Hotel Investment Outlook
Global 2014

A new era

Hotel investors open throttle on deal pace.

Hotel transactions to increase to $50 billion in 2014, marking a five-year high.

Activity underpinned by steady hotel operating performance, increased debt market activity and investors’ quest for yield.
In 2014, we project global deal volume of $50 billion, a five to 10 percent rise on 2013 levels, marking a five-year high.
In this report

Global overview. . . . . . . . . . . . . 5
Americas . . . . . . . . . . . . . . . . . . 9
EMEA . . . . . . . . . . . . . . . . . . . . . 14
Asia Pacific . . . . . . . . . . . . . . . . . . 19
Appendix . . . . . . . . . . . . . . . . . . . 25

Contributors

Mark Wynne-Smith
Global CEO
Mark.Wynne-Smith@eu.jll.com

Arthur Adler
CEO, Americas
Arthur.Adler@am.jll.com

Jonathan Hubbard
CEO, Northern Europe
Jonathan.Hubbard@eu.jll.com

Christoph Härle
CEO, Continental Europe
Christoph.Harle@eu.jll.com

Craig Collins
CEO, Australasia
Craig.Collins@ap.jll.com

Scott Hetherington
CEO, Asia
Scott.Hetherington@ap.jll.com

David Green-Morgan
Global Capital Markets Research Director
David.Green-Morgan@ap.jll.com

Karen Wales
Executive Vice President, Research, Asia Pacific
Karen.Wales@ap.jll.com

Lauro Ferroni
Vice President, Research, Americas
Lauro.Ferroni@am.jll.com

Jessica Jahns
Head of Research, EMEA
Jessica.Jahns@eu.jll.com

Frank Sorgiovanni,
Vice President, Research, Asia
Frank.Sorgiovanni@ap.jll.com
Global overview

Highlights from the report

- Hotel investors across the globe have opened the throttle on deal pace, resulting in a 35 percent increase in last year’s transaction volume.
- Hotel transactions are expected to rise another five to 10 percent in 2014 to $50 billion.
- 2014 will be characterised by continuing investor confidence and a market flush with capital.
- The Americas region will drive the boost in liquidity; Europe’s outlook will remain positive; Asia Pacific is likely to see some softening following its second highest year on record, given less product on the market.
- Private equity players are expected to persevere as motivated buyers in 2014, joined by REITs and other equity-rich investors.
- In mature markets, debt financing for hotels will continue to improve in 2014. Debt levels are approaching the highest levels since the downturn.
- Assets in secondary markets will garner more interest as prime assets in gateway cities reach peak valuations.
- Overall hotel operating fundamentals are poised to remain strong globally in 2014, although regional variances will persist.

Hotel transaction volume forecast snapshot

<table>
<thead>
<tr>
<th>Region</th>
<th>2013E</th>
<th>2014F</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>$24.0</td>
<td>$27.6</td>
<td></td>
</tr>
<tr>
<td>EMEA</td>
<td>$13.2</td>
<td>$16.0</td>
<td></td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>$9.5</td>
<td>$6.0</td>
<td></td>
</tr>
<tr>
<td>Global total</td>
<td>$46.7</td>
<td>$49.6</td>
<td></td>
</tr>
</tbody>
</table>

Source: Jones Lang LaSalle

Open throttle on deal pace

Primary markets led a steady pace of deal activity in the global hotel investment arena, while secondary markets started to improve during 2013. Deal volumes for the year exceeded expectations, driven by stable hotel operating performance, increased debt market activity and investors’ quest for yield.

Global hotel transaction volume reached $46.7 billion, a 35 percent increase on 2012 levels. The Asia Pacific region set the pace by doubling its deal volume to $9.5 billion. The Americas region saw a 30 percent uplift to $24 billion, while Europe, Middle East and Africa’s (EMEA) deals also increased notably by 17 percent to $13.2 billion.

More steam in 2014

In 2014, we predict global deal volume of $50 billion, a five to 10 percent rise on 2013 levels, marking a five-year high. The Americas region will drive the boost in liquidity, with a target projection of $28 billion. EMEA’s outlook has at last grown more positive too, and is expected to see $16 billion in transactions, driven by debt restructuring deals. Asia Pacific, which saw a doubling of volume in 2013, is likely to see some softening due to lack of opportunities and with an unlikely encore of the big deals of 2013. The region’s deals are projected to total $6 billion with activity concentrated in Australia, China and Japan.

Hampering transactional growth above and beyond our projections are ongoing economic pressures in many of the world’s mature economies. Among other factors, increased government debt and slowing growth rates in emerging countries—particularly Asia—represent a risk. Also, long-term ownership structures in emerging markets will act as a drag on higher growth in transactions. Still, we expect that the global hotel investment market will be flush with capital in 2014.

Risk management

Our projections are based on how key drivers of deal volume are expected to perform in 2014: cost and supply of capital, industry fundamentals, overall ownership composition, and share prices of listed investment vehicles.

With that, certain risks still apply. An increasing supply pipeline is expected across the board. Globally, the pace of openings has troughed and will pick up in 2014. While this creates opportunities for many investors, there’s now more risk that certain markets’ trading performance will be kept at bay as newly added hotels get absorbed. In some markets, investors will build if the opportunity to acquire existing hotels remains limited.

Another wildcard is the exit strategy for private equity firms’ investments during the past several years. In some markets, new investors will need to come to the fore, or else exit values might be
constrained. This is generally not a concern in mature economies with sophisticated debt markets and a deep bench of hotel investors; however, in certain emerging markets we may see groups exiting investments through an IPO or formation of real estate investment trusts (REITs).

Lastly, hotel investment values are not immune to profit erosion, even during periods of rising revenues. Taking the front seat here are online travel agencies and Internet consolidators, which continue to shake up the market and, while bringing new demand sources to hotels, charge hefty commissions. This is part of a wider story of profit erosion from operator fees (scope/scale), staffing, energy and refurbishment costs. Hotel owners will need to be increasingly active in tackling these forces, and properties of all type will require an active asset management strategy.

Economic forecast is slow but steady
Global commercial property markets are trending up. Capital values, hotel trading fundamentals and rents are all generally improving even though the economic recovery curve has not been as strong as hoped. Given the amount of stimulus injected into the world economy, growth rates for 2013 to 2015 should be well above the current levels. In fact, it looks as though it will take until 2015 for growth to match 2010 levels. This implies that the changes occurring are more structural than cyclical, which has a profound impact on investment strategies moving forward.

Overall, analysts predict a gradual acceleration in the global economy next year. Growth in the U.S. is expected to be sparked by a recovery in the housing market along with an energy boom, although it will continue to be restrained by government policies, and some uncertainty around the reduction in quantitative easing in terms of speed and magnitude.

While the Eurozone recession has come to an end, recovery will remain slow across the region as some countries, such as Spain and Italy, are forecast to witness a third consecutive year of GDP decline as the result of ongoing fiscal austerity and high unemployment.

On the flip side, Asia is expected to take the lead globally. And while China has stabilised, economic reforms to sustain long-term growth may cause some friction in the short term. An upturn in the Middle East and North Africa is also anticipated, despite lower commodity prices.

A bevy of demand drivers
Globally, hotel operating fundamentals are poised to remain strong in 2014. Most major markets have seen hotel demand levels recover to the previous peak, though average rates in a number of mature markets still have a way to go. Outside of major markets, the recovery in occupancy and rates has been more sluggish, but these markets continue to see improvement now that the recovery is progressing.

Key factors which will impact hotel demand in 2014 include outbound travel from emerging countries, especially from Mainland China residents. Chinese outbound travel increased 15 percent in 2013 and this trend is slated to accelerate in 2014. In addition, the super-luxury resort market should do very well in 2014 where access is easy and feeder population is vast.

A longer term force underpinning demand for hotels globally is the aging population with high levels of discretionary income and longer life spans. That said, corporate demand is shifting from baby boomers to Millennials, and hotels are already re-concepting brand offerings to cater to these tech-savvy guests.

Lastly, demand will continue to be tempered by conference and group business, which is still below the previous peak. This will continue to lead to a slow uptick in profit increases for hotels which rely on this segment.

