

CBRE HOTELS

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CBRE

U.S. Lodging Industry Update

FIRST WATCH ON A LONG VOYAGE

R. MARK WOODWORTH

CBRE HOTELS' AMERICAS RESEARCH

May 8, 2018

AGENDA

- Cap Rates



First Watch on a Long Voyage

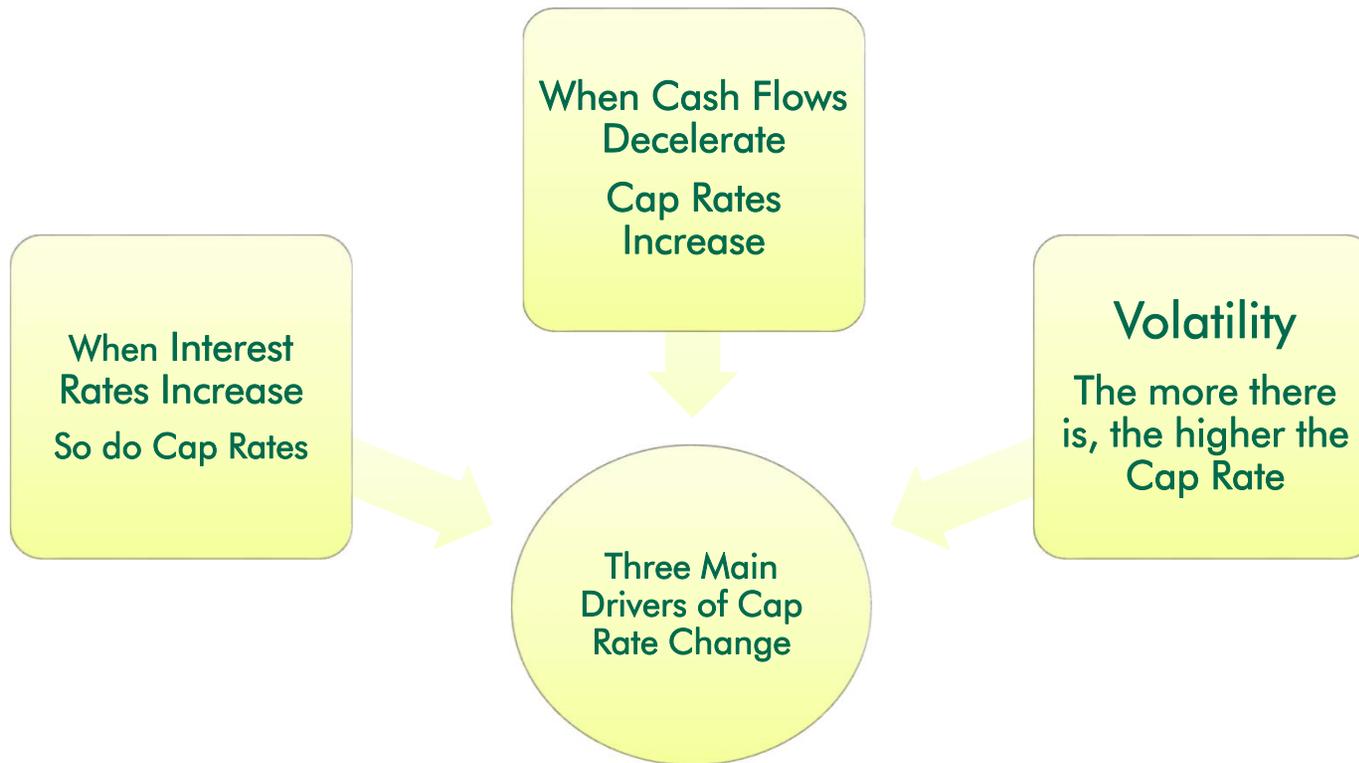
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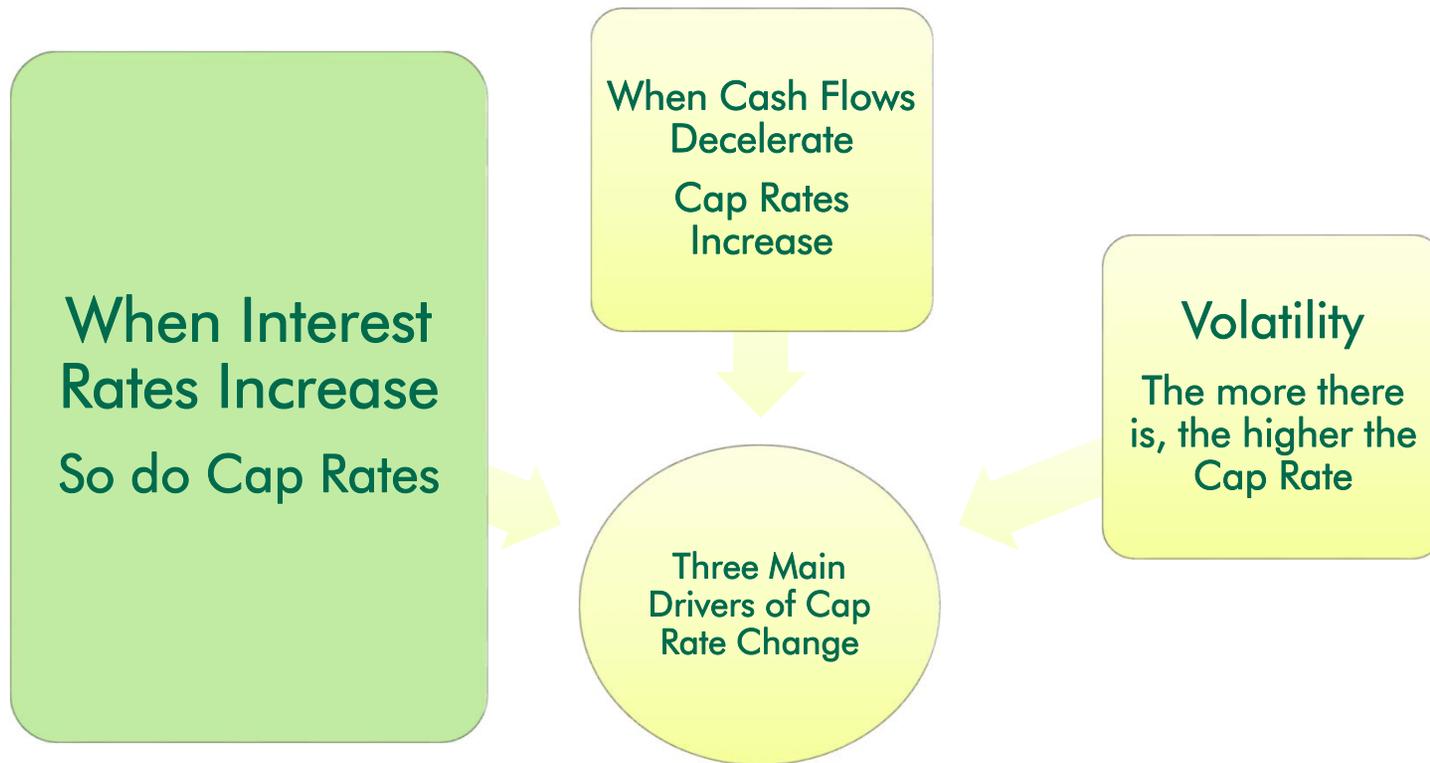


