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RECAP: 2017 NYU Hospitality Industry Investment Conference

The Plasencia Group's team returned from last week's NYU Hospitality Investment Conference with the same cautious optimism expressed by lodging industry pundits during panels and presentations, and in one-on-one conversations. The bottom line is that there is an inordinate amount of equity and debt flowing into the lodging space, while, for now, there is a dearth of quality assets, especially full-service properties, available for acquisition. We thought we'd share with you below some key takeaways from the conference that will impact how we advise our clients on their hospitality investments in the coming months.

Lodging Performance

- Hotel performance fundamentals remain strong, and there is little concern about any near-term economic downturn.
- Demand for rooms set records in 2016 thanks to peak numbers of inbound air passengers, cruise passengers and national park visitors.
- Demand for rooms for the first four months of 2017 has already hit a record high, with 103 million room nights sold in the United States.
- Demand continues to exceed supply with YTD demand up 2.3% and YTD supply up 1.8%.
- New supply is not being perceived by most as a huge risk in most U.S. markets. Lenders are doing a good job of keeping new rooms under control.
- RevPAR is growing, but at a more moderate pace. Industry pundits believe 2.0% to 3.0% growth is the "new normal."
- In general, the horizon for hotel operating performance shows positive RevPAR growth for the industry through at least Q1 of 2020, and perhaps even beyond.
- Inbound international travel to the United States will likely decline through the remainder of 2017 due to a strong dollar and a perceived unfavorable attitude toward foreign visitors.
- While RevPAR is growing, the pace of NOI growth will not match it in step since profits are being impacted mainly by labor costs and increases in property taxes.

Transactions and Investments

- A significant increase in transaction volume is expected for the next 24 months, especially for larger single-asset deals.
- Hotel values across most U.S. markets will be stable or will increase through 2019. Except for four or five cities seeing lots of new rooms, very few metro areas should experience declines in values.
- Due mainly to supply issues, the most challenged markets for hotel value growth include Houston, Chicago and Miami.

- New York City, Los Angeles and Washington, D.C. are still very attractive markets for hotel investment. (Note that D.C.'s room rates are somewhat capped due to government per diems.)
- Cap rates are slightly up for select-service assets, but not full-service assets where caps remain generally stable.
- Net sellers include an array of companies such as Park Hotels & Resorts, RLJ Lodging Trust, Summit Hotel Properties, Sunstone Hotel Investors, Xenia Hotels & Resorts, Marriott International, MetLife Real Estate, PGIM Real Estate, and UBS Realty Investors, to name a few
- The most active buyers continue to be high-net-worth (HNW) investors or family offices partnered with management companies. Traded and non-traded REITs are very active again. Most private equity firms remain on the sidelines due to their higher return expectations and sponsor promote needs.
- Little M&A activity is expected in the lodging investment space in 2017, and large portfolio transactions will be limited.

Capital Markets and Financing

- Abundant acquisition capital is available. The bulk of the equity come from HNW, foreign and pension investors.
- Acquisition and refinancing debt is abundant and debt markets are frothy. Reasonably priced mezzanine financing is plentiful as well. However, construction debt has vanished almost entirely.
- Many expect interest rates to increase by no more than 50 bps by the end of 2017.

If you have any questions on these notes, or would like to discuss your hotel investment or sales strategy, please don't hesitate to contact us. All the best!