of improving economic conditions. Another unique aspect of the business component of hotels is their branding and/or goodwill from being intensely managed and marketed. Such important nuances are unlikely to be fully understood by appraisers not specializing in valuing hotels.

### Penn State Index

The Penn State Index of U.S. Hotel Values econometric model currently projects overall hotel values will decrease 2.2 percent this year. Economy hotels are expected to register the largest percentage drop in value, with an 11.2-percent decline. Next year, overall hotel values are anticipated to increase 7.5 percent, with all hotel types expected to record increases in value, and luxury hotels anticipated to show a particularly noteworthy \$16,000 per-room value increase.

### Penn State Index of Hotel Values

Overall	Value Per Room	Annual Percent Change
2007	\$ 98,264	9.3%
2008	\$ 93,752	- 4.6%
2009	\$ 76,457	-18.4%
2010	\$ 74,787	- 2.2%
2011 (forecast)	\$ 80,424	7.5%

Luxury	Value Per Room	Annual Percent Change
2007	\$ 351,351	7.5%
2008	\$324,204	- 7.7%
2009	\$253,083	-21.9%
2010	\$249,906	- 1.3%
2011 (forecast)	\$265,930	- 6.4%

Upper Upscale	Value Per Room	Annual Percent Change
2007	\$ 177,203	6.6%
2008	\$ 165,032	- 6.9%
2009	\$134,460	-18.5%
2010	\$ 131,995	- 1.8%
2011 (forecast)	\$ 141,474	7.2%

Upscale	Value Per Room	Annual Percent Change
2007	\$ 121,624	12.1%
2008	\$ 113,957	7.6%
2009	\$ 92,028	- 6.3%
2010	\$ 90,467	-19.2%
2011 (forecast)	\$ 96,549	- 2.3%

Midscale With Food & Beverage	Value Per Room	Annual Percent Change
2007	\$ 72,178	6.7%
2008	\$ 68,329	- 5.3%
2009	\$ 56,900	-16.7%
2010	\$ 53,555	- 5.9%
2011 (forecast)	\$ 54,975	2.7%

Midscale Without Food & Beverage	Value Per Room	Annual Percent Change
2007	\$ 77,972	9.8%
2008	\$ 74,645	- 4.3%
2009	\$ 62,870	-15.8%
2010	\$ 61,467	- 2.2%
2011 (forecast)	\$ 63,651	3.6%

Economy	Value Per Room	Annual Percent Change
2007	\$ 28,204	6.9%
2008	\$ 25,6174	- 9.2%
2009	\$ 17,793	- 30.5%
2010	\$ 15,797	- 11.2%
2011 (forecast)	\$ 17,531	11.0%

Source: The Pennsylvania State University