CAP RATES

THE DRIVERS OF CAP RATE CHANGE

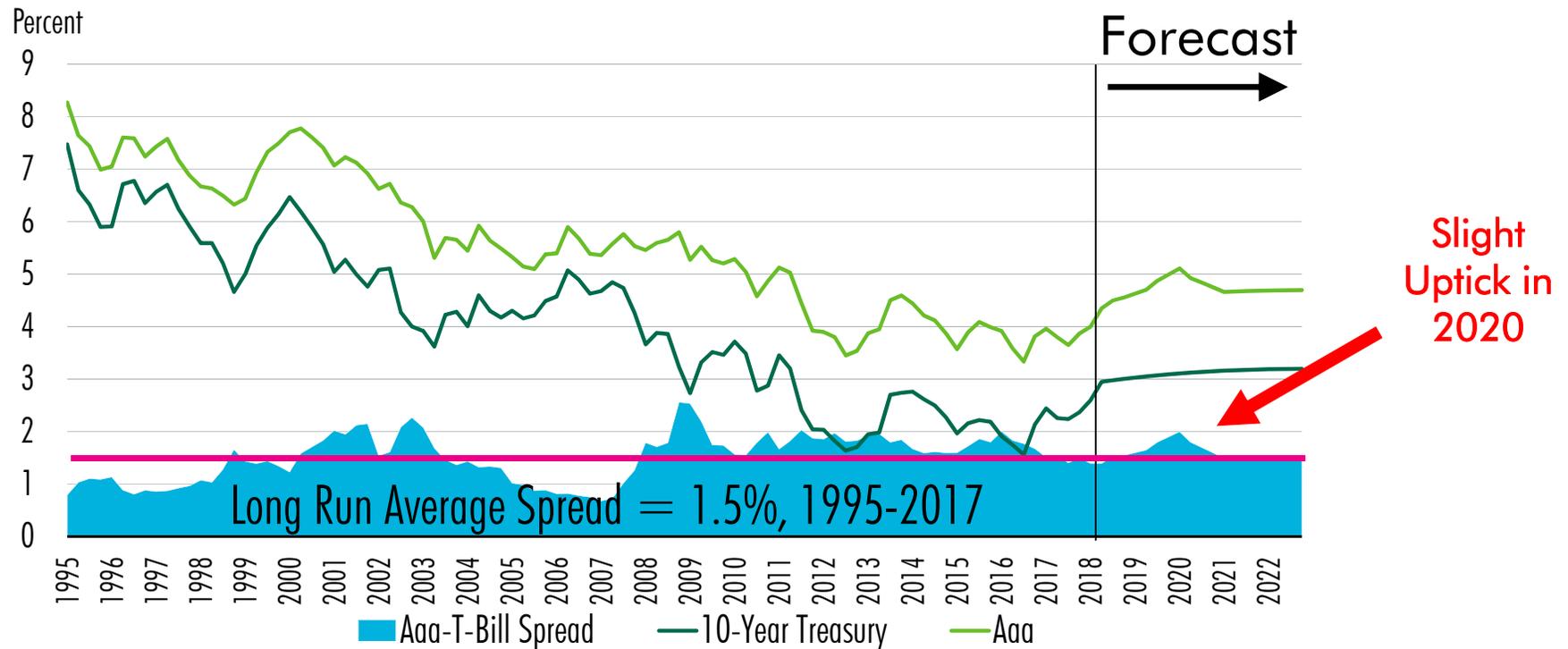


THE DRIVERS OF CAP RATE CHANGE



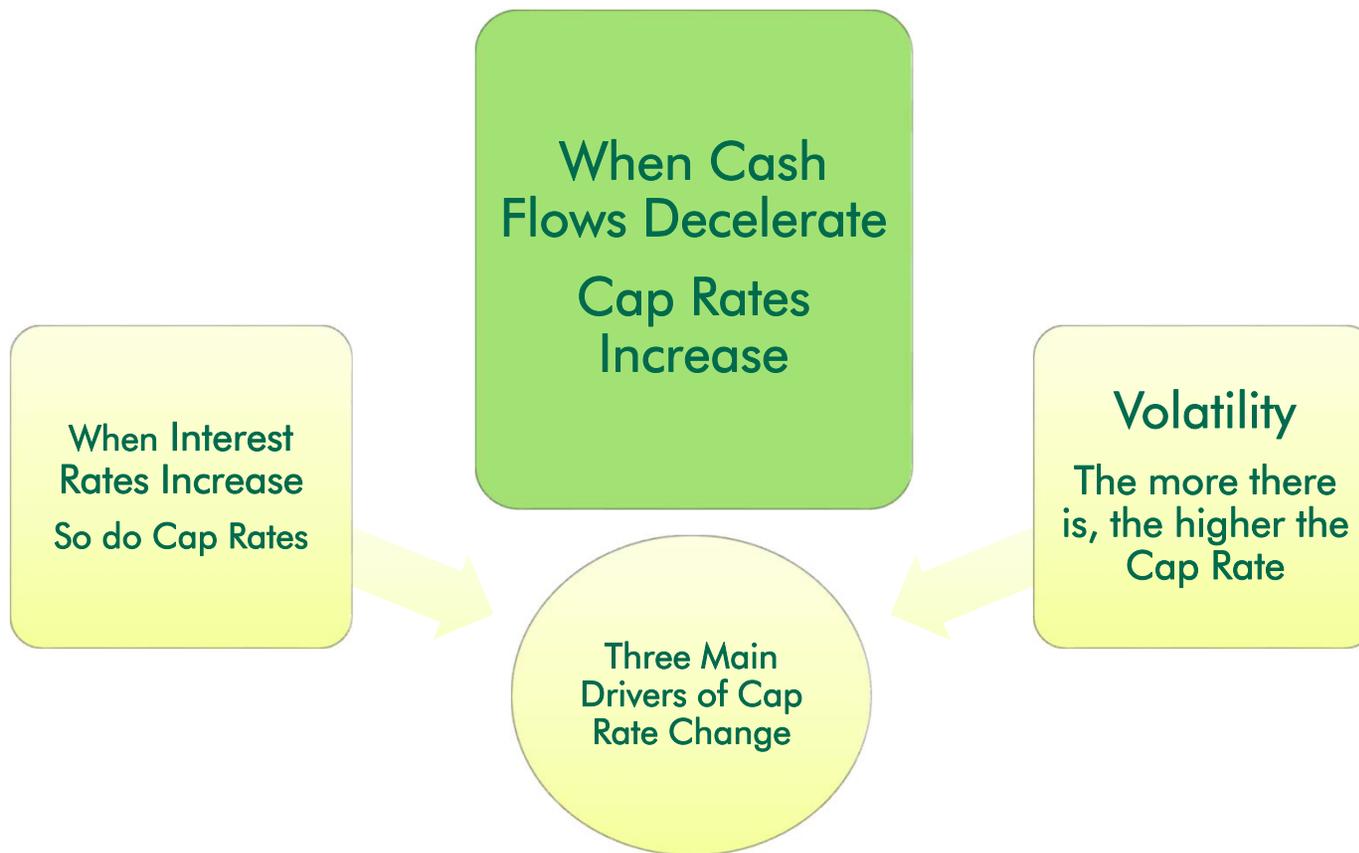
RISING INTEREST RATES, STABLE RISK SPREADS

Aaa Bonds and 10-Year Treasury

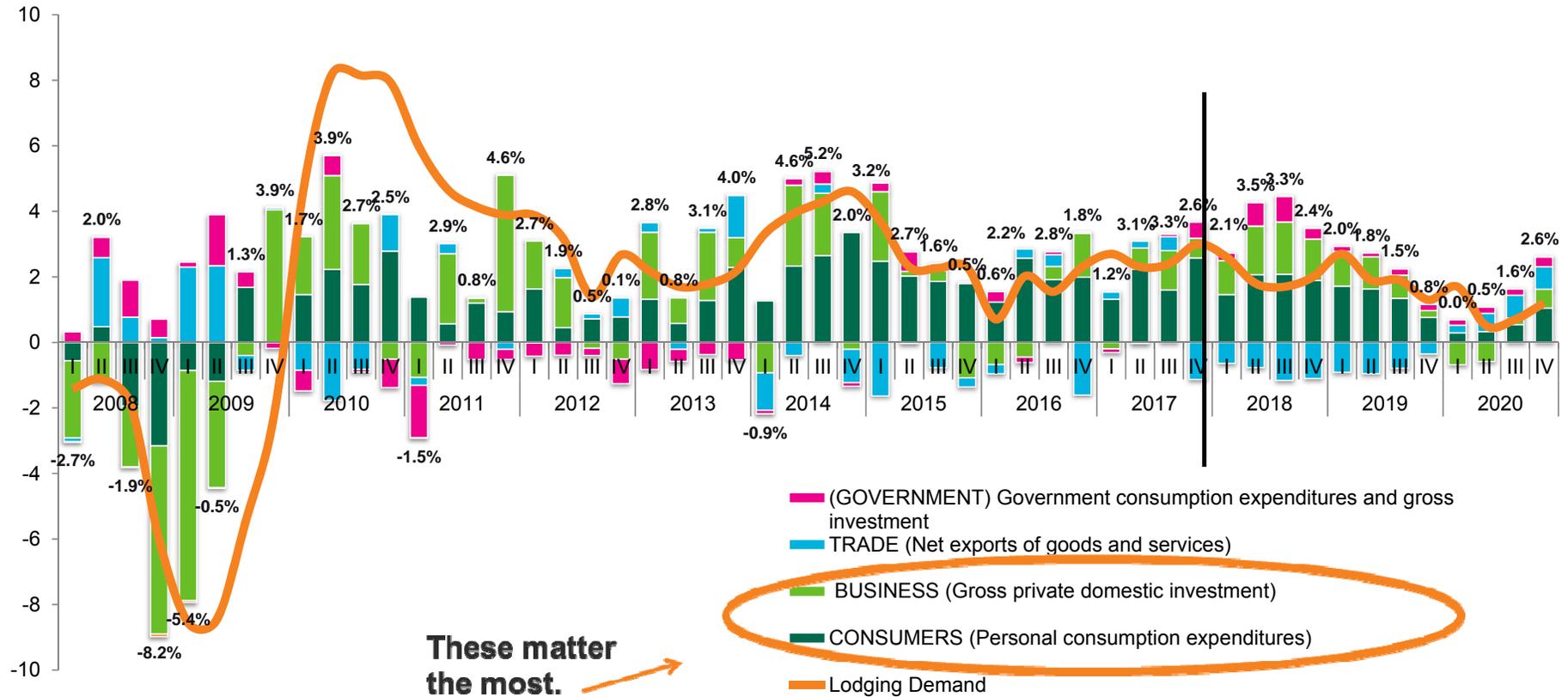


Sources: CBRE Hotels' Americas Research, CBRE EA Q1 2018.

