

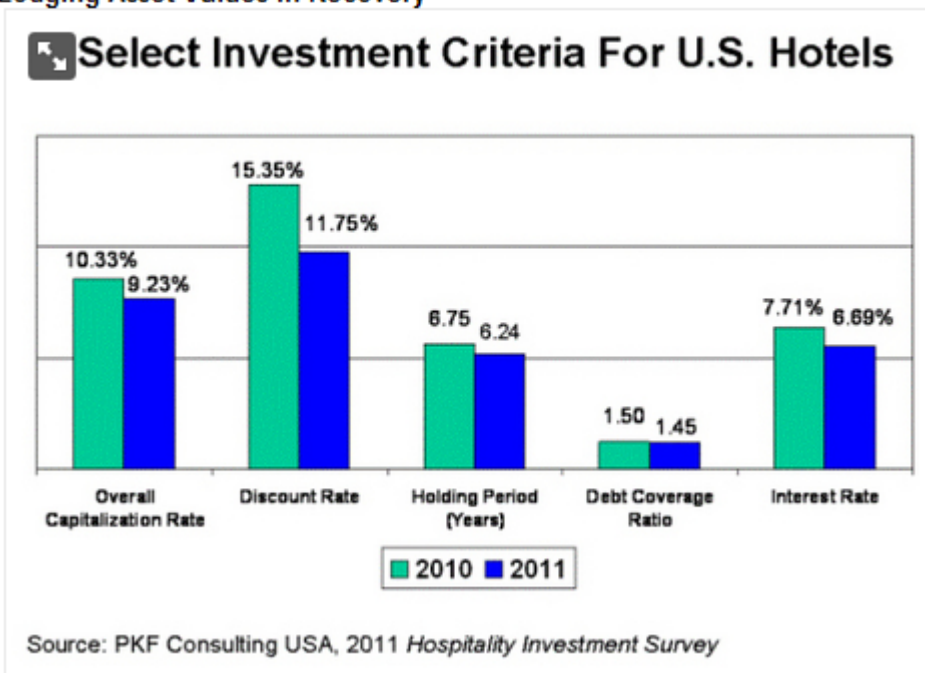
The Lodging Industry: An Appraiser's Market Overview

By Lawrence J. Golicz, Ph.D., MAI

The year 2011 began with an upturn for the ailing lodging industry. With few new rooms available due to limited financing, the slow recovery of room demand provided better occupancy for existing lodges. Average daily rates also climbed modestly, although still remaining below 2007 and 2008 levels. Given a better 2012 over 2011, the industry forecasters expect further modest gains in room rates and occupancy in 2013.

With recovery on the move, renewed investor optimism reflects itself in the valuation factors presented in the table below. A Parnell, Kerr, Foster survey of industry participants, indicates anticipated lower rates in interest, capitalization, and discounting.

Lodging Asset Values In Recovery



With mortgage rates declining to the higher 6% range and with increasing loan to value ratios and a decline in debt coverage ratios, the debt environment has also become more receptive to lodging. (The decline in the discount rate, however, is the most significant change, one that suggests a perceived decline in risk.)

The following tables provide a snapshot of the lodging industry as it has trended through the recession toward recovery.

U.S. Lodging Forecast
Major Indicators Change From Prior Year

Indicator	2011	2012
Supply	0.6%	0.7%
Demand	4.5%	3.1%
Occupancy	3.9%	2.4%
ADR	3.2%	4.8%
RevPAR	7.2%	7.3%
Unit-Level NOI*	15.1%	15.2%

Note: * Before deductions for capital reserve, rent, interest, income taxes, amortization, and depreciation.
Sources: Moody's Analytics, PKF Hospitality Research, September 2011 *Hotel Horizons*® reports.

U.S. Lodging Industry
Composition of RevPAR Change

Year	Occupancy	ADR
2006	0.2%	7.5%
2007	-0.5%	6.6%
2008	-4.8%	2.9%
2009	-8.8%	-8.6%
2010	5.5%	-0.1%
2011F	3.9%	3.2%
2012F	2.4%	4.8%

Source: Smith Travel Research, PKF Hospitality Research, September 2011 *Hotel Horizons*® Report

All types of motels and hotels are experiencing recovering occupancies, better room rates and renewed profits. Coupled with the growing availability of debt capital, lodging facility transactions have been on the rise, with many buying opportunities vanishing as the market improves.

It all comes down to room demand. The Global Business Travel Association indicates that total spending on business travel rose 7.6% last year in 2011. And, JP Morgan Chase reported that its lending to businesses rose 12 percent in the last quarter.

According to Jan Freitag, VP of Smith Travel Research, "The room demand is very, very strong. Room supply is not going to be an issue for the next couple of years, so I think pricing power should be back in the hotelier's hands." Mr. Freitag commented further, "People are indeed traveling. The U.S. hotel industry sold 21.05 billion room nights through September, the largest number since STR began tracking data in the early 1980's." (Source: Tampa Business Journal)

Yet given improvement in demand, not all lodging facilities may respond equally. Upper-tier hotel forecasts exceed the 70 percent occupancy level. Branded lodging is also expected to surpass its long term average annual ADR growth rates in both 2012 and 2013.

