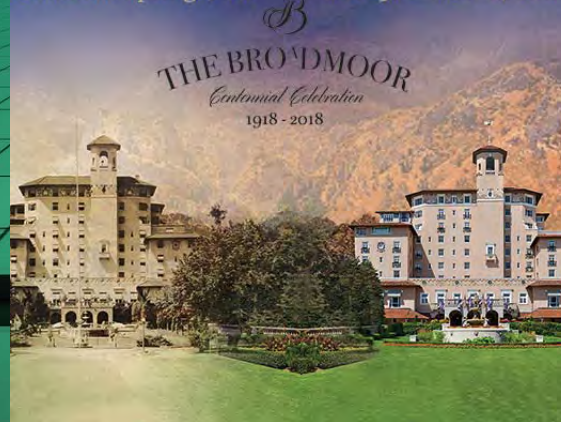


HISTORIC HOTELS ANNUAL CONFERENCE
Colorado Springs, CO Oct. 30 - Nov. 2, 2018



CBRE

Positive Outlook for Most.....

...Growing Pains for Some

STATE OF THE U.S. LODGING INDUSTRY

Mark Woodworth – Senior Managing Director
CBRE Hotels' Americas Research
October 31, 2018

CBRE HOTELS

The World's Leading Hotel Experts.

AGENDA

- THE ECONOMY
- LABOR
- OUR FORECASTS
- WHAT COULD END THE CURRENT CYCLE?
- THE CONUNDRUM
- A LOOK AT HISTORIC HOTELS

First Watch on a Long Voyage



THE ECONOMY

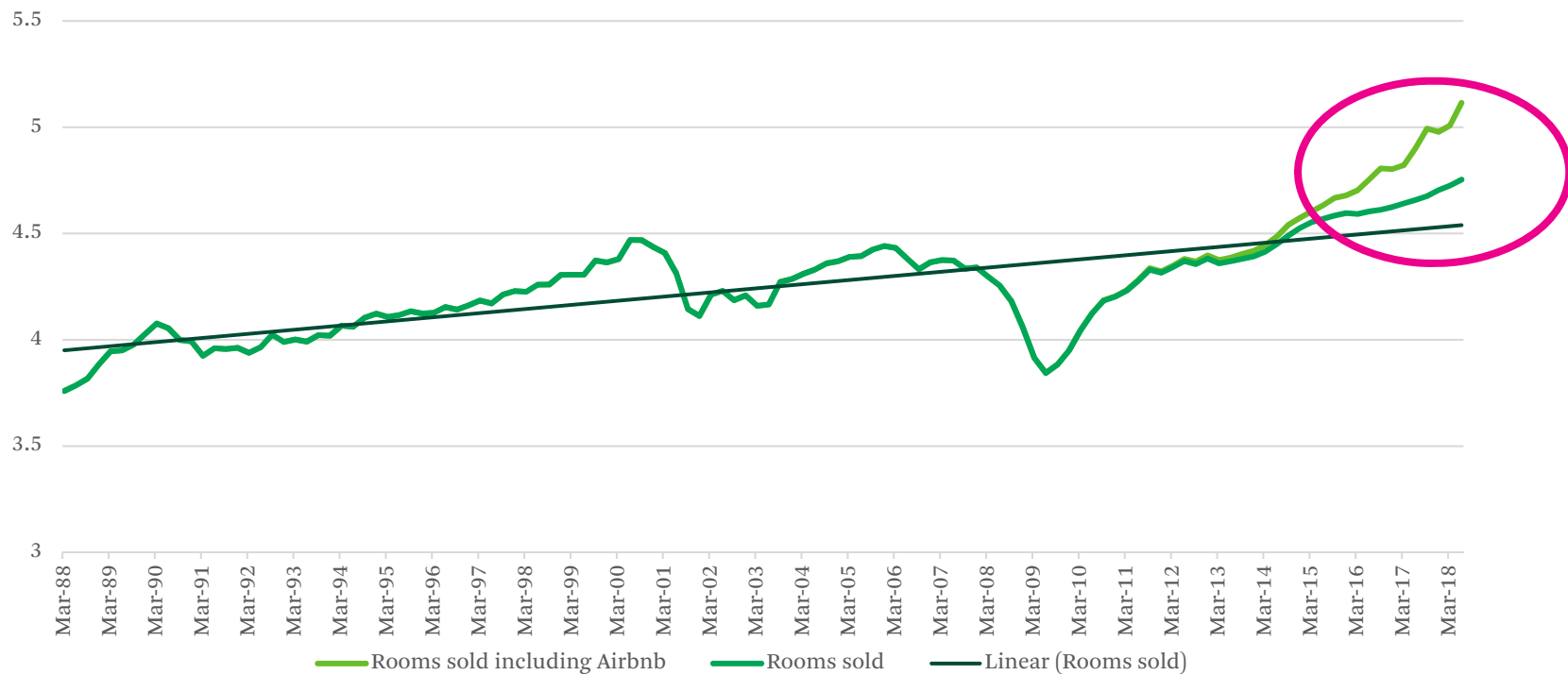
QUESTION:

- What happens if you have no customers?

First Watch on a Long Voyage

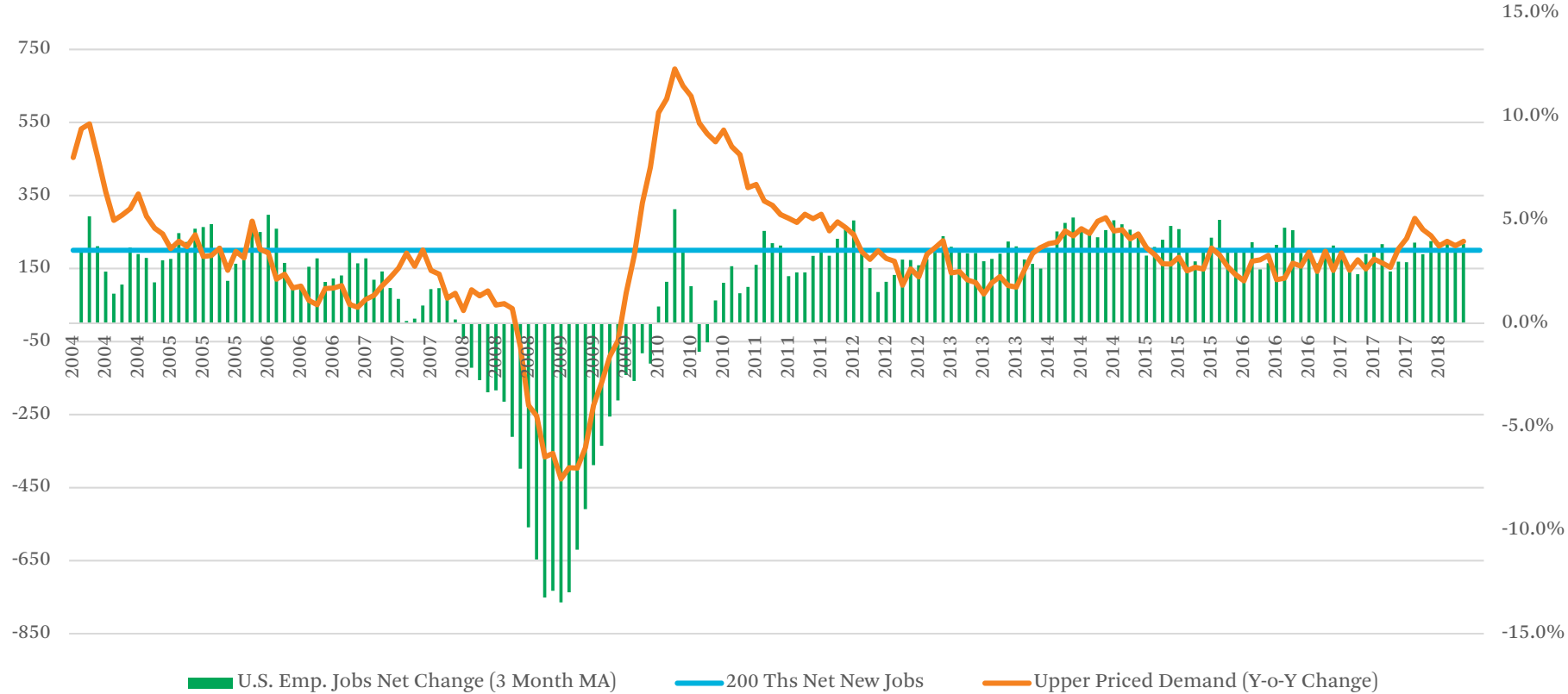
MORE PEOPLE RENTING ROOMS WELL IN EXCESS OF WHAT HISTORICAL TRENDS WOULD SUGGEST

RATIO OF ANNUAL ROOMS SOLD TO WORKING-AGE POPULATION OF THE U.S.

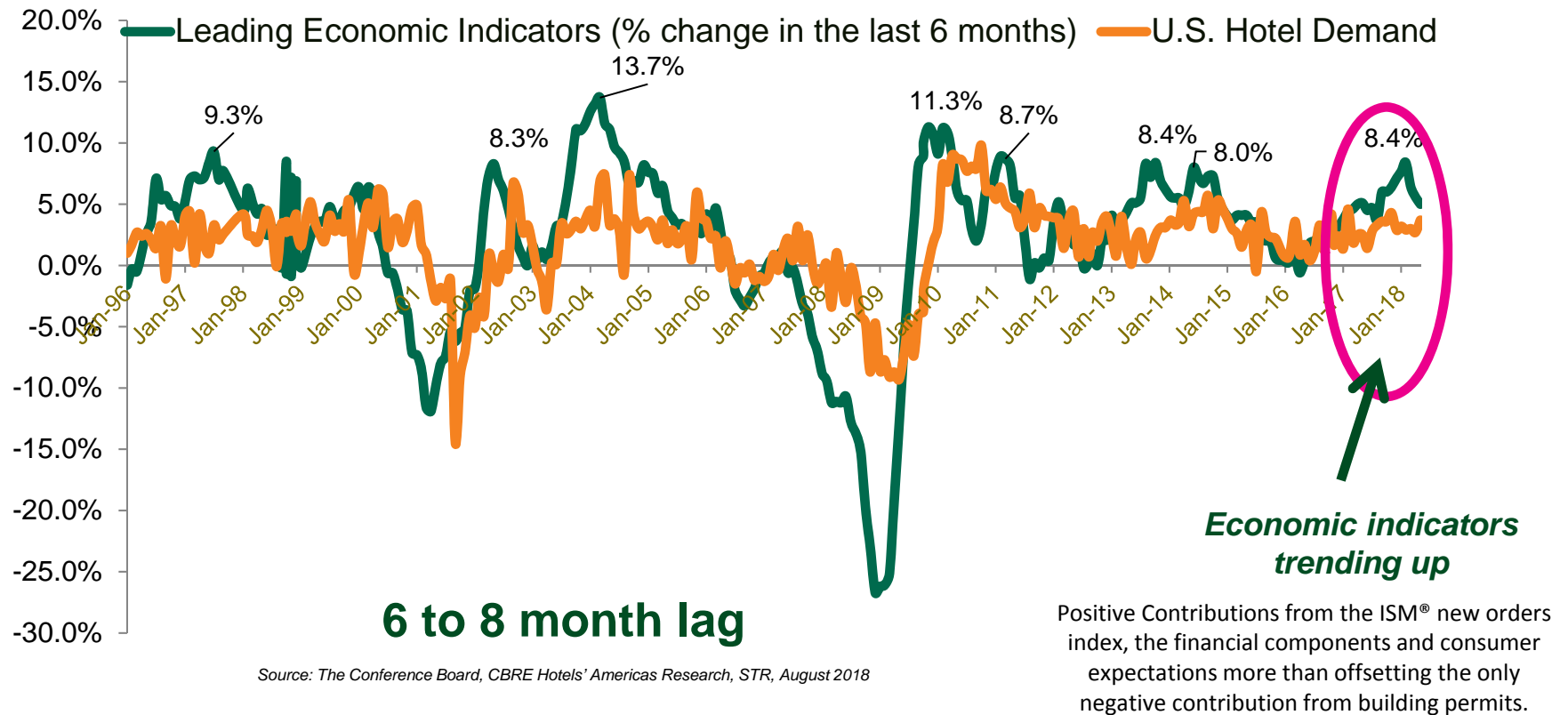


Source: STR, Airdna, U.S. Census, CBRE Hotels' Americas Research, Q2 2018.

EMPLOYMENT GAINS & LODGING DEMAND



LEADING ECONOMIC INDICATORS PERCENT CHANGE IN THE LAST 6 MONTHS





Don't Forget What
Happened To The Person
Who Suddenly Got
Everything They Always
Wanted ...

They Lived Happily Ever After....