Secondary cities back in favour
The hotel market has mirrored wider commercial property markets in that secure investments were initially chosen over higher yielding opportunities. Now, however, as the recovery has gathered pace, investors are moving outside of core markets into secondary cities, and we expect to see more of this in 2014.

In the U.S., for example, the share of investment volume in secondary markets doubled in 2013. In Europe, larger portfolio deals have included hotels in many secondary locations.

Budget sector: in vogue
On a global basis, the select service and budget sectors remain a significant area of interest. For existing select service assets, room yield growth forecasts are strong, and the sector remains a large investment opportunity, especially across emerging markets where branded hotel stock is often thin outside of the main cities. The four largest economies in Latin America, for instance, are expected to require some 425,000 new hotel rooms during the next 10 years, the bulk of which will be in the select service sector. Investors are increasingly attracted to the dynamics of this segment of the market.
Private equity fronts a strong bench of buyers
Having accounted for 35 percent of investment in 2013, private equity funds will be the biggest buyer group globally in 2014: they’ve raised money and need to place it. Given their significant buying power and risk tolerance in a volatile environment, they are in position to achieve opportunistic returns.

That’s notwithstanding some variances. In Asia Pacific, for instance, private equity takes a far smaller piece of the pie due to competition from local buyer groups, with Japan as the exception. There are, however, early signs of U.S. private equity funds refocusing their attention on Asia Pacific, which points to more market movement in the future. But to compete with established local players who have long-term horizons and lower return expectations, they will have to be creative.

REITs will buy in core markets where the investments are accretive to their share prices, seeking to diversify their portfolios, particularly in North America and some markets across Europe. 2013 saw the listing of three new hotel REITs in Asia, including the first in China, bringing the total to 11 in Asia and 52 worldwide. Many of the new Asian REITs are still wedded to a family company or sponsor and it’s often the quality of the sponsor that dictates the overall level of success. This therefore represents a different structure to that found in the U.S.

High net worth investors from Asia Pacific and the Middle East are increasingly active in the hotel space, as are new sources of capital looking for better yield, increasing allocations to hotel real estate.

The sell-side has been driven by inadvertent owners such as banks and receivers which have pushed the share of product to market. However, with core markets several years into the recovery cycle, some early cycle buyers are expected to bring product to market and monetise their gains. Private equity firms and institutional investors are also expected to liquidate previous acquisitions, either to divest select non-core assets or to fund life maturities.

Right-sizing
Strategic investments by global hotel companies to grow their brand portfolios will continue as they put their balance sheets to work in key locations to grow distribution. This comes to the fore with operator incentives for certain management agreements where a brand is keen on adding the flag.

Others are undertaking lease-deals in strategic locations or acquiring serviced apartment stock to buy into the management; at the same time, the Americas all-inclusive sector is being watched by a number of large hotel management companies. Also of note is Accor’s recent global restructure, with the cessation of hotel leases and the creation of an investment-specific arm.

Consolidations are more brand-focused and less operations driven, given the increasing competition from astute third-party operators.

Cross-border investment rising
The rise in the movement of global capital is being driven by opportunistic purchases of assets that rarely come to market, as well as investors yearning for diversification of currency, geography and political environment.

Cross-border capital accounted for nearly 30 percent of global hotel investment in 2013, driven by outbound capital from the Middle East and Asia. The volume of cross-border capital in 2014 is set to increase in dollar terms, but its share of total volume will likely remain steady. In addition, only a handful of groups drive the lion’s share of cross-border deals.

Middle Eastern investors, who accounted for $4 billion in outbound capital in 2013 will remain active, pursuing marquee purchases but also platform plays such as portfolio acquisitions. Asian investors, who accounted for $5 billion in outbound capital will remain active, though there is some belief that their overall activity will be tempered as they have found it hard to compete in the U.S. with domestic capital and the “bargains” seen during the 1980s have not surfaced during this cycle.

New sources of cross border capital are also emerging with raised funds being allocated to Asia Pacific hotel real estate, as well as increased enquiry from Chinese investors and opportunistic swooping by sovereign wealth funds with a global mandate.

European outbound capital has been next to nil during the past several years and this is expected to be true in 2014 as well. The wildcard for 2014 is whether U.S. investors will target the European hotel sector as seen in the mid-2000s. Driving the U.S. outbound capital trend will be the perception of greater value in Europe since U.S. hotel values in major markets are close to previous peak levels. Asian investors are also keen to tap into Europe, as the real estate market offers lucrative returns.

Debt returns: new players take the field
Debt liquidity is slowly improving and reaching the highest levels since the downturn, notwithstanding regional variances. In terms of the debt markets, new lenders and greater liquidity will encourage compressed margins and keep overall debt costs stable.

The U.S. debt markets are seeing a resurgence of CMBS debt. In EMEA, there are signs of improvement, and we expect to see more liquidity in 2014 underpinning deal flow. Across Asia Pacific, debt is not a factor except in Japan, with the reshuffling of CMBS loans one of the drivers of significant transaction activity in 2013. This is expected to abate over the coming year.

Other forms of debt financing are still required to fill the gap, and various alternative groups, including sovereign wealth funds, pension funds and mutual funds, have entered the real estate lending space providing senior debt.
Over the longer term, the growing influence of emerging markets is likely to be felt through increased savings rates which will find their way into the property market, and eventually the hotel market, by pension fund investors.

A new era
The throttle on deal pace indicates that money is once again flowing to the hotel sector, with secondary markets, budget break-outs, and big deals on deck for 2014. Corporate and M&A deals, along with brand-focused consolidation will make headlines in 2014, as eyes are on acquiring IP platforms and brand databases to ratchet up growth.

Players are re-defining the game in this confluence of factors – assets in major U.S. markets at near peak values, a focus on secondary and tertiary markets across the world, surprising debt liquidity in many mature markets and budget hotels breaking out as the new investment trend. Success will be found by those who flex their creative muscles to carve out new ways to do business and foster flexibility to adapt to the changing trends and opportunities.

2013 underscored the tapering of the difficult years and we have now moved into a new cycle where creativity and growth will dictate the course for a raft of well-capitalised owners. Strong fundamentals and favourable yields have enticed cash-rich players with appetite for risk to enter. As the global economy accelerates with cash and debt once again in flow, a new era is upon us.

---

**Flow of capital around the globe in 2013**

<table>
<thead>
<tr>
<th>Region</th>
<th>Domestic</th>
<th>Intra-regional</th>
<th>Off-shore</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>74%</td>
<td>1%</td>
<td>9%</td>
<td>16%</td>
</tr>
<tr>
<td>Latin America</td>
<td>82%</td>
<td>4%</td>
<td>13%</td>
<td>0%</td>
</tr>
<tr>
<td>Europe</td>
<td>41%</td>
<td>15%</td>
<td>34%</td>
<td>9%</td>
</tr>
<tr>
<td>Middle East</td>
<td>96%</td>
<td>0%</td>
<td>4%</td>
<td>0%</td>
</tr>
<tr>
<td>Asia</td>
<td>64%</td>
<td>23%</td>
<td>2%</td>
<td>11%</td>
</tr>
<tr>
<td>Australasia</td>
<td>22%</td>
<td>3%</td>
<td>75%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Proportion of investment within each region by source of capital

‘Global’ source of capital refers to transactions funded by private equity funds and investment banks that raise capital across a number of countries globally. Absence of arrow connecting two regions indicates that no cross-border investment was tracked in 2013. Percentages of each of the regions add up to 100%.

Source: Jones Lang LaSalle
Americas

Extraordinary momentum
Hotel real estate investors unleashed capital and aggressively bid on assets throughout 2013. As a result, transaction volume increased 30 percent on the prior year, representing a five-year high at $24 billion. Leverage continues to flow back into the U.S. capital markets and this, along with active private equity funds and real estate investment trusts (REITs), continue to be the primary drivers of the significant uptick in deals.

In addition to the sale of hotel assets, performing and non-performing hotel debt also traded at substantial levels which, if fully quantifiable, would show even greater total lodging transaction volume for the year.

The economy is on more solid footing, evidenced both by a strengthened investment market and further robust growth in hotel revenues and profits. Both of these are expected to continue in 2014.