THE DRIVERS OF CAP RATE CHANGE



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, February 2018

WHAT COULD END THE CURRENT CYCLE?

1. The Economy

2. Over Building

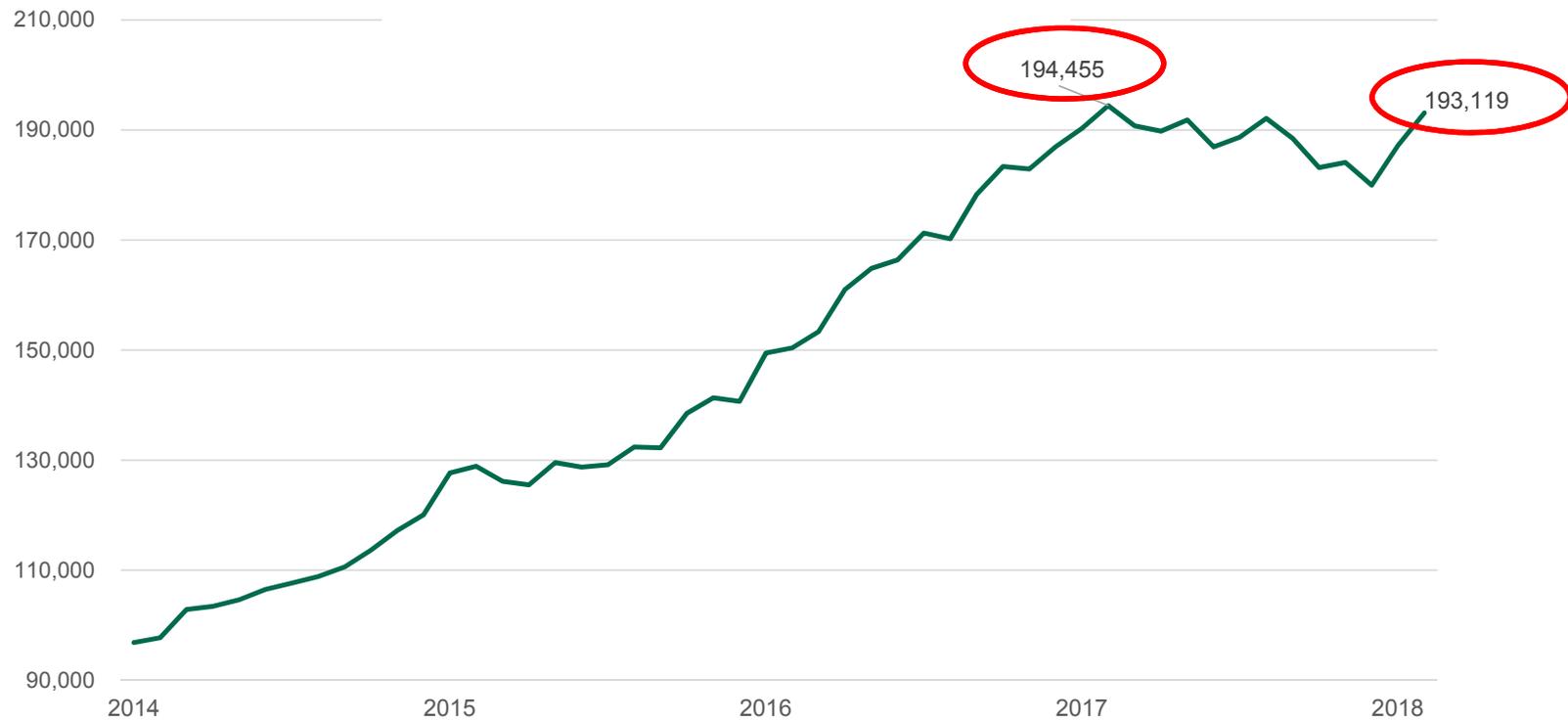
3. Unpredictable Demand Shock

4. Oil/Energy Price Increases

5. Asset Price Bubble

PIPELINE PLATEAU'S?

