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Positive Outlook for Most…….

…Growing Pains for Some

State of The U.S. Lodging Industry

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CBRE Hotels' Americas Research

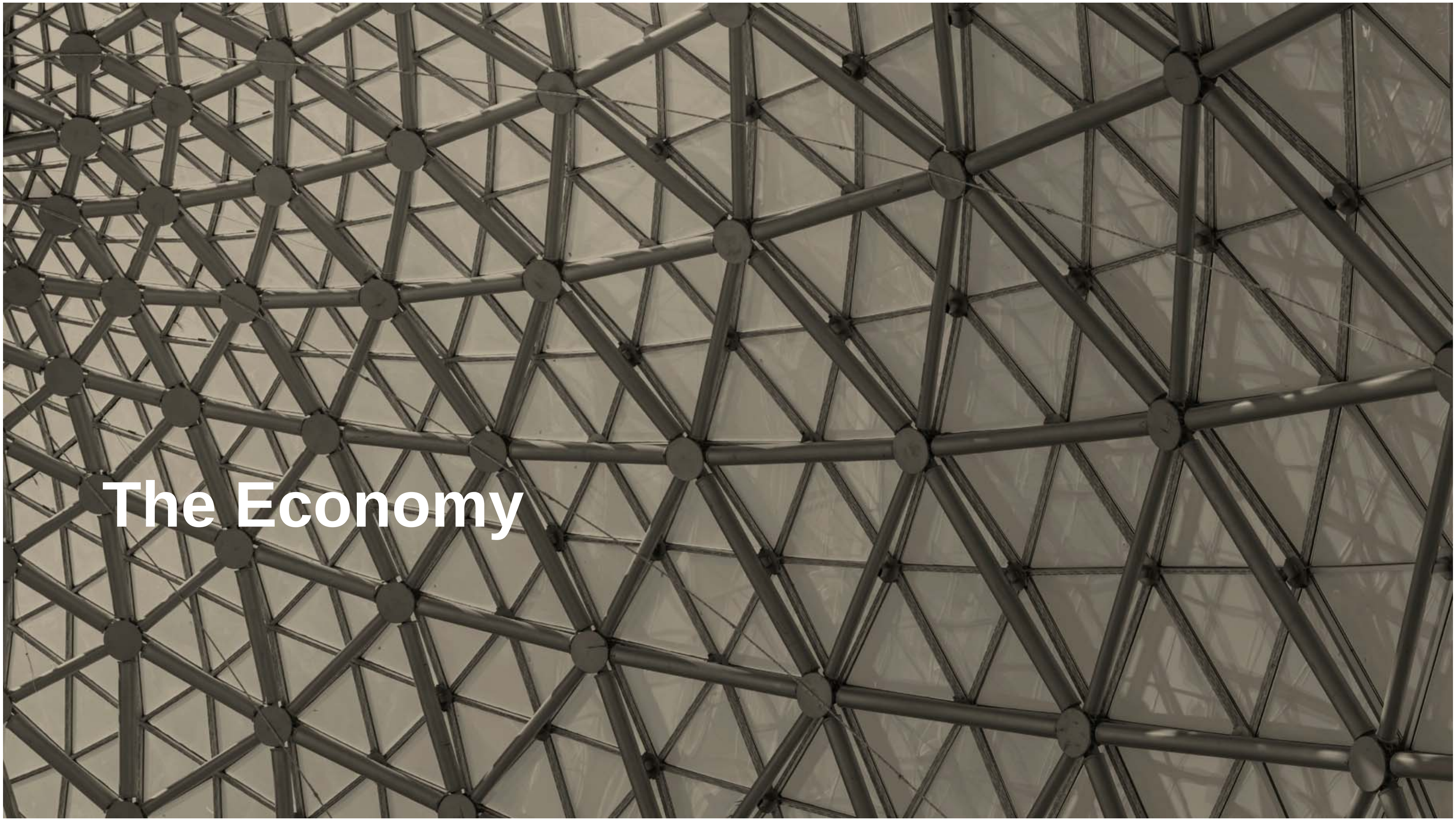
CBRE HOTELS
The World's Leading Hotel Experts.

August 29, 2018

AGENDA

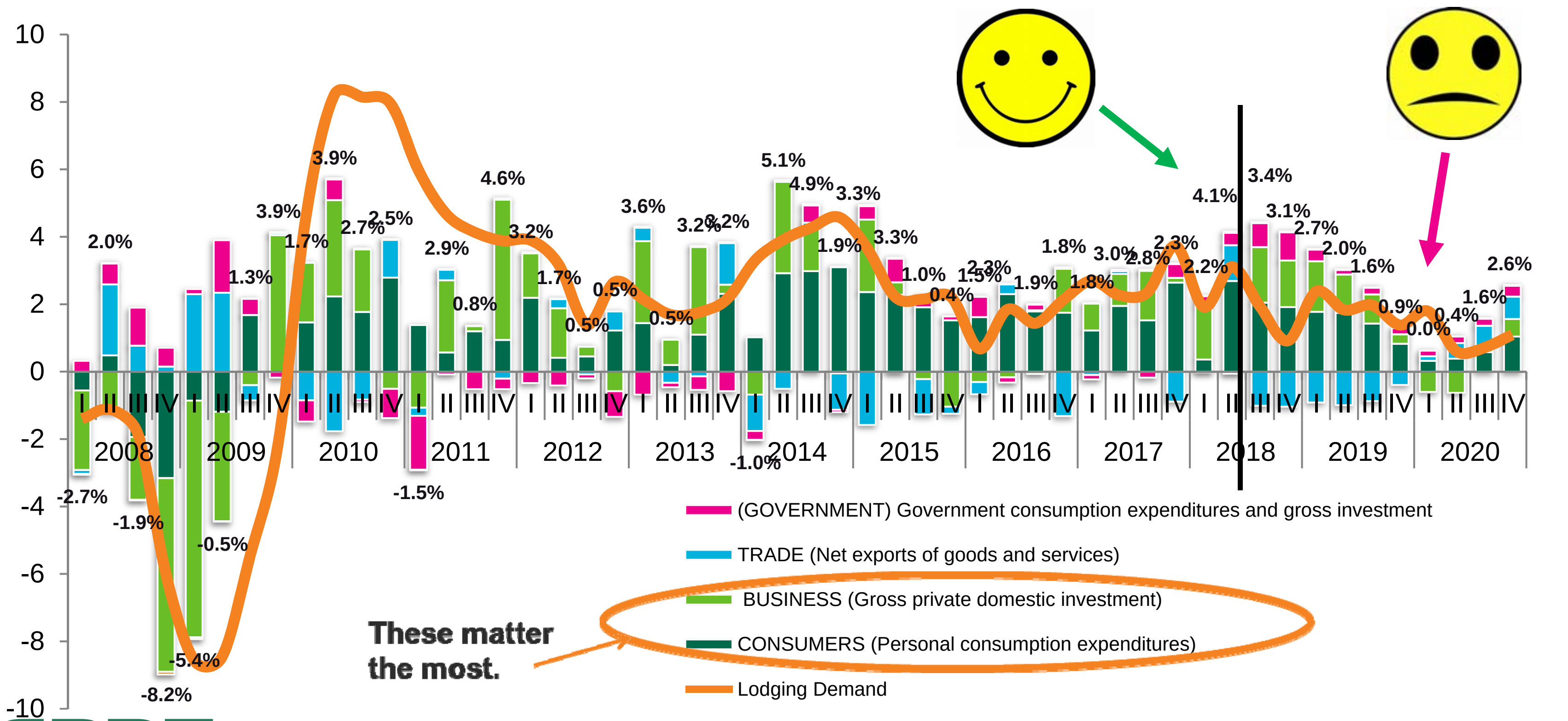
- The Economy
- What Could End the Current Cycle?
- The Conundrum
- Our Forecasts
  - The Nation

First Watch on a Long Voyage



The Economy

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



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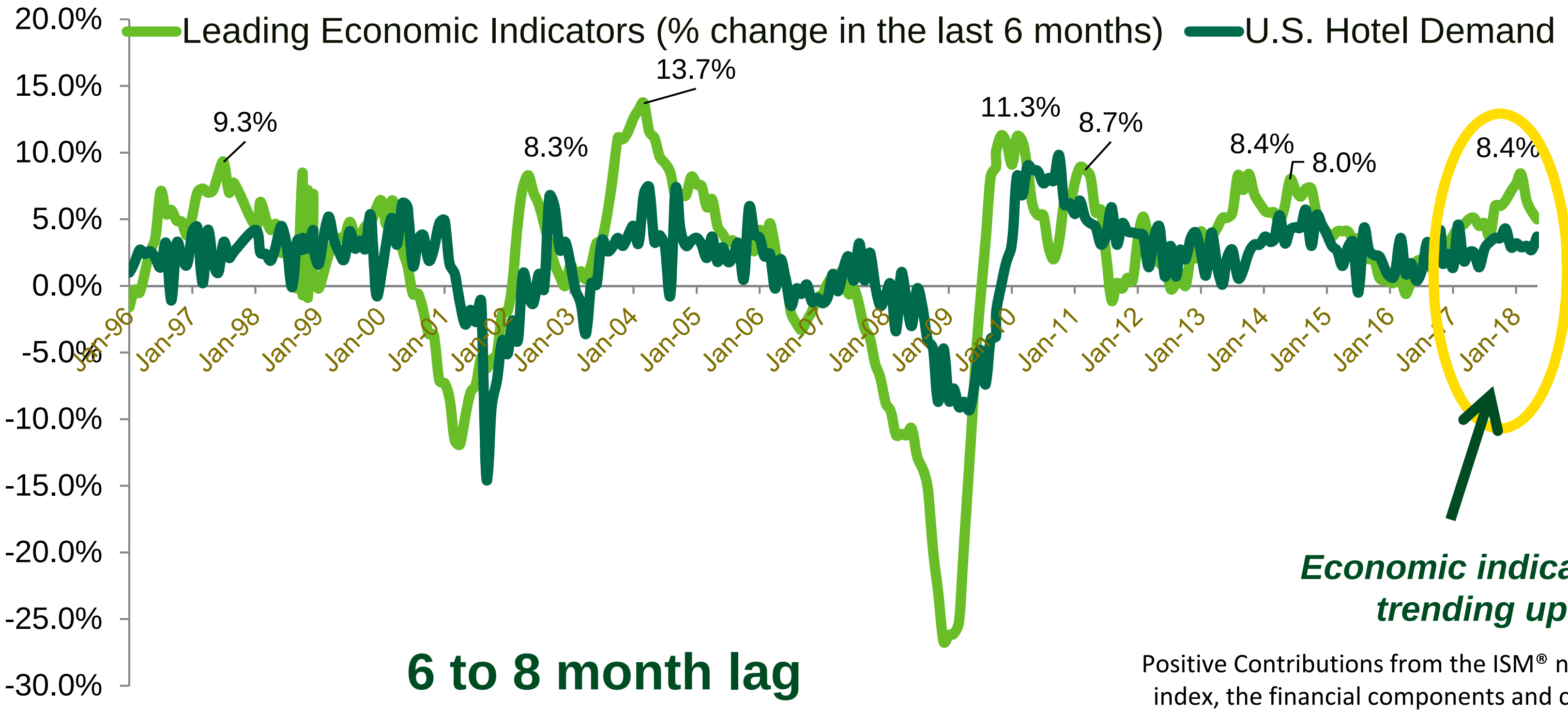
GSU Economic Forecasting Center | AUGUST 29, 2018

