THE ROAD AHEAD ....

a DIP? or a BLIP?

BRUCE BALTIN
CBRE HOTELS ADVISORY
THE ROAD AHEAD …. A DIP OR A BLIP?

Agenda

• The Economy
• Too Much New Supply?
• The ADR Conundrum
• Our Forecasts
• Conference Center Update
TODAY’S MESSAGE:

- The Economic Outlook Remains Favorable Well Into 2020.

- U.S. Hotels Remain Fundamentally Sound.


- Conference Venues Will Feel it First.
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
CBRE HOTELS’ LODGING INSIGHTS
OUTLOOK ON MOST IMPORTANT HOTEL DRIVERS REMAINS FAVORABLE

Source: STR, Moody’s, BEA, CBRE Hotels Americas Research, Q4 2018
TOO MUCH NEW SUPPLY?
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
NEW ROOMS ADDED

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

Do We Have a Problem?

Well Below Previous Peaks

PIPELINE

ROOMS UNDER CONSTRUCTION

Source: STR, Q1 2019
PIPELINE
ROOMS IN FINAL PLANNING & UNDER CONSTRUCTION

Source: STR, Q1 2019
SEARCHING FOR GROWTH – AIRBNB IS NOW ALLOWING HOTEL LISTINGS

Y-O-Y Growth in Units on Airbnb

Source: CBRE Hotels’ Americas Research, Airdna, Q1 2019.
Note: Based on self-classification by host on Airbnb.com (Excludes B&B properties)
## AIRBNB & HOTEL SUPPLY IN THE US

### Average Daily Active Airbnb & Hotel Supply in U.S.

<table>
<thead>
<tr>
<th>Year</th>
<th>Hotel Rooms</th>
<th>Hotel ^</th>
<th>Airbnb Units</th>
<th>Airbnb ^</th>
<th>Airbnb+Hotels</th>
<th>Airbnb+Hotels ^</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>4,848,884</td>
<td>0.3%</td>
<td>13,000</td>
<td>150%</td>
<td>4,848,885</td>
<td>0.5%</td>
</tr>
<tr>
<td>2013</td>
<td>4,873,095</td>
<td>0.5%</td>
<td>28,000</td>
<td>115%</td>
<td>4,873,095</td>
<td>0.8%</td>
</tr>
<tr>
<td>2014</td>
<td>4,902,655</td>
<td>0.6%</td>
<td>58,000</td>
<td>107%</td>
<td>4,902,655</td>
<td>1.2%</td>
</tr>
<tr>
<td>2015</td>
<td>4,947,954</td>
<td>0.9%</td>
<td>115,235</td>
<td>99%</td>
<td>5,063,189</td>
<td>2.1%</td>
</tr>
<tr>
<td>2016</td>
<td>5,017,721</td>
<td>1.4%</td>
<td>223,710</td>
<td>98%</td>
<td>5,241,431</td>
<td>3.5%</td>
</tr>
<tr>
<td>2017</td>
<td>5,103,984</td>
<td>1.7%</td>
<td>342,865</td>
<td>53%</td>
<td>5,446,848</td>
<td>3.9%</td>
</tr>
<tr>
<td>2018</td>
<td>5,205,425</td>
<td>2.0%</td>
<td>469,425</td>
<td>37%</td>
<td>5,674,851</td>
<td>4.2%</td>
</tr>
</tbody>
</table>

Source: CBRE Hotels’ Americas Research, Airdna, Google Trends, STR, Q1 2019.

Previous Peak @ 3.1% Q1 2009
THE ADR CONUNDRUM
STR HISTORY OF U.S. HOTEL FINANCIAL PERFORMANCE

1989 – 2018 Y-o-Y Percent Change in ADR/Occ/RevPAR & Occupancy Level

Notes: Previous historical peak occupancy 66.2% (2018 Q2), Current occupancy 66.1% (2018 Q4)
Sources: CBRE Hotels’ Americas Research, STR Q4 2018

MODELED ADR - IF HISTORY WAS REPEATED?!

