

OUTLOOK 2019

July 12, 2018



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Today's Agenda

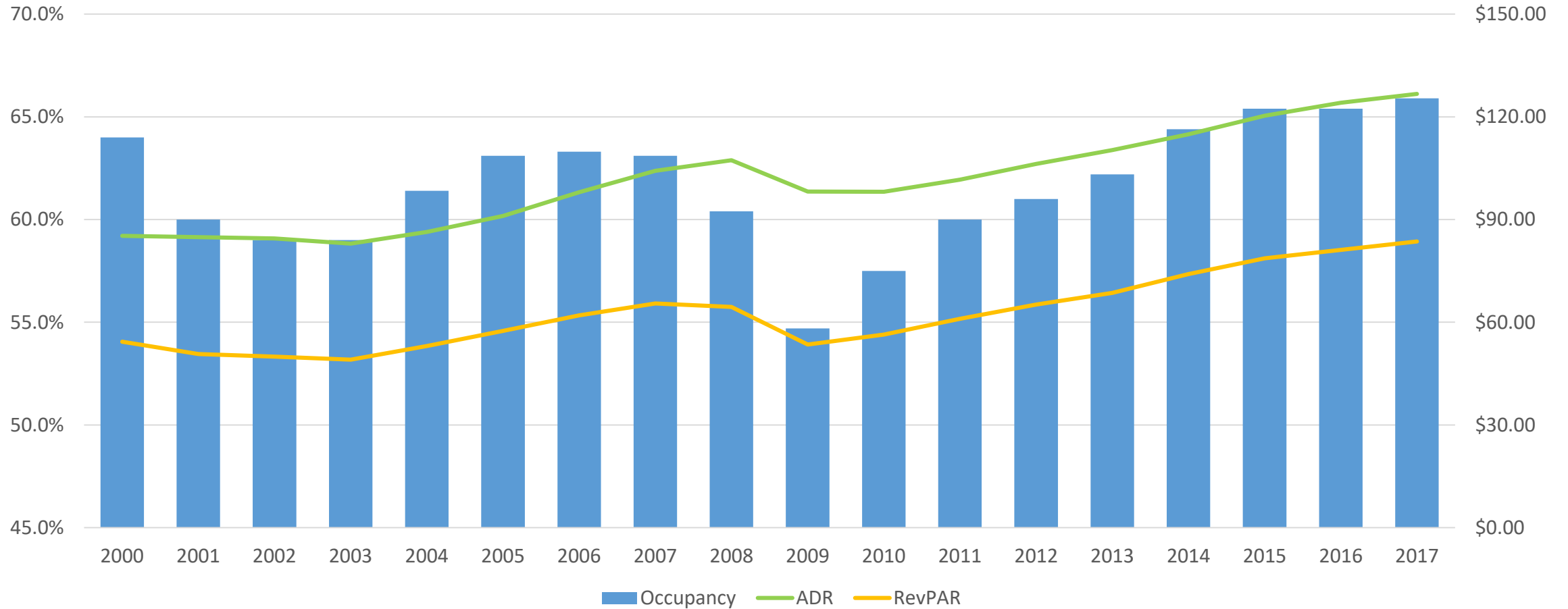
- 1. National Lodging Market**
- 2. Suburban Boston Market**
- 3. Boston & Cambridge Market**





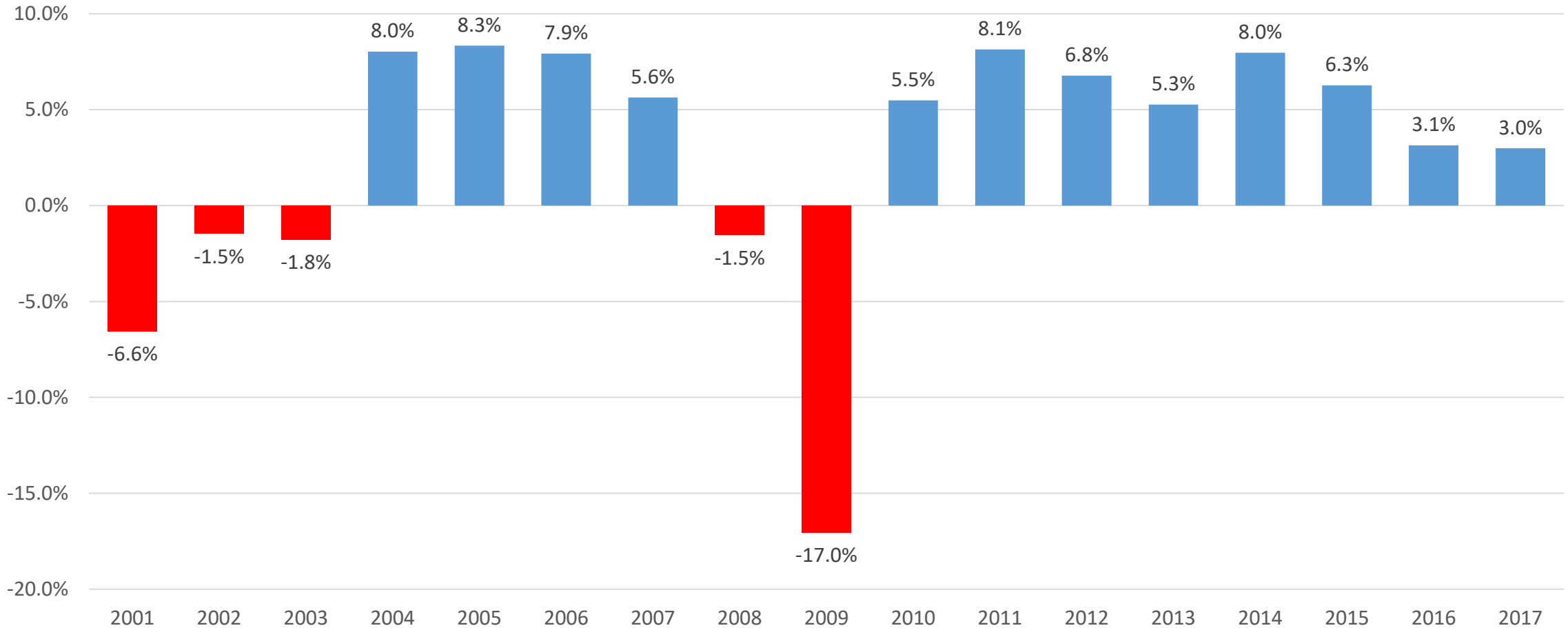
NATIONAL LODGING MARKET

Historic Market Performance - US



Source: STR

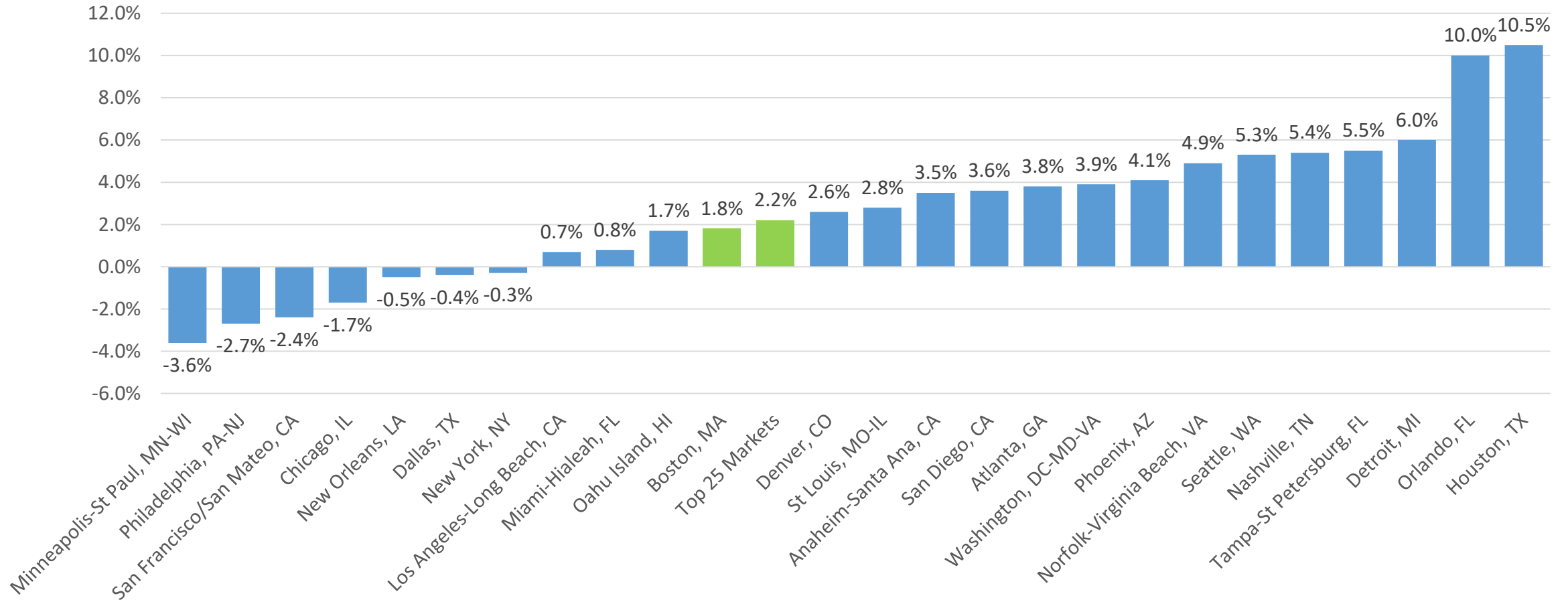
RevPAR % Change - US



Source: STR



Top 25 Markets, RevPAR % Change 2017 - US



Source: STR



YTD Performance Through May 2018 - US

	May 2017	May 2018	% Change
Occupancy	63.7%	64.2%	0.8%
ADR	\$125.23	\$128.57	2.7%
RevPAR	\$79.84	\$82.57	3.4%

