
HISTORIC HOTELS *of* AMERICA

NATIONAL TRUST FOR HISTORIC PRESERVATION®

**THE VERY GOOD....
.....WILL GET EVEN BETTER**

HISTORIC HOTELS OF AMERICA

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PKF
HOSPITALITY
RESEARCH
A CBRE COMPANY

U.S. LODGING INDUSTRY UPDATE

Historic Hotels of America 2014

- ✓ Highlights for 2015
- ✓ The National Economy
- ✓ The Supply Story
- ✓ National Market Forecast
- ✓ A Look at Historic Hotels

QUESTION:

- Will the national economy be better in 2015 than it is today?

BY 2015, THE HOTEL INDUSTRY WILL HAVE ACHIEVED:

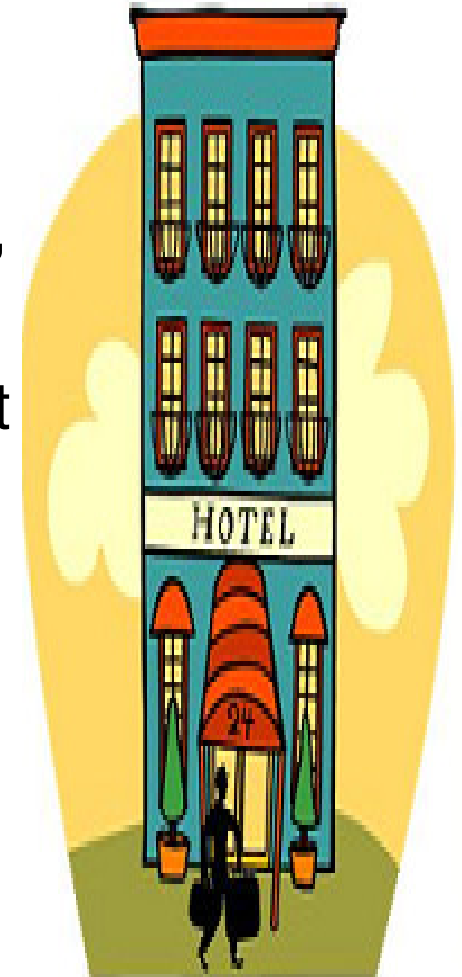
A fourth year of accommodated demand in excess of the pre-recession peak of 2.8 million room nights.

Six consecutive years of increasing occupancy, the longest since 1988.

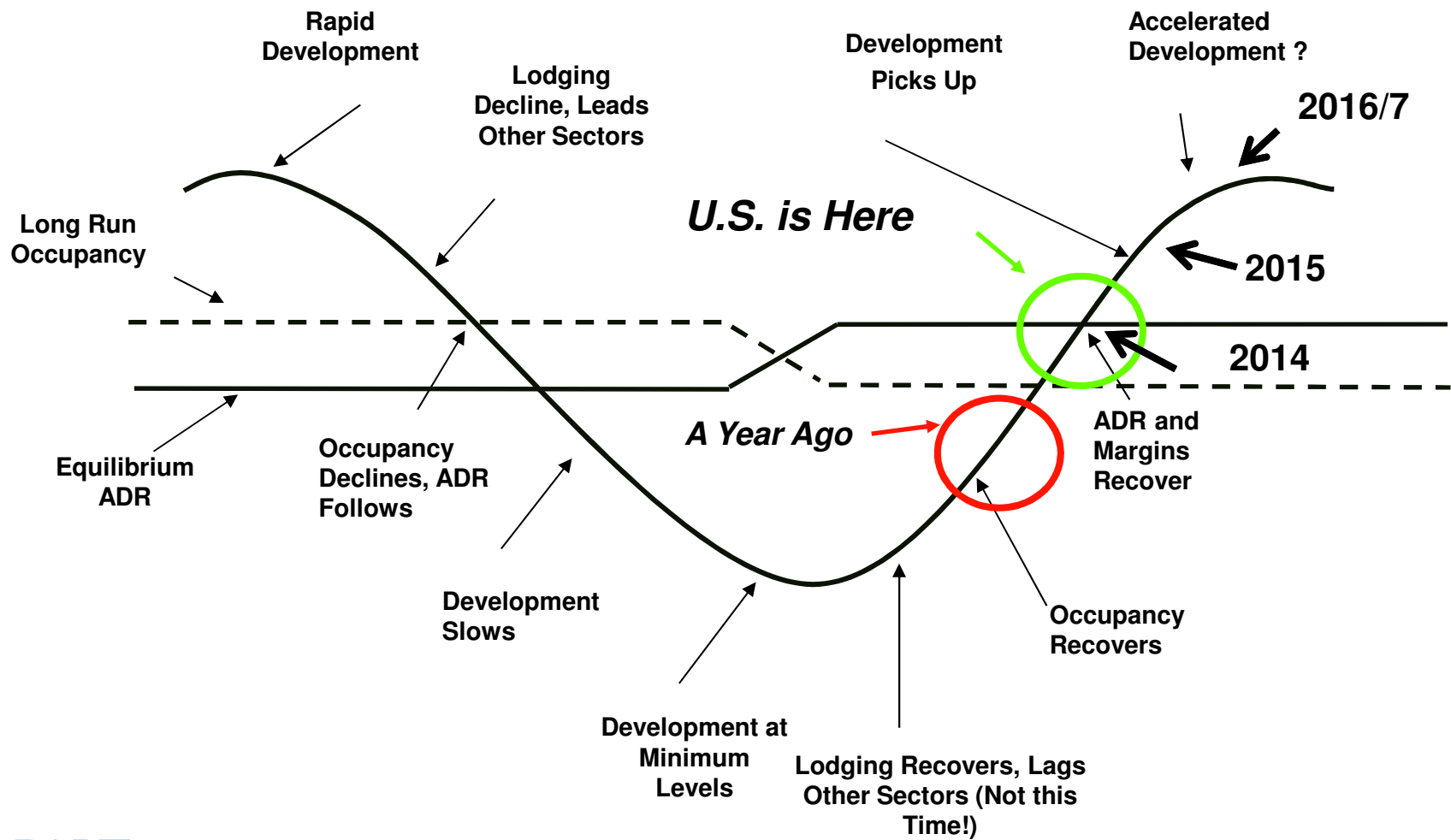
An occupancy level of 65.0 percent, the highest level of occupancy ever recorded by STR, Inc.

14 of the 55 markets in the *Hotel Horizons*[®] universe will achieve their highest occupancy levels in the past 25 years.

49 of 55 markets are above their long run average occupancy level.



THE HOTEL MARKET CYCLE

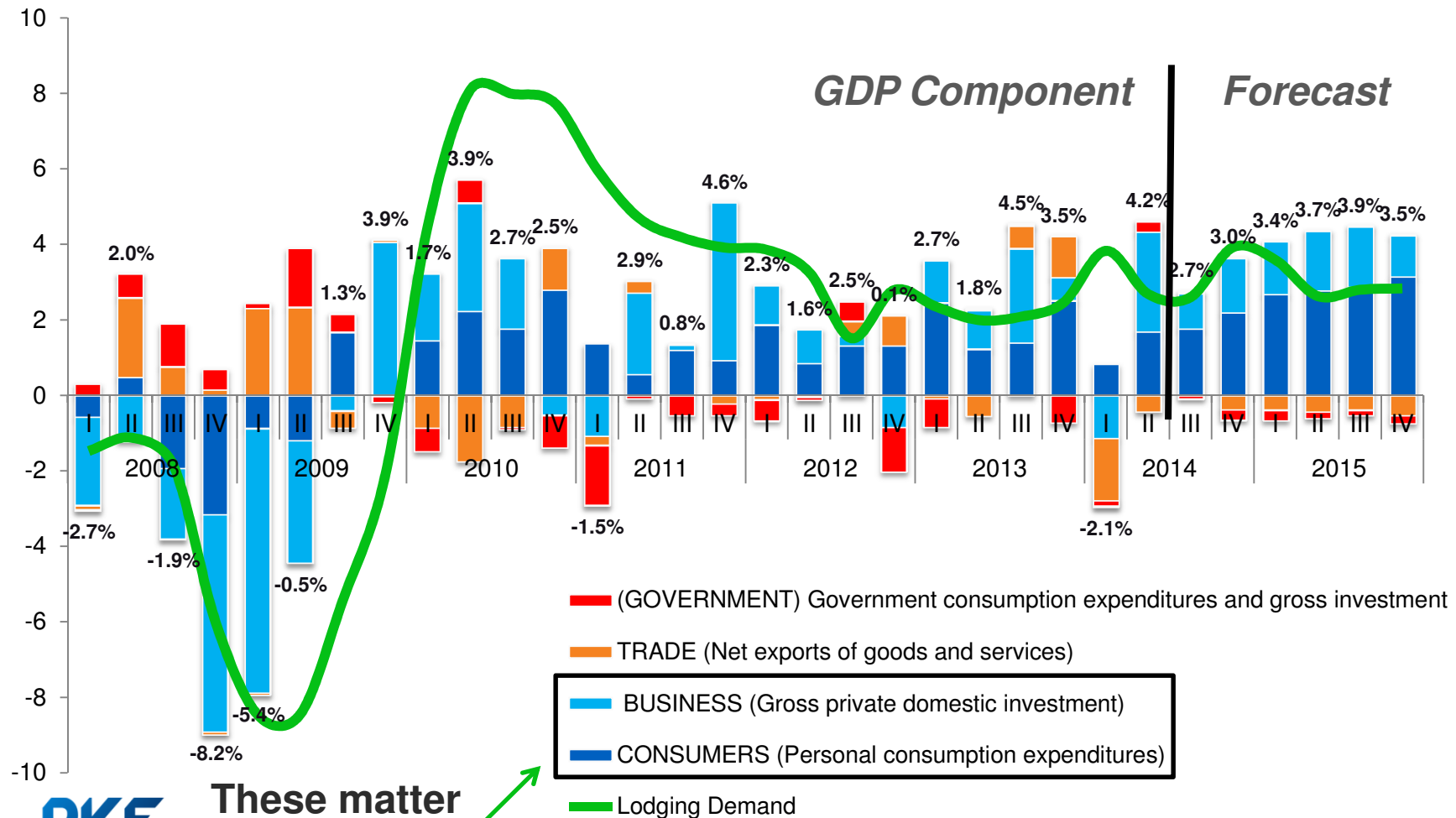


SUMMARY

WHAT COULD DERAIL THE RECOVERY?

- 1. The Economy**
- 2. Asset Price Bubble**
- 3. Unpredictable Demand Shock**
- 4. Oil/Energy Price Increases**
- 5. Over Building**

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



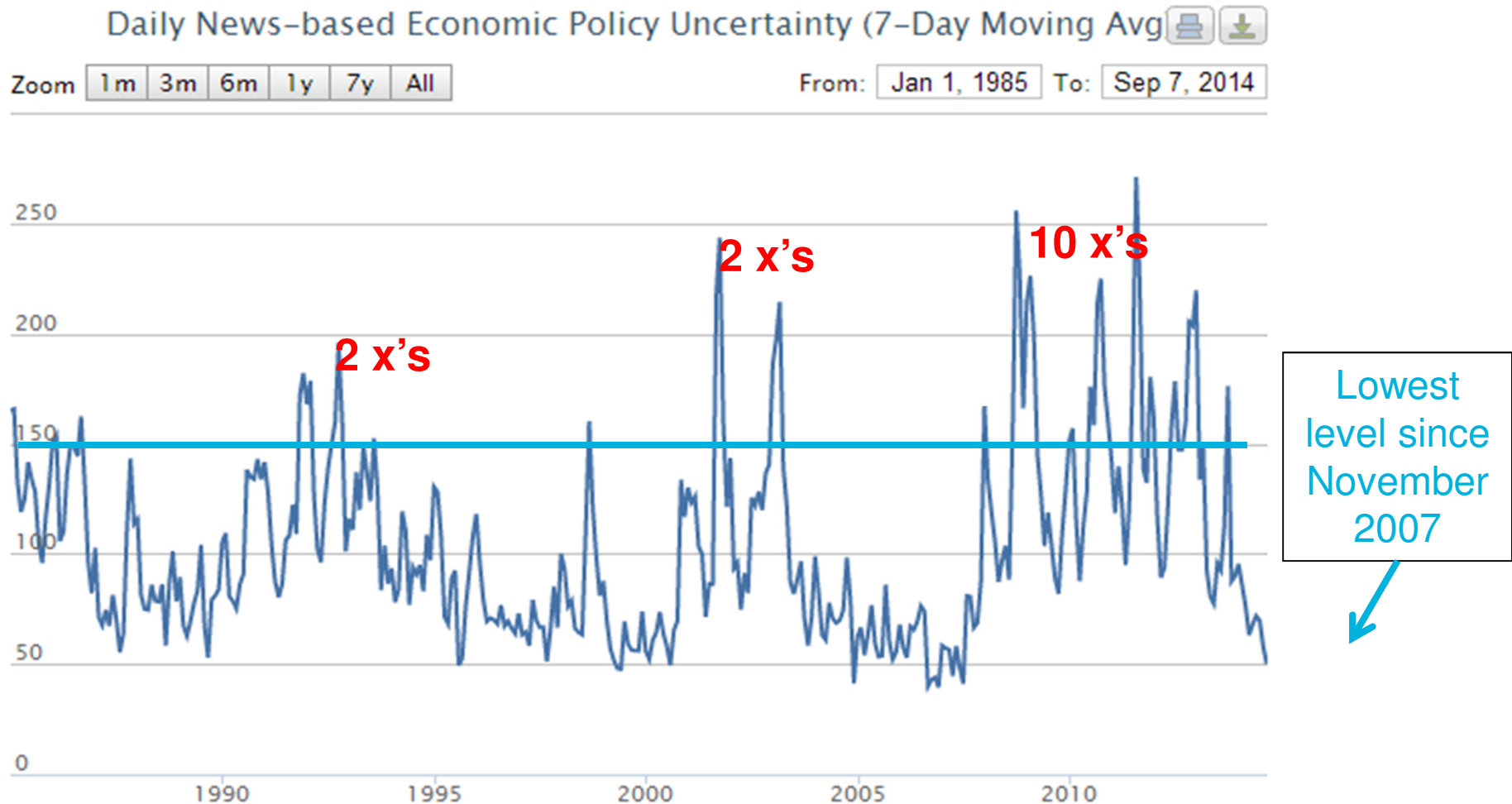
These matter the most.

