Hotel Investor Sentiment Survey
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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 and valuation assignments. The group’s hotels and hospitality specialists provide independent and expert advice to clients, backed by industry-leading research.

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Global Trading Performance Expectations 2000 to 2014

Trading Performance Expectations

Investment Yield Requirements

<table>
<thead>
<tr>
<th>Leverage IRR %</th>
<th>Global</th>
<th>Major Gateways</th>
<th>Americas</th>
<th>APAC</th>
<th>EMEA</th>
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<tr>
<td></td>
<td>15.1%</td>
<td>14.4%</td>
<td>17.7%</td>
<td>13.6%</td>
<td>12.7%</td>
</tr>
<tr>
<td>Cap Rate (Initial Yield) %</td>
<td>7.1%</td>
<td>6.6%</td>
<td>7.4%</td>
<td>7.2%</td>
<td>6.8%</td>
</tr>
</tbody>
</table>

Short Term Cap Rate Trend

Global Leveraged IRR Requirements 2000 to 2014

Global Cap Rate (Initial Yield) Requirements 2000 to 2014

Investor Profile

Note: Net balance is the percentage of respondents who respond positively minus the percentage of respondents who respond negatively. The maximum score of + or – 100% indicates that all respondents have given a positive or negative response respectively. A score of 0% indicates the same number of positive and negative responses to a particular question.

Global Highlights

- Investor sentiment for trading globally has surged over the past six months with investor short term expectations up 26.4 percentage points to 57.8% and medium term up 27.5 points to 66.6%.
- Both are at the highest level ever recorded with positive trading sentiment for all three regions broadly aligned and a signal that the troubled days of the global financial crisis are now behind the global hotel investment market.
- The major gateways rank highest for short term trading at 66.1% whereas investors favour hotel markets in EMEA over the medium at 78.9%.
- Investor expectations for global leveraged IRRs recorded a 70 basis point contraction to 15.1%. This is the lowest level recorded since the survey’s inception in 2000.
- Leveraged IRR expectations are lowest for EMEA at 12.7% and highest for the Americas at 17.7%.
- Global cap rate expectations recorded a 40 basis point contraction to average 7.1%. This is also the lowest level recorded since the survey’s inception in 2000.
- Cap rate expectations are lowest for the major gateways (6.6%) and EMEA (6.8%). Investors expect global cap rates to contract slightly over the next six months with the downward trend most evident in the major global gateways, under a growing weight of capital.
- Feature markets in this edition include Boston, Melbourne and Munich.
Highlights

- Hotel investors across North Americas remain optimistic about the outlook for hotel investments, and investors’ hotel performance sentiment has increased from the last survey.

- For the next six months, investors have the most favourable view on San Francisco, Houston and Miami; in the two-year timeframe San Francisco and the Caribbean ranked highest, followed by Los Angeles and Boston.

- Investors’ targeted cap rates compressed by 20 basis points since the last survey period to 7.4% for acquisitions across the region.

- The list of hotly contested markets—cities with the highest ratio of buyers to sellers—includes Vancouver, Washington D.C., Los Angeles, Boston, Hawaii and Seattle.

- JLL releases a separate Hotel Investor Sentiment Survey on Latin America which is available at www.jll.com/hospitality.
Short term level of optimism increases; suggesting continued up-cycle

Economic news and employment figures have become more encouraging across North America in recent months, and hotel performance is exhibiting steady growth, with many markets reaching their pre-recession revenue per available room (RevPAR) peaks. Driven by more positive hotel operating profits, hotel investors have a resoundingly positive outlook for continued lodging sector growth.

JLL calculates a net balance of investor sentiment representing the percentage of respondents who indicate a positive performance outlook, minus the proportion of respondents who expect negative performance for the given time frames.

In the most recent survey, the net balance of investors' short-term hotel performance sentiment is at a survey high, while medium term net balance is close to the previous peak witnessed in 2003. On a market-by-market basis, cities with the most positive performance expectations include San Francisco, Houston, Miami, Los Angeles and Boston. These markets have experienced strong hotel operating fundamentals in recent years, and this is expected to continue in the future.

New York's two-year outlook garnered more optimism since the previous survey as hotel demand is at an all-time high – even while the elevated supply pipeline adds a considerable amount of new rooms to the market. Investors' greater optimism for the two-year timeframe relates to the expected slowdown in openings once the projects currently under construction come online.

In the two-year timeframe, the net balance of performance expectations became more positive in every market surveyed. Washington, D.C. and Los Angeles experienced double-digit increases in investors' weight of positive opinion since the previous survey.
Feature Market – Boston

Following compound annual RevPAR growth of 9% over the past four years, Boston’s 2013 RevPAR of USD120 was a new high for the market, according to Smith Travel Research. Given robust operating fundamentals the market is attracting moderate new development, particularly near the Boston Convention & Exhibition Center where a 330-room Aloft and a 180-room Element are under construction. The city is also considering plans for a 1,200 headquarters hotel adjacent to the convention centre.

