



Hotel Development Cost Survey 2007

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HVS has tracked hotel construction costs throughout the United States since 1976. In 2001, the survey introduced data for a larger range of hotel products, setting new baseline ranges for six lodging types: Economy/Budget Hotels, Midscale Hotels w/o F&B (without Food and Beverage), Extended-Stay Hotels, Midscale Hotels w/ F&B (with Food and Beverage), Full-Service Hotels, and Luxury Hotels and Independent Resorts. The 2006 hotel development survey reports updated per-room development costs for 2006 and a forecast for 2007.

Each year HVS International researches development costs from our database of actual hotel construction budgets, industry reports, and uniform franchise offering circulars. These sources provide the basis for our range of component cost per room. New project construction cost data collected each year may increase the range and/or impact the mean and median of the construction cost components. These development cost ranges are then adjusted each year based on data reflecting the trend in each component cost category.

The pipeline of new hotel projects gained momentum in 2006. By the end of 2006, several hotel companies and development firms announced record growth in new hotel construction. PriceWaterhouseCooper and Torto Wheaton report that roundly 136,500 new rooms began construction in 2006; the largest year over year increase (64.2%) since 1994. Reed Construction Data (RCD) reported that the value of new lodging starts averaged \$1 billion a month in 2006. According to RCD, hotel construction spending expanded faster than all other building markets in 2006. Motivated by strong hotel operating fundamentals and abundant private equity and financing, hotel investment and new hotel projects were the darlings of the 2006 real estate industry.

Development costs continued to increase through 2006. Last year, the cost of many critical building materials such as copper, cement, steel, and wallboard climbed at above-inflationary rates, while the cost of lumber moderated. According to the bureau of labor statistics, materials and components for construction increased at an overall rate of 6.7% and construction machinery and equipment grew at a 4.2% percent rate. Lumber and wood products, however, declined by roundly 5.0%. According to Engineering News Report, gypsum products increased 18.8%. Higher fuel prices affected both material production and transportation costs. Higher transportation costs affected FF&E



costs as well. Many developers reported less concern over price escalations of materials, than the growing cost resulting from a scarcity of skilled labor.

Even as housing construction retrenched, a shortage of skilled construction labor continued to contribute to higher costs. In 2006, areas with robust commercial construction projects and public works projects in areas such as Las Vegas, Phoenix, Southern California, and elsewhere, experienced difficulty in managing labor costs. A dearth of skilled construction workers resulted in signing bonuses, housing concessions, and relocation expenses which impacted construction costs.

The price of favorable sites appreciated in 2006 as desirable hotel sites proved to be attractive for other types of improvements. In suburban and less densely areas, land prices for advantageous hotel sites rose as sellers were often pursued by more than one buyer. Retail developers frequently outbid hotel developers for well-located sites. In urban areas, mixed-use projects continued to be the most viable option for feasible hotel development with residential sales subsidizing the hotel construction.

New brands, in-fill sites, mixed-use projects, hotel condominiums, and redevelopment of existing obsolete improvements provided ample opportunities for new lodging development. Years of low supply growth, a strong economy and the accelerating rebound of hotel rates and occupancies coalesced in a peak of new hotel construction.

In 2005 and 2006, investment requirements and savvy sellers resulted in hotel transactions with record low capitalization rates. As the cost of purchasing existing hotel product increased, new hotel development, even with ever accelerating construction costs, began to look more and more attractive. With fewer existing properties with acceptable investment returns available for buyers, hotel construction was viewed with greater interest by hotel investors. New hotel brands also provided platforms for hotel investors to expand in strong markets. The number of new hotel construction projects proliferated despite the concurrent rise in construction costs. In 2006, the high cost of new hotel development did not discourage developers flush with record low-cost capital.

Hotel Development Cost Survey Results

Developers continued to report construction cost escalations in 2006. All categories reported by the HVS Hotel Development Cost Survey have been affected. Nonetheless, new hotel projects were embraced by developers flush with equity funds and ready financing. As the hotel market performance moderates and lending is curtailed, construction costs are anticipated to grow at a slower rate than the hearty increases of recent years.


Table 2 – 2007 Hotel Development Cost Survey Per-Room Averages (based on 2006 amounts)

	Land	Building and Site Improvements	Soft Costs	FF&E	Pre-Opening and Working Capital	Total
Budget/Economy Hotels						
Average	\$16,300	\$50,000	\$4,600	\$9,100	\$3,300	\$76,100
Median	\$15,500	\$45,500	\$2,400	\$9,100	\$3,100	\$61,600
Allocation	16%	67%	5%	16%	7%	
Midscale Hotels w/o F&B						
Average	\$18,700	\$78,100	\$12,700	\$10,700	\$4,500	\$119,800
Median	\$15,800	\$69,000	\$9,200	\$10,400	\$3,000	\$100,300
Allocation	16%	67%	10%	11%	5%	
Extended-Stay Hotels						
Average	\$17,100	\$89,800	\$13,300	\$14,600	\$3,600	\$160,800
Median	\$15,200	\$78,800	\$11,500	\$15,000	\$2,700	\$128,800
Allocation	13%	63%	10%	1%	2%	
Midscale Hotels w/ F&B						
Average	\$20,000	\$84,700	\$15,000	\$14,100	\$4,200	\$139,400
Median	\$14,700	\$69,900	\$11,800	\$13,300	\$3,300	\$119,500
Allocation	14%	64%	11%	13%	3%	
Full-Service Hotels						
Average	\$23,700	\$133,900	\$26,300	\$25,300	\$7,600	\$255,500
Median	\$18,600	\$121,600	\$16,500	\$20,700	\$6,300	\$191,900
Allocation	11%	64%	12%	13%	4%	
Luxury Hotels and Resorts						
Average	\$113,700	\$386,900	\$123,200	\$61,300	\$23,400	\$729,100
Median	\$116,200	\$335,600	\$106,000	\$65,400	\$21,100	\$655,700
Allocation	18%	53%	16%	12%	5%	