QUESTION:

What do you do when you are uncertain about something?

Nothing! (if you can)

WHY PEOPLE DON'T TRAVEL:



WHY PEOPLE DON'T TRAVEL:



12-quarter moving average change in demand per STR, Inc.

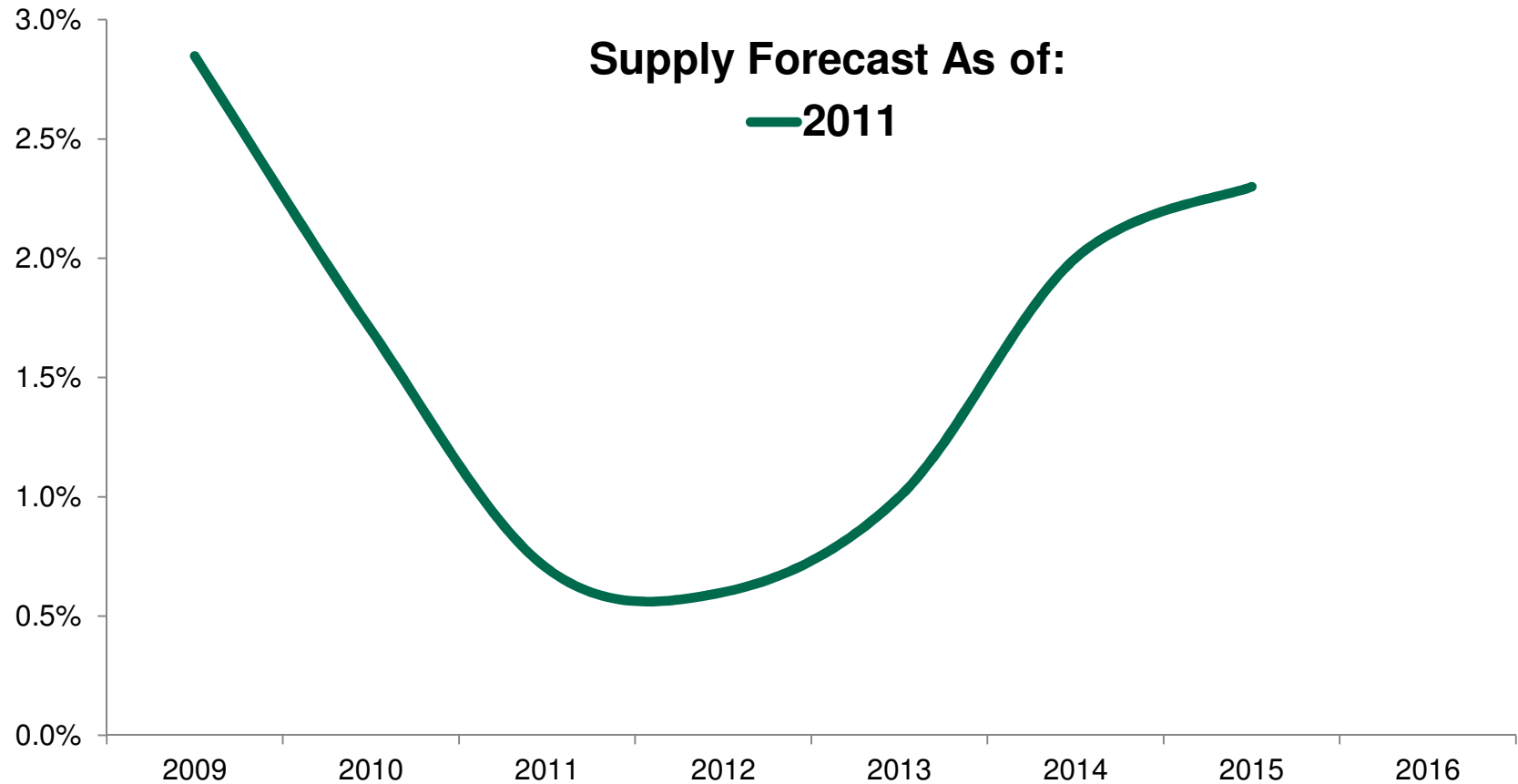
Next Topic

THE SUPPLY STORY

Why Is The Lag So Long?

2011: SIGNS OF SUSTAINED RECOVERY

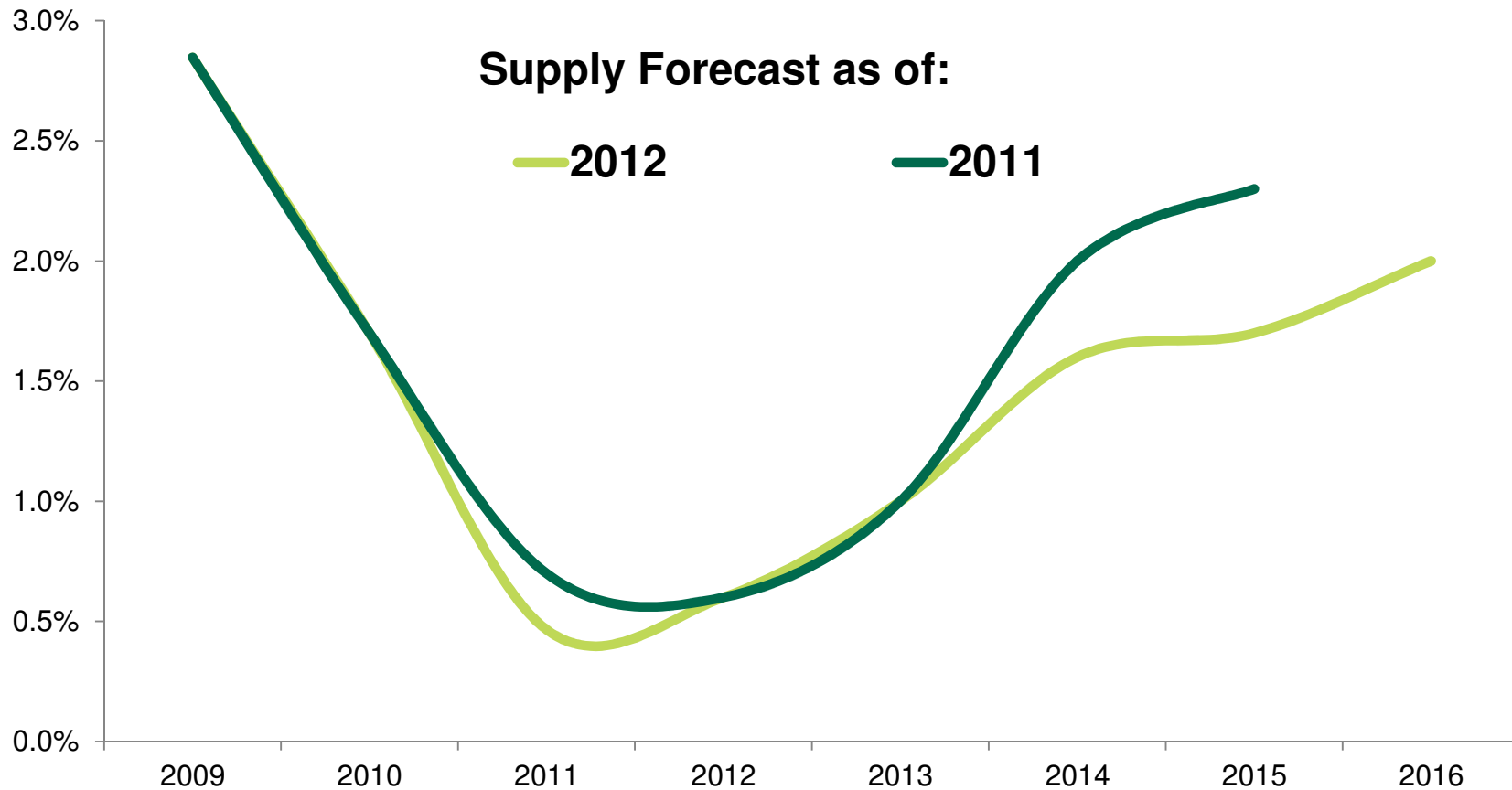
Focus on Development Lifts



Source: PKF Hospitality Research, STR, Inc.