Trading Performance Expectations 2000 to 2014^  

Net Balance

-40% -30% -20% -10% 0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

If

Leavered IRR Requirements 2000 to 2014^  

Levered IRR %

16% 17% 18% 19% 20% 21% 22% 23% 24%

If

Cap Rate (Initial Yield) Requirements 2000 to 2014^  

Cap Rate (Initial Yield) %

6% 7% 8% 9% 10% 11%

Nonetheless, Boston is set to absorb new supply given high demand – 2013 occupancy levels neared peak levels not seen since the late 1990s.

Investor expectations for hotel performance in Boston are among the highest in the U.S., with a positive net balance sentiment of 67% and 71% for the short and medium term timeframes, respectively. As such, investor outlook for Boston is the highest among the East Coast cities surveyed.

Expectations for leveraged IRRs in Boston declined 110 basis points over the past six months to 16.5%, which is more than two percentage points below the North America average. Surveyed capitalization rates for the market average 7%, which are among the lowest in the U.S. Transaction volume increased by 20% in 2013, and transactional activity is poised to tick up. Underpinning this is the city’s ratio of buyers to sellers which, according to the survey, is one point above the North America average. These conditions imply that hotels that come to market will experience strong buyer interest.

Cities where investors’ net balance of performance expectations is positive but below the U.S. average include Orlando, Philadelphia, Atlanta and Chicago. Orlando continues to face below-peak group room nights. Philadelphia experienced relatively flat operating fundamentals in 2013. Atlanta’s rate of growth is expected to slow somewhat following robust performance since 2010. Chicago’s net balance scores are below some of the other gateway markets due to supply concerns; however, investors’ net balance has increased since the last survey in the short and medium term by seven and nine percentage points, respectively.

Of the three Canadian markets, Vancouver’s performance outlook is most encouraging, followed by Montreal. Given the emerging fundamentals and rising investment activity in the region, we have spun off our coverage of Latin America into our dedicated and separate Latin America Hotel Investor Sentiment Survey, which covers 18 markets across the region in depth.

In terms of investors’ target strategies for the next six months, 48% of respondents are primarily pursuing acquisitions, while 30% are focusing on selling assets. These results should continue to lead to an increase in transaction activity across the country; investment volume is forecast to reach USD25 billion in the U.S. in 2014, marking a six-year high. The list of hotly contested markets – cities with the highest ratio of buyers to sellers – includes Vancouver, Washington D.C., Los Angeles and Boston.

The proportion of respondents citing development as their main strategy, at 22%, represents a three-point increase since our last survey. Moreover, investor expectations suggesting a minor uptick in supply growth are in line with national supply growth figures which are also slightly higher than those of last year. That said, the proportion of investors citing development intentions is lowest for North America among the global regions in this survey, underlining the expectation that supply additions will continue to remain below the long-term average in the U.S. and Canada.

According to the survey, development intentions are highest in San Francisco, Boston and New York and lowest in Phoenix, Orlando and Dallas. Construction loans remain more difficult to obtain, serving as a barrier to greater supply growth.

Note: ^ Weighted by the number of responses  
Source: JLL’s Hotel Investor Sentiment Survey
Debt continues to flow back into the capital markets across the U.S., which should put further downward pressure on credit spreads. Treasury markets have stabilized and yields remain historically low even with the Federal Reserve seeking to taper quantitative easing. Also, capital from international sources is increasingly available.

Highly-rated CMBS spreads remain at post-crisis lows and new CMBS issuance is at a six-year high while delinquency has been declining steadily since 2010. Balance sheet lenders, pools of opportunistic debt and an abundance of equity continue to bolster activity. Furthermore, while interest rates are likely to hold steady for the foreseeable future, the overall greater liquidity should see margins compress, keeping overall debt costs stable and investor activity strong.

Cap rate expectations decline in short-term

Across North America, investors’ targeted capitalization rates (initial yields) declined 20 basis points to 7.4%. Respondents’ expected cap rates are now slightly lower than levels recorded in late 2006, and among the lowest on record. Cap rate expectations are 40 basis points below the most recent three-year average, with the compression being driven by favourable operating fundamentals, low cost of debt and high amount of equity pursuing the sector, which are cumulatively resulting in value appreciation.

This on-going tightening in leveraged IRRs is driven by improving economic conditions and low interest rates. New York and Boston exhibited the lowest IRR requirements at 16% and 16.5%, respectively, given their lower perceived risk profiles. With strong performance and moderate additions to supply, 60% of the markets surveyed garnered IRR requirements below 18%. Markets where survey respondents have higher requirements for leveraged IRRs include Philadelphia, Phoenix, Orlando and Denver.

