

CBRE HOTELS

The World's Leading Hotel Experts.

CBRE

The Road Ahead

... a Change of Scenery?

STATE OF THE U.S. LODGING INDUSTRY
OUTLOOK FOR ATLANTA

Mark Woodworth and Jamie Lane
CBRE Hotels' Americas Research

December 11, 2018

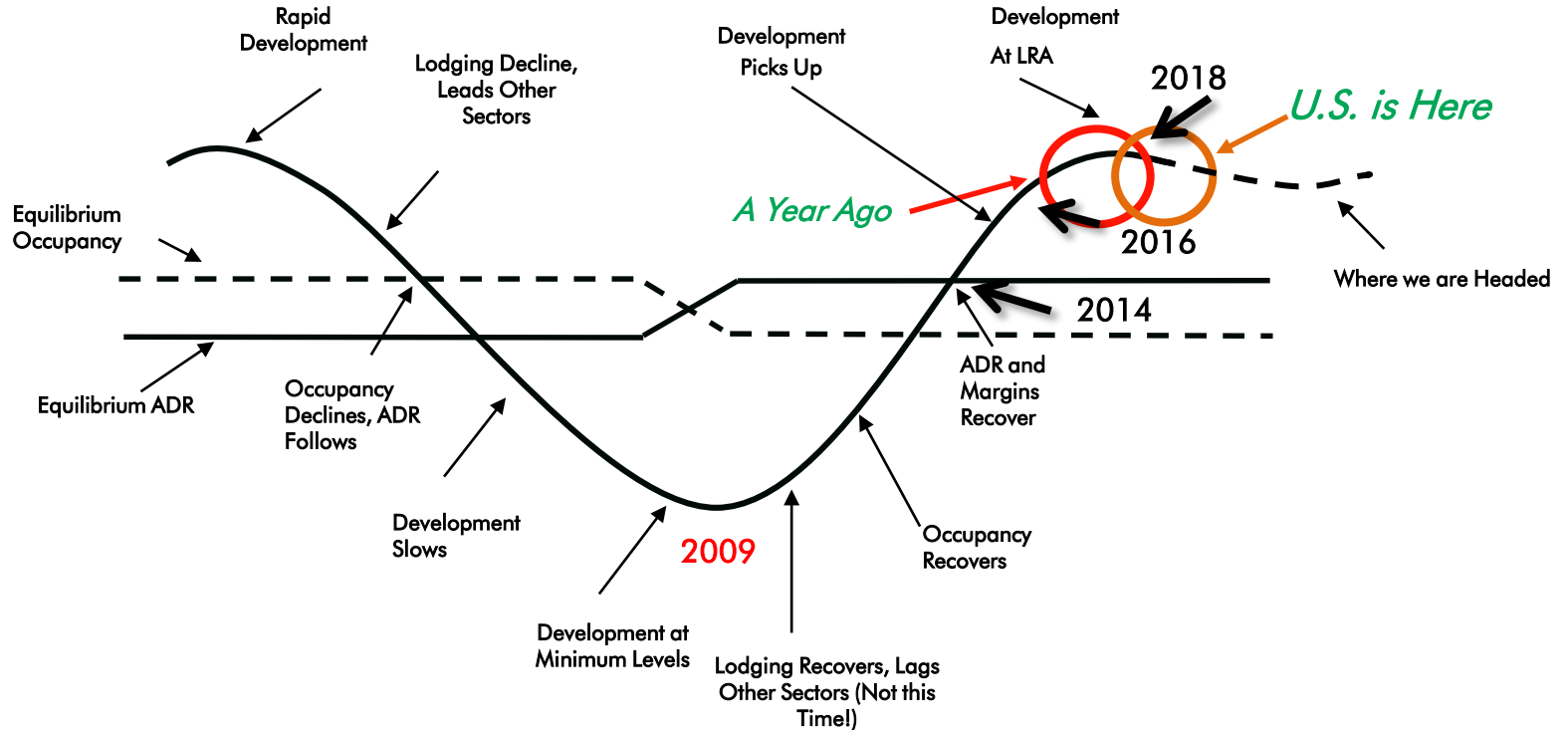
AGENDA

- THE ECONOMY
- LABOR
- FORECASTS
- THE CONUNDRUM
- THE SHARING ECONOMY

First Watch on a Long Voyage

THE HOTEL MARKET CYCLE

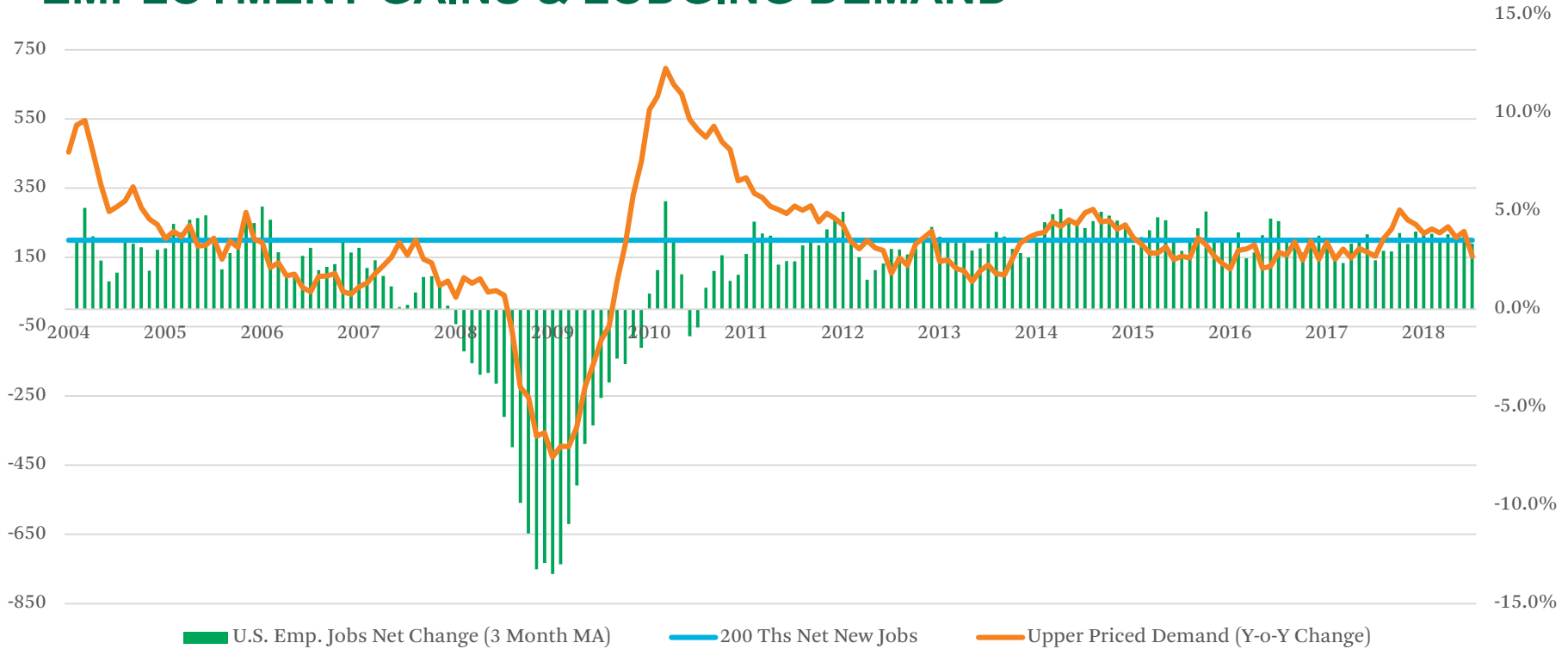
The hotel market is cyclical, and we can predict what will happen based on past trends