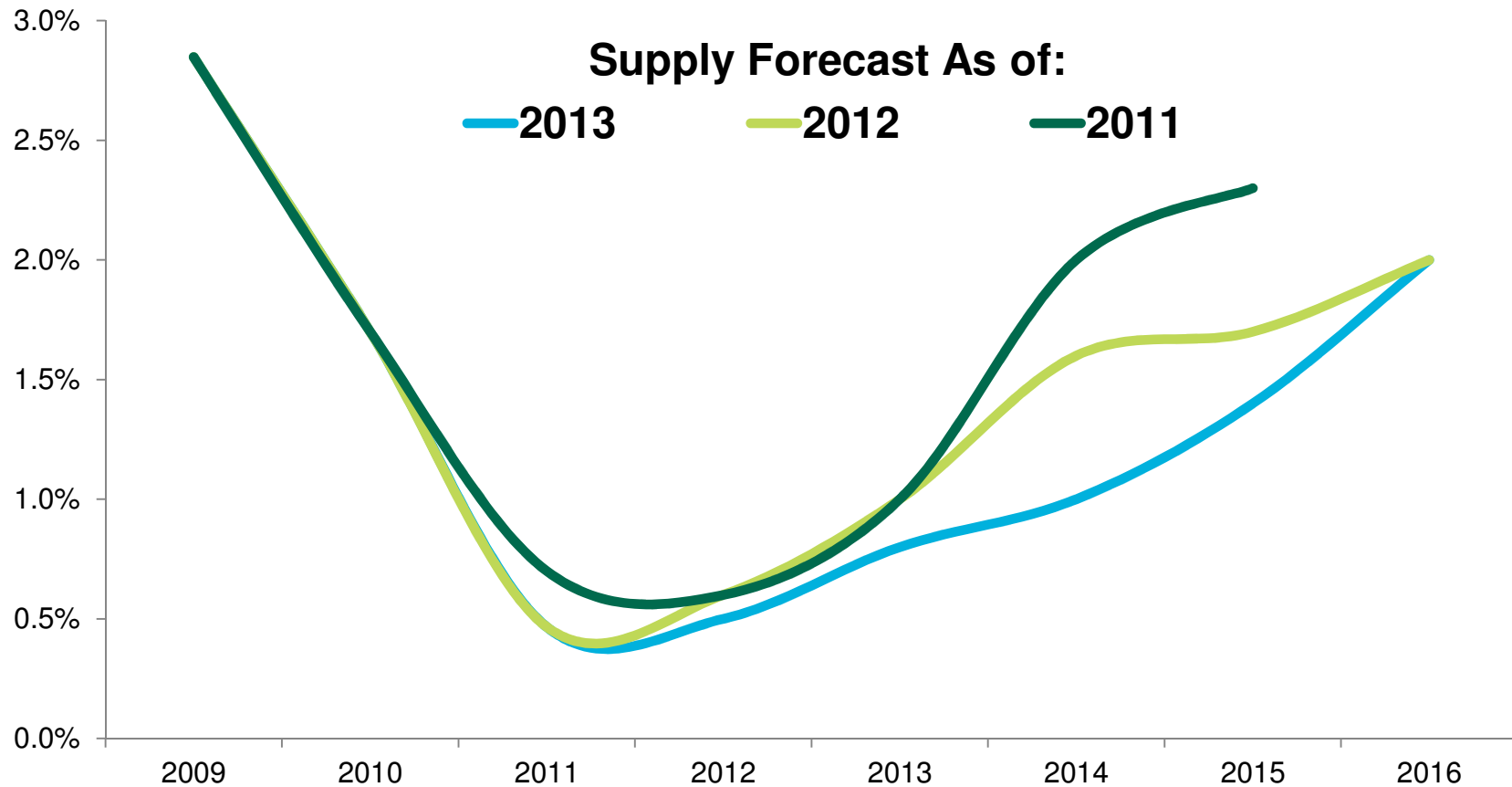
2012: RECOVERY CONTINUES

Lagging ADR Growth Suggests Longer Supply Cycle



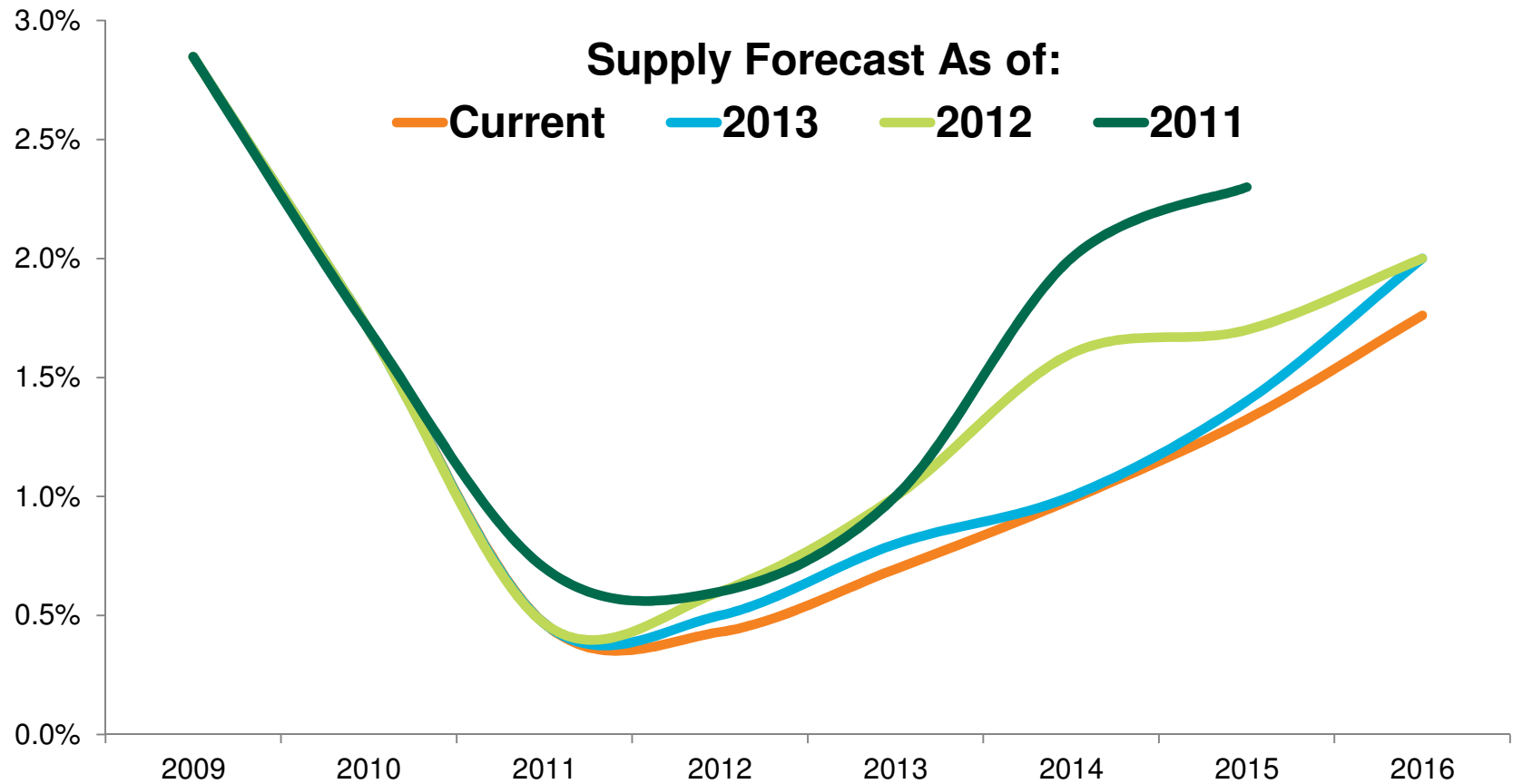
Source: PKF Hospitality Research, STR, Inc.

2013: RECORD DOMESTIC DEMAND STILL NOT ENOUGH TO ACCELERATE NEW CONSTRUCTION



Source: PKF Hospitality Research, STR, Inc.

2014: NEAR TERM SUPPLY OUTLOOK BEGINS TO STABILIZE



Source: PKF Hospitality Research, STR, Inc.

WHY SO LITTLE NEW CONSTRUCTION?

- 1. Financing remains a challenge.***
- 2. Elevated uncertainty that characterized this past cycle has not yet been forgotten.***
- 3. Construction costs are rising faster than property values in many markets, undermining the feasibility of new development.***
- 4. Scarcity of brands that lenders are willing to finance.***

TROUBLING SIGNS IN THE PIPELINE?

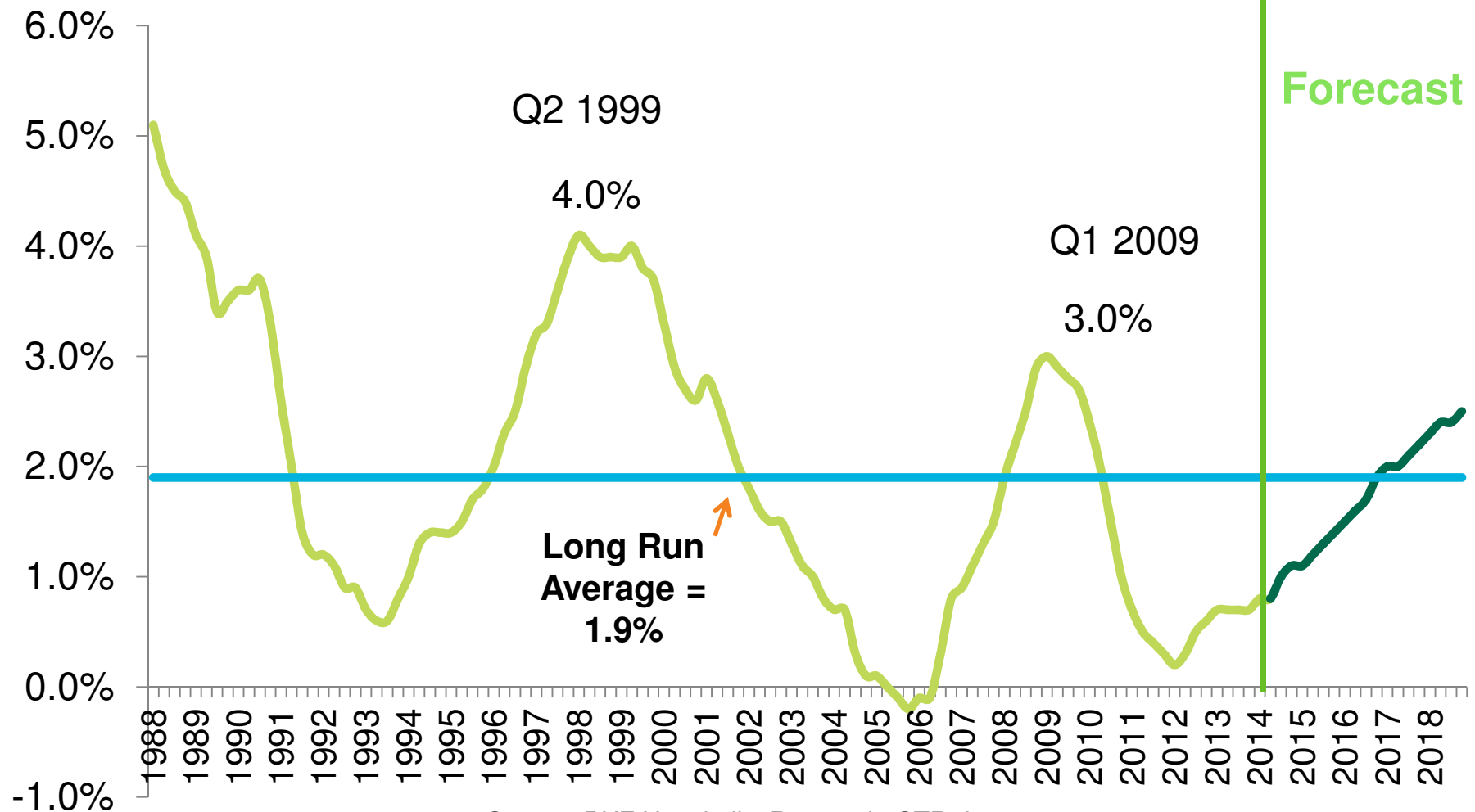
<i>Phase</i>	<i>2014</i>	<i>2013</i>	<i>% Change</i>
In Construction	108,534	75,620	43.5%
Final Planning	124,328	125,745	<1.1%>
Planning	155,497	127,017	22.4%
Active Pipeline	<u>388,359</u>	<u>328,382</u>	18.3%

Total U.S. Pipeline, Number of Rooms by Phase, July 2014 and 2013

Question:

**WHEN WAS HOTEL OVERBUILDING
LAST A CONCERN?**

U.S. SUPPLY CHANGE



Source: PKF Hospitality Research, STR, Inc.

TODAY VS. THE PREVIOUS PEAK OF CONSTRUCTION ACTIVITY

Q1 2008

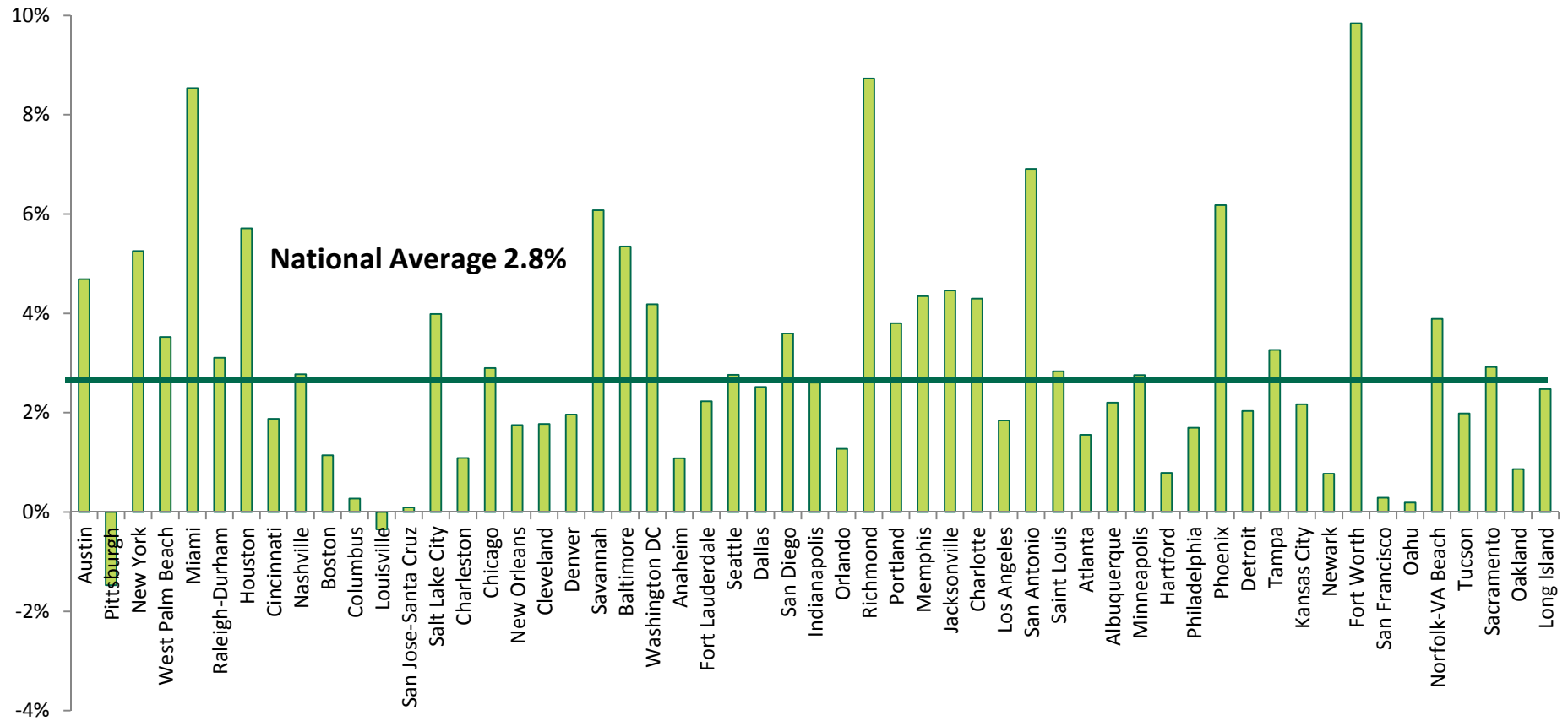
<i>Phase</i>	<i>2014</i>	<i>Q1/2008</i>	<i>% Difference Change</i>
In Construction	108,534	207,468	-47.7%
Final Planning	124,328	113,419	9.6%
Planning	155,497	344,363	-54.8%
Active Pipeline	<u>388,359</u>	<u>665,250</u>	-41.6%

Total U.S. Pipeline, Number of Rooms by Phase, July 2014 and March 2008

Source: STR, Inc.

