HVS

MARKET REPORT

Market Intelligence Report: Nashville, Tennessee

JUNE 27, 2011

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Conditions for hotel operations and hotel investments in the United States have shown clear improvements over the past twelve months. Rooms revenue growth has turned positive, the lending market has begun to thaw, and the number of hotel transactions has started to rise. These trends reflect a broad national perspective; however, the recovery outlook vacillates from region to region and city to city.

Most of the past year's major hotel transactions have concerned assets in major gateway cities, where foreign investors and publicly traded REITs have already driven up prices. Given this focus on the marquis lodging markets of the east and west coasts, the prospects for hotel acquisition and development in Nashville represent an overlooked opportunity for entrepreneurial investors. The city emerged from the recent recession relatively unscathed, and several ongoing and planned developments are positioning the market for strong growth. It follows that Nashville's lodging landscape deserves a closer look.

Economic Strength

Along with its music industry's wide renown, Nashville's economic base is anchored by the government and healthcare sectors, which helped provide stability during the recent recession. Additionally, the area benefits from strong economic development initiatives that have promoted growth in the technology and alternative energy sectors. Greater Nashville has benefitted from an extended period of economic expansion, which persisted even against the pressures of the recent national downturn. Between July of 2008 and June of 2010, over 16,800 new jobs were created through business relocations and expansions.[1] Major projects in the area include Jackson National Life's new regional headquarters and Nissan's new lithium-ion battery plant, as well as significant expansion projects from Simplex Healthcare, PromiseCare Pharmacy, and HealthSpring. The Nissan project alone represents a $2.5-billion investment and is expected to employ over 1,700 workers when fully operational. Demand generated by these developments, as well as the area's stable federal and state government sectors, helped minimized the impact of the recession on Nashville area hotels.

New Hotels and Demand-Generating Projects

Since 2007, nine new hotels representing 1,244 rooms have opened in Nashville. As of June of 2011, three new hotel projects representing 1,028 rooms are moving forward, with additional projects on the drawing board. The largest is the

800-room Omni Nashville, which is currently under construction along with a new 1.2-million-square-foot convention center, to which the hotel will be attached. The publicly financed, $585-million Music City Center is expected to open in early 2013, with the privately financed, $250-million Omni slated for completion in mid-year 2013. The impact on Greater Nashville's hotel market should be pronounced, as the area will be able to accommodate large-scale, citywide events such as the 50,000-delegate NRA convention, which is already on the books for 2015. As of March of 2011, the Nashville Convention and Visitors Bureau had secured 42 groups for the new convention facility; these bookings should generate over 400,000 room nights for local hotels. The city's existing convention center is slated for conversion into the Nashville Medical Mart/Trade Center. While not yet finalized, this $250-million project is expected to convert the existing center into a 1.5-million-square-foot exhibition, education, and training facility for the healthcare industry.

With these developments in Downtown Nashville poised to attract thousands of conventioneers, and the aforementioned business and job growth driving economic expansion, demand levels for the regional hotel market should experience a significant boost over the next several years. As a result of these demand trends, the aggregate per-room value for area hotels is expected to rebound and may even surpass its pre-recession peak by 2013.

Hotel Cap Rates, Values, and Performance in Nashville

The following table compares revenue data from full- and select-service hotels in the Nashville area with figures representing the U.S. lodging market as a whole. These data, which were compiled from HVS' proprietary hotel statistics database, illustrate the relative resilience of Nashville hotels.

NASHVILLE REVPAR PERFORMANCE

	2008 - 2009 RevPAR Change	2009 - 2010 RevPAR Change	2008 - 2010 RevPAR Change
Downtown Nashville*	-13%	5%	-8%
Nashville Airport**	-17%	8	-11
Nashville Metro Area***	-15%	7	-9
United States	-17%	6	-12

* 5 hotels/1,939 rooms; **8 hotels/1,770 rooms; *** 10 hotels/4,094 rooms

The following table illustrates data on three key investment and valuation metrics for first-tier hotel properties, as published by Real Estate Research Corporation's *RERC Real Estate Report* for the spring of 2011.

1ST QUARTER 2011 INVESTEMENT CRITERIA

	Pre-Tax Yield	Going In Capitalization Rate	Terminal Capitalization Rate
Nashville	10.7%	8.5%	9.3%

South Region	11.2	8.9	9.6
United States	11.1	9.1	9.8

The following table displays information on aggregate per-room value estimates and projections from the 2010 HVS Hotel Valuation Index, a measure of relative hotel values for markets across the United States.2

NASHVILLE PER-ROOM HOTEL VALUATION

Year	Nashville Per Room Value	Year-to Year Percent	Percent Change from 2006
2006	$107,939	-	-
2007	100,535	-7%	-7%
2008	83,360	-17	-23
2009	69,157	-17	-36
2010	75,941	10	-30
2011*	88,966	17	-18
2012*	99,673	12	-8
2013*	111,459	12	3
2014*	120,240	8	11
2015*	128,716	7	19

* Forcast Year

Source: HVS

The superior performance of Nashville-area hotels over the course of the recent downturn positions Nashville as an attractive market for hotel investment. Furthermore, these relatively strong investment parameters are having a positive impact on Nashville's hotel values, which are expected to rebound and strengthen to peak pre-recession levels by 2013.

Conclusion

The stability of diverse private and public entities helped Nashville's economy avoid a tailspin during the recent recession, and new development projects should bolster hotel demand and help drive asset-value increases going forward. In light of recent and projected trends, the Nashville market deserves attention, particularly from investors seeking to diversify their portfolios away from the major gateway markets. For more information about the Nashville hotel market and current valuation trends, please contact Dan McCoy at (970) 215-0620 or .

1 Nashville Area Chamber of Commerce. 2009-2010 Annual Report

2 The Hotel Valuation Index (HVI) tracks hotel values in 51 major markets and the United States as a whole. Created in 1987

by HVS, the HVI is derived from an income capitalization approach, utilizing market area data provided by Smith Travel Research (STR) and historical operational information from HVS' extensive global experience in hotel feasibility studies and valuations. Based on HVS' experience of real-life hotel financing structures, appropriate valuation parameters are applied for each market, including loan-to-value ratios, real interest rates, and equity return expectations.