

OUTLOOK 2018

July 13, 2017



Rachel J. Roginsky, ISHC
Principal, Pinnacle Advisory Group
rroginsky@pinnacle-advisory.com

Today's Agenda

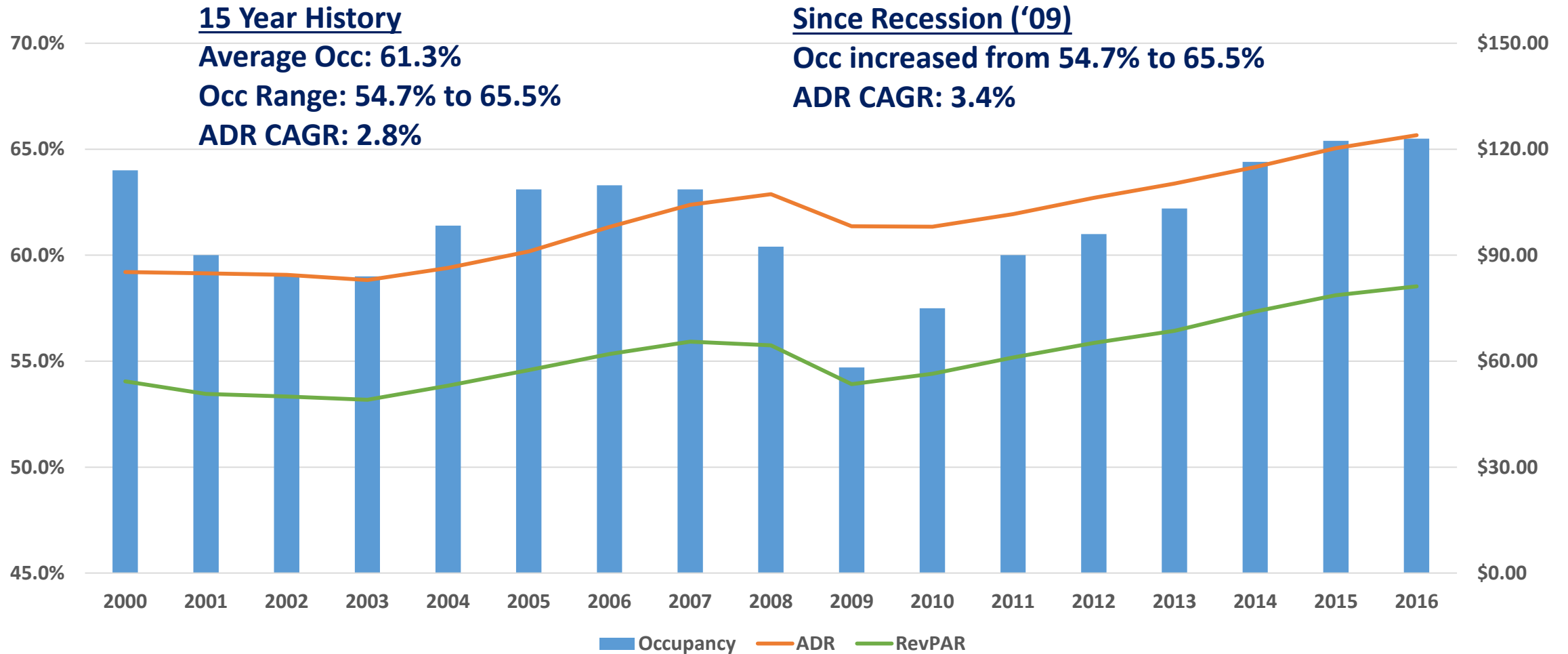
- 1. National Lodging Market**
- 2. Suburban Boston Market**
- 3. Boston & Cambridge Market**



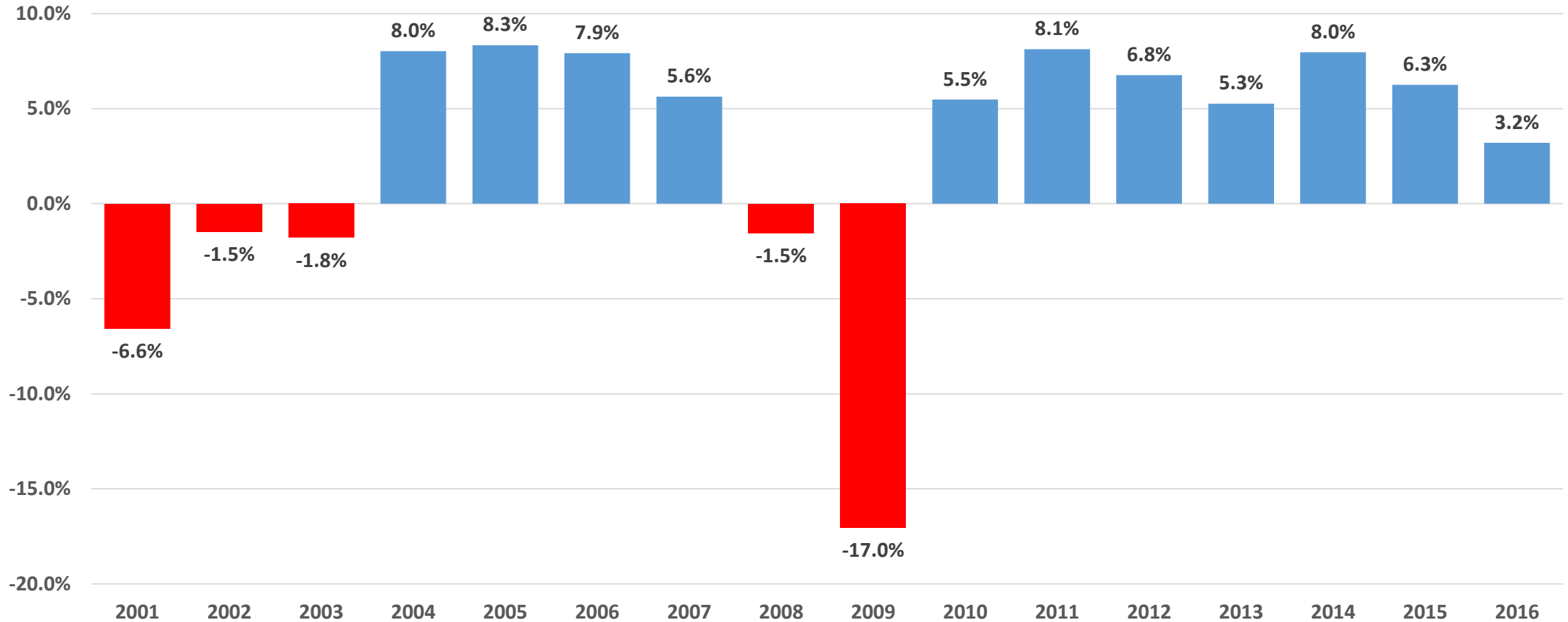


NATIONAL LODGING MARKET

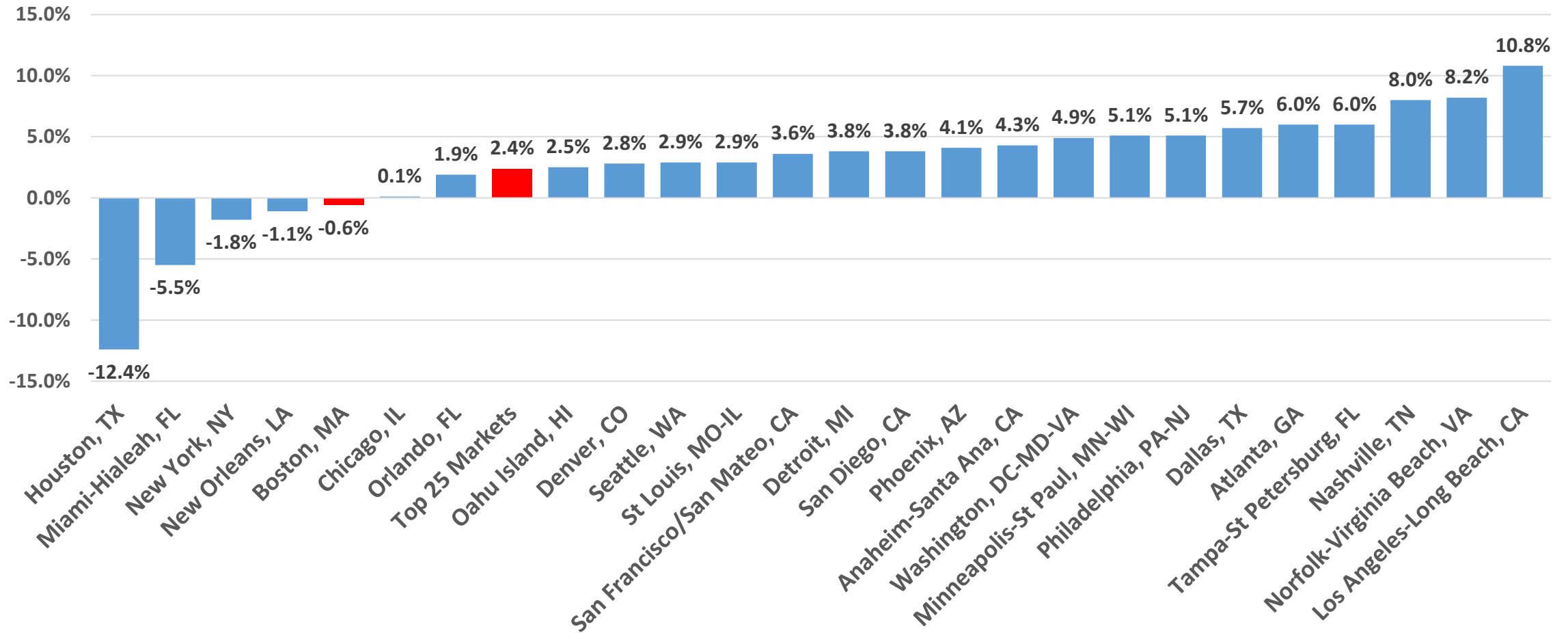
Historic Market Performance - US



RevPAR % Change - US



Top 25 Markets, RevPAR % Change 2016 - US



YTD Performance Through May 2017 - US

	May 2016	May 2017	% Change
Occupancy	63.3%	63.7%	0.7%
ADR	\$122.33	\$125.23	2.4%
RevPAR	\$77.45	\$79.84	3.1%

87
Consecutive months
of RevPAR growth!

Source: STR



New Supply – May 2017

Rooms Under Construction		
Chain Scale	Rooms	% Change from Prior
Luxury	8,773	+11%
Upper Upscale	26,143	+48%
Upscale	59,400	+4%
Upper Midscale	65,654	+23%
Midscale	9,126	+57%
Economy	2,068	+81%
Unaffiliated	20,668	-4%
TOTAL	191,832	+16%

- Total Pipeline in May 2017 (which includes Under Contract, In Construction, Final Planning and Planning stages) represents 580,068 rooms in 4,806 projects, a **13.8%** increase to last year.
- The U.S. reported 191,832 rooms in 1,477 projects in construction in May, which is a **16.4%** year-over-year rooms increase.
- **65%** of the rooms under construction are upscale or upper midscale.
- Although the number of luxury and upper-upscale hotels as part of the construction pipeline is only 18%, the growth has been strong.

