

CBRE

SOME THOUGHTS ON PROFITS AND CAP RATES

MEET THE MONEY 2016

MAY 3, 2016

**R. Mark Woodworth
Senior Managing Director
CBRE Hotels | Americas Research**

MUCH TO THINK ABOUT

WHY BE HAPPY?

WHY BE CONCERNED?

MARTY COLLINS IS HERE

MARTY COLLINS IS HERE



MUCH TO THINK ABOUT

WHY BE HAPPY?

HIGH OCCUPANCY LEVELS

INFLATION & INTEREST RATES
ARE LOW

WAGES INCREASING

PROFITS CONTINUE TO GROW

WHY BE CONCERNED?

SUPPLY GROWTH
ACCELERATING

INFLATION & INTEREST RATES
GOING UP?

WAGES INCREASING

EXPENSE GROWTH
ACCELERATING



Profit trends

- Results – 2016 trends[®] in the hotel industry survey

2016 TRENDS® IN THE HOTEL INDUSTRY

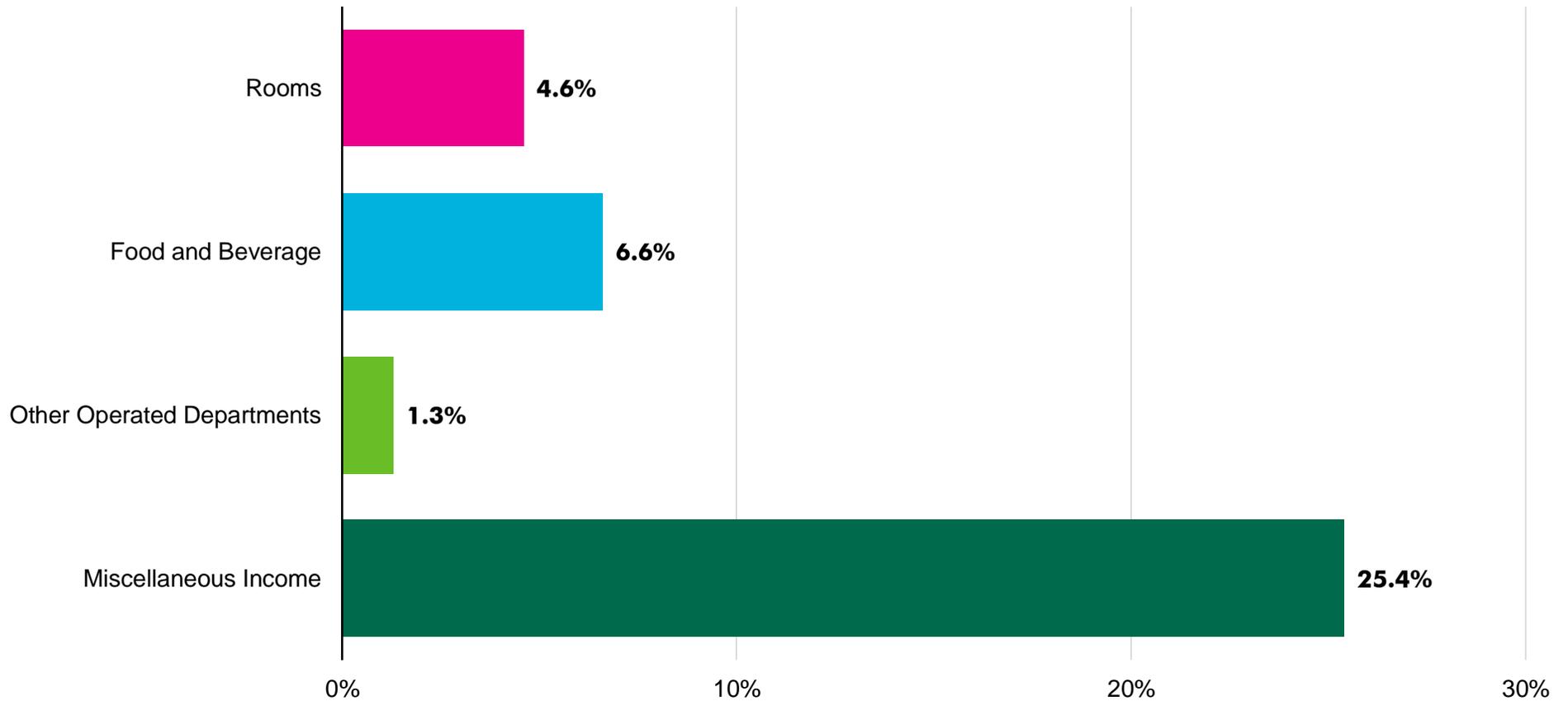
Percent Change from 2014 to 2015

Property Type	RevPAR	Total RevPAR	Expenses*	GOP*
All Hotels	4.6	5.3	4.7	6.3
Full-Service	4.5	4.8	4.1	6.0
Limited-Service	4.8	4.9	5.1	4.7
Suite with F&B	7.4	6.7	5.2	9.0
Suite without F&B (extended-stay)	6.1	5.8	4.8	6.9
Convention	4.3	5.2	4.5	6.4
Resort	3.3	6.4	6.0	7.1

Note: * Before deduction for Management Fees and Non-Operating Income and Expenses
 Source: 2016 Trends® in the Hotel Industry