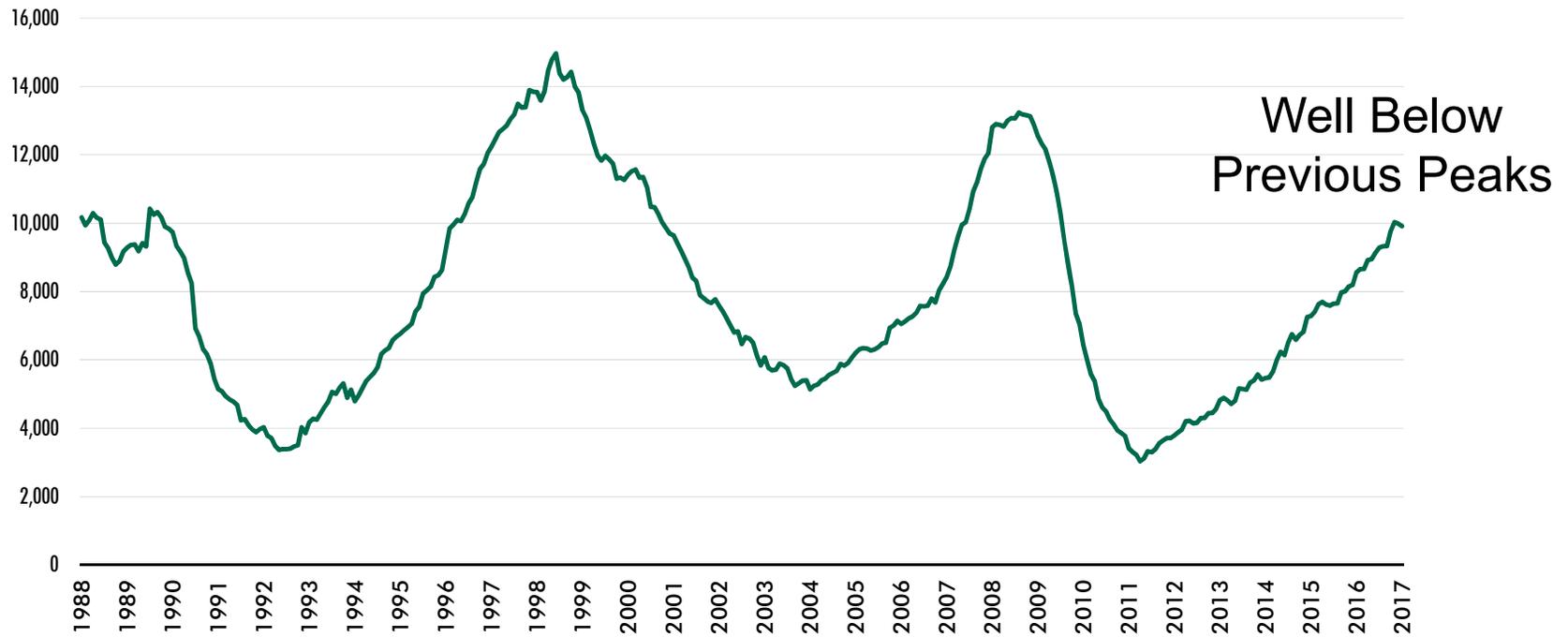
Number of Rooms Under Construction



Source: STR, March 2018.

