



# Limited Service Hotel Insights 2024 Report





# 2024: More Opportunities

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2024 is likely to be another record year for the limited service hotel industry. While RevPar has continued to hit a record high in most market, transaction volume was low. A rising rate market and strong travel fundamentals incentivized hotel owners to continue to hold their assets.

We foresee 2024 seeing an uptick in transaction volume as buyer and sellers find themselves bridging the bid-ask gap. This will mean more opportunities.

Although we do not see much distress on the fundamental side, there will be defaults primarily related to maturing loans. With rates significantly higher than at the time of origination for many assets, it will be difficult to refinance for several owners unless they inject additional capital and further pay down the loan. Due to this, we're likely to see more assets come to market from either poor operators or those in difficult situations with their loan terms.

RevPar growth will continue to increase as the consumer has shown that in a post-Covid world they value experiences more than products. In addition, hotel construction supply will continue to be limited which will further improve the performance of existing assets,

The return proposition for limited service hotels continues to be strong with limited headwinds going into 2024.



# A Golden Era

KPI	2024F
Supply	0.8%
Demand	1.8%
Occupancy	1.0%
ADR	3.0%
RevPAR	4.1%

Source: CoStar and Tourism Economics, December 2023



The supply/demand equation has changed significantly since Covid. It is difficult to develop hotels in most markets given the current costs. With limited supply and a smaller than expected pipeline, the excess demand will continue to push RevPar growth. Costar projects RevPar to be 4.1%, which is likely to exceed the projected CPI inflation rate.

We don't see any material changes in supply and therefore believe we're in the midst of a "Golden Era" for hotel fundamentals.

# Local Liquidity

Indicative Cost of Floating Rate Hospitality Debt

Lender Type	January 2024			January 2023			2023-24 Loan Coupon Differential
	Spread	SOFR Index*	All-in Coupon	Spread	SOFR Index*	All-in Coupon	
Bank - Local/Regional**	2.50% - 3.50%	5.35%	7.85% - 8.85%	2.50% - 3.50%	4.50%	7.00% - 8.00%	+0.85%
Bank - Money Center/Investment	3.25% - 4.25%	5.35%	8.60% - 9.60%	3.75% - 4.50%	4.50%	8.25% - 9.00%	+0.73%
Bank - Construction**	2.75% - 4.50%	5.35%	8.10% - 9.85%	4.25% - 5.25%	4.50%	8.75% - 9.75%	-0.40%
Debt Fund - Existing/Top Tier Assets	3.75% - 4.25%	5.35%	9.10% - 9.60%	4.00% - 5.00%	4.50%	8.50% - 9.50%	-0.03%
Debt Fund - Existing/Quality Assets	4.25% - 5.00%	5.35%	9.60% - 10.35%	5.00% - 6.50%	4.50%	9.50% - 11.00%	-0.28%
Debt Fund - Construction***	6.50% - 8.50%	5.35%	11.85% - 13.85%	6.75% - 8.50%	4.50%	11.25% - 13.00%	+0.98%
SASB CMBS Whole Loan	3.00% - 4.50%	5.35%	8.35% - 9.85%	3.75% - 5.00%	4.50%	8.25% - 9.50%	+0.23%
SASB CMBS AAAs	2.15% - 2.45%	5.35%	7.50% - 7.80%	2.50% - 2.75%	4.50%	7.00% - 7.25%	+0.77%
LifeCo	3.75% - 4.75%	5.35%	9.10% - 10.10%	4.00% - 5.00%	4.50%	8.50% - 9.50%	+0.60%

\* 30-Day Term SOFR \*\* Full or Partial Recourse \*\*\* Non-Recourse

Historically the largest banks were the most competitive. They had the balance sheet to make loans, but due to the banking crisis in 2023, many of the larger banks took their foot off the pedal. They were worried that any contagion would spread rapidly and cause a meltdown in the bank system.