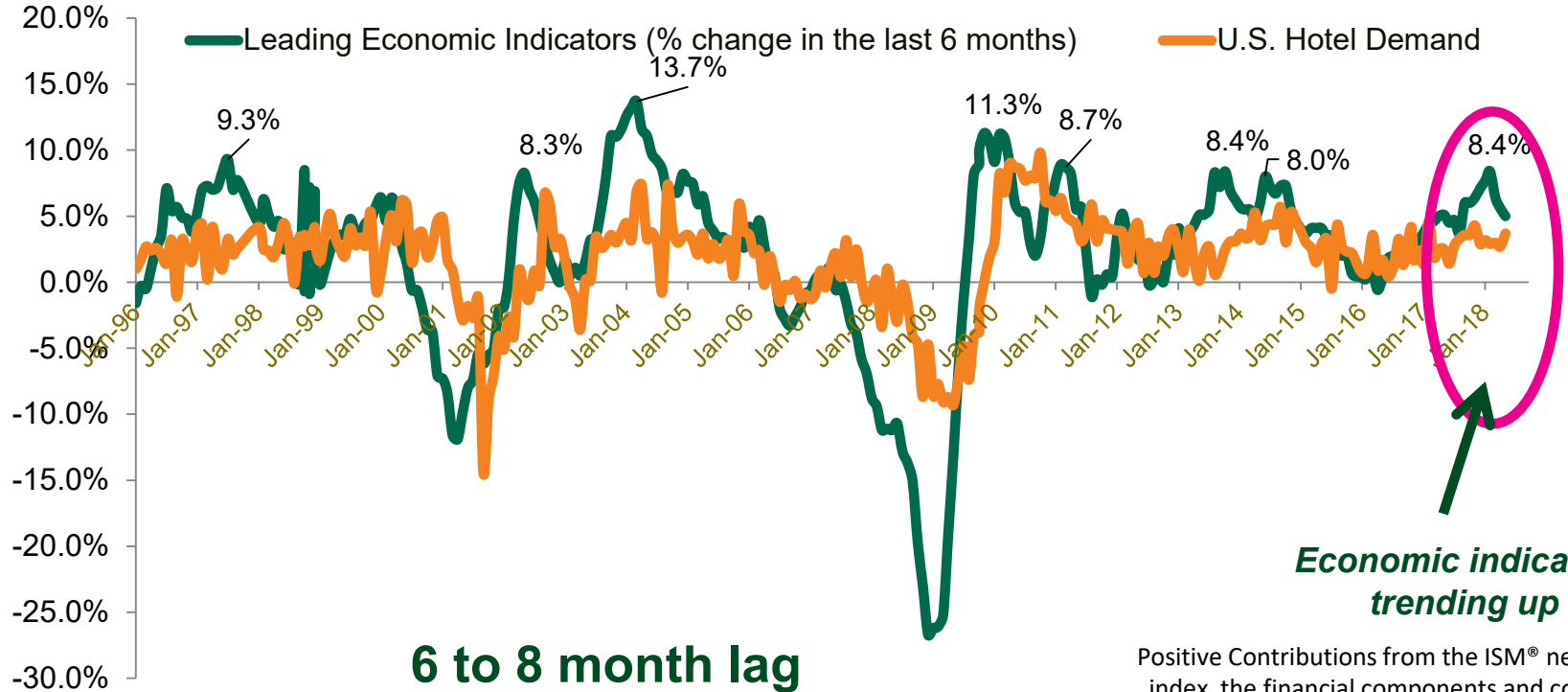
THE ECONOMY

EMPLOYMENT GAINS & LODGING DEMAND



Source: BLS.gov, CBRE Hotels' Americas Research Q3 2018

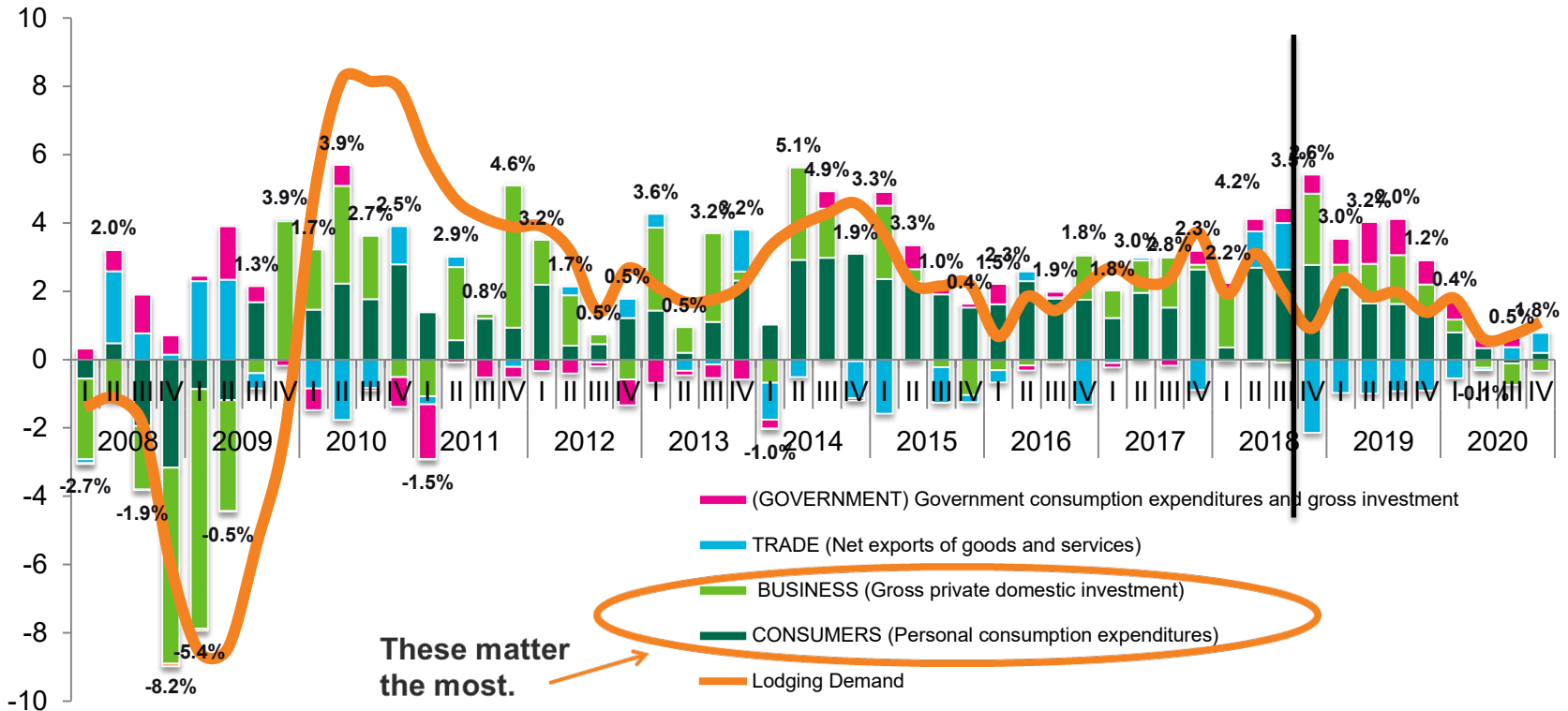
LEADING ECONOMIC INDICATORS PERCENT CHANGE IN THE LAST 6 MONTHS



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

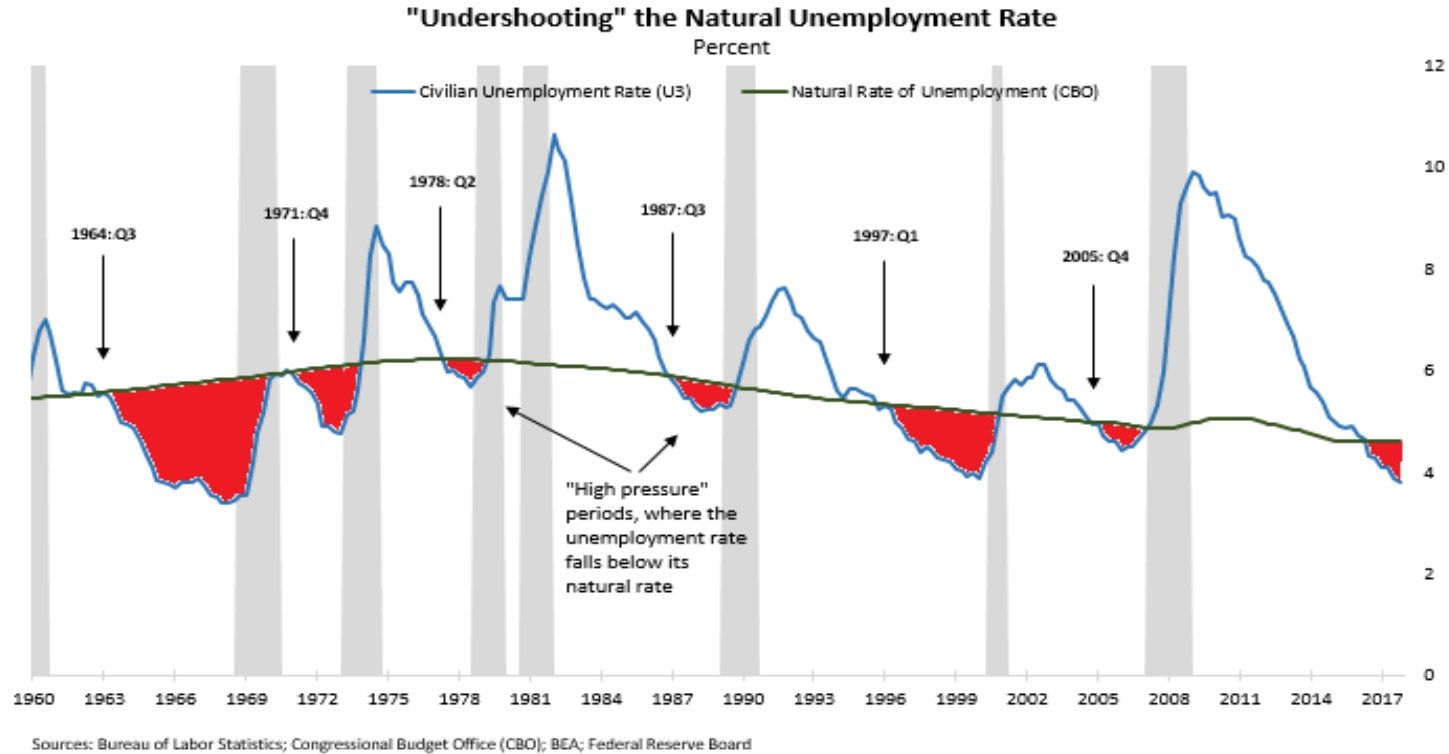
Source: The Conference Board, CBRE Hotels' Americas Research, STR, Q3 2018

