Hotel Transaction Results

INTRODUCTION

Scott Biethan, MAI, CRE, FRICS

CBRE Hotels is pleased to present an analysis of historical hotel sales data, covering US transactions from 2009 through 2012. The results represent select completed sale transactions with researched and reported prices and rates-of-return indications (overall capitalization rates), and displays the aggregation of actual deal points. With the combined resources of our Brokerage and Valuation professionals, this report illustrates broad market trends in hotel sale transactions, and provides a clear look at recent and current pricing metrics. Further, given that the data is generated by hotel professionals, the resulting averages are prepared with industry-specific knowledge.

Key points from the survey include:

Overall (Capitalization) Rates

- Between 2009 and 2012, overall rates for full-service hotels remained relatively flat, moving from 8.00 percent to 8.03 percent, a net change of 3 basis points (bps). Interestingly, the overall rates declined in both 2010 and 2011, but then edged up again in 2012. This is due in part to the mix of hotels in the data set. As the overall market recovered, more sales occurred in secondary and tertiary markets, bringing down the overall average.

- Overall rates for limited-service hotels moved from 9.46 percent in 2009 to 9.67 percent in 2012, a net change of 21 bps. Again, 2010 and 2011 experienced lower average overall rates than 2012 and, like the full-service segment, this was partially due to increased activity of limited-service sales in secondary locations in 2012. In addition, the 2010 and 2011 sales had more representation from larger brands than the sales we surveyed in 2012, and this was also reflected in the overall rate trends.

Room Revenue Multipliers

- Between 2009 and 2012, room revenue multipliers for full-service hotels increased fairly dramatically, from 3.47 to 4.55. The increase in the overall multiplier is evidence of stronger investor appetite for this asset class.

- Room revenue multipliers for limited-service hotels stayed in a relatively narrow range between 2009 and 2012, edging down from 3.36 to 3.08. While the room revenue multiplier remained mostly flat, sales in 2012 included more secondary/tertiary locations and weaker brands. As such, this would support an increased appetite for this asset type compared to previous years.

