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.

- Rapid Development
- Lodging Decline, Leads Other Sectors
- Development at Minimum Levels
- Lodging Recovers, Lags Other Sectors (Not this Time)
- ADR and Margins Recover
- Development Picks Up
- A Year Ago
- U.S. is Here

Equilibrium Occupancy
Equilibrium ADR

Source: CBRE Hotels’ Americas Research Q3 2018
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

-9.3% 8.3% 13.7% 11.3% 8.7% 8.4% 8.0% 8.4%

-30.0% -25.0% -20.0% -15.0% -10.0% -5.0% 0.0% 5.0% 10.0% 15.0% 20.0%

Economic indicators trending up

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

CBRE HOTELS
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
"Undershooting" the Natural Unemployment Rate

"High pressure" periods, where the unemployment rate falls below its natural rate

Sources: Bureau of Labor Statistics; Congressional Budget Office (CBO); BEA; Federal Reserve Board
LABOR
IMPACT OF TIGHTENING LABOR MARKETS
TOTAL PAYROLL & BENEFITS AS A PERCENT OF TOTAL EXPENSES (THRU GOP)

TOTAL PAYROLL & BENEFITS AS A PERCENT OF TOTAL REVENUE

2018 TRENDS® IN THE HOTEL INDUSTRY

ANNUAL CHANGE IN HOSPITALITY INDUSTRY EMPLOYEE HOURLY COMPENSATION VERSUS UNEMPLOYMENT RATE


CBRE HOTELS
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><strong>Supply</strong></td>
<td>1.8%</td>
<td>1.0%</td>
<td>1.5%</td>
<td>1.8%</td>
<td>2.0%</td>
<td>1.9%</td>
</tr>
<tr>
<td><strong>Demand</strong></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><strong>Occupancy</strong></td>
<td><strong>62.3%</strong></td>
<td>65.4%</td>
<td>65.4%</td>
<td>65.9%</td>
<td><strong>66.1%</strong></td>
<td><strong>66.2%</strong></td>
</tr>
<tr>
<td><strong>ADR</strong></td>
<td>3.0%</td>
<td>4.5%</td>
<td>3.1%</td>
<td>2.1%</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td><strong>RevPAR</strong></td>
<td>3.3%</td>
<td>6.1%</td>
<td>3.2%</td>
<td>2.9%</td>
<td>2.8%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

Source: STR, CBRE Hotels’ Americas Research, Hotel Horizons® Q3 2018
# U.S. TOP 25 MARKETS – ALL HOTELS

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018F</th>
<th>2019F</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Long Run Average</strong></td>
<td>1.8%</td>
<td>2.1%</td>
<td>2.4%</td>
<td>2.7%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Supply</td>
<td>1.1%</td>
<td>2.1%</td>
<td>2.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demand</td>
<td>2.2%</td>
<td>1.8%</td>
<td>2.9%</td>
<td>2.6%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Occupancy</td>
<td>67.3%</td>
<td>73.5%</td>
<td>73.3%</td>
<td>73.7%</td>
<td>73.6%</td>
</tr>
<tr>
<td>ADR</td>
<td>3.1%</td>
<td>2.7%</td>
<td>1.7%</td>
<td>2.9%</td>
<td>2.7%</td>
</tr>
<tr>
<td>RevPAR</td>
<td>3.5%</td>
<td>2.5%</td>
<td>2.2%</td>
<td>2.8%</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

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
Not all markets have fully recovered from the last recession.

Markets in Expansion

Markets in Recovery

Markets in 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

Source: 2018 Trends® in the Hotel Industry
Notes: Previous historical peak occupancy 66.2% (2018 Q2), Current occupancy 66.1% (2018 Q3)
Sources: CBRE Hotels' Americas Research, STR Q3 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

## 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.
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).

**POSSIBLE REASONS FOR THE PARADOX**
SHARING ECONOMY
UNTAPPED DEMAND
BIG ANNOUNCEMENTS FROM AIRBNB THIS PAST YEAR

ROOM IN BOUTIQUE HOTEL

Brooklyn Queen Bed

Brooklyn

2 guests, Studio, 1 bed, 1 private bath

Fashion experiences

Workshop
The art of hatmaking
$50 per person
4.93 stars 134

Shopping
Shop NYC’s Secret Bargain Thrift Shops!
$37 per person
4.91 stars 78

Work

Vacasa, Sonder, Evolve, Pillow, WanderJaunt, TurnKey

vacasa vacation rentals made easy
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.

<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>5,103,309</td>
<td></td>
<td>331,531</td>
<td></td>
<td>5,434,839</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>5,205,615</td>
<td>2.0%</td>
<td>463,169</td>
<td>40%</td>
<td>5,668,784</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

**Y-o-Y Q3 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>5,157,095</td>
<td>2.0%</td>
<td>398,921</td>
<td>33%</td>
<td>5,556,017</td>
<td>4.3%</td>
</tr>
<tr>
<td>2018</td>
<td>5,261,571</td>
<td>2.0%</td>
<td>531,160</td>
<td>33%</td>
<td>5,792,730</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

Source: CBRE Hotels’ Americas Research, Airdna, Google Trends, STR, Q3 2018
AIRBNB DEMAND AS A PERCENT OF HOTEL DEMAND
SIGNIFICANT GROWTH CONTINUES

Source: STR, Airdna, CBRE Hotels’ Americas Research, Google Trends, Q3 2018
### Fastest Growing Markets

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

### Slowest Growing Markets

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

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

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