

# CBRE HOTELS

The World's Leading Hotel Experts.

## Trends in the Hotel Industry

June 1, 2017

Brandon Feighner – Director  
CBRE Hotels

An abstract graphic composed of numerous thin, light green lines that form a complex, wireframe-like structure. The lines are most dense and concentrated on the right side of the image, where they form a tall, narrow, and somewhat irregular shape that resembles a stylized mountain peak or a signal tower. From this central point, the lines radiate outwards and downwards, becoming more sparse and chaotic as they spread across the lower half of the image. The overall effect is one of dynamic energy and interconnectedness, set against a dark green background.

# AGENDA

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- The Economy
- The Impact of New Supply
- Airbnb – What Happened in 2016?
- Labor Costs
- Our Forecasts
- A Look at S. CA & The IE
- Hotel Sales & Cap Rates



# THE ECONOMY

# HOW WAS THE ECONOMY IN 2016?

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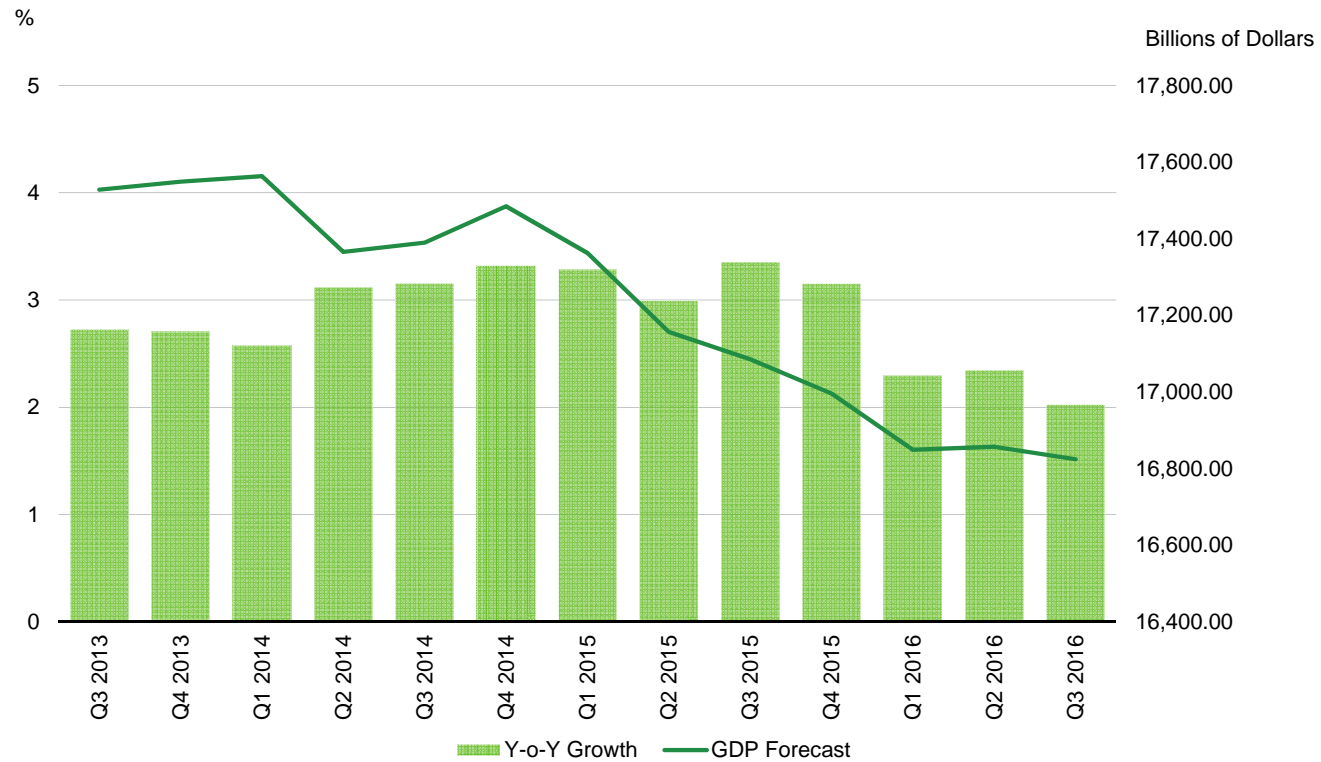
**Good?**

Okay?

**Bad?**

# NOT NEARLY AS GOOD AS EXPECTED!

Historical Moody's Forecasts of Q4 2016 Nominal GDP



Source: CBRE Hotels' Americas Research; Moody's Analytics.

# ECONOMIC ASSUMPTIONS

Year	CPI	GDP	Income	Employment
2012	2.0%	2.2%	2.8%	1.7%
2013	1.4%	1.7%	-0.4%	1.6%
2014	1.7%	2.4%	2.8%	1.9%
2015	0.1%	2.6%	4.3%	2.1%
2016	1.2%	1.6%	2.3%	1.8%
2017E	2.1%	2.0%	2.7%	1.4%
2018F	2.2%	2.5%	2.5%	0.8%

Source: CBRE Hotels' Americas Research; Moody's Analytics, Q1 2017

# WALL STREET JOURNAL

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**“The Election of Donald Trump has economic forecasters thinking hard about something that hasn’t been a problem for a while: upside risk.**

