Hotel Development 101

- ADR – Occupancy – RevPAR
- NOI
- Cost-per-Key
- Yield - IRR
- Developer – Flag – Mgmt Co.
- Select v. Full Service
Discussion Topics

- Fundamentals and Industry trends
- Public-Private-Partnerships
- Data and understanding the market
- Wake County Lodging Market Overview
- Site Selection
The **positive long-term outlook** of the travel and tourism sector continues to bolster the investment community’s interest in achieving **target yields** through hotel acquisitions and development.
U.S. Lodging Market Historical Supply & Demand

<table>
<thead>
<tr>
<th>Year</th>
<th>Supply CAGR</th>
<th>Demand CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>1.8%</td>
<td>1.9%</td>
</tr>
<tr>
<td>1990</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td></td>
<td></td>
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<td>1996</td>
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<td>1999</td>
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<td>2002</td>
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<td>2005</td>
<td></td>
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<td>2008</td>
<td></td>
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<tr>
<td>2011</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
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</tbody>
</table>

Source: STR, JLL
Top Global Trends

1. Experience economy reaches the luxury sector
2. Hotels embrace co-working
3. New brands are a beacon for growth
4. Consolidation/M&A activity continues
How Partners Come Together

Public Sector
- Policy
- Zoning
- Demand generators
- Land
- Parking
- Incentives

Private Sector
- Land
- Construction
- Delivery
- Operations
- Equity Capital
Developers consider a range of metrics to understand a potential market

**Economic and Demographic | Travel and Demand Generators | Construction and Operations Costs**

- Site Availability
- GDP Growth Last 10 Years; Next 10 Years
- Population Growth Last 10 Years
- Median Household Income
- % of Population with Bachelor’s Degree or Higher
- Cost of Living Index
- Cost of Doing Business
- Demand Generators
- Total Enplanements
- Sq. Ft. Class A Office Space in Market
- Construction Cost in Market
- Overall Business Friendliness Rating
- Regulations
- Employment, Labor, & Hiring

*Do we feel the investment will produce an appropriate level of return?*
Wake County Lodging Market Overview
<table>
<thead>
<tr>
<th>Municipality</th>
<th># of Properties</th>
<th># of Rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raleigh</td>
<td>85</td>
<td>10,868</td>
</tr>
<tr>
<td>Morrisville</td>
<td>24</td>
<td>2,460</td>
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<tr>
<td>Cary</td>
<td>22</td>
<td>2,725</td>
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<tr>
<td>Garner</td>
<td>12</td>
<td>889</td>
</tr>
<tr>
<td>Apex</td>
<td>5</td>
<td>427</td>
</tr>
<tr>
<td>Wake Forest</td>
<td>3</td>
<td>270</td>
</tr>
<tr>
<td>Fuquay Varina</td>
<td>2</td>
<td>112</td>
</tr>
<tr>
<td>Knightdale</td>
<td>2</td>
<td>150</td>
</tr>
<tr>
<td>Holly Springs</td>
<td>1</td>
<td>124</td>
</tr>
<tr>
<td><strong>County Total</strong></td>
<td><strong>156</strong></td>
<td><strong>18,025</strong></td>
</tr>
</tbody>
</table>

Source: STR, JLL

Composition of Supply

as of April 2019

By Classification

- Select Service: 11%
- Full Service: 82%
- Independent: 7%

160 Properties
Wake County Hotel Growth

- 2008 opening of RCC spurs full service hotel development
- Mid 1980's – select service hotel development takes off

Source: STR, JLL
Wake County Supply Growth and Occupancy

Organic growth in recent years generally captured by new select service supply

70% occupancy even as new supply delivers

Source: STR, JLL
Positive rate growth trend – ADR CAGR of 3.0% from 2005-2018

Supply Growth and Performance

Average Daily Rate (ADR)

RevPAR

Source: STR, JLL
At 70%, Wake County – top-performer in NC
Wake County – middle position compared to other regional markets

Source: STR, JLL
Site Selection

Let’s hear from the Developers
• **ADR:** Average Daily Rate. ADR measures the average realized room rental revenue per day.
• **Cost-per-Key:** Total amount spent in all areas of the hotel divided by the total number of keys in the hotel.
• **Developer:** Entity that purchases land and builds the building
• **Flag:** The brand or affiliation of the hotel
• **Full-Service:** Hotel with a restaurant and offering room service
• **IRR:** Internal Rate of Return estimates the profitability of the potential investments.
• **Management Company:** Operates the hotel.
• **Net Operating Income:** Determines the capitalization rate, which determines the property's value.
• **Occupancy:** Percentage of available rooms or beds being sold for a certain period of time.
• **Select Service:** Traditionally hotels without restaurant services. Amenities have expanded over time to often include a business center, fitness room, laundry facility, market/pantry, pool, and/or meeting rooms.
• **RevPAR:** Revenue Per Available Room
• **Yield:** The amount of cash (in percentage terms) that returns to the owners, in the form of interest or dividends received from it.