

CBRE HOTELS

The World's Leading Hotel Experts.

Trends in the Hotel Industry

June 7, 2018

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CBRE Hotels**

An abstract graphic composed of numerous thin, glowing green lines that swirl and converge towards the right side of the slide, creating a sense of dynamic movement and complexity. The lines vary in density and brightness, with some areas appearing more concentrated and others more sparse.

AGENDA

- The Economy
- The Impact of New Supply
- Sharing Economy Update
- Trends in Hotel Expenses & Profits
- Our Forecasts
- A Look at S. CA & The IE
- Hotel Sales & Cap Rates



THE ECONOMY

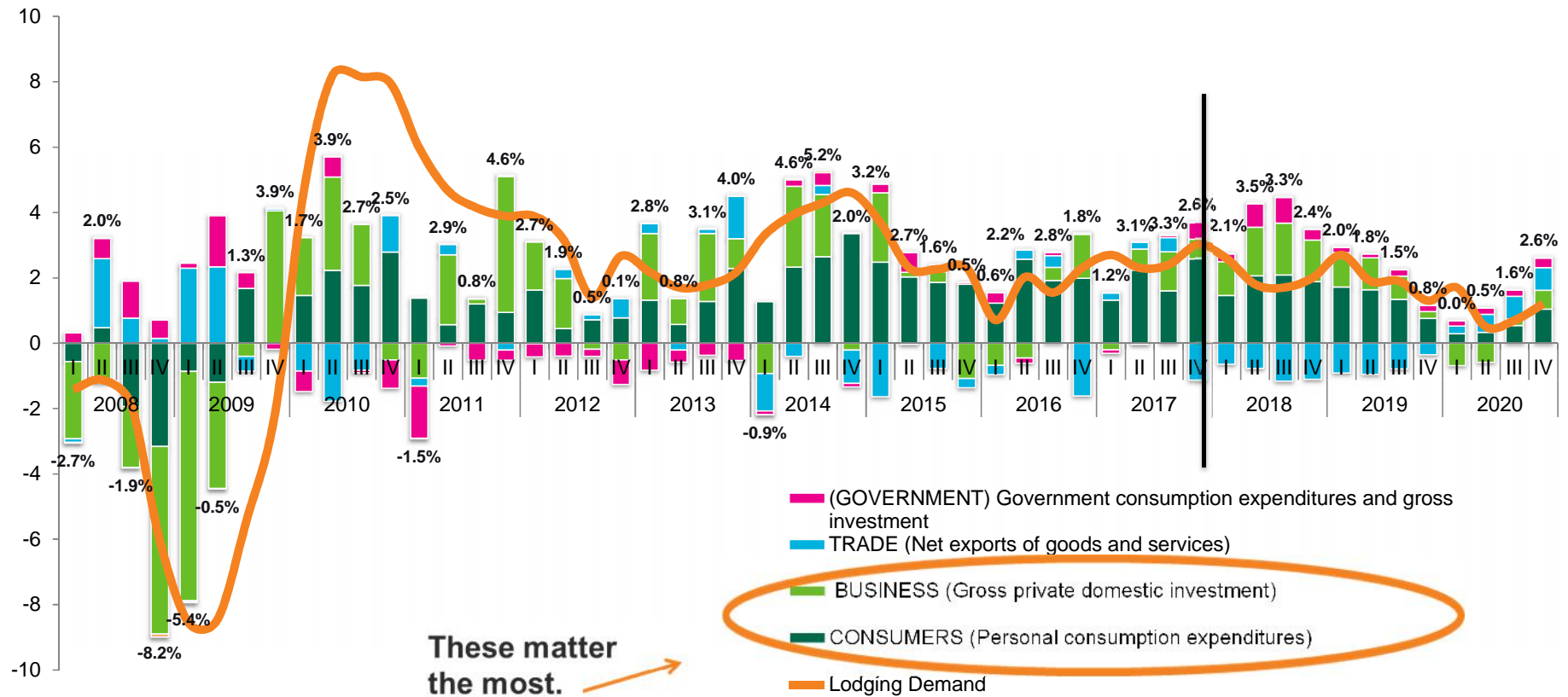
HAPPY THOUGHTS

- Recent indicators show that the economic expansion is accelerating.
- Consumer and small business confidence remain high.
- The labor market is healthy; wage growth is picking up.
- Inflation remains contained.
- The economic effects of the recently passed tax legislation ... the possibility of further acceleration in economic growth moving forward is very real.
- The Current Travel Index (CTI) has registered at or above the 50 mark for nearly 100 straight months, as the industry nears its ninth consecutive year of expansion according to the latest Travel Trends Index.

WHAT HISTORY TELLS US ABOUT WHAT MATTERS

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

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



These matter the most.

- (GOVERNMENT) Government consumption expenditures and gross investment
- TRADE (Net exports of goods and services)
- BUSINESS (Gross private domestic investment)
- CONSUMERS (Personal consumption expenditures)
- Lodging Demand

CBRE

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

WHAT COULD END THE CURRENT CYCLE?

