THE HOTEL MARKET CYCLE

Our Opinion

Rapid Development
Lodging Decline, Leads Other Sectors
Development Picks Up
Accelerated Development?

Long Run Occupancy
Equilibrium ADR
Occupancy Declines, ADR Follows
Development Slows
Development at Minimum Levels
Lodging Recovers, Lags Other Sectors (Not this Time!)

Occupancy Recovers
ADR and Margins Recover

2014
2015
2016/7

U.S. is Here
A Year Ago

2
REAL REVPAR CHANGE – WHAT WE LEARN FROM PAST CYCLES

Party Like it is 1995!

Lower Supply Growth Leads to Higher RevPAR Increases this Time Around

CBRE
Things to Worry About

QUESTION:
What Should We be Worried About?
WHAT SHOULD WE BE WORRIED ABOUT?

This Guy?

This Guy?
WHAT COULD DERAIL THE GOOD TIMES?

1. The Economy  Okay, moving to good

2. Asset Price Bubble  Stable?

3. Unpredictable Demand Shock  ?

4. Oil/Energy Price Increases  Decreasing Risk

5. Over Building  Mostly no, some yes.
Low Inflation* (-) ADR

Low Oil

(-) ADR

No Change in ADR

(+ ) ADR

(+ ) Demand

Higher Income &GDP

Higher Occupancy

Slightly Higher RevPAR

IMPACT ON OUR BASELINE FORECAST

Source: PKF Hospitality Research

* - PKF-HR econometric research shows a 1:1 relationship between change in inflation and ADR during expansionary periods, holding the effect of occupancy constant.
OUR FORECASTS

OUR VIEW:
The Very Good Will
Get Even Better
### NATIONAL FORECAST – ALL U.S. HOTELS
#### 2014-2016

<table>
<thead>
<tr>
<th></th>
<th>Long Run Average</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015F</th>
<th>2016F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply</td>
<td>1.9%</td>
<td>0.5%</td>
<td>0.7%</td>
<td>0.9%</td>
<td>1.2%</td>
<td>1.7%</td>
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<tr>
<td>Demand</td>
<td>2.1%</td>
<td>3.0%</td>
<td>2.2%</td>
<td>4.5%</td>
<td>3.1%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Occupancy</td>
<td>61.9%</td>
<td>61.4%</td>
<td>62.2%</td>
<td>64.4%</td>
<td>65.6%</td>
<td>65.8%</td>
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<tr>
<td>ADR</td>
<td>2.9%</td>
<td>4.2%</td>
<td>3.9%</td>
<td>4.6%</td>
<td>5.3%</td>
<td>6.3%</td>
</tr>
<tr>
<td>RevPAR</td>
<td>2.9%</td>
<td>6.8%</td>
<td>5.4%</td>
<td>8.3%</td>
<td>7.3%</td>
<td>6.5%</td>
</tr>
</tbody>
</table>

RevPAR driven by ADR Growth

Source: PKF Hospitality Research - Hotel Horizons® March-May, 2015, STR, Inc.
THE VIEW FROM WHERE YOU SIT

Colors represent 2015 year over year change in RevPAR

12 Less than 4%
36 Between 4% and 8%
11 Greater than 8%

Source: PKF Hospitality Research, March – May 2015 Hotel Horizons®
2015 CHAIN SCALE FORECASTS

Upper-Priced Chains Approaching Peak Growth this Year

U.S. SUPPLY CHANGE
Components of the Net Annual Change in Available Supply

Source: PKF Hospitality Research, STR, Inc.
TRACKING THE BUSINESS CYCLES OF U.S. HOTELS
A Look at Past Cycles – 1991 Recession

The Path and Duration of Occupancy and Real ADR Recovery

Duration: 6 Years – 3 Quarters

Real Average Daily Rate Level (2014 $’s)

Source: PKF Hospitality Research, STR, Inc.
The Path and Duration of Occupancy and Real ADR Recovery

Start: Q1 2001
End: Q1 2007
Duration: 6 Years – 0 Quarters

Real Average Daily Rate Level (2014 $’s)

Source: PKF Hospitality Research, STR, Inc.
REAL ADR PERFORMANCE – U.S.

Current Cycle

The Path and Duration of Occupancy and Real ADR Recovery

Real Average Daily Rate Level (2014 $’s)

Source: PKF Hospitality Research, STR, Inc.
The Path and Duration of Occupancy and Real ADR Recovery

Start - 2008 Q1

End - 2016 Q2

2014 Q4

Current Cycle – March 2015 Forecast

Forecast Duration: 8.5 Years

Source: PKF Hospitality Research, STR, Inc.
REAL ADR PERFORMANCE – U.S.
Current Cycle – cont’d

The Path and Duration of Occupancy and Real ADR Recovery

- **Start - 2008 Q1**
- **End - 2016 Q2**
- **2014 Q4**
- **Forecast**

<table>
<thead>
<tr>
<th>Cycle</th>
<th>Cycle Start</th>
<th>Cycle Peak</th>
<th>At Real ADR Recovery</th>
<th>Delta</th>
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<tbody>
<tr>
<td>1990</td>
<td>64.4%</td>
<td>64.8%</td>
<td>64.3%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>2001</td>
<td>63.1%</td>
<td>63.5%</td>
<td>62.9%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>2008</td>
<td>62.3%</td>
<td>65.8%</td>
<td>65.4%</td>
<td>3.1%</td>
</tr>
</tbody>
</table>

Current Cycle – March 2015 Forecast

Source: PKF Hospitality Research, STR, Inc.

Real Average Daily Rate Level (2014 $’s)
MORE HOTELS ENJOYING GROWTH IN PROFITS*

Percent of Hotels** Posting an Increase in Total Revenue or Profits From Prior Year

(*) - Before deductions for capital reserves, rent, interest, income taxes, depreciation, and amortization.

(**) - Trends® in the Hotel Industry sample.

Source: PKF Hospitality Research, a CBRE Company, Trends® in the Hotel Industry reports.
REVPAR COMPONENTS AND NOI* CHANGE

(*) - Before deductions for capital reserve, rent, interest, income taxes, depreciation, and amortization

U.S. HOTEL PERFORMANCE

Nominal Dollar Operating Profits*
Six Years of Double Digit Growth

Dollars Per Available Room

2010 – 2016F
CAGR: 11.8%

Note: * Before deductions for capital reserve, rent, interest, income taxes, depreciation, and amortization.

Source: PKF Hospitality Research, a CBRE Company, Trends® in the Hotel Industry, March 2014 Hotel Horizons® forecast
U.S. HOTEL PERFORMANCE

Constant 2014 Dollar Operating Profits*

Real Recovery Not Until 2015

Note: * Before deductions for capital reserve, rent, interest, income taxes, depreciation, and amortization.

Source: PKF Hospitality Research, a CBRE Company, Trends® in the Hotel Industry, March 2014 Hotel Horizons® forecast
SUMMARY THOUGHTS

The Very Good ……Will Get Even Better

1. No threats from the factors that historically have brought an end to the good times.

2. The fundamentals are solid across the vast majority of markets.

3. Elevated industry growth will persist comfortably through 2016 and likely beyond.

4. High occupancy levels will provide the leverage needed to achieve large real ADR increases for the next two-three years.

5. Competition for building materials and labor will continue to present challenges for developers in most markets. Below average hotel construction will be the result for the next three years.

6. Above long run average occupancy levels will lead to strong profit growth comfortably through 2016, enough to off-set increasing labor costs.

7. It is a great time to be in the hotel business!
THANKS FOR YOUR TIME

CBRE HOTELS & PKF HOSPITALITY RESEARCH

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