

**CBRE HOTELS**

The World's Leading Hotel Experts.

# **WILL TOMORROW BE BETTER THAN YESTERDAY?**

*HOTEL SECTOR UPDATE*

**OCTOBER 31, 2017**



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Advantage*

# THE AGENDA

## 1. U.S. Lodging Market

- The Macro-Economy and Hotels
- The Changing Traveler
- Our Performance Forecasts
- Cap Rates

# THE MACRO ECONOMY AND HOTELS

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A THOUGHT:

“Prediction is very difficult, especially if it's about the future.”

- Niels Bohr, Nobel laureate in Physics

“Generally speaking, the recent past is a good predictor of the near term future.”



## MARKET OUTLOOK – THE ECONOMY

### 2018 VS. THE 2012 – 2016 AVERAGE:

#### INCOME:

- *Leading Markets: 16 of 60 (Tampa, Jacksonville, West Palm Beach)*
- *Lagging Markets: 44 of 60 (Oakland, San Jose, Sacramento)*

#### EMPLOYMENT:

- *Leading Markets: 5 of 60 (Tampa, Pittsburgh, Dayton, Cleveland)*
- *Lagging Markets: 55 of 60 (San Francisco, San Jose, Nashville)*

#### POPULATION:

- *Leading Markets: 13 of 60 (West Palm Beach, Raleigh-Durham, Tucson)*
- *Lagging Markets: 47 of 60 (San Jose, Charleston, Oakland)*



# HOW IS THE ECONOMY TODAY?

**Good?**

Okay?

**Bad?**



HOW WILL THE ECONOMY BE IN 2018?

**Better?**

Same as 2017?

**Worse?**

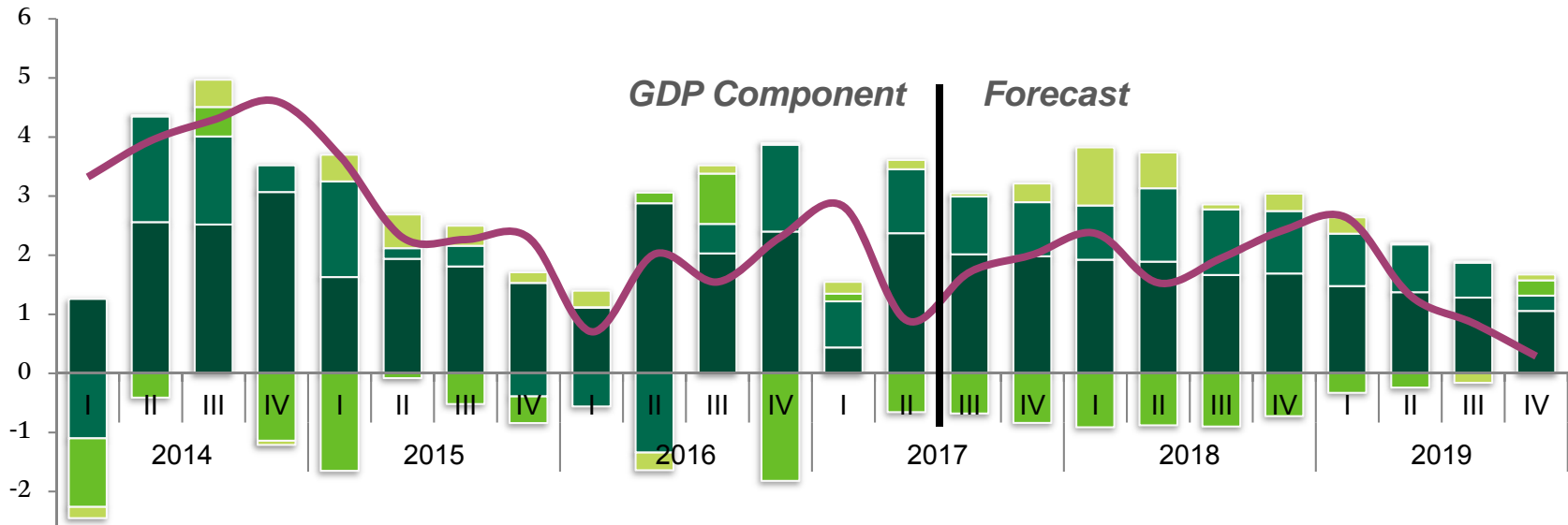
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THE LODGING CONFERENCE 2017 | OCTOBER 31, 2017



# THE OUTLOOK FOR THE DRIVERS THAT ARE MOST IMPORTANT TO HOTELS REMAINS FAVORABLE



- (GOVERNMENT) Government consumption expenditures and gross investment
- TRADE (Net exports of goods and services)
- BUSINESS (Gross private domestic investment)**
- CONSUMERS (Personal consumption expenditures)**
- Lodging Demand

These matter the most.



Source: BEA, Moody's Analytics, CBRE Hotels | Americas Research  
Hotel Horizons: October 2017, STR, Inc.



# THE CHANGING TRAVELER



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## QUESTIONS:

1. When is hotel occupancy higher:
  - Weekday?
  - Weekend?
2. When is hotel ADR higher:
  - Weekday?
  - Weekend?



# ROOM TO GROW?

## COMPARING WEEKDAY VS. WEEKEND PERFORMANCE

### Occupancy Level

| Year           | Weekday | % Δ   | Weekend | % Δ   | Total | % Δ   |
|----------------|---------|-------|---------|-------|-------|-------|
| 2000           | 60.5%   |       | 68.3%   |       | 62.8% |       |
| 2005           | 60.2%   | -0.6% | 68.3%   | 0.0%  | 62.5% | -0.4% |
| 2010           | 54.8%   | -8.9% | 62.5%   | -8.5% | 57.0% | -8.8% |
| 2016           | 62.3%   | 13.8% | 71.3%   | 14.0% | 64.9% | 13.9% |
| 2000-16 Change |         | 1.4%  |         | 1.8%  |       | 1.6%  |

Source: STR

Weekend Occupancy Level is 9.0 points Higher than the Weekday Level

# LEISURE TRAVEL GAINS

## COMPARING WEEKDAY VS. WEEKEND PERFORMANCE

### Average Daily Rate

| Year           | Weekday  | % Δ   | Weekend  | % Δ   | Total    | % Δ   |
|----------------|----------|-------|----------|-------|----------|-------|
| 2000           | \$82.41  |       | \$79.74  |       | \$81.57  |       |
| 2005           | \$87.73  | 6.5%  | \$87.92  | 10.3% | \$87.79  | 7.6%  |
| 2010           | \$94.02  | 7.2%  | \$93.18  | 6.0%  | \$93.75  | 6.8%  |
| 2016           | \$118.54 | 26.1% | \$120.87 | 29.7% | \$119.28 | 27.2% |
| 2000-16 Change |          | 2%    |          | 2.6%  |          | 2.4%  |

