

OUTLOOK 2017

July 21, 2016



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Today's Agenda

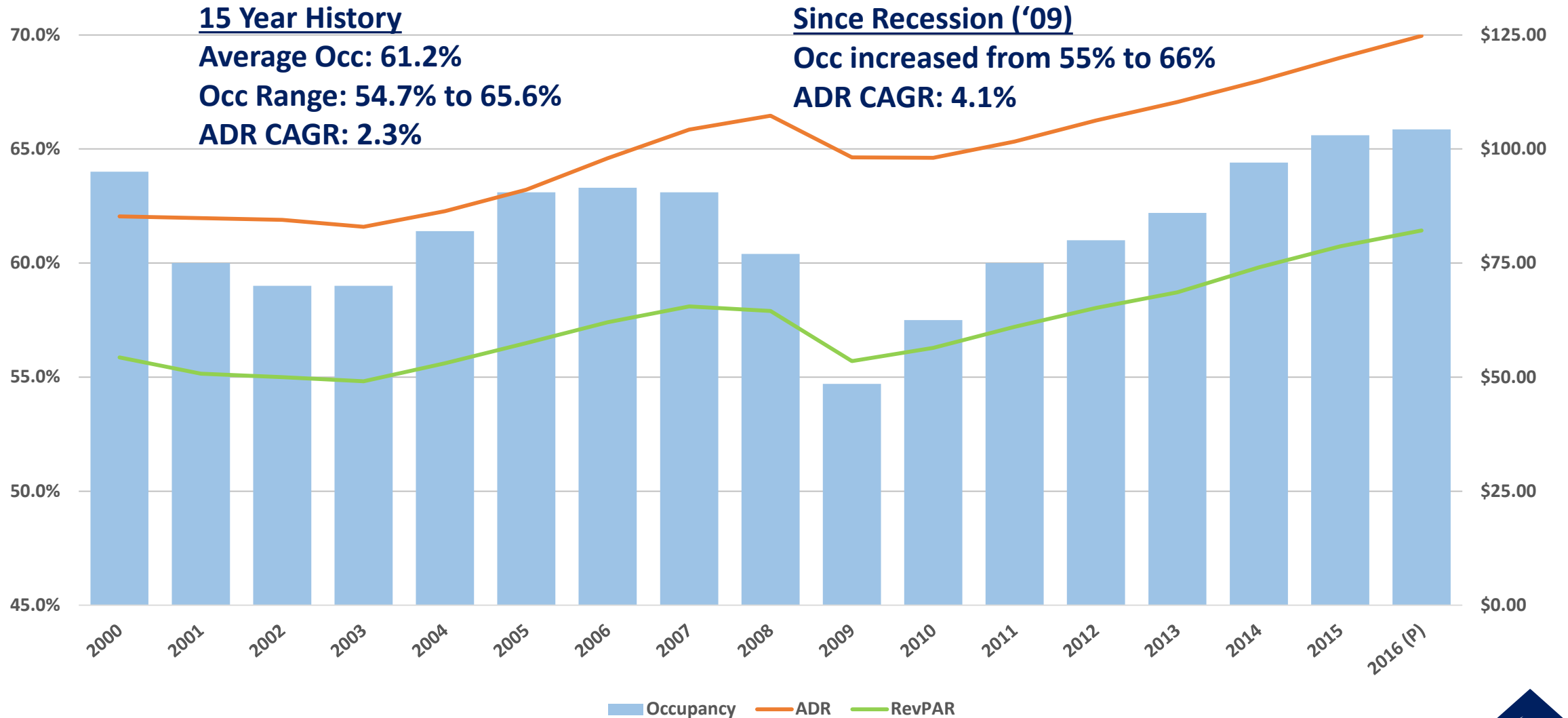
- 1. National Lodging Market**
- 2. Suburban Boston Market**
- 3. Boston & Cambridge Market**





