

OUTLOOK 2020

August 8, 2019



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

Today's Agenda

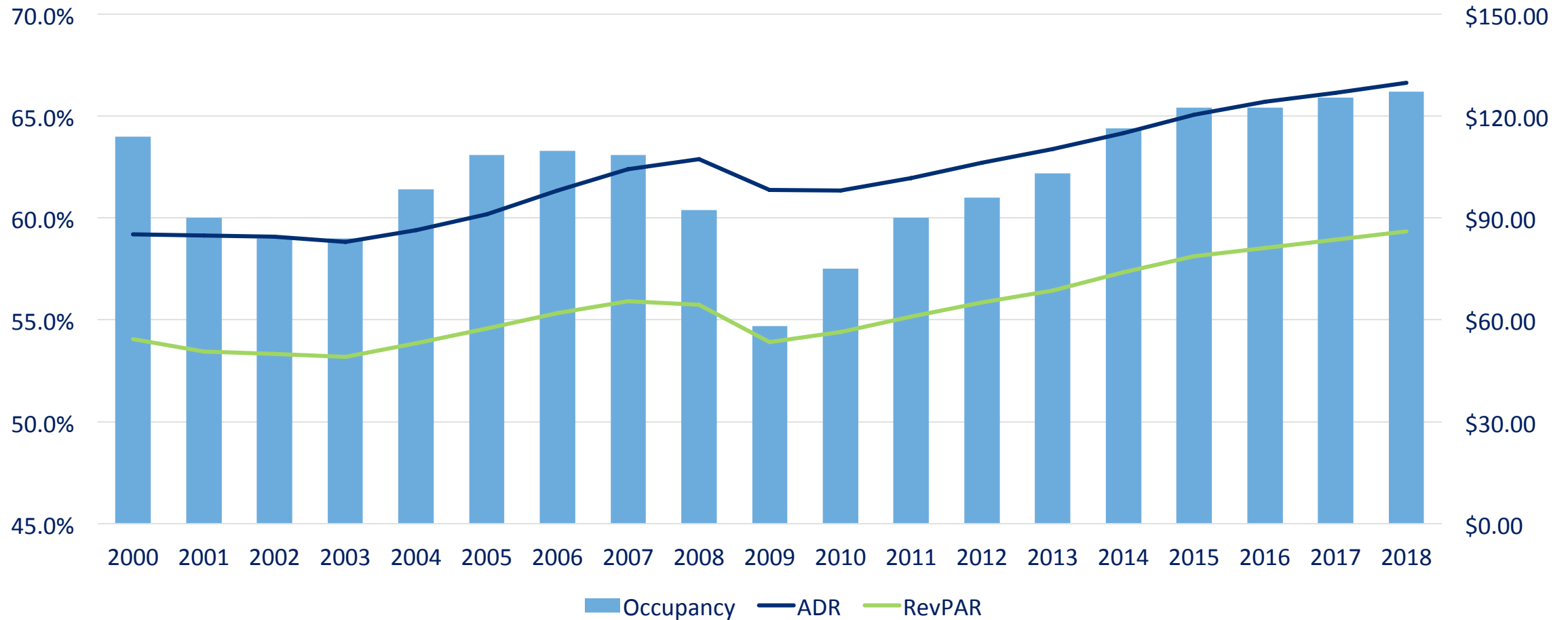
1. National Lodging Market
2. Suburban Boston Market
3. Boston & Cambridge Market





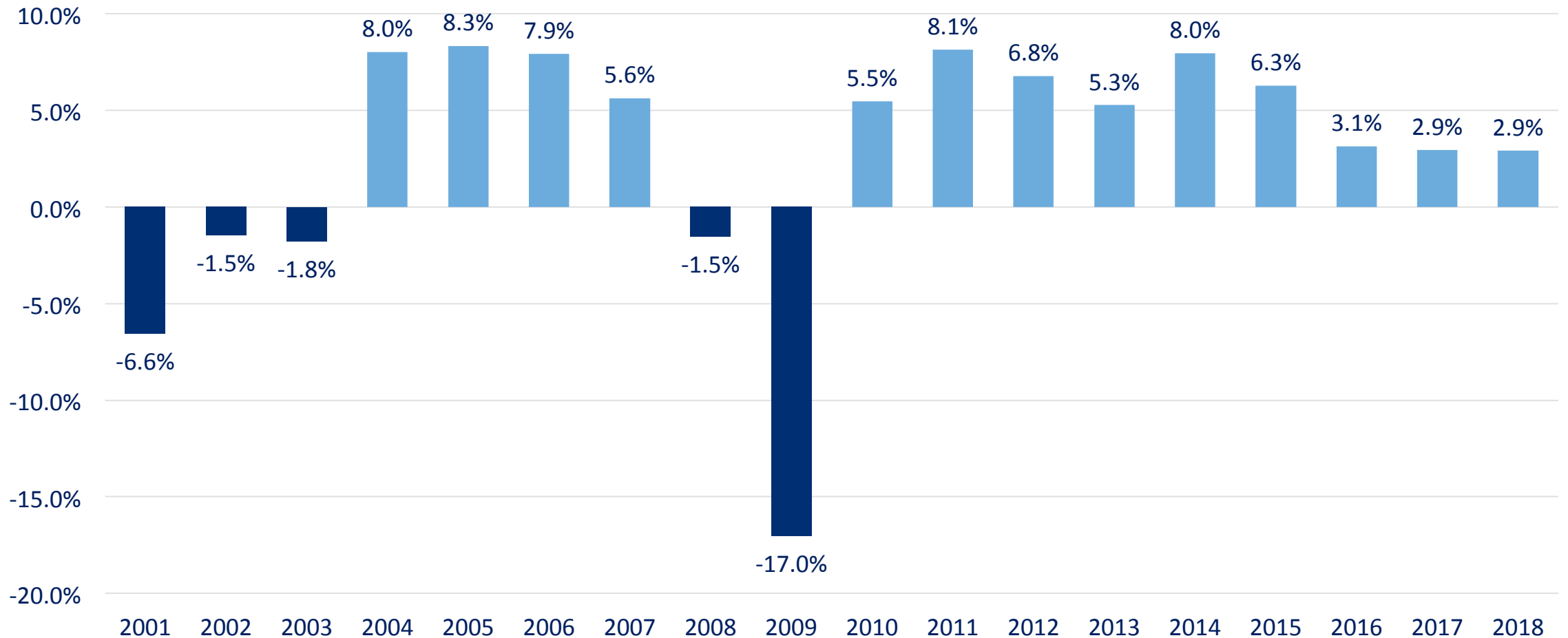
NATIONAL LODGING MARKET

Historic Market Performance – U.S.



Source: STR

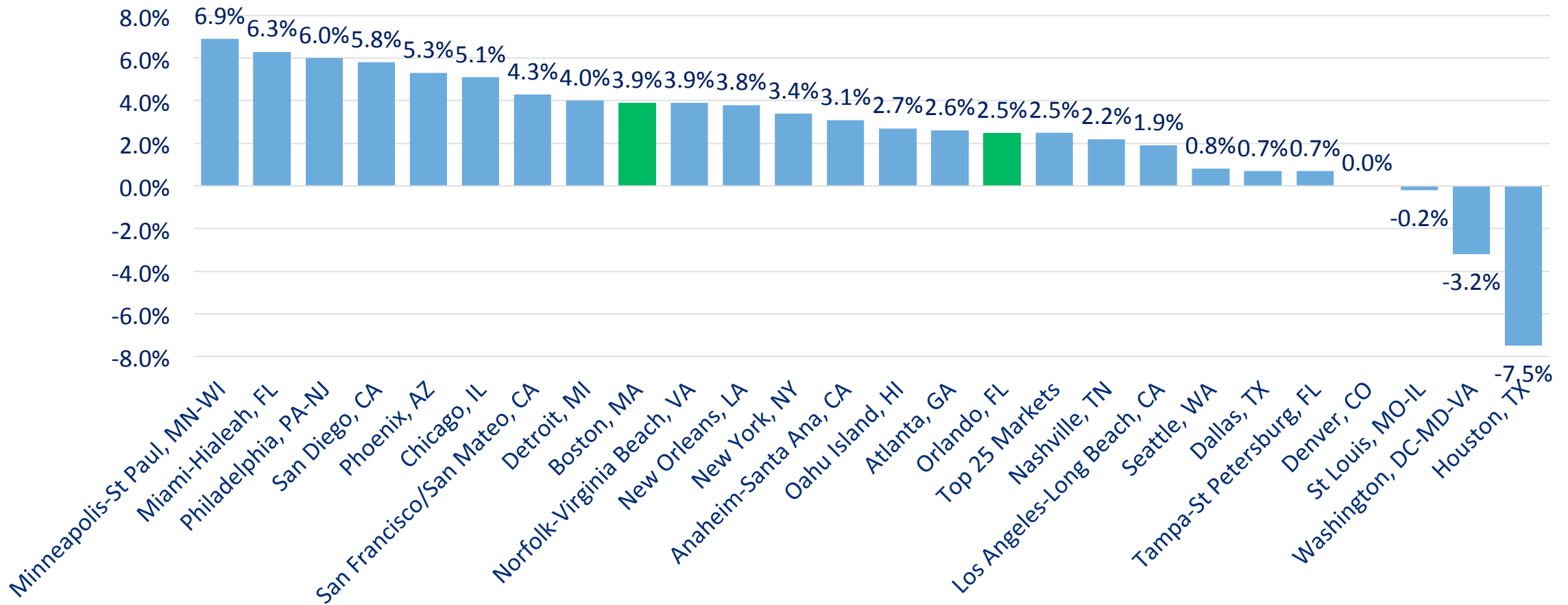
RevPAR % Change – U.S.