Further improving increasing operating fundamentals in most markets across the Americas, an abundance of equity capital and a strong and growing debt market will create an attractive environment for acquisitions and financings throughout 2014. We forecast a 15 percent rise in transaction volume to $28 billion across the Americas for the year. This would mark the third highest level of transactions on record. This figure refers to asset sales and does not include note and loan sales, deed-in-lieu transfers, and the like.

Our transaction volume forecast is based on the expected performance of key deal drivers in 2014. Among the factors that have shown a high correlation to deal flow are: availability and cost of capital, industry supply and demand fundamentals, REITs’ stock prices, the size and number of assets being brought to market and the overall hotel ownership composition, all of which—notwithstanding some risk—are moving in favour of an attractive environment for transactions. Another driver of transactions in 2014 will be early-cycle buyers, such as groups which purchased prime hotels in 2011 seeking to realize a capital gain after a three-year hold.

Strong hotel operating fundamentals
Operating fundamentals across most markets have exhibited four consecutive years of growth. There is little risk of a slowdown in revenue per available room (RevPAR) in the U.S., and we expect increases in 2014 of another 5 percent to 6 percent.

On a national basis, occupancy is back to the previous peak achieved in 2006, and since supply continues to be added, though at a slow pace, this shows that demand for lodging accommodations is at an all-time high. The demand recovery has been impressive. It’s primarily fuelled by transient corporate and leisure travellers, while some of the group segments, such as incentive programs, are still below potential.

For 2014, we expect the U.S. economy to achieve increased stability. Recent positive indicators include the lowest unemployment rate in five years and more promising quarterly growth in real GDP. Yet risks remain including potential spending cuts due to the looming debt ceiling and continued concerns regarding the government sequester.

Secondary markets move into the spotlight
As is typical during a recovery period, gateway markets have been the first to see strong performance, and also lead the uptick in deals. An increased focus on secondary markets became a trend in 2013 and is expected to continue in 2014. The recovery in deal activity has been wider spread, both in geography and asset type. This means that New York’s transaction levels have softened from the record highs in 2011 and 2012, and that markets such as Atlanta, Houston and New Orleans have joined the top ranks of deal flow.

The wide range of assets sought by investors will continue in 2014. The initial flight to quality after the downtown has spread to secondary markets and resorts, and we expect this to continue in 2014. In 2013, for instance, resort property sales doubled over the prior year.
The truth about new supply
The industry is abuzz with announcements about new hotel supply. But while the pace of new room additions in the U.S. will trend upward in 2014, the rate of openings will still be at least one percentage point below the long-term average. New development deals that are getting done include branded select service hotels, and full service hotels in certain prime urban markets.

Still far off, with a few exceptions, are luxury hotels, casino hotels, resorts, and large convention-oriented hotels unless they are in part funded through public subsidies. On the whole, investors can expect the tepid supply increases to underpin the performance of existing hotels.

Private equity buyers lead the pack
Driving the 30 percent rise in transactions in 2013 was the great amount of capital targeting the sector. Why? Hotels are a favoured asset class: the medium-term outlook for profit increases is strong, hotels act as a hedge against inflation, and they provide diversification in a commercial real estate portfolio.

Private equity funds unleashed some $10 billion of capital in 2013 for hotel investments, making them the largest net buyers, and we expect a similarly large capital placement in 2014. Private equity investors will target both single assets and several needle-moving, large select service portfolios (up to 100+ hotels), as well as M&A plays.

Together with private equity buyers, we expect REITs to comprise as much as 65 percent of total acquisition volume across the Americas. Public REITs will continue to have a penchant for branded institutional quality assets with in-place cash flow in large urban centres. REITs will primarily target single-asset acquisitions or small portfolios with up to four to five hotels, making them the second most active buyer type in 2014. Non-traded REITs will be also be active in 2014, driven by ever increasing capital raises.

There's also no doubt that the large international hotel brands will seek to recycle the capital raised through asset sales to invest in strategic properties either to enter a difficult to penetrate market or buy into a lucrative management or franchise fee stream.

Astonishing debt recovery
The debt market recovery has been astonishing. Hotel CMBS issuance is back to the fourth highest annual level tracked, and alternative lenders – pools of opportunistic debt and some traditional balance sheet lenders – will be one of the key drivers of 2014 growth in hotel deals.

Capital from domestic and international sources remains abundant to support varying levels of investor appetite. Highly rated CMBS spreads are at post-crisis lows and have tightened further. All indicators point to hotels remaining a targeted asset class for lenders as they offer high yield relative to other real estate and fixed income classes in terms of risk profile.

The heightened amount of debt liquidity pursuing the sector will also help address the vast amounts of existing debt that will face maturities in 2014 and beyond. Therefore, we expect a period with significant call-to-action in terms of hotel loans. Following years of flexibility, extensions and workouts, the time has come to address the debt, and it will be through sales and recapitalisations, which will represent an unprecedented reshuffling of loans and capital in the market.

In addition, the market is anticipating a potential increase in interest rates. However, even if and when interest rates exhibit a minor uptick, the overall greater liquidity should see margins compress, keeping overall debt costs stable.

Sellers across the spectrum
In 2014, sellers will be motivated by different factors. At the one end of the spectrum, owners of high-quality, performing assets in gateway markets will face significant buyer interest from private equity funds, REITs, and off-shore investors. These assets will trade at or near peak valuations.
On the other end of the spectrum are the sellers who continue to be motivated to sell due to debt service repayment issues or looming loan maturities. Owners may also be moved to sell in cases where they are unwilling or unable to invest capital for needed property improvements. Furthermore, many owners who have held through the downturn now see an opportunist time to exploit the market and return long-awaited capital to investors. As hotel performance continues to solidify in secondary markets, these assets will be easier to underwrite, and sales volume should increase in 2014 much like it has in 2013.

Off-shore demand
Middle Eastern and Asian investors will continue to actively pursue opportunities in U.S. gateway markets. We expect the incoming capital from these groups to increase by 50 percent to approximately $3 billion in 2014. While this is still under five percent of the region’s total deal volume, given the lower leverage levels of these buyers, their investment represents close to 10 percent of the equity placed in the market. Off-shore buyer interest in markets such as Los Angeles, San Francisco and New York is providing a lucrative exit strategy for a number of hotel owners.

The most active Middle Eastern investors in the U.S. are those from Abu Dhabi and Qatar. From Asia, the key investors are those from China and Southeast Asia. Collectively, these investors’ motivation is political, economic and currency diversification, and the fact that hotel assets typically act as a hedge against inflation, when rate growth outpaces inflation. European investors remain a wildcard in terms of U.S. acquisitions, and are expected to slowly begin to monitor U.S. deals once again.

North of the border action: Canadian deal flow triples
Canada, which had been slow to post a recovery in transaction activity, saw its deal flow nearly triple in 2013: it reached $1.5 billion due to the sales of a number of singular, large full-service hotels in major cities where pension funds and institutional investors sought to dispose of high-value assets. While Canada benefits from a relatively healthy demand outlook, investors in the market have largely maintained a domestic focus. Additionally, the market is not pursued by as many REITs and private equity funds as are active in the U.S.; our expectation for 2014 is that investment volume will at most match the 2013 levels.

Mexico: a more liquid hotspot
A regional hotspot, hotel investors are quite bullish on Mexico. The country’s gross domestic product is expected to grow by four percent annually over the next several years. Overall, Mexico’s lodging...
market and tourism infrastructure is the most sophisticated in all of Latin America. The country's key hotel markets are performing well and visitor levels in Cancun, Los Cabos and Mexico City have exceeded previous peak levels, though average room rates have not fully recovered yet.

The country’s narco-violence continues to mark a stark contrast to its otherwise healthy fundamentals, but risks associated with this have generally lessened a bit in the eyes of investors. Certain markets, such as Cancun and Los Cabos will even see some new resort construction in 2014.

Traditionally a market dominated by local investors, hotel real estate in Mexico is increasingly attracting foreign buyers, notably from Spain and the U.S. That said, deal volume remains muted, as local investors tend to hold their assets longer than foreign institutional players.

Overall market liquidity is set to increase due to newly formed investment vehicles: a handful of Fideicomiso de Inversión en Bienes Raíces de Mexico, or FiBRAs, have been launched, which focus exclusively on hotel sector investments. FiBRAs are similar to the real estate investment trust structure in the U.S.

