Lodging Industry Outlook

SAN LUIS OBISPO COUNTY 2016 TOURISM EXCHANGE
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HOTEL SECTOR UPDATE

- The Economy – What Matters

- Our Forecasts

  - National

  - Local

- Airbnb – Some Observations
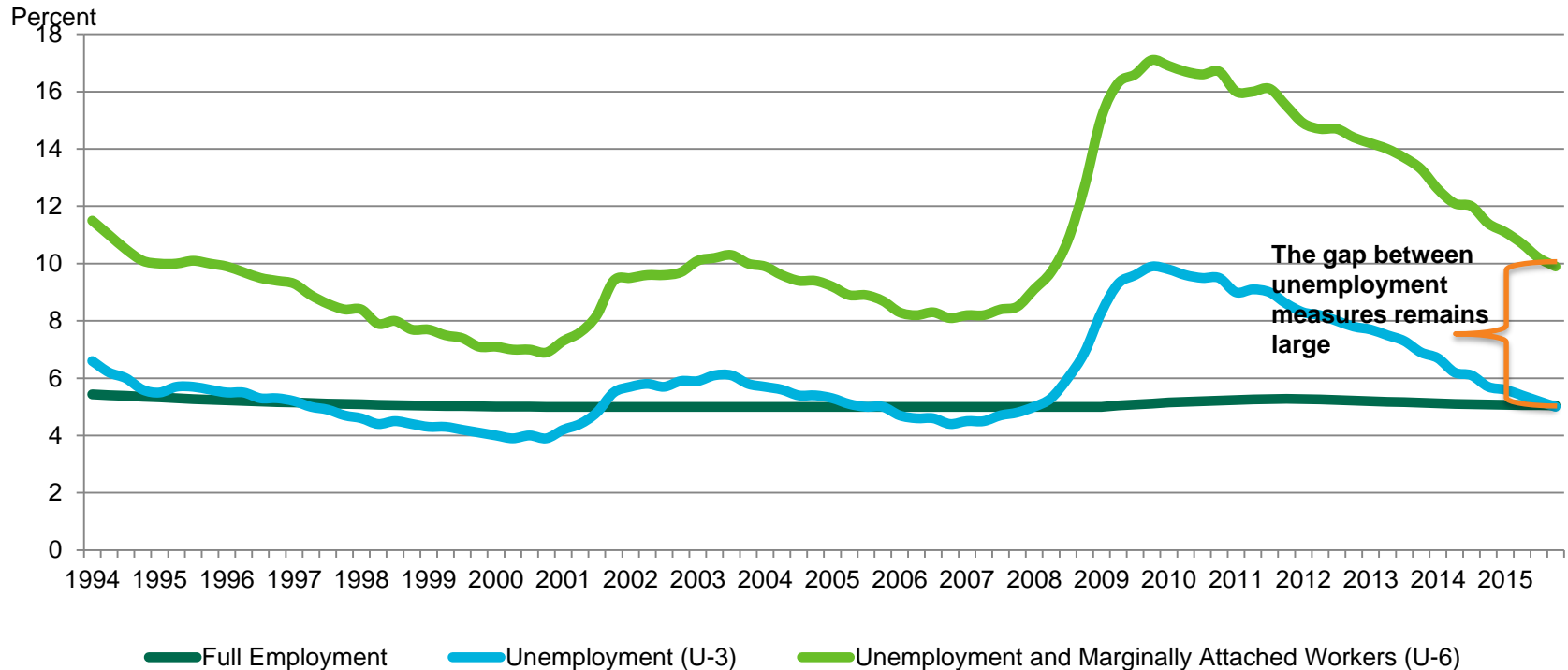
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ECONOMIC FACTORS THAT MATTER MOST

WHAT HISTORY TELLS US ABOUT WHAT MATTERS

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

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THE US ECONOMY IS ACHIEVING FULL EMPLOYMENT FOR THE FIRST TIME SINCE 2007

Percent

The gap between unemployment measures remains large

Legend:
- Full Employment
- Unemployment (U-3)
- Unemployment and Marginally Attached Workers (U-6)