Source: STR



Top 25 U.S. Markets, RevPAR % Change 2018



Source: STR



YTD Performance, June 2019 – U.S.

	YTD June 2018	YTD June 2019	% Change
Occupancy	65.9%	65.9%	+0.1%
ADR	\$129.72	\$131.20	+1.1%
RevPAR	\$85.54	\$86.51	+1.2%

Source: STR

Supply Pipeline, May 2019 – U.S.

Rooms Under Construction		
Status	Rooms	% Change YOY
In Construction	203,000	+8.9%
Final Planning	223,000	+0.5%
Planning	230,000	+23.9%
TOTAL	594,000	+10.4%

As of May 2019
Source: STR



Hot Topics – U.S.



American Economy Slowing & Trump Administration



Government Shutdown Lasting Impact



Short Term Rentals, Lines Blurring



Decline in International Travel Market Continues



Resort/Destination Fee Lawsuits



Operating Margins Declining



Key Performance Takeaways (2019) – U.S.

- Earnings calls have mostly reported positive Q2 performance, some companies making slight downward adjustments to YE 2019 RevPAR expectations but generally looking to end the year on the low end of initial guidance.
- Compression nights, generally defined as market occupancy in excess of 90-95%, is down year-to-date 13.6% across the Top 25 U.S. markets to levels not experienced since 2014/15.
- Group and convention bookings seeing modest growth but at a decelerating pace by 2021
- Mitigated rate growth despite increasing demand primarily a result of increasing supply and alternative lodging options.
- Although demand is expected to increase, occupancy growth will be tempered by new supply in 2019 and 2020. ADR growth is now slowing as well but will be the driver of RevPAR at a decelerated rate.
- The ‘cautiously optimistic’ tone of the past few years has shifted to caution (but without panic).



Industry Projections – U.S.

2019

	STR	PWC	CBRE
Occupancy	+0.1%	+0.1%	+0.0%
ADR	+1.9%	+1.9%	+1.9%
RevPAR	+2.0%	+2.0%	+2.0%

2020

	STR	PWC	CBRE
Occupancy	-0.2%	-0.2%	-0.8%
ADR	+2.2%	+2.1%	+2.6%
RevPAR	+1.9%	+1.8%	+1.8%

