



AI Connect Dallas 2015 Seminar

Valuation of Seniors Housing and Hospitality Properties

Hospitality

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Agenda

- Introduction
- Hotel Terminology: Property Types/Chain Scales
- National Lodging Industry Overview; US Lodging Fundamentals
- Hotel Valuation – What Makes it Different/Complex?
- Random Thoughts on the Industry
- Q&A

Terminology

Room Nights Available (Room Supply)

The number of rooms in a hotel or set of hotels multiplied by the number of days in a specified time period, aka room nights.

Example: 100 Available rooms in subject hotel x 365 days = Room Supply of 36,500 room nights per year.

Room Nights Sold (Room Demand)

The number of rooms sold in a specified time period.

Example: 29,930 room nights sold for the year.

Room Revenue

Total room revenue generated from the rental of rooms.

Example: \$4,520,000 for the year.

Fair Share

A subject hotel's "piece of the pie" in the market.

Example: Subject Available Rooms/Market Available Rooms or 100/1000 = 10%.

Terminology

Occupancy (Occ)

Percentage of available rooms sold during a specified period of time. Occupancy is calculated by dividing the number of rooms sold by rooms available.

Example: Occupancy = Rooms Nights Sold / Room Nights Available or 29,930/36,500 = 82%

Average Daily Rate (ADR)

Measure of the average rate paid for rooms sold, calculated by dividing room revenue by rooms sold.

Example: ADR = Room Revenue / Room Nights Sold or \$4,520,000/29,930 = \$151

Revenue Per Available Room (RevPAR aka Yield)

Total room revenue divided by the total number of available room nights OR same as Occupancy multiplied by ADR.

Example: Room Revenue/Available Room Nights \$4,520,000/36,500 = \$124 OR Occupancy x ADR 82% x \$151 = \$124

RevPAR differs from ADR as RevPAR is affected by the amount of unoccupied available rooms, while ADR illustrates only the average rate of rooms actually sold.

Terminology

Index (Occupancy, ADR, RevPAR)

Measures a hotel's performance relative to an aggregated grouping of hotels (e.g., competitive set, market, submarket). Indexes utilized in three key areas:

OCC Index

Measure of a hotel's share of the sub market's demand (demand = rooms sold).

Example: (Hotel Occupancy / Market Occupancy) or 82%/75% = 109%.

ADR Index

Measures of a hotel's ADR performance relative to an aggregated grouping of hotels.

Example: (Hotel ADR / Aggregated group of hotels' ADR) or \$151/\$165 = 92%.

RevPAR Index

Measure of a hotel's fair market share of its revenue per available room.

Example: (Hotel RevPAR / Aggregated group of hotels' RevPAR) or \$124/\$124 = 100%.

Terminology

Chain Scales

Method by which branded hotels are grouped based on the actual average room rates. Independent hotels, regardless of their average room rates, are included as a separate chain scale category.

Luxury

Four Season, Ritz-Carlton, St. Regis, Waldorf=Astoria

Upper Upscale

Hilton, Hyatt, Marriott, Westin

Upscale

Courtyard Marriott, Crowne Plaza, Hilton Garden Inn, Hyatt Place

Upper Midscale

Comfort Inn, Fairfield Inn Marriott, Hampton Inn, Holiday Inn

Midscale

Best Western, Quality Inn, Ramada, Red Lion

Economy

Days Inn, Econo Lodge, Microtel, Red Roof Inn

Independents

NYC – Bryant Park Hotel, Greenwich Hotel, Hotel Beacon, NoMad Hotel, Wythe Hotel, Z NYC Hotel

Terminology

Hotel Company Types

Owner Company

Primarily owns rather than franchises or manages lodging properties.

Examples: Host Hotels & Resorts, Pebblebrook Hotel Trust, Strategic Hotels & Resorts.

Management Company

A company that manages hotels for owners typically in return for fees and/or a share of revenues. A management company may or may not have any of its own funds invested in a hotel that it manages.

Examples: Marriott International, Starwood Hotels & Resorts, HEI Hotels & Resorts.

Franchise Company

A company that issues a contract to use a specific name and logo, purchased for an annual fee plus "royalties" usually based on a percentage of sales. Members share such benefits as brand-name identity, corporate image advertising, centralized reservation systems, corporate training programs, and volume purchasing.

Examples: Marriott International, Starwood Hotels & Resorts, Choice Hotels.

Terminology

Food & Beverage (F&B) Revenue

Revenues derived from the sale of food, beverages, and other F&B sources including meeting room rentals, audio-visual equipment rentals, cover or service charges.

Full-Service Hotel

Generally mid-price, upscale or luxury hotels with a restaurant, lounge facilities and meeting space as well as minimum service levels often including bell service and room service.

Limited-Service Hotel

Rooms-only operations, (i.e. without food and beverage service).



Terminology

Hotel Types

Classifications are driven primarily by building structure and secondarily by service level. Hotel types include:

All-Suite

All guest rental units consist of one or more bedrooms and may include a separate living area. Many suites contain kitchenettes or mini-refrigerators.

Boutique

Hotels that appeal to their guests because of their themed, stylish and/or aspirational settings. Typically less than 200 rooms, boutique hotels are often individual and focused on offering services in a comfortable, intimate, and welcoming setting, compared to the homogeneity of large chain affiliated hotels. Success of boutique hotels have prompted multi-national hotel companies to establish their own brands such as: W Hotels (Starwood), Kimpton Hotels and Joie de Vivre Hotels.

Conference

Hotels that place major focus on conference operations. Hotels must meet guidelines of the International Association of Conference Centers.

Convention

Hotels which provides facilities and services geared to meet the needs of large group and association meetings and trade shows. Typically have more than 500 guest rooms and contain substantial amounts of function and banquet space

Terminology

Hotel Types

Classifications are driven primarily by building structure and secondarily by service level. Hotel types include:

Destination Resort

Hotels that appeal to corporate incentive groups and leisure travelers typically located in resort markets, and are considered a destination in and of themselves. Destination resorts provide guests with extensive amenities such as: meeting/function space, retail stores, pools, golf, tennis, restaurants, spa facilities, beach, ski, casino, etc.

Gaming/Casino

Hotels that place major focus on casino operations.

Spa

Hotels that have a designated spa facility and offer treatments. Offering a sauna or hot tub/whirlpool would not qualify.

Waterpark

Indoor or outdoor waterpark resort as a lodging establishment containing an aquatic facility with a minimum of 10,000 square feet of waterpark space and inclusive of amenities such as slides, tubes and a variety of water play features.

Terminology

Location Segment

Hotel classifications driven by physical location.