Source: STR

99
Consecutive months
of RevPAR growth!



New Supply – May 2018

Rooms Under Construction			
Status	Properties	Rooms	% Change YOY
In Construction	1,422	185,593	-2.2%
Final Planning	1,919	219,856	+4.9%
Planning	1,718	190,722	+5.3%
TOTAL	5,059	596,171	+2.8%

Source: STR



Hot Topics - US



Developing/escalating trade war (among other global concerns)



Trump Administration



Short Term Rentals, the fight continues



Inbound Travel Slump



Employment, Wages, Consumer Confidence



Potential/Eventual Weakening



Key Takeaways (2018) - US

- Despite uncertainties, the cautiously optimistic tone continues (at the time of creating this slide)
- Q1 earnings calls were mostly positive, many companies making upward adjustments to YE2018 forecasts.
- Corporate profits remain strong, combined with record levels of consumer confidence.
- Compression nights continue to decline in top 25 markets year after year since 2014.
- Mitigated rate growth despite increasing demand.
- Although demand is expected to increase, occupancy growth will be tempered by new supply in 2018 and 2019. ADR will be the driver of RevPAR, although at a decelerated rate.



U. S. Industry Projections

2018

	STR	PWC	CBRE
Occupancy	+0.4%	+0.2%	+0.2%
ADR	+2.5%	+2.2%	+2.4%
RevPAR	+2.9%	+2.5%	+2.7%

2019

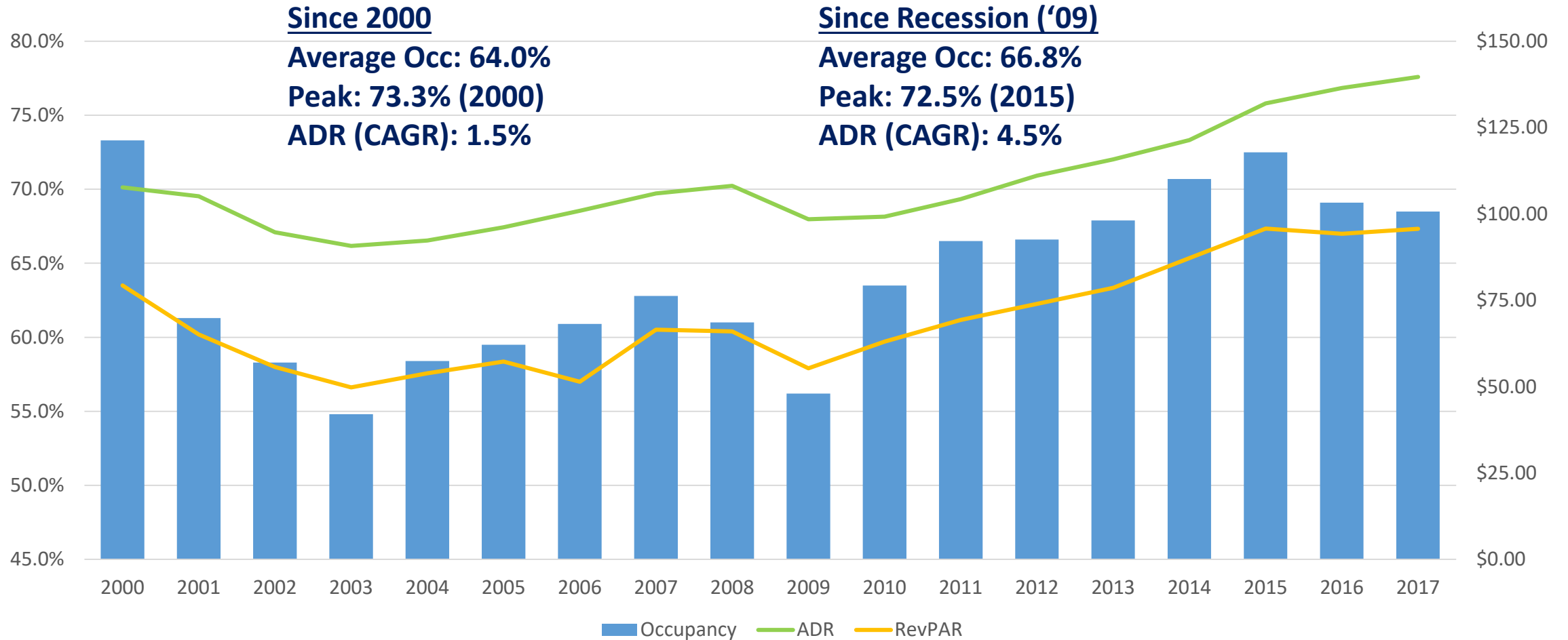
	STR	PWC	CBRE
Occupancy	+0.1%	-0.2%	0.0%
ADR	+2.3%	+2.2%	+2.0%
RevPAR	+2.4%	+2.0%	+2.0%





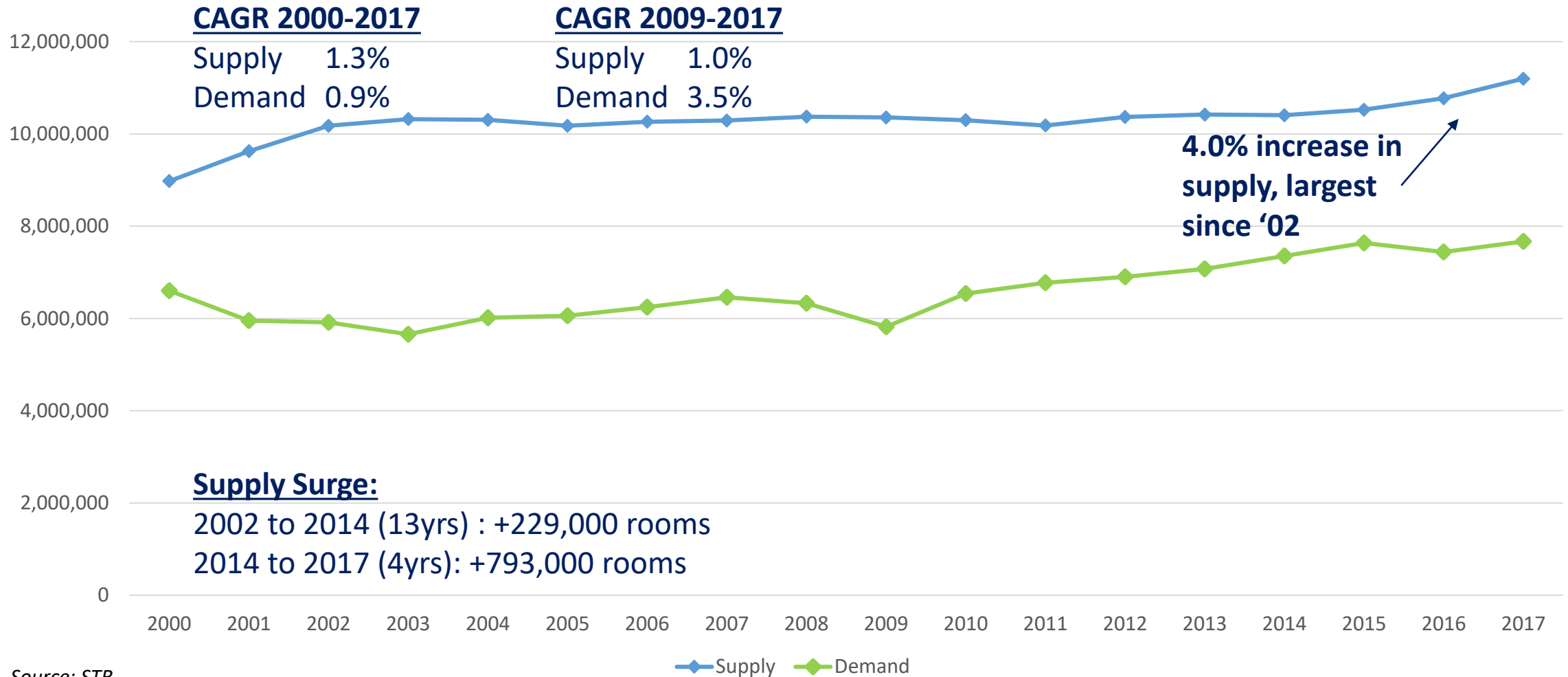
SUBURBAN BOSTON LODGING MARKET

Historic Performance - Suburbs



Source: STR

Supply & Demand - Suburbs



Source: STR

Suburban Boston YTD Performance

	YTD May 2017	YTD May 2018	% Change
Supply	4,564,898	4,800,287	+5.2%
Demand	2,843,759	3,069,586	+7.9%
Occupancy	62.3%	63.9%	+2.6%
ADR	\$131.95	\$131.78	-0.1%
RevPAR	\$82.20	\$84.27	+2.5%