1. The Economy

2. Over Building

3. Unpredictable Demand Shock

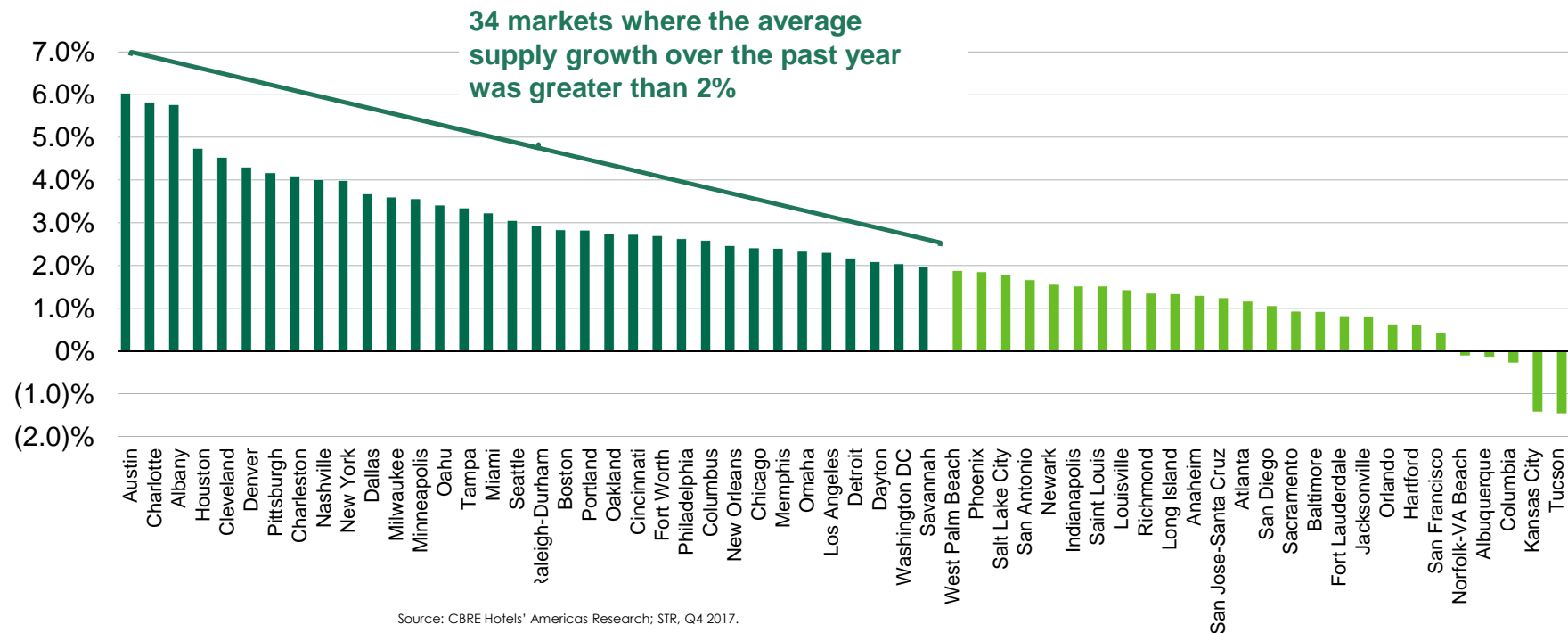
4. Oil/Energy Price Increases

5. Asset Price Bubble

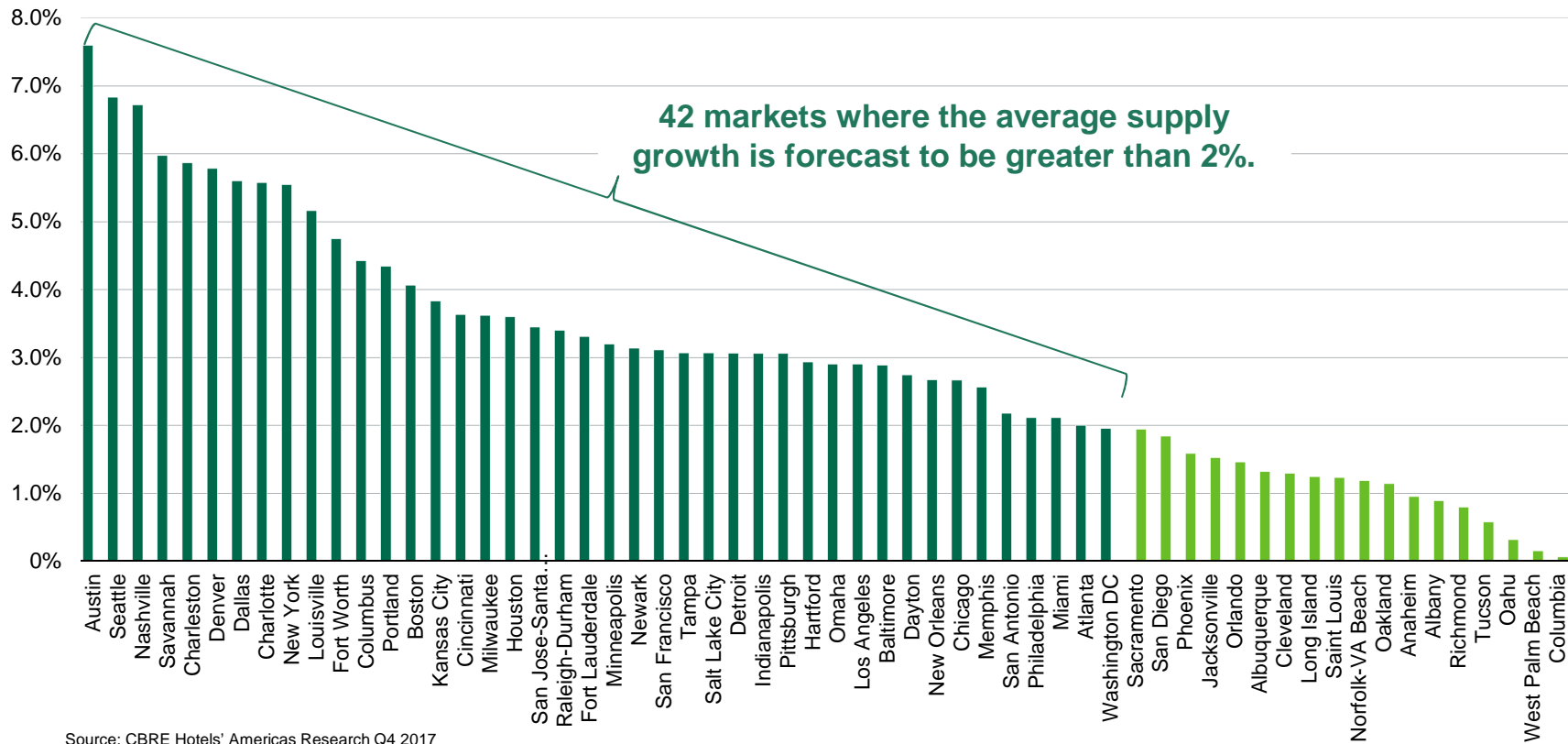


THE IMPACT OF NEW SUPPLY

SUPPLY CHANGE 2016-2017



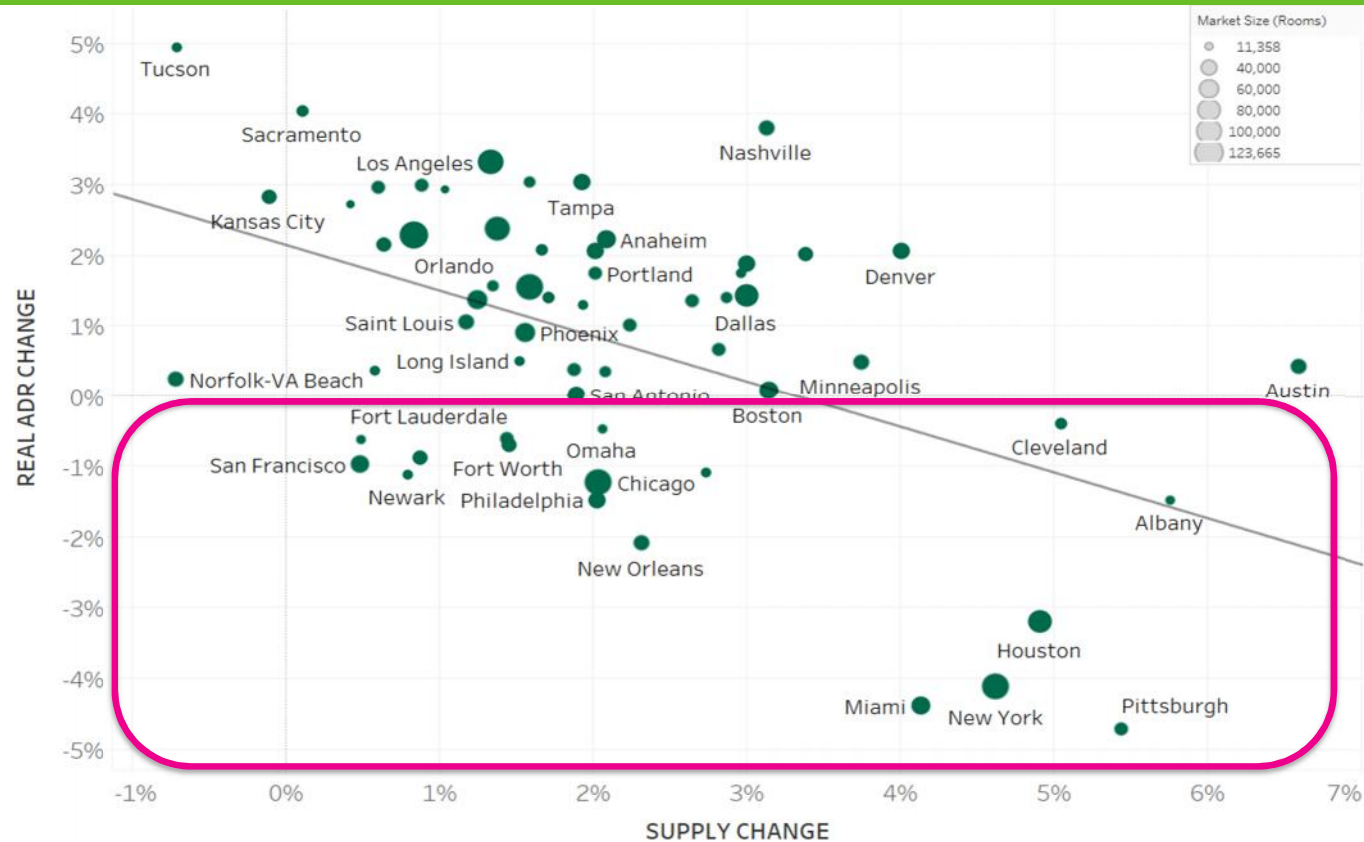
SUPPLY CHANGE 2018 - FORECAST



Source: CBRE Hotels' Americas Research Q4 2017

WEAK ADR GROWTH IS THE NORM

2016/17 Real ADR and Supply Change By Market

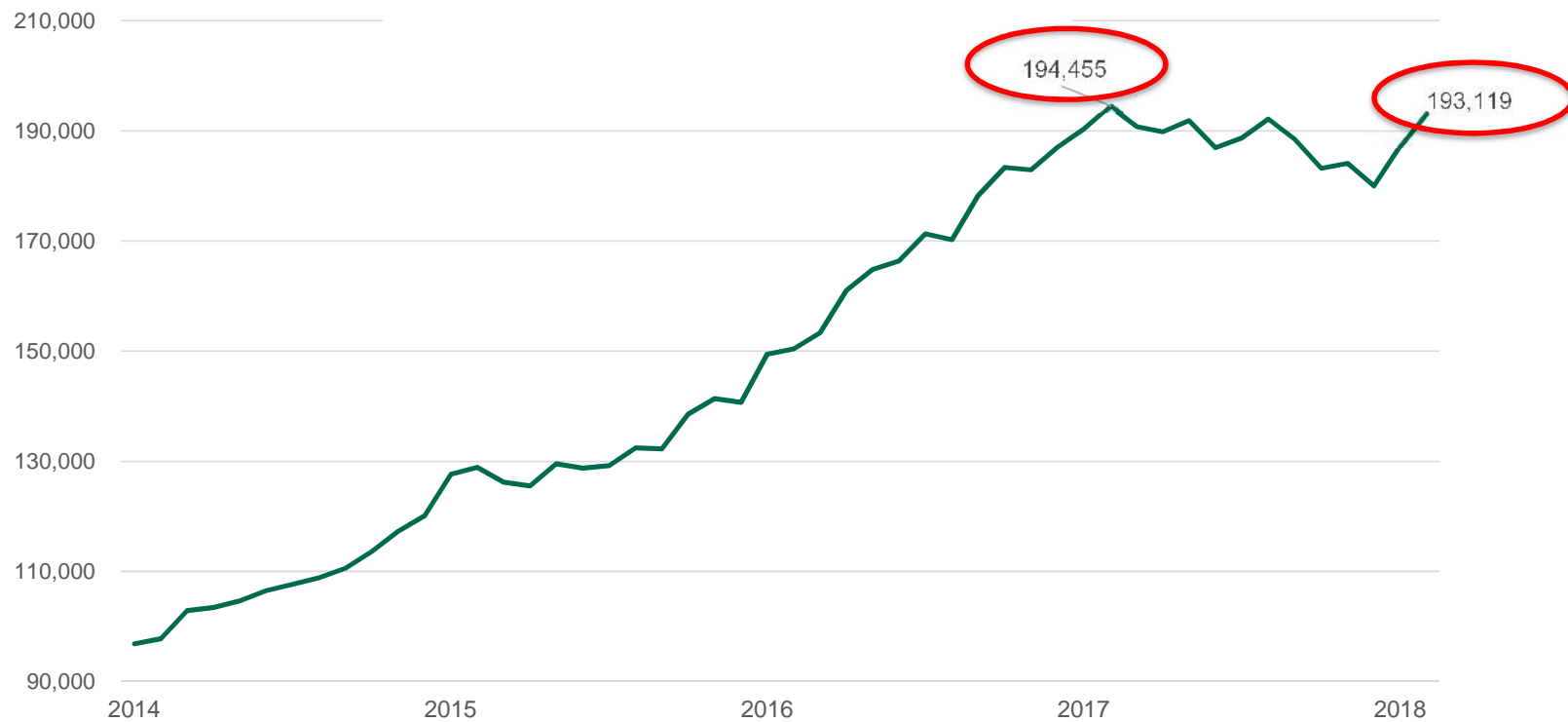


Large Supply 
=
Real ADR 

Source: STR, CBRE Hotels' Americas Research, Q4 2017

PIPELINE PLATEAU'S?

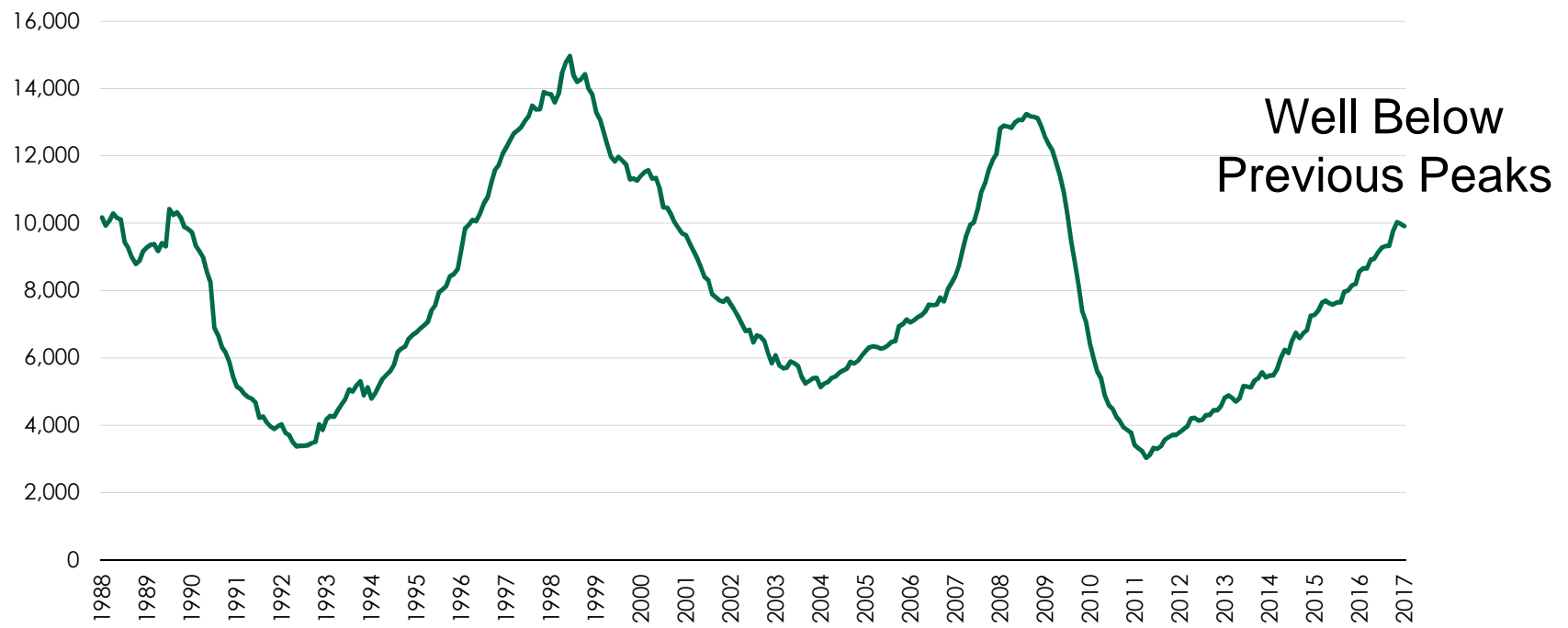
Number of Rooms Under Construction



Source: STR, February 2018.