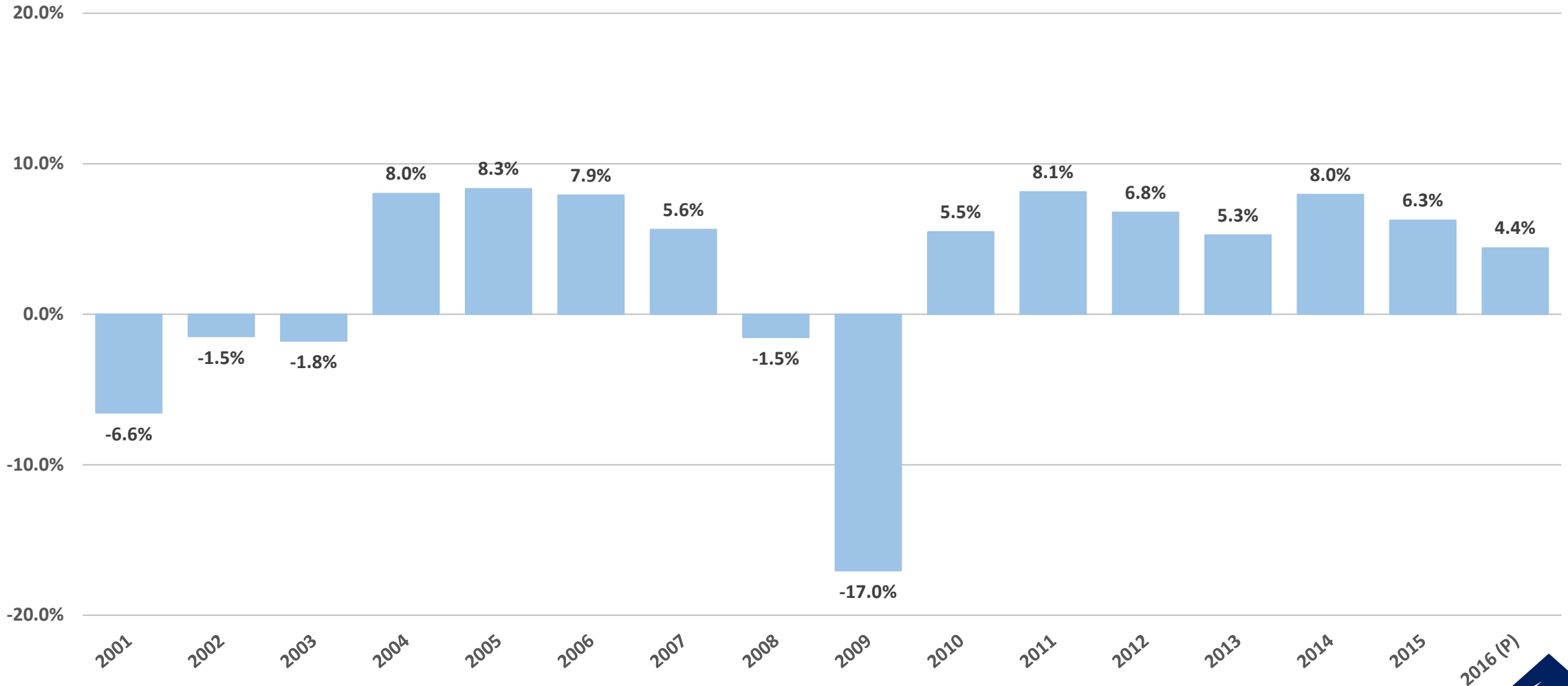
NATIONAL LODGING MARKET

Historic Market Performance



Source: STR

RevPAR % Change

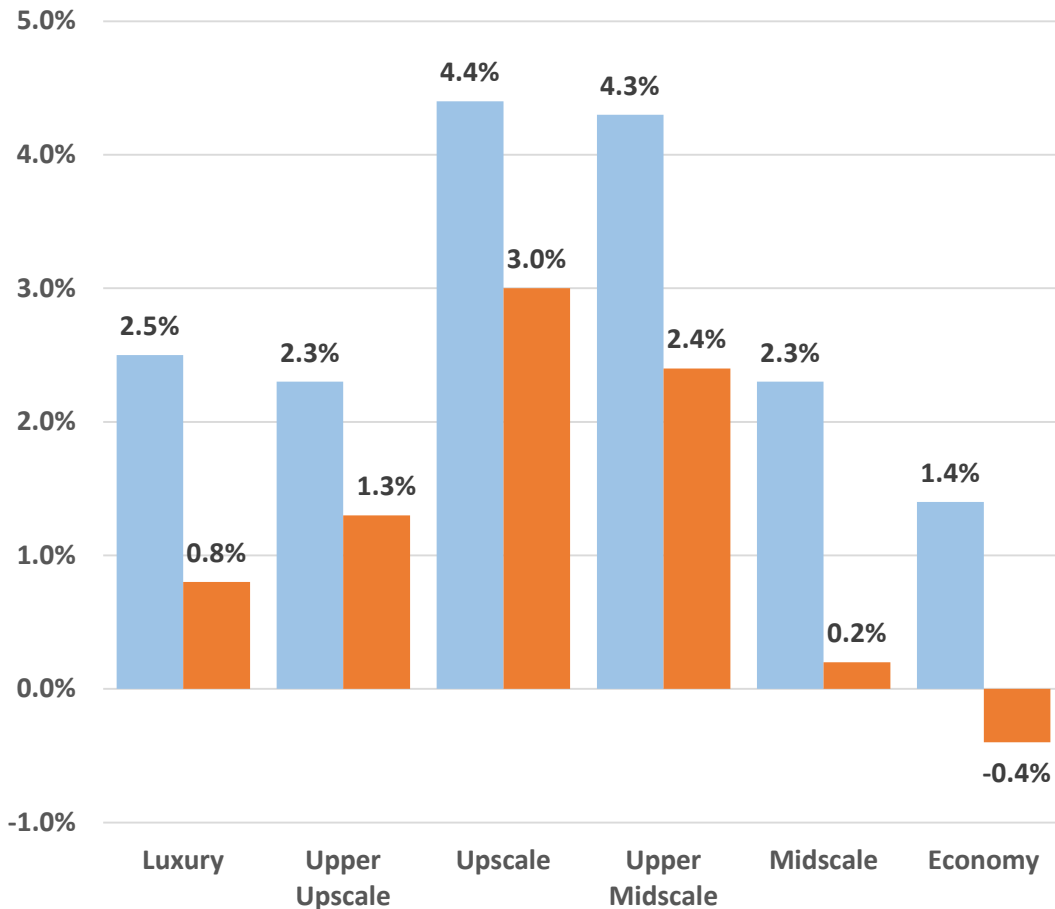


Source: STR

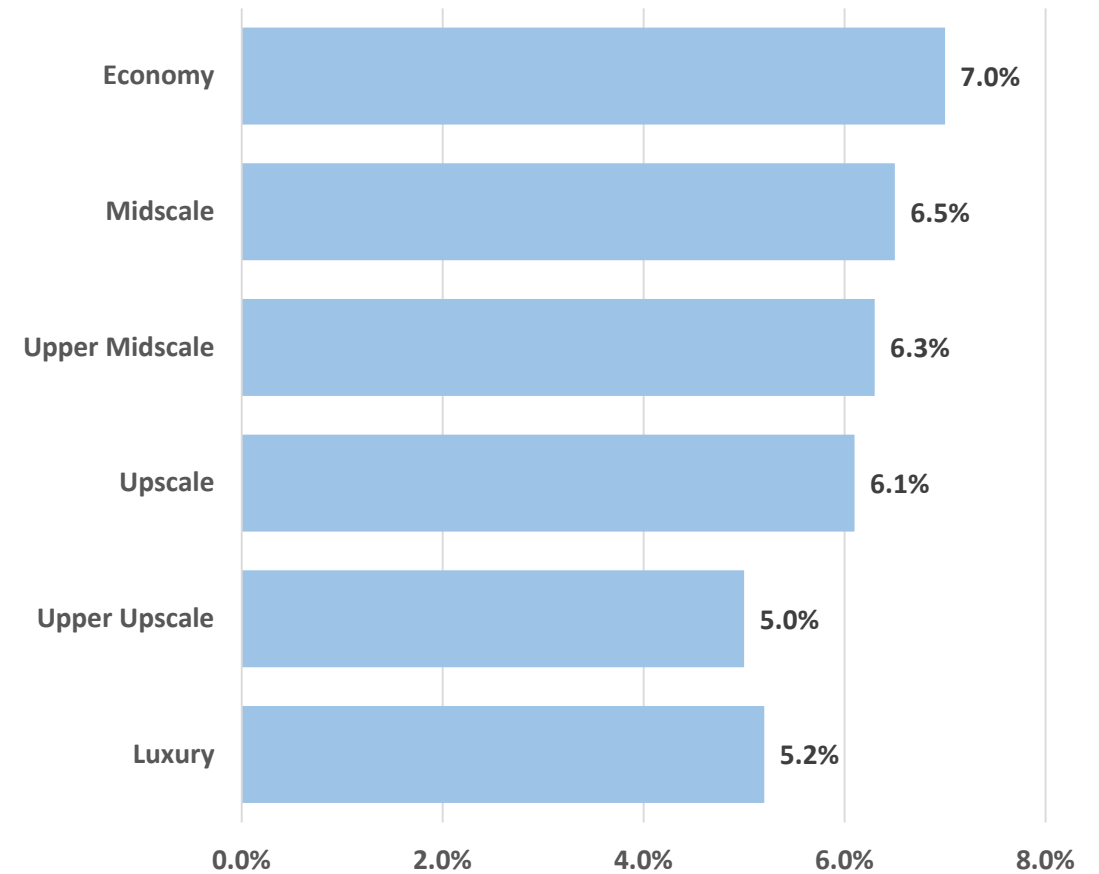


2015 Performance by Class

2015 Supply vs. Demand by Class



2015 RevPar % by Class



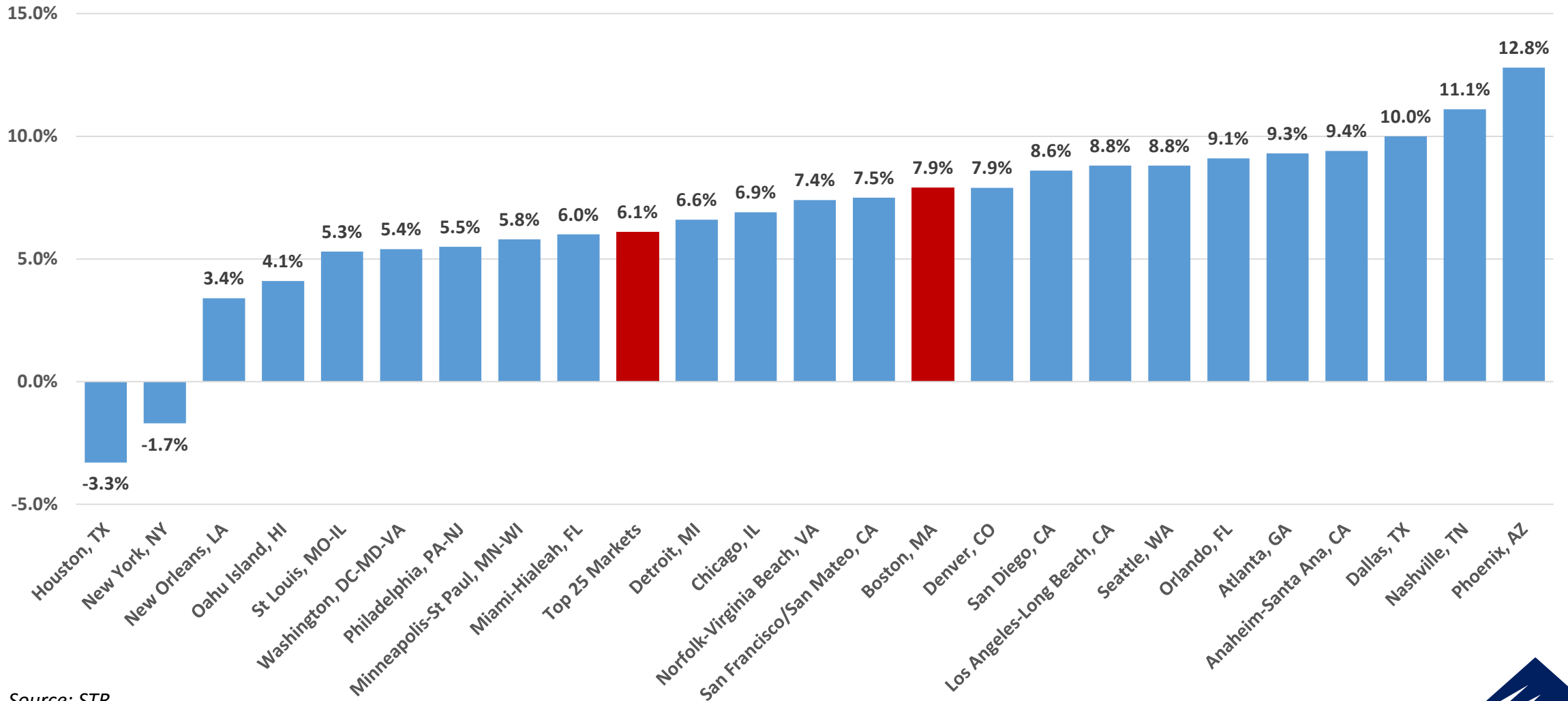
Source: STR

■ Demand ■ Supply

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Top 25 Markets, RevPAR % Change 2015