Source: STR



New Supply 2018 - Suburbs

Hotel	City	Rooms	Est. Opening
Archer Hotel Burlington	Burlington	147	Feb
Hampton Inn Waltham	Waltham	138	Feb
Hampton Inn & Suites Foxborough Mansfield	Foxborough	139	Apr
Groton Inn	Groton	60	May
Homewood Suites Needham Boston	Needham	134	May
Home2 Suites Walpole Boston	Walpole	118	May
Holiday Inn Chelsea	Chelsea	124	Aug
Holiday Inn Express Chelmsford	Chelmsford	132	July
The Row Autograph	Somerville	158	Aug
Residence inn Waltham (dual)	Waltham	96	Sep
Fairfield Inn Waltham (dual)	Waltham	94	Sep
Homewood Suites Marlborough	Marlborough	105	Oct

1,445
Rooms Opening

68%
Branded as
Marriott or Hilton

↑5.6%
Supply Increase
in 2018

Source: Various Sources, Compiled by Pinnacle Advisory Group

New Supply 2019 - Suburbs

1,322

Total New Rooms

28%

Branded as
Marriott or Hilton

50%

The Encore!

↑4.3%

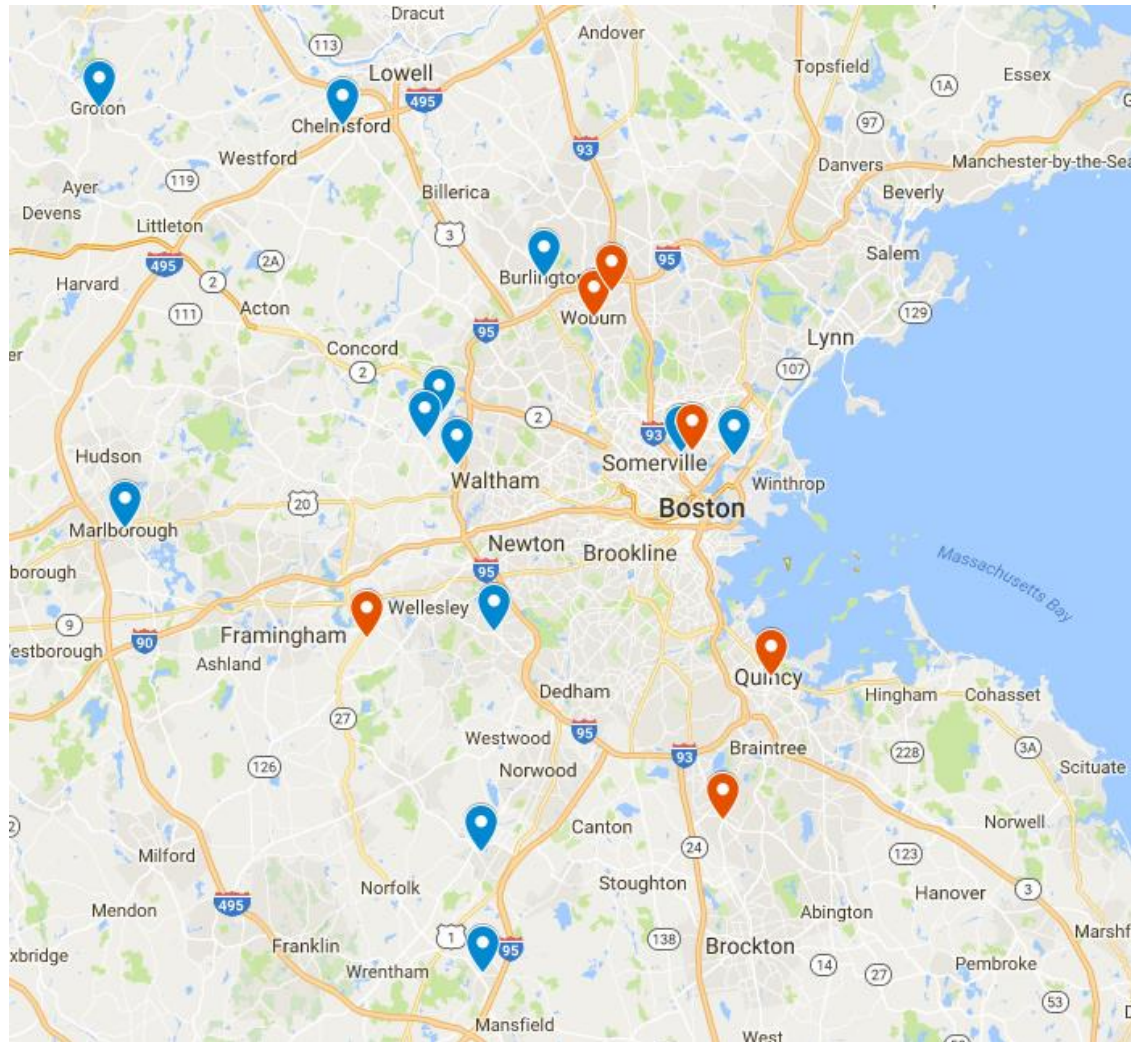
Supply Increase
In 2019

Hotel	City	Rooms	Est. Opening
Holiday Inn Express & Suites Randolph	Randolph	101	Q1 2019
Encore Boston Harbor	Everett	671	Q2 2019
Homewood Suites Woburn (dual)	Woburn	103	Q2 2019
Hampton Inn Woburn (dual)	Woburn	132	Q2 2019
Staybridge Quincy (dual)	Quincy	88	Q3 2019
Holiday Inn Express Quincy (dual)	Quincy	92	Q3 2019
Residence Inn Natick	Natick	135	Q4 2019

Source: Various Sources, Compiled by Pinnacle Advisory Group



New Supply 2018 & 2019



2018

- 12 New Hotels, 1,445 New Rooms
- Fairly spread out
- Rt-128 markets seeing largest increases, Waltham in particular (+19%)

2019

- 7 New Hotels, 1,322 New Rooms
- Woburn will see considerable increase with 235-room dual brand (+14%)
- Encore Boston Harbor in Everett has 671 rooms!



Suburban Office and R&D Market, Q2 2018

	Inventory (SF)	Absorption (SF) Q2 2018	Vacancy Q2 2017	Vacancy Q2 2018
Inner Suburbs	6.8 M	15,000	14.8%	12.4%
Route 128	68.0 M	(170,00)	15.9%	16.5%
Route 495	45.2 M	490,000	23.5%	21.2%
Total Suburbs	120.0 M	335,000	18.7%	18.0%

Source: Colliers International

Lodging Trends - Suburbs

- Strong demand growth YTD is expected to moderate by year end. A significant amount of the overall demand increases will continue to be supply driven (induced demand).
- Peak corp demand should continue to fill hotels Tues/Wed, but expect to see lower occupancies on Mon and Thurs nights. In markets with new supply, expect to see fewer sellouts on Sat night.
- Less compression from Boston, largely due to the increases in Boston supply and the increasing prevalence of alternative lodging during peak periods.
- New supply will be the primary reason for occupancy declines, not a decline in demand. New supply tends to pull demand from older hotels. And markets with the most new supply will be impacted more than other markets.
- ADR growth has been decelerating. With older hotels fighting new hotel for business, this trend is expected to continue.
- Operators throughout the burbs have indicated that their primary concerns include: new supply, the impact of Airbnb, and a labor shortage.
- Encore Boston Harbor (Everett) – 3 million square foot five-star casino, 210,000 square foot gaming facility and 671 guestrooms. Anticipated opening, June 2019. Will the casino cut rates to take demand from existing hotels in the Burbs and in Boston?