The lodging industry can be divided into chain scale categories or groupings of generally competitive brands as follows:

Chain Scale	Brand Examples	Room Count	% of Total	Avg. Hotel Room Size
Luxury	Four Seasons, Ritz Carlton, W Hotel	122,731	2.5 %	329.0
Upper Upscale	Marriott, Hilton, Hyatt, Sheraton	553,928	11.4 %	366.4
Upscale	Hilton Garden Inn, Courtyard, Cambria Suites	572,797	11.7 %	153.9
Upper Midscale	Comfort Inn, Holiday Inn, Hampton Inn	824,129	16.9 %	99.0
Midscale	Quality, Best Western, Ramada, La Quinta	511,666	10.5 %	87.9
Economy	Econo Lodge, Days Inn, Super 8, Red Roof Inn	790,181	16.2 %	75.9
Sub-Total Brand Affiliated		3,375,432	69.2 %	111.9
Independents		1,499,405	30.8 %	68.0
Total All Hotels		4,874,837	100 %	93.4

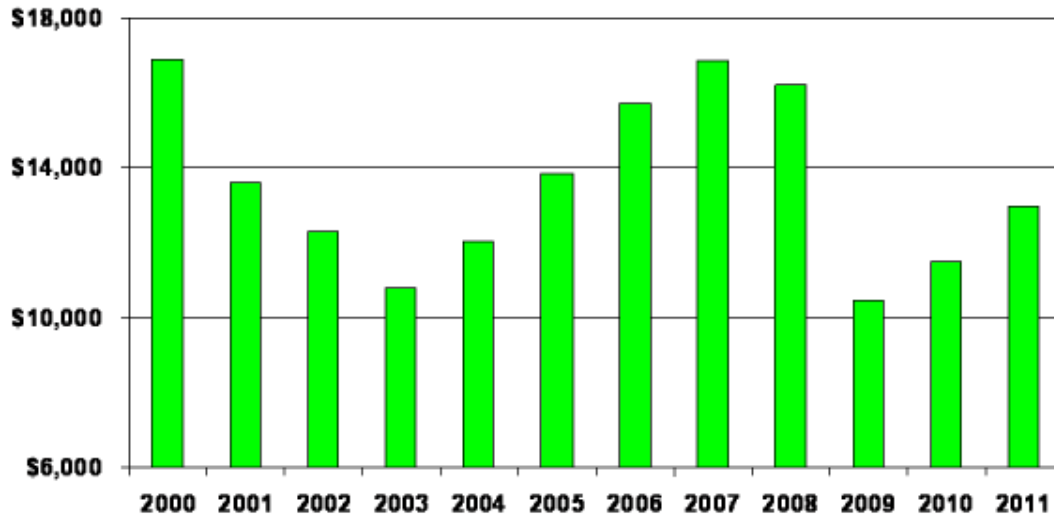
Independent operators of hotels not owned or managed by major lodging companies have increasingly joined national hotel franchise chains as a means of remaining competitive with hotels owned by or affiliated with national lodging companies. Indeed, over the years, the industry has seen a significant movement of hotels from independent to chain affiliation, with affiliated hotels increasing from 46% of the rooms in the market in 1990 to 69% of the market in 2011. Franchise affiliations benefit from reservation programs, employee training, computer software, and lodge development strengths from new construction to remodeling. On the other hand, Independent lodges, also doing better, are less likely to meet national trend expectations with strong competition from franchises and national chains.

Valuation of lodging facilities, as with any other property, requires an apples to apples approach relative to the subject profile matching the appropriate industry segment profile. The table below also provides an important caveat. Relying on discounted cash

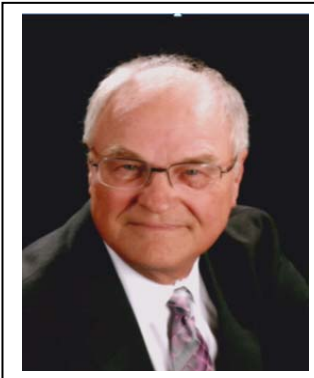
flow models for seven to ten year terms into the future without accounting for the highs and lows of the five year business cycle can only lead to a forecasted value disaster.

U.S. Hotels - Unit Level Profits*

Dollars Per Available Room



About the Author



Dr. Lawrence J. Golicz, PhD, MAI is currently acting as an independent valuation consultant, and appraising for over thirty-five years, Dr. Golicz has specialized in atypical and complicated property appraisals. He has had experience with all types of real estate, has performed mass appraisals of whole communities, appraised tangible property of all kinds, including machinery and equipment, and provided valuations dependent upon special purpose improvements, including sewage treatment plants, licensed land-fills, scrap metal processing, recycling facilities, power plants, refineries for gasoline and recycled oil, a whey plant, and breweries. For extensive complex properties he has participated in the appraisal of the General Motors Technical Center and the Chrysler Technical Center. Also acting as a Special Magistrate for Tax Appeals, Dr. Golicz has provided expert testimony in federal and circuit courts in bankruptcy and foreclosure as well as before the Michigan Tax Tribunal. He can be reached for further contact at lgolicz@tampabay.rr.com.