2016 TRENDS® IN THE HOTEL INDUSTRY

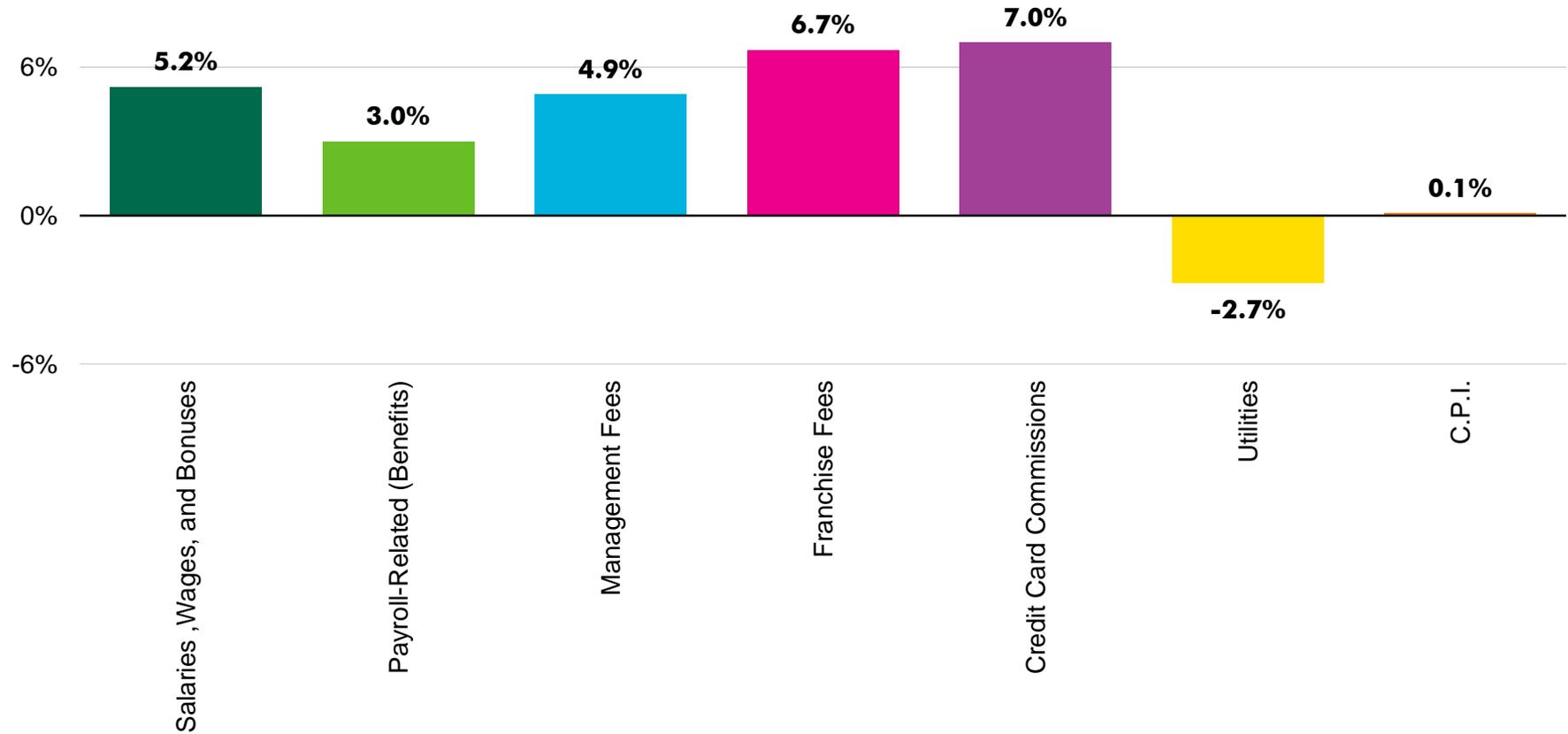
Annual Change 2014 to 2015 – Revenues



Source: 2016 Trends® in the Hotel Industry

2016 TRENDS® IN THE HOTEL INDUSTRY

Annual Change 2014 to 2015 – Select Expenses



Source: 2016 Trends® in the Hotel Industry

2016 TRENDS® IN THE HOTEL INDUSTRY

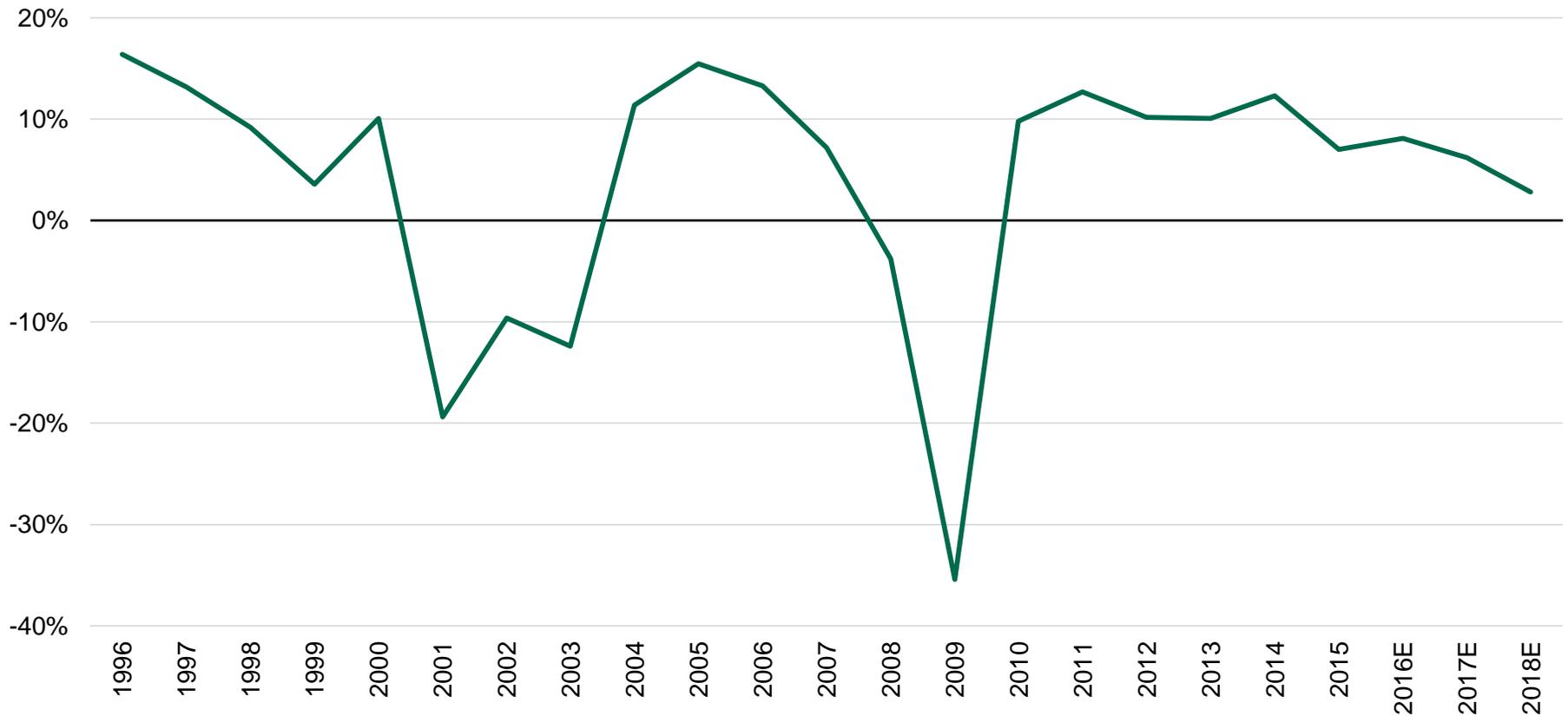
Annual Change in Expenses*