Suburban Boston Projections 2018

	2017	2018	% Change
Occupancy	68.5%	69%	+0.7%
ADR	\$139.70	\$139.00	-0.5%
RevPAR	\$95.69	\$95.91	+0.2%

**6.4%
growth in
demand!**

Source: STR (Historic), Pinnacle Advisory Group (Projections)



Suburban Boston Projections 2019

	2018	2019	% Change
Occupancy	69%	67.5%	-2.2%
ADR	\$139.00	\$137.61	-1.0%
RevPAR	\$95.91	\$92.89	-3.2%

**2.0%
growth in
demand!**

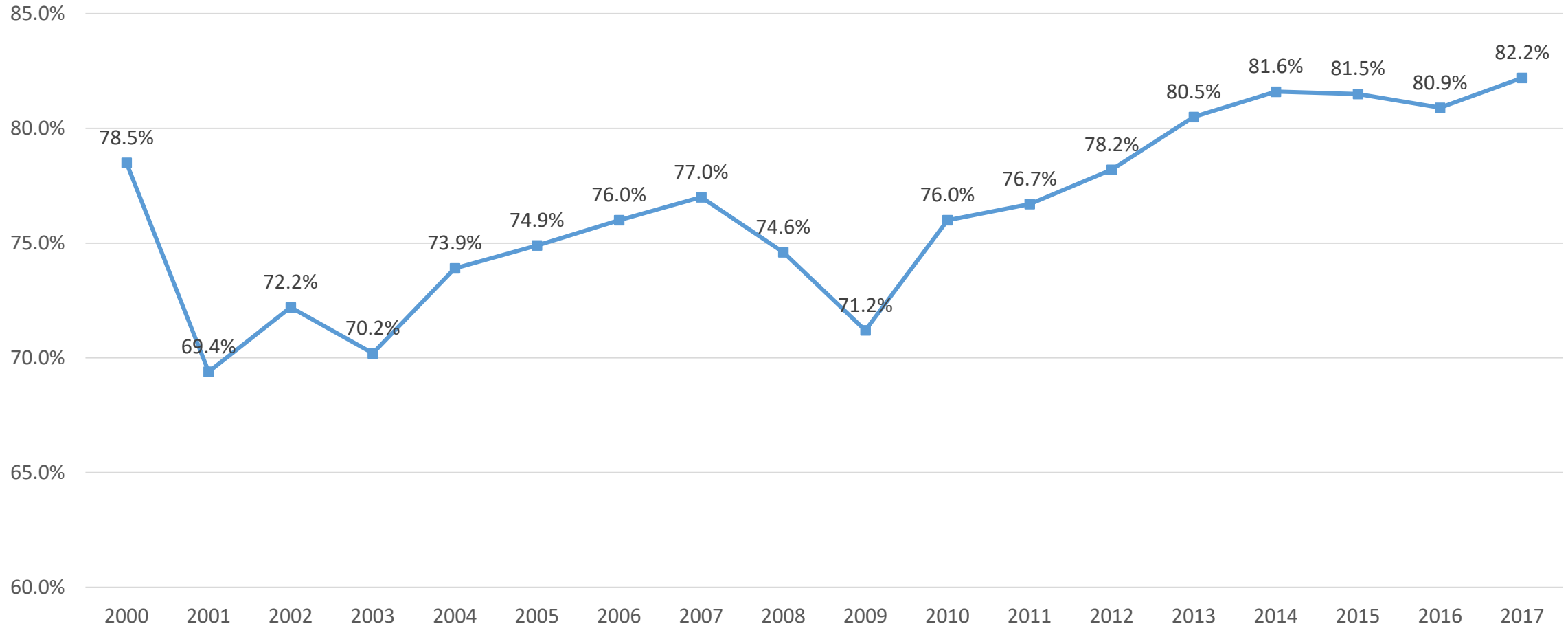
Source: Pinnacle Advisory Group





BOSTON & CAMBRIDGE LODGING MARKET

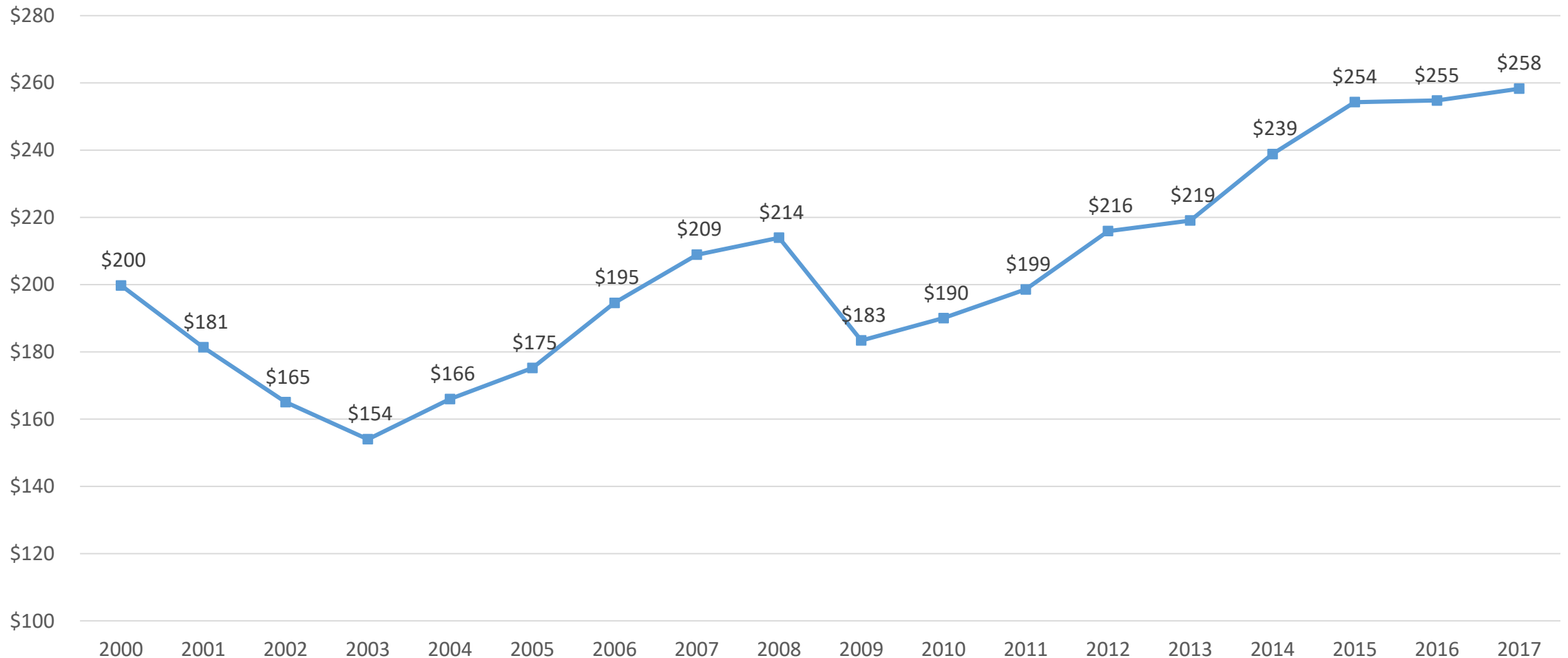
Boston & Cambridge Historic Occupancy