Urban

Densely populated downtown in a large metropolitan area. (e.g. New York, Boston, San Francisco, London, Tokyo).

Suburban

Surrounding sub markets of large metropolitan markets. (e.g. White Plains, NY, Stamford, CT, Edison, NJ).

Airport

Hotels in close proximity of an airport that serve in part demand from airport traffic.

Resort

Hotels located in a resort area or market where a significant source of business is derived from leisure/destination travel. (e.g. Orlando, Lake Tahoe, Daytona Beach, Hilton Head Island, Virginia Beach).

Hotels: What Makes Them Different?

Operating Business

- Unlike other classes of real estate, hotels typically contain many 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;
 - Guestroom inventory is sold on a daily/nightly basis.

Compounded Complexity

- 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 fixed costs.

Reliance On Other Intermediaries:

- The hotel business is directly tied to uncontrollable “outside” parties including travel agents, internet sites, etc.

The Hotel Industry is a Complex and Volatile Business



U.S. Hotel Industry Macro Overview

	1/1/2009	1/1/2011	11/1/2012	6/1/2015
Economy	Contracting	Expanding	Expanding (Slowly)	Expanding (Modestly)
Jobs	Declining	Declining	Increasing (Slowly)	Increasing (Modestly)
Consumer Spending	Declining	Expanding	Increasing	Increasing
Business Spending	Declining	Expanding	Increased (Now Stagnant)	Accelerating
Supply Growth	Accelerating	Stabilized	Muted	Accelerating
Room Night Demand	Declining	Growing	Record Levels	Continued Record Levels

<u>U.S. Hotel Performance</u>	2008	2009	2010	2011	2012	2013	2014	Projected 2015	Projected 2016
Supply	▲ 2.6%	▲ 3.2%	▲ 2.0%	▲ 0.6%	▲ 0.5%	▲ 0.7%	▲ 0.9%	▲ 1.3%	▲ 1.4%
Demand	▼ 1.9%	▼ 5.8%	▲ 7.8%	▲ 5.0%	▲ 3.0%	▲ 2.2%	▲ 4.5%	▲ 2.6%	▲ 2.2%
Occupancy	▼ 4.4%	▼ 8.7%	▲ 5.7%	▲ 4.4%	▲ 2.5%	▲ 1.5%	▲ 3.6%	▲ 1.4%	▲ 0.8%
ADR	▲ 2.7%	▼ 8.8%	▼ 0.1%	▲ 3.7%	▲ 4.2%	▲ 3.9%	▲ 4.6%	▲ 5.2%	▲ 5.0%
RevPAR	▼ 1.8%	▼ 16.7%	▲ 5.5%	▲ 8.2%	▲ 6.8%	▲ 5.4%	▲ 8.3%	▲ 6.6%	▲ 5.8%

Source: (Data Only) STR, Inc.

U.S. Lodging Industry Records Set in 2013!

- Most Rooms Available
- Most Rooms Sold
- Highest Rooms Revenue
- Highest ADR (\$110)
- Highest RevPAR (\$70)

Source: STR, Inc.

U.S. Lodging Industry Records Set in 2014!



MAY:
RevPAR Growth
10% Highest May
of any on record...
ever!



JULY:
Most Rooms Sold Ever!
113 Million

2014



JUNE:
Occupancy
71.7% Highest June
occupancy this century!

AUGUST:
Room Revenue
\$90.8 bn
Highest August
YTD!



Source: STR, Inc.

April 2015:
Highest April Occupancy Ever!

66.8%



Source: STR, Inc

These Markets Will Feel New Supply Impact in 2015/16...

Market	Rooms U/C	% Of Existing
Boston, MA	1,815	4%
Anaheim/Santa Ana, CA	2,184	4%
San Diego, CA	2,188	4%
Denver, CO	1,719	4%
Nashville, TN	1,776	5%
Seattle, WA	2,427	6%
Miami/Hialeah, FL	3,600	7%
Houston, TX	6,234	8%

