CBRE ECONOMETRIC ADVISORS Presents

NEW LANDSCAPE

CBRE AMERICAS RESEARCH CONFERENCE 2017

TIMES ARE GOOD… WILL THAT CONTINUE?

Jack Corgel, Ph.D.

CBRE Hotels' Americas Research

SEPTEMBER 15, 2017

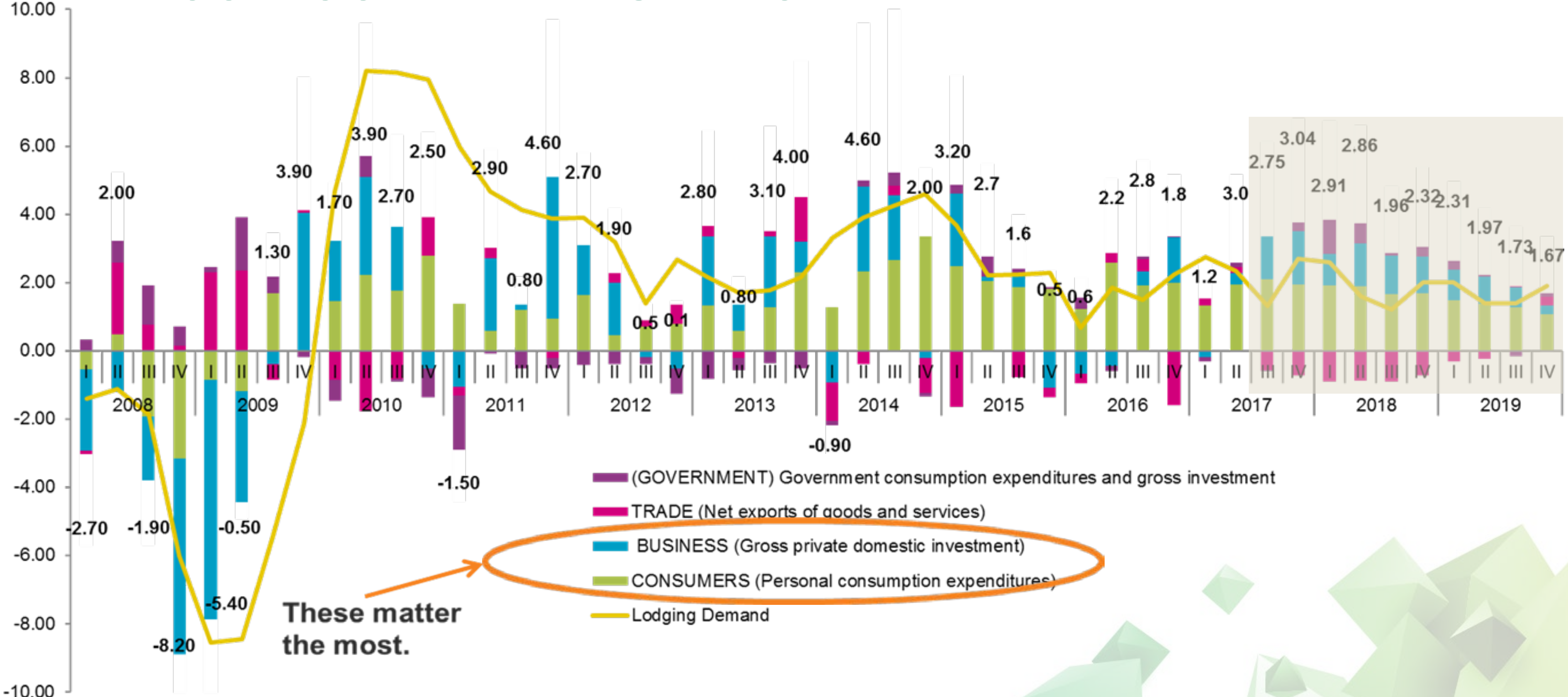
CBRE Build on Advantage

THE AGENDA

- THE MACRO-ECONOMY AND HOTELS
- CYCLE STORIES
- CITY ECONOMIES
- THE CHANGING TRAVELER
- ISSUES: SUPPLY, ADR GROWTH, LABOR COSTS, BUBBLES
- OUR PERFORMANCE FORECASTS
- AIRBNB UPDATE
- CAP RATES

THE MACRO ECONOMY AND HOTELS

FOR THE DRIVERS THAT ARE MOST IMPORTANT TO HOTELS, THE OUTLOOK REMAINS FAVORABLE

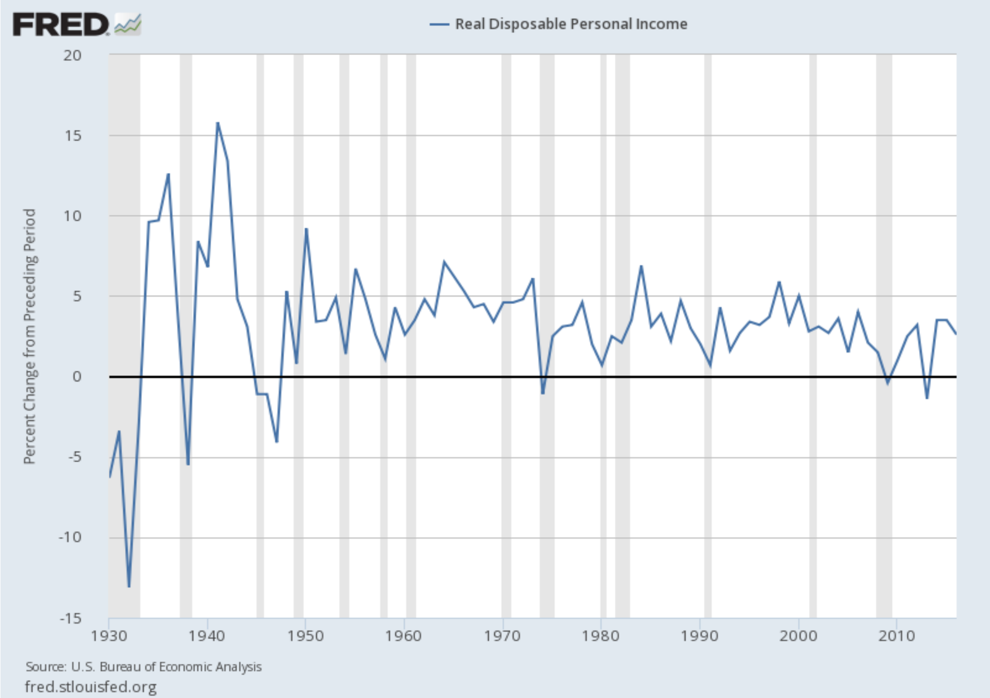


CBRE REAL PERSONAL INCOME (RPI) REPORT FINDINGS (3-16)

- The BEA reports PI as an aggregate of:
  - Employee compensation
  - Proprietors' income
  - Rental income
  - Personal income on receipts from assets, and
  - Personal current transfer receipts.
  - *Employee compensation (i.e., wages and salaries) now constitutes just over half of this measure.*
- Since 2010, RPI has more accurately matched hotel demand growth than other metrics have, including employment and GDP. CBRE forecasts PI growth that's above the long-term average —a signal of continued strong hotel demand.
- Upper-price hotels' quick rebound from the Great Recession was due to PI growth in the upper half of all incomes while lower priced hotels—whose demand relies more heavily on wage earners employed in industries that experienced the highest unemployment and income losses during the recession—recovered years later.
- Lodging market investors and managers should review periodic reports of personal income as a fundamental indicator of the underlying strength of hotel demand. Personal income can be monitored at the national and local levels.