NEW ROOMS

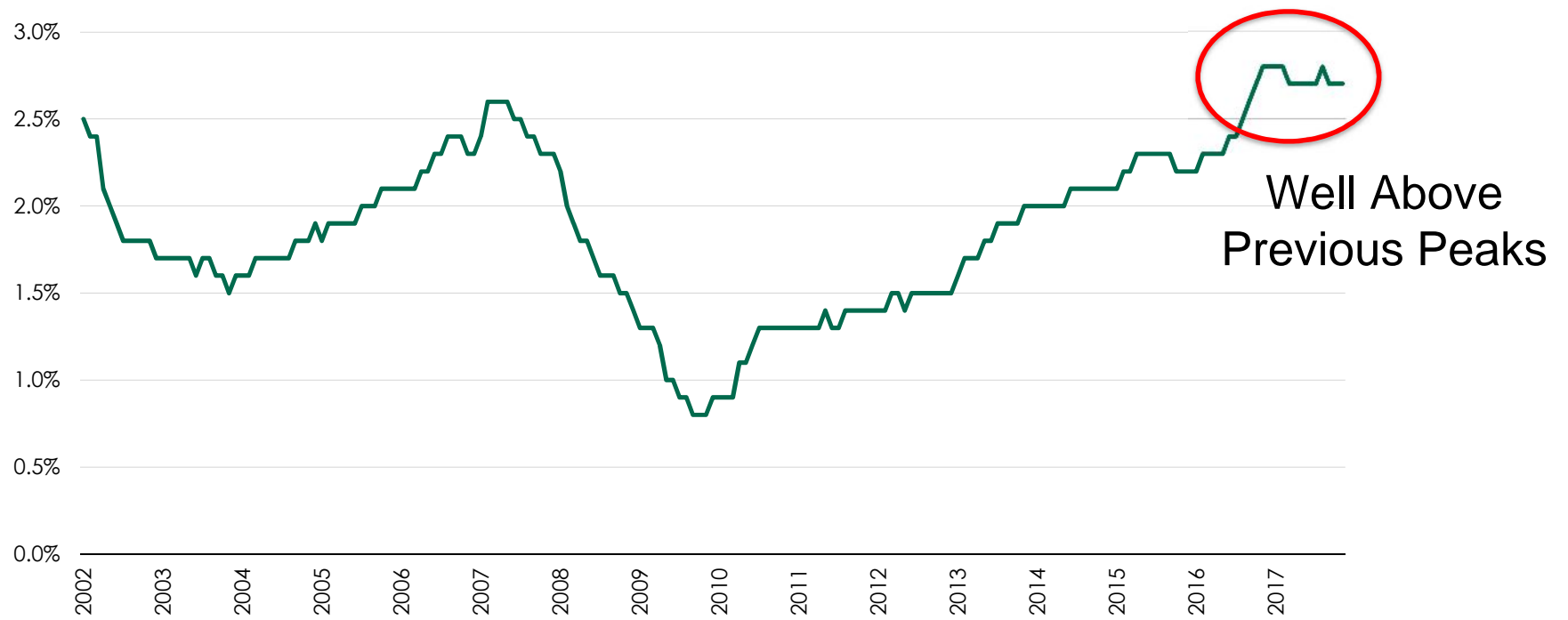
12 MMA of New Hotel Room Added in the U.S.



Source: STR, CBRE Hotels' Americas Research, Dec 2017.

CONSTRUCTION JOB OPENINGS

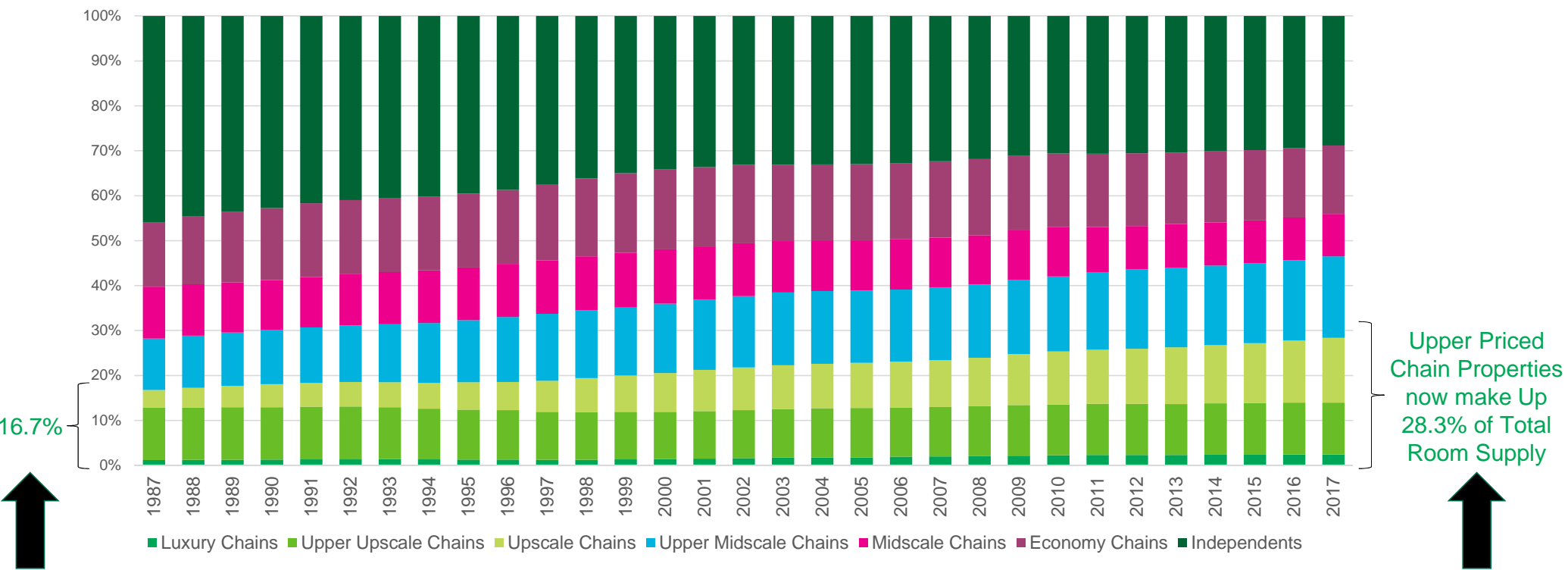
Construction Job Openings as a Percent of Total Construction Jobs



Source: BLS, Dec 2017.

US HOTEL SUPPLY

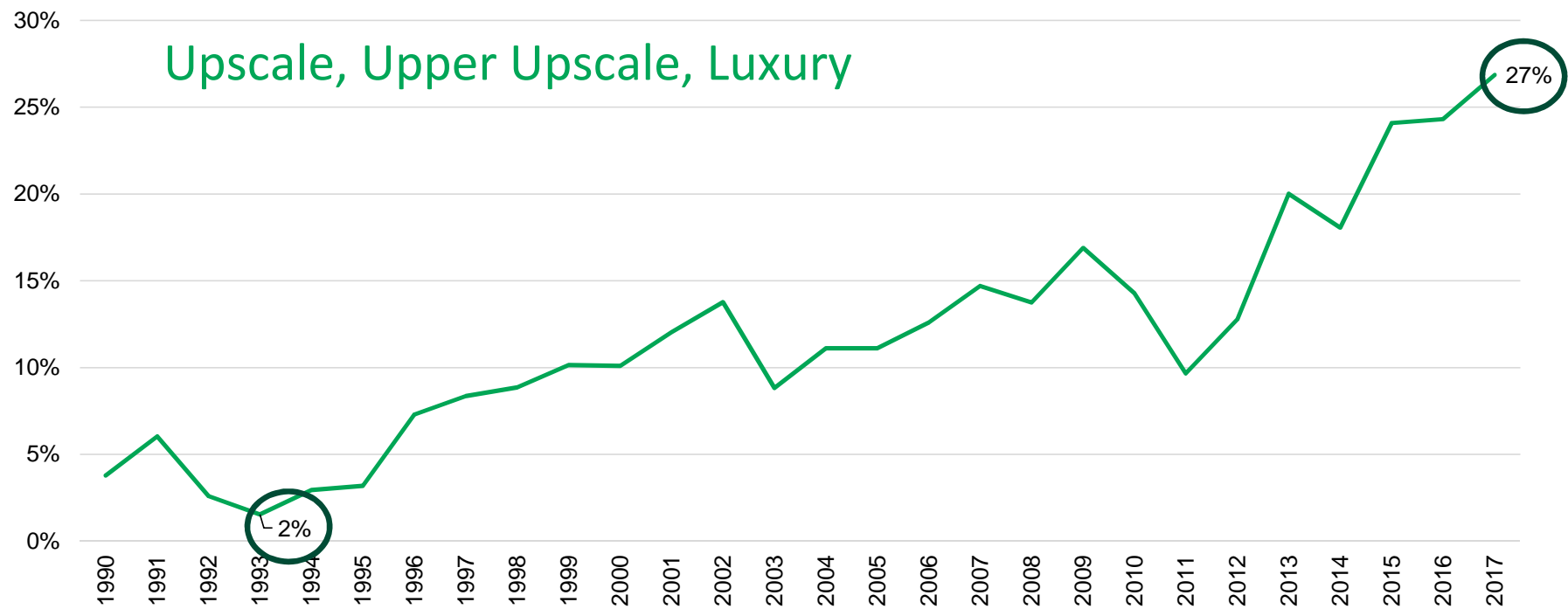
Supply % of Rooms by Chain Scale



Source: STR, CBRE Hotels' Americas Research, March 2017.

NEW HOTEL SUPPLY – UPPER PRICED ROOMS W/O F&B

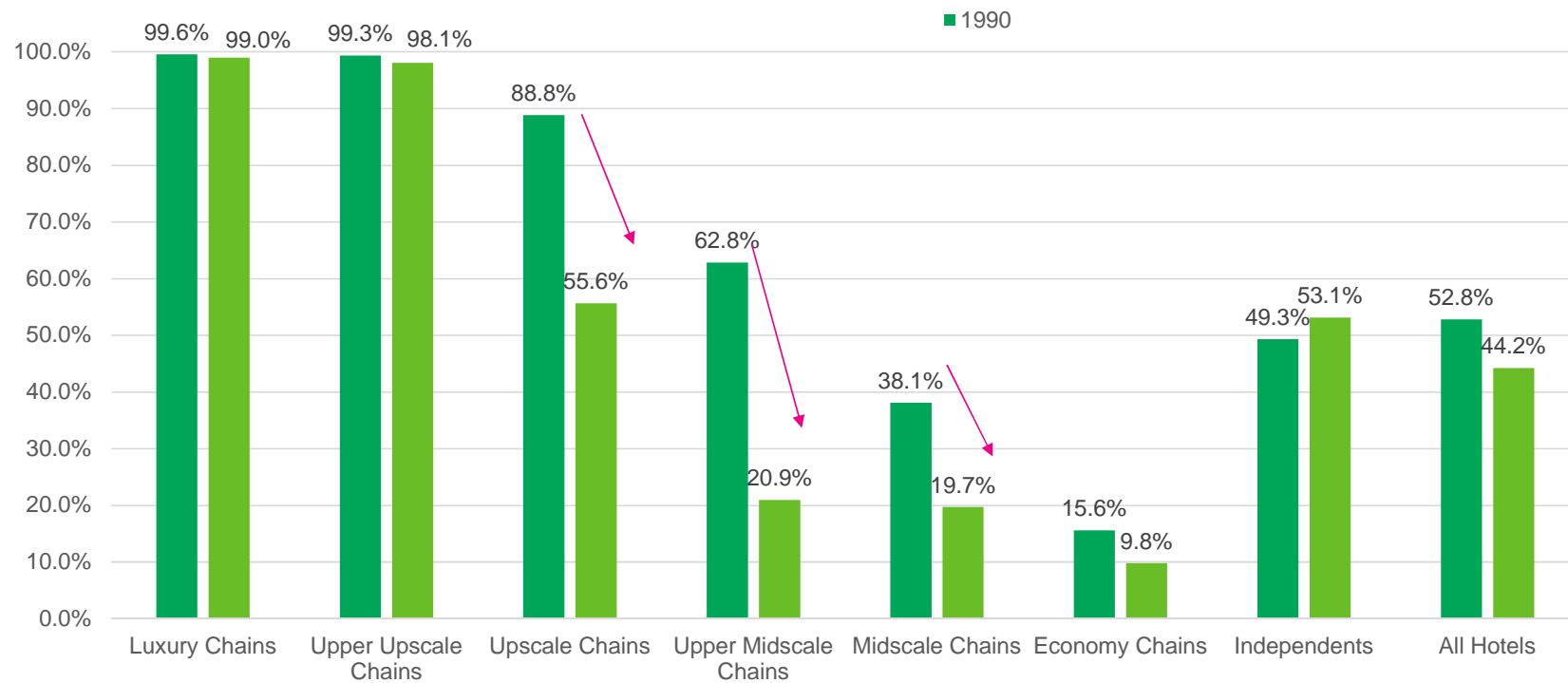
% of New Upper Priced Rooms w/o F&B



Source: STR, CBRE Hotels' Americas Research, March 2017.