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



Source: BEA, Moody's Analytics, CBRE Hotels Americas' Research Hotel Horizons, STR, Q3 2018
 CBRE HOTELS

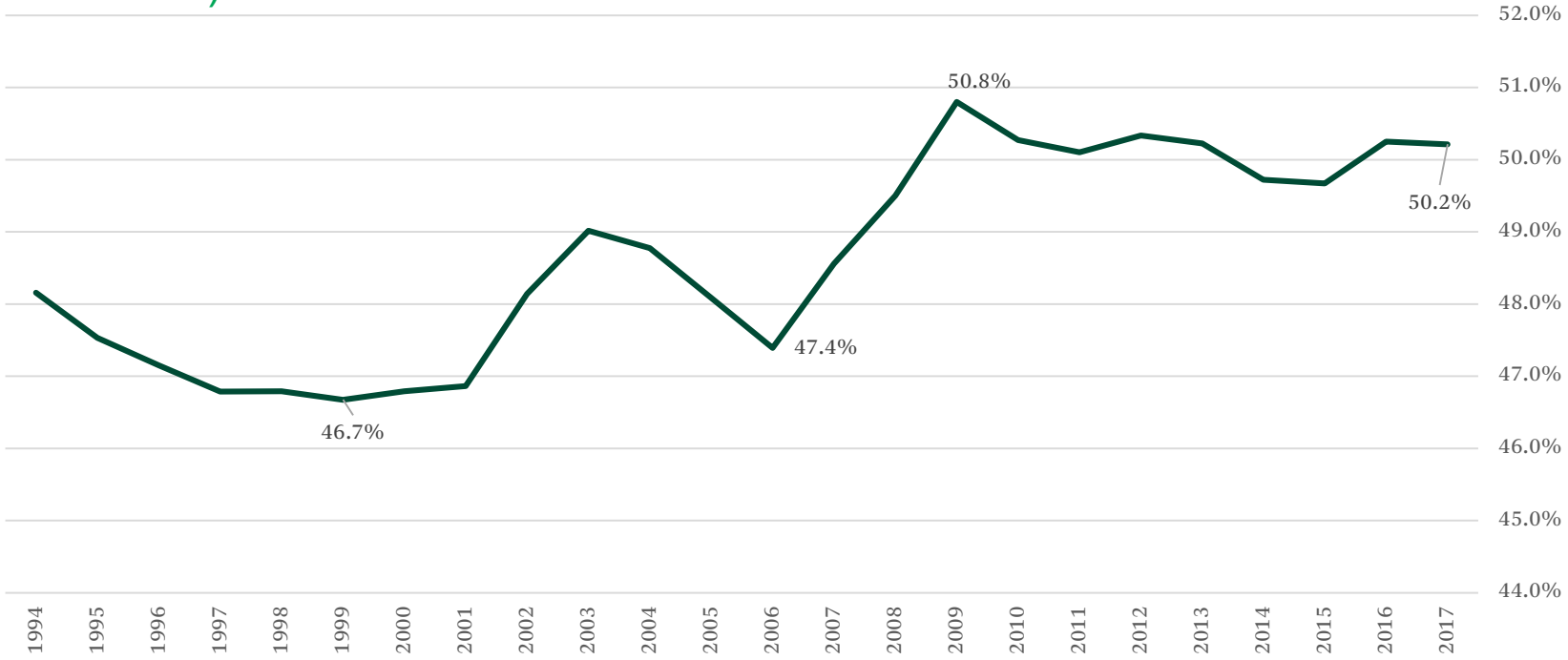
A PICTURE ECONOMISTS ARE THINKING A LOT ABOUT NOW





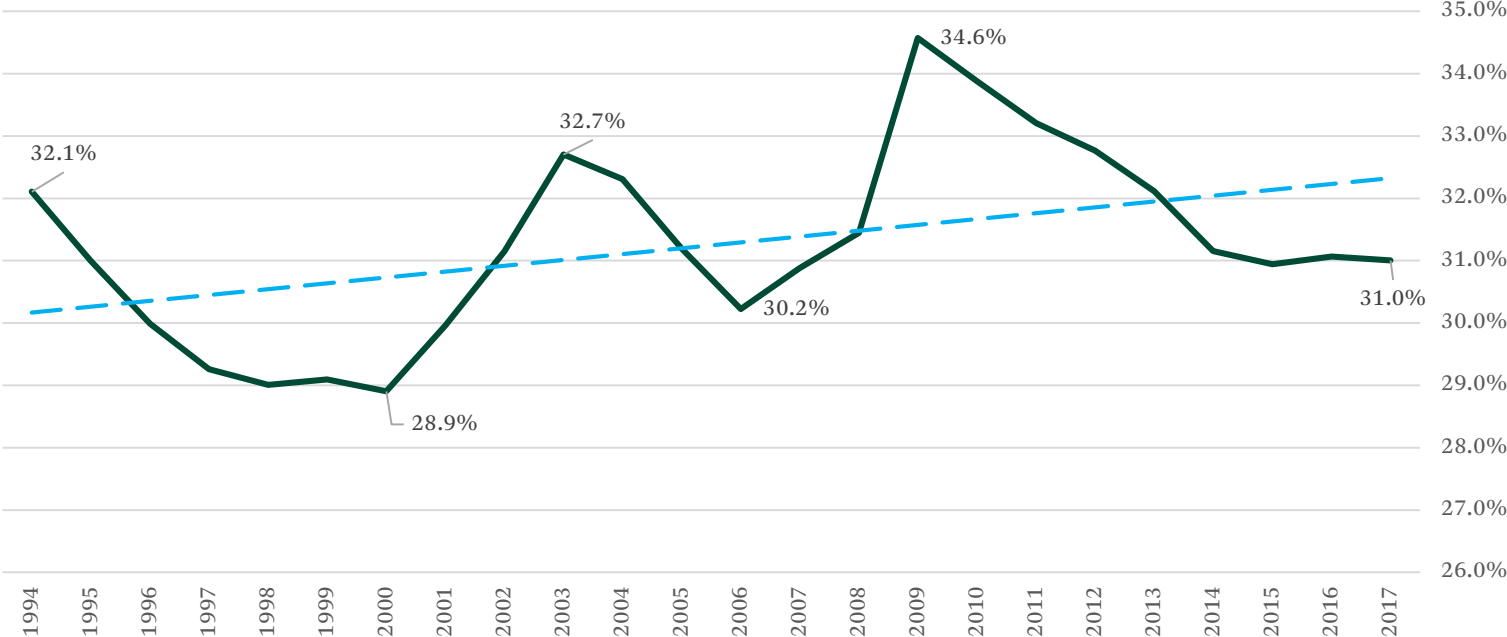
LABOR
IMPACT OF TIGHTENING
LABOR MARKETS

TOTAL PAYROLL & BENEFITS AS A PERCENT OF TOTAL EXPENSES (THRU GOP)



Source: CBRE Trends® in the Hotel Industry Survey, 2018.

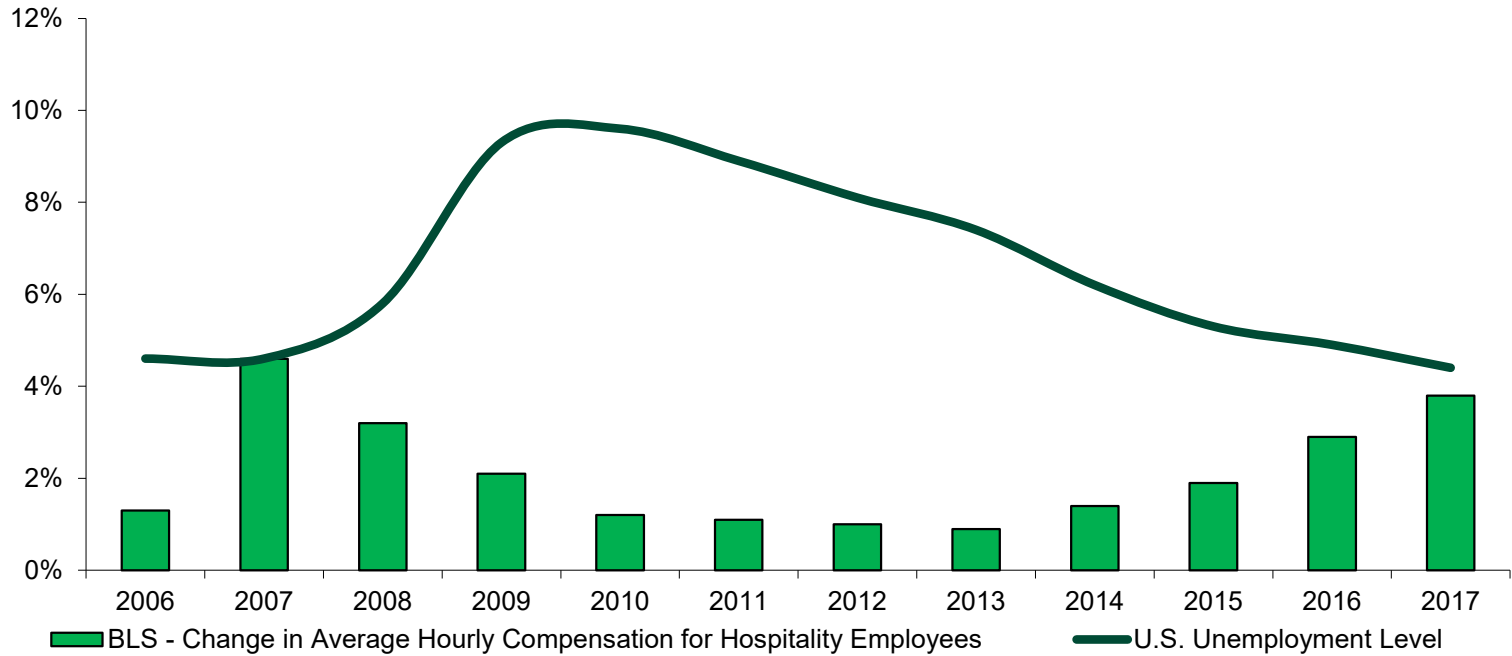
TOTAL PAYROLL & BENEFITS AS A PERCENT OF TOTAL REVENUE



Source: CBRE Trends® in the Hotel Industry Survey, 2018.