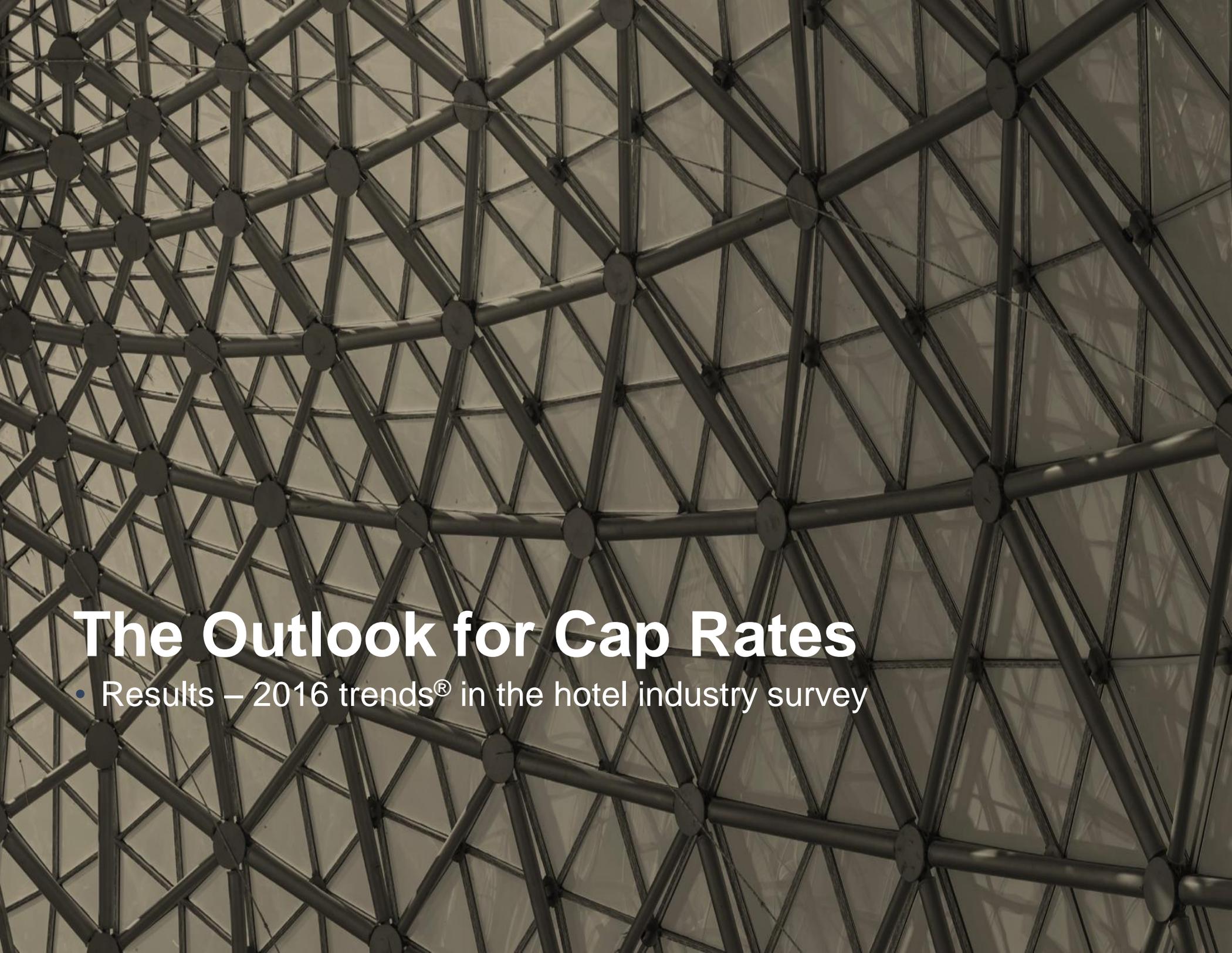
Note: * Before deduction for Management Fees and Non-Operating Income and Expenses
 Source: 2016 Trends® in the Hotel Industry

2016 TRENDS® IN THE HOTEL INDUSTRY

Annual Change (Nominal) in NOI*



Note: * Before deduction for Reserve. After deductions for Management Fees, Property Taxes, and Insurance
Source: 2016 Trends® in the Hotel Industry