HOTELS WITH F&B

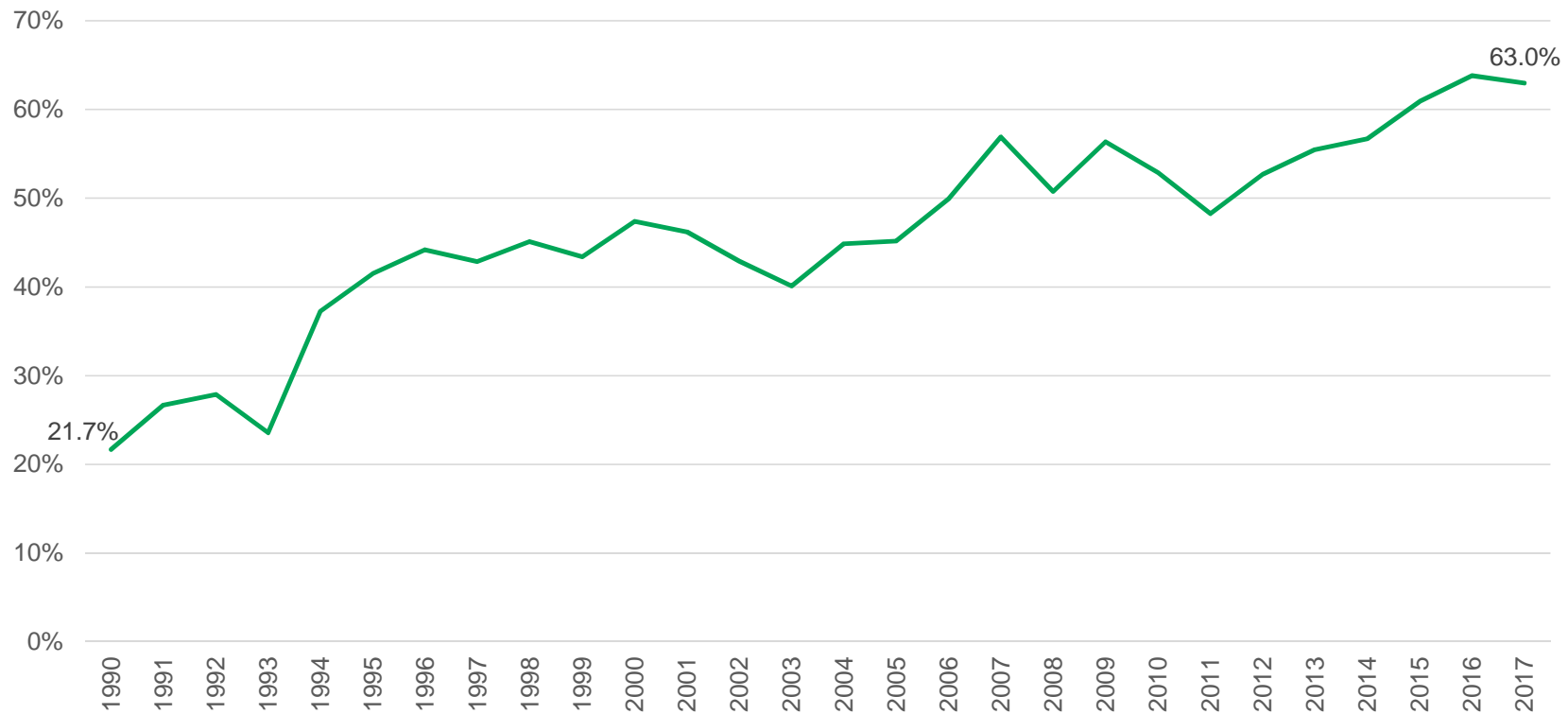
% of Rooms in a Hotel with F&B



Source: STR, CBRE Hotels' Americas Research, March 2017.

RISE OF SELECT SERVICE

% of New Rooms w/o F&B for Upscale, Upper Midscale, and Midscale Chains



Source: STR, CBRE Hotels' Americas Research, March 2017.

PLANNED INLAND EMPIRE HOTELS (14)

Project Name	Room Count	Projected Opening	Project Phase
Springhill Suites Ontario Airport Rancho Cucamonga	128	August 2018	In Construction
TownePlace Suites San Bernardino Chino Hills	116	September 2018	In Construction
Residence Inn Rancho Cucamonga	126	October 2018	In Construction
Home2 Suites Victorville	105	October 2018	In Construction
Holiday Inn Express & Suites Moreno Valley	104	March 2019	In Construction
Hampton Inn Riverside Downtown	112	May 2019	In Construction
Fairfield Inn & Suites Riverside Moreno Valley	103	May 2019	In Construction
Residence Inn Riverside Moreno Valley	112	May 2019	In Construction
Country Inn & Suites Hesperia	106	June 2019	Final Planning
La Quinta Inn & Suites Loma Linda	120	July 2019	Final Planning
Staybridge Suites Ontario	114	July 2019	Final Planning
Hampton Inn Victorville	98	October 2019	Final Planning
element Ontario	116	October 2019	Final Planning
Holiday Inn Express & Suites Norco	90	November 2019	Final Planning



SHARING ECONOMY – A CHANGING LANDSCAPE

HOME SHARING MARKET PLACE



Inventory

4 M



1 M



835k



721K

Sources: Airbnb, booking.com, Forbes

AIRBNB & HOTEL SUPPLY IN THE US

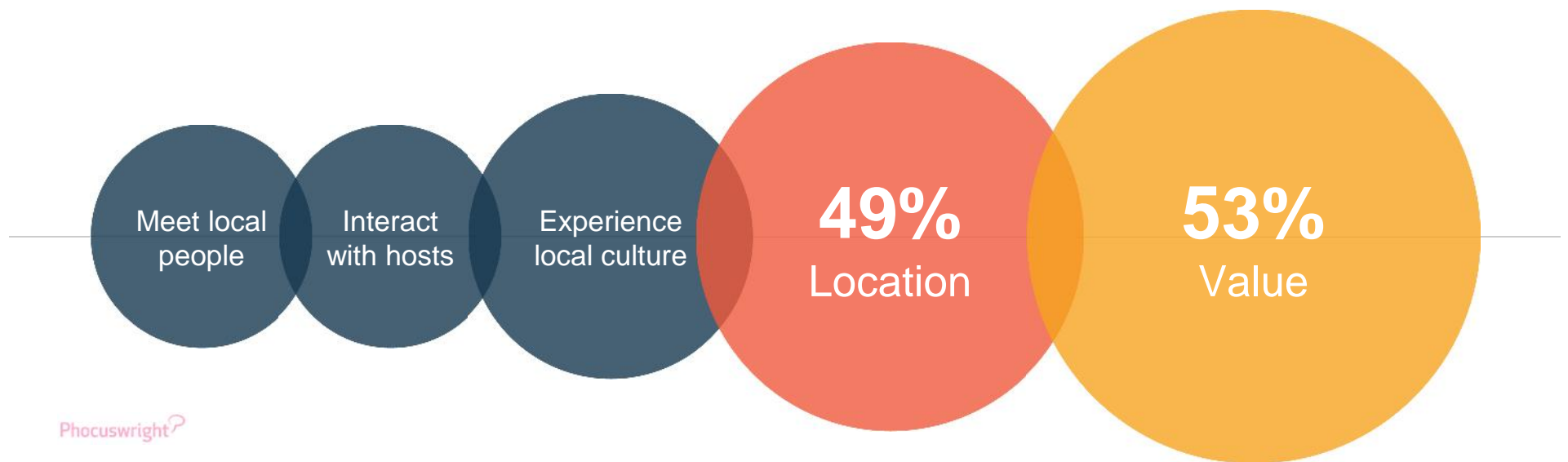
Average Daily Supply in the U.S.

Year	Hotel Rooms	Hotel^	Airbnb Units	Airbnb^	Airbnb+Hotels	Airbnb+Hotels^
2012	4,849,352	0.30%	13,000	150%	4,862,352	0.5%
2013	4,875,064	0.50%	28,000	115%	4,903,064	0.8%
2014	4,905,305	0.60%	58,000	107%	4,963,305	1.2%
2015	4,953,177	1.00%	115,235	99%	5,068,412	2.1%
2016	5,027,238	1.50%	224,630	95%	5,251,868	3.6%
2017	5,119,907	1.80%	347,748	55%	5,467,655	4.1%

Source: CBRE Hotels' Americas Research, Airdna, Google Trends, Dec 2017.

**Previous Peak @
3.1% Q1 2009**

WHY THEY RENTED?