**64% of economist surveyed said the risk was to the upside.”**

## WHAT HISTORY TELLS US ABOUT WHAT MATTERS

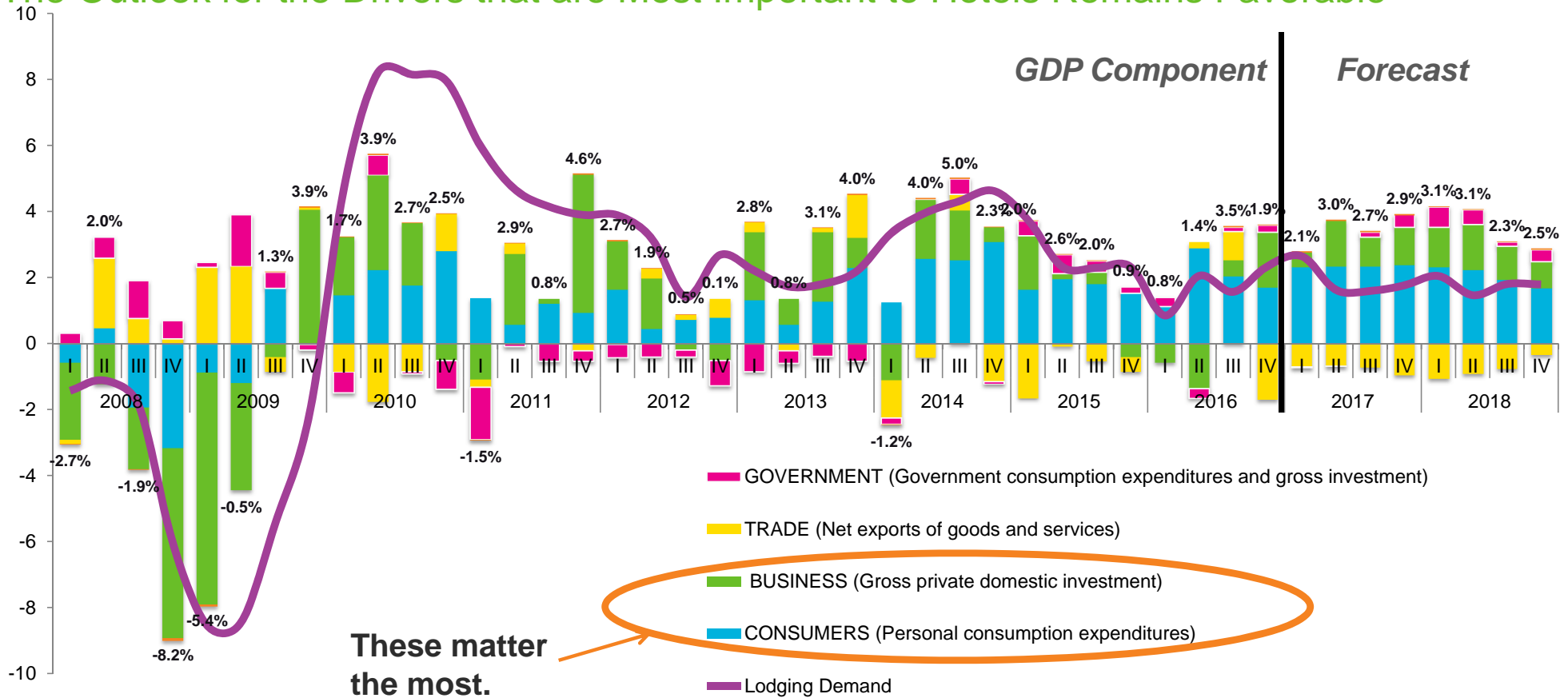
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- A Lot:
  - Employment and Jobs
  - Personal Income
  - GDP
  