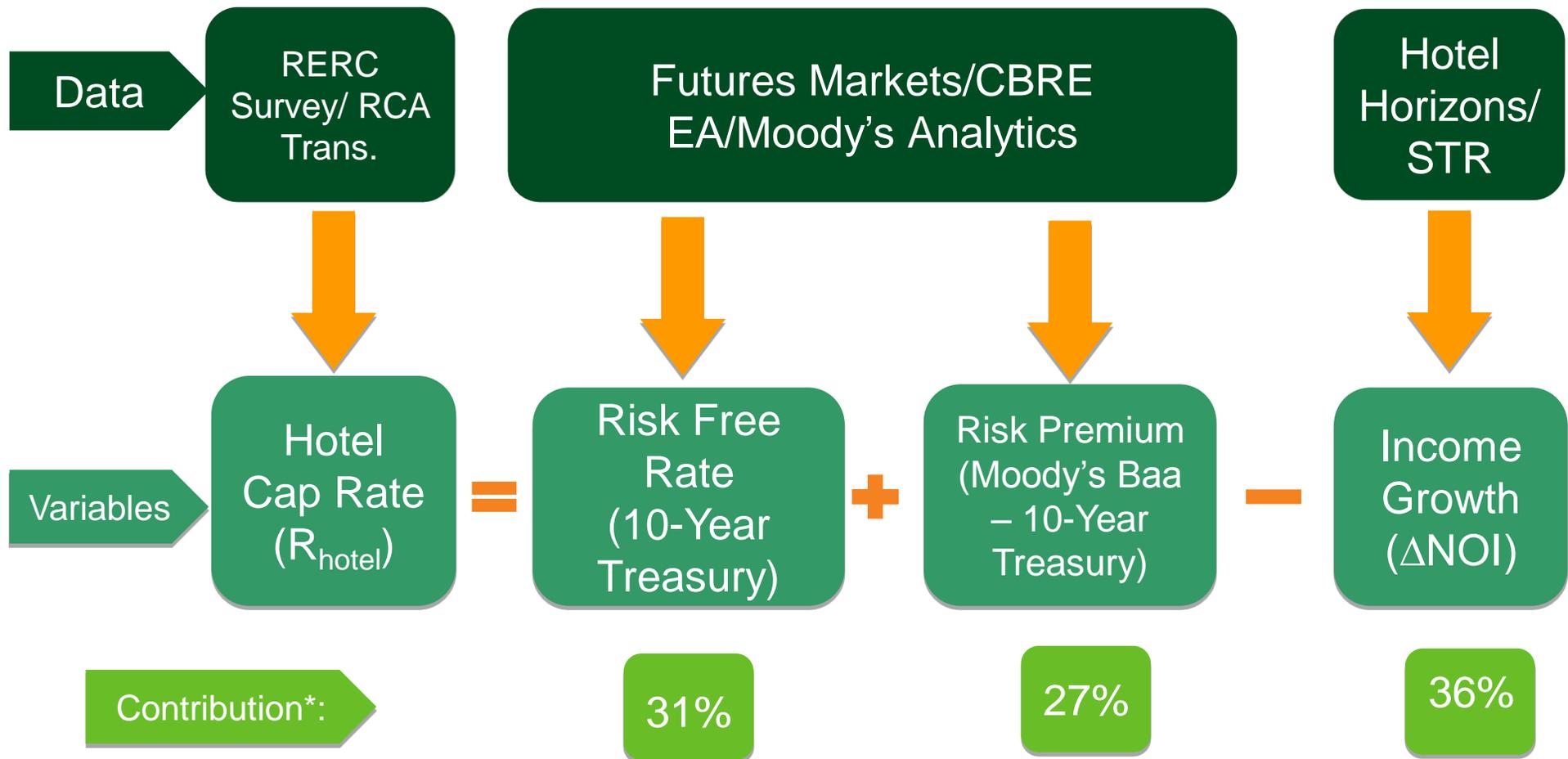


The Outlook for Cap Rates

- Results – 2016 trends[®] in the hotel industry survey

HOTEL CAP RATE FORECASTING MODEL

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

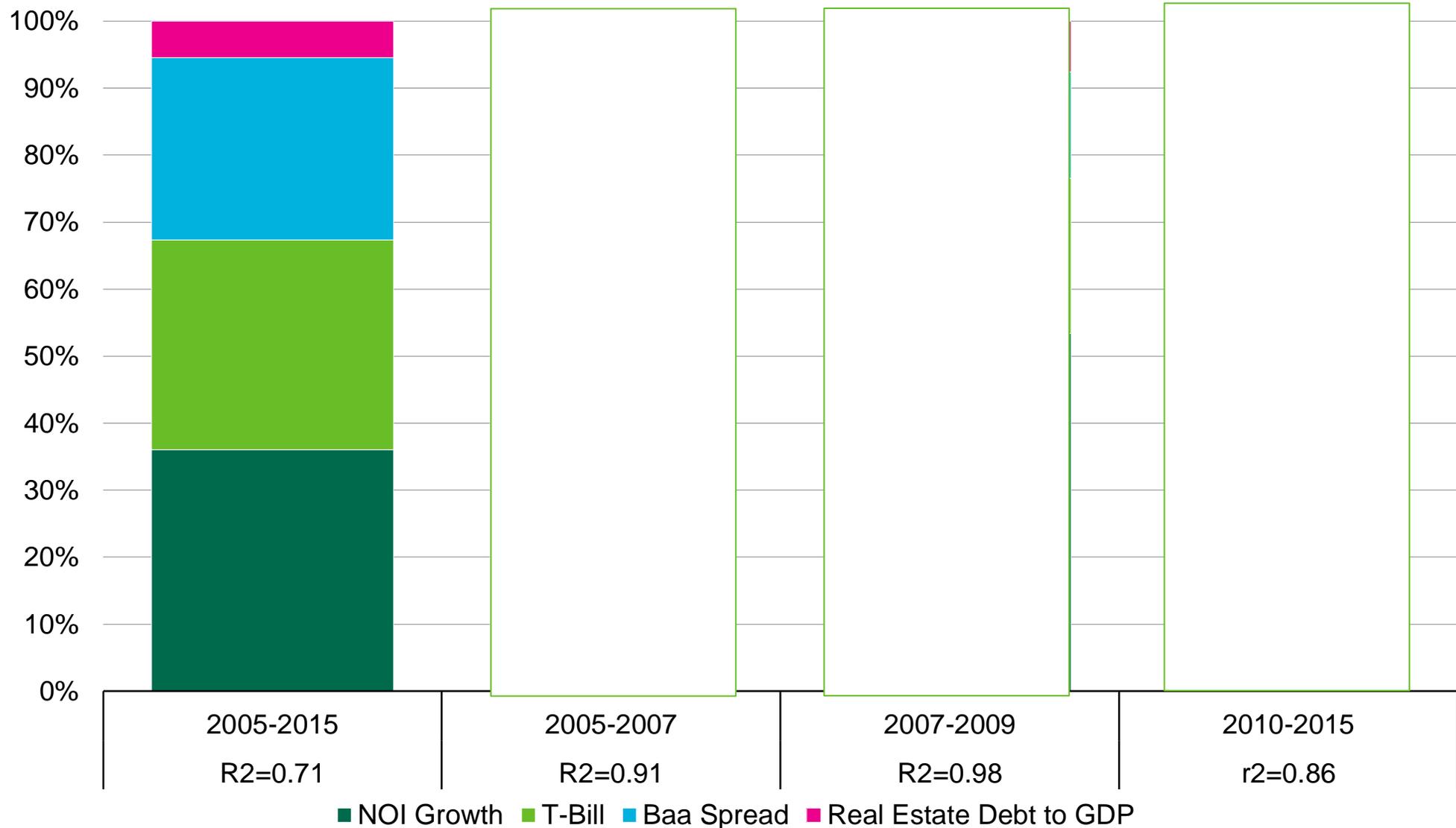


Contribution*:

