

## The 2008 LIIC Top Ten: An Annual Survey Of Lodging Investment Trends And Challenges

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Annually, the members of the hotel's industry's preeminent think tank, 'LIIC - The Lodging Industry Investment Council', are surveyed to develop a list of the major hotel investment opportunities and challenges for the coming year. This exhaustive survey results in the LIIC Top Ten, a highly regarded profile of investment sentiment and attitudes for the lodging industry for the forthcoming 12 months.

All together, the members of LIIC represent acquisition and disposition control of billions of dollars in lodging real estate. The hospitality industry's most influential investors, lenders, corporate real estate executives, REIT's, public hotel companies, brokers and significant lodging equity sources are represented on the council. LIIC serves as the leading industry think tank servicing the hospitality business ([www.liic.ws](http://www.liic.ws)).

This year's survey was compiled by LIIC's co-chairman, Mike Cahill. Mr. Cahill is president and founder of HREC - Hospitality Real Estate Counselors, a leading international hotel and casino advisory and brokerage firm specializing in lodging property sales, debt refinancing, consulting, appraisals and litigation support. ([www.hrec.com](http://www.hrec.com)).

**1. Lodging Real Estate Values to Drop:** 75% of respondents believe that hotel real estate values will decrease over the next 12 months, with 39% predicting a significant decrease of over 5%. In terms of chain scale, economy hotels are forecasted to have the largest value drop. The recent debt debacle appears to be the major catalyst for past and future value declines.

**2. Still Good Time to Buy Hotels?** 53% of respondents believe that 'Yes, if you are selective' and 33% responding 'Maybe, but the acquisition must present a compelling case'.

**3. Beginning of New Investment Cycle?** First the first time in four years, 38% believe we are in the first inning of a new hotel real estate investment cycle. On the other hand, 50% are holding that we are in the very end of the current cycle. 42% of members believe the economic recession will be over within 12 months and the same percentage is more pessimistic, predicting the recession will last up to 18 months.

**4. Quality and Volume of Product to Buy?** The quality (desirability) of assets on the market appears to have diminished significantly in 2008 compared to 2006 and 2007. 46% believe that hotels on the market are average quality but 34% believe they are below standards. Compounding the quality issue, 68% believe the quantity of available product is 'below average' and 'low'.

**5. Mixed Thoughts about Economy:** The views of LIIC members were widely divergent on economy, many stressed that industry fundamentals are still good, while others were highly pessimistic on immediate future and its impending downward impact on hotel profitability levels.

**6. Interest Rates to Increase?** Roughly half of the LIIC think tank believes hotel interest rates will increase over the next twelve months. Interesting, the other half of the members are evenly split between rates 'going down' and remaining 'flat'. Hand-in-hand, 86% of respondents believe loan/value ratios will either 'remain level' (42%) or 'decrease' (44%).

**7. What hotel brands do Institutional Investors Prefer?** Consistent with our 2007 survey, hotel investors rate the Marriott family of products as Number 1, followed closely by the Hilton group in 2nd place. Starwood ranked 3rd.

**8. Major Shift - Equity Return Rates Increasing:** Reversing the downward trends revealed in the past four years of this survey, majority (61%) of respondents believe that unlevered equity rates will increase over next 12 months. 22% believe that equity return rates will remain stable.

**9. Are Owners Feeling a Recession?** In major contrast to last year, only 44% of investors (versus 97% last year) believe their assets purchased in 2006 and 2007 are 'generally meeting expectations'. 78% of LIIC members believe average room rates will increase 1% to 5% over the next twelve months offsetting a predicted (72%) moderate decrease in occupancy levels.

**10. Hotels Under Construction to Peak in 2009:** LIIC members envision that new hotel construction (amount of rooms actually under construction) will peak in 2009 (36%) with 2010 to follow as another big year (25%).

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