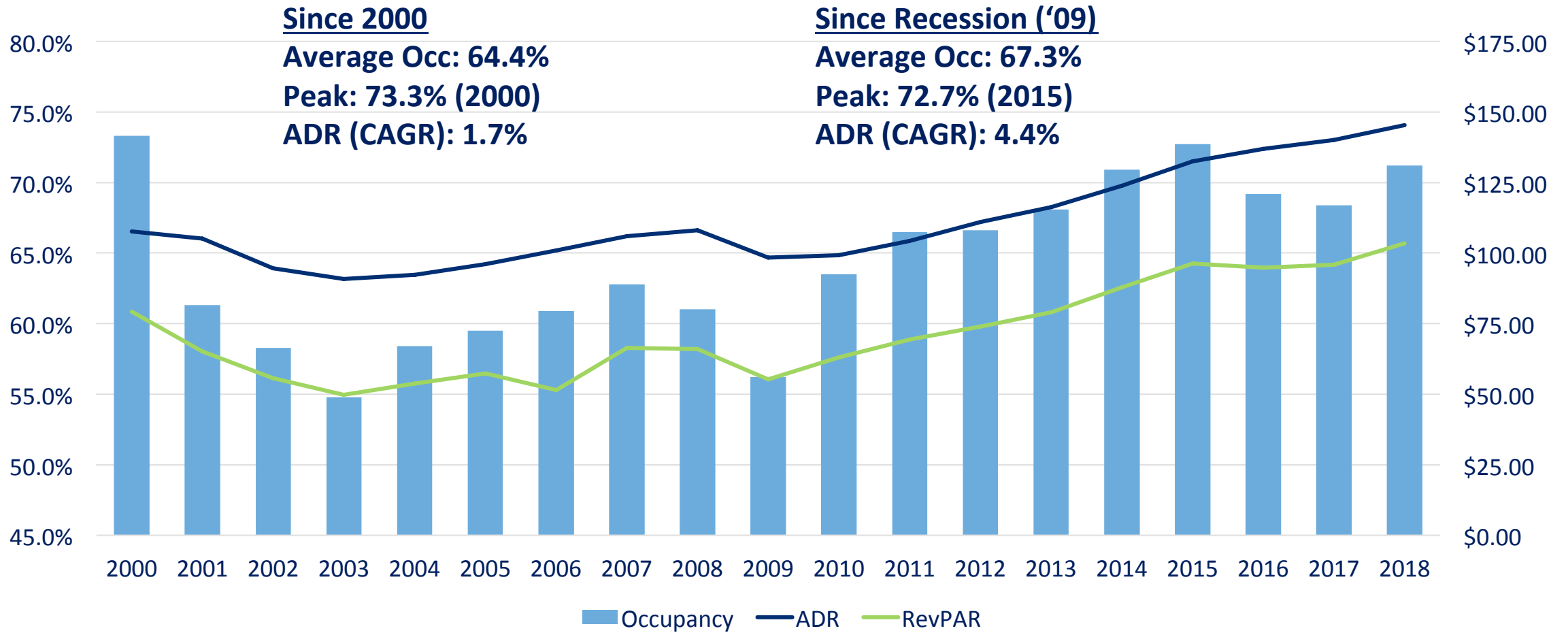
Source: STR, PWC, CBRE





SUBURBAN BOSTON LODGING MARKET

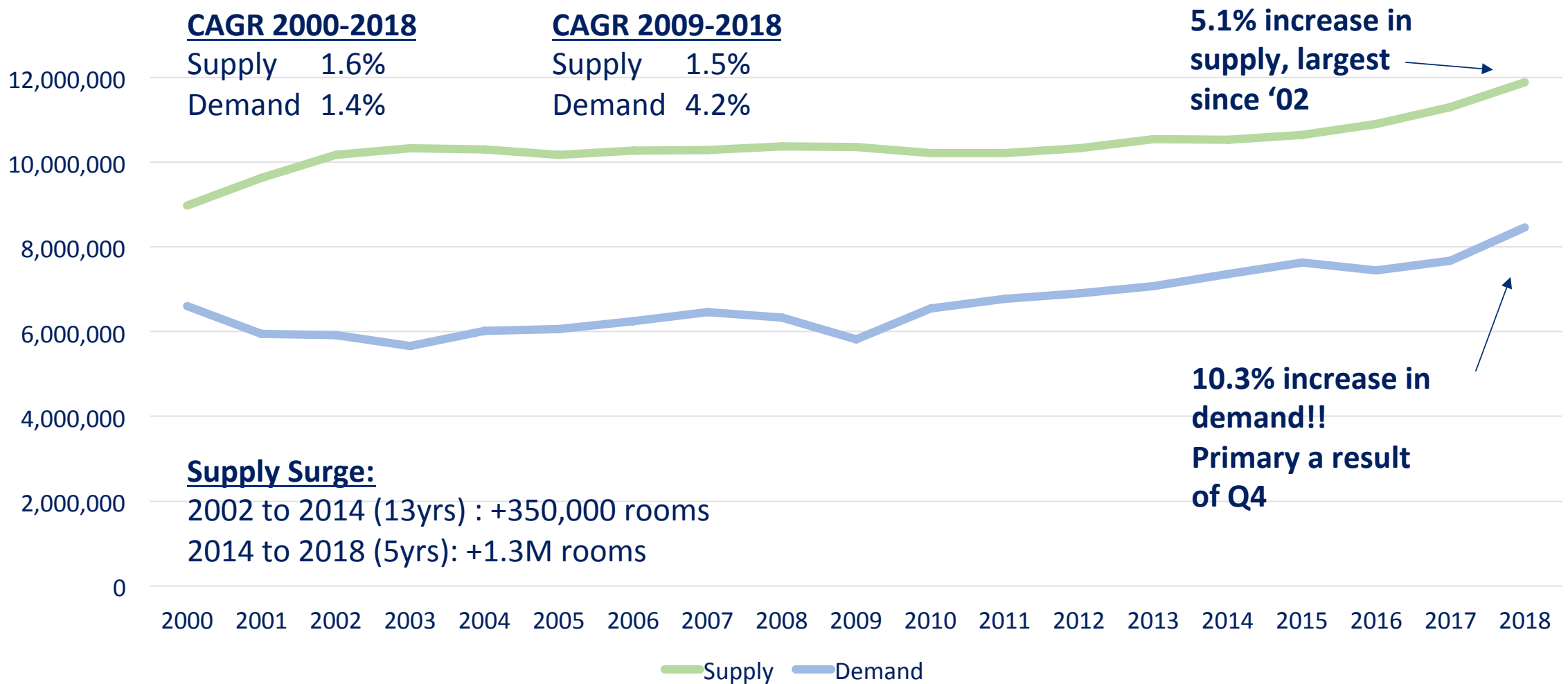
Suburban Boston Historic Performance



Source: STR



Suburban Boston Supply & Demand



Source: STR



Suburban Boston YTD Performance

	YTD June 2018	YTD June 2019	% Change
Supply	5,821,000	5,978,000	+2.7%
Demand	3,868,000	3,899,000	+0.8%
Occupancy	66.5%	65.2%	-1.9%
ADR	\$136.41	\$139.06	1.9%
RevPAR	\$90.65	\$90.69	0.0%

Source: STR

Suburban Boston New Supply 2019

1,615

Total New Rooms

41%

Branded as
Marriott or Hilton

42%

The Encore!

↑4.3%

Supply Increase
in 2019

Hotel	City	Scale	Rms	Opening
Holiday Inn Express & Suites Randolph	Randolph	Upper Midscale	101	Feb
Fairfield Inn Plymouth	Plymouth	Upper Midscale	108	Mar
Homewood Suites Berlin Marlborough	Marlborough	Upscale	105	Mar
Staybridge Suites Quincy (dual)	Quincy	Upscale	88	Jun
Holiday Inn Express Quincy (dual)	Quincy	Upper Midscale	92	Jun
Encore Boston Harbor	Everett	Luxury	671	Jun
Fairfield Inn Chelsea Logan Airport	Chelsea	Upper Midscale	80	Sep
Homewood Suites Woburn (dual)	Woburn	Upscale	103	Oct
Hampton Inn Woburn (dual)	Woburn	Upper Midscale	132	Oct
Residence Inn Natick	Natick	Upscale	135	Nov

Source: Various Sources, Compiled by Pinnacle Advisory Group



Suburban Boston New Supply 2020

Hotel	City	Scale	Rms	Opening
Hampton Inn Chelsea Logan Airport	Chelsea	Upper Midscale	105	Q1
Avid Hotel Revere	Revere	Midscale	104	Q2
The Beacon Street Hotel	Somerville	Upper Upscale	35	Q2
Holiday Inn Express Revere (dual)	Revere	Upper Midscale	80	Q3
Staybridge Suites Revere (dual)	Revere	Upscale	72	Q3
Hilton Garden Inn Canton	Canton	Upscale	138	Q3
Hampton Inn Salem	Salem	Upper Midscale	113	Q3
Hilton Garden Inn Brookline	Brookline	Upscale	174	Q3
La Quinta Sharon	Sharon	Upper Midscale	103	Q4
La Quinta Mansfield	Mansfield	Upper Midscale	103	Q4
La Quinta Westwood	Westwood	Upper Midscale	103	Q4
Hampton Inn & Suites Watertown	Watertown	Upper Midscale	146	Q4

1,276

Total New Rooms

53%

Branded as
Marriott or Hilton

59%

Upper
Midscale

↑ 4.3%

Supply Increase
in 2020

Source: Various Sources, Compiled by Pinnacle Advisory Group



Suburban Boston Office Market, Q2 2019

	Inventory (SF)	Absorption (SF) YTD 2019	Vacancy Q2 2019
Inner Suburbs	6.8 M	(77,800)	12.3%
Route 128	68.0 M	296,500	14.6%
Route 495	45.4 M	(35,300)	19.4%
Total Suburbs	120.0 M	335,000	16.3%

Source: Colliers International

Suburban Boston Lodging Trends

- Demand growth is expected to continue, but at a rate of 2-3%. And some markets will be much stronger with new businesses moving in, while others will see no growth.
- 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.
- Encore Boston Harbor (Everett) – Opened in June. While still in ramp up, it is expected to induce significant demand to the market.



Suburban Boston Projections 2019

	2018	2019	% Change
Occupancy	71.2%	69%	-3.1%
ADR	\$145.28	\$145	-0.2%
RevPAR	\$103.40	\$100	-3.2%

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

Suburban Boston Projections 2020

	2019	2020	% Change
Occupancy	69%	68%	-1.4%
ADR	\$145	\$146	+0.7%
RevPAR	\$100	\$99	-0.8%