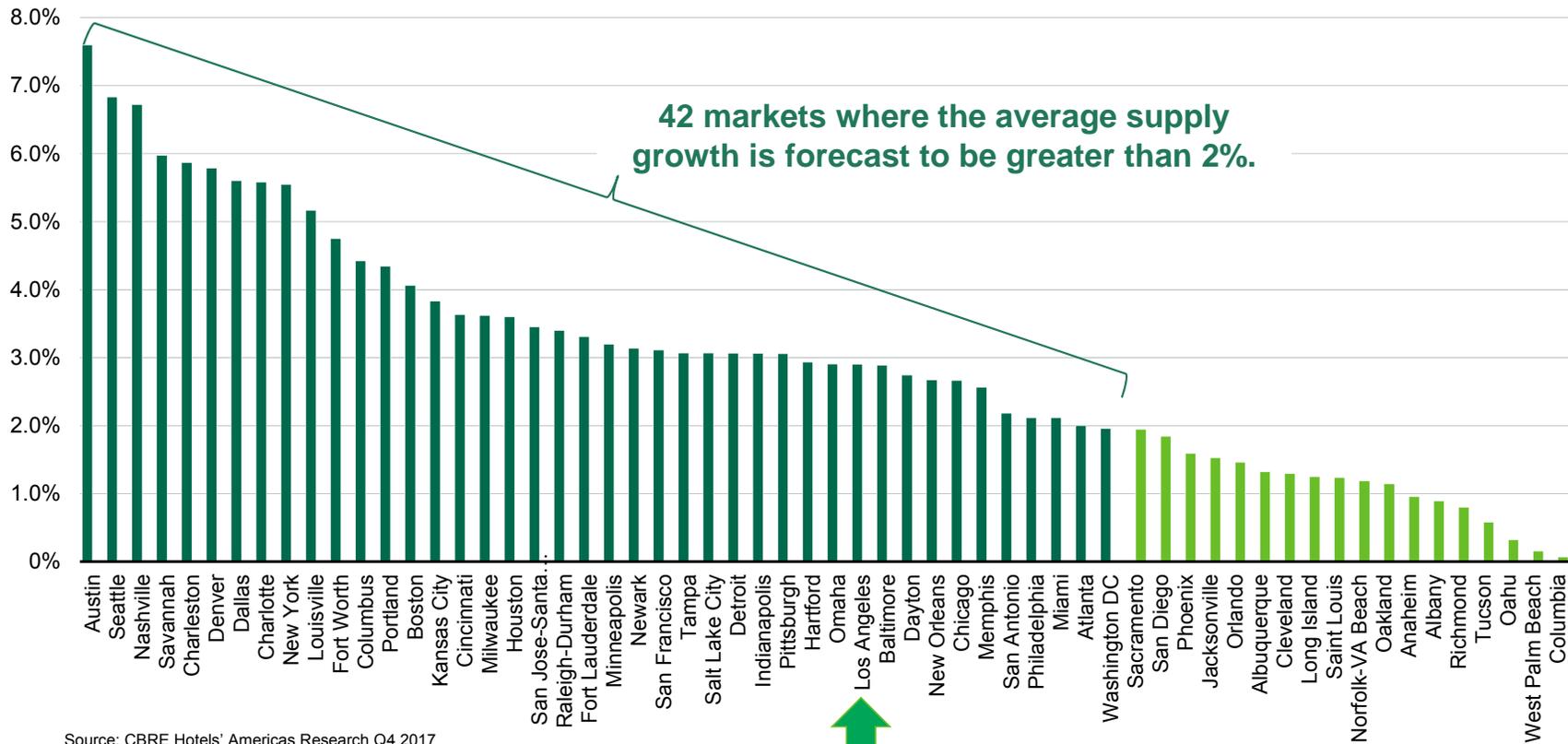
NEW ROOMS

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



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

SUPPLY CHANGE 2018 - FORECAST

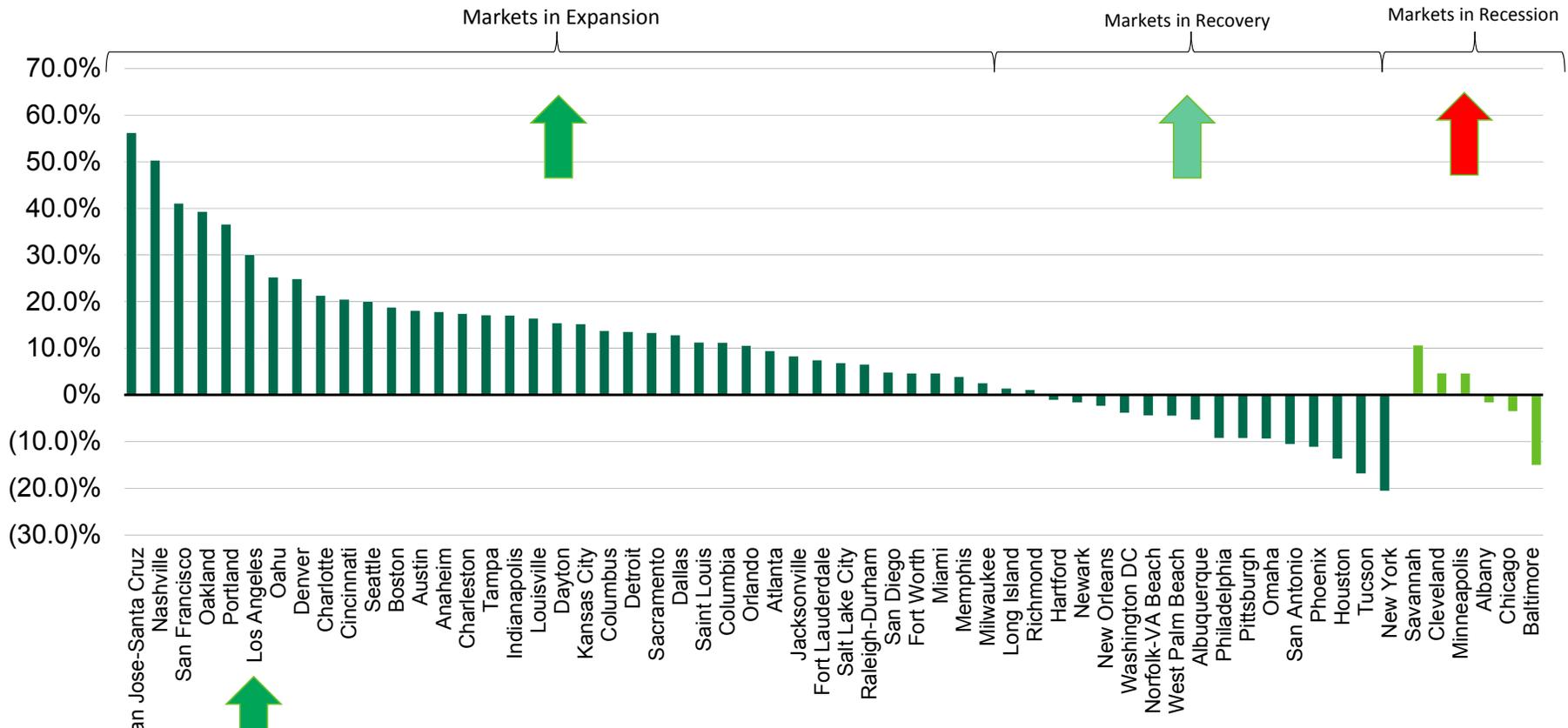


Source: CBRE Hotels' Americas Research Q4 2017



REAL REVPAR CHANGE FROM PRE-RECESSION PEAK

Not all markets have fully recovered from the last recession.

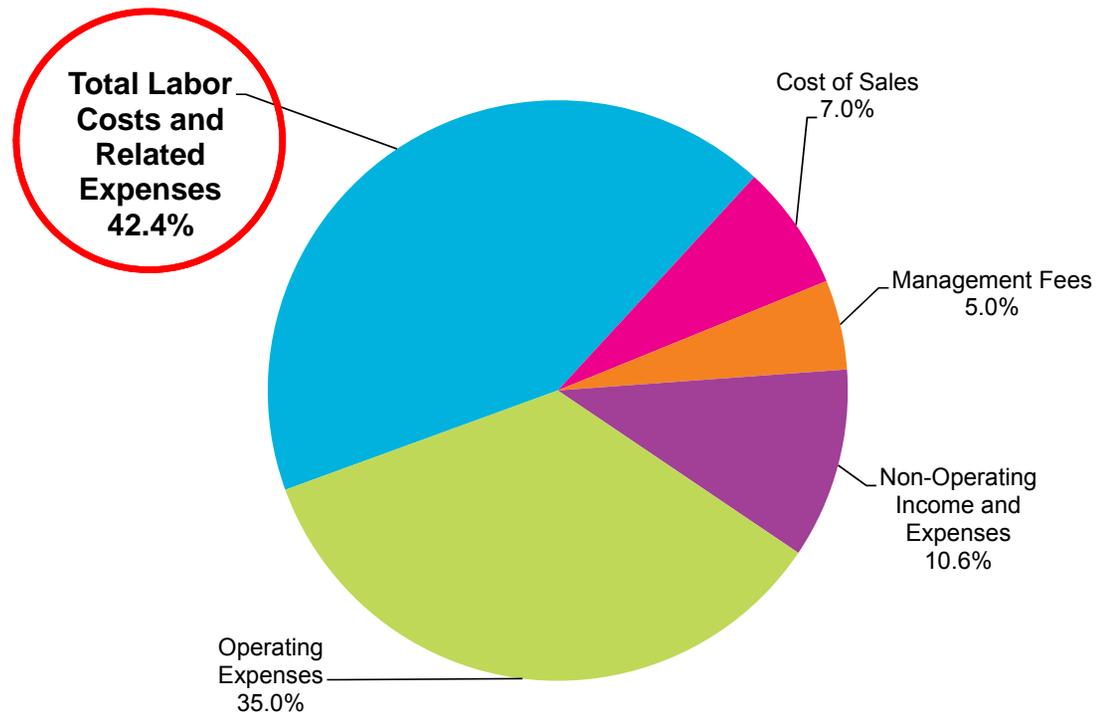


Source: CBRE Hotels' Americas Research; STR, Q4 2017.