Source: BEA, Moody's Analytics, CBRE Hotels Americas' Research Hotel Horizons, STR, August 2018

THE TEN COMPONENTS OF THE CONFERENCE BOARD LEADING ECONOMIC INDEX® FOR THE U.S.

- Average weekly hours, manufacturing.
- Average weekly initial claims for unemployment insurance.
- Manufacturers’ new orders, consumer goods and materials.
- ISM® Index of New Orders.
- Manufacturers' new orders, nondefense capital goods excluding aircraft orders.
- Building permits, new private housing units.
- Stock prices, 500 common stocks.
- Leading Credit Index™.
- Interest rate spread, 10-year Treasury bonds less federal funds.
- Average consumer expectations for business conditions.

LEADING ECONOMIC INDICATORS
PERCENT CHANGE IN THE LAST 6 MONTHS



Source: The Conference Board, CBRE Hotels' Americas Research, STR, August 2018

Positive Contributions from the ISM® new orders index, the financial components and consumer expectations more than offsetting the only negative contribution from building permits.

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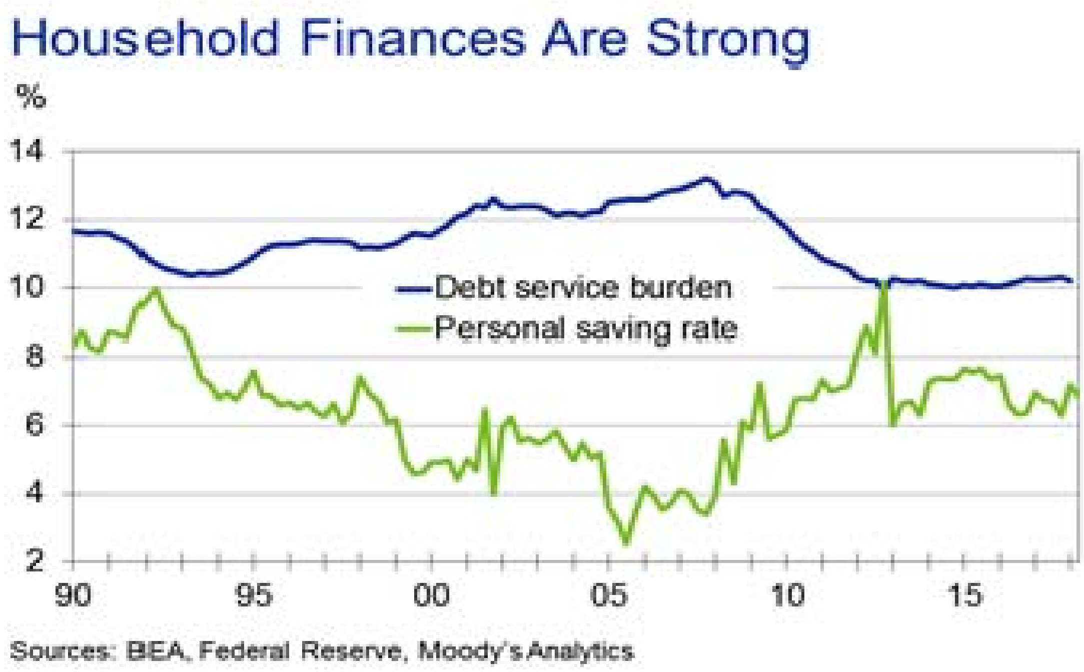
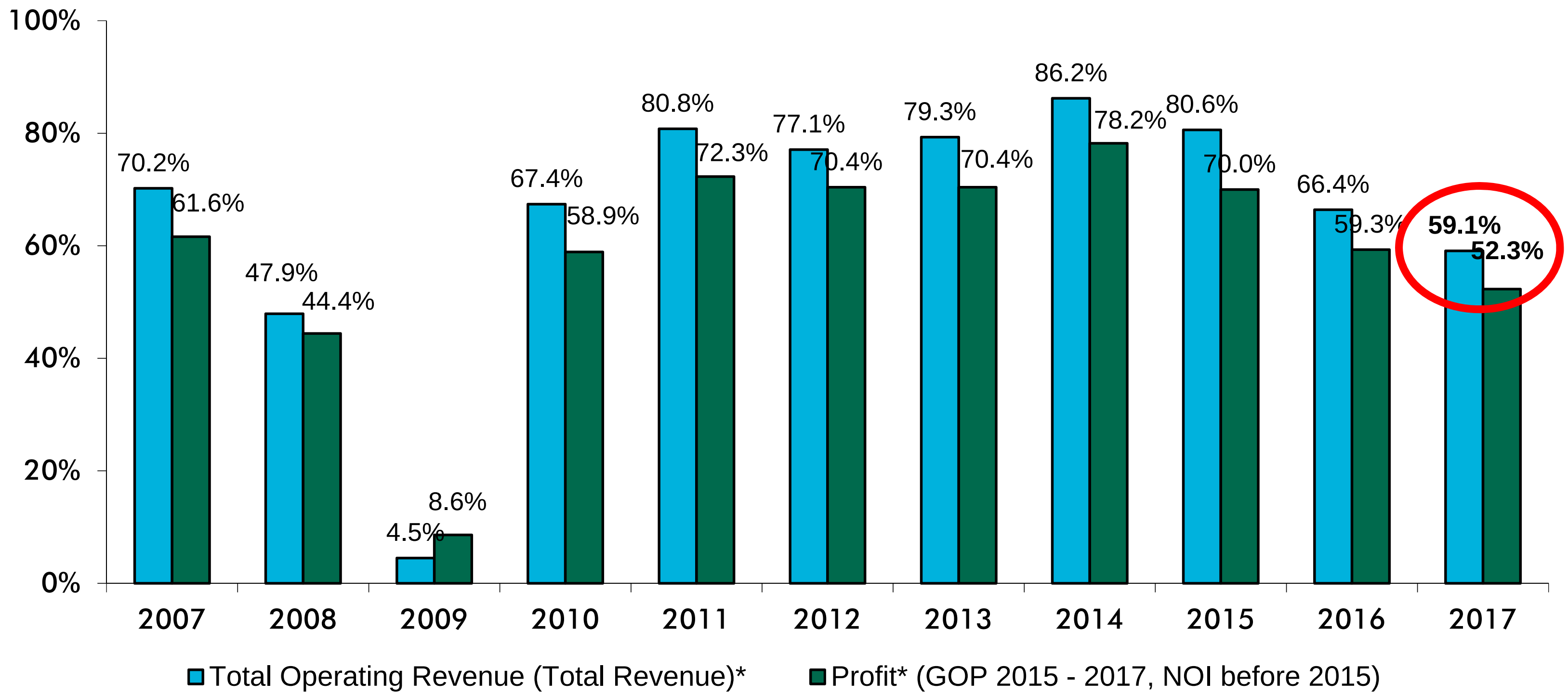
SOME OBSERVATIONS FROM MOODY'S