INCOME GROWTH

REAL PERSONAL INCOME KEEPS ON GROWING



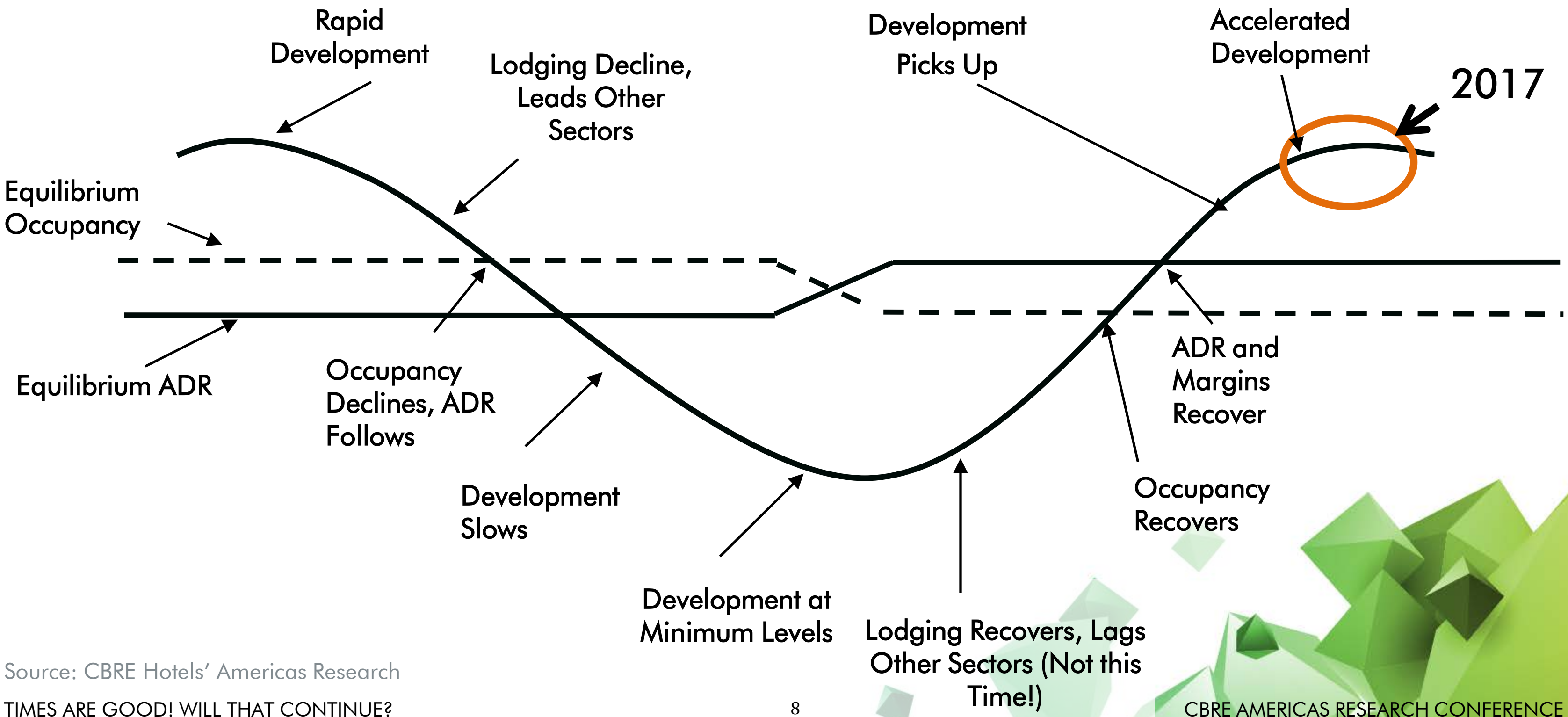
- Nominal Income = Inflation + Real
  4.5% = 1.5% + 3.0%

- At 2.5%, wages are only little more than half the story

CYCLE STORIES

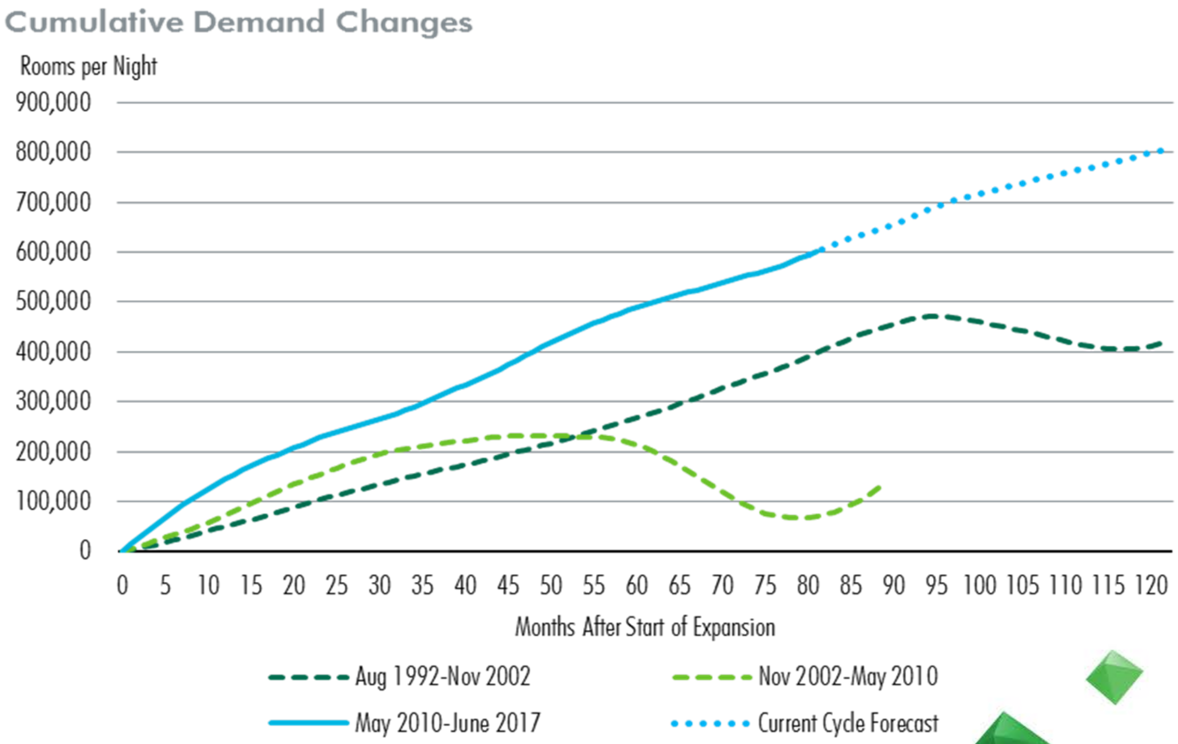
THE HOTEL MARKET CYCLE

WHAT IS HAPPENING AND WHAT'S TO COME?



Source: CBRE Hotels' Americas Research

U.S. LODGING DEMAND—THROUGH THE CYCLES



Sources: CBRE Hotels, STR, Q3 2017.

CITY ECONOMIES

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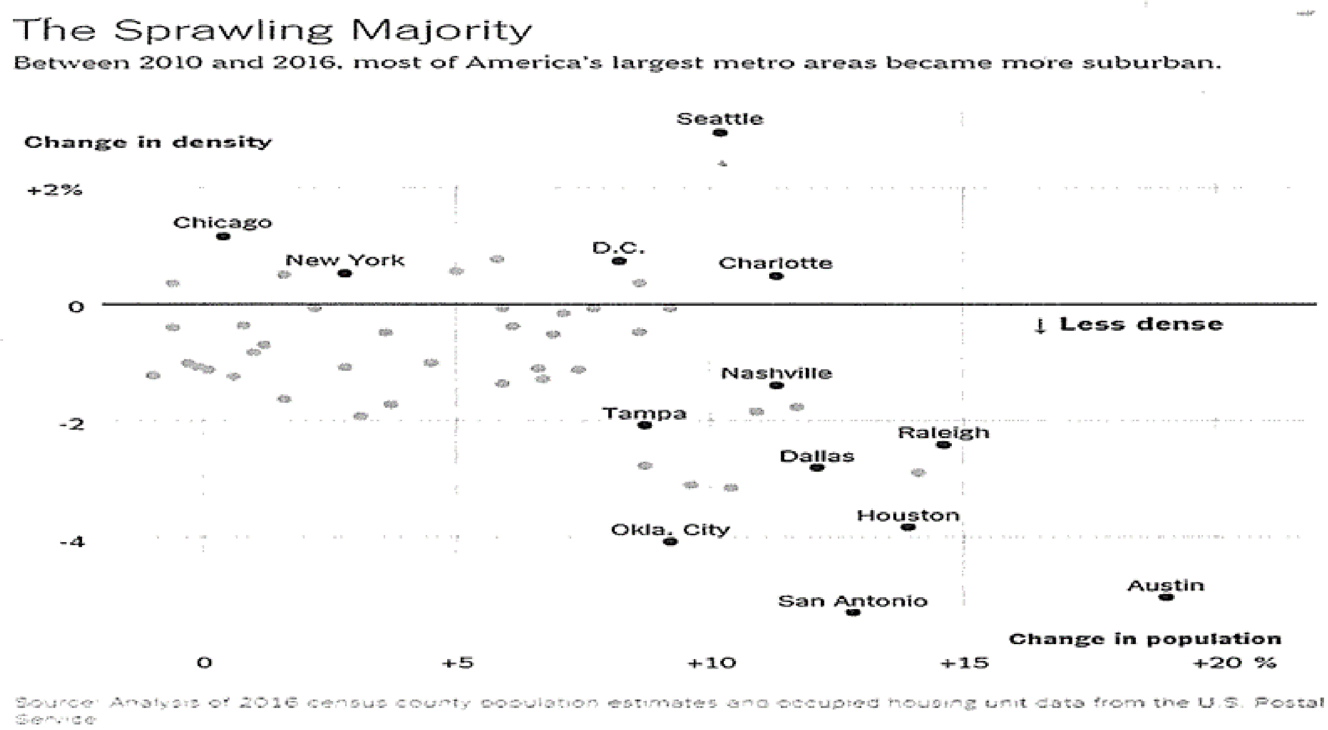
POPULATION DENSITY—URBAN, SUBURBAN