2018 TRENDS® IN THE HOTEL INDUSTRY

ANNUAL CHANGE IN HOSPITALITY INDUSTRY EMPLOYEE HOURLY COMPENSATION VERSUS UNEMPLOYMENT RATE



Source: Bureau of Labor Statistics, Q3 2018.

CBRE HOTELS



OUR FORECASTS - NATIONAL

U.S. NATIONAL FORECAST – ALL HOTELS

	Long Run Average	2015	2016	2017	2018F	2019F
Supply	1.8%	1.0%	1.5%	1.8%	2.0%	1.9%
Demand	2.0%	2.5%	1.5%	2.6%	2.3%	1.9%
Occupancy	62.3%	65.4%	65.4%	<u>65.9%</u>	<u>66.1%</u>	<u>66.2%</u>
ADR	3.0%	4.5%	3.1%	2.1%	2.5%	2.5%
RevPAR	3.3%	6.1%	3.2%	2.9%	2.8%	2.7%

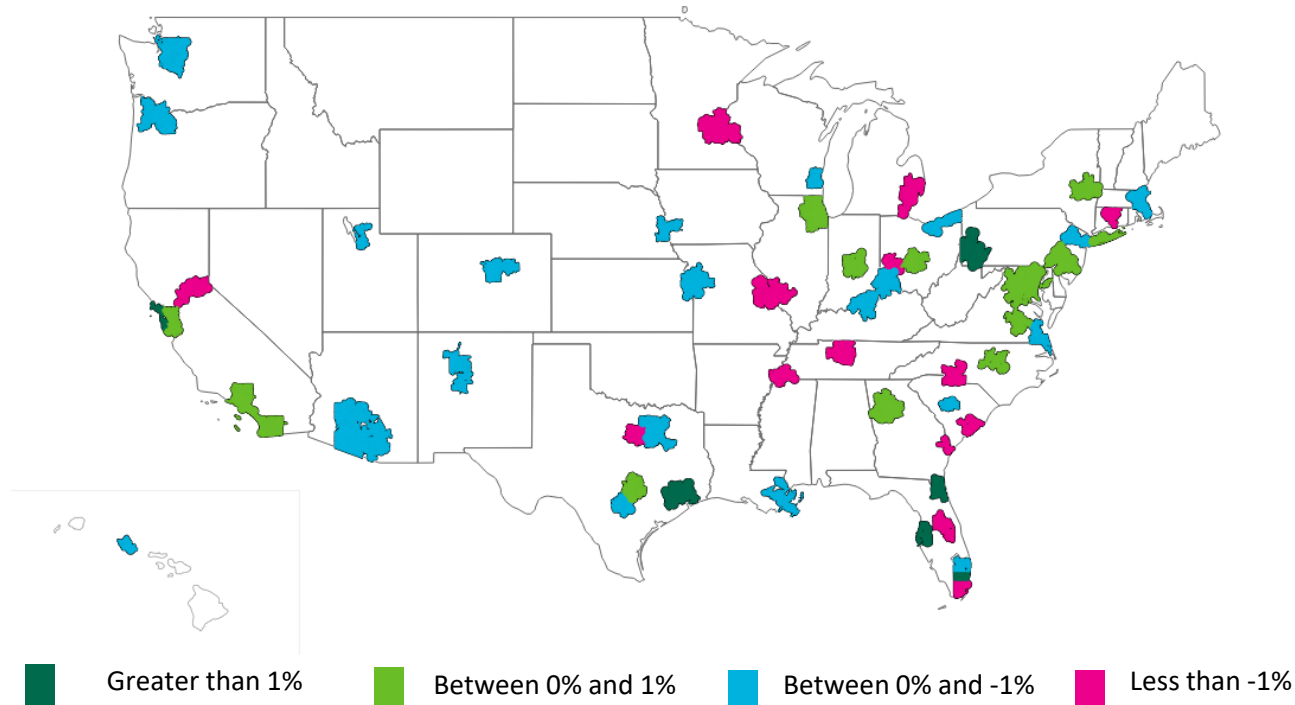
Source: STR, CBRE Hotels' Americas Research, Hotel Horizons® Q3 2018

U.S. TOP 25 MARKETS – ALL HOTELS

	Long Run Average	2015	2016	2017	2018F	2019F
Supply	1.8%	1.1%	2.1%	2.4%	2.7%	3.7%
Demand	2.2%	2.6%	1.8%	2.9%	2.6%	3.5%
Occupancy	67.3%	73.5%	73.3%	<u>73.7%</u>	<u>73.6%</u>	<u>73.4%</u>
ADR	3.1%	4.3%	2.7%	1.7%	2.9%	2.7%
RevPAR	3.5%	5.8%	2.5%	2.2%	2.8%	2.4%

Source: STR, CBRE Hotels' Americas Research, Hotel Horizons® Q3 2018

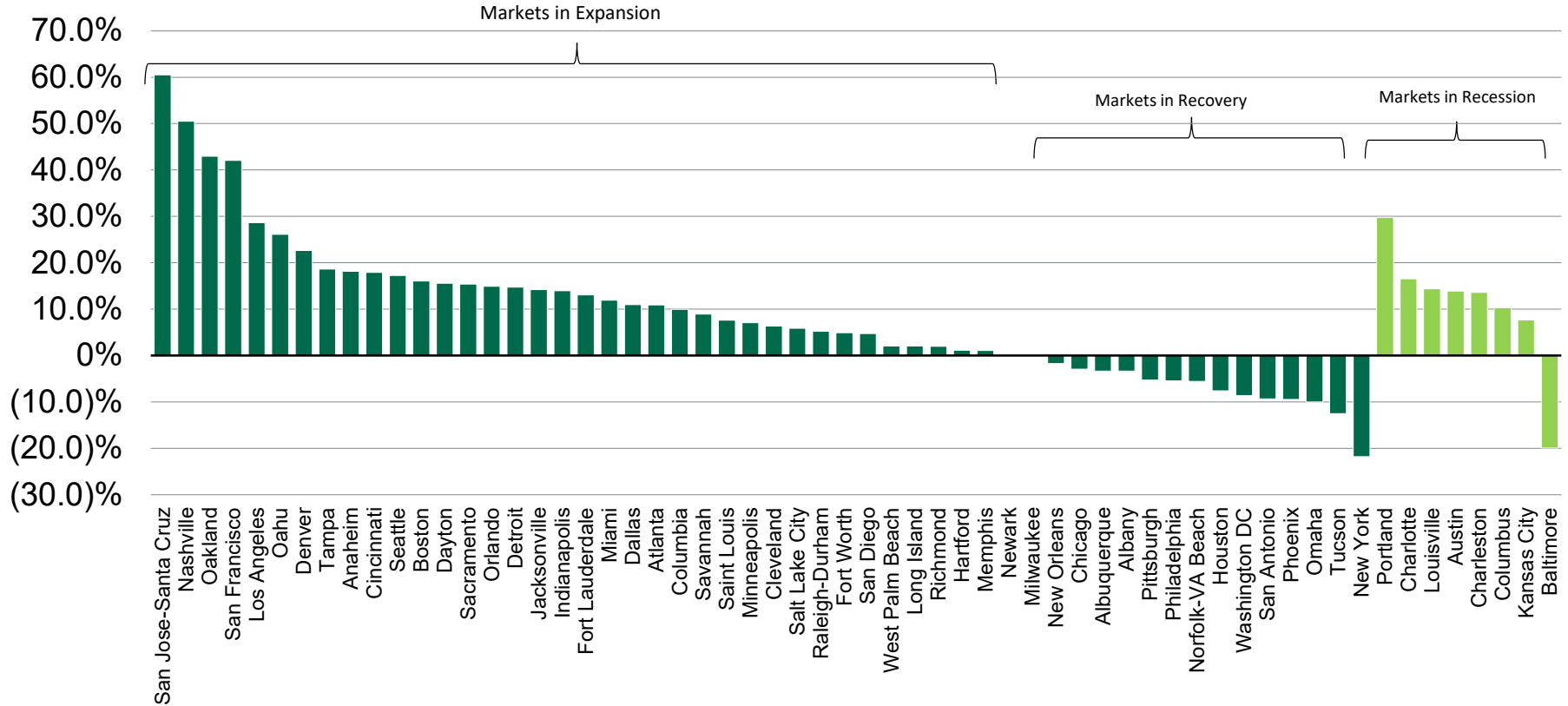
2019 Occupancy Change Outlook: Okay for Some; Disappointing for Others



