Positive Outlook for Most....... 

...Growing Pains for Some 

STATE OF THE U.S. LODGING INDUSTRY 

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CBRE Hotels’ Americas Research 

September 25, 2018
AGENDA

• THE ECONOMY
• LABOR
• FORECASTS
• THE SHARING ECONOMY
• WHAT COULD END THE CURRENT CYCLE?
• THE CONUNDRUM

First Watch on a Long Voyage
THE HOTEL MARKET CYCLE

The hotel market is cyclical and we can predict what will happen based on past trends.

Source: CBRE Hotels’ Americas Research
THE ECONOMY
EMPLOYMENT GAINS & LODGING DEMAND

[Bar chart showing employment gains and lodging demand from 2012 to 2018, with data points for U.S. Emp. Jobs Net Change (3 Month MA), 200 Ths Net New Jobs, and Upper Priced Demand (Y-o-Y Change).]
Positive Contributions from the ISM® new orders index, the financial components and consumer expectations more than offsetting the only negative contribution from building permits.
Lowest Unemployment In Years
Rising Wages
Tax Cuts
Record Stock Market
Increasing Corporate Profits
3+% GDP Growth

Don't Forget What Happened To The Man Who Suddenly Got Everything He Always Wanted ...

He Lived Happily Ever After....
Unfortunately, economic theory suggests otherwise.
INFLATION - AS MEASURED BY CPI
RECENT MODERATE GROWTH – EXPECTATIONS VARY
THE OUTLOOK FOR THE DRIVER THAT ARE MOST IMPORTANT TO HOTELS REMAINS FAVORABLE
LABOR
IMPACT OF TIGHTENING LABOR MARKETS
TOTAL PAYROLL & BENEFITS AS A PERCENT OF TOTAL EXPENSES (THRU GOP)

Source: CBRE Trends® in the Hotel Industry Survey
TOTAL PAYROLL & BENEFITS AS A PERCENT OF TOTAL REVENUE

Source: CBRE Trends® in the Hotel Industry Survey
2018 Trends® In The Hotel Industry

Annual Change in Hospitality Industry Employee Hourly Compensation versus Unemployment Rate

Source: Bureau of Labor Statistics
HOW OLD ARE WE?
U.S. POPULATION BY AGE – 2017 – CENSUS ESTIMATES

Source: U.S. Census, Calculatedriskblog.com
## How Old We Will Be?

### U.S. Population by Age – 2017 – Census Estimates

<table>
<thead>
<tr>
<th>Largest Cohorts</th>
<th>2010 Age in Years</th>
<th>2017 Age in Years</th>
<th>2020 Age in Years</th>
<th>2030 Age in Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>45 to 49</td>
<td>25 to 29</td>
<td>25 to 29</td>
<td>35 to 39</td>
</tr>
<tr>
<td>2</td>
<td>50 to 54</td>
<td>20 to 24</td>
<td>30 to 34</td>
<td>40 to 44</td>
</tr>
<tr>
<td>3</td>
<td>15 to 19</td>
<td>55 to 59</td>
<td>35 to 39</td>
<td>30 to 34</td>
</tr>
<tr>
<td>4</td>
<td>20 to 24</td>
<td>30 to 34</td>
<td>Under 5</td>
<td>25 to 29</td>
</tr>
<tr>
<td>5</td>
<td>25 to 29</td>
<td>50 to 54</td>
<td>55 to 59</td>
<td>5 to 9</td>
</tr>
<tr>
<td>6</td>
<td>40 to 44</td>
<td>35 to 39</td>
<td>20 to 24</td>
<td>10 to 14</td>
</tr>
<tr>
<td>7</td>
<td>10 to 14</td>
<td>15 to 19</td>
<td>5 to 9</td>
<td>Under 5</td>
</tr>
<tr>
<td>8</td>
<td>5 to 9</td>
<td>45 to 49</td>
<td>60 to 64</td>
<td>15 to 19</td>
</tr>
<tr>
<td>9</td>
<td>Under 5</td>
<td>10 to 14</td>
<td>15 to 19</td>
<td>20 to 24</td>
</tr>
<tr>
<td>10</td>
<td>35 to 39</td>
<td>5 to 9</td>
<td>10 to 14</td>
<td>45 to 49</td>
</tr>
<tr>
<td>11</td>
<td>30 to 34</td>
<td>60 to 64</td>
<td>50 to 54</td>
<td>50 to 54</td>
</tr>
</tbody>
</table>