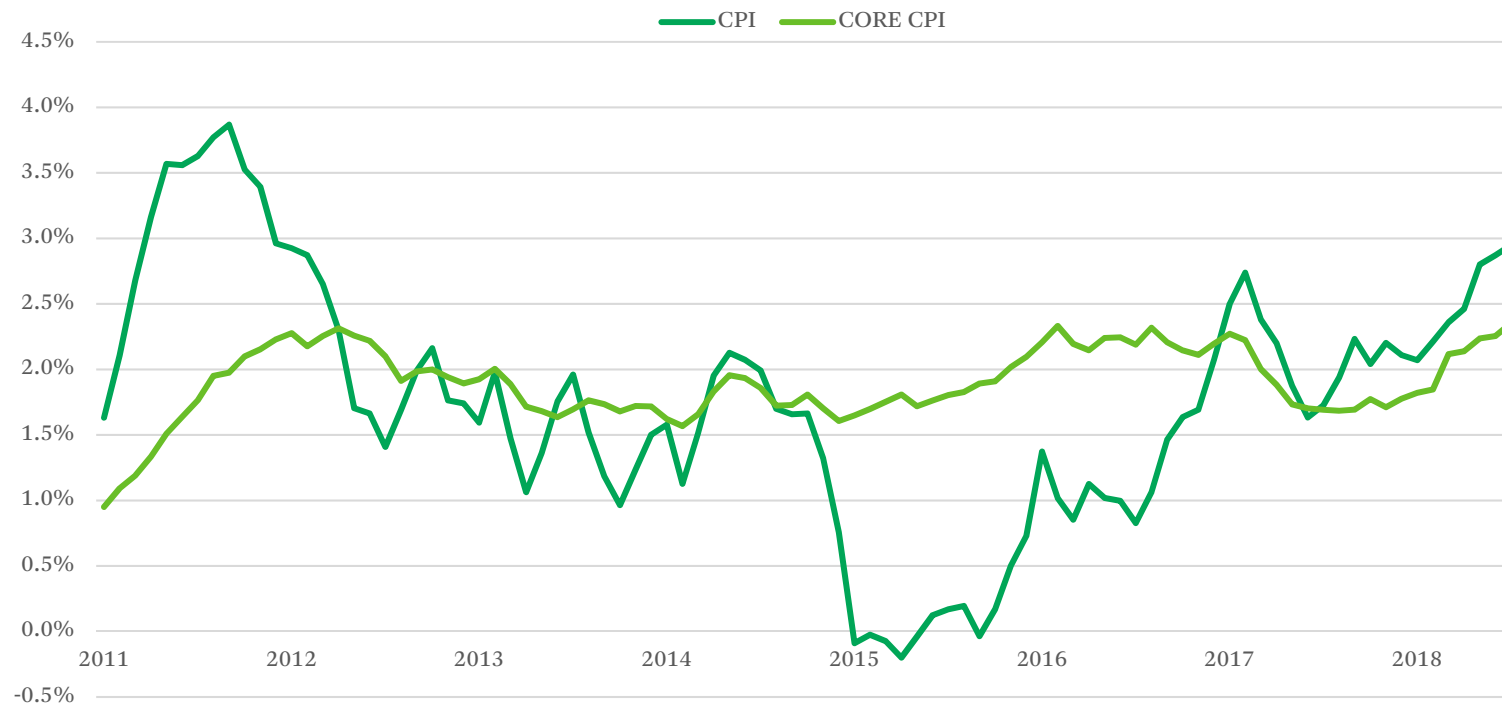


Inflation

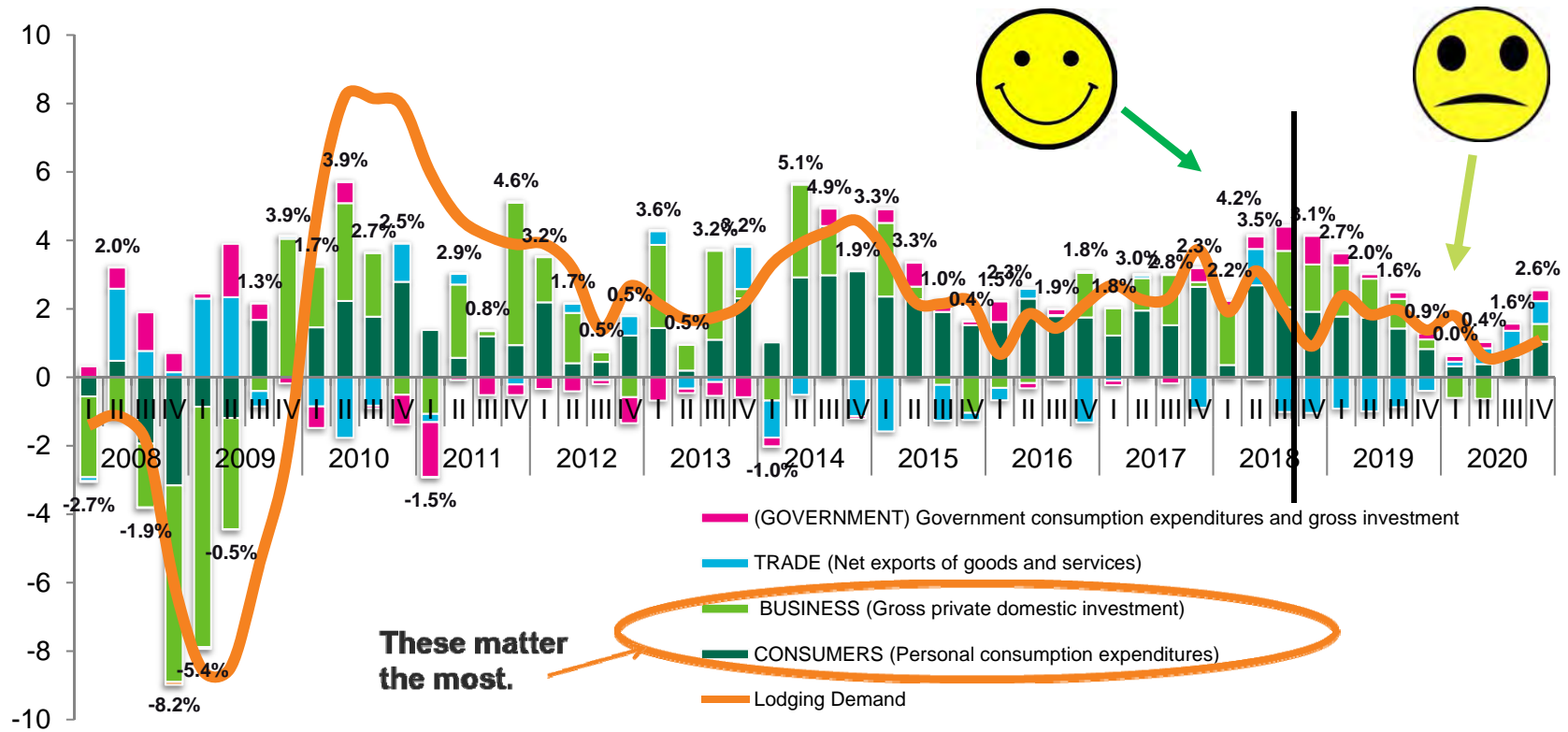
Unfortunately, economic theory
suggests otherwise

INFLATION - AS MEASURED BY CPI

RECENT MODERATE GROWTH – EXPECTATIONS VARY

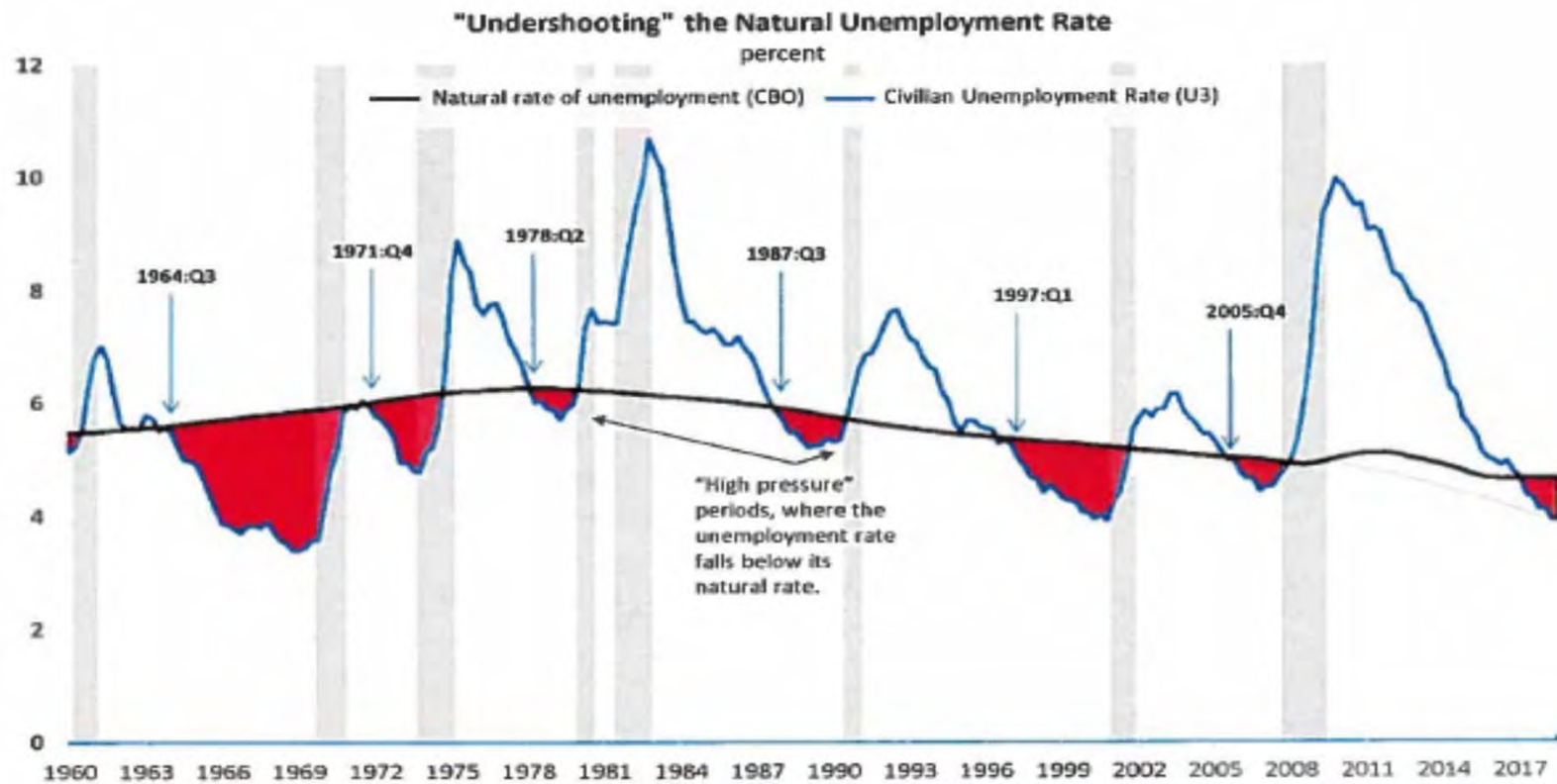


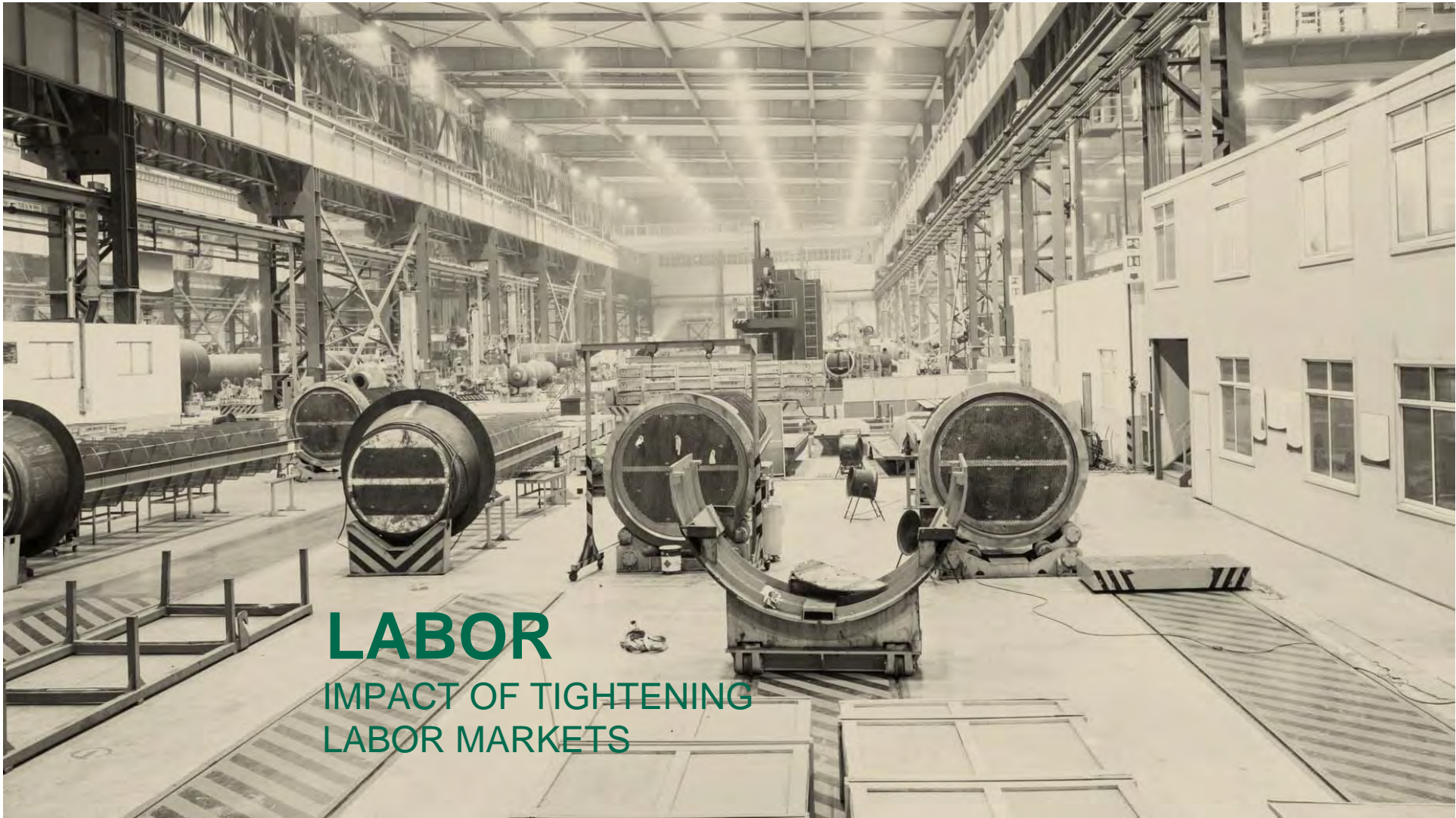
THE OUTLOOK FOR THE DRIVERS THAT ARE MOST IMPORTANT TO HOTELS REMAINS FAVORABLE



Source: BEA, Moody's Analytics, CBRE Hotels Americas' Research Hotel Horizons, STR, August 2018

