



HOTEL SECTOR UPDATE - OCTOBER 2015

Historic Hotels of America

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October 8, 2015 – French Lick Resort

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CONSULTING
USA
A CBRE COMPANY

CBRE HOTELS

The World's Leading Hotel Experts.

HOTEL SECTOR UPDATE

Historic Hotels of America

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WHAT COULD DERAIL THE GOOD TIMES?

1. The Economy

Is the economy:

Good ?

Okay ?

Bad ?

**What about in a
year from today?**

WHAT COULD DERAIL THE GOOD TIMES?

1. The Economy **Okay, moving to good**
2. Asset Price Bubble **???**
3. Unpredictable Demand Shock **?**
4. Oil/Energy Price Increases **Not on the horizon**
5. Over Building **Mostly no, some yes.**



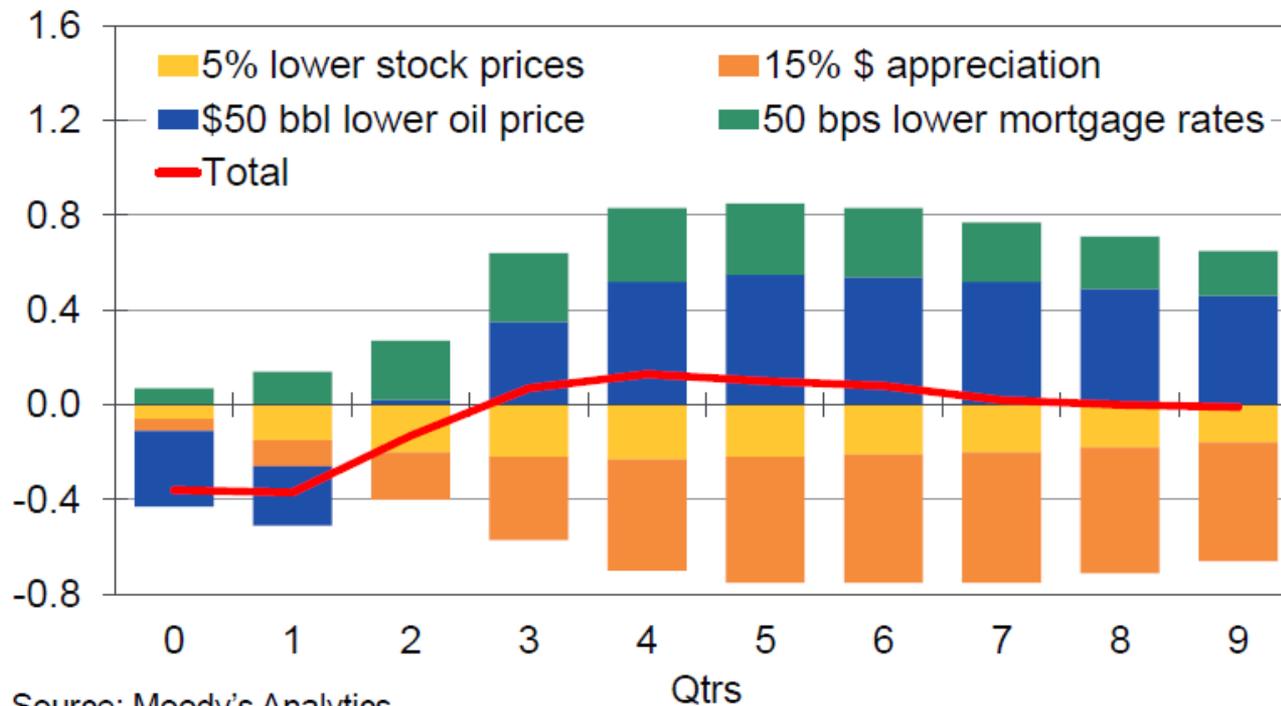
THE U.S. ECONOMY

THOUGHTS ON THE ECONOMY

(continued)

Economic Cross Currents Net Out

Real GDP deviation from no change scenario, % change



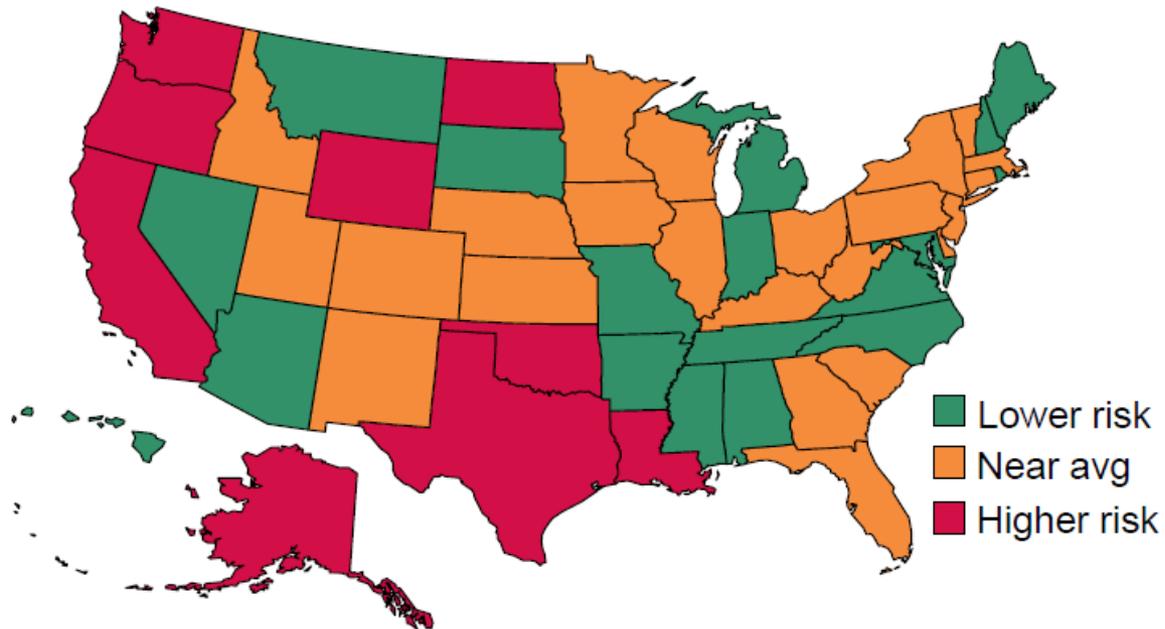
Source: Moody's Analytics

THOUGHTS ON THE ECONOMY

(continued)

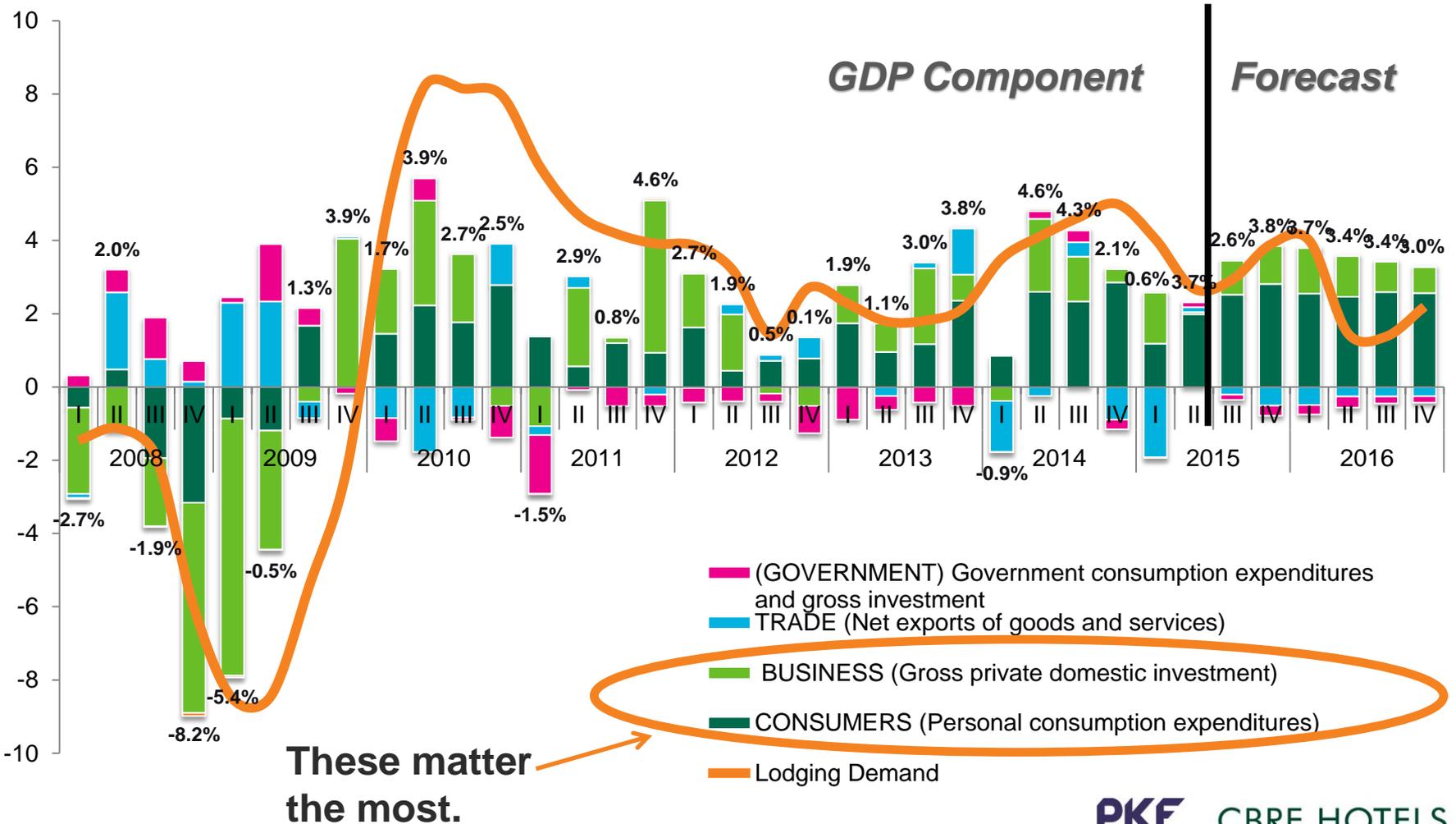
Overall Risk Index

Wealth effect 40%; trade 40%; energy 20%



Sources: BLS, Moody's Analytics

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



THE CONFERENCE BOARD L.E.I.

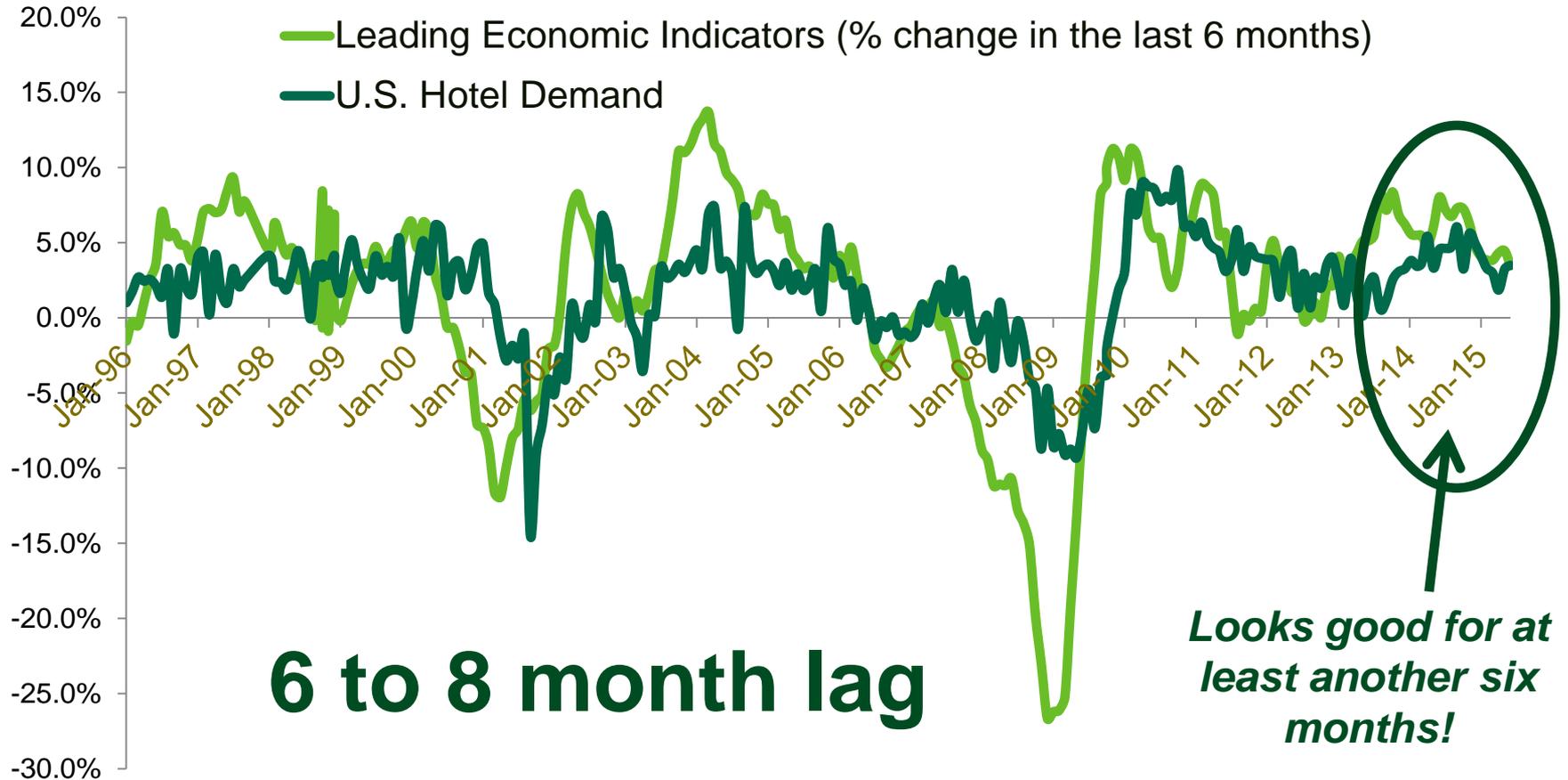
The ten components of The Conference Board Leading Economic Index[®] for the U.S. include:

- ✓ Average weekly hours, manufacturing
- ✓ Average weekly initial claims for unemployment insurance
- ✓ Manufacturers' new orders, consumer goods and materials
- ✓ ISM[®] Index of New Orders
- ✓ Manufacturers' new orders, nondefense capital goods excluding aircraft orders
- ✓ Building permits, new private housing units
- ✓ Stock prices, 500 common stocks
- ✓ Leading Credit Index[™]
- ✓ Interest rate spread, 10-year Treasury bonds less federal funds
- ✓ Average consumer expectations for business conditions.