NET SUPPLY CHANGE

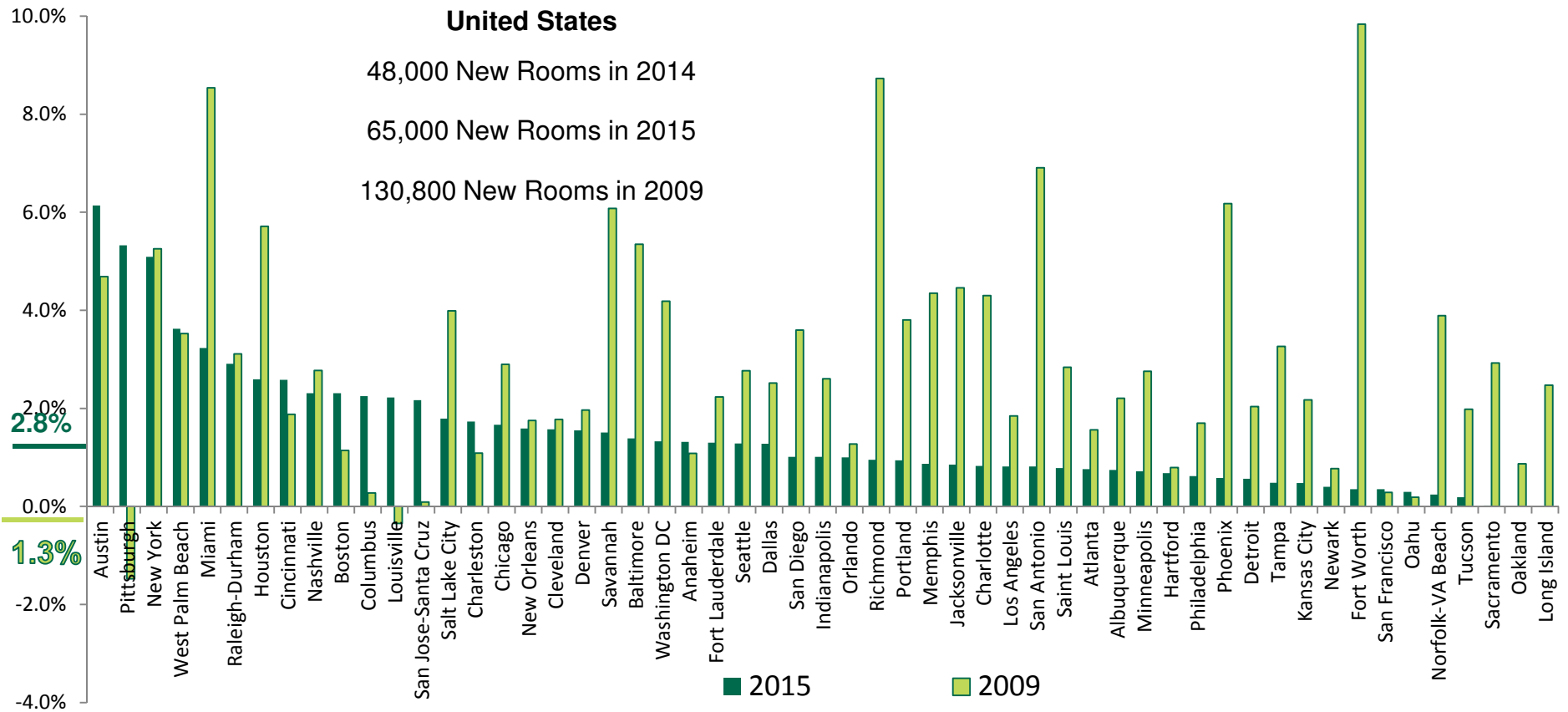
2009



Source: STR, Inc.

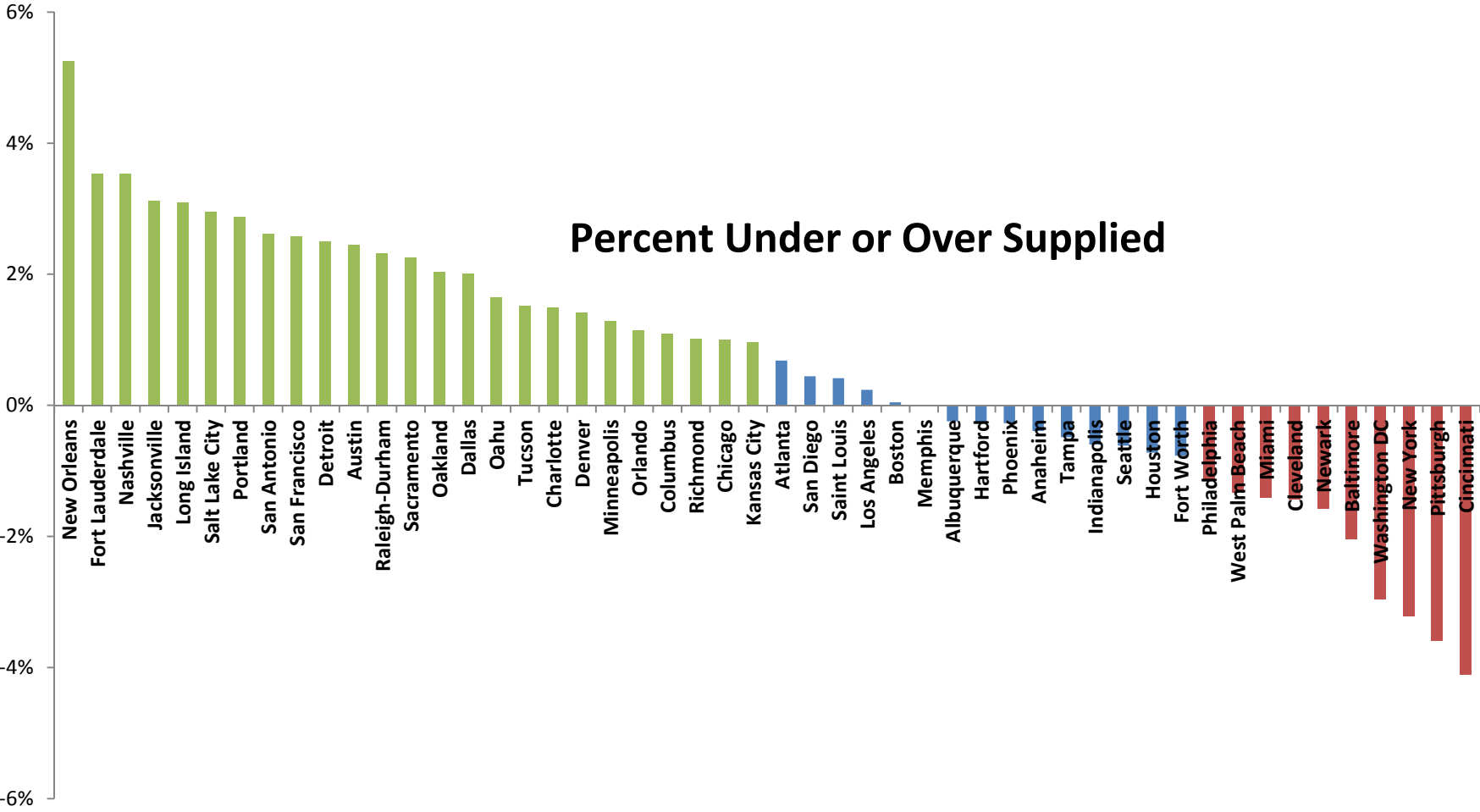
NET SUPPLY CHANGE

2009 vs. 2015



Source: PKF-HR Hotel Horizons® September-November 2014 Edition, STR, Inc.

MODELED OUTPUT: UNDER VS OVER SUPPLIED MARKETS



Source: PKF Hospitality Research

Next Topic

OUR FORECASTS

NATIONAL FORECAST

2014-2016

	Long Term Average	2009	2010	2011	2012	2013	2014F	2015F	2016F
Supply	1.9%	2.8%	1.7%	0.5%	0.5%	0.7%	0.9%	1.3%	1.7%
Demand	2.1%	-6.2%	7.2%	4.7%	3.0%	2.2%	4.5%	2.2%	1.6%
Occupancy	61.9%	54.5%	57.5%	59.9%	61.4%	62.2%	64.4%	65.0%	64.9%
ADR	2.9%	-8.7%	0.0%	3.8%	4.2%	3.9%	4.5%	5.7%	5.9%
RevPAR	2.9%	-16.7%	5.4%	8.2%	6.8%	5.4%	8.2%	6.7%	5.8%

Passing Through Long Run Average Level

REVPAR FORECAST BY LOCATION

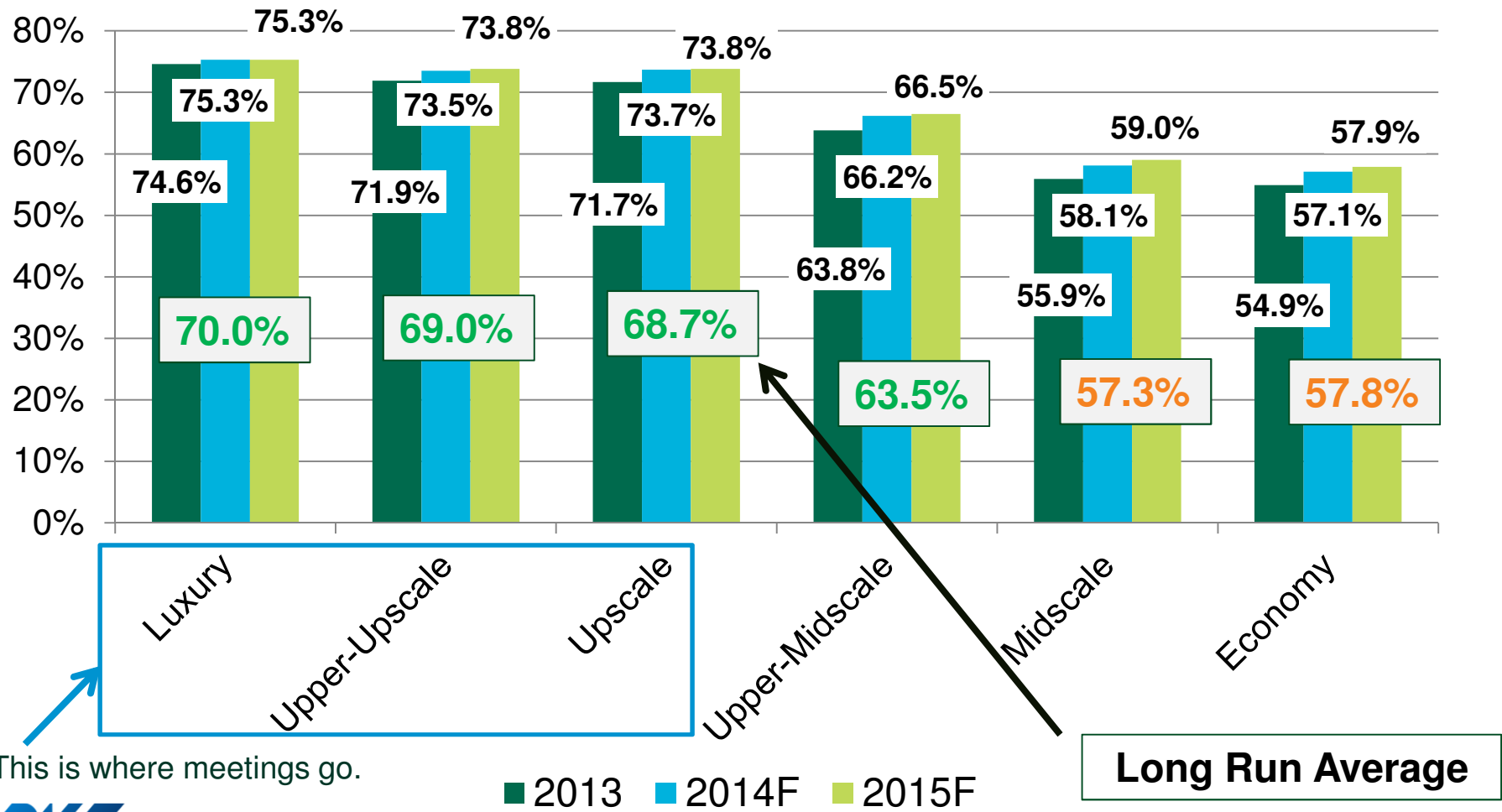
ONLY INTERSTATE AND SMALL TOWN BEHIND PRE-RECESSION OCCUPANCY

Location	2013	2014F	2015F
Urban	6.1%	6.7%	6.5%
Suburban	5.3%	9.3%	7.8%
Airport	5.6%	8.8%	6.3%
Interstate	3.1%	7.2%	4.8%
Resort	7.1%	9.3%	6.8%
Small Town / Metro	3.7%	7.0%	4.8%
All Hotels	5.4%	8.2%	6.7%

Source: PKF Hospitality Research, September – November 2014 *Hotel Horizons*[®], STR, Inc.

