



Lodging Performance Outlook 2023

Update on hotel performance, operational metrics, values, and construction costs

Zabada Abouelhana | Vice President, Leader – Arizona Region

November 2023

Who We Are



HVS Provides Expertise Through Every Phase of Ownership Across a Wide Range of Hospitality Assets

- Hotel owners
- Developers
- Investors
- Lenders
- Management Companies
- Public Agencies



- Hotels
- Mixed Use
- Shared Ownership Lodging
- Golf & Country Clubs
- Casinos
- Convention, Sports & Entertainment Facilities
- Wellness

***Market Research and Industry Publications:
Broker Survey, Development Cost Survey, and more!***

Agenda

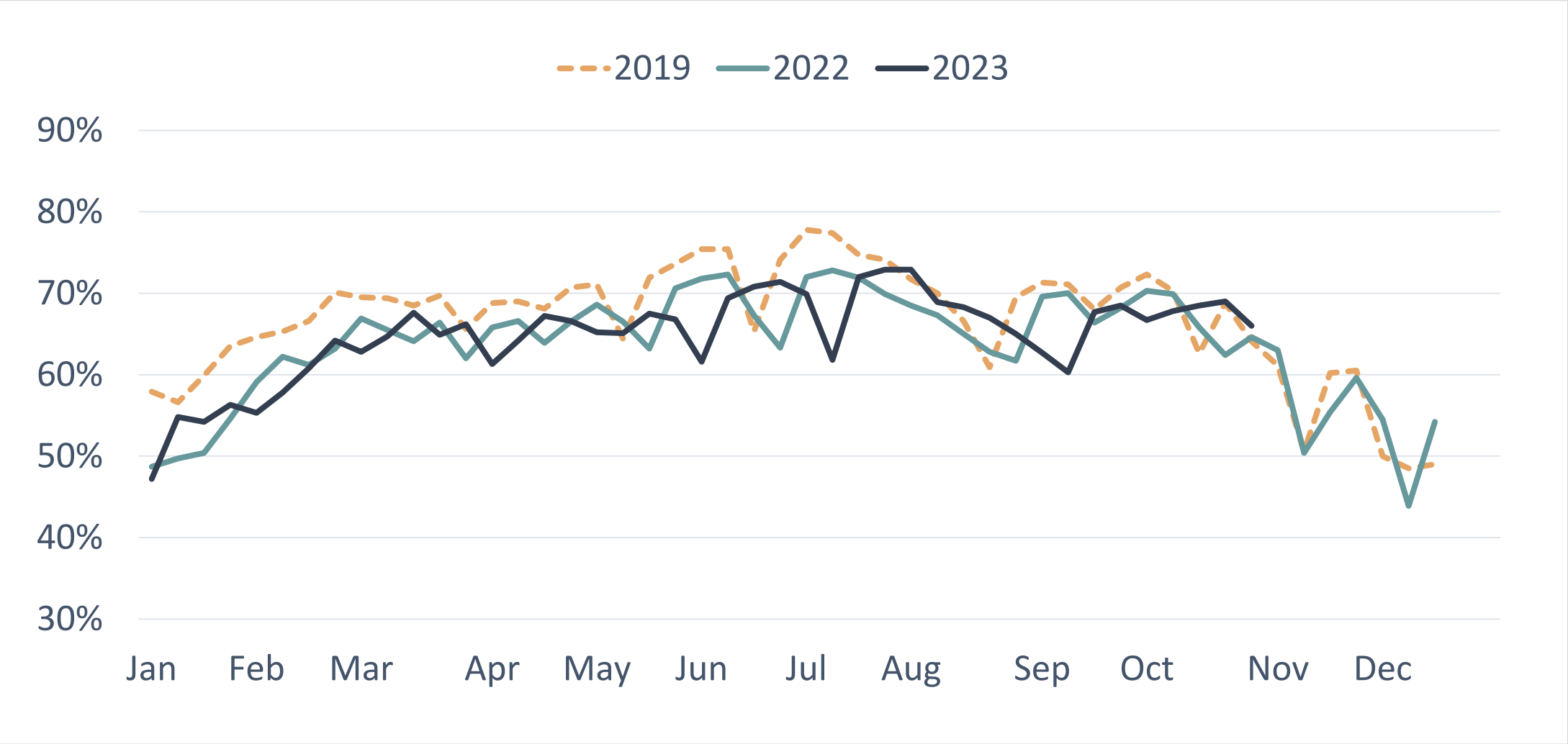


- 1 National and Local Lodging Performance
- 2 Hotel Operating Trends
- 3 Hotel Valuation Metrics
- 4 Transaction Activity
- 5 Supply Trends and Construction Costs



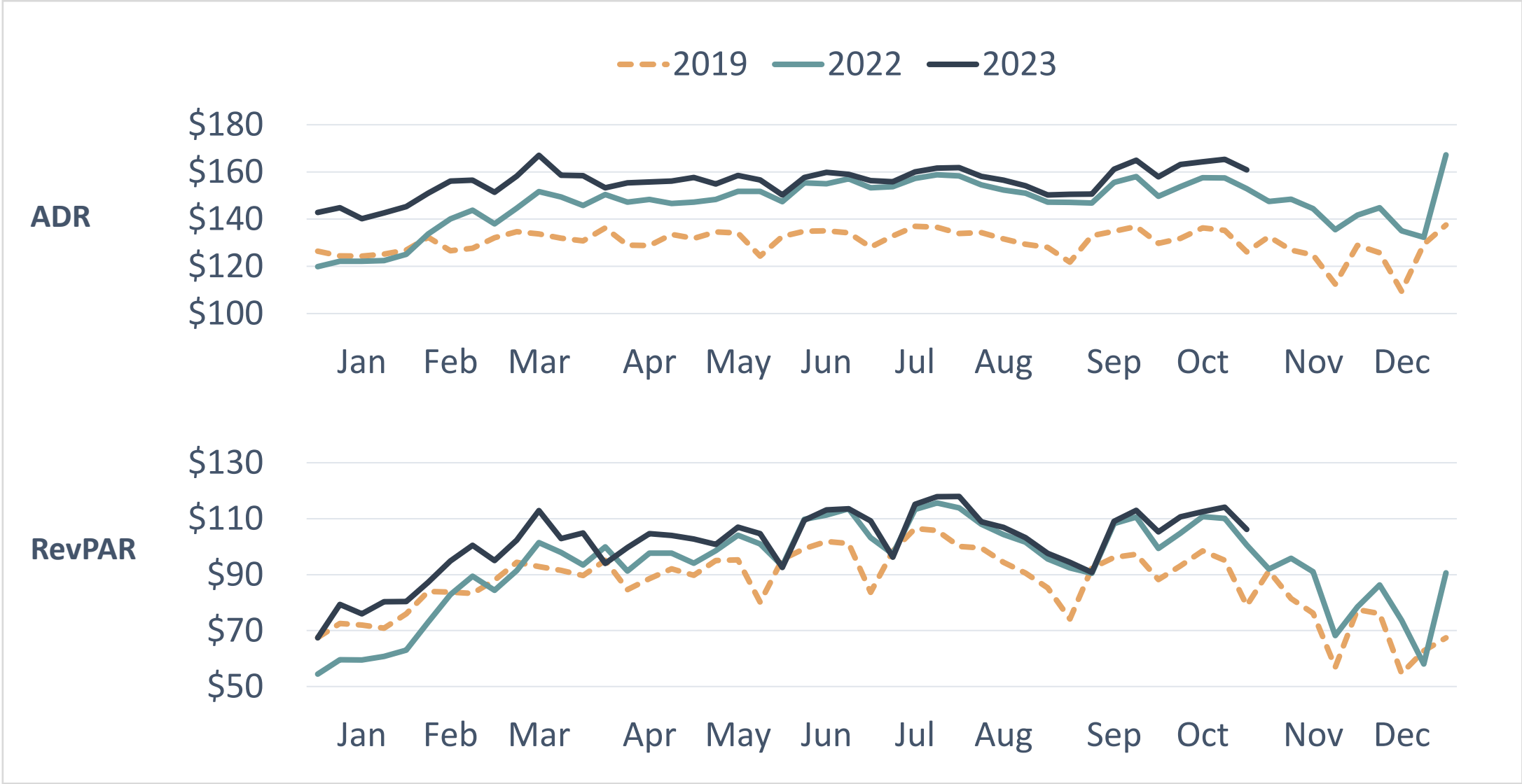
National and Local Performance Trends

National Occupancy Growth Slowing in 2023



Source: STR

National RevPAR Growth Stabilizing



Source: STR

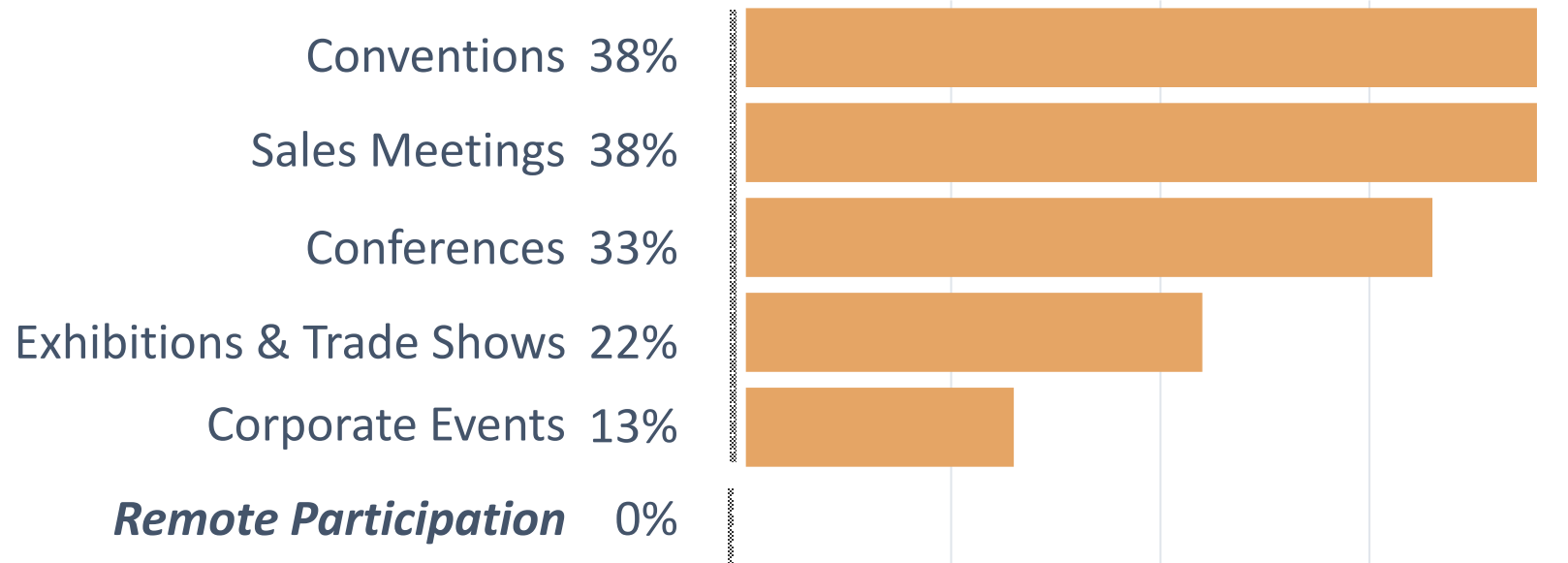
Group Demand on the Rise



A Feb/Mar 2023 survey of 350 travelers to business events revealed that more expect to travel in 2023

Estimated Change (2022 vs. 2023)

In-Person Participation



Source: HVS and Access Intelligence

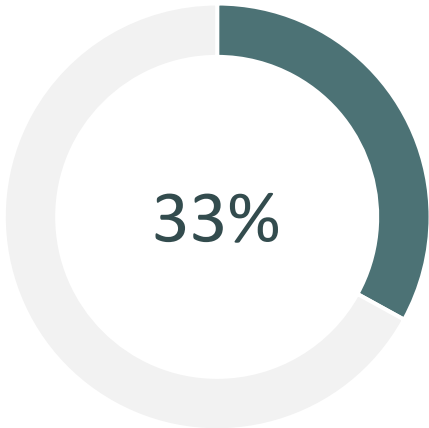
Many Group Travelers Plan to Extend Trips



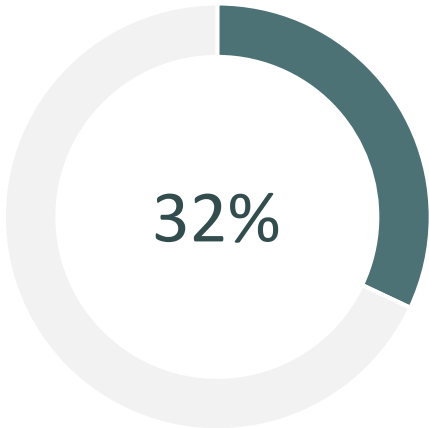
The reported change from actual 2022 travel to the expected travel in 2023 reflects new trends

When attending business events, are you more or less likely to do the following?

