HOTEL MARKET SUPPLY AND DEMAND ANALYSIS

February 4th, 2010

Daniel H. Lesser
Senior Managing Director – Industry Leader
Hospitality & Gaming Group
CB Richard Ellis, Inc.
One Penn Plaza, Suite 1835
New York, NY 10119
USA
Phone: 212.207.6064
Fax: 212.207.6069
Email: daniel.lesser@cbre.com
# CB Richard Ellis Overview

## CBRE GLOBAL OVERVIEW
- The World’s Leading Real Estate Brokerage Services Company with over 30,000 employees in 450+ offices
- A Fortune 500 Company With Global Reach
- Revenue 3x that of The Next Largest Competitor
- In 2008 alone, CBRE has:
  - Completed 9,825 Property Sales valued at $77.5 Billion US
  - Completed 44,600 Lease Transactions valued at $61.3 Billion US
  - 2.2 billion square feet of Property Management Assignments
  - Completed $10.2 billion in Loan Originations and $119.6 billion in Loan Servicing
  - $5.6 billion in Active Development Projects
  - 97,075 Valuation and Advisory Assignments

## CBRE AMERICAS OVERVIEW
- 19,600+ employees operating in more than 190 offices
- Completed 33,600 sales and lease transactions with a total value of $82.5 billion:
  - Completed 4,600 Property Sales valued at $39.3 Billion US
  - Completed 29,050 Lease Transactions valued at $43.2 Billion US
  - 1.3 billion square feet of Property Management Assignments
  - 30,425 Valuation and Advisory Assignments
CBRE Hotels Overview

CBRE HOTELS

- We are comprised of over 150 dedicated professionals worldwide, all of whom are exclusive to the hospitality sector
- Access to, and strong relationships with, investors, developers, financiers across the world
- Offering a full range of services to assist investors/owners including Asset Management, Debt & Equity Finance, Transaction Management, Development, Valuation & Investment / Advisory services

CBRE HOTELS - DEBT AND EQUITY FINANCE

- Product-centric capital markets group focused on all facets of the capital stack, structuring transactions including senior mortgage debt, mezzanine debt, preferred equity, joint-venture equity and loan sale advisory
- Presently focused on restructuring assignments involving both fresh capitalization of highly leveraged legacy assets and loan workouts on behalf of existing borrowers
- Workout transactions involving variety of structures including securitized, balance sheet, A+B Participations, A+B+C, A+B+Mezzanine structures
Why Are Hotels Different From Other Assets?

- **Operating Business**: Unlike other classes of real estate, hotels typically contain hundreds (in some cases over one thousand) of employees. Properties are reliant on the quality of management, the brand, the employees and other factors.

- **No Credit**: Hotels do not benefit from long-term leases or credit tenancies; the inventory is sold on a daily/nightly basis.

- **Compounded Complexity**: The success of a hotel investment is heavily influenced by multiple parties, each of which may have competing and/or complimentary interests in the underlying property. In addition to the traditional interests of owner/sponsors, third party equity investors, and lenders, additional complexity is derived from the interests of the property manager and/or brand. These complexities can result in competing economic and operating influences that may not be common to other forms of real estate investment.

- **Highly Leveraged, High Fixed Cost Business**: Regardless of whether a hotel property is 10% occupied, or 100% occupied, ownership is still exposed to a high level of fixed costs.

- **Reliance On Other Intermediaries**: The hotel business is directly tied to / influenced by “outside” parties including travel agents, internet sites, etc.