Source: STR, CBRE Hotels' Americas Research, Hotel Horizons® Q3 2018

REAL REVPAR CHANGE FROM PRE-RECESSION PEAK

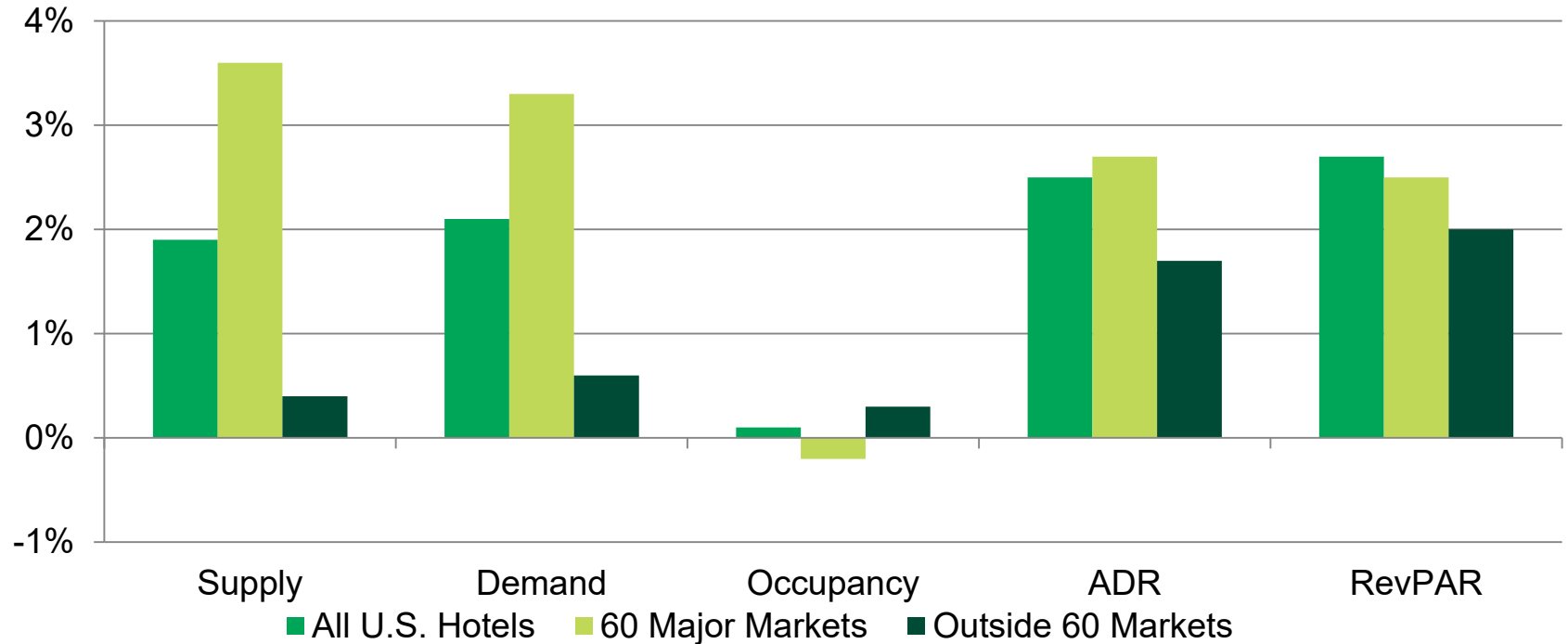
NOT ALL MARKETS HAVE FULLY RECOVERED FROM THE LAST RECESSION



Source: CBRE Hotels' Americas Research; STR, Q3 2018

U.S. HOTEL INDUSTRY - COMPARATIVE PERFORMANCE

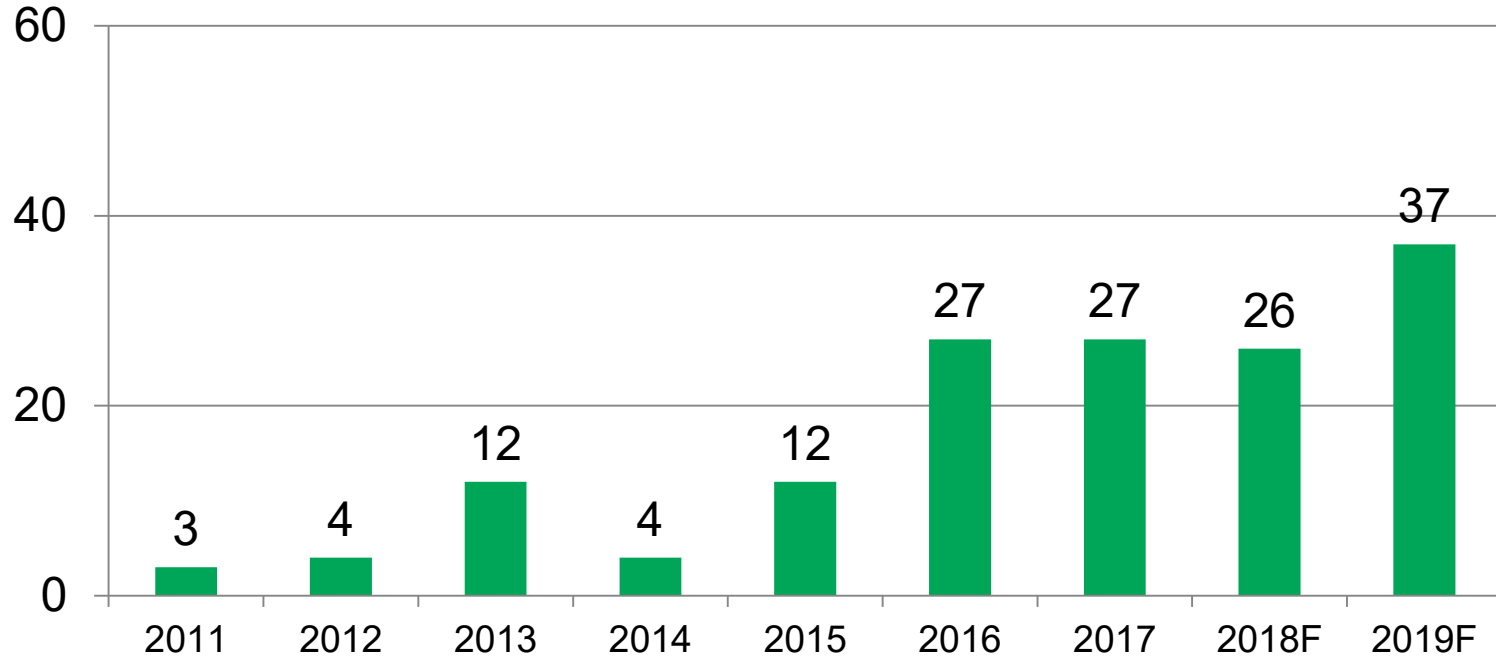
FORECAST CHANGE – 2018 TO 2019



Source: CBRE Hotels' Americas Research, 2018 Q3 Hotel Horizons® Forecast

U.S. LODGING PERFORMANCE – 60 HORIZONS® MARKETS*