* US Pipeline Rooms Under Construction as % of Existing Supply April 2015

Source: STR, Inc



New York, NY Market

13,209

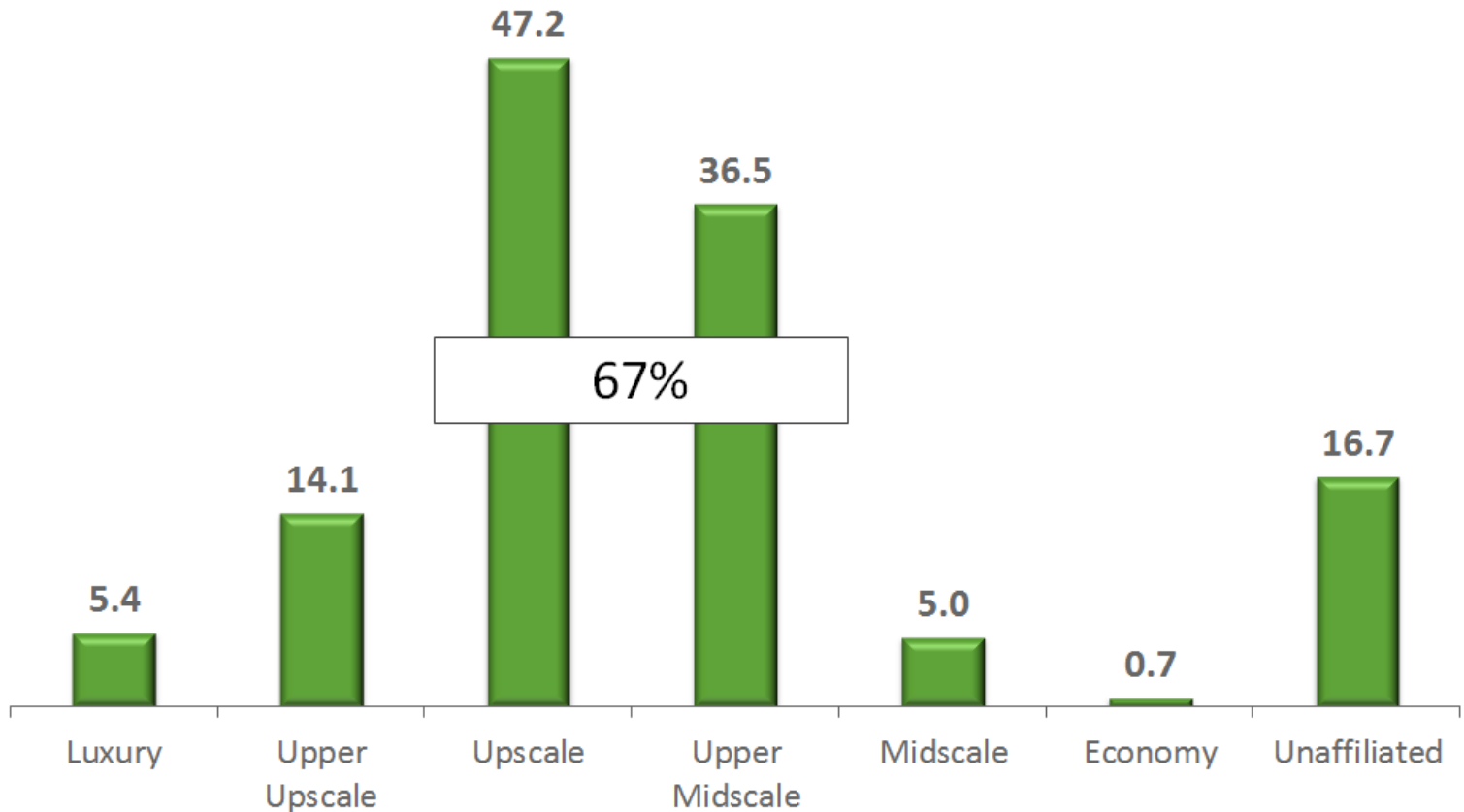
Rooms Under Construction

12% of the Market's Existing Supply

Under Construction Rooms as % Of Existing Supply, April 2015

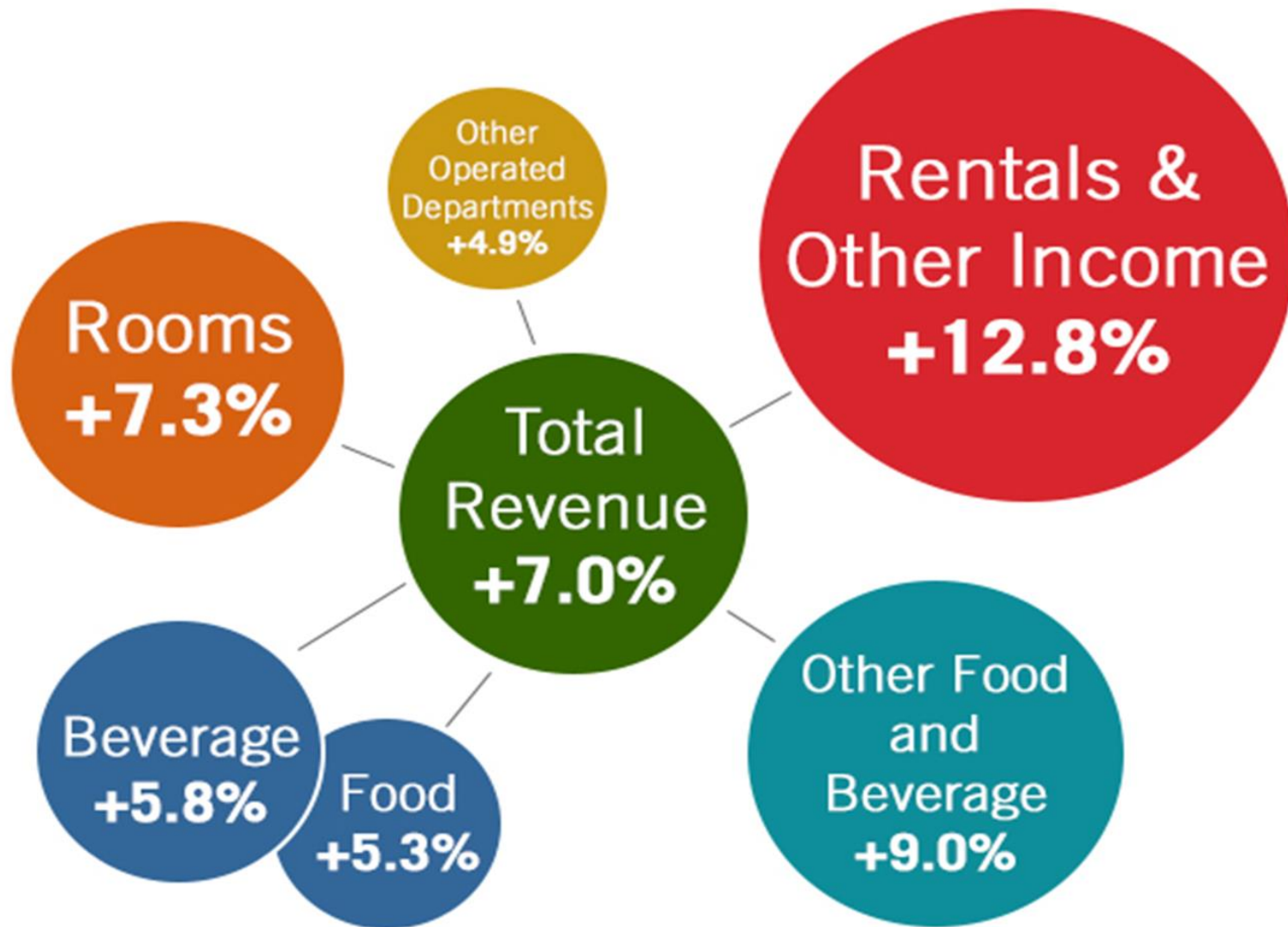
Source: STR, Inc