Source: Pinnacle Advisory Group



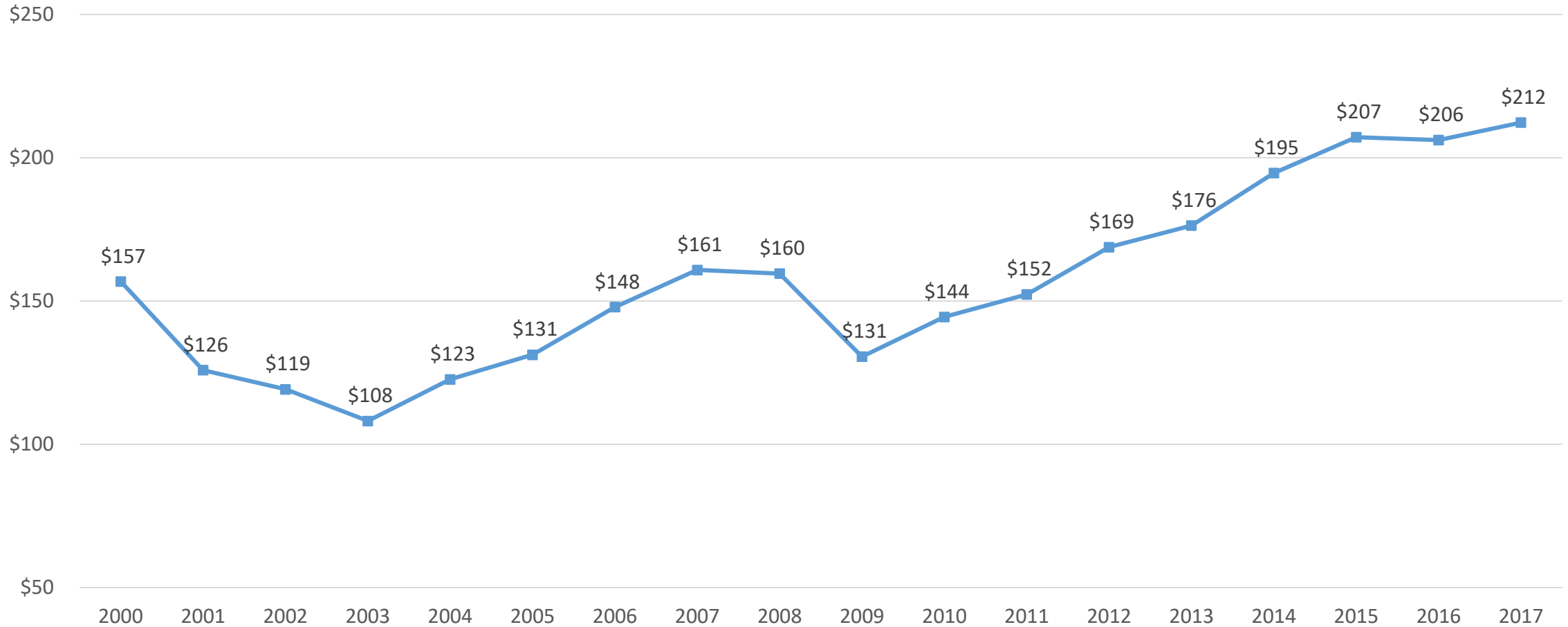
Boston & Cambridge Historic ADR



Source: Pinnacle Advisory Group



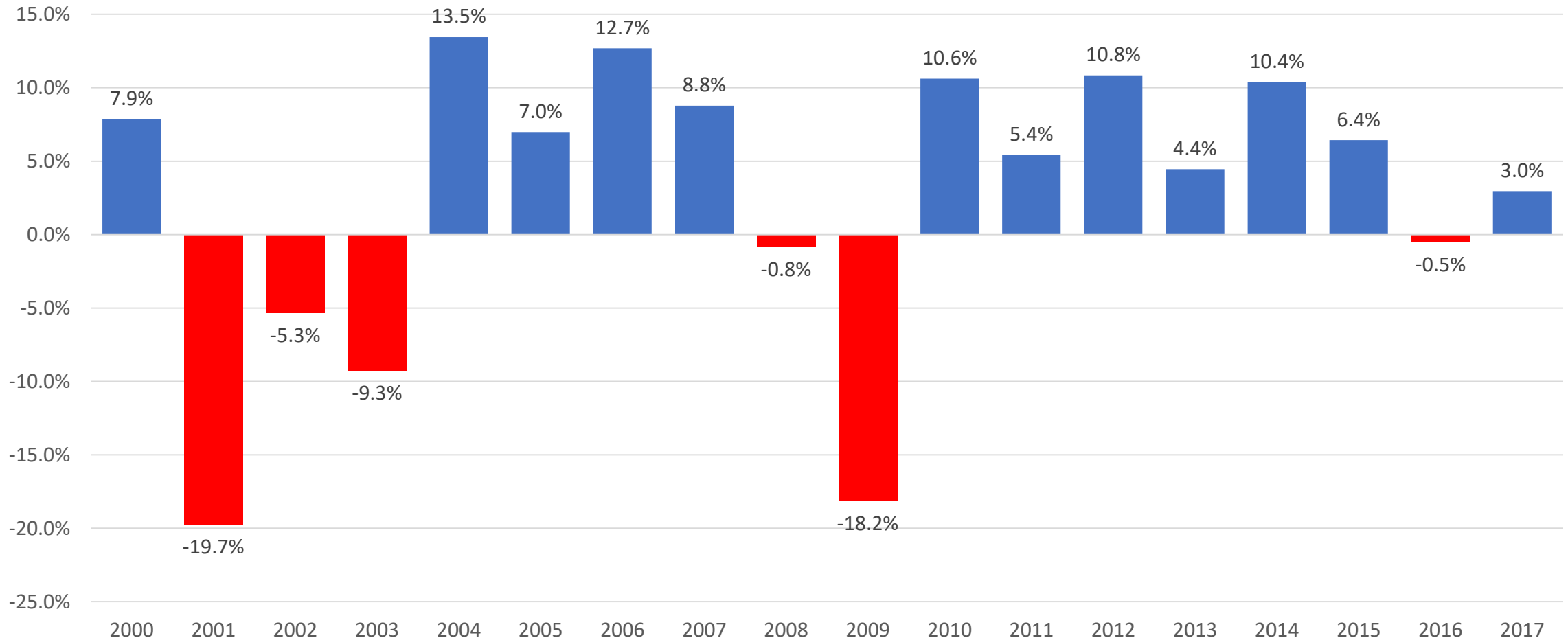
Boston & Cambridge Historic RevPAR



Source: Pinnacle Advisory Group

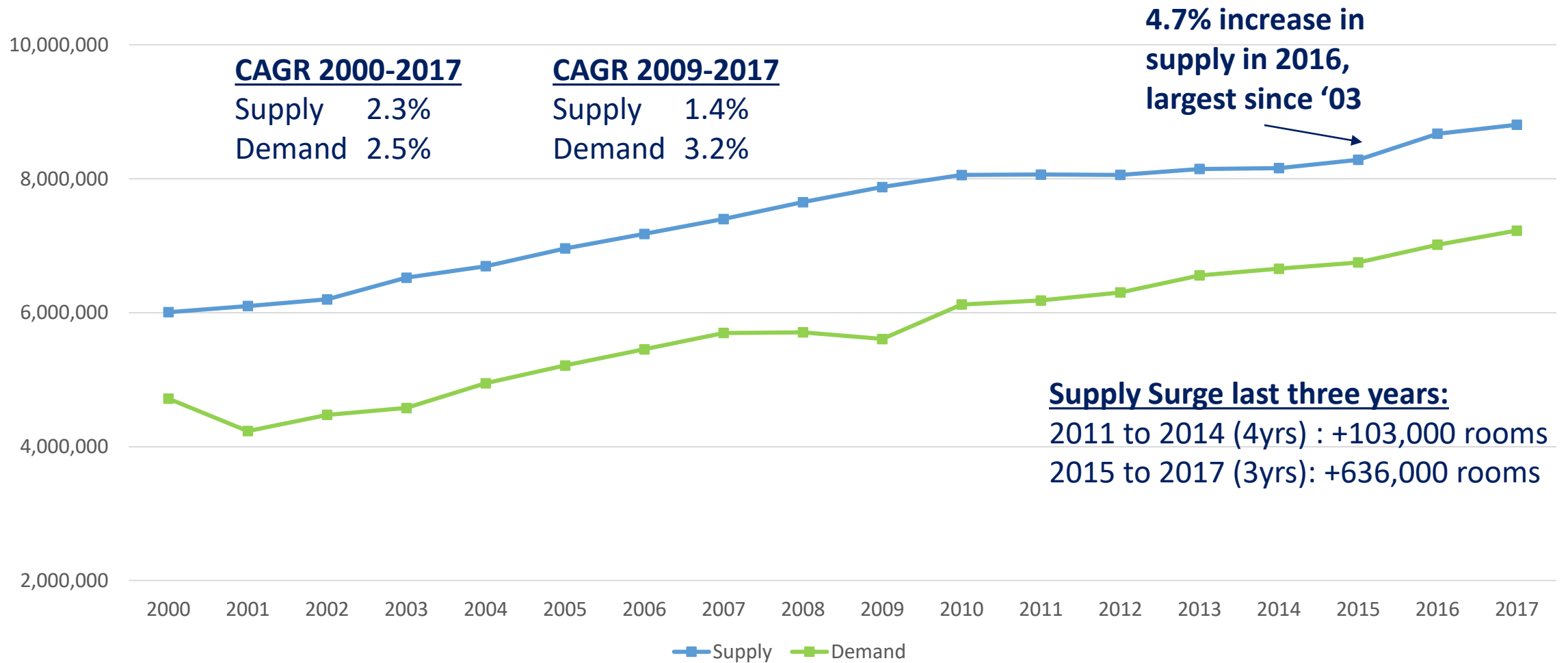


Boston & Cambridge RevPAR % Change



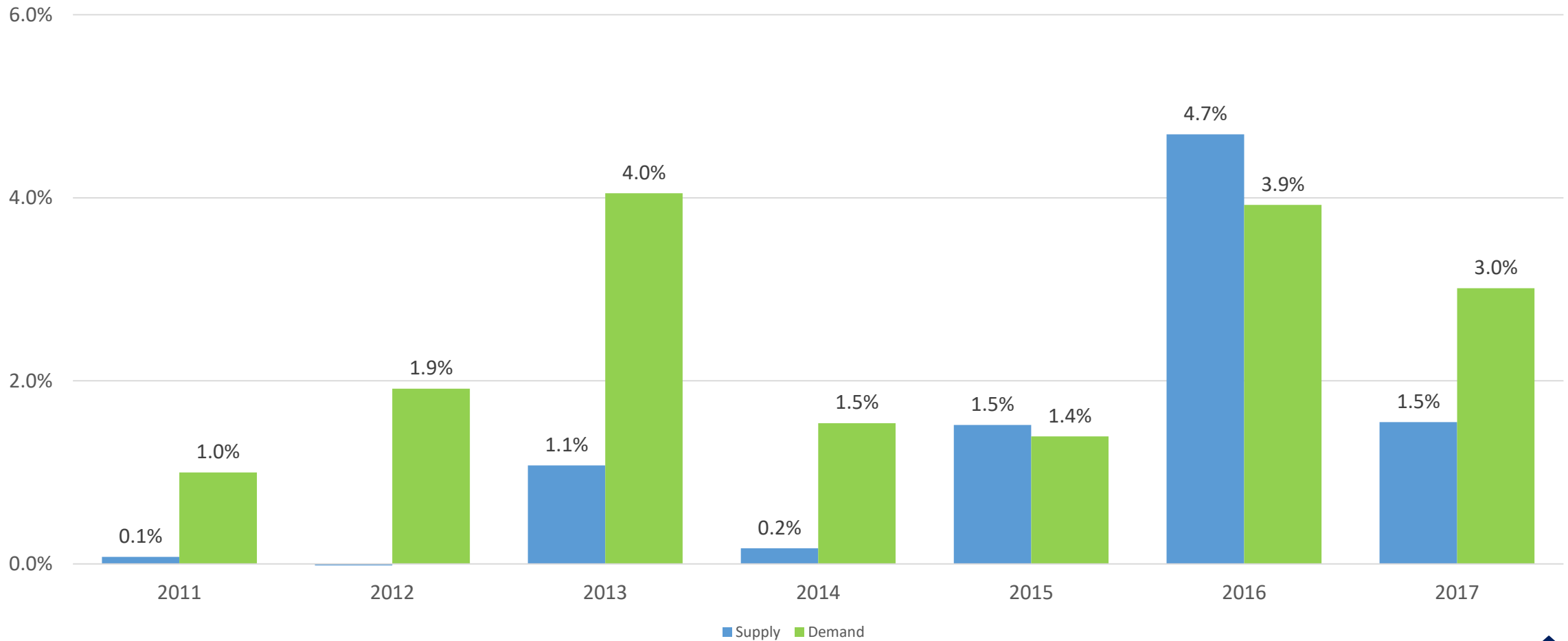
Source: Pinnacle Advisory Group

Boston & Cambridge Supply & Demand



Source: Pinnacle Advisory Group

Boston & Cambridge Supply & Demand, % Change



Boston & Cambridge YTD Performance, May 2018