HARTFORD—A SLOW DEATH, NOT COMING BACK

THE WALL STREET JOURNAL. U.S. NEWS Wednesday, June 7, 2017 | A3

Tax Quirk Pushes City Toward Bankruptcy

Hartford, with many exempt properties, spotlights quandary of state capitals

By Joseph De Avila

For capital cities like Hartford, much of the real estate is held by government departments and other entities that are excluded from paying property taxes.

JESSICA HILL/ASSOCIATED PRESS

Hartford, Connecticut's capital city and hub of the state's insurance industry, is edging closer to joining a small club of American municipalities: those that have sought bankruptcy protection.

The city's $49.6 million budget hole and the impending departure of one of its biggest employers, Aetna Inc., have shined a light on its unusual predicament: Half of the city's properties are excluded from paying taxes because they are government entities, hospitals and universities.

It has less taxable property than the neighboring suburban community of West Hartford, which has less than half of the population than its urban neighbor. And Hartford's total property-tax receipts are about 25% below that of the tony community of Greenwich.

"The root of the problem is you have a city built on a tax base of a suburb," said Mayor Luke Bronin.

The mayor said the small tax base along with growing fixed costs produced structural budget deficits that prior administrations sought to deal with through asset sales, short-term debt restructuring and property-tax increases.

Mr. Bronin is now asking for financial help from the state. "My goal and my hope is that legislators from around the state of Connecticut will recognize that Hartford cannot responsibly solve a crisis of this magnitude at the local level alone," he said.

Around the U.S., the main source of funding generated by municipalities is property-tax revenue, contributing 47% of the money raised by local governments, according to the Lincoln Institute of Land Policy.

For capital cities such as Hartford, much of the real estate is held by government departments that don't pay taxes. Hartford, with a population of about 125,000, is home to the University of Connecticut School of Law, Trinity College, Hartford Seminary and the state Supreme Court.

Other cities in similar situations include Boston, where just over half of the property in the city is tax-exempt. In Baltimore, about 32% of the property is tax exempt, and in Philadelphia, it is 27%.

While most U.S. cities are reporting healthy budget reserves that have returned to prerecession levels, Hartford is among a small but growing group of municipalities that are confronting rising levels of fiscal stress, according to Moody's Investors Service.

Only 64 bankruptcies have been filed by cities, counties, towns and villages since 1954, according to James Spiotto, an attorney who tracks municipalities' bankruptcies.

Victor Medeiros, a public-finance ratings analyst with S&P Global Ratings, which downgraded Hartford last month, said the city could face additional downgrades of several notches. The credit-ratings firm will be watching whether Connecticut can reach a timely budget agreement and what level of financial assistance the state will be able to offer the city, he said.

The city must pay nearly $180 million on debt service, health care, pensions and other fixed costs in the coming fiscal year beginning July 1. That is more than half of the city's budget, excluding education.

Mr. Bronin said one-time budget fixes and tax increases won't cut it anymore. After cutting 15% of the city's non-uniformed workforce, he said further trimming of city services would be irresponsible.

Democratic Gov. Danniel Malloy last week said Hartford and the state Legislature would have to accept more oversight of the city's finances in exchange for state assistance. "I do not support additional moneys going to our challenged urban environments without a review process," Mr. Malloy said.

Connecticut House Majority Leader Matt Ritter, a Hartford Democrat, said everyone in the capital understands that it is in the state's best interest to make sure the city has a sustainable future.

Major Employers Aim to Help Out A Home Base

Hartford officials say they believe **Aetna Inc.** will keep many of its 6,000 employees in Connecticut even after the company said last week that it was negotiating with several states to move its corporate headquarters out of the city where it has been based since 1853.

Aetna has said it remains committed to its Connecticut-based employees and its Hartford campus.

The company and the other four biggest taxpayers in the city contribute nearly one-fifth of the city's $280 million of property-tax revenue. Property-tax receipts make up nearly half of the city's general-fund revenues.

Aetna, **Hartford Financial Services Group** Inc. and **Travelers Cos.** Inc., also among Hartford's biggest employers, have said they would collectively give the city a voluntary payout of $10 million annually over the next five years to help avoid bankruptcy.

But the companies have said they want to see comprehensive changes that would allow the city to stabilize its finances.

The bigger concerns "are getting the city turned around where we can attract private-sector investment here to ultimately begin to drive" property taxes down, said Oz Griebel, chief executive of MetroHartford Alliance, a regional business group.

—Joseph De Avila

THE SKY IS THE LIMIT FOR RENO

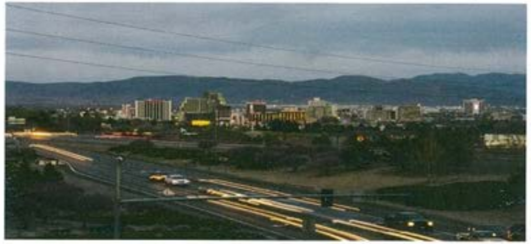
THE WALL STREET JOURNAL.

https://www.wsj.com/articles/housing-crunch-threatens-renos-tech-boom-1492680609

U.S.

Housing Crunch Threatens Reno's Tech Boom

The supply of houses and apartments is strapped amid a permitting bottleneck as firms pour in



Officials in Reno, Nev., are concerned that a housing crunch could damp the city's tech boom. PHOTO: DAVID PAUL MORRIS/BLOOMBERG NEWS

By Jim Carlton
April 20, 2017 5:30 a.m. ET

RENO, Nev.—When a development company here acquired in 2015 a ranch once owned by a casino magnate, managing partner Chip Bowlby thought homes could be quickly built on the land to help meet the demands of a historic jobs