LABOR – LARGEST EXPENSE

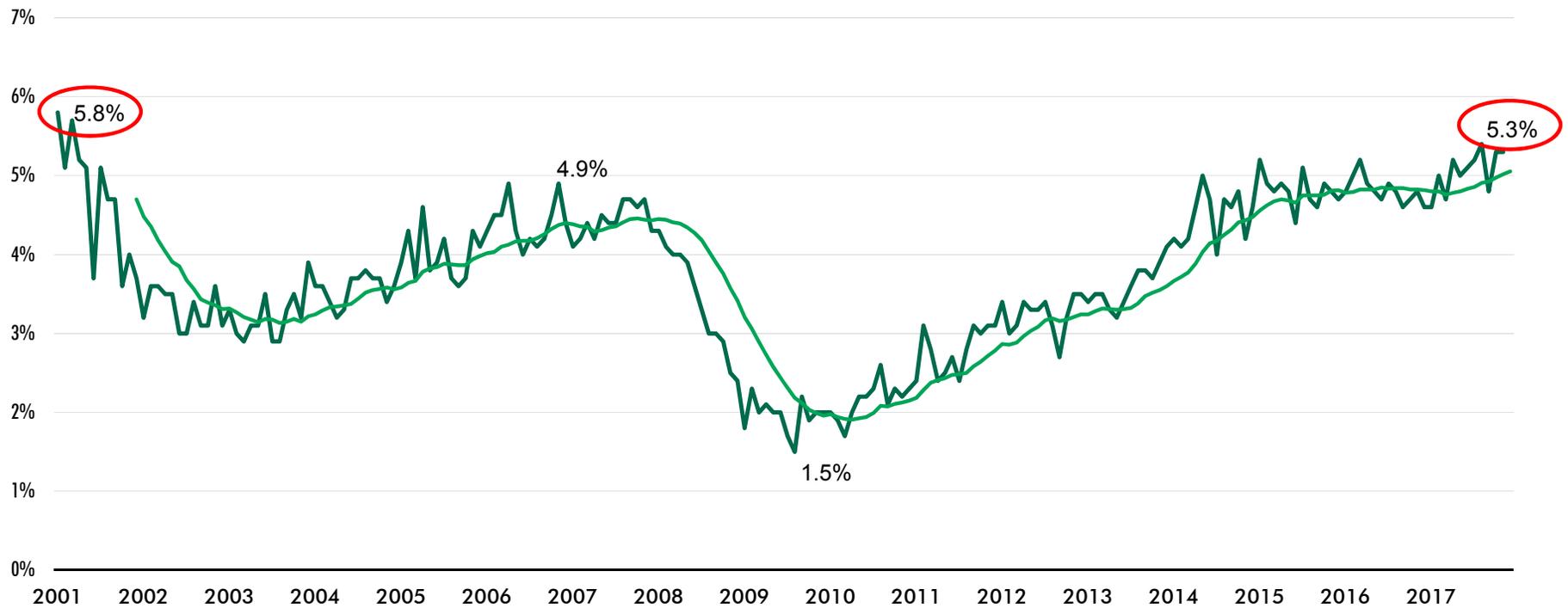
2017 Mix of Expenses



Source: 2018 Trends® in the Hotel Industry

LEISURE & HOSPITALITY JOB OPENINGS

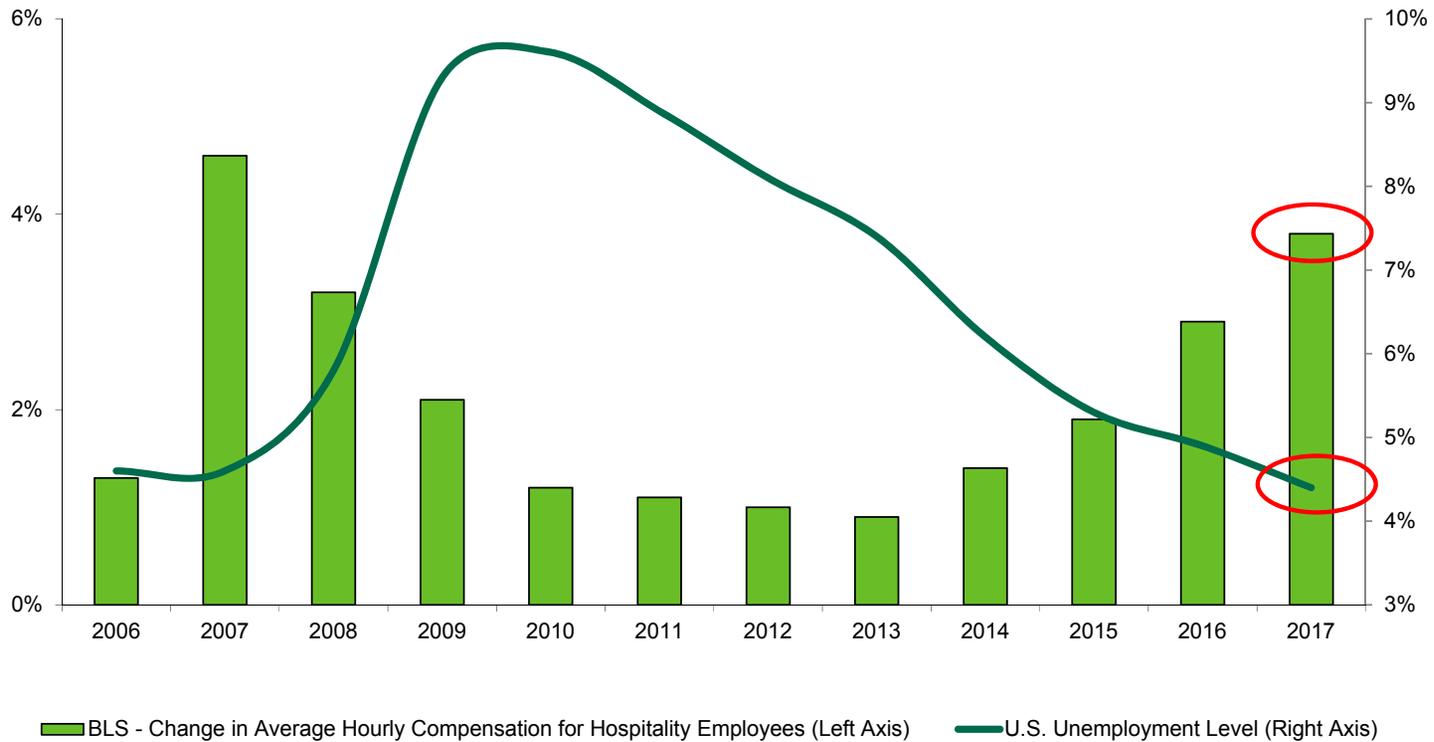
Leisure & Hospitality Job Openings as a Percent of Total Leisure & Hospitality Jobs



Source: BLS, Dec 2017.

TIGHT LABOR MARKET – UPWARD PRESSURE ON COMPENSATION

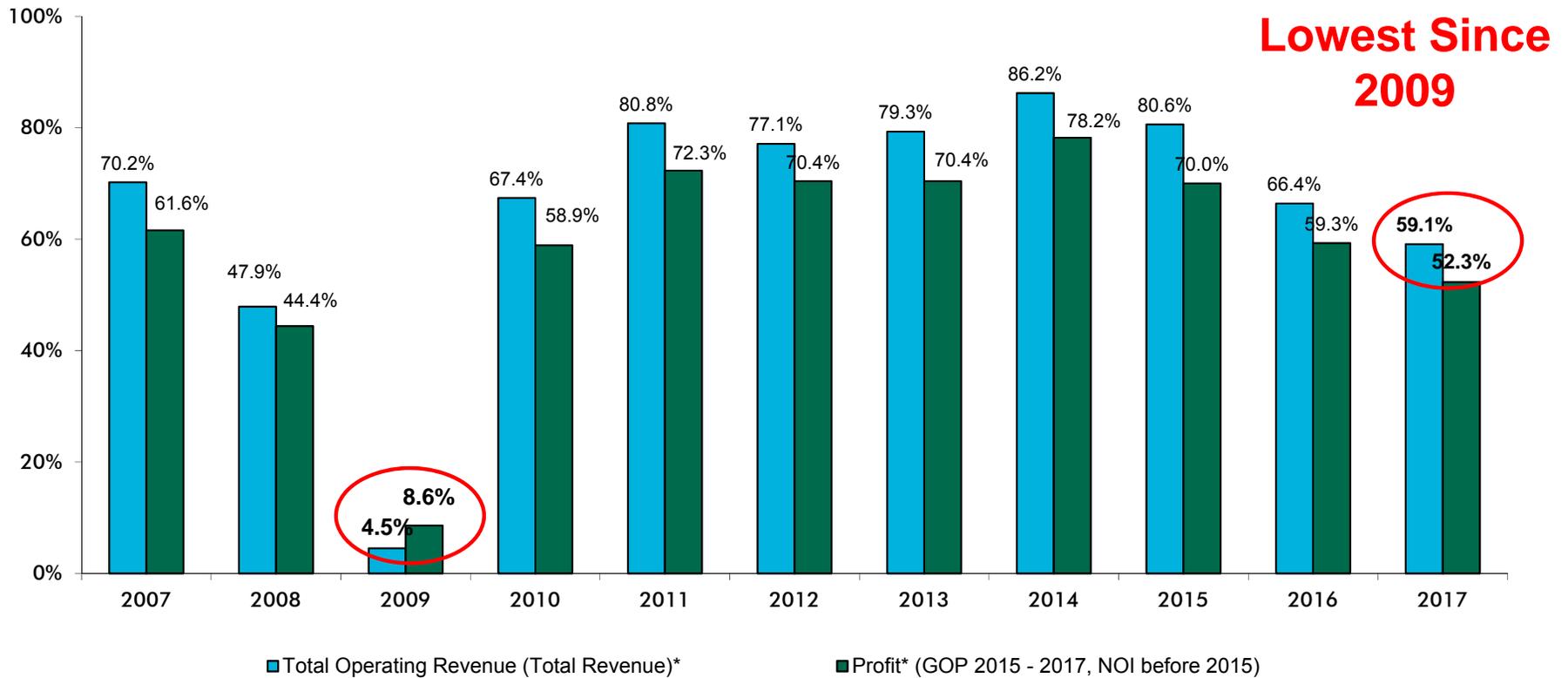
Annual Change in Hospitality Industry Employee Hourly Compensation versus Unemployment Rate