Leveraged IRR requirements hold steady

Expectations for leveraged IRRs across North America have held steady as economic risks are lessening and most hotel markets remain on a steady growth trajectory. Across the board, investors are targeting leveraged IRRs of 17.7%. Leveraged IRR expectations stand at the lowest point since mid-2006 and 70 basis points below the most recent three-year average.
Across markets surveyed in the region, respondents have the lowest cap rate expectations for the gateway markets of San Francisco, New York, Miami and San Diego. Denver and Houston rank in the middle of the pack, and investors have the highest cap rate expectations for Montreal and the Caribbean. According to the survey, investors expect cap rates to trend moderately downward over the next six months, as hotels continue to be a favoured asset class.
Americas Investment Intentions

Stage in the Investment Cycle:
- PEAK
  - Caribbean, Chicago, Dallas, Denver, Houston, Montreal, Orlando, Philadelphia, Phoenix, Seattle, Toronto, Vancouver, Washington D.C.
- LATE UPTURN
- EARLY UPTURN
- LATE DOWNTURN
- TROUGH

Most Acquisitive Groups:
- Investment Fund / Private Equity
- REIT
- Hotel Operator

Investor Profile:
- Short (0-4 years) 26%
- Intermediate (5-9 years) 43%
- Long (10-20 years) 20%
- Extended (20 years+) 11%

Planned Nature of Investment:
- 26% New hotel acquisition opportunities
- 18% New conversion acquisition opportunities
- 14% Refurbishment of existing stock
- 14% Acquisition of land for development
- 11% New hotel management opportunities
- 10% New hotel lending opportunities
- 7% Development of land-banked stock

Exposure to Hotel Real Estate:
- SHORT TERM
- MEDIUM TERM
- INCREASE
- DECREASE
- MAINTAIN

Hot Markets:
- ACQUISITION: Los Angeles, San Diego, Phoenix
- DEVELOPMENT: Caribbean, San Francisco, Seattle
- DISPOSAL: Orlando, Philadelphia, Atlanta

Ratio of Buyers to Sellers:
- Orlando
- Atlanta
- Philadelphia
- New York
- Miami
- Montreal
- Chicago
- Denver
- Toronto
- AM (Average)
- Dallas
- Houston
- Phoenix
- San Francisco
- San Diego
- Seattle
- Hawaii
- Boston
- Los Angeles
- Washington D.C.
- Caribbean
- Vancouver

Note: * Weighted by the number of responses
Source: JLL’s Hotel Investor Sentiment Survey
Highlights

- Investor sentiment for trading in Asia Pacific’s hotel markets has increased significantly compared to November 2013 with short term expectations surging 26.3 points to 51.8% and medium term up 13.7 points to 54.2%.

- Short and medium term trading expectations are at the highest level since 2007.

- Investors rank Tokyo highest for short term trading at 89.5% whereas Melbourne is most favoured over the medium term at 94.3%.

- Investor expectations for leveraged IRRs increased 60 basis points to average 13.6%, driven higher by higher expectations for Asia. This was offset by a reduction in expectations for Oceania, reflecting the strong growth outlook as well as the premium which is being afforded to liquidity and transparency in today’s financial markets.

- Asia Pacific cap rate expectations tightened further as capital reserves swelled with many new entrants attracted to the sector but few assets offered for sale. Cap rate expectations declined by 30 basis points compared to November 2013 to average 7.2%. This is the lowest level ever recorded.

- On the whole investors expect cap rates to remain neutral over the next six months although divergent trends are evident across the region. Further cap rate compression is expected in Sydney, Phuket, Ho Chi Minh City, Osaka, Melbourne, Singapore and Auckland.
Trading sentiment surges as the global economy stabilises

Investor expectations for trading across Asia Pacific increased significantly over the past six months. Sentiment for short term trading catapulted 26.3 points compared to our November 2013 survey to 51.8% and medium term expectations rose 13.7 points to 54.2%.

Improvements in the global economy, burgeoning travel markets and a moderation in Asian development projects are underpinning this shift in sentiment. As a result, trading performance expectations for both the short and medium term are now at the highest level since 2007. This provides a clear signal that investors believe the troubled days of the global financial crisis are now behind us.

Economic activity in Asia Pacific picked up speed in the second half of 2013, as exports to advanced economies accelerated. Domestic demand has been solid, and retail sales across much of the region have been brisk. Growth is expected to accelerate modestly to about 5.5% in both 2014 and 2015, supported by more competitive exchange rates in some cases as well as strong labour markets and still-buoyant credit growth. By contrast, Asia Pacific's hotel development supply increases are projected to average 5.4% per annum over the same period with commencements having slowed across the region.