1994 – 2018 Y-o-Y Percent Change in Real ADR/Occ/RevPAR with Occupancy Levels

Y-o-Y % Change

Occupancy (%)

Notes: Previous historical peak occupancy 66% (2017 Q4), Current occupancy 66.1% (2018 Q1)
Sources: CBRE Hotels’ Americas Research, STR Q4 2018.

CITIES WITH THE DISEASE AND THOSE WITHOUT (TOTAL = 60)

WITH (37)

- New York, NY
- San Francisco/San Mateo, CA
- Miami/Hialeah, FL
- Austin, TX
- Anaheim/Santa Ana, CA
- Charlotte, NC-SC
- Denver, CO
- Oahu Island, HI
- Pittsburgh, PA
- Boston, MA
- Houston, TX
- Fort Lauderdale, FL
- Nashville, TN
- New Orleans, LA
- Portland, OR
- Oakland, CA
- Fort Worth/Arlington, TX
- San Diego, CA
- Seattle, WA
- San Jose/Santa Cruz, CA
- Charleston, SC
- West Palm Beach/Boca Raton, FL
- Tampa/St Petersburg, FL
- Newark, NJ
- Dallas, TX
- Chicago, IL
- Los Angeles/Long Beach, CA
- Washington, DC-MD-VA
- Albany/Schenectady, NY
- Baltimore, MD
- Louisville, KY-IN
- Raleigh/Durham/Chapel Hill, NC
- Atlanta, GA
- Philadelphia, PA-NJ
- Long Island
- Savannah, GA
- St Louis, MO-IL

WITHOUT (23)

- Columbus, OH
- Cincinnati, OH-KY-IN
- Phoenix, AZ
- Detroit, MI
- Jacksonville, FL
- Minneapolis/St Paul, MN-WI
- Milwaukee, WI
- San Antonio, TX
- Orlando, FL
- Cleveland, OH
- Columbia, SC
- Omaha, NE
- Salt Lake City/Ogden, UT
- Memphis, TN-AR-MS
- Sacramento, CA
- Kansas City, MO-KS
- Richmond/Petersburg, VA
- Hartford, CT
- Indianapolis, IN
- Dayton/Springfield, OH
- Tucson, AZ
- Albuquerque, NM
- Norfolk/Virginia Beach, VA
CBRE HOTELS’ LODGING INSIGHTS

AN ONGOING QUESTION: HIGH OCCUPANCIES/WEAK ADR GROWTH

- New Supply
  - Traditional Hotels
  - Sharing Economy
- Intermediaries Capturing an Increasing Share
- Uncertainty
ANOTHER QUESTION:

When you are uncertain about something, what do you typically do?

Delay, Postpone or Nothing if you can!
CBRE HOTELS’ LODGING INSIGHTS

POLICY UNCERTAINTY INDEX – DOES ELEVATED UNCERTAINTY IMPACT ADR?

Source: PolicyUncertainty.com
CBRE HOTELS’ LODGING INSIGHTS

YES!

Using our Econometric Models, we can estimate the impact of Policy Uncertainty:

• Negative Impact on both Demand & ADR (**Largest Impact on ADR**)
• Price Elasticity of 0.02 in our national model

While additional research is required, these preliminary observations suggest that these elevated levels of uncertainty since 2008, which can mostly be attributed to actions in Washington D.C., may have caused annual ADR growth to be 0.5% lower than would have been the case if more normal levels of uncertainty were present, holding everything else constant.