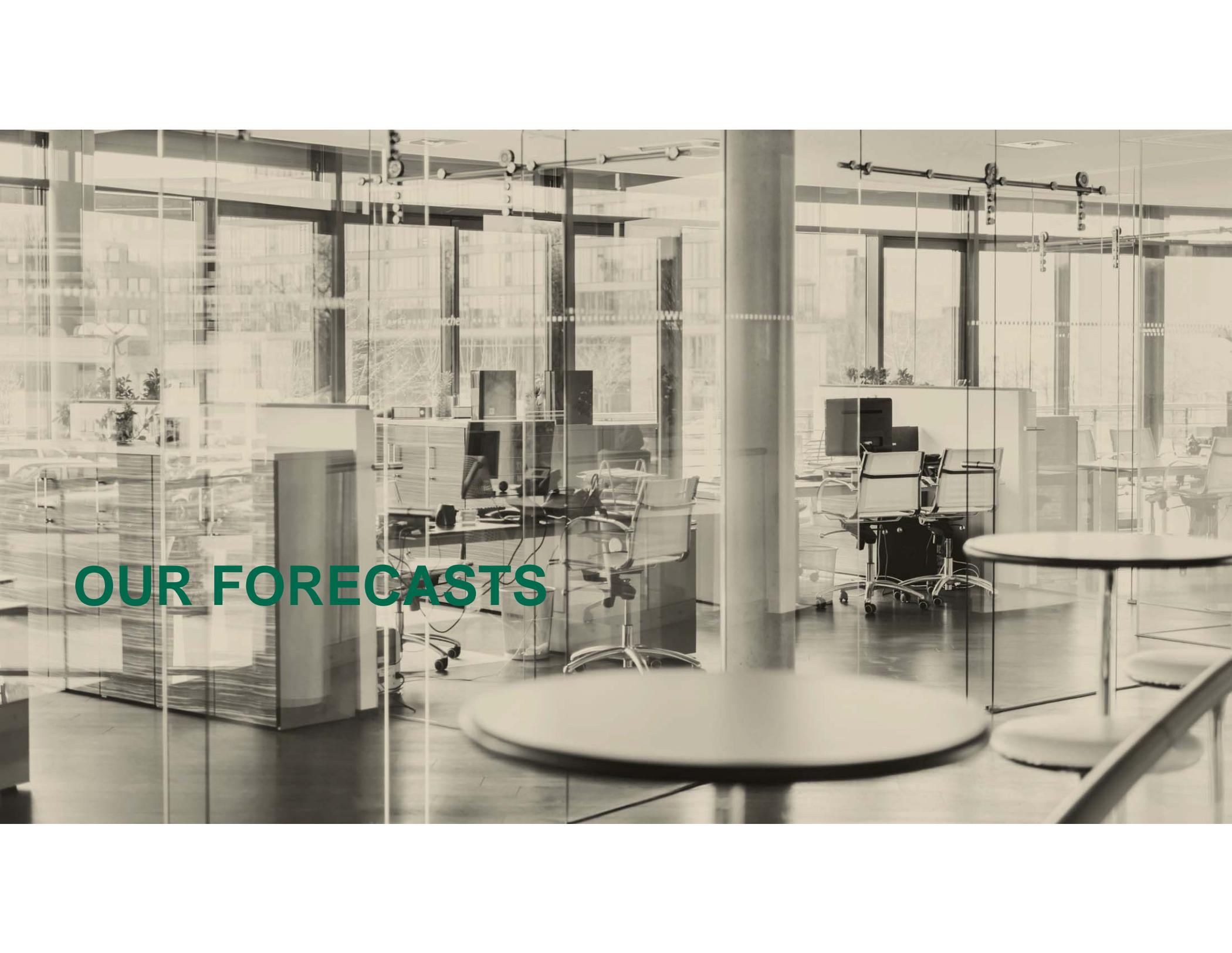
Source: Bureau of Labor Statistics

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

A photograph of a modern office interior, viewed through a glass partition. The office is brightly lit, with large windows in the background. In the foreground, there are several round tables and chairs. In the middle ground, there are desks with computers and office chairs. The overall atmosphere is clean and professional.

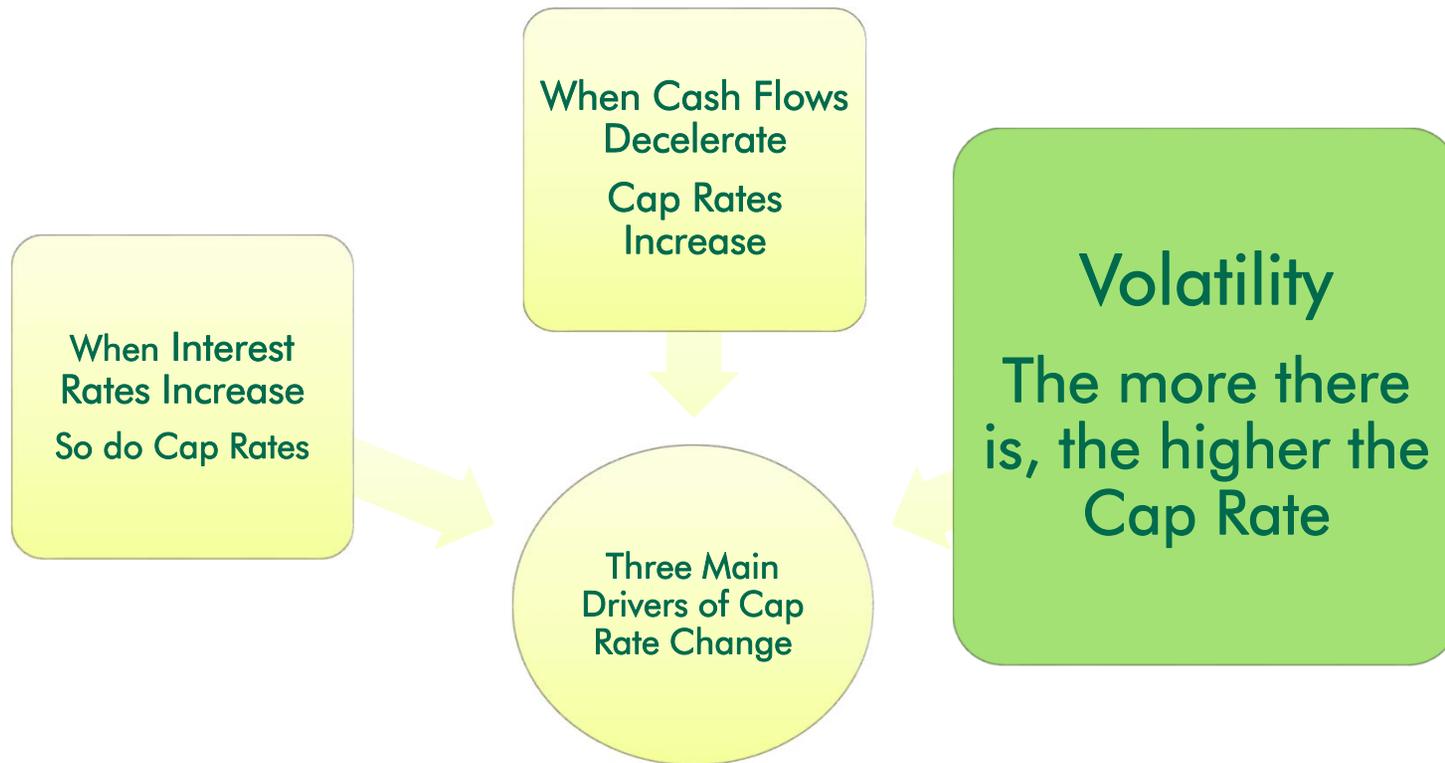
OUR FORECASTS

U.S. NATIONAL FORECAST – ALL HOTELS

	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%	1.5%	2.7%	1.8%	1.9%
Occupancy	62.2%	65.4%	65.4%	<u>65.9%</u>	<u>65.8%</u>	<u>65.8%</u>
ADR	3.1%	4.5%	3.1%	2.1%	2.6%	2.0%
RevPAR	3.3%	6.1%	3.2%	3.0%	2.5%	2.0%

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

THE DRIVERS OF CAP RATE CHANGE



VOLATILITY 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.