LEADING ECONOMIC INDICATORS

Percent Change In the Last 6 Months

August 2015



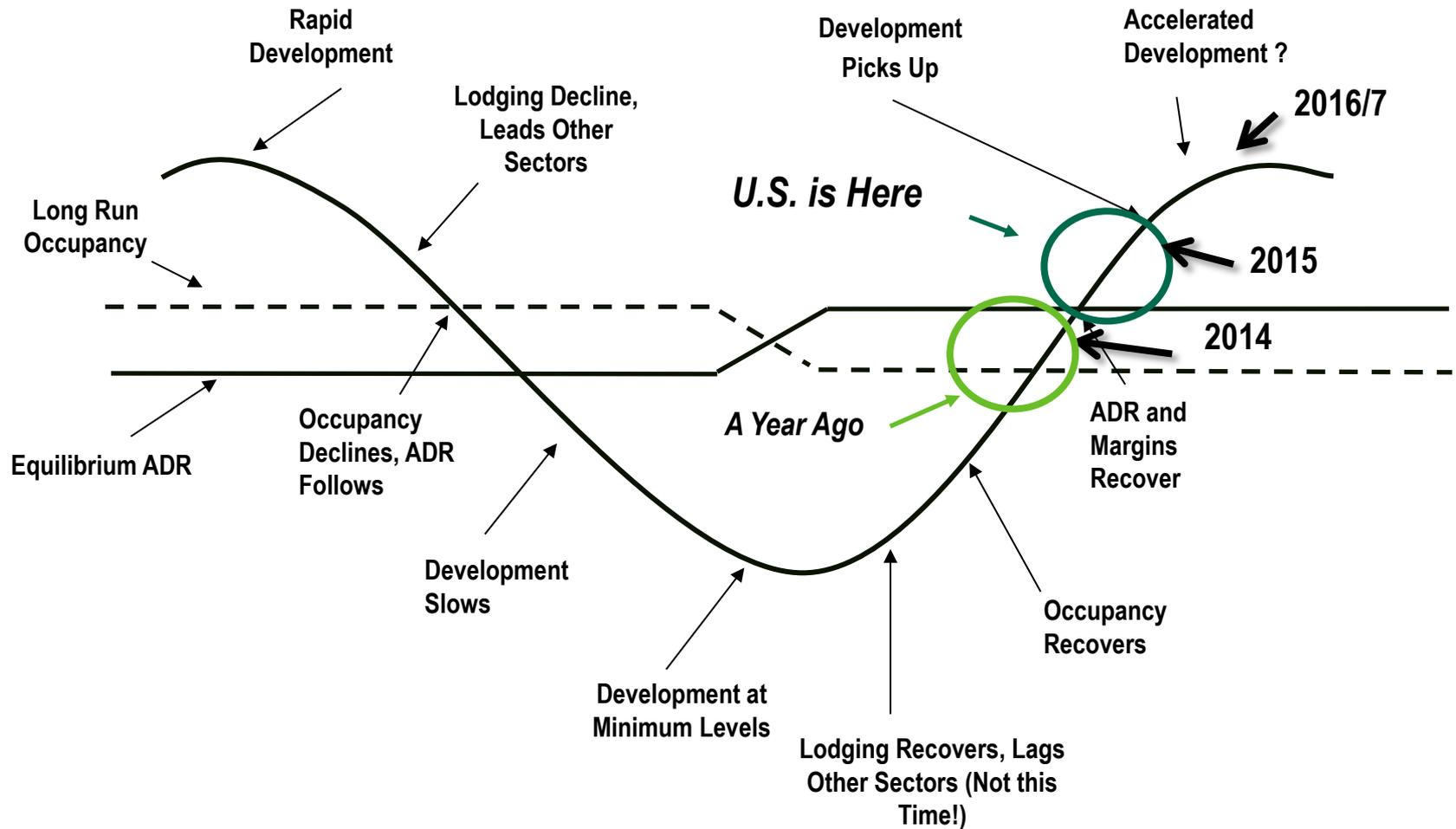
Source: The Conference Board, PKF-HR, STR



U.S. LODGING MARKET OVERVIEW

THE HOTEL MARKET CYCLE

Our Opinion



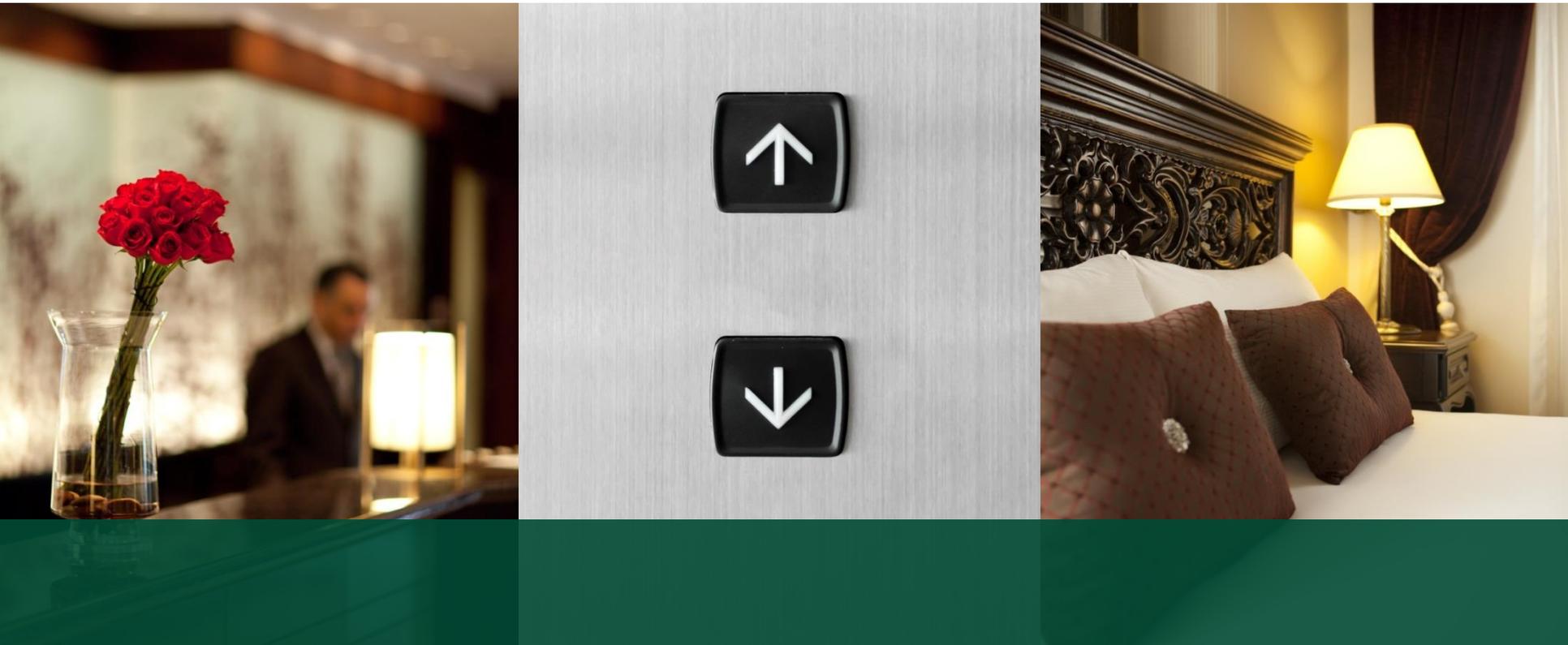
NATIONAL FORECAST – ALL U.S. HOTELS

2014-2016

| | Long Run Average | 2012 | 2013 | 2014 | 2015F | 2016F |
|------------------|------------------|-------|-------|-------|-------|-------|
| Supply | 1.9% | 0.4% | 0.7% | 0.8% | 1.1% | 1.8% |
| Demand | 2.0% | 2.8% | 2.0% | 4.4% | 3.3% | 2.2% |
| Occupancy | 62.0% | 61.4% | 62.2% | 64.4% | 65.8% | 66.1% |
| ADR | 3.0% | 4.2% | 3.9% | 4.5% | 5.0% | 5.9% |
| RevPAR | 3.2% | 6.6% | 5.2% | 8.2% | 7.2% | 6.3% |

RevPAR driven by ADR Growth

Source: PKF Hospitality Research - *Hotel Horizons*® September-November, 2015, STR, Inc.

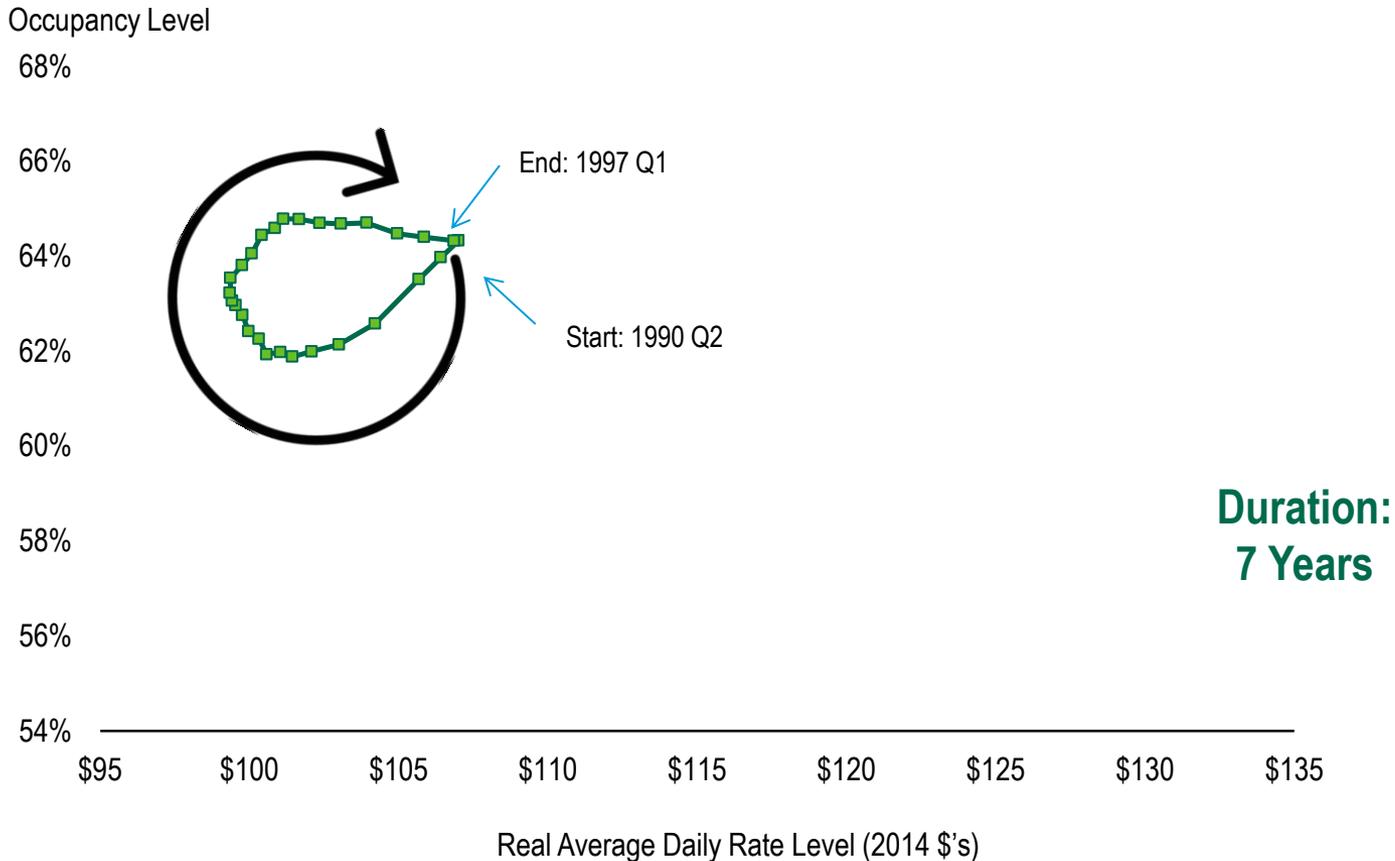


TRACKING THE BUSINESS CYCLES OF U.S. HOTELS

REAL ADR PERFORMANCE – U.S.

A Look at Past Cycles – 1991 Recession

The Path and Duration of Occupancy and Real ADR Recovery



Source: PKF Hospitality Research, STR, Inc.

REAL ADR PERFORMANCE – U.S.

A Look at Past Cycles – 2001 Recession

The Path and Duration of Occupancy and Real ADR Recovery

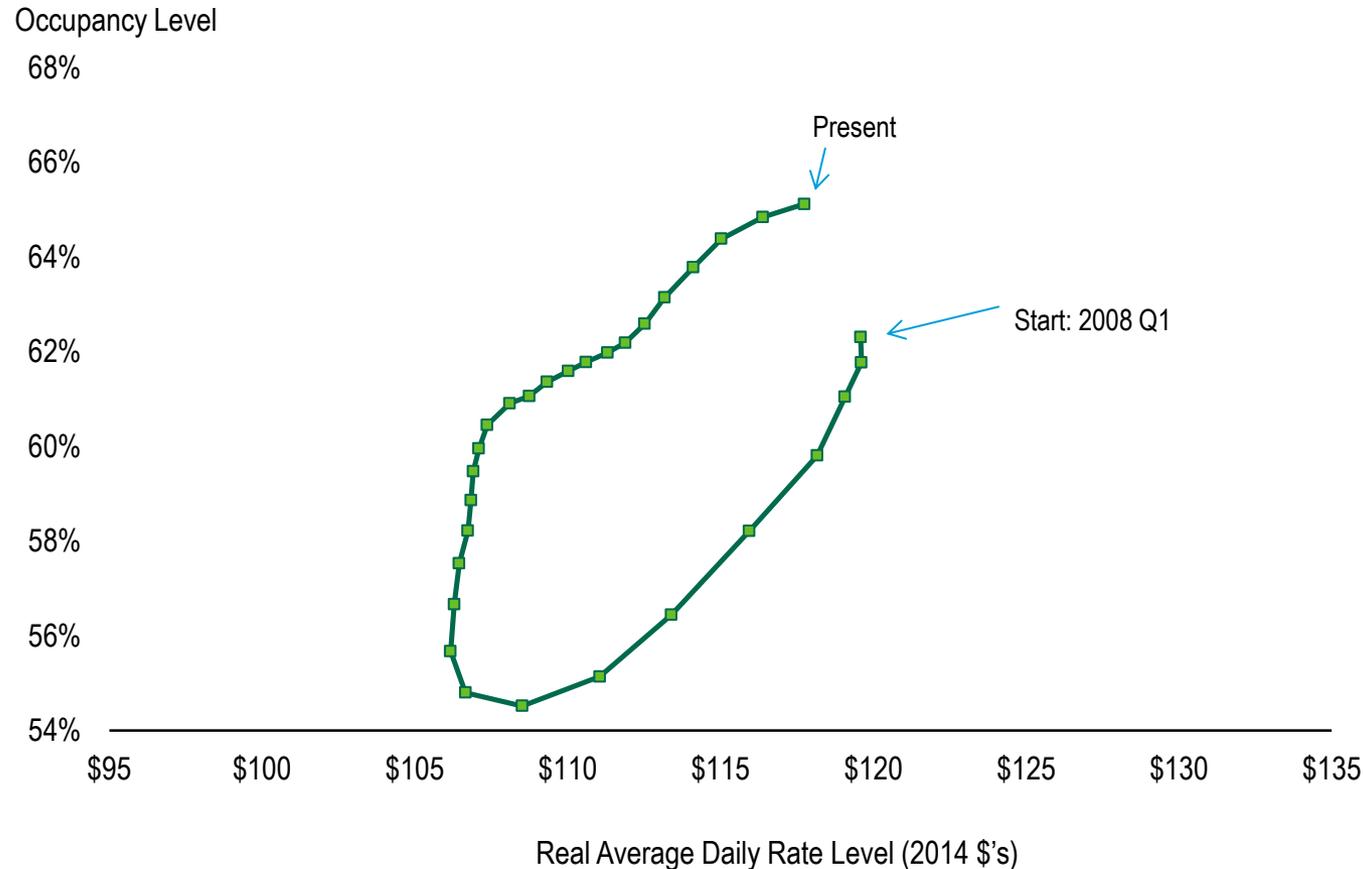


Source: PKF Hospitality Research, STR, Inc.

REAL ADR PERFORMANCE – U.S.

