U.S. Lodging Industry 2017
Good For Some; Cautious Optimism For Others

Presented by:

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May 10, 2017
U.S. Lodging Industry: Cautious Optimism
### U.S. HOTELS 2016

<table>
<thead>
<tr>
<th>Metric</th>
<th>No.</th>
<th>Status</th>
<th>Remarks</th>
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<tbody>
<tr>
<td>OCC</td>
<td>65.5%</td>
<td>▲0.1%</td>
<td>RECORD</td>
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<tr>
<td>ADR</td>
<td>$124</td>
<td>▲3.1%</td>
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<td>REVPAR</td>
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<td>AVAIL ROOMS</td>
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<td>▲1.6%</td>
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<tr>
<td>OCC ROOMS</td>
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<tr>
<td>ROOM REV</td>
<td>$149B</td>
<td>▲4.8%</td>
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</table>

Source: STR
• Hotels are fundamentally long term hold assets
• Hotel values from peak: best flat; worst down 10%
• New supply issues, if any, are submarket based
• Smart money seeking yield in secondary and tertiary plus markets
• OTA’s are not partners for hotel industry
• Airbnb’s claim of being a champion of the middle class is at best misleading
• Airbnb’s accusation of hotel sector price gouging is disingenuous
• Lodging industry should follow airline sector unbundling of services and amenities
• Boycotting travel to U.S. is counterproductive
U.S. Hotel Industry SWOT Analysis - **Strengths**

- America is world’s beacon for safety & security
- U.S. economy growing (albeit sluggish)
- Nation in second biggest housing boom ever
- Industry record rooms revenue operating metrics
- Sector now a $200 billion industry
- Industry wide house profit exceeds $76 billion
- New supply is not devastating
- Continued low interest and cap rate environment
- Continued availability of debt and equity
- Continued strong pricing of hotel assets
- Technological advances = increased efficiencies
U.S. Hotel Industry SWOT Analysis - Weaknesses

- Underwhelming U.S. economic recovery
- Fear of economic recession never far away
- Strong U.S. dollar
- U.S. travel ban
- China scrutiny of cross-border capital flows
- Lodging expansion now in its seventh year
- Real U.S. RevPAR growth decelerating
- Brand overload
- Airbnb now impacting business travel
- Corporate rate pricing power shift towards buyers
- OTA’s now dominate consumer point of entry
- Labor shortages and rising influence of unions
- Hotel property taxes are escalating
U.S. Hotel Industry SWOT Analysis - Opportunities

• Boundaries between work, play, and travel blurring
• Industry well positioned to react to any inflation
• Expansion of modular construction
• Physical and/or functionally obsolete hotel product situated on excellent sites/locations
• Develop co-working spaces within hotels
• Create differentiated, authentic, unique experiences
• Voice-enabled cognitive rooms
• Hotel company/REITs ripe for M&A
• Ancillary revenue opportunities similar to airlines
• Industry and regulatory blowback against Airbnb
• Rise of secondary markets
• Opening of Cuba
U.S. Hotel Industry SWOT Analysis - Threats

- Rising interest rates
- Economic recession
- U.S. travel ban
- WeWork
- Technology diminishes importance of physical location
- Increasing political isolationism
- Drive by lawsuits
- Online hotel booking scams
- NLRB joint employer ruling
- Event risk: terrorism, war, civil unrest, spread of disease, climatic
- Cyber security & warfare
- Rising guest acquisition costs/technology enemy of ADR growth
- Brands pushing standards updates
- New brand intruders: West Elm, Equinox, Restoration Hardware
- Airbnb, Homeaway and other travel industry disrupters
- Rise of hostels
- Obsolescence risk i.e. Autonomous vehicles
Final Thought: Transition
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