SOURCE: PHOCUSWRIGHT'S *A MARKET TRANSFORMED: PRIVATE ACCOMMODATION IN THE U.S.*,

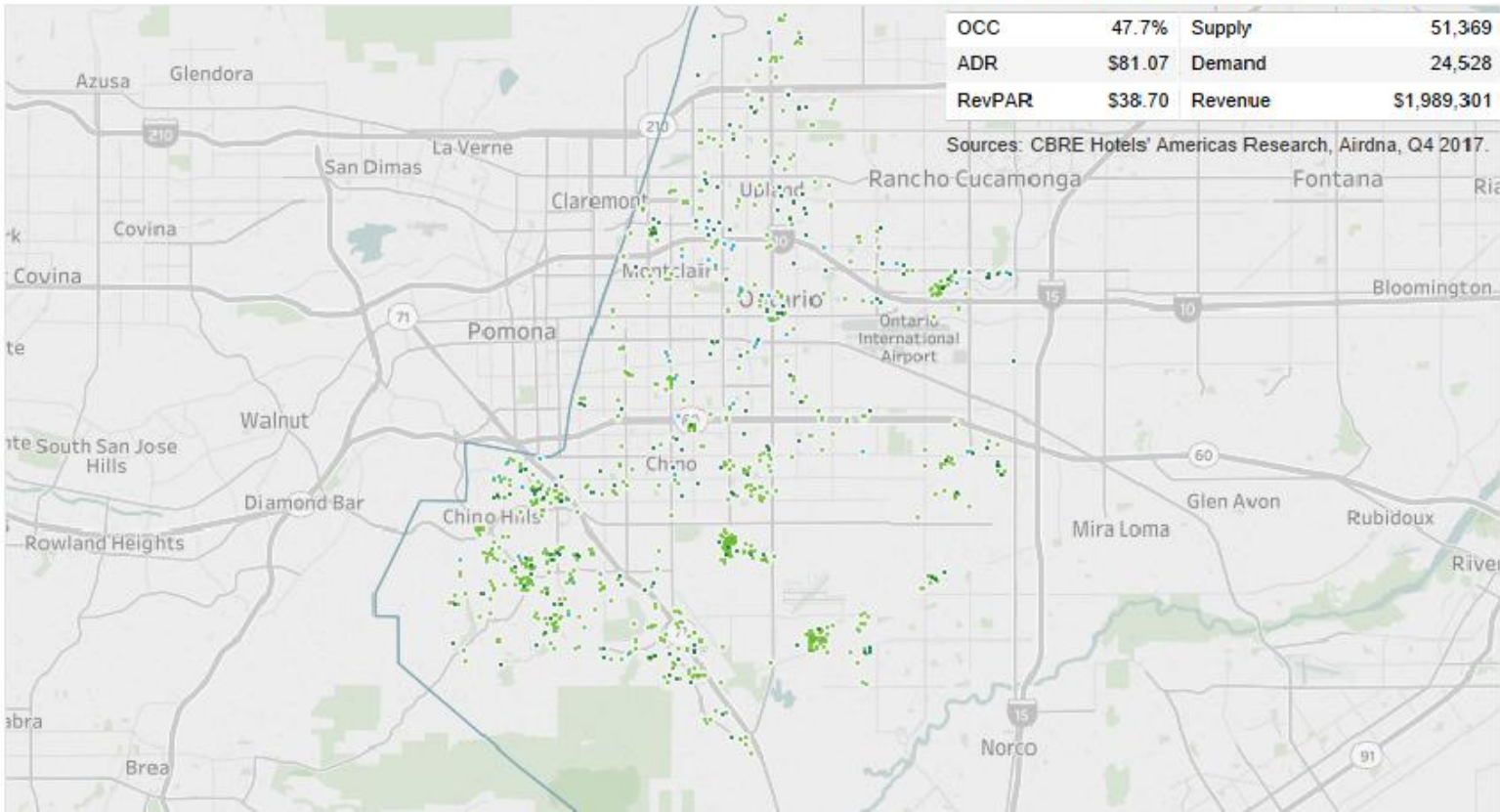
AIRBNB & HOTEL SUPPLY IN THE ONTARIO AIRPORT AREA

Riverside/San Bernardino, CA - Ontario/Airport, CA

Table 1: Airbnb Performance (Jan. 2017 - Dec. 2017)

OCC	47.7%	Supply	51,369
ADR	\$81.07	Demand	24,528
RevPAR	\$38.70	Revenue	\$1,989,301

Sources: CBRE Hotels' Americas Research, Airdna, Q4 2017.



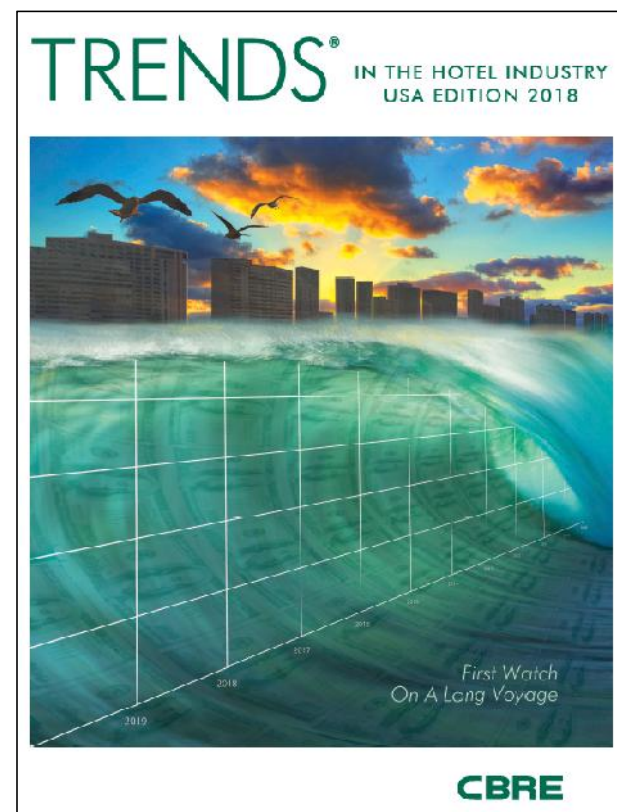


TRENDS IN HOTEL EXPENSES & PROFITS

TRENDS® IN THE HOTEL INDUSTRY

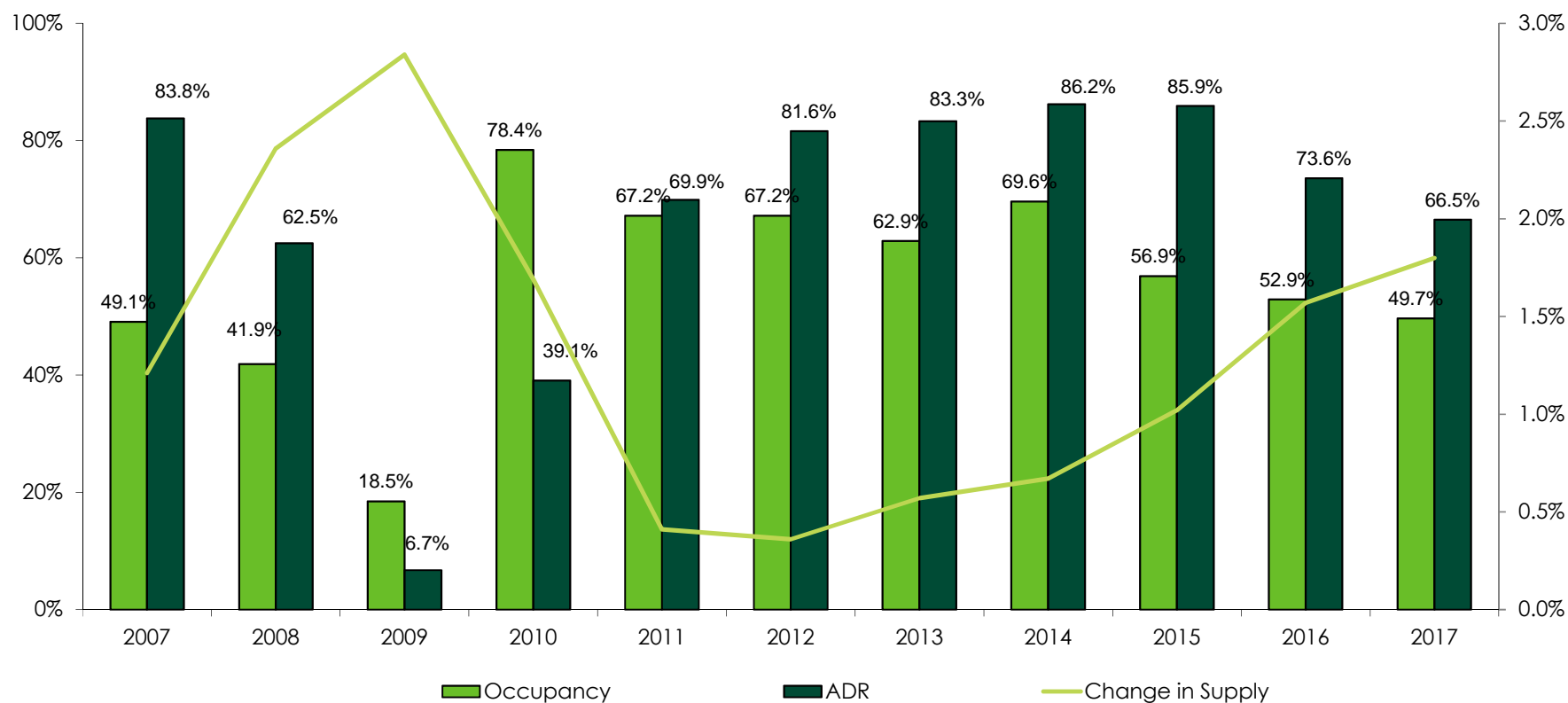
Annual Benchmarking Survey – Origin: 1937

- Annual voluntary survey of thousands of U.S. hotel financial statements
- First survey conducted in 1937
 - **Occ: 64.4%**
 - **ADR: \$3.04**
- Data converted to USALI to ensure comparability
- 2018 Survey Sample (2017 data)
 - 7,785 hotels across the U.S.
 - Occupancy: 75.6%
 - ADR: \$179.25



2018 TRENDS® IN THE HOTEL INDUSTRY

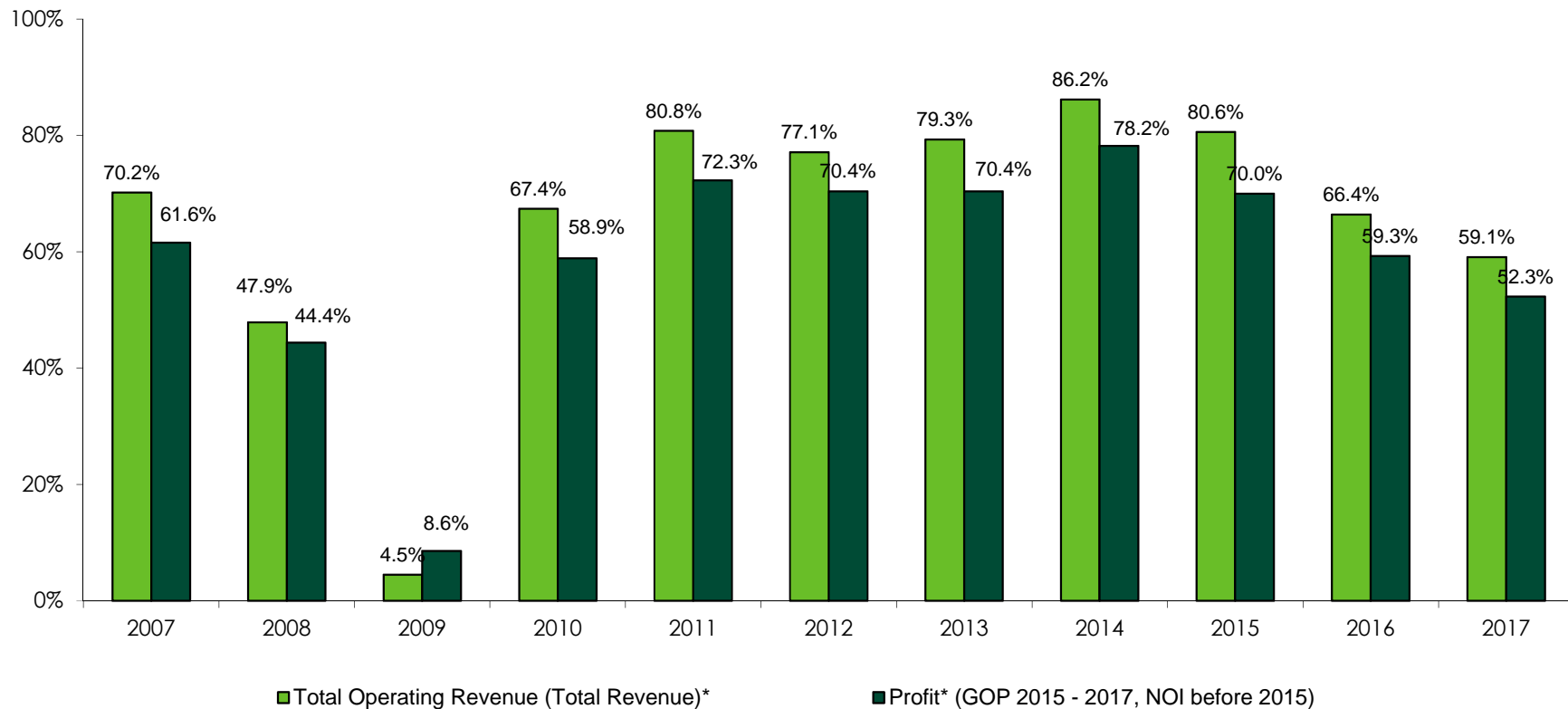
Percent of Hotels in *Trends®* Sample Posting an Increase from Prior Year