FEWER HOTELS ARE ABLE TO ACHIEVE INCREASES ON THE TOP AND BOTTOM LINES

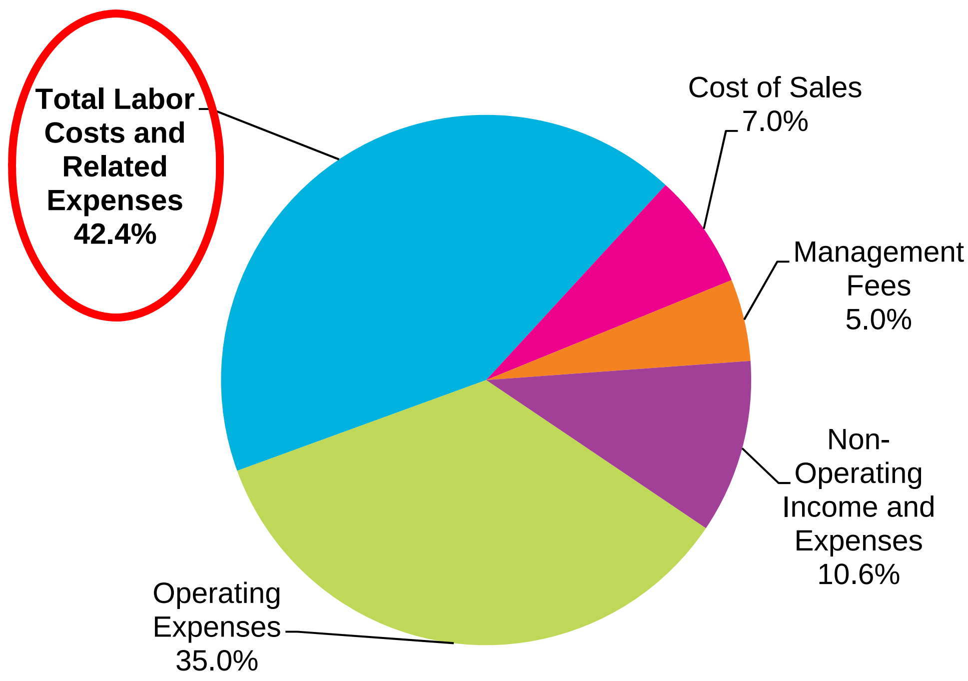
Percent of Hotels in *Trends*® Sample Posting an Increase from Prior Year



Note: * 11th edition of USALI in 2015, (10th edition of USALI from 2007 to 2014)
Source: 2018 Trends® in the Hotel Industry

2018 TRENDS® IN THE HOTEL INDUSTRY

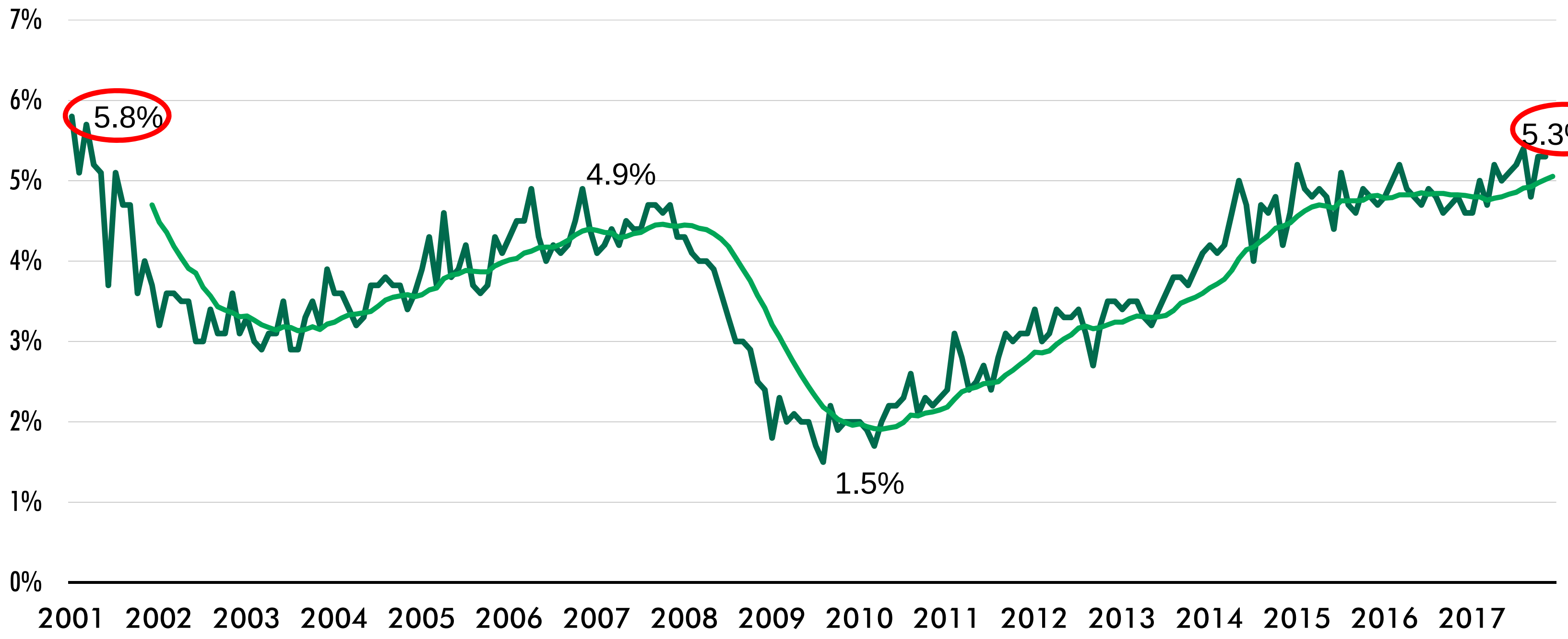
2017 Mix of Expenses



Source: 2018 Trends® in the Hotel Industry

LEISURE & HOSPITALITY JOB OPENINGS

Leisure & Hospitality Job Openings as a Percent of Total Leisure & Hospitality Jobs



Source: BLS, Dec 2017.

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2018 Trends® In The Hotel Industry

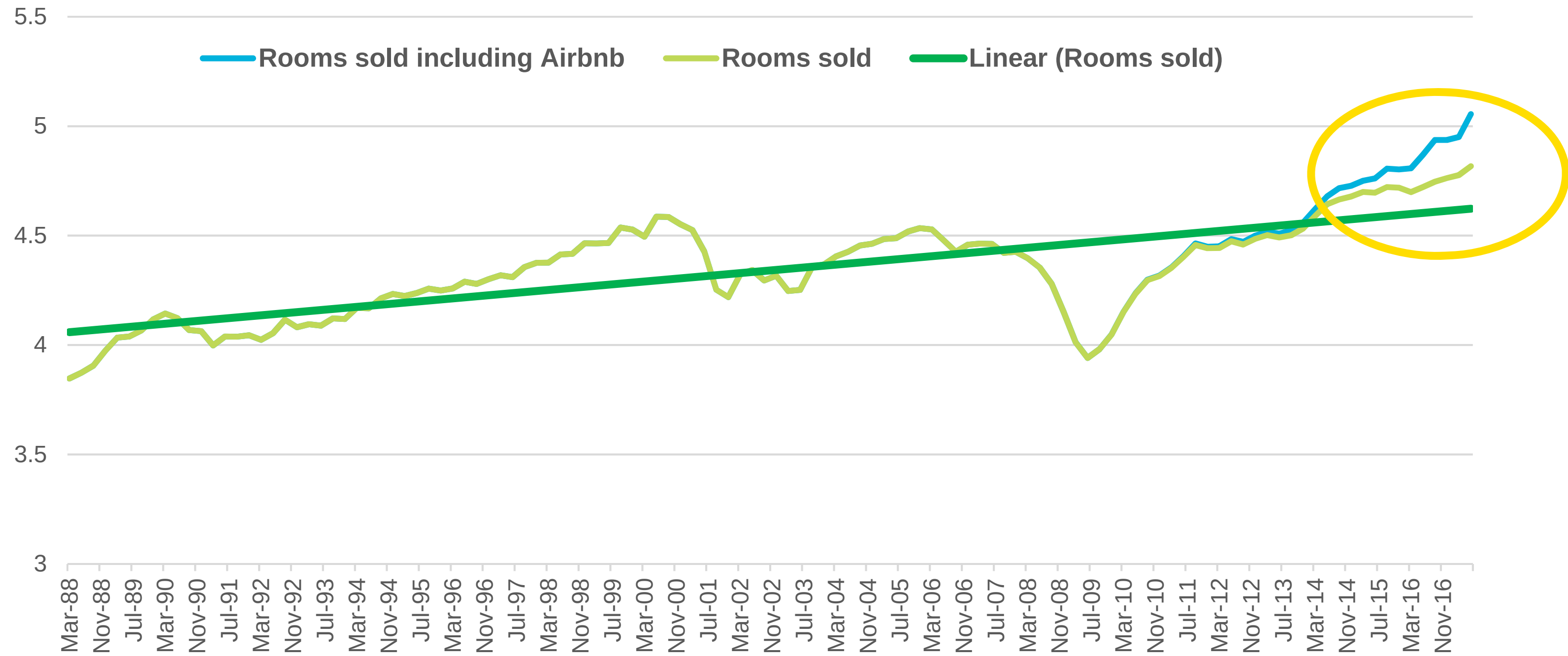
Annual Change in Hospitality Industry Employee Hourly Compensation versus Unemployment Rate

Source: Bureau of Labor Statistics

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.



