

HVS Presents the 2008 Hotel Valuation Index (HVI)

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Residential mortgage crunch affected the commercial sector in 2007 and YTD 2008. Hotel owners suggested to hold on to assets for two or three more years.

Steve Rushmore, president and founder of HVS, the leading global hospitality consulting and hotel appraisal firm, has announced the publication of the 2008 Hotel Valuation Index (HVI), which tracks and discusses hotel values in each of the 65 major U.S. markets and the United States as a whole. According to Emily U. Smith and Neel M. Lund, who co-authored the document, 'although the U.S. credit crisis originated from malfunctions in the subprime residential mortgage sector, its impact has been subsequently transferred to the commercial sector. Considering the current state of lending markets, financing has become expensive and sparse.'

Smith and Lund add, 'In 2007, the value of a typical full-service hotel in the United States declined by \$5,000 per room, or roundly 5%. Since the HVI utilizes the income capitalization approach of valuation, it remains extremely critical to realize that this decline can be primarily attributed to the concurrent credit crisis and its impact on valuation parameters.'

'Overall, the decline in hotel values is expected to reach its lowest point in 2008,' adds Rushmore. 'Since attaining financing is considered a major challenge, proposed hotels that are in the early stages of development are expected to be either put on hold or notably delayed in progress for at least the next twelve months. Continuing its sluggish pace from the latter half of 2007, hotel sales activity is expected to remain slow through early 2009. Therefore, if it is not necessary to sell, hotel owners should ideally hold on to their assets for the next two to three years.'

Created in 1987 by HVS, the HVI is derived from an income capitalization approach, utilizing market area data provided by Smith Travel Research (STR) and historical operational and capitalization rate information from HVS' extensive global experience in hotel feasibility studies and valuations. With this information, it is possible to determine historical hotel per-room values, as well as an indication of hotel value growth through 2009.

An additional feature of the 2008 HVI is the presentation of a hotel investment analysis tool in identifying formidable markets to buy or build hotels, the Volatility Index, created by Steve Rushmore. 'The Volatility Index is an analysis of the historical rates of per-room value changes for an individual market, explains Rushmore. 'The Volatility Index determines the standard deviation in market per-room value changes since 1987, and divides this standard deviation by the overall average per-room value of a market during the same period. Markets with historically minimal changes in value (volatility) that are expected to record strong increases in per-room value demonstrate favorable market conditions to buy or build hotels.'

The 2008 HVI also analyzes the investment activity in relation to hotels, concentrating on overall sales volume and major sales that occurred from 2007 through the year-to-date period in June 2008. HVS monitors hotel markets in order to collect information on hotel sales and trends. HVS' comprehensive database contains information on hotel transactions that occurred in the United States from 1990 through the second quarter of 2008.

Since 1980, HVS has provided financial and valuation consulting services for more than 10,000 hotels in all 50 states and more than 60 countries. Our professional staff of more than 150 industry specialists offers a wide range of services, including market feasibility studies, valuations, strategic analyses, development planning, and litigation support. Through our divisions and alliances, HVS supplies additional hotel consulting expertise. HVS databases contain comprehensive information on more than 30,000 hotel transactions, operating agreements, financial statements, and compensation information.

To obtain a free copy of the 2008 Hotel Valuation Index, contact Joan Raffetto at 516-248-8828, ext. 231, or email jraffetto@hvs.com.

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