Source: STR



Hot Topics - US



U.S. Economy, Strength of USD, and Other Global Concerns



Direct Bookings vs. OTAs



TRUMP!



Sharing Economy, fight continues



Rising Costs – Healthcare, Labor, etc.



Key Takeaways (2017) - US

- 2016 was the highest Occ, ADR, and RevPAR ever recorded.
- Hotel revenue grew 4.8% in 2016, slower growth than in 2015 (7.4%). This trend is expected to continue through 2017 with growth driven mostly by ADR increases.
- Compression nights (+95% occ) in Top 25 markets YTD was up 6% over YTD 2016. According to Morgan Stanley, the average rate premium for a compression night over an average night is approx. 23%.
- Occupancy is expected to remain flat in 2017. Demand growth is slowing and supply growth is increasing. RevPAR growth will be erratic.
- Major gateway cities and top markets will face is growing supply from hotel development and the sharing economy, particularly through Airbnb.



U. S. Industry Projections

2017

	STR	PWC	CBRE
Occupancy	-0.3%	+0.1%	+0.1%
ADR	+2.8%	+2.3%	+2.9%
RevPAR	+2.5%	+2.3%	+3.0%

2018

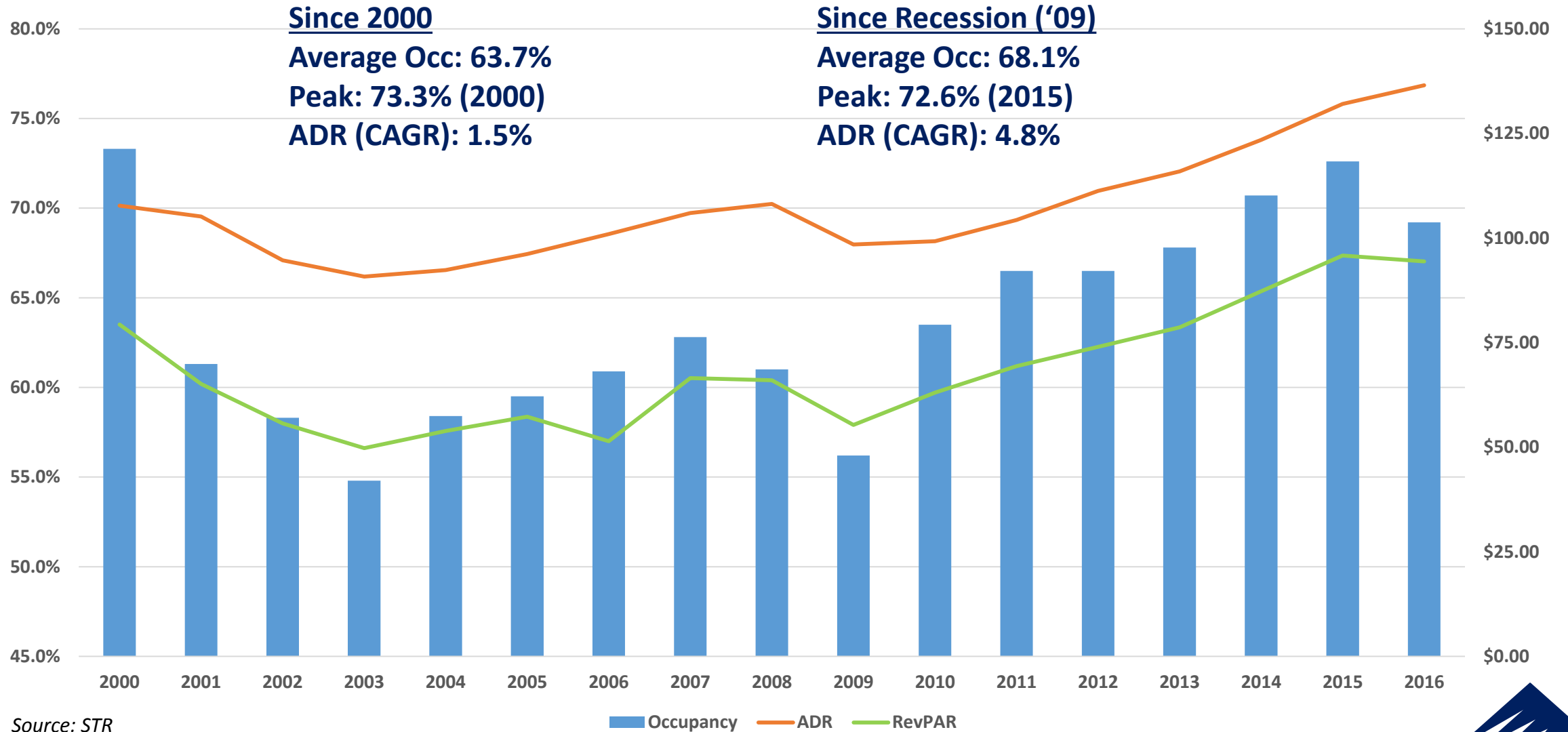
	STR	PWC	CBRE
Occupancy	-0.2%	-0.2%	-0.2%
ADR	+2.8%	+2.2%	+2.9%
RevPAR	+2.6%	+2.0%	+2.6%



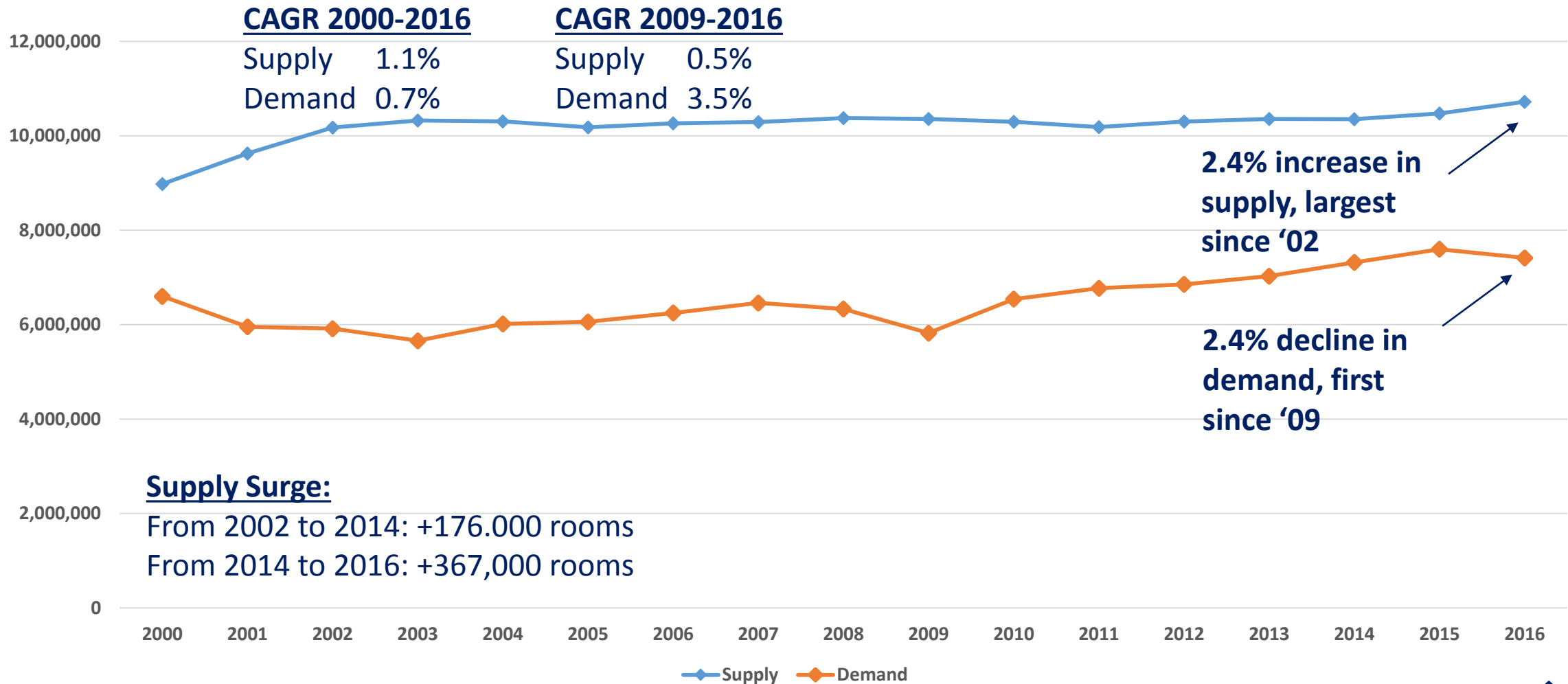


SUBURBAN BOSTON LODGING MARKET

Historic Performance - Suburbs



Supply & Demand - Suburbs



Suburban Boston YTD Performance

	YTD May 2016	YTD May 2017	% Change
Supply	4,339,426	4,453,607	4.7%
Demand	2,766,678	2,842,045	2.7%
Occupancy	63.8%	62.6%	-1.9%
ADR	\$128.01	\$1231.89	3.0%
RevPAR	\$81.61	\$82.50	1.1%

Source: STR

- Through May, supply increased 4.7% while demand increased 2.7%.
- Supply increases mostly include hotels that opened during 2016. Only 2 new hotels (Homewood Chelsea and Ascend in Everett) opened so far this year.
- Between Jan and May 2017, the only month that experienced a decline in demand was Feb.
- So far this year, ADR is up 3.0%, mostly due to the 6.5% increase in rate in May.
- Positive demand growth is a turnaround from last year, however supply is still outpacing demand. Fortunately ADR growth remains positive and as a result, the RevPAR has increased 1.1% YTD.



