

# CBRE HOTELS

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The World's Leading Hotel Experts.

## Temecula Lodging Market

June 21, 2018

**Bruce Baltin– Managing Director  
CBRE Hotels**

# AGENDA

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- The National Economy
- A Look at Temecula & the IE
  - Temecula Hotel Market Performance
  - The Impact of New Supply
  - Sharing Economy Update
  - Our Forecasts



# THE ECONOMY

# HAPPY THOUGHTS

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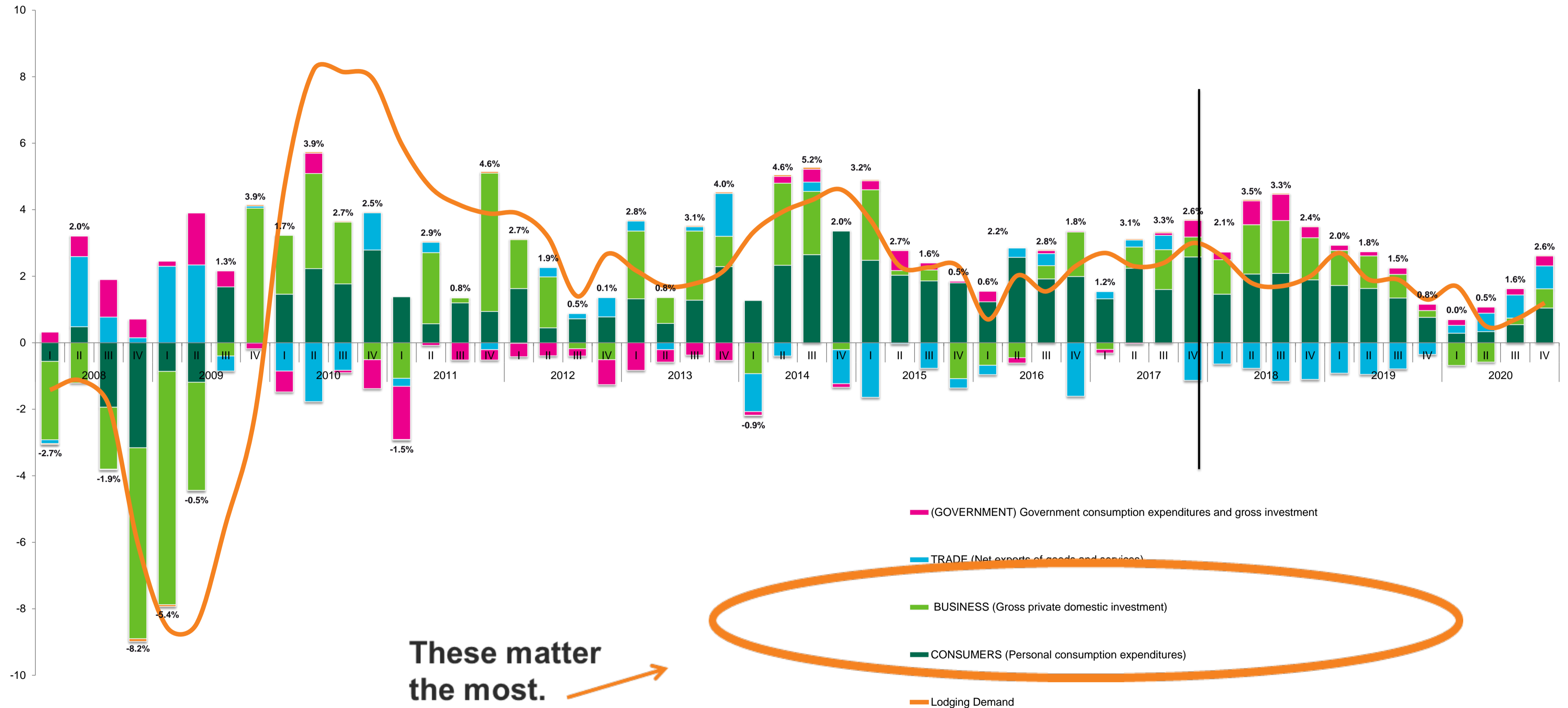
- Recent indicators show that the economic expansion is accelerating.
- Consumer and small business confidence remain high.
- The labor market is healthy; wage growth is picking up.
- Inflation remains contained.
- The economic effects of the recently passed tax legislation ... the possibility of further acceleration in economic growth moving forward is very real.
- The Current Travel Index (CTI) has registered at or above the 50 mark for nearly 100 straight months, as the industry nears its ninth consecutive year of expansion according to the latest Travel Trends Index.