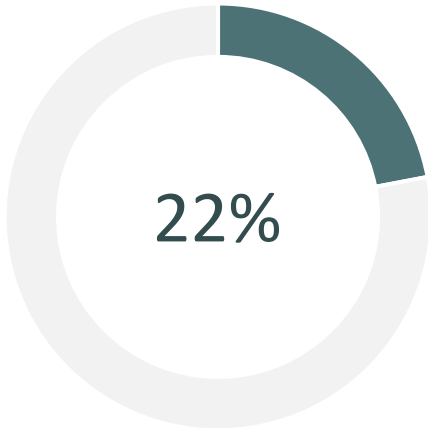
2022 vs. 2023 Net Change*



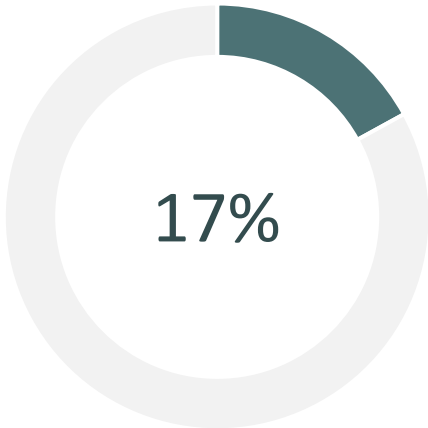
Extend Travel Time for Recreation and Leisure



Travel with Family and Friends



Extend Travel Time for Work



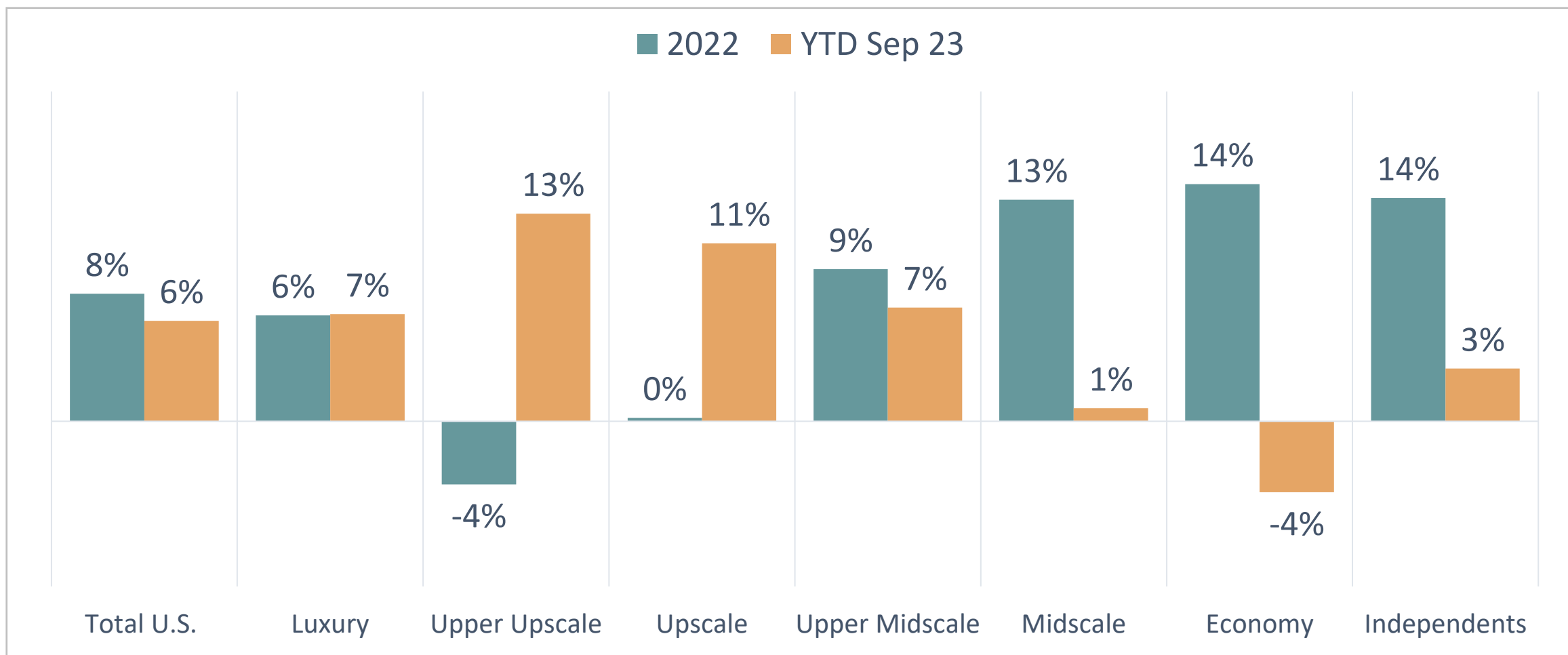
Book Short-Term Accommodations

* Weighted average of all respondents by type of event

Certain Chain Scales Overperformed in RevPAR



Independent, Economy, and Midscale hotels overperformed in the recovery

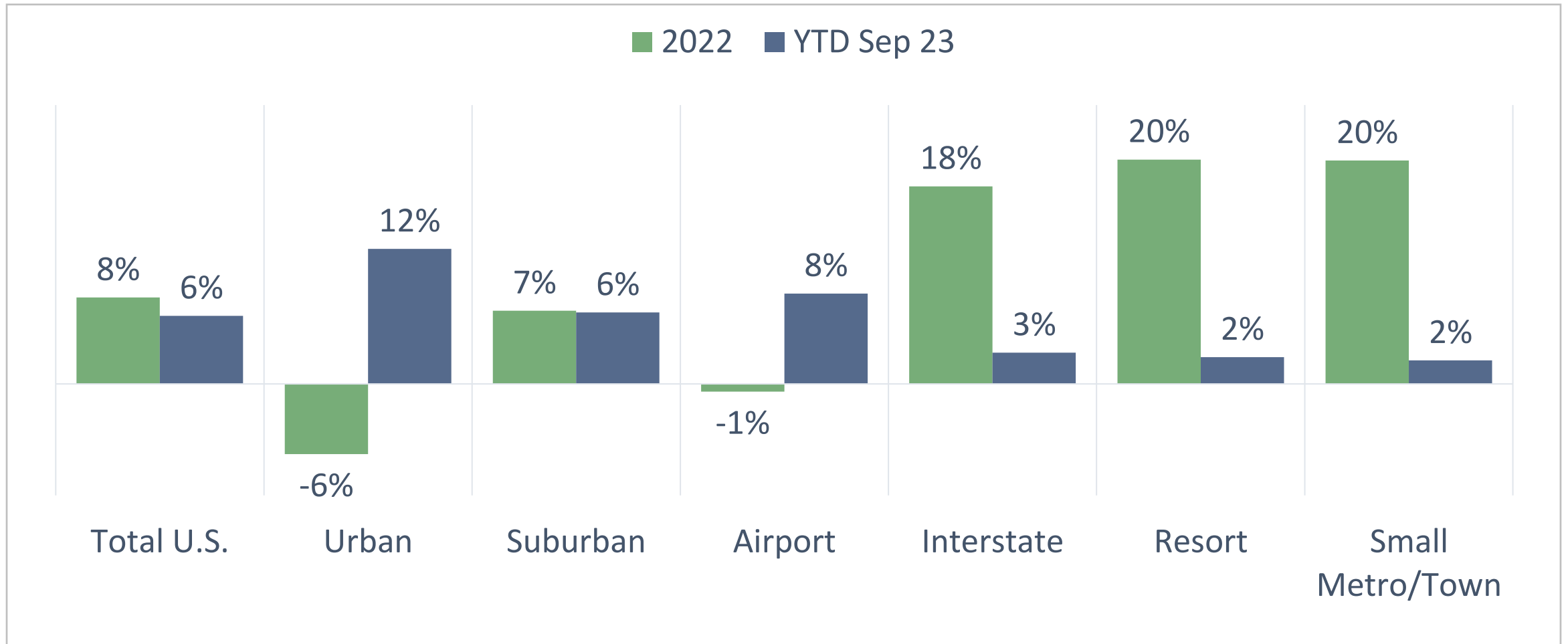


Source: STR

Certain Locations Overperformed in RevPAR



Smaller Metros, Resort, and Interstate Locations overperformed in the recovery



Source: STR

Demand Growth Limited by Certain Factors



A return to prior peak occupancy is not expected in the near term



INTERNATIONAL TRAVEL

Asia



West Coast



HYBRID/VIRTUAL MEETINGS

Format Remains



Many Prefer Face-to-Face, Some Would Rather Attend Virtually



WORK FROM HOME

Proliferation of Remote Jobs

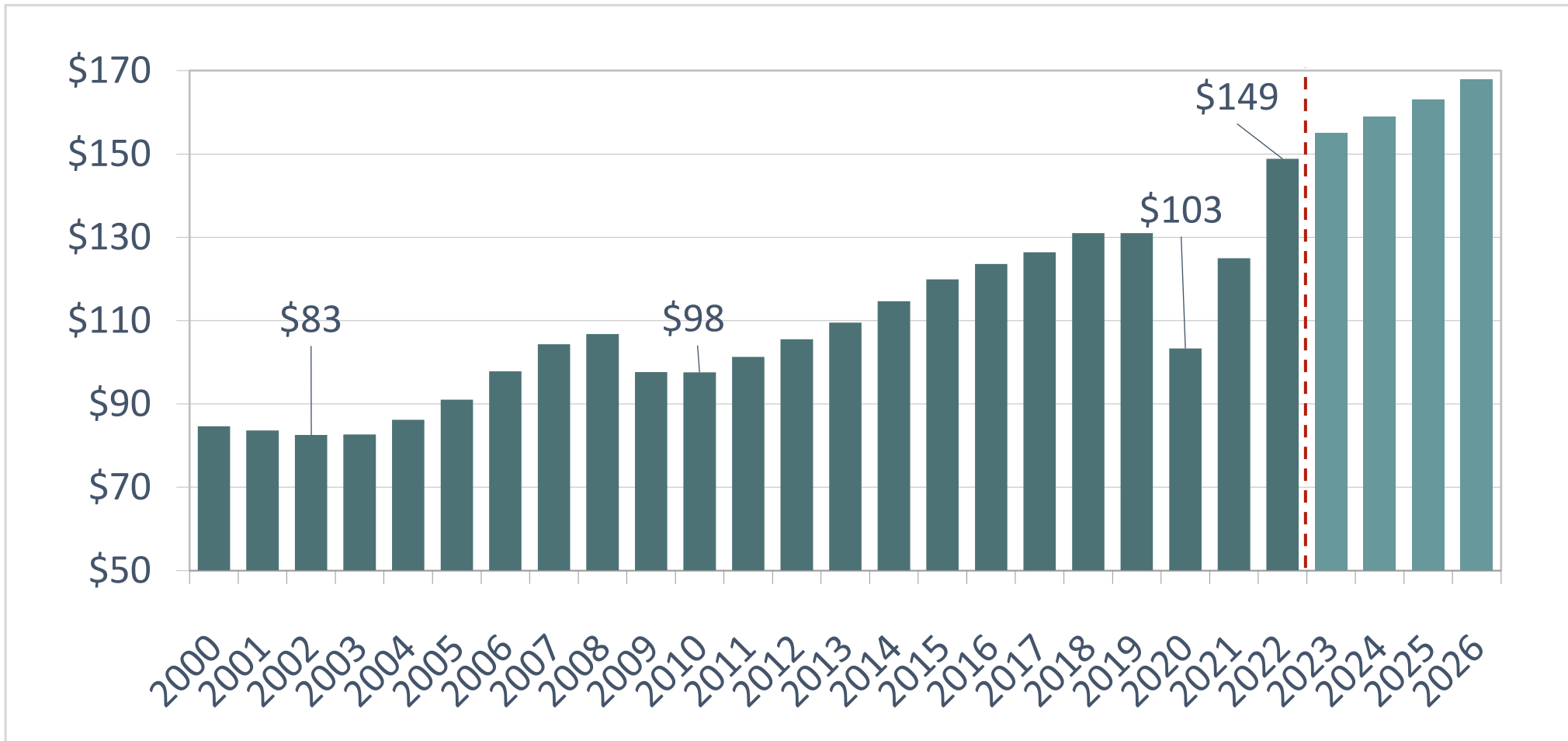


Business Travel Elected on Tuesday/Wednesday

Paying More for Travel is the New Norm



To escape their homes, which now are workplaces for more, room rate sensitivity wanes.

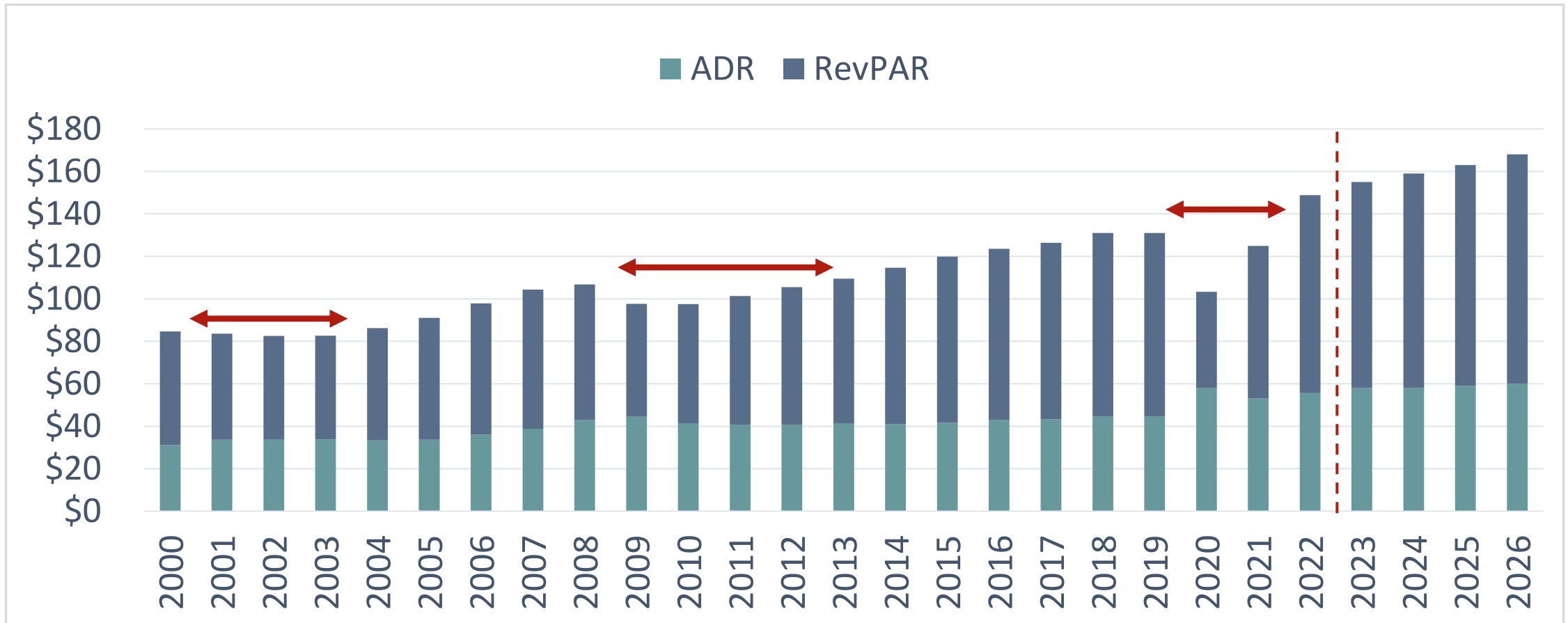


Source: STR (Historical), HVS (Forecast as of September 2023)