- Somewhat:
  - Corporate Profits
  - Leading Economic Indicators
  
- Not So Much:
  - Foreign Exchange Rates

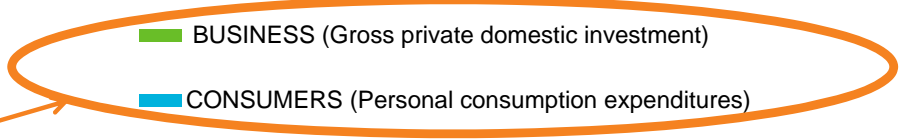


# COMPONENTS OF GDP

The Outlook for the Drivers that are Most Important to Hotels Remains Favorable

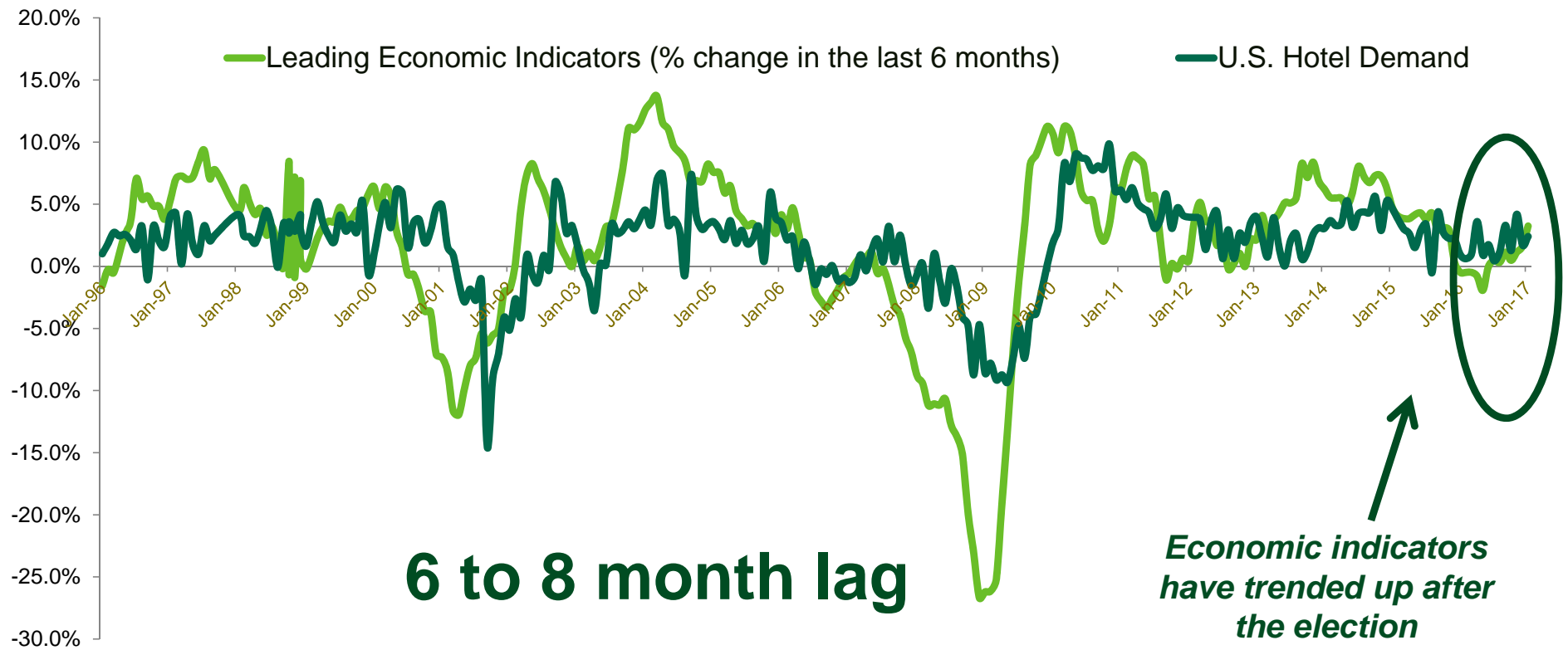


These matter the most.



# LEADING ECONOMIC INDICATORS

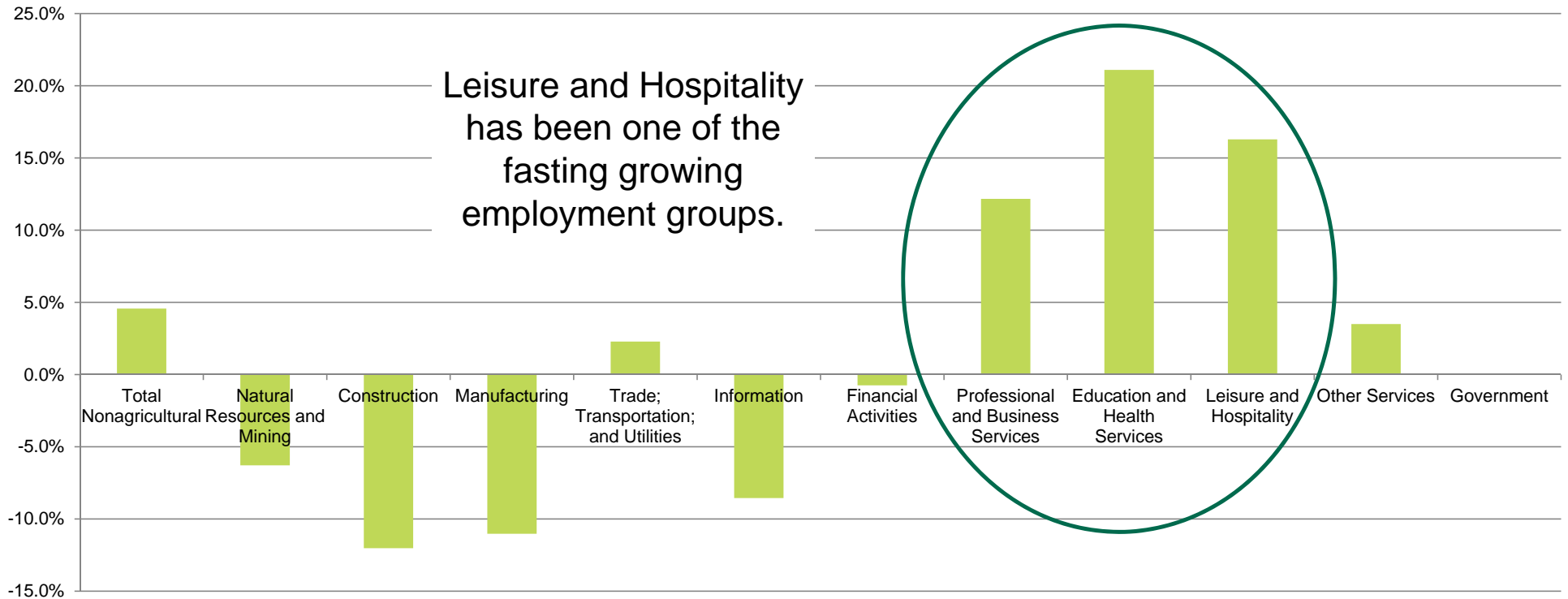
Percent Change In the Last 6 Months – Feb 2017



Source: The Conference Board, CBRE Hotels Americas Research, STR

# CHANGES IN EMPLOYMENT

2007 - 2016



Source: U.S. Bureau of Labor Statistics (BLS), Q1 2017.