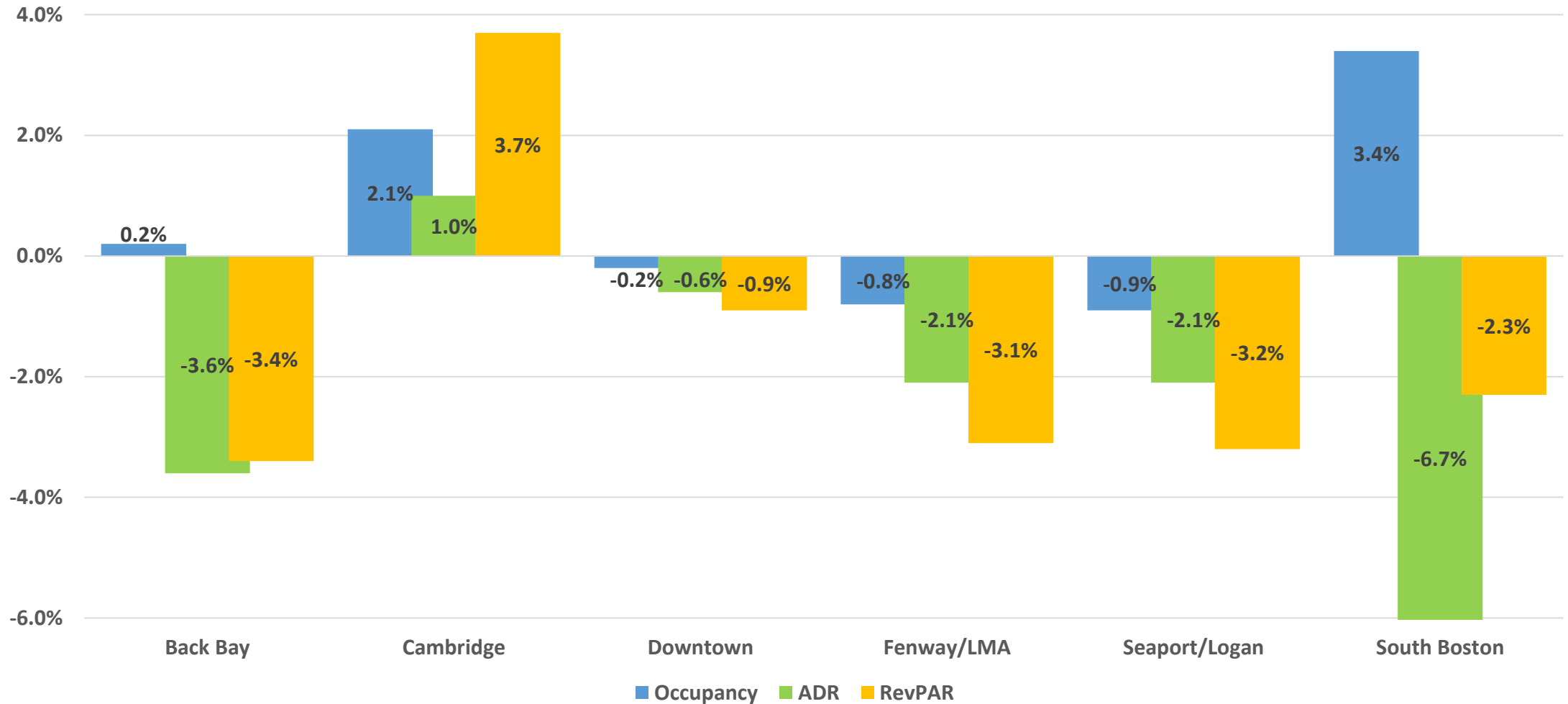
	YTD May 2017	YTD May 2018	% Change
Supply	3,617,000	3,694,000	+2.1%
Demand	2,818,000	2,885,000	+2.4%
Occupancy	77.9%	78.1%	+0.3%
ADR	\$242.14	\$237.52	-1.9%
RevPAR	\$188.71	\$185.52	-1.7%

Roomnights have been rounded to nearest hundred

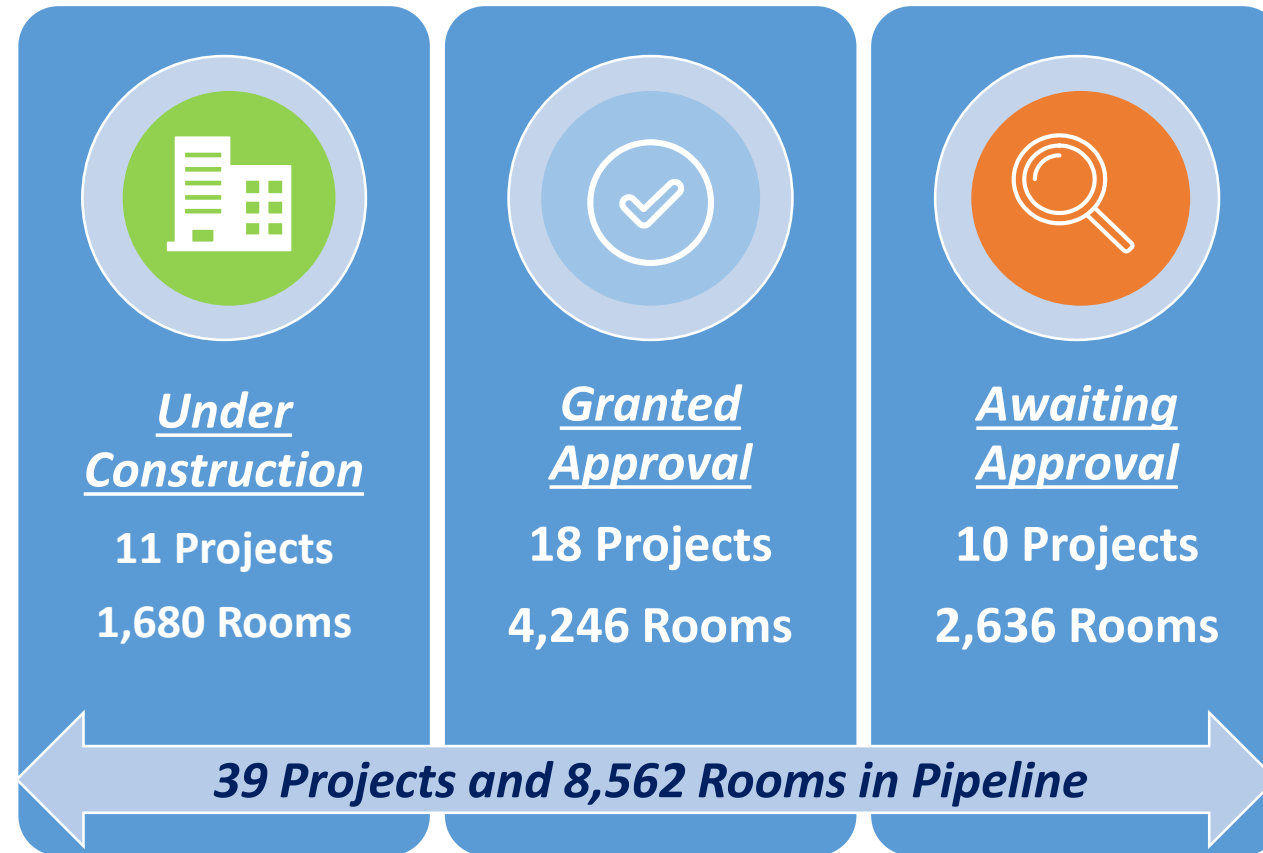
Source: Pinnacle Advisory Group



Boston & Cambridge YTD May 2018 by Submarket



Boston & Cambridge Future Rooms Supply



Source: BPDA, CCDD, Compiled by Pinnacle Advisory Group
Projects as of July 1, 2018. Does not include preliminary or rumored projects.