*2005-2015

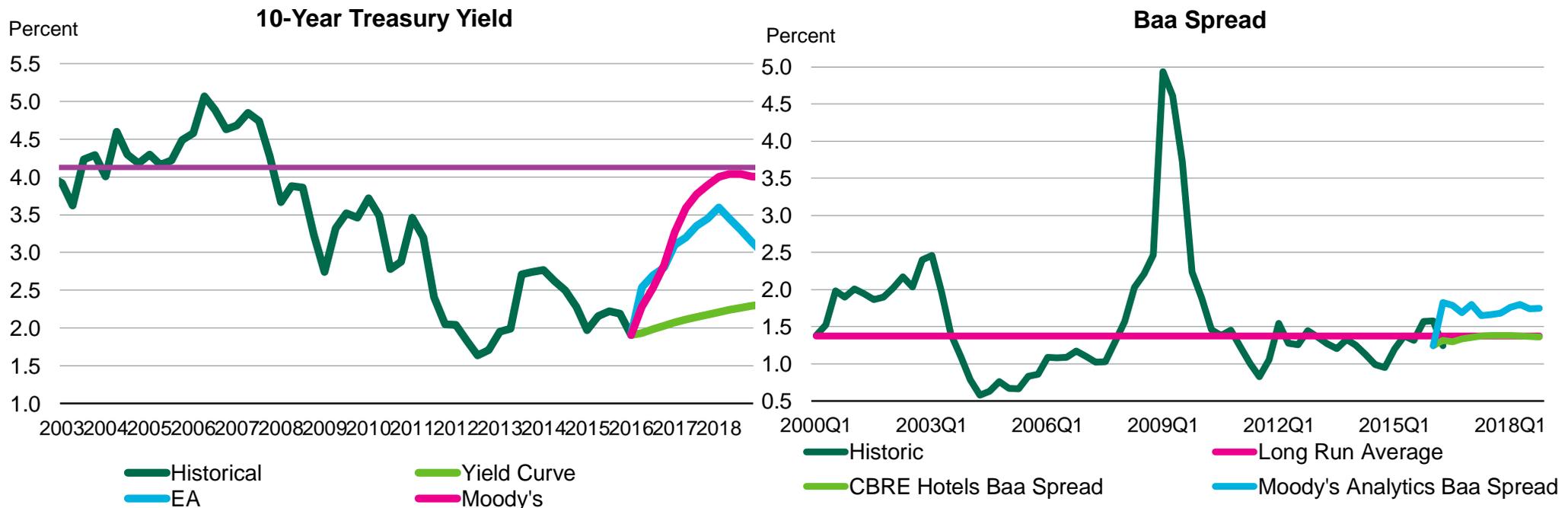
THE CONTRIBUTION OF EACH VARIABLE CHANGES OVER TIME

Variable contribution to cap rate, before, during, and after the Great Recession



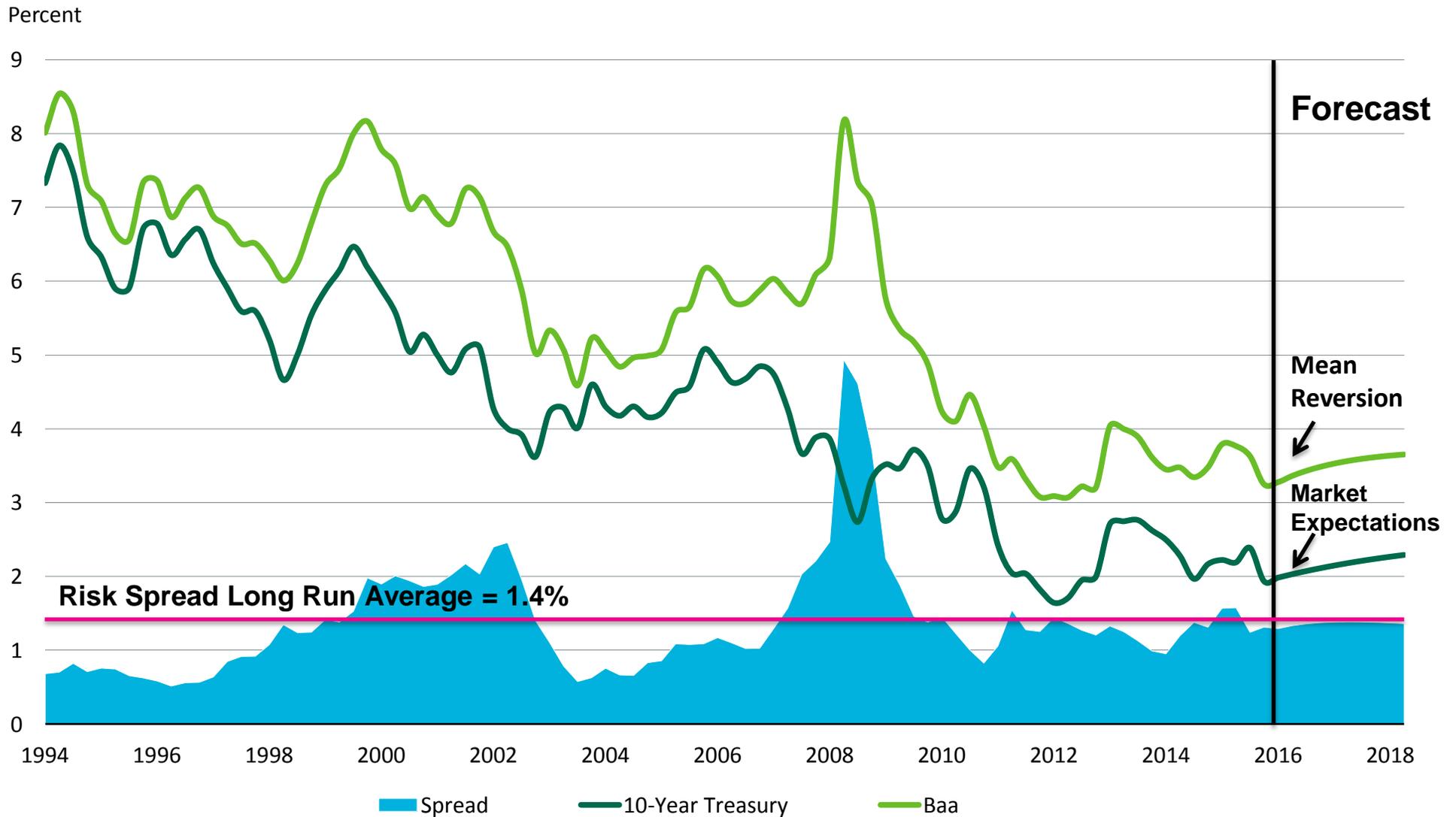
CAP RATE FORECASTING METHOD AND DATA SOURCES

- Three sources for predict 10-year Treasuries yield forecasts
 - Moody's Analytics Forecast
