



ATLAS
HOSPITALITY GROUP

California Hotel Market Overview

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Presented by:

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AHG 2022 Predictions

- **Rising Interest Rates**
 - **10- Year Treasury** Dec 2021 = 1.52%/Dec 2022 3.88%
 - **1-Month LIBOR** Dec 2021 = 0.10%/Dec 2022 4.36%
 - **1-Month SOFR** Dec 2021 = 0.05%/Dec 2022 4.07%
 - **Fed Funds Rate** Dec 2021 = 0.07%/Dec 2022 4.38%
- **Rising Labor Costs**
 - **Wages and Salaries** increased 4.4% for 12 mo. ending 09/22
 - **Minimum wage** now \$15.50
 - **25%** was standard for labor costs underwriting, now closer to 30%
- **Inflationary Pressure pushing up cost of supplies**
 - **Supply chain disruption** is making forecasting and projecting quite difficult it is also causing operational challenges at the hotel level
 - **Increased RevPar growth in 2022** almost always rate drive
- **Rising Insurance Premiums**
 - **Fire insurance** nearly impossible to obtain – premiums have increased by 15% or insurer-initiated nonrenewal/Capacity issues. Anything above a 50 – 60 wildfire score, premiums are doubling or more

Hotel REIT Stock Performance

T12 01/23



-45.36%



-21.09%

HERSHA

-9.08%



SERVICE
PROPERTIES TRUST

-11.71%
(prev. HPT)

Hotel Stock Performance

T12 01/23



+16.85%



-5.76%



-12.68%



+.93%



Notable hotel
sales in 2022
included



Montage Laguna Beach

SALES PRICE: \$647,000,000

252 ROOMS / \$2,567,460 PER ROOM



El Cordova Hotel Coronado

SALES PRICE: \$45,000,000
43 ROOMS / \$1,046,512 PER ROOM



Cormorant Hotel La Jolla

SALES PRICE: \$17,500,000

23 ROOMS / \$760,870 PER ROOM



Hyatt House San Francisco

SALES PRICE: \$142,000,000
230 ROOMS / \$617,391 PER ROOM

STR RevPAR Performance


04/22 vs. 04/21 YTD	%
United States	63.1
Pacific	85.6
California	81.6
Custom Anaheim/Disneyland+	405.8
Custom Los Angeles+	145.8
San Francisco/San Mateo, CA	134.6
Monterey/Salinas, CA	81.6
San Jose/Santa Cruz, CA	76.1
Long Beach, CA	74.7
Santa Barbara/Santa Maria, CA	60.1
Sacramento, CA	45.0
San Luis Obispo/Paso Robles, CA	24.6

STR RevPAR Performance

12/22 vs. 12/21 YTD	%
United States	29.8
Pacific	35.6
California	34.6
San Francisco/San Mateo, CA	86.3
San Jose/Santa Cruz, CA	65.0
Anaheim/Disneyland+	64.9
Custom Los Angeles	48.3
California	34.6
Long Beach, CA	33.8
Monterey/Salinas, CA	21.0
Santa Barbara/Santa Maria	17.9
Sacramento	15.6
Monterey/Salinas	6.5

December STR Trend

12/22 vs. 12/21	%
United States	8.7
Pacific	1.6
California	0.5
San Jose/Santa Cruz, CA	21.9
San Francisco/San Mateo, CA	15.4
Long Beach, CA	6.7
Custom Los Angeles	-0.6
Monterey/Salinas, CA	-2.3
San Luis Obispo/Paso Robles, CA	-3.4
Santa Barbara/Santa Maria, CA	-5.5
Sacramento	-8.6
Custom Anaheim/Disneyland+	-13.8



California Hotel Development Survey Highlights

- California has 114 hotels under construction with 15,352 rooms
- California has 1,249 hotels in planning with a total of 164,951 rooms
- The 305-room Conrad Hotel Los Angeles was the largest hotel to open in the State in 2022
- San Bernardino County had the highest number of new hotels opened with eight, and Santa Clara County led in number of new rooms (1,155), followed by Los Angeles County with seven hotels and 1,131 rooms
- Los Angeles County leads the State in terms of hotels (22) and rooms (2,888) under construction
- Hilton branded hotels led the State with 31 hotels under construction



Largest California Hotel
Opened in 2022

- ▶ Conrad Hotel
- ▶ Los Angeles
- ▶ 305 rooms




California Hotel Development Survey Summary

- ▶ In 2021 California set a record for the number of new hotel rooms opened.
- ▶ In 2022, we saw the number of new rooms opened decline by 42%, but this was mainly since many developers delayed opening their hotels in 2020 due to Covid-19, which helped artificially push up the number of rooms opened in 2021. 2022 is recognized as having the fifth highest total in number of rooms opened since 2010.
- ▶ As we look forward, California continues to have a strong pipeline of hotels and room under construction (114 hotels with 15,352 rooms). The one cloud on the horizon for these developers is that, as their construction loans come due, they are facing a much tighter lending market with substantially higher interest rates.

2022 In Summary

- 2016 – 2019, 9 hotels traded in all of California for over \$1.0M per room
- 2021 – there were 13 hotels that traded over \$1.0M per room
- 2022 – there were 2 hotels that traded over \$1.0M per room
- 2021 record number of hotel sales: 510 transactions
- 2022 – 482 transactions down -5.49%
- 2022 – Transactions above \$10M down -18.88%
- 2021 - Median price per room: \$138,393
- 2022 – Median price per room: \$151,636

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- Leisure has been a key driver of OCC and ADR Growth – appears that growth has plateaued
 - Corporate travel is recovering but will not fully recover until a substantial majority of employees in urban markets return to offices

Issues to Look for in 2023

- **Interest Rates - Substantial increases in interest rates in the short and medium term and simultaneous widening of credit spreads.**
- **Decline in sales – Significant delta between buyer and seller expectations**
- **Labor issues – Ongoing and increasing challenges with availability of labor and rising wage rates, de facto unions**
- **Inflation - Impact of massive government stimulus, significant non transitory inflation, and supply chain bottlenecks nominal ADR's have been rising rapidly but real ADR's have minimal growth**
- **Increased strength of dollar – More expensive for international visitors to travel to US comparatively less expensive for US residents to travel abroad**



Any Questions....

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