New Supply 2017 - Suburbs

Hotel	City	Rooms	Est. Opening
Homewood Suites Chelsea	Chelsea	152	Mar
Hampton Inn Revere*	Revere	+23	Apr
Ascend EnVision Everett	Everett	101	Apr
Homewood Suites Arlington *	Arlington	+21	Jun
Hampton Inn Stoughton	Stoughton	100	Jun
Residence Inn Braintree	Braintree	139	Jul
Residence Inn Burlington	Burlington	170	Sep
Lark Hotel Salem	Salem	44	Sep
Hyatt Place Marlborough	Marlborough	137	Oct
Courtyard Westwood	Westwood	130	Nov
Fairfield Inn Marlborough	Marlborough	108	Nov
Hampton Inn Waltham	Waltham	138	Nov

1,263
Total New Rooms

78%
Branded as
Marriott or Hilton

↑4.0%
Supply Increase
In 2017

Source: Various Sources, Compiled by Pinnacle Advisory Group

* Expansion of existing hotel



New Supply 2018

Hotel	City	Rooms	Est. Opening
Archer Hotel	Burlington	147	Q1
Beacon Street Hotel	Somerville	35	Q1
Hampton Inn Foxborough	Foxborough	120	Q1
Assembly Row Autograph	Somerville	160	Q2
Fairfield Inn & Suites Walpole	Walpole	110	Q2
LaQuinta Revere	Revere	99	Q3
Athenian Corner Hotel	Lowell	52	Q3
Residence Inn Waltham	Waltham	100	Q3
Holiday Inn Chelsea	Chelsea	124	Q3
Homewood Suites Marlborough	Berlin	105	Q4

Hotel	City	Rooms	Est. Opening
Staybridge Suites Revere	Revere	128	Q4
Fairfield Inn Waltham	Waltham	90	Q4
Homewood Suites Woburn	Woburn	235	Q4
Hampton Inn Woburn	Woburn		Q4
Home2 Walpole	Walpole	118	Q4
Hampton Inn Salem	Salem	112	Q4

1,735

Total New Rooms

66%

Branded as
Marriott or Hilton

↑5.0%

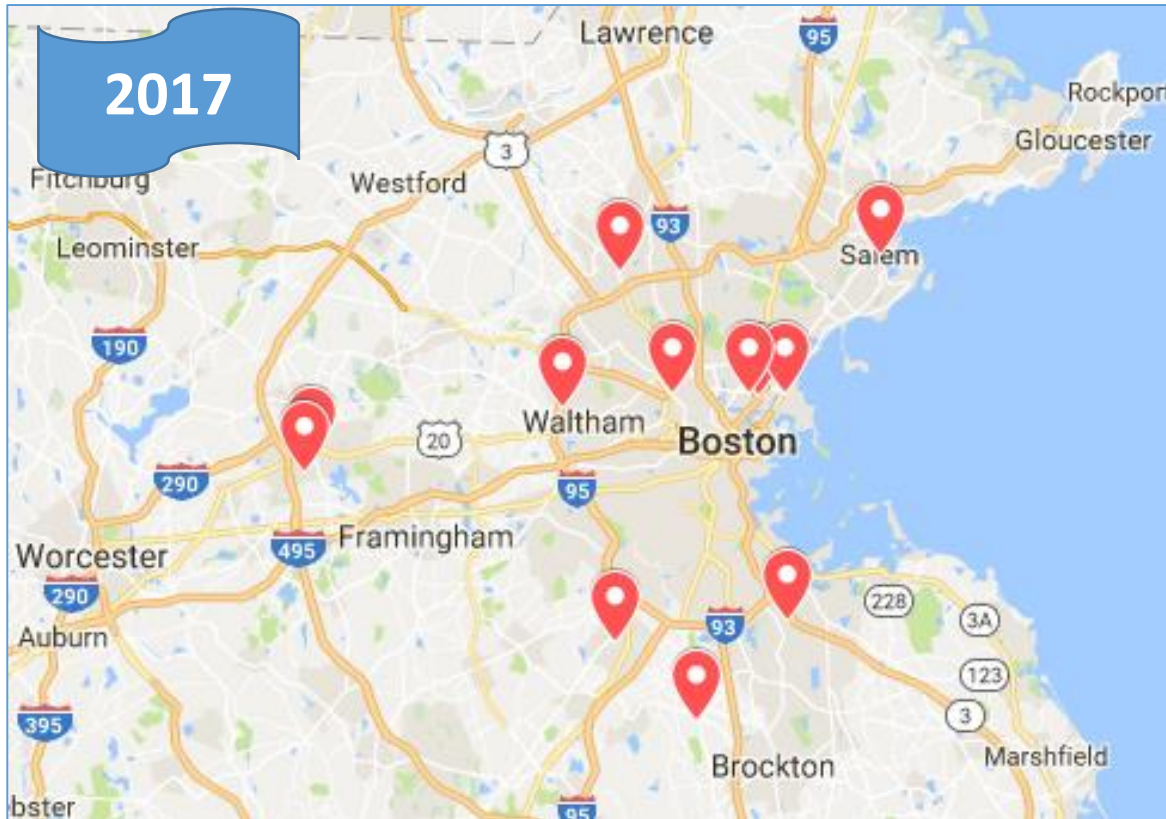
Supply Increase
In 2018

Source: Various Sources, Compiled by Pinnacle Advisory Group

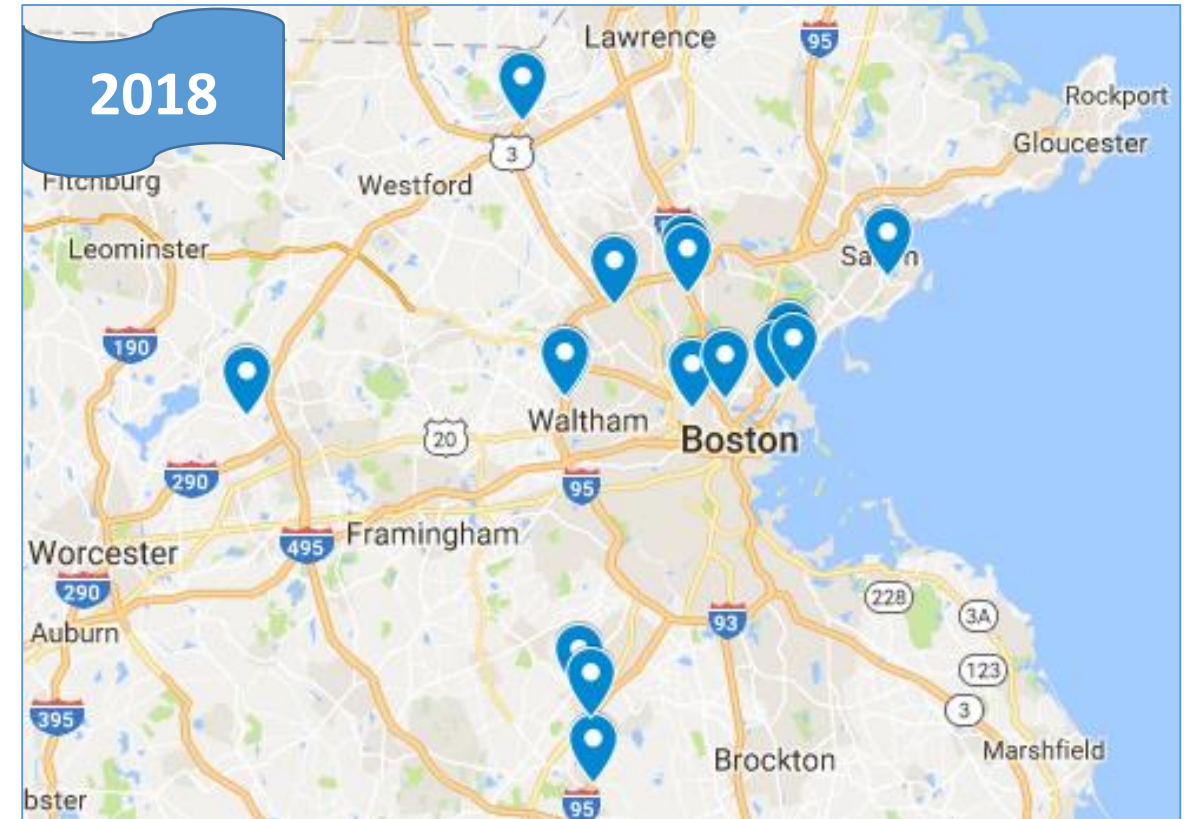
Note: Considerable amount of projects slated for Q4 2018, delays could push many to 2019.