# THE IMPACT OF NEW SUPPLY

# BRIGHT HORIZONS....DUSTY DAWNS: U.S. GATEWAY CITIES

## An Uneven Landscape – Low Supply: Strong ADR Growth

U.S. Gateway Cities			
2011 - 2016			
Gateway City	Cumulative ADR Change (23.9%)	Cumulative Supply Change (4.6%)	2016 Occupancy (65.5%)
Boston	40.1%	6.1%	74.2%
Chicago	25.2%	4.0%	69.0%
<b>Los Angeles</b>	60.0%	0.1%	81.3%
Miami	37.2%	12.2%	75.9%
New York	12.9%	25.9%	85.8%
<b>Oahu</b>	51.5%	-0.3%	84.2%
Orlando	42.9%	3.1%	75.6%
<b>San Francisco</b>	68.7%	0.1%	84.3%
Washington, D.C.	14.7%	5.0%	72.1%

U.S.  
Averages

# BRIGHT HORIZONS....DUSTY DAWNS: U.S. GATEWAY CITIES

## An Uneven Landscape – High New Supply: Weak ADR Growth

U.S. Gateway Cities			
2011 - 2016			
Gateway City	Cumulative ADR Change (23.9%)	Cumulative Supply Change (4.6%)	2016 Occupancy (65.5%)
Boston	40.1%	6.1%	74.2%
<b>Chicago</b>	25.2%	4.0%	69.0%
Los Angeles	60.0%	0.1%	81.3%
<b>Miami</b>	37.2%	12.2%	75.9%
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U.S.  
Averages

# PLANNED INLAND EMPIRE HOTELS (17)

Project Name	Room Count	Projected Opening	Project Phase
Springhill Suites Ontario Airport	128	July 2018	Final Planning
TownePlace Suites Chino Hills	116	October 2018	Final Planning
Fairfield Inn & Suites Rancho Cucamonga	100	August 2017	In Construction
Residence Inn Rancho Cucamonga	122	June 2018	In Construction
Hampton Inn Victorville	98	March 2019	Final Planning
Hampton Inn Riverside Downtown	112	September 2018	Final Planning
Home2 Suites Victorville	105	May 2018	In Construction
TownePlace Suites Loma Linda	90	December 2017	In Construction
Home2 Suites Barstow	106	March 2018	In Construction
Home2 Suites Redlands	88	November 2018	Final Planning
element Ontario	116	June 2019	Final Planning
Fairfield Inn & Suites Moreno Valley	103	October 2018	Final Planning
Country Inn & Suites Moreno Valley	64	October 2018	Final Planning
Home2 Suites Rancho Cucamonga	107	March 2019	Final Planning
SpringHill Suites Redlands	96	July 2019	Final Planning
Hampton Inn Riverside March AFB	69	September 2018	Final Planning
Home2 Suites Riverside March AFB	88	November 2018	Final Planning