# WHAT HISTORY TELLS US ABOUT WHAT MATTERS

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- A Lot:
  - Employment and Jobs
  - Personal Income
  - GDP
- Somewhat:
  - Corporate Profits
  - Leading Economic Indicators
- Not So Much:
  - Foreign Exchange Rates

# 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, February 2018

# WHAT COULD END THE CURRENT CYCLE?

**1. The Economy**

**2. Over Building**

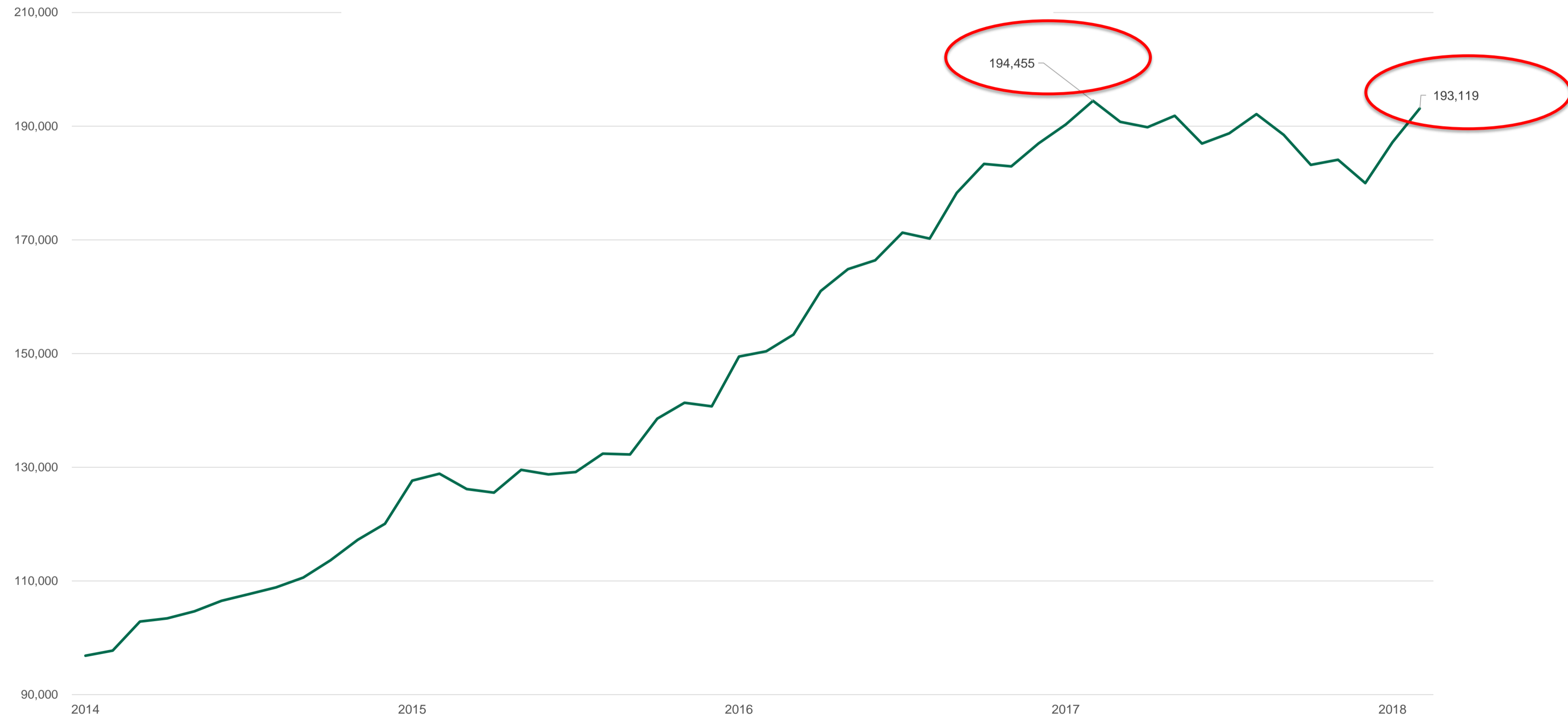
**3. Unpredictable Demand Shock**

**4. Oil/Energy Price Increases**

**5. Asset Price Bubble**

# PIPELINE PLATEAU'S?

## Number of Rooms Under Construction



Source: STR, February 2018.





# THE TEMECULA LODGING MARKET

# TEMECULA VALLEY HOTEL SUPPLY

Select Temecula/Murrieta Hotels			Select Wine Country Hotels		
Hotel	Room Count	Opening Date	Hotel	Room Count	Opening Date
Temecula Creek Inn	130	1969	South Coast Winery	132	2004
Embassy Suites	176	1990	Ponte Vineyard Inn	90	2012
Holiday Inn Express Temecula	90	1999	Carter Estate and Winery	42	2015
Hampton Inn and Suites Temecula	98	2004			
Fairfield Inn Temecula	94	2007			
Springhill Suites	134	2009			
Residence Inn Temecula/Murrieta	101	2015			
Hampton Inn Temecula/Murrieta	106	2017			
Courtyard Temecula/Murrieta	183	2017			
<b>Additions to Supply</b>			<b>Additions to Supply</b>		
Best Western Plus Temecula	54	Under Construction (Mid-2018)	Autograph Collection: Twelve Oaks Resort and Winery	250	Planning (2021)
Home 2 Suites Temecula	120	Under Construction (Early 2019)	Europa Village Expansion	78	Under Construction (Mid 2020)
Hilton Garden Inn Temecula	104	Approved (Late 2019)			
