

# Hotel Monitor Report

Q2 2015



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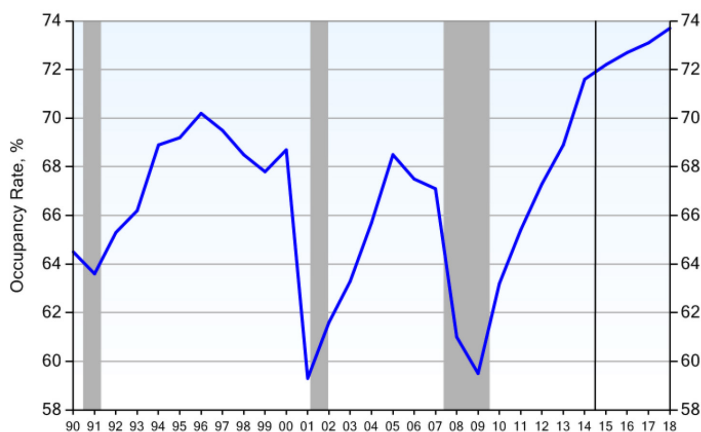
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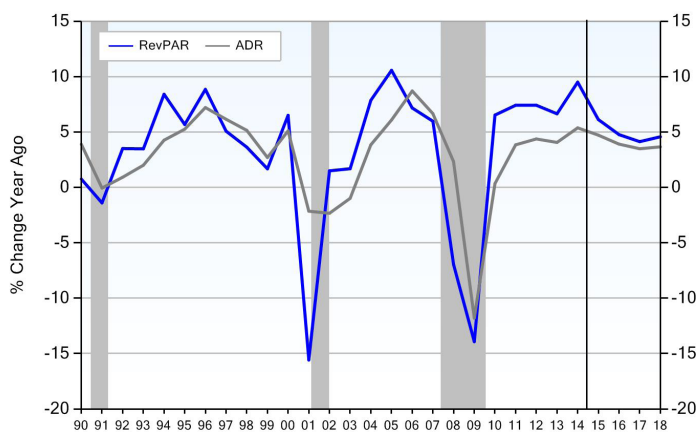
## Forecast: Steady Gains Even as Growth Slows

- We continue to anticipate increases in occupancy, notwithstanding the step back in the second quarter. While gains will be less dramatic than what we saw between 2010 and 2014, they are projected to reach 73.7% in 2018.
- The effect from low oil prices will continue to be a net positive for the US hospitality segment, boosting travel due to stronger macro growth and benefits to consumer and business budgets. However, markets like Houston directly tied to oil production will struggle.
- US room rate growth will simmer down to a still-healthy mid-3% range in coming years. Coupled with the increase in occupancies, we expect RevPAR growth will average 4.7% through 2018.