Another emerging public investment vehicle is the Certificados de Capital de Desarrollo (CKDs) structure which is comprised of securities that allow investors to participate in private equity projects through long-term public fund structures. This structure is expected to become more prevalent both for hotel acquisition and development.

Both of these new investment vehicles are expected to create more liquidity in the market, which will boost transaction volumes and also create more favourable exit strategies for property developers so long as hotel performance is on the upswing.

Steady progress in Central America and the Caribbean

The Caribbean should experience an improvement in demand fundamentals in 2014, driven by the economic recovery in source markets such as the U.S. and pent-up demand in leisure and commercial travel. Markets with above-average fundamentals primarily include those with stronger airlift, such as the Dominican Republic, Jamaica, the Cayman Islands and Aruba, but these areas remain susceptible to hurricanes and high energy costs. Certainly the bright spot will continue to be the all-inclusive sector; additionally, the luxury market will continue to regain strength.

In 2014, we expect to see several more resorts, including stalled development projects, see new light and change ownership via debt restructuring. The buyer audience for distressed resorts will largely be limited to rescue capital and opportunistic investors. Performing assets, on the other hand, are still less likely to trade due to the bid-ask spread.

Like the Caribbean, the Costa Rican resort markets experienced a wave of development over the past last seven years with many properties encompassing residential units. Given its stable political environment and healthy economic fundamentals, Costa Rica will again be on the radar of investors and we expect several projects to be revitalised in the medium term through equity injections and a re-tooling of joint ventures.

Costa Rica attracts some U.S. capital, while the rest of the region, such as Panama, is in the domain of intra-regional investors, such as capital sources from Colombia and Venezuela. Demand sources for Panama differ as well; hotel development has largely been concentrated in Panama City and as such caters to urban, and not resort demand. Investor interest will remain tempered in 2014 as the market struggles to absorb the new supply, though the expansion of the Panama Canal, set for completion in 2015, represents upside.

South America’s dramatic transformation

South America is a bright spot, where investors’ focus will continue to be on new development. The evolution of mature economies suggests that key countries in Latin America will register disproportionate demand growth throughout the next decade, fuelled by significant infrastructure investment, economic growth and transfer of technology and know-how, among other factors. Together with Mexico, approximately 430,000 new rooms dispersed across more than 200 emerging markets in the region could be required throughout the next decade, representing a 65 percent increase over a 10-year period.

Brazil has the largest-scale opportunity in the region. Notwithstanding various degrees of risk, surging home-grown demand is dramatically boosting the performance of the lodging industry across the country, creating an attractive environment for growth. But despite initiatives announced by the government of Brazil to make available some subsidised financing in connection with the 2014 FIFA World Cup, the financing environment in South America remains restricted and expensive. Some of the 12 soccer match host cities won’t have enough rooms ready; for others there’s concern about supply overhang for a while after the event.

South America’s hotel transaction market is still relatively undeveloped, and while it too is expected to continue to open up over the medium term, only a limited number of assets will come to market, due to its domination by long-term holders both domestic and intra-regional.

Tempering the optimism is Brazil’s overall insufficient infrastructure, high public sector involvement in the economy and a bureaucratic business environment which will reign in what could be more robust growth.

Among the most dynamic South American growth economies, Colombia, Chile and Peru are increasingly on the radar of intra-regional investors who are seeking to acquire hotels on a selective basis, driven by their strategy of earning greater returns in hotels than in other asset types.

Colombia is undergoing a notable amount of development by local investors, with little direct activity from the U.S. The country’s stable economy, large population, greatly improved business environment
and government tax incentives have led to a considerable amount of new supply. Bogotá, the capital and primary commercial market, in particular is at risk of oversupply in specific submarkets, but the longer term outlook remains bright.

Chile has long enjoyed macroeconomic stability, an open business environment and consequently, relatively sophisticated capital markets. As a result, Santiago has one of the most established hotel markets in the region, with many international brands represented.

Peru currently boasts investors’ most optimistic hotel performance outlook and the country has among the highest economic growth projections of any South American country. This, together with its rich cultural heritage, has increased its commercial and tourism appeal. Thus, hotel demand should continue its upswing in 2014. Lima has seen a lesser degree of institutional-grade hotel development. The market still lacks the depth of international hotel brands seen in other South American capitals and will be receptive to new development.

**Regional room supply pipeline through 2015 as proportion of existing stock**

<table>
<thead>
<tr>
<th>City</th>
<th>Supply Pipeline 2015 as Proportion of Existing Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toronto</td>
<td>3.7%</td>
</tr>
<tr>
<td>Miami</td>
<td>6.8%</td>
</tr>
<tr>
<td>New York</td>
<td>12.6%</td>
</tr>
<tr>
<td>São Paulo</td>
<td>2.3%</td>
</tr>
<tr>
<td>Miami</td>
<td>6.8%</td>
</tr>
<tr>
<td>Washington, DC</td>
<td>3.3%</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>1.7%</td>
</tr>
<tr>
<td>San Francisco</td>
<td>0.8%</td>
</tr>
<tr>
<td>Vancouver</td>
<td>2.3%</td>
</tr>
<tr>
<td>Chicago</td>
<td>3.0%</td>
</tr>
<tr>
<td>Chicago</td>
<td>3.0%</td>
</tr>
<tr>
<td>São Paulo</td>
<td>2.3%</td>
</tr>
<tr>
<td>Mexico City</td>
<td>3.5%</td>
</tr>
<tr>
<td>Rio de Janeiro</td>
<td>5.8%</td>
</tr>
<tr>
<td>São Paulo</td>
<td>2.3%</td>
</tr>
<tr>
<td>New York</td>
<td>12.6%</td>
</tr>
<tr>
<td>Miami</td>
<td>6.8%</td>
</tr>
<tr>
<td>Washington, DC</td>
<td>3.3%</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>1.7%</td>
</tr>
<tr>
<td>San Francisco</td>
<td>0.8%</td>
</tr>
<tr>
<td>Vancouver</td>
<td>2.3%</td>
</tr>
<tr>
<td>Chicago</td>
<td>3.0%</td>
</tr>
<tr>
<td>São Paulo</td>
<td>2.3%</td>
</tr>
<tr>
<td>Mexico City</td>
<td>3.5%</td>
</tr>
<tr>
<td>Rio de Janeiro</td>
<td>5.8%</td>
</tr>
</tbody>
</table>

Source: Jones Lang LaSalle
EMEA

Hotel deals on the upswing

2013 was a resurgent year for the hotel investment market in Europe, Middle East and Africa (EMEA), with transaction volume up 17 percent to $13.2 billion. Although economic recovery in Europe remained sluggish, overall investor confidence improved.

Together, the U.K. and France accounted for more than half of the deals in EMEA in 2013. The U.K. was the most liquid market, taking a 36 percent share of investment volume at $4.7 billion. Both trading and sentiment picked up in the U.K., supported by three large portfolio deals in the first quarter. These transactions added to market confidence, with three key global investors underwriting the U.K. market: the Abu Dhabi Investment Authority (ADIA), Stanwood Capital and KSL Capital Partners, as well as Mount Kellett through their refinancing of Jurys Inns.

France secured the second highest share of total EMEA transaction volume at 18 percent or $2.3 billion, led by the sale of a number of trophy assets and some notable portfolio deals – including Groupe du Louvre and Club Med. And despite the country's government favouring tax increases rather than cutting its public spending, the country remains a dynamic market for hotel investors with strong deal activity.

A weight of equity across the region has put increased pricing pressure across all real estate asset classes, resulting in hardening yields. Thus, investors are increasingly attracted to hotels for their higher returns.

More opportunity in 2014

Despite the continued economic challenges across Europe, we forecast hotel investment volume in EMEA to grow by more than 20 percent to approximately $16 billion in 2014. The increase will be bolstered by a continued sell-down of over-leveraged assets in the control of the lenders, as well as a number of private equity funds reaching the end of their life-cycle. We also expect brands to continue their asset light/ asset right strategy, which could lead to more asset disposals, taking advantage of strong investor sentiment.

Improved trading fundamentals will further support 2014 deal volume, with most markets continuing to show trading growth or stabilising performance after a period of decline. Although some markets are at different stages of the recovery curve, underlying sentiment is much more positive, leading to increased interest in hotel investment. There may be some seasonal downturns due to the absence of trade fairs and sporting events; however, we anticipate stronger growth in rebounding peripheral markets.