Source: STR



YTD Performance Through June 2016

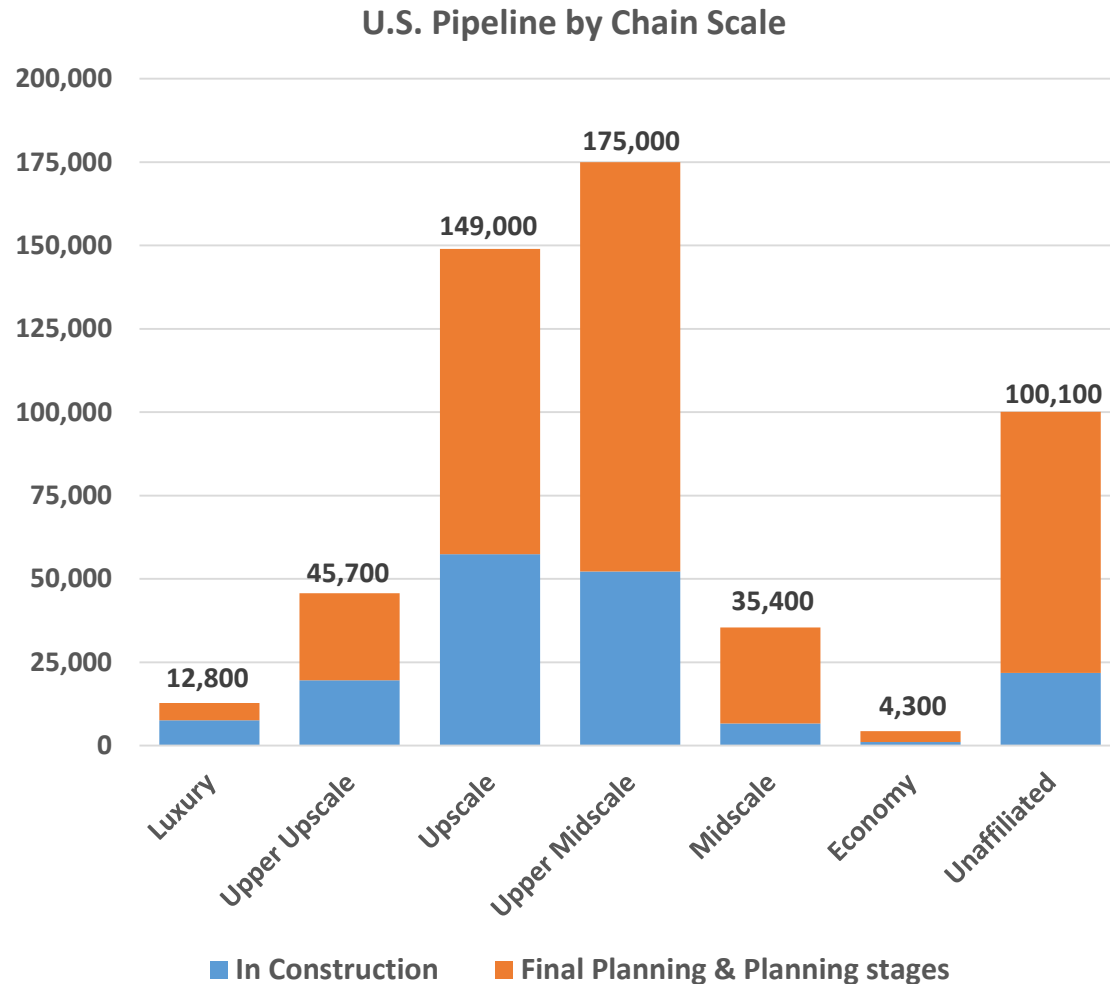
	June 2015	June 2016	% Change
Occupancy	65.0%	65.1%	0.1%
ADR	\$119.29	\$122.94	3.1%
RevPAR	\$77.55	\$79.98	3.1%

Source: STR

YTD RevPAR growth is the lowest since the recovery started in 2010.



New Supply – June 2016



**JUNE 2016 PIPELINE (Under Contract):
522,300 rooms in 4,241 projects**



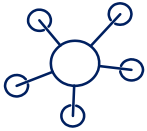
**22.6% increase in rooms under
contract compared to June 2015**

**32% of rooms under contract are under
construction (166,400)**

**Upper Midscale and Upscale make up
66% of rooms under construction**



Hot Topics



Consolidation



Sharing Economy



Brexit, Strength of USD, and Other Global Concerns



Direct Bookings vs. OTAs



Key Takeaways

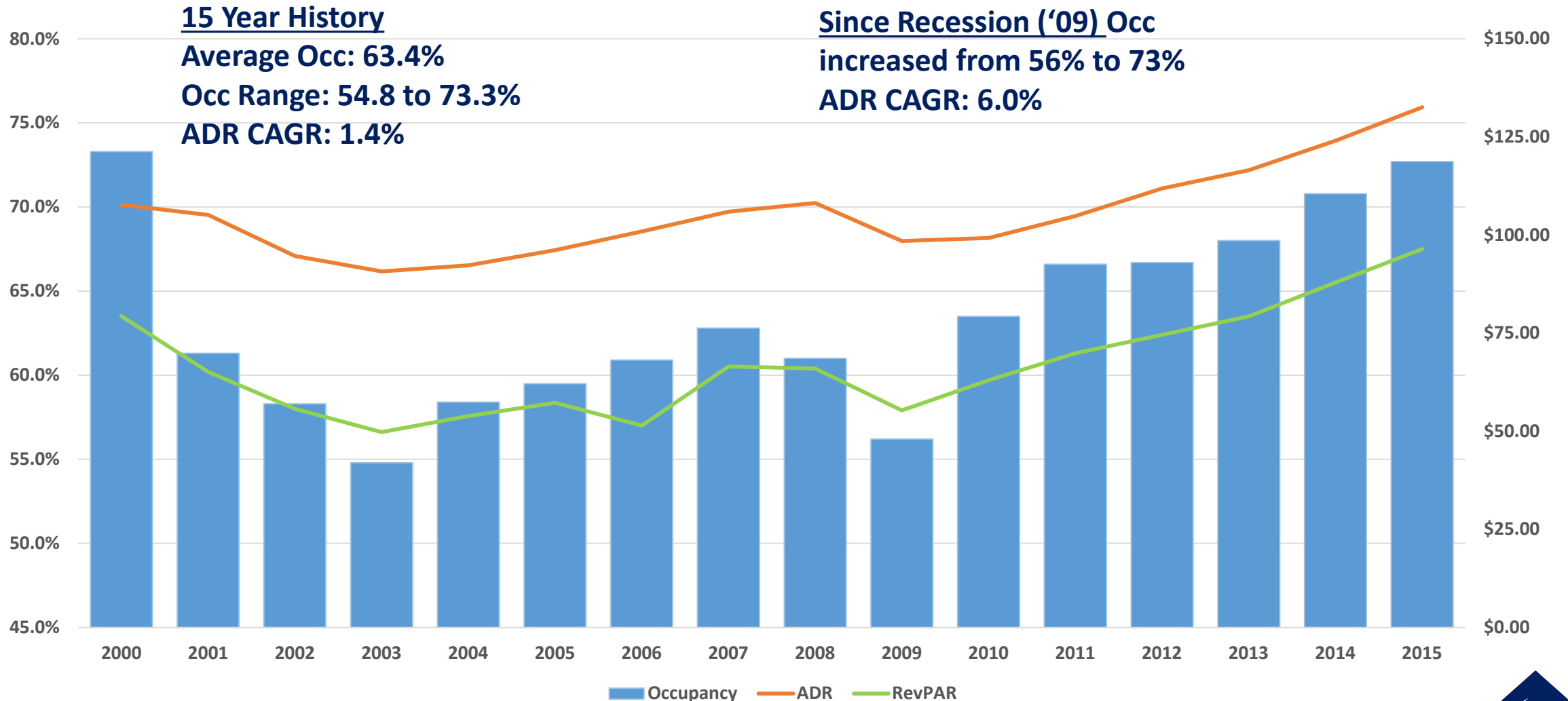
- Keep in mind in that 2015 was by far the highest Occ and ADR ever recorded.
- Hotel revenue growth will slow in 2016, and continue through 2017. This growth will be driven entirely by ADR growth.
- Occupancy is expected to remain flat in 2017 due to supply growth catching up to demand growth for the first time since the recession in 2009.
- Among the chain scales, upper upscale is expected to see the strongest RevPAR growth year-over-year, followed by luxury. Midscale could see the weakest growth.
- Major gateway cities and top 20 markets will face is growing supply from the sharing economy, particularly through Airbnb.