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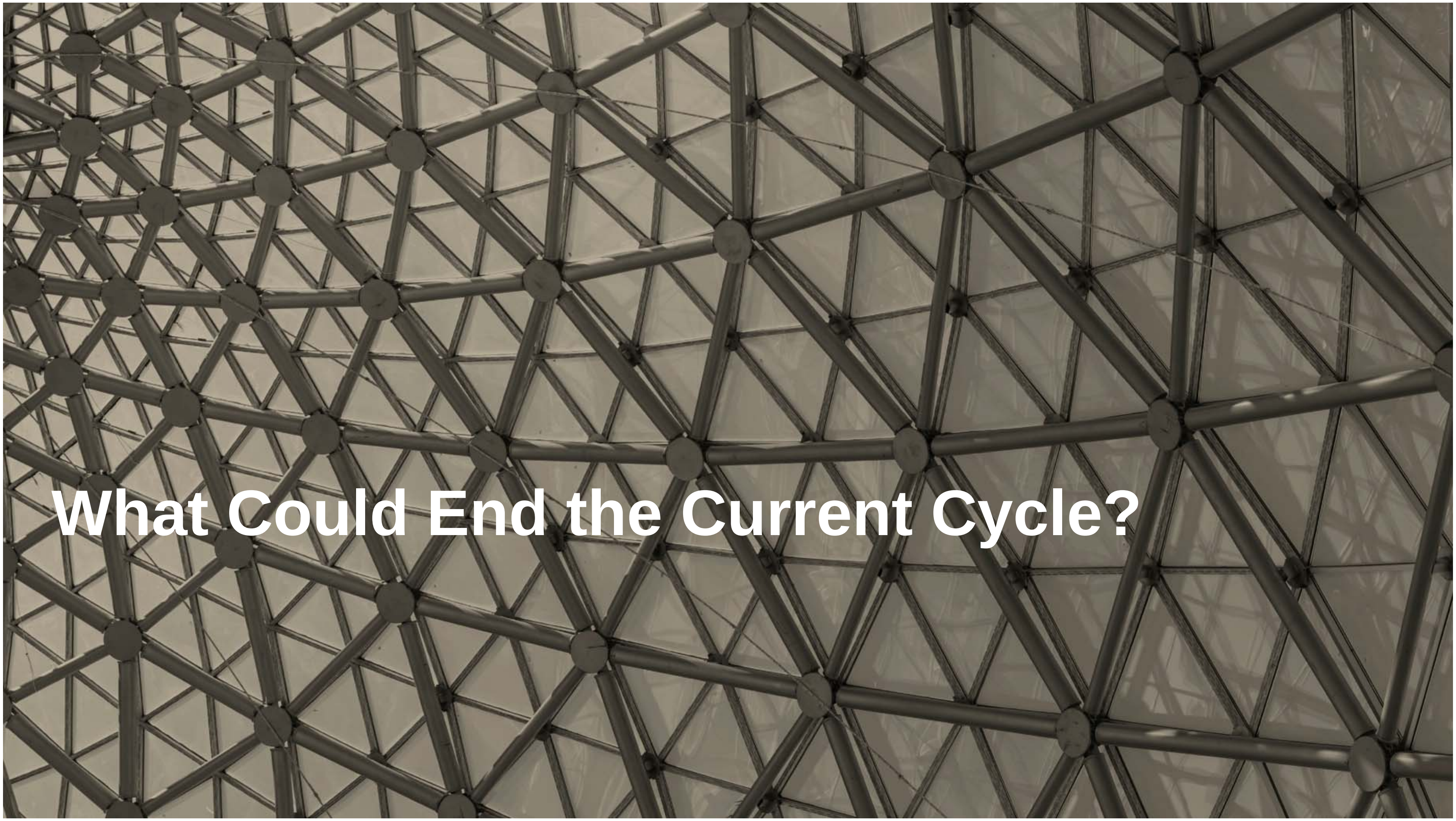
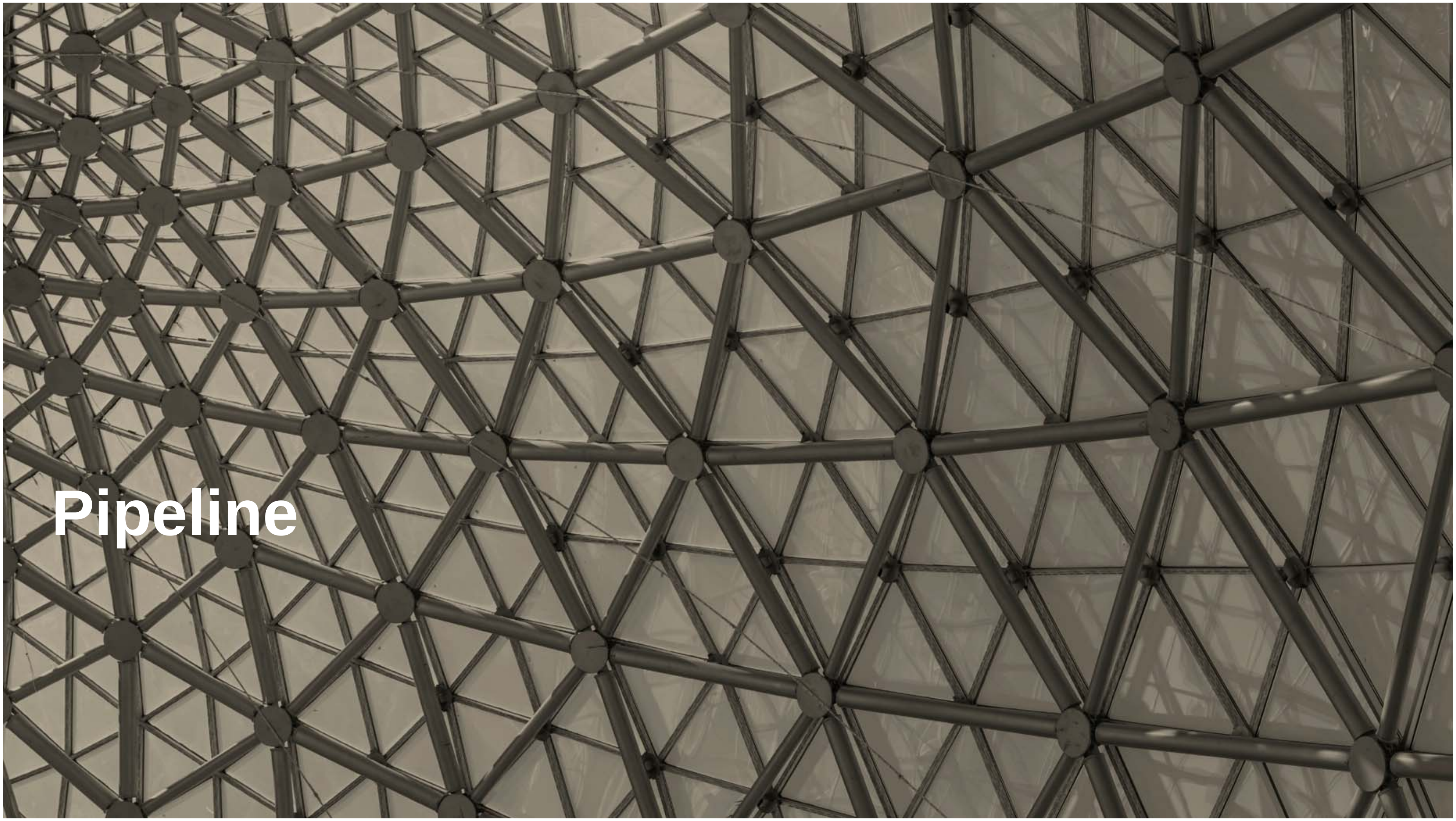
Source: STR, Airdna, U.S. Census, CBRE Hotels' Americas Research, Q4 2017.



What Could End the Current Cycle?

WHAT COULD END THE CURRENT CYCLE?

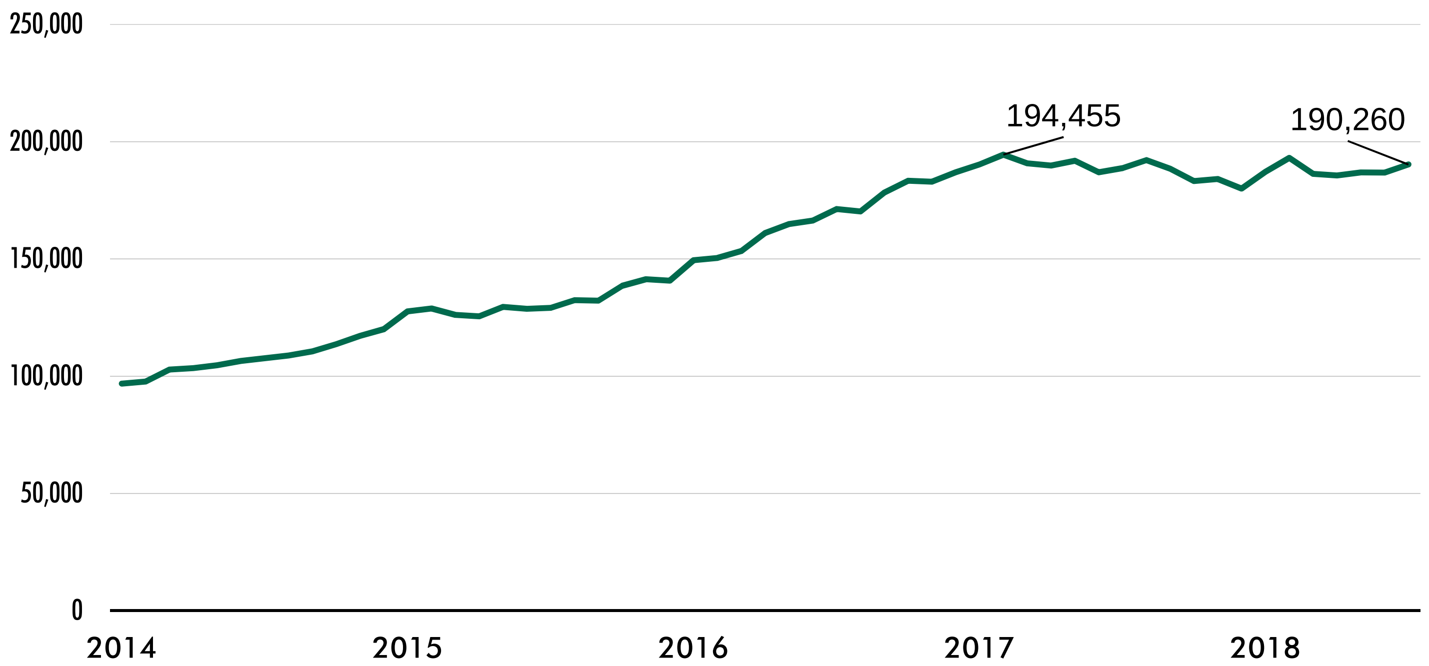
1. **The Economy**
2. **Over Building**
3. **Unpredictable Demand Shock**
4. **Oil/Energy Price Increases**
5. **Asset Price Bubble**