We also expect to see an increased appetite from institutional investors who are keen to place large amounts of money into the debt market, which should help finance these transactions. Core markets such as the U.K., France and Germany will provide good opportunities for investors in 2014 as the familiarity and maturity of these markets can drive more value.

Distressed countries such as Spain and Ireland will also offer good buys and investors will be eager to move on well-positioned assets in these markets. The CEE has seen a good number of assets trading these markets can drive more value.

Competition heats up

With increased competition for assets coming to the market, we expect some frustrated buyers across Europe in 2014. Not only will some struggle to determine where to buy, but also what to buy. More investors are increasingly focused on purchasing better stock to reposition and grow their footprint in the region.

As this continues, competition will heat up as the number of investors bidding for the best assets in core markets around U.K., France, Germany and capital cities will increase. While some will be successful, we expect those who miss out on core market opportunities to focus on secondary markets in those key countries, where they will tap broader opportunities and better returns.

All rise for the institutional investor

In 2014, we anticipate an increased presence of institutional investors in the hotel investment arena, as their hotel buys accounted for almost 10 percent of deals in 2013. With low returns from government bonds, many institutional investors are increasing their allocation to higher yielding real estate and are now looking to the hotel sector as part of a well-diversified real estate portfolio.
Private equity investors will continue not only as buyers in 2014, but also as sellers. Where fund life is coming to an end, private equity players will need to make strategic decisions when to exit their existing funds and focus on reinvesting in the sector.

Sovereign wealth funds and high net worth individuals (HNWIs) will continue to seek out trophy assets across Europe as they did in 2013. Predominantly single asset transactions, these investors are keen to purchase hotels in prime locations such as London, Paris and Munich which have strong trading fundamentals and where money can be secured for the long term.

Hotel operators who continue to pursue asset-light strategies will remain the primary sellers in 2014, along with owners of franchised groups of hotels, some of whom have held the assets for 20-30 years and are now looking to exit the sector.

Liquidating debt and lending
Debt conditions have also improved across Europe, with a number of banks wanting to lend to the European hotel sector. Not only established European lenders, such as Aareal, and domestic banks such as RBS, Lloyds and Barclays in the U.K., but also overseas banks, who are bringing local relationships to Europe (particularly for London assets). These include the Bank of China, United Overseas Bank and a number of Middle Eastern banks.

It is expected that the two largest banks in France, Societe Generale S.A. and BNP Paribas, will also increase lending in 2014, and we expect to see more willingness from the smaller banks to lend to the sector. There is also a new source of senior debt available from institutional lenders, such as M&G and AIG, as well as a weight of capital available for mezzanine debt.

Confidence returns in fundamentals
RevPAR growth across Europe was up marginally in 2013. Although occupancy experienced an uplift, this was at the expense of average rate, which is still some €4 lower than it was in 2008. RevPAR growth in North, East and Western Europe has been driven by occupancy, while growth in Southern Europe has been aided by increases in average rate, albeit from a relatively low base.
Looking ahead, RevPAR growth in London is expected to rise four percent in 2014, a more positive result than 2013 when the capital was suffering from additional supply and the post-Olympic hangover. AM:PM Hotels currently expects an additional 45 properties with approximately 6,000 rooms to enter the London market in 2014 – 60 percent of these are in the budget sector which will continue to challenge trading performance.

In France, we expect stable trading in the regions, due to these economies being slow to return to growth. In key cities, however, on top of corporate clients we expect an increase in leisure customers, which should lead to an overall uptick in performance. In Southern Europe, the Spanish economy, which is heavily reliant on both domestic and corporate demand, is expected to remain in the recovery phase, as high levels of unemployment persist. Despite this, tourist hotspots including Madrid and Barcelona, which benefit from strong international business, are expected to see some improvement.

Trading in the Middle East has been much more robust, with RevPAR up seven percent, led almost equally by occupancy and average rate. However, across the Middle East, there has been a mixed bag of results. While countries such as Lebanon and Jordan have witnessed a negative impact due to their proximity to the troubles occurring in Syria; Oman, Bahrain and Kuwait are doing well as the result of increased investment.

Regional U.K. hotels are also expected to see some growth; however, the challenge here remains at the profit level, with costs often increasing faster than revenue. While consumer purse strings remain tight, continuing to look for the best deals and discounts, it will be increasingly difficult for hoteliers to drive rates. The speed of GDP growth should underpin business confidence and drive rate growth through a shift in room segmentation.

In France, we expect stable trading in the regions, due to these economies being slow to return to growth. In key cities, however, on top of corporate clients we expect an increase in leisure customers, which should lead to an overall uptick in performance. In Southern Europe, the Spanish economy, which is heavily reliant on both domestic and corporate demand, is expected to remain in the recovery phase, as high levels of unemployment persist. Despite this, tourist hotspots including Madrid and Barcelona, which benefit from strong international business, are expected to see some improvement.

Trading in the Middle East has been much more robust, with RevPAR up seven percent, led almost equally by occupancy and average rate. However, across the Middle East, there has been a mixed bag of results. While countries such as Lebanon and Jordan have witnessed a negative impact due to their proximity to the troubles occurring in Syria; Oman, Bahrain and Kuwait are doing well as the result of increased investment.

Europe attracts cross-border investment

U.S. real estate is becoming more expensive – with hotel values not far off their previous peak. Therefore, we are seeing U.S.-based private equity funds and other investors looking toward Europe, focusing primarily on core markets and institutional or opportunistic assets.

Investors from Asia are keen to tap into this region too, as the European real estate market offers some very attractive returns. In the last 12 months, Chinese investors have arrived on European soil, and we expect this trend to continue as the number of outbound travellers from China swells. We’ve already seen Chinese investment
move into Belgium, when the Cheng family bought the Penta portfolio of hotels from the Blackstone Group and during the summer, the second multi-million euro scoop by Chinese buyers was made when the Beijing-based Kang family purchased the 500-acre Fota Island Estate in Cork, Ireland.

Distressed hot spots lure opportunistic investors to Spain & Ireland

In some of the bigger, more distressed markets, such as Spain, we also foresee some interesting opportunities emerging. Although there are still high levels of unemployment in Spain, which continues to dampen domestic demand, investors need to be aware of the positive impact of overseas demand. Hotel operators will continue to reduce the number of assets they own and a significant number of investors will cherry-pick the best assets in Spain’s major cities and resort locations.

Institutional investors have already expressed interest in key cities such as Madrid and Barcelona, and this interest is expected to persist, although others will follow a “wait and see” approach. Once this leap of faith is taken, however, we believe that some of these investments will offer attractive returns and capture the interest of more opportunistic investors.

This anticipated increase in activity will be supported by the adoption of the long-awaited ‘Golden Visa’ law which grants non-EU citizens residency via property acquisitions over €500,000, making Spain increasingly attractive, particularly for investors from Russia and mainland China. A similar law was adopted in Portugal in late 2012, and has already resulted in a number of deals in the wider property market.

With an increasing number of distressed assets in Ireland, we expect more opportunities to come to the fore as investor confidence builds. Whilst the trading recovery and investor interest is predominantly focused on Dublin, international investors are already seeking other key assets outside of Dublin, targeting assets at significant discounts to replacement cost.

Regional room supply pipeline through 2015 as proportion of existing stock
Strong expectations for Germany
The outlook for the German hotel industry remains robust as it continues to benefit from strong underlying market fundamentals. Remaining one of Europe’s most sought-after destinations for operators and investors, southern Germany’s “powerhouse” Munich is still the country’s best performing market thanks to its standing as an international trade fair and congress destination. Still dominated by institutional investors, we expect appetite to remain strong in 2014, reflected by Germany’s status as being the third most liquid market in terms of hotel transaction volumes in Europe.

Unsettled conditions in Italy
The Italian economic outlook remains uncertain and we are not witnessing the same willingness from banks, as we have in other countries, to work on their non-performing loans and dispose of hotels at market prices via appropriate processes. As a result, companies are finding it increasingly difficult to plan budgets and business strategies for the future, thereby holding back hotel performance and investor appetite. We do see good interest in core cities but often with a too wide bid-ask gap.