FORECAST OCCUPANCY LEVELS

By Chain-Scale



This is where meetings go.

REVPAR FORECAST BY CHAIN-SCALE

Lower-Priced Categories Moving Up The Recovery Curve

<i>Chain-Scale</i>	<i>2013</i>	<i>2014F</i>	<i>2015F</i>
Luxury	7.6%	5.9%	6.4%
Upper-Upscale	5.8%	7.2%	6.5%
Upscale	5.4%	8.1%	6.2%
Upper-Midscale	4.2%	8.1%	5.1%
Midscale	4.1%	7.9%	5.9%
Economy	4.8%	9.1%	6.5%
All Hotels	5.4%	8.2%	6.7%

Next Topic

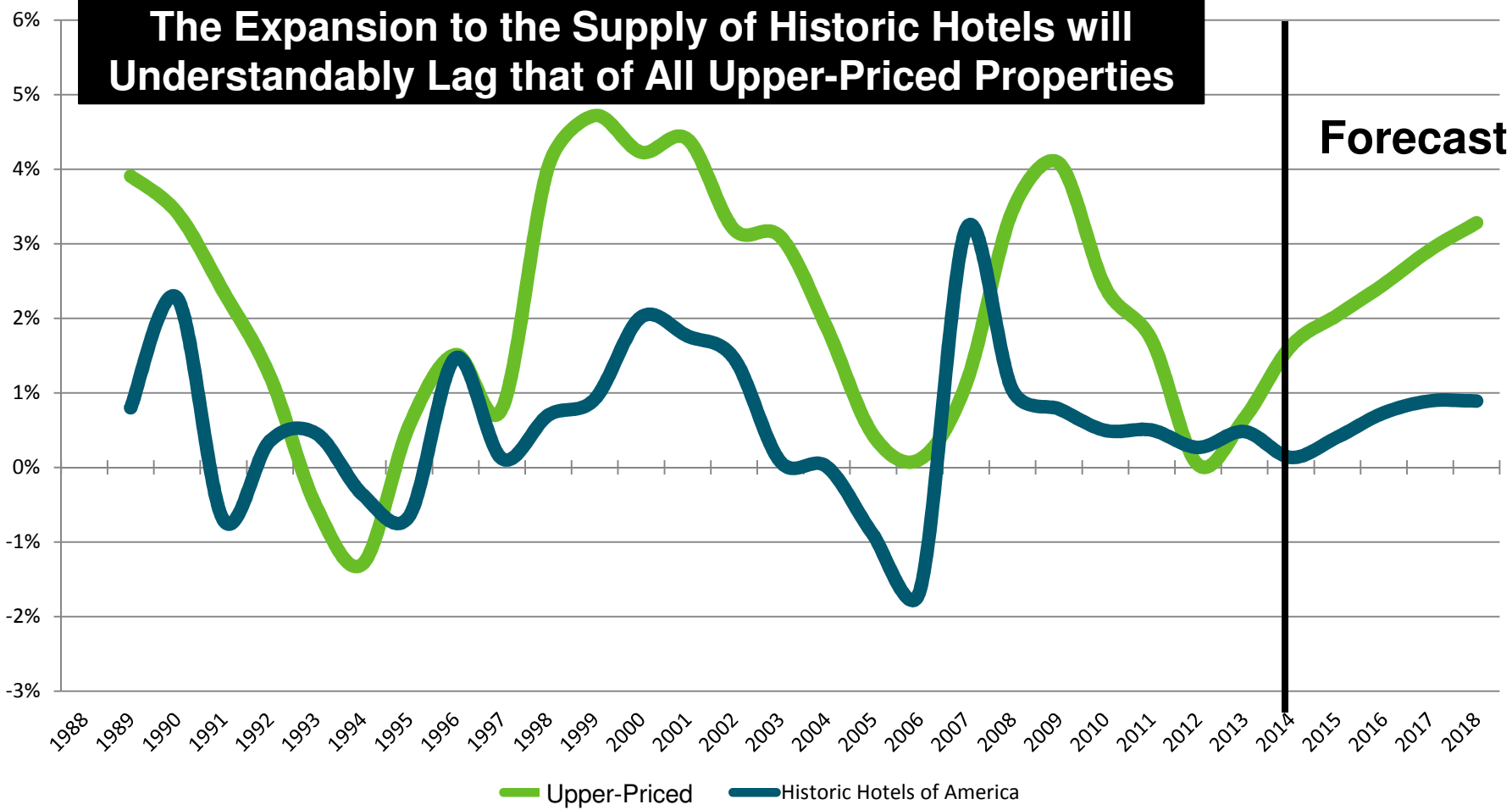
REVENUE OUTLOOK AND HISTORIC COMPARISON

Historic Hotels vs All Upper-Priced Counterparts

HISTORIC HOTELS VS ALL UPPER-PRICED HOTELS*

Supply Change

The Expansion to the Supply of Historic Hotels will Understandably Lag that of All Upper-Priced Properties



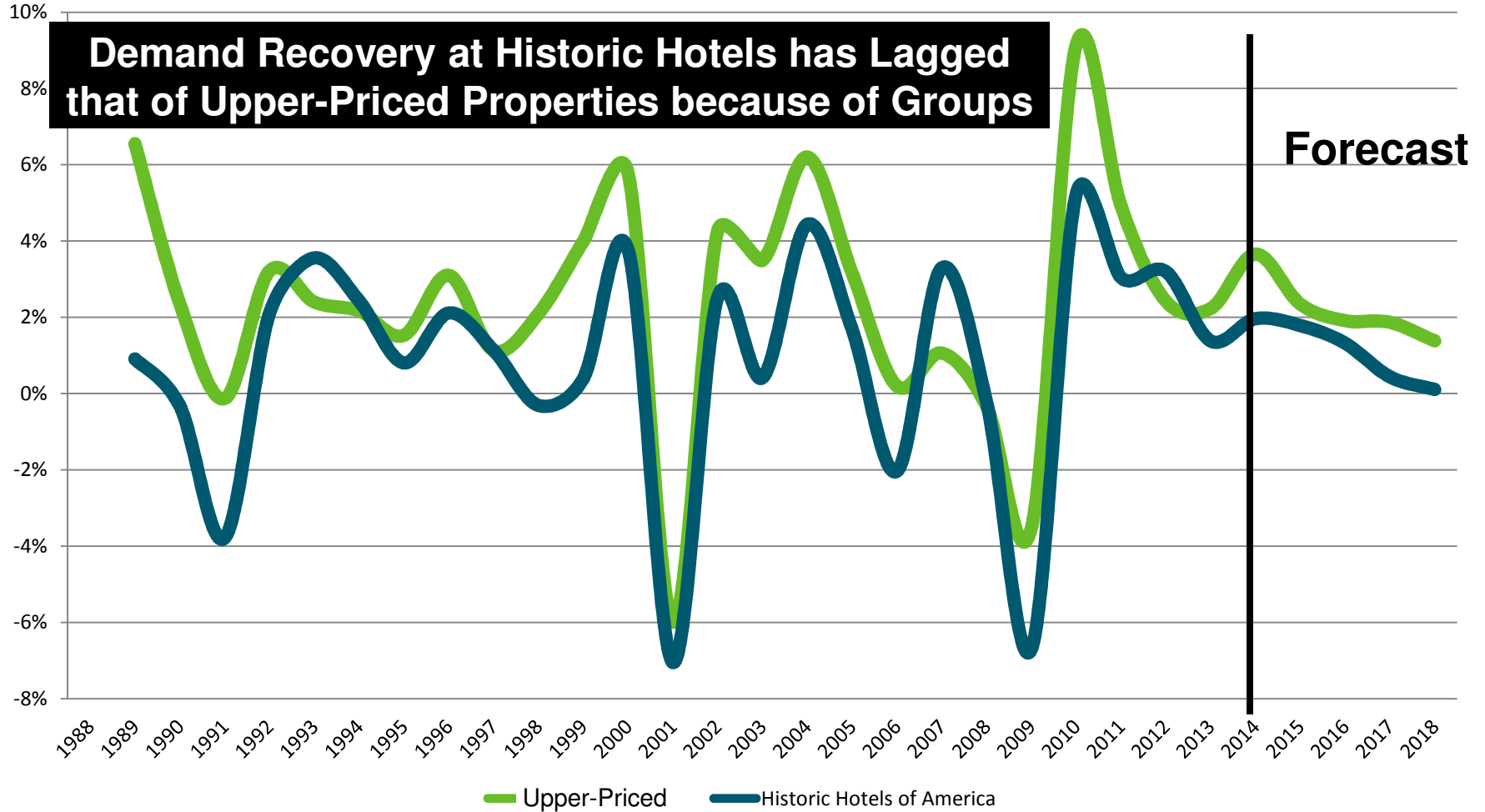
Forecast



Note: * Upper-Upscale and Luxury Hotels
Source: STR, Inc., PKF Hospitality Research