Pipeline

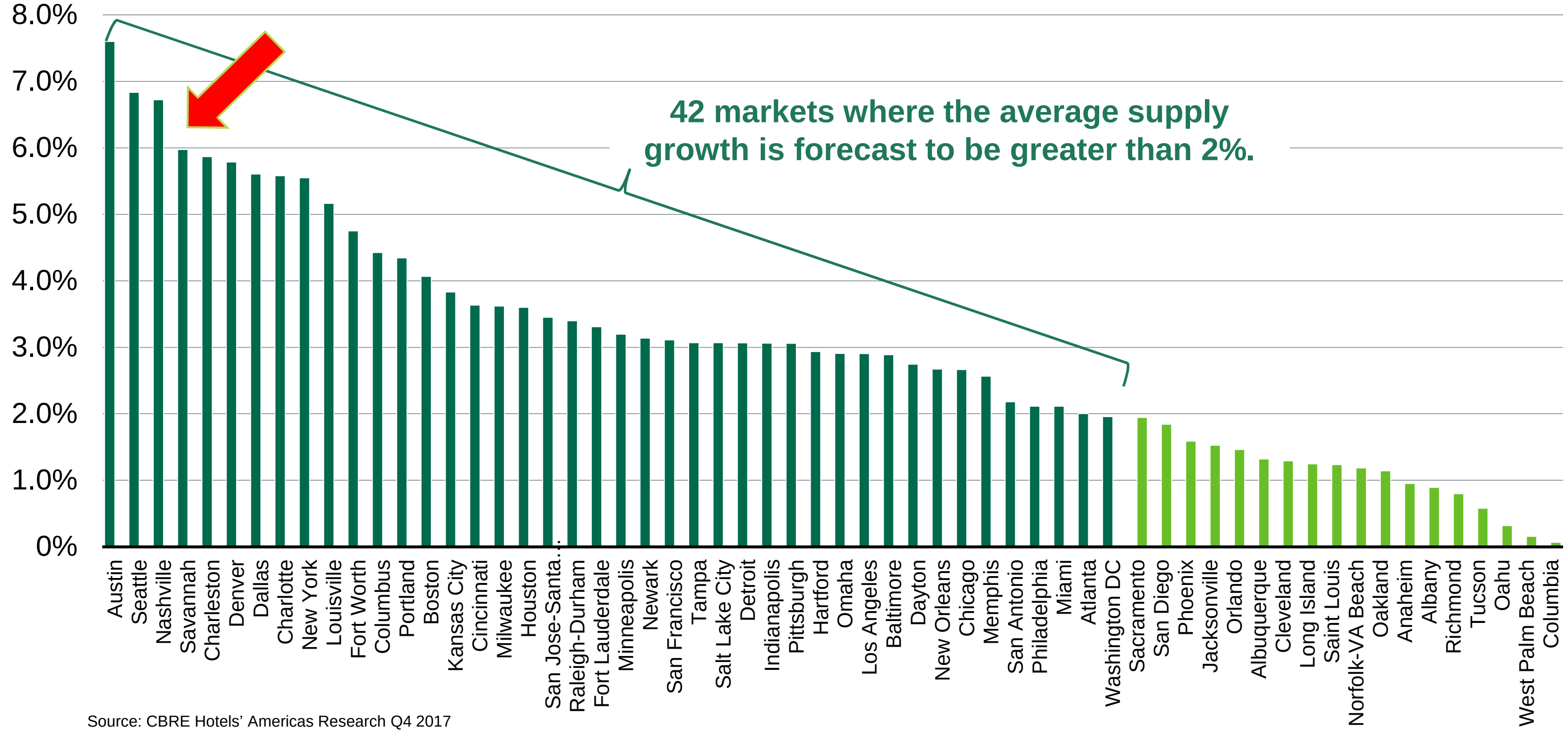
PIPELINE SLOWS

Number of Rooms Under Construction



Source: STR, July 2018.

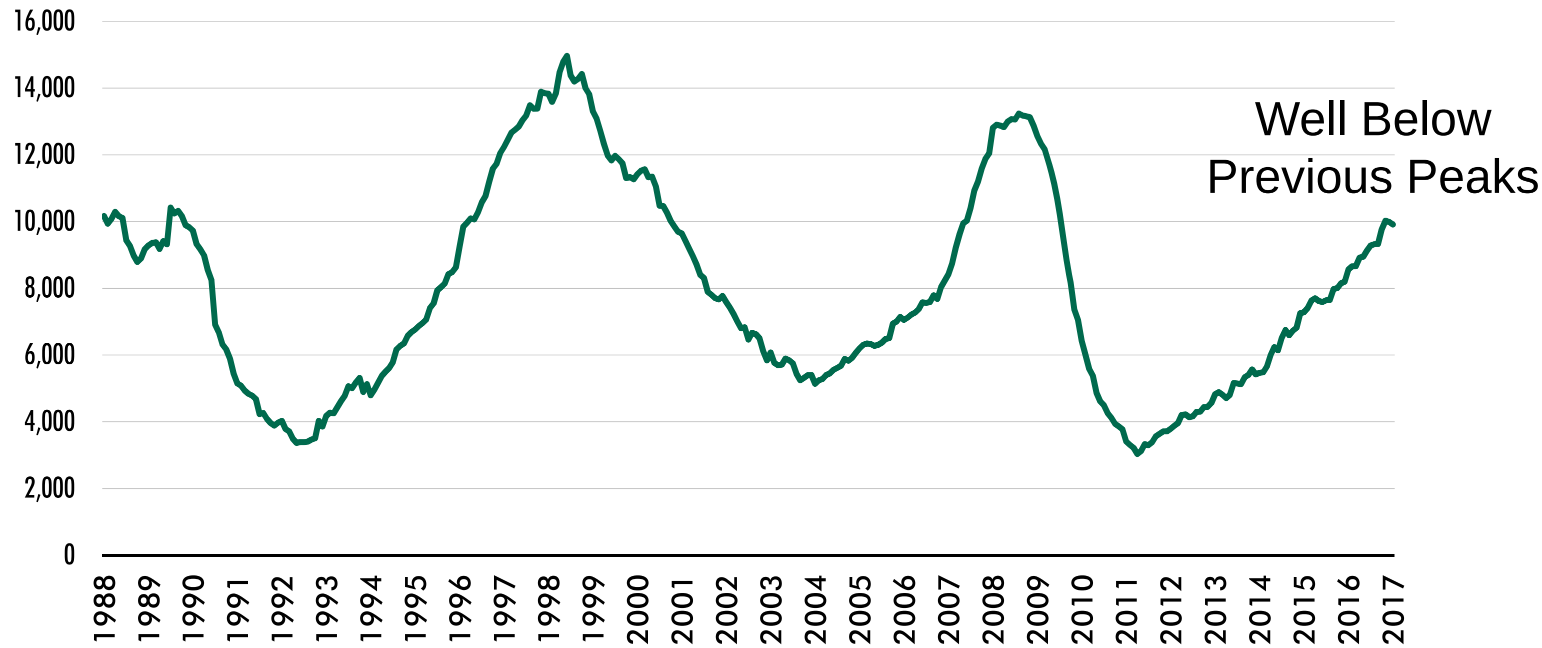
SUPPLY CHANGE 2018 - FORECAST



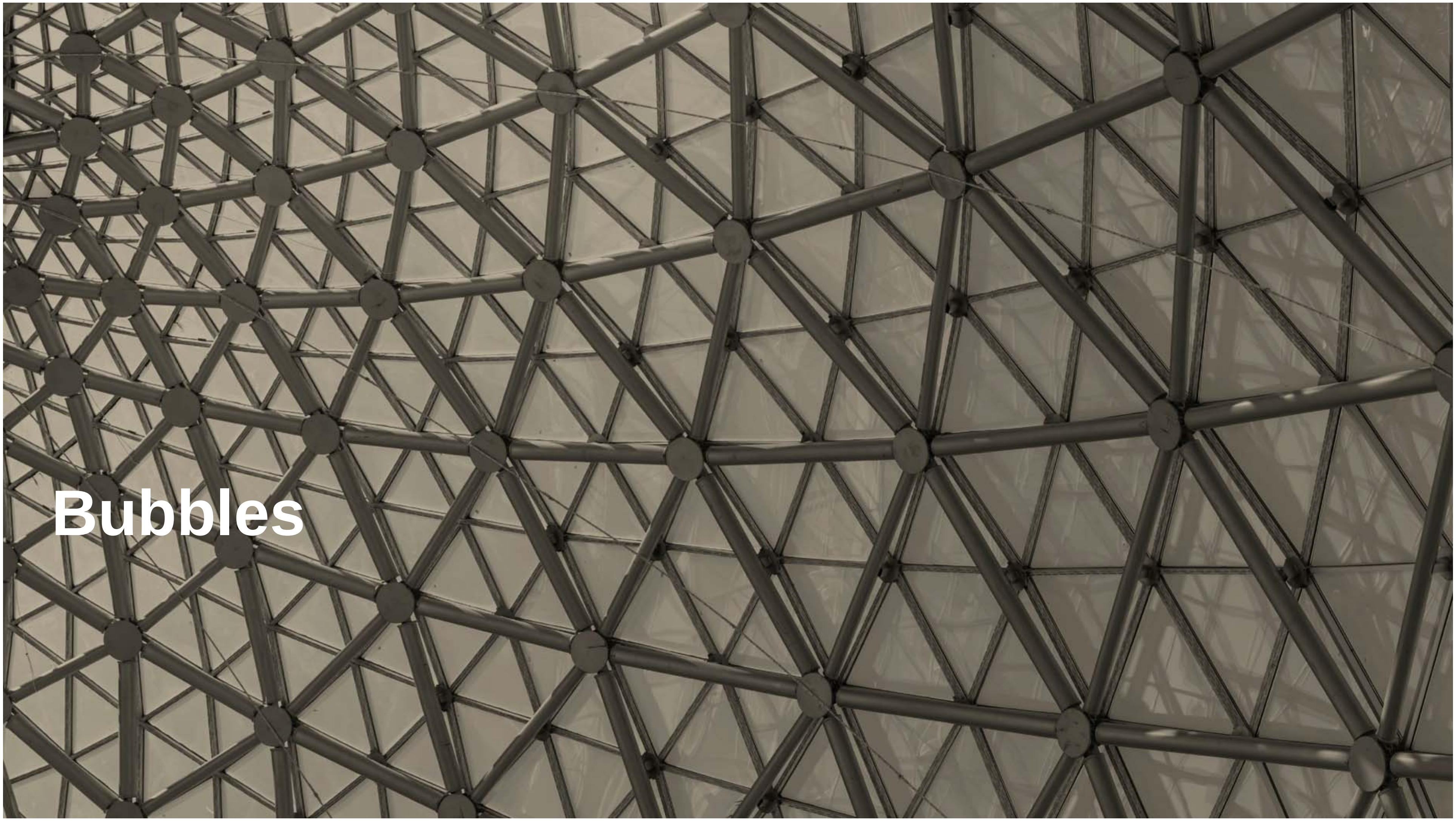
Source: CBRE Hotels' Americas Research Q4 2017