In a marked contrast to recent years however, Oceania has emerged as the region's growth hot spot with short term trading sentiment at 71.2% and medium term at 75.9%. This represents a level which is around 30 basis points higher than the next most favoured sub-region, North Asia.

Whilst all markets are expected to perform well, investors are most optimistic about trading in Sydney and Melbourne. The Australian economy is in transition with its economic strength gradually shifting from the resource States back towards the southeast. The backdrop for doing business in NSW in particular is looking better than it has for some time with record low interest rates underpinning the city's dominant finance sector. This is also adding to housing prices in both NSW and VIC with that trickling through to retail (and tourism) spending and housing construction. Add to this the lower AUD, significant investment in tourism infrastructure, record high occupancy levels and a fairly benign supply outlook, and the outlook is very promising.

Trading sentiment was ranked above 80% for five markets over the short term in our April 2014 survey – Tokyo (89.5%), Melbourne (84.6%), Sydney (83.8%), Mumbai (83.0%) and Osaka (82.6%) – and three markets over the medium term, Melbourne (94.3%), Jakarta (82.9%) and Sydney (81.8%).

Whilst overall investors are very optimistic about the prospects for future income growth in Asia Pacific's hotel markets, there are some markets where trading is expected to decline. Trading in Beijing (-50.0%), Ho Chi Minh City (-31.0%), Shanghai (-28.6%) and Seoul (-15.8%) is expected to moderate over the next six months and whilst medium term expectations indicate a strong recovery in Seoul and Ho Chi Minh City, the downward trend is expected to persist in Shanghai (-10.0%) and Beijing (-4.8%).

In China, the announcement of the government's reform blueprint has improved sentiment, but progress on rebalancing the economy remains tentative. Measures introduced to curb conspicuous consumption have had a magnified impact on the hotel sector, whilst being most acute for luxury hotels. Concerns about overinvestment and credit quality should mean a continuation of the withdrawal of monetary support for the economy through slower credit growth and higher real borrowing costs which in turn will slow the accommodation development pipeline further. This should allow time for demand to catch up with significant increases in supply which have come on line over the past few years.
Feature Market – Melbourne

Melbourne ranks highest for medium term trading and second for short term trading in our most recent survey with both metrics currently at the highest level ever recorded and some of the highest for any Asia Pacific hotel market in the post global financial crisis era.

Trading Performance Expectations 2000 to 2014^ (not shown)

Investor expectations for trading have increased compared to November 2013 with sentiment for short term trading up 45.7 points to 84.6% and medium term up 51.0 points to 94.3%. Australia’s second most populous city and a major corporate centre, Melbourne is renowned for its extensive annual calendar of festivals, exhibitions and major sporting events. This has resulted in a diverse base of demand which is reflected in daily performance trends. The Melbourne accommodation market has also shown great resilience over the past decade having absorbed more than 7,000 new rooms and on the basis of current expectations is likely to equal the size of Sydney City’s hotel market by 2016.

Trading Performance Expectations

Expected for Melbourne leveraged IRRs and initial yields both recorded a contraction when compared to November 2013, tightening by 240 basis points and 120 basis points respectively to 10.2% and 6.7%. Expectations for both are now at the lowest level ever recorded and provide a further indication of the high level of regard investors are currently showing for Australia’s leading hotel markets.

Investors expect cap rates in Melbourne to compress further over the next six months with many global and regional investors targeting acquisition and development opportunities in the city.

Leveraged IRR Requirements 2000 to 2014^ (not shown)

Note: ^ Weighted by the number of responses
Source: JLL’s Hotel Investor Sentiment Survey
IRR expectations reflect premium afforded to transparency & price discovery

Expectations for Asia Pacific leveraged IRRs increased compared to November 2013, up 60 basis points to average 13.6% whilst remaining well below the short and long-run averages of 15.8% and 17.3% respectively.

The upward trend was underpinned by a shift in expectations for Asia (+90 basis points to 14.2%), whereas expectations for Australia and New Zealand tightened by 140 basis points to average 10.8%. We note that this level is more akin to an unleveraged IRR which have ranged between 9.5% and 12.5% for upscale and luxury hotels in Australian state capitals (after management fees and capital renewal reserves) in recent years.

Leveraged IRR Requirements

### Asia Pacific Leveraged IRR Requirements 2000 to 2014

<table>
<thead>
<tr>
<th>Year</th>
<th>Leveraged IRR %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>12%</td>
</tr>
<tr>
<td>2001</td>
<td>13%</td>
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<tr>
<td>2002</td>
<td>14%</td>
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<td>2013</td>
<td>25%</td>
</tr>
<tr>
<td>2014</td>
<td>26%</td>
</tr>
</tbody>
</table>

Note: * Weighted by the number of responses
Source: JLL's Hotel Investor Sentiment Survey

Whilst consistent with the strong income growth outlook noted in the previous section, the reduction in leveraged IRR expectations is also thought to reflect the increased premium paid in today’s financial markets for market transparency, liquidity and price discovery, as well as the limited number of transparent markets in the Asia Pacific region. The JLL Transparency Index shows improving global transparency in recent surveys, but in the Asia Pacific region improvement has been from a relatively low base. Australia and NZ are global and regional transparency leaders. A scarcity of core assets compared to the last four years is also seeing those assets which are brought to market hotly contested and more funds are likely to be directed towards opportunistic or value added investments.