**Source:** U.S. Census, Calculatedriskblog.com
WHERE WILL WE FIND WORKERS?
10 YEAR CHANGE IN WORKING AGE POPULATION

Source: U.S. Census, Moody’s Analytics, Q3 2018.
LABOR FORCE PARTICIPATION

Sources: BLS.gov, Roger Tutterow – Kennesaw State University
OUR FORECASTS - NATIONAL
# U.S. NATIONAL FORECAST – ALL HOTELS

<table>
<thead>
<tr>
<th></th>
<th>Long Run Average</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018F</th>
<th>2019F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply</td>
<td>1.9%</td>
<td>1.0%</td>
<td>1.5%</td>
<td>1.8%</td>
<td>2.0%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Demand</td>
<td>2.0%</td>
<td>2.5%</td>
<td>1.5%</td>
<td>2.6%</td>
<td>2.3%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Occupancy</td>
<td>62.2%</td>
<td>65.4%</td>
<td>65.4%</td>
<td>65.9%</td>
<td>66.1%</td>
<td>66.1%</td>
</tr>
<tr>
<td>ADR</td>
<td>3.1%</td>
<td>4.5%</td>
<td>3.1%</td>
<td>2.1%</td>
<td>2.8%</td>
<td>2.6%</td>
</tr>
<tr>
<td>RevPAR</td>
<td>3.3%</td>
<td>6.1%</td>
<td>3.2%</td>
<td>2.9%</td>
<td>3.1%</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

Source: STR, CBRE Hotels’ Americas Research, Hotel Horizons® September-November 2018
## U.S. TOP 25 MARKETS – ALL HOTELS

<table>
<thead>
<tr>
<th></th>
<th>Long Run Average</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018F</th>
<th>2019F</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Supply</strong></td>
<td>1.8%</td>
<td>1.1%</td>
<td>2.1%</td>
<td>2.4%</td>
<td>2.8%</td>
<td>3.7%</td>
</tr>
<tr>
<td><strong>Demand</strong></td>
<td>2.2%</td>
<td>2.6%</td>
<td>1.8%</td>
<td>3.0%</td>
<td>2.8%</td>
<td>3.1%</td>
</tr>
<tr>
<td><strong>Occupancy</strong></td>
<td>67.3%</td>
<td>73.5%</td>
<td>73.3%</td>
<td>73.7%</td>
<td>73.7%</td>
<td>73.3%</td>
</tr>
<tr>
<td><strong>ADR</strong></td>
<td>3.1%</td>
<td>4.3%</td>
<td>2.7%</td>
<td>1.7%</td>
<td>3.1%</td>
<td>2.3%</td>
</tr>
<tr>
<td><strong>RevPAR</strong></td>
<td>3.5%</td>
<td>5.8%</td>
<td>2.5%</td>
<td>2.2%</td>
<td>3.1%</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

Source: STR, CBRE Hotels’ Americas Research, Hotel Horizons® September-November 2018
2019 RevPAR Change Outlook:
Okay for Some; Disappointing for Others.

Source: STR, CBRE Hotels’ Americas Research, Hotel Horizons® September-November 2018
MARKET OUTLOOK

Occupancy Levels will Decline in 30 of our 60 Top U.S. Markets this Year, but in 44 Markets in 2019.

Average Daily Rate Growth will Exceed 2.0% in 41 Markets this Year and in 35 Markets in 2019.
REAL REVPAR CHANGE FROM PRE-RECESSION PEAK

NOT ALL MARKETS HAVE FULLY RECOVERED FROM THE LAST RECESSION.

