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# HOTEL PORTFOLIO VALUES

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## Executive Summary

*Properties sold together as a portfolio may represent a greater, equal, or lesser value than the sum of each property's individual values, depending on market conditions and characteristics of active buyers. The author collected hotel sales data for the 2012-2014 period and compared the sale prices of portfolio hotel transactions with individual hotel transactions of similar quality, as measured by RevPAR. During this period, the author concludes that portfolio transactions exhibit a premium sale price when compared to individual hotel transactions.*

### Hypothesis

Why might portfolios of hotels be worth more than the sum of what each individual hotel in the portfolio is worth? For the purpose of this article, the author developed a hypothesis based on three advantages that a portfolio buyer is assumed to have:

- **Economies of Scale** – Under the portfolio-sale scenario, a portfolio buyer may benefit from economies of scale associated with transaction costs and management fees due to increased negotiating power.
- **Geographic Diversification** – Portfolio investors may perceive reduced risk for an investment based on cross-collateralization of multiple properties in various locations due to the geographic diversification of these properties. A negative economic trend or valuation factor occurring in one geographic location may not be repeated in all geographic locations represented by the portfolio.
- **Physical Condition Diversification** – Portfolio investors may also perceive reduced risk for an investment based on a diverse range of properties that have different ages, brands, designs, and physical condition characteristics. Customer preferences can change and aspects of one property's age, branding, design, or physical condition could represent physical or functional obsolescence; however, the subject portfolio of properties provides a degree of diversification to protect an investor against such risks.

If these assumptions prove true, portfolio-sale hotel buyers could afford to outbid individual hotel buyers, all else being equal. As a result, portfolio values should be higher than comparable individual-sale hotel values with similar performance. Therefore, our hypothesis can be summarized as the following:

Hypothesis: If RevPAR of Portfolio Sale = RevPAR of Individual Sale

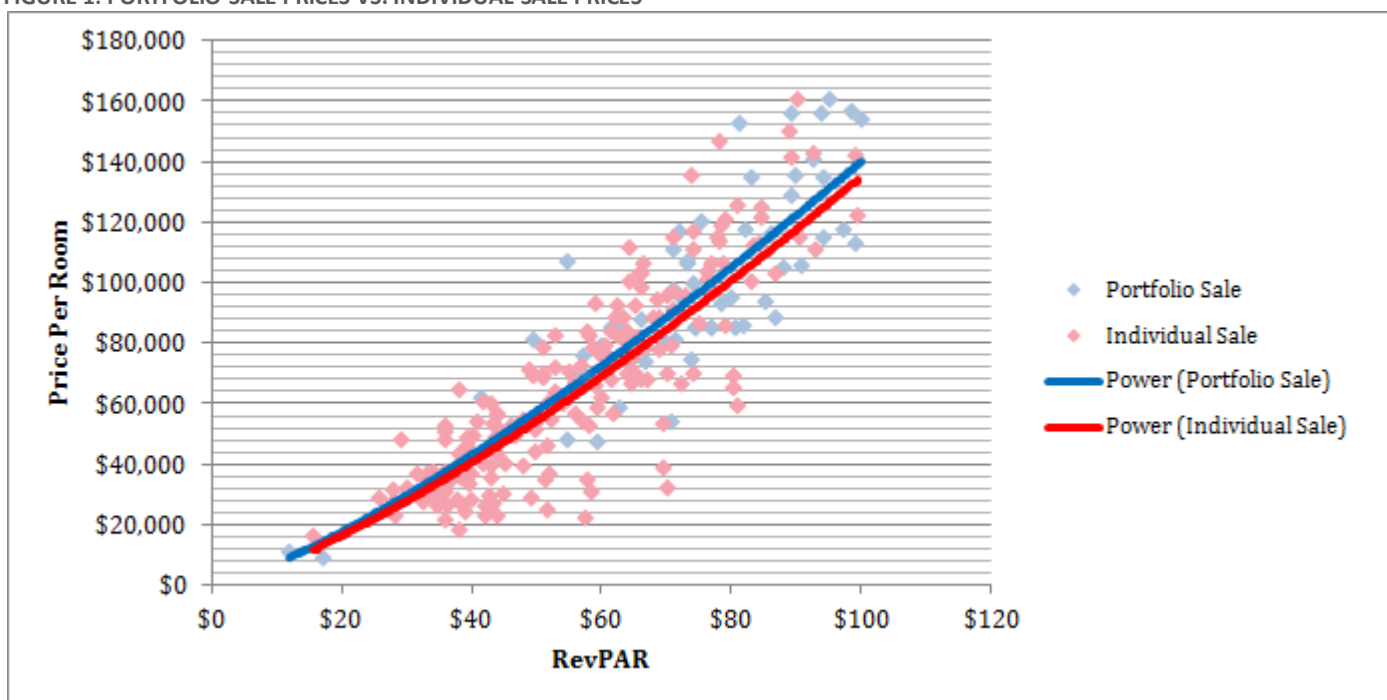
Then Portfolio Sale Price > Individual Sale Price

## Methodologies

The authors reviewed more than 200 transaction files pertaining to sales of individual hotels and hotel portfolios for the 2012-2014 period and compared the sale prices of portfolio hotel transactions with individual hotel transactions of similar quality, as measured by RevPAR, to determine whether recent market transaction data exhibits a trend that is favorable or unfavorable for portfolio sales. To maintain consistency of data, we have focused on sales of limited- and select-service hotels in this study. We have examined the relationship between price-per-room and RevPAR data of each transaction, illustrated in the following scatter plot figure.

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FIGURE 1: PORTFOLIO-SALE PRICES VS. INDIVIDUAL-SALE PRICES



Source: HVS

By taking price per room on the y-axis and RevPAR on the x-axis, the scatter plot exhibits how price per room shifts as RevPAR changes. The authors developed a regression analysis separately for individual sales and portfolio sales to measure the price difference of the two types of sales at various given RevPAR levels.

As exhibited in the preceding figure, the regression line of the portfolio-sale data runs above the regression line of the individual-sale data. This is an indication that a portfolio-sale price is generally higher than an individual-sale price of the same RevPAR levels.

Mathematically, the two regression lines can be described as the following equations:

Portfolio Sale Regression Line

$$Y = 371.49 X^{1.2882}$$

Individual Sale Regression Line

$$Y = 306.39 X^{1.3217}$$

Where,

Y = Price Per Room

X = RevPAR

One may calculate an expected price difference between a portfolio sale and an individual sale at a given RevPAR level by substituting X with a RevPAR level of the sale in question. For example, to determine the price difference between a portfolio sale and an individual sale at RevPAR of \$40, we substitute X with \$40 and compared the results from the two equations. The sale prices indicated by these equations are the following:

Portfolio Sale Price at RevPAR of \$40 = \$43,025

Individual Sale Price at RevPAR of \$40 = \$40,153

The results indicate a price difference of approximately 7.2% between the portfolio and the individual sales, with the portfolio-sale price being higher.

## Conclusion

Under recent market conditions, the authors conclude that portfolio-sale prices for hotels are generally higher than individual-sale prices for hotels, after accounting for differences in RevPAR levels. The result is consistent with our hypothesis given in the beginning of this article. We believe that the advantages that portfolio buyers have from economies of scale and risk diversification allow them to outbid individual hotel buyers in some instances, leading to this general result. However, it is important to note that, depending on market trends and characteristics of active buyers, specific results may differ from the general conclusions presented in this article.



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## About the Author



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