 - CBRE Econometric Advisors Forecast
 - Market Expectations
- Two sources for Moody's Baa bond yield forecasts
 - Moody's Analytics Forecast
 - Mean Reversion Forecast
- CBRE Hotels' Americas Research = source for NOI



RISING INTEREST RATES AND RISK SPREADS

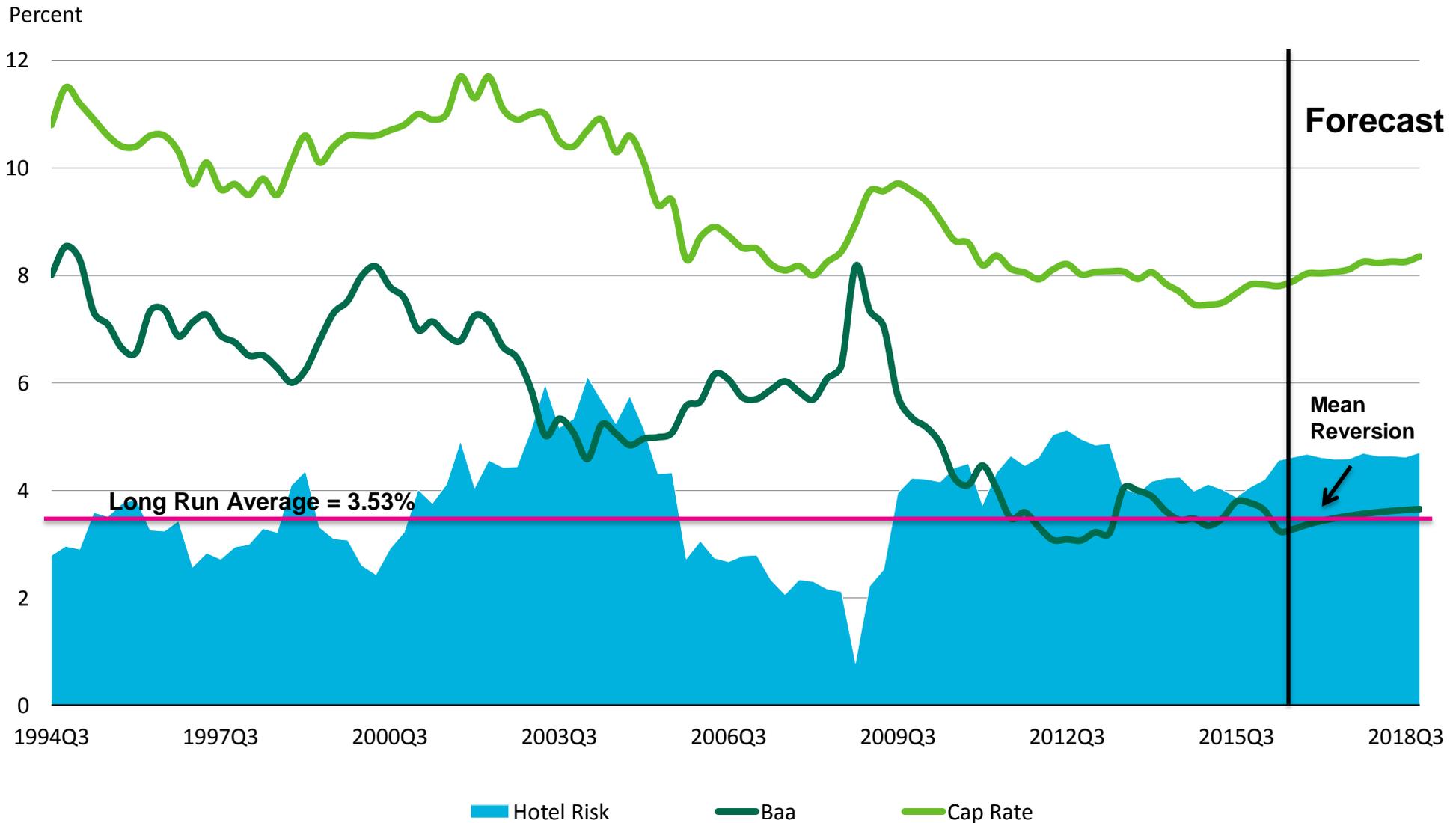
Baa Bonds and 10-Year Treasury



Sources; CBRE Hotels, Moody's Analytics. Q1 2016.