Sports boost investment action in Central and Eastern Europe
Since hosting the 2012 UEFA European Football Championships, Poland has seen a surge of new hotel openings. Despite this, the Polish hotel market remains undersupplied compared to other Eastern European countries and still offers plenty of opportunity for investors and developers. Although 2013 trading performance in Poland was less than impressive, we expect trading to improve in 2014. Yields for hotel acquisitions are still relatively high compared to the more established markets in Western Europe.

Russia is gearing up to host the 2014 Winter Olympic Games, which will no doubt provide a lasting legacy for Sochi in terms of facilities, infrastructure and publicity. In the capital city of Moscow, 13,000 new hotel rooms are expected over the next five years. However, although supply and demand is keeping pace with each other, this has been at the expense of average rate so the question remains whether this additional supply will further dampen the trading market.

Middle East and Africa remain hotspot for development
In the Middle East and Africa, investors continue to build rather than acquire existing hotels and the region largely remains an exporter of capital. A number of markets in the Middle East have aggressive expansion plans over the coming year. Dubai will serve as the first Middle East destination to host World Expo, which, in 2020, will attract up to 25 million international visitors during the six month event. In connection with this event, the Emirate will spend more than $8 billion on new infrastructure including hotels, offices and retail space.

However, analysts are concerned about long-term disparity between supply and demand. According to the Dubai Department of Tourism and Commerce Marketing, there are currently more than 82,000 hotel and hotel apartments in Dubai, which would need to double by 2020 to meet the yearly demand of 20 million visitors. The Emirate is already going through another major cycle – with more than 60 new hotel projects under construction. Although a diverse market with a 10 percent increase in international tourist arrivals in 2013 compared to a year earlier, only time will tell whether the high levels of RevPAR growth can be sustained.

In the Kingdom of Saudi Arabia, which relies on its oil industry to provide much of its corporate demand, religious tourism in the holy cities of Makkah and Medina, along with a strong domestic tourism base, is underpinning a current pipeline of around 30,000 hotel rooms. At nearly 50 percent of current supply, this may impact short-term trading performance. Elsewhere, Abu Dhabi also has ambitious expansion plans which are likely to affect hotel performance and, with Doha gearing up to host the 2022 FIFA World Cup, development is underway.

Africa is emerging as a growth market for hotel investment with oil companies, in particular, helping to drive this as they require hospitality services for their employees. Hotels now need to be part of the infrastructure in Africa, as many international companies have the continent on their radar.

Responding to this burgeoning demand, the main hotel brands are actively trying to establish their footprint. There has always been an interest in leisure tourism – including safaris, resorts and lodges – however urban hotels are needed to make up for the lack of reliable services. With the rise of the emerging middle classes too, intra-regional travel is becoming widespread and there is a real need for mid-scale branded hotels. Nigeria, Ghana, Tanzania and Kenya remain some of the key hotel development hotspots in the continent.
Asia Pacific

A landmark year
Hotel trade activity surged in 2013, increasing 160 percent to $9.5 billion, as investor confidence cemented across Asia Pacific. Australia, China, Japan and Singapore dominated deal flow with all four countries recording the highest annual volume in the post-crisis era, but with asset sales occurring in many countries across the region. Overall, 2013 represented the second highest year on record, following 2007.

Amped by plentiful debt and equity, the only drag on the Asia Pacific hotel investment market in 2013 was a lack of available stock with some sellers reluctant to relinquish assets in a generally rising market; a quagmire we expect to see repeated in 2014. For those who did transact, sellers held firm and buyers moved to meet the market.

Ownership profile a stranglehold
Asia Pacific hotel transaction volume is projected to moderate in 2014 to around $6 billion. Fewer landmark deals will cause a reduction in volumes, while deal flow remains buoyant with a greater depth of small asset sales. The average single asset size will therefore reduce to trend. Higher volumes will also be held back by a lack of investment opportunities.

New players that have emerged post-crisis are similarly long-term holders. Record low interest rates and plentiful capital after a period of strong economic growth has spurred company buying sprees, whereas yield-hungry investors have poured money into REITs over the past few years.

2013 saw the listing of three new hotel REITs in Asia, including the first in China, and bringing the total to 11 in the region. Many of these newly formed Asian REITs are still wedded to a family company or sponsor, reluctant to surrender control, and it is often this relationship that dictates listing success. This therefore represents quite a different structure to the U.S. for example. For Chinese investors, the favoured route has been IPO in Hong Kong, enabling greater freedom for the movement of capital across the globe.

While more groups are considering monetising portfolios through the public markets, any change in the economic fundamentals could see the environment shift, particularly while quantitative easing looms. Diversification will be the key, limiting exposure to any one segment or geography.

Cross-border capital: active, but not dominant
On the whole, we do not expect to see a major shift in the buyer profile in 2014. Investment will continue to be dominated by the aforementioned REITs, as well as Asian family companies, owner operators and opportunity funds in Japan. Intra-regional capital will remain active in 2014, although domestic capital is likely to dominate where real estate transparency remains opaque. Increased activity in China and Japan led to a moderation of cross-border capital as a proportion of the total in 2013. Trends will vary depending on lot size with larger deals continuing to attract significant cross-border capital and smaller asset sales will remain in the domain of the domestic elite.

New sources of cross-border capital are also emerging with allocations to Asia Pacific hotel real estate, as well as opportunistic swooping by sovereign wealth funds with a global mandate. Notably, the Chinese government recently announced its plans to provide access to state bank financing to Chinese private investors. When executed, this will make it easier to move money offshore, and
as a result, we expect to see an increased number of Chinese groups emerge as powerful buyers in the coming years. In a highly competitive environment, deal time frames are also shortening and only the most adept will succeed.

New beginnings, new geographies, new strategies
Against this backdrop, it’s likely that investors will start to become more creative as they look to place capital across the region. New entrants will find it hard to compete with established players who have lower return expectations and a longer investment horizon. Risk aversion will abate as the region’s gateways will prove too expensive for many and investors will widen the geographic investment arena once again.

Australia, Japan, Thailand and the Indian Ocean will attract the most investor attention in 2014 but increasingly, investors are considering Myanmar and Sri Lanka, while revisiting investments in Cambodia and Laos. Vietnam has had a difficult year, but green shoots are emerging. Deals will be opportunistic, but not priced as an absolute steal, as banks have shown little willingness to write down debt.

Investors remain interested in Indonesia, but the market lacks liquidity as most assets are family owned.

Development opportunities are expected to materialise as some family companies look to exit after a difficult few years. The opportunity to establish platforms and bring sophisticated management to emerging markets will provide added allure.

Asia Pacific’s hotel development supply increases are projected to average 5.4 percent per annum across 23 major markets over the next two years although commencements have slowed in India, Southeast Asia and China as cities suffer indigestion following significant new hotel openings in recent years.

Budget hotels have dominated the pipeline in recent years but in an era of new beginnings, development is likely to be mixed use and branded residential will come back into vogue. Developments will be very different to the pre-crisis era, targeting the burgeoning middle class. Lifestyle brands which offer a sense of status and belonging are most likely to succeed.

