



RUSHMORE

DON'T TRY TO TIME THE MARKET

The silver lining of an economic downturn is the great buying opportunity it creates for those with capital to invest.

This down cycle is developing into what will probably become one of best times to acquire hotels since 1991. The difference this time is the current recession wasn't preceded by overbuilding. Because the hotel industry is facing only a demand problem, and not oversupply, when the recession ends and travel resumes, occupancies will rebound quickly since there isn't an oversupply of rooms that first needs to be absorbed.

The questions I'm asked the most by hotel buyers are: "When is the best time to buy? When will I get the most for my money? Should I hold off until the prices really tank? How much will hotel values fall? How fast will they recover?" Let's try to answer these important questions.

Each year, HVS tracks hotel values in 50 U.S. cities along with the U.S. as a whole. Our valuations go back to 1987 and are projected out to 2015. While many consultants publish data on occupancy, room rate and RevPAR, this information is useless unless it can be related to net income and asset value. HVS provides this important link that is critical information for hotel buyers, sellers and lenders.

As the table shows, during the recession of the early 1990s, hotel values dropped about 30 percent in two years before slowly recovering through the mid-1990s. The recession following 9/11 sent hotel values crashing almost 25 percent in 2001. Because there was not significant overbuilding prior to the downturn, recovery was rapid and strong with gains of more than 25 percent starting in 2004.

As of today, hotel values have already fallen about 20 percent, with 2009 shaping up to be a disastrous year with a 25-percent decline expected. The outlook for 2010 looks like another down year, with a decline of nearly 10 percent. In all, values will probably decline 40 to 50 percent before recovery starts. Like the 2004 recovery, hotel values will rise rapidly and be back to pre-recession levels by 2014.

So when will be the best time to buy? The valuations contained in the table represent market value, which

Value Trend for a Typical U.S. Hotel

	1987	1988	1989	1990	1991	1992
Value Per Room	\$37,000	\$37,000	\$38,000	\$32,000	\$27,000	\$30,000
Percent Change		0.0%	2.7%	-15.8%	-15.6%	11.1%
Per Room Change		\$0	\$1,000	-\$6,000	-\$5,000	\$3,000
	1993	1994	1995	1996	1997	1998
Value Per Room	\$33,000	\$37,000	\$45,000	\$50,000	\$59,000	\$60,000
Percent Change	10.0%	12.1%	21.6%	11.1%	18.0%	1.7%
Per Room Change	\$3,000	\$4,000	\$8,000	\$5,000	\$9,000	\$1,000
	1999	2000	2001	2002	2003	2004
Value Per Room	\$61,000	\$69,000	\$52,000	\$52,000	\$51,000	\$65,000
Percent Change	1.7%	13.1%	-24.6%	0.0%	-1.9%	27.5%
Per Room Change	\$1,000	\$8,000	-\$17,000	\$0	-\$1,000	\$14,000
	2005	2006	2007	2008	2009	2010
Value Per Room	\$82,000	\$100,000	\$95,000	\$81,000	\$61,000	\$55,000
Percent Change	26.2%	22.0%	-5.0%	-14.7%	-24.7%	-9.8%
Per Room Change	\$17,000	\$18,000	-\$5,000	-\$14,000	-\$20,000	-\$6,000
	2011	2012	2013	2014	2015	
Value Per Room	\$62,000	\$79,000	\$93,000	\$103,000	\$112,000	
Percent Change	13.4%	26.1%	18.6%	10.7%	8.6%	
Per Room Change	\$7,000	\$16,000	\$15,000	\$10,000	\$9,000	

Source: HVS © 2009 HVS

assumes a willing buyer and willing seller, neither under pressure to buy or sell. To get the best deal, hotel buyers need to find an unwilling seller who is under extreme pressure to sell. Under these circumstances the resulting transaction pricing usually represents liquidation value, not market value. We're just starting to see liquidation pricing, which can be as much as 20 to 40 percent below market value.

We recommend hotel buyers ignore the herd mentality and focus on buying today at liquidation pricing instead of staying on the sidelines until 2010 to acquire at the exact bottom of the market. Since values have already dropped 20 to 30 percent, we believe great deals will be available during 2009, especially if you can find those sellers who need to get rid of their hotels immediately. Those buyers who wait until 2010 may get somewhat better pricing, but there will be many more buyers competing for these acquisitions. We're forecasting the U.S. hotel market to start a recovery in 2011, with values rising rapidly thereafter.

Attempting to time the market in order to buy at the absolute lowest point means you will most likely miss out on some very good deals that transact prior to the exact low point in the cycle. Furthermore, different markets have somewhat different cycles, with some going lower and recovering slower. A thorough market analysis of individual micro markets is necessary to insure you are minimizing your risk while at the same time maximizing your opportunity. If you are interested in a complimentary detailed valuation analysis for the top 25 U.S. hotel markets (from 2000-2015), send me an e-mail.

* **Stephen Rushmore** is president and founder of HVS, a global hospitality consulting organization with offices around the world. Steve has provided consultation services for more than 12,000 hotels throughout the world during his 35-year career and specializes in complex issues involving hotel feasibility, valuations, and financing. He can be reached at srushmore@hvs.com or 516 248-8828 ext. 204.