



CBRE HOTELS

The World's Leading Hotel Experts.

## CBRE HOTELS & PKF HOSPITALITY RESEARCH

JUNE 4, 2015

# Inland Empire Hotel Market Trends

## “The Good Will Only Get Better”

STREET  
CBRE

# LODGING INDUSTRY UPDATE

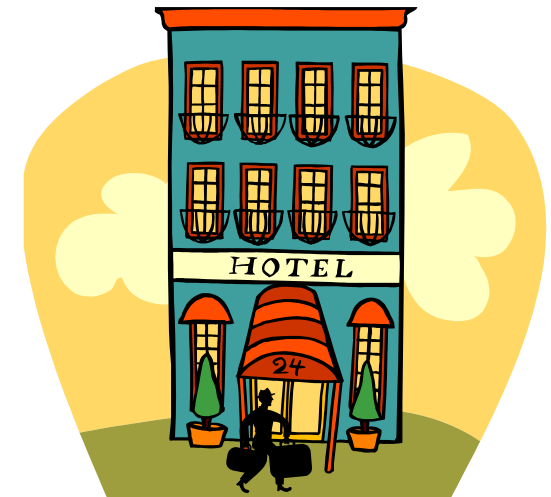
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- ✓ Some Happy Facts
- ✓ The Economy
- ✓ Our Forecasts
- ✓ The Supply Story
- ✓ A Look at Cap Rates

# BY 2015, THE HOTEL INDUSTRY WILL HAVE ACHIEVED:

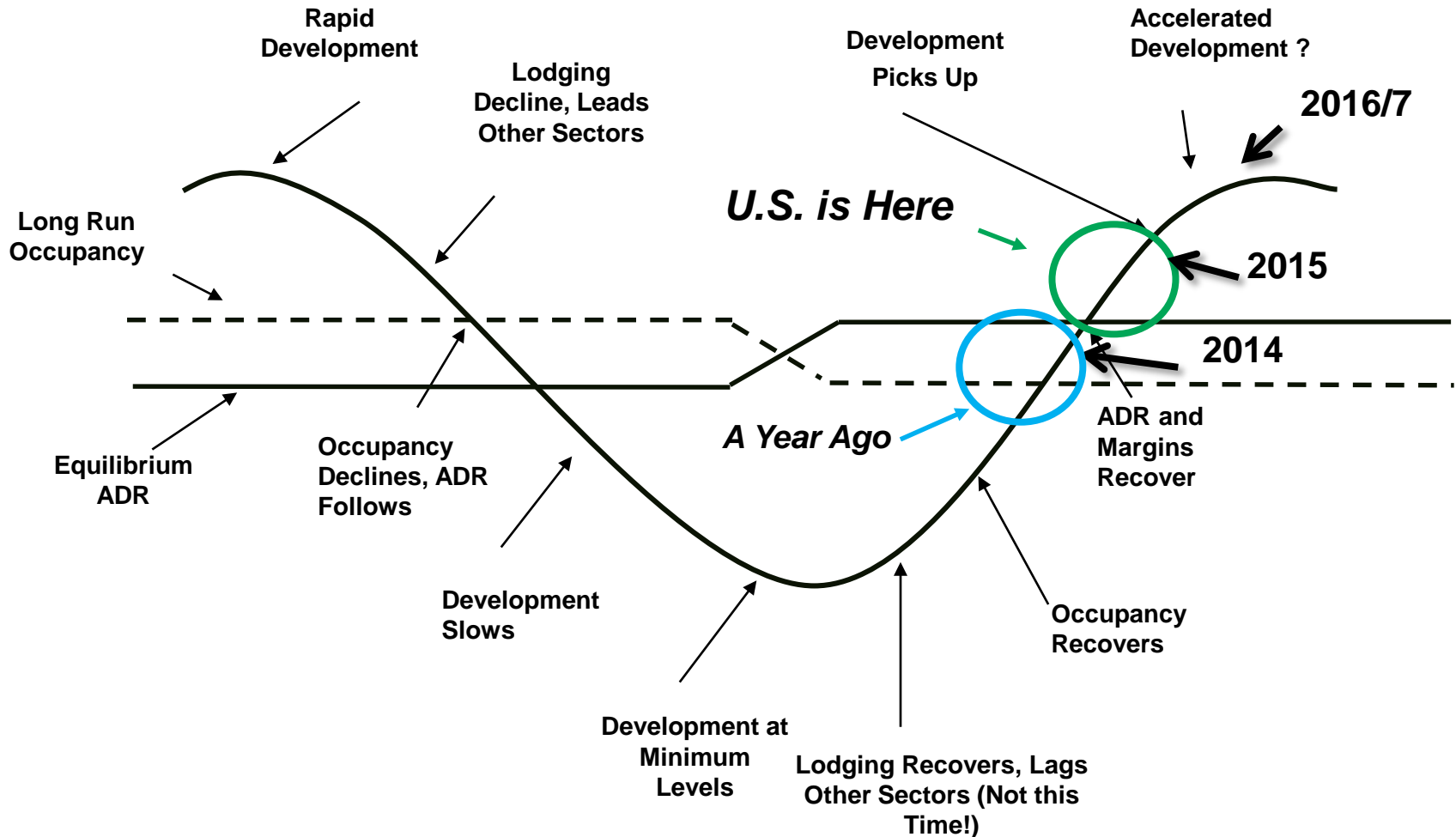
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- A fourth year of accommodated demand in excess of the pre-recession peak of 2.8 million room nights.
- Six consecutive years of increased occupancy—the longest since 1988.
- An occupancy level of 65.6 percent, the highest level of occupancy ever recorded by STR, Inc.
- 14 of the 55 markets in *Hotel Horizons®* universe will achieve their highest occupancy levels in the past 25 years.
- 49 of 55 markets are above their long run average occupancy level.