Limited Service Construction Has Been Strong For 2 Years



* US Pipeline, Rooms Under Construction, '000s Rooms, by Scale, April 2015

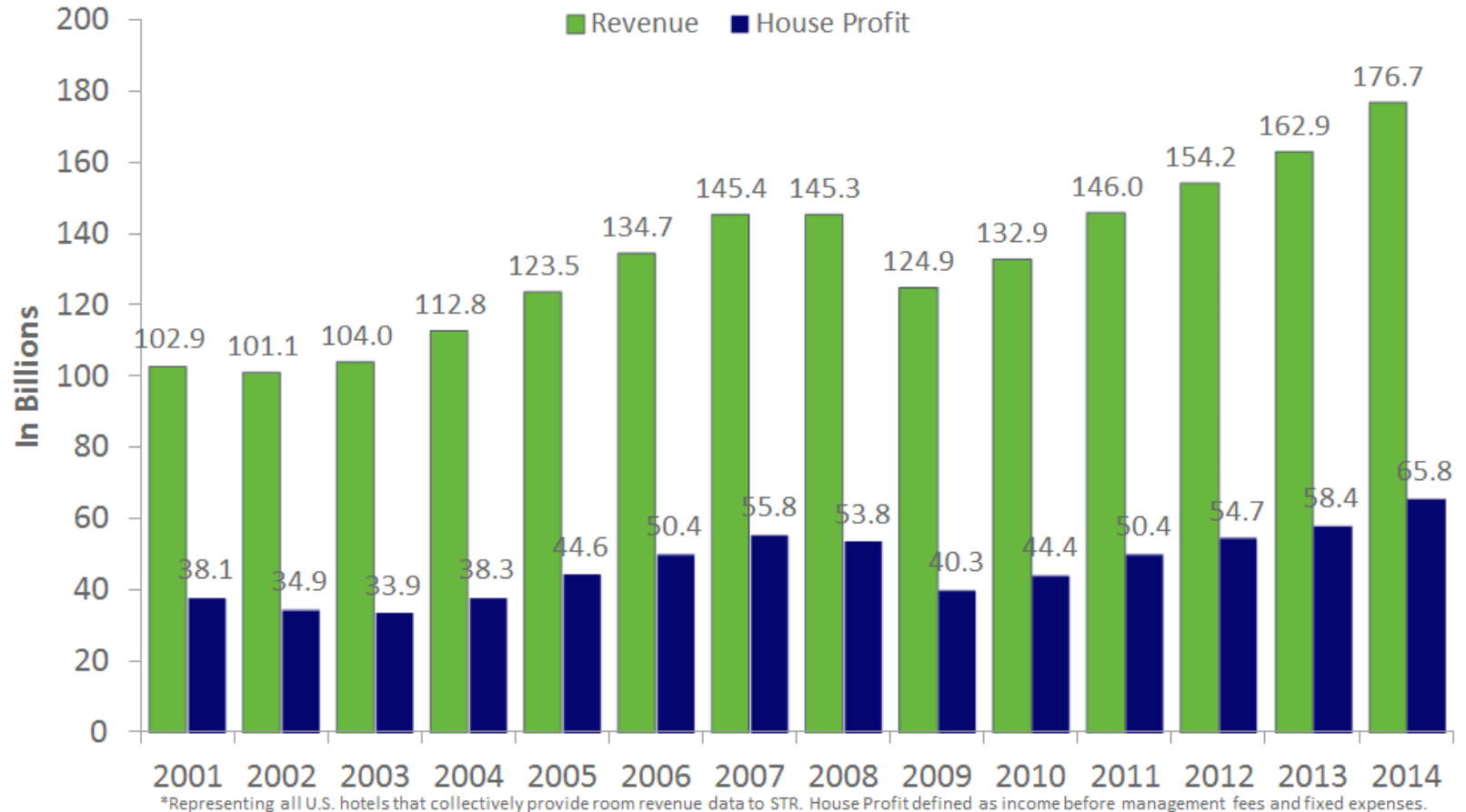
Source: STR, Inc



Total U.S. Department Revenue Growth
 % Change 2014 vs. 2013

Source: STR, Inc

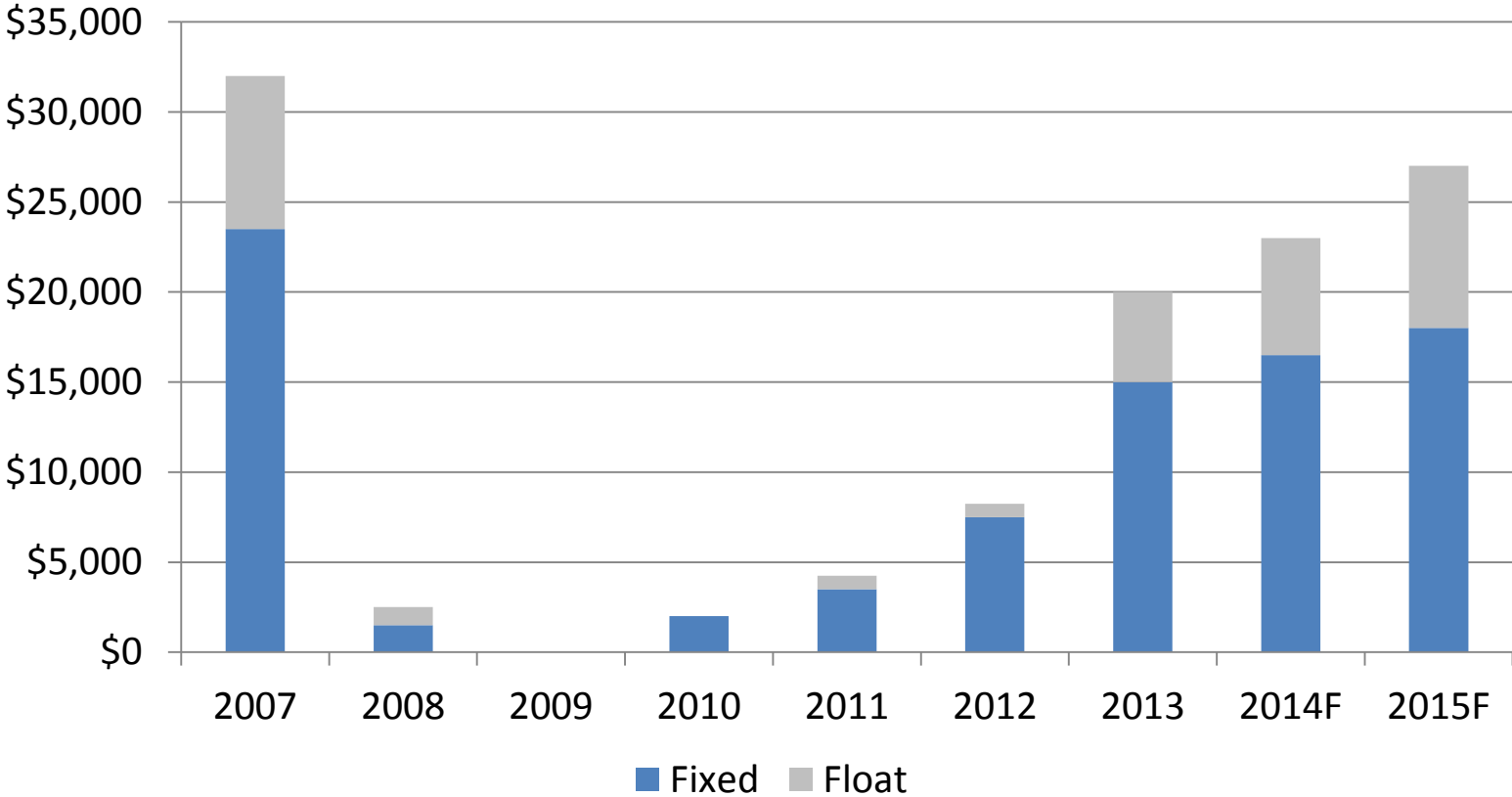
Total United States: Estimated Total Revenue & Profitability* Years 2001-2014