Current Cycle

The Path and Duration of Occupancy and Real ADR Recovery

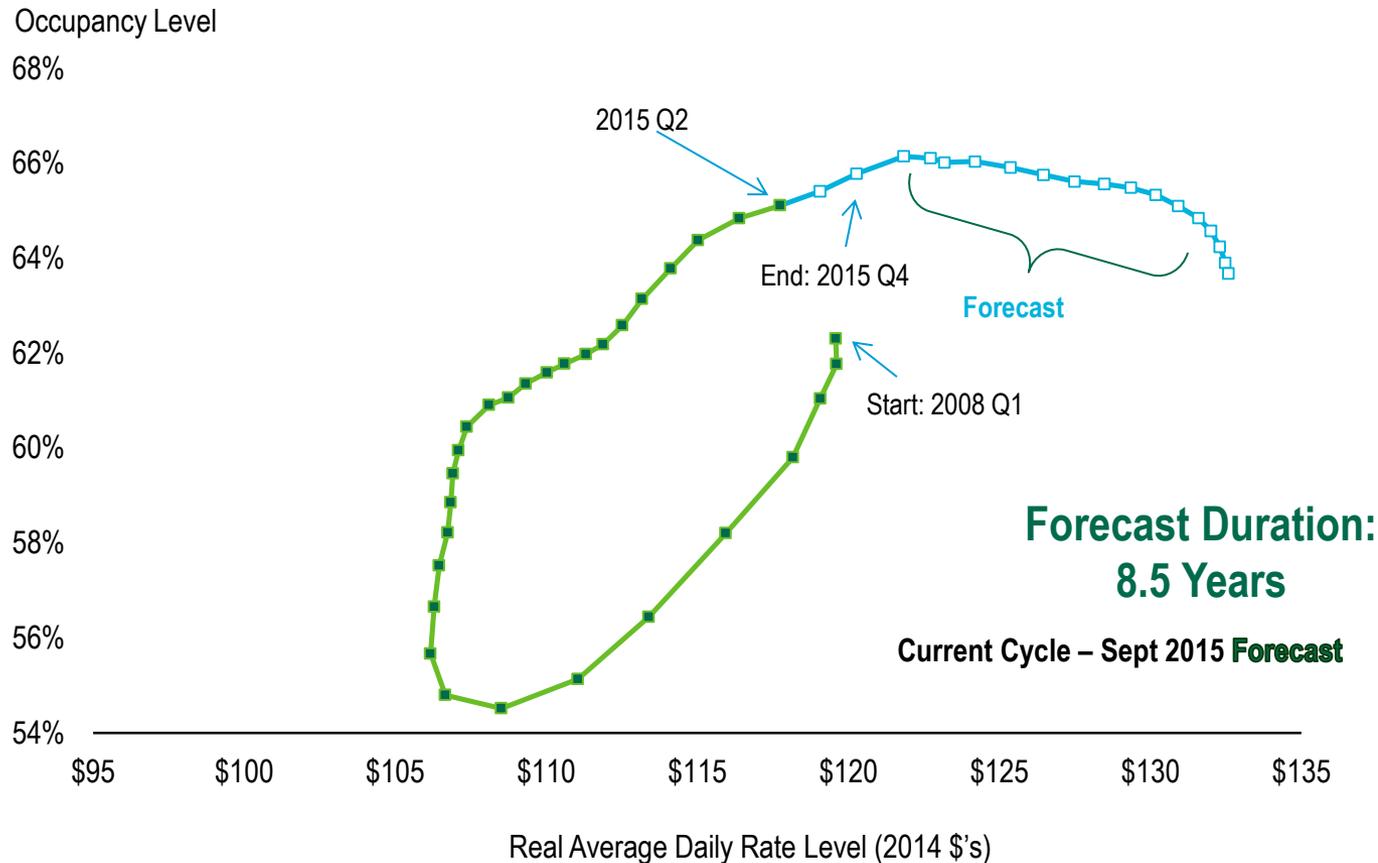


Source: PKF Hospitality Research, STR, Inc.

REAL ADR PERFORMANCE – U.S.

Current Cycle – cont'd

The Path and Duration of Occupancy and Real ADR Recovery

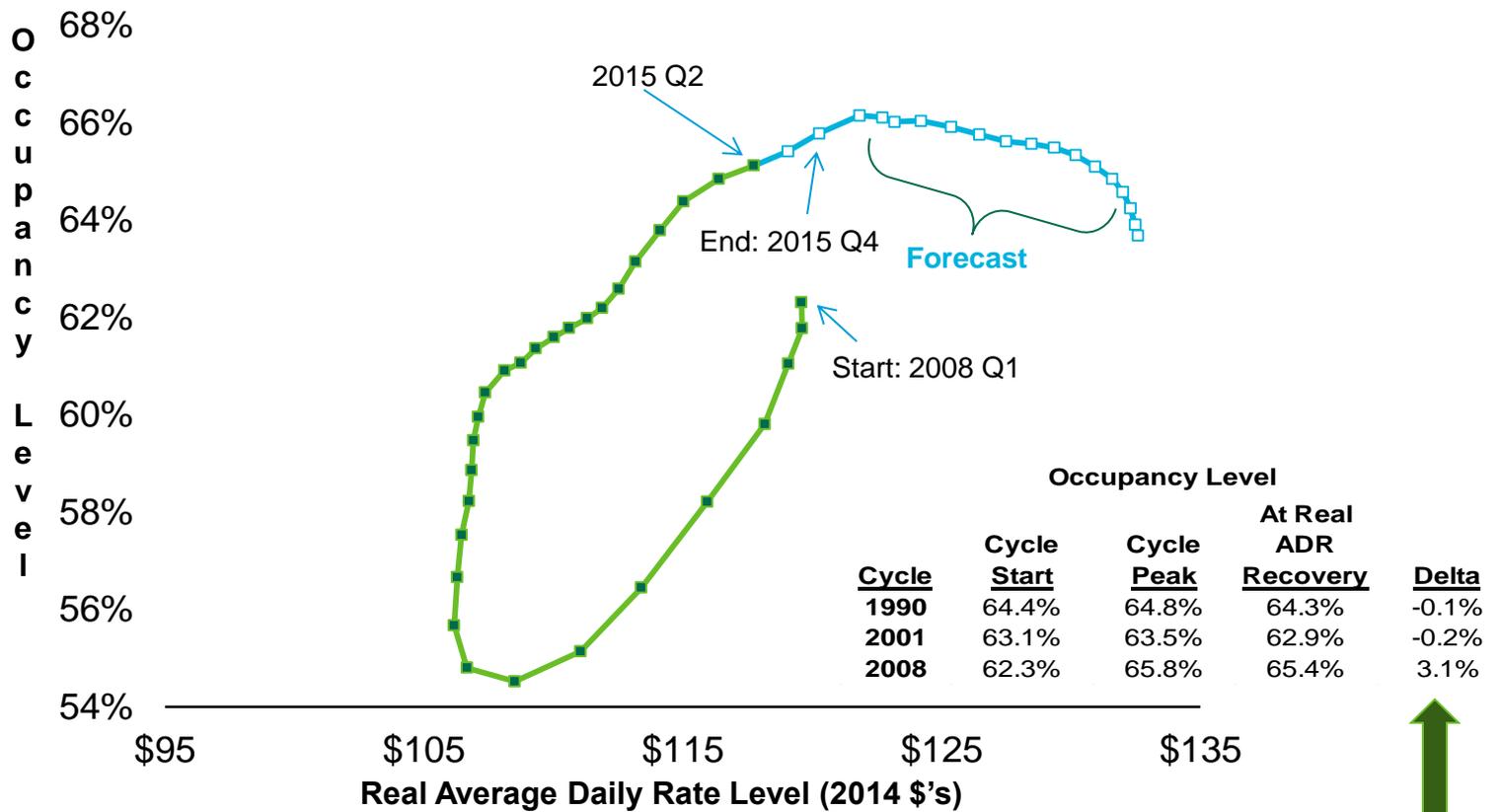


Source: PKF Hospitality Research, STR, Inc.

REAL ADR PERFORMANCE – U.S.

Current Cycle – cont'd

The Path and Duration of Occupancy and Real ADR Recovery



Source: PKF Hospitality Research, STR, Inc.

A LOOK AT HISTORIC HOTELS

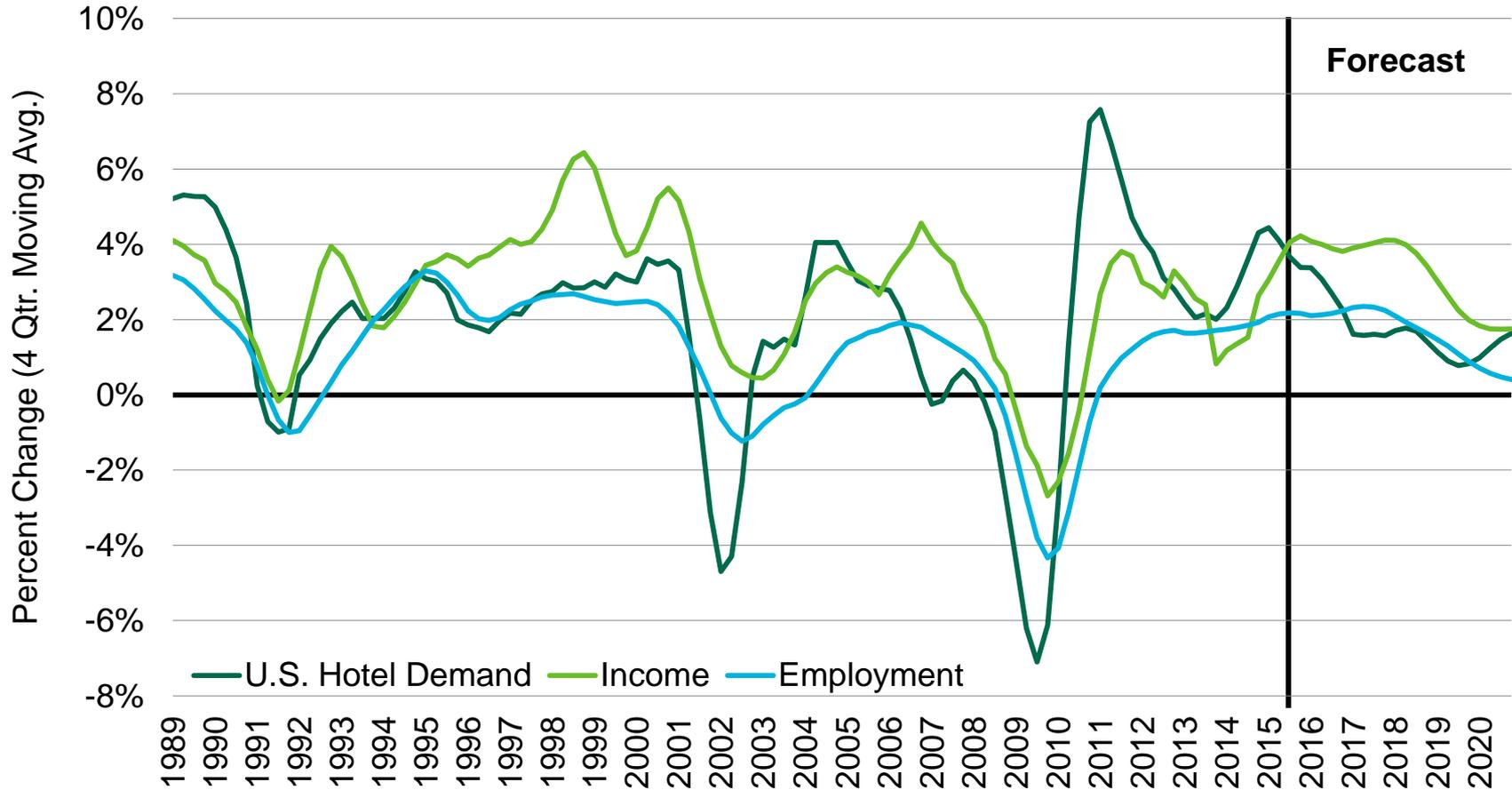
HISTORIC HOTELS PERFORMANCE

Historical and Forecast Data

The following data is based on a sample of a 170 properties that are members of Historic Hotels of America, and provide their data to STR, Inc.