NUMBER OF MARKETS* - EXPERIENCED OR FORECAST DECLINE IN OCCUPANCY

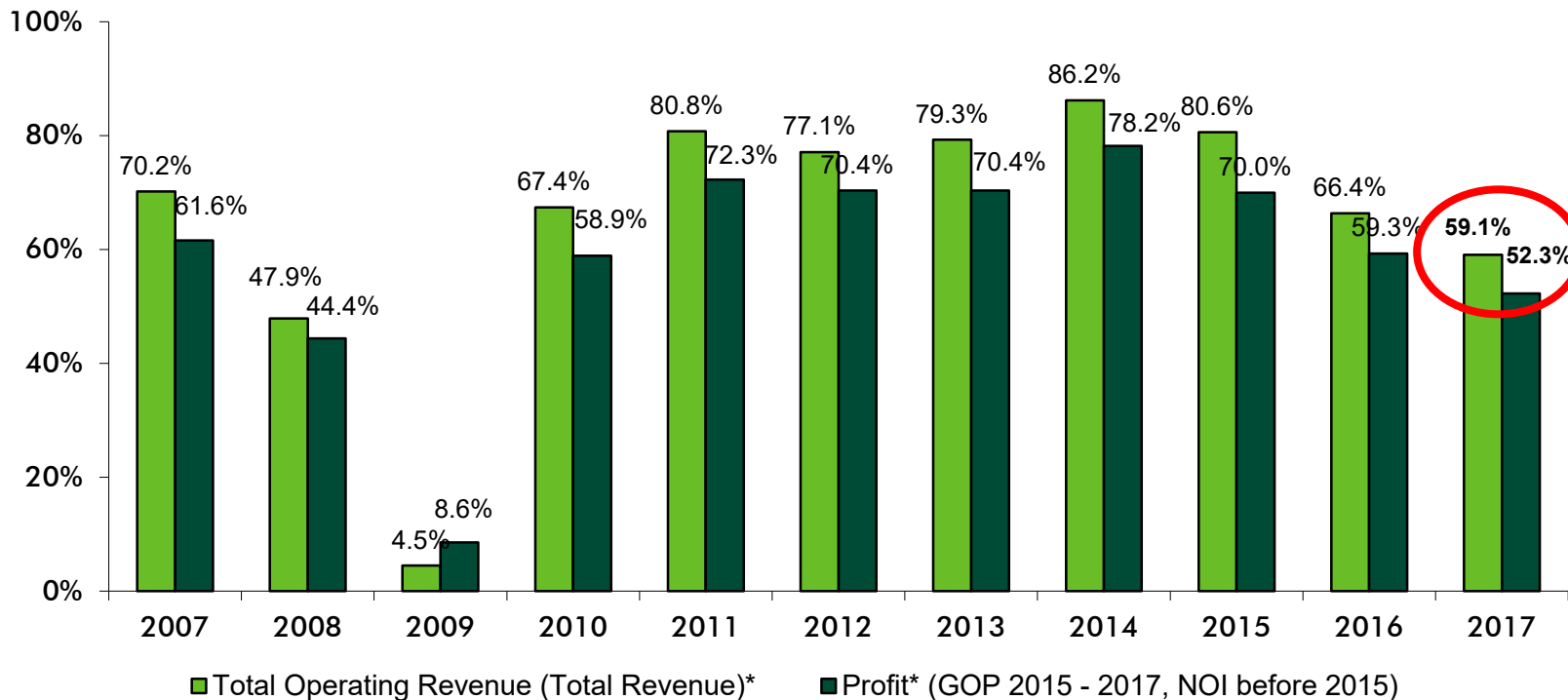


Note: * Universe of 60 major markets covered by CBRE Hotel Horizons® forecast reports

Source: CBRE Hotels' Americas Research, Q3 2018 Hotel Horizons® Forecast

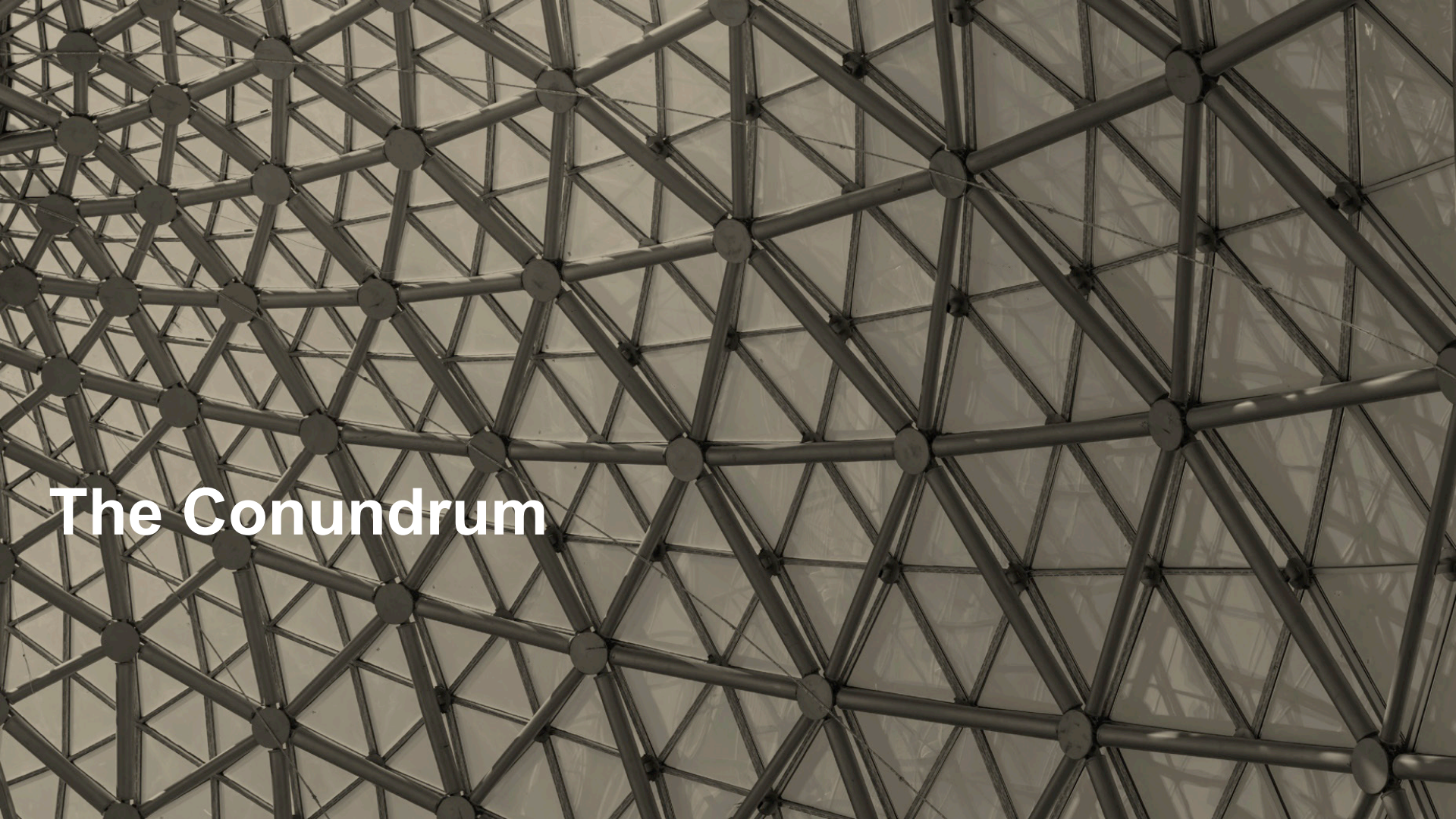
FEWER HOTELS ARE ABLE TO ACHIEVE INCREASES ON THE TOP AND BOTTOM LINES

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)

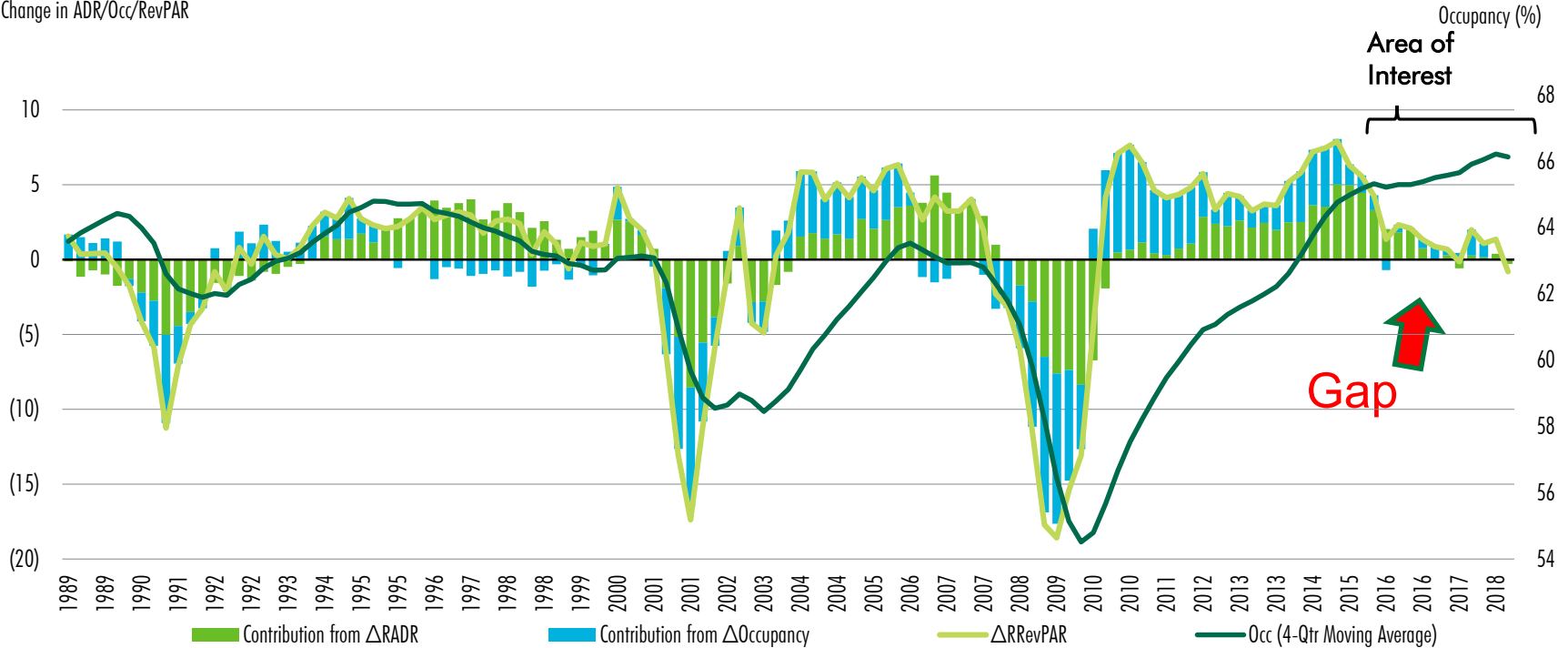
Source: 2018 *Trends*® in the Hotel Industry