**AIRBNB – WHAT  
HAPPENED IN 2016?**



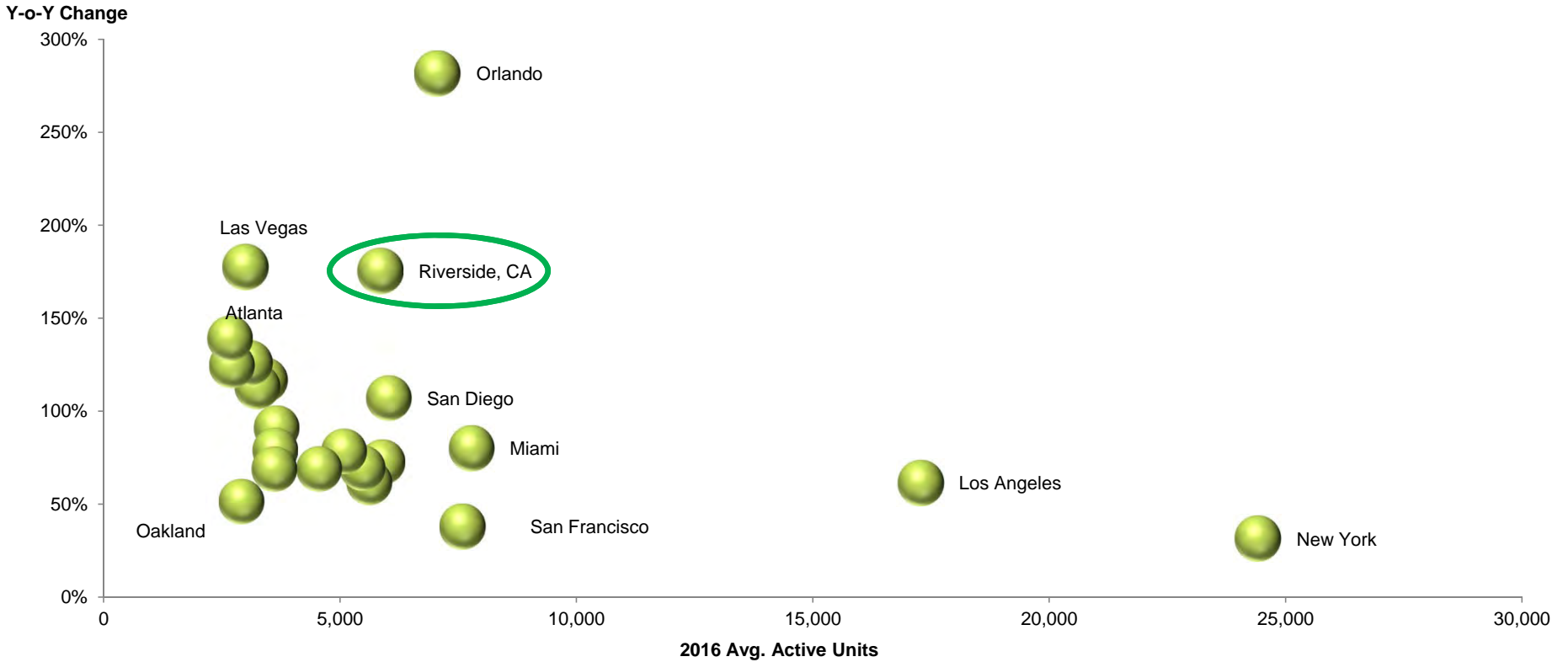
# AIRBNB CONTINUES TO GROW – A LOT

Metric	2015	2016	Growth Rate
Units	383,142	652,262	70.2%
Total Supply	37,344,113	81,037,452	117.0%
Demand	17,988,315	39,836,147	121.5%
Revenue	\$2.7 billion	\$6.8 billion	147.8%
Occupancy	48.2%	49.2%	2.1%
ADR	\$151.90	\$169.97	11.9%
RevPAR	\$ 73.17	\$ 83.55	14.2%

Source: CBRE Hotels' Americas Research; Airdna.co, Q4 2016.