**THE HOTEL INDUSTRY IS A VOLATILE AND COMPLEX BUSINESS!**
Trade Area Market Analysis

- Economic and Demographic Analysis
  - Population
  - Retail Sales
  - Work Force Characteristics
  - Major Businesses and Industry
  - Office Space
  - Highway Traffic
  - Airport Statistics
# Data Used for Analysis of Transient Visitation

<table>
<thead>
<tr>
<th>Commercial</th>
<th>Meeting and Convention</th>
<th>Leisure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total employment by category</td>
<td>Convention center patronage</td>
<td>Tourist visitation</td>
</tr>
<tr>
<td>Office space absorption</td>
<td>Total employment by category</td>
<td>Highway traffic counts</td>
</tr>
<tr>
<td>Office vacancies</td>
<td>Airport enplanements</td>
<td>Visitor counts at local attractions</td>
</tr>
<tr>
<td>Office space under development</td>
<td>Air cargo data</td>
<td>Total employment by category</td>
</tr>
<tr>
<td>Inventory of office space</td>
<td>Tourist visitation</td>
<td></td>
</tr>
<tr>
<td>Inventory of retail space</td>
<td>Retail sales</td>
<td></td>
</tr>
<tr>
<td>Inventory of industrial space</td>
<td>Visitor counts at attractions</td>
<td></td>
</tr>
<tr>
<td>New businesses entering area</td>
<td>Office space absorption</td>
<td></td>
</tr>
<tr>
<td>Highway traffic counts</td>
<td>Office vacancies</td>
<td></td>
</tr>
<tr>
<td>Airport enplanements</td>
<td>Office space under development</td>
<td></td>
</tr>
<tr>
<td>Air cargo data</td>
<td>Inventory of office space</td>
<td></td>
</tr>
<tr>
<td>Commercial building permits</td>
<td>Inventory of retail space</td>
<td></td>
</tr>
<tr>
<td>Housing starts</td>
<td>Inventory of industrial space</td>
<td></td>
</tr>
<tr>
<td>Assessed values</td>
<td>New businesses entering area</td>
<td></td>
</tr>
<tr>
<td>Population Retail sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effective buying income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal income</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Site and Neighborhood Analysis

- Size, Terrain, and Physical Suitability
- Zoning and other applicable regulations
- Utilities and other services availability
- Access
- Visibility
- Proximity to demand generators
- Excess Land
# Lodging Facility Access and Visibility

## Market Segments

<table>
<thead>
<tr>
<th>Segment</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial—in transit</td>
<td>+2</td>
</tr>
<tr>
<td>Commercial—destination</td>
<td>0</td>
</tr>
<tr>
<td>Meeting—in-house</td>
<td>-3</td>
</tr>
<tr>
<td>Meeting—outside</td>
<td>+1</td>
</tr>
<tr>
<td>Leisure—in transit</td>
<td>+3</td>
</tr>
<tr>
<td>Leisure—destination</td>
<td>-4</td>
</tr>
</tbody>
</table>

## Primary mode of transportation

<table>
<thead>
<tr>
<th>Mode</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobile</td>
<td>+2</td>
</tr>
<tr>
<td>Air</td>
<td>-2</td>
</tr>
<tr>
<td>Train</td>
<td>-2</td>
</tr>
<tr>
<td>Bus</td>
<td>-3</td>
</tr>
</tbody>
</table>

---

1. Scale: -5=not important; +5=very important
2. Passing through an area en route to primary destination
3. Primary destination of the trip
4. Most of the meeting held in the subject property
5. Most of the meetings held at another hotel or a convention facility
Subject Hotel Improvement Analysis

- Number of Rooms
- Food and Beverage Facilities
- Meeting Facilities
- Recreational and Retail Amenities
- Physical Condition – Effective Age
- Functionality
Lodging Supply Analysis

- Lodging Classifications
  - Hotel Type Categories
    - Commercial
    - Convention
    - Resort
    - Suite
    - Extended Stay
    - Conference Center
    - Casino
    - Bed & Breakfast
Lodging Supply Analysis

- Lodging Classifications, continued
  - Hotel Location Categories
    - Airport
    - Highway
    - Downtown
    - Suburban
    - Convention Center
    - Resort
Lodging Supply Analysis