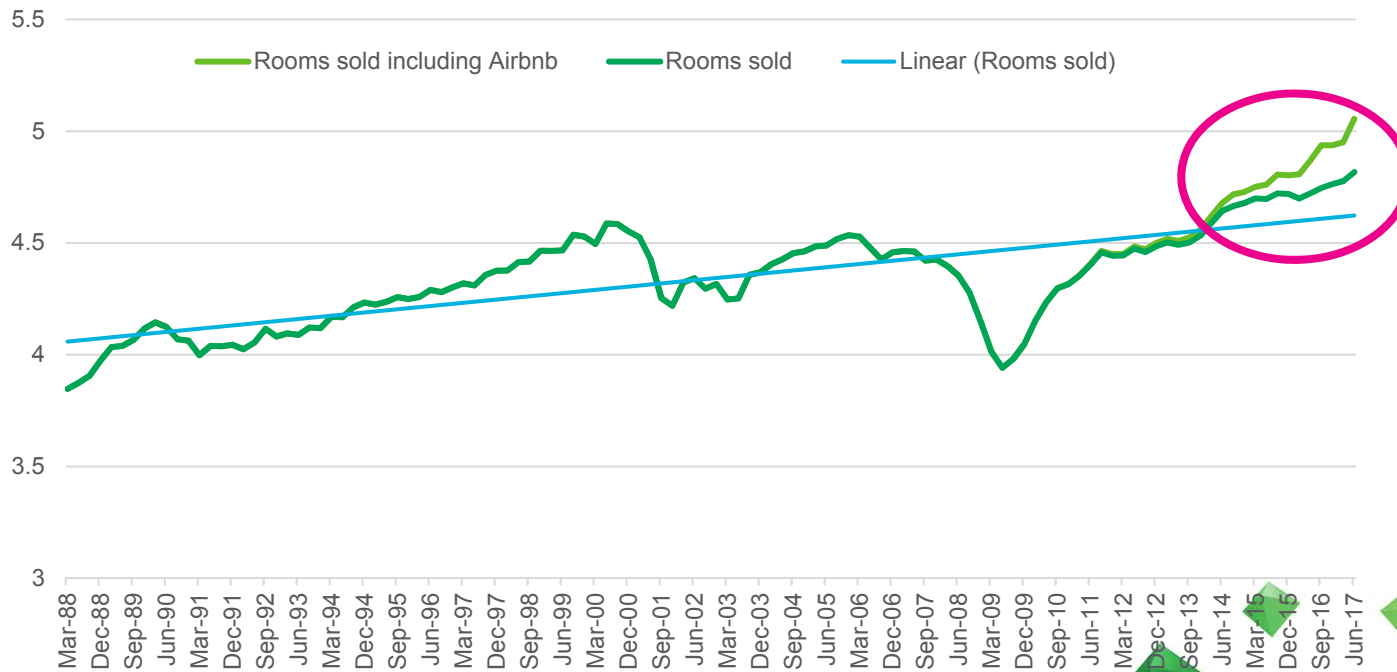
Source: STR

ADR is Now Higher on the Weekend

# MORE PEOPLE RENTING ROOMS

## WELL IN EXCESS OF WHAT HISTORICAL TRENDS WOULD SUGGEST

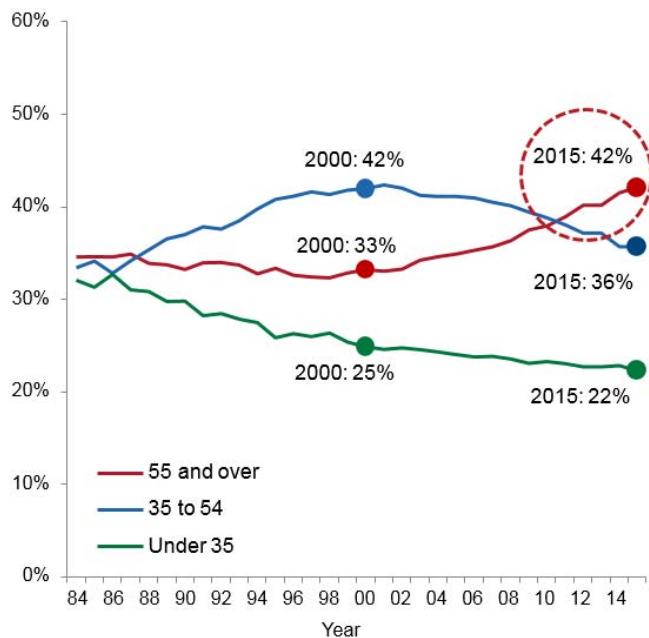
RATIO OF ANNUAL ROOMS SOLD TO WORKING-AGE POPULATION OF THE U.S.



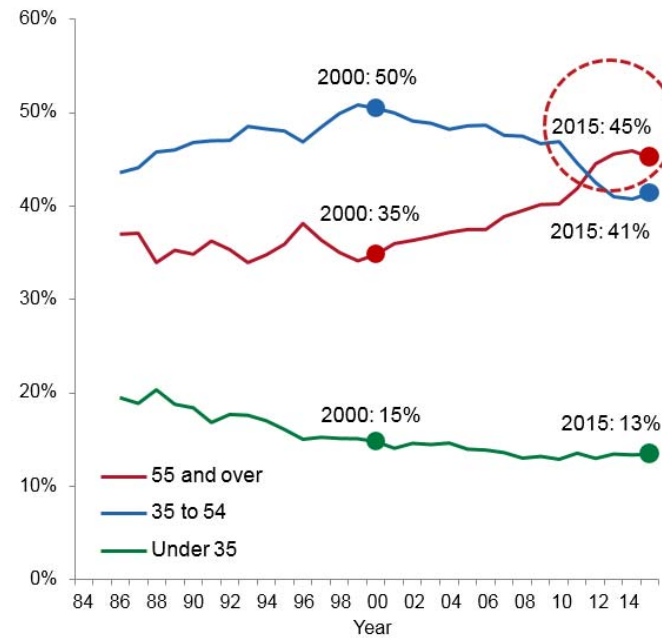
Source: STR, Airdna, U.S. Census, CBRE Hotels' Americas Research, Q2 2017.

# SENIORS REPRESENT GREATER SHARE OF HOUSEHOLDS AND SPENDING

Share of households by age



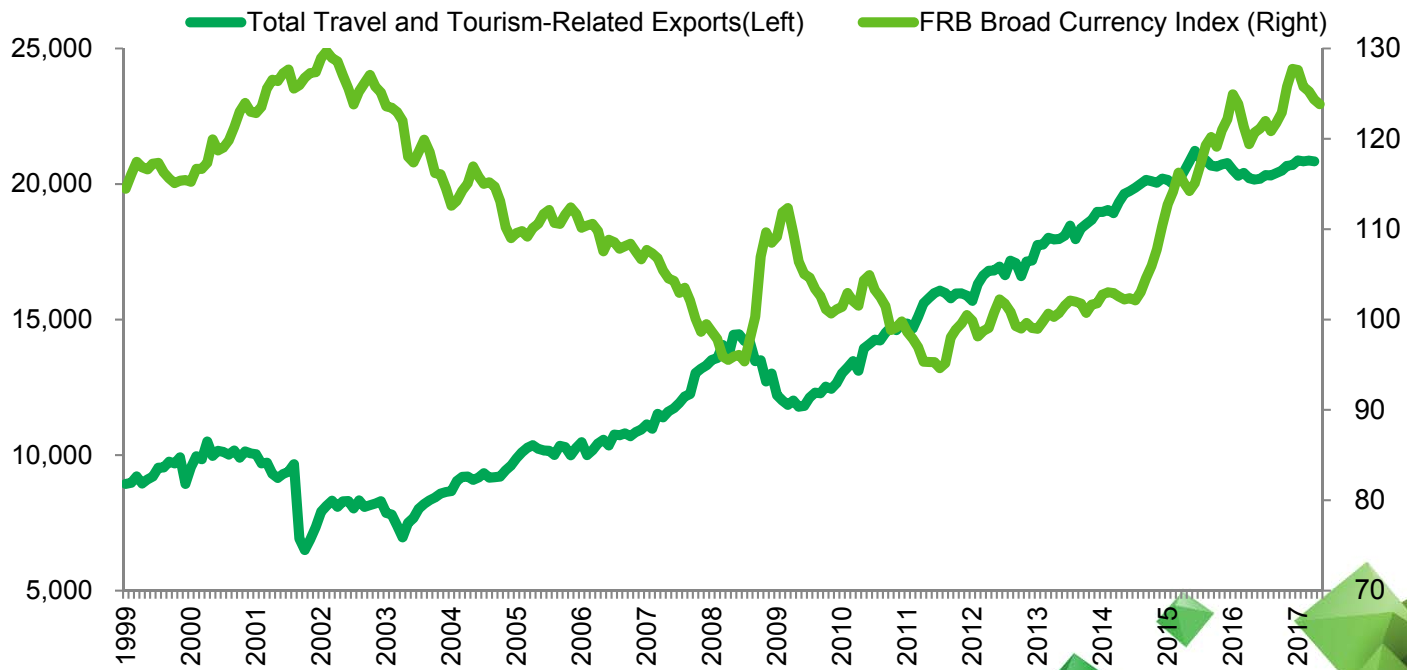
Share of lodging spending by age



Note: Lodging spending is based on recent three-year average (2013 to 2015). Consumer spending represents leisure trips.  
Source: BLS; Tourism Economics