The local/regional banks, although have smaller balance sheets, they are much more stringent in their underwriting standards. They do limited construction loans with a focus on strong DSCR. Then they still require some level of recourse. Their focus on cash flow coverage and quality sponsors allows them to be competitive on rate.

Seasoned operators with a proven track record will be able to still get attractive debt terms provided they are willing to offer some level of personal/corporate guarantee. Most larger buyers of hotels prefer non-recourse or require it, which limits their ability to get favorable terms.

Smaller firms now have better access to capital than ever before. In addition, banks still prefer limited service hotel assets over full-service due to their lower risk profile. It's often an asset that many lenders look favorably upon due to their performance in even down markets.



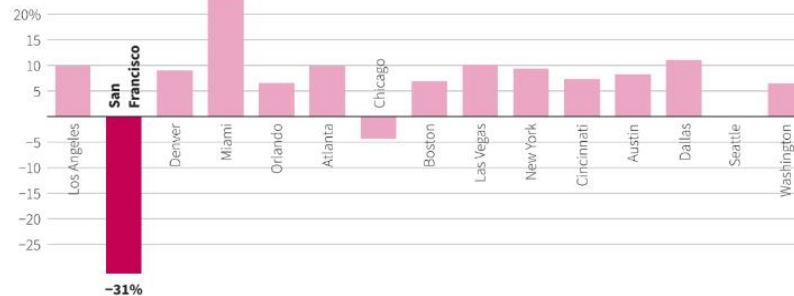
# A Tail Of Two Markets

On a national level, ADR and occupancy have fared well. With most markets breaking records. However, there are a few regions that are still struggling to recover to pre-Covid levels. Most of this is attributed to markets where corporate was the largest demand generator for room nights.

Given that employers seem to embracing remote/hybrid work options, many office buildings have been either vacant or will see further increases in vacancy. This means less corporate meetings/events that require room nights.

## Hotel room revenue up in most cities - but not San Francisco

Revenue per available room, a key metric for hotel operations, has been on the rise in most major U.S. cities in the last four years.



Note: Percentage change from May 2019 to May 2023  
Source: STR

Chicago & San Francisco continue to see declines, largely due to decreases in corporate demand. This particular reason is why any logical buyer of hotels should look in markets where there is a balanced mix. Washington D.C. had a slow rebound as the government still hasn't fully return to in-person work, however, the leisure uptick was significant enough that it caused an overall increase in RevPar.

# Capital Allocation Strategy

Our plans will largely be unchanged going into 2024. We believe limited service hotels will continue to be strong, but also foresee resilient demand for extended stay assets.

Our capital allocation strategy is based on a revised SWOT analysis of the industry.



## Strength

- Leisure demand continues to outperform
- Limited supply



## Weaknesses

- Labor expense growth
- Cost of insurance has risen significantly
- Property tax rates increasing



## Opportunities

- One of the highest risk-adjusted returns in real estate
- Poor management and lack of financing may create some distress
- Seasoned operators will be able to up brand or complete PIPs



## Threats

- Creation of new flags will create further competition inter-brand
- Labor shortage, although it has improved, still presents challenges





# Closing Statement

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## **Banner Year**

We see 2024 as a banner year for limited-service hotels. We see significant opportunities and an increase in transaction volume. Hotels that were either poorly managed or with unfavorable debt terms will provide further value-add possibilities.

## **Prudent Underwriting**

Investors should maintain strict underwriting guidelines and use reasonable assumptions. The debt markets are unpredictable and while there are talks of rate cuts, there is no guarantee how the Fed will react. Underwriting should also factor wage growth both due to regulatory changes as well as need based to retain key talent.

## **High Cash Flow**

We project our target annualized distribution of 10% will be achieved going forward with a plan to hit an exit IRR of 15%+. Our focus is on quality assets with consistent cash flow in strong markets.

## **Want to connect?**

Email us at [Investors@InoxTrust.com](mailto:Investors@InoxTrust.com)

Or schedule a call at [www.InoxTrust.com](http://www.InoxTrust.com)