

Equity Yield Rates Shifting Higher As Interest Rates Decline and Discount Rates Remain Steady

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HVS continually tracks the rates of return on the assets on which we consult. In our most recent review, we found that equity yield rates, on average, have shown a continued trend of decline in the full-service and luxury hotels sector, as well as the lower-tier limited-service sector, with the select-service and upscale limited-service sector showing stability.

Equity yield rates were slightly lower for full-service and luxury hotels, averaging 16.6% for 2019, 120 basis points (bps) below the 17.8% most recent peak level recorded in 2017. This decrease was driven largely by a decline in the number of transactions in 2018 and 2019. Moreover, 31% of the recorded transactions with derived equity yield rates occurred in New York City, which drove down the average modestly. With interest rates at new lows and discount rates remaining steady, equity yield rates are otherwise on the rise, albeit modestly, when New York City hotels are removed from the average.

	2016	2017	2018	2019 YTD
Full-Service & Luxury Hotels				
Equity Yields	17.6%	17.8%	16.9%	16.6%
Total Property Yields	10.2	10.6	10.1	10.0
Select-Service & Upscale Limited-Service				
Equity Yields	19.7%	19.4%	18.4%	18.7%
Total Property Yields	11.0	10.9	10.8	11.2
Lower-Tier Limited-Service				
Equity Yields	20.3%	21.0%	20.1%	19.5%
Total Property Yields	11.8	12.1	11.8	11.4

Source: HVS

Equity yield rates for the select-service and upscale limited-service hotels averaged 18.7% for 2019, registering a slight uptick from the 2018 level. The stability in this asset class reflects that a low point was found in the 2018/19 period; a difference of essentially one percentage point is considered reasonable and normal between this category and the lower-tier limited-service category.

The average equity yield rate for lower-tier limited-service hotels similarly showed a decline in 2019. The average for the year fell to 19.5%, or 150 bps lower than the 2017 peak. Factors that have contributed to this trend include several hotels in the Pacific Northwest that sold with equity yield rates in the 17.0% to 18.0% range; however, most sales shown with equity yield rates did trade in the 19.0% to 20.0% range.

Total property yields (overall discount rate) similarly declined for the full-service and luxury hotels, as well as the lower-tier limited-service category, while holding steady in the select-service and upscale limited-service category. Total property yields are averaging 10.0% thus far in 2019 for the full-service and luxury category. Higher levels of 10.8% for select-service and upscale limited-service hotels and 11.4% for lower-tier limited-service hotels were recorded.

Rates of return are calculated using the actual sale prices of the hotels with forecasted cashflows and inputting market terms for fixed-rate financing on a ten-year hold.

Summary

In our most recent review, we found that equity yield rates, on average, have shown a continued trend of decline in the full-service and luxury hotels sector, as well as the lower-tier limited-service sector, with the select-service and upscale limited-service sector showing stability.

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Katy Black, MAI is a Director with the HVS Denver office. She is an expert on the lodging dynamics of the Rocky Mountain region, with an emphasis on Colorado's Front Range markets. She also has considerable experience in southern California's Orange County. Katy's history in hospitality includes frontline experience at the Crowne Plaza Quaker Square, the Courtyard by Marriott at The University of Delaware, and the DoubleTree by Hilton and Hilton Akron/Fairlawn. She graduated summa cum laude from The University of Delaware with an honors degree in Hotel, Restaurant, and Institutional Management.

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About **Rod Clough**



Rod Clough, MAI, President - Americas, oversees strategy execution throughout 40 Americas locations. He recently brought together all US Valuation Consulting offices under common ownership, and has revolutionized the way the company is led and managed. This group of offices represents over 120 hotel industry professionals and executes over 4,000 assignments a year. Rod has been working in the hospitality industry for 30 years and is a graduate of Cornell's School of Hotel Administration. He is a Designated Member of the Appraisal Institute (MAI) and a state-certified general

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