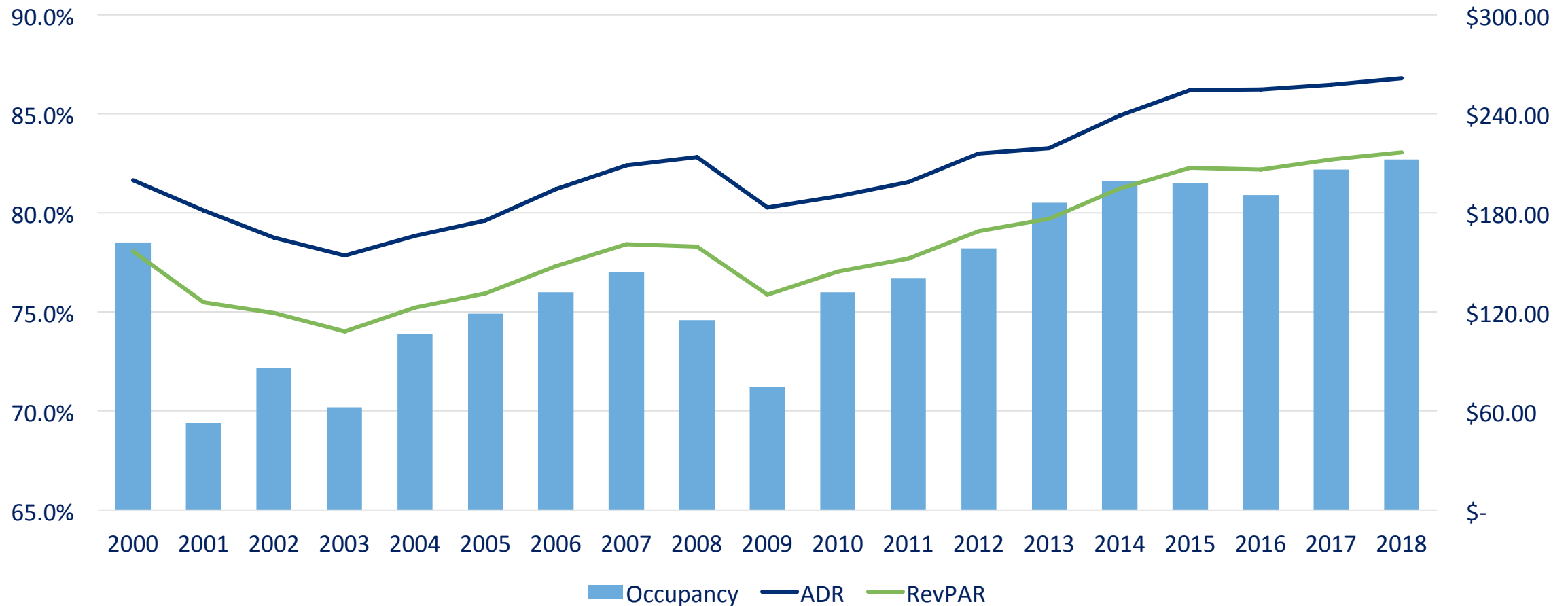
**+2.8%
Demand**

Source: Pinnacle Advisory Group



BOSTON & CAMBRIDGE LODGING MARKET

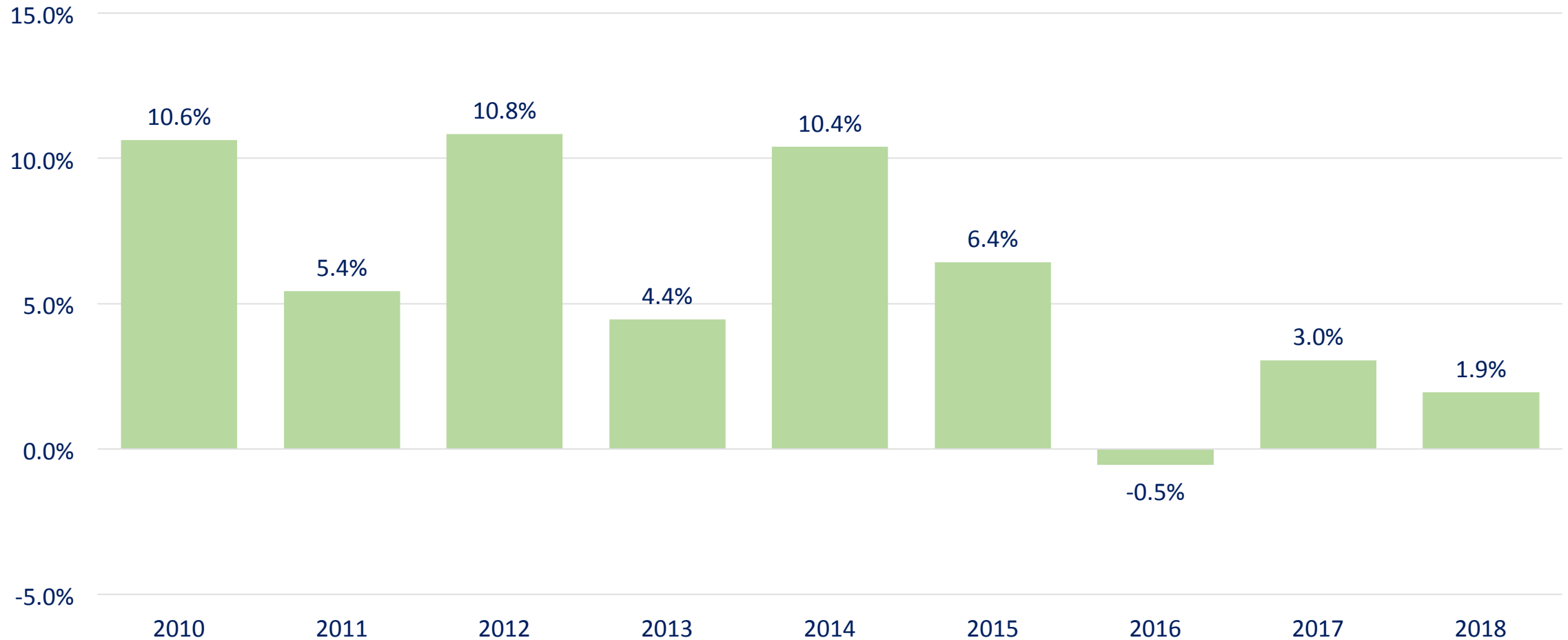
Boston & Cambridge Historic Performance



Source: Pinnacle Perspective, Pinnacle Advisory Group

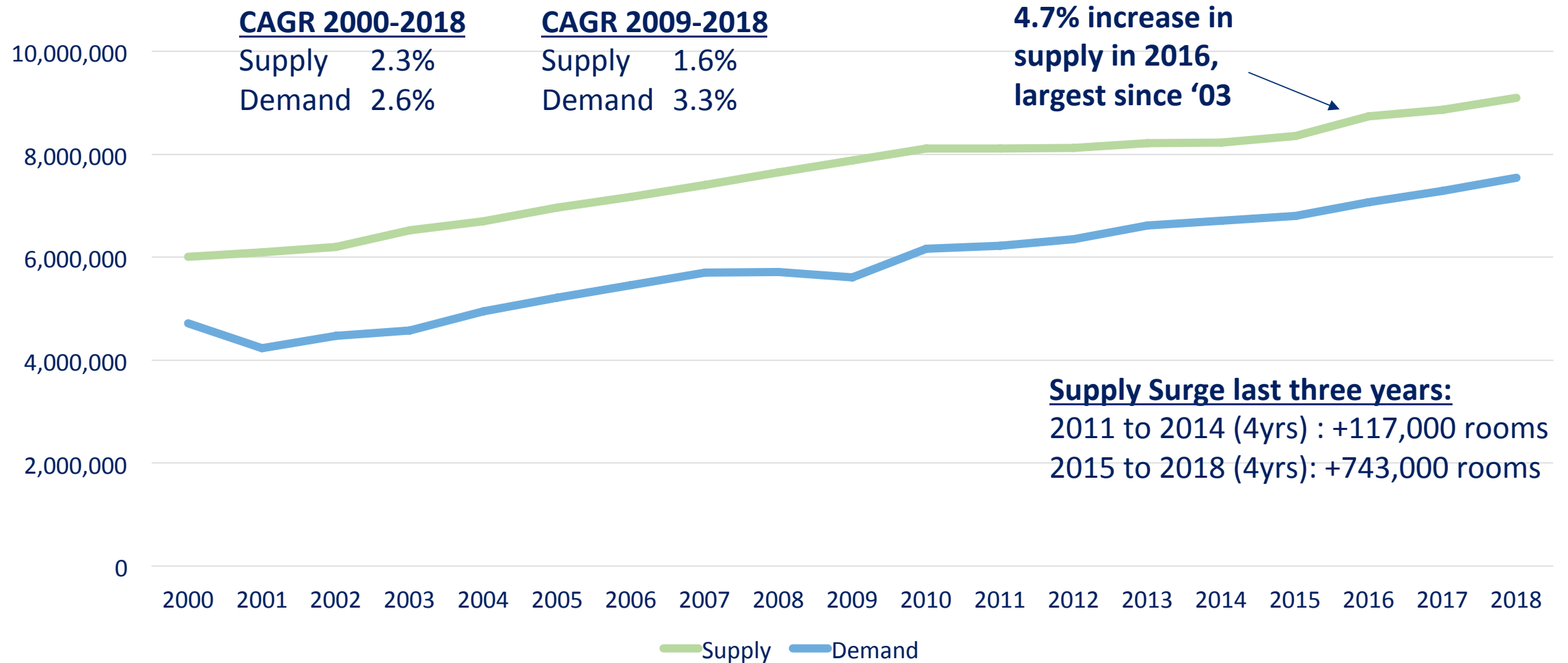


Boston & Cambridge RevPAR % Change



Source: Pinnacle Perspective, Pinnacle Advisory Group

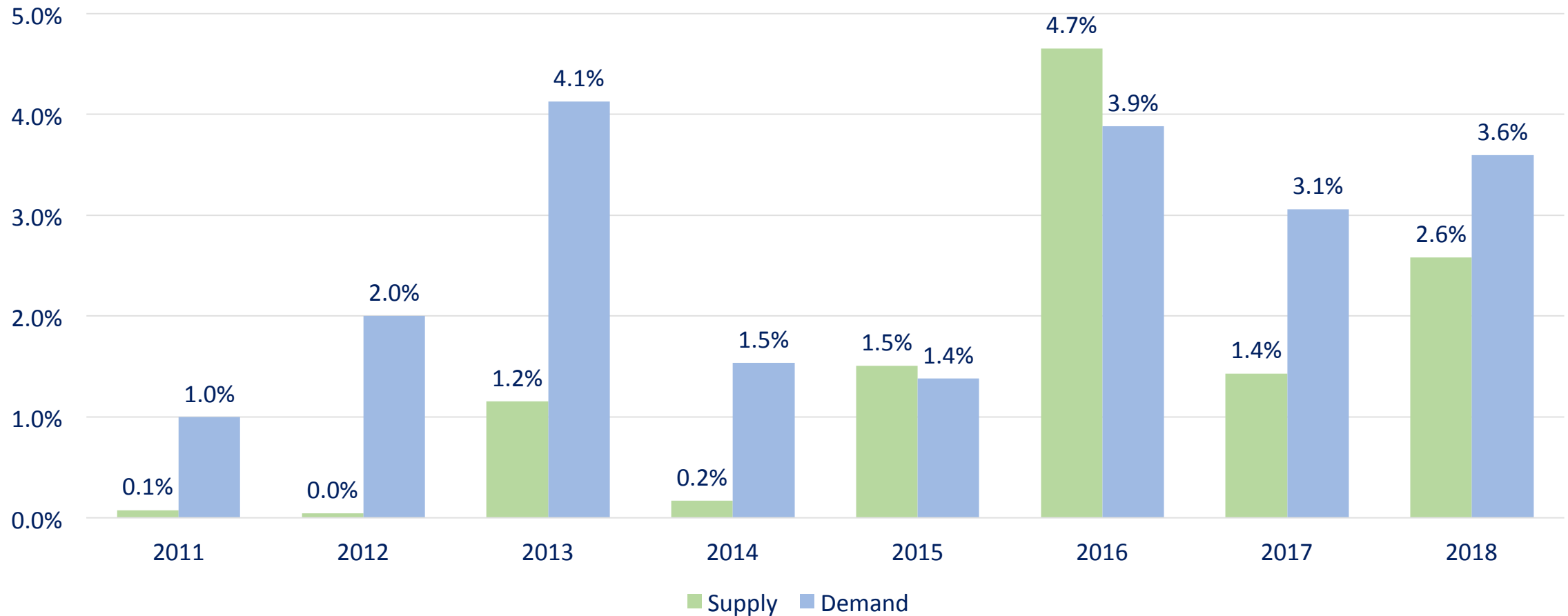
Boston & Cambridge Supply & Demand



Source: STR, Source: Pinnacle Perspective, Pinnacle Advisory Group



Boston & Cambridge Supply & Demand, % Change



Source: STR, Source: Pinnacle Perspective, Pinnacle Advisory Group

Boston & Cambridge YTD Performance

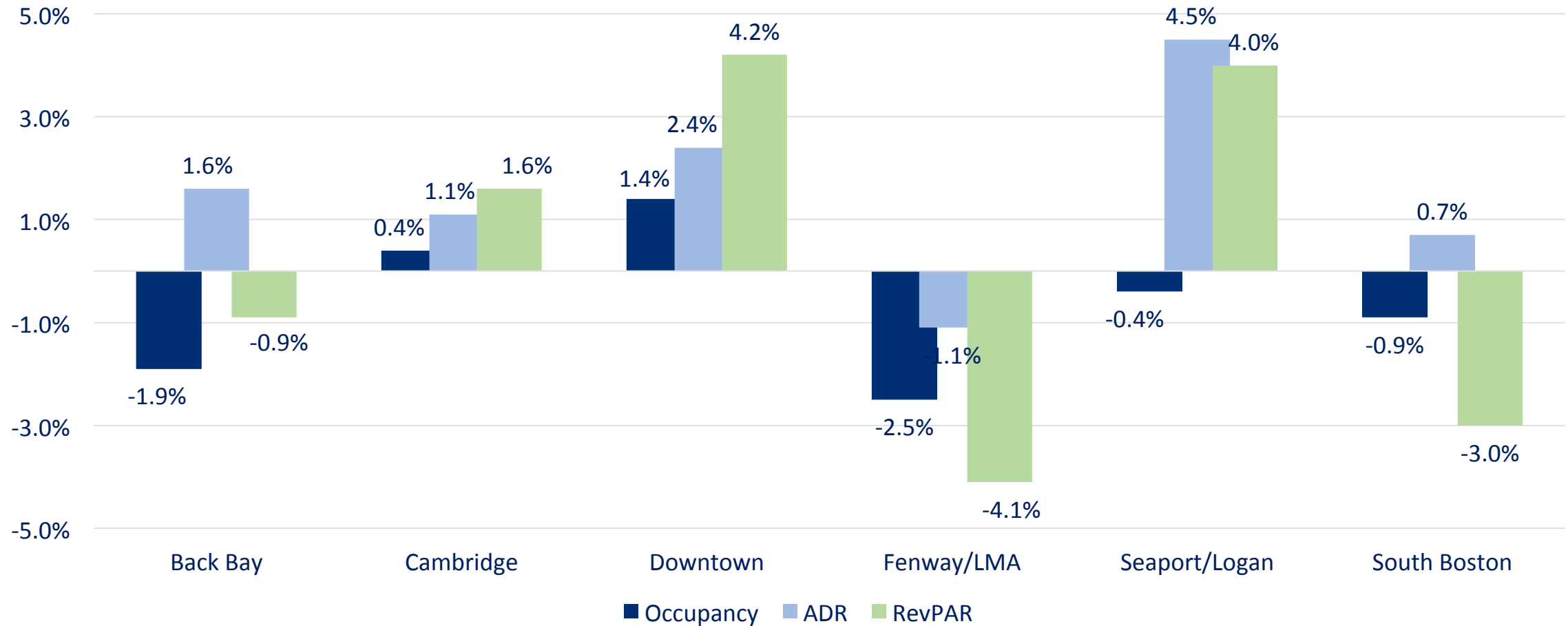
	YTD June 2018	YTD June 2019	% Change
Occupancy	80.5%	80.2%	-0.4%
ADR	\$248	\$254	+2.2%
RevPAR	\$200	\$204	+1.8%

YTD
Demand +2.1%
Supply +2.9%

Source: Pinnacle Perspective, Pinnacle Advisory Group



Boston & Cambridge YTD June 2019 by Submarket



Source: Pinnacle Perspective, Pinnacle Advisory Group



Boston & Cambridge Future Rooms Supply



Under Construction

8 Projects
2,729 Rooms



Granted Approval

20 Projects
3,527 Rooms



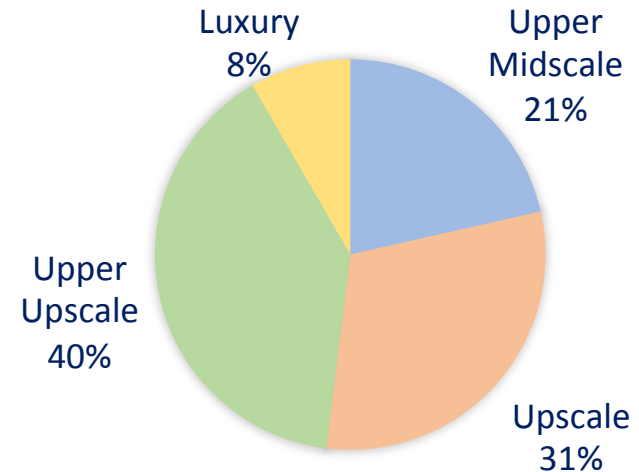
Granted Approval

9 Projects
2,757 Rooms

37 Total Projects
9,014 Total Rooms

Confirmed Openings 2019-2021