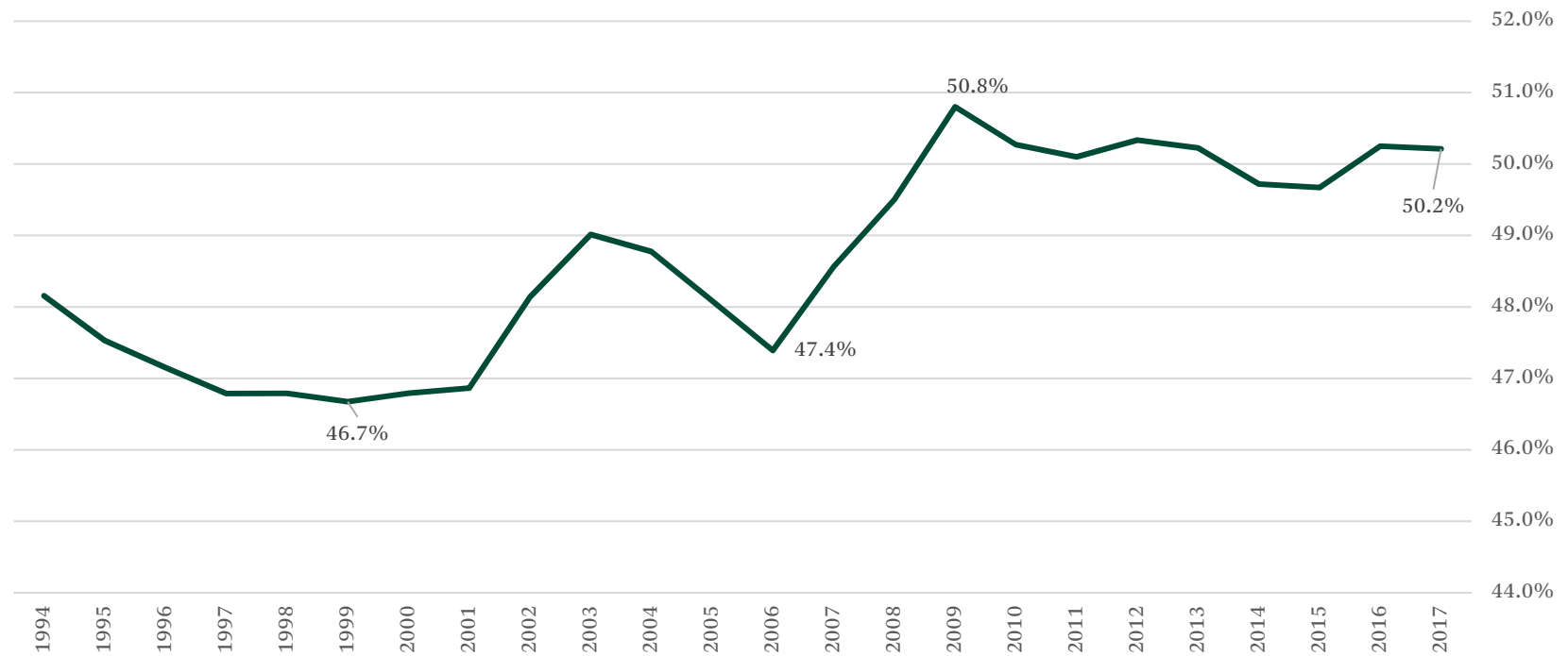
A PICTURE ECONOMISTS ARE THINKING A LOT ABOUT NOW





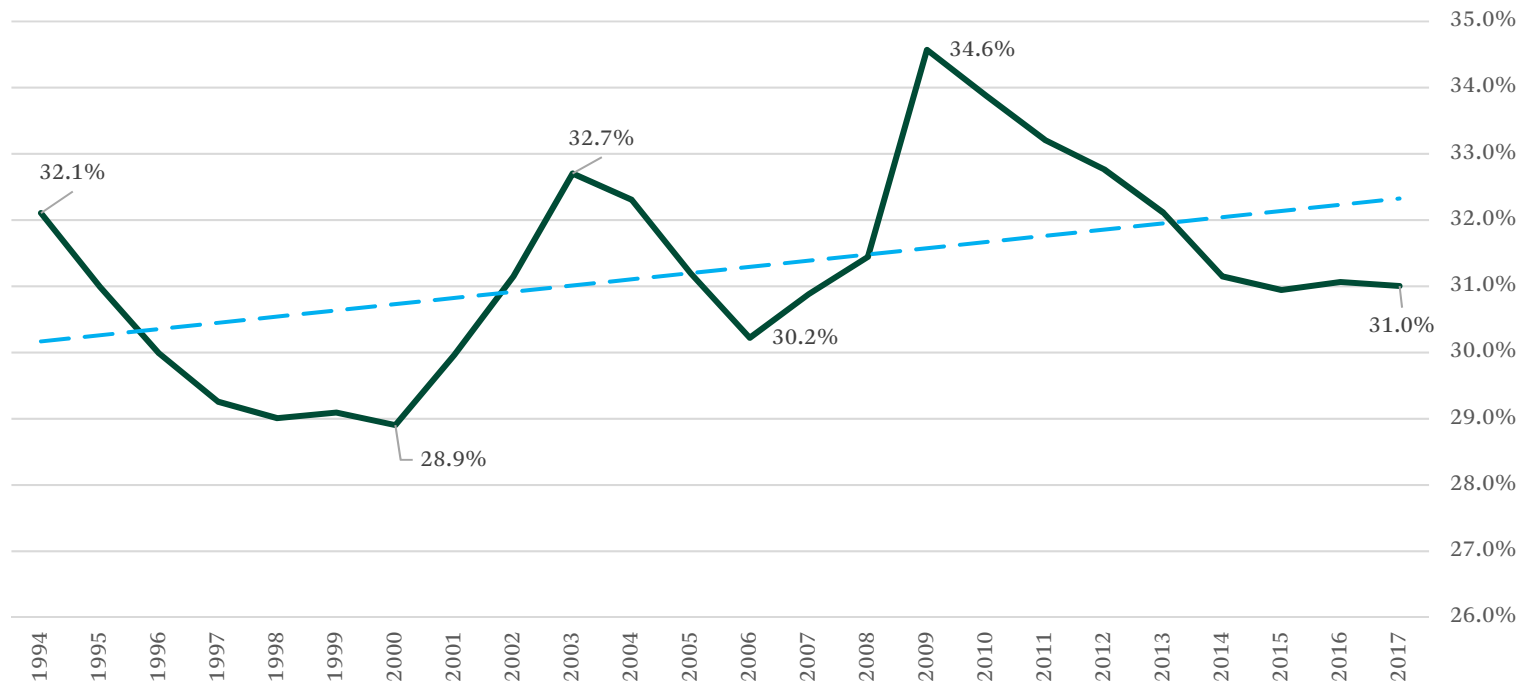
LABOR
IMPACT OF TIGHTENING
LABOR MARKETS

TOTAL PAYROLL & BENEFITS AS A PERCENT OF TOTAL EXPENSES (THRU GOP)



Source: CBRE Trends® in the Hotel Industry Survey

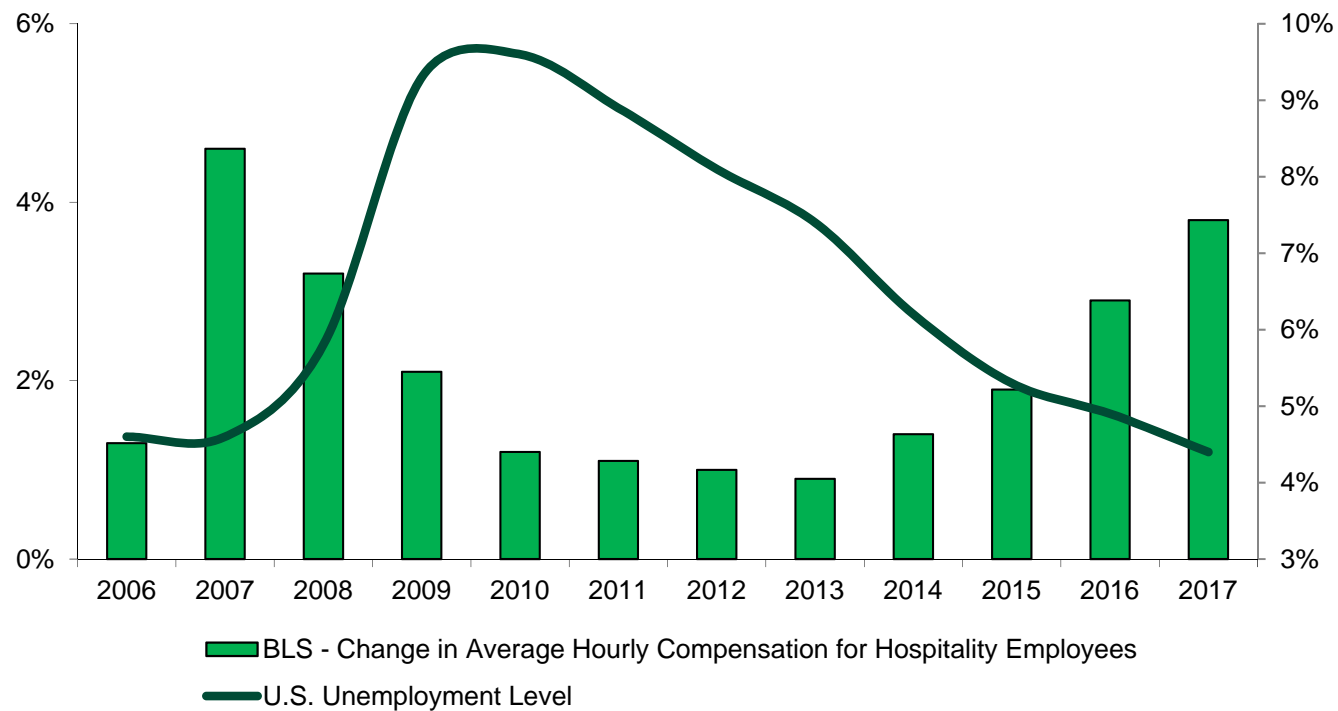
TOTAL PAYROLL & BENEFITS AS A PERCENT OF TOTAL REVENUE



Source: CBRE Trends® in the Hotel Industry Survey

2018 Trends® In The Hotel Industry

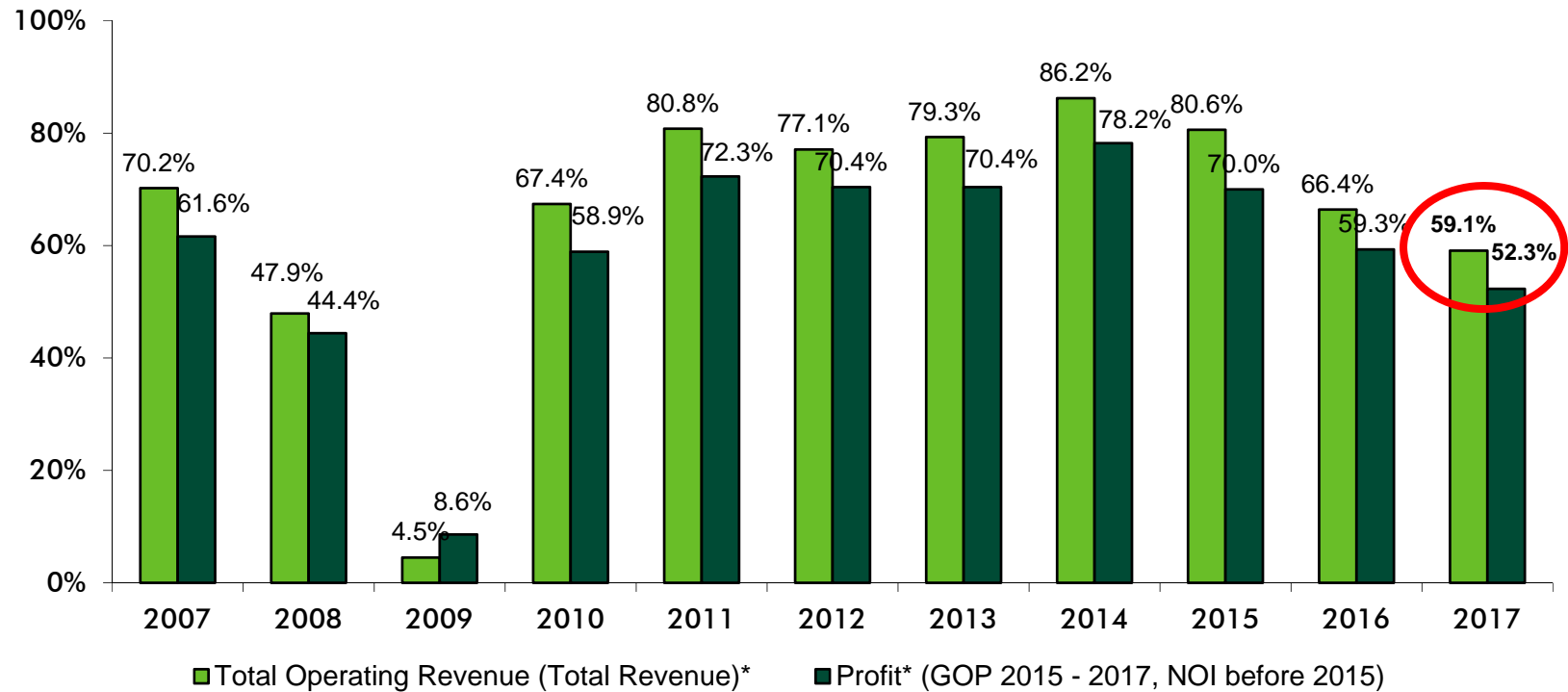
Annual Change in Hospitality Industry Employee Hourly Compensation versus Unemployment Rate



Source: Bureau of Labor Statistics

FEWER HOTELS ARE ABLE TO ACHIEVE INCREASES ON THE TOP AND BOTTOM LINES

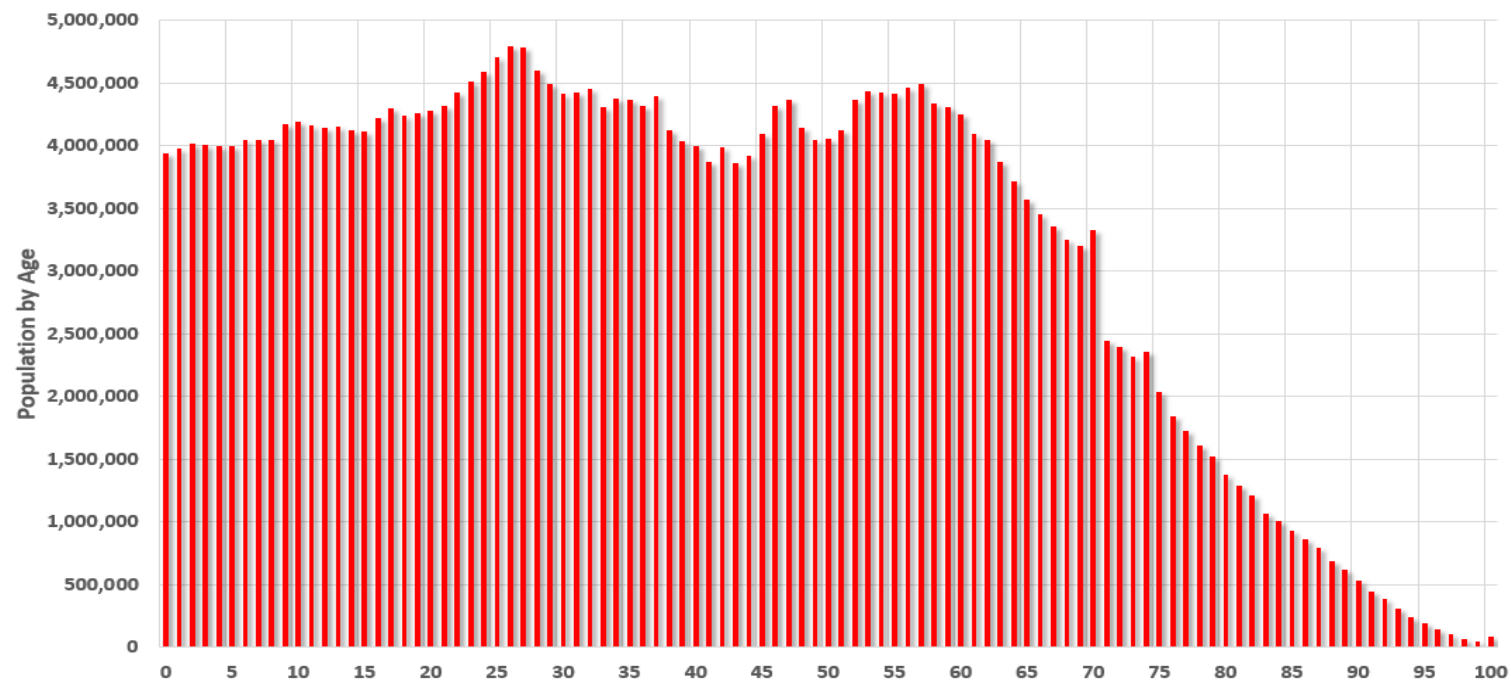
Percent of Hotels in *Trends®* Sample Posting an Increase from Prior Year



Note: * 11th edition of USALI in 2015, (10th edition of USALI from 2007 to 2014)
Source: 2018 Trends® in the Hotel Industry

HOW OLD ARE WE?

U.S. POPULATION BY AGE – 2017 – CENSUS ESTIMATES



Source: U.S. Census, Calculatedriskblog.com

HOW OLD WE WILL BE?