Source: 2018 Trends® in the Hotel Industry

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

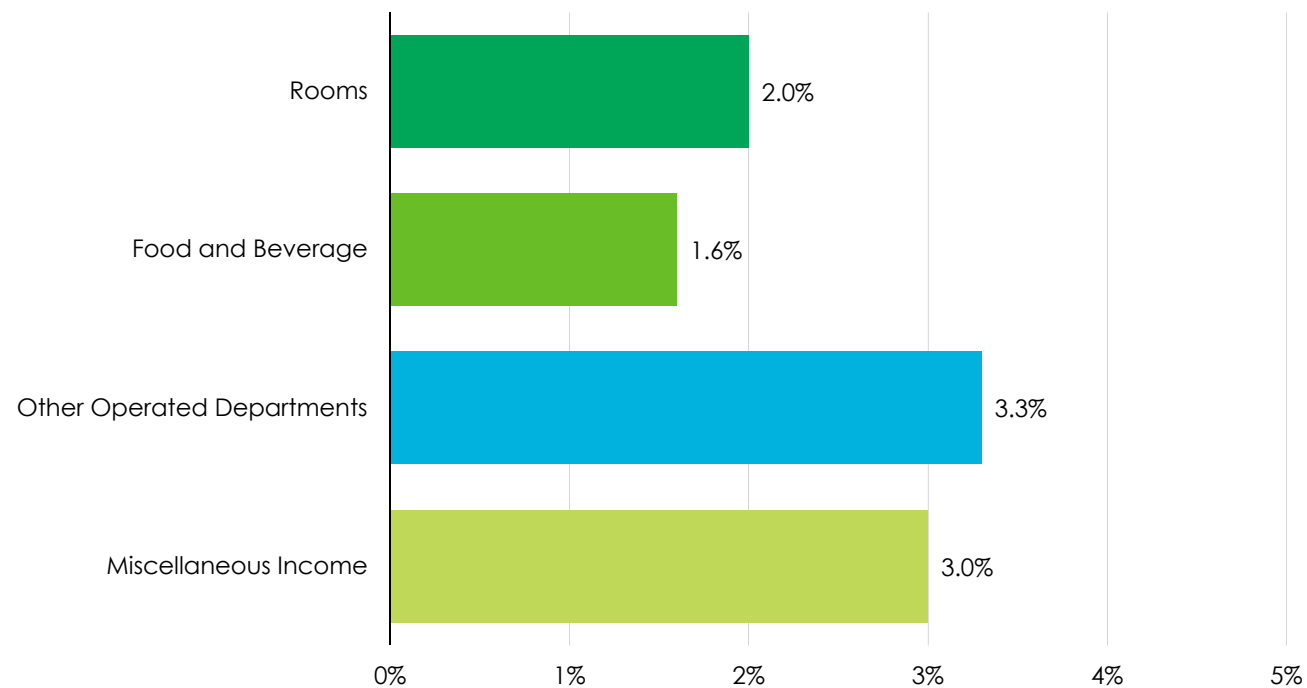
Percent of Hotels in *Trends®* Sample Posting an Increase from Prior Year



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

ALL FOUR SOURCES OF REVENUE GREW FOR THE 8TH CONSECUTIVE YEAR

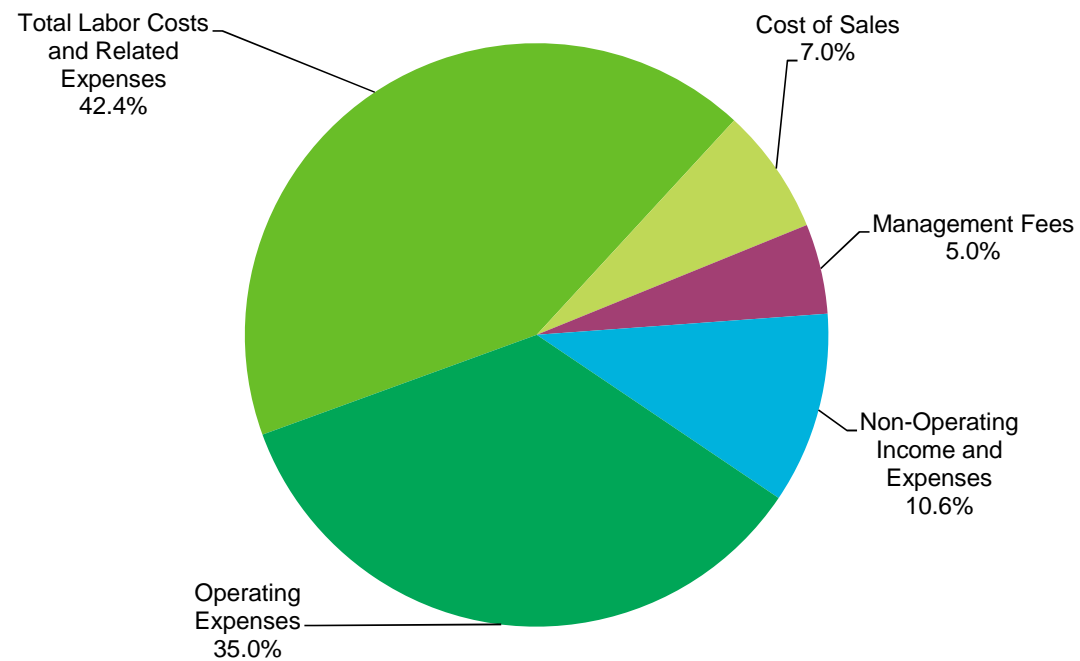
Annual Change 2016 to 2017 – Revenues



Source: 2018 Trends® in the Hotel Industry

LABOR – LARGEST EXPENSE

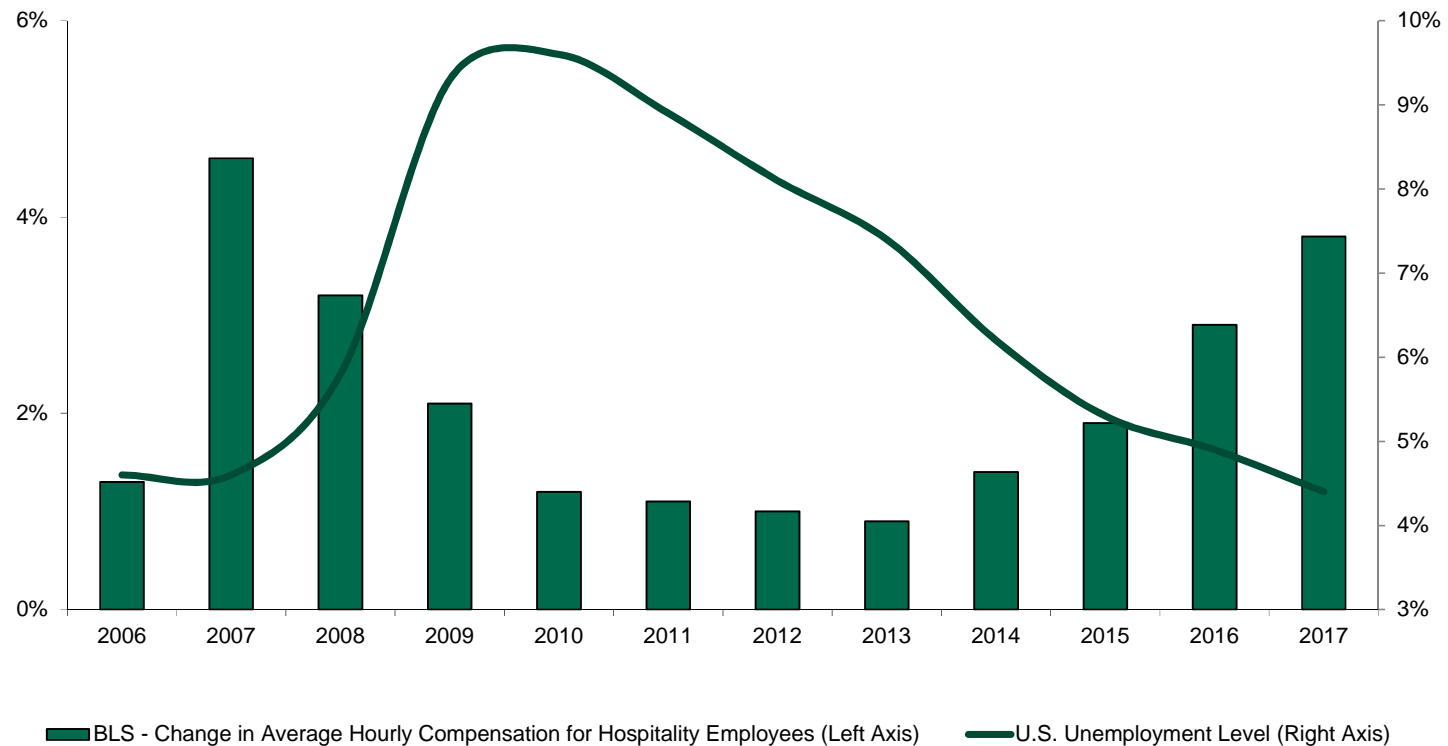
2017 Mix of Expenses



Source: 2018 Trends® in the Hotel Industry

TIGHT LABOR MARKET – UPWARD PRESSURE ON COMPENSATION

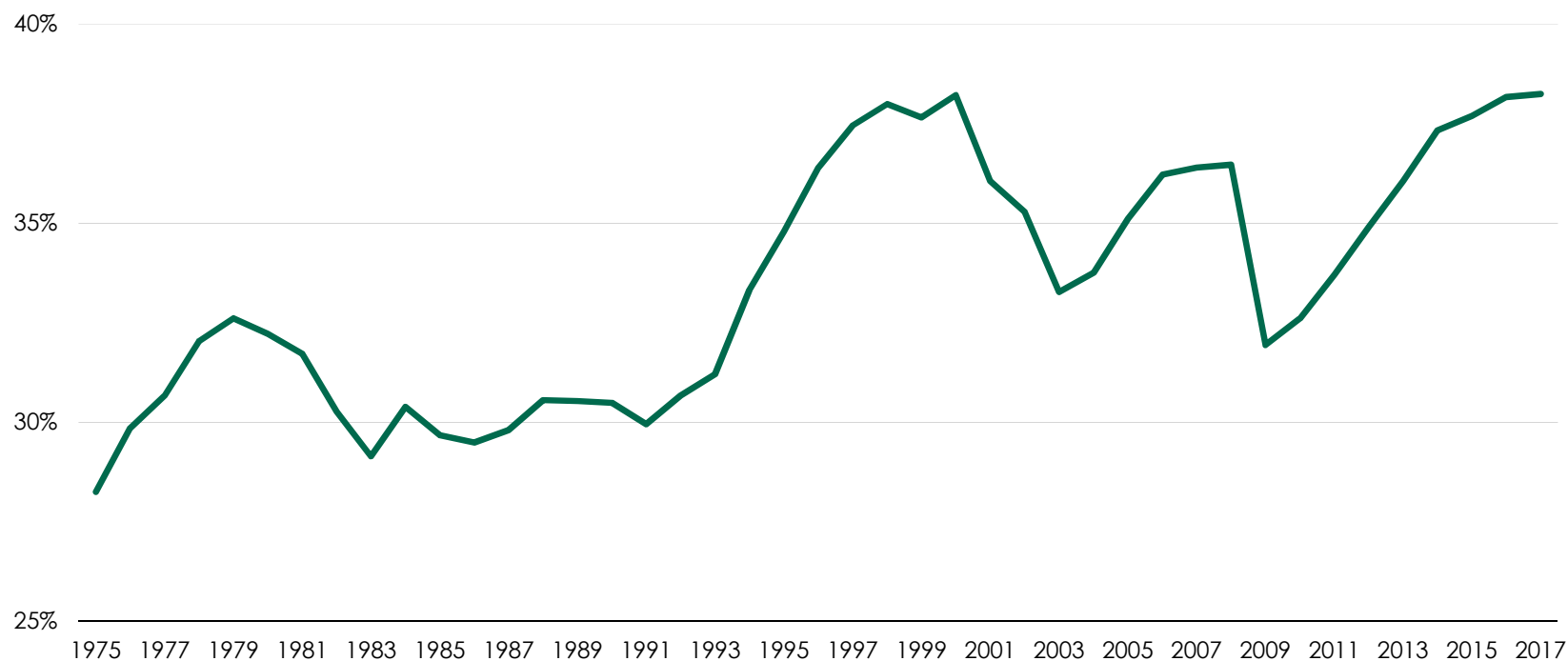
Annual Change in Hospitality Industry Employee Hourly Compensation versus Unemployment Rate