Source: CBRE Hotels’ Americas Research; STR, Q2 2018.
FEWER HOTELS ARE ABLE TO ACHIEVE INCREASES ON THE TOP AND BOTTOM LINES

Percent of Hotels in Trends® Sample Posting an Increase from Prior Year

Source: 2018 Trends® in the Hotel Industry
SHARING ECONOMY
CHANGING LANDSCAPE
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 2018.
U.S. HOTELS ON AIRBNB
AIRBNB BEGINS ITS TRANSITION TO AN OTA

Source: CBRE Hotels’ Americas Research, Airdna, Q2 2018..
Note: Based on Self Classification
## AIRBNB & HOTEL SUPPLY IN THE US

### Average Daily Supply in the U.S.

<table>
<thead>
<tr>
<th>Year</th>
<th>Hotel Rooms</th>
<th>Hotel^</th>
<th>Airbnb Units</th>
<th>Airbnb^</th>
<th>Airbnb+Hotels</th>
<th>Airbnb+Hotels^</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>4,849,352</td>
<td>0.3%</td>
<td>13,000</td>
<td>150%</td>
<td>4,862,352</td>
<td>0.5%</td>
</tr>
<tr>
<td>2013</td>
<td>4,875,064</td>
<td>0.5%</td>
<td>28,000</td>
<td>115%</td>
<td>4,903,064</td>
<td>0.8%</td>
</tr>
<tr>
<td>2014</td>
<td>4,905,305</td>
<td>0.6%</td>
<td>58,000</td>
<td>107%</td>
<td>4,963,305</td>
<td>1.2%</td>
</tr>
<tr>
<td>2015</td>
<td>4,952,486</td>
<td>1.0%</td>
<td>115,235</td>
<td>99%</td>
<td>5,067,721</td>
<td>2.1%</td>
</tr>
<tr>
<td>2016</td>
<td>5,025,815</td>
<td>1.5%</td>
<td>228,706</td>
<td>98%</td>
<td>5,254,521</td>
<td>3.7%</td>
</tr>
<tr>
<td>2017</td>
<td>5,117,734</td>
<td>1.8%</td>
<td>348,977</td>
<td>53%</td>
<td>5,466,710</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

### YTD Data

<table>
<thead>
<tr>
<th>Year</th>
<th>Hotel Rooms</th>
<th>Hotel^</th>
<th>Airbnb Units</th>
<th>Airbnb^</th>
<th>Airbnb+Hotels</th>
<th>Airbnb+Hotels^</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>5,082,358</td>
<td></td>
<td>298,207</td>
<td></td>
<td>5,380,565</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>5,184,224</td>
<td>2.0%</td>
<td>429,843</td>
<td>44%</td>
<td>5,614,067</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

Source: CBRE Hotels’ Americas Research, Airdna, Google Trends, Q2 2018.
What Could End the Current Cycle?
WHAT COULD END THE CURRENT CYCLE?

1. The Economy
2. Over Building
3. Unpredictable Demand Shock
4. Oil/Energy Price Increases
5. Asset Price Bubble
PIPELINE SLOWS

Number of Rooms Under Construction

Source: STR, July 2018.
SUPPLY CHANGE 2018 - FORECAST

42 markets where the average supply growth is forecast to be greater than 2%.

Source: CBRE Hotels' Americas Research Q4 2017
NEW ROOMS

12 MMA of New Hotel Room Added in the U.S.

Well Below Previous Peaks

The Conundrum
CONUNDRUM

A question or problem having only a conjectural answer.

Conjecture: Without Evidence
STR HISTORY OF U.S. HOTEL FINANCIAL PERFORMANCE, 1989-2018 Q2

Notes: Previous historical peak occupancy 66% (2017 Q4), Current occupancy 66.1% (2018 Q1)
Sources: CBRE Hotels' Americas Research, STR Q2 2018.
Notes: Previous historical peak occupancy 66% (2017 Q4), Current occupancy 66.1% (2018 Q1)
Sources: CBRE Hotels' Americas Research, STR Q2 2018.
CITIES WITH THE DISEASE AND THOSE WITHOUT (TOTAL = 60)

With (37)