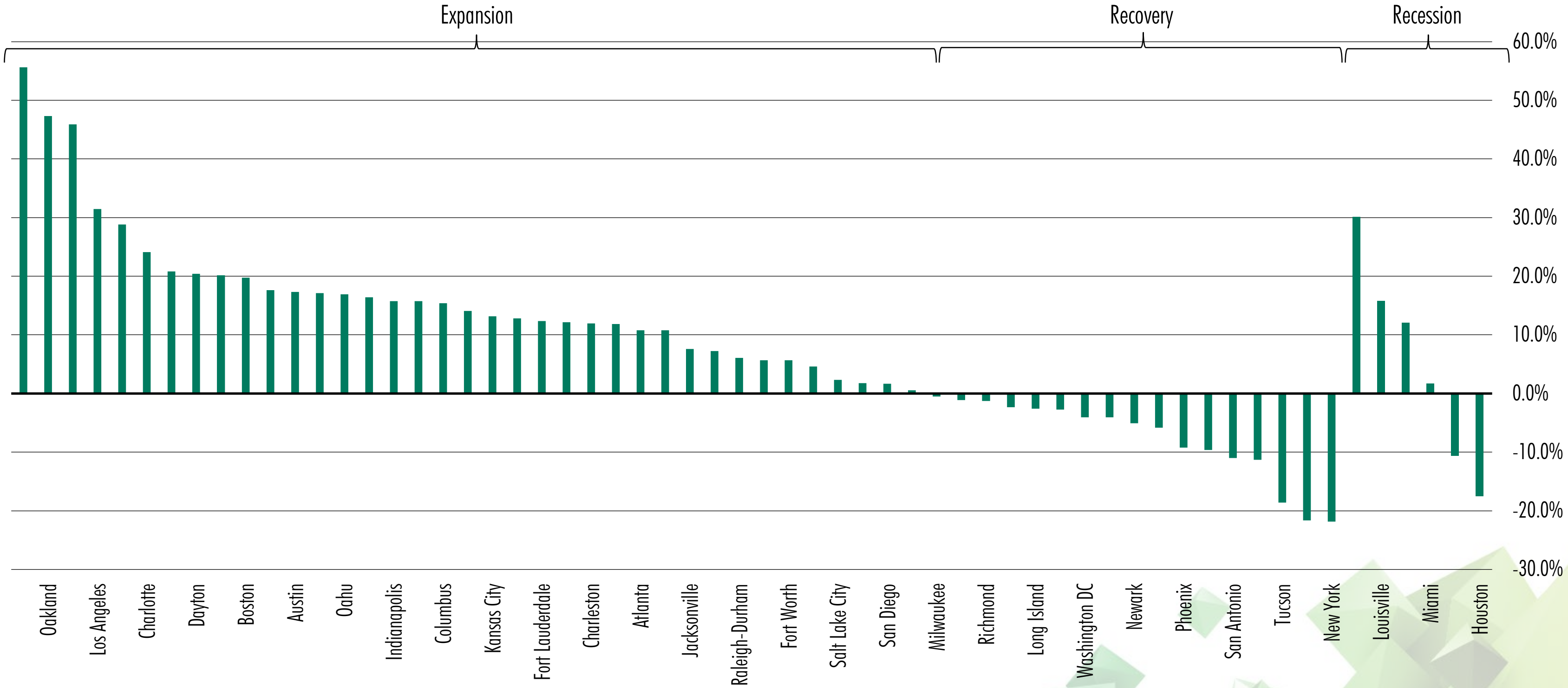
GEOGRAPHIC CENTER OF MSA MOVEMENT

STATE AND CITY WIN STREAKS

- LOW TAXES
- RIGHT-TO-WORK
- DEVELOPABLE LAND, LESS-RESTRICTIVE LAND USE REGULATIONS
- PUBLIC AND PRIVATE CAPITAL FLOWS
  - *Watch Airport Investment*
  - *Watch Port Investments*
  - *Watch Manufacturing Plant Investments*

LOCAL MARKET POSITION IN THE CURRENT CYCLE VARIES

REAL REVPAR CHANGE FROM PRE-RECESSION PEAK



Source: STR CBRE Hotels' Americas Research, Q2 2017.

THE CHANGING TRAVELER

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LEISURE TRAVEL GAINS
COMPARING WEEKDAY VS. WEEKEND PERFORMANCE

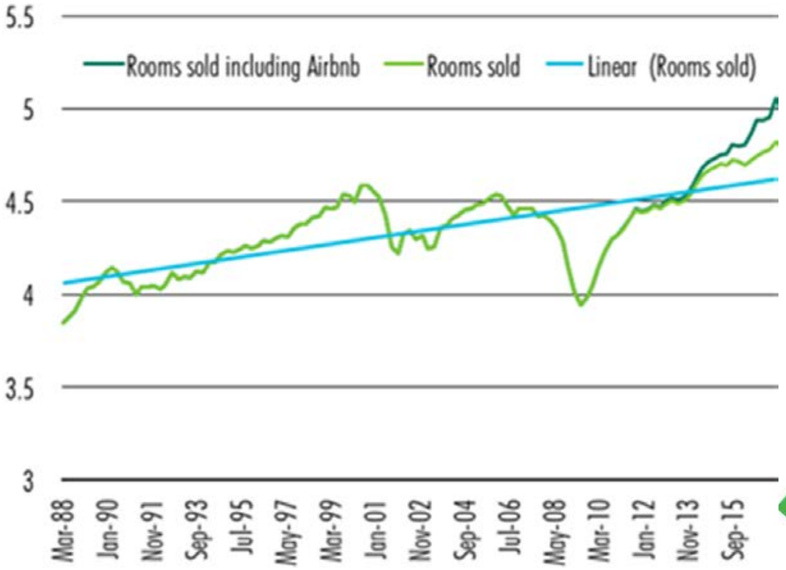
Year	Weekday	% ^	Weekend	% ^	Total	% ^
						6.8%
2016	$ 118.54	26.1%	$ 120.87	29.7%	$ 119.28	27.2%

ADR is Now Higher on the Weekend

MORE PEOPLE RENTING ROOMS

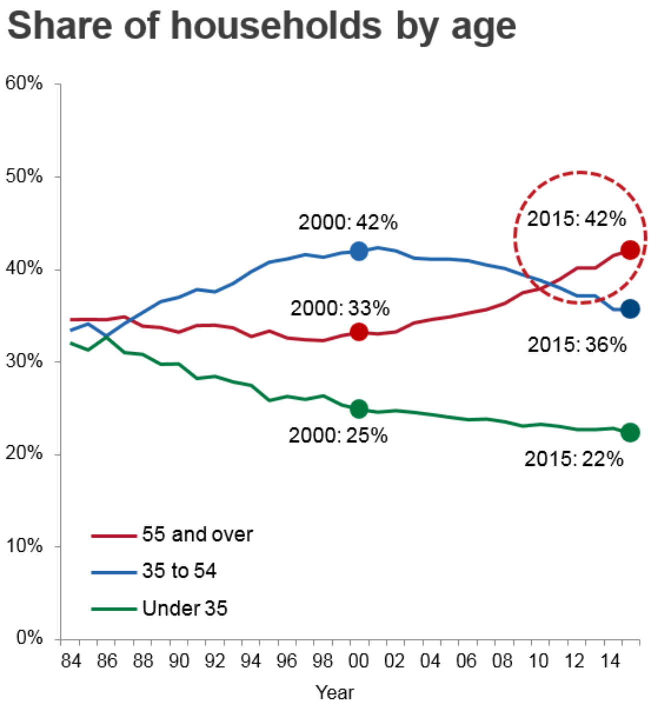
WELL IN EXCESS OF WHAT HISTORICAL TRENDS WOULD SUGGEST

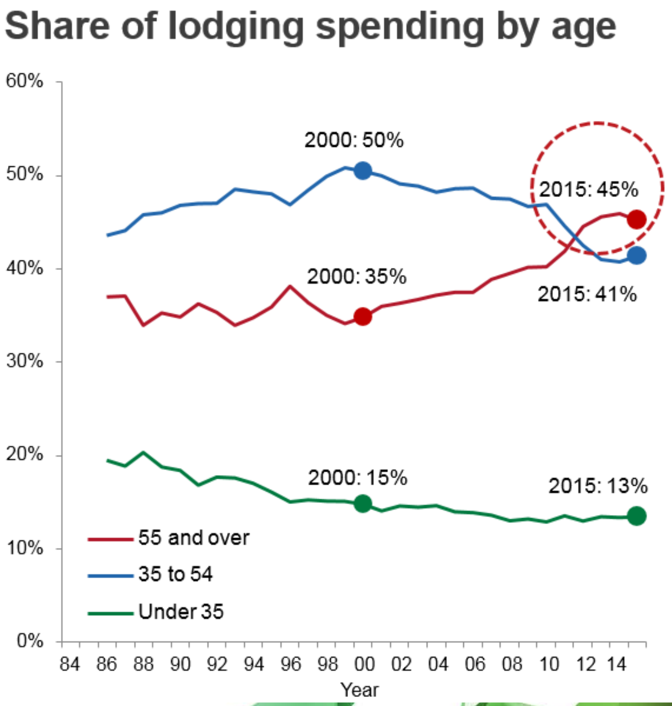
Figure 2: Ratio of Annual Rooms Sold to Working-Age Population of the U.S.