# THE HOTEL MARKET CYCLE

## Our Opinion





## OUR FORECASTS

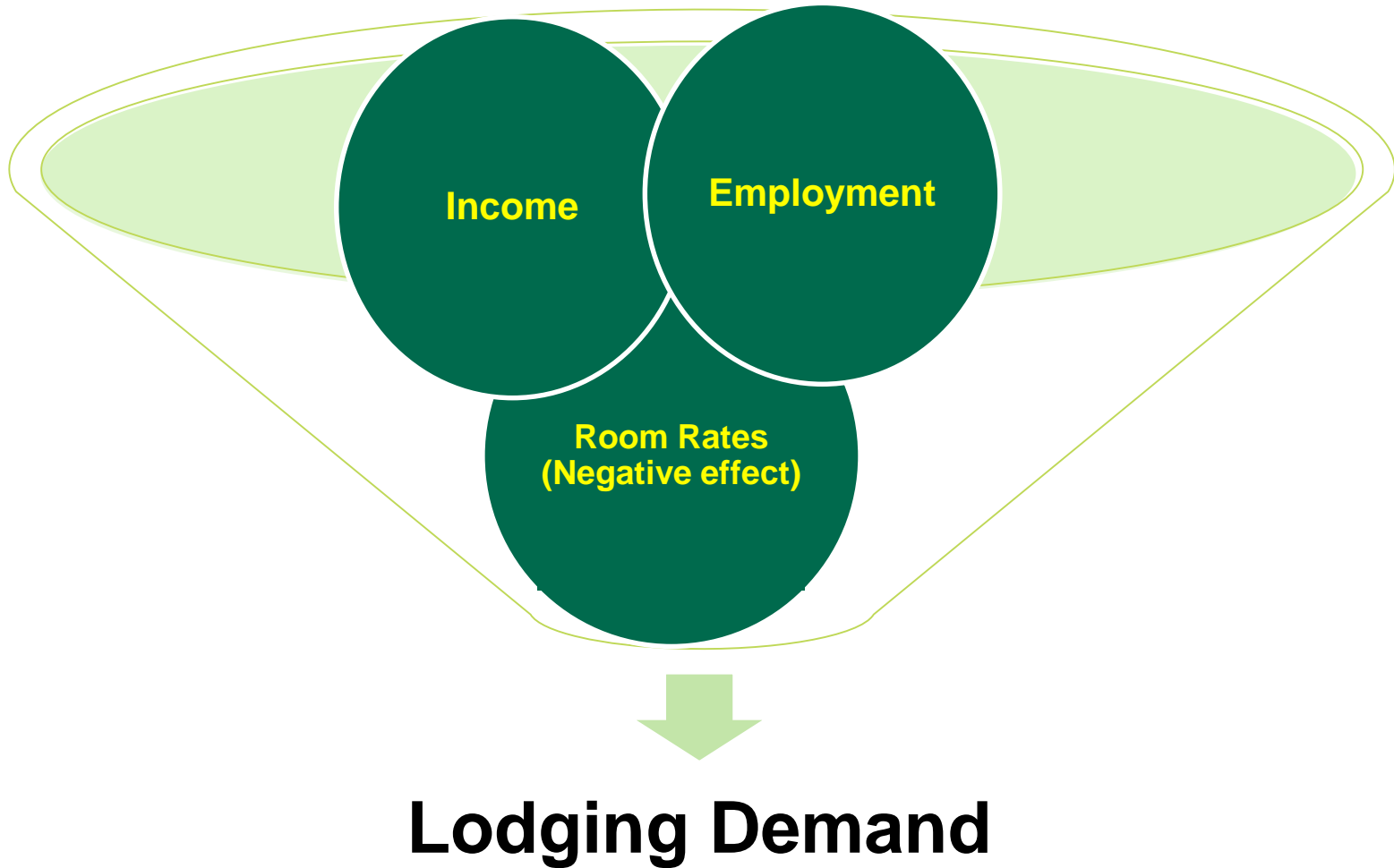


## OUR VIEW:

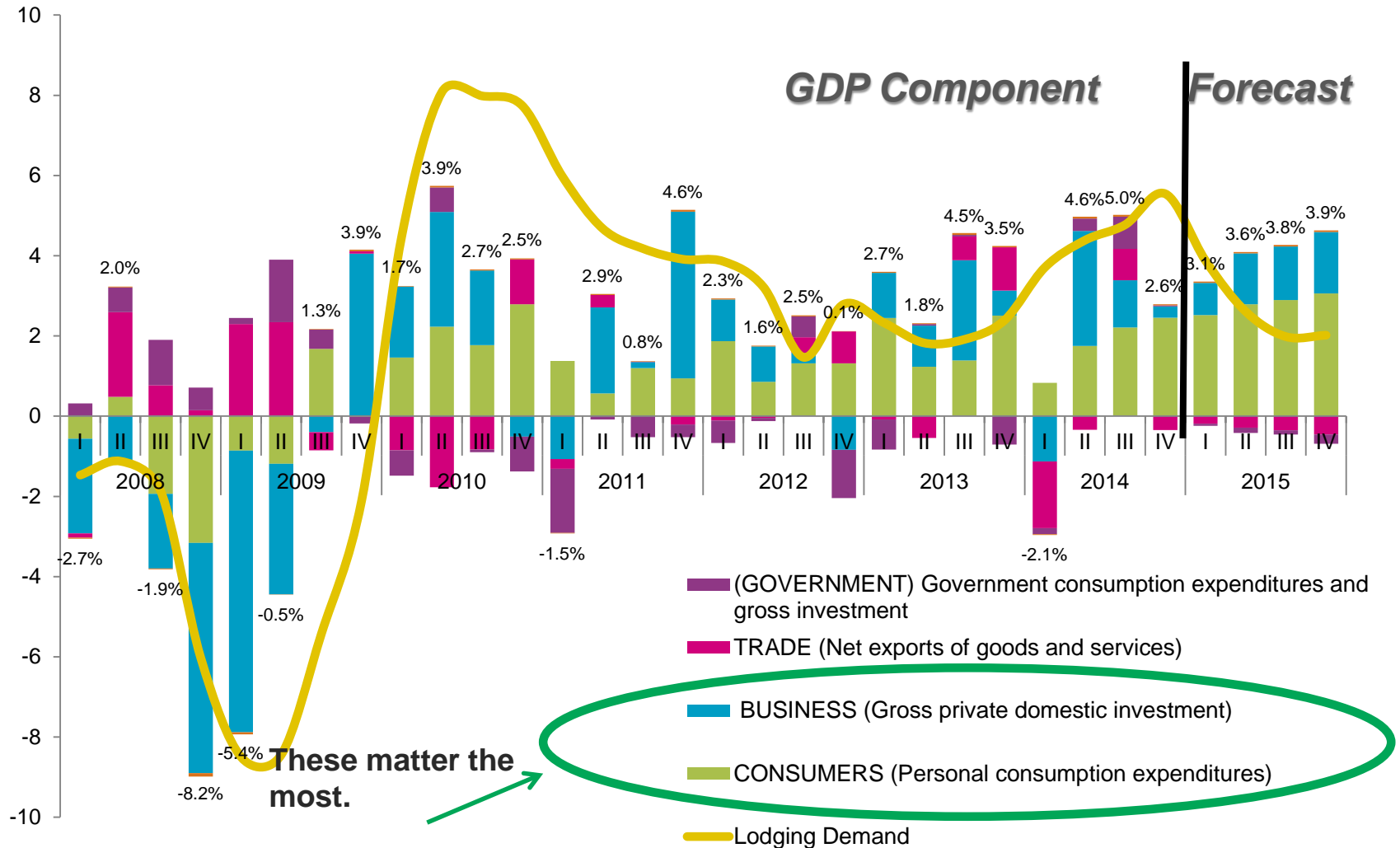
The Very Good Will  
Get Even Better

# MAJOR FACTORS IN THE PKF DEMAND EQUATION

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# THE DRIVERS MOST IMPORTANT TO HOTELS REMAIN FAVORABLE



Source: BEA, Moody's Analytics, PKF- HR Hotel Horizons: March – May 2015, STR, Inc.