SUBURBAN BOSTON LODGING MARKET

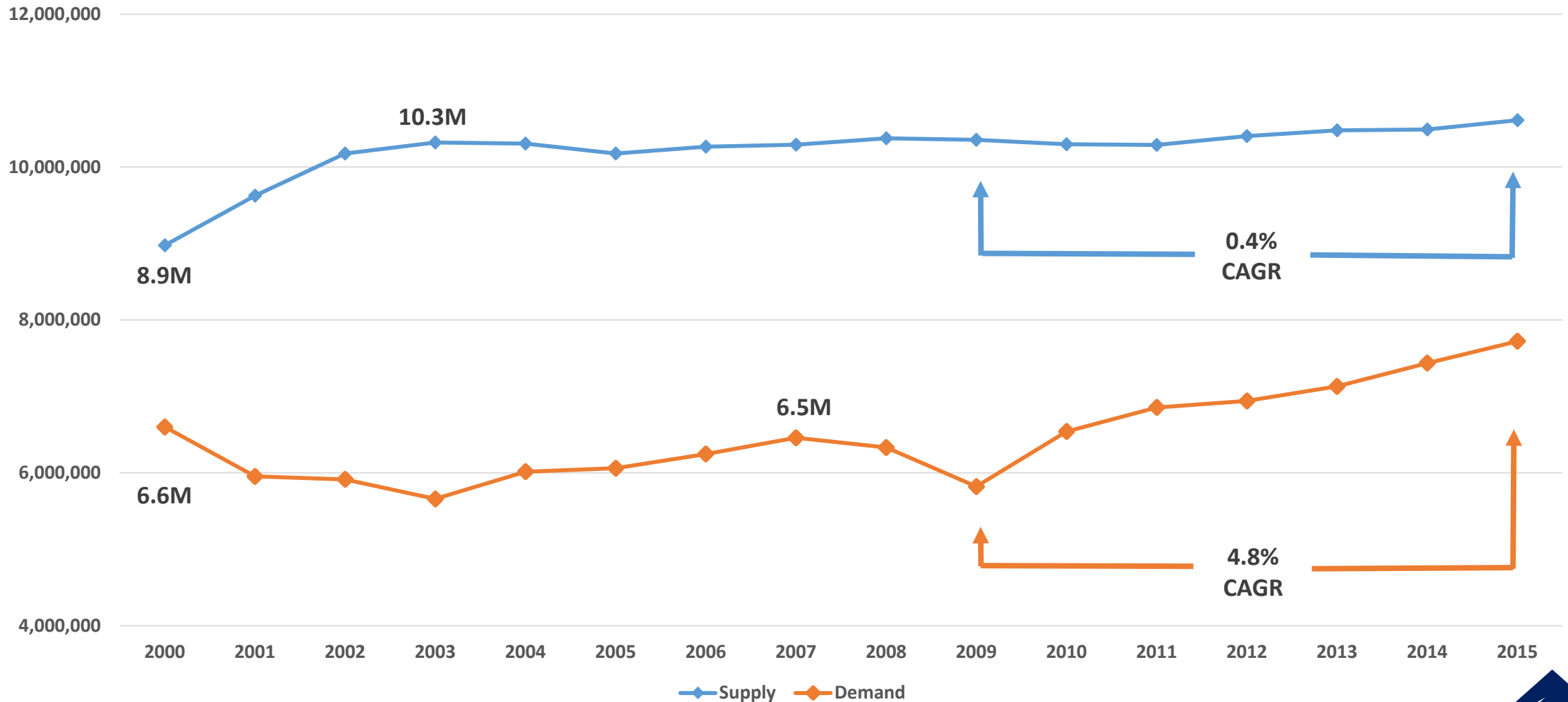
Historic Performance



Source: STR



Supply & Demand



Source: STR



Suburban Boston YTD Performance

	YTD May 2015	YTD May 2016	% Change
Occupancy	66.7%	63.9%	-4.2%
ADR	\$123.19	\$128.66	4.4%
RevPAR	\$82.214	\$82.18	0.1%

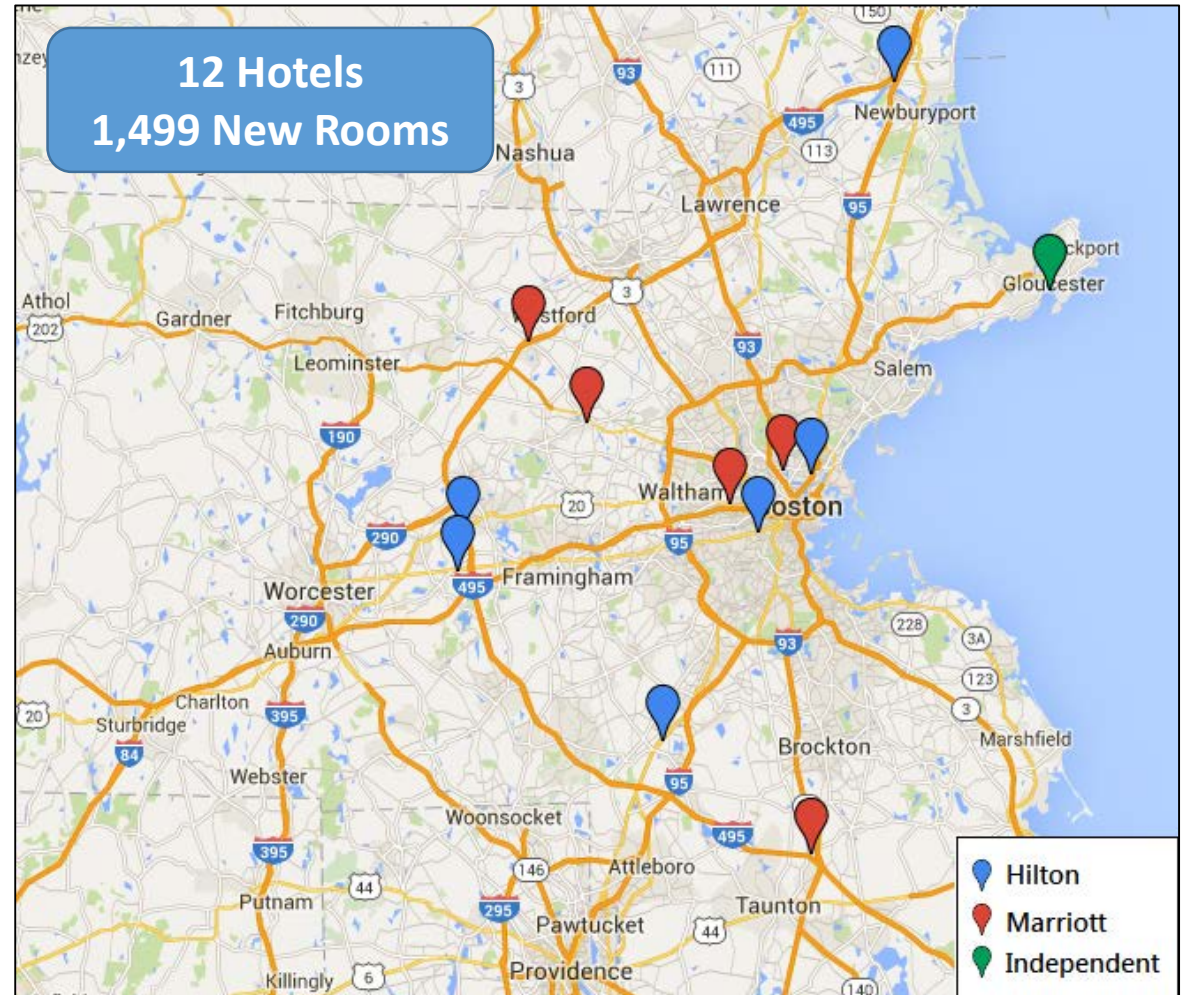
Source: STR

- Through May, supply increased 1.1% while demand declined 3.1% (90,900 rooms).
- In 2016, months of February, March and May experienced considerable declines in demand, -4.4%, -7.8%, and -4.5% respectively. All three had substantial increases in 2015.
- Despite these declines in demand, the suburban market grew rate all five months ranging from a low of 2.8% in March and a high of 7.1% in April.
- Suburban market achieved its highest ever monthly rate in May 2016, \$134.72. It also achieved its highest RevPAR ever in January 2016, \$96.59.

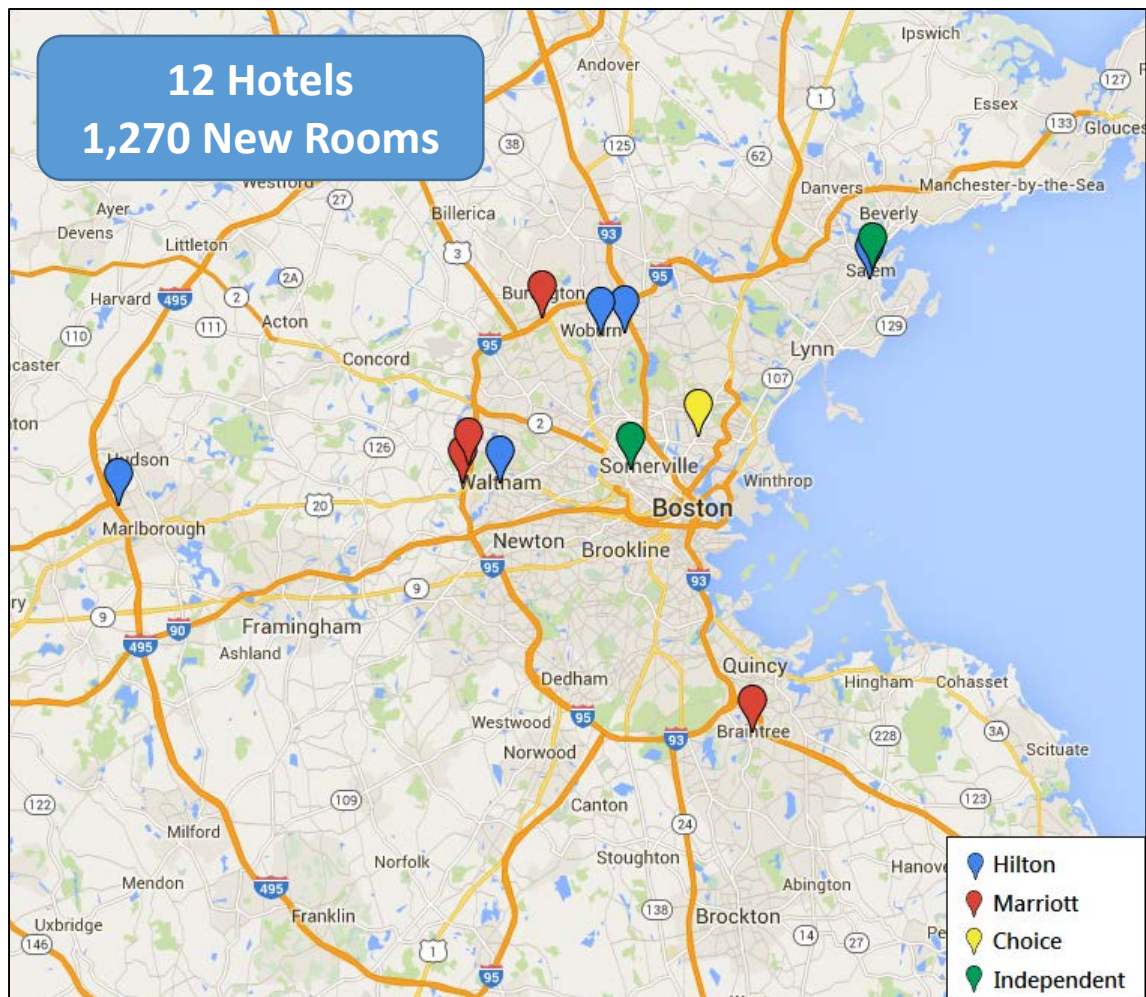


New Supply 2016

- AC Hotel Medford (152-rooms) Mar
- Courtyard Littleton (115) May
- Beauport Hotel (94) Jun
- Hilton Garden Inn Marlborough (160) Jun
- Homewood Suites Brookline (130) Jul
- Hampton Inn Amesbury (92) Aug
- Hampton Inn & Suites Westborough (106) Aug
- Residence Inn Concord (118) Sep
- Residence Inn Watertown (148) Sep
- Residence Inn Bridgewater (96) Sep
- Hilton Garden Inn Foxboro (136) Oct
- Homewood Suites Chelsea (152) Dec



