

## Asia Viewed as Top Global Prospect for Hospitality Investment

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Ernst & Young survey reveals likely targets for hospitality investment in 2008

Emerging markets in Asia are unseating Europe as the epicenter of new hospitality investment and development while investors in the United States are switching their focus from the acquisition of existing hotels to developing new properties, according to a survey conducted by Ernst & Young.

According to the Ernst & Young Hospitality Investment Survey, which surveyed more than 300 investors and industry executives worldwide, capitalization rates for hotel properties are expected to stabilize and possibly even increase over the short-to-mid-term in the US.

"Even with the dramatic shift in the debt markets over the last few months, hotel industry sector fundamentals continue to be strong," said Brian Tress of Ernst & Young's Hospitality Advisory Services Group. "But there is a general perception among those we surveyed that hospitality real estate -- at least in the US -- is overvalued."

### **Target segments**

Respondents predicted that overall hotel investment strategy would be dominated by those creating new facilities for the luxury and "upper-upscale" segment that is supported worldwide by corporate, convention and leisure users. Midscale hotels that do not offer food or beverage amenities -- but do have relatively low construction costs, high franchise appeal and good margins will also continue to garner investor dollars.

### **Global hospitality investment**

According to the survey, Asia far surpassed all other regions as having the greatest potential for hospitality investment. With both China and India opening their markets to foreign investment, a growing scarcity of higher quality of facilities in the region and double-digit returns, the stage is set for Asia to become a major investment center in coming years. Also of interest, Latin America edged out Europe in the investor popularity poll. On the other hand, respondents believe the biggest downside for investment globally remains the potential for political instability in developing markets. However, some of this concern is also being mitigated by the enormous growth potential perceived to exist in key markets outside the US. Economic stability ranked second in potential downsides followed closely by currency instability/inflation.

### **US hospitality investment**

Driven by a significant revitalization program that is creating new viable lodging markets, Washington D.C. is the US city where respondents are most inclined to invest in 2008, followed closely by New York City and Los Angeles. The three lowest ranking cities on the list were Dallas, Orlando and New Orleans. Dallas -- the top performing hospitality market in last year's survey -- dropped to near the bottom of the list with respondents citing "dramatic" increases in hotel property tax rates and fears of overbuilding as a critical dampener on performance projections. Despite much publicity about the need for new investment, post-Katrina, New Orleans ranked lowest on the list of preferred markets for investment. The full survey and Ernst & Young's analysis of the results is available online at [www.ey.com/realestate](http://www.ey.com/realestate)

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