# EFFECT OF STRONG DOLLAR

## Exchange Rate Index and International Tourism Spending

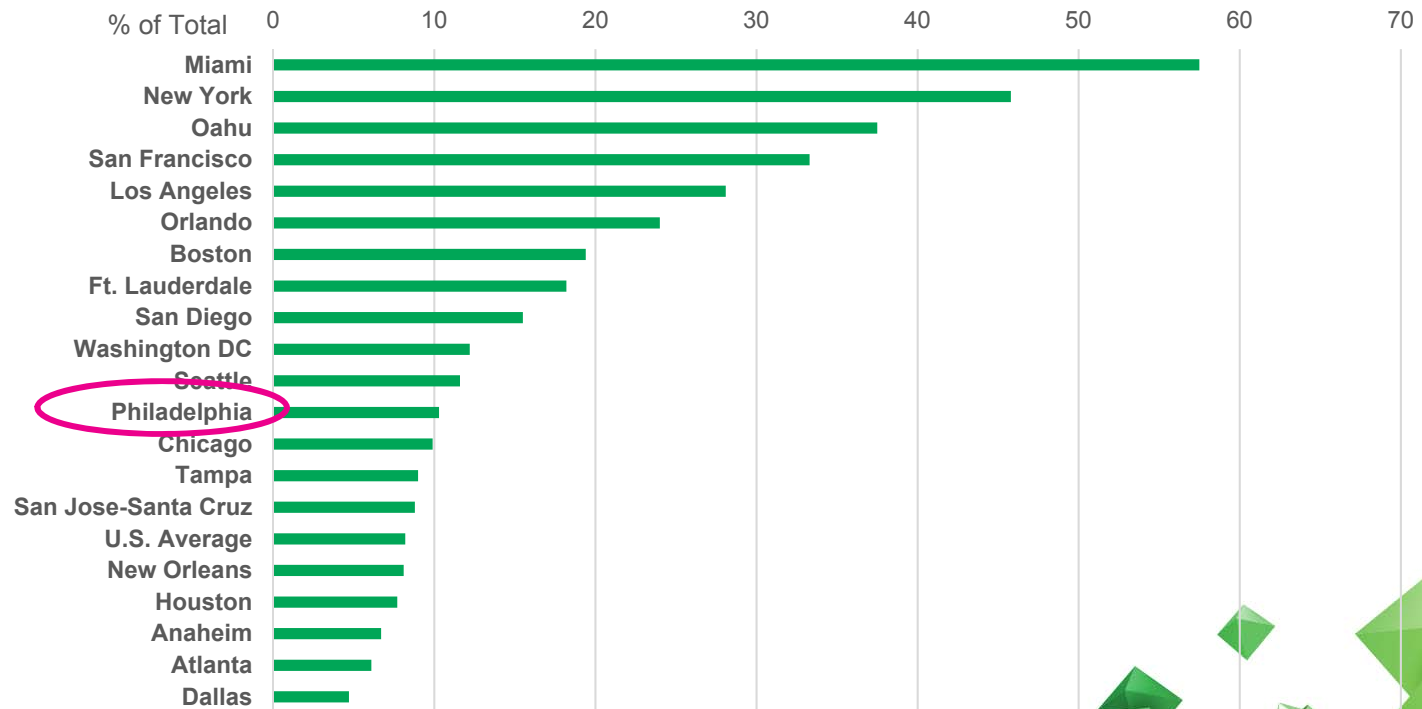


Source: Federal Reserve Board, International Trade Association, Q2 2017

Note: Quarterly data in real terms, '97 = 100

# INTERNATIONAL TRAVEL TO THE US

## RATIO OF INTERNATIONAL HOTEL STAYS AS A SHARE OF ROOM NIGHTS - 2015



Source: U.S. Department of Commerce ITA, STR, City Visitor Reports, CBRE Hotels' Americas Research.



# OUR FORECASTS



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# TIMES ARE GOOD...WILL THEY GET BETTER?

## U.S. NATIONAL FORECAST

### FORECAST CALLS FOR A CONTINUAL DECLINE IN REVPAR GROWTH

|           | Long Run Average | 2014  | 2015  | 2016  | 2017F | 2018F |
|-----------|------------------|-------|-------|-------|-------|-------|
| Supply    | 1.9%             | 0.6%  | 1.0%  | 1.5%  | 1.9%  | 2.6%  |
| Demand    | 2.0%             | 4.0%  | 2.6%  | 1.6%  | 2.2%  | 2.0%  |
| Occupancy | 62.2%            | 64.4% | 65.4% | 65.4% | 65.9% | 65.9% |
| ADR       | 3.1%             | 4.6%  | 4.5%  | 3.1%  | 2.2%  | 2.5%  |
| RevPAR    | 3.3%             | 8.2%  | 6.2%  | 3.2%  | 2.9%  | 2.5%  |

Source: STR CBRE Hotels' Americas Research, Q3 2017 – Preliminary Update.



## REVPAR FORECAST BY CHAIN-SCALE

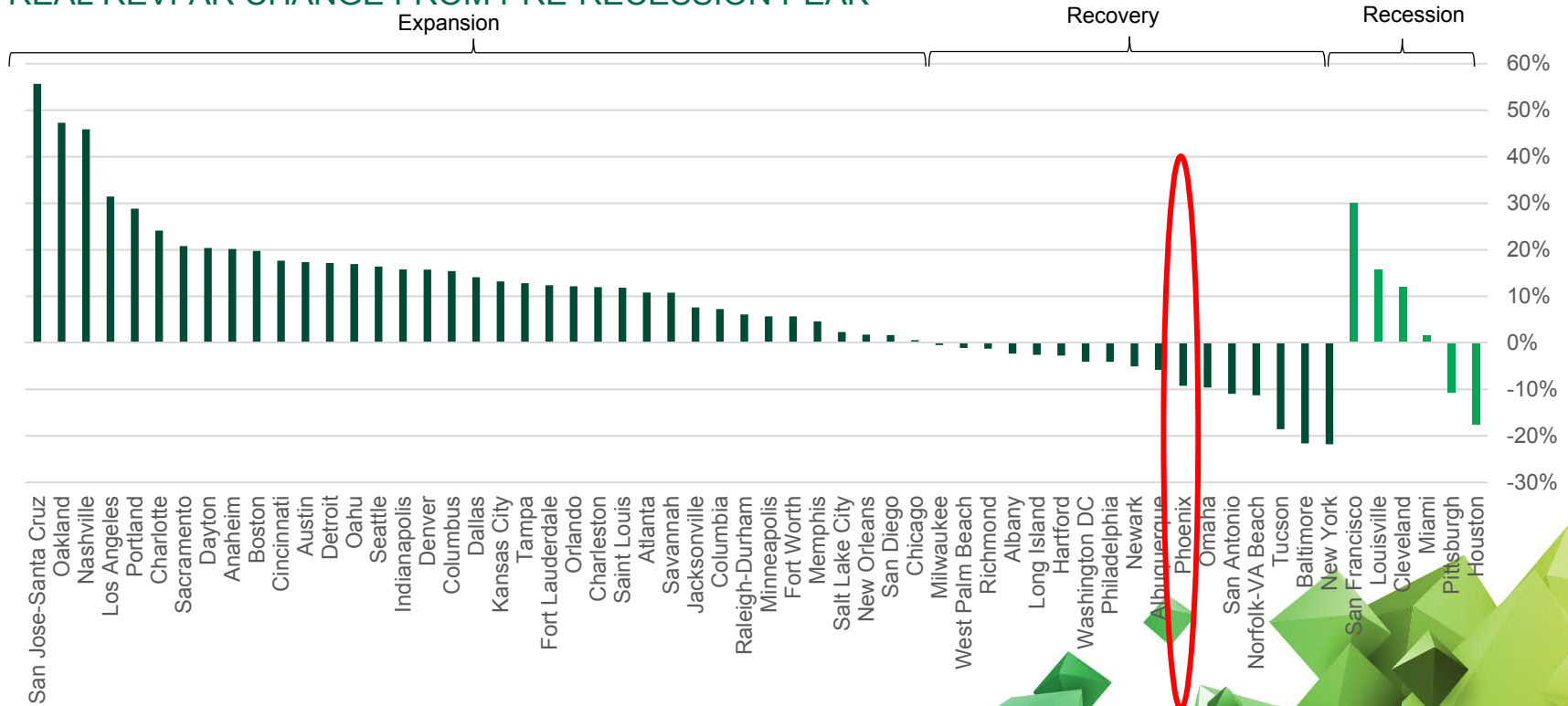
ECONOMY HOTELS CONTINUE UP THE RECOVERY CURVE – OUTPACING ALL OTHERS

| Chain Scales   | 2016 | 2017F | 2018F |
|----------------|------|-------|-------|
| Luxury         | 1.3% | 2.1%  | 2.5%  |
| Upper Upscale  | 1.9% | 1.0%  | 1.0%  |
| Upscale        | 2.2% | 0.7%  | 1.2%  |
| Upper Midscale | 2.2% | 1.6%  | 2.8%  |
| Midscale       | 2.4% | 3.1%  | 1.8%  |
| Economy        | 3.0% | 3.1%  | 3.4%  |
| All Hotels     | 3.2% | 2.9%  | 2.5%  |

Source: STR CBRE Hotels' Americas Research, Q3 2017 – Preliminary Update.