RevPAR Had a Quick Fall, but a Very Fast Rise

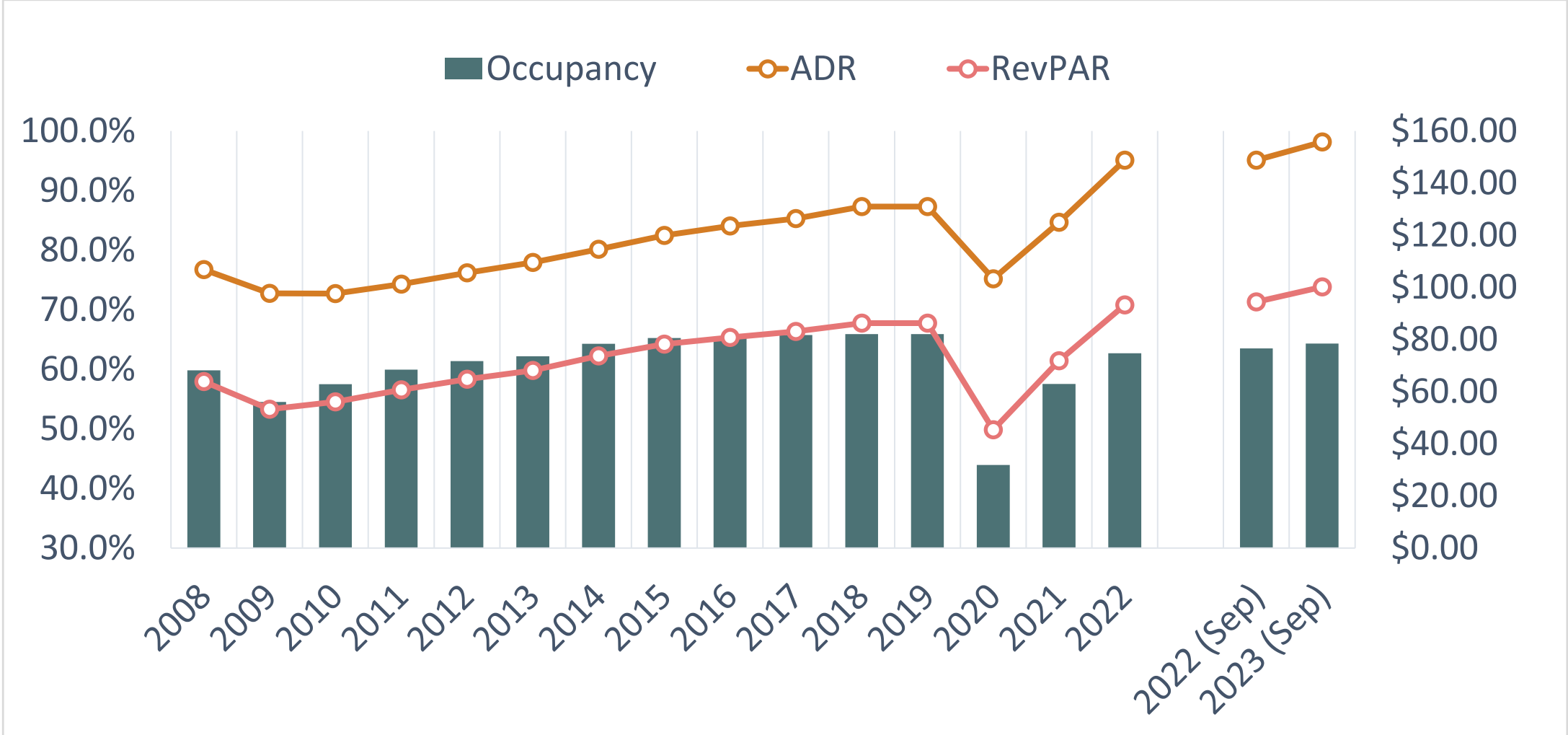


RevPAR moved beyond prior peak in 2022, recovering after only two down years



Source: STR (Historical), HVS (Forecast as of September 2023)

U.S. Lodging Performance at an All-Time High



Source: STR

National Occupancy Expected to Lag ADR Recovery

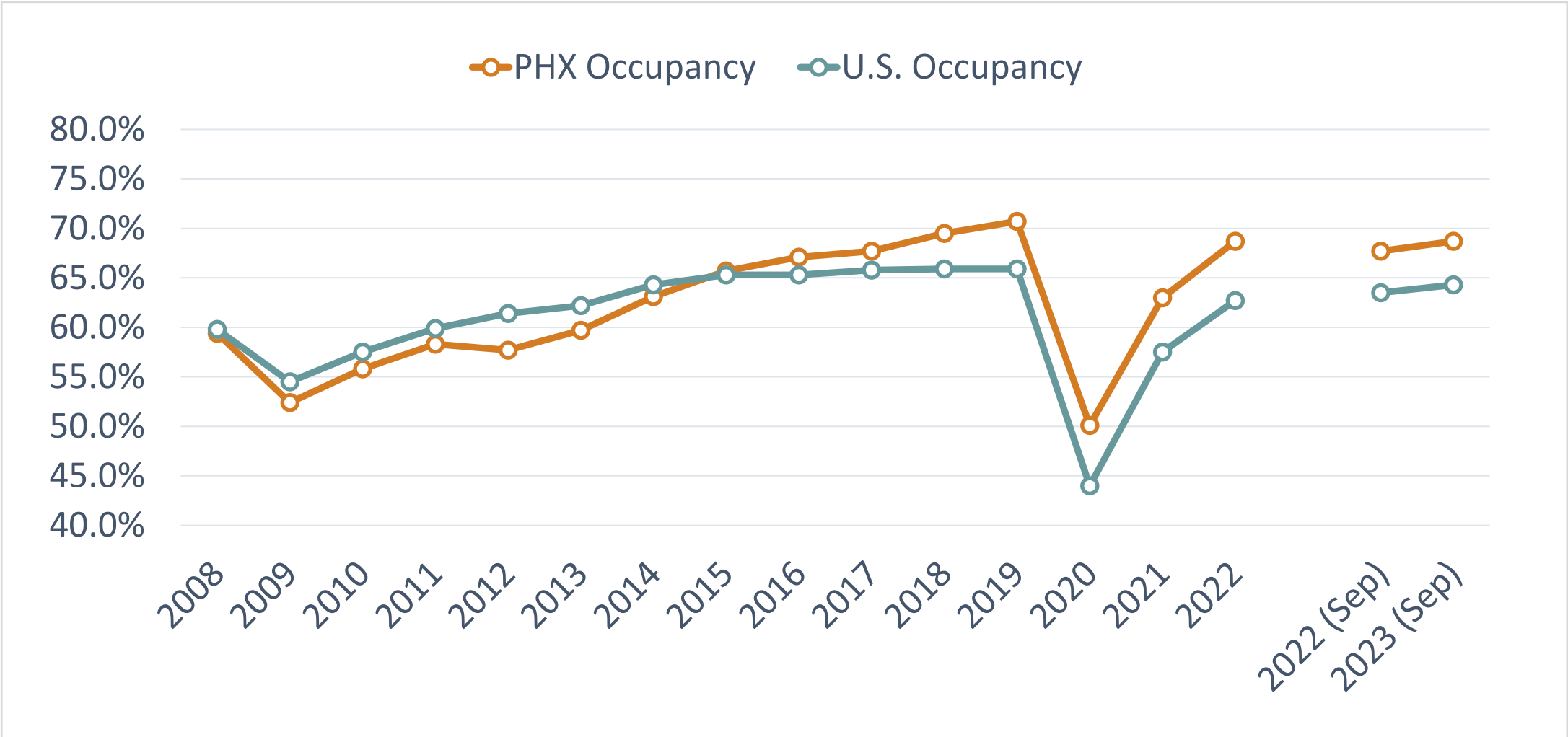


While ADR has surpassed the 2019 level in 2022

Year	Occupancy	ADR	% Chg	RevPAR	% Chg
2019	65.9%	\$131		\$86	
2020	44.0	103	-21.1%	45	-47.4%
2021	57.5	125	21.0	72	58.3
2022	62.7	149	19.1	93	29.8
2023	63.0	155	4.0	97	4.5
2024	63.4	159	2.5	101	3.1
2025	64.0	163	2.6	104	3.6
2026	64.5	168	3.0	108	3.8

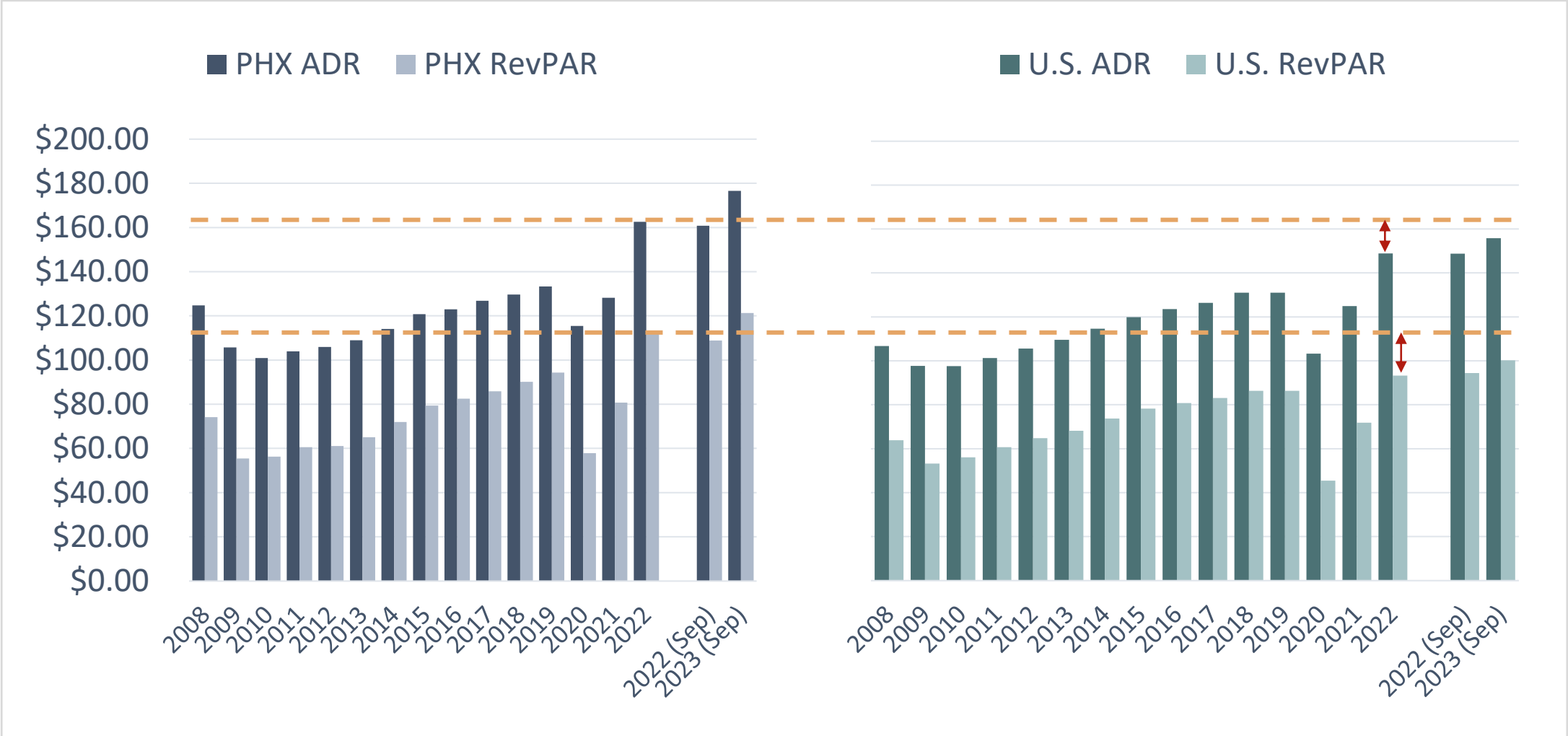
Source: STR (Historical), HVS (Forecast as of September 2023)

Phoenix Performance Stronger than National



Source: STR

Phoenix Performance Stronger than National



Source: STR

Phoenix Occupancy Expected to Continue to Grow



While ADR has surpassed the 2019 level in 2022

Year	Occupancy	ADR	% Chg	RevPAR	% Chg
2019	70.7%	\$133		\$94	
2020	50.1	115	-13.5%	58	-38.7%
2021	63.0	128	11.1	81	39.7
2022	68.7	163	26.8	112	38.3
2023	68.9	174	6.8	120	6.1
2024	69.7	174	0.0	120	0.8
2025	70.0	176	2.1	124	2.6
2026	70.0	182	3.0	127	3.0

Source: STR (Historical), HVS (Forecast as of September 2023)



Hotel Operating Trends

Revenues, Expenses, and NOI

Operational Expenses Increase Post-COVID



Higher wages and inflation drive up costs in certain expense categories

	Percent of Revenue		
	Limited-Service	Select-Service	Full-Service
Year:	2019	2019	2019
Days Open:	365	365	365
Occupancy:	69%	72%	73%
Average Rate:	\$85	\$146	\$207
RevPAR:	\$58	\$105	\$152
REVENUE			
Rooms	97.9 %	90.3 %	60.3 %
Food & Beverage	0.0	5.9	31.2
Other Operated Departments	0.9	2.8	6.4
Miscellaneous Income	1.1	0.9	2.0
Total	100.0	100.0	100.0
DEPARTMENTAL EXPENSES*			
Rooms	24.6	24.5	27.5
Food & Beverage	0.0	92.3	71.0
Other Operated Departments	42.5	36.4	52.4
Miscellaneous Income	0.0	0.0	1.1
Total	24.5	28.7	42.2
DEPARTMENTAL INCOME	75.5	71.3	57.8
UNDISTRIBUTED OPERATING EXPENSES			
Administrative & General	9.0	9.5	7.8
Info. and Telecom. Systems	1.1	1.0	1.3
Marketing	4.2	6.1	6.9
Franchise Fee	6.8	4.9	1.6
Property Operations & Maintenance	5.6	4.5	4.2
Utilities	5.0	3.4	2.9
Total	31.7	29.4	24.7
GROSS OPERATING PROFIT	43.8	41.9	33.1
Management Fee	2.6	3.6	2.8
INCOME BEFORE NON-OPER. INC. & EXP.	41.2	38.4	30.3
NON-OPERATING INCOME AND EXPENSE			
Property Taxes	4.9	5.0	3.8
Insurance	1.7	1.2	1.0
Incentive Management Fee	0.0	0.1	0.4
Miscellaneous Fixed Expenses	0.1	(0.1)	1.4
Total	6.7	6.1	6.0
EBITDA BEFORE RESERVES	34.5 %	32.3 %	24.3 %