Seems to be more of an issue for Upper-Upscale and Luxury hotels.
OUR FORECASTS
## CBRE HOTELS’ LODGING INSIGHTS

### HOTELS TO PEAK IN MID-2020 – SLOWDOWN WILL BE A MILD ONE

<table>
<thead>
<tr>
<th></th>
<th>Long Run Average</th>
<th>2017</th>
<th>2018</th>
<th>2019F</th>
<th>2020F</th>
<th>2021F</th>
<th>2022F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply</td>
<td>1.8%</td>
<td>1.7%</td>
<td>2.0%</td>
<td>1.9%</td>
<td>1.8%</td>
<td>1.8%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Demand</td>
<td>2.0%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>1.9%</td>
<td>1.2%</td>
<td>-0.1%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Occupancy</td>
<td>62.3%</td>
<td>65.9%</td>
<td>66.2%</td>
<td>66.2%</td>
<td>65.8%</td>
<td>64.6%</td>
<td>65.1%</td>
</tr>
<tr>
<td>ADR</td>
<td>3.0%</td>
<td>2.2%</td>
<td>2.4%</td>
<td>2.6%</td>
<td>2.6%</td>
<td>1.3%</td>
<td>0.6%</td>
</tr>
<tr>
<td>RevPAR</td>
<td>3.3%</td>
<td>2.9%</td>
<td>2.9%</td>
<td>2.5%</td>
<td>2.0%</td>
<td>-0.6%</td>
<td>1.4%</td>
</tr>
</tbody>
</table>

Source: STR, CBRE Hotels’ Americas Research, Hotel Horizons® Q4 2018

A Blip!
### U.S. TOP 25 MARKETS – ALL HOTELS

**AN EVEN Milder SLOWDOWN IN THE LARGER MARKETS**

#### A Smaller Blip!

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019F</th>
<th>2020F</th>
<th>2021F</th>
<th>2022F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply</td>
<td>2.4%</td>
<td>2.7%</td>
<td>3.3%</td>
<td>3.1%</td>
<td>2.5%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Demand</td>
<td>2.9%</td>
<td>2.5%</td>
<td>3.0%</td>
<td>2.6%</td>
<td>0.9%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Occupancy</td>
<td>73.7%</td>
<td>73.6%</td>
<td>73.4%</td>
<td>73.0%</td>
<td>71.9%</td>
<td>71.9%</td>
</tr>
<tr>
<td>ADR</td>
<td>1.7%</td>
<td>2.7%</td>
<td>2.4%</td>
<td>2.5%</td>
<td>1.6%</td>
<td>1.4%</td>
</tr>
<tr>
<td>RevPAR</td>
<td>2.2%</td>
<td>2.5%</td>
<td>2.2%</td>
<td>2.0%</td>
<td>0.1%</td>
<td>1.4%</td>
</tr>
</tbody>
</table>

**Source:** STR, CBRE Hotels’ Americas Research, Hotel Horizons® Q4 2018
REAL REVPAR CHANGE FROM PRE-RECESSION PEAK

Not All Markets Have Fully Recovered From the Last Recession

Source: STR, CBRE Hotels’ Americas Research, Hotel Horizons® Q4 2018

CBRE HOTELS’ LODGING INSIGHTS

U.S. LODGING INDUSTRY: CHAIN-SCALE FORECAST – REVPAR CHANGE

-3%  -2%  -1%  0%  1%  2%  3%  4%  5%

2017  2018  2019F  2020F  2021F  2022F

All Hotels  Luxury  Upper-Upscale  Upscale  Upper-Midscale  Midscale  Economy

Source: STR, CBRE Hotels’ Americas Research, Hotel Horizons® Q4 2018

Summary Thoughts

• The U.S. lodging industry has been operating at peak levels for the past three years – 2018 played out somewhat better than expected.

• Accelerated supply growth in recent years has been readily absorbed in most markets because of the expanding economy. This has; however, contributed to weaker than normal ADR growth.

• Despite rising salary and wage rates and slowing revenue growth, operators have controlled costs sufficiently to achieve increases in profit margins. GOP margins are at their highest levels since the 1960s.

• While the fundamentals remain attractive across the vast majority of markets, elevated uncertainty (among other factors) has impaired management’s ADR pricing power. This has also contributed to weaker-than-expected NOI growth.

• Watch for a Blip, and not a Dip!
Q & A

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