# U.S. AIRBNB UNITS

## 25 Largest U.S. Airbnb Markets

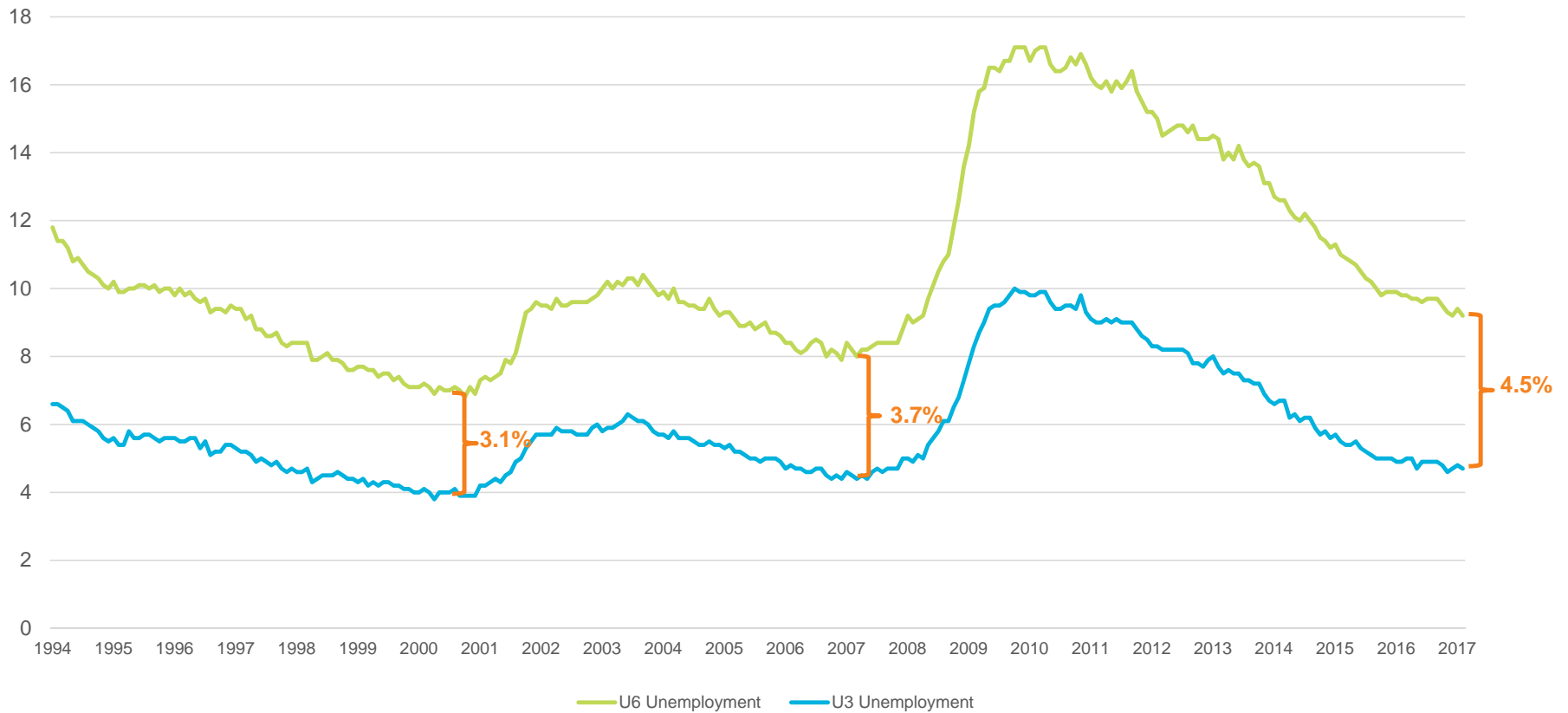




# LABOR COSTS

# UNEMPLOYMENT RATES CONTINUE TO FALL

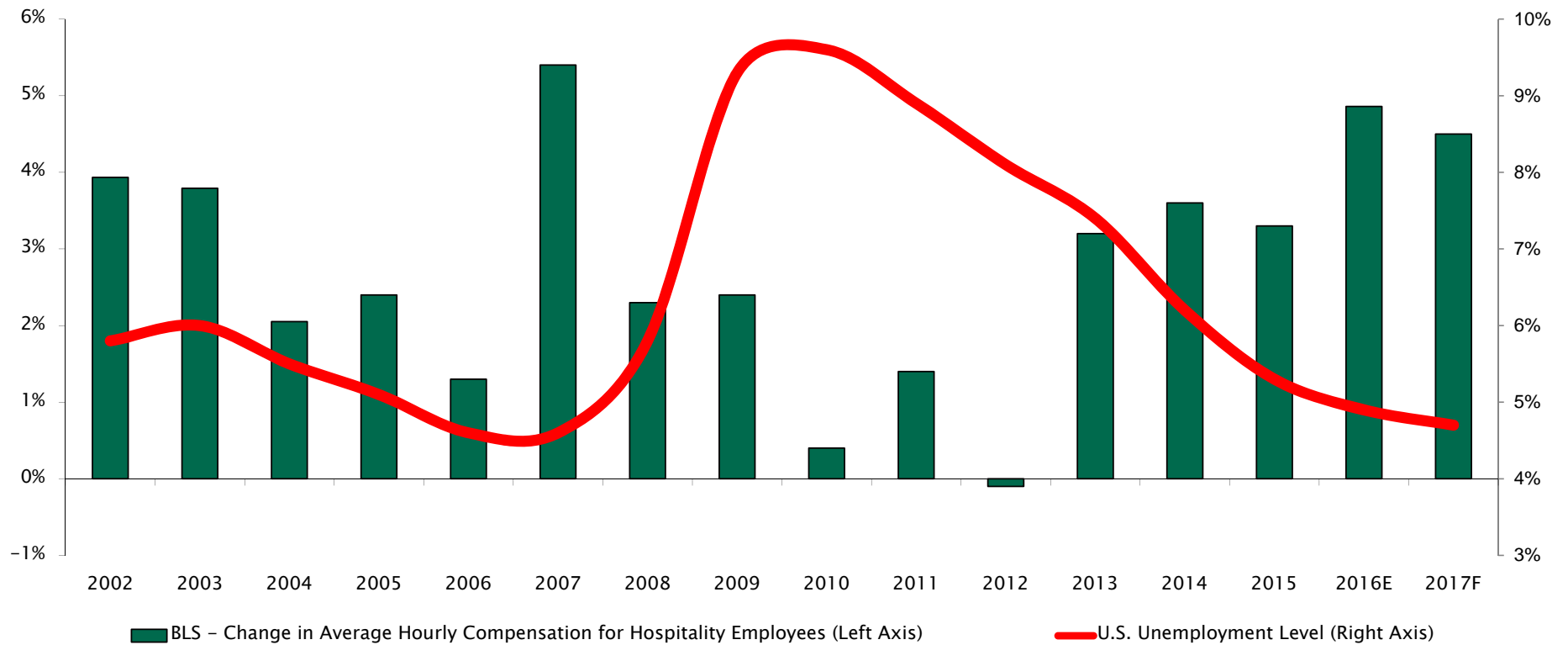
U3 vs. U6 Unemployment Rate – U6 includes discourage, marginally attached, and part-time workers



Source: BEA, Q1 2017.

# UNEMPLOYMENT IMPACT ON COMPENSATION

## Annual Change in Hospitality Hourly Compensation versus Unemployment Rate



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

# SELECTED REVENUE & EXPENSE ITEMS – 20-YEAR TREND

Nonetheless, hotels are more profitable than ever.

	<u>1997</u>	<u>2002</u>	<u>2007</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<u>Ratios to Total Revenues</u>								
Rooms	66.3%	69.2%	68.4%	67.8%	69.5%	69.5%	68.5%	68.7%
Food and Beverage	25.1%	24.1%	25.7%	25.7%	24.8%	24.7%	25.3%	25.1%
Other Operated Departments	6.6%	5.2%	3.7%	4.7%	4.4%	4.7%	4.4%	4.3%
Miscellaneous Income	2.0%	1.5%	2.2%	1.7%	1.3%	1.1%	1.8%	1.9%
Total Departmental Profit	60.0%	61.0%	61.9%	59.0%	60.5%	61.0%	62.1%	62.3%
Gross Operating Profit**	36.4%	35.5%	37.2%	33.3%	35.8%	36.7%	37.3%	37.8%
<u>Dollar Per Available Room</u>								
Total Revenue	\$40,270	\$35,753	\$53,521	\$56,559	\$57,908	\$61,897	\$68,475	\$70,099
Gross Operating Profit**	\$14,658	\$12,692	\$19,906	\$18,840	\$20,757	\$22,746	\$25,566	\$26,520
Occupancy	71.00%	64.30%	70.80%	70.50%	72.30%	74.30%	74.80%	74.90%
Average Daily Rate	\$103.96	\$105.96	\$141.72	\$149.10	\$152.40	\$158.62	\$171.82	\$176.08

Source: CBRE Hotels | Americas Research's *Trends® in the Hotel Industry*

\*Data prior to 2014 was taken from different samples.

\*\*Before deductions for Management Fees and Non-Operating Income and Expenses





**OUR FORECASTS**

# U.S. BASELINE FORECAST

Forecast calls for a continual decline in RevPAR growth mainly due to slowing employment gains and new supply diluting ADR.

	Long Run Average	2014	2015	2016	2017F	2018F
Supply	1.8%	0.6%	1.0%	1.5%	2.0%	2.1%
Demand	2.0%	4.0%	2.6%	1.7%	2.1%	1.8%
Occupancy	62.2%	64.4%	65.4%	65.4%	65.5%	65.3%
ADR	3.1%	4.6%	4.5%	3.1%	2.9%	2.9%
RevPAR	3.3%	8.2%	6.2%	3.2%	3.0%	2.6%

Sources: CBRE Hotels' Americas Research - Hotel Horizons® June 2017 – August 2017, STR





**SOUTHERN CALIFORNIA AND  
THE INLAND EMPIRE**

## A VIEW FROM MOODY'S ANALYTICS – INLAND EMPIRE (IE)

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### STRENGTHS:

- Comparative advantage in transportation, distribution, warehousing and logistics.
- Lower business and housing costs than nearby California coastal areas.