* Departmental expense ratios are expressed as a percentage of departmental revenues

	Percent of Revenue		
	Limited-Service	Select-Service	Full-Service
Year:	2022	2022	2022
Days Open:	365	365	365
Occupancy:	65%	63%	59%
Average Rate:	\$122	\$153	\$239
RevPAR:	\$80	\$96	\$141
REVENUE			
Rooms	97.2 %	90.4 %	60.3 %
Food & Beverage	0.0	5.0	30.6
Other Operated Departments	1.8	3.5	7.0
Miscellaneous Income	1.0	1.0	2.2
Total	100.0	100.0	100.0
DEPARTMENTAL EXPENSES*			
Rooms	26.4	26.6	27.4
Food & Beverage	0.0	87.7	76.1
Other Operated Departments	22.8	20.9	49.3
Miscellaneous Income	0.0	0.0	5.0
Total	26.1	29.2	43.3
DEPARTMENTAL INCOME	73.9	70.8	56.7
UNDISTRIBUTED OPERATING EXPENSES			
Administrative & General	9.5	10.3	8.4
Info. and Telecom. Systems	1.4	1.3	1.3
Marketing	3.8	5.6	6.5
Franchise Fee	7.1	4.1	2.1
Property Operations & Maintenance	5.4	5.0	4.5
Utilities	4.7	3.9	3.4
Total	31.9	30.1	26.2
GROSS OPERATING PROFIT	42.0	40.7	30.5
Management Fee	2.8	3.6	2.7
INCOME BEFORE NON-OPER. INC. & EXP.	39.2	37.1	27.8
NON-OPERATING INCOME AND EXPENSE			
Property Taxes	4.7	4.9	3.3
Insurance	2.0	1.9	1.3
Incentive Management Fee	0.1	0.0	0.2
Miscellaneous Fixed Expenses	0.8	0.7	0.8
Total	7.4	7.6	5.4
EBITDA BEFORE RESERVES	31.8 %	29.5 %	22.4 %

* Departmental expense ratios are expressed as a percentage of departmental revenues

F&B Recovery Lagging

Operating Expenses: Higher

Profit Ratios: Lower

* Departmental expenses are expressed as a percentage of departmental revenues

Source: HVS

Hotels Fill the Gap and Find New Revenue



Managers have implemented new strategies to generate revenue.



Resort Pass & Cabana Rentals

Pass purchasing by local residents to use resort pools



Parking & EV Charging Fees

More hotels earning lease income from EV parking & charging for parking



Wellness Memberships

If the facilities are right, offering memberships to use the hotel's wellness offerings



Resort Fees

More hotels are charging resort fees now—many as a % of the rate vs. a flat fee



Golf Simulator Instead of Pool

Hotel in Denver converts pool to 2 sports simulator bays (\$40/hour) + offers food service



Activated Lobby & Curated Liquor

Lobbies become reserved lounge seating, if the neighborhood is right



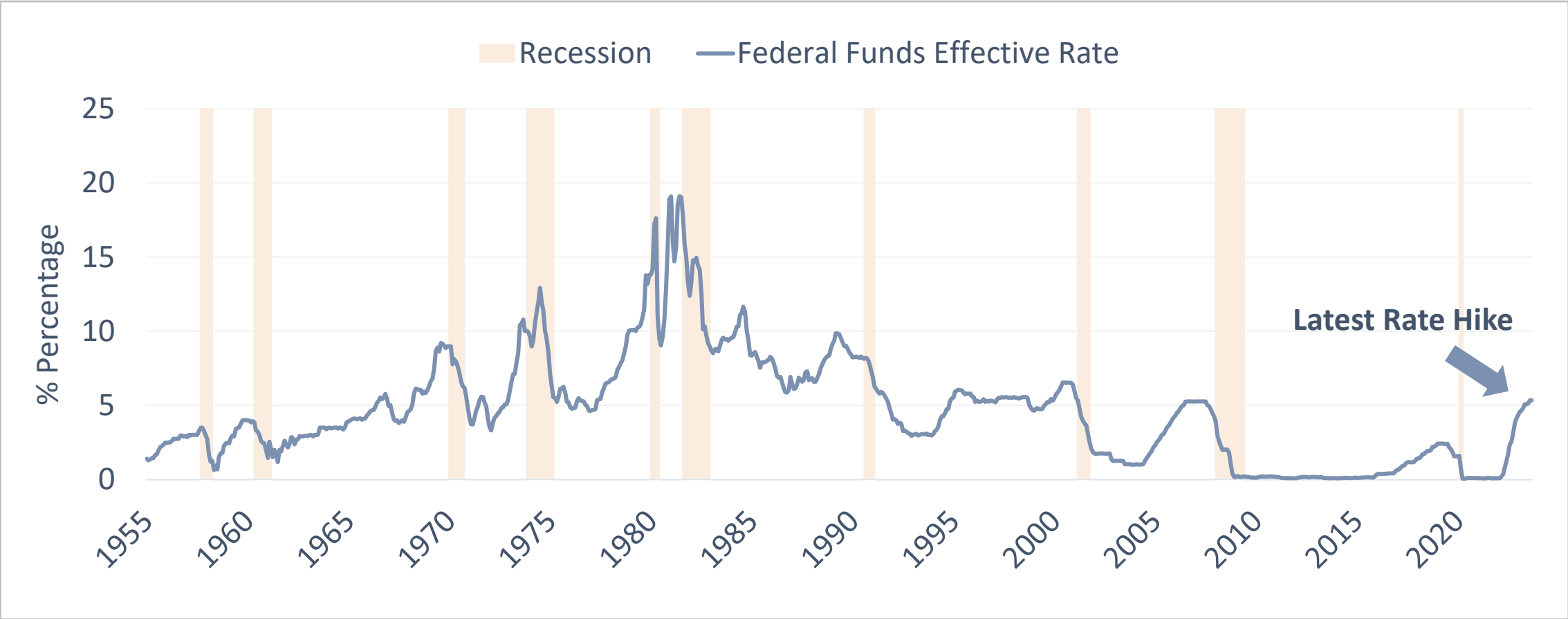
Hotel Valuation Metrics

Capitalization Rates and Discount Rate Trends

Federal Funds Rate at 22-Year High



Current Rate Hike Cycle reflects fastest increase in recent history

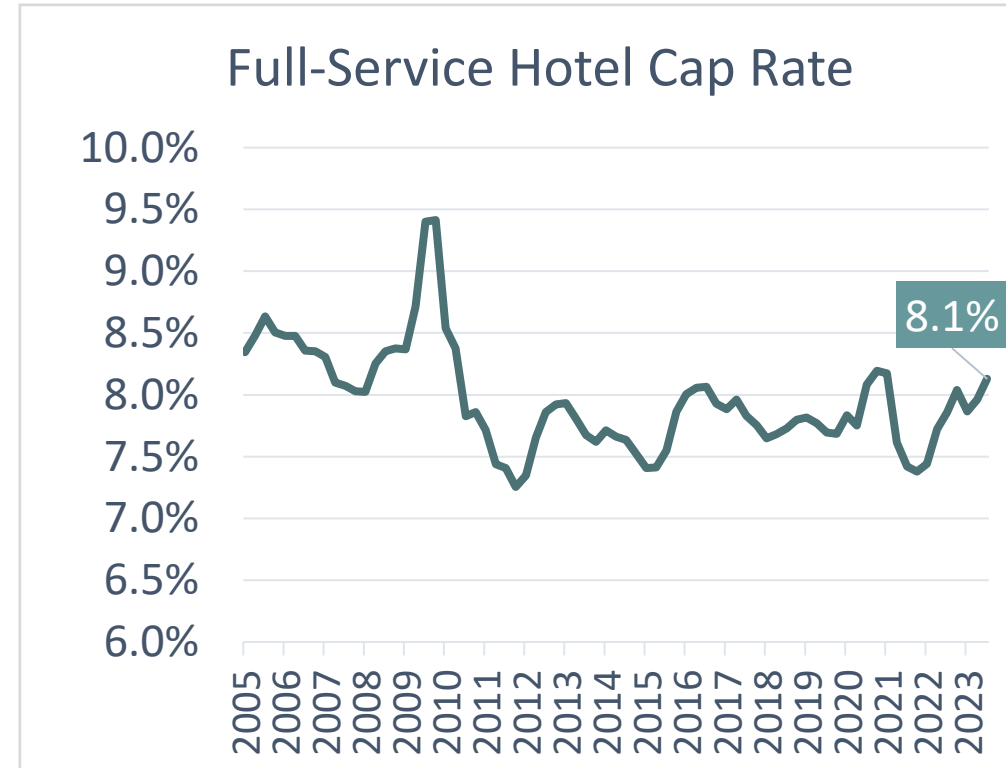
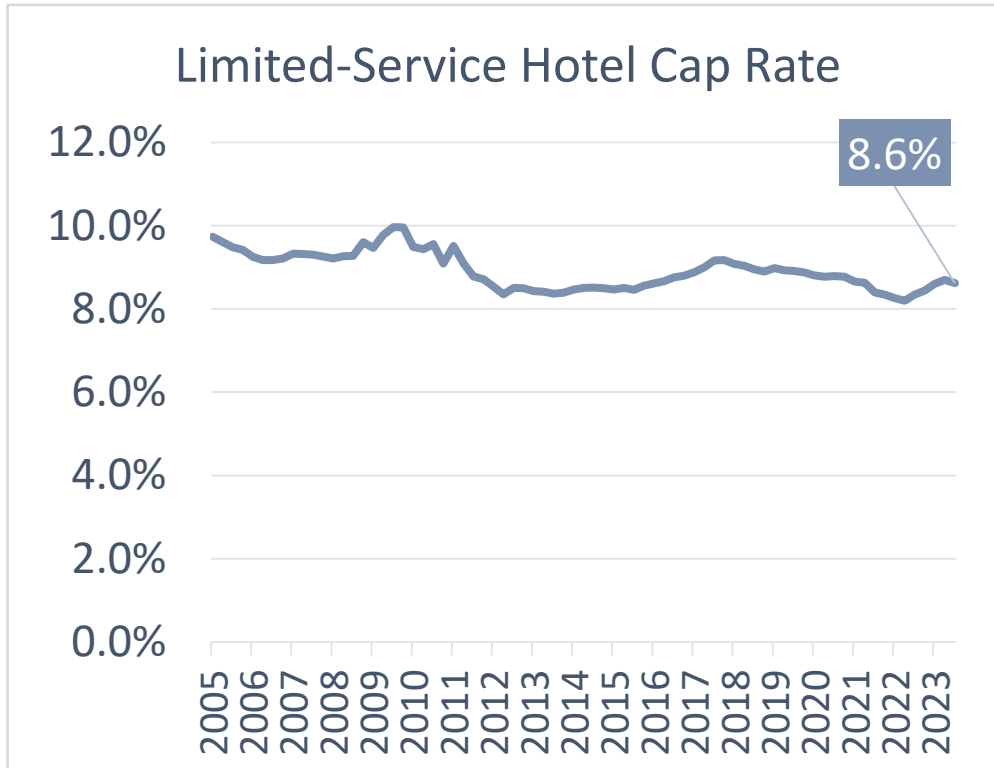


Source: Board of Governors of the Federal Reserve System (US), September 2023
Shaded areas indicate U.S. recessions.