The eight projects under construction and those that have opened in 2019



95%
Branded

31%
Omni Seaport

52%
Seaport District

Source: BPDA, CCDD, Compiled by Pinnacle Advisory Group
Projects as of August 1, 2019. Does not include preliminary or rumored projects.



Boston & Cambridge New Supply 2019 & 2020

Hotel	Neighborhood	Scale	Rooms	Date
Residence Inn Boston South End	Roxbury	Upscale	135	Jan
Hyatt Centric Faneuil Hall	Downtown	Upper Upscale	163	Feb
Hotel 1868	Porter Square	Upper Upscale (Indep)	50	May
Four Seasons One Dalton	Back Bay	Luxury	215	May
The Whitney Hotel	Beacon Hill	Luxury (Indep)	65	July
CitizenM North Station	West End	Upscale	272	Aug
Moxy Theatre District Boston	Theater District	Upper Midscale	346	Sep
Cambria South Boston	South Boston	Upscale	159	Oct

2019

1,405

Rooms Opening

3.3%

YOY Supply Increase

2020

984

Rooms Opening

5.0%

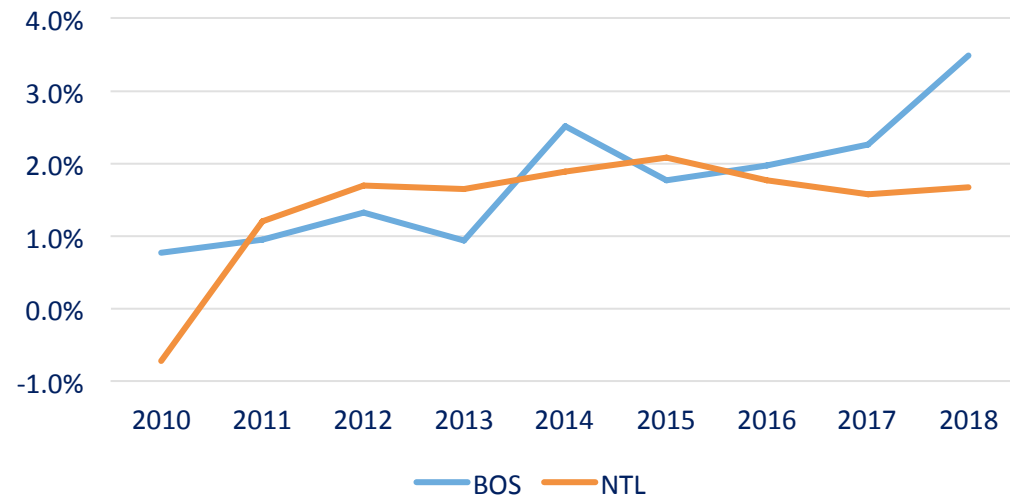
YOY Supply Increase

Hotel	Neighborhood	Scale	Rooms	Date
The 907 Main Hotel	Central Square	Upper Upscale (Indep)	67	Q1 2020
Hyatt Place Boston Seaport	South Boston Waterfront	Upscale	293	Q2 2020
Home2 Suites Boston South Bay	Dorchester	Upper Midscale	130	Q3 2020
Hilton Garden Inn Logan Expansion	East Boston	Upscale	83	Q3 2020
Hampton Inn Boston Seaport	South Boston Waterfront	Upper Midscale	245	Q4 2020
Homewood Suites Boston Seaport	South Boston Waterfront	Upscale	166	Q4 2020