Sources: STR, Airdo, CBRE Hotels'Americas Research, United States Census Bureau, Oxford Economics

SENIORS REPRESENT GREATER SHARE OF HOUSEHOLDS AND SPENDING



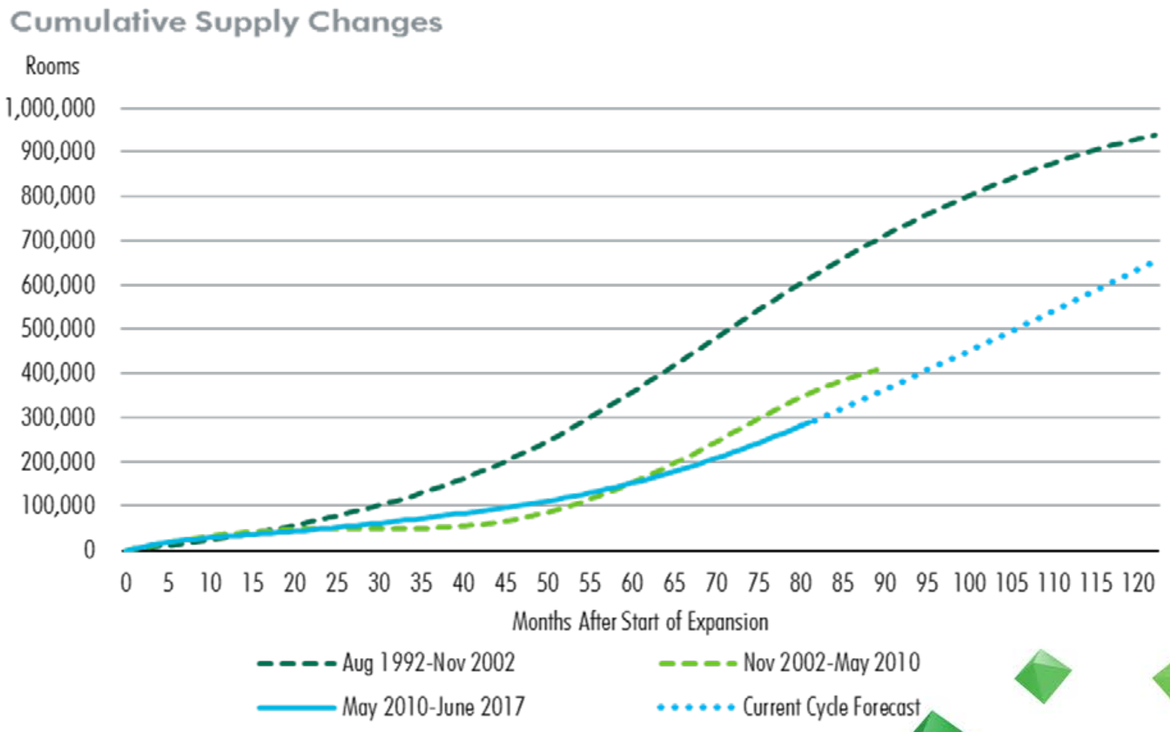


Note: Lodging spending is based on recent three-year average (2013 to 2015). Consumer spending represents leisure trips.
Source: BLS; Tourism Economics

ISSUES?

SUPPLY, ADR GROWTH, LABOR COSTS, BUBBLES

U.S. LODGING SUPPLY—THROUGH THE CYCLES



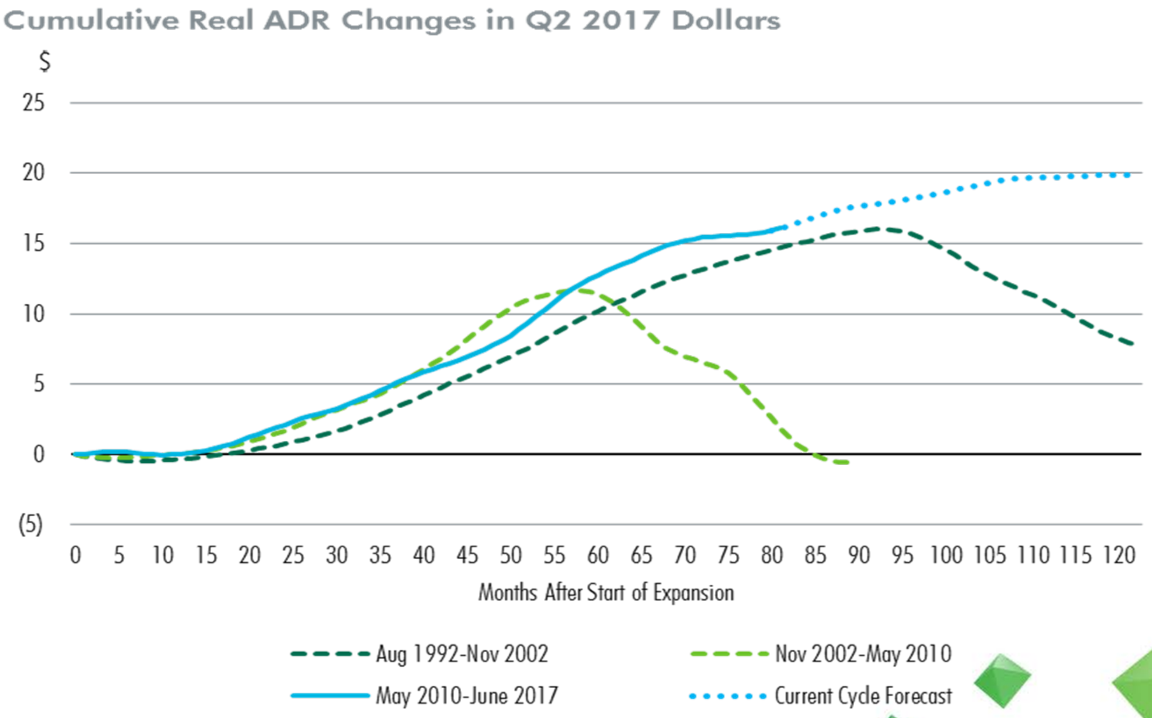
Sources: CBRE Hotels, STR, Q3 2017.

SUPPLY CHANGE 2017—FORECAST

Q3 2017–Q2 2018

Source: CBRE Hotels' Americas Research Q3 2017

U.S. LODGING ADR—THROUGH THE CYCLES

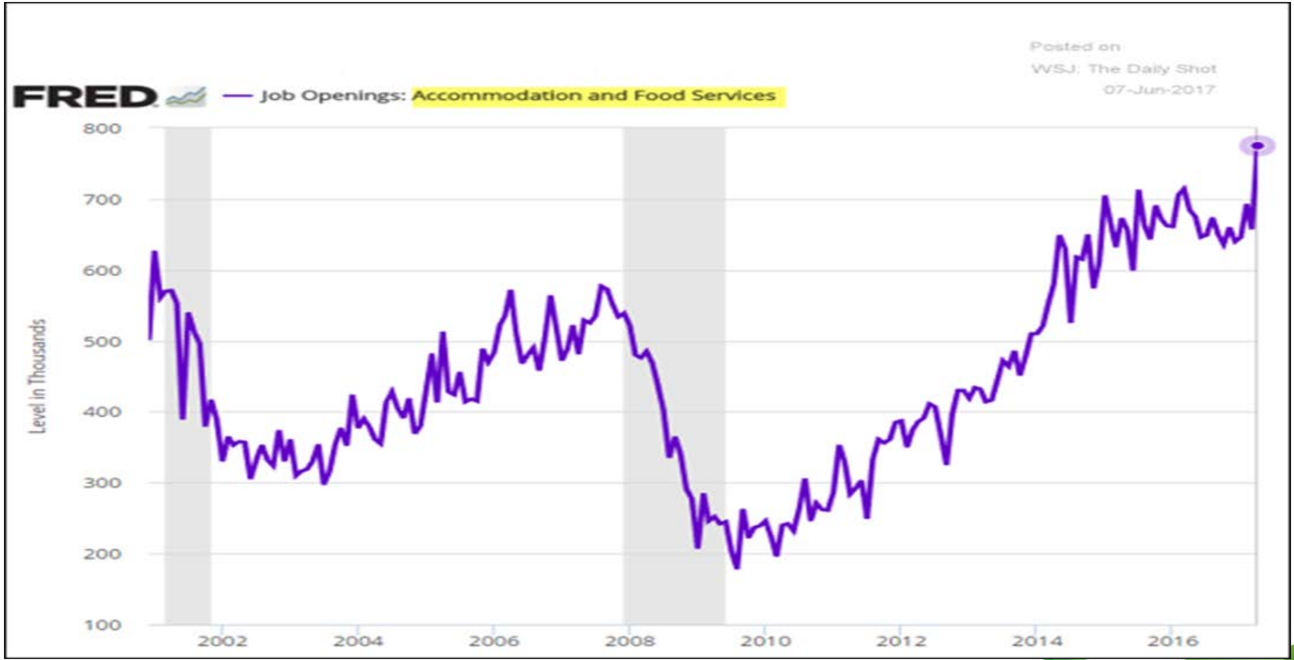


Sources: CBRE Hotels, STR, Q3 2017.