### WEAKNESSES:

- Below-average educational attainment that makes attracting higher-value jobs difficult.
- Reliance on defense, for which spending increases are limited by past legislation.

### FORECAST RISKS:

#### UPSIDE:

- Escalating costs in Southern California drive more firms and workers into the IE.
- Logistics cluster proves more resilient.
- Higher funding for IE's public universities leads to more investment

#### DOWNSIDE:

- Cost advantage erodes over time, undermining investment.
- Population growth disappoints.

## A VIEW FROM MOODY'S ANALYTICS – INLAND EMPIRE (IE)

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- **Recent Performance:** The IE's expansion slowed in the first quarter but remains on firm footing. Employment growth in pivotal transportation/warehousing easily outperformed the U.S. average and was one of the highest in the West over the year, matching San Francisco's. Construction employment underwent the largest uptick of any three-month period since the end of the Great Recession, thanks to hearty demand for industrial structures.
- **Logistics.** Out of the 100 largest metro areas, the IE is one of the top five warehousing hubs nationwide by employment share. The metro area serves California's coastal population centers and acts as a central transportation node to the southwest interior.
- **Construction.** Industrial permits in 2016 were the highest of any California metro area and about twice the total in neighboring San Diego. In the same vein, we list six mega warehouses under construction on top of the existing 13, placing the IE second nationally in warehouses of at least 1.0 million square feet, behind only Philadelphia.
- **Business Services.** Business services will outperform the rest of the IE's economy going forward, but most new positions will be on the lower end of the pay scale. Despite average hourly earnings that are only 75% of California's average, and about 85% of those nationally, the IE chiefly attracts business service firms that support transportation/warehousing.
- The IE economy will moderate in coming quarters, matching the U.S. pace by the end of 2017. With transportation/warehousing as Riverside-San Bernardino-Ontario's primary driver, however, the dominance of lower-paying industries will cause income growth to lag longer term.

# SOUTHERN CALIFORNIA HOTELS HISTORICAL ANNUAL PERFORMANCE

Area	YE 2015	YE 2016	YoY Change
Orange County	78.6%	78.2%	-0.5%
Los Angeles County	79.5%	81.2%	2.1%
Inland Empire	77.3%	77.9%	0.7%
San Diego County	76.3%	77.1%	1.0%

Area	YE 2015	YE 2016	YoY Change
Orange County	\$144.02	\$150.79	4.7%
Los Angeles County	\$158.37	\$171.83	8.5%
Inland Empire	\$104.65	\$111.39	6.4%
San Diego	\$150.00	\$151.00	0.7%

# SOUTHERN CALIFORNIA HOTELS FORECASTED PERFORMANCE

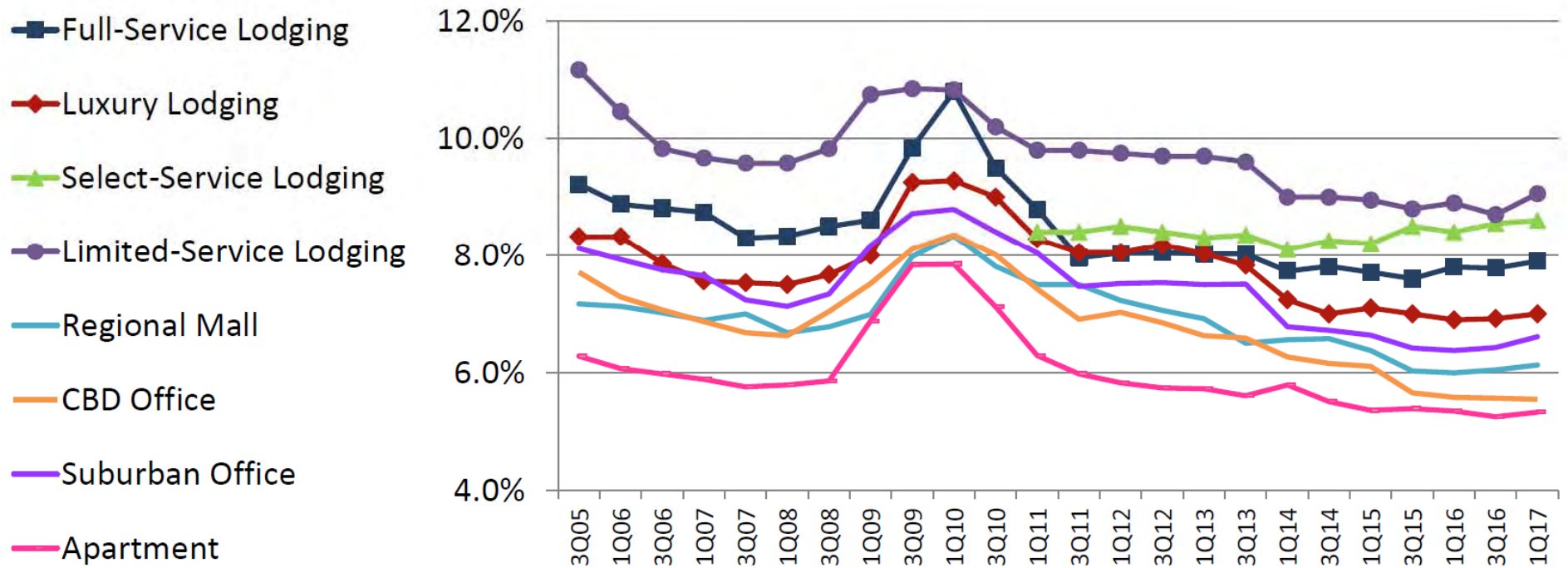
Area	YE 2016	2017F	YoY Change
Orange County	78.2%	77.7%	-0.7%
Los Angeles County	81.2%	80.3%	-1.2%
Inland Empire	77.9%	77.5%	-0.5%
San Diego County	77.1%	76.8%	-0.3%