<table>
<thead>
<tr>
<th>Real GDP growth (annual %)</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013E</th>
<th>2014F</th>
<th>2015F</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>North Asia and India</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China PRC</td>
<td>9.2</td>
<td>10.5</td>
<td>9.3</td>
<td>7.7</td>
<td>7.8</td>
<td>8.0</td>
<td>8.2</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>-2.5</td>
<td>6.8</td>
<td>4.9</td>
<td>1.5</td>
<td>3.0</td>
<td>3.7</td>
<td>4.6</td>
</tr>
<tr>
<td>India</td>
<td>8.5</td>
<td>10.5</td>
<td>6.3</td>
<td>3.2</td>
<td>4.3</td>
<td>5.6</td>
<td>6.8</td>
</tr>
<tr>
<td>Japan</td>
<td>-5.5</td>
<td>4.7</td>
<td>-0.6</td>
<td>1.9</td>
<td>1.8</td>
<td>1.9</td>
<td>1.4</td>
</tr>
<tr>
<td>South Korea</td>
<td>0.3</td>
<td>6.3</td>
<td>3.7</td>
<td>2.0</td>
<td>2.7</td>
<td>3.6</td>
<td>3.8</td>
</tr>
<tr>
<td>Taiwan</td>
<td>-1.8</td>
<td>10.8</td>
<td>4.1</td>
<td>1.3</td>
<td>1.9</td>
<td>3.2</td>
<td>4.4</td>
</tr>
<tr>
<td><strong>Southeast Asia</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cambodia</td>
<td>0.1</td>
<td>6.0</td>
<td>7.1</td>
<td>7.3</td>
<td>6.9</td>
<td>7.3</td>
<td>8.2</td>
</tr>
<tr>
<td>Indonesia</td>
<td>4.6</td>
<td>6.2</td>
<td>6.5</td>
<td>6.2</td>
<td>5.7</td>
<td>5.0</td>
<td>5.4</td>
</tr>
<tr>
<td>Malaysia</td>
<td>-1.5</td>
<td>7.4</td>
<td>5.1</td>
<td>5.6</td>
<td>4.6</td>
<td>5.0</td>
<td>5.2</td>
</tr>
<tr>
<td>Myanmar</td>
<td>5.1</td>
<td>5.3</td>
<td>5.9</td>
<td>6.4</td>
<td>6.8</td>
<td>7.0</td>
<td>7.2</td>
</tr>
<tr>
<td>Philippines</td>
<td>1.1</td>
<td>7.6</td>
<td>3.6</td>
<td>6.8</td>
<td>6.7</td>
<td>5.5</td>
<td>6.4</td>
</tr>
<tr>
<td>Singapore</td>
<td>-0.8</td>
<td>14.8</td>
<td>5.2</td>
<td>1.3</td>
<td>3.5</td>
<td>3.5</td>
<td>3.9</td>
</tr>
<tr>
<td>Thailand</td>
<td>-2.3</td>
<td>7.8</td>
<td>0.1</td>
<td>6.5</td>
<td>3.0</td>
<td>4.2</td>
<td>4.9</td>
</tr>
<tr>
<td>Vietnam</td>
<td>5.3</td>
<td>6.9</td>
<td>6.0</td>
<td>5.0</td>
<td>5.3</td>
<td>5.6</td>
<td>6.3</td>
</tr>
<tr>
<td><strong>Pacific</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>1.4</td>
<td>2.6</td>
<td>2.4</td>
<td>3.7</td>
<td>2.4</td>
<td>2.4</td>
<td>2.9</td>
</tr>
<tr>
<td>New Zealand</td>
<td>0.3</td>
<td>0.9</td>
<td>1.3</td>
<td>3.2</td>
<td>2.2</td>
<td>2.8</td>
<td>3.0</td>
</tr>
<tr>
<td>Fiji</td>
<td>-1.3</td>
<td>0.1</td>
<td>1.9</td>
<td>2.2</td>
<td>2.8</td>
<td>2.4</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Source: IHS Global Insight
A more sobering year in China

China’s hotel market has experienced a general slowdown, following the crackdown on conspicuous consumption which was announced earlier this year. Revenue growth has slowed most notably in Tier 2 cities and suburban locations, where hotels were used for entertainment or a place to do work. Declines materialised very quickly and have been compounded by increasing labour and energy costs, putting profits under pressure.

Despite the moderating pace, transaction activity increased with deal volumes surging 68 percent to $1.1 billion. While trading has come under pressure, the catalyst has been a more realistic approach to pricing given the extent of financial woes. Volumes are expected to keep the pace in 2014.

Exchange rates (local / USD, end of period)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>China PRC</td>
<td>6.8</td>
<td>6.6</td>
<td>6.3</td>
<td>6.2</td>
<td>6.1</td>
<td>5.9</td>
<td>5.8</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>7.8</td>
<td>7.8</td>
<td>7.8</td>
<td>7.8</td>
<td>7.8</td>
<td>7.8</td>
<td>7.8</td>
</tr>
<tr>
<td>India</td>
<td>46.7</td>
<td>44.8</td>
<td>53.3</td>
<td>54.8</td>
<td>63.3</td>
<td>63.8</td>
<td>63.2</td>
</tr>
<tr>
<td>Japan</td>
<td>92.1</td>
<td>81.5</td>
<td>77.7</td>
<td>86.6</td>
<td>97.4</td>
<td>99.0</td>
<td>101.4</td>
</tr>
<tr>
<td>South Korea</td>
<td>1,164.5</td>
<td>1,134.8</td>
<td>1,153.3</td>
<td>1,072.5</td>
<td>1,081.2</td>
<td>1,075.5</td>
<td>1,056.5</td>
</tr>
<tr>
<td>Taiwan</td>
<td>32.0</td>
<td>30.4</td>
<td>30.3</td>
<td>29.1</td>
<td>29.6</td>
<td>29.1</td>
<td>28.3</td>
</tr>
<tr>
<td>Cambodia</td>
<td>4,169</td>
<td>4,056</td>
<td>4,039</td>
<td>3,995</td>
<td>4,046</td>
<td>4,069</td>
<td>4,128</td>
</tr>
<tr>
<td>Indonesia</td>
<td>9,400</td>
<td>8,991</td>
<td>9,068</td>
<td>9,670</td>
<td>11,268</td>
<td>10,430</td>
<td>10,113</td>
</tr>
<tr>
<td>Malaysia</td>
<td>3.4</td>
<td>3.1</td>
<td>3.2</td>
<td>3.1</td>
<td>3.2</td>
<td>3.2</td>
<td>3.1</td>
</tr>
<tr>
<td>Myanmar</td>
<td>990.5</td>
<td>887.3</td>
<td>796.2</td>
<td>855.0</td>
<td>948.2</td>
<td>1,026.0</td>
<td>1,078.3</td>
</tr>
<tr>
<td>Philippines</td>
<td>46.4</td>
<td>43.9</td>
<td>43.9</td>
<td>41.2</td>
<td>44.1</td>
<td>43.6</td>
<td>43.5</td>
</tr>
<tr>
<td>Singapore</td>
<td>1.4</td>
<td>1.3</td>
<td>1.3</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Thailand</td>
<td>33.3</td>
<td>30.2</td>
<td>31.7</td>
<td>30.6</td>
<td>31.1</td>
<td>31.0</td>
<td>30.4</td>
</tr>
<tr>
<td>Vietnam</td>
<td>17,941</td>
<td>19,503</td>
<td>20,828</td>
<td>20,828</td>
<td>21,036</td>
<td>21,369</td>
<td>22,029</td>
</tr>
<tr>
<td>Australia</td>
<td>1.11</td>
<td>0.98</td>
<td>0.98</td>
<td>0.96</td>
<td>1.08</td>
<td>1.12</td>
<td>1.12</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1.39</td>
<td>1.30</td>
<td>1.30</td>
<td>1.22</td>
<td>1.23</td>
<td>1.24</td>
<td>1.26</td>
</tr>
<tr>
<td>Fiji</td>
<td>1.93</td>
<td>1.82</td>
<td>1.82</td>
<td>1.79</td>
<td>1.87</td>
<td>1.93</td>
<td>1.96</td>
</tr>
</tbody>
</table>

Source: IHS Global Insight

Australia downshifts

After a record four years, Australian transaction volume is expected to moderate in 2014 as opportunities become scarce. Transaction activity is projected to reach $0.9 billion, reflecting a considerable shortfall compared to 2013, which was a record high year at $2 billion. The client base has also shifted during this time as Australian investment funds have sold down assets acquired during the last up-cycle and shown low appetite to return.

While large transactions – many of them record sales – have underpinned volume over the past few years, 2014 will see a shift in gear as lot sizes decline with improving liquidity in regional centres and key leisure markets. Assets in gateway cities that are brought to market will demand attention and yields will continue to firm under a growing weight of capital.

The composition of buyers is also changing with an increasing number of delegations visiting Australia to conduct preliminary investment research. Over the past year, we have seen Southeast Asian investors step aside with new capital sourced from Korea and the Middle East. Chinese investors are prevalent, while not yet dominating recent sales. This will change as familiarity improves.