Cap Rates Trajectory Vary Between Limited and Full Service



Strong hotel performance and competition have somewhat offset debt costs

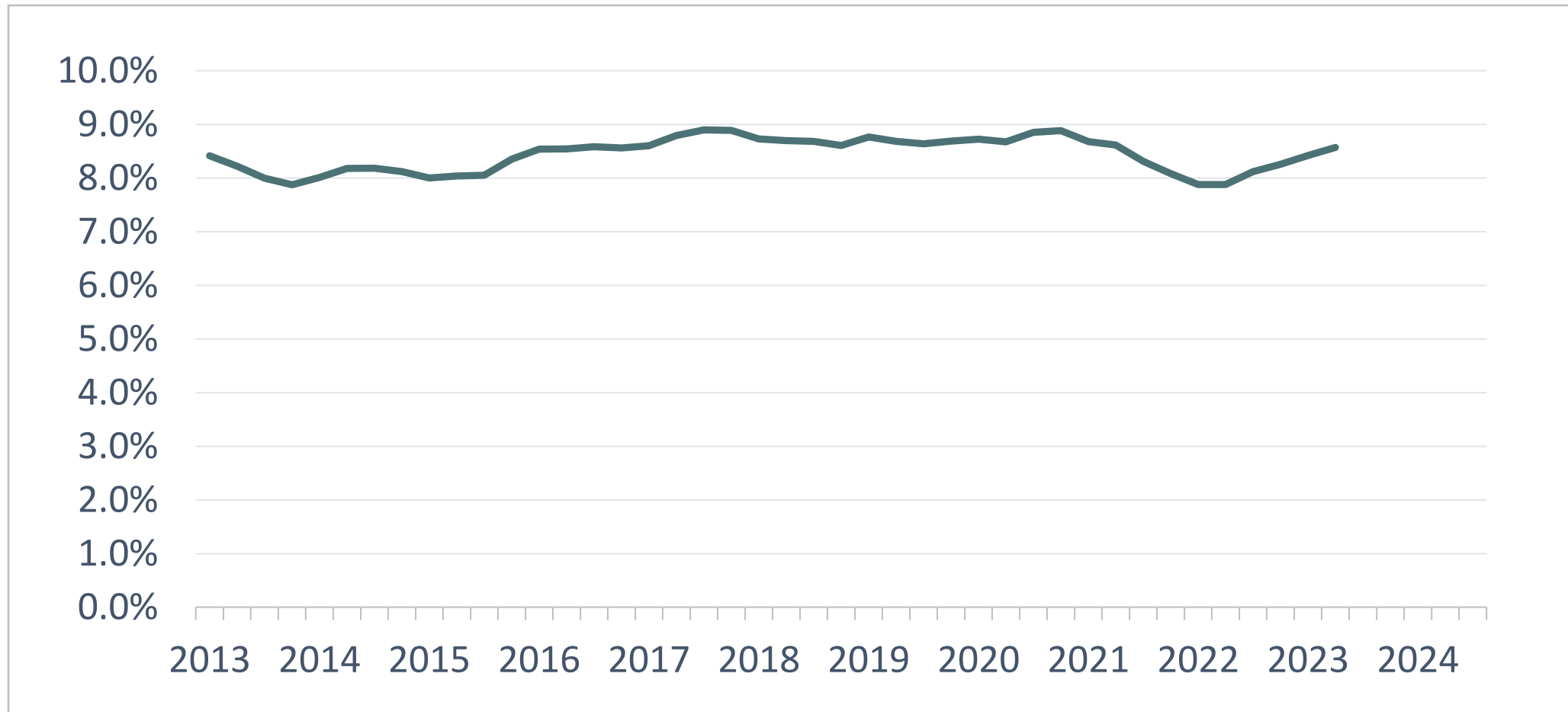


Source: MSCI Real Capital Analytics, Q3 2023

Cap Rates On the Rise



Despite an upward trend, time shows the range is relatively narrow

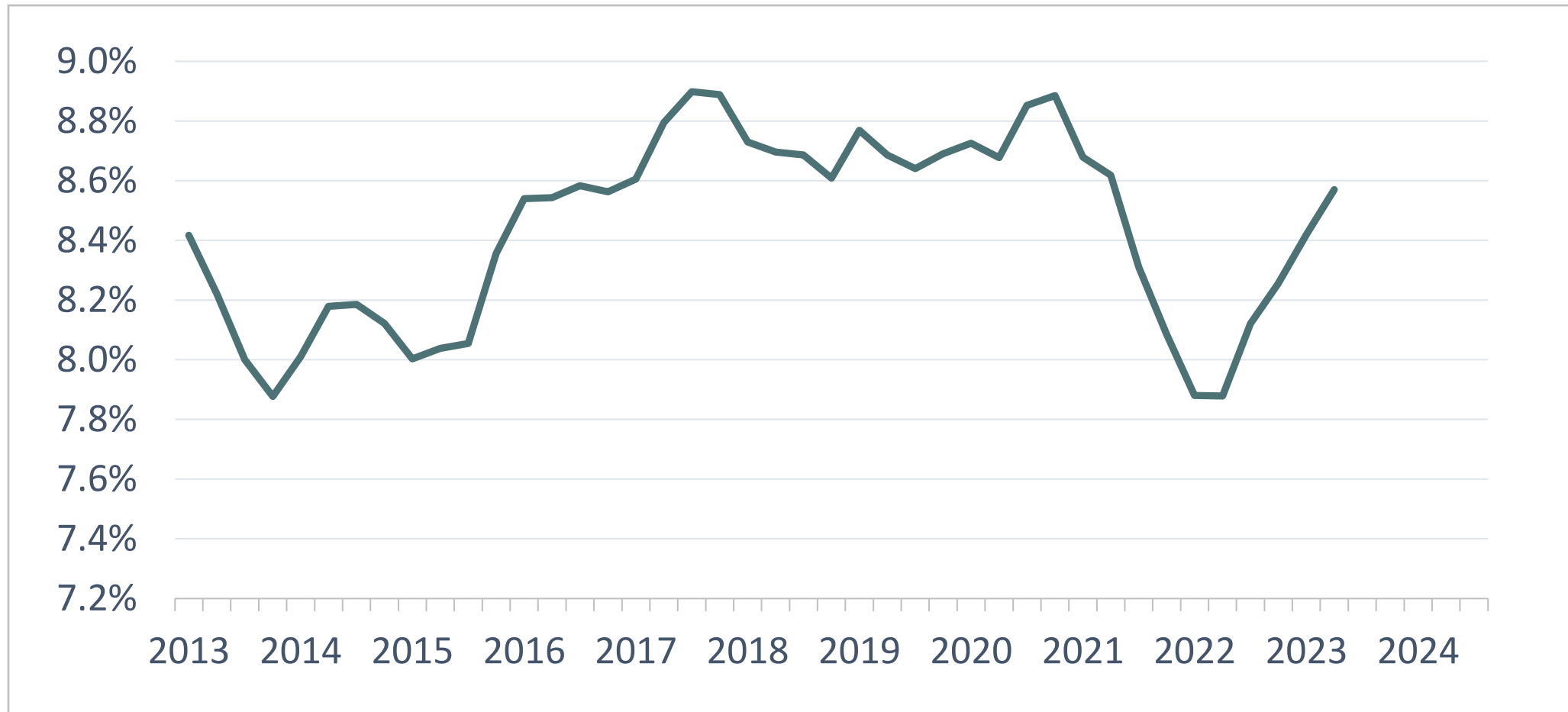


Source: MSCI Real Capital Analytics (Historical), HVS (Forecast)

Zooming In To That 8% - 9% Range



Cap rates are now climbing towards the higher end of the 10-year range

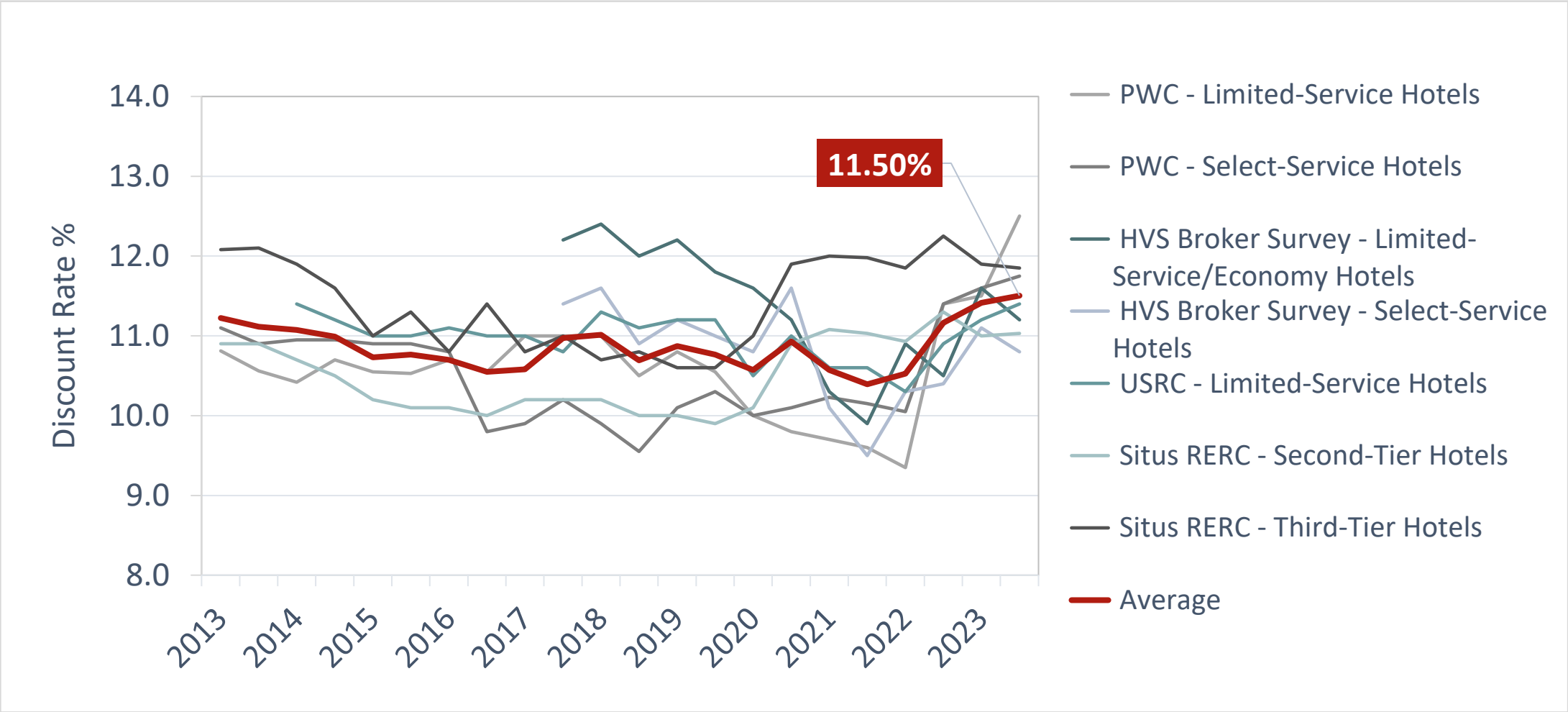


Source: MSCI Real Capital Analytics (Historical), HVS (Forecast)

Discount Rates on the Rise for Limited/Select



With 1H 2022 discount rates at their lowest, values peaked mid-year 2022

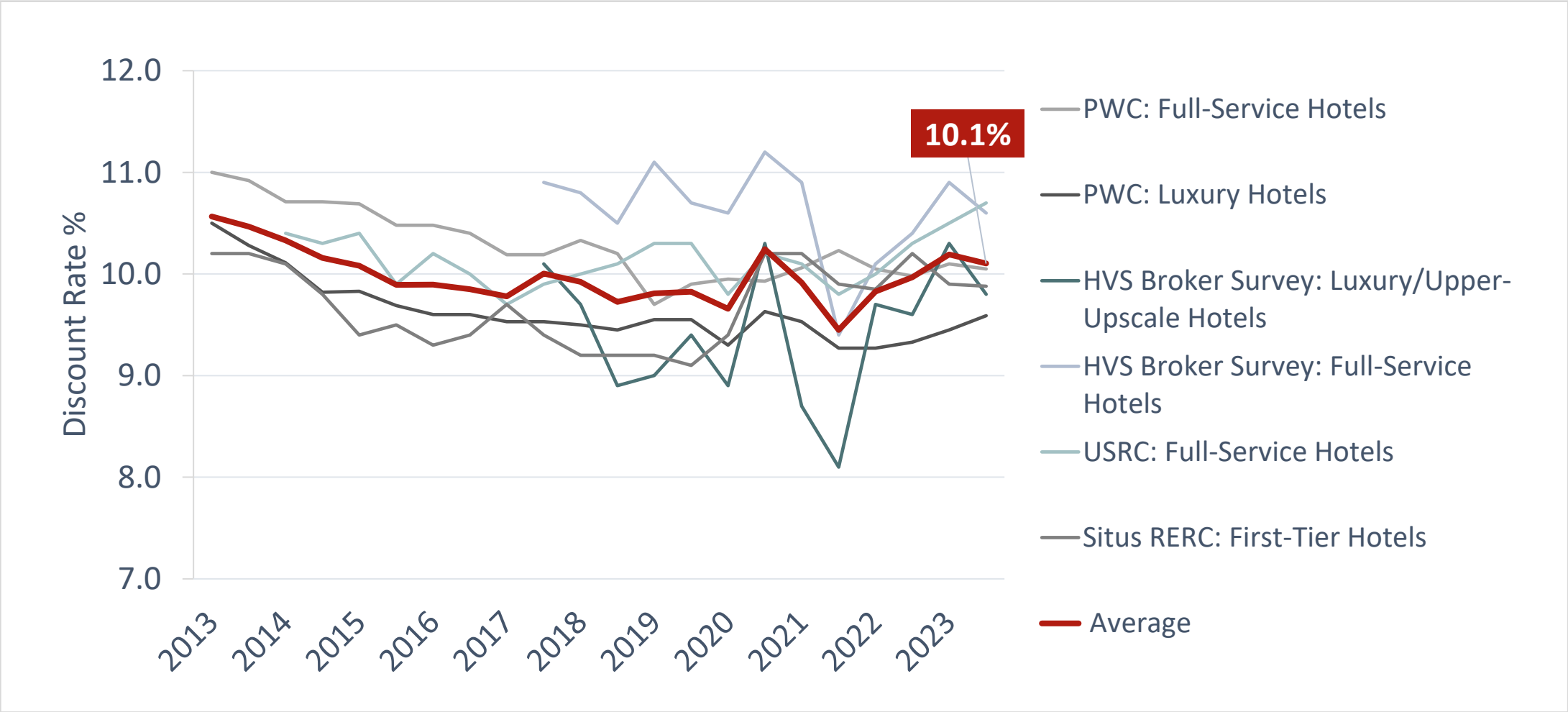


Source: PWC, HVS, USRC, Situs RERC

Discount Rates Lower For Full-Service/Luxury



A rise in discount rates for these categories is a return to normal



Source: PWC, HVS, USRC, Situs RERC

Refinancing Expectation Tempers the Discount Rate



An assumed refinancing allows a buyer to justify a higher contract price today

	CURRENT FINANCING TERMS	REFINANCING TERMS
Loan-to-Value Ratio	60%	70%
Amortization	30 Years	30 Years
Term	10 Years	10 Years
Interest Rate	9.0%	5.5%
Terminal Cap Rate	9.0%	9.0%
Transaction Costs	1.5%	1.5%
Equity Yield	16.0%	17.0%
Total Property Yield	12.7%	9.8%
Years of Refinancing		4 Years
Overall Discount Rate	10.75%	

Source: HVS

Broker Survey Results – Room Revenue Multiplier



Limited-Service and Extended-Stay Hotels Reported RRM's Average Stays Strong at 3.8x