U.S. POPULATION BY AGE – 2017 – CENSUS ESTIMATES

Population: Largest 5-Year Cohorts by Year				
<u>Largest Cohorts</u>	<u>2010</u>	<u>2017</u>	<u>2020</u>	<u>2030</u>
Age in Years				
1	45 to 49	25 to 29	25 to 29	35 to 39
2	50 to 54	20 to 24	30 to 34	40 to 44
3	15 to 19	55 to 59	35 to 39	30 to 34
4	20 to 24	30 to 34	Under 5	25 to 29
5	25 to 29	50 to 54	55 to 59	5 to 9
6	40 to 44	35 to 39	20 to 24	10 to 14
7	10 to 14	15 to 19	5 to 9	Under 5
8	5 to 9	45 to 49	60 to 64	15 to 19
9	Under 5	10 to 14	15 to 19	20 to 24
10	35 to 39	5 to 9	10 to 14	45 to 49
11	30 to 34	60 to 64	50 to 54	50 to 54
Working Age Population				

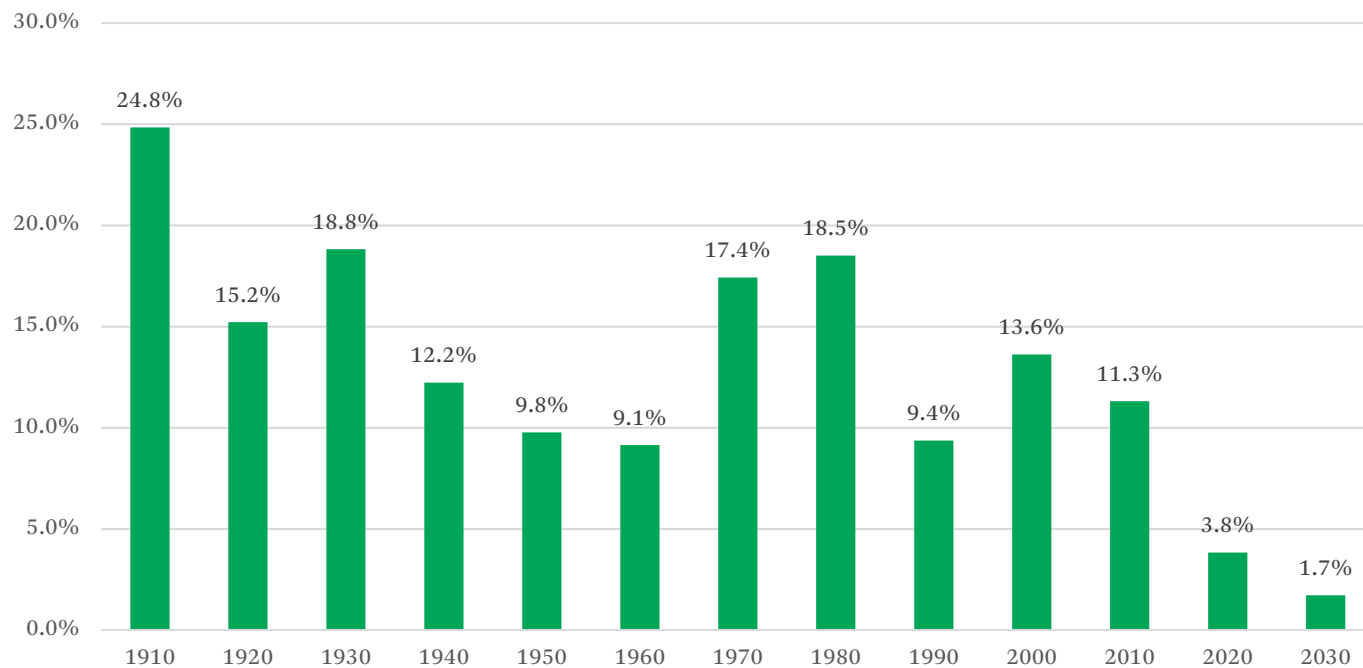
How Old We Are

How Old We Will Be

Source: U.S. Census, Calculatedriskblog.com

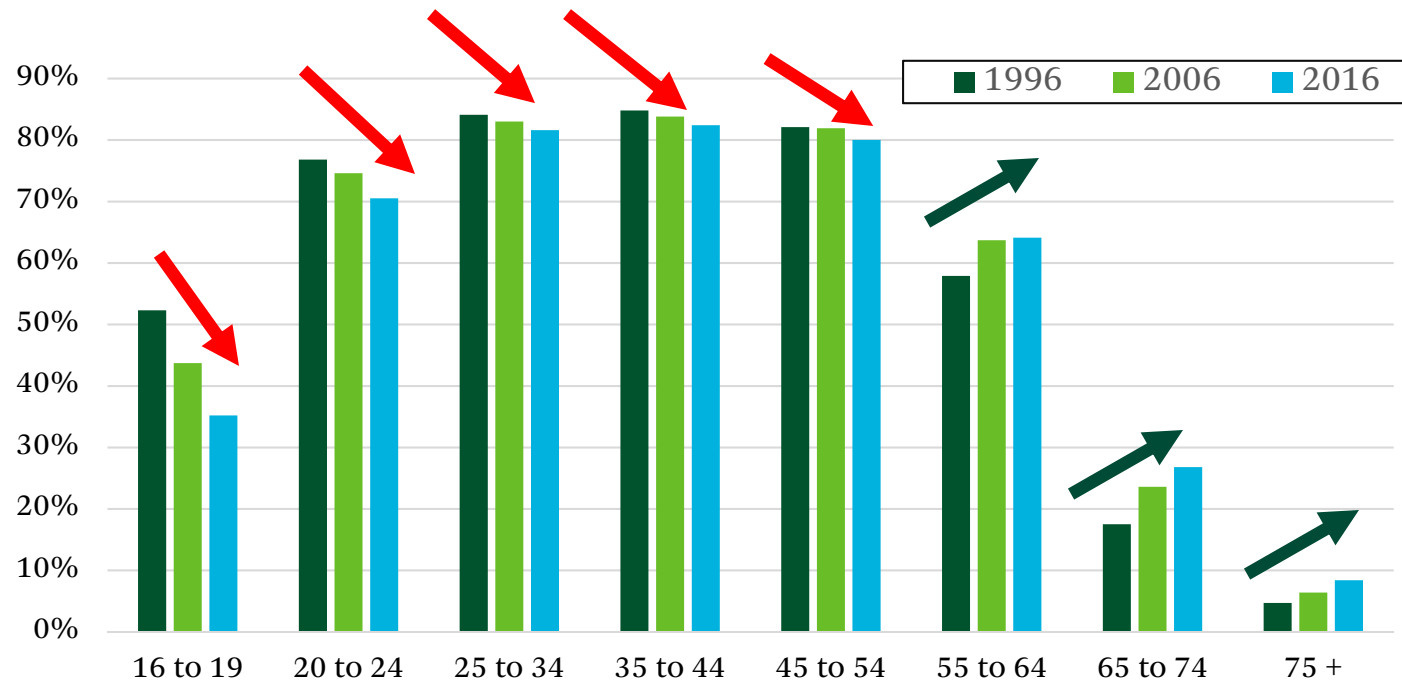
WHERE WILL WE FIND WORKERS?

10 YEAR CHANGE IN WORKING AGE POPULATION



Source: U.S. Census, Moody's Analytics, Q3 2018.

LABOR FORCE PARTICIPATION



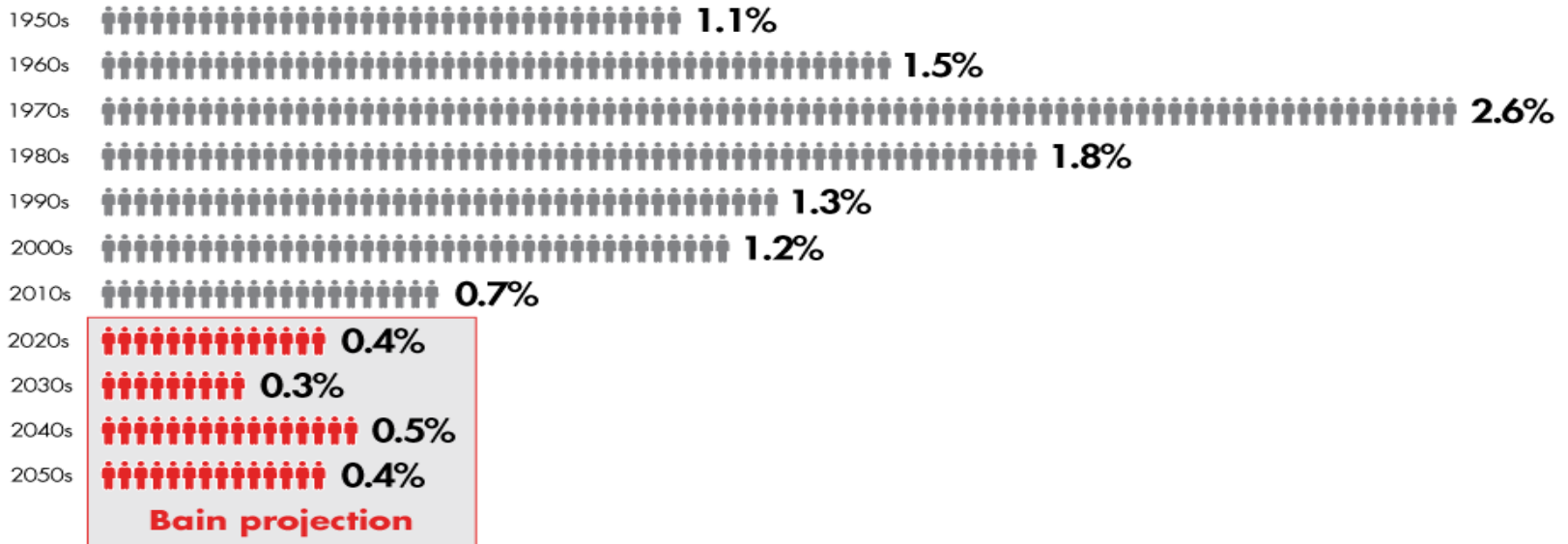
Sources: BLS.gov, Roger Tutterow – Kennesaw State University

THE OUTLOOK FOR LABOR FORCE GROWTH

Figure 2

■ US labor force growth will remain low for the foreseeable future

US labor force average annual growth, by decade



Sources: US Bureau of Labor Statistics; US Census Bureau; Bain Macro Trends Group analysis, 2017



OUR FORECASTS - NATIONAL

JOHN KENNETH GALBRAITH

“There are two kinds of forecasters:
...those who don't know,
...and those who don't know they don't know.”

U.S. NATIONAL FORECAST – ALL HOTELS

	Long Run Average	2015	2016	2017	2018F	2019F
Supply	1.9%	1.0%	1.5%	1.8%	2.0%	1.9%
Demand	2.0%	2.5%	1.5%	2.6%	2.3%	1.9%
Occupancy	62.2%	65.4%	65.4%	<u>65.9%</u>	<u>66.1%</u>	<u>66.1%</u>
ADR	3.1%	4.5%	3.1%	2.1%	2.8%	2.6%
RevPAR	3.3%	6.1%	3.2%	2.9%	3.1%	2.6%

Source: STR, CBRE Hotels' Americas Research, Hotel Horizons® September-November 2018

U.S. TOP 25 MARKETS – ALL HOTELS

	Long Run Average	2015	2016	2017	2018F	2019F
Supply	1.8%	1.1%	2.1%	2.4%	2.8%	3.7%
Demand	2.2%	2.6%	1.8%	3.0%	2.8%	3.1%
Occupancy	67.3%	73.5%	73.3%	<u>73.7%</u>	<u>73.7%</u>	<u>73.3%</u>
ADR	3.1%	4.3%	2.7%	1.7%	3.1%	2.3%
RevPAR	3.5%	5.8%	2.5%	2.2%	3.1%	1.8%

Source: STR, CBRE Hotels' Americas Research, Hotel Horizons® September-November 2018

Okay for Some; Disappointing for Others.



Source: STR, CBRE Hotels' Americas Research, Hotel Horizons® September-November 2018

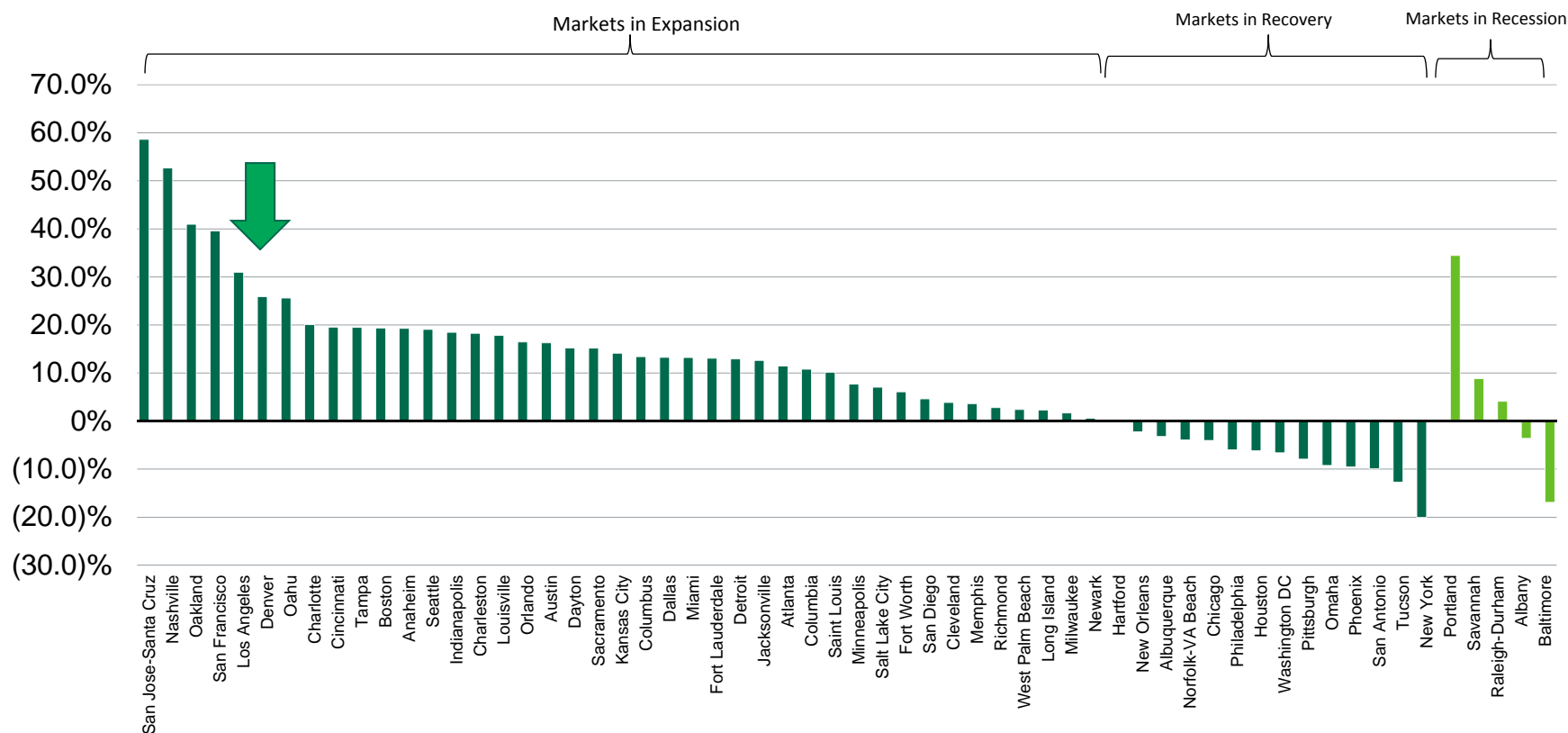
MARKET OUTLOOK

Occupancy Levels will Decline in 30 of our 60 Top U.S. Markets this Year, but in 44 Markets in 2019.

Average Daily Rate Growth will Exceed 2.0% in 41 Markets this Year and in 35 Markets in 2019.

REAL REVPAR CHANGE FROM PRE-RECESSION PEAK

NOT ALL MARKETS HAVE FULLY RECOVERED FROM THE LAST RECESSION.



Source: CBRE Hotels' Americas Research; STR, Q2 2018.



What Could End the Current Cycle?

WHAT COULD END THE CURRENT CYCLE?