# LOCAL MARKET POSITION IN THE CURRENT CYCLE VARIES

## REAL REVPAR CHANGE FROM PRE-RECESSION PEAK



Source: STR CBRE Hotels' Americas Research, Q3 2017.



## TOP 60 MARKET OUTLOOK – U.S. HOTELS

2018 VS. 2017:

OCCUPANCY LEVELS: (65.9% - *FLAT*)

- *Up in 8*
- *Flat in 4*
- *Down in 48*

AVERAGE DAILY RATE LEVELS: (\$129.94 - *UP 2.5%*)

- *Up in 59*
- *Down in 1*

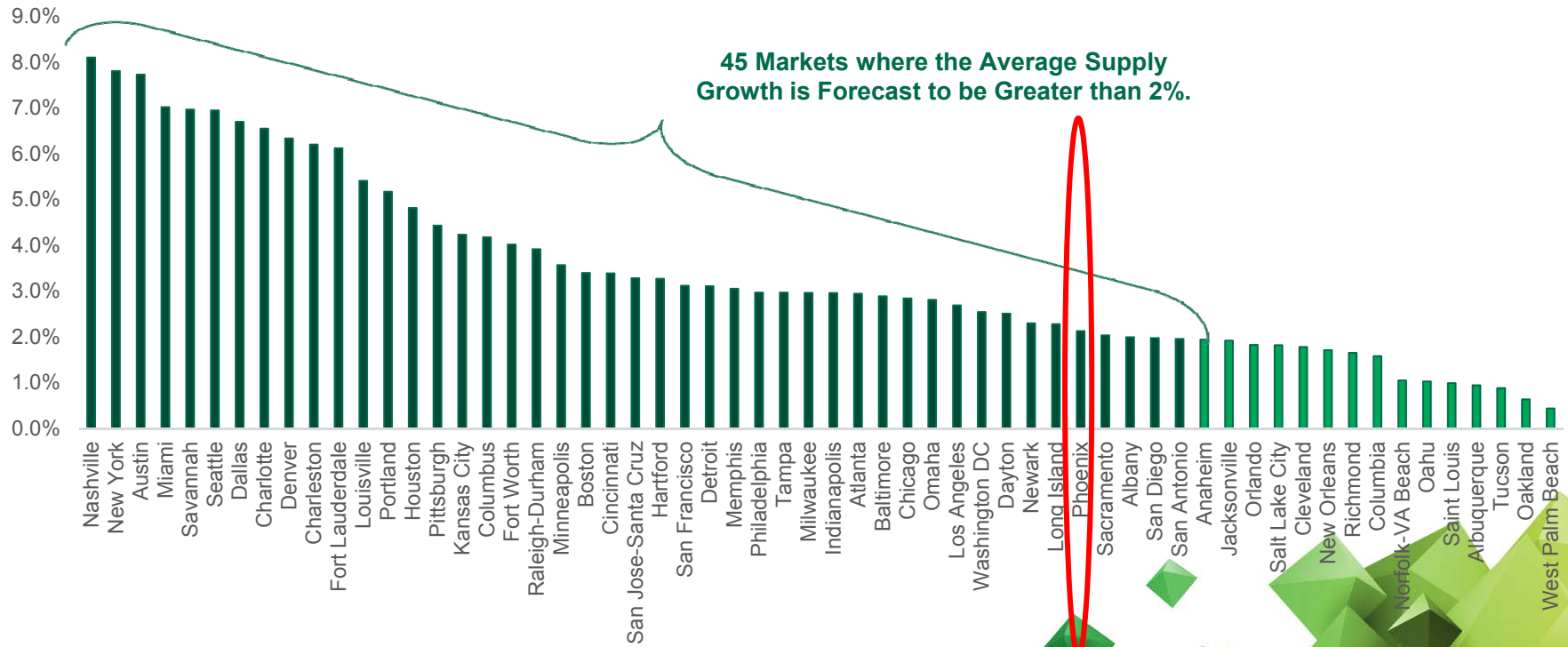
REVPAR LEVELS: (\$85.59 – *UP 2.5%*)

- *Up in 53*
- *Down in 7*



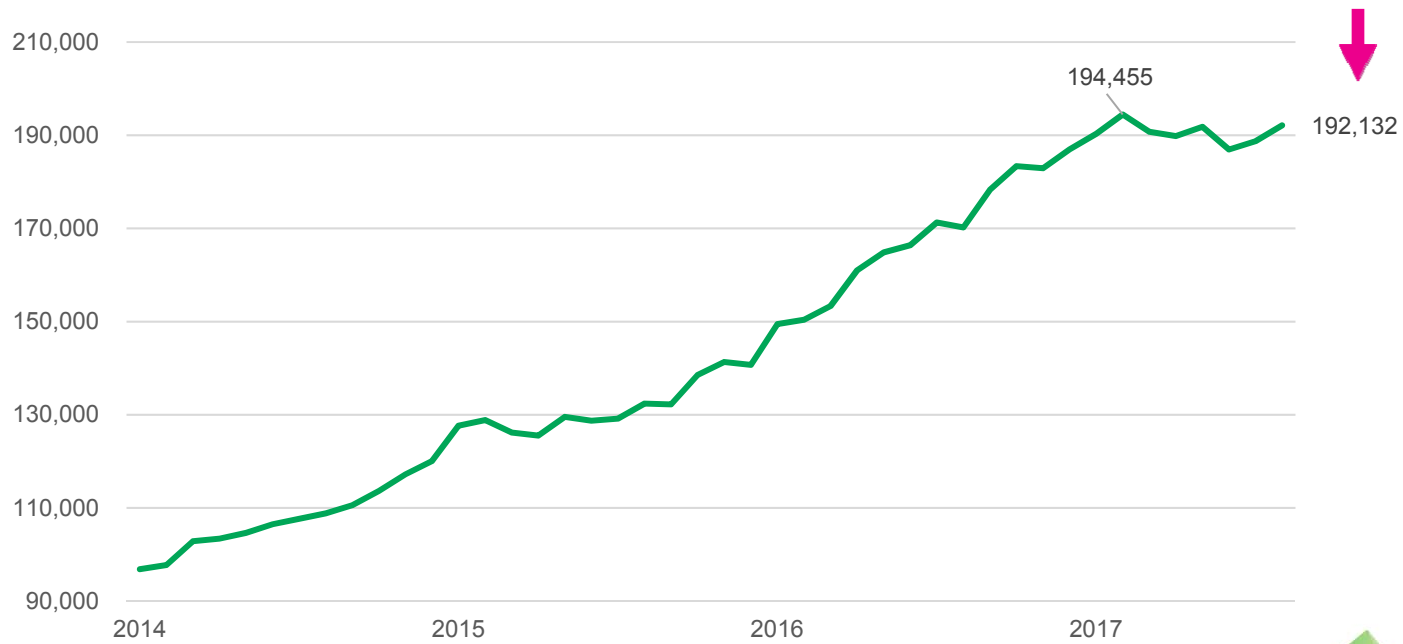
# SUPPLY CHANGE 2018 - FORECAST

## 2017 TO 2018



Source: CBRE Hotels' Americas Research, Q2 2017.