Source: Moody's Analytics, PKF Hospitality Research | CBRE Hotels, Q1 2016.
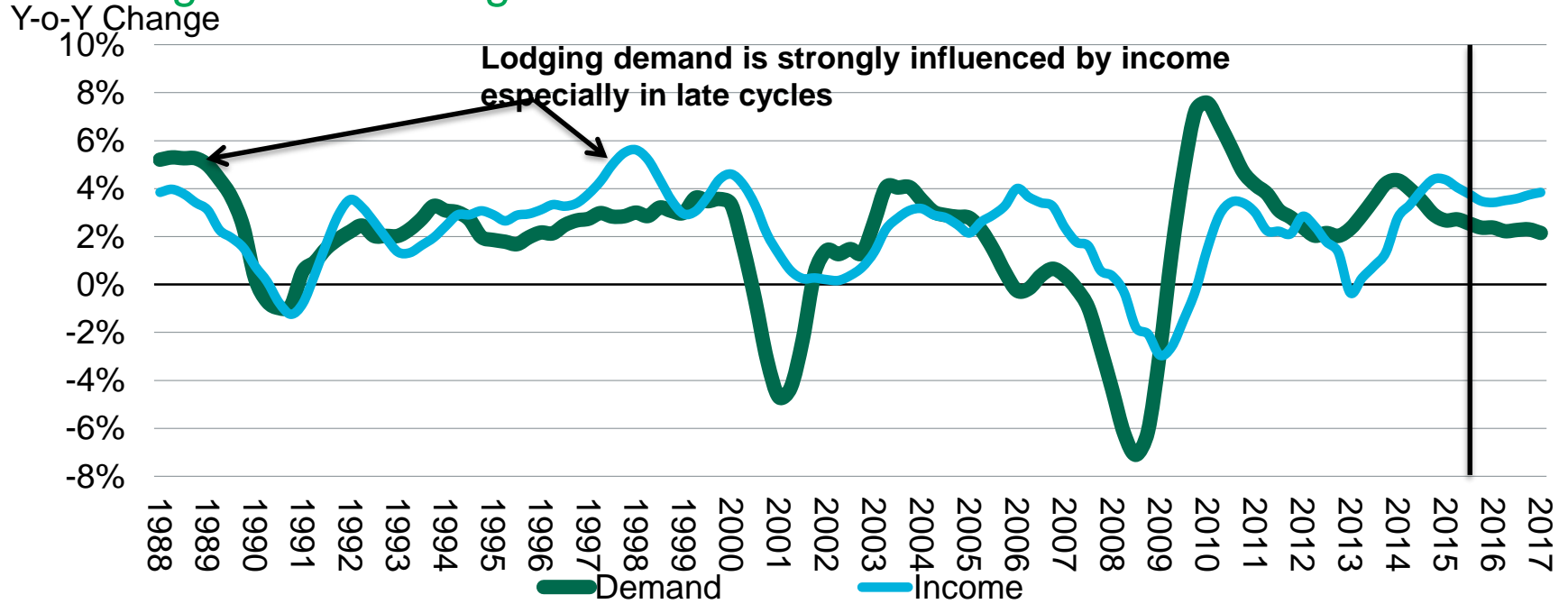
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HIGH CONCERN AND POSITIVE: INCOME AND EMPLOYMENT

The economy is at full employment for the first time since 2007 and income growth is strong