1. The Economy

2. Over Building

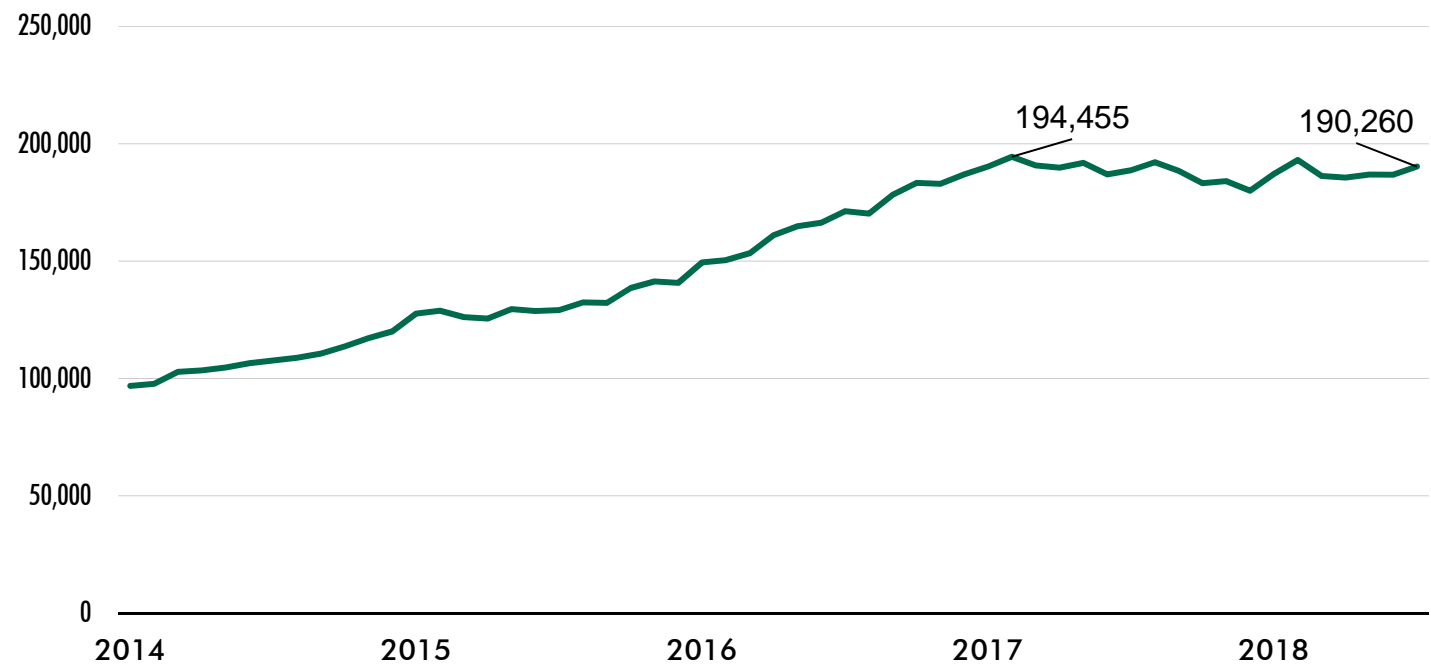
3. Unpredictable Demand Shock

4. Oil/Energy Price Increases

5. Asset Price Bubble

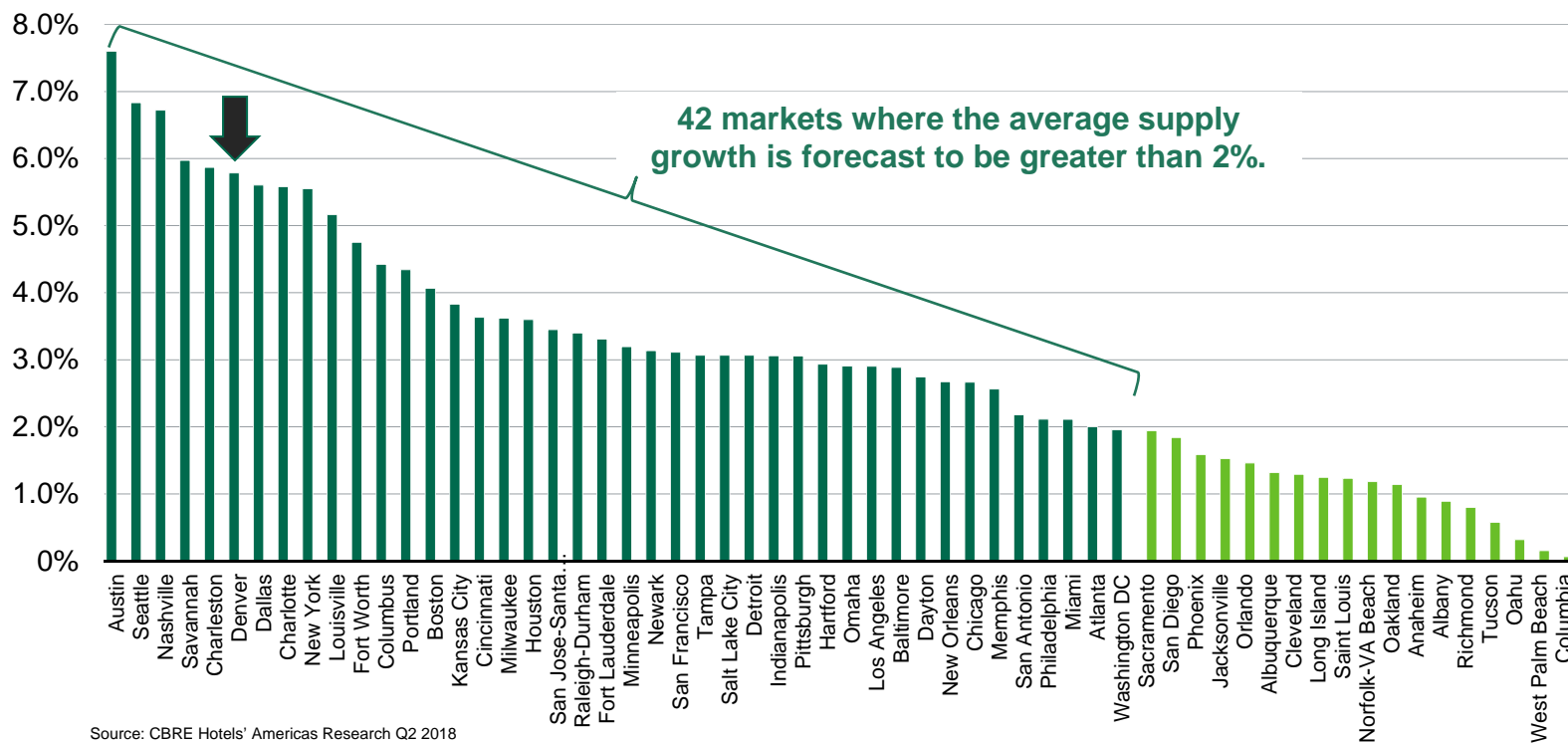
PIPELINE SLOWS

Number of Rooms Under Construction

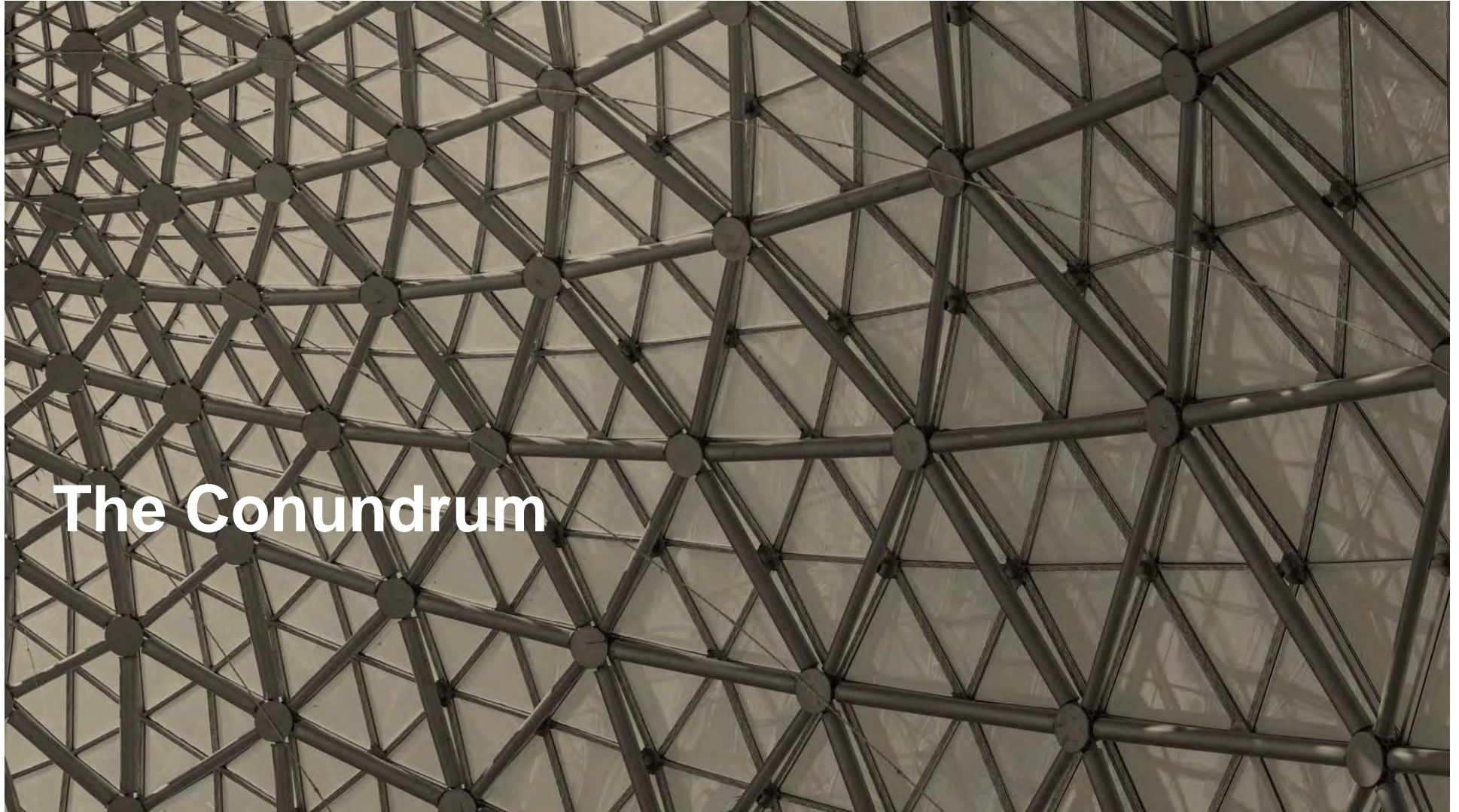


Source: STR, July 2018.

SUPPLY CHANGE 2018 - FORECAST



Source: CBRE Hotels' Americas Research Q2 2018



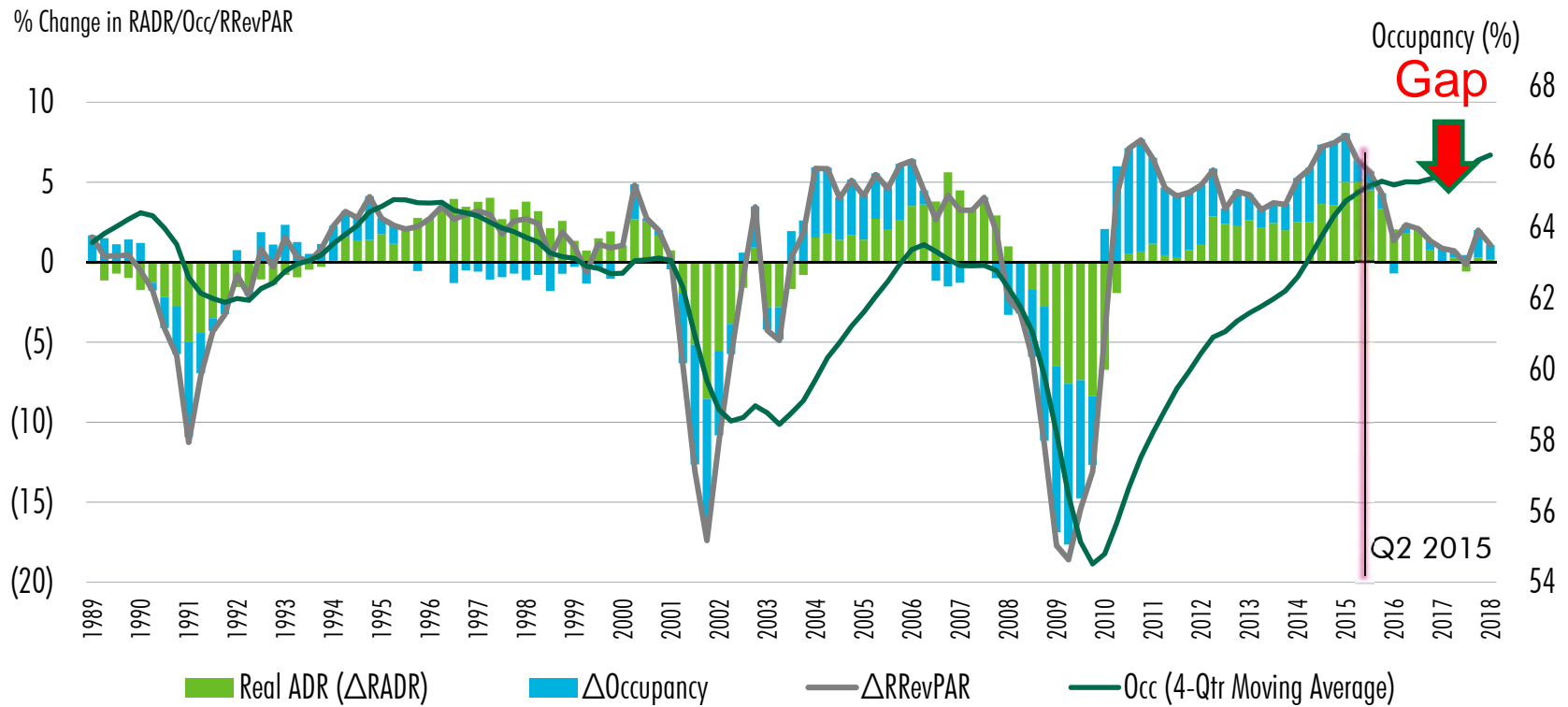
The Conundrum

CONUNDRUM

A question or problem having only a conjectural answer.