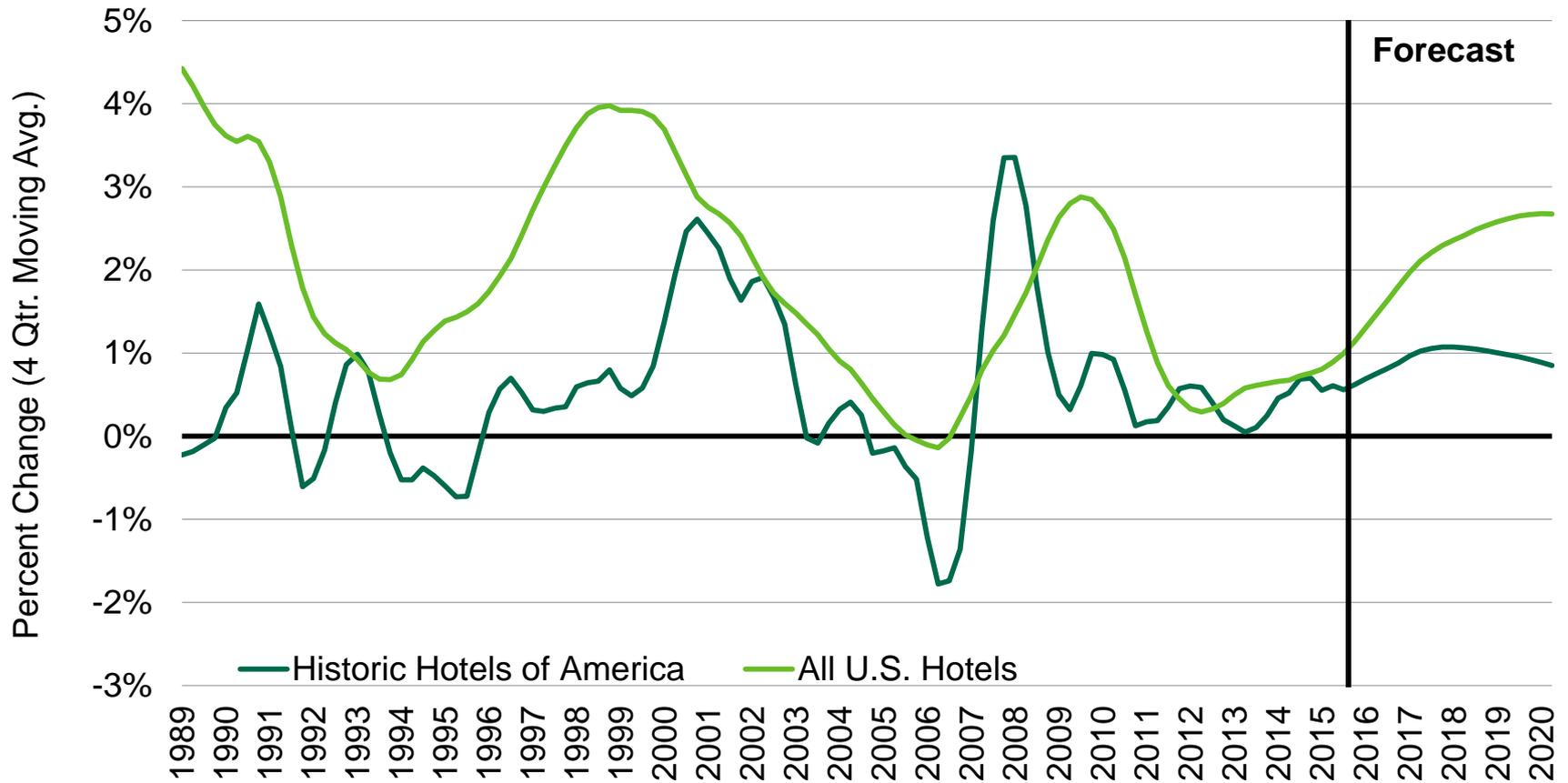
THE ECONOMICS OF HOTEL DEMAND

Solid Growth For The Foreseeable Future



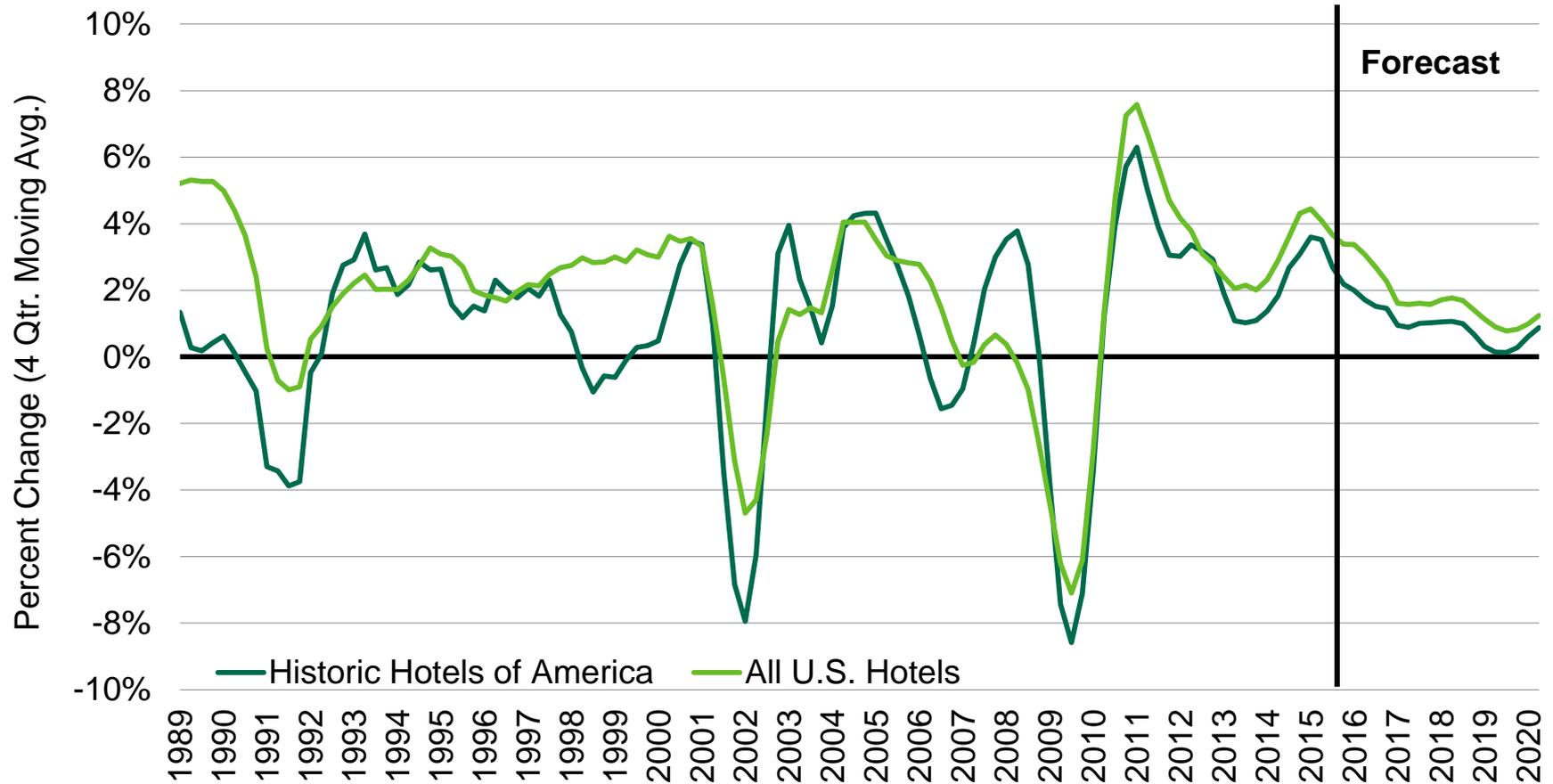
Source: Moody's Analytics; PKF-HR, a CBRE Company; STR, Inc.

CHANGE IN SUPPLY



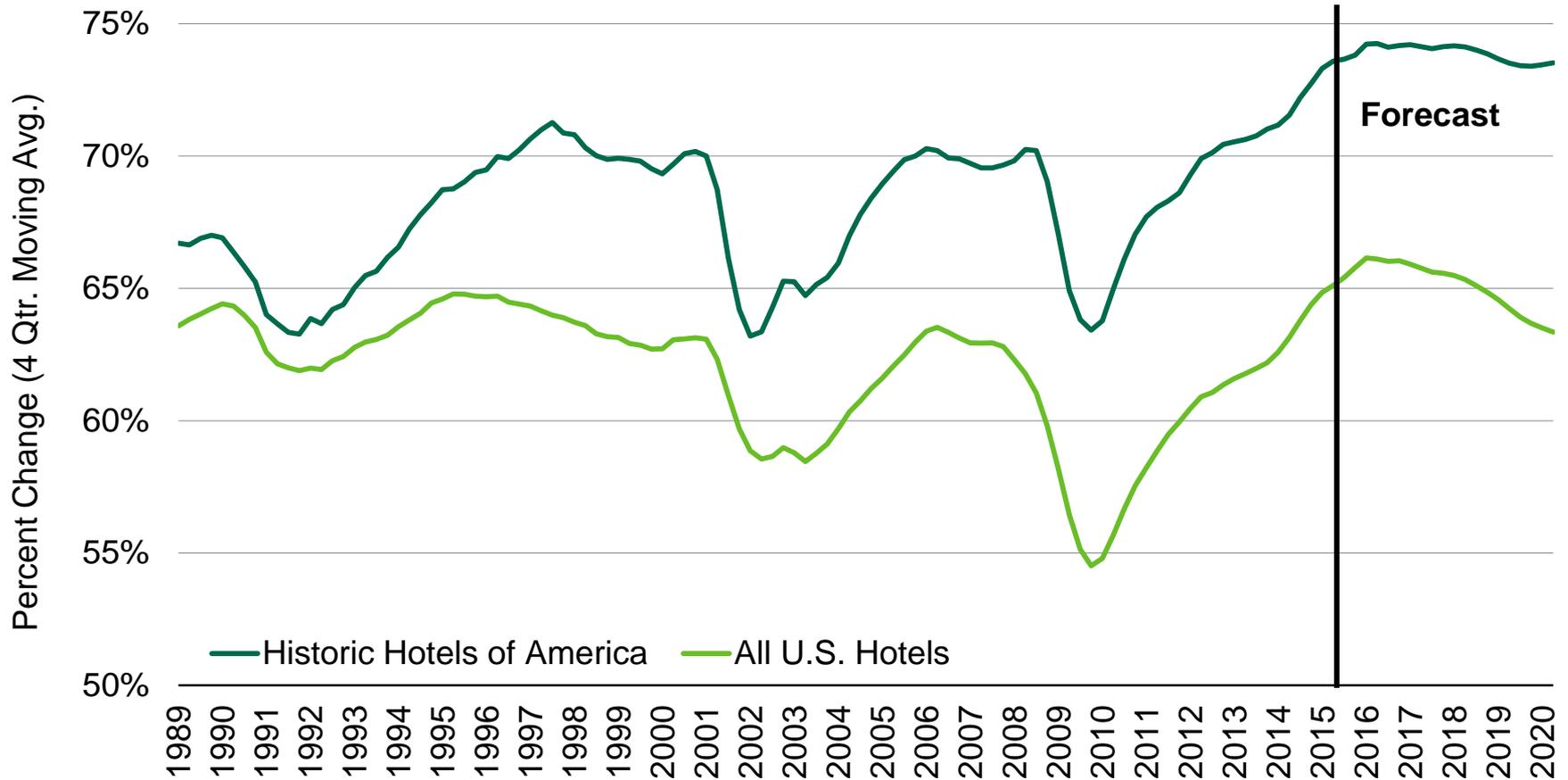
Source: PKF-HR, a CBRE Company; STR, Inc.

CHANGE IN DEMAND



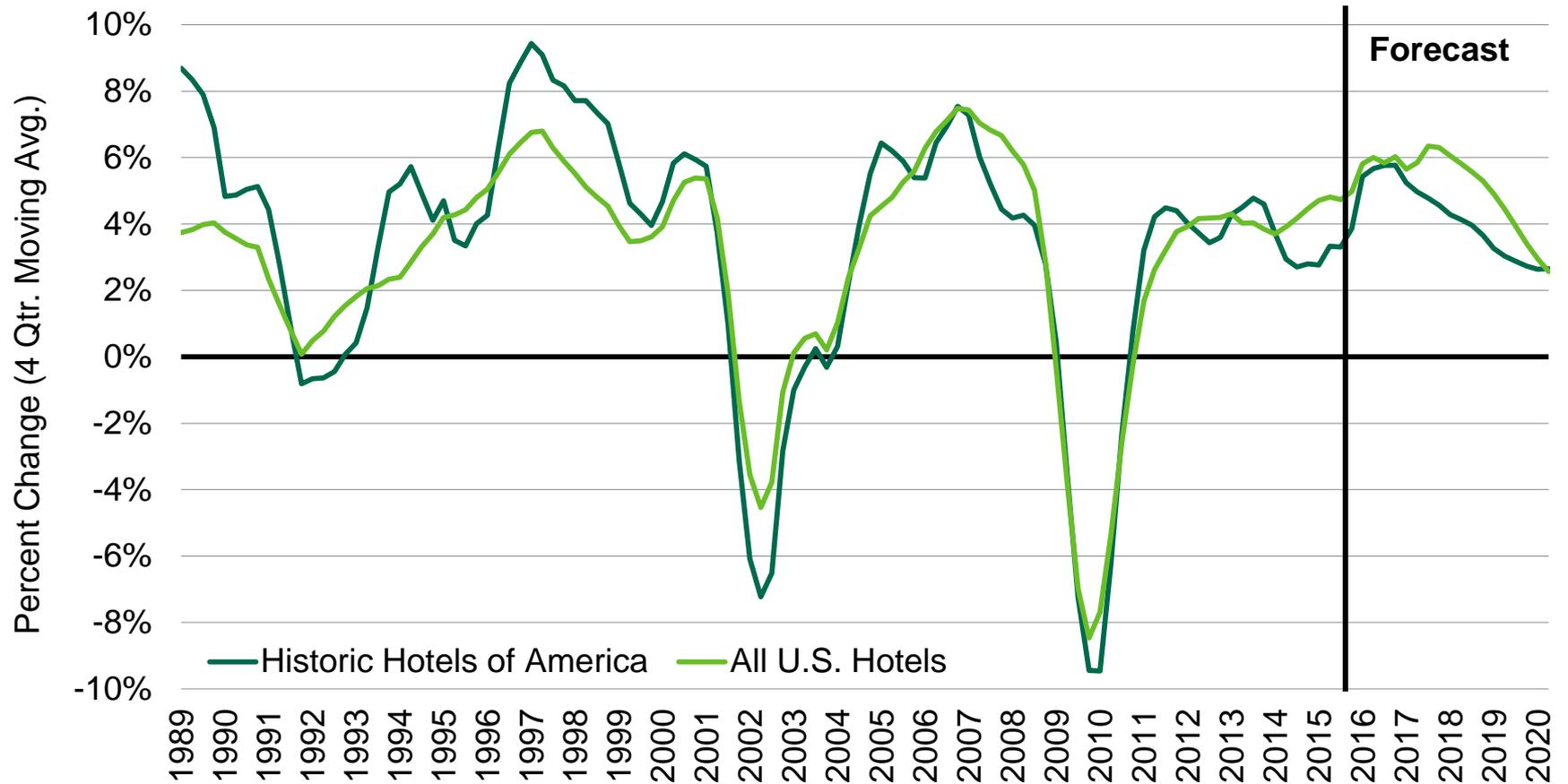
Source: PKF-HR, a CBRE Company; STR, Inc.

OCCUPANCY LEVEL



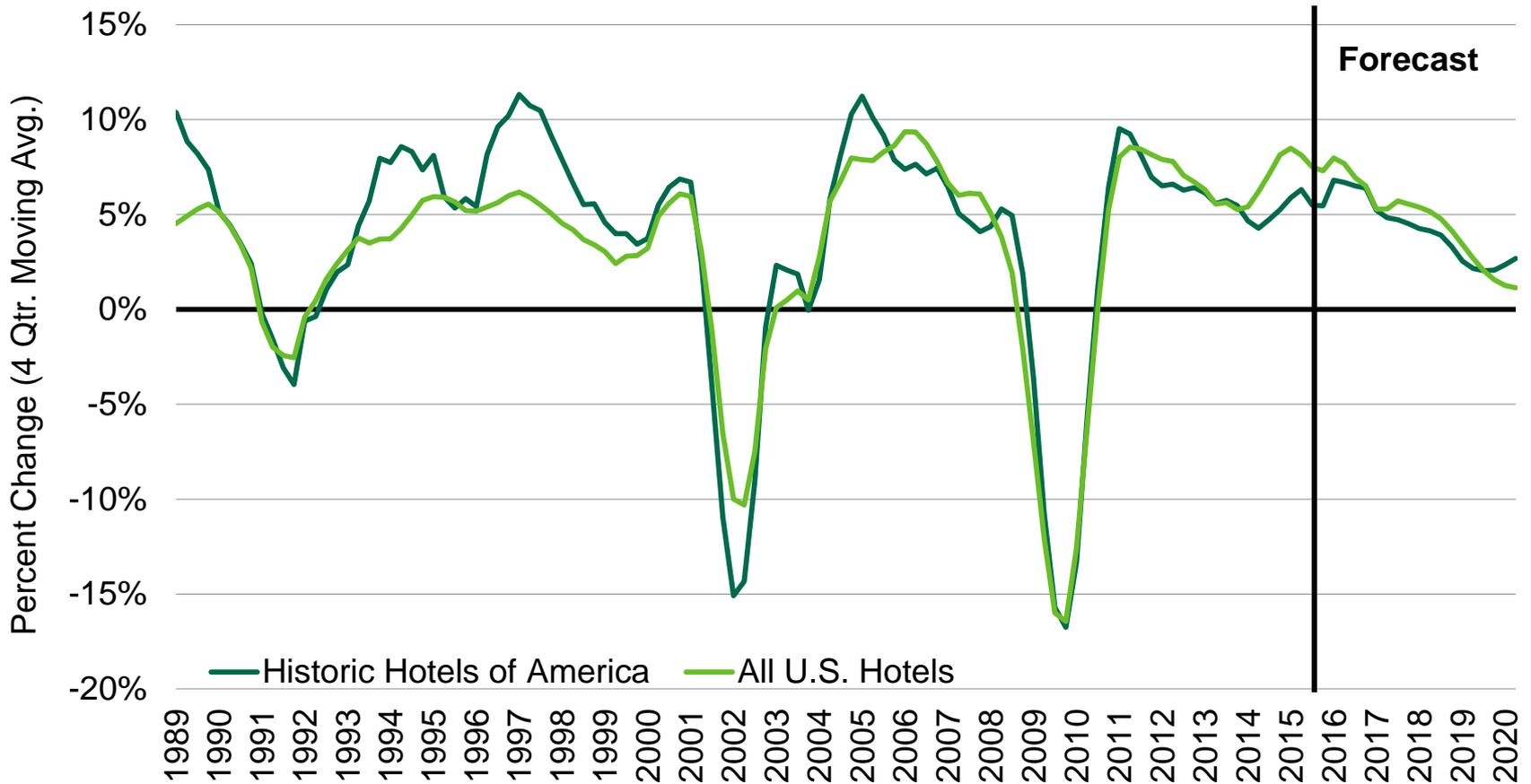
Source: PKF-HR, a CBRE Company; STR, Inc.

CHANGE IN ADR



Source: PKF-HR, a CBRE Company; STR, Inc.

CHANGE IN REVPAR



Source: PKF-HR, a CBRE Company; STR, Inc.