Reflecting Continued Popularity of Assets in This Category



Source: HVS



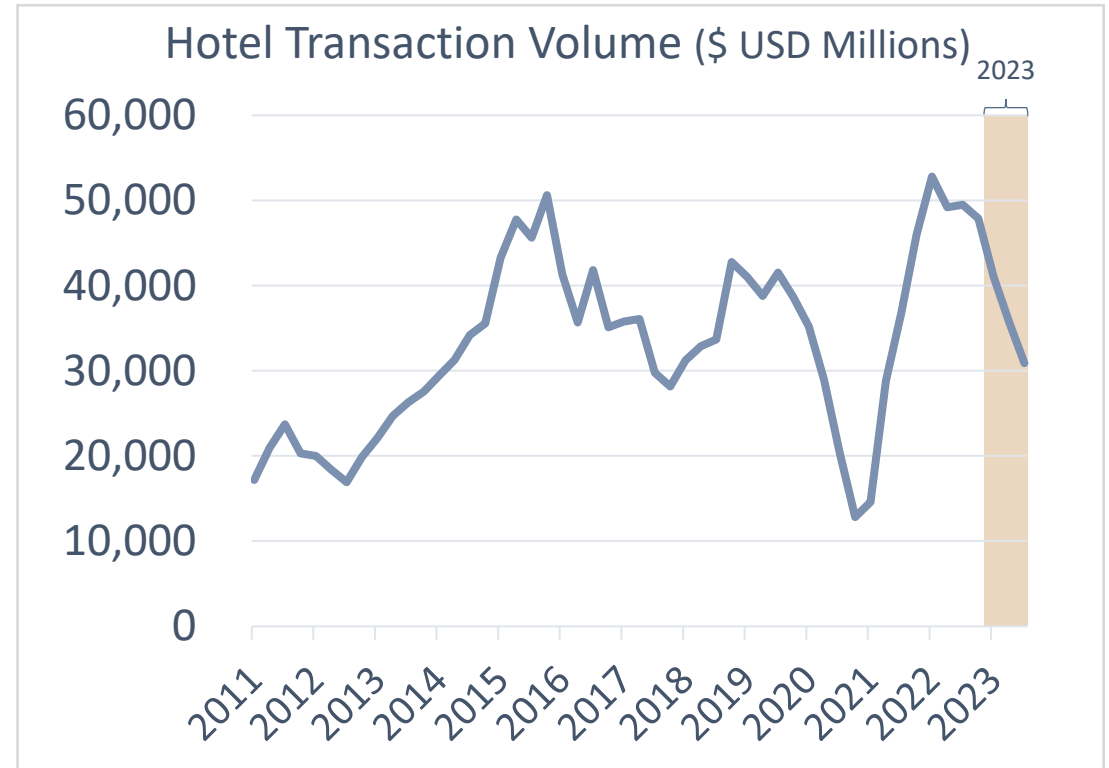
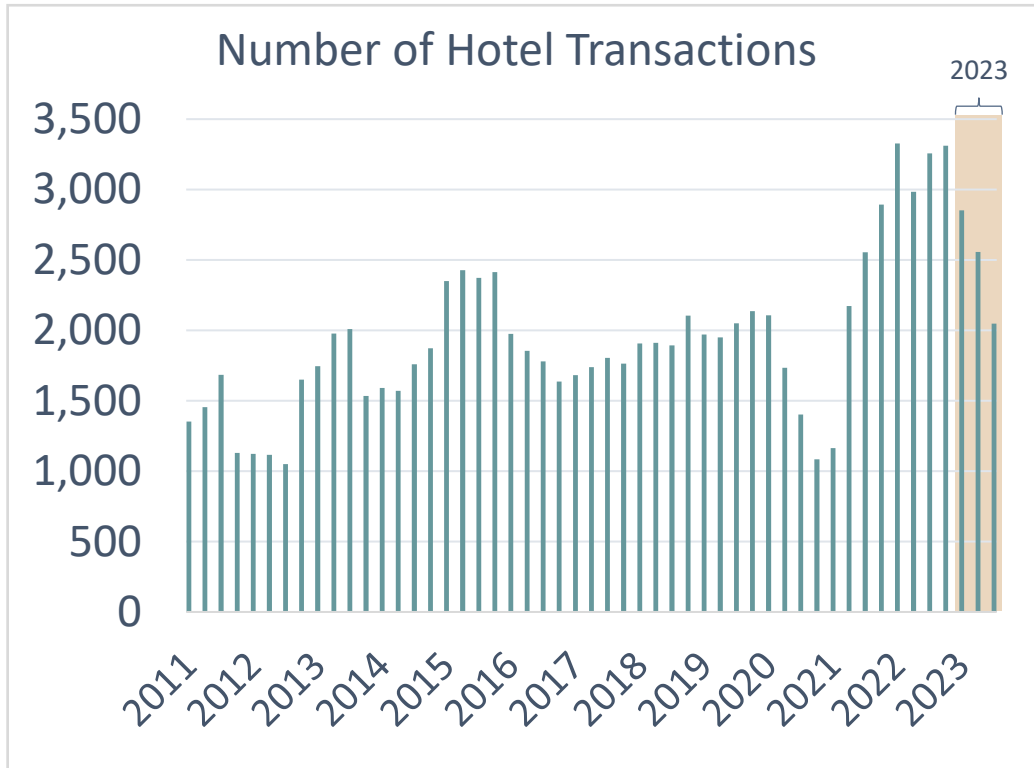
Transaction Activity

Hotel Sales Trends

Slowing of Transaction Activity in 2023



Transaction activity in 2023 noticeable lower but somewhat in line with historical levels

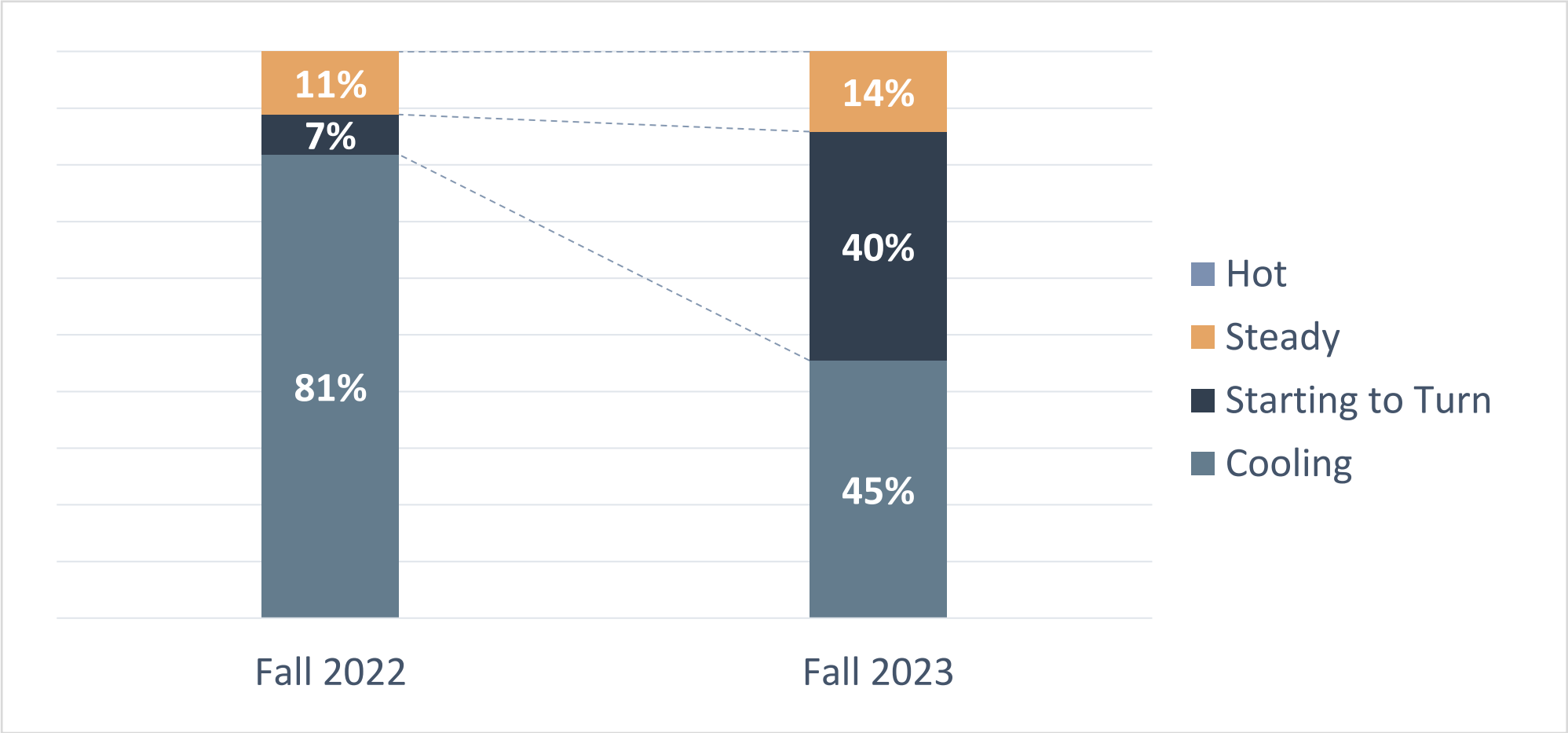


Source: MSCI Real Capital Analytics, Q3 2023

Broker Sentiment Warming Since the Fall of 2022



After a low point in the fall, sentiment has moved into “starting to turn” and “steady” categories



Source: HVS U.S. Hotel Broker Survey

Phoenix Investor Confidence Pays Off



Transaction volume is down but Phoenix has seen some significant sales in the last year



AC BY MARRIOTT BILTMORE

No. of Rooms: 160

Sale Price: \$67,800,000

Price Per Key: \$423,750

Cap Rate: 7.0%

Highest price-per-key paid for a select-service hotel in Greater Phoenix



FOUR SEASONS AT TROON NORTH

No. of Rooms: 210

Sale Price: \$267,800,000

Price Per Key: \$1,275,238

Cap Rate: 5.3%

Sale included 5.7 acres of excess developable land, valued at \$17.8 million



CANOPY BY HILTON OLD TOWN SCOTTSDALE

No. of Rooms: 177

Sale Price: \$101,800,000

Price Per Key: \$575,141

Cap Rate: 6.7%

Off-market transaction with over ten qualified offers



THE CAMBY, AUTOGRAPH COLLECTION

No. of Rooms: 277

Sale Price: \$110,000,000

Price Per Key: \$397,112

Cap Rate: 7.9%

60% LTV seller financed deal at 8.5% interest with no concessions

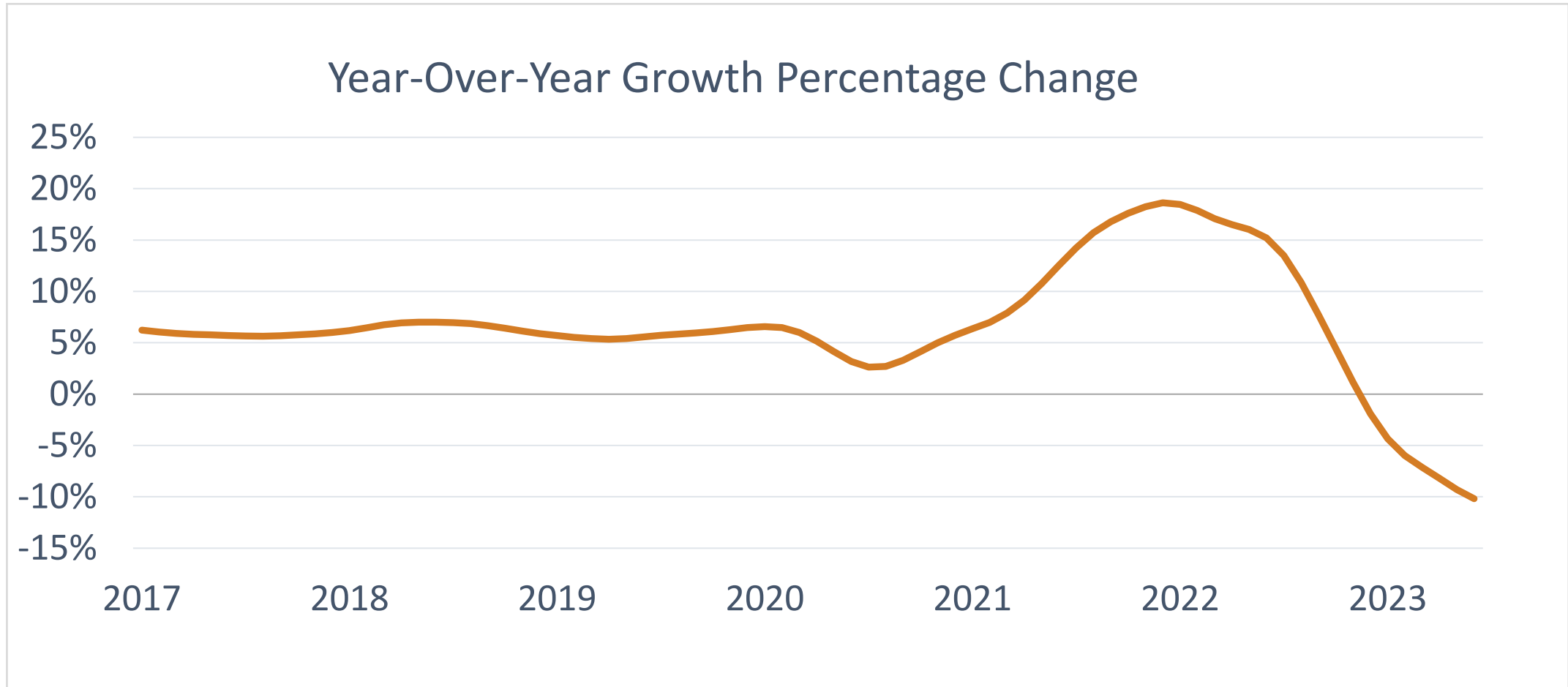


Values and Economic Indicators

Commercial Real Estate Value Gains Decelerating



Rising debt costs, discount rate, and cap rates, resulting in decelerating values increases