New Supply 2017 & 2018



10 New Hotels, 2 Guestroom Expansions
Total of 1,263 New Rooms



16 New Hotels
Total of 1,735 New Rooms



Suburban Office and R&D Market, Q1 2017

	Inventory (SF)	YTD Absorption (SF)	Vacancy Q1 2016	Vacancy Q1 2017
Inner Suburbs	6.4 M	83,300	11.9%	9.6%
Route 128	66.6 M	(940,200)	15.2%	16.5%
Route 495	44.7 M	(145,100)	20.1%	21.3%
Total Suburbs	117.7 M	(1,002,000)	17.1%	17.9%

Source: Colliers International

- After a banner year of life science leases, the burbs started 2017 statistically flat in both office and R&D.
- Several major tenants leaving the market, and companies giving up space, led to negative absorption across all suburbs except for Inner Suburbs.
- Vacancies rose overall, with suburban markets closest to Boston benefiting most.
- 1.2 M SF of office space is under construction with 60% pre-leased.
- Competitive sub-lease space will likely cap recent rent growth.

Lodging Demand Trends - Suburbs

- Weather patterns in 2016, particularly in the winter, negatively impacted demand. We did not have a negative weather impact in 2017.
- Status quo (in some markets) and improvements (in other markets) within the local office markets allow for strong weekday lodging demand. Capacity mid week is driving rate improvements throughout the suburban market. Stronger growth in the inner suburbs and 128; positive momentum in outer suburbs (I-495).
- Leisure demand remains status quo. SMERF and sports teams can typically fill the gaps.
- Operators state that group booking windows continue to shorten, and group demand remains constant.
- Strongest occupancies Tues and Wed nights, averaging 76%. Sunday is the weakest with occupancy averaging 53%. Market's peak is June through October when the market averages 80%.
- Rates follow a similar pattern with occupancy. Weekdays garner a 12% premium over weekends over the course of the year.
- Less compression from Boston, especially in the out suburbs.
- NEW SUPPLY IS BY FAR THE BIGGEST WORRY, FOLLOWED BY AIRBNB.



Suburban Boston Projections 2017

	2016	2017	% Change
Occupancy	69.2%	68.5%	-1.0%
ADR	\$136.48	\$140.50	+2.9%
RevPAR	\$94.38	\$96.24	+2.0%

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

Suburban Boston Projections 2018

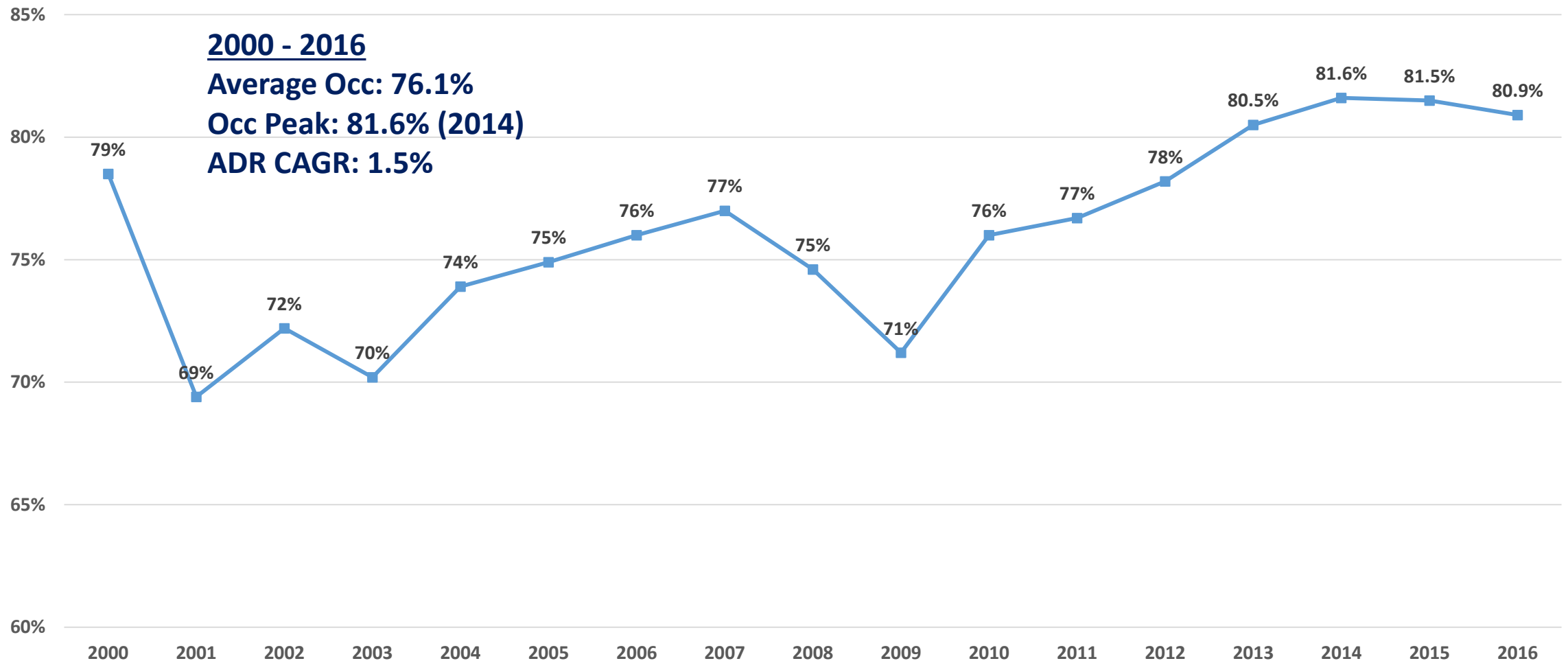
	2017	2018	% Change
Occupancy	68.5%	67.0%	-2.2%
ADR	\$140.50	\$142.50	+1.4%
RevPAR	\$96.24	\$95.48	-0.8%

Source: Pinnacle Advisory Group

The background of the slide features a low-angle, upward-looking perspective of several modern skyscrapers. The buildings are rendered in a light gray, semi-transparent style, creating a sense of depth and architectural scale. A thin, dark blue rectangular border frames the entire content area.