WHAT EXPLAINS BELOW-LACKLUSTER ADR GROWTH?

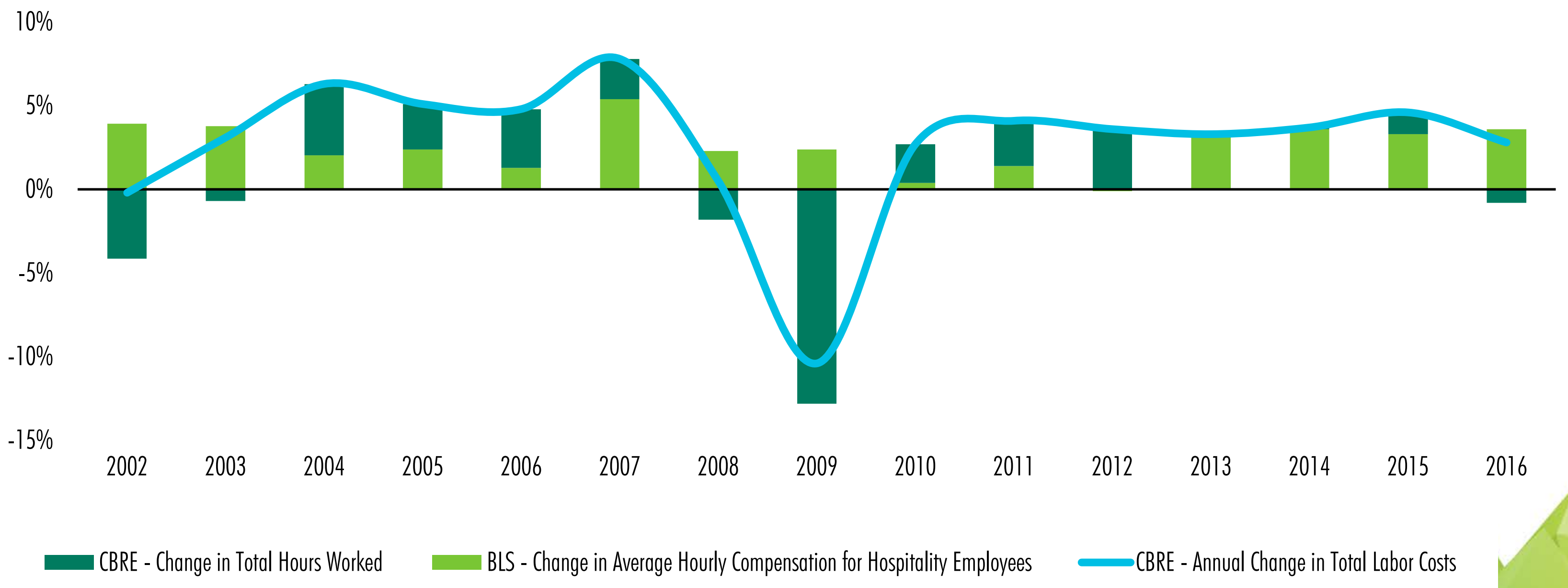
- ELEVATED UNCERTAINTY SHORTENS BOOKING LEAD TIMES
- GROWTH OF THE SHARING ECONOMY AND ITS IMPACT ON PRICING POWER DURING PEAK DEMAND PERIODS
- CHAINS INCENT MANAGERS TO MAXIMIZE OCCUPANCY—NOT NECESSARILY REVENUE
- INTERMEDIARIES (NOT THE HOTELS) CAPTURING A GREATER PORTION OF THE PRICE INCREASES THAT THE CONSUMER PAYS.
- NEW SUPPLY IN MANY OF THE LARGER MARKETS ERODES PRICING POWER.

THE JOB MARKET—GETTING TIGHT!