# PIPELINE PEAKING – U.S. ROOMS UNDER CONSTRUCTION



Source: STR, CBRE Hotels' Americas Research, Q2 2017.



# RECENT NEW U.S. SUPPLY

New Rooms Jan'16 - June '17

| Class          | Airport | Interstate | Small Metro | Resort | Suburban | Urban | Total |
|----------------|---------|------------|-------------|--------|----------|-------|-------|
| Luxury         | 0.0%    | 0.0%       | 0.4%        | 2.0%   | 0.5%     | 2.2%  | 5.1%  |
| Upper Upscale  | 0.7%    | 0.3%       | 0.3%        | 1.1%   | 1.9%     | 7.3%  | 11.6% |
| Upscale        | 1.9%    | 1.5%       | 3.3%        | 2.9%   | 14.0%    | 9.9%  | 33.5% |
| Upper Midscale | 1.9%    | 5.7%       | 8.3%        | 1.5%   | 16.4%    | 5.3%  | 39.1% |
| Midscale       | 0.2%    | 0.9%       | 1.5%        | 0.1%   | 2.1%     | 0.7%  | 5.5%  |
| Economy        | 0.5%    | 0.8%       | 0.7%        | 0.2%   | 2.6%     | 0.4%  | 5.2%  |
| Total          | 5.2%    | 9.2%       | 14.5%       | 7.8%   | 37.5%    | 25.8% |       |

**Representative Brands:**

**Upscale Class:**

**Upper Midscale Class:**

**Hilton Garden Inn, Hyatt Place, Residence Inns**

**Red Lion, Lexington, Holiday Inn, Moxy**

Source: STR, CBRE Hotels' Americas Research, Q2 2017.





**QUESTION:**

Record Occupancies Leads to Scarcity  
in Many Markets.

Why has Real ADR Growth Been Just  
Okay, and Not Great?



# CONUNDRUM

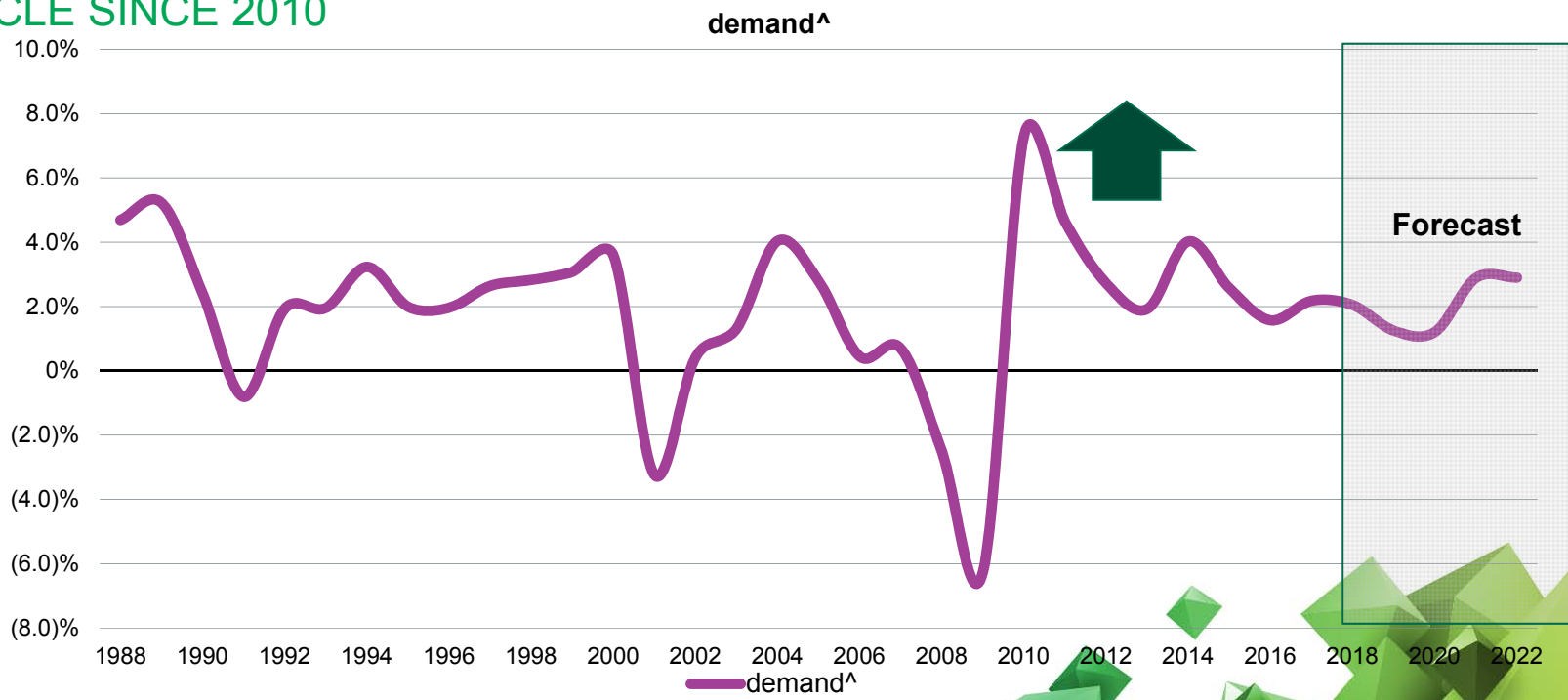
A question or problem having only a conjectural answer.