Greater Boston Economic Environment

Annual Job Growth, % Change



Boston MSA		
	Unemployment	Total Employment
Pre-Recession 2007	4.2%	2,376,100
Recession 2009	7.5%	2,327,800
Current 2018	3.0%	2,726,400

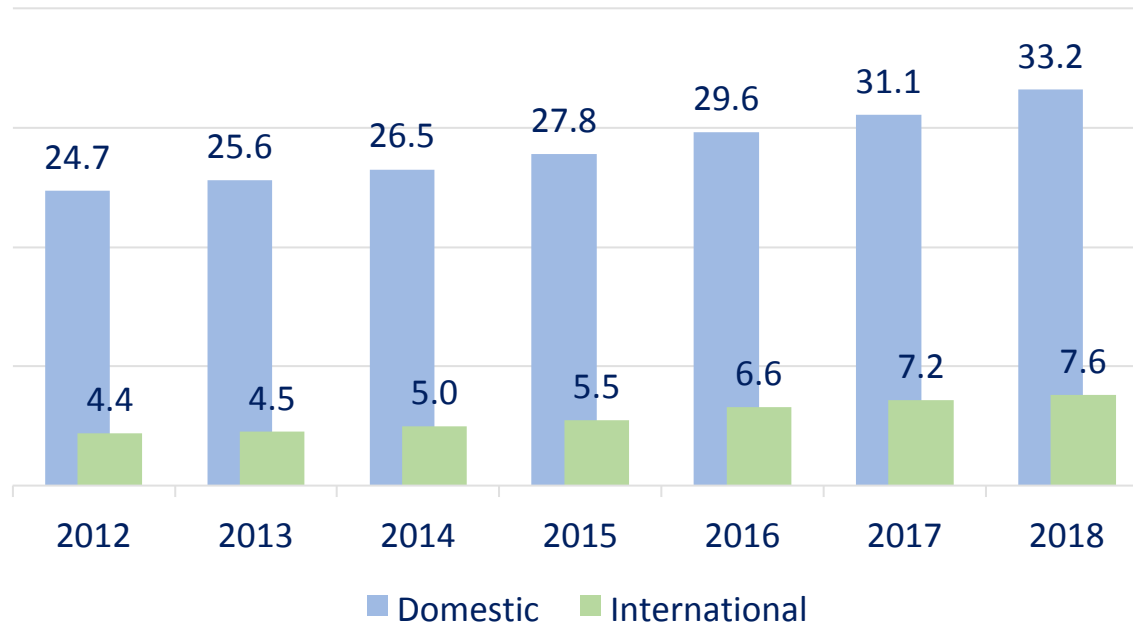
Job Growth by Industry	
YTD May 2019	
Construction	1.1%
Manufacturing	-0.1%
Trade, Transport, Util.	-0.7%
Information/Tech	2.3%
Financial Services	-0.7%
Professional Services	1.5%
Education / Health Services	1.3%
Leisure & Hospitality	-0.7%
Other Services	0.3%
Government	0.9%
Total	0.6%

Source: Bureau of Labor Statistics



Boston Logan International Airport

**Boston Logan Passenger Traffic
(Millions)**



Source: Massachusetts Port Authority

- Another record-breaking year for passenger traffic in 2018. Reaching 40.9 million, a 6.6% increase to prior year. International passengers traffic increased 5.3%.
- YTD through April 2019, traffic through Logan Airport has increased 5.4%.
- International traffic has increased 11.4% YTD. Growth YOY likely a result of travel ban in 2018. Increases seen from all international destinations with exception of Canada (-4.9%).



Boston & Cambridge Office Market, Q2 2018

Boston	Inventory (SF)	YTD Absorption (SF)	Vacancy %
2018	71.0 M	2.0 M	9.2%
Q2 2019	72.0 M	1.3 M	8.1%

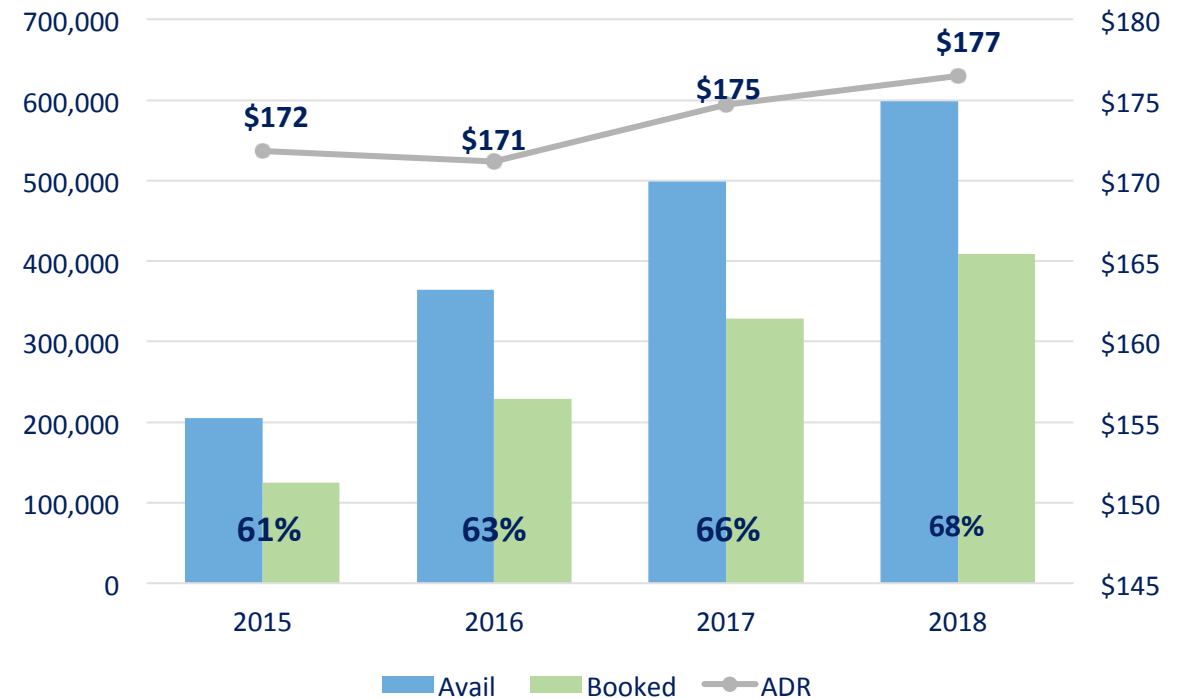
Cambridge	Inventory (SF)	YTD Absorption (SF)	Vacancy %
2018	23.6 M	870,000	3.8%
Q2 2019	23.6 M	60,000	3.3%

Source: Colliers International

Short Term Rentals – Greater Boston

- # of available units increased from 205,000 in 2016 to almost 600,000 in 2018 (43% CAGR)
- Occupied units have increased 48% CAGR between 2016 and 2018
- Hotel Comparable units represent approx. one third of available rentals
- YTD May: Supply +7.8%, Demand 12.7%, ADR +4.1%