# NATIONAL FORECAST – ALL U.S. HOTELS

2014-2016

	Long Run Average	2012	2013	2014	2015F	2016F
Supply	1.9%	0.5%	0.7%	0.9%	1.2%	1.7%
Demand	2.1%	3.0%	2.2%	4.5%	3.1%	1.9%
Occupancy	61.9%	61.4%	62.2%	64.4%	65.6%	65.8%
ADR	2.9%	4.2%	3.9%	4.6%	5.3%	6.3%
RevPAR	2.9%	6.8%	5.4%	8.3%	7.3%	6.5%

RevPAR driven by ADR Growth

Source: PKF Hospitality Research - *Hotel Horizons®* March-May, 2015, STR, Inc.



# REVPAR FORECAST BY LOCATION

Only Interstate and Small Town Behind Pre-Recession Occupancy

Location	2013	2014	2015F
Urban	6.1%	7.1%	7.1%
Suburban	5.3%	9.2%	7.7%
Airport	5.5%	9.7%	8.7%
Interstate	3.1%	7.3%	5.6%
Resort	7.1%	9.0%	8.8%
Small Town / Metro	3.6%	7.0%	5.5%
All Hotels	5.4%	8.3%	7.3%

# REVPAR FORECAST BY CHAIN-SCALE

## Lower-Priced Categories Moving Up The Recovery Curve

<i><b>Chain-Scale</b></i>	<i><b>2013</b></i>	<i><b>2014</b></i>	<i><b>2015F</b></i>
Luxury	7.6%	6.5%	7.2%
Upper-Upscale	5.8%	7.5%	8.0%
Upscale	5.5%	8.4%	8.8%
Upper-Midscale	4.2%	8.2%	7.2%
Midscale	4.1%	8.3%	7.0%
Economy	4.7%	8.7%	6.7%
<b>All Hotels</b>	<b>5.4%</b>	<b>8.3%</b>	<b>7.3%</b>

Source: PKF Hospitality Research, March – May 2015 Hotel Horizons®, STR, Inc.

# SOUTHERN CALIFORNIA HOTELS HISTORICAL ANNUAL PERFORMANCE

Area	YE 2013	YE 2014	YoY Change
Orange County	74.7%	76.7%	2.8%
Los Angeles County	76.7%	78.8%	2.7%
Inland Empire	66.3%	68.9%	3.9%
San Diego County	71.5%	74.6%	4.3%

Area	YE 2013	YE 2014	YoY Change
Orange County	\$127.28	\$135.54	6.5%
Los Angeles County	137.04	\$147.26	7.5%
Inland Empire	\$89.01	\$92.85	4.3%
San Diego			

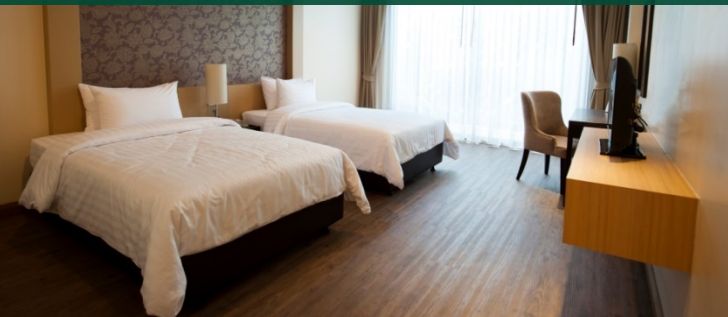
# SOUTHERN CALIFORNIA HOTELS FORECASTED PERFORMANCE

Area	YE 2014	2015F	YoY Change
Orange County	76.7%	76.5%	-0.4%
Los Angeles County	78.8%	79.6%	1.0%
Inland Empire	68.9%	71.3%	4.1%
San Diego County	74.6%	75.4%	1.1%