BOSTON & CAMBRIDGE LODGING MARKET

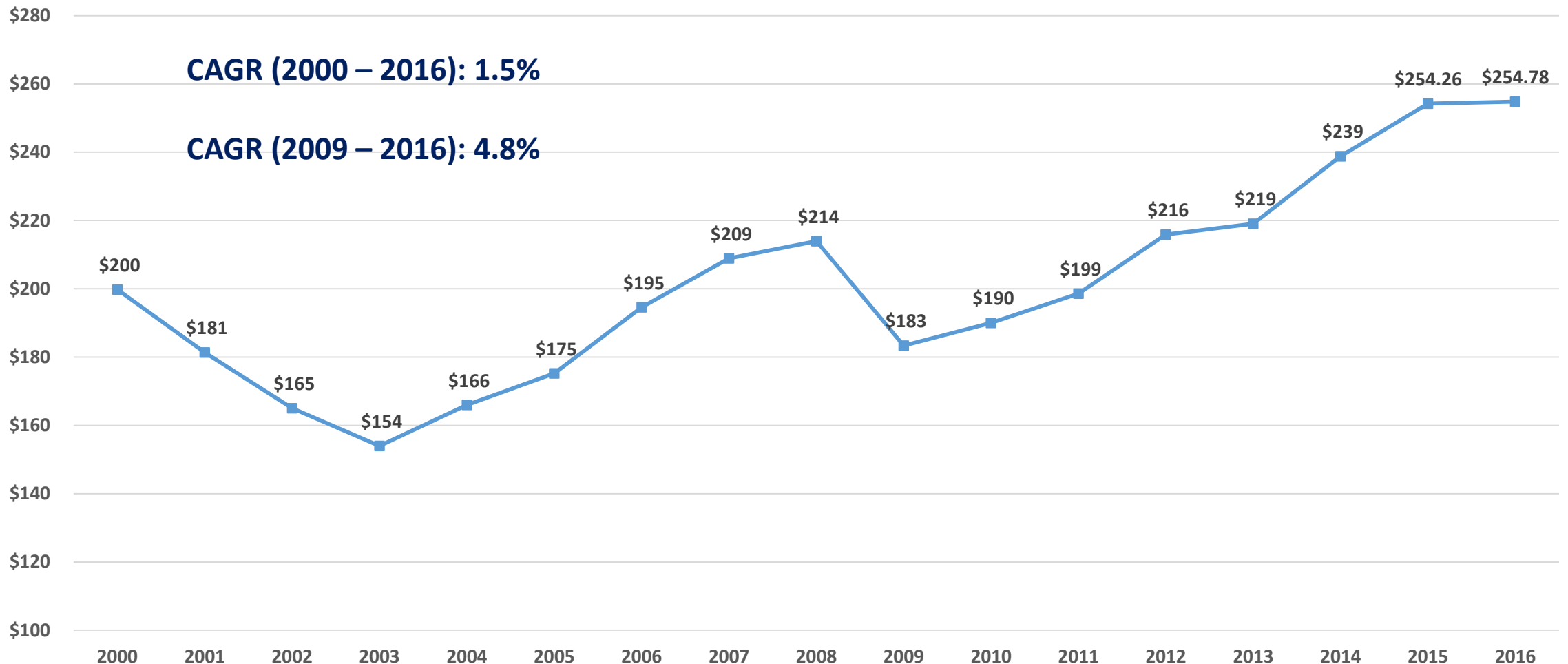
Historic Occupancy Performance



Source: Pinnacle Advisory Group



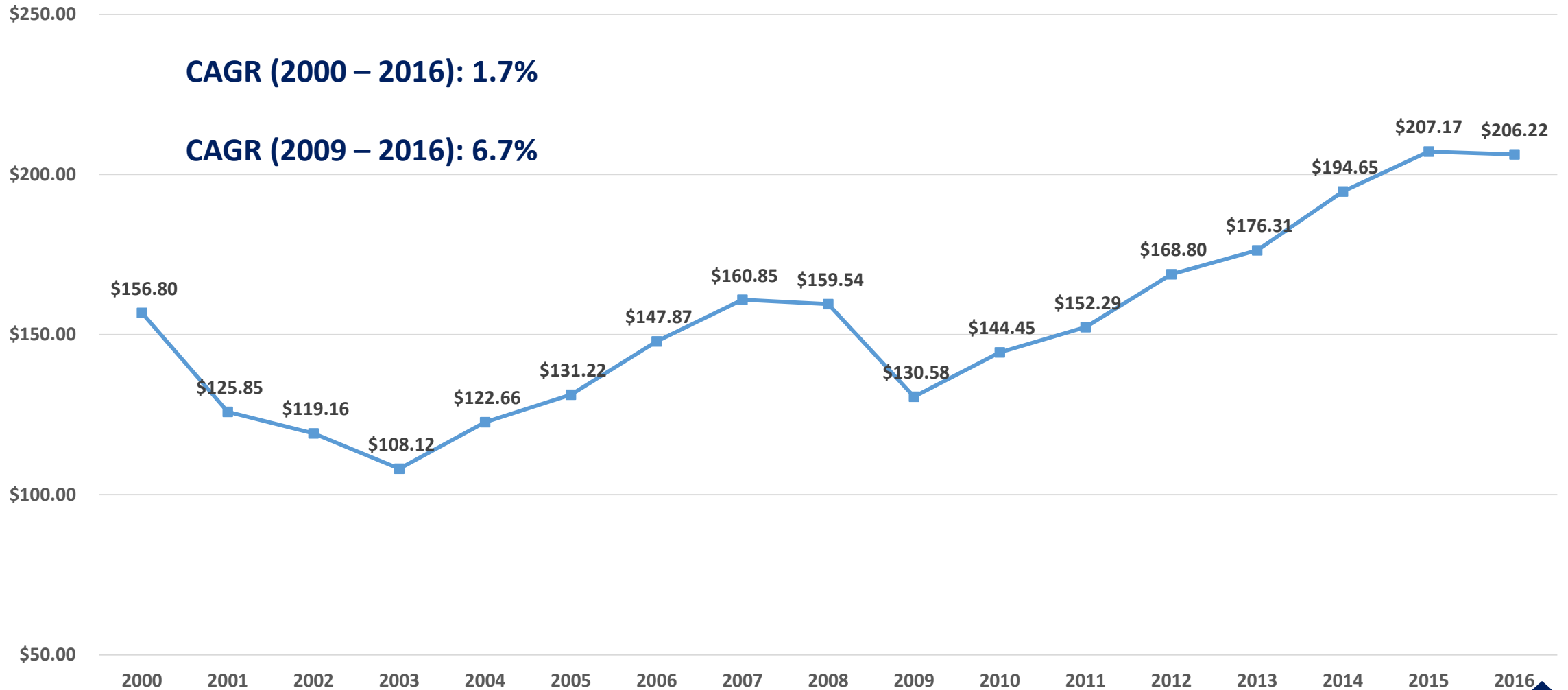
Historic ADR Performance



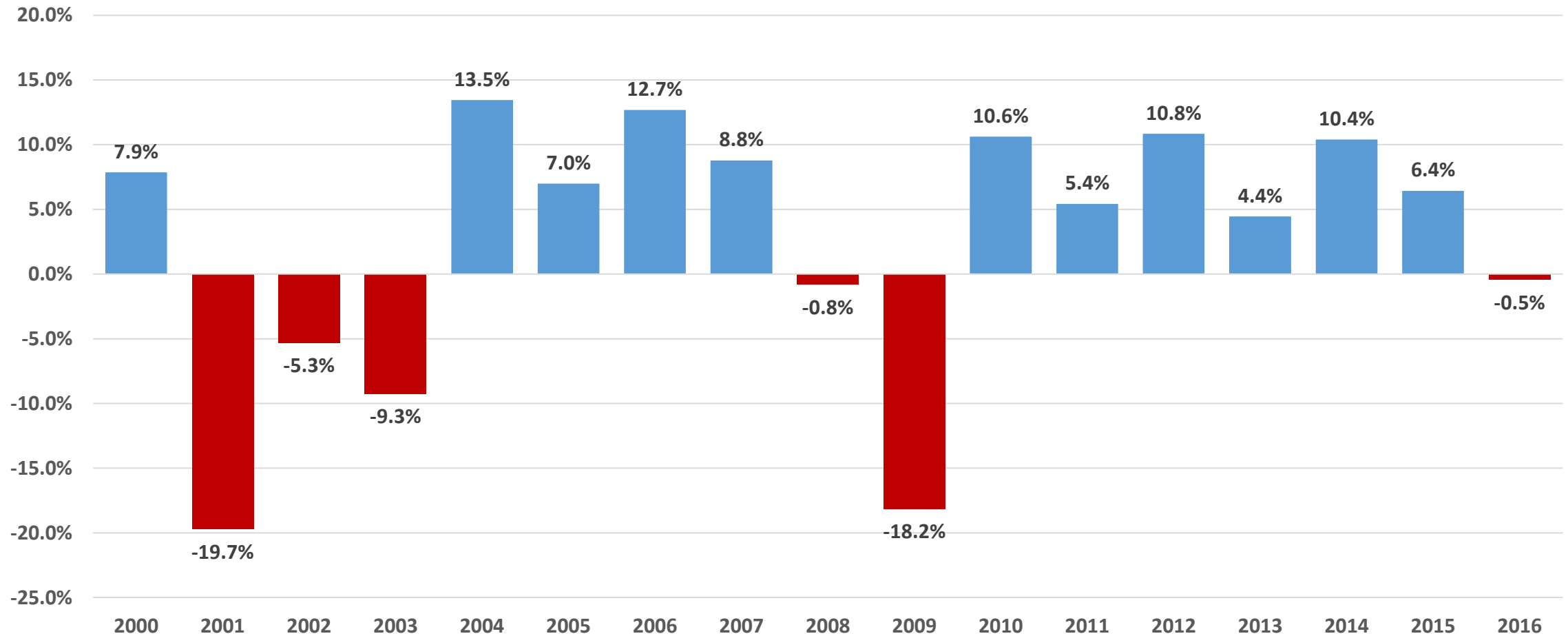
Source: Pinnacle Advisory Group



Historic RevPAR Performance

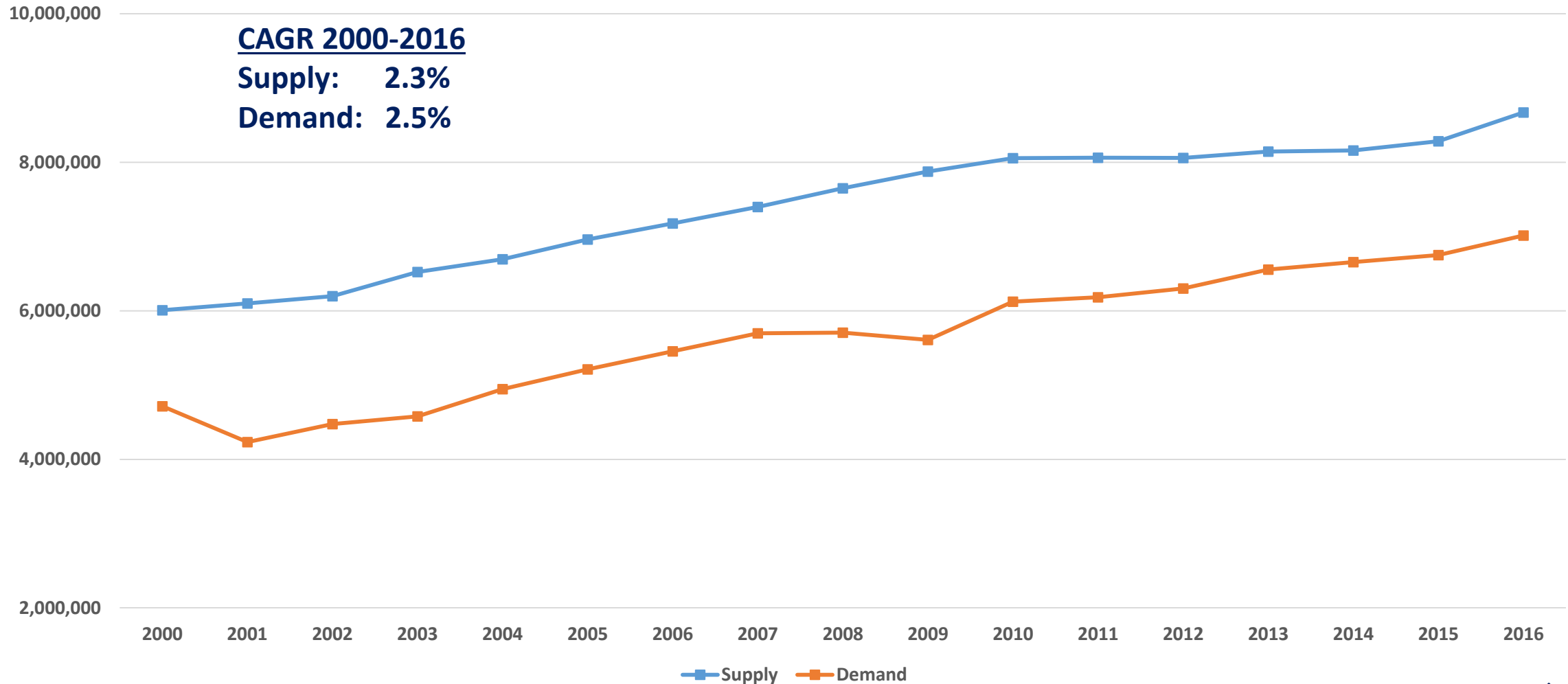


RevPAR % Change

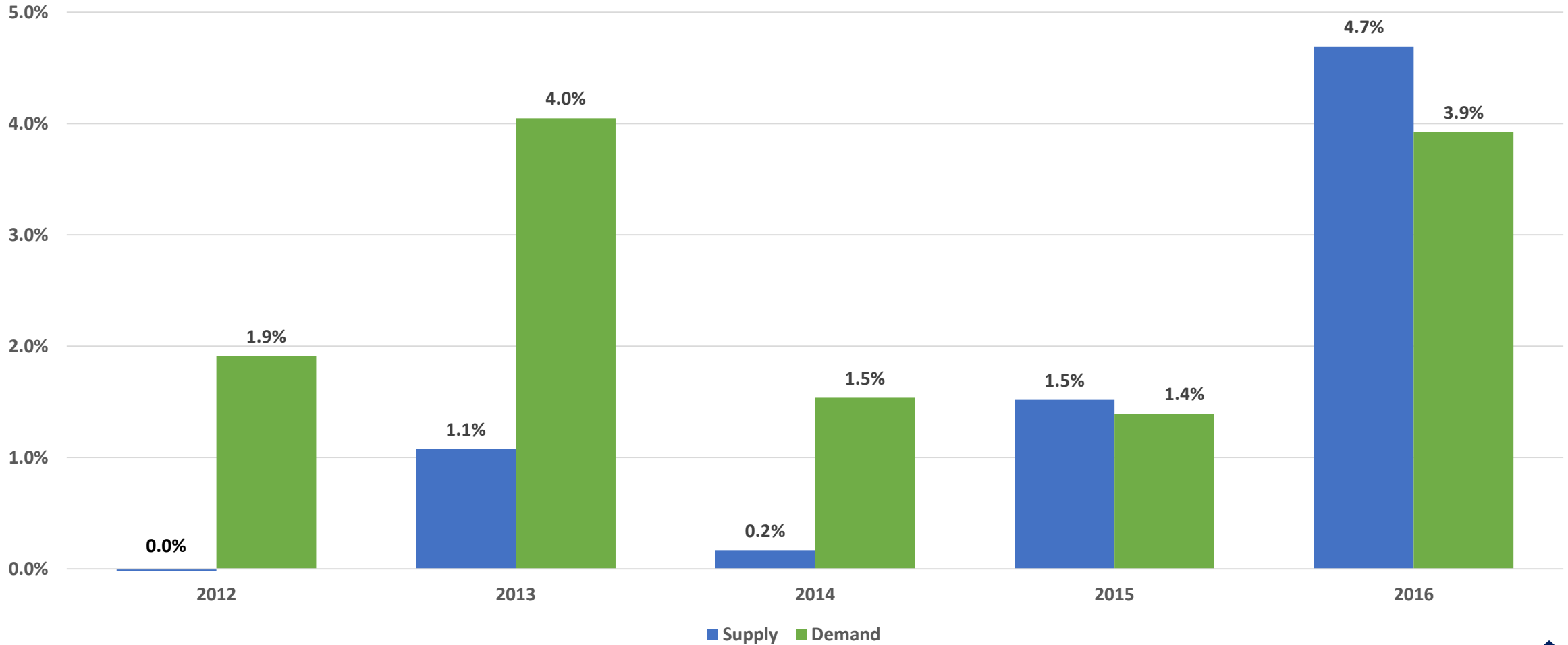


Source: Pinnacle Advisory Group

Supply & Demand



Supply & Demand % Change

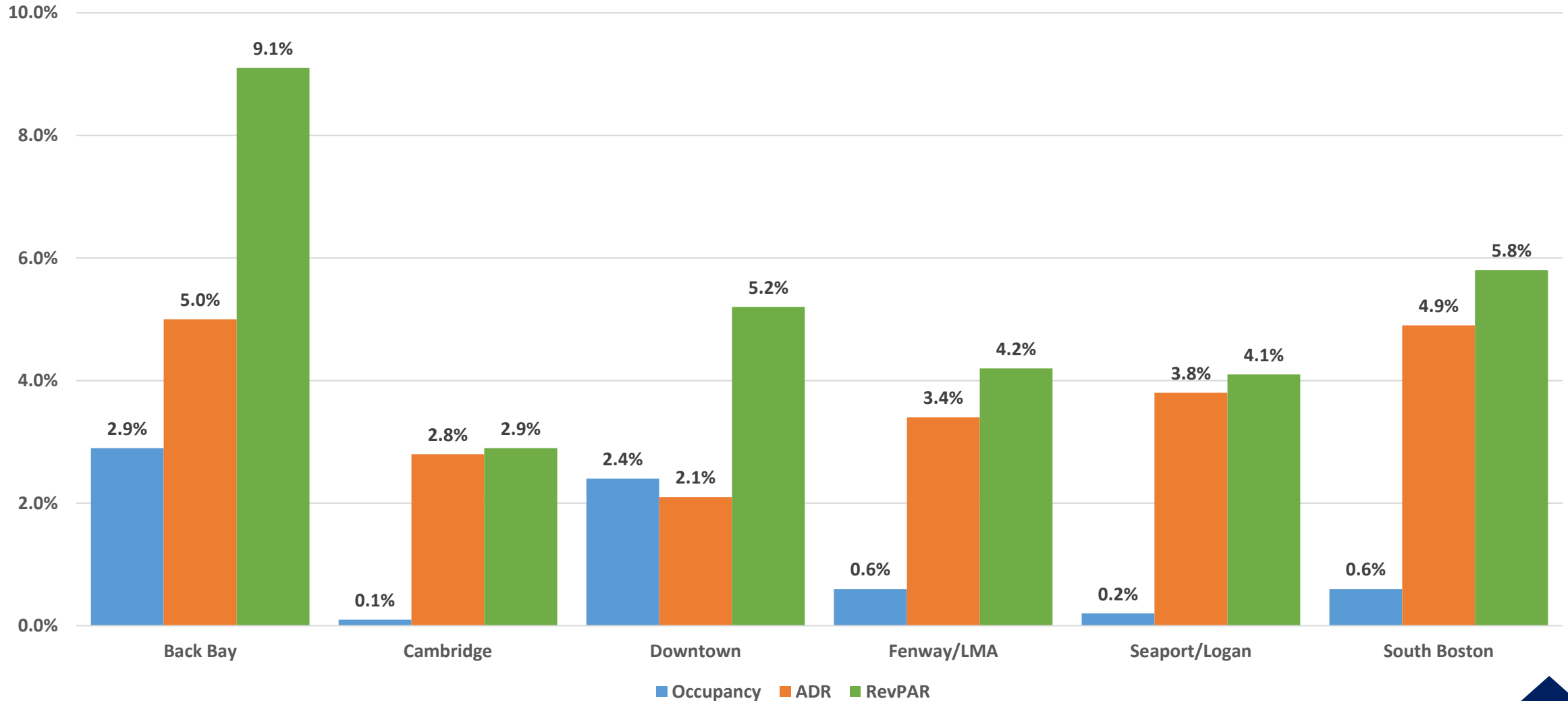