New Supply 2017



- **Residence Inn Burlington (170-rooms)** Q2
- **Hampton Inn Salem (112)** Q2
- **Ascend Collection Everett (101)** Q2
- **Hotel Salem (44)** Q2
- **Residence Inn Braintree (140)** Q3
- **Beacon Street Hotel Somerville (35)** Q4
- **Residence Inn Waltham (100)** Q4
- **Fairfield Inn & Suites Waltham (90)** Q4
- **Homewood Suites Berlin (105)** Q4
- **Hampton Inn Waltham (138)** Q4
- **Homewood Suites Woburn (125)** Q4
- **Hampton Inn Woburn (110)** Q4



Suburban Office Market, Q2 2016

	Inventory (SF)	YTD Absorption (SF)	Vacancy Q2 2015	Vacancy Q2 2016
Inner Suburbs	5.8 M	(141,900)	14.1%	12.1%
Route 128	77.5 M	131,500	14.3%	15.0%
Route 495	49.4 M	181,500	22.4%	14.5%
Total Suburbs	131.7 M	171,100	17.4%	16.8%

Source: Colliers International

- Suburban markets closest to urban locations benefit from spillover extending from the city.
- Strong regional macroeconomic indicators and nation's fastest growing population base among major cities.
- Rents in city and along Rt-128 continue to climb, forcing many firms to opt for more cost effective locations along 495, (rents 30-100% lower).
- Considerable amount of new construction and major growth in life science.



Lodging Demand Trends

- Good weather patterns this winter (2016) negatively impacted demand as compared to bad weather in 2015.
- Improvements in the local office markets allow for strong weekday demand. Capacity 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.
- Operators state that group booking windows are much shorter.
- Estimate approximately 75 to 80 sell out nights across market.
- Strongest occupancies Tues and Wed nights, averaging 79%. Sunday the weakest with occupancy around 55%. Market's peak is June through October when the market runs mid 80s in occupancy
- Rates follow a similar pattern. Weekdays garnering a 10% premium over weekends over the course of the year.
- Less compression from Boston



Suburban Boston Projections 2016

	2015	2016	% Change
Occupancy	72.7%	70.5%	-3.0%
ADR	\$132.59	\$137.89	4.0%
RevPAR	\$96.46	\$97.21	0.8%

Source: Pinnacle Advisory Group

Suburban Boston Projections 2017

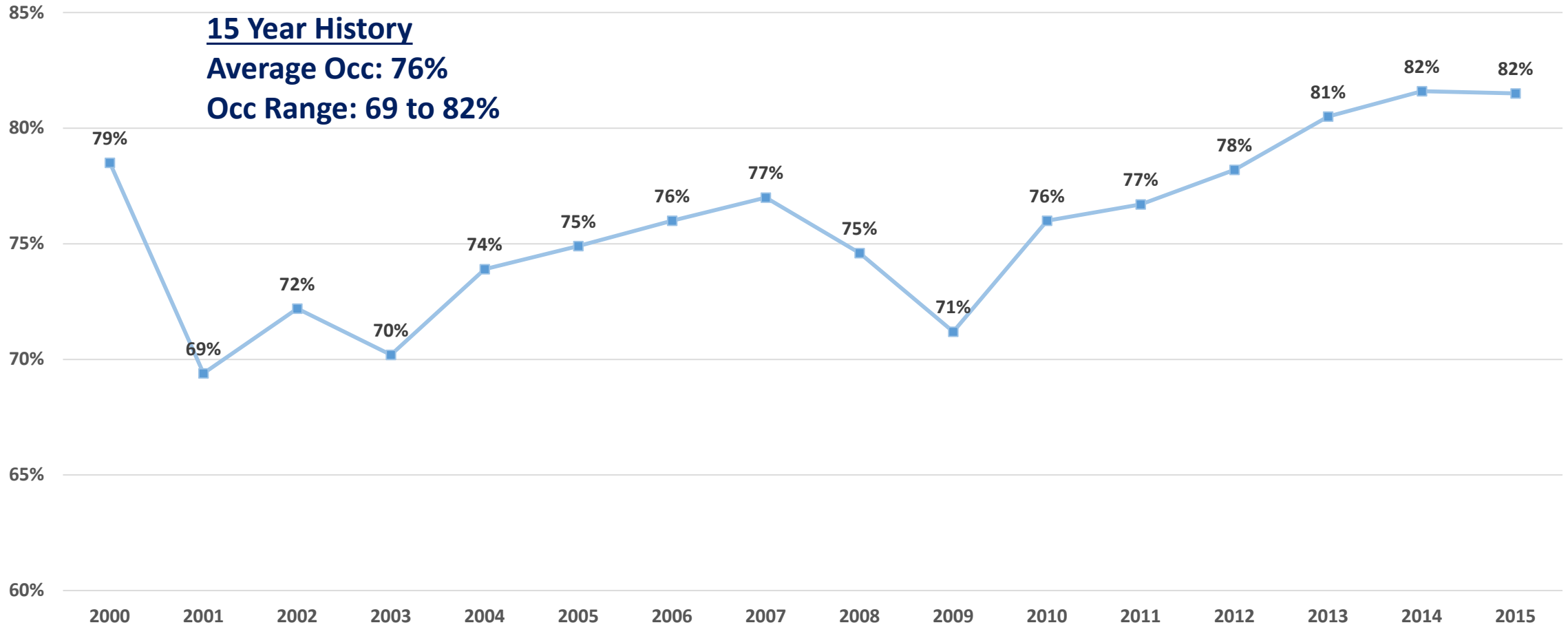
	2016	2017	% Change
Occupancy	70.5%	70%	-0.7%
ADR	\$137.89	\$142.72	3.5%
RevPAR	\$97.21	\$99.90	2.8%