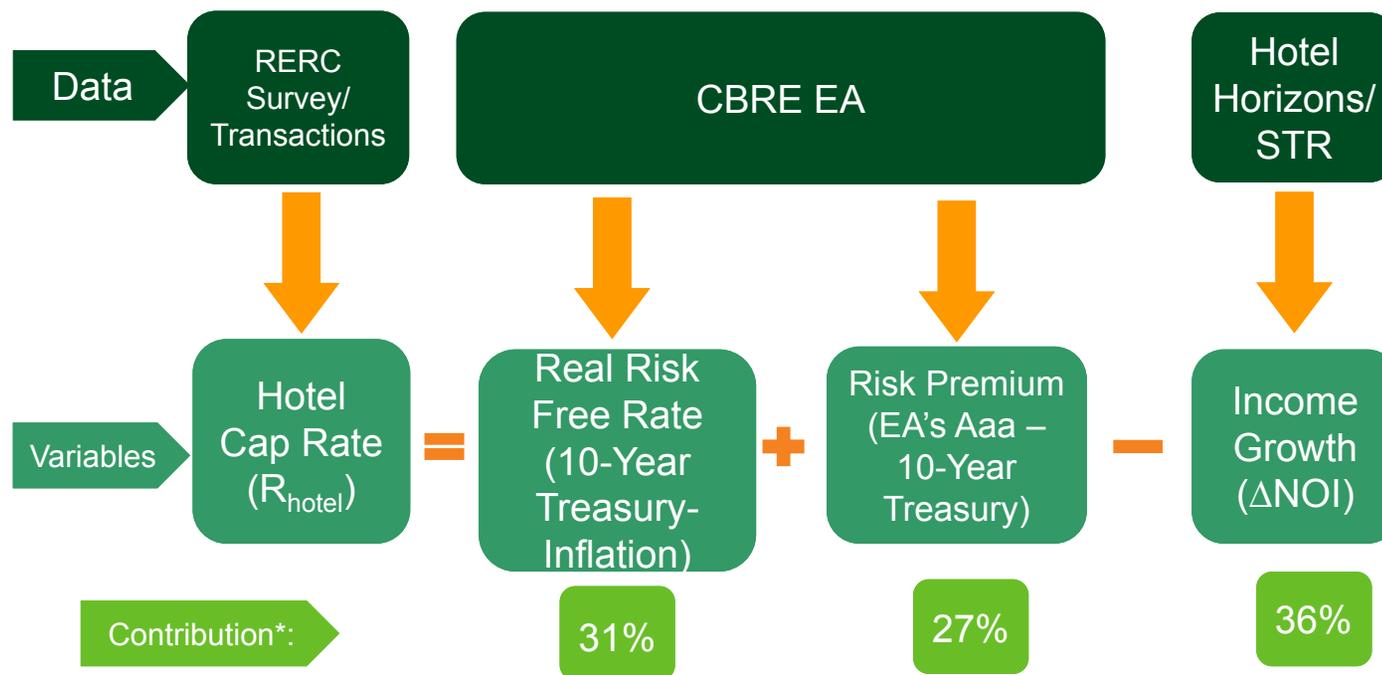
Volatility Outlook = Low



CAP RATE OUTLOOK

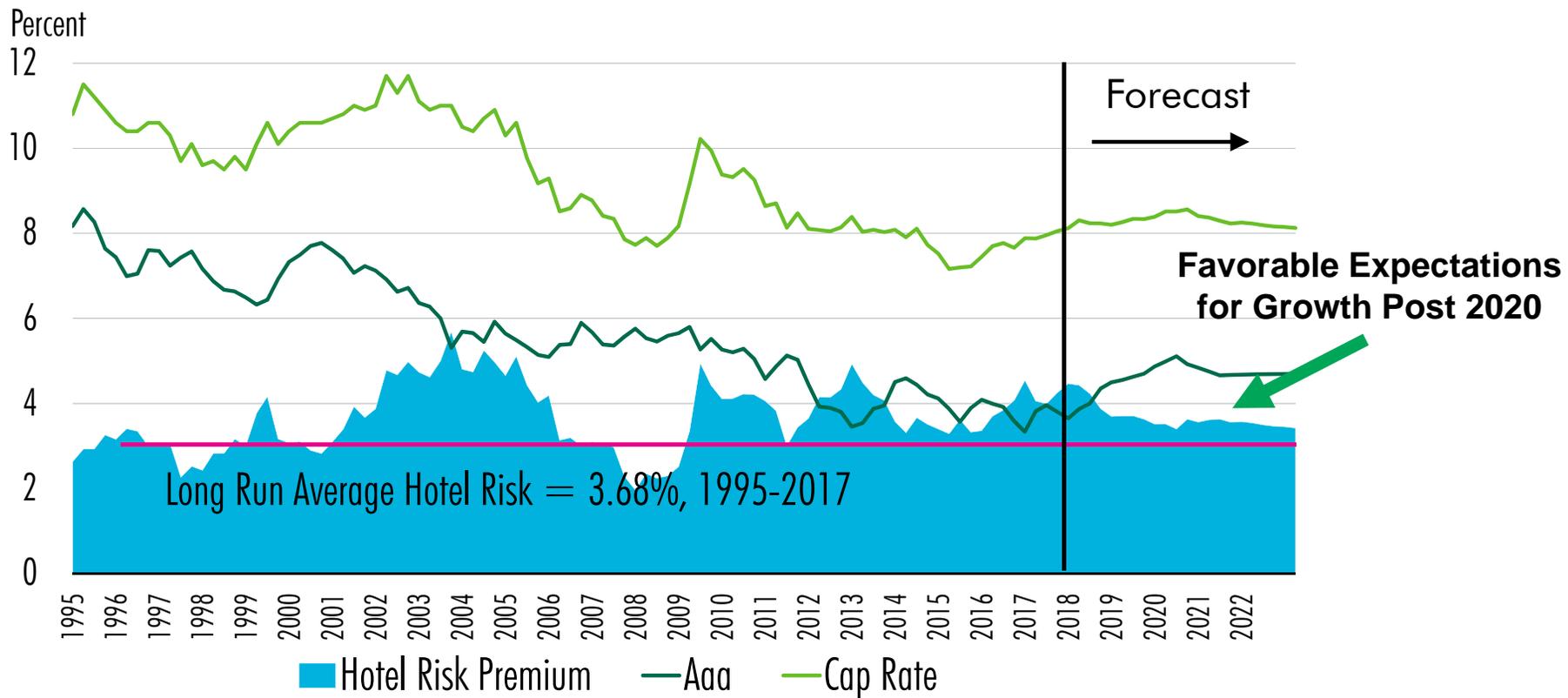
HOTEL CAP RATE FORECASTING MODEL

Market Return, Risk, and Income Growth (from Gordon Growth Model)



HOTEL RISK REVERTS TO MEAN, SPIKES PRIOR TO SLOWDOWN

Hotel Cap Rates and Aaa Bonds



Sources: CBRE Hotels' Americas Research, CBRE EA Q1 2018.

WHERE ARE CAP RATES GOING?

	10-Year Treasury	Risk Premium (Aaa - 10-Yr Treasury)	Real Estate Risk Premium (Hotel Cap Rate – Aaa)	Hotel Cap Rate
2012	1.81	1.87	4.41	8.09
2013	2.35	1.89	3.80	8.04
2014	2.54	1.62	3.46	7.62
2015	2.14	1.75	3.47	7.36
2016	1.84	1.83	4.12	7.78
2017	2.33	1.49	4.29	8.11
2018F	2.88	1.47	3.88	8.23
2019F	3.06	1.74	3.59	8.39
2020F	3.13	1.78	3.55	8.46
2021F	3.17	1.50	3.58	8.25
L.R.A. (1995-2017)	4.10	1.51	3.68	9.30

Market expects that treasuries will rise moderately

Slightly above LRA by 2019

Cap rates will remain below the LRA

FOR A COPY OF THIS PRESENTATION:

<https://pip.cbrehotels.com/presentations>

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