Conjecture: Without Evidence



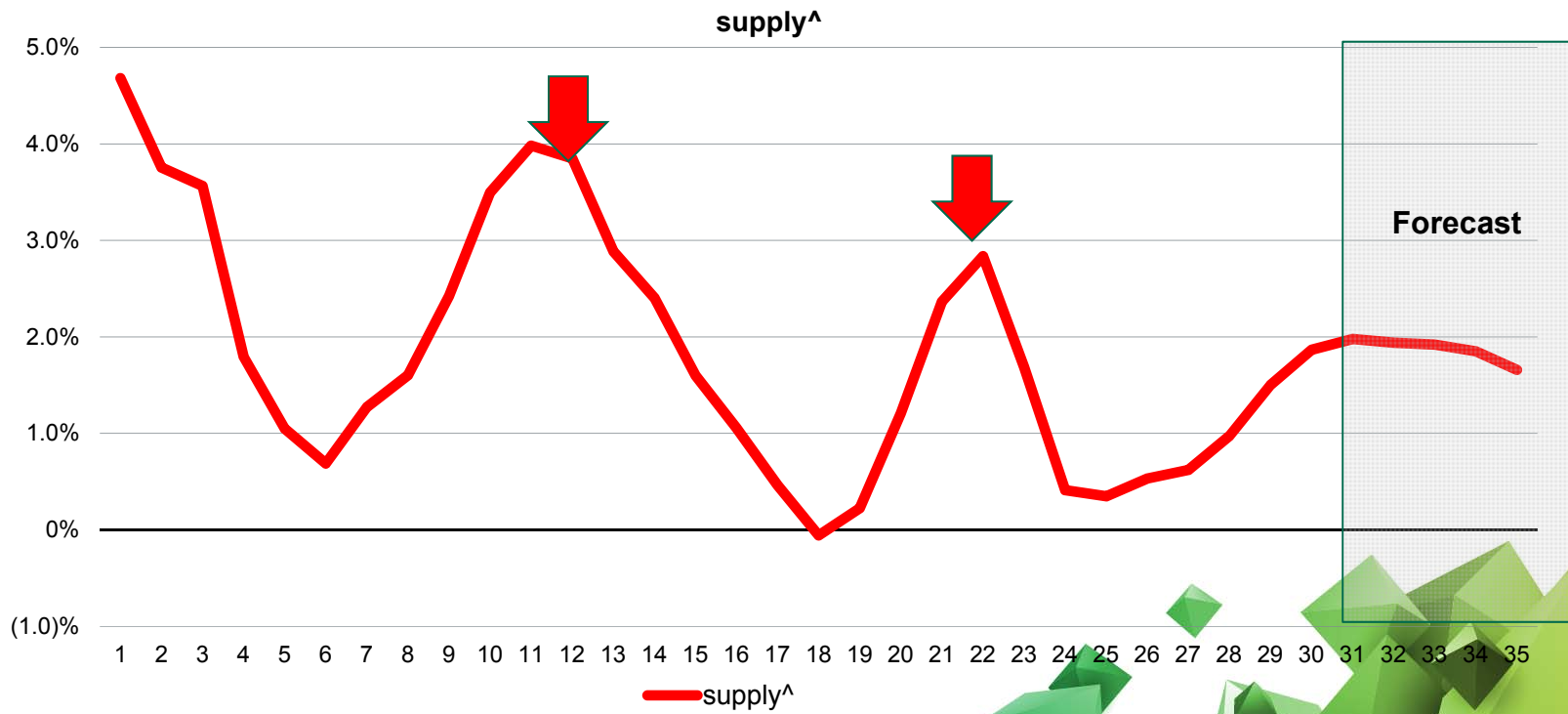
# REAL REVPAR CHANGE – WHAT WE LEARN FROM PAST CYCLES

STRONG DEMAND GROWTH HAS CHARACTERIZED THIS CYCLE SINCE 2010



# REAL REVPAR CHANGE – WHAT WE LEARN FROM PAST CYCLES

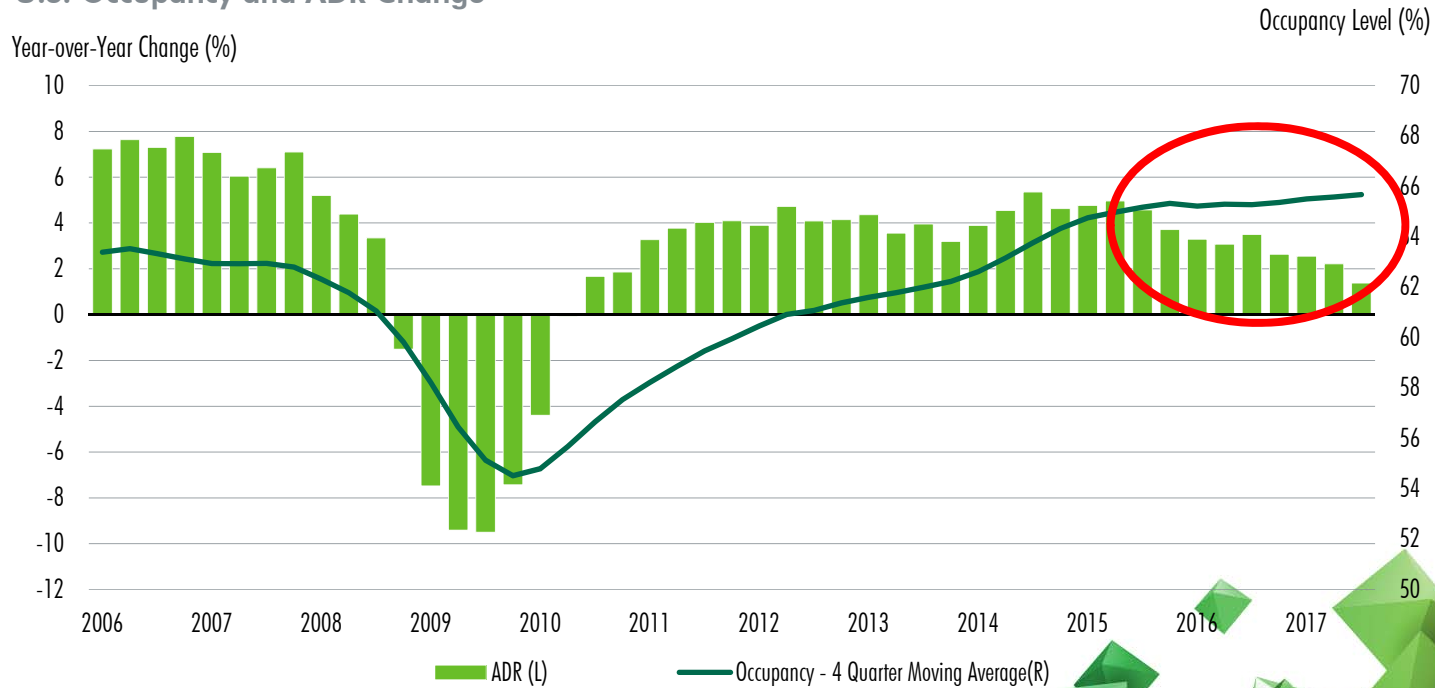
## MODEST SUPPLY RESPONSE IN THE CURRENT CYCLE



# REAL REVPAR CHANGE – WHAT WE LEARN FROM PAST CYCLES

## PRICING POWER IS ABSENT THIS TIME AROUND

U.S. Occupancy and ADR Change



Source: CBRE Hotels' Americas Research, STR, Q3 2017.

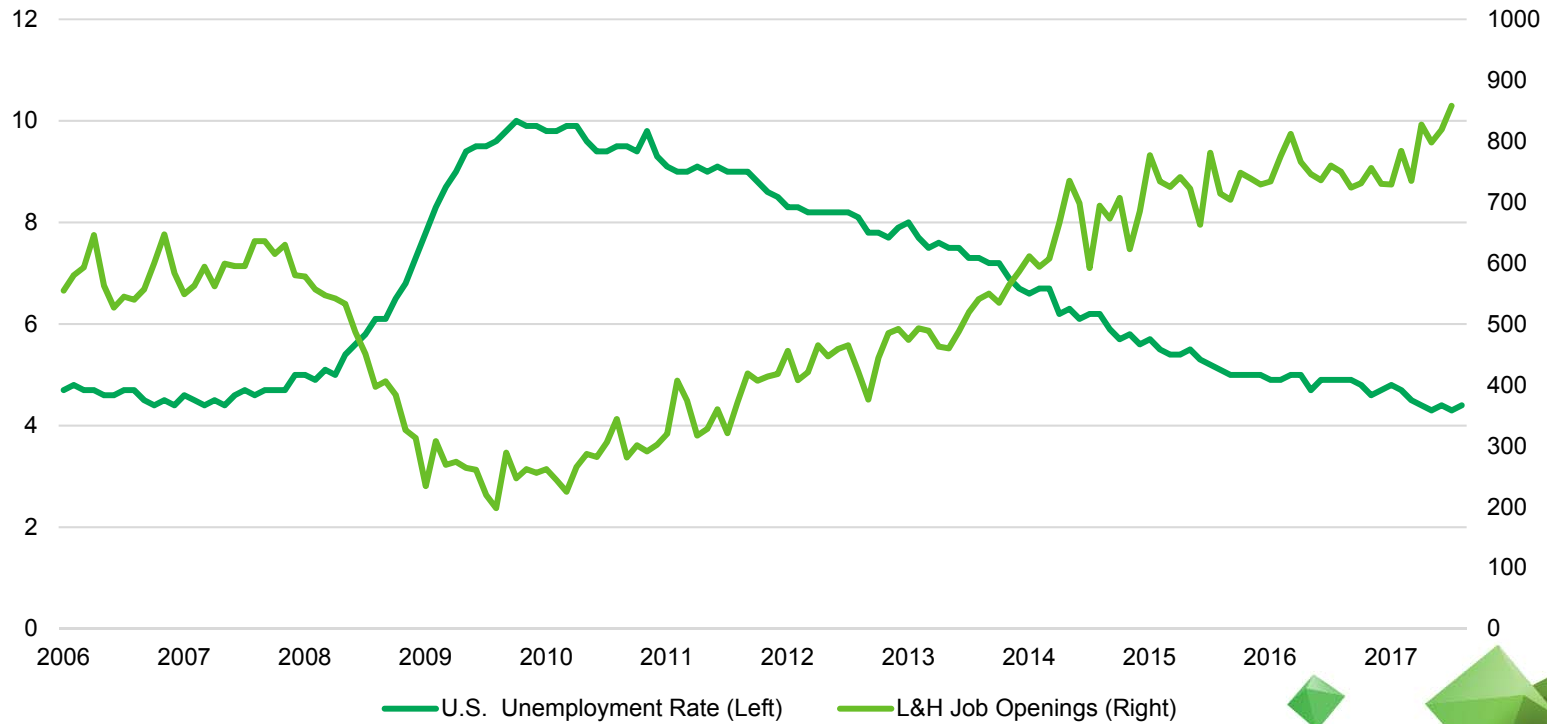


## WHAT EXPLAINS LACKLUSTER ADR GROWTH?

- SHORTENED BOOKING LEAD TIMES.
- GROWTH OF THE SHARING ECONOMY AND THEIR IMPACT ON PRICING POWER DURING PEAK DEMAND PERIODS.
- CHAINS INCENT MANAGERS TO MAXIMIZE OCCUPANCY AND NOT NECESSARILY REVENUE.
- INTERMEDIARIES CAPTURING A GREATER PORTION OF THE PRICE INCREASES THAT THE CONSUMER PAYS (YET THE HOTEL DOES NOT RECEIVE).
- NEW SUPPLY IN MANY OF THE LARGER MARKETS ERODES PRICING POWER.