NEW ROOMS

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

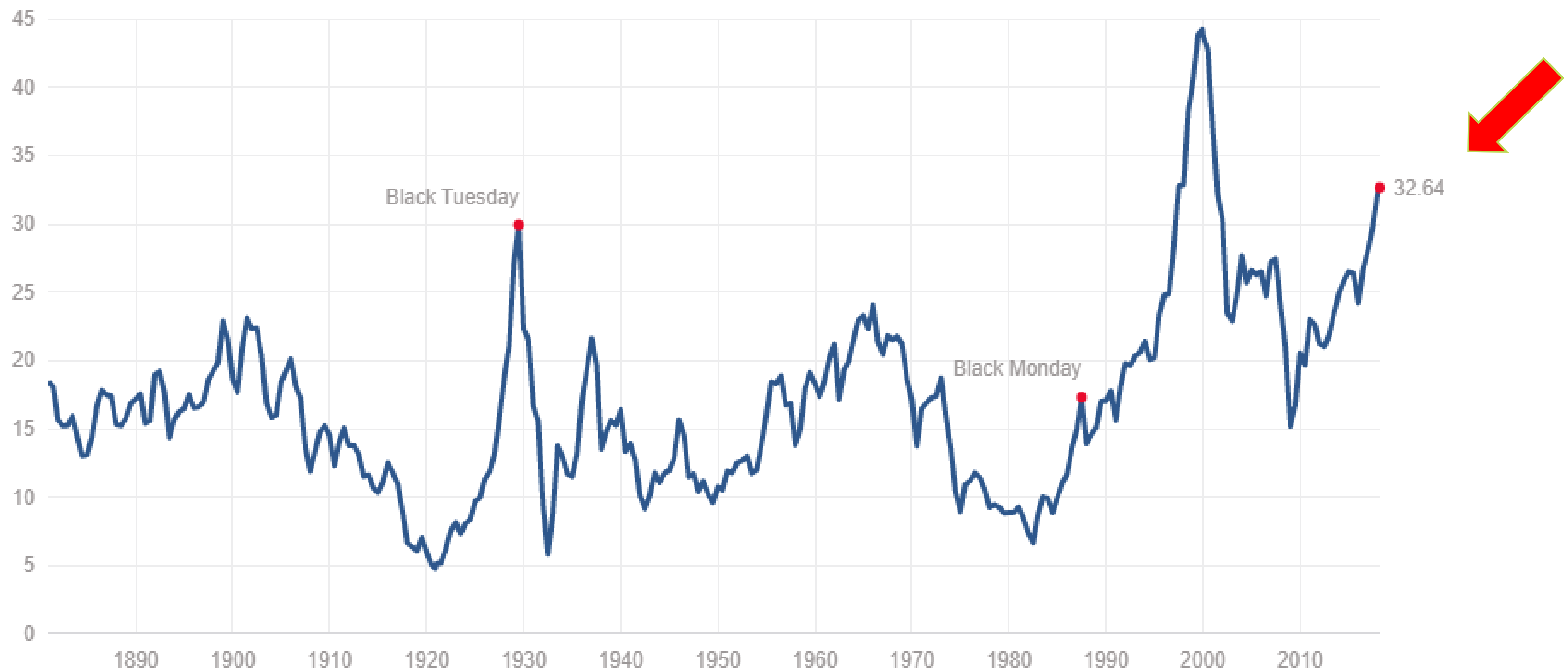


Source: STR, CBRE Hotels' Americas Research, June 2018.


Bubbles

BUBBLES?

The Stock Market – Price to Median 10-Year-Earnings

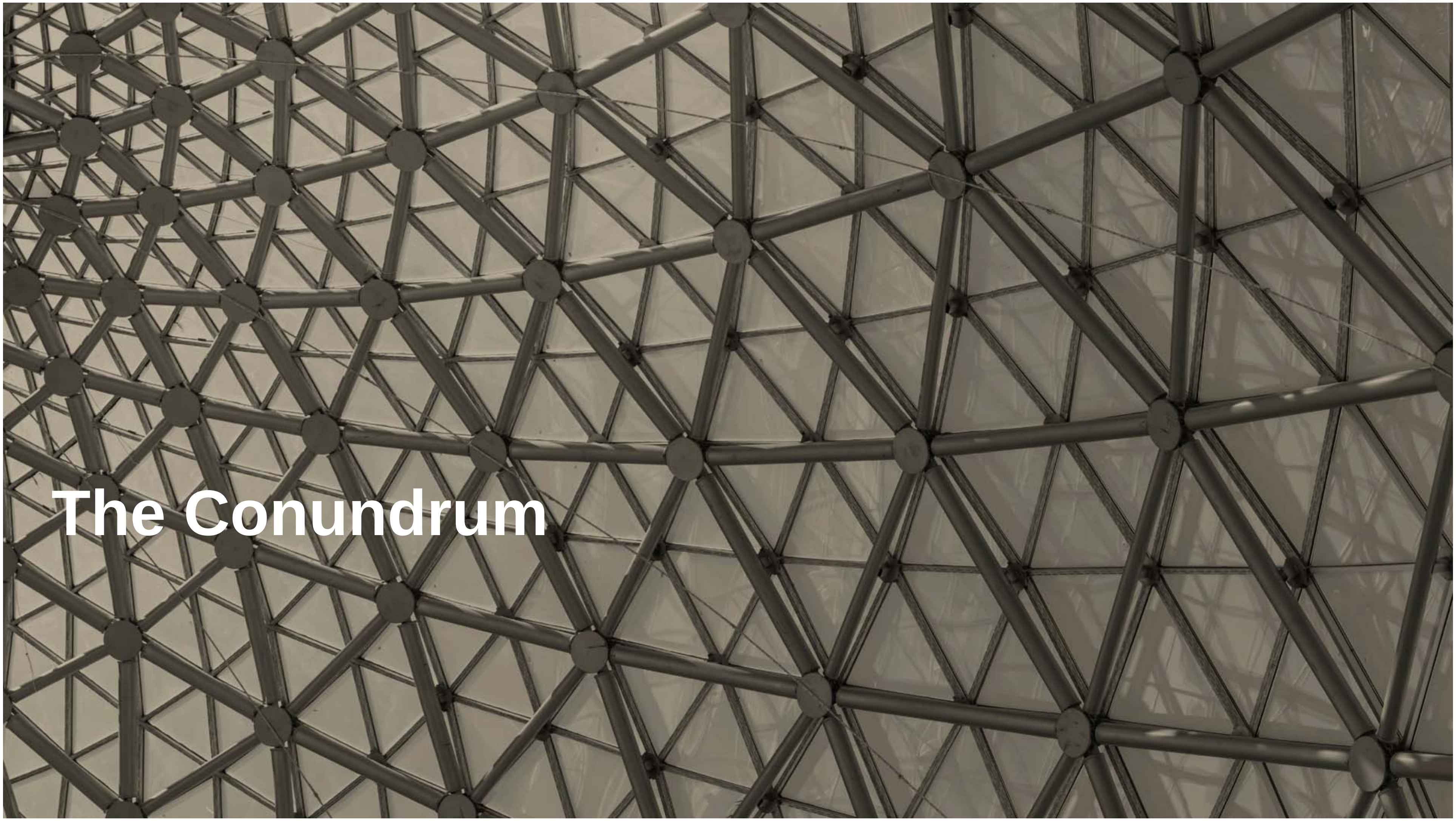


Source: Shiller CAPE, March 2018.