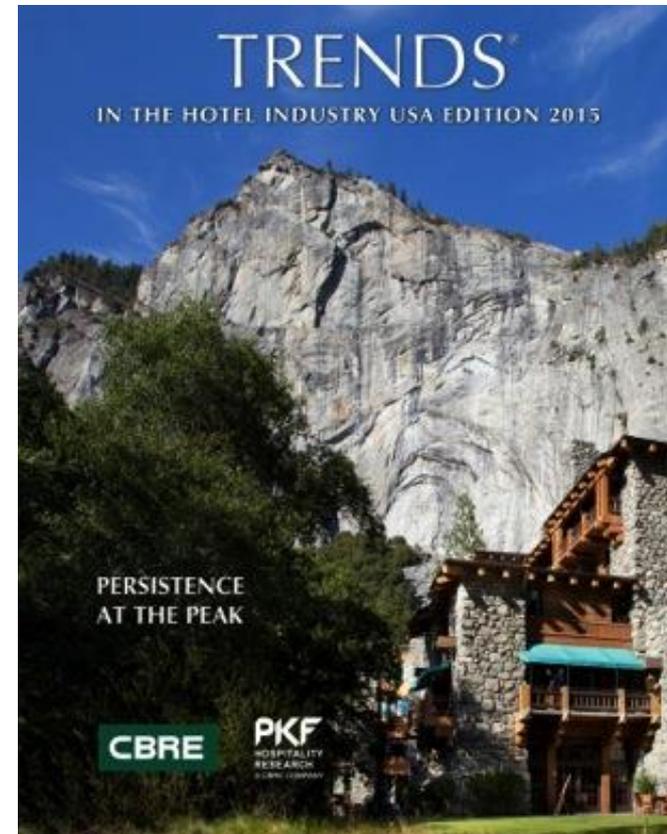


PROFIT TRENDS

PKF HOSPITALITY RESEARCH, A CBRE COMPANY

Trends® in the Hotel Industry – Financial Benchmarking

- Annual voluntary survey of thousands of U.S. hotel financial statements
- First survey conducted in 1937
 - **Occ: 64.4%**
 - **ADR: \$3.04**
- Data converted to USALI to ensure comparability
- 2015 Survey Sample
 - 7,135 hotels across the U.S.
 - Occupancy: 74.3%
 - ADR: \$158.62

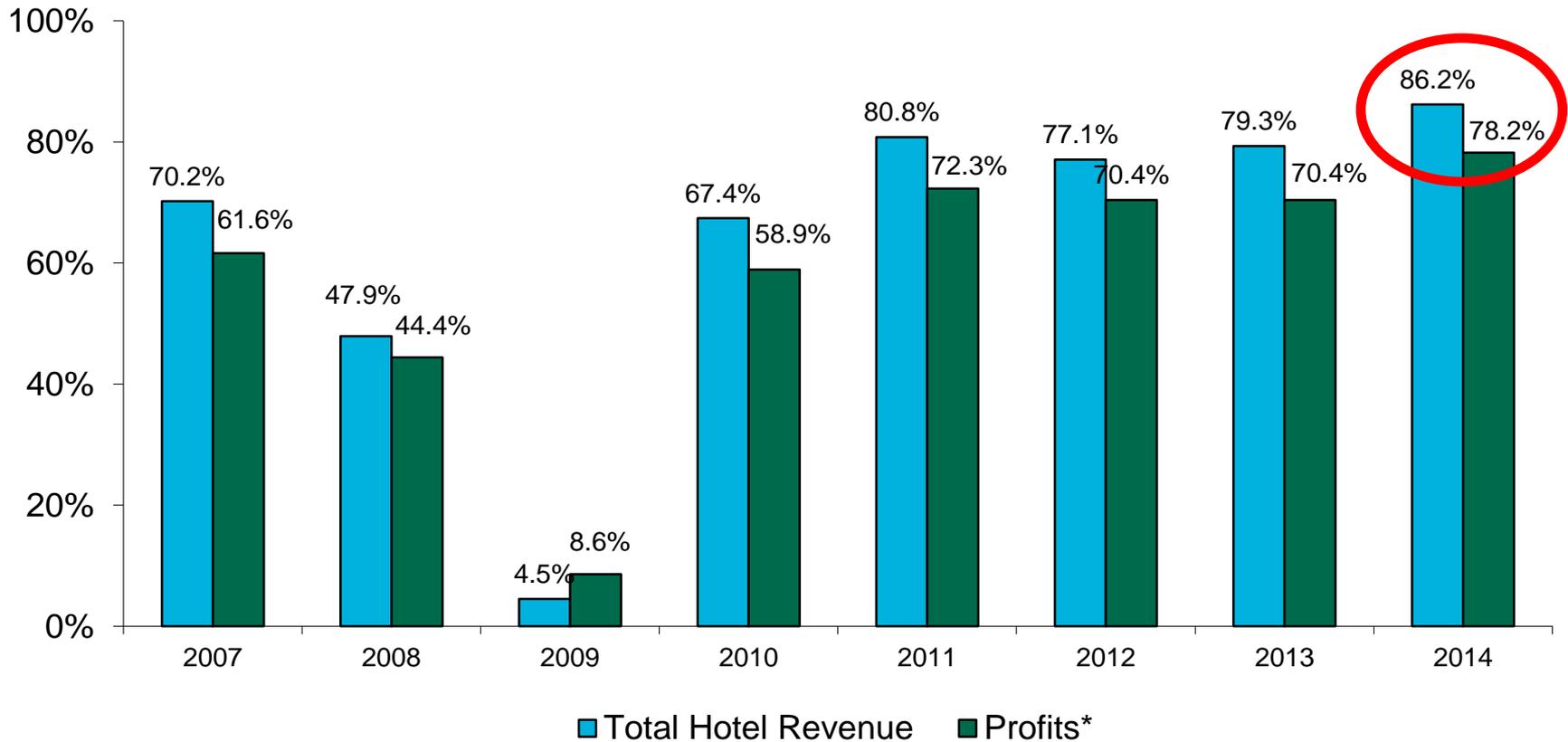


MORE HOTELS ENJOYING GROWTH IN PROFITS*

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.

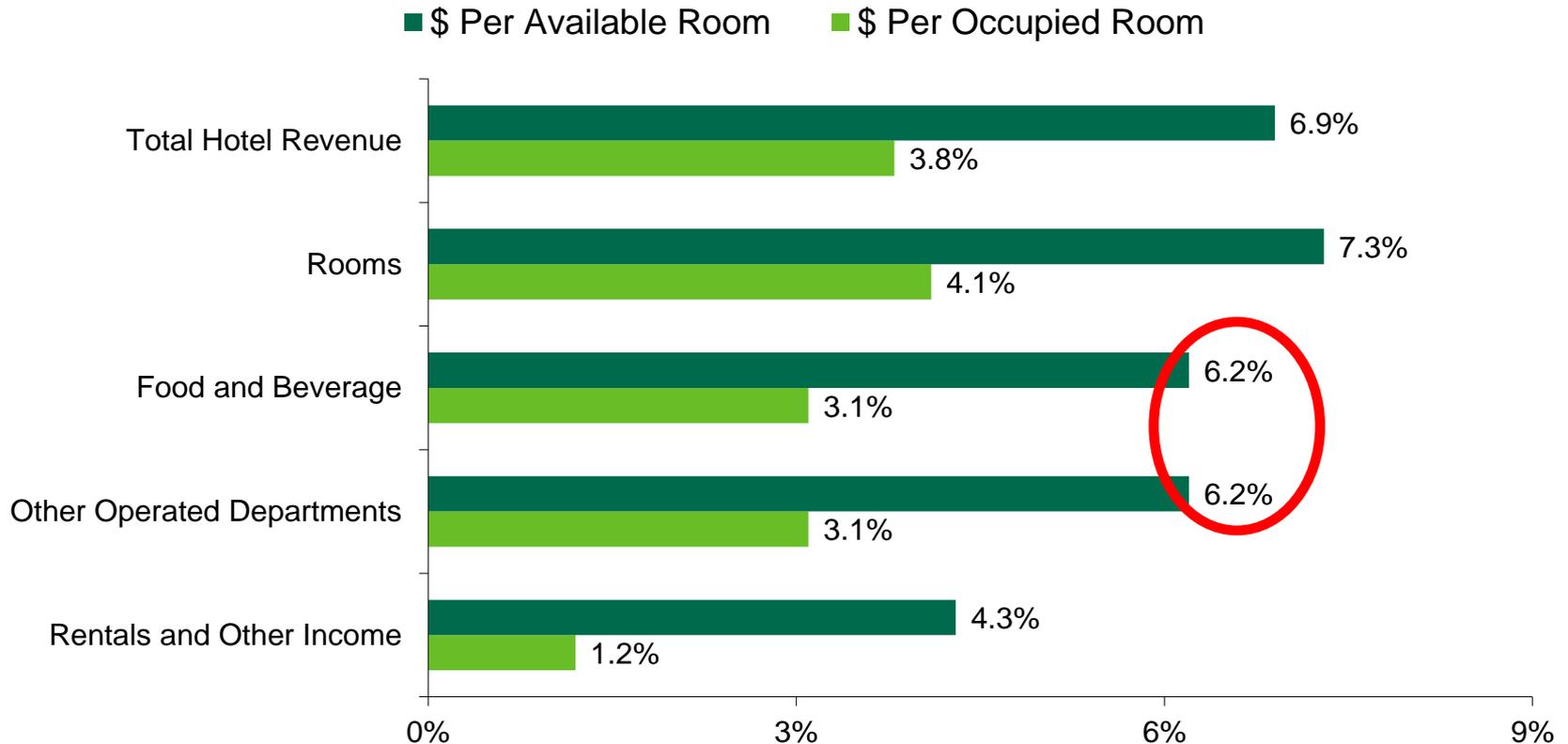
(**) - Trends® in the Hotel Industry sample.



Source: PKF Hospitality Research, a CBRE Company, Trends® in the Hotel Industry reports.

2014 U.S. HOTEL REVENUES

Change – 2013 to 2014

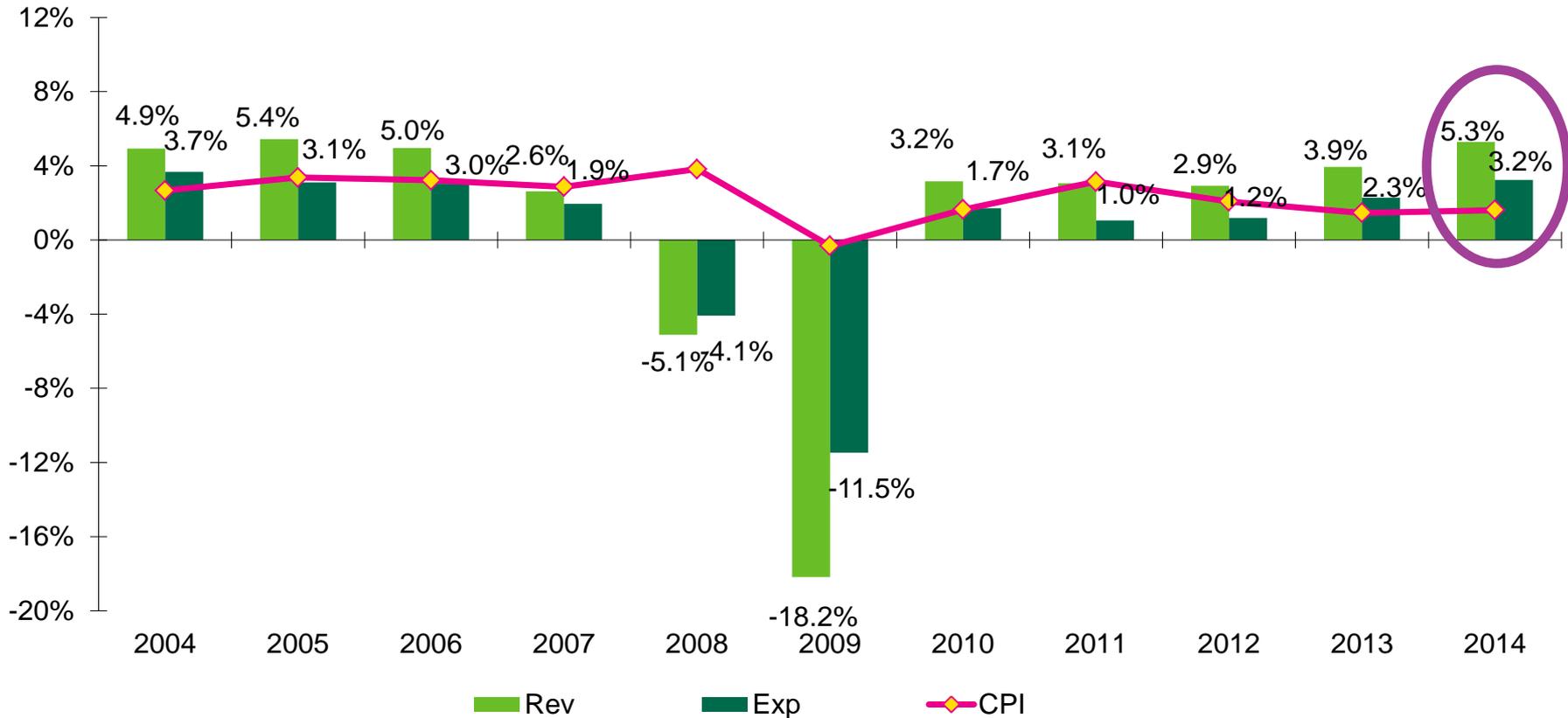


Source: PKF Hospitality Research, a CBRE Company, 2015

REVENUE VS EXPENSE* GROWTH

Annual Real Change

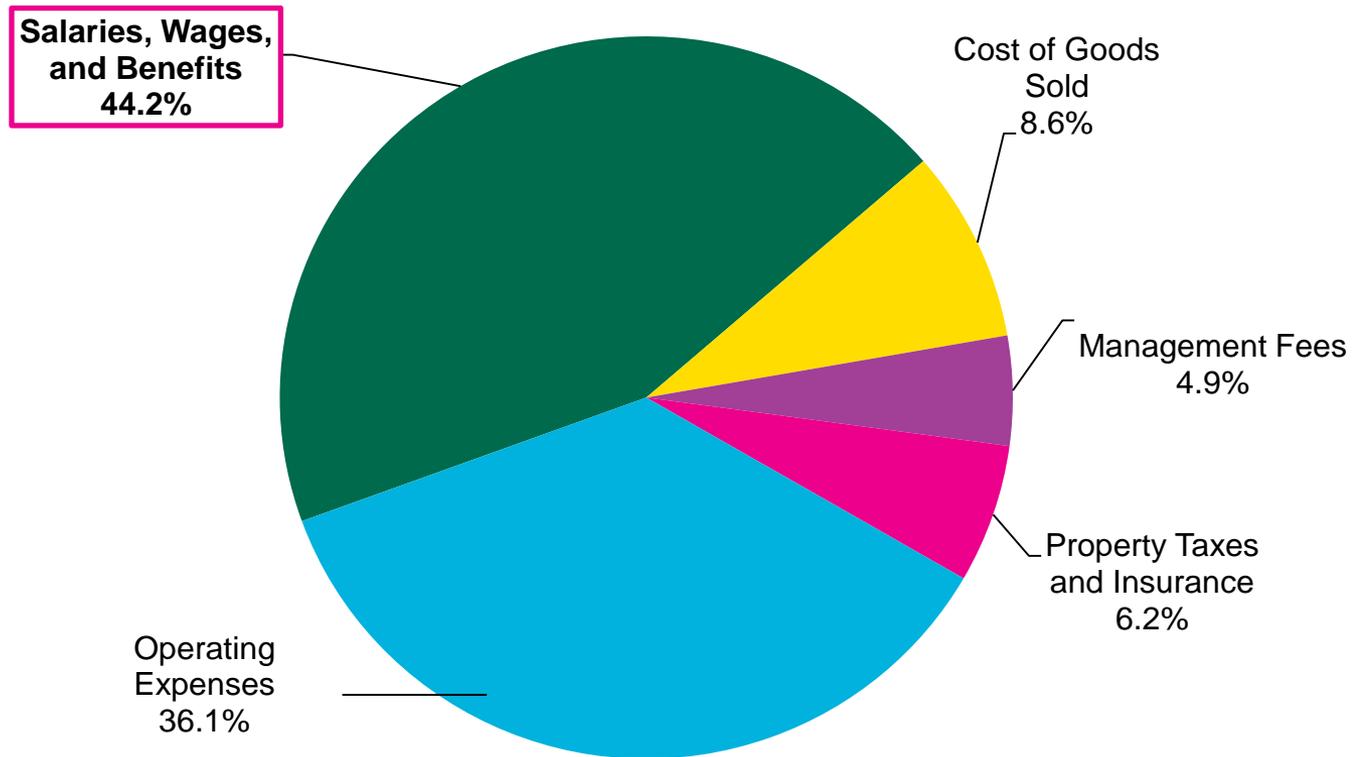
(*) - Before deductions for capital reserves, rent, interest, income taxes, depreciation, and amortization.