Conjecture: Without Evidence

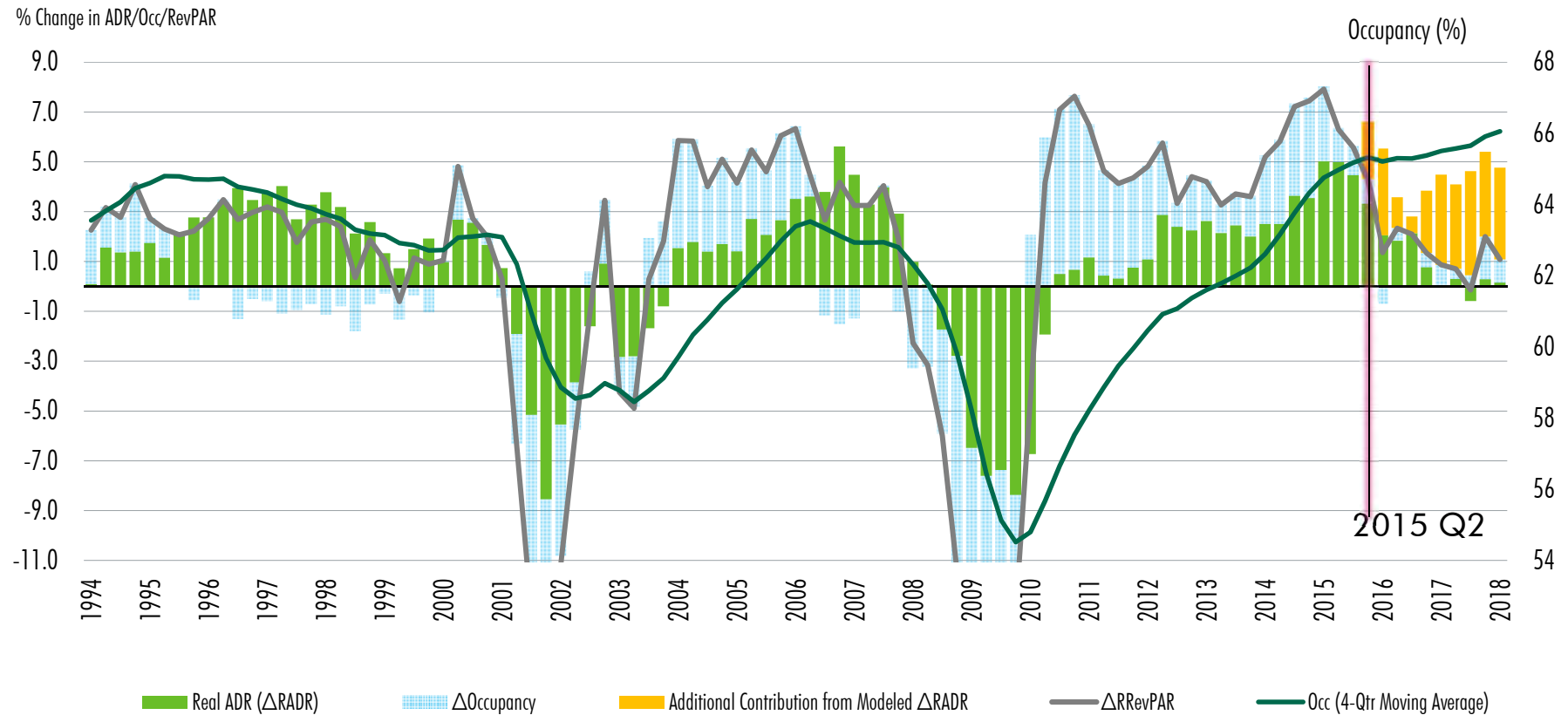
STR HISTORY OF U.S. HOTEL FINANCIAL PERFORMANCE, 1989-2018 Q2



Notes: Previous historical peak occupancy 66% (2017 Q4), Current occupancy 66.1% (2018 Q1)

Sources: CBRE Hotels' Americas Research, STR Q2 2018.

MODELED ADR - IF HISTORY WAS REPEATED!



Notes: Previous historical peak occupancy 66% (2017 Q4), Current occupancy 66.1% (2018 Q1)

Sources: CBRE Hotels' Americas Research, STR Q2 2018.

CITIES WITH THE DISEASE AND THOSE WITHOUT (TOTAL = 60)

With (37)

New York, NY
San Francisco/San Mateo, CA
Miami/Hialeah, FL
Austin, TX
Anaheim/Santa Ana, CA
Charlotte, NC-SC
Denver, CO
Oahu Island, HI
Pittsburgh, PA
Boston, MA
Houston, TX
Fort Lauderdale, FL
Nashville, TN
New Orleans, LA
Portland, OR
Oakland, CA
Fort Worth/Arlington, TX
San Diego, CA
Seattle, WA

San Jose/Santa Cruz, CA
Charleston, SC
West Palm Beach/Boca Raton, FL
Tampa/St Petersburg, FL
Newark, NJ
Dallas, TX
Chicago, IL
Los Angeles/Long Beach, CA
Washington, DC-MD-VA
Albany/Schenectady, NY
Baltimore, MD
Louisville, KY-IN
Raleigh/Durham/Chapel Hill, NC
Atlanta, GA
Philadelphia, PA-NJ
Long Island
Savannah, GA
St Louis, MO-IL

Without (23)

Columbus, OH
Cincinnati, OH-KY-IN
Phoenix, AZ
Detroit, MI
Jacksonville, FL
Minneapolis/St Paul, MN-WI
Milwaukee, WI
San Antonio, TX
Orlando, FL
Cleveland, OH
Columbia, SC
Omaha, NE
Salt Lake City/Ogden, UT
Memphis, TN-AR-MS
Sacramento, CA
Kansas City, MO-KS
Richmond/Petersburg, VA
Hartford, CT
Indianapolis, IN
Dayton/Springfield, OH
Tucson, AZ
Albuquerque, NM
Norfolk/Virginia Beach, VA

POSSIBLE REASONS FOR THE PARADOX

HYPOTHESES INCLUDE:

1. **Nothing Unusual Here!** – the current occupancy/ ADR growth relationship is typical of past relationships at this point in the cycle.
2. **Real vs. Nominal Rates Disguise** – Perhaps nominal ADR growth rates are abnormal but real growth rates are typical.
3. **Aggregation Bias** – the national trend in occupancy and ADR since 2014 occurred because some chain scales, locations, and/or cities have driven the national result.
4. **Extraordinary and Localized Supply Growth** – High rates of supply change in city markets or important hotel submarkets compromised managements' opportunities to increase ADR while high occupancy is preserved.
5. **Sharing Economy Discounts** – Airbnb-style flexible supply is limiting extraordinary rate increases during high-demand periods that in the past boosted average rates.

POSSIBLE REASONS FOR THE PARADOX

HYPOTHESES INCLUDE:

1. **Chain Redemption Policies** – Hotels follow rate policies that boost occupancy to levels in which reimbursement by chains for rooms purchased with points is maximized.
2. **Changes in the Demand Mix Since 2014 Favoring Lower-Rate Business** – mix shifted to greater contribution of lower rate leisure/weekend business. Length of stay also might be a factor.
3. **Shortened Booking Times Since 2014 Leading to Rate Stagnation** – option value increase due to ‘last minute’ replacement booking may be lowering ADR growth (noting that more restrictive cancellation policies have appeared the past 12 months).
4. **OTAs Gaining Market Share Since 2014 Leading to Larger Differentials Between Gross and Net ADR** – The reported ADR received by hotels from OTA booking may markedly differ from actual rates paid by guests. OTAs are thus anchoring lower rates.
5. **Better Management Practices** – improvement creates a situation in which flow through to NOI of occupancy and ADR changes have converged to the extent that owners have become more indifferent.
6. **Slow Wage Growth Translates into Slow ADR Growth** – wage cost push pressures are low.
7. **Hotel Managers Responsible for Rate Setting have been acting Irrationally (Overly Timid about Raising Rates).**



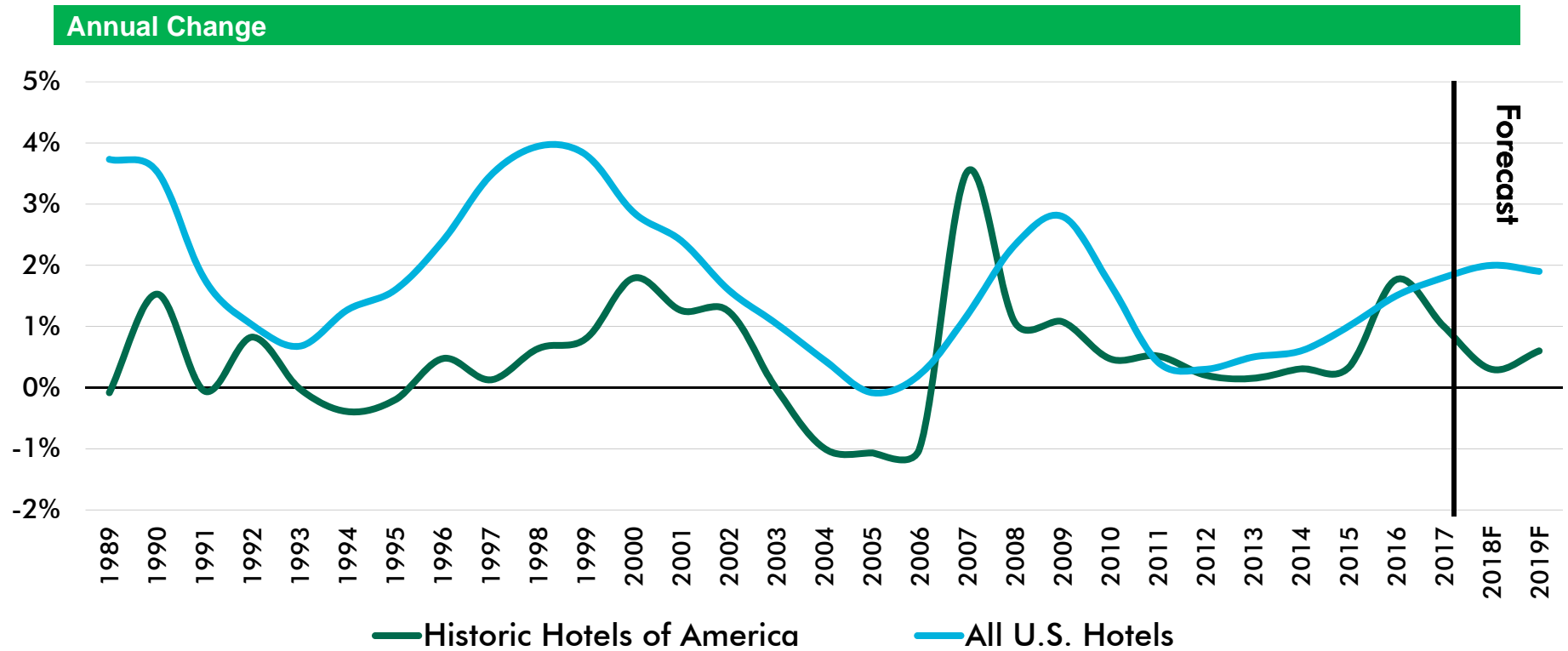
A Look at Historic Hotels

HISTORIC HOTELS PERFORMANCE

HISTORICAL AND FORECAST DATA

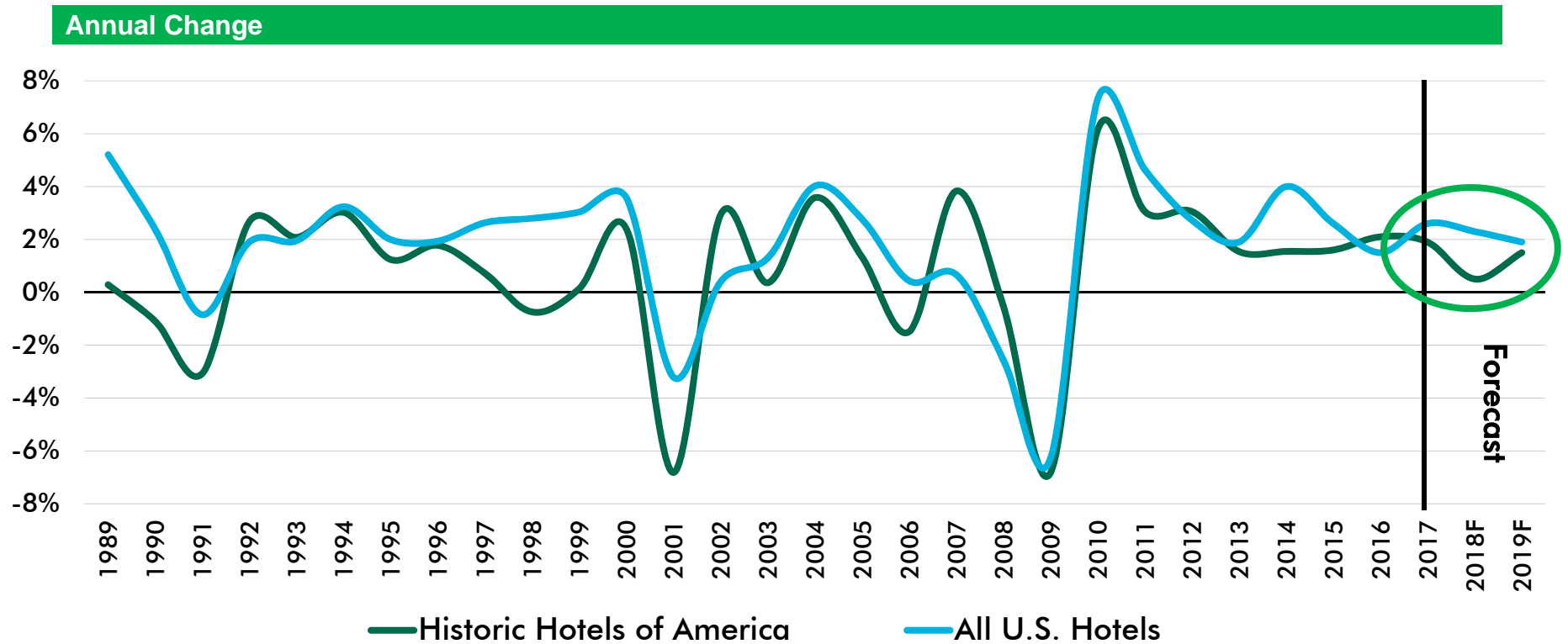
THE FOLLOWING DATA IS BASED ON A SAMPLE OF A 204 PROPERTIES THAT ARE MEMBERS OF HISTORIC HOTELS OF AMERICA, AND PROVIDE THEIR DATA TO STR.