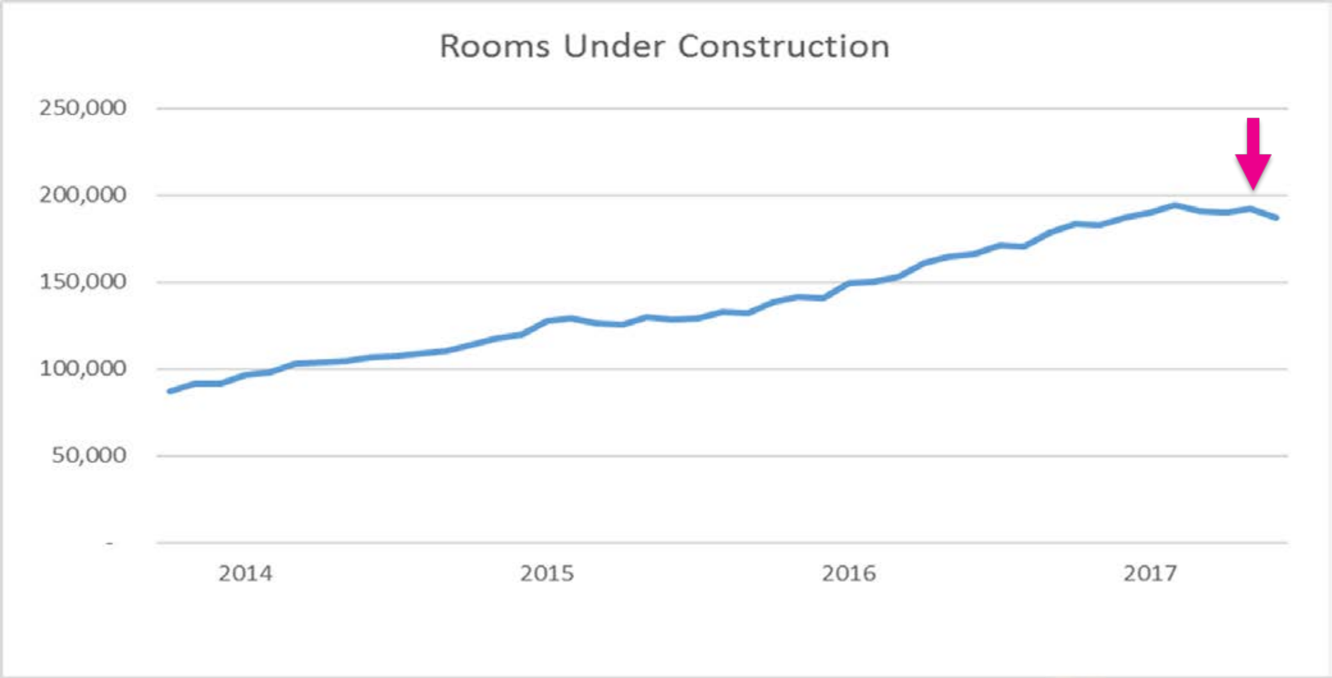
MANAGEMENT REACTS

Annual Change in Components to Total Labor Costs



Source: 2017 Trends® in the Hotel Industry, Bureau of Labor Statistics

PIPELINE PEAKING



RECENT NEW U.S. SUPPLY

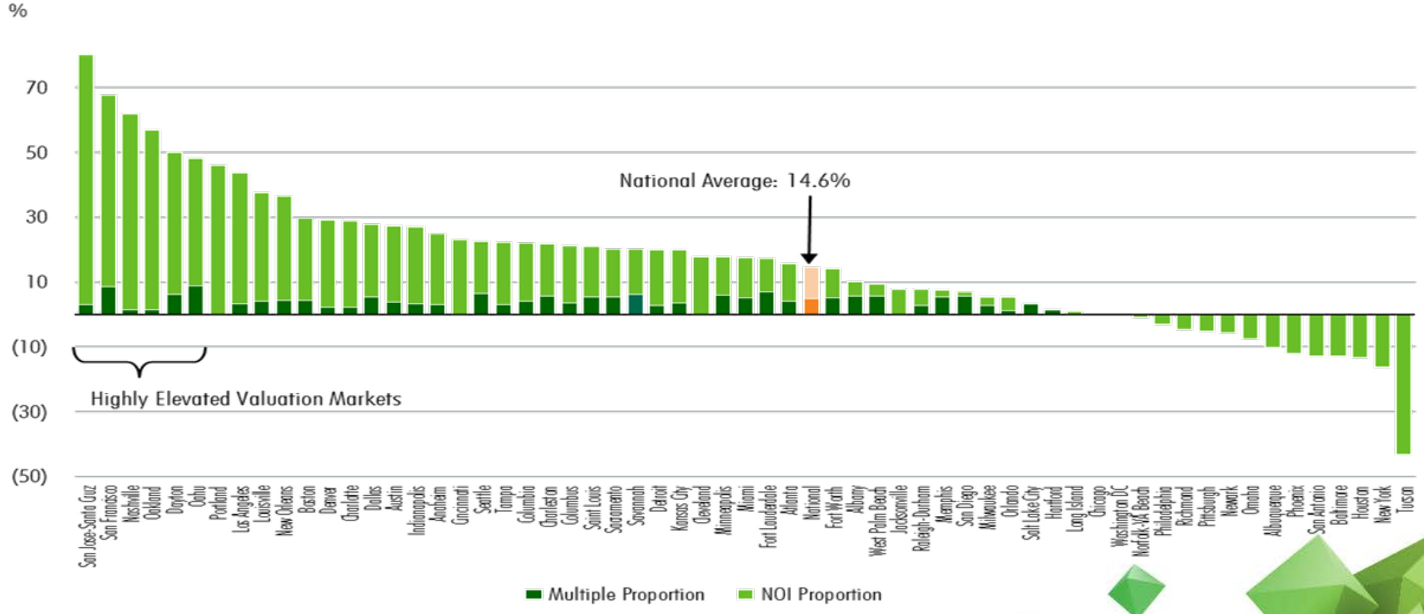
New Rooms Jan '16 - June '17							
Class	Airport	Interstate	Small Metro/Town	Resort	Suburban	Urban	Total
Luxury Class	0.0%	0.0%	0.4%	2.0%	0.5%	2.2%	5.1%
Upper Upscale Class	0.7%	0.3%	0.3%	1.1%	1.9%	7.3%	11.5%
Upscale Class	1.9%	1.5%	3.3%	2.9%	14.0%	9.9%	33.3%
Upper Midscale Class	1.9%	5.7%	8.3%	1.5%	16.4%	5.3%	39.2%
Midscale Class	0.2%	0.9%	1.5%	0.1%	2.1%	0.7%	5.5%
Economy Class	0.5%	0.8%	0.7%	0.2%	2.6%	0.4%	5.3%
Total	5.2%	9.2%	14.4%	7.8%	37.6%	25.9%	

Source: CBRE Hotels' Americas Research; STR

Representative Brands:
Upscale Class: Hilton Garden Inn, Hyatt Place, Residence Inns
Upper Midscale Class: Red Lion, Lexington, Holiday Inn, Moxy

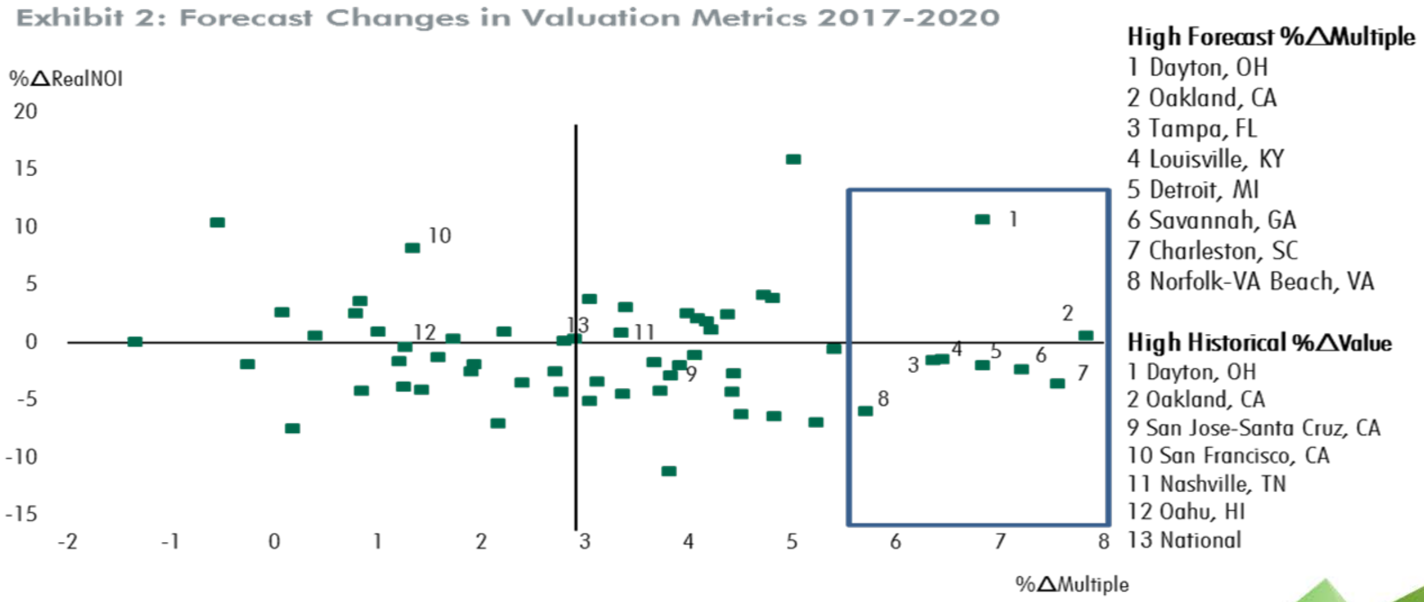
HOTEL PROPERTY BUBBLE? NOT YESTERDAY

Exhibit 1: Percent Change in Current Real Hotel Property Value from Previous Peak



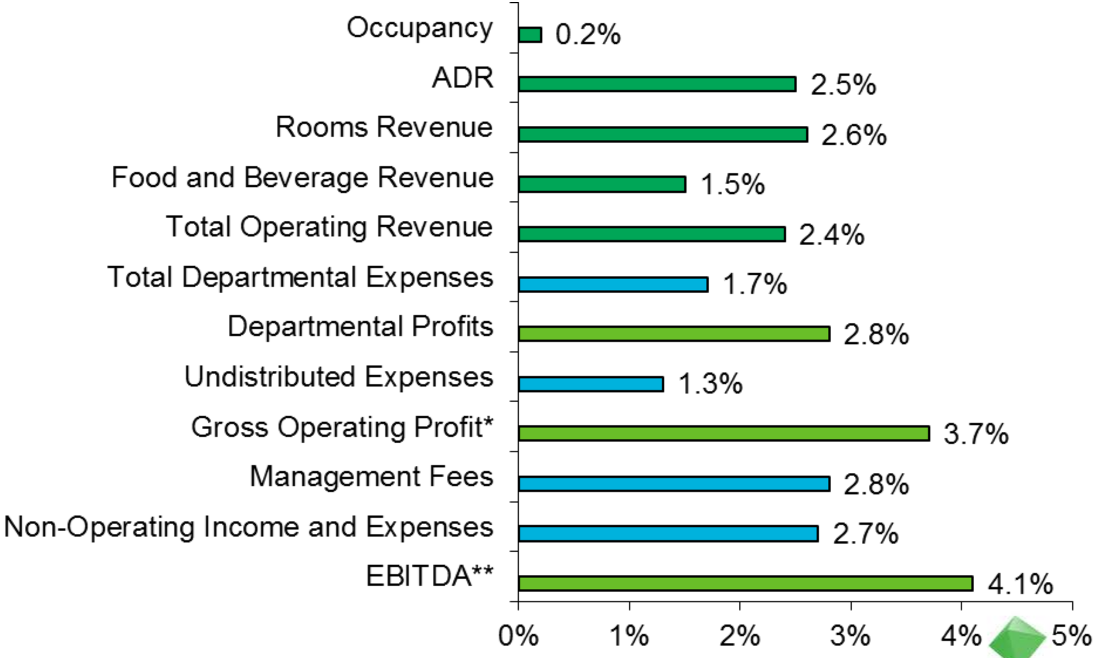
Sources: CBRE Hotels' Americas Research, STR, Q1 2017.

HOTEL PROPERTY BUBBLE? NOT TOMORROW



Sources: CBRE Hotels' Americas Research and CBRE Econometric Advisors, Q1 2017.