**US Hotel Occupancy Forecast**



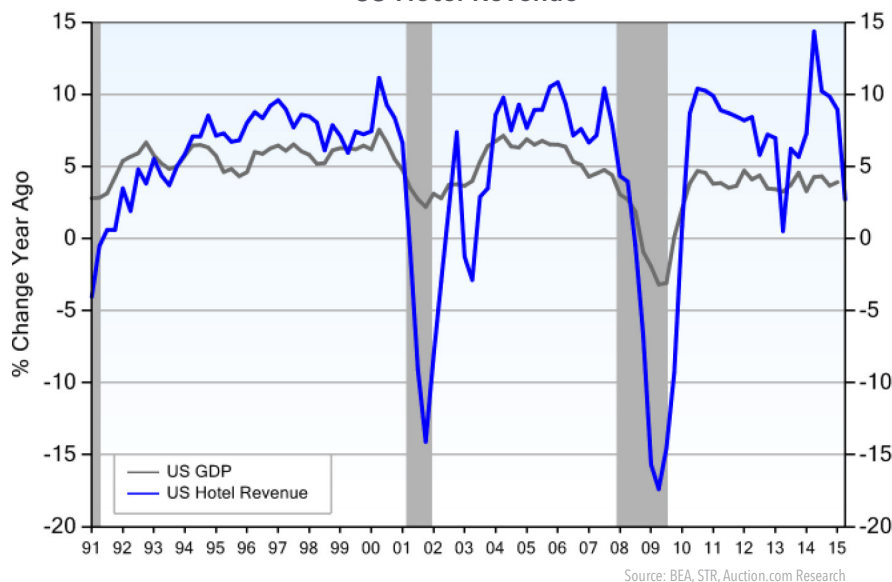
**US RevPAR and ADR Growth Forecast**



## Q2 Hospitality Fundamentals: Expansion Downshifts

- The supply pipeline is still moderate but increasing, and expansion appears to be shifting into a slower growth phase as expected.
- Second-quarter room sales fell on a seasonally adjusted basis for the first time since mid-2012—hardly a surprise after the recent sustained surge in demand—but are still up 2.7% in the past year. Seasonally adjusted vacancies slipped from their first quarter high of 65.5% to a still-strong 65.2%.
- With occupancies still very high, room rates continued to rise in the second quarter, increasing a seasonally adjusted 1.6% and pushing ADRs 4.8% above the year-ago level.
- The dip in room sales pulled down industry revenue, which fell 2.2% from the previous quarter, adjusted for seasonality. Revenue was up 2.7% from a year ago.

**US Hotel Revenue**

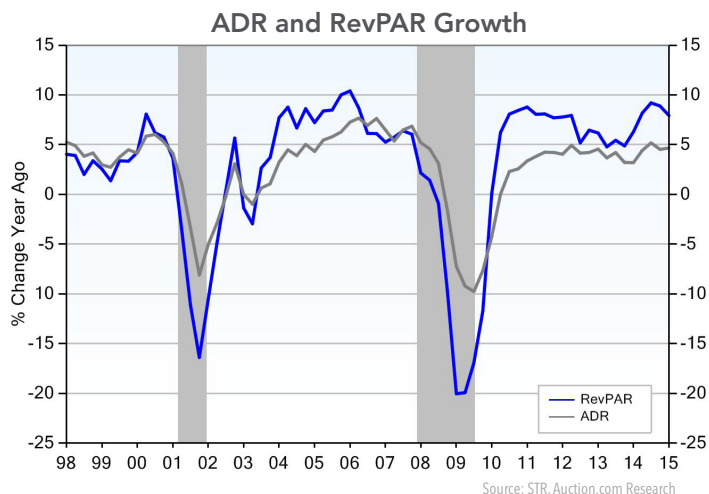
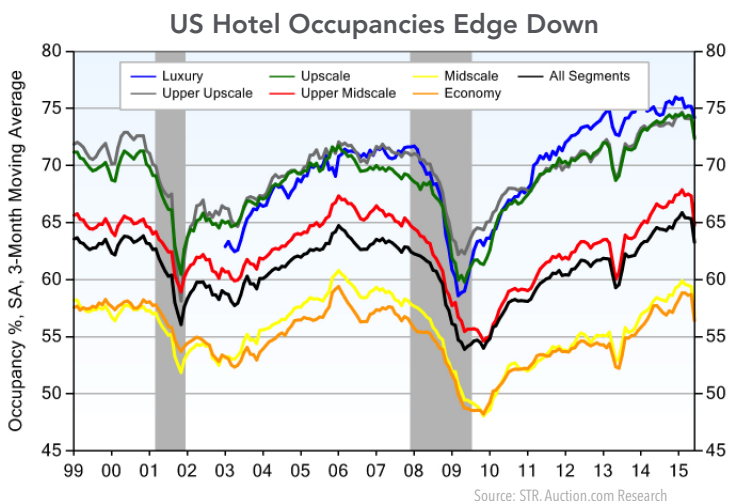
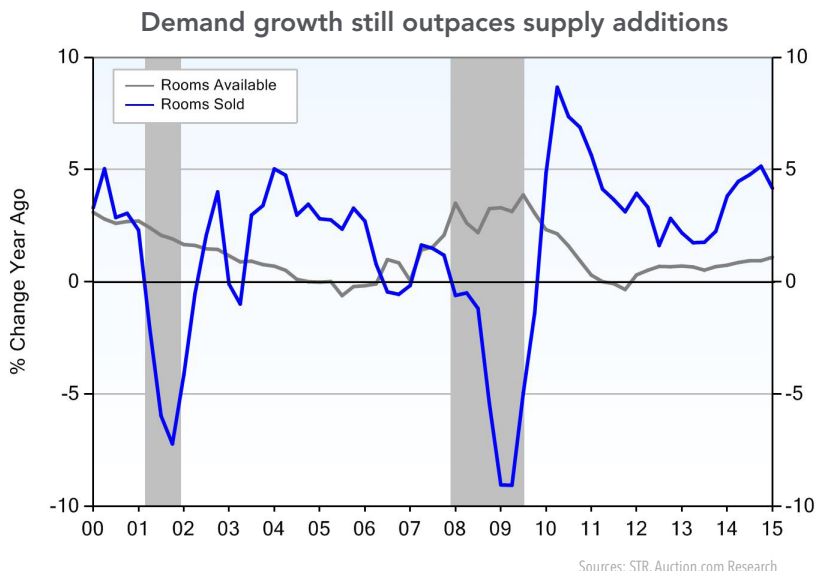