YTD Performance Through May 2017

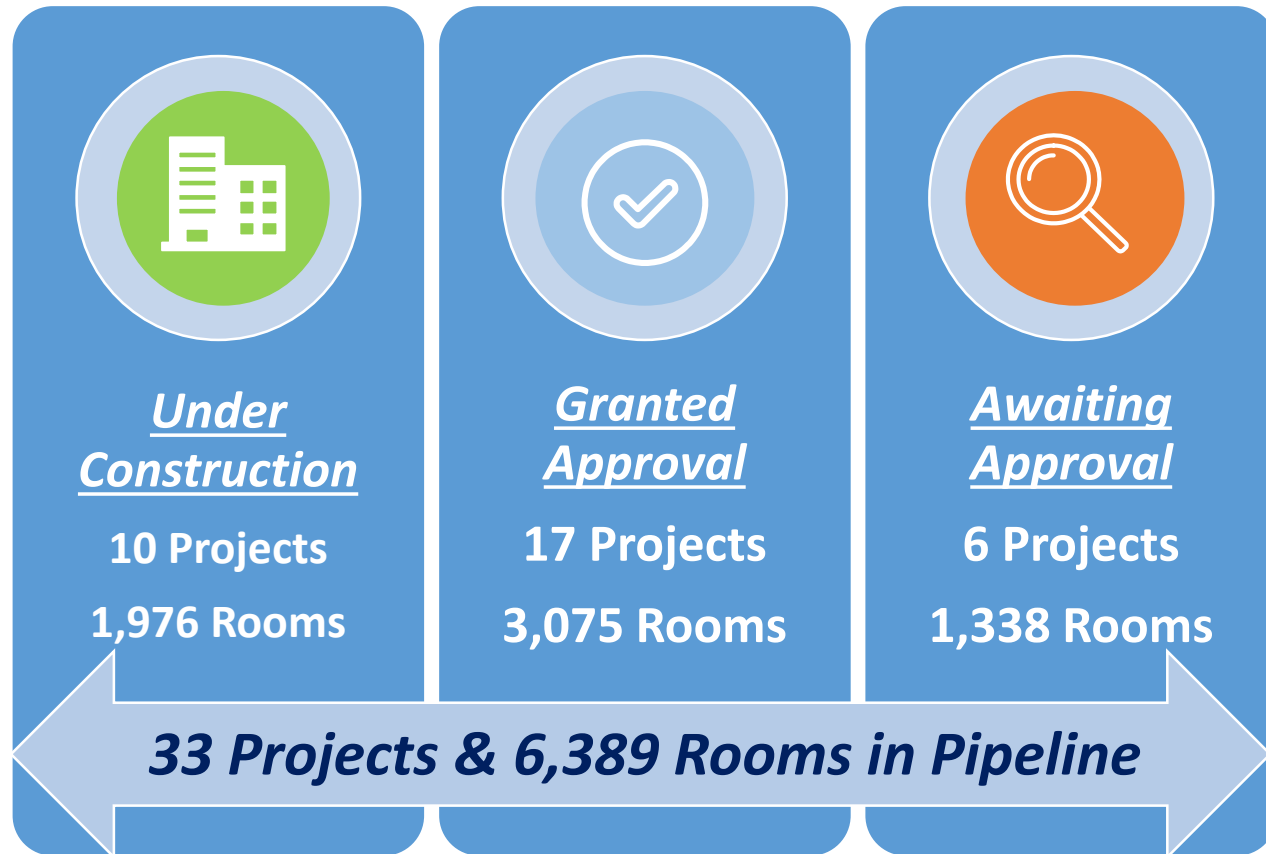
	YTD May 2016	YTD May 2017	% Change
Supply	3,573,244	3,617,330	+1.2%
Demand	2,712,100	2,807,000	+3.5%
Occupancy	75.9%	77.6%	+1.7%
ADR	\$232.97	\$241.19	+3.5%
RevPAR	\$176.80	\$187.08	+5.8%

Demand roomnights have been rounded to nearest hundred
Source: Pinnacle Advisory Group

YTD May 2017 Performance by Submarket



Future Rooms Supply



Source: BPDA, CCDD, Compiled by Pinnacle Advisory Group
Projects as of June 30, 2017. Does not include preliminary or rumored projects.