Source: Pinnacle Advisory Group

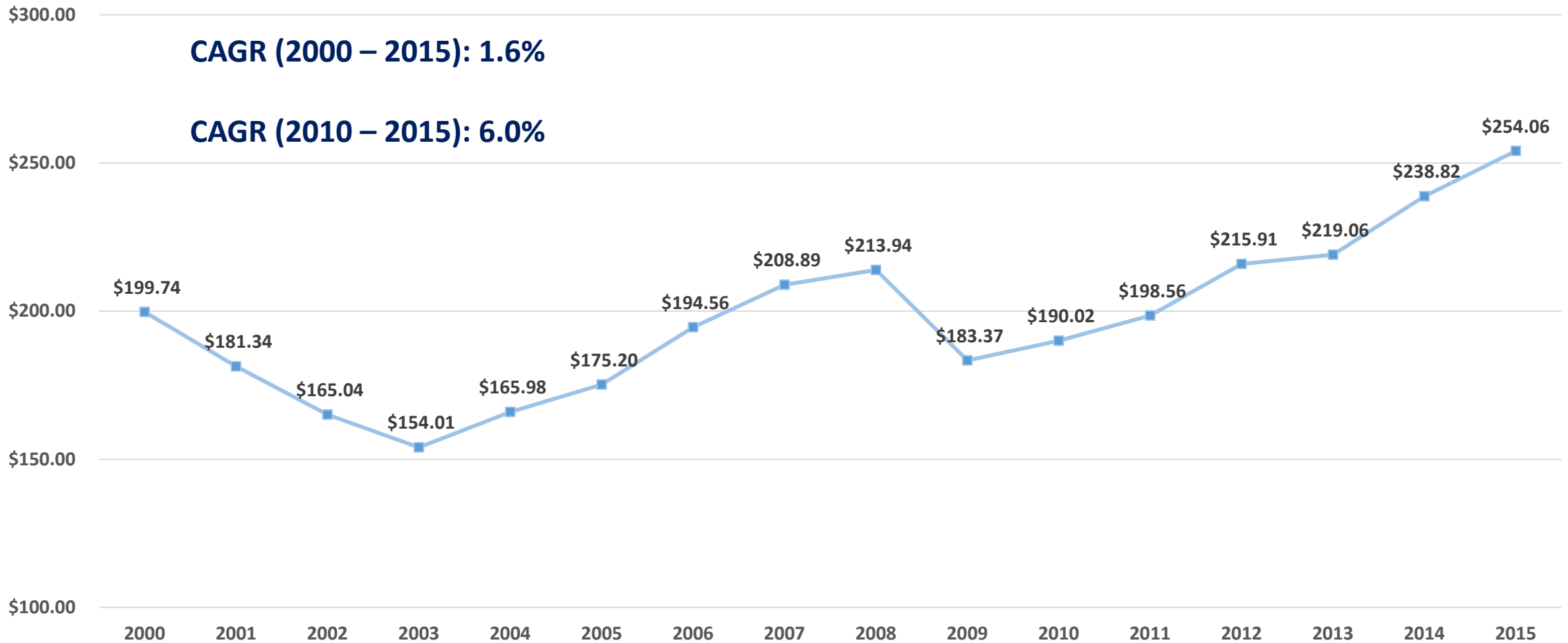


BOSTON & CAMBRIDGE LODGING MARKET

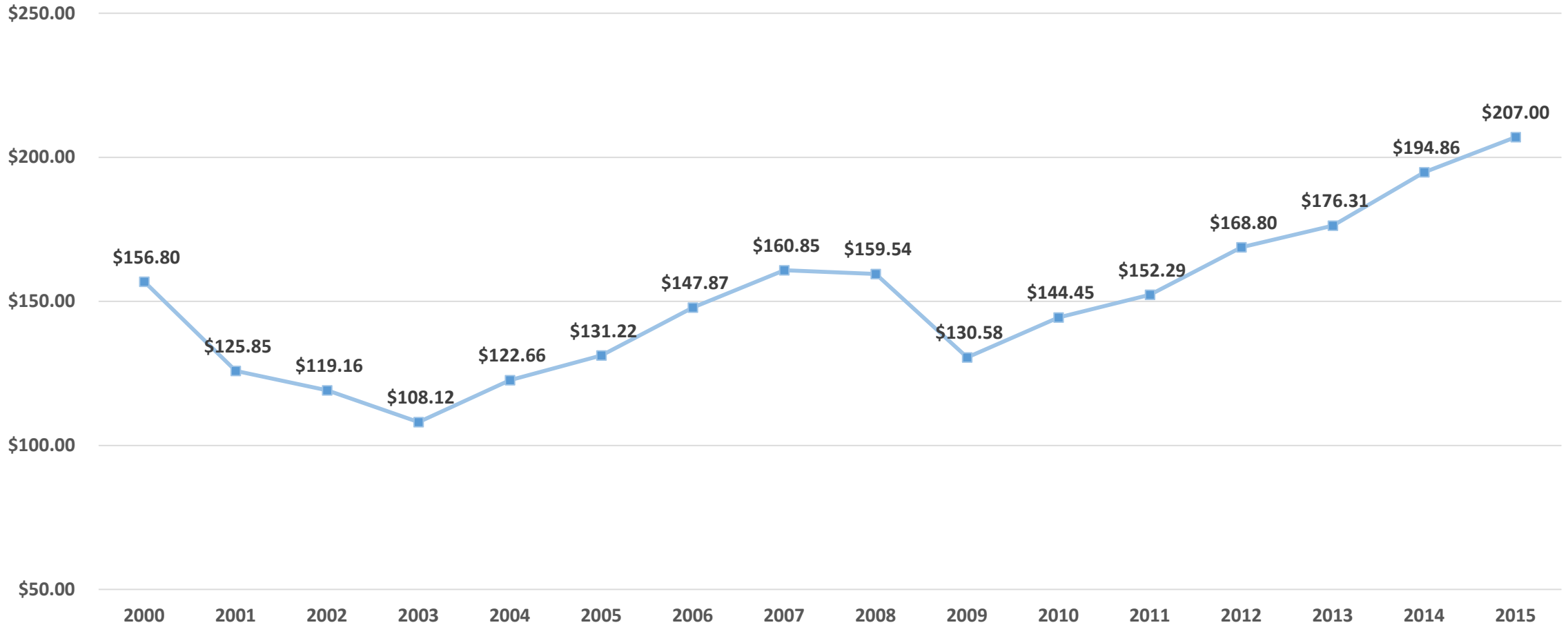
Historic Occupancy Performance



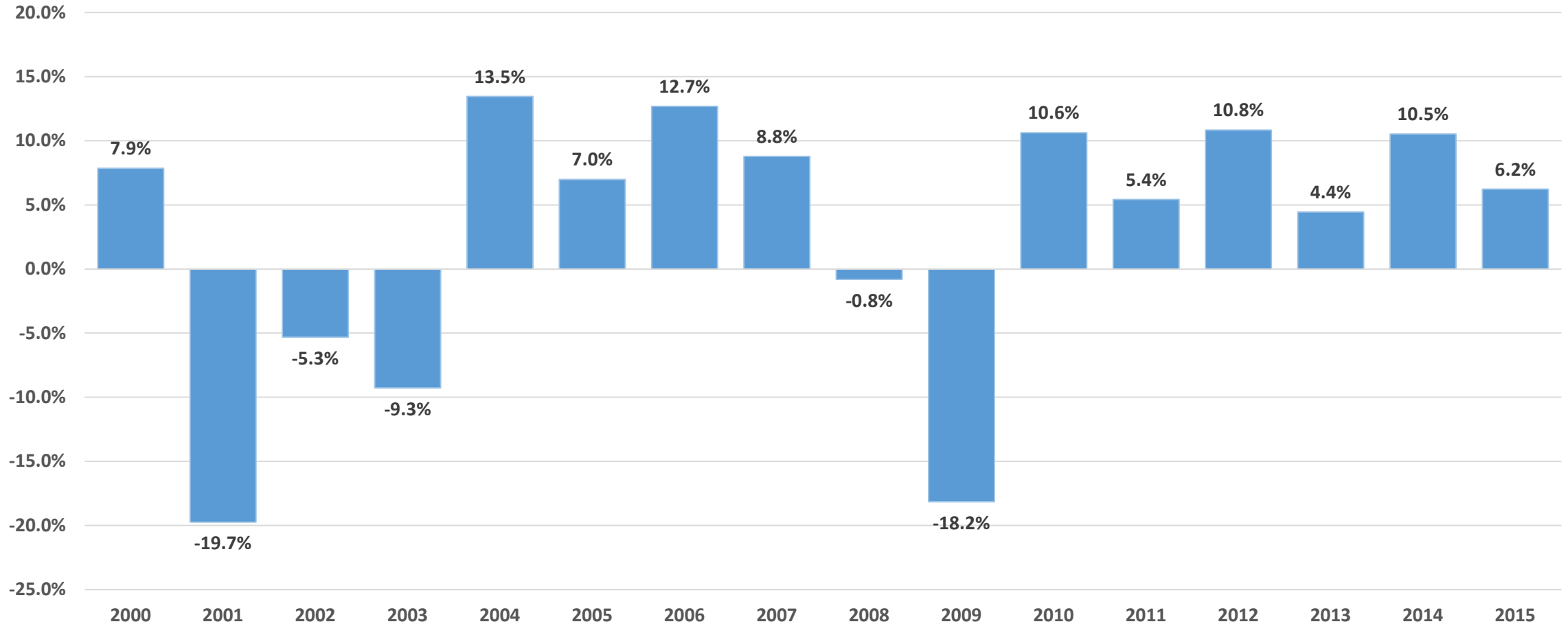
Historic ADR Performance



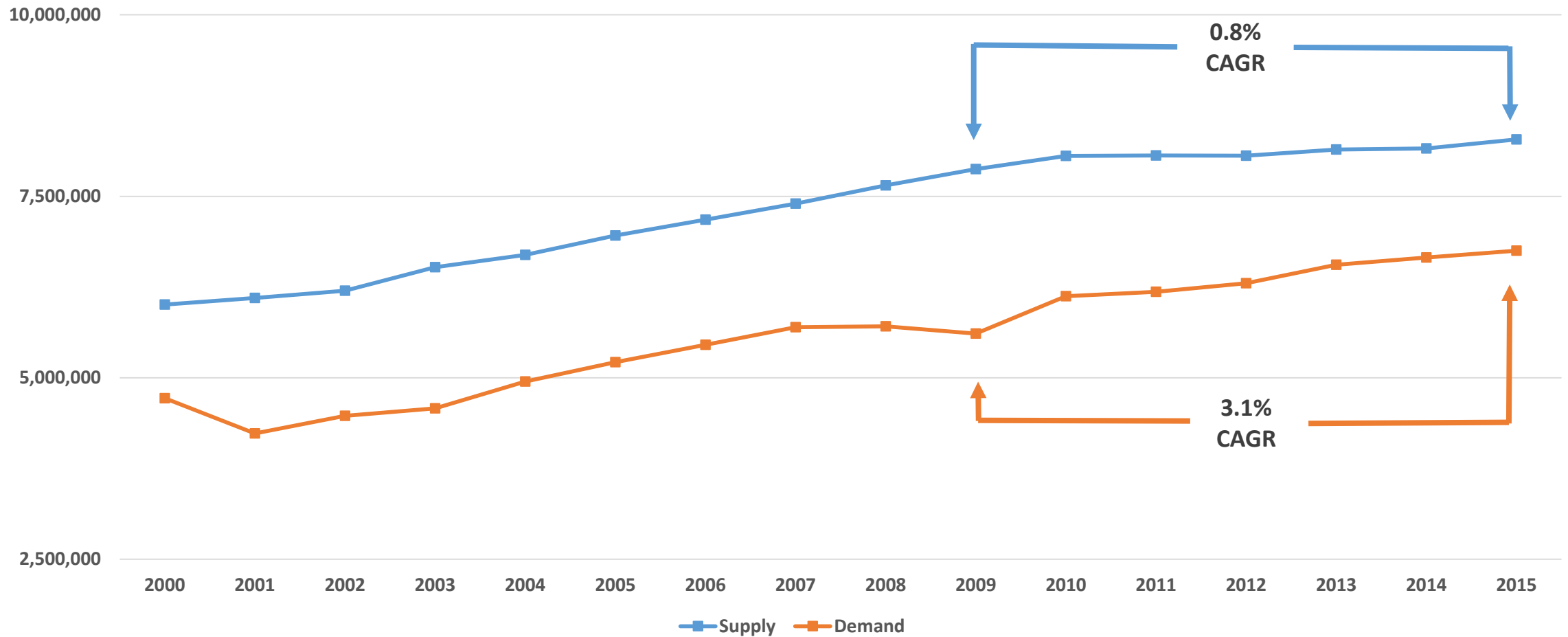
Historic RevPAR Performance



RevPAR % Change



Supply & Demand



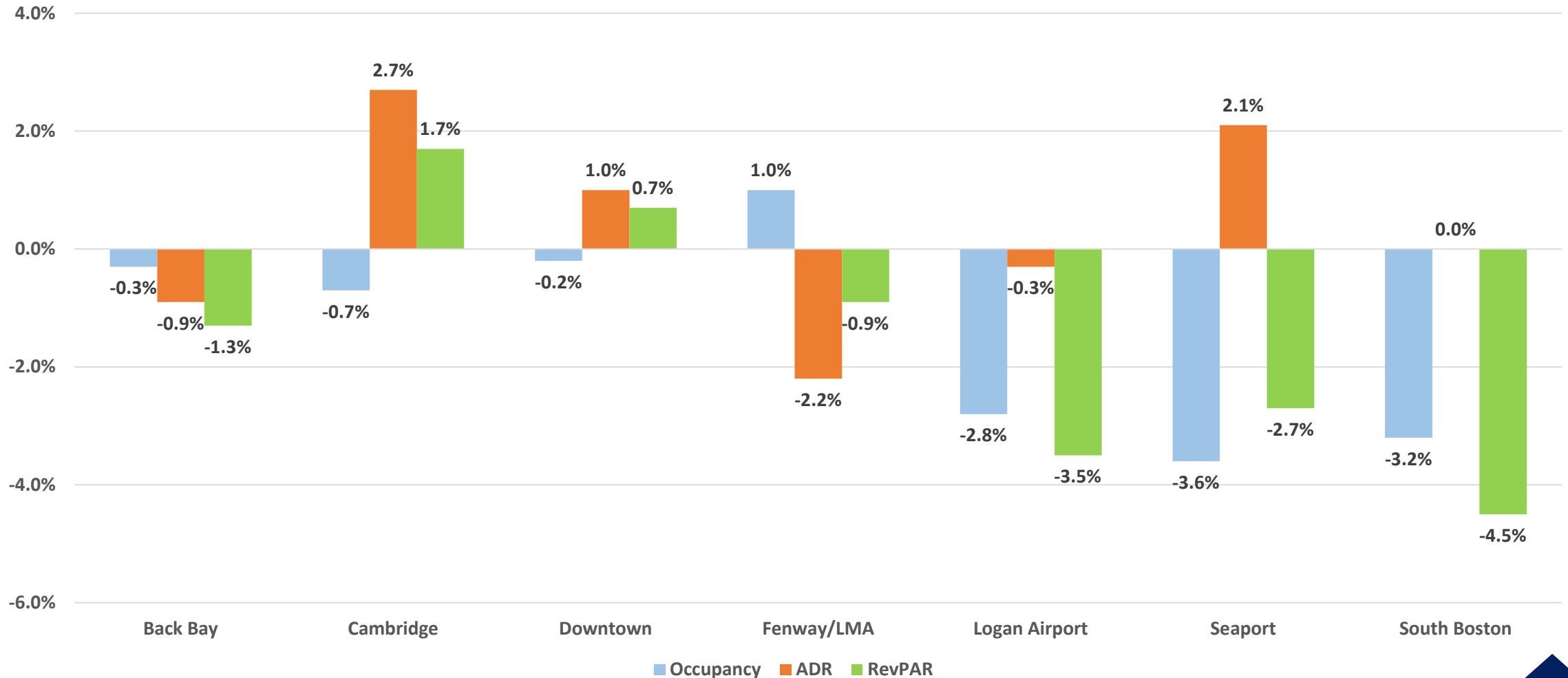
YTD Performance Through May

	YTD May 2015	YTD May 2016	% Change
Supply	3,396,496	3,566,567	5.0%
Demand	2,612,000	2,711,000	3.8%
Occupancy	76.9%	76.0%	-1.2%
ADR	\$232.43	\$233.73	0.6%
RevPAR	\$178.72	\$177.52	-0.7%

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



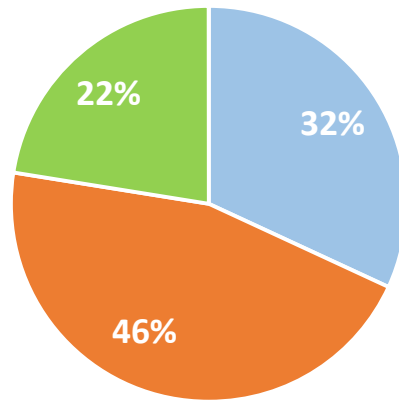
YTD May Performance by Submarket



Future Rooms Supply

The BRA Pipeline includes 28 projects with hotel components, combined for approximately 5,500 rooms. Cambridge Community Development Department accounts for 2 projects under construction and one in permitting, combined for 273 rooms.

Boston & Cambridge Proposed Hotel Rooms
by Status



■ Under Construction ■ Approved ■ Under Review / Letter of Intent



There are 9 projects currently under construction with opening dates between now and 2018, a total of 1,830 rooms.



There are 2,617 hotel rooms approved by the BRA which are not yet under construction.