HOTELS ARE MAKING MONEY
PERCENT CHANGE 2015 TO 2016



Note: * Before deduction for Management Fees and Non-Operating Income and Expenses
** Earnings before Interest, Taxes, Depreciation, and Amortization
Source: 2017 Trends® in the Hotel Industry

OUR FORECASTS

LEADING AND LAGGING MARKETS

CBRE Build on Advantage

TIMES ARE GOOD...WILL THEY GET BETTER?
U.S. NATIONAL FORECAST
FORECAST CALLS FOR A CONTINUAL DECLINE IN REVPAR GROWTH

	Long Run Average	2014	2015	2016	2017F	2018F
Supply	1.9%	0.7%	1.0%	1.6%	1.9%	2.0%
Demand	2.0%	4.1%	2.7%	1.7%	2.2%	2.1%
Occupancy	62.2%	64.3%	65.4%	65.4%	65.6%	65.7%
ADR	3.1%	4.6%	4.5%	3.1%	2.5%	2.3%
RevPAR	3.3%	8.2%	6.2%	3.2%	2.8%	2.4%

REVPAR FORECAST BY CHAIN-SCALE

ECONOMY HOTELS CONTINUE UP THE RECOVERY CURVE—OUTPACING ALL OTHERS

Chain-Scale	*2016*	*2017F*	*2018F*
Luxury	1.3%	2.0%	2.8%
Upper-Upscale	1.9%	1.5%	2.4%
Upscale	2.2%	0.8%	1.5%
Upper-Midscale	2.2%	2.0%	3.4%
Midscale	2.4%	1.9%	1.9%
Economy	3.0%	3.6%	4.5%
All Hotels	3.2%	2.8%	2.4%

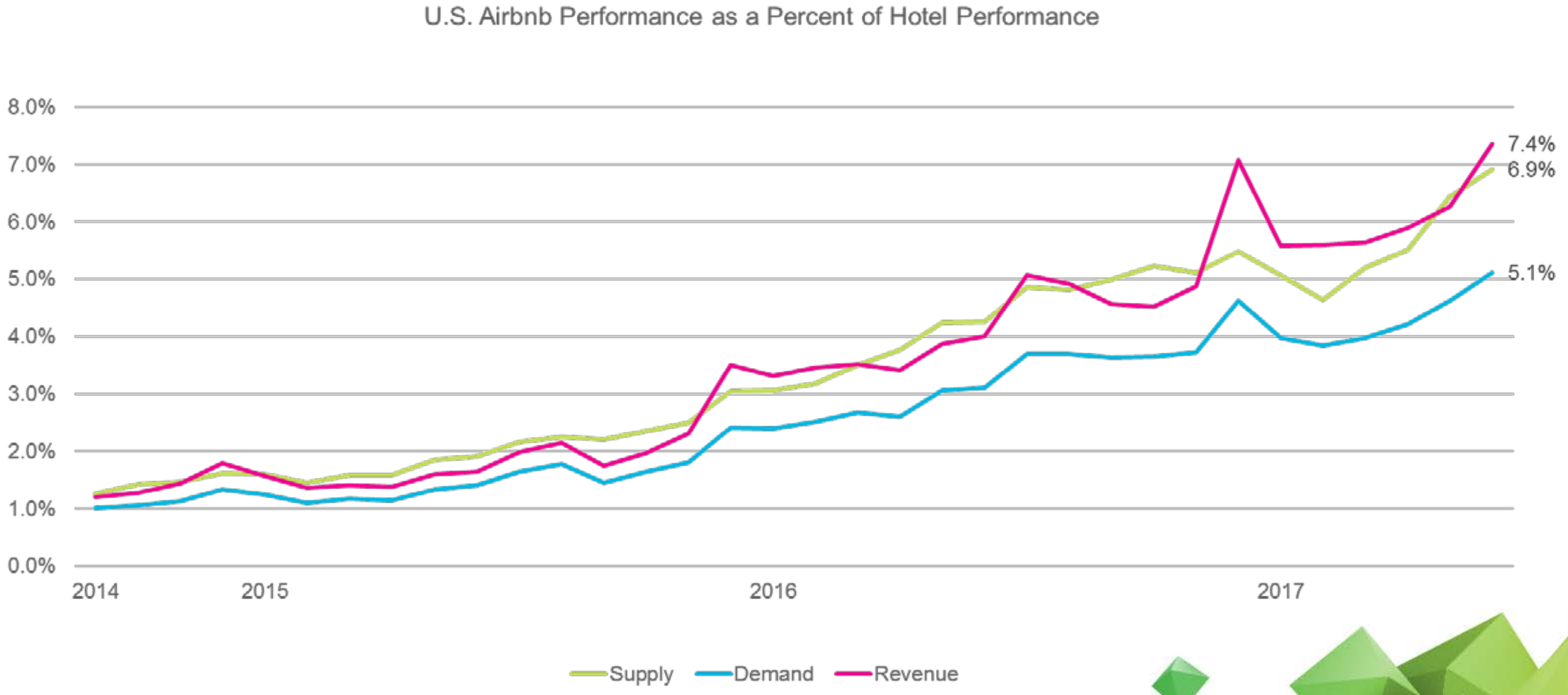
MARKET OUTLOOK

OCCUPANCY LEVELS WILL DECLINE IN 33 OF OUR 60 TOP U.S. MARKETS THIS YEAR, INCREASING TO 47 MARKETS IN 2018.

ADR GROWTH WILL EXCEED 2.0% IN 42 MARKETS THIS YEAR AND IN 50 MARKETS IN 2018.

AIRBNB UPDATE

U.S. AIRBNB AND HOTELS



Source: Airdna, CBRE Hotels' Americas Research, STR, Q2 2017.

AIRBNB ONLY—MARKETS WITH THE MOST NEW UNITS (YEAR-OVER-YEAR)

Rank	Market	% Growth	# of New Units
1	Los Angeles	46.5%	5,200
2	Orlando	166.9%	4,703
3	Colorado Area	114.0%	4,124
4	New York	18.1%	3,037
5	Riverside/San Bernardino, CA	93.9%	2,979
6	Florida Central	198.0%	2,916
7	Washington DC	80.2%	2,873
8	San Diego	88.6%	2,869
9	Florida Panhandle	244.3%	2,433
10	Miami	37.5%	1,990
11	Las Vegas, NV	119.0%	1,922
12	Seattle	62.2%	1,907
13	Boston	57.4%	1,878
14	Oregon Area	100.4%	1,855
15	California North	67.8%	1,721

KEY TAKEAWAYS

- AIRBNB HAS CONTINUED TO GROW THROUGHOUT THE U.S. AND WORLDWIDE
- AIRBNB HAS A FLUID SUPPLY AND CAN HAVE A LARGER IMPACT DURING MAJOR EVENTS
- AIRBNB IS TARGETING BUSINESS TRAVEL BUT THE IMPACT HAS NOT BEEN FELT YET
- TRAVELERS TYPICALLY STAY AT AIRBNB LISTINGS LONGER THAN AT HOTELS. HOWEVER, EXTENDED STAY PROPERTIES HAVEN’T FELT THE IMPACT
- AIRBNB MAY BE AN INDICATOR FOR UNSATISFIED HOTEL DEMAND.

CAP RATES

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	1.80	1.87	4.58	8.25
2013	2.35	1.89	3.91	8.15
2014	2.54	1.62	3.98	8.15
2015	2.14	1.75	4.49	8.38
2016	1.84	1.83	4.85	8.52
2017F	2.53	1.52	4.84	8.89
2018F	3.18	1.55	4.14	8.86
2019F	1.85	1.84	4.80	8.91
L.R.A. (1995-2016)	**3.99**	**1.51**	**3.89**	**9.39**

EA forecasts that treasuries will rise quickly, then fall

Slightly overshooting LRA

Cap rates will remain below the LRA

SUMMARY THOUGHTS TIMES ARE GOOD…WILL THEY GET BETTER?

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 DOMESTIC AND INTERNATIONAL TRAVEL.
3. HIGH OCCUPANCY LEVELS PROVIDE LEVERAGE TO ACHIEVE ADR INCREASES FOR THE NEXT TWO TO THREE YEARS.
4. HOTEL CONSTRUCTION LEVELS OFF. SCALE OF NEW SUPPLY IN SOME MARKETS RETARDS PERFORMANCE.
5. OCCUPANCY ABOVE THE LONG-RUN AVERAGE LEADS TO REVENUE GROWTH. RISING LABOR COSTS WILL PRESSURE PERFORMANCE. PROFIT GROWTH TO REMAIN SLOW, BUT HOTELS ARE STILL ATMs.

THANK YOU

TIMES ARE GOOD…
WILL THAT CONTINUE?

JACK CORGEL, PH.D. | CBRE HOTELS' AMERICAS RESEARCH

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