Area	YE 2014	2015F	YoY Change
Orange County	\$135.54	\$143.93	6.2%
Los Angeles County	\$147.26	\$155.60	5.7%
Inland Empire	\$92.85	\$96.91	4.4%
San Diego County	\$142.53	\$149.10	4.6%



## THE SUPPLY STORY

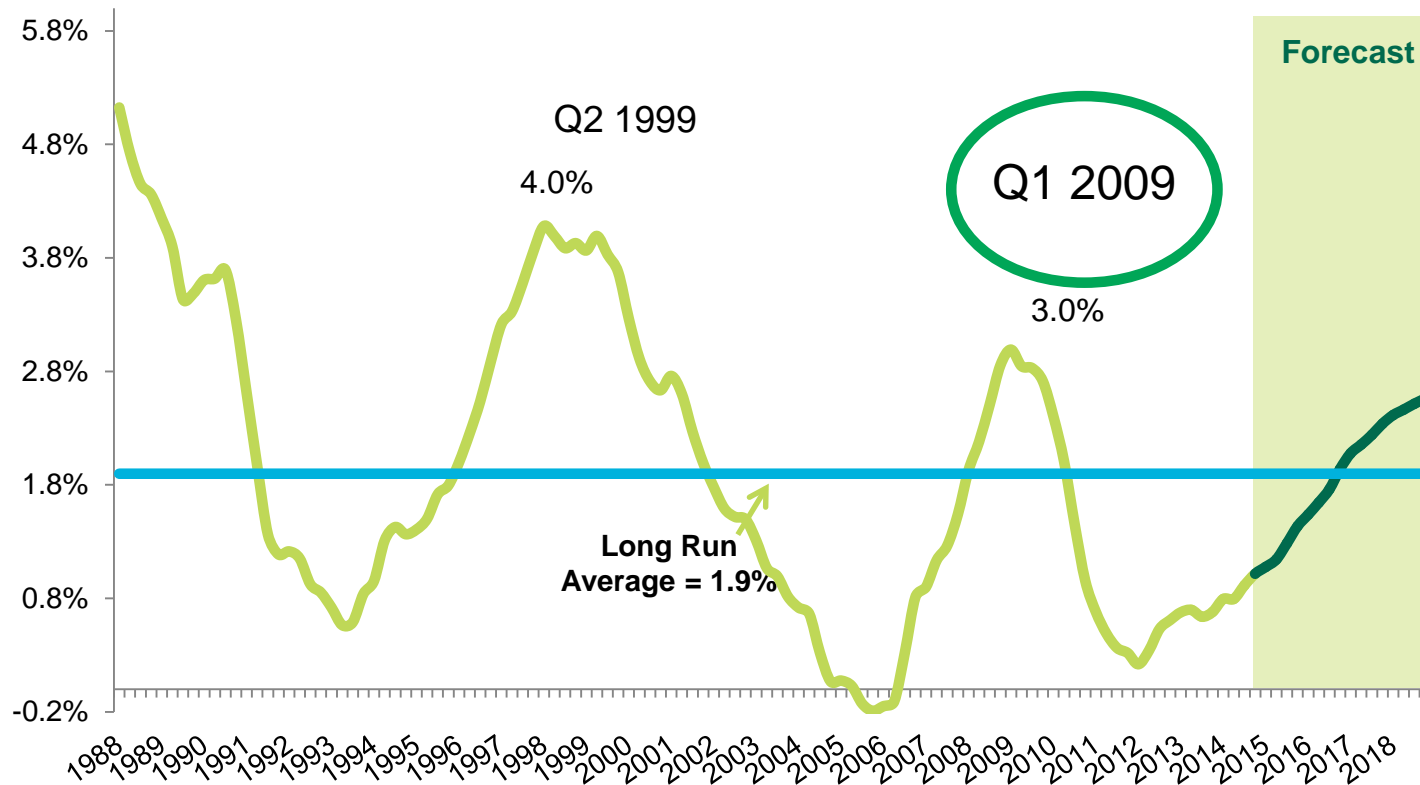


## QUESTION:

When Was Hotel  
Overbuilding  
Last a Concern?

# U.S. SUPPLY CHANGE

When did we hit our last peak number of new hotels entering the market?



Source: PKF Hospitality Research, STR, Inc.

# TODAY VS. THE PREVIOUS PEAK OF CONSTRUCTION ACTIVITY

## U.S. Pipeline, Number of Rooms by Phase, February 2015 and March 2008

<i>Phase</i>	<i>2015</i>	<i>Q1/2008</i>	<i>% Difference Change</i>
In Construction	128,874	207,468	-37.9%
Final Planning	156,216	113,419	37.7%
Planning	150,428	344,363	-56.3%
Active Pipeline	<u>435,518</u>	<u>665,250</u>	-34.5%

Source: STR, Inc.