Y-o-Y Change
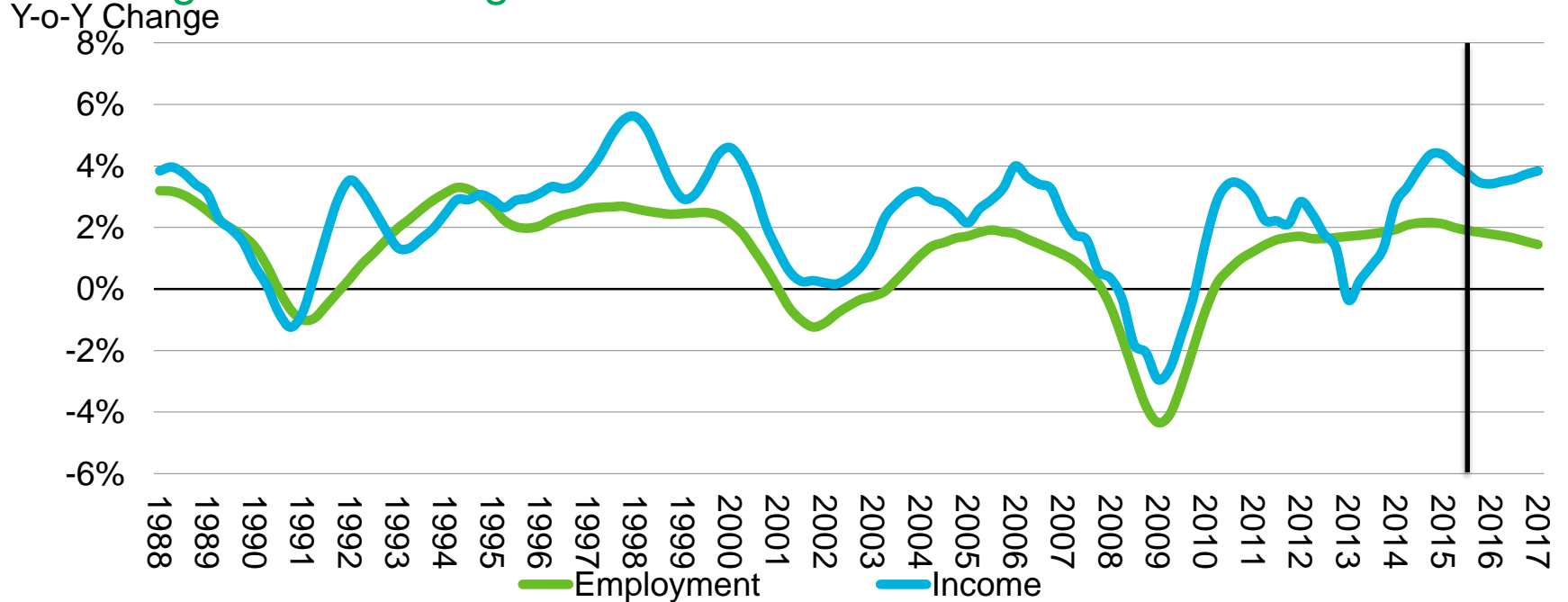
Employment   Income

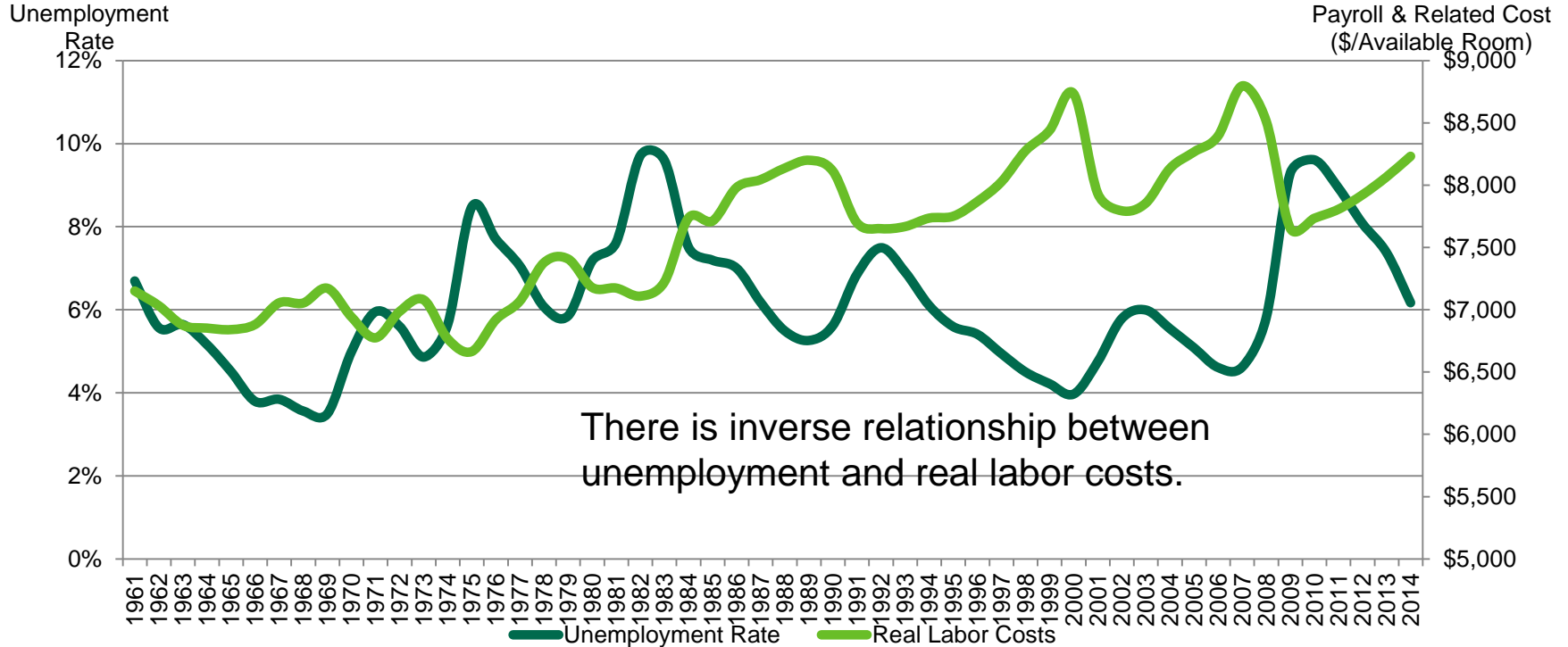Source: STR, Inc. , CBRE Hotels' Americas Research, CBRE Econometrics Advisors Q1 2016.