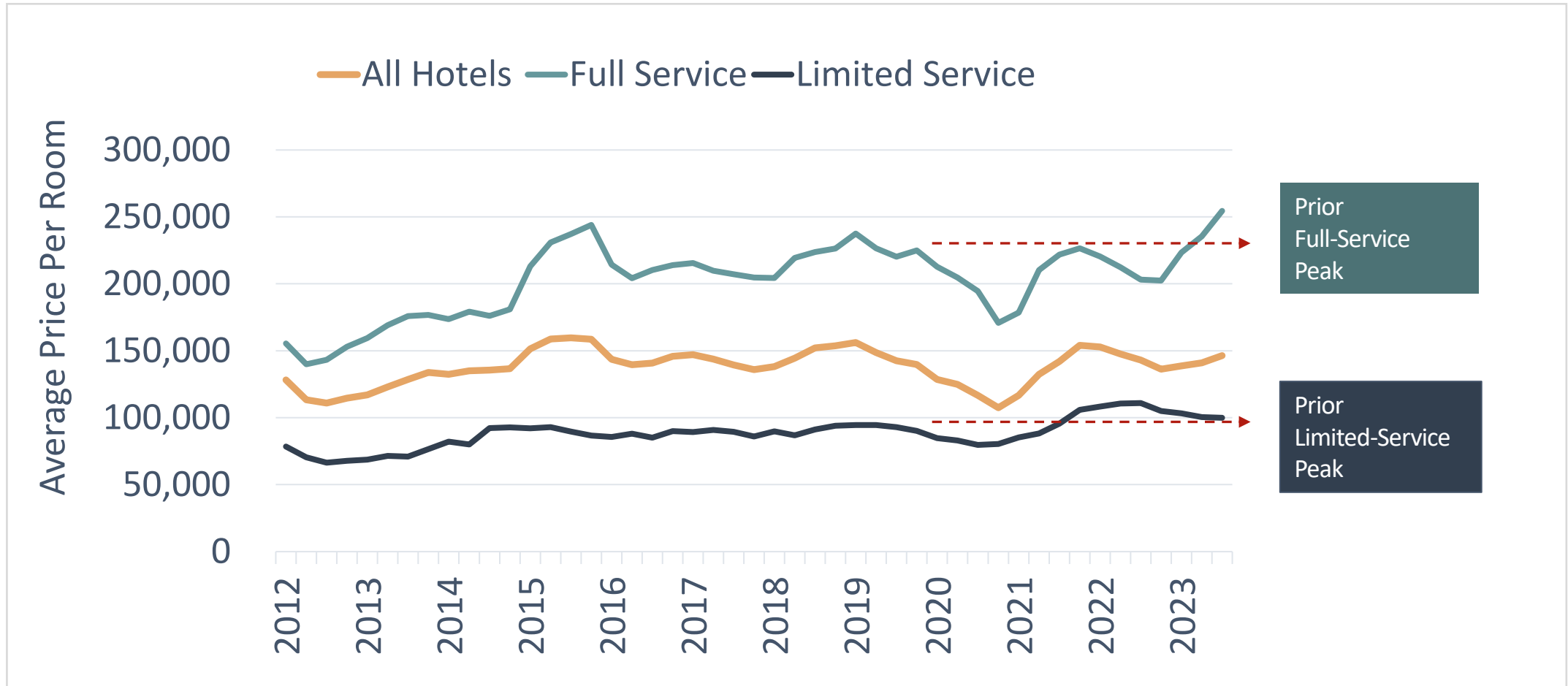


Source: MSCI Real Capital Analytics

Hotel Price Per Key Recover Past Prior Peaks



Limited-service and full-service sector surpass prior peak

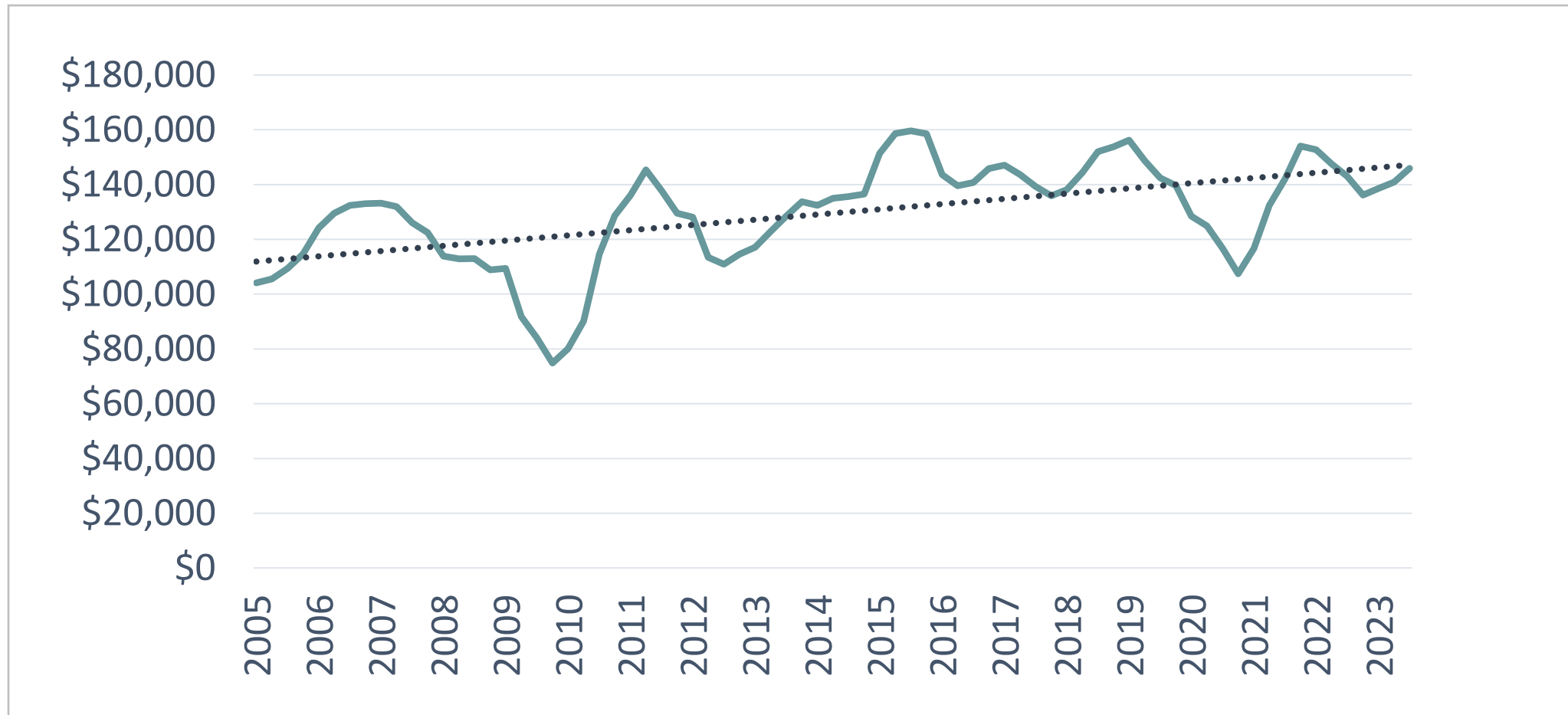


Source: MSCI Real Capital Analytics, Q3 2023

Hotel Transaction Prices Hold Steady



Sale prices today have settled near \$150,000 per key



Source: MSCI Real Capital Analytics, Q3 Preliminary Data

Valuation Trends Stabilize



Valuations will moderate as revenue growth normalizes and operational pressures persist