The Conundrum

STR HISTORY OF U.S. HOTEL FINANCIAL PERFORMANCE, 1989-2018 Q2

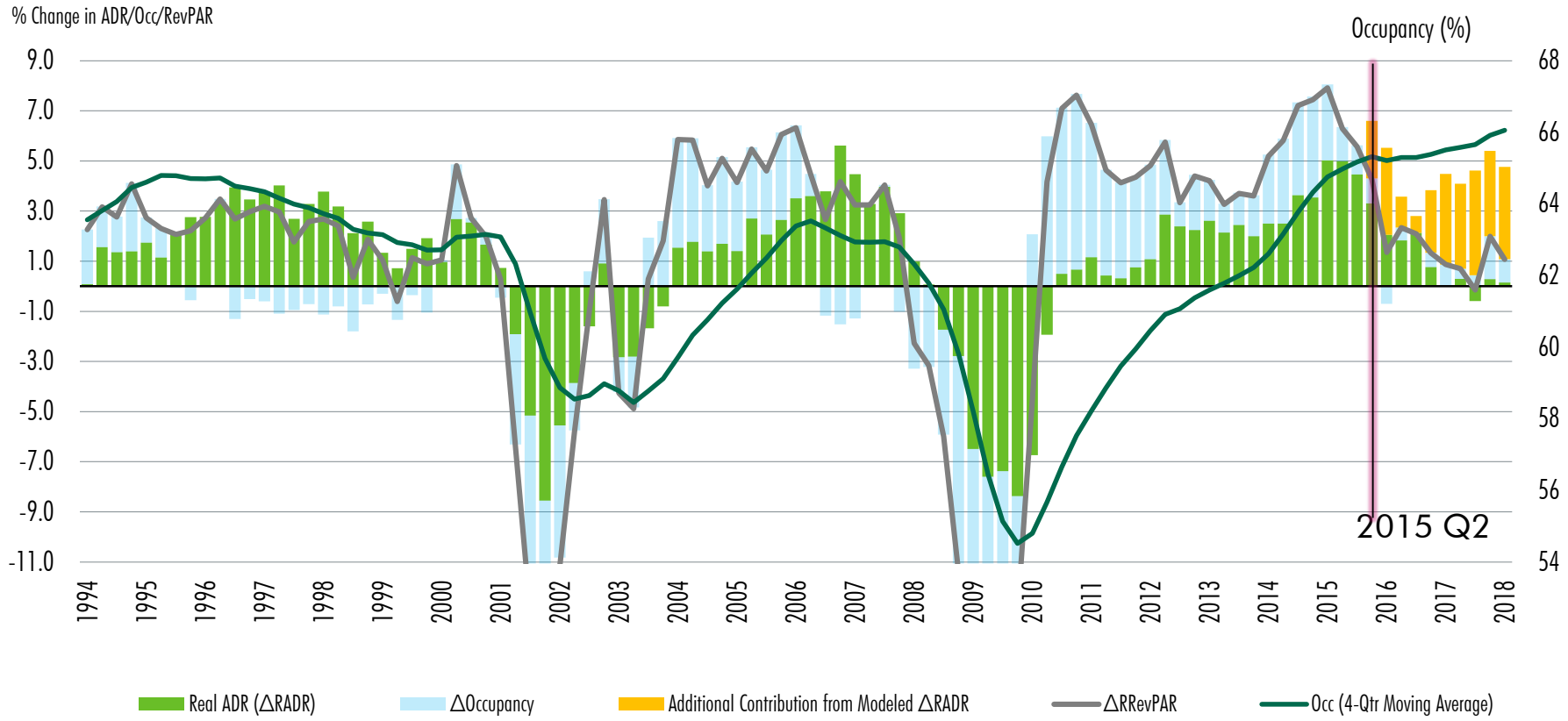
% Change in ADR/Occ/RevPAR



Notes: Previous historical peak occupancy 66.2% (2018 Q2), Current occupancy 66.1% (2018 Q3)

Sources: CBRE Hotels' Americas Research, STR Q3 2018

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.

CITIES WITH THE DISEASE AND THOSE WITHOUT (TOTAL = 60)

With (37)

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

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:

6. **Chain Redemption Policies** – Hotels follow rate policies that boost occupancy to levels in which reimbursement by chains for rooms purchased with points is maximized.
7. **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.
8. **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).
9. **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.
10. **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.
11. **Slow Wage Growth Translates into Slow ADR Growth** – wage cost push pressures are low.
12. **Hotel Managers Responsible for Rate Setting have been acting Irrationally**
(Overly Timid about Raising Rates).



SHARING ECONOMY


UNTAPPED DEMAND

BIG ANNOUNCEMENTS FROM AIRBNB THIS PAST YEAR

ROOM IN BOUTIQUE HOTEL

Brooklyn Queen Bed

Brooklyn



Alec

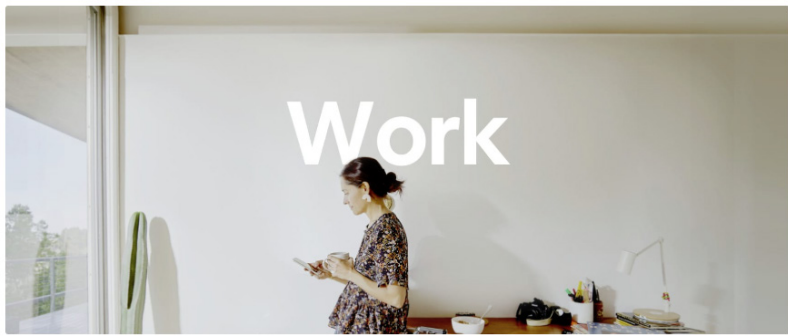
2 guests Studio 1 bed 1 private bath

Q New York, NY · Homes

Dates Guests **Hotel room** Price Instant Book Trip type Mo

- Entire place
Have a place to yourself
- Private room
Have your own room and share some common spaces
- Hotel room**
Have a private or shared room in a boutique hotel, hostel, and more
- Shared room
Stay in a shared space, like a common room

Clear Apply



Work

1,368 HOMES

Book a top-rated home that offers reservation flexibility and work-trip essentials.

Fashion experiences



WORKSHOP

The art of hatmaking

\$50 per person
4.93★★★★★ 134



SHOPPING

Shop NYC's Secret Bargain Thrift Shops!

\$37 per person
4.92★★★★★ 78



490+ VERIFIED HOMES

Find beachside bungalows, mid-century modern cottages, and more verified homes in the City of Angels.

vacasa
vacation rentals made easy

S O N D E R

evolve
vacation rental network

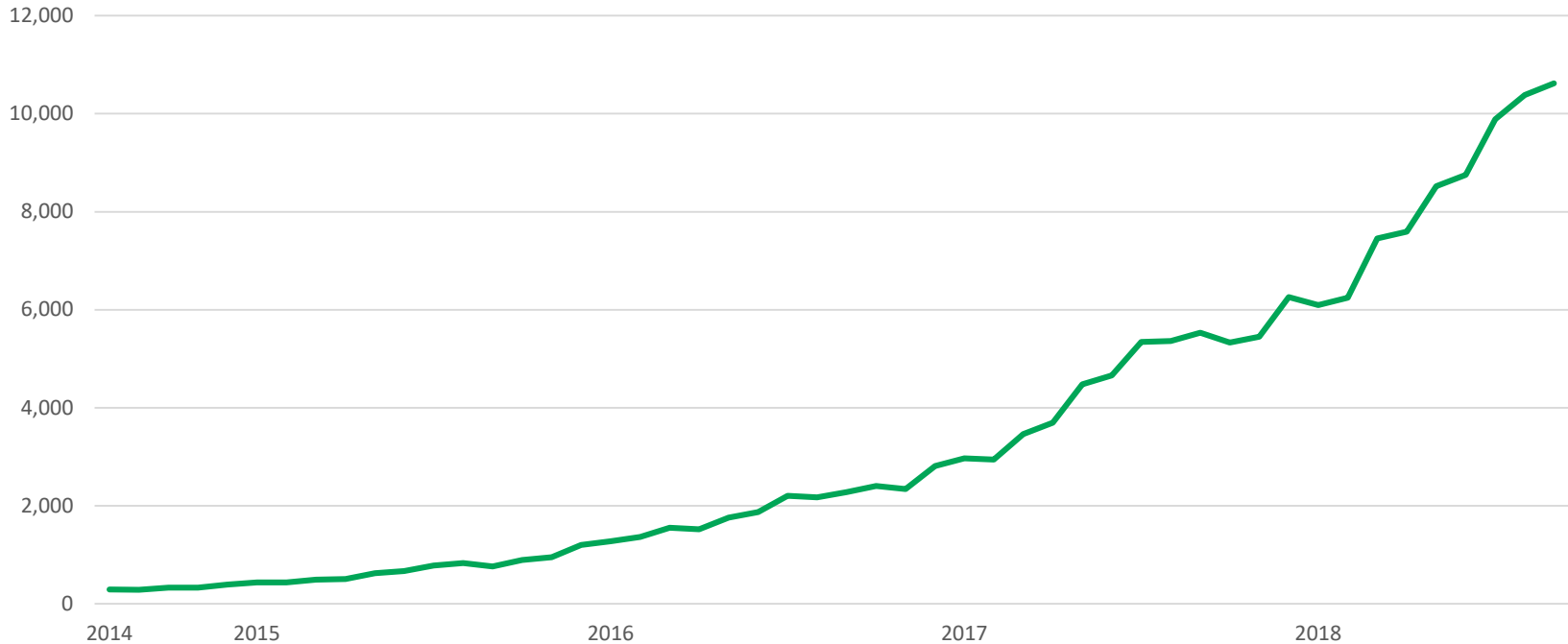
Pillow

wanderjaunt

TurnKey
VACATION RENTALS

U.S. HOTELS ON AIRBNB (ACTIVE UNITS)