CHANGE IN SUPPLY



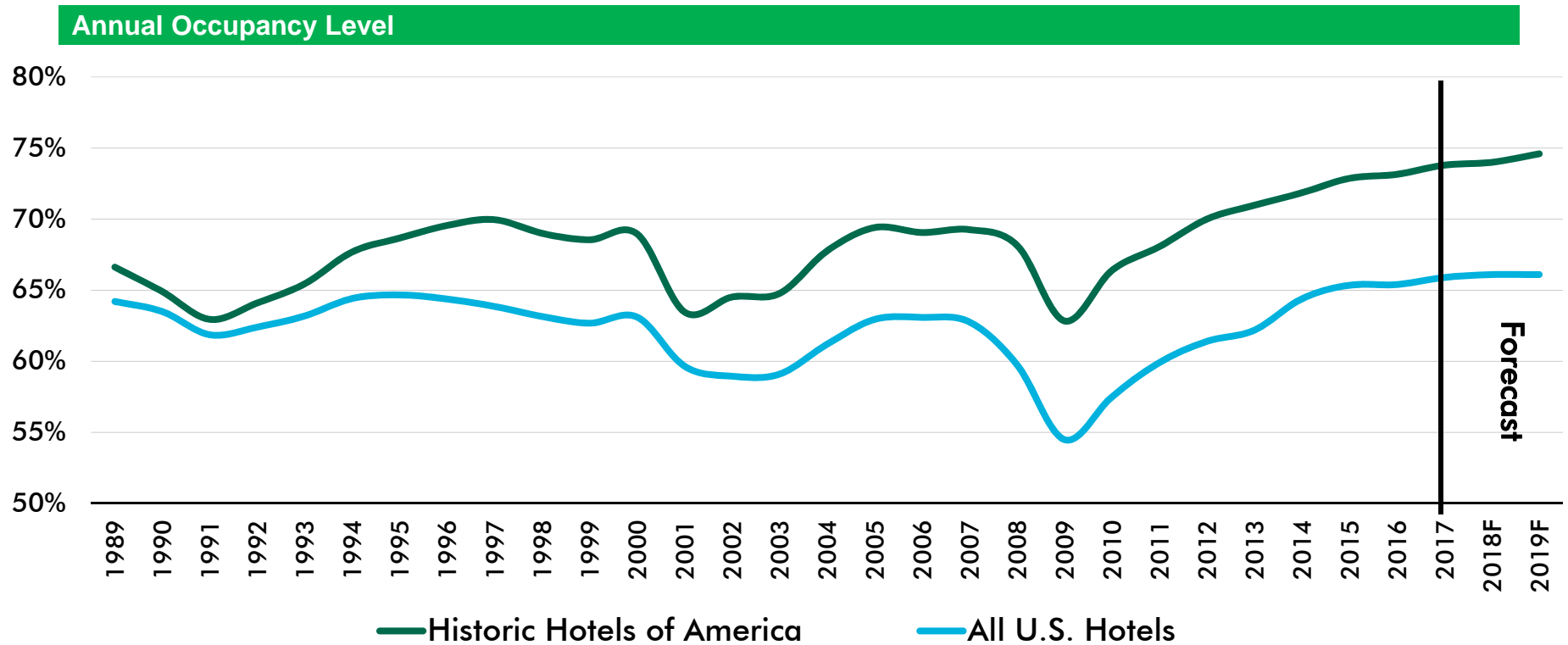
Source: STR, CBRE Hotels' Americas Research – September –November 2018 *Hotel Horizons®*

CHANGE IN DEMAND



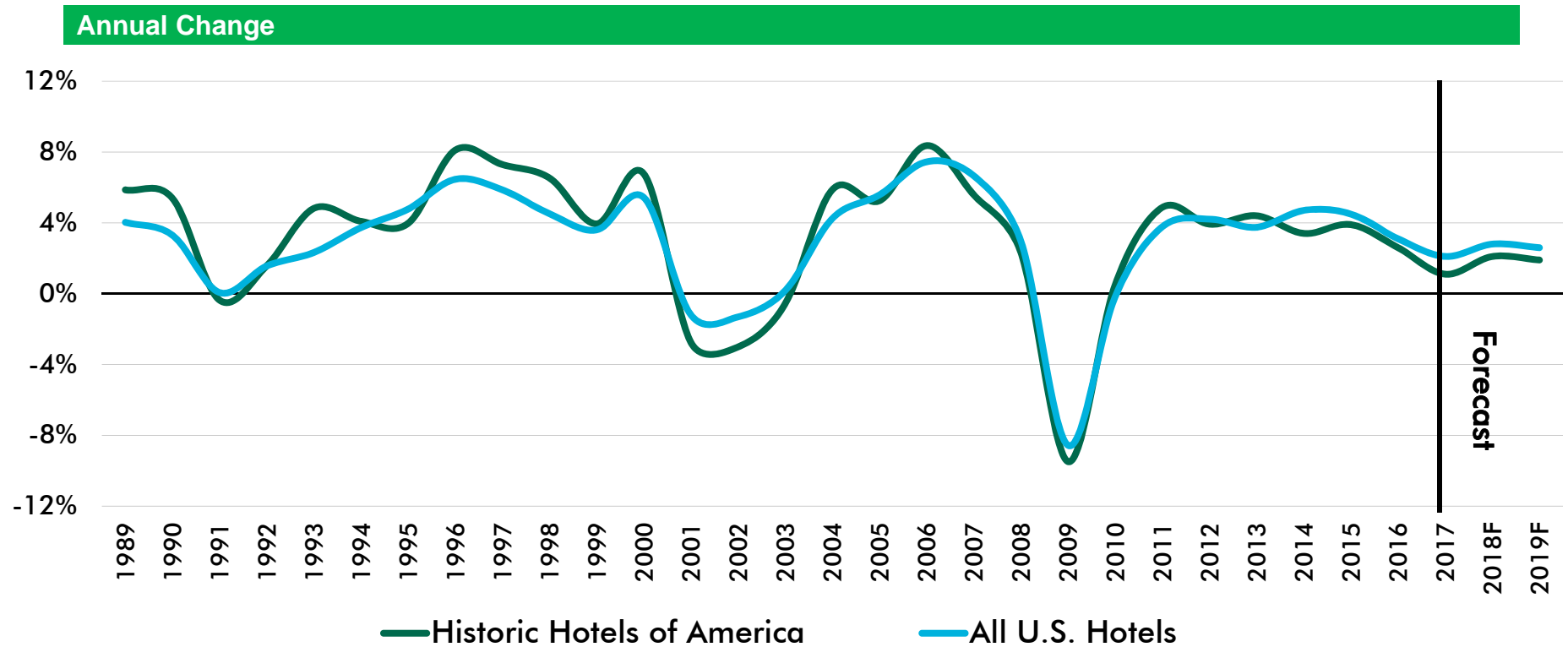
Source: STR, CBRE Hotels' Americas Research – September –November 2018 *Hotel Horizons®*

ANNUAL OCCUPANCY



Source: STR, CBRE Hotels' Americas Research – September –November 2018 *Hotel Horizons®*

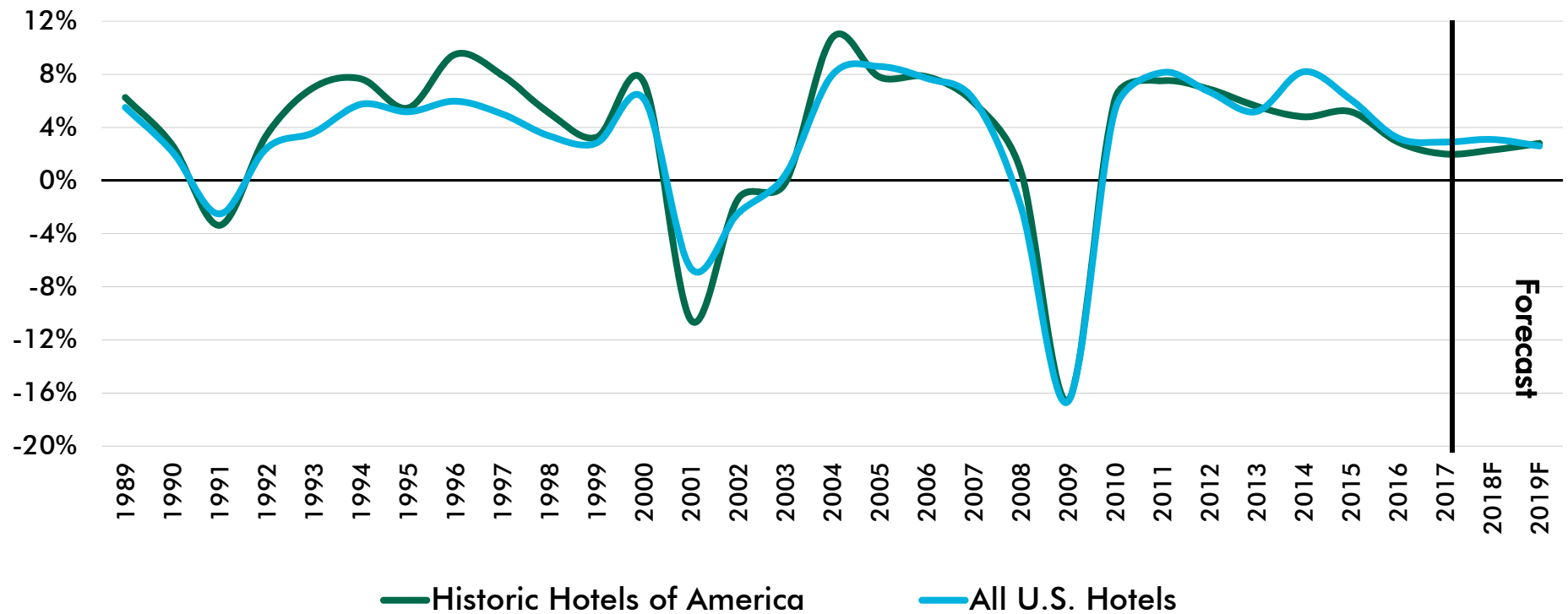
AVERAGE DAILY RATE



Source: STR, CBRE Hotels' Americas Research – September –November 2018 *Hotel Horizons®*

REVPAR

Annual Change



Source: STR, CBRE Hotels' Americas Research – September –November 2018 *Hotel Horizons®*

U.S. BASELINE FORECAST – HISTORIC HOTEL SAMPLE

OCCUPANCY PEAKS AND THE ADR CONUNDRUM PERSISTS

	Long Run Average	2015	2016	2017	2018F	2019F
Supply	0.5%	0.3%	1.8%	1.0%	0.3%	0.6%
Demand	0.8%	1.6%	2.1%	1.9%	0.5%	1.5%
Occupancy	68.2%	72.9%	73.2%	73.8%	74.0%	74.6%
ADR	3.3%	3.9%	2.6%	1.1%	2.1%	1.9%
RevPAR	3.7%	5.2%	2.9%	2.0%	2.3%	2.8%

RECORD HIGH OCCUPANCY LEVELS TO CONTINUE

Source: CBRE Hotels' Americas Research - *Hotel Horizons*® Custom Forecast – October 2018; STR
CBRE HOTELS



FINANCIAL BENCHMARKING

HISTORIC VS CONTEMPORARY HOTELS

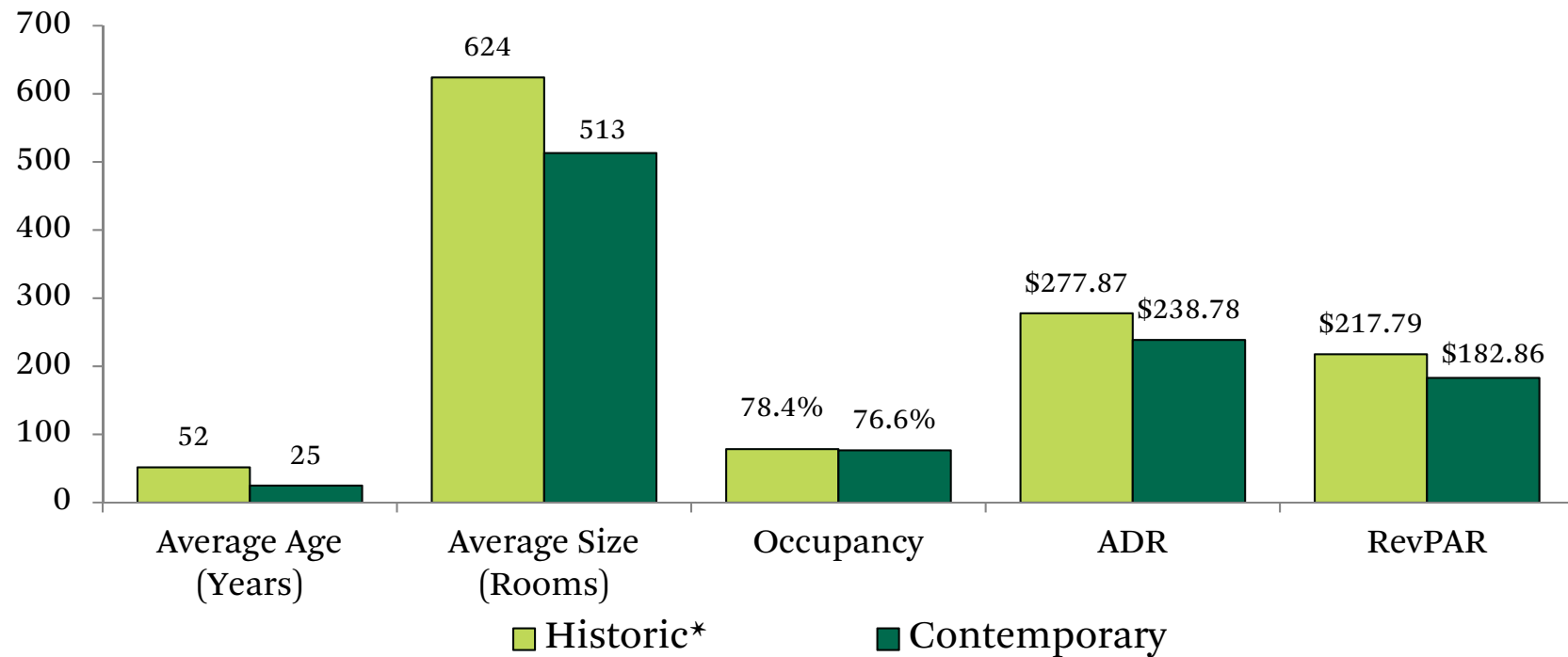
FINANCIAL BENCHMARKING

METHODOLOGY

- From CBRE's *Trends® in the Hotel Industry* database, we pulled operating performance data for two sets of properties
 - *Upper-upscale and luxury hotels open through 1967 (historic sample)*
 - *Upper-upscale and luxury hotel open since 1967 (contemporary sample)*
- All properties reported operating data each year from 2009 through 2017.
- 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

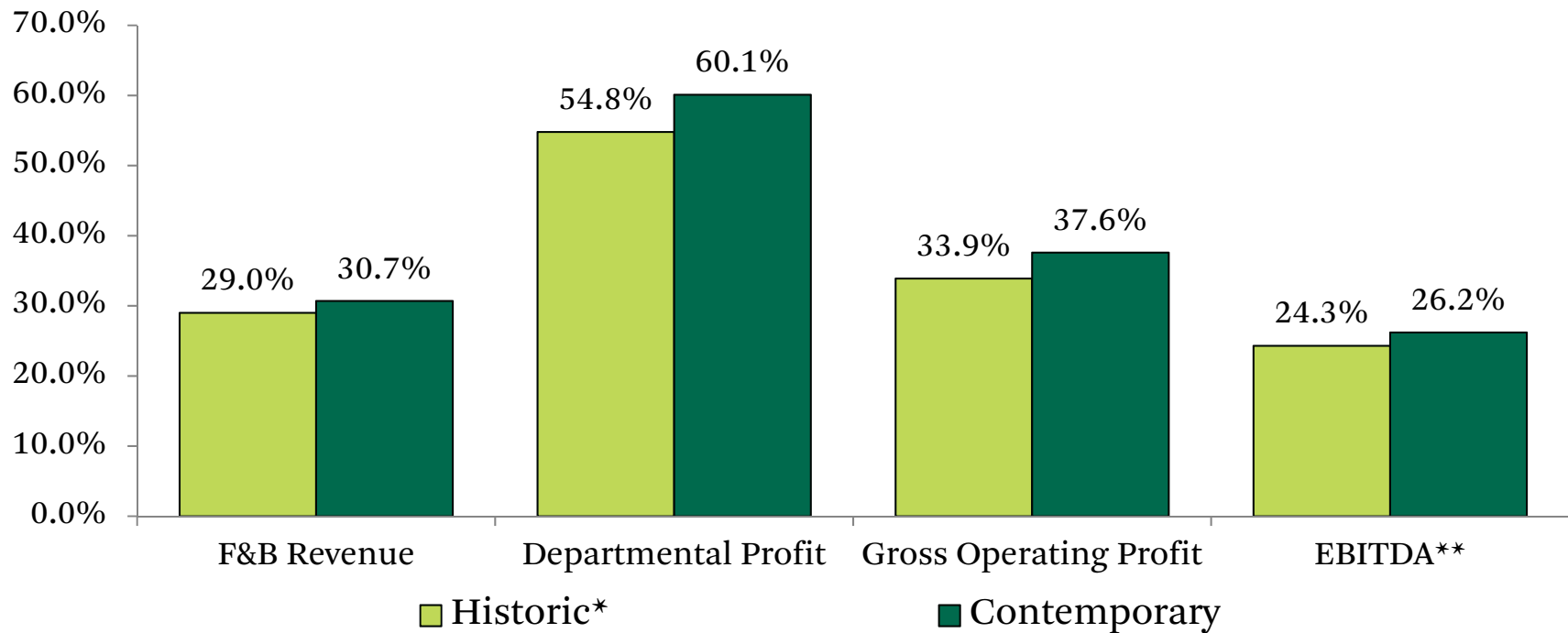
2017 PROFILE OF SAMPLES



Note: * Open before 1967, Luxury and Upper-Upscale
Source: Trends® in the Hotel Industry