Lodging Classifications, continued

- Hotel Chain Scale Categories
  - Luxury
    - Ritz Carlton, Four Seasons, Mandarin Oriental, St. Regis, Grand Hyatt, Peninsula, Intercontinental, Fairmont, Loews
  - Upper Upscale
    - Marriott, Hilton, Sheraton, Hyatt, Westin, Le Meridien
  - Upscale
    - Hilton Garden Inn, Courtyard Marriott, Crowne Plaza, Four Points Sheraton, aloft Hotel, Radisson
  - Midscale with Food & Beverage
    - Holiday Inn, Quality Inn, Ramada, Best Western, Red Lion
  - Midscale without Food & Beverage
    - Country Inn & Suites, Hampton Inn, Holiday Inn Express, Comfort Inn, La Quinta, Wingate
  - Economy
    - Days Inn, Extended Stay America, Microtel, Red Roof, Super 8, Value Place, Rodeway Inn
Lodging Supply Analysis

- Lodging Classifications
  - Hotels.com– Star System
    - Five Star - (Deluxe)
      - These are hotels that offer only the highest level of accommodations and services. The hotels are most often located near other hotels of the same caliber and are usually found near shopping, dining and other major attractions.
      - Typical National Chains: Hyatt, Marriott.
    - Three Star - (First Class)
      - Typically these hotels offer more spacious accommodations that include well appointed rooms and decorated lobbies. They are often located near major expressways or business areas, convenient to shopping and moderate to high priced attractions.
    - Two Star - (Moderate)
      - Typically smaller hotels managed by the proprietor. The hotel is often 2 - 4 stories high and usually has a more personal atmosphere.
      - Typical National Chains: Days Inn, LaQuinta Inn.
    - One Star - (Moderate)
      - Usually denotes independent and name brand hotel chains with a reputation for offering consistent quality amenities. The hotel is usually small to medium-sized and conveniently located to moderately priced attractions.
Lodging Supply Analysis

- Evaluation of Competition
  - Primary: same transient visitors as subject property
  - Secondary: same transient visitors as subject property, but under special circumstances
Fieldwork
- Interviews of all GM’s/DOS of all competitive hotel
- Inspection of all competitive hotels
- Interviews with local demand generator corporate travel departments
- Convention & visitors bureau
- Chamber of Commerce
- Building, zoning, planning department(s)
- Real estate tax assessor
Lodging Supply Analysis

- Benchmark Information
  - Hotel association
  - Rooms tax collector
  - Local tax assessor
  - Lodging 400 survey
  - Market research statistics
    - Smith Travel Research
    - Rocky Mountain Lodging Report
    - Source Strategies
  - Previous studies performed on existing hotels
Lodging Supply Analysis

- Competitor Interviews
- New Supply Analysis
Lodging Demand Analysis

- Characteristics of Travel Demand
  - Commercial/Corporate Individual
  - Meeting and Convention
  - Leisure
  - Government
  - Contract Crew
# Typical Traveler Characteristics

<table>
<thead>
<tr>
<th></th>
<th>Commercial Travelers</th>
<th>Convention Travelers</th>
<th>Vacation Travelers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Peak Travel</strong></td>
<td>Fall, winter, spring</td>
<td>Fall, winter, spring</td>
<td>North—summer</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>South—winter,</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>spring, summer</td>
</tr>
<tr>
<td><strong>Weekly peaks</strong></td>
<td>Mon.-Thurs.</td>
<td>Sun.-Thurs.</td>
<td>Variable</td>
</tr>
<tr>
<td>Highway—1-2 nights</td>
<td></td>
<td></td>
<td>Highway—1 night</td>
</tr>
<tr>
<td>Downtown—2-3 nights</td>
<td></td>
<td></td>
<td>Downtown—3-5 nights</td>
</tr>
<tr>
<td><strong>Average length of stay</strong></td>
<td>3-5 nights</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Double occupancy</strong></td>
<td>1-1.5</td>
<td></td>
<td>1.7-2.5</td>
</tr>
<tr>
<td><strong>Use of food facilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Breakfast</td>
<td>50-70%</td>
<td>60-80%*</td>
<td>75-80%</td>
</tr>
<tr>
<td>Lunch</td>
<td>10-20%</td>
<td>50-80%*</td>
<td>10-50%*</td>
</tr>
<tr>
<td>Dinner</td>
<td>30-50%</td>
<td>40-80%*</td>
<td>50-75%*</td>
</tr>
<tr>
<td>Use of beverage facilities</td>
<td>20-60%</td>
<td>30-75%</td>
<td>30-75%</td>
</tr>
<tr>
<td><strong>Degree of price consciousness</strong></td>
<td>Low</td>
<td>Medium</td>
<td>Medium-high</td>
</tr>
<tr>
<td></td>
<td>Entertainment, quiet rooms, desks with good lighting, convenient parking</td>
<td>Adequate function and exhibit space, active sales organization</td>
<td>Recreational facilities, large guest rooms, guest laundry</td>
</tr>
<tr>
<td><strong>Special requirements</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Depends on the amount of banquet service  
**Depends on the meal plan (American or European)
Lodging Demand Analysis