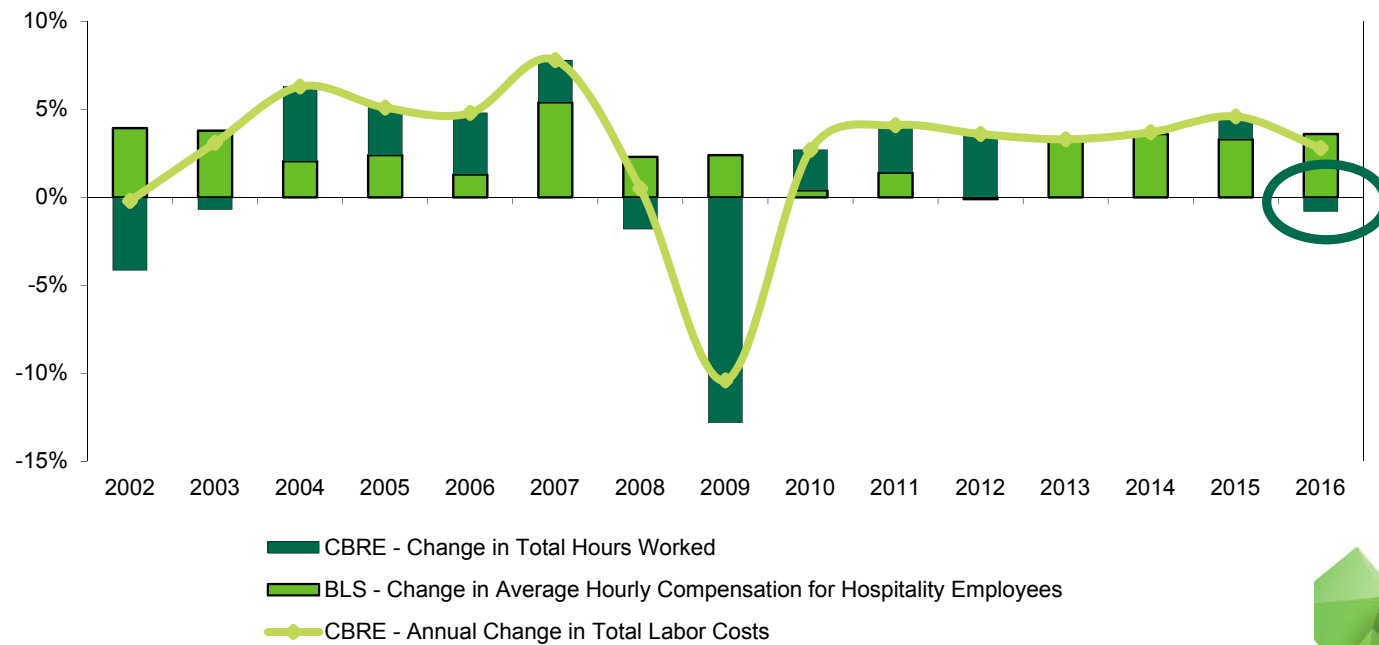
# THE JOB MARKET - GETTING TIGHT!



Source: BLS, Q3 2017.

# MANAGEMENT REACTS

## Annual Change in Components to Total Labor Costs

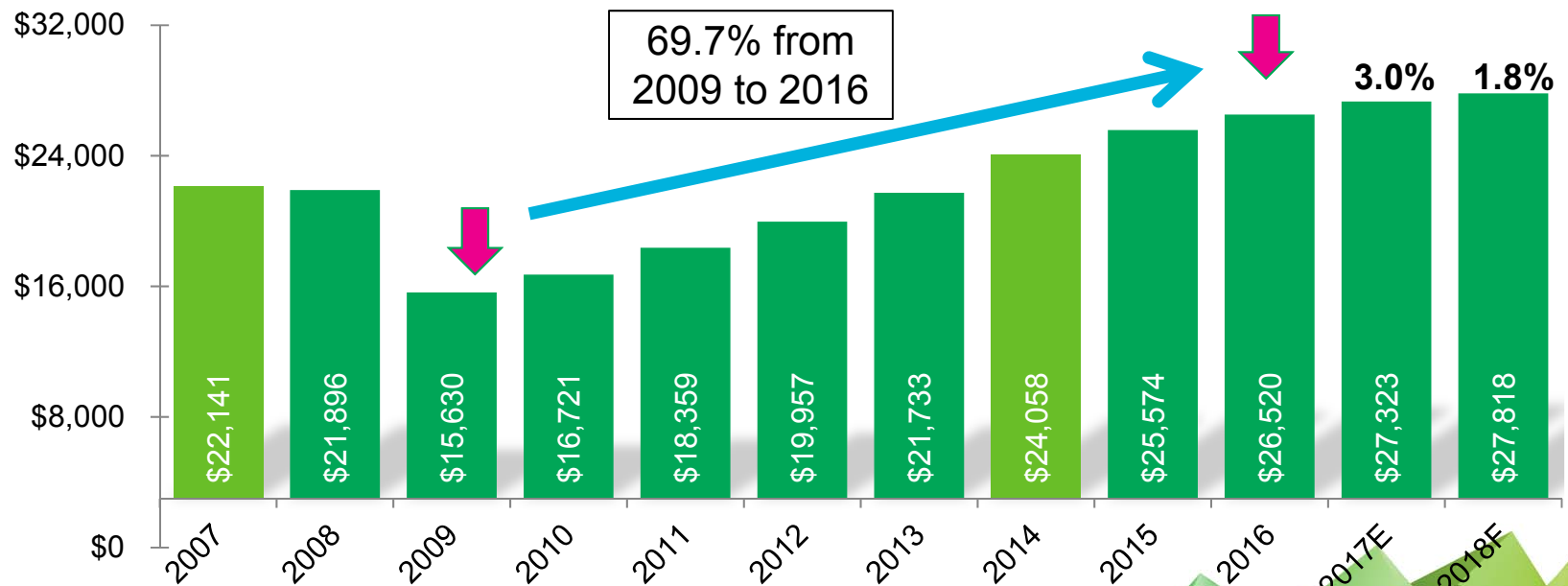


Source: 2017 Trends® in the Hotel Industry, Bureau of Labor Statistics



# HOTELS ARE MAKING MONEY

## GROSS OPERATING PROFIT\* - DOLLARS PER AVAILABLE ROOM



Note: \* Before deduction for Management Fees and Non-Operating Income and Expenses

\*\* Earnings before Interest, Taxes, Depreciation, and Amortization

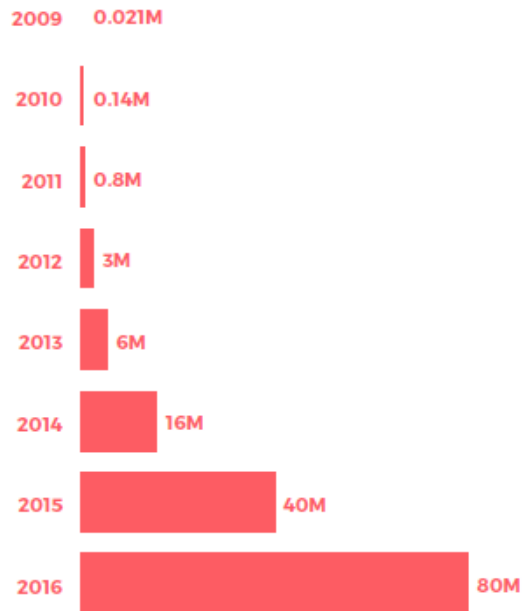
Source: 2017 Trends® in the Hotel Industry



