

ALIS 2024 HVS Takeaways: Upbeat, Optimistic, and an Eye on Innovation

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HVS was a proud sponsor of this year's **ALIS conference**, and both our **HVS Los Angeles** leader **Kirsten Smiley** and our **HVS San Francisco** leader **John Berean** moderated educational and engaging panels at the event.

Given that hotel performance metrics remain strong in most markets and difficulties persist in the office and multi-family sectors, both investors and lenders are finding hotels to be a particularly attractive asset class for 2024. Sentiment at the ALIS conference was upbeat, with participants and analysts buoyed by the improved lending economics as of Q4 2023. Owners and developers were optimistic that more opportunities will arise on both the development and transaction fronts in 2024. Lenders are back in business, with several major hospitality lenders active and pursuing opportunities at ALIS. This also bodes well for development opportunities, as construction financing becomes more available for qualified projects. Thus, many owner/operators, investment groups, and third-party management companies are planning a stronger year for hotel transactions in 2024. Hotel executives are also enthusiastic about the strength of the current leadership labor pool and are looking to enhance their management teams with strategic, high-level hires this year.

On balance, investors remained cautiously optimistic given that it is an election year, when the overall business environment and consumer sentiment is typically more uncertain. Furthermore, in some markets, operational challenges such as line-level labor sourcing and high costs remain an issue. Operators believe ADR growth will continue in many markets across the country in 2024 to balance increased operating costs. Additionally, smart investments in technology, including artificial intelligence, are increasingly being explored as a solution to rising costs.

Development Outlook Is Bright

On the brand side, the major hotel chains touted their respective success on the development front in 2023, a year of record signings for many. **Marriott** announced it had over 50% more rooms signed in 2023 than in 2022, **Hilton** has nearly 3,300 hotels in the development pipeline, **IHG** is seeing strong growth in its newly assembled luxury and lifestyle segment, and **Hyatt** has a record pipeline of 127,000 rooms under development worldwide. There was strong interest from developers in the brands' newest offerings, such as Hyatt's midscale, extended-stay **Hyatt Studios** and Hilton's new midscale, extended-stay **LivSmart Studios** brand. **Wyndham** announced a collaboration with sbe on a **new lifestyle brand** geared toward millennials and Gen Zers with the working name Project HQ.

Brand-sponsored financial participation (such as key money and fee ramp-ups) remains available for qualified development projects, particularly at the full-service and luxury levels, as brands continue to compete in a crowded marketplace. Furthermore, given the sustained growth of construction costs across the U.S., conversions (vs. ground-up construction) are increasingly gaining traction within the development community.

An Improving Transaction Environment

While everyone generally agrees that there should be some positive movement on interest rates soon, likely in

Summary

HVS was a proud sponsor of this year's ALIS conference, where the sentiment was upbeat and optimistic for the year ahead. This article provides our key takeaways from the conference.

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the latter half of 2024, the extent and timing of those interest rate cuts remain uncertain. In conjunction with the expected moderation of interest rates, there should also be an increase in transaction activity, although the timing of that increase is unclear as well.

The hotel inventory/listings launched at ALIS were favorable. It remains to be seen if these sellers will meet the market. Rising RevPAR led to better gross operating profit levels over the last year, but rising fixed costs quickly took their toll on net operating income (NOI) levels. Some buyers are underwriting a lower NOI in year one as a result, which is placing pressure on pricing. Buyers seem to be looking for pricing in the 8–9% cap rate range for select-service hotels (fully loaded, with PIP included).

The Great PIP Problem

There currently exists a "Great PIP Problem," where brand-mandated renovations that were deferred during the pandemic will be coming due. These updates are expected to be a focus in 2024. Thus, with major capital expenditures looming, some ownership groups will be forced to sell, particularly those that are already over-invested in their assets. This situation will likely spur transaction activity, help both brands and ownership groups clean up their portfolios, and create opportunities for the many new conversion brands that have debuted over the last few years.

What's Next

We look forward to supporting the industry in navigating what is sure to be another interesting year in the hotel investment marketplace. HVS has a superb team of consultants, appraisers, asset and hotel managers, and brokers to help you.

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About Rod Clough, MAI



Rod Clough is the President of HVS Americas. He is responsible for the overall direction, management, and ongoing success of 40+ offices across North and Latin America.

Under his leadership, HVS Americas conducts over 3,500 valuation and consulting engagements annually. During his 30-year tenure, Rod has been instrumental in leading the growth of the firm; this includes significantly expanding the number of offices across the United States, as well as launching multiple divisions, including U.S. Hotel Appraisals, HVS Latin America, HVS Brokerage & Advisory, and HVS Asset Management & Advisory.

A frequent speaker at the nation's largest hotel conferences, Rod is a designated member of the Appraisal Institute (MAI) and a state-certified appraiser. He earned his BS from Cornell University's School of Hotel Administration and also holds a Colorado real estate broker's license. Furthermore, Rod is proudly Latino and gay, and his firm is welcoming of all races and colors, sexual orientations, ages, genders, and gender identities. Once associates join HVS, they tend to stay due to the extraordinary culture Rod has inspired—a culture defined by the ideals of balance, connectivity, efficiency, collaboration, honesty, integrity, kindness, and excellence, among others. Rod resides in Northern Colorado where he and his husband Jeff are raising their daughter, Rory. Contact Rod at (214) 629-1136 or [\[email protected\]](#).