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Key Takeaways from Americas Lodging Investment Summit (ALIS) Summer Update 2023

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Operational Focus

1. According to Dr. Matthew Holian of San Jose State University, work from home (WFH) has stabilized to about 30% of full workdays last few months compared to less than 10% of full workdays pre-pandemic. This has impacted hotels' commercial transient room night demand, which continues to pace below pre-pandemic levels.

2. Asian markets, particularly the Chinese market, continue to face downward economic pressure, which has restrained occupancy growth in Los Angeles, San Francisco, other Western U.S. gateway markets, and other U.S. markets that generated substantial room night demand from this region of the world prior to the pre-pandemic.

3. Room revenue growth on a year-over-year basis has slowed in most markets while occupancy has stabilized or shown signs of softening, particularly in leisure-oriented destinations. A good amount of domestic leisure demand has shifted to markets abroad.

4. Data presented by HotStats showed labor and related payroll costs are the main hotel operating expense cutting into gross operating profit margins despite higher topline revenue performance.

5. Incremental revenue generation such as amenity fees, packaging, upselling, and conversion of non-revenue generating space will increase in importance for hotels as room revenue growth slows and operating expenses place downward pressure on operating margins.

Investment Focus

6. While there are hotel transactions being completed, there is increased difficulty to underwrite hotel deals due to the spreads between sellers' asking prices and what buyers are willing to offer. Despite the lack of transactions, there is plenty of dry powder that remains on the sidelines and ready to be deployed.

7. Alternative financing such as PACE, seller financing, government-backed bonds, and EB5 have filled in the capital stack gap that traditional lender financing previously filled.

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Investment Focus Cont'd

8. Maturing hotel debt has become the lead driver of hotel investment activity, followed by recapitalizations, and need to fund property improvement plans (PIP).
9. Market for permanent loans is not an attractive avenue for hotel investors and owners due to the belief that interest rates will possibly decrease in the next one to two years.
10. Quality of co-investors and sponsors extremely important to obtaining traditional lender financing.
11. Hotel transaction activity is expected to increase over next six to 10 months as sellers look to shore-up liquidity.
12. Hotel properties with loan-to-value (LTV) ratios that are 70% or more will be challenged when refinancing or cashing out to finance renovations/property improvement plans.

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