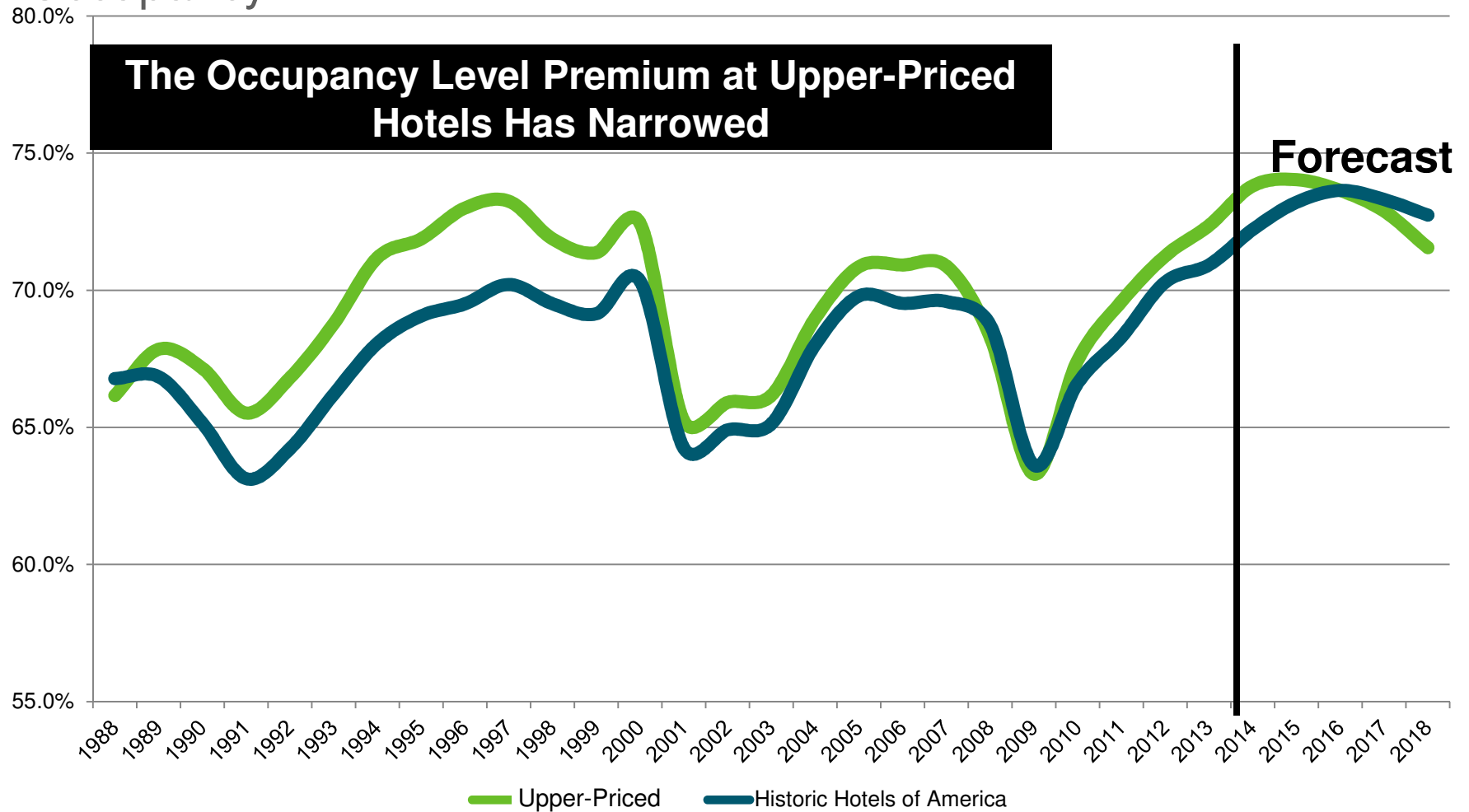
HISTORIC HOTELS VS UPPER-PRICED*

Demand Change



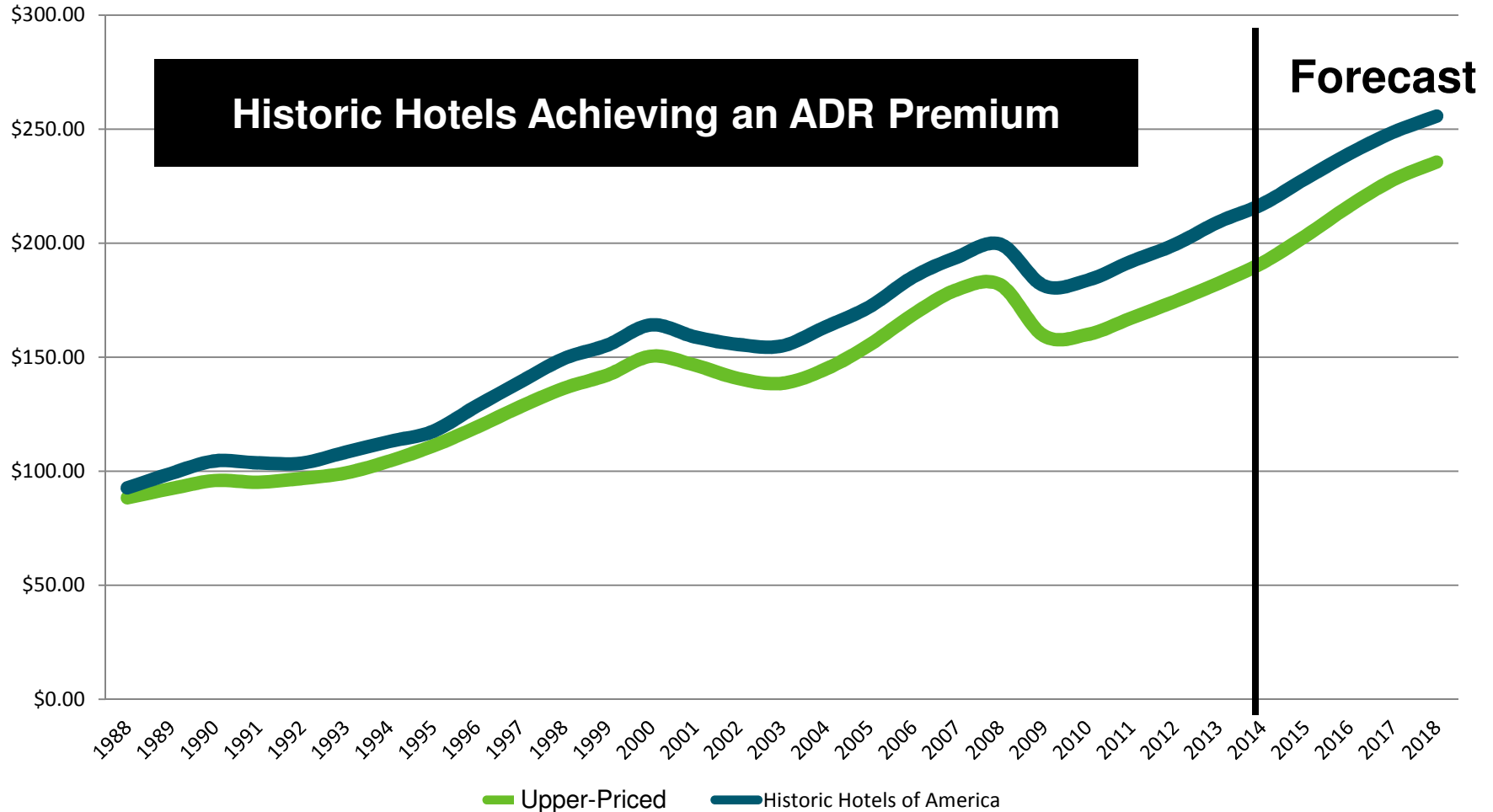
HISTORIC HOTELS VS UPPER-PRICED*

Occupancy



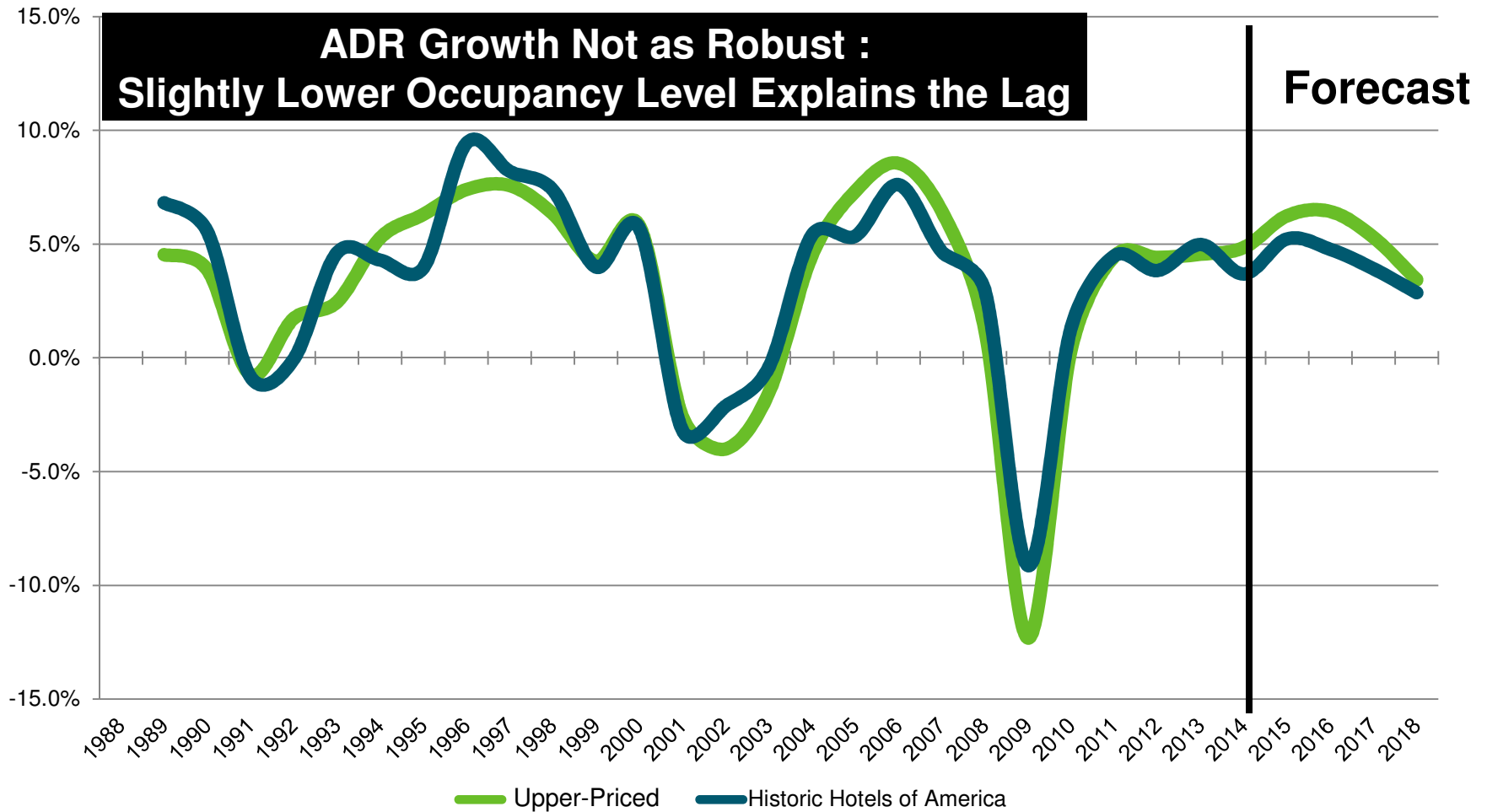
HISTORIC HOTELS VS UPPER-PRICED*

Average Daily Rate



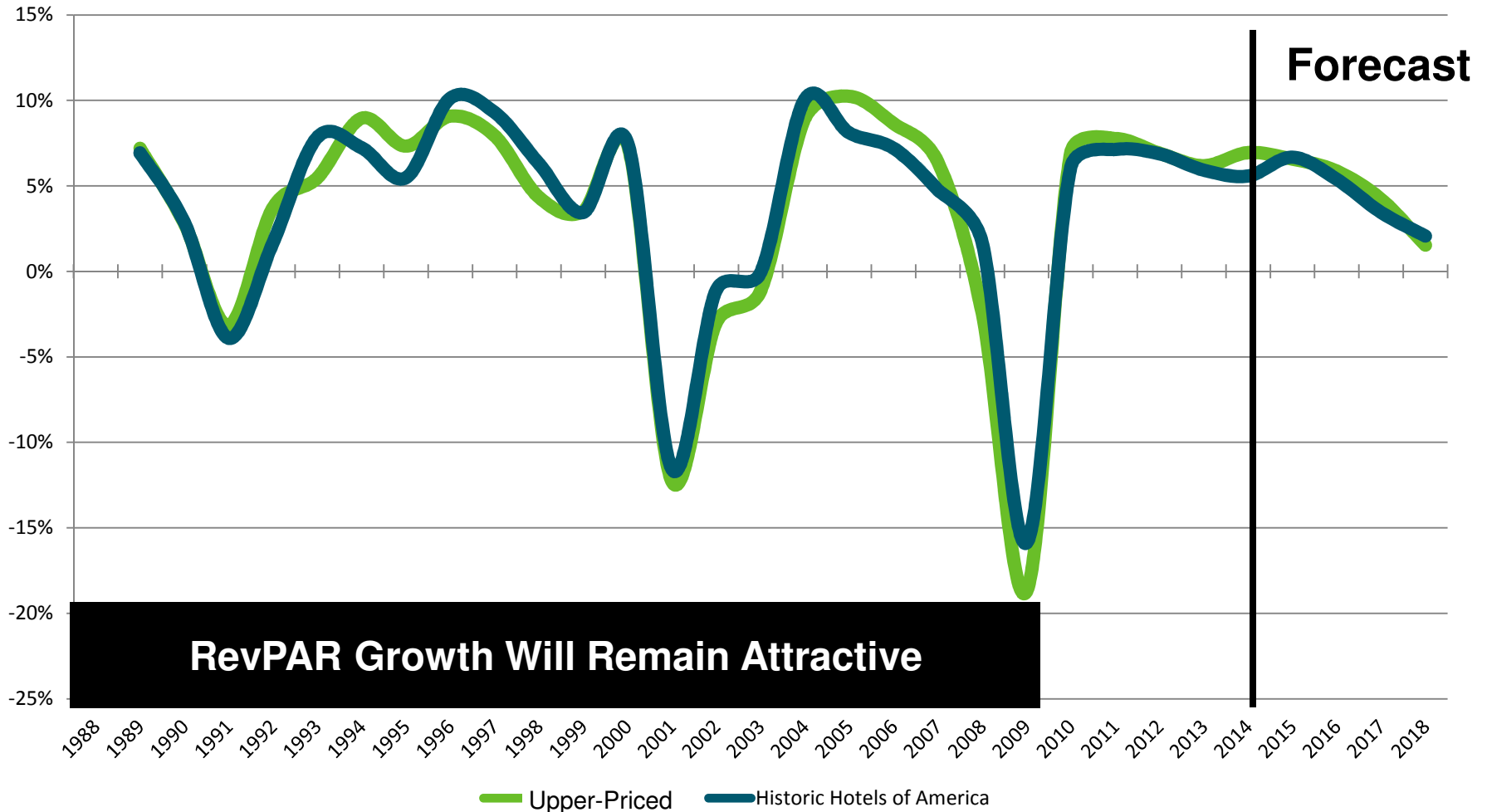
HISTORIC HOTELS VS UPPER-PRICED*

ADR Change



HISTORIC HOTELS VS UPPER-PRICED*

RevPAR Change



RevPAR Growth Will Remain Attractive

Next Topic

FINANCIAL BENCHMARKING
Historic vs Contemporary Hotels

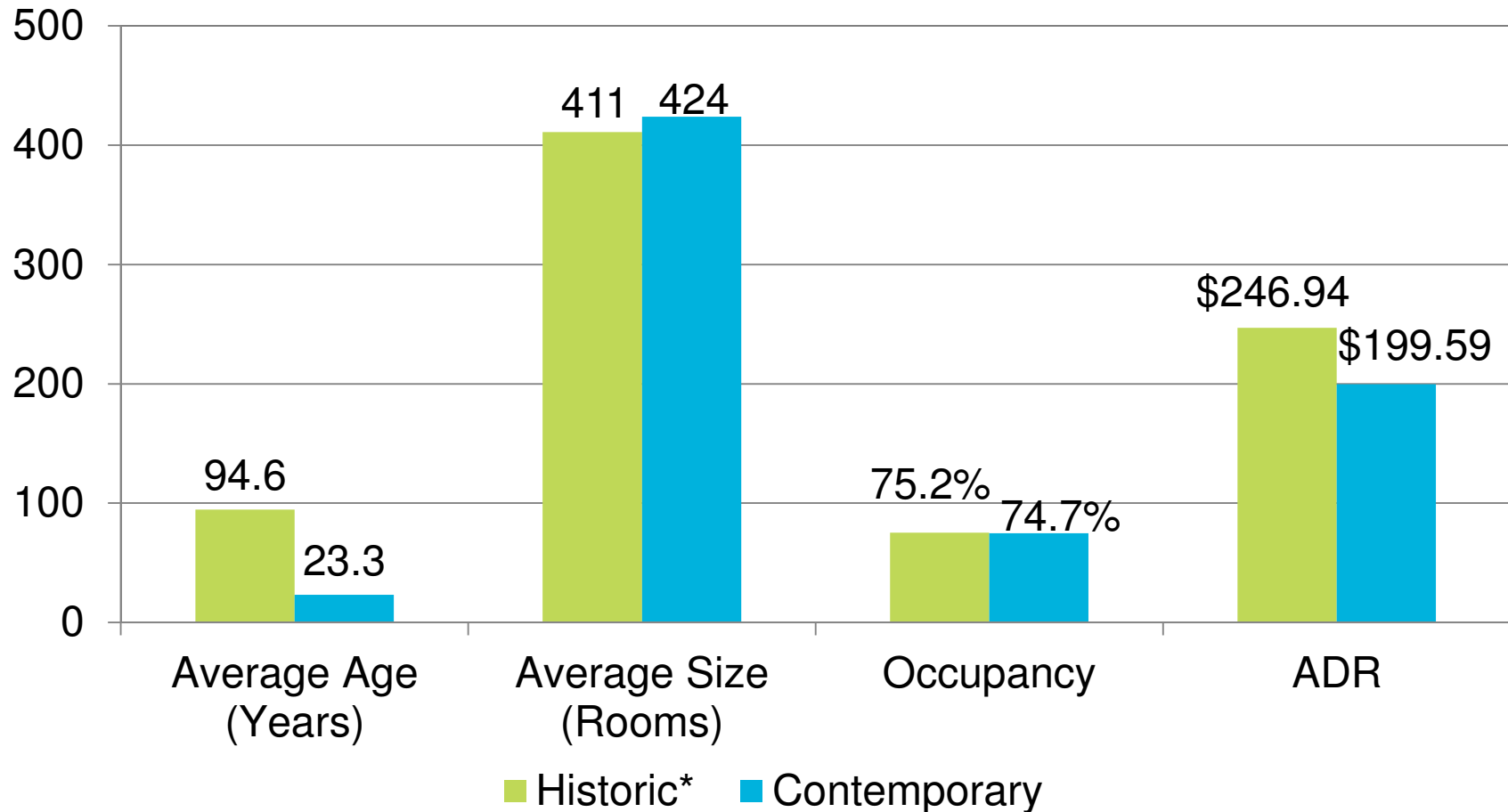
FINANCIAL BENCHMARKING

Methodology

- From PKF-HR's *Trends® in the Hotel Industry* database, we pulled operating performance data for two sets of properties