HISTORIC* VS CONTEMPORARY HOTELS 2017 COMPARATIVE PERFORMANCE

PERCENT OF TOTAL REVENUE



Note: * Open before 1967 Luxury and Upper-Upscale

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

Source: Trends® in the Hotel Industry

HISTORIC* VS CONTEMPORARY HOTELS 2017 COMPARATIVE PERFORMANCE

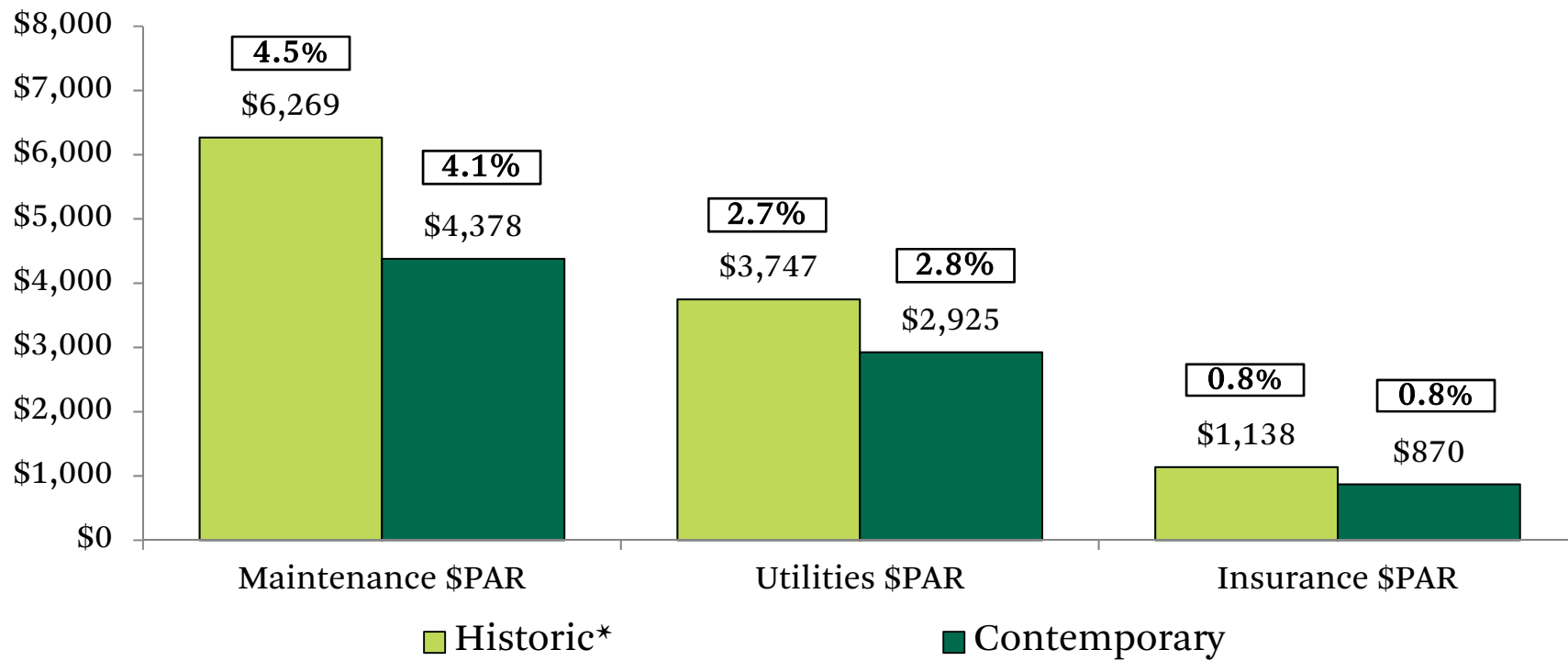
TOTAL LABOR COSTS

Metric	Historic	Contemporary
Dollars Per Available Room	\$53,685	\$35,007
Dollars Per Occupied Room	\$187.67	\$125.24
Percent of Total Revenue	38.8%	33.0%

Note: * Open before 1967, Luxury and Upper-Upscale
Source: Trends® in the Hotel Industry

HISTORIC* VS CONTEMPORARY HOTELS 2017 COMPARATIVE PERFORMANCE

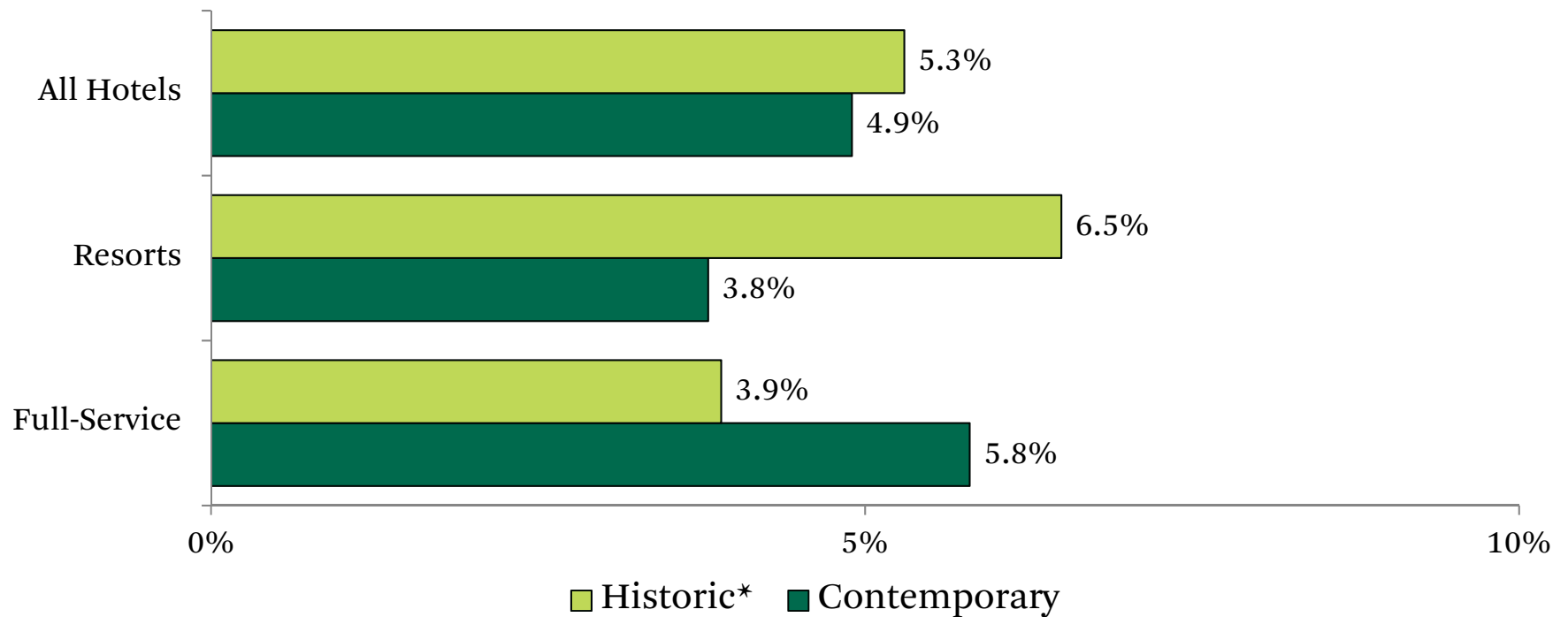
SELECT EXPENSES - \$PAR AND % OF TOTAL REVENUE



Note: * Open before 1967, Luxury and Upper-Upscale
Source: Trends® in the Hotel Industry

HISTORIC* VS CONTEMPORARY HOTELS TOTAL OPERATING REVENUE

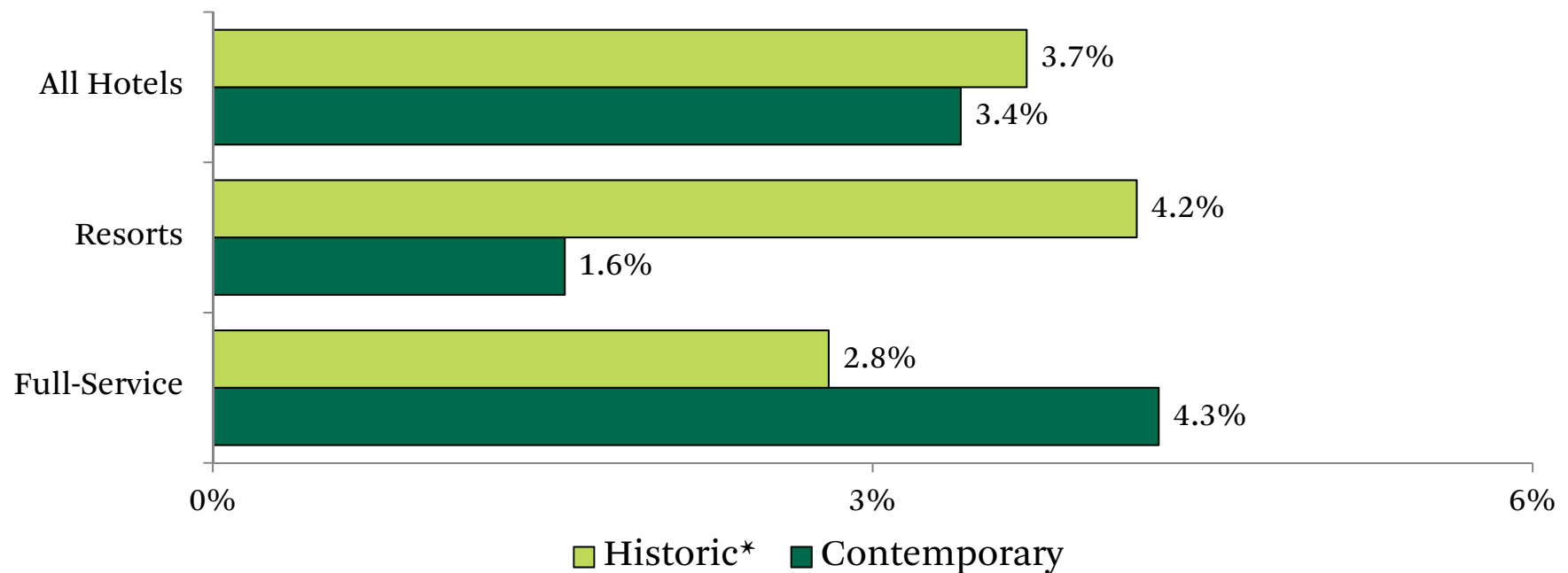
COMPOUND ANNUAL CHANGE 2009-2017



Note: * Open before 1967, Luxury and Upper-Upscale
Source: Trends® in the Hotel Industry

HISTORIC* VS CONTEMPORARY HOTELS TOTAL OPERATING EXPENSES**

COMPOUND ANNUAL CHANGE 2009-2017



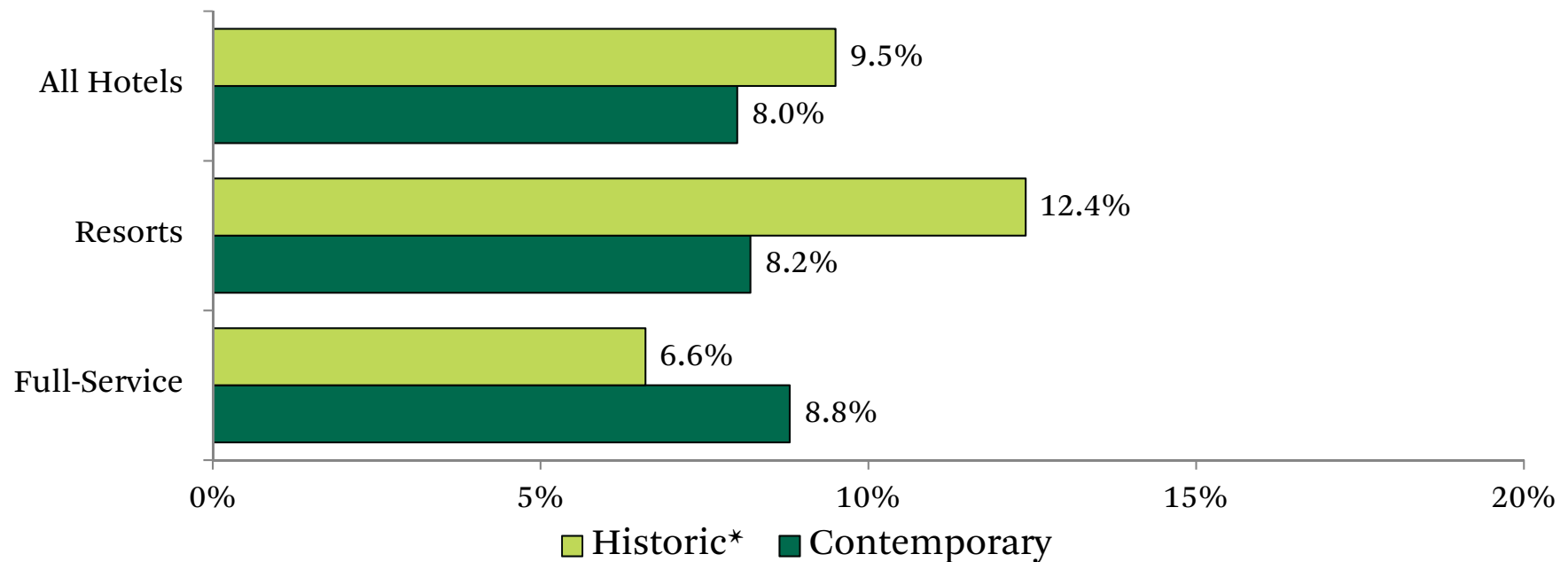
Note: * Open before 1967, Luxury and Upper-Upscale

** Before deduction for management fees and non-operating income and expenses.

Source: Trends® in the Hotel Industry

HISTORIC* VS CONTEMPORARY HOTELS GROSS OPERATING PROFIT**

COMPOUND ANNUAL CHANGE 2009-2017



Note: * Open before 1967, Luxury and Upper-Upscale

** Income before deduction for management fees and non-operating income and expenses.

Source: Trends® in the Hotel Industry

SUMMARY THOUGHTS *FIRST WATCH ON A LONG VOYAGE*

1. The fundamentals remain attractive across the vast majority of markets.
2. Industry growth will persist comfortably through 2018 and likely beyond.
3. Markets will soften in 2020 – plan for a slowdown (not a downturn)!
4. High occupancy levels should provide leverage to achieve reasonable ADR increases this year and next; scale of new supply in some markets represents a strong headwind.
5. Increasing hotel construction will continue; the threat of over building is the exception and not the rule.
6. Increasing labor costs will become more of an issue. Profit growth will remain good, but not great, for most.
7. The outlook for the domestic lodging industry remains favorable well into 2020. Historic Hotels will continue to outperform!

THANKS

For a copy of this presentation:

<https://pip.cbrehotels.com/presentations>

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