**Short Term Rentals Historic Performance
Greater Boston, Hotel Comparable**



Source: AirDNA

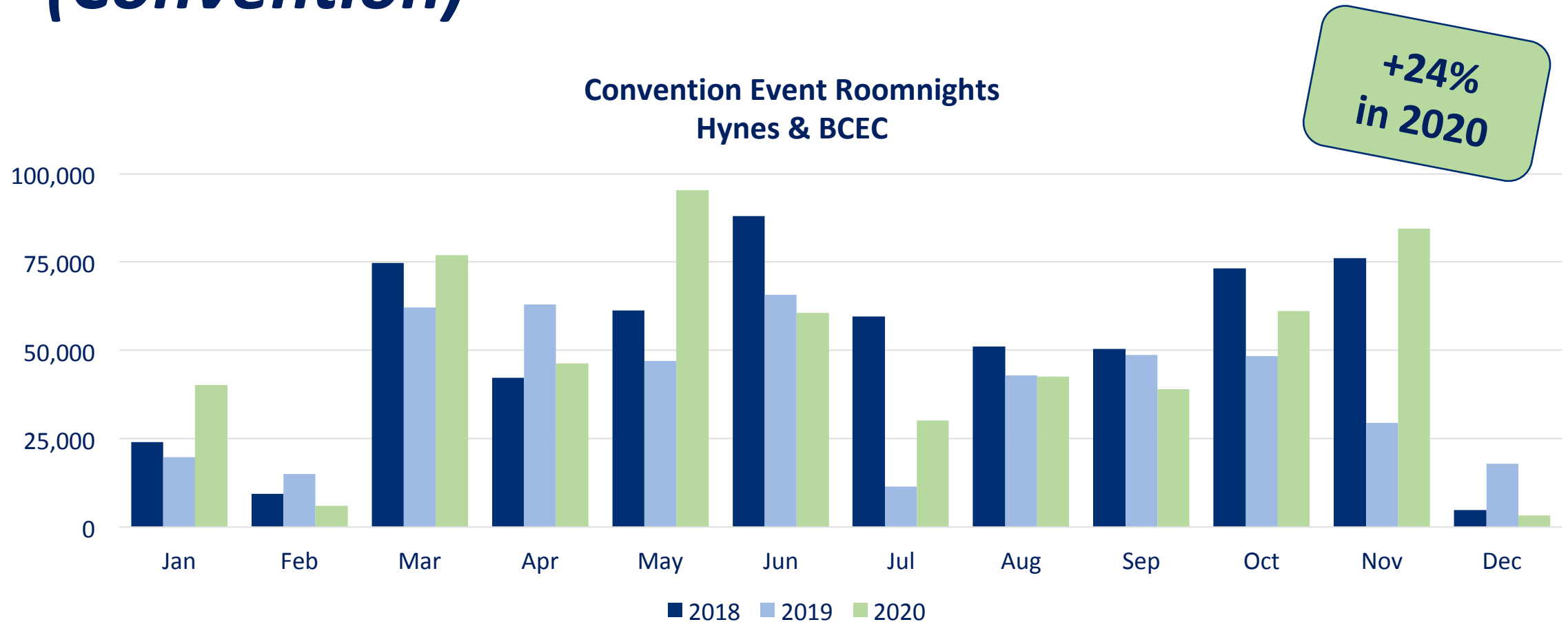


Boston & Cambridge Corporate Demand Trends

- **Continued Demand Growth:** The economy is still showing signs of growth, local economy experiencing considerable growth, corporate demand volume expected to continue its growth pattern at a slightly slower pace.
- **New Corporate Demand:** Primary submarkets (Back Bay, Seaport, Downtown and Cambridge) continue to benefit from new and expanding corporate demand generators.
- **New Supply:** Majority of the market's compression nights are Monday through Thursday (T-12 average occupancy was over 84%). Increases to supply will induce new demand which was previously unaccommodated. Mid-week occupancies expected to be less impacted.
- **Notable 2020 Calendar Changes Impacting Midweek:**
 - (+) July Fourth and Halloween move from midweek to weekend
 - (+) Gain weekday: March (2), June, August, November (2)
 - (-) Lose weekday: January, May, July, October (2)
 - (-) Election Year, November 5th
 - (-) Hanukkah overlaps with Christmas in 2019, will be earlier in December 2020

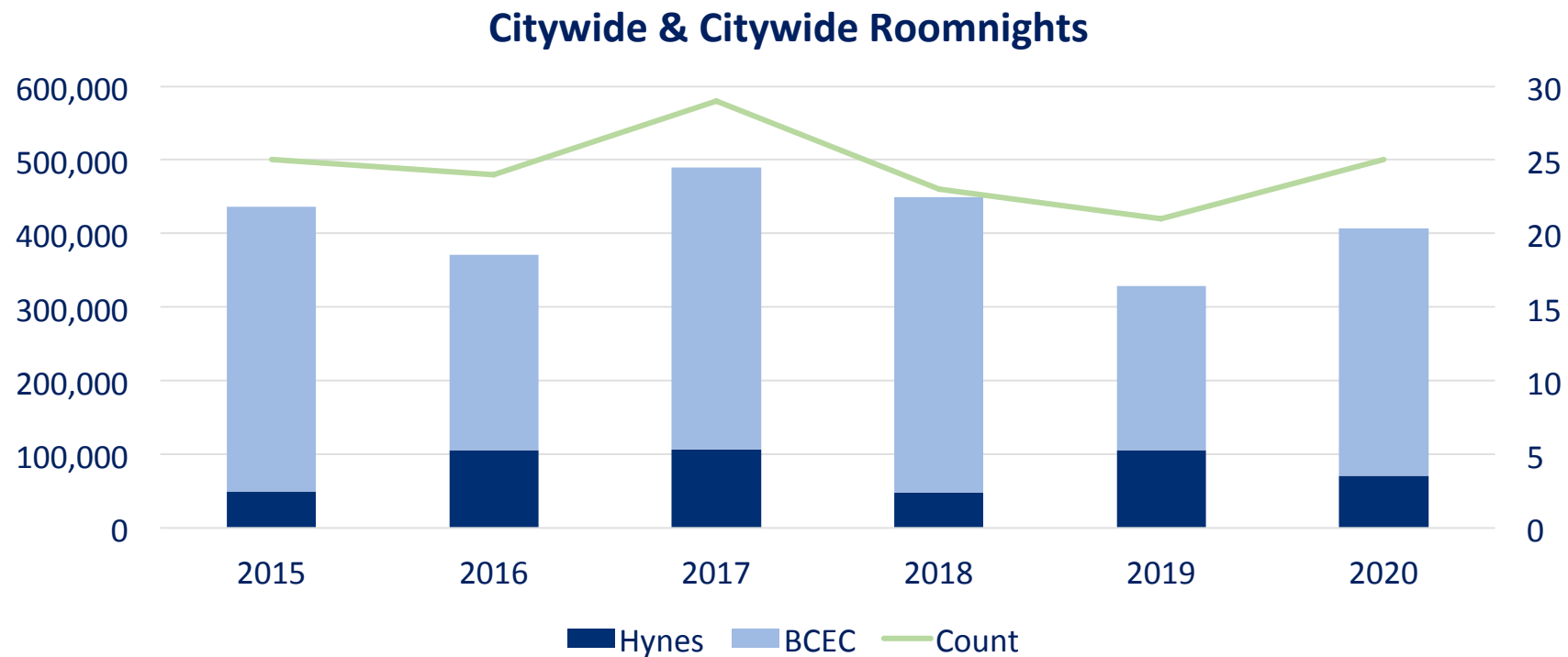


Boston/Cambridge Group Demand Trends (Convention)



Source: MCCA

Boston & Cambridge Group Demand Trends (Citywides)



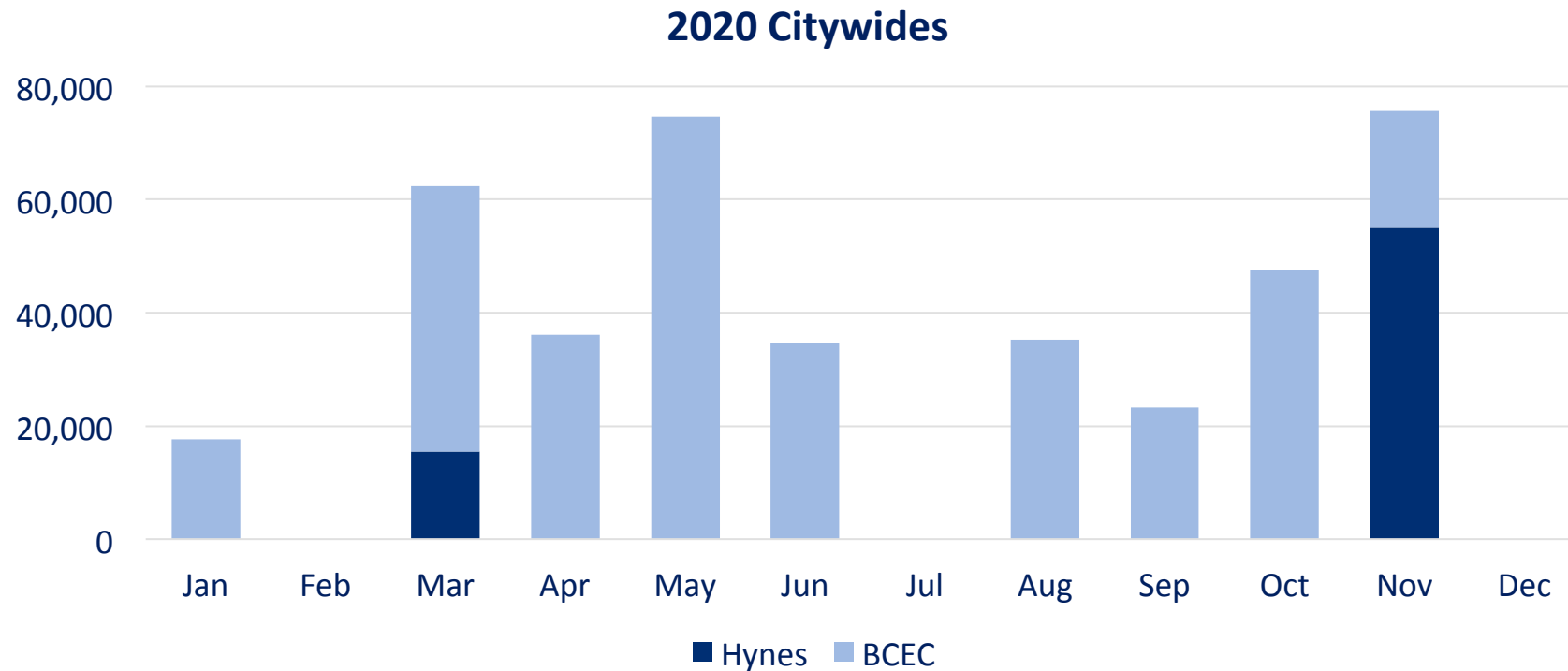
As defined by Pinnacle Advisory Group, a Citywide represents an event with 2,000+ roomnights on peak.