Boston & Cambridge New Supply 2018

Hotel	Neighborhood	Chain Scale	Rooms	Est. Opening
Courtyard North Station	North End / Downtown	Upscale	220	Mar 2018
AC Hotel Ink Block	South End	Upscale	205	Mar 2018
Studio Allston Hotel	Allston	Indep.	117	Apr 2018
AC Hotel Cleveland Circle	Brighton / Brookline	Upscale	162	May 2018
Holiday Inn Express South Boston (Expansion)	South Boston	Upper Mid-Scale	60	Jul 2018
Hotel 1868	Cambridge	Indep.	50	Sep 2018
Residence Inn Roxbury	Roxbury	Upscale	135	Nov 2018


3.1%
 Supply Increase
 In 2018

Source: Various Sources, Compiled by Pinnacle Advisory Group



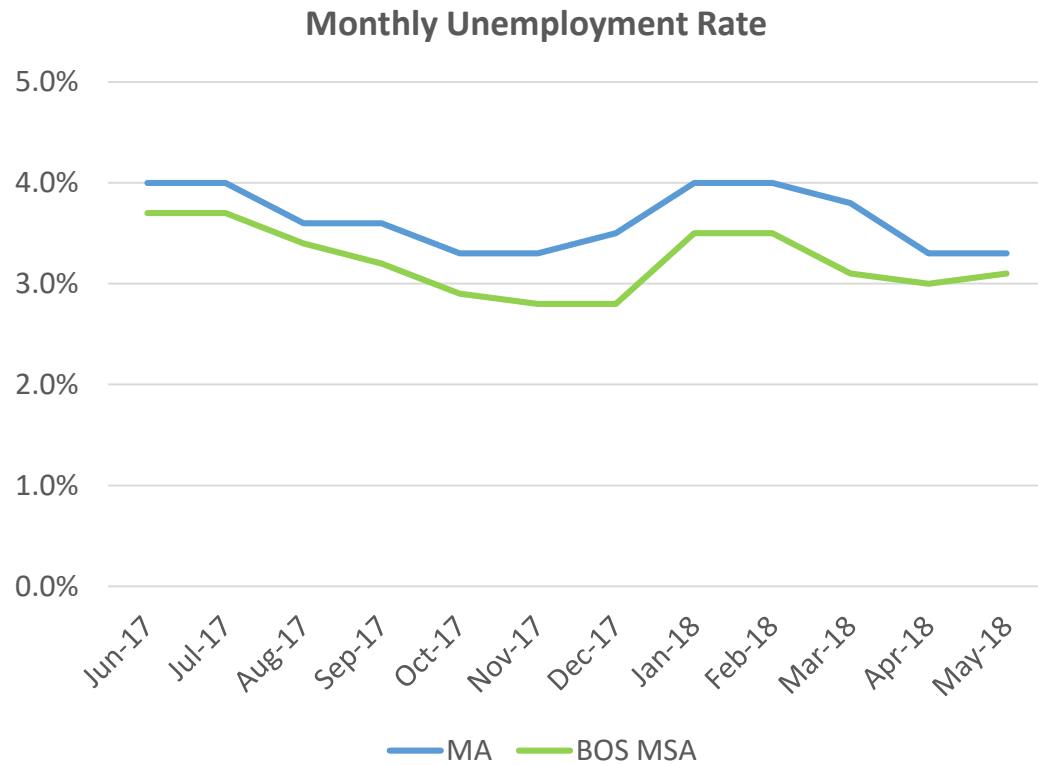
Boston & Cambridge New Supply 2019

Hotel	Neighborhood	Chain Scale	Rooms	Est. Opening
Hyatt Centric Congress Square	Downtown	Upper Upscale	163	Q1
Four Seasons Back Bay	Back Bay	Luxury	211	Q1
Cambria South Boston	South Boston	Upscale	159	Q1
Moxy Theater District	Theater District	Upper Midscale (micro)	346	Q2
Luxury Boutique Beacon Hill	Beacon Hill	Indep.	66	Q2
907 Main	Cambridge	Indep.	67	Q3
CitizenM North Station	West End	Upscale (micro)	269	Q4


4.8%
 Supply Increase
 In 2019

Source: Various Sources, Compiled by Pinnacle Advisory Group

Economic Environment



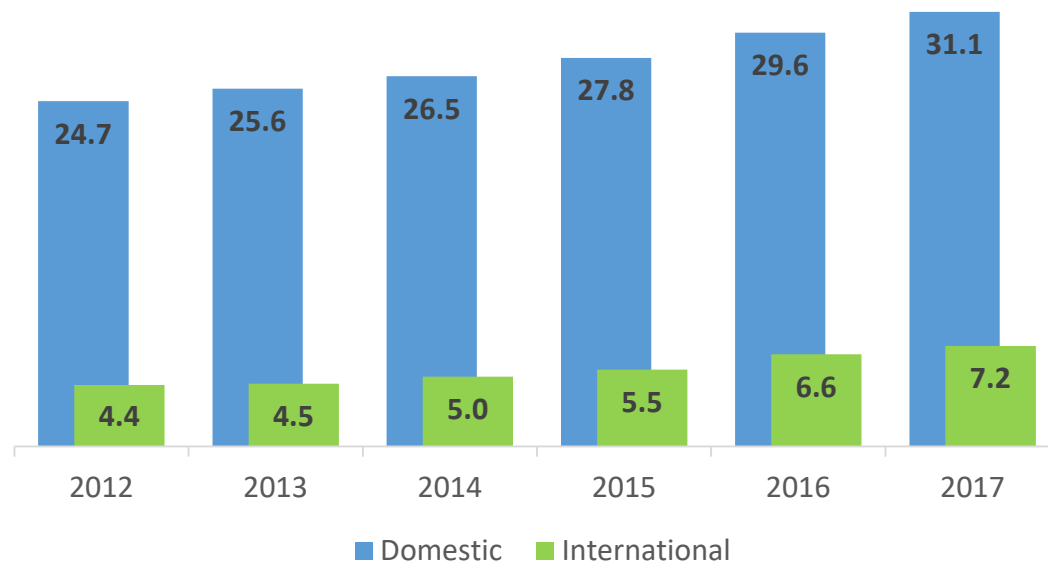
Source: Bureau of Labor Statistics

Boston MSA		
	May 2017	May 2018
Employment	2,596,933	2,709,617
Unemployment Rate	3.4%	3.1%

Source: Bureau of Labor Statistics

Boston Logan International Airport

Logan Airport Passenger Traffic
(Millions)



Source: Massachusetts Port Authority

- Another record breaking year for passenger traffic in 2017. Reaching 38.4 million, a 5.9% increase to prior year. International passengers traffic increased 9.3%.
- YTD through May 2018, traffic through Logan Airport has increased 5.4%.
- International traffic has increased 1.0% YTD. A slowing of growth from prior years. Declines experienced in Caribbean (-11%) and Middle East (-8.8%) – a result of the hurricane season and the US travel ban.



Boston & Cambridge Office Market, Q2 2018

Boston	Inventory (SF)	YTD Absorption (SF)	Vacancy %
2017	70.2 M	700,000	10.5%
Q2 2018	70.4 M	1.2 M	9.4%

Source: Colliers International

Cambridge	Inventory (SF)	YTD Absorption (SF)	Vacancy %
2017	22.8 M	408,300	4.5%
Q2 2018	23.3 M	650,700	3.3%

Source: Colliers International

Other Big Local News

- Omni Hotel proposed for Summer Street in Seaport District held ground breaking ceremony
- Encore Boston Harbor (Everett) gets a new name and is still on track to open mid-2019.
- General Electric's downsizing
- Still no word on Amazon HQ2 however they've delivered two other announcements.
- Legislation for regulating home sharing services like AirBnB.