Saybridge Suites Temecula	112	Approved (Late 2019)			
Truax Boutique Hotel	180	Approved (Early 2020)			

## Notable Projects

- Ponte Vineyard Inn recently completed a 30-room expansion and new Pool Deck
- Pechanga added 568 Guest Rooms, 68,000 Square Foot Event Center, 2 New Restaurants, and a 4.5 Acre Resort Style Pool Complex in late 2017
  - 180-Room Truax Boutique Hotel, Garage, and Marketplace Development has the potential to transform Old Town Temecula

# TEMECULA/MURRIETA VALLEY: LODGING MARKET

## Transient Occupancy Tax Returns: Temecula

Year		TOT	% Change
2013	\$	2,504,630	N/A
2014	\$	2,716,862	8%
2015	\$	3,008,061	11%
2016	\$	3,184,162	6%
2017	\$	3,321,698	4%

Source: City of Temecula CAFR

## Transient Occupancy Tax Returns: Murrieta

Year		TOT	% Change
2013	\$	145,252	N/A
2014	\$	152,266	5%
2015	\$	180,655	19%
2016	\$	406,402	125%
2017	\$	588,862	45%

Source: City of Murrieta CAFR

# TEMECULA/MURRIETA VALLEY: LODGING MARKET

Historical Performance of the Temecula/Murrieta Valley Competitive Supply

Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	Market REVPAR	Percent Change
2013	194,910	N/A	143,904	N/A	73.8%	\$121.92	N/A	\$90.02	N/A
2014	194,910	0.0%	151,701	5.4%	77.8%	125.94	3.3%	98.02	8.9%
2015	201,054	3.2%	159,074	4.9%	79.1%	131.67	4.6%	104.18	6.3%
2016	231,775	15.3%	176,320	10.8%	76.1%	138.49	5.2%	105.35	1.1%
2017	254,344	9.7%	196,944	11.7%	77.4%	142.01	2.5%	109.96	4.4%
CAAG	6.9%		8.2%			3.9%		5.1%	
May-17	254,405	N/A	196,991	N/A	77.4%	\$142.01	N/A	\$109.96	N/A
May-18	270,465	6.3%	209,427	6.3%	77.4%	142.01	0.0%	109.96	0.0%