 - Upper-upscale and luxury hotels open before 1960 (historic sample)
 - Upper-upscale and luxury hotels open since 1960 (contemporary sample)
- All properties reported operating data each year from 2007 through 2013.
- Historic properties may, or may not, be a member of Historic Hotels of America.
- Both samples consist of independent and chain-affiliated hotels.

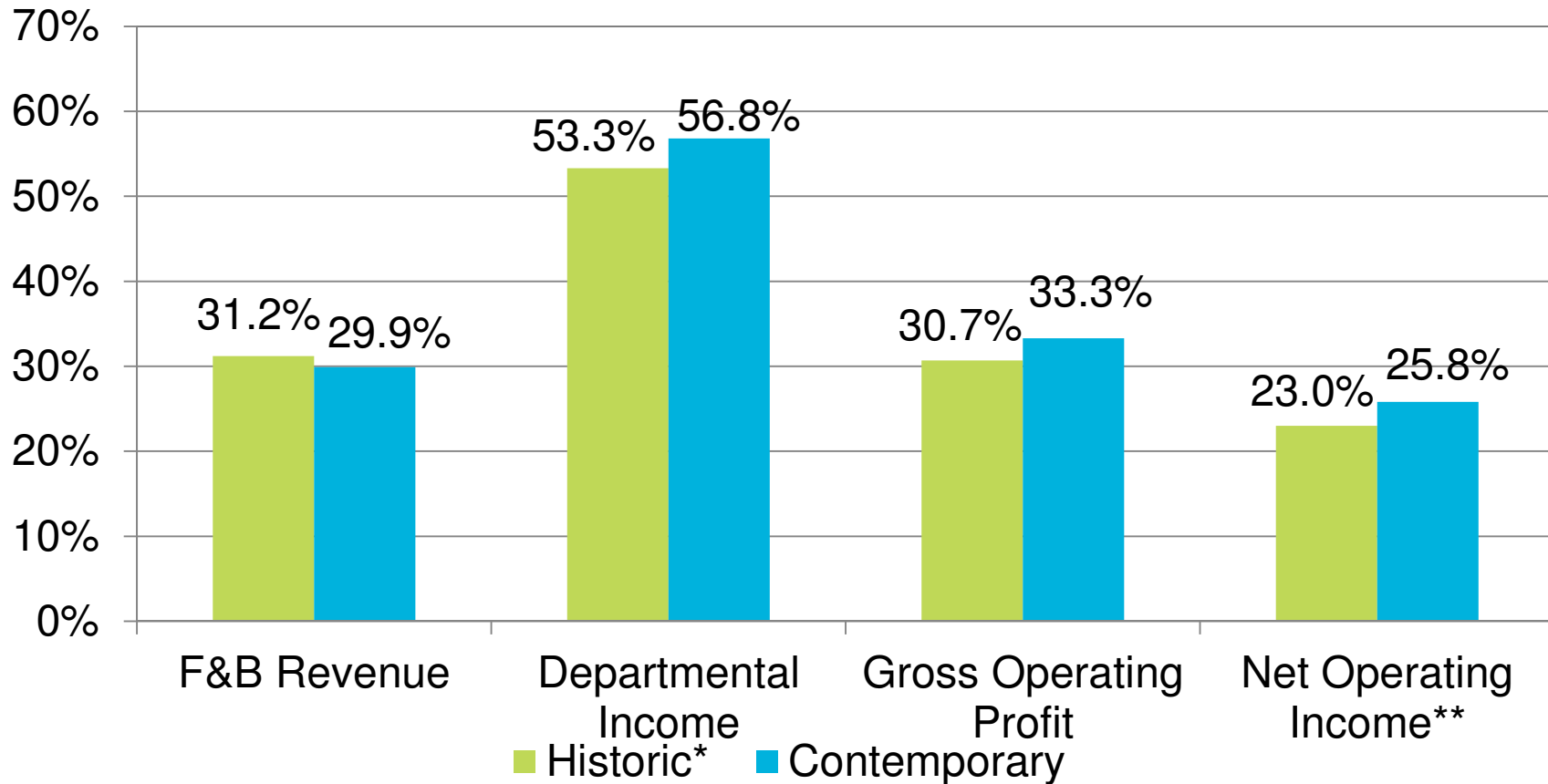
HISTORIC* VS CONTEMPORARY HOTELS

2013 Profile of Samples



HISTORIC* VS CONTEMPORARY HOTELS 2013 COMPARATIVE PERFORMANCE

Percent of Total Revenue



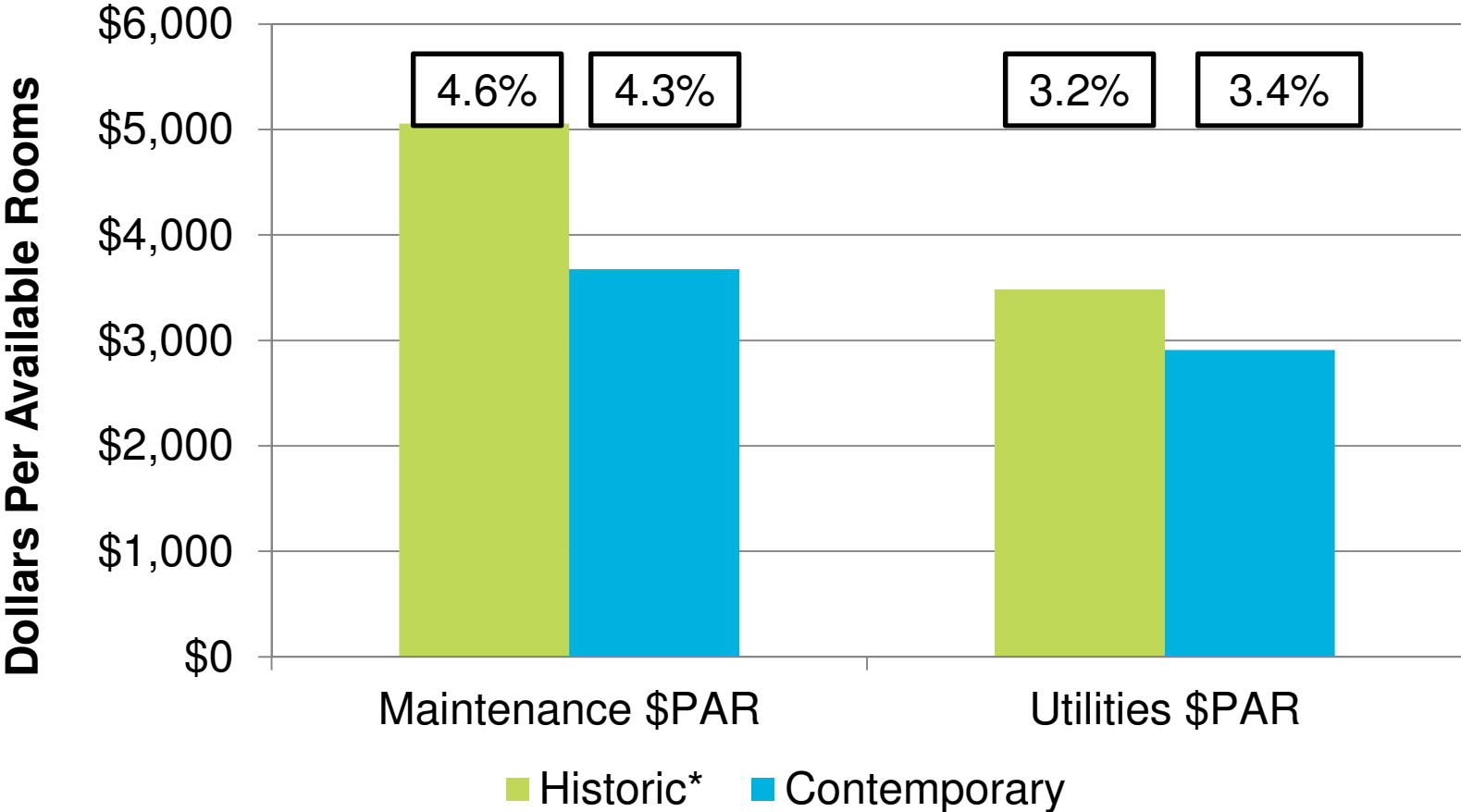
Note: *Open Before 1960, Luxury and Upper-Upscale