Source: PKF Hospitality Research, a CBRE Company, Trends® in the Hotel Industry, March 2015 Hotel Horizons® forecast, Moody's Analytics

WHERE DID THE DOLLARS GO?

Percent of Total Operating Expenses*



Note: * Before deductions for capital reserves, rent, interest, depreciation, and amortization
Source: PKF Hospitality Research, a CBRE Company, 2015

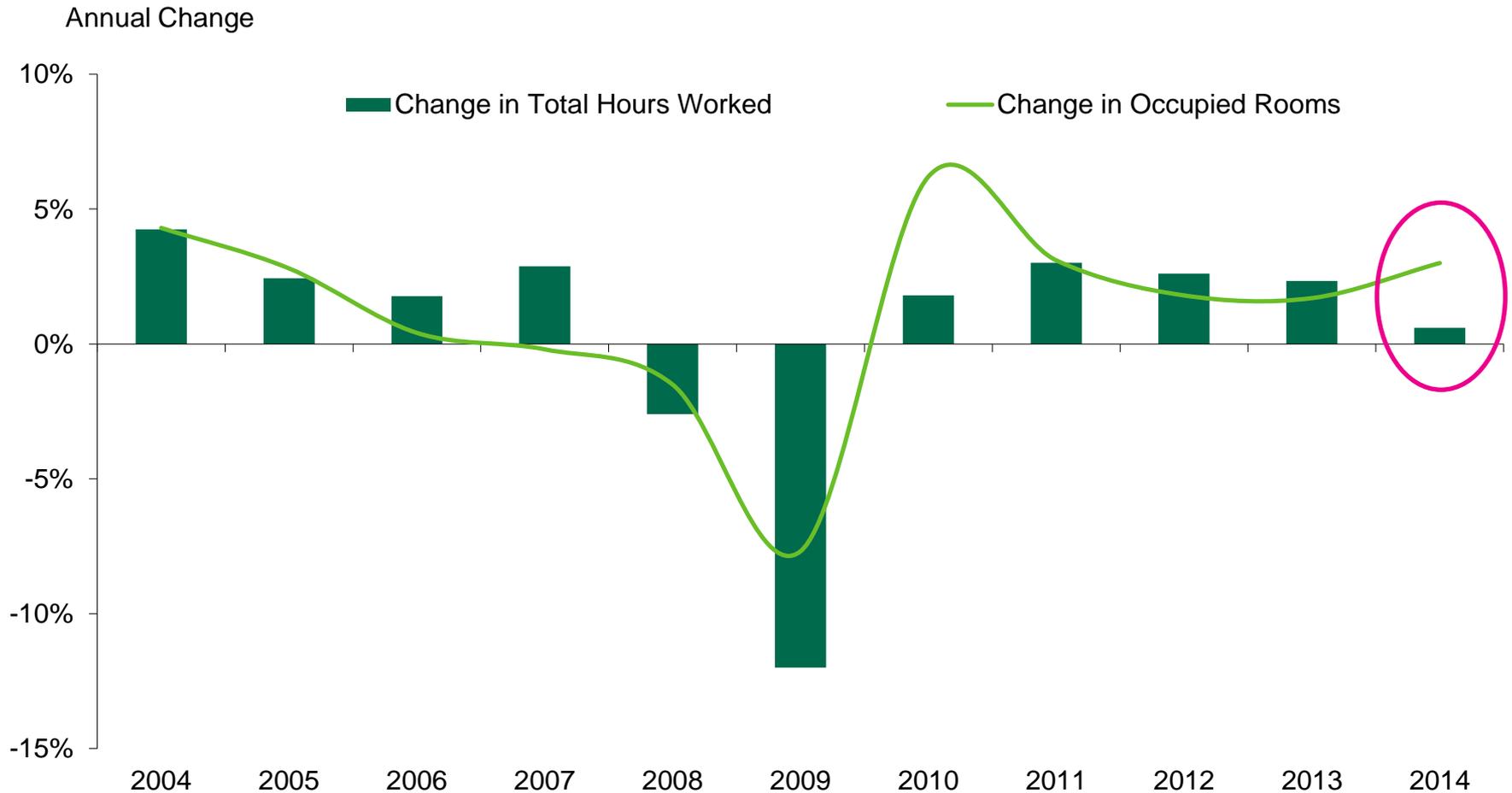


CHANGE IN HOSPITALITY EMPLOYMENT COMPENSATION



Source: PKF Hospitality Research, A CBRE Company, Bureau of Labor Statistics, 2015

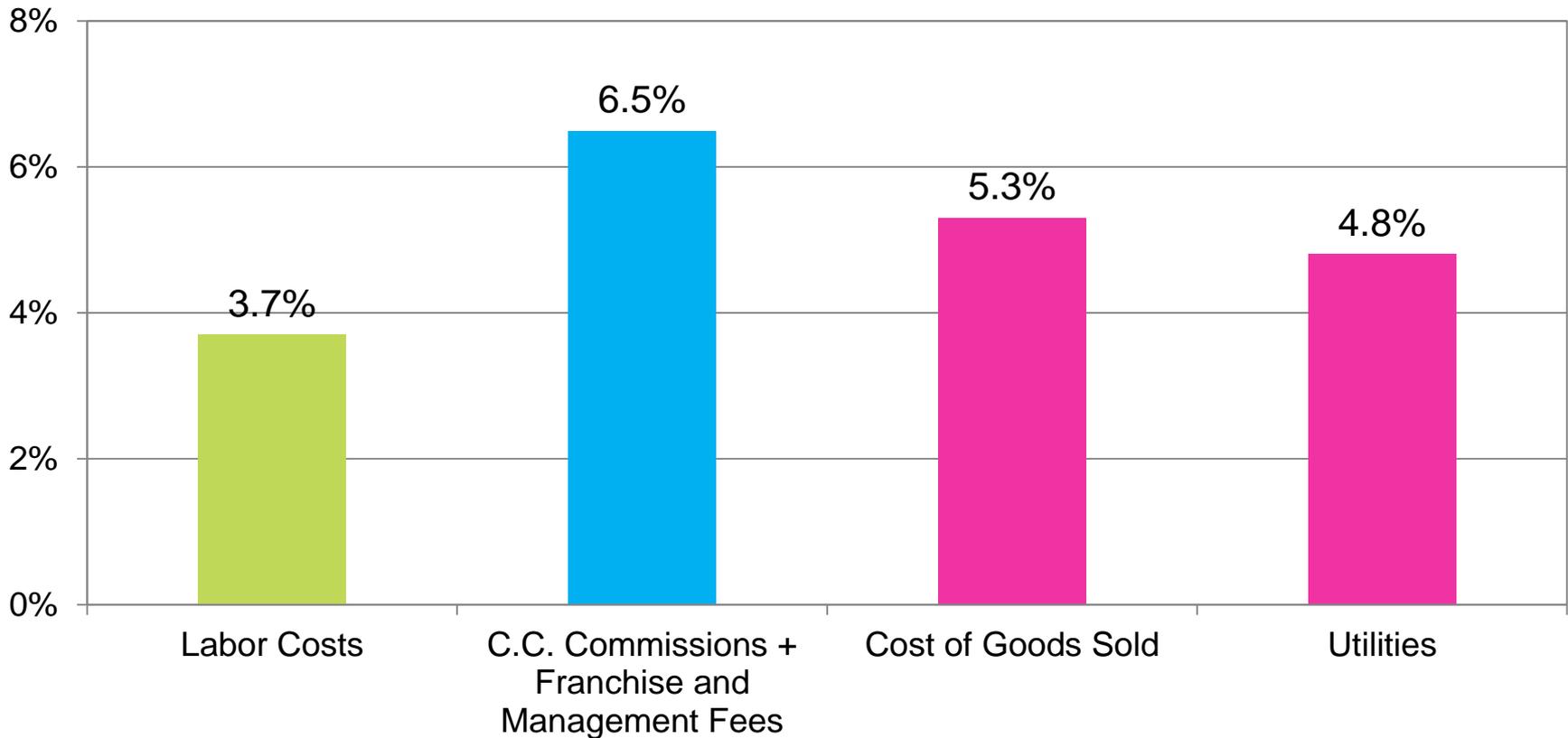
CHANGE IN HOURS WORKED VS. CHANGE IN ROOMS OCCUPIED



Source: PKF Hospitality Research, A CBRE Company, Bureau of Labor Statistics, 2015

SELECT COMPONENTS OF OPERATING COSTS

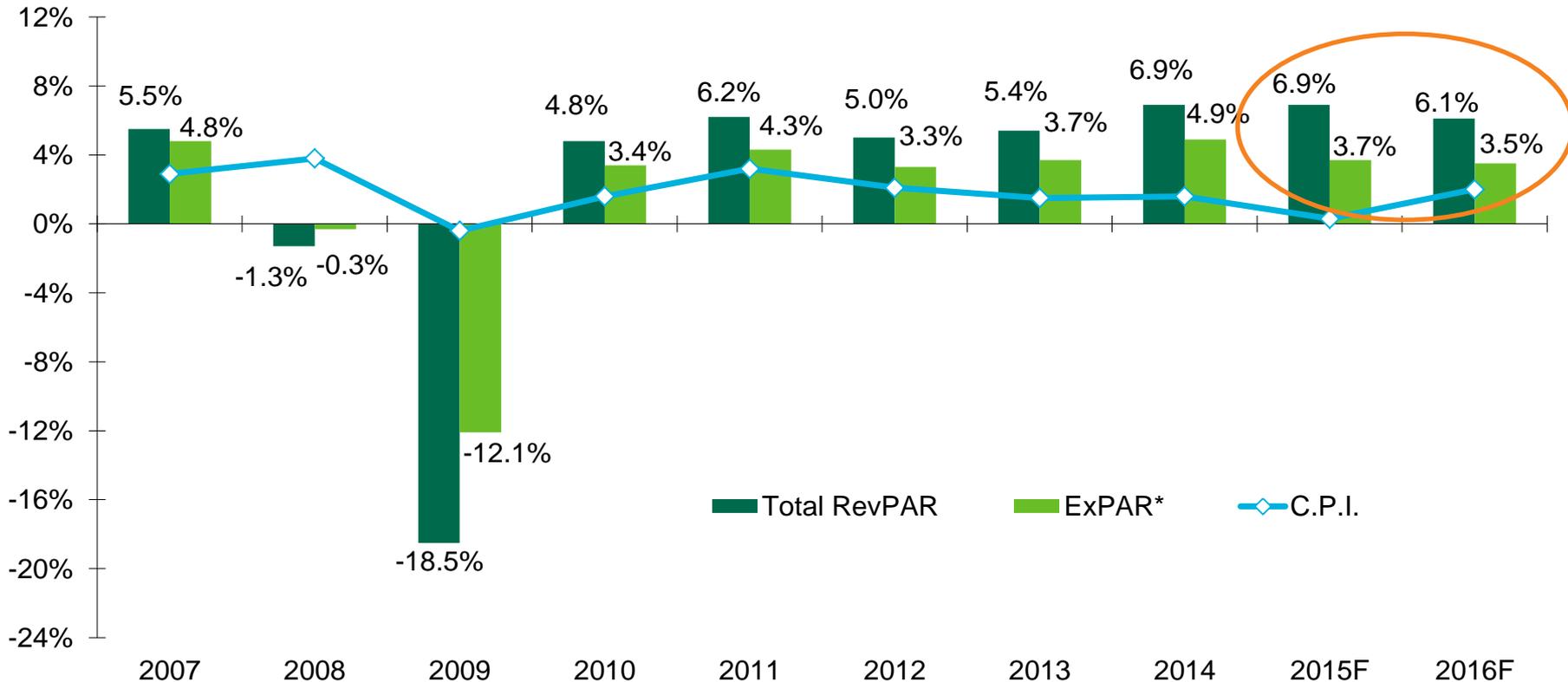
Annual Change in ExPAR: 2013 to 2014



Source: PKF Hospitality Research, a CBRE Company, Trends® in the Hotel Industry

REVENUE VS EXPENSE* GROWTH

Annual Nominal Change

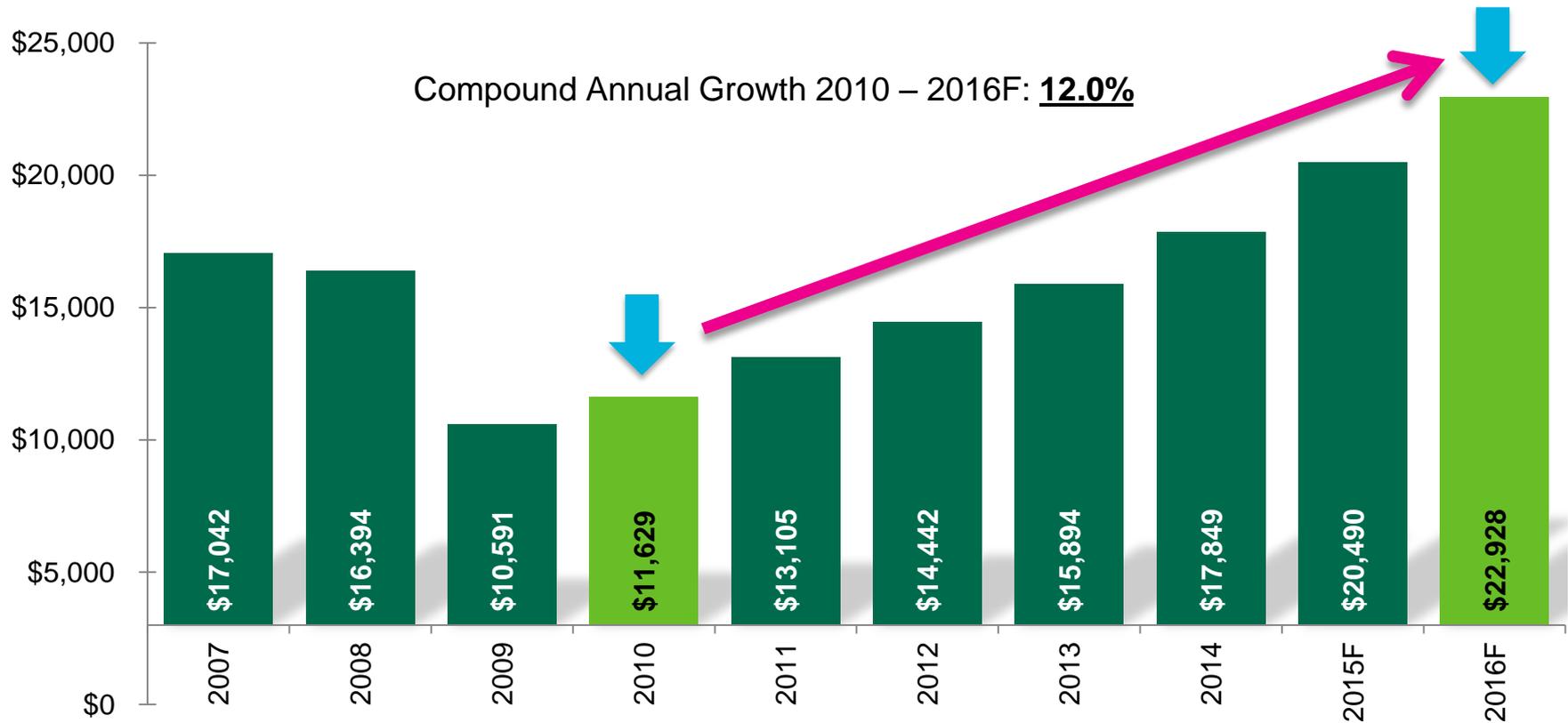


Note: * Before deductions for capital reserves, rent, interest, depreciation, and amortization
 Source: PKF Hospitality Research, a CBRE Company, Moody's Analytics 2015