## Favorable supply/demand situation remains

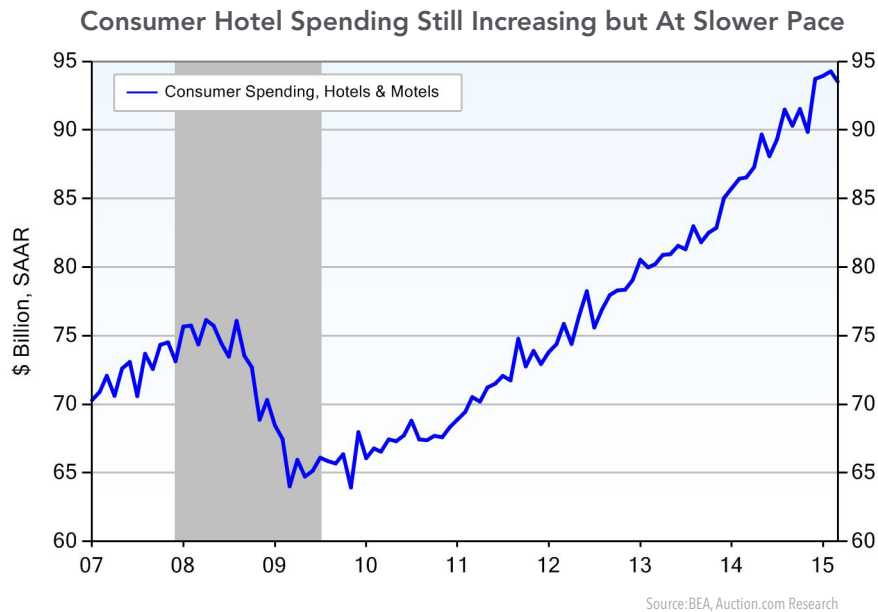
Although demand is still outpacing new supply, hospitality segment demand and supply curves have come closer toward balance.

- The US hotel room count was up 1.1% year-over-year in Q2, matching the expansion pace of the previous quarter. Since 1990 the US room supply has increased by an average pace of 1.7% per year, so despite the robust current operating conditions, room supply gains remain relatively modest.
- As noted previously, room demand slipped slightly in the second quarter, bringing the year-over-year gain to 2.7%--still more than double the new supply added over the same time period.
- Hotel occupancies slipped from their all-time high in the previous quarter to a seasonally adjusted 65.2% in the second quarter. The slippage was universal across all segment scales.
- RevPAR increased 0.9% on a seasonally-adjusted basis from the previous quarter. Although this was the lowest quarterly gain since the third quarter of 2013, RevPAR is a solid 6.5% above its year-ago level.
- Occupancies in the 25 largest US hotel markets measured a not-seasonally-adjusted 77.4% in the second quarter, up from 76.1% in the same quarter of 2014. Only four markets (Houston, New York, Miami, and Minneapolis) saw occupancies fall from a year ago.
- For the top 25 markets as a whole, room rates were up 5%, versus 4.6% for the rest of the US hotel markets, and RevPAR was up 6.9% year over year, versus 6.2% for the smaller markets.