As these trends take hold, the market is entering a new phase with more investors looking at the feasibility of hotels. Conversions are likely to be considered ahead of new builds while the development environment remains challenging. With most Australian hotel markets having only seen minimal increases in new supply over the past 10 years, the opportunity to achieve a competitive advantage with the development of lifestyle product will be compelling for some as Millennials start to make their mark.
The incoming government has outlined bold plans for China. This includes better access to financing for the private sector and a suspension of the one child family planning policy. The news has been well received and is likely to provide a boost to the hotel real estate market over the long term. Therefore, for long-term investors, the market still offers broad appeal.

Opportunities for foreign investors will remain limited. State Owned Enterprises are required to dispose of assets by a transparent auction process that is not palatable to many. Stressed private developers, who developed three or four years ago, will start to relinquish assets but stand-alone hotel ownership in China is
complex. Some hotels will be acquired for conversion to alternate use as the other sectors continue to perform well. Land titles and complex rezoning principles will make such acquisitions predominantly a domestic domain.

Notwithstanding, the challenge for China’s hotel investment market over the coming years will be recapturing the attention of investors with many becoming frustrated at the lack of liquidity, particularly as profits have started to evaporate. Brand expansion has also slowed as prime opportunities in A-grade locations have reduced. The risks are increasing as investors are pushed further afield. It will therefore take a fundamental revaluing of assets or marked improvement in operating performance for investors to consider the market over the short to medium term.

India’s transition

The stars are aligning for more transaction activity in India in 2014, bringing an end to the stalemate that has been pervasive over the past two years. Trading performance has continued to moderate over the past year – albeit to varying degrees across the country - as economic growth has slowed. In some instances, loans are stressed with owners close to default, but banks have shown little impetus to foreclose. Inaction ahead of the February 2014 general election is also resulting in many investors adopting a wait-and-see approach.

New development has slowed with many speculators and private investors retreating from the market. The evolution of brands has also subsided with some players selling out and properties converted to known brands in an increasingly difficult trading environment. This represents a further maturation for India’s hotel investment market.

Overall, there is a greater degree of rationality in the decisions that are being made with respect to investment, lending, transactions and pricing. Post-election sentiment and sector-driven policies will dictate the investment market in 2014. The grant of infrastructure status to hotels promises to open new avenues for the sector and improve the financial viability of upscale developments with access to cheaper finance with a longer repayment period. With many hotels reeling under debt, it will help them in improving their balance sheets in the long run.

In the short term, however, India’s central bank governor is expected to take a tougher stance on resolving indebtedness. As such, it is anticipated that pricing will shift downward. The extent to which is does will dictate the trickle or the avalanche of deal flow in 2014.

**Tokyo rising**

Japan topped the investment charts in 2013 with $2.5 billion of disclosed transactions and a high average deal size of $63 million. Tokyo saw the lion’s share of activity, as confidence flourished in line with policy changes in the era of ‘Abenomics.’

Inbound arrivals have surged following the depreciation of the Yen and a loosening of visa restrictions. Top line revenues have improved in line with the expansion of the domestic economy and renewed growth in corporate and leisure travel. A possible policy change in 2014 to permit tax deductions for corporate entertainment expenses may provide a further boost to hotel revenues over the near term with Japan’s full-service hotels heavily reliant on food, beverage & banqueting revenues.

Investors are also showing a greater willingness to take on more risk with improvements in the capital markets which are seeing cap rates compress. A number of major hotel transactions were completed in 2013, representing the collateral fallout of CMBS following the global economic recession. A number of these assets reached loan maturity in 2011 or 2012 and had been awaiting resolution.

It is unlikely that large asset sales will be repeated in 2014, and while volumes may fall short, the number of sales should increase thereby highlighting a continued improvement in liquidity. Transaction volumes in 2014 are expected to total around $1 billion.

Japanese companies will continue to sell non-core assets, while absorbing the losses on legacy assets. However, it is investment funds that will underpin overall activity. Groups who invested five years ago and have now reached maturity are exiting. Some have raised capital and are acquiring again, joining other new entrants.

While Japan’s star shines bright, boosted by the announcement that Tokyo will host the 2020 Olympic Games, the country is attracting an increasing number of offshore investors. To date, the volume of cross-border deals has been quite low as existing players with an established local presence have great agility to complete deals. Resort markets hold low appeal for Japanese funds and will likely see inbound capital flows – for example Okinawa and Hokkaido.

**Policy interest rates – North Asia and India**

While volumes in 2014 are expected to total around $1 billion.

Japanese companies will continue to sell non-core assets, while absorbing the losses on legacy assets. However, it is investment funds that will underpin overall activity. Groups who invested five years ago and have now reached maturity are exiting. Some have raised capital and are acquiring again, joining other new entrants.
REITs will continue to buy. There are two hotel REITs in Japan now, but multiple REITs that can invest in hotels. Offshore REITs have also made investments in the sector but new entrants will experience the same challenges as other offshore groups.

Southeast Asian borders blur
Southeast Asia was a hotbed for transaction activity in 2013 with transactions totalling $2.6 billion, largely driven by unprecedented deal flow in Singapore and renewed investor interest in resorts. Bali, Maldives, Mauritius, Malaysia, Thailand and Vietnam all recorded resort deals in line with improving connectivity across the region and burgeoning outbound travel from China and India.

2014 will be similarly distinct and intra-regional entrepreneurial investment will characterise the region. As opportunities become limited, it is likely that investors will look further afield and consider development opportunities. Volumes will moderate with fewer landmark transactions in the key gateways but overall deal flow will remain robust.
Appendix

Sources and methodology
This report includes hotel transactions tracked by Jones Lang LaSalle valued at US$5 million and above. The sale price is not necessarily the actual contract price, but rather that reported in the press, the confirmed price, or amount apportioned to hotel component. This information is publicly available and Jones Lang LaSalle provides no warranty for accuracy. All dollars are U.S. dollars unless otherwise indicated. Local currencies have been converted to U.S. dollars using monthly average exchange rates. All economic forecasts, unless otherwise noted, have been obtained from IHS Global Insight and are as of the fourth quarter of 2013.

Hotel market cycle
The hotel market cycle is a proprietary graphic of Jones Lang LaSalle, used to provide a snapshot of the state of the hotel property market. Each quadrant describes our observation of the state of the market as indicated by current RevPAR movements and annual outlook at a particular point in time. The cycle clock uses RevPAR as a proxy for the market as a whole. The clock is a simple tool and should only be used in a broad impressionistic way. The property clock is not intended to depict precise forecasts or property market cycles, and does not suggest that markets will move in a clockwise direction. The references to movement in RevPAR are in local currency.

Definition of buyer and seller types
Corporates: Public and private companies from whom investment in hotels is not their primary business activity and who do not operate hotels

Developer/Property company: Property developers who buy with the intent of redevelopment

HNWI: High net worth individual

Hotel operator: Listed or unlisted companies that operate hotels or serviced apartments as their core business

Institutional investor: Direct investment by pension funds, banks and insurance companies

Investment fund/Private equity: Companies, including investment banks, which invest on behalf of other investors. Investments are opportunistic and require an active management strategy

Receiver: Court appointed third party that acts on behalf of bond holder or share holder

REIT: Real Estate Investment Trust or Property Trust. Includes Listed Property Trusts (LPTs) in Australia

Sovereign wealth fund: Funds owned by a state composed of various financial assets
Success will be found by those who flex their creative muscles to carve out new ways to do business and foster flexibility to adapt to the changing trends and opportunities.
About Jones Lang LaSalle’s Hotels & Hospitality Group

Jones Lang LaSalle’s Hotels & Hospitality Group serves as the hospitality industry’s global leader in real estate services for luxury, upscale, select service and budget hotels; timeshare and fractional ownership properties; convention centers; mixed-use developments and other hospitality properties. The firm’s more than 300 dedicated hotel and hospitality experts partner with investors and owner/operators around the globe to support and shape investment strategies that deliver maximum value throughout the entire lifecycle of an asset. In the last five years, the team completed more transactions than any other hotels and hospitality real estate advisor in the world totaling nearly US $36 billion, while also completing approximately 4,000 advisory, valuation and asset management assignments. The group's hotels and hospitality specialists provide independent and expert advice to clients, backed by industry-leading research.

For more news, videos and research from Jones Lang LaSalle’s Hotels & Hospitality Group, please visit: www.jll.com/hospitality or download the Hotels & Hospitality Group’s iPhone app or iPad app from the App Store.