Source: Bureau of Labor Statistics

“MANAGE TO THE MARGIN” – MARK WOODWORTH

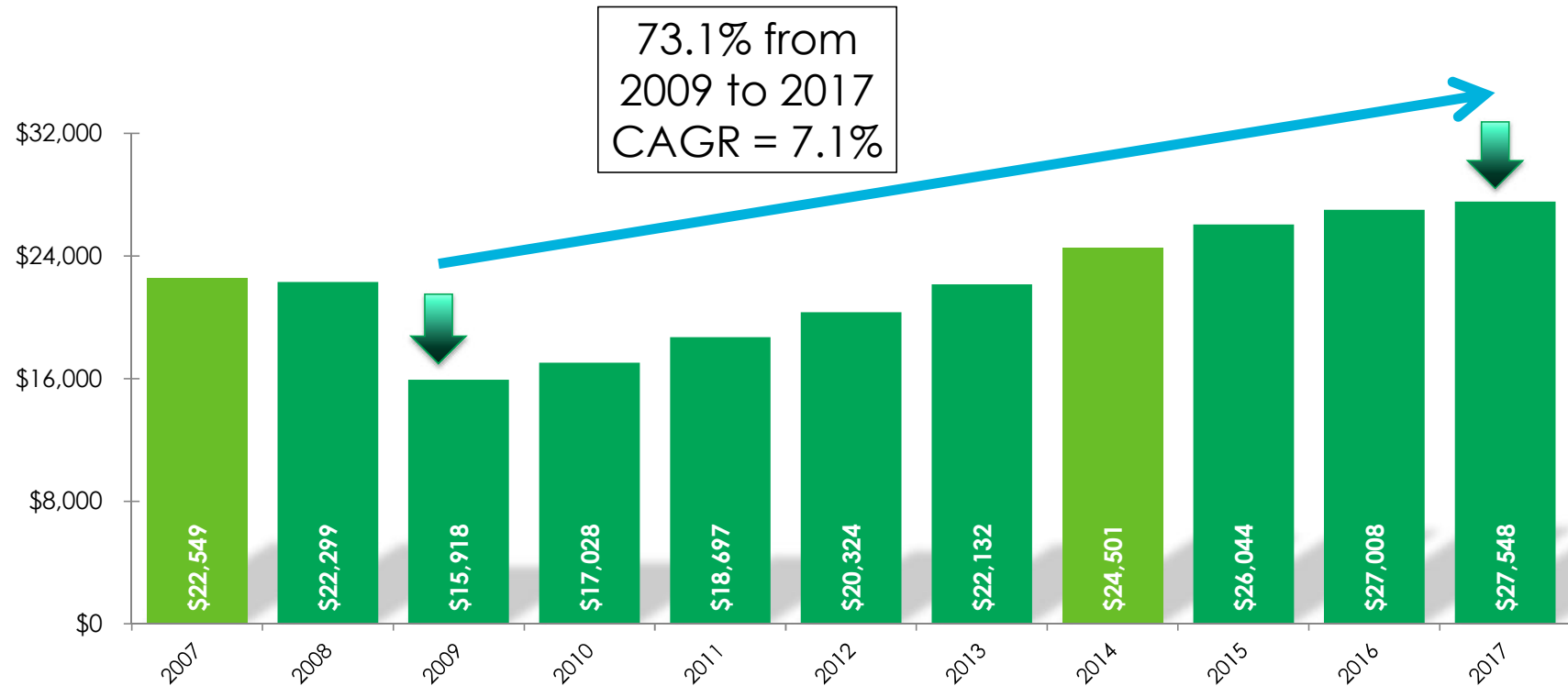
GOP* Margin – Percent of Total Operating Revenue



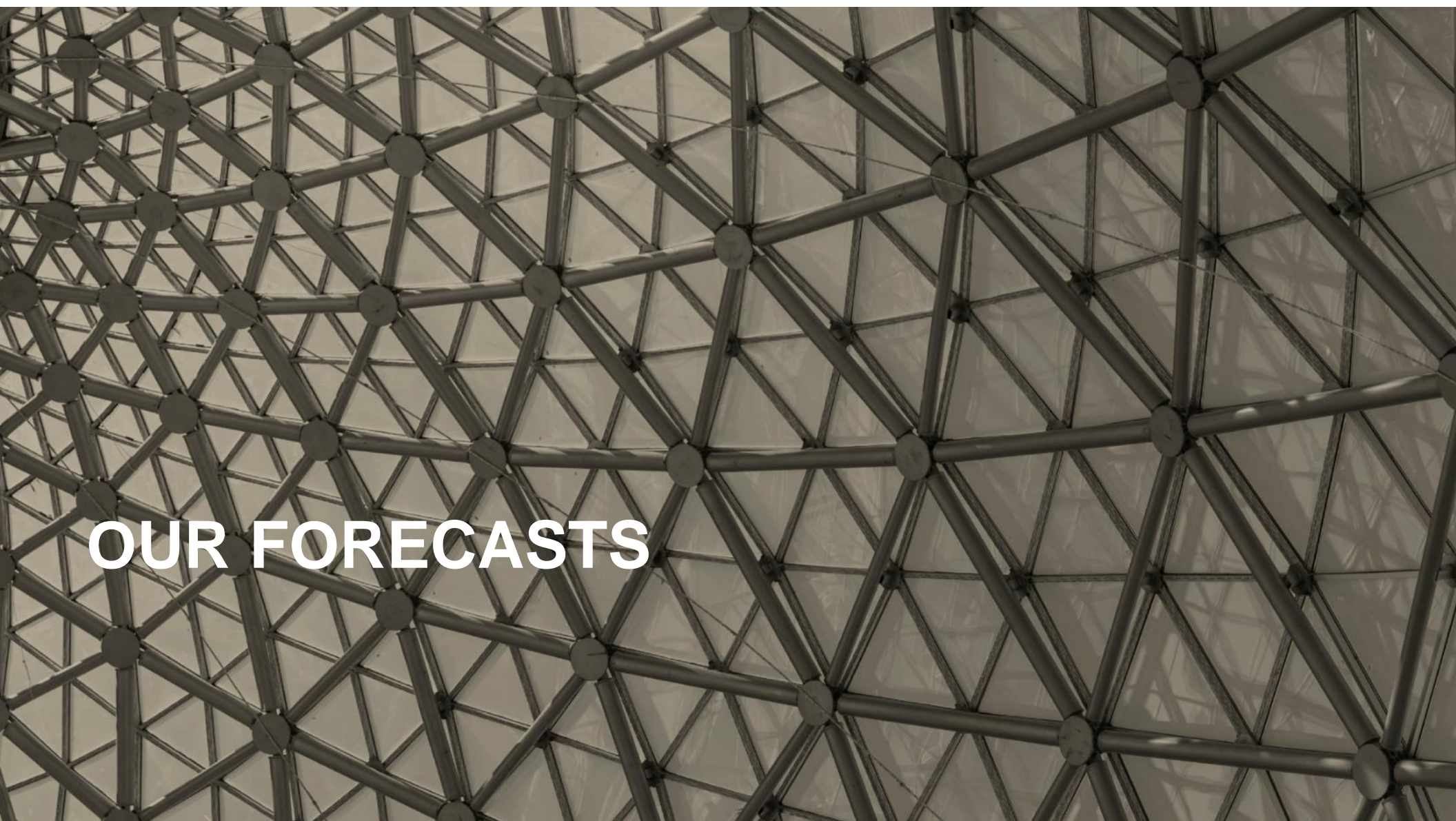
Note: * Before Management Fees and Non-Operating Income and Expenses
Source: 2018 Trends® in the Hotel Industry

NICE PROFIT GROWTH, BUT SLOWING DOWN

Gross Operating Profit* - Dollars Per Available Room



Note: * Before deduction for Management Fees and Non-Operating Income and Expenses
Source: 2018 Trends® in the Hotel Industry



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	2015	2016	2017	2018F	2019F
Supply	1.9%	1.0%	1.5%	1.8%	2.0%	1.9%
Demand	2.0%	2.5%	1.6%	2.7%	2.1%	2.1%
Occupancy	62.2%	65.3%	65.4%	65.9%	66.0%	66.2%
ADR	3.1%	4.5%	3.0%	2.1%	2.7%	2.4%
RevPAR	3.3%	6.1%	3.1%	2.9%	2.8%	2.6%

Sources: CBRE Hotels' Americas Research - Hotel Horizons® June 2018 – August 2018,
STR

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

STRENGTHS:

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

WEAKNESSES:

- Lack of a vibrant central core, downtown
- 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:

- Exorbitant costs in Southern California drive more firms and workers into the IE.
- Domestic in-migration accelerates.
- Logistics cluster adds more jobs.
- Higher funding for IE's public universities leads to more investment.

DOWNSIDE:

- Cost advantage erodes more quickly, undermining investment.
- Services disappoint because of low incomes.

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

- **Recent Performance:** The IE leads the way in Southern California, with overall growth comfortably leading that of its peers. Payrolls in the last quarter of 2017 grew by three times the U.S. average. Goods producers were the fastest-growing segment, and the IE's core logistics industry recovered from a brief slump. Additional momentum came from leisure/hospitality. The labor force has grown at its fastest pace since the start of the recovery, although participation remains below that of Los Angeles or San Diego. Entrants are being absorbed, and the unemployment rate is as low as it was prior to the recession. As a result, hourly earnings grew at twice the U.S. rate in 2017, though they still fall 15% below the California average.
- **Logistics:** The IE's core driver will outperform the average metro area in 2018, but the pace will not be as explosive as earlier in the expansion. Few metro areas experienced a comparable increase in logistics over the past decade, when the employment share nearly doubled. In 2017, hiring was average for a large transportation hub. E-commerce giant Amazon will open warehouses in 2018, but automation has curbed hiring, an ongoing downside risk as competitors Walmart and Target may follow suit. The nearby ports of Los Angeles and Long Beach provide a second lifeline. Last year, inbound volumes expanded at rates second only to Houston and Savannah GA. Prospects remain rosy: The National Retail Foundation expects 5% growth in port volume in the first half of 2018. Overall, dependence on logistics is a double-edged sword, as hiring is met with subpar job quality. Median household incomes recovered with the transition to a logistics hub but exceed their prerecession high by only 5% compared with 10% nationally.