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HIGH CONCERN AND POSITIVE: INCOME

The economy is at full employment for the first time since 2007 and income growth is strong

Y-o-Y Change

Lodging demand is strongly influenced by income especially in late cycles

Demand   Income

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AS THE ECONOMY REACHES FULL EMPLOYMENT LABOR COSTS ARE LIKELY TO RISE

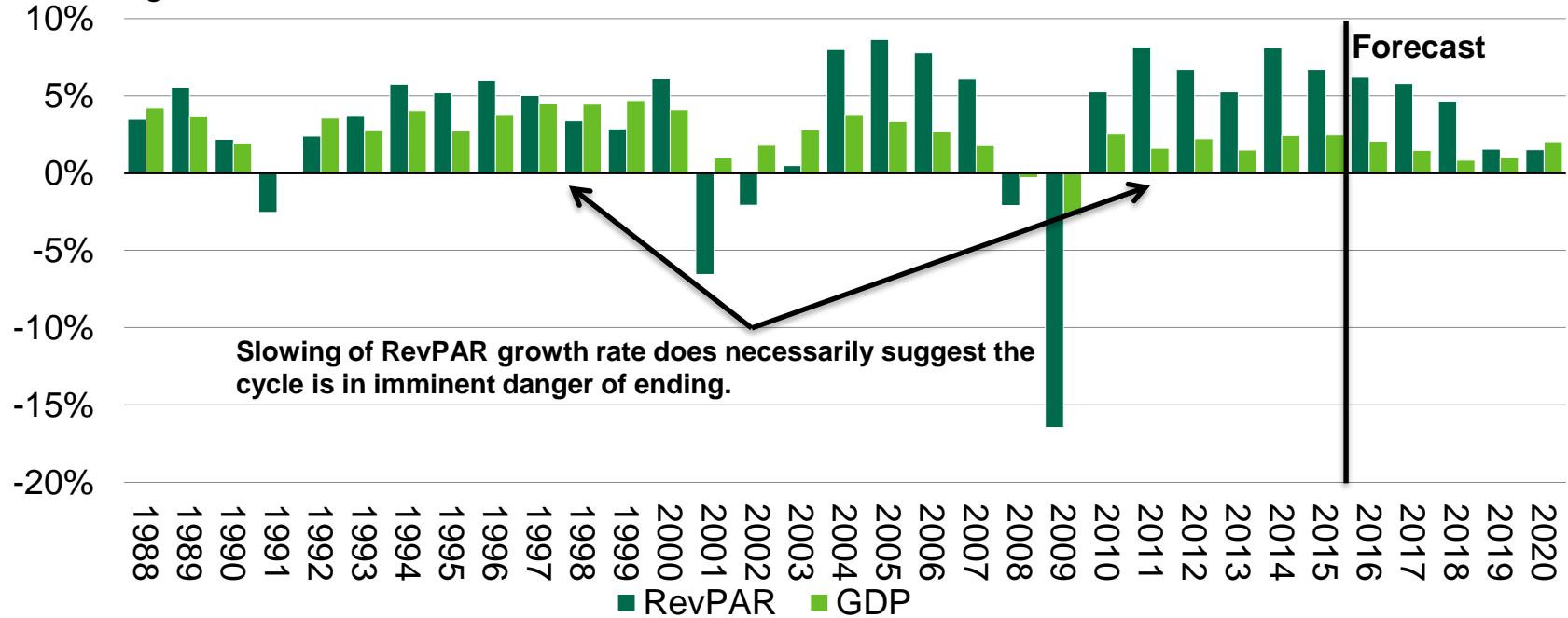There is inverse relationship between unemployment and real labor costs.