Source: HVS HVI

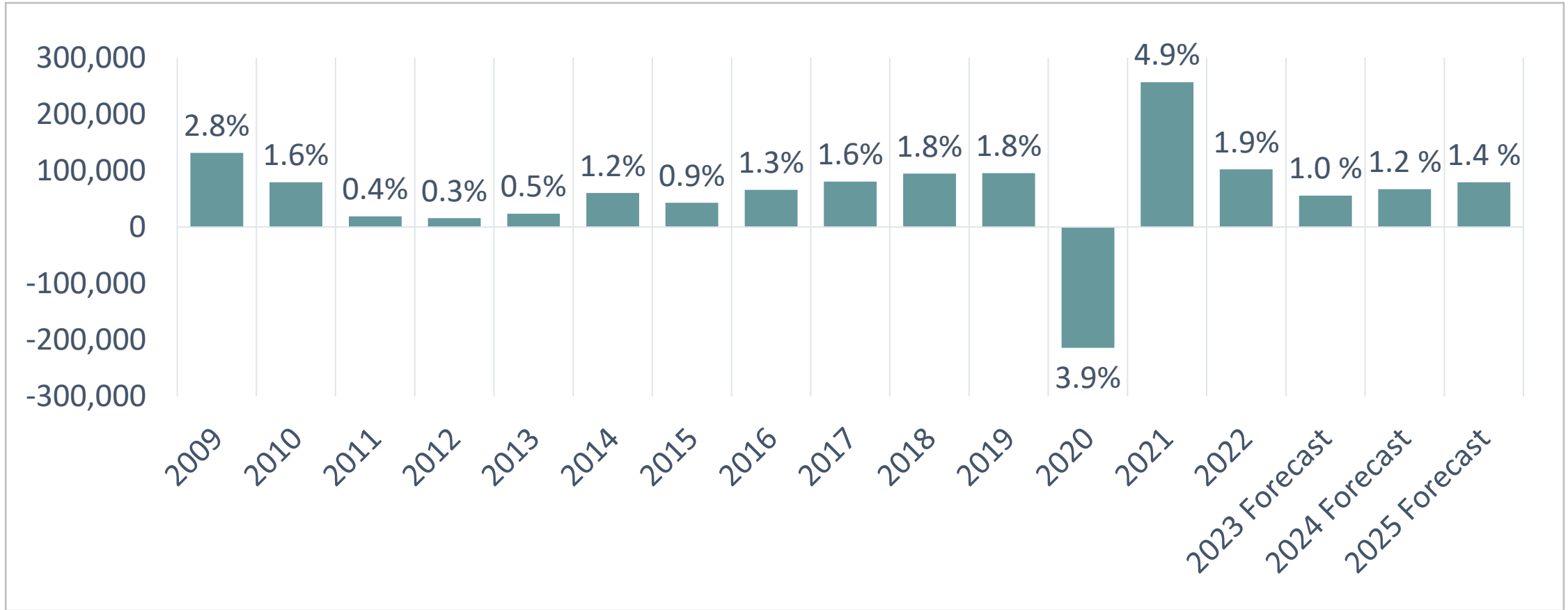


Supply Trends and Development Costs

National Historical New Supply



Supply growth moderating due to development challenges

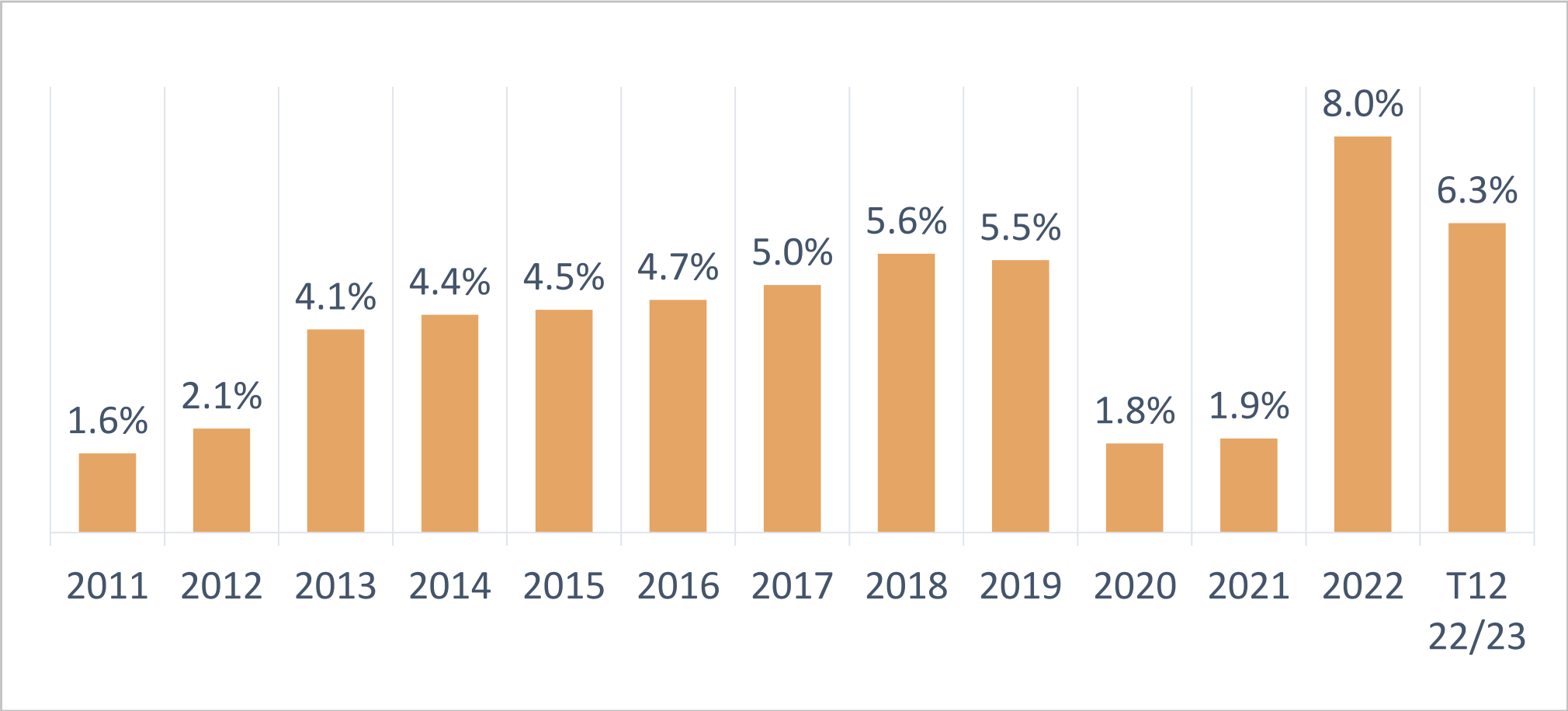


Source: STR, HVS

New Hotel Supply Constrained by Growing Construction Costs

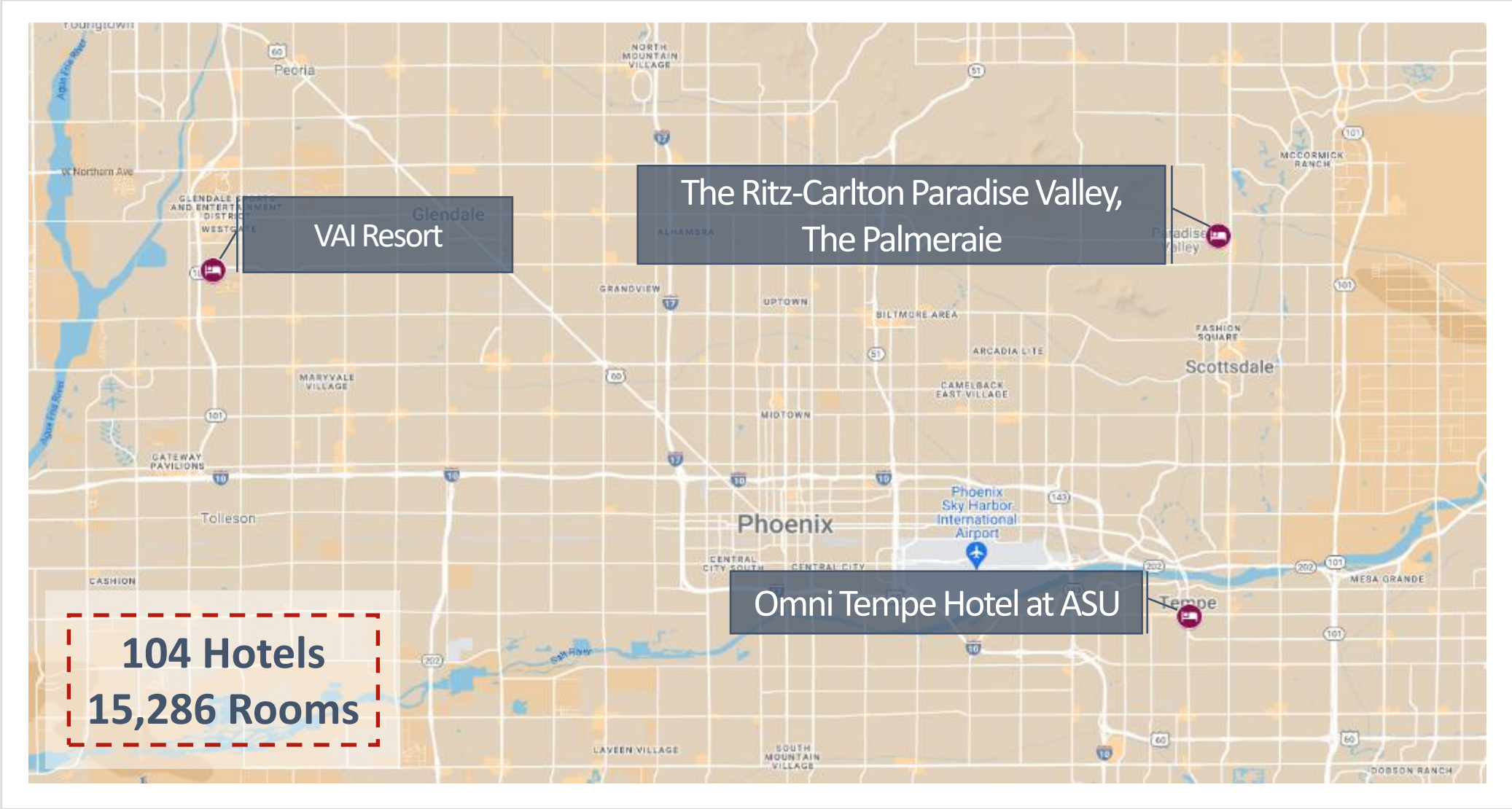


Construction costs inflation significantly increased in 2022



Source: Building Turner Cost Index (Second Quarter 2023)

Investors Look to Phoenix



Source: HVS

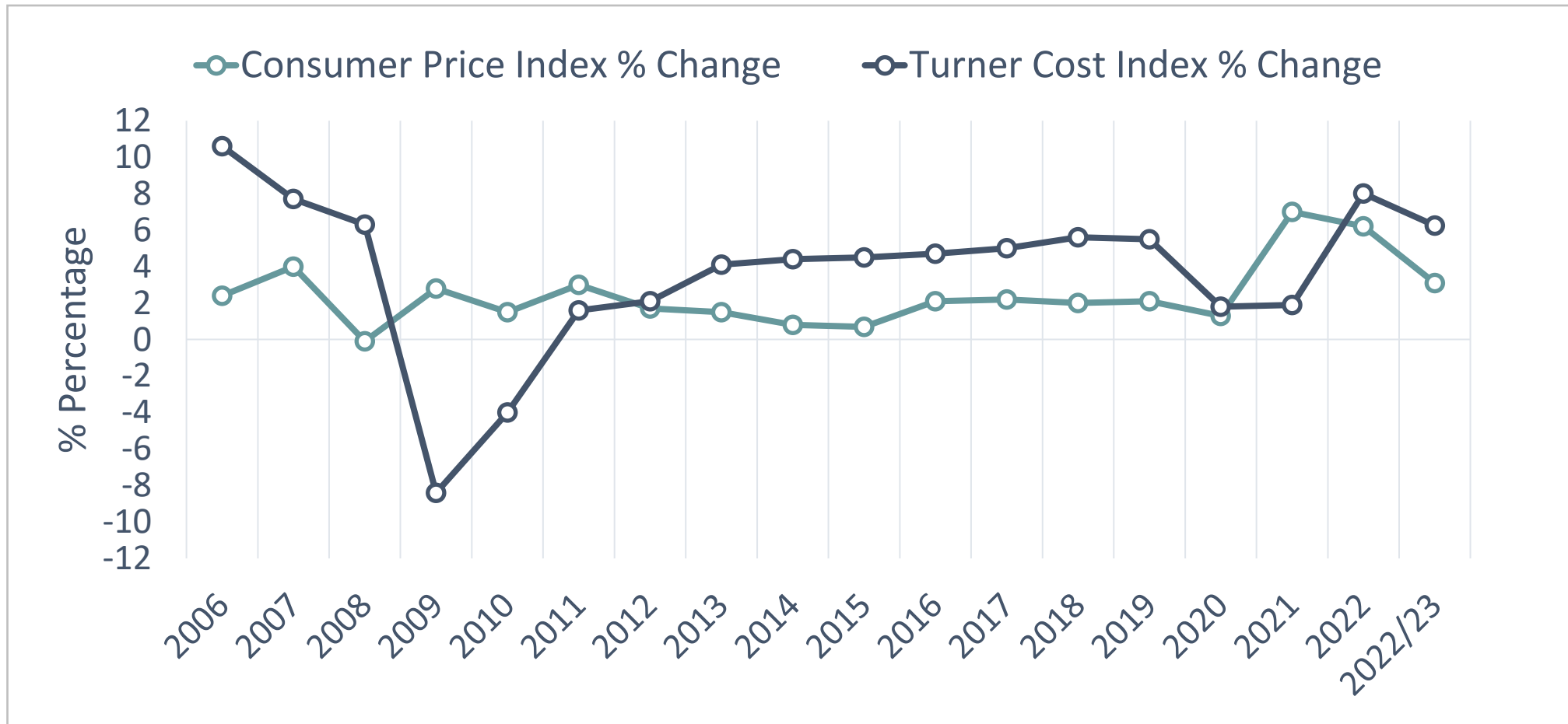
Phoenix Notable Projects



Change in Construction Costs vs. CPI



Inflation Moderating



Source: U.S. Bureau of Labor Statistics, Building Turner Cost Index (July 2023)

2023 Development Cost Survey Takeaway



Limited-Service and Extended-Stay (Midscale) Hotels

	Land	Building & Site Improvements	Soft Costs	FF&E	Pre-Opening & Working Capital	Developer Fee	Total
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Limited-Service Hotels

Average	\$26,127	\$119,167	\$22,929	\$17,054	\$3,899	\$6,213	\$195,390
Median	\$15,256	\$109,041	\$18,352	\$15,833	\$2,809	\$5,102	\$166,393
% of Total*	11%	66%	11%	9%	2%	1%	100%

Extended-Stay Hotels (Midscale)

Average	\$14,712	\$107,364	\$19,454	\$17,248	\$3,417	\$4,912	\$167,107
Median	\$12,264	\$102,516	\$16,737	\$17,248	\$3,134	\$4,503	\$156,402
% of Total*	9%	66%	12%	10%	2%	2%	100%

Source: HVS

2023 Development Cost Survey Takeaway



Extended-Stay Hotels (Upscale) and Select-Service Hotels

	Land	Building & Site Improvements	Soft Costs	FF&E	Pre-Opening & Working Capital	Developer Fee	Total
Extended-Stay Hotels (Upscale)							
Average	\$28,277	\$162,276	\$34,373	\$21,485	\$6,694	\$7,327	\$260,431
Median	\$23,196	\$130,707	\$29,695	\$21,118	\$5,798	\$6,246	\$216,761
% of Total*	12%	64%	13%	9%	2%	2%	100%
Select-Service Hotels							
Average	\$31,592	\$184,321	\$36,355	\$23,265	\$8,721	\$8,711	\$292,966
Median	\$20,248	\$161,853	\$25,569	\$21,189	\$6,098	\$6,974	\$241,932
% of Total*	10%	66%	12%	9%	3%	2%	100%

Source: HVS

2023 Development Cost Survey Takeaway



Dual-Branded & Full-Service Hotels

	Land	Building & Site Improvements	Soft Costs	FF&E	Pre-Opening & Working Capital	Developer Fee	Total
Dual-Branded Hotels							
Average	\$26,725	\$152,050	\$26,954	\$21,362	\$4,724	\$7,537	\$239,353
Median	\$14,608	\$124,349	\$19,471	\$19,629	\$3,290	\$6,976	\$188,324
% of Total*	8%	66%	11%	10%	2%	2%	100%
Full-Service Hotels							
Average	\$37,095	\$340,996	\$77,778	\$40,854	\$14,450	\$16,614	\$527,787
Median	\$20,792	\$250,762	\$52,757	\$33,914	\$9,722	\$12,284	\$380,231
% of Total*	7%	66%	14%	9%	2%	2%	100%

Source: HVS

2023 Development Cost Survey Takeaway



All Hotels

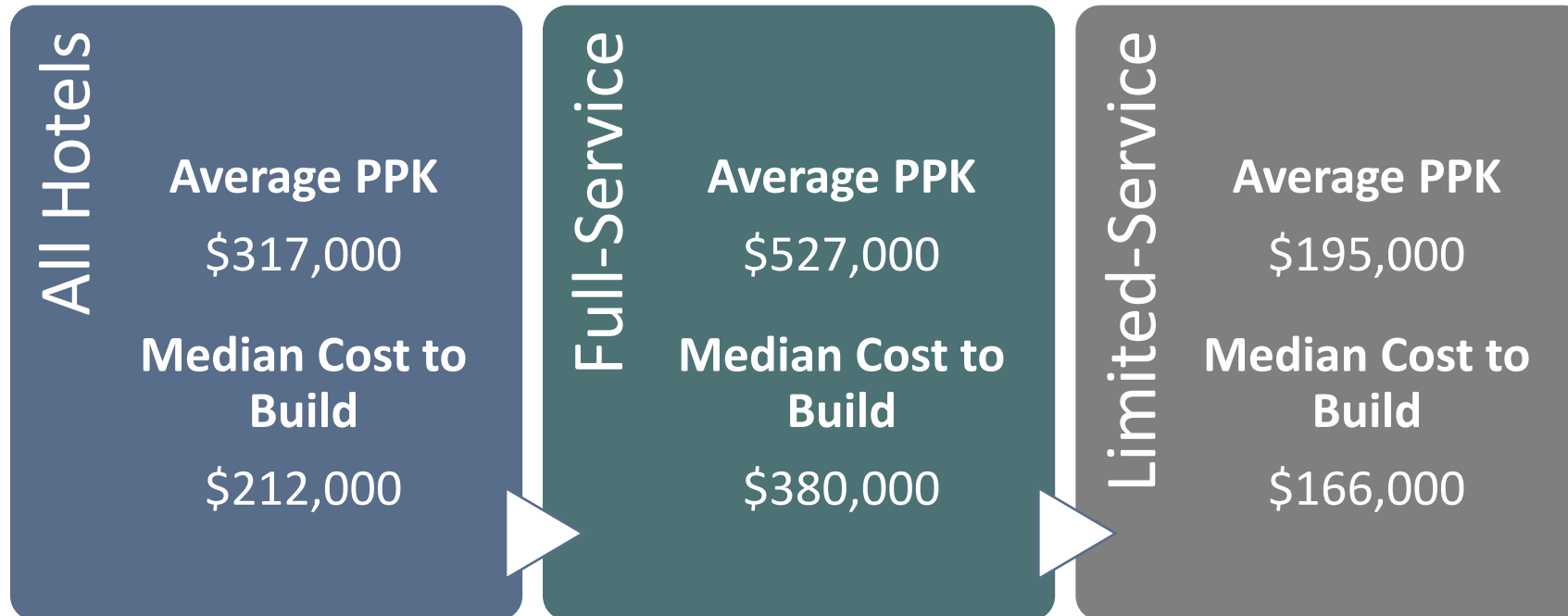
	Land	Building & Site Improvements	Soft Costs	FF&E	Pre-Opening & Working Capital	Developer Fee	Total
Total							
Average	\$34,392	\$195,843	\$44,495	\$27,349	\$8,260	\$6,910	\$317,249
Median	\$16,634	\$143,116	\$26,011	\$20,325	\$3,846	\$2,472	\$212,404
% of Total*	9%	64%	15%	8%	2%	2%	100%

Source: HVS

Justifying New Builds Will Be Challenging



Only key submarkets with higher ADRs and pent-up demand may support new construction at this time



Source: MSCI Real Capital Analytics, HVS U.S. Development Cost Survey

Final Thoughts



RevPAR continues to grow, although moderating

ADR continues to surpass prior peaks, propelled by inflation and limited hotel supply



Financial Markets

More Stringent or Costly
Cash or Seller-Financed



Operating Leverage & Improved Efficiency

EBITDA Recovery



Buyer Expectations

Revenue Recovery &
EBITDA Growth; Inflation



Valuation Parameters

Interest rates affecting
discount rates and
capitalization rates



Potential Investors

Gap remains between buyer
and seller pricing
expectations



Thank you!

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