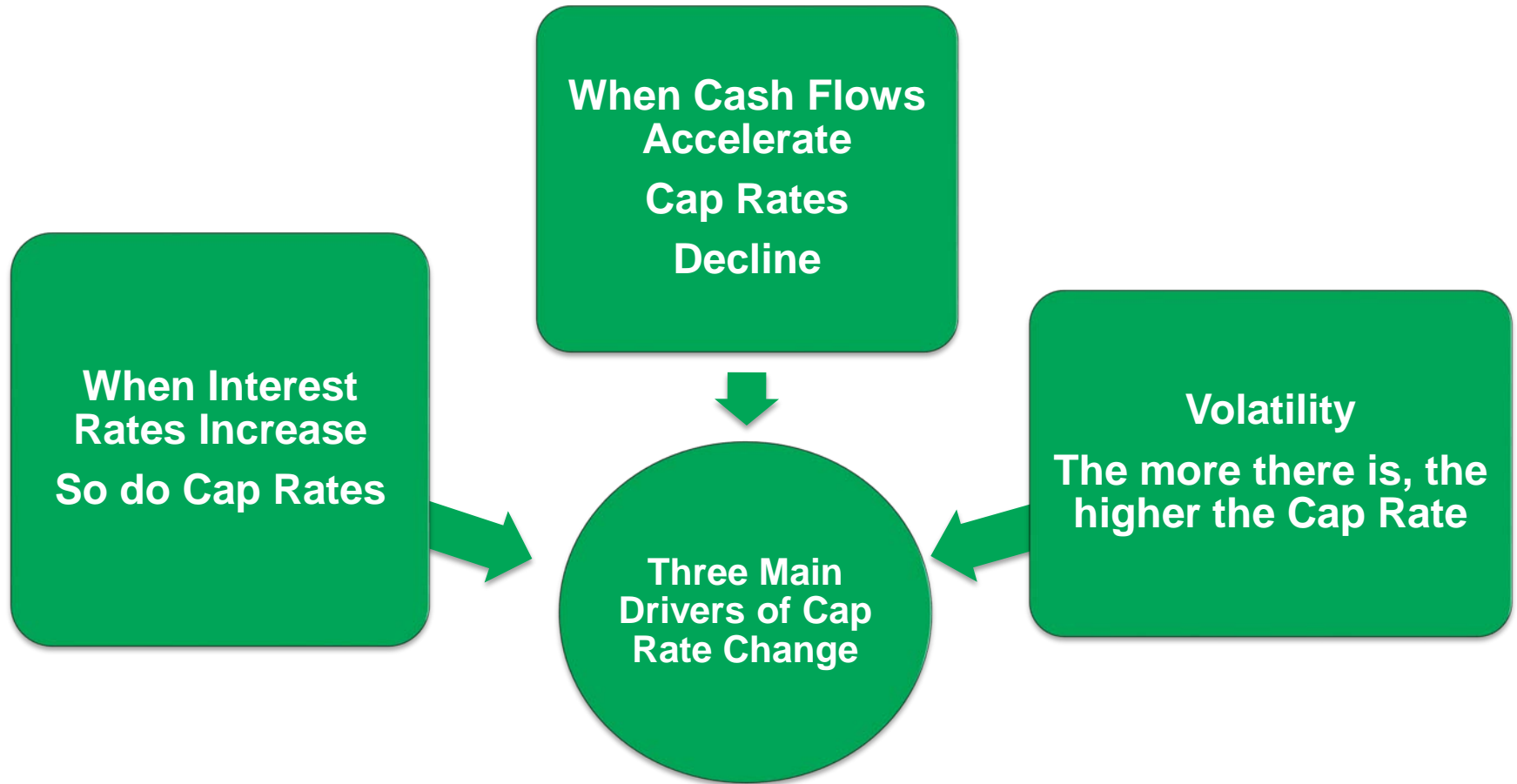




CAP RATE EXPECTATIONS

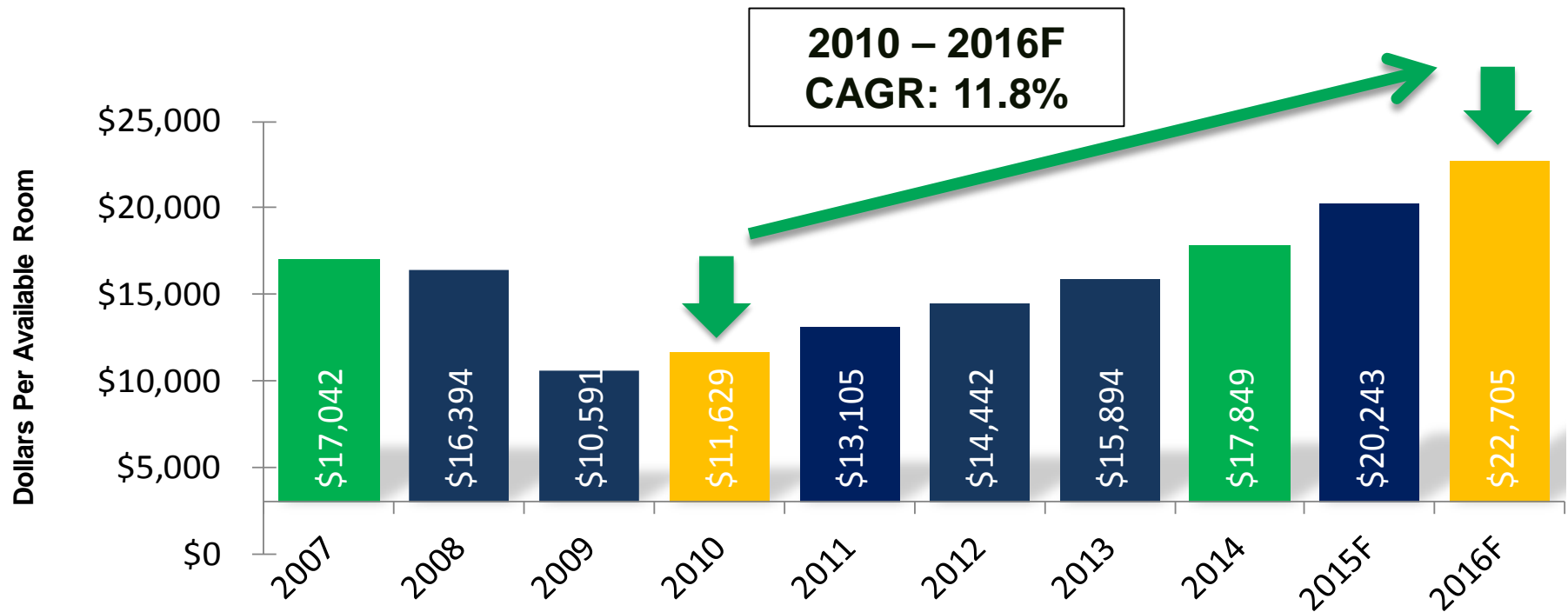
# WHERE ARE HOTEL CAP RATES GOING?

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# U.S. HOTEL PERFORMANCE