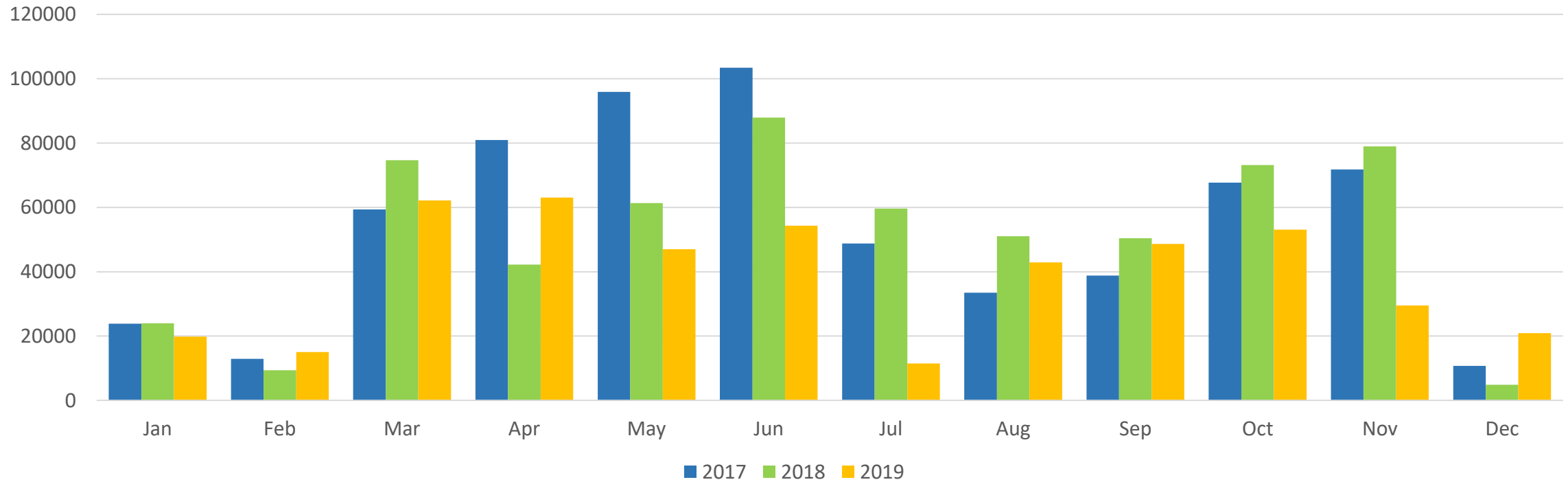
Boston & Cambridge Corporate Demand Trends

- **Continued Demand Growth:** The economy is still showing signs of growth, both nationally and locally. However growth has decelerated. Cautiously optimistic with concerns of macro issues. Office market in Boston and Cambridge is booming.
- **Citywide & Conventions:** With less citywides and conventions on the books YOY, it should allow for an increase in mid-week transient volume.
- **New Corporate Demand:** Primary submarkets (Back Bay, Seaport, Downtown and Cambridge) continue to benefit from new and expanding corporate demand generators.
- **New Supply:** Given the number of compression nights in the market, new supply will induce new demand which was previously unaccommodated. Mid-week occupancies expected to be less impacted.
- **Holidays:** July Fourth on a Wednesday, Jewish holidays and Halloween may effect mid-week travel in September 2018 and September/October 2019.



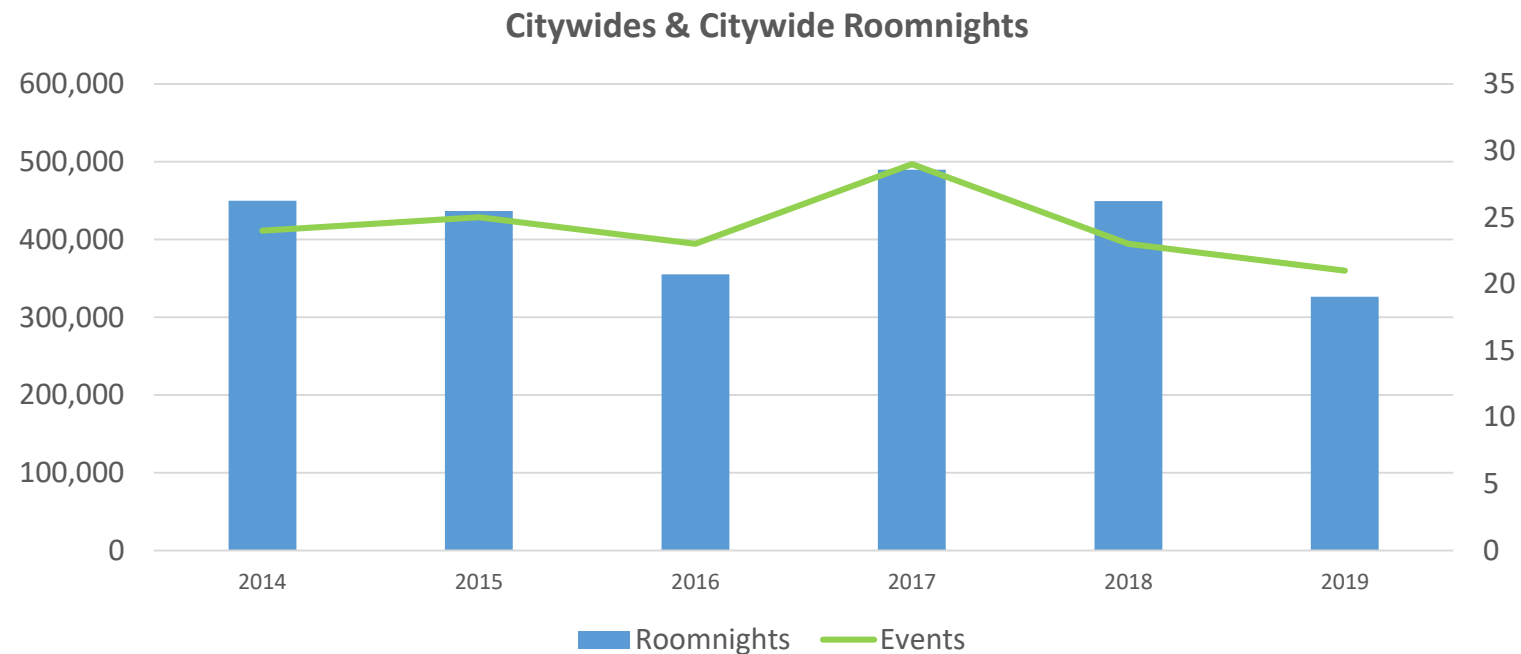
Boston/Cambridge Group Demand Trends (Convention)

Convention Roomnights by Month
as of June 2018



Source: MCCA

Boston & Cambridge Group Demand Trends (Citywides)



Source: MCCA

Note: Citywide Conventions data includes Head of the Charles & the Boston Marathon

As defined by Pinnacle, a Citywide represents an event with 2,000+ roomnights on peak.



Boston & Cambridge Leisure Demand Trends

- **Resilient Destination:** Many of the macro issues discussed previously do not seem to be impacting leisure travel to Boston, at least not yet.
- **Disruption Continues:** AirBnB and OTA growth will chip away leisure demand as their inventory and availability increase overtime. Hotels are beginning to see decreases in demand during peak periods when AirBnB “hosts” ramp up inventory.
- **2018 Holidays:** Lost the benefit of an Easter/Marathon weekend, although both fall in April in 2018 and 2019. Jewish holidays remain in September but effect midweek.
- **Non-Recurring Events:** Market already benefitted from extended Bruins and Celtics playoff runs and the NCAA Basketball East Regionals in March. The U.S. Gymnastics Championships will be held in August and the Forbes Under-30 event in Sept/Oct 2018.



Boston & Cambridge Contract Demand Trends

- There was an influx of crew demand into the market in 2016 and 2017 as international service through Logan grew and more crews required downtown lodging. While this trend has continued through May 2018, crew demand growth has begun to slow.
- Hotels have been able to negotiate much higher crew rates in recent years. The average contract rate in the market in 2012 was \$108, last year it was \$187 (a 45% increase in five years).
- As these contracts have become more sought after and hotels have been more willing to accommodate low cost carriers, rates have actually begun to decline. YTD through May contract rates are down 2.1%.



Boston & Cambridge ADR Trends

Corporate

- Similar to 2018, consensus is to push for LNRs at 3-5%, with increases landing between 2-4%. With occupancies averaging 84% Tues. through Thurs, corporate accounts should accept some level of increase relative to volume.
- Much of the new supply entering the market in 2018 is branded, mid-priced. As these hotels come online with complimentary amenities and new facilities, competitive pricing will slow corporate rate growth.

Group

- Year after year, growth in group rates has slowly decelerated since 2014 declining from a 7.4% increase (2014) to 2.3% in 2017. Through May of 2018, group rates have declined 0.3% when compared to the same period last year.
- As identified previously, the first half of 2018 was a weak convention year. With an even more lite convention calendar approaching in 2019, prepare to discount in-house group.

Leisure

- The remaining months of 2018 look to be supported by a decent convention calendar matched with the four strongest transient months of the year.
- With compression nights declining and booking windows shortening, many hotels (especially the larger ones) continue to be aggressive using opaque channels, driving lower rates.



Boston & Cambridge Projections 2018

	2017	2018	% Change
Occupancy	82.2%	81.8%	-0.5%
ADR	\$258.34	\$258.34	+0.0%
RevPAR	\$212.38	\$213.44	-0.5%

**2.6%
growth in
demand!**

Source: Pinnacle Advisory Group



Boston & Cambridge Projections 2019

	2018	2019	% Change
Occupancy	81.8%	80%	-2.2%
ADR	\$258.34	\$255.76	-1.0%
RevPAR	\$211.32	\$204.61	-3.2%

**2.0%
growth in
demand!**

Source: Pinnacle Advisory Group

Pinnacle Advisory Group

Boston

New York City

Newport Beach

Portland

Washington DC

Tampa



*Hospitality Consulting
Asset Management
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