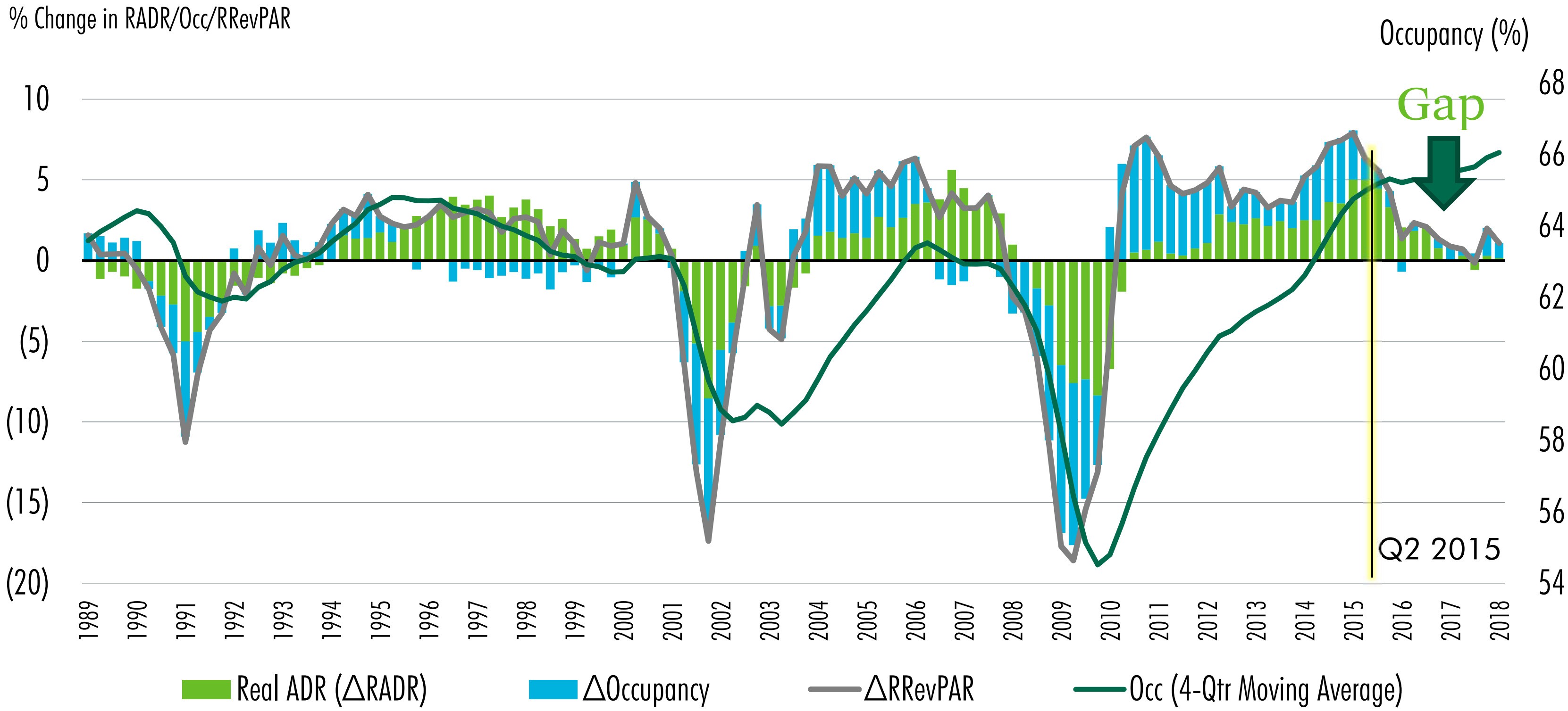
Some Other Thoughts:

- **U.S. hotel occupancies have increased every year since 2010.**
  - **This should continue through 2019.**
  - **Now operating at a record high level.**
- **Profit growth; however, has been a challenge.**
  - **ADR growth.**
  - **Increased cost of labor.**

The Conundrum



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.

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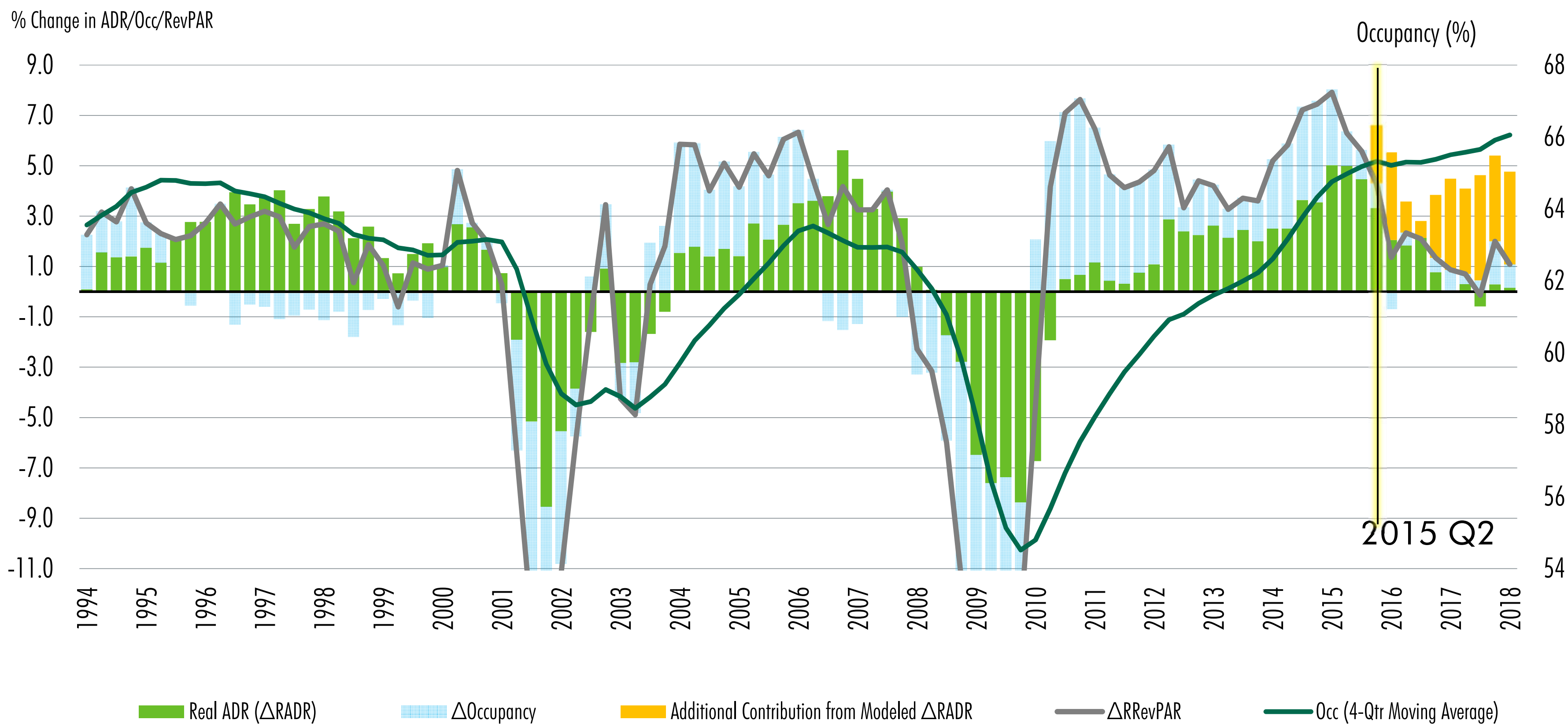
MODELED ADR - IF HISTORY WAS REPEATED!



Notes: Previous historical peak occupancy 66% (2017 Q4), Current occupancy 66.1% (2018 Q1)
Sources: CBRE Hotels' Americas Research, STR Q2 2018.

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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:

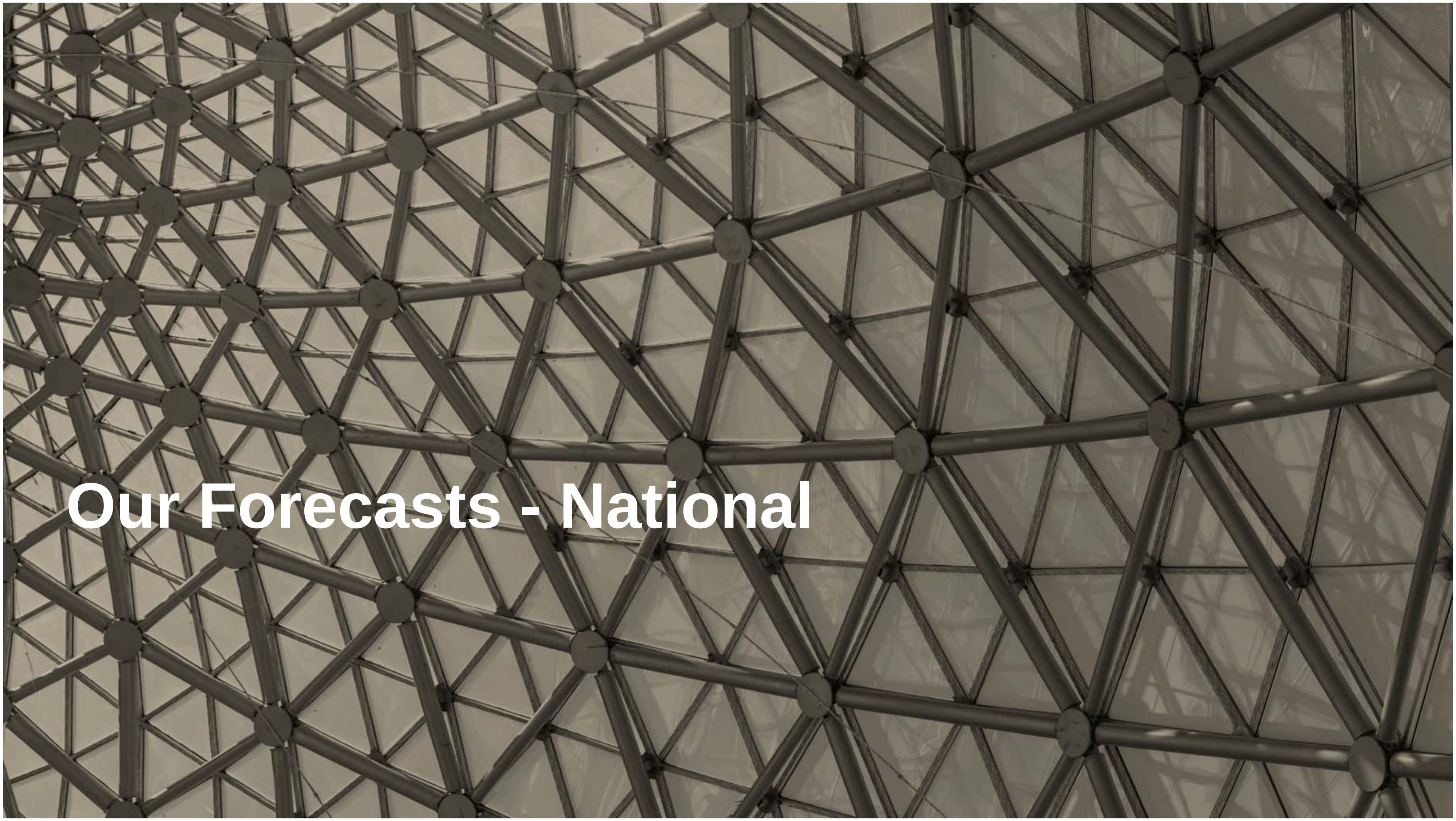
1. **Nothing Unusual Here!** – the current occupancy/ ADR growth relationship is typical of past relationships at this point in the cycle.
2. **Real vs. Nominal Rates Disguise –** Perhaps nominal ADR growth rates are abnormal but real growth rates are typical.
3. **Aggregation Bias** – the national trend 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).**