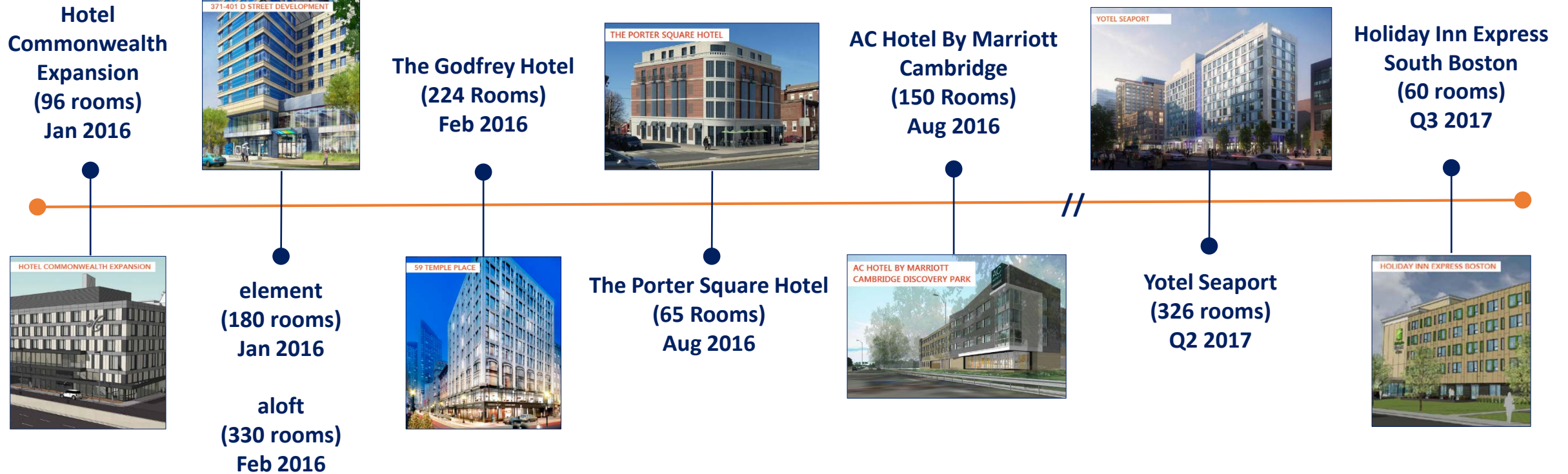
Eight projects await approval in Boston/Cambridge and represent 1,289 hotel rooms.

Projects as of June 21, 2016. Does not include preliminary or rumored projects.

Source: BRA, CCDD, Compiled by Pinnacle Advisory Group



New Supply 2016 & 2017



Increases to Supply
 2016: 1,045 New Rooms
 2017: 386 New Rooms
 2018 Estimate: ~1,500 New Rooms

Employment & Economic Environment

Boston MSA - Unemployment	
May 2015	May 2016
4.5%	3.5%

Boston MSA - Employment	
May 2015	May 2016
2,499,370	2,541,675

Source: Bureau of Labor Statistics

- Employment is expanding at a faster pace than the country.
- Unemployment in Greater Boston was 3.5% in May 2016, its lowest point since 2001 and down a full point from May 2015. U.S. employment is currently 4.9%.
- Job growth has been broad based across industries. Finance employment has fully recovered to pre-recession levels, while high tech jobs will continue to fuel growth in professional and business services. Knowledge intensive job growth is expected to continue to boost our economy driven by Boston's innovation ecosystem.
- City of Boston unemployment rate for May 2016 was 3.6%, down from 4.6% the year prior.
- City of Cambridge unemployment rate for May 2016 was 2.6%, down from 3.3% the year prior.