Source: STR, Inc

Hotel financing snapshot: swaps & CMBS issuance

Hotel CMBS Issuance, 2007-2015

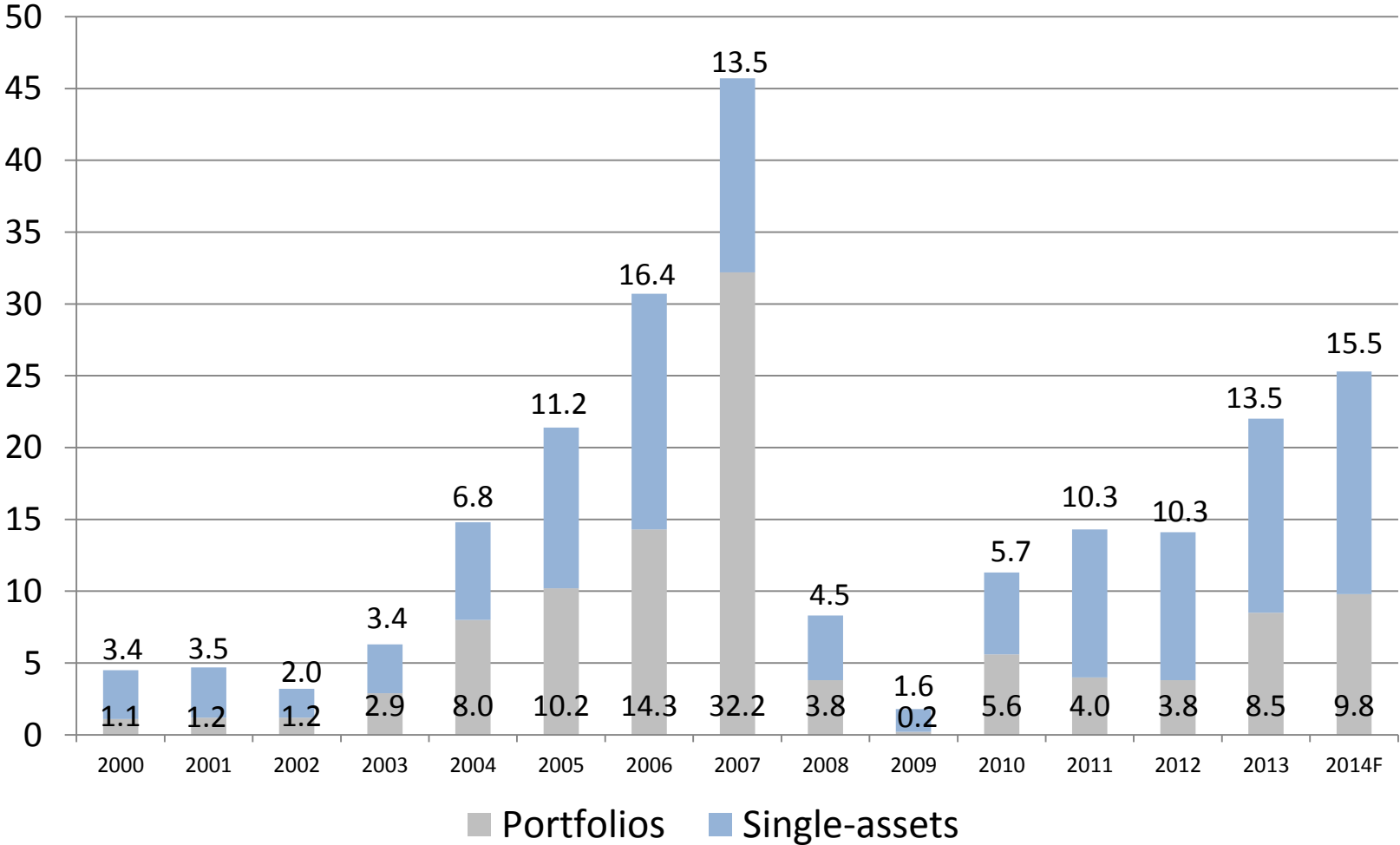


Source: JLL, Commercial Mortgage Alert



U.S. Hotel Transaction Volume

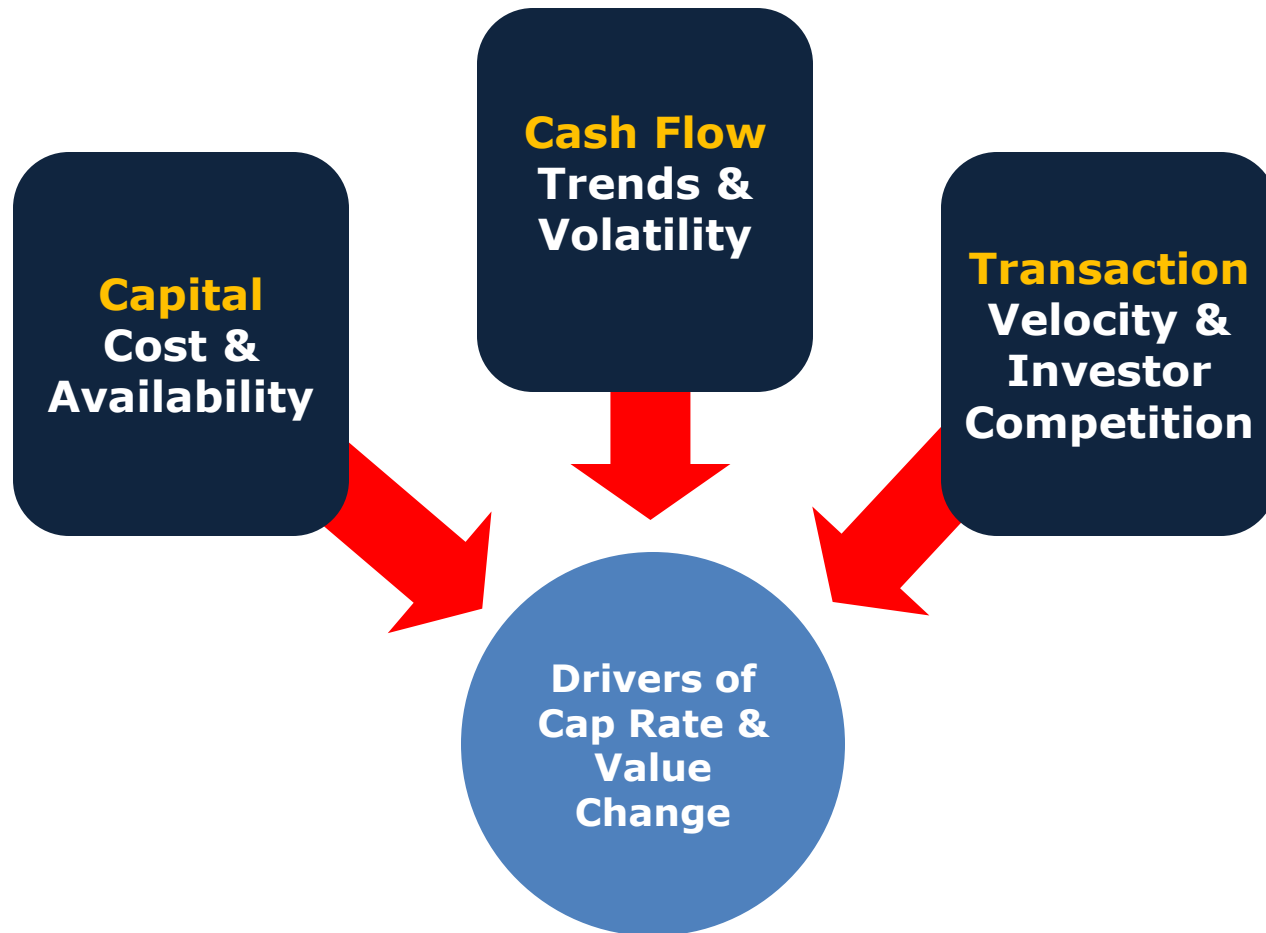
Transaction volume in 2013 marks 35% increase over 2012 volume