Data does not include Head of the Charles & the Boston Marathon

Source: MCCA



Boston & Cambridge Group Demand Trends (Citywides)



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

Data does not include Head of the Charles & the Boston Marathon

Source: MCCA



Boston & Cambridge Leisure Demand Trends

- ***Resilient Destination:*** Leisure travel to Boston continues to be strong and not expected to slow. Inbound international travel continues to grow.
- ***Short Term Rentals:*** It has yet to be seen what the changes to the short-term rentals will mean for hotel performance however available units will likely decline in the short term as hosts navigate new laws.
- ***Non-Recurring Events & Calendar Shifts:***
 - Market benefitted from the Merrimack Gas Explosions in Q4 2018 which will negatively impact 2019 YOY growth.
 - The Red Sox won the World Series in 2018 extending season into late October. Loss of a Sox/Yankee series to London in 2019. Bruins went to the Stanley Cup in 2019, extending season into June.
 - Gain weekend day: January, February (leap year), May, July, October (2)
 - Lose weekend day: March (2), June, August, November (2)



Boston & Cambridge Contract Demand Trends

- There was an influx of crew demand into the market the last three years (double digit growth from 2016 to 2018) as international service through Logan grew and more crews required downtown lodging. Contract demand now makes up approximately 5% of the market's total demand.
- This trend has continued, although slowing slightly. Volume increased 8.9% YTD through June.
- Hotels were 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 six 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. In 2018, contract rates declined 0.4%.



Boston & Cambridge ADR Trends

Corporate

- Similar to 2019, consensus is to push for LNRs at 3-4%, with increases landing between 2-4%. With occupancies averaging 84% Tues through Thurs, corporate accounts should accept some level of increase but all growth will be relative to volume.
- Over 50% the new supply entering the market in 2019 and 2020 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 1.7% in 2018.
- Through June of 2019, group rates have increased 2.0% when compared to the same period last year. However, the majority of this growth was achieved in the month of February.
- Encore Boston Harbor has not yet penetrated the market's group segment but is expected to do so as it ramps up. According to Wynn, the Encore Boston Harbor won't enter a "steady state" until roughly 36 months out, around Q1 2021.

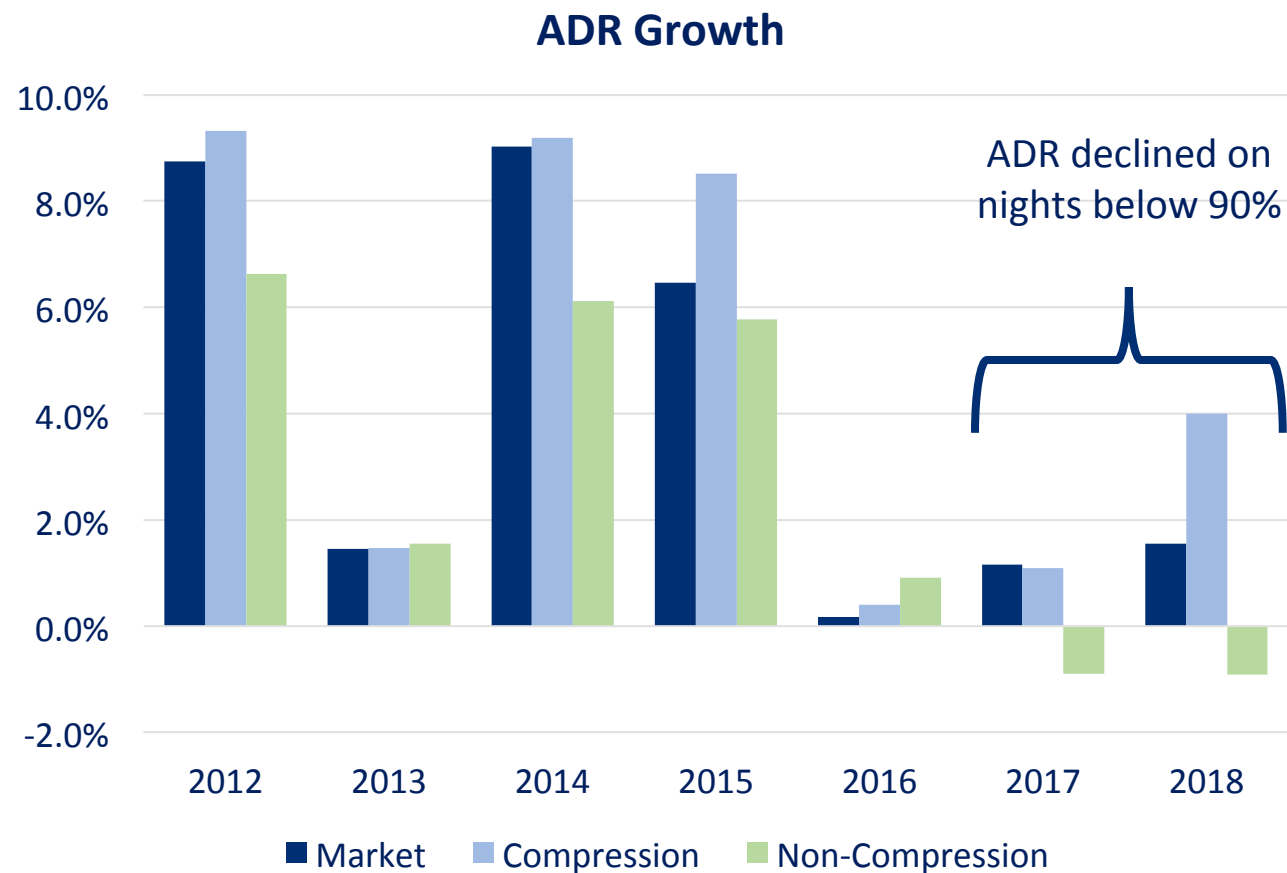
Leisure

- Very little rate compression in Q3 and Q4 2019. Without a base of group demand in July and August market is expected to be aggressive using opaque channels, driving lower rates. Q4 2019 expected to be down without demand from last year's gas explosions and two less citywides in both October and November. A Sox world series run seems unlikely.
- More compression from group/conventions in 2020 will result in more pricing power.



Boston & Cambridge Compression

Compression Nights (+90% Occ)		
Year	Count	% Change
2011	111	
2012	110	-0.9%
2013	118	7.3%
2014	148	25.4%
2015	138	-6.8%
2016	130	-5.8%
2017	146	+12.3%
2018	142	-2.7%
YTD 2019	53	+12.8%



Source: STR, Compiled by Pinnacle Advisory Group



Boston & Cambridge Projections 2019

	2018	2019	% Change
Occupancy	82.7%	81.5%	-1.5%
ADR	\$262	\$265	+1.0%
RevPAR	\$216	\$216	-0.2%

**+1.5%
Demand**

**+3.2%
Supply**

Source: Pinnacle Advisory Group



Boston & Cambridge Projections 2020

	2019	2020	% Change
Occupancy	81.5%	80%	-2.4%
ADR	\$265	\$269	+1.8%
RevPAR	\$216	\$214	-0.6%

**+2.5%
Demand**

**+5.0%
Supply**

Source: Pinnacle Advisory Group



Pinnacle Advisory Group

Boston

New York City

Newport Beach

Portland

Washington DC

Tampa



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