- 30 projects in Boston, 3 in Cambridge
- Projects under construction to be delivered between 2017-2019
- Does not include projects which are not in the BPDA review process, or those considered to be preliminary or rumored – including the 1,054-room Omni Seaport or hotels at Seaport Square.
- Though unlikely for all projects to move forward, this pipeline represents a 27% increase to existing supply.

New Supply 2017 & 2018

Hotel	Neighborhood	Chain Scale	Rooms	Est. Opening
Yotel Seaport	Seaport District	Midscale	326	June 2017
AC Hotel Ink Block	South End	Upscale	205	Q1 2018
Courtyard North Station	North End / Downtown	Upscale	220	Q1 2018
Mass Ave. Hotel (Name TBD)	Cambridge	Indep.	50	Q1 2018
Holiday Inn Express South Boston (Expansion)	South Boston	Upper Midscale	60	Q2 2018
Hyatt Centric	Downtown	Upper Upscale	163	Q3 2018
AC Hotel Cleveland Circle	Brighton / Brookline	Upscale	162	Q3 2018
Residence Inn Roxbury	Roxbury	Upscale	135	Q4 2018

 **1.7%**
Supply Increase 2017

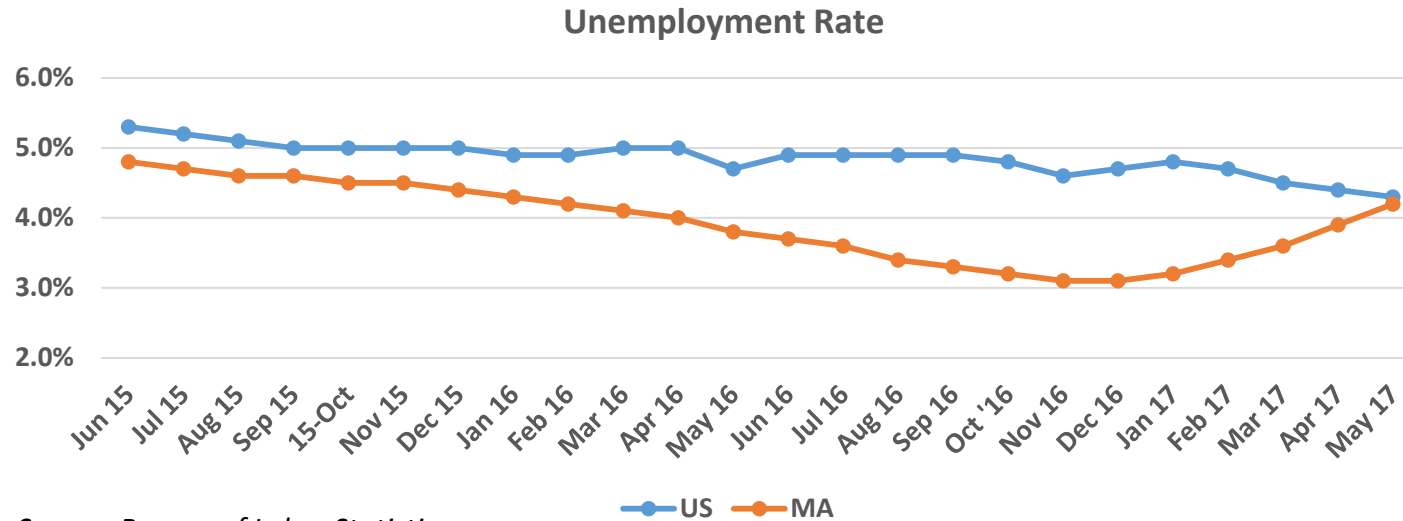
 **3.7%**
Supply Increase 2018

55%
Upscale, Select
Service Marriott

Source: Various Sources, Compiled by Pinnacle Advisory Group



Economic Environment



Source: Bureau of Labor Statistics

Boston MSA		
	May 2016	May 2017
Employment	2,545,535	2,616,982
Unemployment Rate	3.4%	3.8%

Source: Bureau of Labor Statistics

- Job creation in Massachusetts has slowed in 2017. The unemployment rate increased in January for the first time in almost four years and has risen for the fifth straight month.
- The Boston MSA's 2016 unemployment rate of 3.4% was its lowest since 2000. Unemployment in Greater Boston through May of 2017 is 3.8% an increase to May 2016.
- The region's population growth in recent years is tapering, with more people moving out of state.

Boston Logan International Airport

	Total Passengers	Domestic Passengers	International Passengers
YE 2016	36.3 M	29.6 M	6.6 M
YTD Apr 2016	10.5 M	8.9 M	1.8 M
YTD Apr 2017	11.3 M	9.2 M	2.1 M
% Change	7.8%	6.3%	15.0%

Source: Massachusetts Port Authority

- Logan Airport continues its modernization campaign to boost capacity and continue its record-setting growth. MassPort plans to break ground on a four-gate expansion to its international terminal by 2018.
- New nonstop routes to Boston from several Chinese cities as well as new visa policies resulted in a record number of Chinese tourists to Boston in 2016.
- The airport served a record high, 36.3 million passengers in 2016, a 8.5% increase to prior year. International passenger traffic increased 19.0% last year.
- YTD Through April, traffic through Logan Airport has increased almost 8%. International has grown over 260,000 passengers (+15%).



Boston Office Market, Q2 2017

	Inventory (SF)	YTD Absorption (SF)	Vacancy %
2016	66.7 M	(325,059)	11.3%
Q2 2017	70.1 M	618,701	10.8%

- Q2 2017 shows improvement over year end 2016.
- There are currently many large tenants seeking space in Boston. Tech, advertising, media and information companies are the active tenants.
- YTD through Q2, both the Seaport and the Financial District have absorbed over 275,000 square feet, almost 90% of all of the market's absorption.
- New projects totaling several million SF, including WS Development's Seaport Square and Millennium's Winthrop Square are either proposed or permitted to move forward.
- Based on existing pipeline, Boston's office market is expected to remain strong for the foreseeable future.

Cambridge Office Market, Q2 2017

	Inventory (SF)	YTD Absorption (SF)	Vacancy %
2016	22.4 M	416,019	4.3%
Q2 2017	23.0 M	(86,609)	6.7%

Source: Colliers International

- Cambridge is one of the top markets in the US.
- The extremely low vacancies have caused the life science industry to push out tech and startup companies.
- Redevelopment of Volpe Transportation Center and HYM's NorthPoint will provide much needed office and lab inventory however they are still years away.
- Uncertainty with healthcare reform and potentially significant funding cuts to National Institutes of Health are causing concern.

Other Big Local News

- Omni chosen for Summer Street Hotel Project. The \$550-million hotel will have two 20-story towers, over 1,000 rooms, 120,000 square feet of meeting space, 40,000 square feet of restaurant and retail space and an 8,500-square-foot spa and fitness center. The project is scheduled to begin construction in 2018 and open in 2021. This will be the largest hotel in Boston since the Marriott Copley in 1984.
- Wynn Boston Harbor (Everett) – 3 million square foot five-star casino, 210,000 square foot gaming facility and 625 guestrooms. Anticipated opening, June 2019.
- Loss of Climate Change Summit for Summer 2017 due to lack of federal support
- More Headquarters!
GE (Completion of Phase One, restoration of the two historic buildings, is expected by mid-2018. Completion of Phase Two, construction of the new building, is expected by early 2019. , Shoes.com, Berkshire Bank, Reebok, iboss