RISING RATES AND HOTEL RISK

Hotel Cap Rates and Baa Bonds

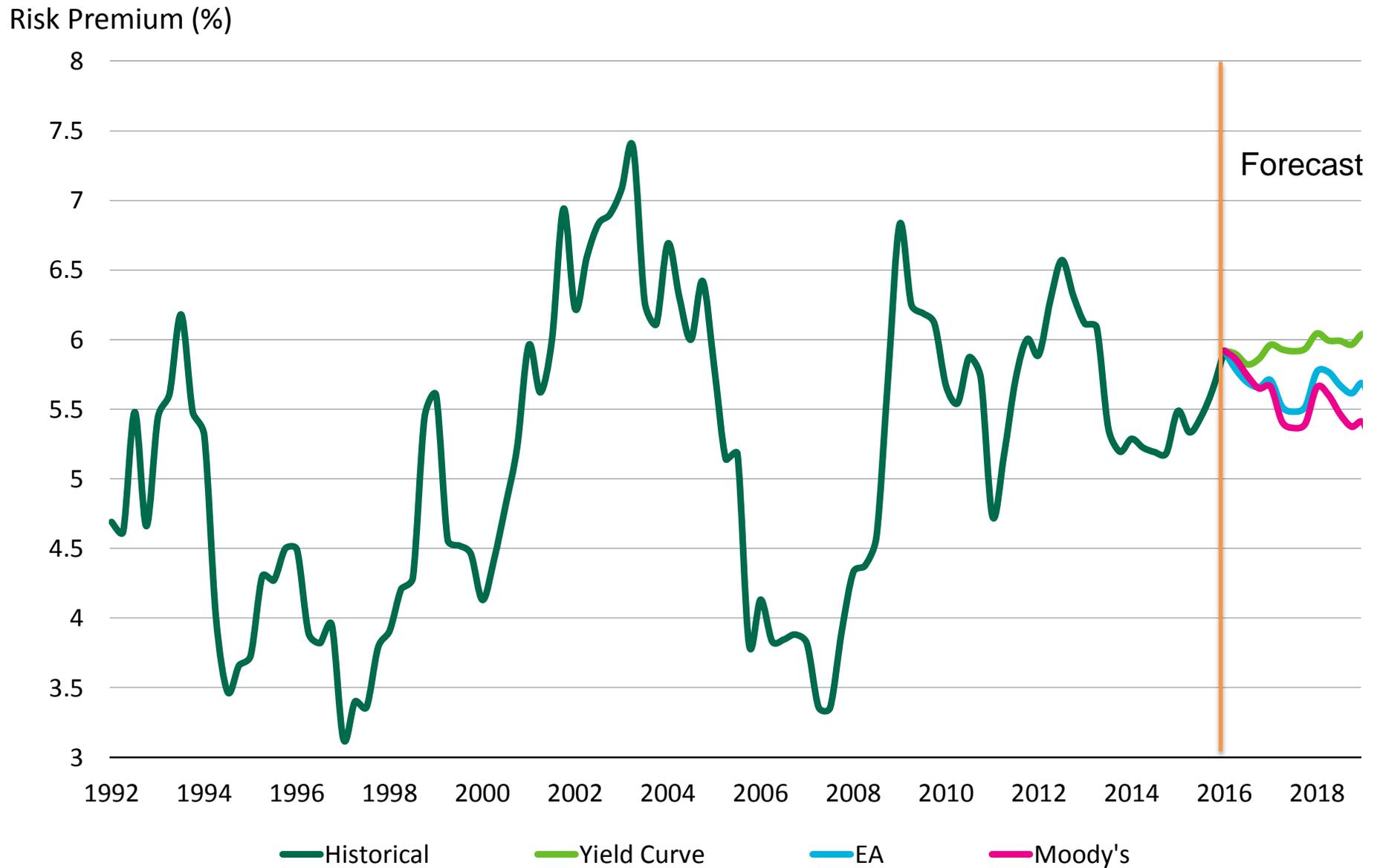


WHERE ARE CAP RATES GOING? BASED ON MARKET EXPECTATIONS

	10-Year Treasury	Risk Premium (Baa - 10-Yr Treasury)	Real Estate Risk Premium (Hotel Cap Rate – Baa)	Hotel Cap Rate
2010	3.22	1.38	4.32	8.92
2011	2.78	1.11	4.29	8.18
2012	1.81	1.33	4.93	8.07
2013	2.35	1.26	4.42	8.03
2014	2.54	1.07	4.15	7.76
2015	2.14	1.46	4.01	7.61
2016F	1.96	1.29	4.51	7.89
2017F	2.13	1.37	4.62	8.12
2018F	2.25	1.37	4.65	8.27
L.R.A. (1994-2015)	4.46	1.38	3.53	9.37

Forward market view: treasuries will rise slowly
Market risk reverts to the mean
Cap rates will remain below the LRA