## Ongoing Expansion in Consumer Hotel Spending

Consumer spending on hotel and motel rooms has continued to expand, reflecting the firmer economic environment. The pace of increases was up 5.7% year-over-year—a very healthy level but off the rollicking pace of the recent past.



## Business Travel Continues Strong Growth

The Global Business Travel Association (GBTA) reports that its business travel index came in stronger than expected in the most recent quarter, to a level of 137. This index has now gained 40 points since the fourth quarter of 2009. The GBTA projects that continued economic expansion should drive US business travel to increase by 1% to 488.1 million person-trips in 2015, and further accelerate in 2016.

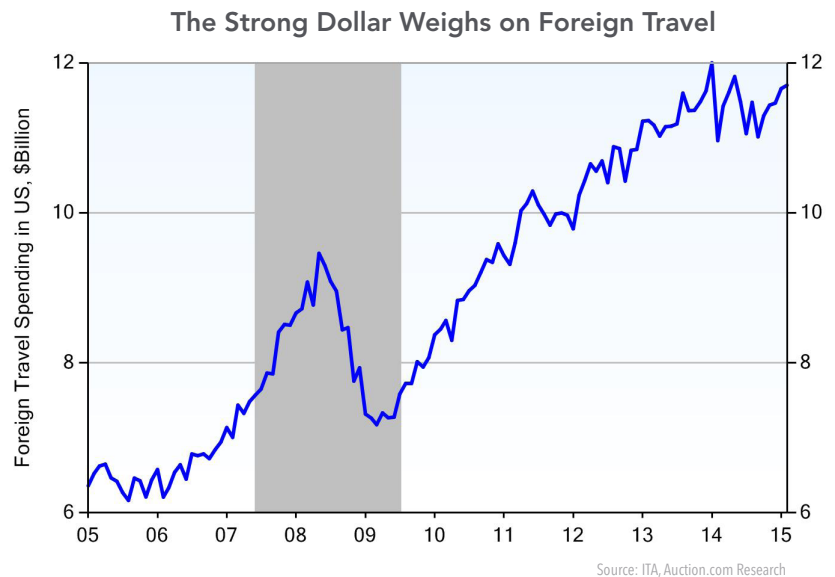




## Key issues for hotel operators

Foreign travel to the US remains our primary concern on the hospitality demand side. We expect this to be the weak link in US hotel demand in coming quarters, having a stronger impact on gateway hotel markets.

- The dollar has strengthened markedly against major foreign currencies, making travel to the US more expensive, especially on the heels of the strong room rate increases of recent years. At the same time, it makes travel to foreign countries cheaper to US citizens, siphoning off some domestic demand from US hotels.
- The economies of many key source countries of US visitors are struggling. China's economic growth has slowed and the meltdown of the Chinese stock market is undermining the wealth situation of many Chinese households. Europe and Japan both continue to struggle economically and many commodity countries – Canada, Latin America, and Australia – are also facing economic difficulties.