Source: CBRE Hotels

## STRENGTHS

- Proximity to major transportation corridors including I-15 and I-215 with access to San Diego and LA
- Burgeoning and rapidly expanding wine country (42 wineries)
- Murrieta has emerged as a healthcare and technology hub
- New Hotels in Murrieta have performed well upon opening.
- Transformation of Old-Town underway

## OPPORTUNITIES:

- Lack of a vibrant central core, under-developed downtown
- Still lack of quality hotel supply/rooms in Wine Country
- Conversion of Day-Visitors into Overnight Guests is still challenging as Temecula is primarily a drive-in market



**SHARING ECONOMY – A  
CHANGING LANDSCAPE**

# HOME SHARING MARKET PLACE



**Inventory**

**4 M**



**1 M**



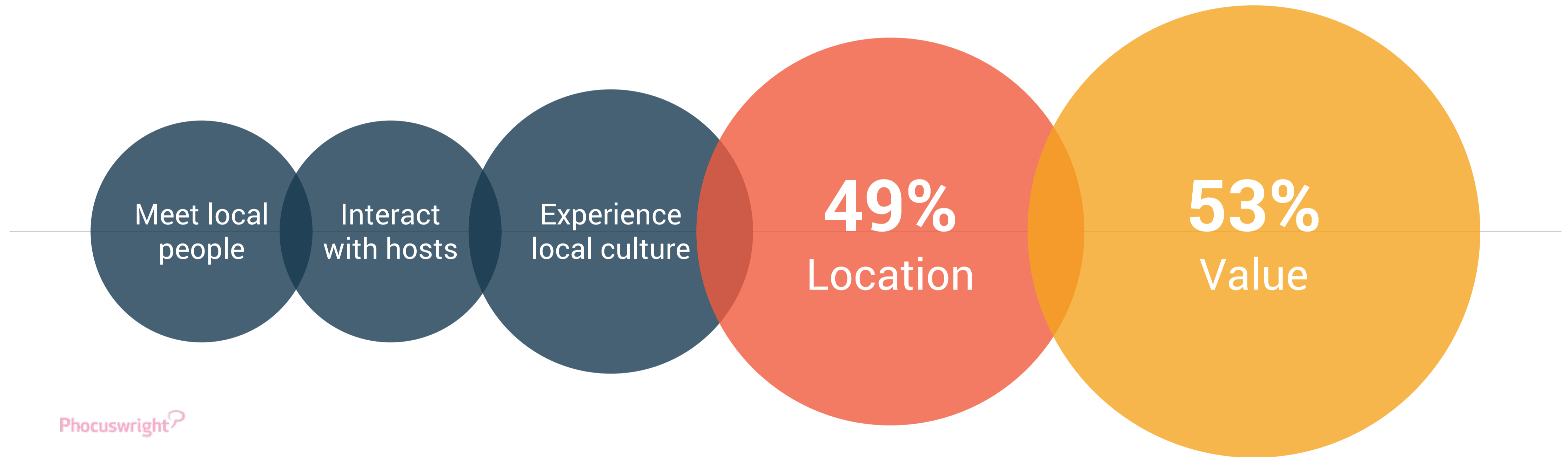
**835k**



**721K**

Sources: Airbnb, booking.com, Forbes

# WHY THEY RENTED?



Phocuswright

SOURCE: PHOCUSWRIGHT'S *A MARKET TRANSFORMED: PRIVATE ACCOMMODATION IN THE U.S.*,

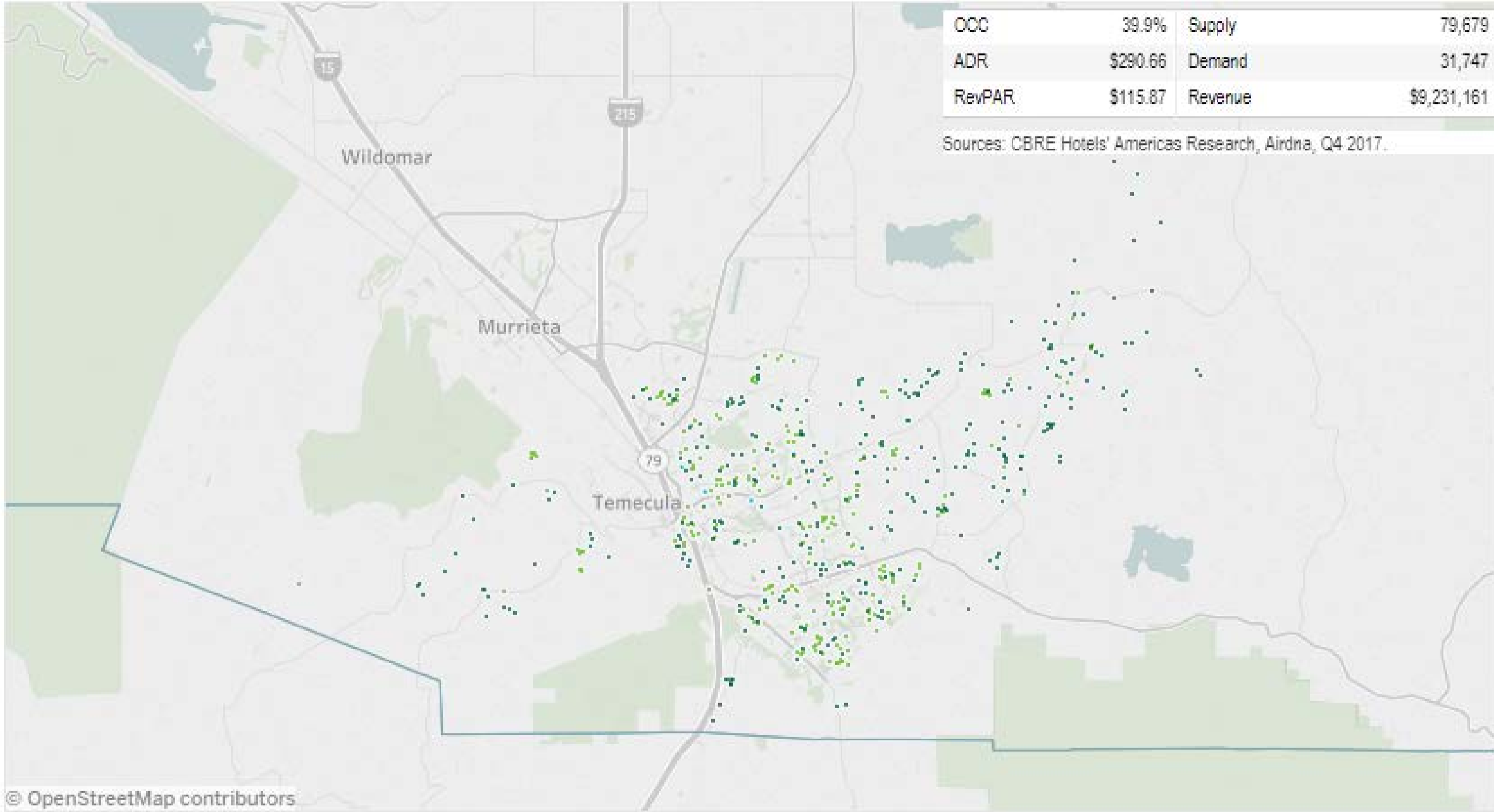
# AIRBNB SUPPLY IN THE TEMECULA AREA

Riverside/San Bernardino, CA - All

Table 1: Airbnb Performance (Jan. 2017 - Dec. 2017)

OCC	39.9%	Supply	79,679
ADR	\$290.66	Demand	31,747
RevPAR	\$115.87	Revenue	\$9,231,161

Sources: CBRE Hotels' Americas Research, Airdna, Q4 2017.