Source: JLL; includes transactions of \$5 million and above; excludes casino transactions



Influences On Hotel Values



Hotel Valuation – Income/Expense Analysis

Appraiser Hotel Operating History				
	Actual			
Fiscal Year Ending December 31:	2013			
Number of Days in Year:	365			
Number of Rooms:	216			
Annual Available Rooms:	78,840			
Occupied Rooms:	63,034			
Annual Occupancy:	79.95%			
Average Rate:	135.80			
RevPAR:	108.57			
Revenue	\$ (000's)	Gross %	PAR	POR
Rooms	8,432	90.9%	39,036	133.77
Food & Beverage Revenue	771	8.3%	3,571	12.24
Other Operated Departments	73	0.8%	336	1.15
Total Revenue	9,276	100.0%	42,943	147.15
Departmental Expenses				
Rooms - Combined	1,851	22.0%	8,570	29.37
Food & Beverage - Combined	609	79.0%	2,821	9.67
Other Operated Departments - Combined	95	130.5%	439	1.50
Total Departmental Expenses	2,655	28.6%	12,292	42.12
Departmental Income (Loss)	6,621	71.4%	30,651	105.03
Undistributed Operating Expenses				
Administrative & General - Combined	722	7.8%	3,342	11.45
Marketing - Combined	649	7.0%	3,005	10.30
Franchise Fees	465	5.0%	2,151	7.37
Utility Costs	326	3.5%	1,507	5.16
Property Operation & Maintenance - Combined	339	3.7%	1,571	5.38
Total Undistributed Operating Expenses	2,500	27.0%	11,576	39.67
Income After Undistributed Operating Expenses	4,120	44.4%	19,075	65.36
Fixed Charges				
Management Fee	371	4.0%	1,718	5.89
Property Taxes	903	9.7%	4,179	14.32
Insurance	81	0.9%	373	1.28
Reserve for Replacement	464	5.0%	2,147	7.36
Total Fixed Charges	1,818	19.6%	8,417	28.84
Hotel Cash Flow	2,302	24.8%	10,657	36.52

**Appraiser Hotel
Competitive Review**

Category	Comp Hotel 1 Inflated Values			Comp Hotel 2 Inflated Values			Comp Hotel 3 Inflated Values		
Occupancy (of Sample)	63.90%			62.95%			77.86%		
Average Size Of Property (Rooms)	155			153			150		
Average Daily Rate	126.61			98.44			124.71		
	Ratio to Sales	PAR	POR	Ratio to Sales	PAR	POR	Ratio to Sales	PAR	POR
REVENUE									
Rooms	93.7%	29,611	126.61	90.0%	22,680	98.44	85.0%	35,439	124.71
Food	4.2%	1,342	5.74	8.6%	2,174	9.44	8.0%	3,325	11.70
Beverage	0.0%	-	-	0.0%	-	-	4.0%	1,661	5.85
Telecommunications	0.1%	33	0.14	0.1%	20	0.09	0.1%	54	0.19
Other Operated Departments	1.8%	578	2.47	1.3%	323	1.40	2.9%	1,229	4.33
Rentals & Other Income	0.1%	40	0.17	0.0%	-	-	0.0%	-	-
Total Revenue	100.0%	31,604	135.13	100.0%	25,198	109.37	100.0%	41,708	146.77
DEPARTMENTAL EXPENSES									
Rooms	23.3%	6,911	29.55	21.5%	4,881	21.18	20.4%	7,247	25.50
Food & Beverage	92.6%	1,243	5.31	61.0%	1,326	5.76	78.4%	3,911	13.76
Telecommunications	320.0%	106	0.45	400.0%	81	0.35	666.9%	362	1.27
Other Operated Depts & Rentals	42.5%	246	1.05	45.8%	148	0.64	24.5%	301	1.06
Total Departmental Expenses	26.9%	8,506	36.37	25.5%	6,436	27.93	28.3%	11,822	41.60
Total Departmental Profit	73.1%	23,099	98.76	74.5%	18,762	81.44	71.7%	29,886	105.17
UNDISTRIBUTED OPERATING EXPENSES									
Administrative & General	8.7%	2,751	11.76	10.6%	2,679	11.63	8.0%	3,330	11.72
Marketing	8.6%	2,718	11.62	6.0%	1,508	6.55	8.2%	3,412	12.01
Utility Costs	5.4%	1,701	7.27	5.2%	1,299	5.64	3.8%	1,582	5.57
Property Operations & Maintenance	4.8%	1,528	6.53	4.3%	1,091	4.73	4.1%	1,704	6.00
Total Undistributed Operating Expenses	27.5%	8,699	37.19	26.1%	6,577	28.55	24.0%	10,027	35.29
GROSS OPERATING PROFIT	45.6%	14,400	61.57	48.4%	12,185	52.89	47.6%	19,859	69.88
Franchise Fees (Royalty)	0.0%	-	-	1.8%	451	1.96	4.7%	1,953	6.87
Management Fees	7.0%	2,213	9.46	6.9%	1,730	7.51	3.0%	1,251	4.40
INCOME BEFORE FIXED CHARGES	38.6%	12,187	52.11	39.7%	10,004	43.42	39.9%	16,655	58.61
Selected Fixed Charges									
Property Taxes	7.7%	2,432	10.40	5.5%	1,373	5.96	2.1%	880	3.10
Insurance	0.3%	106	0.45	0.6%	155	0.67	1.5%	644	2.27
Reserve For Capital Replacement	5.0%	1,582	6.76	5.0%	1,260	5.47	4.0%	1,668	5.87
AMOUNT AVAILABLE FOR DEBT SERVICE & OTHER FIXED CHARGES*	25.5%	8,067	34.49	28.6%	7,216	31.32	32.3%	13,462	47.37