**airbnb**

# AIRBNB

Annual Growth in Airbnb Guest Arrivals



Source Airbnb

**4M**  
Airbnb listings worldwide

**191+**  
countries

**1.9M**  
Instant Book listings

**200M+**  
Total guest arrivals since 2008

“As many guest arrivals in 2016 as all other previous years combined”

# BUSINESS TRAVEL ON AIRBNB?

“Business Travel Ready” Airbnb listings have a majority of 5-star reviews, and they provide:

- 📶 Wireless Internet
- 💻 Laptop-friendly workspace
- 🔑 Self check-in
- 🚬 Smoke detector
- 🚒 Carbon monoxide detector
- ✓ Iron and ironing board
- 🚰 Hair dryer
- 👔 Hangers
- 🧴 Shampoo
- 🧻 Essentials (toilet paper, clean towels, and fresh linens)

“11% of all Airbnb Guests are business travelers”

“30% of Airbnb Guests in Urban Markets are business travelers”

Source Airbnb

## % OF UNITS THAT ARE BUSINESS READY (TOP 10)

| MARKET         | SUBMARKET                   | % BUSINESS READY |
|----------------|-----------------------------|------------------|
| Sacramento     | Central Business District   | 30.3%            |
| San Antonio    | Central Business District   | 30.2%            |
| Des Moines, IA | Des Moines Airport/West, IA | 28.4%            |
| Nashville      | Central Business District   | 27.2%            |
| Texas North    | Amarillo, TX                | 26.9%            |
| Seattle        | Central Business District   | 26.7%            |
| Nashville      | Airport                     | 25.4%            |
| Denver         | Central Business District   | 25.1%            |
| Charlotte      | CBD / Airport               | 25.0%            |

Source: Airdna, CBRE Hotels' Americas Research, Q2 2017.

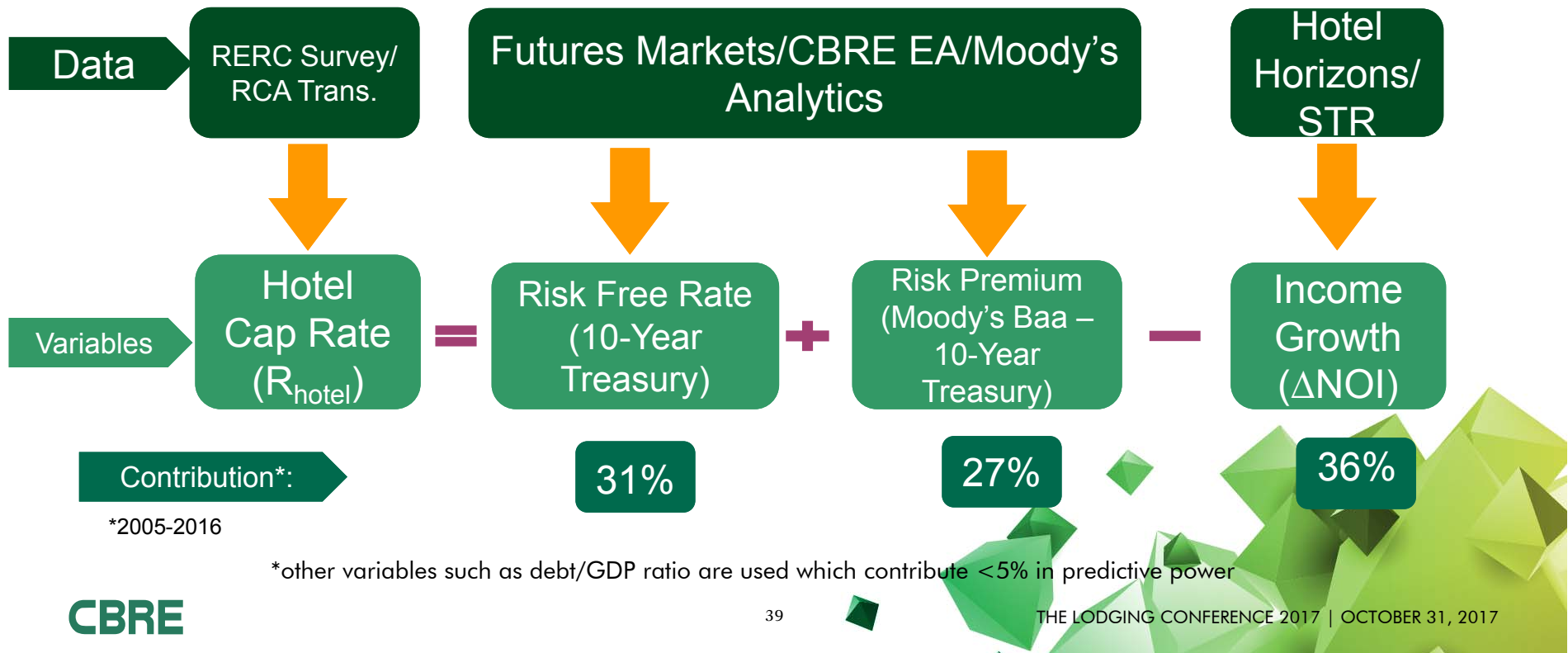
# CAP RATES



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# HOTEL CAP RATE FORECASTING MODEL

MARKET RETURN, RISK, AND INCOME GROWTH (FROM GORDON GROWTH MODEL)



## WHERE ARE CAP RATES GOING?

| Year                       | 10 Year Treasury | Risk Premium (Aaa - 10 Yr Treasury) | Real Estate Risk Premium (Hotel Cap Rate - Aaa) | Hotel Cap Rate |
|----------------------------|------------------|-------------------------------------|---|----------------|
| 2012                       | 1.8              | 1.87                                | 4.85  | 8.25           |
| 2013                       | 2.35             | 1.89                                | 3.91  | 8.15           |
| 2014                       | 2.54             | 1.62                                | 3.98  | 8.15           |
| 2015                       | 2.14             | 1.75                                | 4.49  | 8.38           |
| 2016                       | 1.84             | 1.83                                | 4.85  | 8.52           |
| 2017F                      | 2.53             | 1.52                                | 4.84  | 8.89           |
| 2018F                      | 3.18             | 1.55                                | 4.14  | 8.86           |
| 2019F                      | 1.85             | 1.84                                | 4.8   | 8.91           |
| <b>L.R.A (1995 - 2016)</b> | <b>3.99</b>      | <b>1.51</b>                         | <b>3.89</b>                                     | <b>9.39</b>    |

Forecast show that treasuries will rise

Slightly overshooting LRA

Cap rates will remain below LRA

Source: CBRE Hotels' Americas Research, Q3 2017, RERC, RCA.



# SUMMARY THOUGHTS

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## SUMMARY THOUGHTS WILL TOMORROW BE BETTER THAN YESTERDAY?

1. THE FUNDAMENTALS REMAIN ATTRACTIVE ACROSS THE VAST MAJORITY OF MARKETS.
2. GROWING LEVELS OF DISPOSABLE INCOME AND WEALTH WILL CONTINUE TO DRIVE INCREASES IN DOMESTIC AND INTERNATIONAL TRAVEL.
3. HIGH OCCUPANCY LEVELS PROVIDE LEVERAGE TO ACHIEVE ADR INCREASES FOR THE NEXT TWO-THREE YEARS.
4. HOTEL CONSTRUCTION LEVELS OFF. SCALE OF NEW SUPPLY IN SOME MARKETS RETARDS PERFORMANCE.
5. ABOVE LONG RUN AVERAGE OCCUPANCY LEADS TO REVENUE GROWTH. INCREASING LABOR COSTS WILL PRESSURE PERFORMANCE. PROFIT GROWTH TO REMAIN BUT DURABLE.
6. OUTLOOK FOR U.S. LODGING IN MOST MARKETS REMAINS FAVORABLE.

# CBRE HOTELS

The World's Leading Hotel Experts.

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