**OUR FORECASTS**

# U.S. BASELINE FORECAST

Forecast calls for a continual decline in RevPAR growth mainly due to slowing employment gains and new supply diluting ADR.

	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%	1.6%	2.7%	2.1%	2.1%
Occupancy	62.2%	65.3%	65.4%	65.9%	66.0%	66.2%
ADR	3.1%	4.5%	3.0%	2.1%	2.7%	2.4%
RevPAR	3.3%	6.1%	3.1%	2.9%	2.8%	2.6%

Sources: CBRE Hotels' Americas Research - Hotel Horizons® June 2018 – August 2018, STR

# SOUTHERN CALIFORNIA HOTELS

## HISTORICAL ANNUAL PERFORMANCE

Area	YE 2016	YE 2017	YoY Change
Orange County	78.2%	77.4%	-0.6%
Los Angeles County	81.1%	80.0%	-1.3%
Inland Empire	78.6%	77.7%	-1.1%
San Diego County	77.1%	77.3%	0.3%

Area	YE 2016	YE 2017	YoY Change
Orange County	\$150.61	\$156.54	3.9%
Los Angeles County	\$175.44	\$175.97	0.7%
Inland Empire	\$109.92	\$116.57	6.0%
San Diego County	\$154.86	\$160.08	3.4%

Source: CBRE Hotels' Americas Research – Hotel Horizons® June – August 2018; STR, Inc. & CBRE Hotels LA Trends in the Hotel Industry

# SOUTHERN CALIFORNIA HOTELS FORECASTED PERFORMANCE

Area	YE 2017	2018F	YoY Change
Orange County	77.4%	77.5%	0.2%
Los Angeles County	80.0%	79.8%	-0.2%
Inland Empire	77.7%	79.2%	2.0%
San Diego County	77.3%	78.1%	1.0%

Area	YE 2017	2018F	YoY Change
Orange County	\$156.54	\$163.25	4.3%
Los Angeles County	\$175.97	\$181.41	3.1%
Inland Empire	\$116.57	\$122.40	5.0%
San Diego County	\$160.08	\$163.02	1.8%

Source: CBRE Hotels' Americas Research – Hotel Horizons® June – August 2018; STR, Inc. & CBRE Hotels LA Trends in the Hotel Industry

# SELECTED TEMECULA + WINE COUNTRY FORECASTED PERFORMANCE

Projected Market Performance of the Competitive Supply									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change
2018	358,430	N/A	276,000	N/A	77%	153.00	N/A	117.81	0.5%
2019	438,365	22.3%	326,000	18.1%	74%	158.00	3.3%	117.50	-0.3%
2020	556,625	27.0%	411,000	26.1%	74%	163.00	3.2%	120.36	2.4%
2021	556,625	0.0%	417,500	1.6%	75%	168.00	3.1%	126.01	4.7%
2022	556,625	0.0%	417,500	0.0%	75%	173.00	3.0%	129.76	3.0%
2023	556,625	0.0%	417,500	0.0%	75%	178.00	2.9%	133.51	2.9%
2024	556,625	0.0%	417,500	0.0%	75%	183.00	2.8%	137.26	2.8%
CAAG	7.6%		7.1%			3.0%		2.6%	

Source: CBRE Hotels

- Note: This Competitive Supply does not include Pechanga Resort and only includes Wine Country Hotels that report to STR
- The increase in supply in 2019 and 2020 account for the Hilton Garden Inn and Staybridge Suites Temecula as well as the 12 Oaks Winery, Truax Hotel and Europa Village expansion
- While we anticipate a drop in occupancy to account for new supply, there is room for significant additional rate growth as new higher quality hotels enter the market.

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