- Demand Generator Build Up Approach
  - Definition of Market Area
  - Potential Demand Generators
  - Demand Interviews and Surveys
Lodging Demand Generators

- Airports
- Amusement parks
- Association headquarters
- Casinos
- Colleges and universities
- Companies and businesses
- Convenient highway stopping points
- Convention centers
- County seats and state capitals
- Court houses
- Festival sites
- Historical attractions
- Hospitals
- Military installations
- Museums
- Offices and industrial parks
- National or state parks and scenic areas
- Racetracks
- Regional shopping centers
- Resort areas
- Sports stadiums
- Theaters
- Tourist attractions
- World and state fairs
Lodging Demand Analysis

- Lodging Activity Build Up Approach
  - Current Accommodated Room Night Demand
  - Current and Forecasted Latent Demand
    - Unaccommodated Demand
      - Nature of Demand
      - Area Occupancy Level
      - Number of Fill Nights
      - Alternative Accommodations
    - Induced Demand
  - Accomodatable Latent Demand
  - Usable Latent Demand
  - Forecasted Accommodated Room Night Demand
  - Total Available Room Nights
  - Overall Market wide Occupancy
Analysis of Market Share, Occupancy and Average Room Rates

- Market Penetration Analysis
  - Fair Share
  - Market Share
  - Penetration Index
  - Project Occupancy Up To Stabilization
Analysis of Market Share, Occupancy and Average Room Rates

- Forecasted Monthly Occupancy Analysis
  - Peak Season
  - Low Season
  - Shoulder Season
Analysis of Market Share, Occupancy and Average Room Rates

- Average Room Rate Analysis
  - Competitive Positioning Method
  - Bottom Up Method
  - Rule of Thumb Method
  - Market Segmentation Method
### Bottom-Up Method

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required net income*</td>
<td>$ 2,883,000.00</td>
</tr>
<tr>
<td>Total fixed charges</td>
<td>+ 878,000.00</td>
</tr>
<tr>
<td>Undistributed operating expenses</td>
<td>- 3,207,000.00</td>
</tr>
<tr>
<td>Required house profit</td>
<td>6,968,000.00</td>
</tr>
<tr>
<td>Estimated departmental profits (non-rooms)</td>
<td>- 1,519,000.00</td>
</tr>
<tr>
<td>Required rooms profit</td>
<td>5,449,000.00</td>
</tr>
<tr>
<td>Estimated rooms expense (22.6%)</td>
<td>+ 1,591,000.00</td>
</tr>
<tr>
<td>Required rooms revenue</td>
<td>7,040,000.00</td>
</tr>
<tr>
<td>Total occupied rooms (300 X 72% X 365)</td>
<td>/ 78,840.00</td>
</tr>
<tr>
<td>Estimated average room rate</td>
<td>$ 89.29</td>
</tr>
</tbody>
</table>

* Net income required to cover debt service and rate of return on invested equity
Rooms Revenue Projection

- Occupancy Projection
- Average Room Rate Projection
- Revenue Per Available Room (RevPAR) Projection
CASE STUDY