Average Sales Price per Room

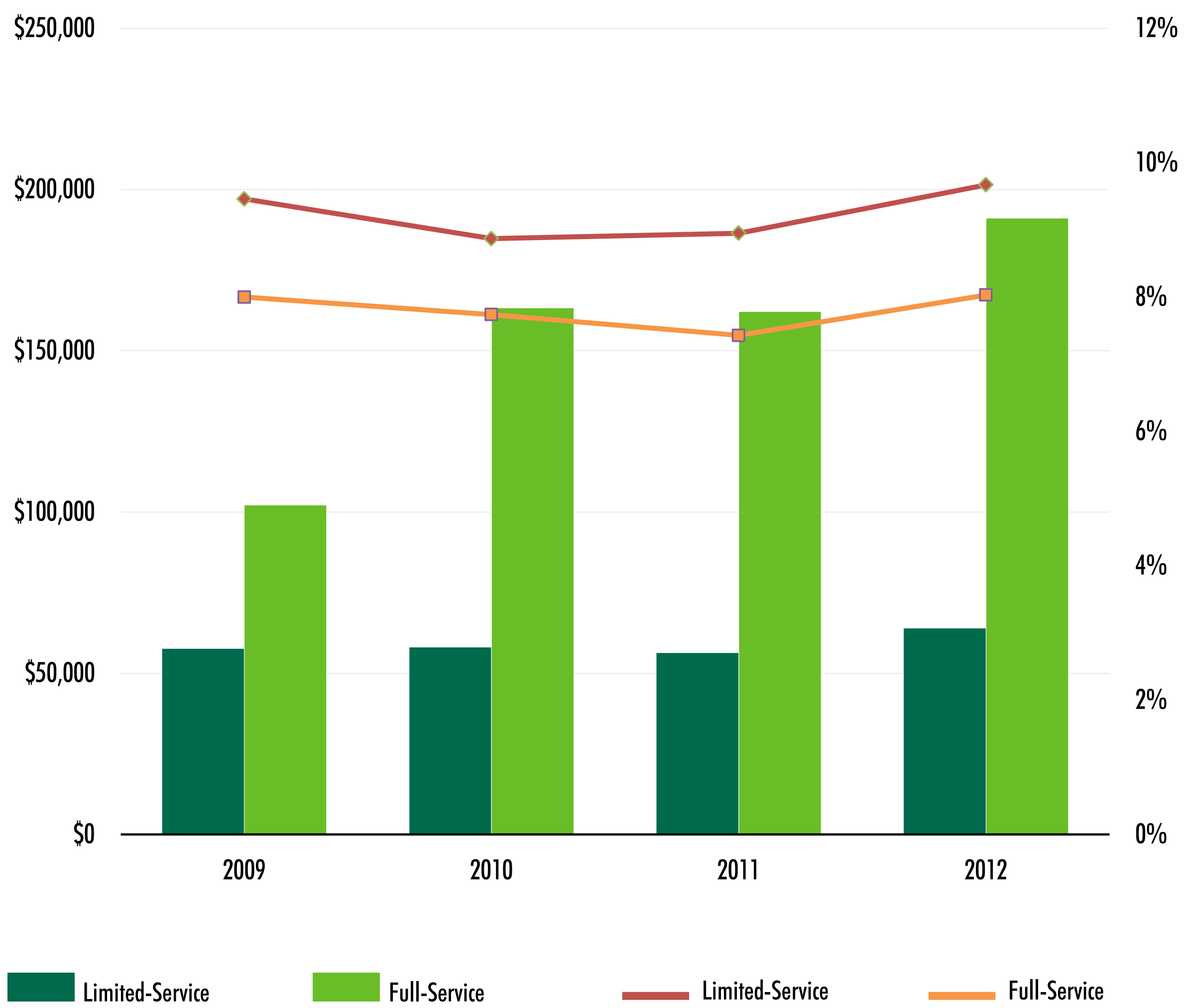
- Between 2009 and 2012 the average sales price per room for full-service hotels rose from $102,211 to $191,109.

- Between 2009 and 2012, the average sales price per room for limited-service hotels increased from $57,686 to $63,991.

CBRE | Hotels

As the broad market averages suggest, recovery continues in the hotel investment sales sector. In the early part of this recovery, the majority of transactions occurred in core markets with a higher proportion of larger brands. Initially investors were more risk averse and had increased desire for these asset types. However, as operating performance recovered broadly and more investment dollars were available, the appetite for lodging assets spanned more markets, including assets with more diverse brands. While this may have resulted in return rates that reflected this risk, it also is an indication of a market with more overall investment demand.

Sales Price per Room and Overall (Capitalization) Rate 2009-2012



Capital Markets Update

Among the more than 3,000 attendees at the Mortgage Bankers Association's annual Commercial Real Estate Finance/Multifamily Conference in San Diego last month were 108 CBRE Debt & Equity Finance professionals. All major debt capital providers were represented at this important event, and CBRE engaged in more than 70 separate private meetings with our lender partners, gleaning significant real-time market intelligence. We are pleased to share these insights with our valued clients.

The following summary includes our high-level takeaways from the conference, as well as a more detailed look at each major lender group.

Key Takeaways

1. In general, lenders think the economy is slowly improving—and will continue to do so in 2013. Most anticipate a continuation of tepid job growth and quantitative easing by the Federal Reserve to keep interest rates low. Virtually all lenders view CRE market fundamentals to be improving.

2. There is far more liquidity in the mortgage markets now than we have seen since 2007, up and down the capital stack and from all the major providers of debt capital to our industry. There is plenty of senior, mezzanine, bridge, preferred equity and construction-loan money available. Yields have narrowed and there will be more competition from lenders in 2013, which will ultimately benefit borrowers.