Leveraged IRR expectations range between 10.2% in Melbourne and 17.5% in Mumbai and New Delhi. Markets ranked below the regional average include Melbourne (10.2%), Sydney (10.6%), Brisbane (10.6%), Perth (11.3%), Hong Kong (12.5%), Taipei (12.8%), Singapore (12.9%), Auckland (13.0%), Tokyo (13.4%) and Osaka (13.4%).

Cap rates compress under a growing weight of capital

Investor expectations for Asia Pacific cap rates have tightened as confidence has strengthened and the weight of equity has swelled. Against this backdrop, investor cap rate expectations firmed by 30 basis points compared to November 2013 to be at the lowest level ever recorded averaging 7.2%.

### Asia Pacific Cap Rate (Initial Yield) 2000 to 2014

<table>
<thead>
<tr>
<th>Year</th>
<th>Cap Rate (Initial Yield) %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>7%</td>
</tr>
<tr>
<td>2001</td>
<td>8%</td>
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<td>9%</td>
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<td>10%</td>
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<td>2012</td>
<td>19%</td>
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<tr>
<td>2013</td>
<td>20%</td>
</tr>
<tr>
<td>2014</td>
<td>21%</td>
</tr>
</tbody>
</table>

Note: * Weighted by the number of responses
Source: JLL's Hotel Investor Sentiment Survey

Whilst the downward trend is evident across the region, the shift in expectations was most pronounced for Australia and New Zealand’s hotel markets with cap rate expectations f firming by 40 basis points to average 7.3% and the lowest level ever recorded. This compares to a 20 basis point reduction in Asia to 7.2%.
Low global economic growth and interest rates have stimulated a global hunt for yield and, in particular, stable yield with inflation hedging and long duration attributes. Cap rates for Australia and New Zealand ranged between 6.7% in Melbourne and 8.8% in Auckland in our most recent survey.

Cap rates are on the whole lower across Asia, ranging between 5.4% in Hong Kong and 9.5% in Manila. Four markets were ranked at sub-6%, namely Hong Kong (5.4%), Taipei (5.5%), Osaka (5.7%) and Tokyo (5.8%).

With few assets available for sale and a growing weight of capital, investors expect further downward pressure on cap rates in Sydney, Phuket, Ho Chi Minh City, Osaka, Melbourne, Singapore and Auckland.

In March 2014 an estimated 59% of Asia-based investors were under their strategic target allocations for real estate, while 49% of investors have less than 5% of their total assets allocated to real estate. Opaque regulatory regimes, uncertain property rights and rising wealth across the Asia Pacific region are also acting as a stimulus to the HNW market to seek security and diversification in immovable but tangible assets, such as real estate. Typically active asset managers, asset selection criteria differ from institutional investors with a long-held penchant for hotels. High yield, development opportunities and often smaller capital value opportunities are likely to be attractive to this category of investors.

Plans by the Chinese government to provide access to state bank financing to Chinese private investors will also make it easier to move money offshore, and as a result, we expect to see an increased number of Chinese groups to emerge as powerful buyers in the coming years.

In our most recent survey private equity groups, hotel operators and developer / property companies were identified as the most acquisitive groups targeting Asia Pacific hotel real estate.

With investor expectations for cap rates for the region’s global cities averaging 6.2%, wide yield spreads between real estate markets (e.g. CBD, resort and secondary) and segments (e.g. luxury, upscale, budget) offer generous incentives to migrate along the risk curve and contemplate alternative locations and sectors, particularly as capital costs increase.
Asia Pacific Investment Intentions

Stage in the Investment Cycle^  
- **PEAK**  
  - Singapore, Taipei  
  - Bali, Hong Kong, Macau, Melbourne, Shanghai, Sydney, Tokyo  
- **EARLY UPTURN**  
- **LATE UPTURN**  
- **LATE DOWNTURN**  
- **TROUGH**  
  - Auckland  

Most Acquisitive Groups  
- Investment Fund/Private Equity  
- Hotel Operator  
- Developer/Property Company  

Investor Profile  
- Short (0-4 years) 26%  
- Intermediate (5-9 years) 33%  
- Long (10-20 years) 27%  
- Extended (20 years+) 14%  
- PE or RE Fund 20%  
- Private/HNW 2%  
- Developer/Property Company 23%  
- Institution 11%  
- REIT 4%  
- Owner Operator 34%  
- Other 6%  

