

Hotel Capitalization Rates Continue to Rise

| USRC Hotel Investment Survey | | | | |
|-------------------------------------|--|---|--|---|
| | Summer/Fall 1999 Limited Service Hotels | Summer/Fall 1999 Full-Service Hotels | Summer/Fall 1998 Limited Service Hotels | Summer/Fall 1998 Full-Service Hotels |
| Direct Capitalization Rate | | | | |
| Average | 12.1% | 10.5% | 11.5% | 9.8% |
| Range | 9.5%-15.0% | 8.0% - 13.0% | 9.5% - 14% | 7.5% - 13% |
| Terminal Capitalization Rate | | | | |
| Average | 12.2% | 10.6% | 11.9% | 10.1% |
| Range | 10.0%-15.5% | 9.0% - 12.5% | 10.5% - 14% | 9% - 12% |
| Discount Rate | | | | |
| Average | 14.4% | 13.3% | 14% | 12.7% |
| Range | 12.5%-17.0% | 9.0% - 20.0% | 12.5% - 16% | 10% - 17% |
| Selling Expense | | | | |
| Average | 3.1% | 2.5% | 2.7% | 2.6% |
| Range | 2.0%-5.0% | 1.0% - 4.0% | 1% - 4% | 1.5% - 3.5% |
| ADR Growth | | | | |
| Average | 3.7% | 3.6% | 3.6% | 3.8% |
| Range | 2.0%-10.0% | 2.0% - 10.0% | 3% - 10% | 3% - 10% |
| Expense Growth | | | | |
| Average | 2.8% | 2.8% | 3.0% | 3.1% |
| Range | 2.0%-4.0% | 2.0% - 4.0% | 2.5% - 3.5% | 2% - 4% |
| Holding Period | | | | |
| Average | 7.4 | 7.5 | 8.1 | 7.7 |
| Range | 2 - 10 years | 3 - 10 years | 5 - 10 years | 5 - 10 years |
| Marketing Period | | | | |
| Average | 6.6 | 6.9 | 5.9 | 5.2 |
| Range | 2 - 12 months | 1 - 12 months | 4 - 9 months | 3 - 9 months |
| Room Revenue Multiplier | | | | |
| Average | 2.6 | 3.2 | 2.8 | 3.1 |
| Range | 2 - 3 | 2.5-3.5 | 2 - 4 | 2 - 4 |
| Source: US Realty Consultants, Inc. | | | | |

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The summer/fall 1999 USRC Hotel Investment Survey indicates that hotel discount rates and capitalization rates have continued to increase since our Summer/Fall 1998 survey. The increase is due to the nearly complete withdrawal of the REITs and the C-corporations which had propelled the hotel market in 1997 and early 1998. As prices for hotels have continued to rise, many hotel companies have gone into development instead of purchasing. In the case of limited service hotels, new development is now less expensive than buying an older hotel in some markets.

Capitalization Rates

Our 1999 survey demonstrates the higher capitalization and discount rates, which investors require for limited-service products. The direct capitalization rate for limited-service hotels of 12.1% is 160 basis points higher than the average for full-service hotels of 10.5%. These figures represent an increase of 60 basis points for limited-service hotels and a 70 basis point increase for full-service hotels from our 1998 survey. The range for each was wide and depended upon the quality of product and their location. Upper-end, luxury, full-service hotels with locations with strong barriers to entry had capitalization rates of 8% to 10%. Terminal capitalization rates for both categories were higher than for direct, which is due to the fact that these rates are used five to ten years in the future.

Discount Rates Higher for Limited Service

Discount rates for limited-service hotels were 14.4%, while for full-service hotels averaged 13.3%. The discount rates are higher for limited service hotels as there is more risk involved from the potential of new supply opening. The holding period for users utilizing a discounted cash flow analysis for limited-service hotels was 7.4 years, while for full-service hotels was 7.5 years.

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Selling Expenses Range

The selling expense ranged from 2% to 5% for limited-service hotels, and from 1% to 4% for full-service hotels. The average selling expense was slightly lower for full-service hotels as these transactions are typically for higher amounts, and brokers are willing to reduce their commission percentage. The investors we surveyed indicated that they project that ADR growth rates will be higher than expense growth rates for both categories of hotels. The expense growth rates showed a decline from the 1998 survey, which may not reflect the possibility of increased labor costs due to the tight job market in many parts of the country.

Marketing Period Increases

ÊThe marketing period for both types of hotels was higher than last year's survey, due to the reduced buying of hotels by the REITs and C-Corporations. The average of 6.9 months for full-service hotels and 6.6 months for limited-service hotels was still positive for the market and indicates that there is still a strong demand for hotels. The room revenue multiplier was typically used by limited-service hotels buyers and averaged 2.6 with a range of 2 to 3 times room revenue. Only a few of the investors utilized a room revenue multiplier for a full-service hotels and this averaged 3.1 with a range of 2.5 to 3.5, however, was highly dependent upon the type of property.

Hotel Interest Rates Increase

| DEBT PARAMETERS | | |
|------------------------|------------------|------------------|
| | Summer/Fall 1999 | Spring/Fall 1998 |
| INTEREST RATE | | |
| Average | 8.7% | 8.1% |
| Range | 7% - 10% | 7% - 9% |
| TERMS | | |
| Average | 9.6 | 9.6 |
| Range | 1.5 ÷ 10 | 5 ÷ 20 |
| YEARS AMORTIZE | | |
| Average | 23.2 | 22.3 |

| | | |
|----------------------------|------------|------------|
| Range | 15 ÷ 25 | 20 ÷ 25 |
| DEBT COVERAGE RATIO | | |
| Average | 1.4 | 1.4 |
| Range | 1.25 ÷ 1.6 | 1.25 ÷ 1.5 |
| LOAN TO VALUE | | |
| Average | 68.6% | 72.5% |
| Range | 50% - 80% | 60% - 85% |

The average interest rate of 8.7% increased from 8.1% in our 1998. The range of rates from 7% to 10% was 100 basis points higher than the range indicated in the 1998 survey. The average terms of 9.6 years was the same as our 1998 survey. The years amortized of 23.2 represents an increase from 22.3 in our 1998 survey, while the range from 15 to 25 was slightly less than the previous year's range. The debt coverage ratio of 1.4 was the same as in 1998 and previous years. However, the loan-to-value ratio of 68.6% was significantly lower than the 72.5% loan-to-value ration indicated in the 1998 survey, indicating that lenders are requiring more equity in their overall loan amounts. Investors indicated that although financing is still difficult for larger full-service projects.

Major Concerns

Oversupply continues to be a major concern of many investors in the survey. One investor, and that the industry is very vulnerable to an economic downturn and is very competitive. Supply and new developments are outlying demand increases in some markets. However many of the same investors are doing new developments themselves. The investors mentioned financing concerns from a tightened lending market with higher interest rates in this year's survey. Employment in many markets was discussed as a deterrent toward new development due to the difficulty in obtaining staff. This is not projected to improve as wages for competitive jobs continued to rise.

Respondents to the survey include:

- ☒ Allegis Realty Investors
- ☒ Bass Hotels and Resorts
- ☒ Boykin
- ☒ Colliers International
- ☒ Continental Wingate
- ☒ GMAC
- ☒ Granite Partners LLC
- ☒ Hodges Ward Elliott
- ☒ Hotel Source
- ☒ LaSalle Partners
- ☒ Motel 6
- ☒ Patriot American Hospitality
- ☒ Schahet Hotels
- ☒ Tharaldson Development
- ☒ Wingate Inns

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