3. Credit spreads have contracted significantly over the past two quarters. This has been most noticeable with agency and CMBS spreads. The spread contraction now enables the CMBS lenders to compete much more effectively in the market. We caution our clients, however, that credit spreads cannot move much lower, so any increase in Treasury yields will likely be passed along to the borrower.

4. Most lenders think interest rates will rise in 2013. We have already seen the yield on the 10-year Treasury increase from 1.6% to 2.0%, and the general consensus is that the 10-year Treasury yield will be near 2.5% by year-end.

Lender Round-Up

Life Insurance Companies – Life insurance company lenders accounted for approximately $65 billion in loan production in 2012. This was a record high and an indicator that most life companies have returned to CRE lending. The appetite remains high, as these investments still provide better returns on a relative basis compared to other fixed-income alternatives. As such, allocations are up for 2013 almost across the board. With the benchmark 10-year Treasury hovering at 2.0%, lenders are looking for ways to increase absolute yield and some have announced mezzanine and other higher-leverage loan executions for higher coupons. Many are also actively seeking equity investments with joint venture partners in the quest for yield.

CMBS Lenders – 2012 saw approximately $48 billion in CMBS issuance, which represented a nearly 50% increase over 2011. Approximately two-thirds came from multi-property, multi-borrower loan securitizations. In a return to the exuberance of the pre-recession lending environment, predictions for 2013 CMBS issuance ranged from $50 billion to $100 billion, with the consensus forecast around $60 billion to $70 billion. Lingering and well-founded concerns remain for borrowers over the lack of an effective hedging instrument that would allow for an early rate lock; the continued presence of the Material Adverse Change (MAC) clause that can render a lender's commitment to fund useless; and post-closing servicing issues that are difficult to get resolved with the master and special servicers. Notwithstanding these concerns, the attractiveness of full (75%-80% LTV) leverage, a wider palate for property quality and location, 30-year amortization schedules, partial-term interest-only, and creative structuring will draw many borrowers back to these lenders. The return of this additional liquidity to the commercial real estate markets is welcome and should spur additional property sales transaction activity in 2013. We will also see the return of short-term floating-rate securitizations in 2013.

Banks – By Q3 2012, bank borrowers felt a discernible shift toward more aggressive lending. Bank lenders have room on their balance sheets for CRE loans due to payoffs, fewer problem loans and the desire to put earning assets on their books. Many lenders have returned to non-recourse lending in certain markets, and many banks are also willing to consider loan terms of seven years or longer. Given the forward interest-rate swap curve, these executions can be very price competitive with other fixed-rate loan sources, and many borrowers will still like the prepayment flexibility afforded by floating-rate executions. Other lenders should be wary about having to compete with banks in 2013, especially for deals with five- to seven-year loan terms.

Transition Lenders – Debt funds remain an active source of funding for transitional assets, with a focus on opportunities with in-place yield. They are generally sizing loans to 8%-9% debt yields on TTM net operating income or 65% LTV. Pricing ranges from 7%-10% (spreads of 450-650 bps over 1-month LIBOR with interest rate floors) and are generally interest only for the first 12-24 months. Subordinate debt demand is strong with pricing of LIBOR + 800 – 1110 bps. Call protection remains the largest negotiating point, with lenders putting a sharp focus on sponsorship. Smaller floating-rate loans will find a home in securitizations, which historically have been originated by commercial banks.

For more information regarding this analysis, please contact:

Scott Biethan, MAI, CRE, FRICS
Senior Managing Director
Hospitality & Gaming Group Leader
Appraisal Services
T. +1 206 292 6198
scott.biethan@cbre.com

Kevin Mallory
Senior Managing Director
CBRE Hotels Practice Leader
Capital Markets
T +1 312 935 1434
kevin.mallory@cbre.com

Kristen Kozlowski
Director
CBRE Hotels
Capital Markets
T +1 303 628 7494
kristen.kozlowski@cbre.com

Marc Sallette
Senior Vice President
CBRE Hotels Debt & Equity Finance
Capital Markets
T +1 713 787 1986
marc.sallette@cbre.com

CBRE | Hotels