STR HOST Data

Appraiser Hotel Host Comparison (Host Study 2012)																		
Category	Host Weighted Average			Affiliation Limited_Service Chain-Affiliated			Geographic Region Limited_Service New England			Location Limited_Service Urban			Price Category Limited_Service Upscale			Size Limited_Service 150 to 300 Rooms		
Occupancy (of Sample)	69.54%			70.10%			71.90%			71.10%			67.90%			67.00%		
Average Size Of Property (Rooms)	220			115			114			402			252			217		
Average Daily Rate	146.66			88.73			96.58			176.85			148.93			145.01		
	Ratio to Sales	PAR	POR	Ratio to Sales	PAR	POR	Ratio to Sales	PAR	POR	Ratio to Sales	PAR	POR	Ratio to Sales	PAR	POR	Ratio to Sales	PAR	POR
REVENUE																		
Rooms	73.1%	36,734	146.66	96.8%	22,465	88.73	97.0%	25,100	96.58	66.6%	45,284	176.85	66.8%	36,239	148.93	66.6%	34,978	145.01
Food	13.7%	8,325	33.33	0.0%	-	-	0.0%	-	-	18.1%	12,313	48.08	17.0%	9,229	37.93	16.6%	8,729	36.19
Beverage	4.0%	2,403	9.63	0.0%	-	-	0.0%	-	-	5.2%	3,507	13.70	4.6%	2,484	10.21	5.4%	2,822	11.70
Other Food & Beverage	3.6%	2,186	8.77	0.0%	-	-	0.0%	-	-	4.5%	3,078	12.02	4.7%	2,564	10.54	4.6%	2,433	10.09
Telecommunications	0.4%	237	0.94	0.2%	40	0.16	0.2%	40	0.15	0.6%	380	1.48	0.4%	233	0.96	0.3%	182	0.75
Other Operated Departments	3.2%	1,783	7.18	1.5%	338	1.34	1.7%	447	1.72	2.9%	1,965	7.68	4.3%	2,306	9.48	4.5%	2,366	9.81
Rentals & Other Income	1.7%	940	3.76	1.5%	345	1.36	1.1%	278	1.07	1.8%	1,236	4.83	1.9%	1,057	4.34	1.8%	925	3.83
Total Revenue	100.0%	52,712	210.69	100.0%	23,193	91.61	100.0%	25,870	99.54	100.0%	67,913	265.23	100.0%	54,234	222.89	100.0%	52,538	217.81
DEPARTMENTAL EXPENSES																		
Rooms	26.5%	9,880	39.45	24.0%	5,394	21.30	23.0%	5,783	22.25	27.9%	12,643	49.37	27.2%	9,856	40.51	26.5%	9,271	38.44
Food & Beverage	61.4%	10,082	40.38	0.0%	-	-	0.0%	-	-	78.4%	14,821	57.88	77.7%	11,087	45.56	77.6%	10,856	45.01
Telecommunications	209.3%	378	1.51	400.3%	161	0.64	409.6%	162	0.63	136.1%	517	2.02	168.6%	393	1.61	182.4%	331	1.37
Other Operated Depts & Rentals	2.6%	1,400	5.64	1.5%	337	1.33	1.4%	368	1.42	2.2%	1,466	5.72	3.3%	1,810	7.43	3.8%	1,960	8.13
Total Departmental Expenses	39.2%	21,740	86.97	25.4%	5,892	23.27	24.4%	6,313	24.30	43.4%	29,447	114.99	42.7%	23,146	95.11	42.7%	22,418	92.95
Total Departmental Profit	60.8%	30,972	123.72	74.6%	17,301	68.34	75.6%	19,557	75.24	56.6%	38,466	150.24	57.3%	31,088	127.78	57.3%	30,120	124.86
UNDISTRIBUTED OPERATING EXPENSES																		
Administrative & General	8.9%	4,648	18.60	9.2%	2,128	8.41	9.3%	2,411	9.28	8.5%	5,742	22.43	8.7%	4,745	19.50	9.6%	5,043	20.91
Marketing	6.8%	3,661	14.65	5.7%	1,329	5.25	5.5%	1,426	5.49	6.9%	4,664	18.21	7.3%	3,947	16.22	7.4%	3,904	16.18
Utility Costs	4.5%	2,240	8.96	5.3%	1,220	4.82	6.6%	1,710	6.58	3.8%	2,560	10.00	4.4%	2,381	9.78	4.4%	2,309	9.57
Property Operations & Maintenance	4.8%	2,496	9.98	5.2%	1,211	4.78	5.3%	1,383	5.32	4.5%	3,055	11.93	4.8%	2,621	10.77	4.9%	2,592	10.74
Total Undistributed Operating Expenses	25.0%	13,045	52.19	25.4%	5,888	23.26	26.8%	6,930	26.67	23.6%	16,021	62.57	25.2%	13,694	56.27	26.4%	13,848	57.40
GROSS OPERATING PROFIT	35.8%	17,927	71.53	49.2%	11,413	45.08	48.8%	12,627	48.57	33.0%	22,445	87.67	32.1%	17,394	71.51	30.9%	16,272	67.46
Franchise Fees (Royalty)	1.5%	672	2.70	3.2%	736	2.91	2.8%	725	2.79	0.7%	480	1.88	1.3%	697	2.87	1.8%	954	3.96
Management Fees	3.1%	1,636	6.54	3.1%	715	2.82	3.0%	785	3.02	3.1%	2,132	8.33	3.2%	1,714	7.04	3.0%	1,561	6.47
INCOME BEFORE FIXED CHARGES	31.2%	15,619	62.29	42.9%	9,962	39.35	43.0%	11,117	42.76	29.2%	19,833	77.46	27.6%	14,983	61.60	26.2%	13,757	57.03
Selected Fixed Charges																		
Property Taxes	3.9%	1,976	7.87	4.9%	1,132	4.47	5.6%	1,441	5.54	3.9%	2,654	10.37	3.2%	1,717	7.06	3.3%	1,720	7.13
Insurance	1.0%	521	2.08	1.2%	270	1.06	0.9%	236	0.91	0.9%	628	2.45	1.1%	582	2.39	1.0%	539	2.23
Reserve For Capital Replacement	2.1%	1,084	4.32	2.0%	454	1.79	2.5%	656	2.52	2.1%	1,425	5.56	2.0%	1,073	4.41	1.9%	1,017	4.22
AMOUNT AVAILABLE FOR DEBT SERVICE & OTHER FIXED CHARGES*	24.2%	12,037	48.01	34.8%	8,106	32.03	34.0%	8,784	33.79	22.3%	15,126	59.08	21.3%	11,611	47.74	20.0%	10,481	43.45