** Income before deduction for capital reserve, rent, interest, income taxes, depreciation, and amortization.

Source: PKF Hospitality Research, *Trends® in the Hotel Industry*

HISTORIC* VS CONTEMPORARY HOTELS 2013 COMPARATIVE PERFORMANCE

Maintenance and Utility Expenses



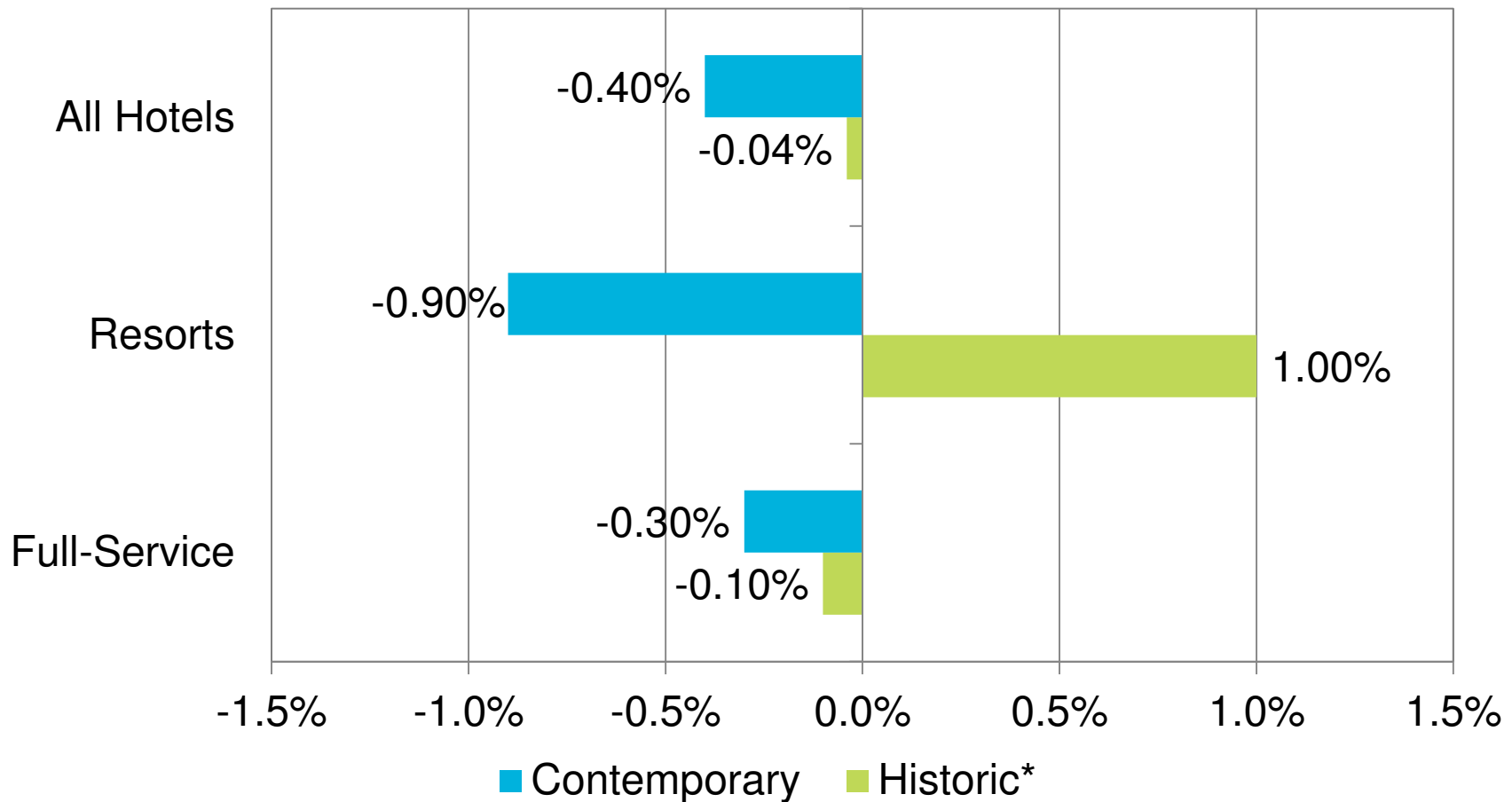
Note: *Open Before 1960, Luxury and Upper-Upscale

% - Percent of Total Revenue

Source: PKF Hospitality Research, *Trends® in the Hotel Industry*

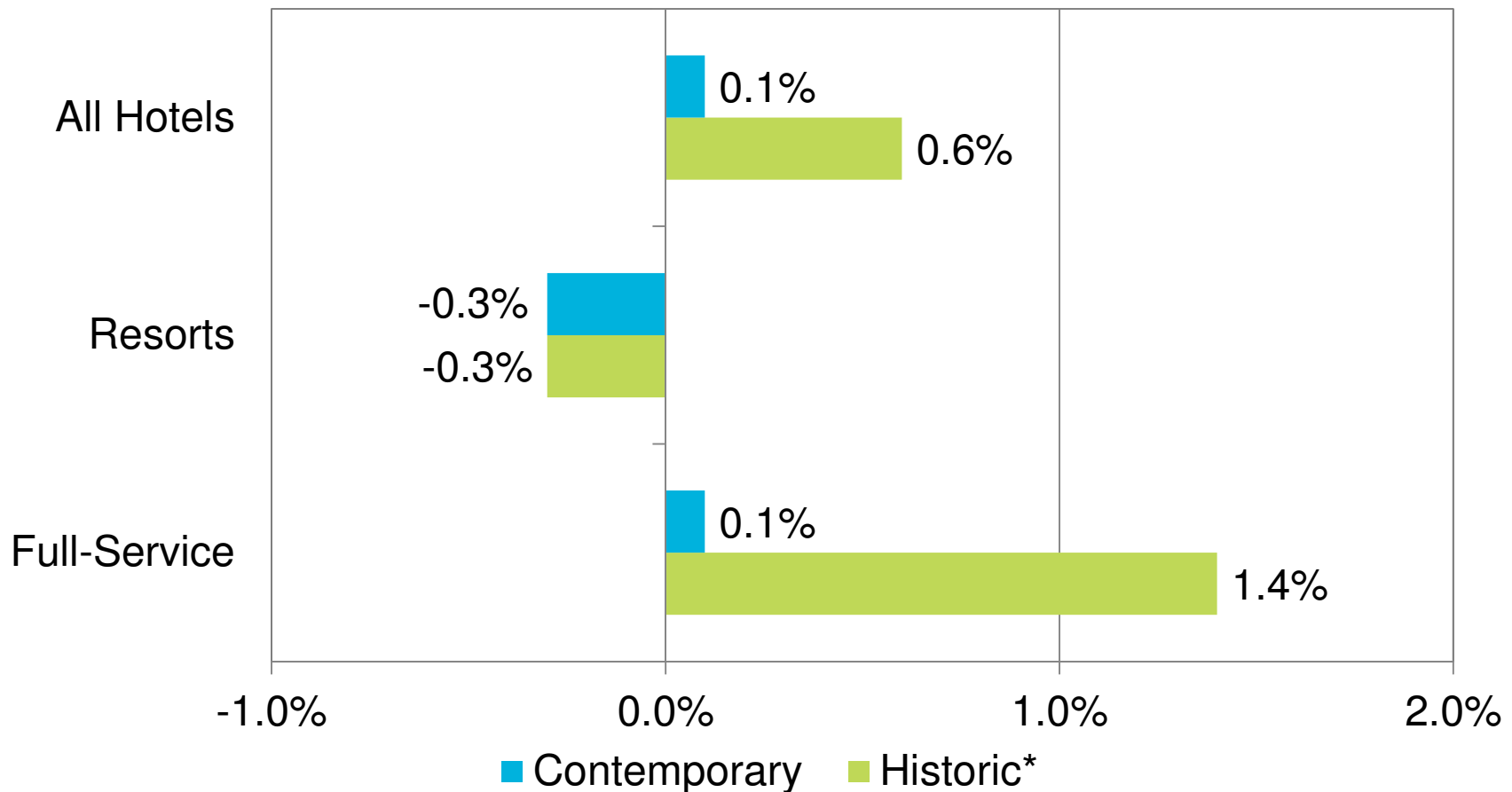
HISTORIC* VS CONTEMPORARY HOTELS TOTAL REVENUE

Compound Change 2007 – 2013



HISTORIC* VS CONTEMPORARY HOTELS TOTAL OPERATING EXPENSES**

Compound Change 2007 - 2013



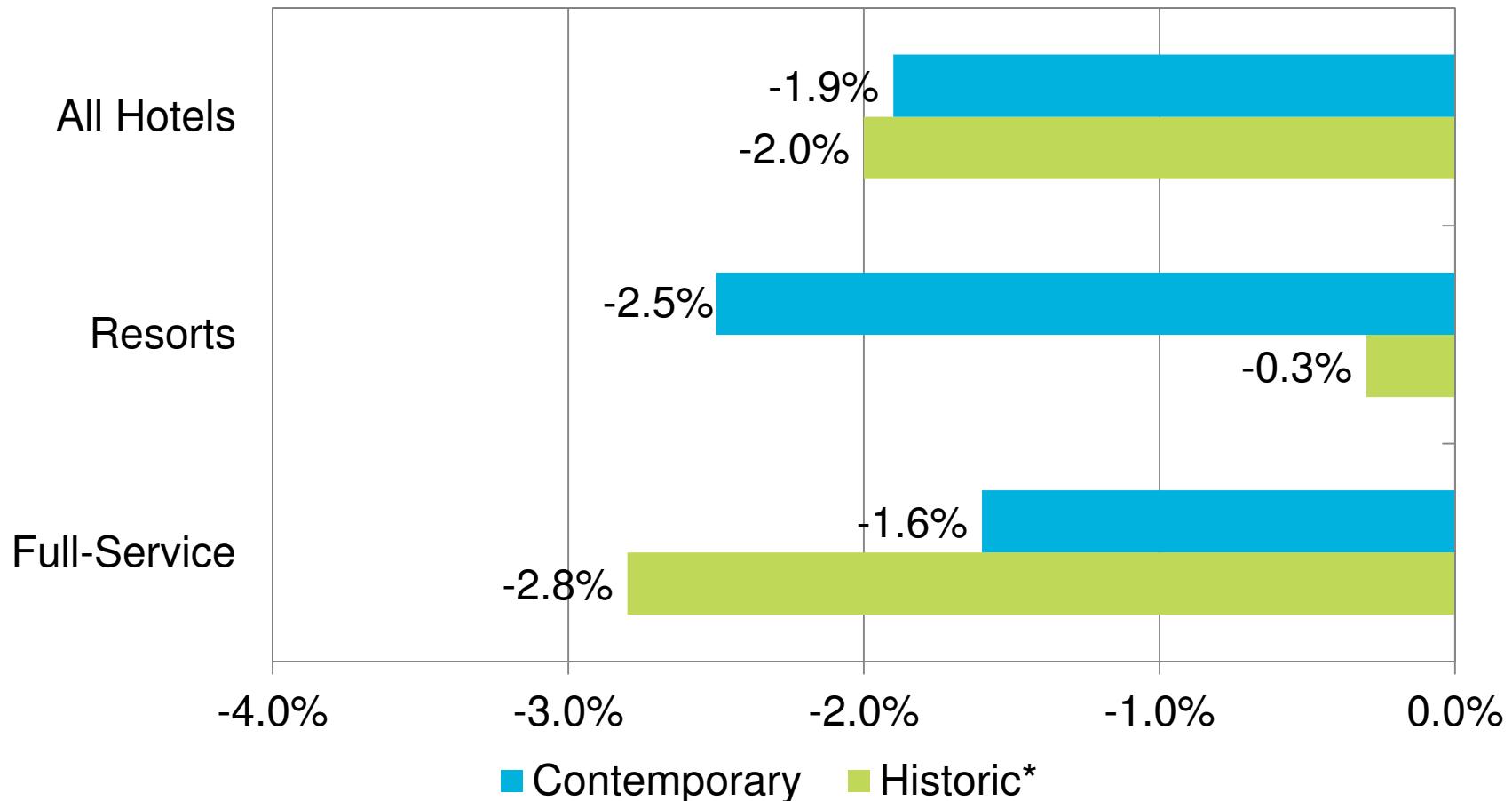
Note: *Open Before 1960, Luxury and Upper-Up-scale

** Before deduction for capital reserve, rent, interest, income taxes, depreciation, and amortization.

Source: PKF Hospitality Research, *Trends® in the Hotel Industry*

HISTORIC* VS CONTEMPORARY HOTELS NET OPERATING INCOME**

Compound Change 2007 - 2013



Note: *Open Before 1960, Luxury and Upper-Upscale

** Income before deduction for capital reserve, rent, interest, income taxes, depreciation, and amortization.

Source: PKF Hospitality Research, *Trends® in the Hotel Industry*

SUMMARY THOUGHTS

THE VERY GOODWILL 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 U.S. markets.**
- 3. Elevated industry growth will persist comfortably through 2015 and likely beyond.**

SUMMARY THOUGHTS

THE VERY GOODWILL GET EVEN BETTER

- 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.**

SUMMARY THOUGHTS

THE VERY GOODWILL GET EVEN BETTER

- 6. Historic hotels, like their contemporary counterparts, will continue to perform extremely well, with double-digit profit growth the norm, comfortably through 2016.**
- 7. It is a great time to be in the hotel business!**

THANKS FOR YOUR TIME.

H O T E L
HORIZONS®

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