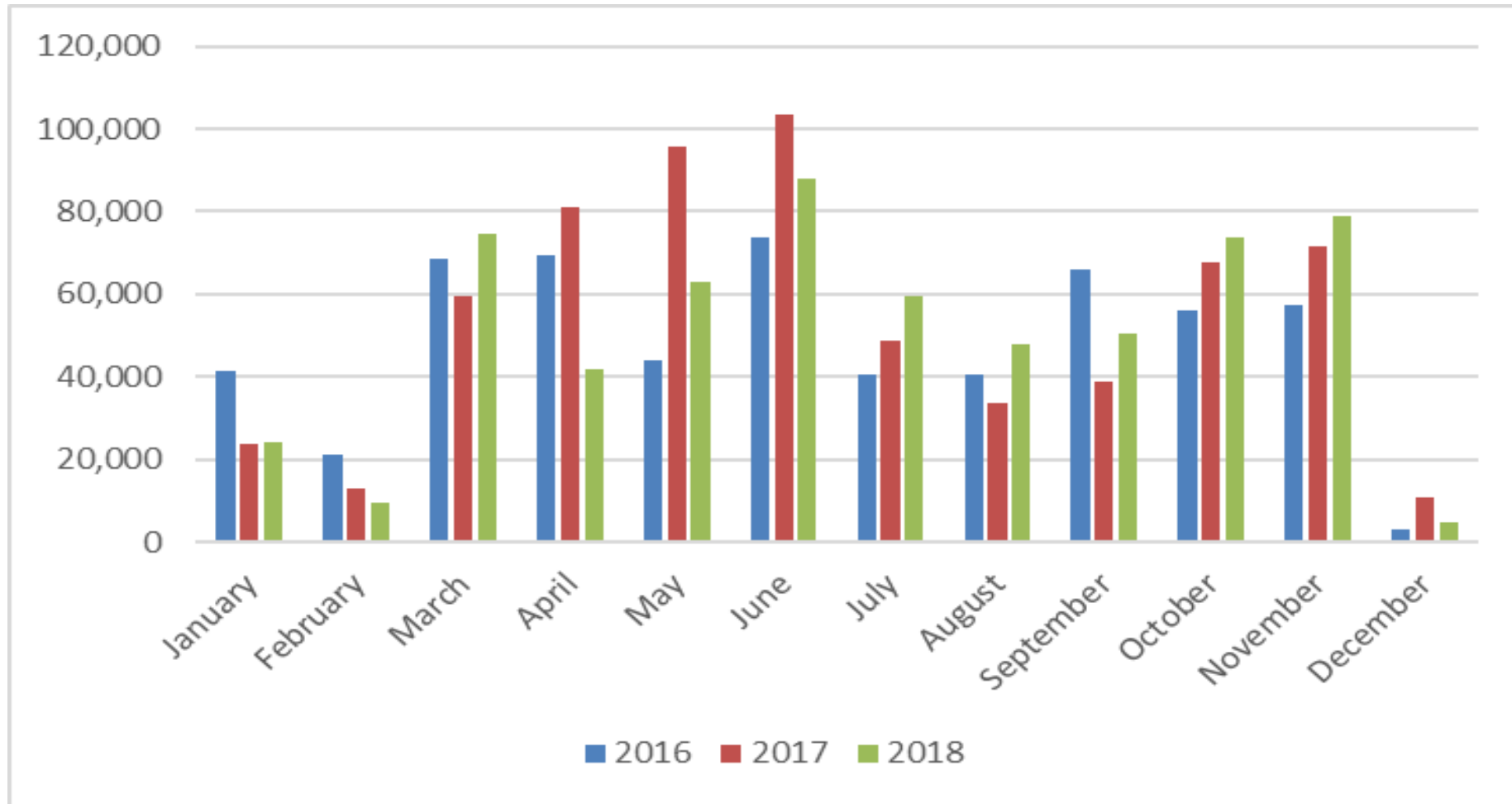


Corporate Demand Trends

- **Growth:** The economy is still showing signs of growth, both nationally and locally. However growth is not nearly as robust as it was two years ago.
- **New Corporate Demand:** Seaport and Downtown submarkets continue to benefit from a wealth of new corporate demand generators which have moved into the area the last two to three years. Other submarkets not seeing these new accounts but instead relying on existing demand.
- **New Supply:** Given the number of compression nights in the market, new supply induces new demand into the market which was previously unaccommodated. Although, supply outpaced demand in 2016 and is expected to do so again in 2018, new supply will help to attract new demand.
- **Disruption Continues:** Brands are continuing the direct vs third party battle. New booking tools continue to disrupt the traditional methods of booking and ultimately the price travelers are paying. AirBnB now targeting corporate travel.
- **Holiday Calendar:** Jewish holidays and Halloween may effect mid-week travel in September and October respectively (in both 2017 and 2018).



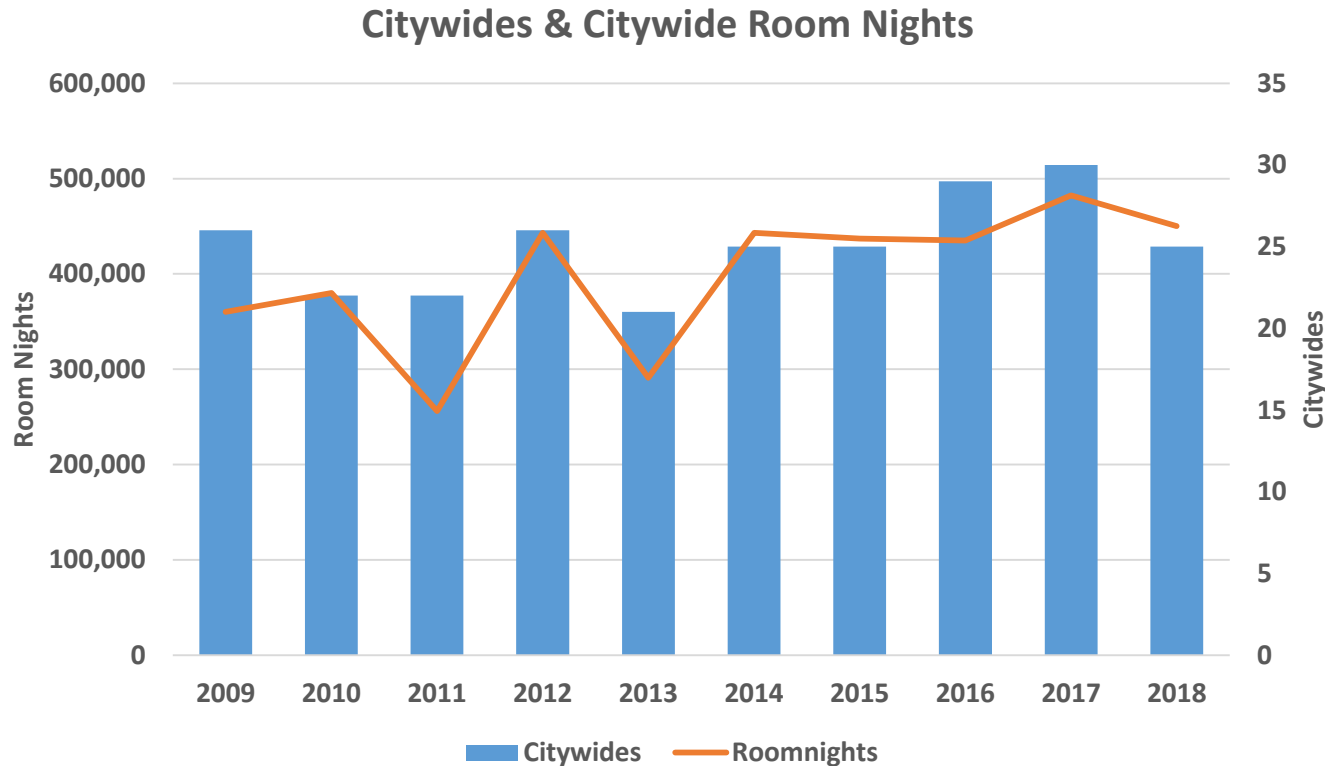
Group Demand Trends – Convention



Source: MCCA



Group Demand Trends - Citywides



- Five fewer Citywide Conventions in 2018 than 2017
- 42,000 fewer Citywide room nights in 2018 than 2017 (7%).
- 15,500 more citywide room nights in 2018 than 2016.
- In 2018 the average citywide will have 4,554 room nights on peak compared to an average of 3,786 in 2017.

Source: MCCA

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

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; strength of USD, uncertainty around new administrations policies, Brexit, terrorism abroad, etc.
- ***Disruption Continues:*** AirBnB and OTA growth will chip away leisure demand as their inventory, and its availability, increases overtime. Hotels are beginning to see decreases in demand during peak periods when AirBnB “hosts” ramp up inventory. Marathon Weekend is a good example.
- ***2017 Holidays:*** Citywides overlap with holidays to benefit the market (Mothers Day, July 4th, Columbus Day). April benefitted from the Easter/Marathon combo. Jewish holidays move from October to September and Halloween falls on a Tuesday.
- ***2018 Holidays:*** Lose the benefit of an Easter/Marathon weekend, although both fall in April. Jewish holidays remain in September but effect midweek.



Contract & Other Demand Trends

- As international service through Logan grows (+15% YTD), there are more crews requiring downtown lodging.
- Due to their inconvenient arrival/departure patterns, hotels have been able to negotiate much higher rates in recent years. Some crew rates are mid to high \$200s.
- Most hotels with crew nights are holding on to this segment and attempting to increase rates. With rates as high as they are, some hotels are trying to get new contracts while they can.



Average Daily Rate Trends

Corporate

- Pushing for LNRs at 3-5%, with slightly larger bumps for weaker accounts. With occupancies at/around 80%, much of it mid-week, corporate accounts should accept some level of increase relative to volume.
- Despite a lull in corporate volume last year, volume is expected to increase.
- Much of the new supply entering the market between 2016 through 2018 is mid-priced. As these hotels position themselves below existing hotels, competitive pricing will mitigate market rate growth.

Group

- Group rates increased 3.4% in 2016 while transient rates declined 1.6%.
- Through May of 2017, this trend continues with group rates growing 6.4% and transient rates up only 2.2%.

Leisure

- August 2017 group pace is down, transient demand should make up the difference in occupancy but hotels will likely discount.
- With compression nights declining, many hotels (especially the larger ones) continue to be aggressive using opaque channels, driving lower rates.
- An increase to the market's supply, specifically its mid-priced segment is a concern for existing hotels.



Boston & Cambridge Projections 2017

	2016	2017	% Change
Occupancy	80.9%	81%	+0.1%
ADR	\$254. 78	\$262.42	+3.0%
RevPAR	\$206. 22	\$212.56	+3.1%

Source: Pinnacle Advisory Group

Boston & Cambridge Projections 2018

	2017	2018	% Change
Occupancy	81%	80%	-1.2%
ADR	\$262.42	\$268.98	+2.5%
RevPAR	\$212.56	\$215.19	+1.2%

Source: Pinnacle Advisory Group

Pinnacle Advisory Group

Boston

New York City

Newport Beach

Portland

Washington DC

Tampa



*Hospitality Consulting
Asset Management
Real Estate Appraisal
Litigation Support*

www.pinnacle-advisory.com