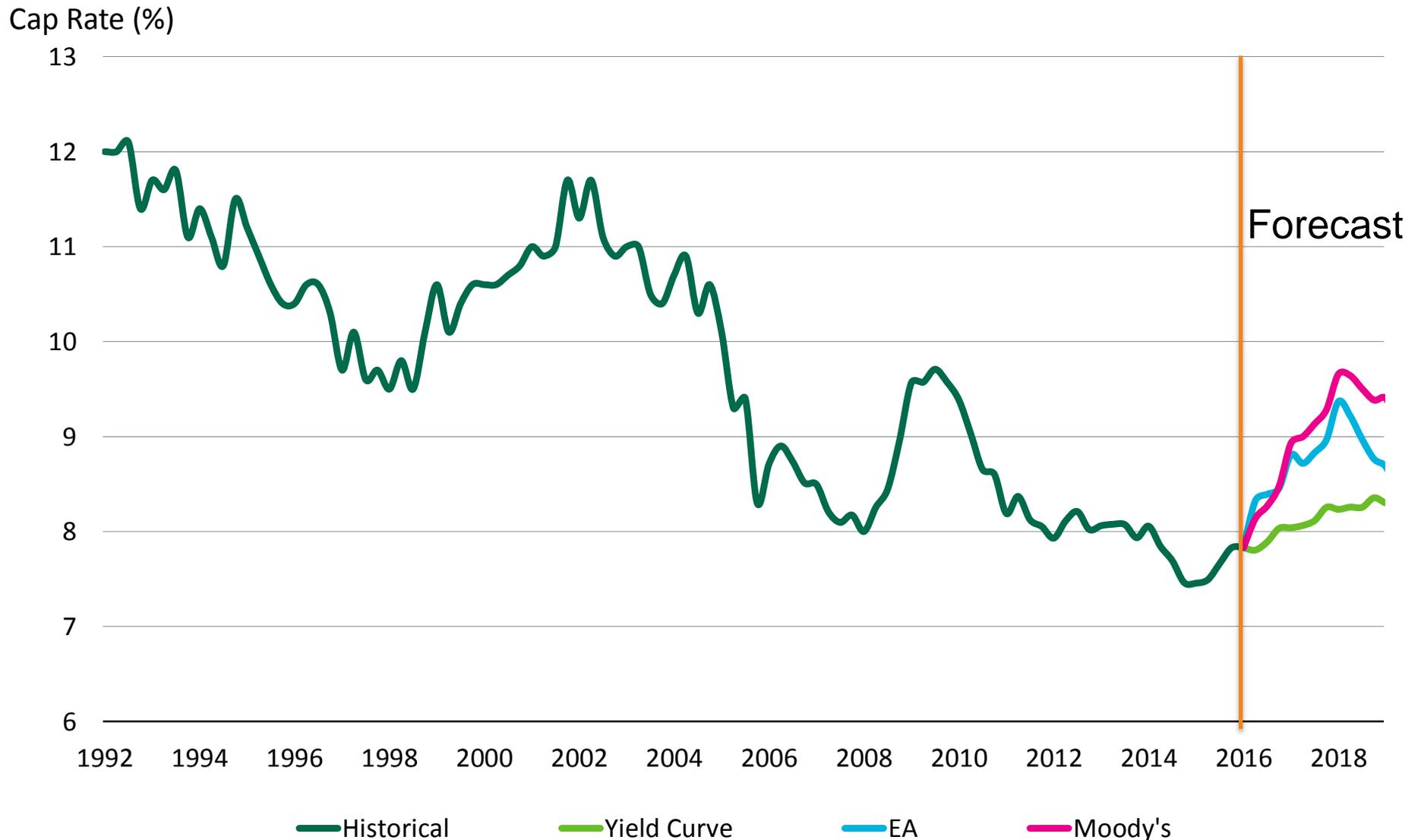
HOTEL RISK PREMIUM VS. 10- YEAR WILL REMAIN BETWEEN 5-5.5% OVER THE NEXT TWO YEARS



Sources: CBRE Hotels' Americas Research, CBRE EA, Moody's Analytics, US Treasury. Q1 2016.

CAP RATES ELEVATED UP BY RISING TREASURY RATES

Pace of increase depends on how quickly risk-free rates rise



Sources: CBRE Hotels' Americas Research, RERC, RCA, CBRE EA, Moody's Analytics, US Treasury. Q1 2016.

CBRE HOTELS

The World's Leading Hotel Experts.

Mark Woodworth
Senior Managing Director
+1 404 809 3969
Mark.Woodworth@cbre.com

3475 Lenox Road NE
Suite 720
Atlanta, GA 30326
www.cbrehotels.com



CBRE © 2016 All Rights Reserved. All information included in this proposal pertaining to CBRE—including but not limited to its operations, employees, technology and clients—are proprietary and confidential, and are supplied with the understanding that they will be held in confidence and not disclosed to third parties without the prior written consent of CBRE. This proposal is intended solely as a preliminary expression of general intentions and is to be used for discussion purposes only. The parties intend that neither shall have any contractual obligations to the other with respect to the matters referred herein unless and until a definitive agreement has been fully executed and delivered by the parties. The parties agree that this proposal is not intended to create any agreement or obligation by either party to negotiate a definitive lease/purchase and sale agreement and imposes no duty whatsoever on either party to continue negotiations, including without limitation any obligation to negotiate in good faith or in any way other than at arm's length. Prior to delivery of a definitive executed agreement, and without any liability to the other party, either party may (1) propose different terms from those summarized herein, (2) enter into negotiations with other parties and/or (3) unilaterally terminate all negotiations with the other party hereto.

The information contained in this document has been obtained from sources believed reliable. While CBRE, Inc. does not doubt its accuracy, CBRE, Inc. has not verified it and makes no guarantee, warranty or representation about it. It is your responsibility to independently confirm its accuracy and completeness. Any projections, opinions, assumptions or estimates used are for example only and do not represent the current or future performance of the property. The value of this transaction to you depends on tax and other factors which should be evaluated by your tax, financial and legal advisors. You and your advisors should conduct a careful, independent investigation of the property to determine to your satisfaction the suitability of the property for your needs.

CBRE