Nominal Dollar Operating Profits\*  
Six Years of Double Digit Growth



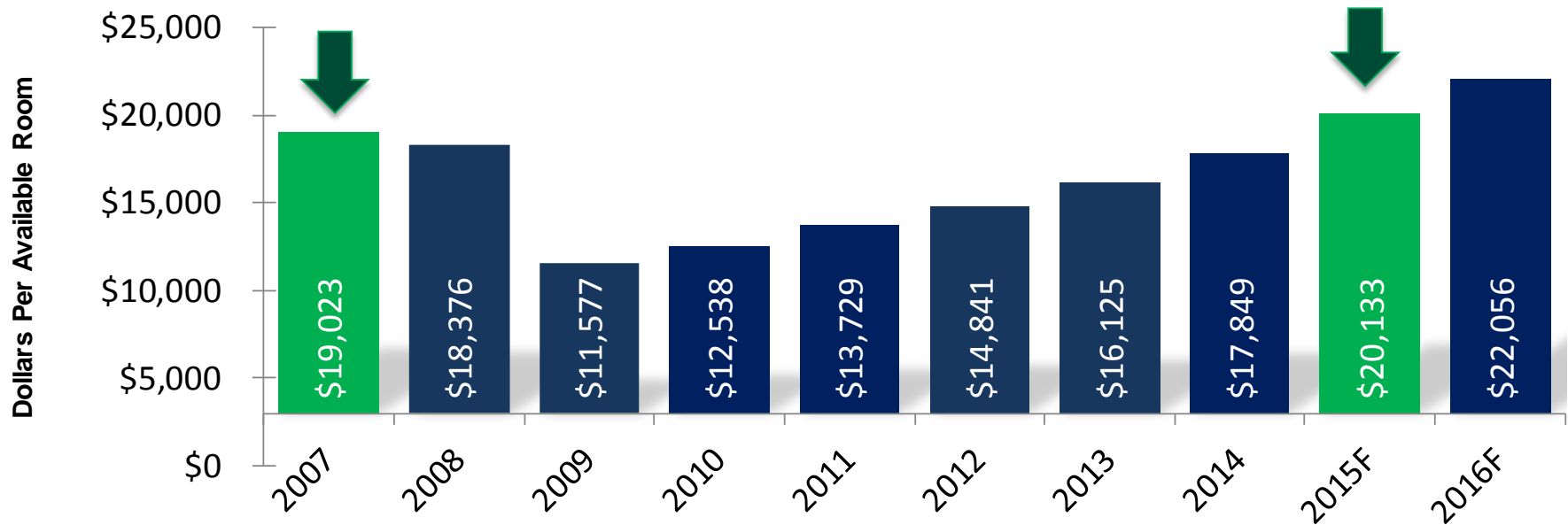
Note: \* Before deductions for capital reserve, rent, interest, income taxes, depreciation, and amortization.