Our Forecasts - National



U.S. NATIONAL FORECAST – ALL HOTELS

	Long Run Average	2015	2016	2017	2018F	2019F
Supply	1.9%	1.0%	1.5%	1.8%	2.0%	1.9%
Demand	2.0%	2.5%	1.5%	2.6%	2.3%	1.9%
Occupancy	62.2%	65.4%	65.4%	65.9%	66.1%	66.1%
ADR	3.1%	4.5%	3.1%	2.1%	2.8%	2.6%
RevPAR	3.3%	6.1%	3.2%	2.9%	3.1%	2.6%

Source: STR, CBRE Hotels' Americas Research, Hotel Horizons® September-November 2018

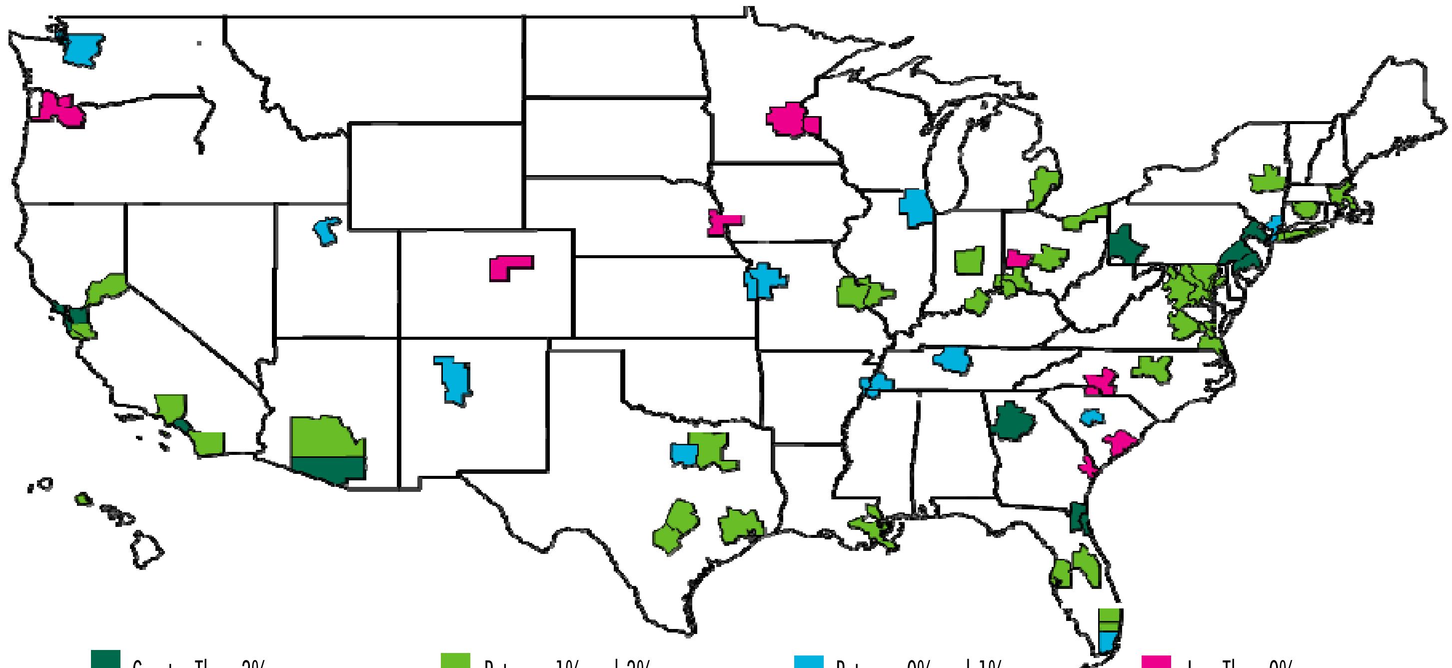
U.S. TOP 25 MARKETS – ALL HOTELS

	Long Run Average	2015	2016	2017	2018F	2019F
Supply	1.8%	1.1%	2.1%	2.4%	2.8%	3.7%
Demand	2.2%	2.6%	1.8%	3.0%	2.8%	3.1%
Occupancy	67.3%	73.5%	73.3%	73.7%	73.7%	73.3%
ADR	3.1%	4.3%	2.7%	1.7%	3.1%	2.3%
RevPAR	3.5%	5.8%	2.5%	2.2%	3.1%	1.8%

Source: STR, CBRE Hotels' Americas Research, Hotel Horizons® September-November 2018

2019 RevPAR Change Outlook:

Okay for Some; Disappointing for Others.



Greater Than 3% | Between 1% and 3% | Between 0% and 1% | Less Than 0%

Source: STR, CBRE Hotels' Americas Research, Hotel Horizons® September-November 2018

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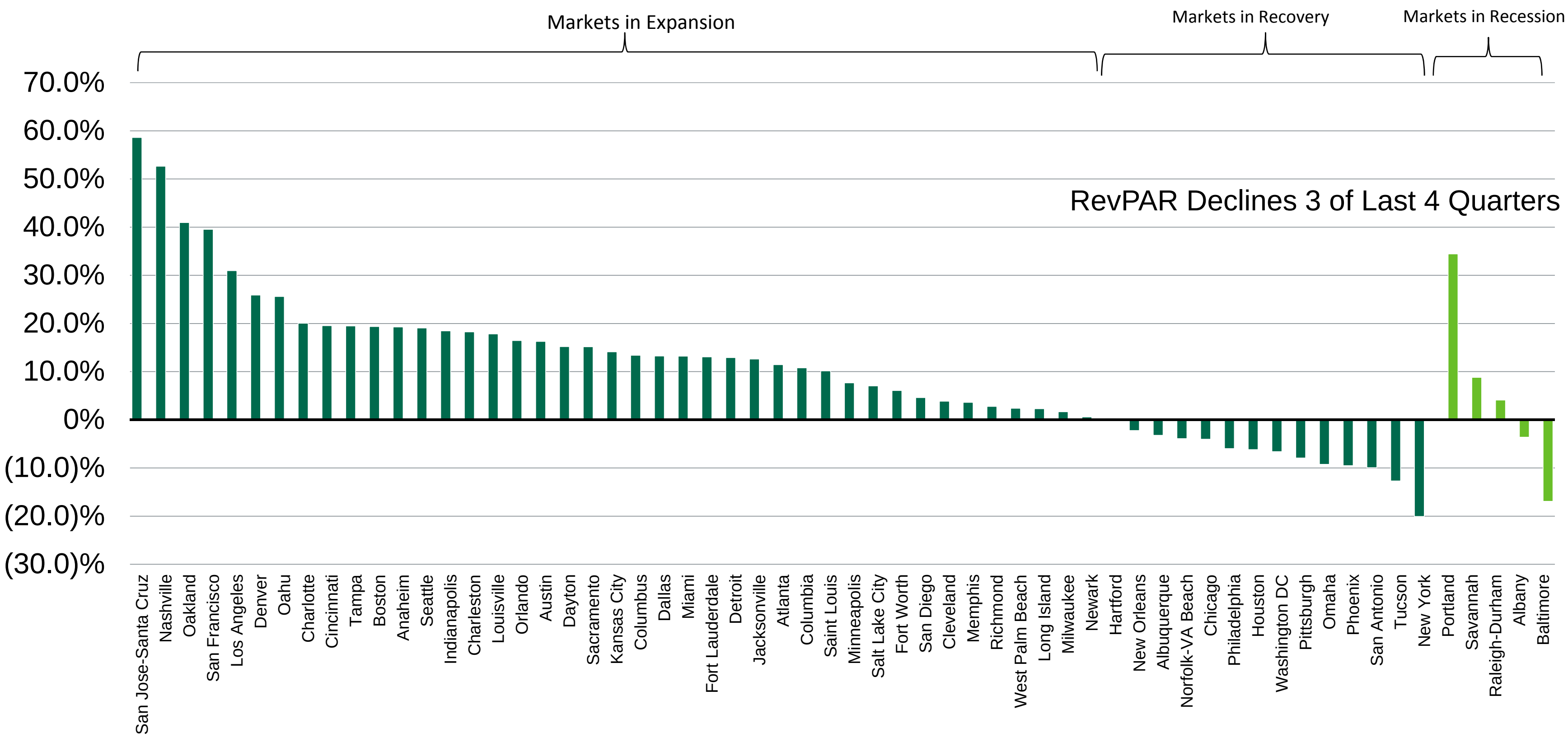
MARKET OUTLOOK

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.


SUMMARY

SUMMARY THOUGHTS *FIRST WATCH ON A LONG VOYAGE*

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 (including Savannah) 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.

THANKS

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