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

- **Leisure/Hospitality:** Solid demographics and wage growth will buoy the IE's consumer industries, and leisure/hospitality will add an above-average number of jobs in 2018. In the last quarter of 2017, employers hired at rates near the top 5% of all metro areas. Chain restaurants, which support a population that grew nearly twice as fast as California's average in 2016, partly explain the expansion. Hotels also provide a boost, especially in Riverside County, which added 1,200 rooms in 2017 compared with only 32 in 2016. The sector will add much needed service jobs but will also hold down wages; average weekly earnings are half of those in logistics.
- **Obstacles:** Near term, few higher-wage alternatives will emerge in the IE. First, real estate markets are starting to soften. With relative affordability compared with Los Angeles and San Diego falling, demand for new housing will weaken. Office construction is anemic. Second, a lack of urban concentration and high-skill labor will deter higher-paying services and tech firms from settling in. Although the area is home to several colleges such as Loma Linda University and UC Riverside, higher education's share of employment is only about half the U.S. average. Few graduates stay in the IE, instead seeking the more dynamic labor markets of the coast. Only about 21% of the IE's population has a bachelor's degree or higher compared with California's 33% and even higher rates in Los Angeles and San Diego.

Hiring in Riverside-San Bernardino-Ontario will slow as its business cycle matures and matches the U.S. average long term. Riverside-San Bernardino-Ontario's support the Golden Coast, but incomes will rank near the bottom of the top 25 metro areas.

SOUTHERN CALIFORNIA HOTELS HISTORICAL ANNUAL PERFORMANCE

Area	YE 2016	YE 2017	YoY Change
Orange County	78.2%	77.4%	-0.6%
Los Angeles County	81.1%	80.0%	-1.3%
Inland Empire	78.6%	77.7%	-1.1%
San Diego County	77.1%	77.3%	0.3%

Area	YE 2016	YE 2017	YoY Change
Orange County	\$150.61	\$156.54	3.9%
Los Angeles County	\$175.44	\$175.97	0.7%
Inland Empire	\$109.92	\$116.57	6.0%
San Diego County	\$154.86	\$160.08	3.4%

Source: CBRE Hotels' Americas Research – Hotel Horizons® June – August 2018; STR, Inc. & CBRE Hotels LA Trends in the Hotel Industry

SOUTHERN CALIFORNIA HOTELS FORECASTED PERFORMANCE

Area	YE 2017	2018F	YoY Change
Orange County	77.4%	77.5%	0.2%
Los Angeles County	80.0%	79.8%	-0.2%
Inland Empire	77.7%	79.2%	2.0%
San Diego County	77.3%	78.1%	1.0%

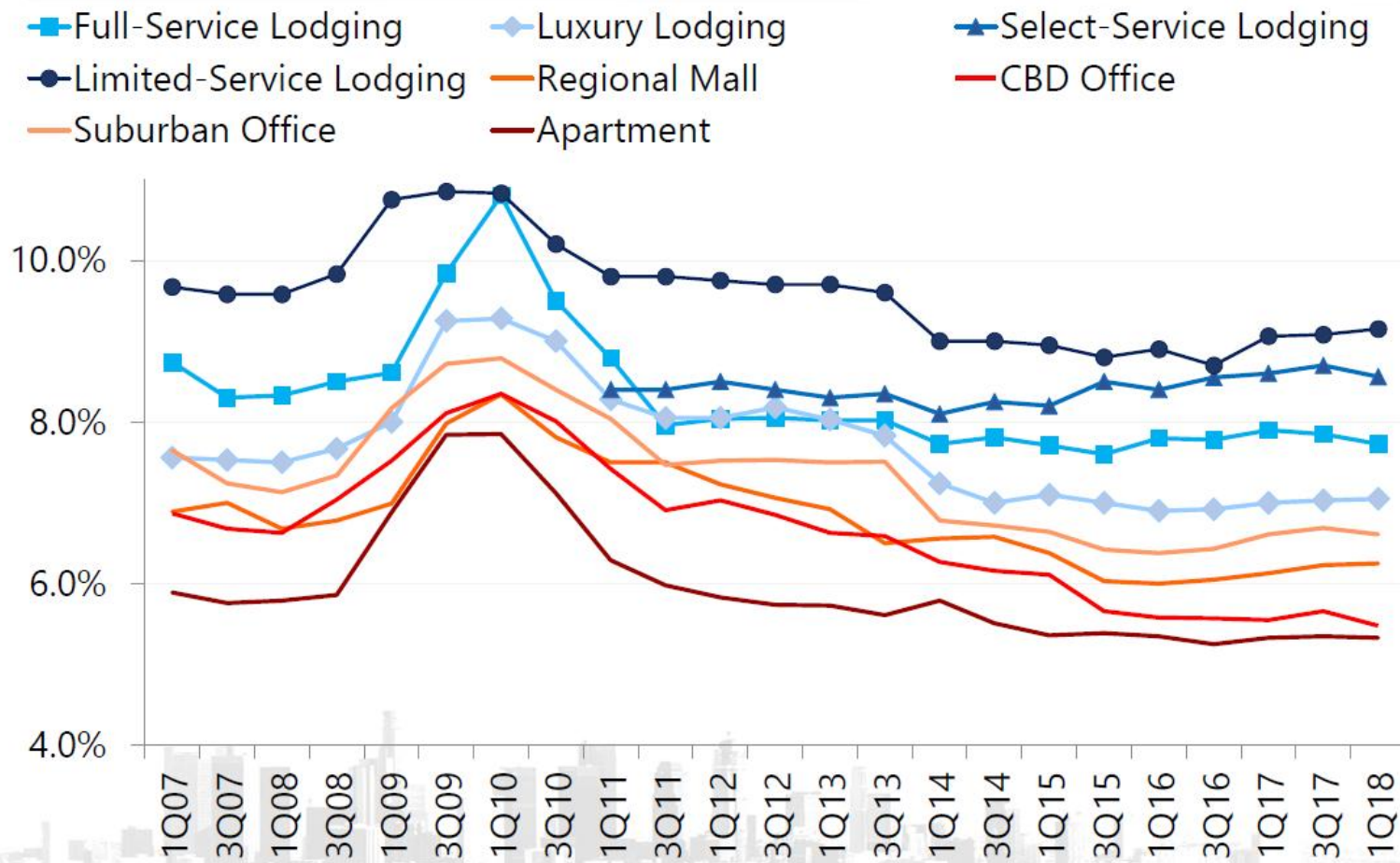
Area	YE 2017	2018F	YoY Change
Orange County	\$156.54	\$163.25	4.3%
Los Angeles County	\$175.97	\$181.41	3.1%
Inland Empire	\$116.57	\$122.40	5.0%
San Diego County	\$160.08	\$163.02	1.8%

Source: CBRE Hotels' Americas Research -- Hotel Horizons® June -- August 2018; STR, Inc. & CBRE Hotels LA Trends in the Hotel Industry

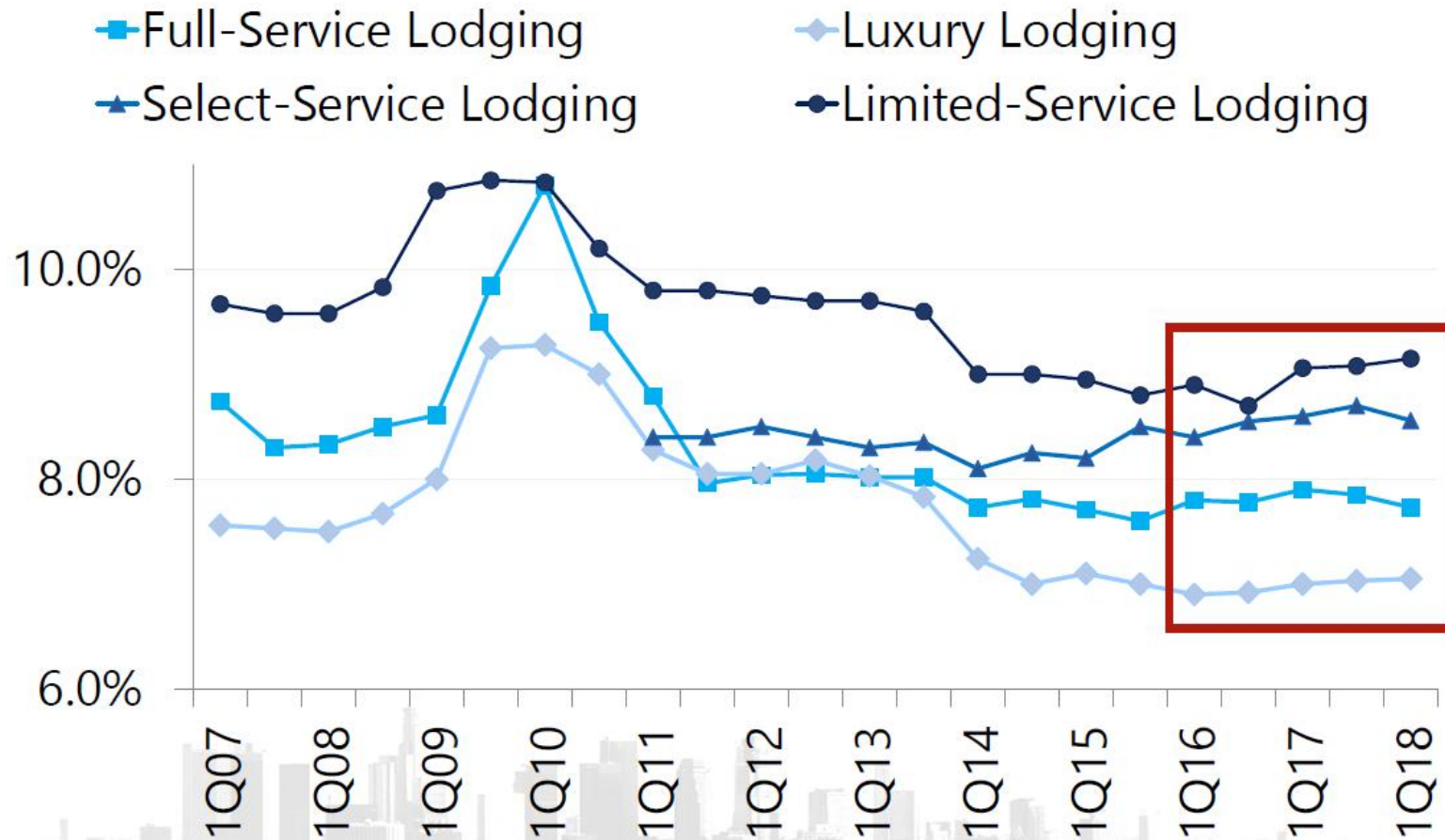


HOTEL SALES & CAP RATES

PWC REAL ESTATE INVESTOR SURVEY – CAP RATE TREND DATA



PWC REAL ESTATE INVESTOR SURVEY – CAP RATE TREND DATA



RECENT IE HOTEL SALES

Inland Empire Recent Hotel Sales							
Sale No .	Hotel	Location	Rooms	Sale Date	Price	\$/Room	Cap Rate
1	Holiday Inn	Ontario	180	March 2018	\$30,938,500	\$171,881	7.8%
2	Country Inn & Suites	Ontario	115	December 2017	15,900,000	138,261	6.1
3	Gateway Hotel	Ontario	299	August 2017	21,500,000	71,906	4.0



1

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2



3

SCCAI INLAND EMPIRE MARKET TRENDS

SUMMARY THOUGHTS

FIRST WATCH ON A LONG VOYAGE

1. The fundamentals remain attractive across the vast majority of markets.
2. Growing levels of disposable income and wealth will continue to drive increases in travel away from home.
3. Moderating supply growth will support high occupancy levels and may finally help to leverage ADR increases over the next two-three years.
4. Above long run average occupancy leads to revenue growth. Increasing labor costs will pressure performance. Profit growth will be durable, but not great.
5. Sharing economy will become more of a factor for traditional hotels.
6. Outlook for lodging in most domestic markets remains favorable.

CBRE HOTELS

The World's Leading Hotel Experts.

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