Source: PKF Hospitality Research, a CBRE Company, *Trends® in the Hotel Industry*, March 2014 *Hotel Horizons®* forecast

# U.S. HOTEL PERFORMANCE

Constant 2014 Dollar Operating Profits\*

Real Recovery Not Until 2015



Note: \* Before deductions for capital reserve, rent, interest, income taxes, depreciation, and amortization.

Source: PKF Hospitality Research, a CBRE Company, *Trends® in the Hotel Industry*, March 2014 *Hotel Horizons®* forecast

# SUMMARY THOUGHTS

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## The Very Good .....Will Get Even Better

1. No threats from the factors that historically have brought an end to the good times.
2. The fundamentals are solid across the vast majority of markets.
3. Elevated industry growth will persist comfortably through 2016 and likely beyond.
4. High occupancy levels will provide the leverage needed to achieve large real ADR increases for the next two-three years.
5. Competition for building materials and labor will continue to present challenges for developers in most markets. Below average hotel construction will be the result for the next three years.
6. Above long run average occupancy levels will lead to strong profit growth comfortably through 2016, enough to off-set increasing labor costs.
7. It is a great time to be in the hotel business!



1<sup>ST</sup> QUARTER 2015



# TRANSACTION MARKET UPDATE

# TRANSACTION VOLUME SUMMARY

Year	Individual	Portfolio	Entity	Total
'07	\$20.0	\$12.3	\$48.4	\$80.7
'08	\$7.9	\$3.7	\$0.0	\$11.6
'09	\$3.0	\$0.2	\$0.0	\$3.2
'10	\$8.0	\$2.2	\$4.1	\$14.3
'11	\$14.3	\$5.8	\$0.0	\$20.1
'12	\$13.8	\$3.7	\$2.9	\$20.5
'13	\$17.4	\$7.5	\$1.1	\$26.1
'14	\$22.3	\$9.5	\$2.8	\$34.6
YTD Q1 '14	\$4.3	\$1.5	\$1.9	\$7.7
YTD Q1 '15	\$8.4	\$3.7	\$0.8	\$12.9

\*Above values represented in \$ (billion)

Source: Real Capital Analytics



# HOTEL CAP RATES

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Type	Primary	Secondary	Tertiary
Luxury	4.50 – 6.25%	6.50 – 7.25%	7.00 – 8.25%
Full-Service	5.25 – 7.00%	6.75 – 8.00%	7.75 – 9.25%
Select-Service	6.50 – 8.00%	7.75 – 9.00%	8.50 – 10.25%
Economy	8.00 – 9.25%	9.00 – 11.00%	10.75 – 12.50%

- Major brand product drives pricing to the lower range of the cap rates
- Management encumbrance adds 100 to 150 bps
- Larger, portfolio deal incentivizes lower-cost-capital and reduces cap rate between 50 and 100 bps

Source: CBRE Hotels

# RECENT IE HOTEL SALES

## Inland Empire Recent Hotel Sales

Sale No .	Hotel	Location	Rooms	Sale Date	Price	\$/Room	Cap Rate
1	Holiday Inn Express	Ontario	120	December 2014	\$14,000,000	\$116,667	7.9%
2	Miramonte Resort	Indian Wells	215	June 2014	23,250,000	108,140	6.5
3	Comfort Suites	Ontario	100	June 2014	9,500,000	95,000	6.6



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