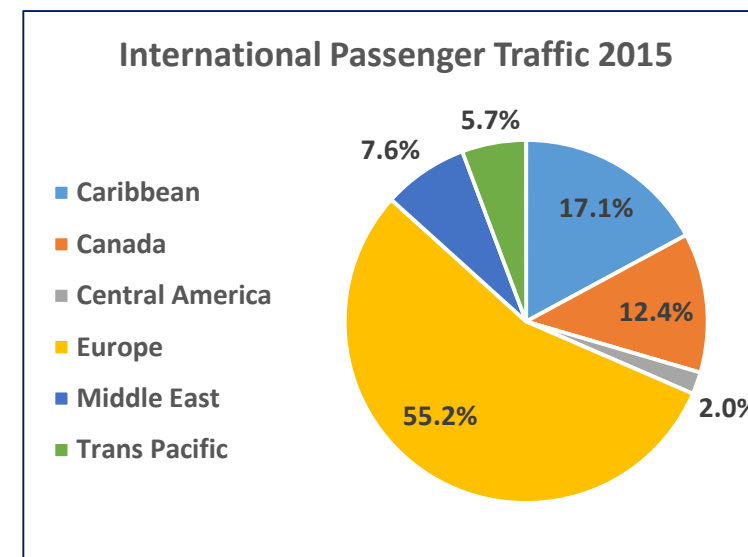
Boston Logan International Airport

	Total Passengers	Domestic Passengers	International Passengers
YE 2015	33.5 M	27.8 M	5.5 M
YTD May 2015	12.6 M	10.6 M	2.0 M
YTD May 2016	13.8 M	11.3 M	2.4 M
% Change	9.1%	6.9%	21.0%

Source: Massachusetts Port Authority

- Europe accounted for approx. 3 million passengers in 2015, over 55% of Logan's international traffic.
- YTD, all six international destinations have seen varying degrees of increases of traffic. Largest increases experienced within these three:
 - Central America traffic has increased 129% (approx. 40,000)
 - Middle East has increased 70% (approx. 105,000)
 - Trans Pacific has increased 67% (approx. 63,000)

- Logan served a record high, 33.5 million passengers in 2015, a 5.7% increase to prior year.
- For the third straight year, growth was driven by international destinations in 2015, which grew 10.9%.
- YTD Through May, traffic through Logan has increased over nine percent. International has grown over 410,000 passengers (+21%).



Boston Office Market, Q2 2016

Inventory (SF)	YTD Absorption (SF)	Vacancy Q2 2015	Vacancy Q2 2016
64.4 M	(447,900)	10.2%	10.3%

Source: Colliers International

- In 2015, Boston had 2.1M square feet of positive absorption, 1.3M of which was in the Financial District. Its fifth year of over one million SF. From 2011 to 2015, the city's absorption was approx. 7.4M square feet.
- Large moves within the city, many of which are consolidations of space into the Seaport.
 - PWC: 335,000 SF in 2015
 - Goodwin Procter: 375,000 SF in 2016
 - Boston Consulting Group: 202,000 SF in 2018
- GE announced its decision to relocate its world headquarters from Fairfield, CT (and 800 jobs), to a site in the Seaport District by 2018. The Seaport has recently welcomed other major tenants including: PWC, Goodwin, and soon Boston Consulting Group.
- Based on existing pipeline, Greater Boston's office market is expected to remain strong for the foreseeable future.



Cambridge Office Market, Q2 2016

Inventory (SF)	YTD Absorption (SF)	Vacancy Q2 2015	Vacancy Q2 2016	% Lab Space
22.4 M	283,700	7.2%	4.3%	45%

Source: Colliers International

- One of the tightest market in US, continually rising rents and virtually no availability. While there is a considerable amount of new construction, the vast majority is preleased and will not increase vacancies.
- Everything from large tech companies to smaller startups have pushed vacancies to near zero in East Cambridge and Kendall Square. Demand for office space will continue as more inventory is converted to lab to accommodate growing biotech tenants.
- With the surrounding Cambridge and inner suburban lab and research markets extremely supply constrained, demand for urban innovation hubs remains extremely strong. Tenants are now forced to consider suburban markets along 128 and even 495.
- Existing tenants are expanding, migration of out-of-market tenants continues, and there has been considerable growth in life science the last few year for which Cambridge is considered a hub.
- There is approx. 1.2 million SF of construction planned to be delivered by the end of 2016 and Cambridge has become the world's first city with at least 10 million square feet of lab space.



Corporate Demand Trends

- The economy is still showing positive signs of growth however it is ***not red hot*** as it was this time last year.
- Corporate demand began softening in Q1. Large Back Bay hotels began to feel this first. Took a bit longer but Seaport and Downtown began to see this in late April, early May.
- While corporate rates are up, volume is down.
- Seaport relying on new corporate demand generators which have moved into the area, unlike other submarkets, properties are already benefitting from GE project teams. Other submarkets not seeing these new accounts but instead relying on existing demand.
- 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. For example, TripBam, a booking service which enables accounts to rebook at lower rates as they become available, will impact corporate transient rates as larger corporate players use the service.
- AirBnB now targeting corporate travel by partnering with BCD Travel (which manages corporate travel) and also International SOS a safety service which many companies require. Additionally, some companies are now reimbursing for AirBnB.



Group Demand Trends

2016

- Through July, Back Bay and Downtown combined are down 4.3% for the second half of the year.
 - The Back Bay set's remaining six months are down 4.4%
 - The remaining six months for the Downtown set are down 4.1%.
- Group occupancy across market created lack of compression and little ability to grow rate. City's success is heavily reliant on compression dates.
- October is the month of greatest concern between now and yearend, down almost 15% compared the prior year.

2017

- Combined, the Back Bay and Downtown sets currently reflect a 3.4% increase from 2016 to 2017.
 - As of July, the Back Bay Set is up 5.5% for 2017 compared to 2016.
 - Same time frame, Downtown set is flat 2017 vs. 2016.
- Months of concern are January, February, and September while May (+60%) and October (+30%) are strong.



Leisure Demand Trends

- Leisure has already been negatively impacted by the strength of the US Dollar. European transient demand will be impacted most, especially following Brexit.
- Given new supply and declines in market rates, NYC is offering highly competitive rates to FIT – taking market share from Boston as a destination.
- 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.
- Holidays in 2016 did not fall well on calendar. October transient will be impacted by its holidays - Jewish holidays, Columbus Day and Halloween on a Monday. Additionally, it is an election year in November.
- 2017 will welcome the Tall Ships in June, should see a slight bump in demand and drive premium.



Contract & Other Demand Trends

- As international service through Logan grows (+20% 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, and demand down/flat, some hotels are trying to get new contracts while they can.



Average Daily Rate Trends

Corporate

- Pushing for LNRs at 5-8%, which will likely end up around 3-5%.
- With occupancies at/around 80%, much of it mid-week, corporate accounts will accept increases.
- Despite a lull in corporate volume YTD, it is believed this is a correction from 2015's strong economy.

Group

- Unlike transient, group rates are holding up for 2016 as they were booked after the recession, most in 2011/2012.
- Similar to 2016, overall group rates will continue to increase in 2017 as operators maintain strong demand mixes throughout year. Unlike this year, group peaks will be seen during May and October, two strong transient months. Group growth rates could outpace corporate and leisure in 2017.

Leisure

- With less compression seen in 2016, many hotels (especially the larger ones) have been getting more aggressive using opaque channels, driving lower rates.
- Holidays should allow for some demand growth compared to 2016.
- Marathon overlaps with Easter in 2017 (similar to 2014), Tall Ships in June and a citywide during July Fourth, should allow for some transient rate growth.



Other Things to Consider

- 2016 is a correction rather than a decline. 2015 had everything working for it; a strong Q1 as result of our storms, holidays, one-off events, group pace, etc. This year is good, just not as strong. The growth felt in 2015 (some properties experiencing double digit RevPAR growth) will not be seen consistently YOY. It's a return to reality with "normal" growth rates.
- New supply is now a factor, especially in Seaport and Logan markets. In 2016, an increase of approx. 4.8% had an impact to the market as the new hotels, especially the larger ones, ramped up with low rates and below market occupancies. This will continue into 2017 although not as severe.
- Starwood/Marriott still not official but will be one Hotel Company soon. At this point, time will tell how the acquisition will impact Boston/Cambridge. The two programs will not be combined for another two years and the benefits from having combined inventory and strength in negotiations with accounts and OTAs will not likely take effect until 2018.
- Continued growth of OTAs and other non-traditional booking tools/services.



Boston & Cambridge Projections 2016

	2015	2016	% Change
Occupancy	81.5%	81%	-0.6%
ADR	\$254.06	\$259.14	2.0%
RevPAR	\$207.00	\$209.90	1.4%

Source: Pinnacle Advisory Group

Boston & Cambridge Projections 2017

	2016	2017	% Change
Occupancy	81%	80%	-1.2%
ADR	\$259.14	\$269.51	4.0%
RevPAR	\$209.90	\$215.60	2.7%

Source: Pinnacle Advisory Group

Pinnacle Advisory Group

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New York City

Newport Beach

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Tampa



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