Source: HVS


Table 3 – Hotel Development Cost Survey Per-Room Range of Costs for 2004 – 2006 and estimated 2007

	Land	Building and Site Improvements	Soft Costs	FF&E	Pre-Opening and Working Capital	Total
2006						
Budget/Economy Hotels	\$4,600 - \$29,600	\$27,300 - \$83,800	\$600 - \$13,200	\$4,500 - \$16,900	\$1,400 - \$7,000	\$39,600 - \$135,600
Midscale Hotels w/o F&B	4,200 - 86,200	47,100 - 165,300	2,200 - 60,400	5,500 - 25,000	900 - 25,000	61,800 - 375,600
Extended Stay Hotels	2,700 - 49,000	52,900 - 164,800	2,200 - 87,300	3,500 - 23,100	600 - 25,000	68,100 - 256,100
Midscale Hotels w/ F&B	4,000 - 66,200	46,900 - 142,900	3,300 - 61,200	6,600 - 34,700	100 - 18,600	71,900 - 292,000
Full-Service Hotels	4,100 - 112,600	48,700 - 363,400	2,300 - 122,700	8,300 - 51,200	1,800 - 84,000	96,800 - 576,100
Luxury Hotels and Resorts	14,200 - 255,600	188,700 - 1,369,100	26,000 - 238,000	33,900 - 116,400	10,700 - 80,900	408,100 - 1,580,400
2005						
Budget/Economy Hotels	\$4,300 - \$27,400	\$25,300 - \$77,600	\$600 - \$12,600	\$4,200 - \$15,900	\$1,300 - \$6,600	\$36,000 - \$121,100
Midscale Hotels w/o F&B	700 - 35,700	43,600 - 148,800	2,100 - 37,700	5,200 - 21,000	800 - 23,000	56,200 - 335,400
Extended Stay Hotels	2,500 - 46,700	49,900 - 155,500	2,100 - 43,800	3,300 - 21,400	600 - 11,000	61,900 - 222,700
Midscale Hotels w/ F&B	3,800 - 58,600	44,200 - 131,300	3,200 - 43,000	6,200 - 32,100	100 - 17,500	64,200 - 260,700
Full-Service Hotels	3,800 - 102,400	46,800 - 268,600	2,200 - 74,400	7,800 - 42,400	1,700 - 29,900	86,400 - 373,700
Luxury Hotels and Resorts	13,500 - 243,400	181,400 - 1,291,600	25,000 - 226,700	32,000 - 109,800	9,900 - 46,000	371,000 - 1,490,900
2004						
Budget/Economy Hotels	\$4,100 - 25,400	\$22,000 - \$69,300	\$600 - \$12,200	\$4,100 - \$15,300	\$1,300 - \$6,400	\$32,700 - \$109,100
Midscale Hotels w/o F&B	4,100 - 33,100	37,900 - 132,900	2,000 - 36,600	5,000 - 20,200	800 - 22,300	51,100 - 190,100
Extended Stay Hotels	2,400 - 44,500	43,400 - 138,800	2,000 - 42,500	3,200 - 20,400	600 - 10,700	57,300 - 198,800
Midscale Hotels w/ F&B	3,600 - 53,300	38,400 - 163,300	3,100 - 41,700	6,000 - 30,600	1,000 - 17,000	57,300 - 237,000
Full-Service Hotels	3,500 - 93,100	50,800 - 233,600	2,100 - 72,900	7,600 - 40,400	1,700 - 29,300	77,100 - 339,700
Luxury Hotels and Resorts	12,900 - 231,800	157,700 - 1,123,100	24,300 - 222,300	31,100 - 104,600	9,700 - 45,100	343,500 - 1,406,500



It is important in this analysis to note that there is no uniform system of allocation for hotel development budgets. Hotel development costs are accounted for in numerous line items and categories. Individual accounting for specific projects can be affected by tax implications, underwriting requirements, and investment structures. For example, in a development project, furniture, fixtures, and equipment installation and construction finish work can overlap. Accounting for these items is not always the same from one project to another.

In addition, we recommend that users of the HVS Development Cost Survey consider the per-room amount in the individual cost categories only as a general guide for that category. The totals for low and high ranges in each cost category do not add up to the high and low range of the sum of the categories. None of the data used in the survey showed a project that was either all at the low range of costs or all at the high range of costs. A property that has a high land cost may have lower construction costs and higher soft costs. The total costs shown in the table below are from per-room budgets for hotel developments and are not a sum of the individual components.

All material used by HVS for the development cost survey is provided on a confidential basis and is believed to be reliable. Data from individual sources are not disclosed.