NOMINAL DOLLAR OPERATING PROFITS*

Six Years of Double Digit Growth

Nominal Dollars Per Available Room

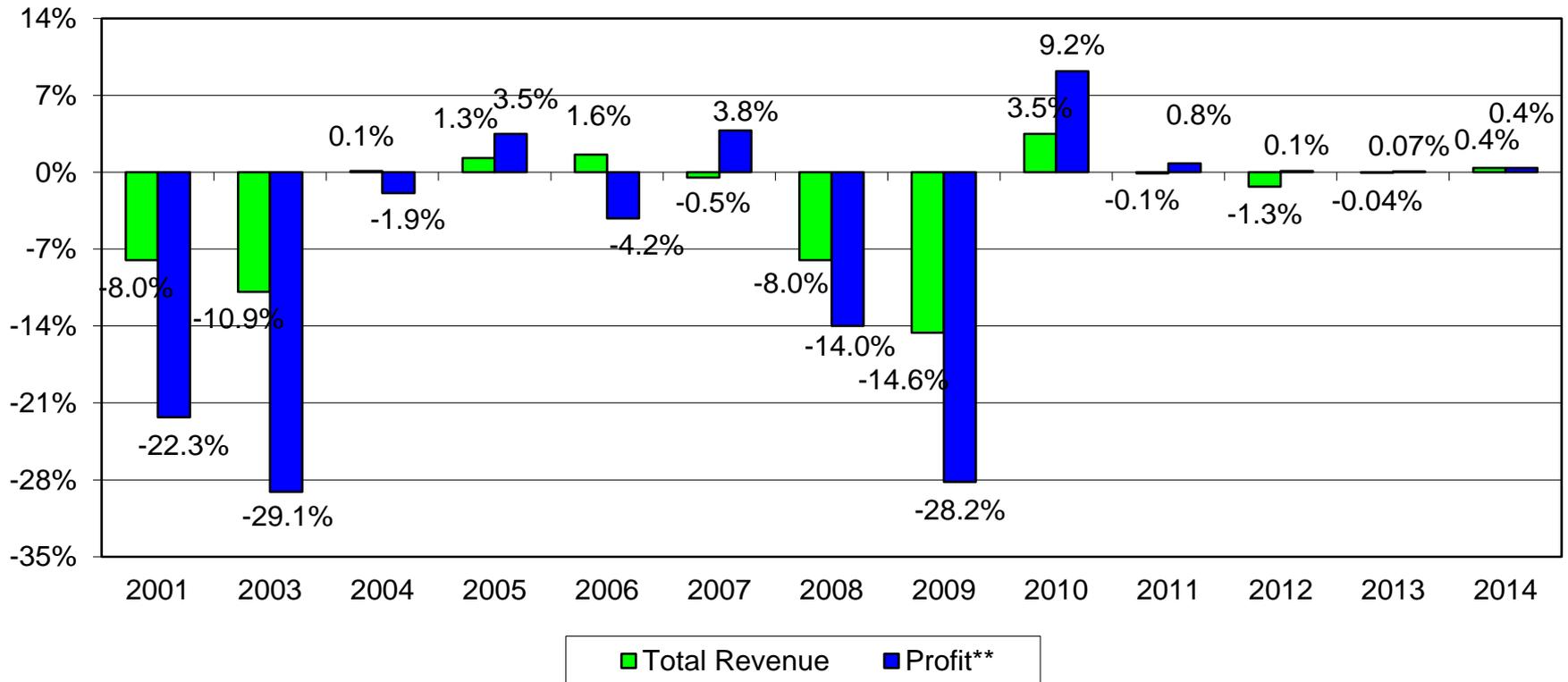


Note: * Before deductions for capital reserves, rent, interest, depreciation, and amortization
Source: PKF Hospitality Research, a CBRE Company, 2015

HISTORICAL BUDGET ACCURACY

Percent Difference

Actual Compared To Budgeted Dollars*



Note: * - Sample of properties that reported budget data.

** - Before deducting capital reserves, rent, interest, income taxes, depreciation, and amortization.

Source: PKF Hospitality Research, a CBRE Company, 2015

FINANCIAL BENCHMARKING

Historic vs Contemporary Hotels



CBRE HOTELS

The World's Leading Hotel Experts.

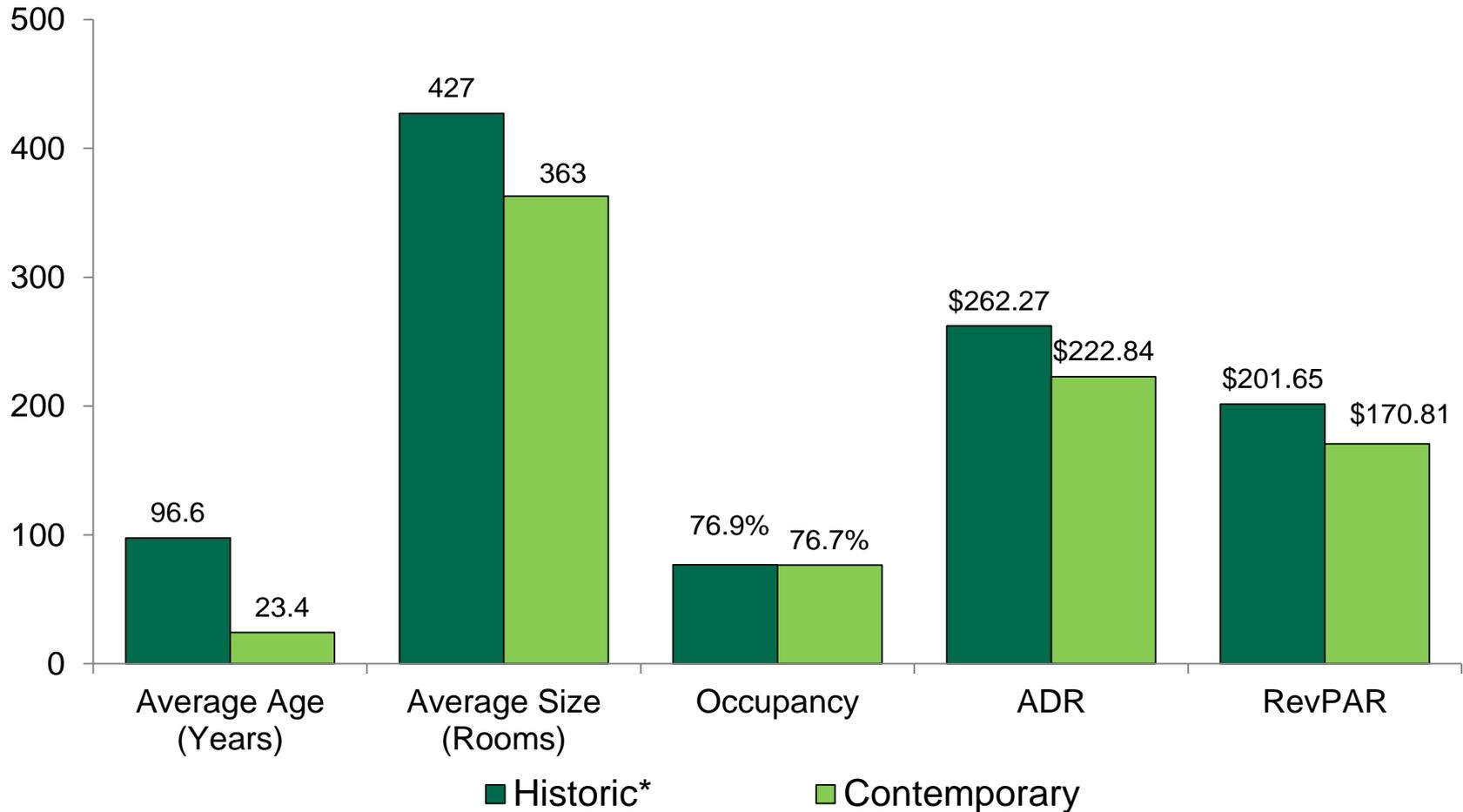
FINANCIAL BENCHMARKING

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 hotel open since 1960 (contemporary sample)
- All properties reported operating data each year from 2007 through 2014.
- 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

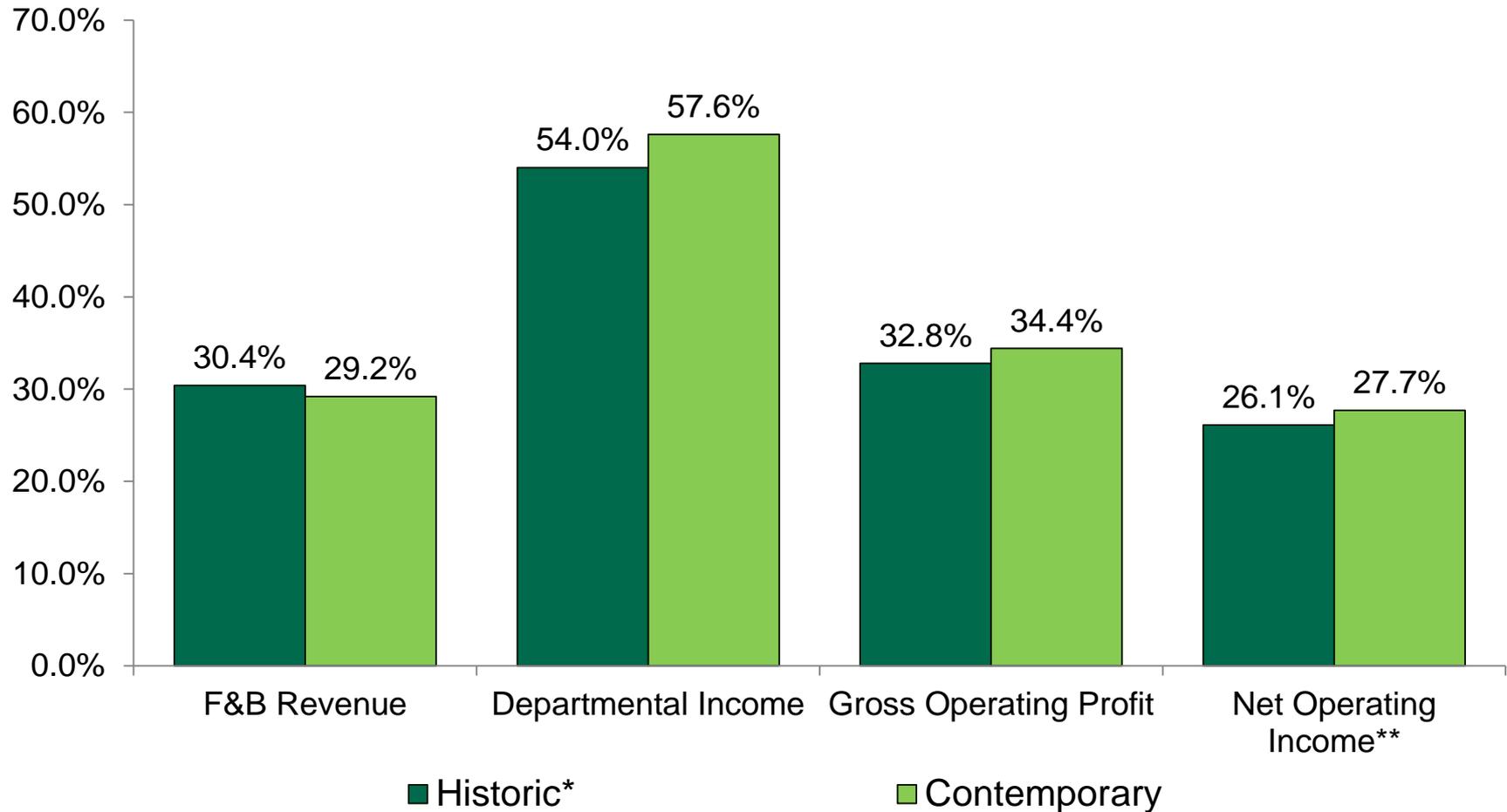
2014 Profile of Samples



Note: *Open before 1960, Luxury and Upper-Up-scale
Source: PKF Hospitality Research, a CBRE Company, Trends® in the Hotel Industry

HISTORIC* VS CONTEMPORARY HOTELS 2014 COMPARATIVE PERFORMANCE

Percent of Total Revenue



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

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

Source: PKF Hospitality Research, a CBRE Company, Trends® in the Hotel Industry

HISTORIC* VS CONTEMPORARY HOTELS 2014 COMPARATIVE PERFORMANCE

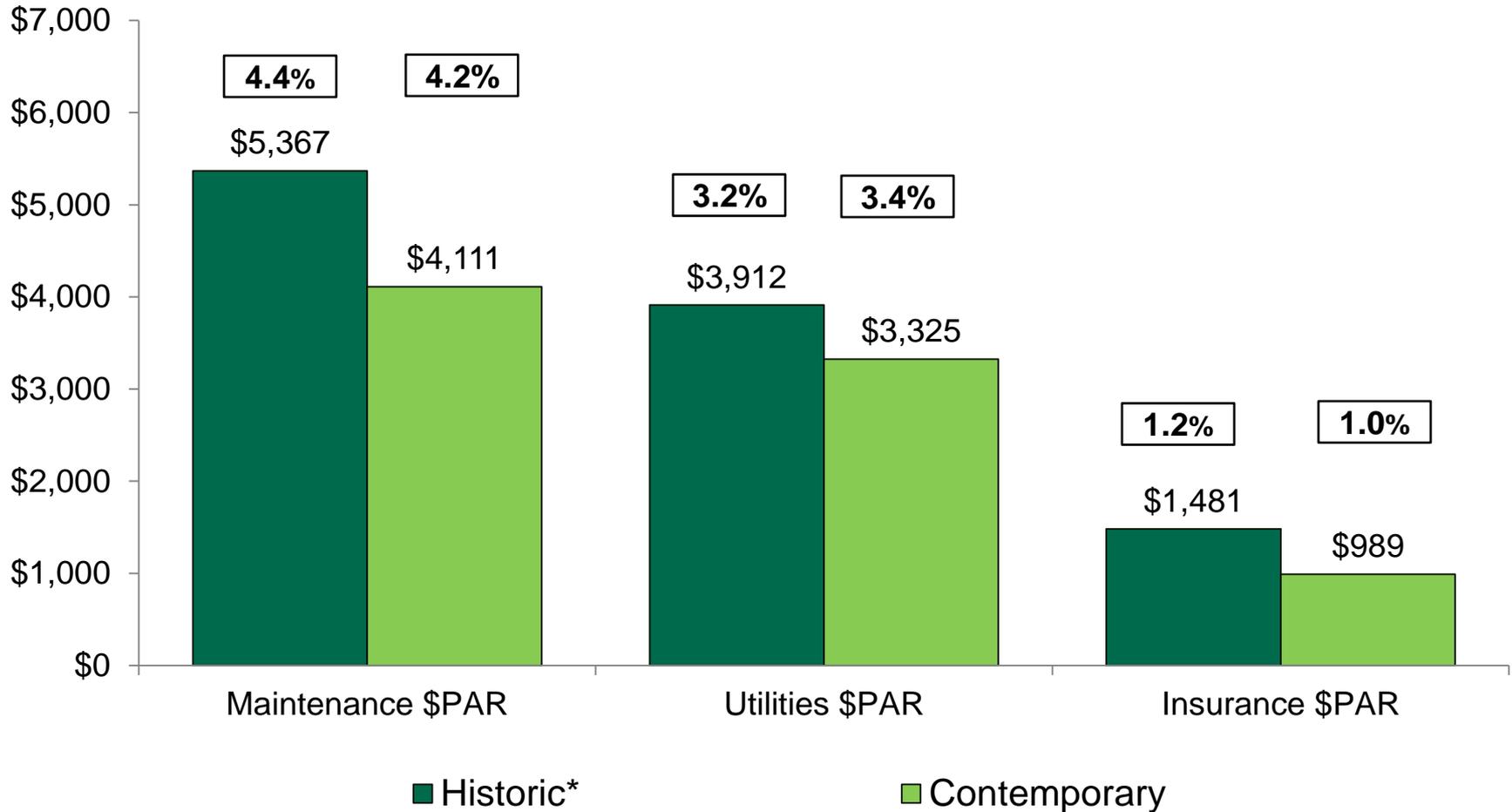
Total Labor Costs

| Metric | Historic | Contemporary |
|----------------------------|----------|--------------|
| Dollars Per Available Room | \$43,693 | \$32,063 |
| Dollars Per Occupied Room | \$155.64 | \$114.27 |
| Percent of Total Revenue | 35.5% | 33.9% |