Exposure to Hotel Real Estate  
- 1% DECREASE  
- 1% MAINTAIN  
- 70% INCREASE  

Hot Markets  

<table>
<thead>
<tr>
<th>Acquisition</th>
<th>Development</th>
<th>Disposal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Osaka</td>
<td>Ho Chi Minh City</td>
<td>Macau</td>
</tr>
<tr>
<td>Mumbai</td>
<td>Hong Kong</td>
<td>Seoul</td>
</tr>
<tr>
<td>Auckland</td>
<td>Bali</td>
<td>Tokyo</td>
</tr>
</tbody>
</table>

Planned Nature of Investment  
- 31% New hotel acquisition opportunities  
- 19% New conversion acquisition opportunities  
- 14% Refurbishment of existing stock  
- 12% New hotel management opportunities  
- 12% Acquisition of land for development  
- 7% Development of land-banked stock  
- 5% New hotel lending opportunities  

Ratio of Buyers to Sellers  

Note: ^ Weighted by the number of responses  
Source: JLL's Hotel Investor Sentiment Survey
EMEA

Highlights

- Investor sentiment for trading expectations across Europe, Middle East and Africa have seen a significant uplift since November 2013, with short term expectations rising 45.4 points to 64.4% and medium term up 41.6 points to 78.9%.

- Investors are most confident about short term trading conditions in London with a positive net balance of 93.8%, while Munich is the favourite in the medium term at 96.2%.

- Cap rate expectations fell to an all-time low of 6.8%, 50 basis points below the most recent three-year average. Investors have the lowest expectations for historically “safe” markets such as London and Paris as they continue to attract the bulk of interest.

- Munich is this edition’s feature market and Germany’s best performing market.

- At 12.7%, leveraged IRR requirements are well below the three-year average of 15.5% reinforcing confidence in the market. London reported the lowest IRR requirements at just 10.1%, compared to 13.4% in our last survey.
Investors are upbeat about future trading fundamentals in EMEA

As we approach the half way mark of 2014, trading expectations across EMEA remain particularly strong for both the short term (six months) and medium term (two years). Since our last survey at the tail end of last year, there has been a strong uptick in confidence, with investors feeling extremely confident that trading will accelerate. Of the 31 cities tracked across EMEA, all but one (Moscow) are expected to show growth in performance over the next six months, with Moscow joining the rest of the pack when looking further ahead. Investor sentiment is strongest in London, followed by Munich, Amsterdam and Copenhagen.

Trading expectations remain strong in the UK capital both in the short and medium term with London experiencing robust growth during the first four months of 2014. Improved economic conditions, falling unemployment rates, rising consumer confidence and a flurry of hotel transactions at the start of the year all led to investors feeling very optimistic about trading expectations in London. Trading expectations throughout the rest of the UK also remain promising. Strong business and leisure demand drives positive expectations in Edinburgh, which is expected to improve in the medium term. This confidence is also replicated in Manchester which has seen phenomenal growth over the past 20 years. The city swells with visitors regularly thanks to the city’s love of football as well as major political party conferences. Fast road and rail connections and an expanding airport provide unrivalled access to international markets and therefore it is no surprise that investor sentiment is high.

Across the Irish Sea, and with three years of double-digit RevPAR growth under its belt, trading expectations for Dublin remain firmly on the upside. While the current hotel pipeline is small, new hotel developments are starting to emerge and with strong competition for core city centre hotels, in particular from private equity investors, it’s no wonder that investor sentiment in the Irish capital is strong.

The short term trading outlook for cities across Germany remains robust, with Munich leading the pack once more – which we explore in more detail as our feature market in this edition of the survey. The steady economy and healthy supply growth provide stable operating fundamentals across the country with all markets expected to see trading conditions improve even further in the medium term. There is strong competition for hotels with international appeal with many institutional investors seeking assets subject to long term leases.

Investor confidence remains strong in the French capital Paris, with a positive net balance of over 80% in the short term. Like London, Paris is seen as a secure market in Europe, with robust, long-term trading fundamentals and with strong competition for product from investors, in particular trophy assets, the city will retain a top 10 position in terms of investor confidence for many years to come.

In Southern Europe, trading expectations in our last feature market – Barcelona – have become even more robust over the last six months. With an 83.6% positive net balance in the short term, rising to 87.5% in the medium term, Barcelona remains in one of the top 10 cities in terms of investor confidence. With few existing hotels available in the market, competition for product remains strong and although average rates are still below 2007 levels, over 50 months of consecutive RevPAR growth leads to optimism. Elsewhere in Spain, short term expectations in Madrid are weaker, although the medium term outlook appears more promising. After RevPAR declines in 2012 and 2013, 2014 year-to-date results are showing signs of recovery.