AIRBNB BEGINS ITS TRANSITION TO AN OTA



Source: CBRE Hotels' Americas Research, Airdna, Q3 2018
Note: Based on self-classification by host on Airbnb.com

AIRBNB & HOTEL SUPPLY IN THE US

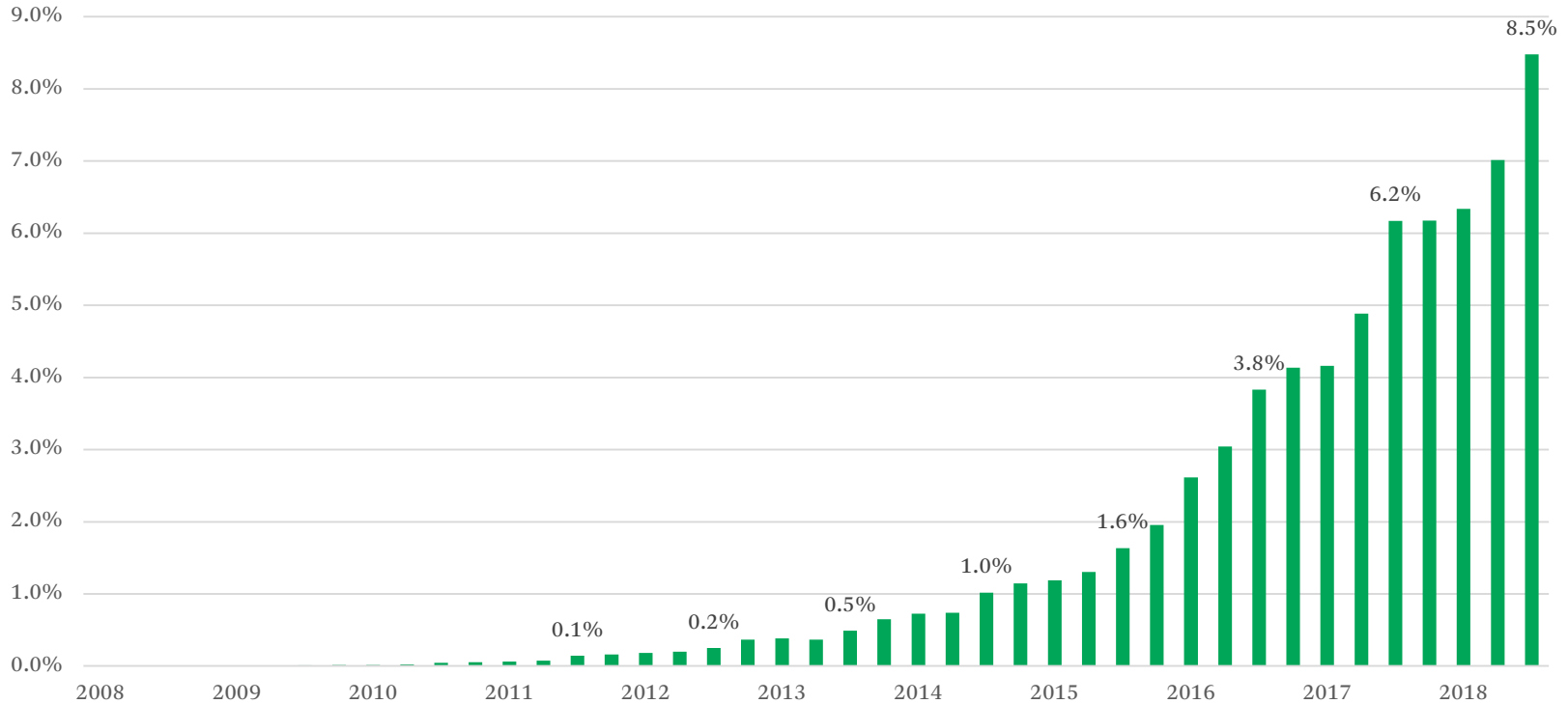
Average Daily Supply in the U.S.

Year	Hotel Rooms	Hotel^	Airbnb Units	Airbnb^	Airbnb+Hotels	Airbnb+Hotels^
2012	4,849,352	0.3%	13,000	150%	4,862,352	0.5%
2013	4,875,064	0.5%	28,000	115%	4,903,064	0.8%
2014	4,905,305	0.6%	58,000	107%	4,963,305	1.2%
2015	4,952,486	1.0%	115,235	99%	5,067,721	2.1%
2016	5,025,815	1.5%	228,706	98%	5,254,521	3.7%
2017	5,117,734	1.8%	348,977	53%	5,466,710	4.0%
YTD Data						
2017	5,103,309		331,531		5,434,839	
2018	5,205,615	2.0%	463,169	40%	5,668,784	4.3%
Y-o-Y Q3 Data						
2017	5,157,095		398,921		5,556,017	
2018	5,261,571	2.0%	531,160	33%	5,792,730	4.3%

Previous Peak @ 3.1% Q1 2009

AIRBNB DEMAND AS A PERCENT OF HOTEL DEMAND

SIGNIFICANT GROWTH CONTINUES



Source: STR, Airdna, CBRE Hotels' Americas Research, Google Trends, Q3 2018

TRENDS IN AIRBNB UNIT GROWTH

Q3 2018 Y-O-Y Change in Average Daily Supply (Top 60 Hotel Markets)

Fastest Growing Markets

Ranking	Market	Active Units
1	San Antonio, TX	58.7%
2	Orlando, FL	53.9%
3	Atlanta, GA	53.7%
4	Dallas, TX	53.4%
5	Minneapolis/St Paul, MN-WI	50.9%
6	Cincinnati, OH-KY-IN	50.7%
7	Phoenix, AZ	50.6%
8	Fort Worth/Arlington, TX	49.1%
9	West Palm Beach/Boca Raton, FL	48.9%
10	Fort Lauderdale, FL	47.8%

Slowest Growing Markets

Ranking	Market	Active Units
1	San Francisco/San Mateo, CA	-7.1%
2	New York, NY	6.7%
3	Washington, DC-MD-VA	11.7%
4	Oakland, CA	13.3%
5	Chicago, IL	13.8%
6	Nashville, TN	15.2%
7	Los Angeles/Long Beach, CA	17.3%
8	Portland, OR	17.3%
9	Anaheim/Santa Ana, CA	17.5%
10	San Jose/Santa Cruz, CA	18.1%

Source: CBRE Hotels' Americas Research, Airdna, Q3 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 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

THANKS

MARK WOODWORTH

Senior Managing Director

+ 1 404 812 5085

mark.woodworth@cbre.com

JAMIE LANE

Senior Economist

+ 1 404 812 5045

jamie.lane@cbre.com

CBRE © 2018 All Rights Reserved. All information included in this proposal pertaining to CBRE—including but not limited to its operations, employees, technology and clients—are proprietary and confidential, and are supplied with the understanding that they will be held in confidence and not disclosed to third parties without the prior written consent of CBRE. This proposal is intended solely as a preliminary expression of general intentions and is to be used for discussion purposes only. The parties intend that neither shall have any contractual obligations to the other with respect to the matters referred herein unless and until a definitive agreement has been fully executed and delivered by the parties. The parties agree that this proposal is not intended to create any agreement or obligation by either party to negotiate a definitive lease/purchase and sale agreement and imposes no duty whatsoever on either party to continue negotiations, including without limitation any obligation to negotiate in good faith or in any way other than at arm's length. Prior to delivery of a definitive executed agreement, and without any liability to the other party, either party may (1) propose different terms from those summarized herein, (2) enter into negotiations with other parties and/or (3) unilaterally terminate all negotiations with the other party hereto.

The information contained in this document has been obtained from sources believed reliable. While CBRE, Inc. does not doubt its accuracy, CBRE, Inc. has not verified it and makes no guarantee, warranty or representation about it. It is your responsibility to independently confirm its accuracy and completeness. Any projections, opinions, assumptions or estimates used are for example only and do not represent the current or future performance of the property. The value of this transaction to you depends on tax and other factors which should be evaluated by your tax, financial and legal advisors. You and your advisors should conduct a careful, independent investigation of the property to determine to your satisfaction the suitability of the property for your needs.