Note: *Open before 1960, Luxury and Upper-Upscale
Source: PKF Hospitality Research, a CBRE Company, Trends® in the Hotel Industry

HISTORIC* VS CONTEMPORARY HOTELS 2014 COMPARATIVE PERFORMANCE

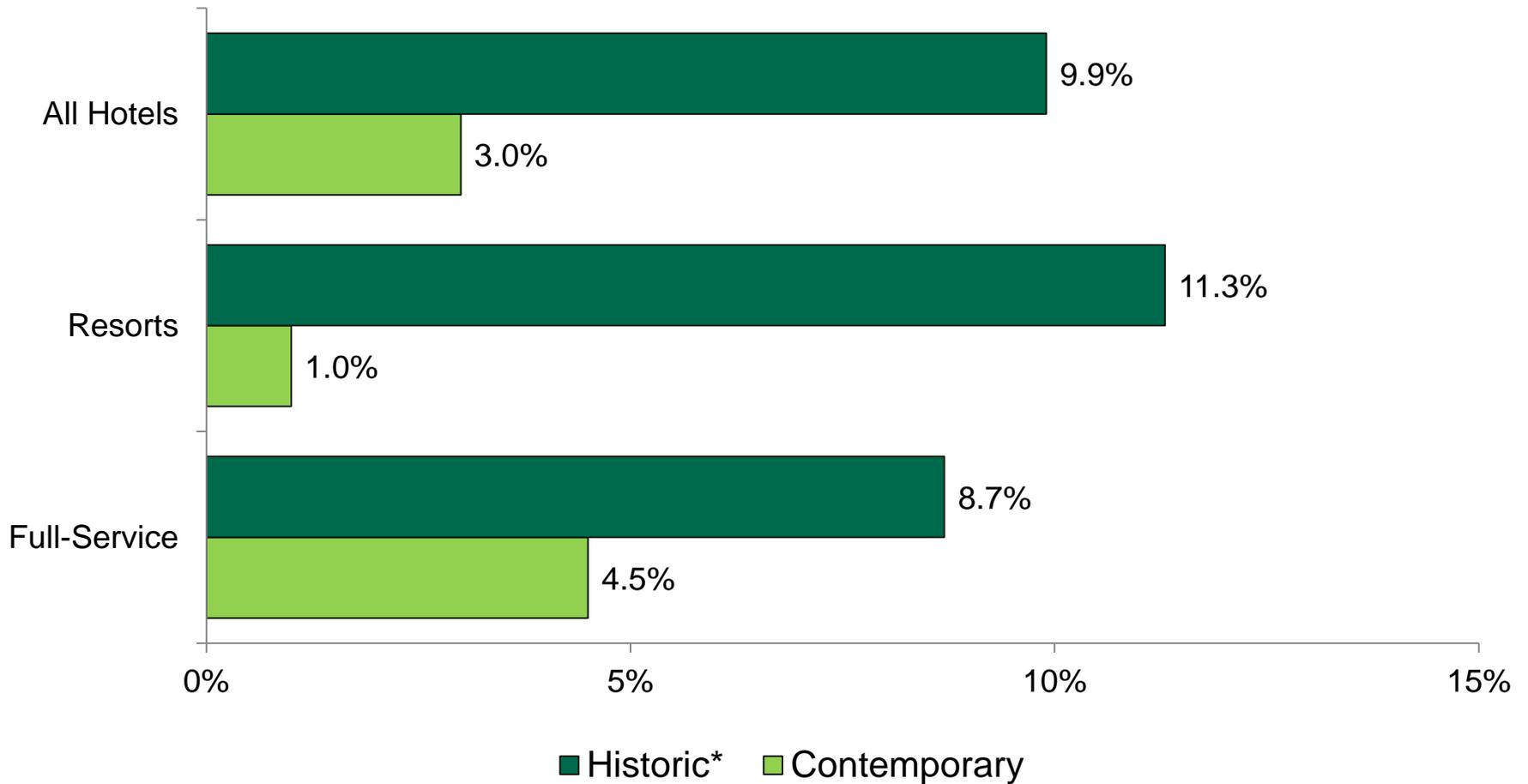
Select Expenses - \$PAR and % of Total Revenue



Note: *Open before 1960, Luxury and Upper-Upscale
Source: PKF Hospitality Research, a CBRE Company, Trends® in the Hotel Industry

HISTORIC* VS CONTEMPORARY HOTELS TOTAL REVENUE

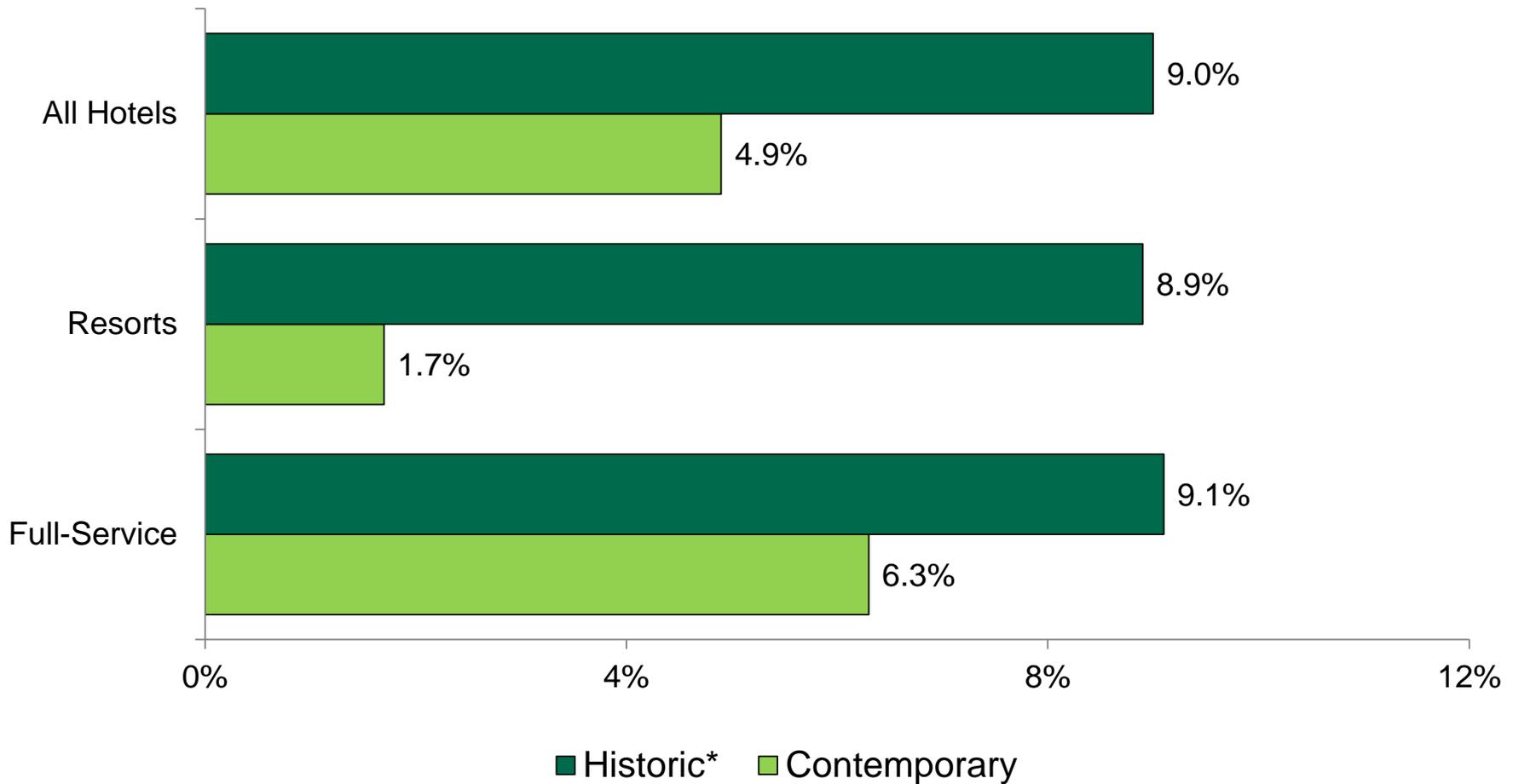
CHANGE 2007-2014



Note: *Open before 1960, Luxury and Upper-Upscale
Source: PKF Hospitality Research, a CBRE Company, Trends® in the Hotel Industry

HISTORIC* VS CONTEMPORARY HOTELS TOTAL OPERATING EXPENSES**

CHANGE 2007-2014



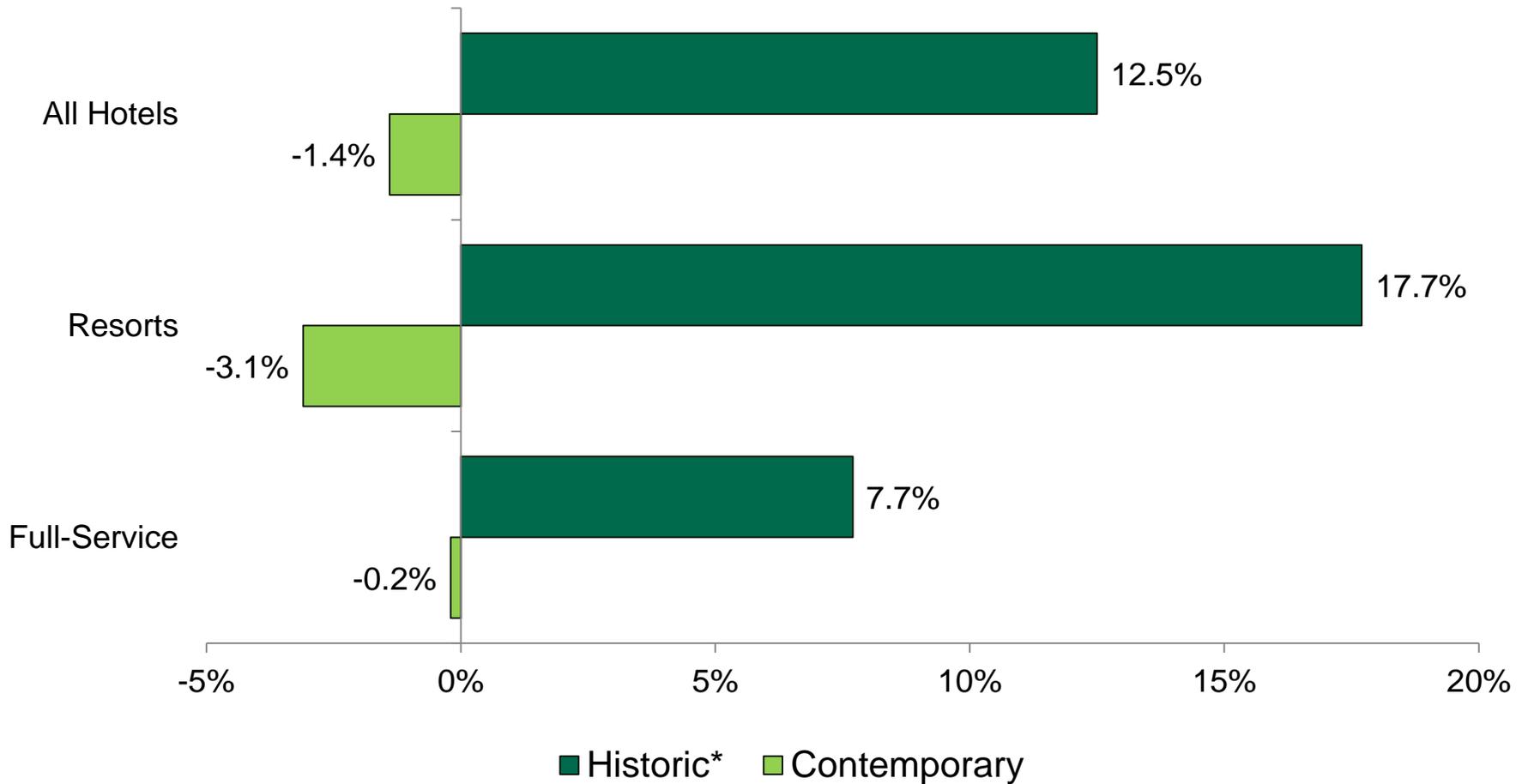
Note: *Open before 1960, Luxury and Upper-Upscale

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

Source: PKF Hospitality Research, a CBRE Company, Trends® in the Hotel Industry

HISTORIC* VS CONTEMPORARY HOTELS NET OPERATING INCOME**

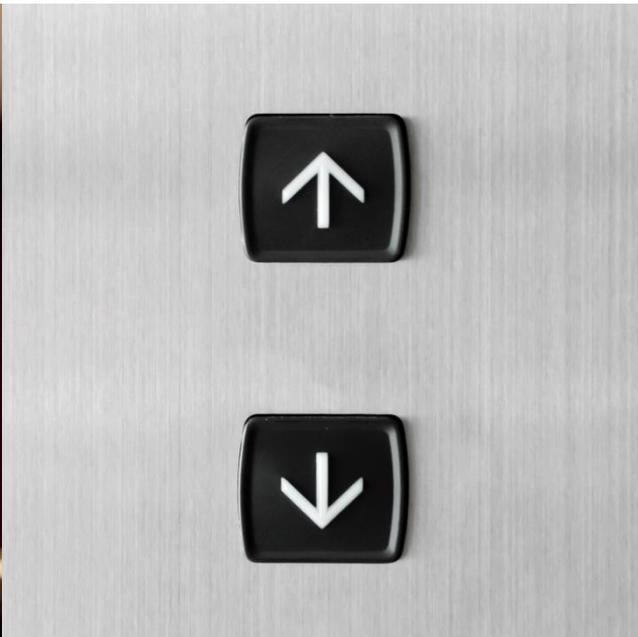
CHANGE 2007-2014



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, a CBRE Company, Trends® in the Hotel Industry



SUMMARY

SUMMARY THOUGHTS

The Very GoodWill Continue

1. The fundamentals are solid across the vast majority of markets.
2. Elevated industry growth will persist comfortably through 2017 and likely beyond.
3. High occupancy levels will provide the leverage needed to achieve large real ADR increases for the next two-three years.
4. 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.
5. Above long run average occupancy levels will lead to strong profit growth comfortably through 2017, enough to off-set increasing labor costs.
6. The near-to-midterm outlook for historic hotels is strong – high occupancy levels and ADR growth will lead to increases in revenue and NOI.
7. It is a great time to be in the hotel business!

THANKS FOR YOUR TIME

CBRE HOTELS & PKF CONSULTING

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