In Italy, short term expectations for Rome are robust with a positive net balance of 77.8%, expecting to increase further in the medium term. Rome is a secure market, with good, long-term trading fundamentals benefitting from a high reliance on international demand. The outlook for Milan is promising too. With impressive average room rates and sustained increases in demand, investors expect trading to improve over the medium term as Milan hosts the World Expo 2015.

In Central and Eastern Europe, although RevPAR is up 11.2% April 2014 year-to-date in Budapest, investor confidence remains somewhat muted with a net balance of just 8.3%. Like many key cities across the sub-region, Budapest has seen significant supply growth in the last 10 years and with a lack of quality product available, these results are not surprising. In Prague, trading expectation remains cautious in the short term and although hotel supply has been on the rise, it is not currently saturated and the medium outlook is more optimistic.
Due to its strong local economy, its standing as an international trade fair hub and accommodating Germany’s second largest airport, Munich is regarded as the powerhouse of Southern Germany. Not only being home to numerous global companies, but hosting key international trade fairs, the city is able to secure a high share of corporate demand alongside the famous Oktoberfest. As a result, Munich is Germany’s best performing hotel market.

Performance is reinforced by improved trading expectations by our survey respondents. Previously, investors felt most confident about trading expectations for Munich, returning a positive net balance of 69%. While this result is not to be dismissed, six months later, confidence has improved 16.7% points to fall into second place behind London at 85.7%. Looking ahead, the city is expected to regain pole position in the medium term, securing a positive net balance of 96.2%, ahead of Edinburgh, Copenhagen and London.

Expectations for leveraged IRRs and cap rates both recorded a contraction when compared to November 2013, reducing by 70 basis points and 10 basis points respectively to 10.9% and 6.2%. Leveraged IRR expectations are now at the lowest, while cap rates are 30 basis points higher than the low of 5.9% in April 2012. Improved investor confidence is also reflected by almost 50% of respondents showing an interest in acquiring hotel real estate in Munich, alongside the likes of Paris and Hamburg.

There has been a hive of activity in Munich during the first four months of 2014, with circa EUR175 million in hotel transactions and development deals. With low cap rates and a slow hotel pipeline, investors are feeling increasingly optimistic about trading prospects and the city will continue to be one of Europe’s most sought-after destinations for operators and investors.

Moscow was the only city across the region that investors are anticipating trading performance to decline over the next six months. The current political situation in Ukraine is impacting markets across the sub-region with investor sentiment at an all-time low. Hotel performance is suffering and sanctions are still in place. In addition, the Russian economy is currently in decline, with marginal GDP growth of just 0.5% expected in 2014 so it is no wonder that sentiment is rather on the downside.

Investor sentiment remains upbeat in the Middle East, with Dubai being the fifth highest city across EMEA in terms of investor confidence with a positive net balance of 83.7% – nestled between Copenhagen and Barcelona. Although local development companies and HNWIs form a large proportion of investors in the UAE, an increased appetite from global institutions and conglomerates is being witnessed on key assets and developments.
IRR requirements contract to all time low

Expectations for leveraged IRR requirements across EMEA recorded a 100 basis point contraction since our last survey and currently sit at 12.7%. This places IRR requirements significantly below the long run average of 15.5%, however reinforces confidence in the market and investors are no longer looking for such high returns on their investments.

In terms of individual city IRR requirements, there have been some significant movement in the last six months. London is currently reporting the lowest IRR requirements at just 10.1% compared to 13.4% in our last survey. An additional 13 markets reported below average IRR requirements including key cities across Germany, Paris, Prague and Warsaw. At the other end of the spectrum, Casablanca and Cape Town saw IRR requirements rise to over 18% in the last six months. An additional 11 markets reported above average IRR requirements including Dublin, Istanbul and Moscow.

Cap rates ease

Across EMEA, survey respondents expect capitalisation rates to fall marginally over the next six months, down 0.4% points to 6.8% compared to our last survey. These are the lowest on record and 50 basis points below the most recent three-year average. As the survey results show, investors are becoming much more optimistic about the future of hotel real estate across the region as they continue to provide higher returns that alternative real estate options.

Respondents have the lowest cap rate expectations for London and Paris at 5.3% and 5.8% respectively. These two capital cities continue to attract the bulk of interest from investors due to their stable market environments. In the first four months of 2014, over EUR700 million of hotel assets have transacted in the UK capital, almost double the amount during the same period last year. This reinforces the appeal of London to global hotel investors. Aside from these two key European cities, cap rate expectations fall below the regional average in a further 12 cities.