Area	YE 2016	2017F	YoY Change
Orange County	\$150.79	\$155.65	3.2%
Los Angeles County	\$171.83	\$177.72	3.4%
Inland Empire	\$111.39	\$116.25	4.4%
San Diego	\$111.39	\$116.25	4.4%

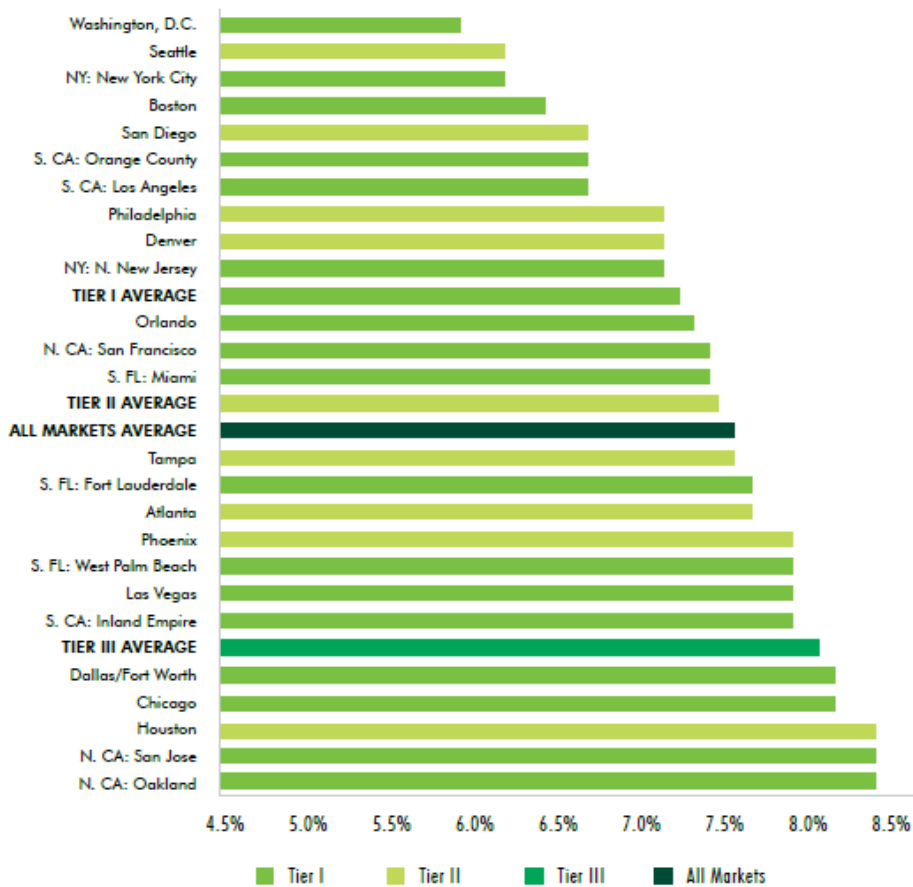


# HOTEL SALES & CAP RATES

# PWC REAL ESTATE INVESTOR SURVEY – CAP RATE TREND DATA



# CBRE NORTH AMERICA – CAP RATE SURVEY



METRO TIER	CLASS	H1 2016 (%)	H2 2016 (%)	CHANGE (bps)
ALL	ALL	7.85	7.91	6
	LUXURY	6.83	6.92	8
	FULL-SERVICE	7.55	7.62	8
	SELECT-SERVICE	7.94	8.01	8
	ECONOMY	9.10	9.11	1
I	LUXURY	6.50	6.58	8
	FULL-SERVICE	7.28	7.35	7
	SELECT-SERVICE	7.81	7.89	9
	ECONOMY	8.93	8.99	7
II	LUXURY	6.73	6.87	14
	FULL-SERVICE	7.46	7.54	9
	SELECT-SERVICE	7.87	7.89	2
	ECONOMY	9.09	9.05	-4
III	LUXURY	7.54	7.57	3
	FULL-SERVICE	8.11	8.18	7
	SELECT-SERVICE	8.24	8.33	10
	ECONOMY	9.47	9.40	-7





# RECENT IE HOTEL SALES

Inland Empire Recent Hotel Sales							
Sale No .	Hotel	Location	Rooms	Sale Date	Price	\$/Room	Cap Rate
1	Hilton Garden Inn	San Bernardino	115	April 2017	\$21,500,000	\$187,000	7.3%
2	Hyatt Place	Riverside	125	March 2017	24,500,000	196,000	7.7
3	Aloft	Rancho Cucamonga	136	November 2016	19,000,000	140,000	8.0



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1. The fundamentals remain attractive across the vast majority of markets.
2. Industry growth will persist comfortably through 2018 and likely beyond.
3. High occupancy levels should provide the leverage needed to achieve attractive ADR increases for the next two-three years.
4. Increasing hotel construction will continue; the threat of over building is the exception and not the rule.
5. Above long run average occupancy levels will lead to revenue growth, but increasing labor costs will become more of an issue. Profit growth will remain favorable.
6. Steady, if unremarkable, growth is to be expected overall. Some markets certainly better than others.

## CBRE HOTELS

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