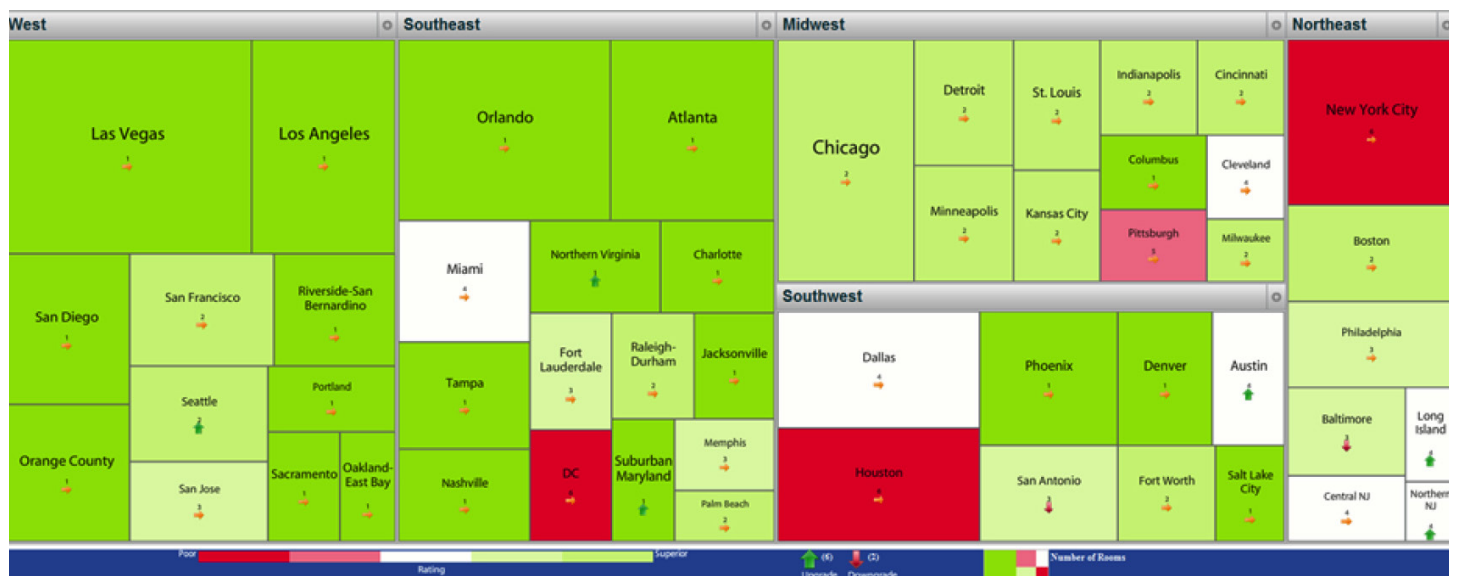


## Regional Hospitality Heat Map

The mostly green map shows that the hospitality sector still has a strong outlook across most US markets.

- The West and the Southeast are particularly vibrant, owing to their stronger local economies.
- The Midwest and Southwest will see gains of a more muted variety. Low oil prices are acting as a drag on several markets—most notably Houston, where a robust supply pipeline is just now coming to market.
- New York City and DC also face very large supply additions in the coming years, and could see dips in international tourism owing to the stronger dollar. Indeed, New York City was the only one of the 25 largest US hotel markets where revenues in the second quarter were down from the year before.

Auction.com Research Hotel Heat Map



The Auction.com Heatmap is a visual depiction of outlook for key markets across the US. The size of the boxes reflects the inventory of hotel rooms in each market. Each box is number coded (1 strong) to 6 (weak) over the next four years, with the colors, dark green through dark red, mirroring the ratings. The arrows indicate whether we upgraded, downgraded or kept our outlook unchanged from the previous quarter.

Source: Auction.com Research

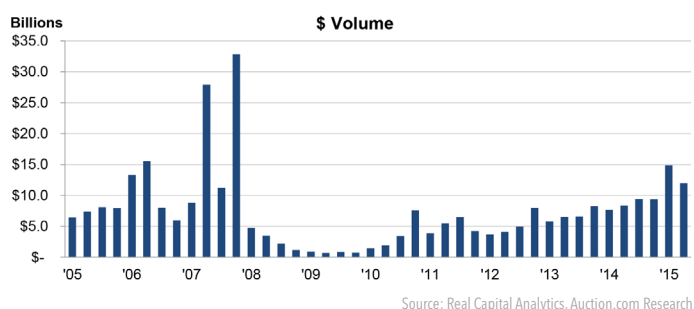


## Transactions and Valuations

Transaction volume in Q2 edged down 20% from its first quarter levels, but was 43% higher than the same period a year ago.

- In the limited-service space, deal volume was down \$5 billion from Q1, to \$2.8 billion in Q2--3% below its year-ago level.
- Full-service deal volume was down more modestly from Q1, falling from \$9.8 to \$9.1 billion and remaining nearly 70% higher than a year ago.

**Hotel Transaction Volume Edged Down From First Quarter**



**Cap Rates Have Stabilized Just Above 8%**



Price per key measured \$159,414 in the second quarter, some 19.4% higher than a year ago. The 16% dip since Q1 was expected, as the first quarter contained the close of the Waldorf Astoria.

Overall hotel cap rates inched higher in the second quarter to 8.2%, 10 bps above the prior quarter and flat from a year ago. Limited-service cap rates remained flat from the prior quarter at 8.5%, with full-service cap rates measuring 7.4%--a slight increase over Q1.

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