Markets which are associated with more “risk” include Casablanca, Istanbul, Cape Town and Moscow. Reasons of the latter, Moscow, have already been outlined previously in this report, and in cities like Istanbul which suffer from political uncertainty, it is not surprising that these are seen as more “risky” investments. According to the survey results, investment funds and private equity groups are the most acquisitive groups currently targeting EMEA hotel real estate, followed by Hotel Operators and REITs.
In terms of investor target strategies for the next six months, 47% are primarily focusing on acquisitions, with hot markets including Madrid, Lisbon and Budapest. On the 'sell' side disposals have seen a slight cooling off, falling just over 2% points to 26.7%. Key markets where our survey respondents expect assets to be disposed include Vienna, Moscow and French Riviera. The remaining strategy that will be adopted by investors with be that of development at 26.3% and it's no surprise to see Dubai as a hot spot for development opportunities.
EMEA Investment Intentions

Stage in the Investment Cycle

Most Acquisitive Groups
- Investment Fund / Private Equity
- Hotel Operator
- REIT

Investor Profile
- Short (0-4 years) 23%
- Intermediate (5-9 years) 36%
- Long (10-20 years) 26%
- Extended (20 years+) 15%
- Private/HNWI 2%
- PE or RE Fund 22%
- Developer / Property Company 22%
- Institution 14%
- REIT 2%
- Owner Operator 32%
- Private/HNWI 2%
- Other 6%

Exposure to Hotel Real Estate
- SHORT TERM
- MEDIUM TERM
- DECREASE 7%
- MAINTAIN 6%
- INCREASE 63%

Hot Markets

ACQUISITION
- Madrid
- Lisbon
- Budapest

DEVELOPMENT
- Casablanca
- Birmingham
- Dubai

DISPOSAL
- Vienna
- Moscow
- French Riviera

Planned Nature of Investment
- 29% New hotel acquisition opportunities
- 13% Refurbishment of existing stock
- 17% New conversion acquisition opportunities
- 11% Acquisition of land for development
- 14% New hotel management opportunities
- 9% Development of land-banked stock
- 7% New hotel lending opportunities

Ratio of Buyers to Sellers

Note: ^ Weighted by the number of responses
Source: JLL’s Hotel Investor Sentiment Survey
Methodology

Trading performance expectations

The survey represents investors’ expectations for trading performance in the short (six months) and medium (two years) term with results presented in line with the weight of opinion.

Net balance is the percentage of respondents who respond positively minus the percentage of respondents who respond negatively. The maximum score of + or – 100% indicates that all respondents have given a positive or negative response respectively. A score of 0% indicates the same number of positive and negative responses to a particular question.

Results are averaged across all respondents for each region and are not weighted by the size of the market (i.e. number of investment grade rooms). Weighting is only conducted for the regional and global averages, based on the number of responses for each city.

Investment yield requirements

The survey represents the investment yield (cap rate) level required to consummate a transaction for a stabilised upscale asset, excluding repositioning through capital expenditure or new management focus. These yields are those that investors seek, while yields required to successfully secure an investment are likely to be lower than the Hotel Investor Sentiment Survey average. These yields should not be applied in any valuation or appraisal assignment.

Results for each city are calculated using the average as a measure of central tendency given the nature of the survey, with results restricted to those that fall within three standard deviations of the mean. Current analysis is not framed with regard to specific timeframes, asset classes or investment rationale on which the purchasing decision is based.

Results are averaged across all respondents for regional and global averages, based on the number of responses for each city.

Hotel investment cycle

The hotel investment cycle is a proprietary graphic of Jones Lang LaSalle, used to provide a snapshot of the state of the hotel investment market. Each quadrant describes the state of the market as indicated by survey respondents with respect to current hotel real estate investment values. We note that this does not necessarily represent Jones Lang LaSalle’s appraised or house view.

For the markets in which they invest in or track, respondents were asked to select their perceived stage of the property cycle – out of six specified stages. The final positioning is calculated in accordance with the weight of opinion and regional averages calculated from that. The clock is a simple tool and should only be used in a broad impressionistic way. It 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 hotel investment values are in local currency.

Definition of buyer and seller types

Developer: Property developers who buy with the intent of redevelopment

Institution: Direct investment by pension funds, banks and insurance companies

Listed REIT: Listed Real Estate Investment Trust or Property Trust

Private: High net worth individuals and private companies for whom investment in hotels is not their primary business activity and who do not operate hotels

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

Owner Operator: Listed or unlisted companies that own and operate hotels or serviced apartments as their core business

Glossary

ADR = Average daily rate
IRR = Internal rate of return
RevPAR = Revenue per available room
CAGR = Compound annual growth rate

Major gateways include:

• Americas – Chicago, Los Angeles, Miami, New York, San Francisco and Vancouver
• Asia Pacific – Bangkok, Hong Kong, Mumbai, Shanghai, Singapore, Sydney and Tokyo
• EMEA – Barcelona, London, Milan, Moscow, Munich, Paris and Rome
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