Expense Analysis Chart

Expense Analysis: Rooms - Combined

Subject	Occ %	ADR	\$ 1000's	% of Rooms Revenue	\$ per Available Room	\$ per Occupied Room
2010	73.2%	124.62	1,498	21.0%	6,937	25.96
2011	72.0%	126.49	1,460	20.5%	6,759	25.72
2012	76.4%	129.70	1,676	21.7%	7,758	27.73
2013	80.0%	135.80	1,851	22.0%	8,570	29.37
Trailing 12 Month	79.9%	134.46	1,892	22.3%	8,759	30.04
<u>Industry Averages</u>						
Chain-Affiliated	70.1%	88.73	NA	24.0%	5,394	21.30
New England	71.9%	96.58	NA	23.0%	5,783	22.25
Urban	71.1%	176.85	NA	27.9%	12,643	49.37
Upscale	67.9%	148.93	NA	27.2%	9,856	40.51
150 to 300 Rooms	67.0%	145.01	NA	26.5%	9,271	38.44
<u>Comparable Hotels</u>						
Comp Hotel 1	79.4%	214.35	1,798	15.5%	9,615	33.18
Comp Hotel 1	63.9%	126.61	1,071	23.3%	6,911	29.55
Comp Hotel 2	62.9%	98.44	747	21.5%	4,881	21.18
Comp Hotel 4	48.7%	122.33	427	11.2%	2,437	13.66
Comp Hotel 3	77.9%	124.71	1,087	20.4%	7,247	25.50
<u>Projections</u>						
DCF Year 1	76.0%	141.94	1,897	22.3%	8,781	31.65
DCF Stabilized	78.0%	157.98	2,049	21.0%	9,485	33.23
DCF Stabilized (Deflated)	78.0%	148.36	1,924	21.0%	8,908	31.20

Discounted Cash Flow (DCF)

Appraiser Hotel DCF Analysis										
Assumptions			Reversion Calculation (10Y)				Returns (10Y)			
Discount Rate	11.0%		Year 11 CF:	4,068,238		PV of Cash:	19,755,189			
Residual Cap Rate	8.5%		Gross Reversion:	47,861,620		PV of Reversion:	16,350,436			
Cost of Sale	3.0%		Cost of Sale:	(1,435,849)		Avg Annual Cash on Cash	9.54%			
Hold Period (Years)	10		Net Reversion:	46,425,772		CF % of Yield:	54.71%			
Reversion Year +	1		Stabilized Year:	3		Reversion % of Yield:	45.28%			
Analysis Year	Year	Fiscal Year End	Net Cash Flow	Net Reversion	Adjustments	Undiscounted CF	Discount Factor	Discounted CF	% of Yield	Annual Cash on Cash
0	2014	2/28/2014			-	-	1.000000	-	0.00%	NA
1	2015	2/28/2015	2,985,951	-	-	2,985,951	0.900901	2,690,046	7.45%	8.27%
2	2016	2/28/2016	2,994,818	-	-	2,994,818	0.811622	2,430,661	6.73%	8.29%
3	2017	2/28/2017	3,211,504	-	-	3,211,504	0.731191	2,348,224	6.50%	8.89%
4	2018	2/28/2018	3,296,127	-	-	3,296,127	0.658731	2,171,261	6.01%	9.13%
5	2019	2/28/2019	3,395,011	-	-	3,395,011	0.593451	2,014,774	5.58%	9.40%
6	2020	2/28/2020	3,496,861	-	-	3,496,861	0.534641	1,869,565	5.18%	9.68%
7	2021	2/28/2021	3,614,577	-	-	3,614,577	0.481658	1,740,991	4.82%	10.01%
8	2022	2/28/2022	3,709,820	-	-	3,709,820	0.433926	1,609,789	4.46%	10.27%
9	2023	2/28/2023	3,821,114	-	-	3,821,114	0.390925	1,493,768	4.14%	10.58%
10	2024	2/28/2024	3,935,748	46,425,772	-	50,361,520	0.352184	17,736,546	49.12%	139.48%
		Reversion NOI:	4,068,238		Total:	80,887,302		36,106,000	100.00%	
								(1,849,900)	PIP Deduction	
								34,256,100	As Is Value	
								158,593	Per Room	

U.S. Lodging Industry Summary – 6/1/15

Economic Environment

- Modest growth

Lodging Fundamentals

- Strong demand for hotel accommodations placing upward pressure on room rates
- Construction ticking up but will remain below long term average
- Net new supply positively impacted by removal of functionally obsolete product

Investor Interest

- Public REITs
- Private Equity Funds
- Sovereign Wealth Funds
- Non-traded REITs
- Family Offices

Capital Markets

- Hotel CMBS, Opportunistic debt, & Traditional balance sheet lenders
- Lower cost of debt at higher leverage has increased equity returns
- Near term outlook is favorable as far as cost and availability of capital

Transaction Activity

- Capitalization rates and discount rates have reached a point of stabilization
- Values expected to continue to rise at moderate rate primarily due to ADR gains
- New supply and/or economic factors are starting to impact cap rates and values in some markets

Random LWHA Thoughts

- Flight to yield expanding to secondary/tertiary markets
- Increase implementation of fees and surcharges
- Increasing number of independent hotels
- Industry infatuation with notion of “lifestyle”
- Industry obsession with “millennials”
- “Newbies” once again entering the hotel space
- Too many hotel brands
- **RAISE ROOM RATES aggressively NOW**

“History doesn't repeat itself, but it does rhyme.” - Mark Twain



AI Connect Dallas 2015 Seminar

Valuation of Seniors Housing and Hospitality Properties

Hospitality

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