Hotel Industry Trends & Predictions

Presented by Stephen Rushmore Jr., MAI, CRE, FRICS
President and CEO of HVS
The Next Four Years
U.S. hotel valuation changes will remain stabilized until 2019

Source: HVS/STR Hotel Valuation Index
The 2016 HVS-STR Hotel Valuation Index (HVI)

The HVI measures changes in value and provides a tool for identifying hotel acquisition and disposition opportunities
Oakland and San Jose markets appreciated the most in value during 2015

Source: HVS/STR Hotel Valuation Index
Houston values dropped 35% in 2015 and is going through a correction

Source: HVS/STR Hotel Valuation Index
Huntsville and San Francisco predicted to show largest value appreciation through 2019

Source: HVS/STR Hotel Valuation Index
New York City and Tallahassee expected to decline in value by 12% through 2019

Source: HVS/STR Hotel Valuation Index
Nashville and NYC will see the largest supply increases by 2019

Source: HVS/STR Hotel Valuation Index
Overview:

With a population of over 18 million, the New York metropolitan area is one of the largest urban areas in the world and the largest in the United States. Despite the loss of the World Trade Center buildings, New York has remained at the core of national and international financial dealings and has continued as the global center of corporate headquarters in finance and services, media, entertainment and telecommunications, manufacturing, and trade. The New York City hotel market remains one of the top-performing in the nation, although 2015 was the first year in which market-wide RevPAR performance declined since 2009. Similarly to 2014, the market reacted to ongoing supply increases by maintaining occupancy levels and foregoing average rate growth. Demand grew by over 3%, with occupancy remaining in the mid-80s despite continuous growth in supply; this trend speaks to the strong demand fundamentals of New York City and the market’s historical ability to absorb new openings. However, the impact of significant supply increases over the last few years was reflected by a ~1.6% decline in market-wide average rate over that attained in 2014. The perception of increased competition by operators in the market has hindered the ability to achieve rate premiums, particularly in times of compression in the market.

We anticipate that the strong demand typical of New York City will likely persist, despite strong supply growth into 2019; occupancy is expected to remain in the mid-80s range. Average rates, which have been more directly affected by market-wide supply trends, are expected to decline further through 2016 and cause RevPAR to decline, as well. By 2017, we forecast minimal RevPAR growth, fueled by a rebound in average rates. After 2018, supply growth should taper; thus, the market’s ability to improve RevPAR gains is likely to improve. As of year-end 2015, RevPAR was still 2% lower than the 2008 peak level. We forecast that RevPAR will return to its previous peak level by 2019.

Transaction activity remains strong in Manhattan, with buyers competing heavily for assets, and sellers seeking to maximize their investment gains. High investor interest, particularly from Asia and the Middle East, continues to put downward pressure on capitalization rates, driving hotel values to peak levels. In 2015, transactions of stabilized assets realized capitalization rates around 5%, with capitalization rates on luxury assets as low as 4%. As Manhattan is viewed as the nation’s top gateway city, hotel investors from all over the world consider it to be an essential and low-risk market for their portfolio. Transaction activity is expected to remain high over the next couple of years due to increased interest from investors and the increasing availability of assets for sale.

Hotel values declined moderately in 2015, primarily as a result of average rate losses. We anticipate that the value of New York City hotels will continue to depreciate in 2016 and 2017, albeit to a lesser extent, as average rate and RevPAR continue to decline. As previously mentioned, by 2018, the supply pipeline should thin out somewhat, which will allow for a rebound in performance and help to boost values. A full rebound in growth is forecast by 2019. With a few exceptions, hotels in New York City are priced above replacement cost. Manhattan remains the top hotel investment market in the U.S. and one of the most attractive in the world.

Valuation Trends and Predictions:

<table>
<thead>
<tr>
<th></th>
<th>New York</th>
<th>United States</th>
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<tbody>
<tr>
<td>Previous Year</td>
<td>-5% (66 of 71)</td>
<td>+10% (40 of 71)</td>
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<tr>
<td>Growth in 2016</td>
<td>-6% (70 of 71)</td>
<td>+1% (48 of 71)</td>
</tr>
<tr>
<td>Growth in next 4 years</td>
<td>-12% (71 of 71)</td>
<td>+11% (42 of 71)</td>
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http://hvi.hvs.com
Transactions
Buyer and seller tensions are causing a transactional slowdown

**Sellers**
- Strong financials
- Improving economy

**Buyers**
- Supply pipeline
- Higher interest rates
- Financing challenges from stricter underwriting
Transactional slowdown won’t rebound for a couple more years

Source: RCA
Average cap rates have increased an average of 50 basis points from last year.

- Full Service: 7.50%
- Select Service: 8.50%
- Limited Service: 9.50%

Source: HVS
In summary...

<table>
<thead>
<tr>
<th>Most markets</th>
<th>Values will be stabilized and will rebound in 2019 due to new supply financing constraints</th>
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<tbody>
<tr>
<td>Nashville</td>
<td>Significant supply increase through 2019</td>
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<tr>
<td>New York City</td>
<td>Significant supply increase through 2019. Values will decline slightly over next four years.</td>
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<tr>
<td>San Francisco</td>
<td>High valuation appreciation through 2019</td>
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<tr>
<td>Huntsville</td>
<td>Long-term opportunity for value growth</td>
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<td>Houston</td>
<td>Going through a correction, but it will recover over the next four years</td>
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Miami
New supply will impact Miami’s performance over the next four years

Projected

Source: HVS & STR
Hotel values projected to decrease Miami through 2018 and rebounding in 2019
2016 Q4 Reservations on the books showing decline from previous year

-2.5% ADR

-4.2% Occupancy

Source: TravelClick
REVPAR is expected to decline through 2018 as new supply is absorbed and dollar remains strong.
Median cap rate 7.9% 2016 YTD

<table>
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<tr>
<th>Transactions for YTD 2016</th>
<th>Price/Room</th>
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</thead>
<tbody>
<tr>
<td>The Sagamore, Miami Beach</td>
<td>$677,419</td>
</tr>
<tr>
<td>The Confidante, Miami Beach</td>
<td>603,718</td>
</tr>
<tr>
<td>Marriott Vacation Club, Miami Beach</td>
<td>462,184</td>
</tr>
<tr>
<td>Viceroy, Brickell (conversion to W)</td>
<td>435,811</td>
</tr>
<tr>
<td>Sadigo Court, Miami Beach</td>
<td>432,833</td>
</tr>
<tr>
<td>Holiday Inn, Coral Gables</td>
<td>283,871</td>
</tr>
<tr>
<td>Staybridge Suites Miami, Doral</td>
<td>187,500</td>
</tr>
<tr>
<td>Holiday Inn Miami, Doral</td>
<td>155,039</td>
</tr>
<tr>
<td>Best Western on the Bay</td>
<td>118,110</td>
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Source: HVS & RCA
Opportunities still exist in Miami, but be cautious

**Threats**
- New supply, especially in upscale tier
- New supply in Brickell and Downtown submarkets
- Strong dollar impact on rate

**Opportunities**
- Development of convention-oriented hotels in Downtown or Miami Beach
- Development opportunities in the Airport and the Design District
- Globally, the price per room is relatively inexpensive
Stephen Rushmore Jr., MAI, CRE, FRICS
sr@HVS.com
+1 617-868-6840
@HVS_Consulting