New York, NY
San Francisco/San Mateo, CA
Miami/Hialeah, FL
Austin, TX
Anaheim/Santa Ana, CA
Charlotte, NC-SC
Denver, CO
Oahu Island, HI
Pittsburgh, PA
Boston, MA
Houston, TX
Fort Lauderdale, FL
Nashville, TN
New Orleans, LA
Portland, OR
Oakland, CA
Fort Worth/Arlington, TX
San Diego, CA
Seattle, WA
San Jose/Santa Cruz, CA
Charleston, SC
West Palm Beach/Boca Raton, FL
Tampa/St Petersburg, FL
Newark, NJ
Dallas, TX
Chicago, IL
Los Angeles/Long Beach, CA
Washington, DC-MD-VA
Albany/Schenectady, NY
Baltimore, MD
Louisville, KY-IN
Raleigh/Durham/Chapel Hill, NC
Atlanta, GA
Philadelphia, PA-NJ
Long Island
Savannah, GA
St Louis, MO-IL

Without (23)

Columbus, OH
Cincinnati, OH-KY-IN
Phoenix, AZ
Detroit, MI
Jacksonville, FL
Minneapolis/St Paul, MN-WI
Milwaukee, WI
San Antonio, TX
Orlando, FL
Cleveland, OH
Columbia, SC
Omaha, NE
Salt Lake City/Ogden, UT
Memphis, TN-AR-MS
Sacramento, CA
Kansas City, MO-KS
Richmond/Petersburg, VA
Hartford, CT
Indianapolis, IN
Dayton/Springfield, OH
Tucson, AZ
Albuquerque, NM
Norfolk/Virginia Beach, VA
POSSIBLE REASONS FOR THE PARADOX

HYPOTHESES INCLUDE:

1. **Nothing Unusual Here!** – the current occupancy/ADR growth relationship is typical of past relationships at this point in the cycle.

2. **Real vs. Nominal Rates Disguise** – Perhaps nominal ADR growth rates are abnormal but real growth rates are typical.

3. **Aggregation Bias** – the national trend in occupancy and ADR since 2014 occurred because some chain scales, locations, and/or cities have driven the national result.

4. **Extraordinary and Localized Supply Growth** – High rates of supply change in city markets or important hotel submarkets compromised managements’ opportunities to increase ADR while high occupancy is preserved.

5. **Sharing Economy Discounts** – Airbnb-style flexible supply is limiting extraordinary rate increases during high-demand periods that in the past boosted average rates.
POSSIBLE REASONS FOR THE PARADOX

HYPOTHESES INCLUDE:

1. **Chain Redemption Policies** - Hotels follow rate policies that boost occupancy to levels in which reimbursement by chains for rooms purchased with points is maximized.

2. **Changes in the Demand Mix Since 2014 Favoring Lower-Rate Business** - Mix shifted to greater contribution of lower rate leisure/weekend business. Length of stay also might be a factor.

3. **Shortened Booking Times Since 2014 Leading to Rate Stagnation** - Option value increase due to ‘last minute’ replacement booking may be lowering ADR growth (noting that more restrictive cancellation policies have appeared the past 12 months).

4. **OTAs Gaining Market Share Since 2014 Leading to Larger Differentials Between Gross and Net ADR** - The reported ADR received by hotels from OTA booking may markedly differ from actual rates paid by guests. OTAs are thus anchoring lower rates.

5. **Better Management Practices** - Improvement creates a situation in which flow through to NOI of occupancy and ADR changes have converged to the extent that owners have become more indifferent.

6. **Slow Wage Growth Translates into Slow ADR Growth** - Wage cost push pressures are low.

7. **Hotel Managers Responsible for Rate Setting have been acting Irrationally (Overly Timid about Raising Rates).**
SUMMARY
1. The fundamentals remain attractive across the vast majority of markets.
2. Industry growth will persist comfortably through 2018 and likely beyond.
3. Markets will soften in 2020 – plan for a slowdown (not a downturn)!
4. High occupancy levels should provide leverage to achieve reasonable ADR increases this year and next; scale of new supply in some markets represents a strong headwind.
5. Increasing hotel construction will continue; the threat of over building is the exception and not the rule.
6. Increasing labor costs will become more of an issue. Profit growth will remain good, but not great, for most.
7. The outlook for the domestic lodging industry remains favorable well into 2020.
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