Source: Moody's Analytics, PKF Hospitality Research | CBRE Hotels, Q1 2016.

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HIGH CONCERN: GDP AND REVPAR

RevPAR rate of change closely tracks GDP changes

Y-o-Y Change

Forecast

Slowing of RevPAR growth rate does necessarily suggest the cycle is in imminent danger of ending.

■ RevPAR ■ GDP

Source: STR, Inc. , CBRE Hotels' Americas Research, CBRE Econometric Advisors Q1 2016.

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OUR FORECASTS

BASELINE ECONOMIC FORECAST

Expected Case Scenario
Key Assumptions:

- GDP growth remains between 2-3% and the unemployment rate remains below 5% through 2018. Real incomes will rise by over 3% for the next 3 years.

- The Federal Reserve is expected to slowly normalize interest rates as the economy achieves full employment in 2016 and short-term interest rates will reach 3.5% in 2018.

- Oil prices are thought to be near their bottom and are expected to make their way slowly back, supported by a sharp pullback in investment in oil production. Oil prices are not expected to top $90 per barrel for another decade.

- The federal government's fiscal situation continues to improve. Political brink-manship over the budget will not be a threat to the economy until 2017 at the earliest.

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U.S. BASELINE FORECAST

Occupancy Begins to Peak and ADR Growth Picks Up

	Long Run Average	2013	2014	2015	2016	2017
Supply	1.9%	0.6%	0.7%	1.1%	1.8%	2.3%
Demand	2.0%	2.0%	4.3%	2.9%	2.1%	1.8%
Occupancy	62.0%	62.2%	64.4%	65.5%	65.7%	65.4%
ADR	3.0%	3.8%	4.5%	4.4%	5.2%	5.3%
RevPAR	3.2%	5.2%	8.2%	6.3%	5.5%	4.7%

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Occupancy Has Peaked ADR Growth Continues

	2013	2014	2015	2016	2017
Supply	2.4%	0.0%	2.7%	4.0%	1.1%
Demand	5.9%	2.6%	4.2%	2.2%	1.5%
Occupancy	71.4%	73.2%	74.3%	73.0%	73.3%
ADR	3.4%	5.3%	5.4%	4.5%	4.8%
RevPAR	6.9%	8.1%	6.9%	2.6%	5.2%

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SAN LUIS OBISPO COUNTY FORECAST

Key Thoughts & Observations

- Likely that 2015, the 6th consecutive year of grow, was the peak in terms of occupancy, eclipsing more than 74 percent, an all-time high.

- Gains in prior years are difficult to continue to replicate.

- ADR growth should continue above inflation for the next few years.

- The success in growing ADR and yield management will be the keys to growing net operating income in the mid-term.

- Slowdown NOT downturn.

- If demand declines are more severe than projected, the region historically has been more insulated than other destinations.

- Unique new supply on the horizon…

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SAN LUIS OBISPO COUNTY FORECAST

New Supply Brings Opportunities & Challenges

- As CA's 3rd largest wine region, SLO is undersupplied in terms of hotels as compared to other wine country destinations (less than 10,000 rooms).

- Given the average hotel in SLO is only +/- 50 rooms, significant and large meeting spaces are also underrepresented.

- Potentially nearly a dozen proposed projects in some stage of development.

- Although, history tells us that successful hotel development is a long and challenging endeavor.

- A diversified stock can increase the attractiveness and viability of a destination.

- On the other hand, the more generic and clustered together the openings are, the greater likelihood of decreasing aggregate market occupancies.

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SUMMARY THOUGHTS

Operating at the Peak

1. The fundamentals are solid across the vast majority of markets.

2. Elevated industry growth will persist comfortably through 2017 and likely beyond.

3. High occupancy levels will provide the leverage needed to achieve real ADR increases for the next two-three years.

4. Competition for building materials and labor will continue to present challenges for developers in most markets. Modest (but increasing) hotel construction will be the result for the next two-three years.

5. Above long run average occupancy levels will lead to strong profit growth comfortably through 2017, enough to off-set increasing labor costs.

6. It continues to be a great time to be in the hotel business!

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Is It a Threat?

SOME INITIAL OBSERVATIONS

AIRBNB SUPPLY

Airbnb Supply: Traditional Hotel Supply

"The Greater the Percent, the Greater the Potential Competition"

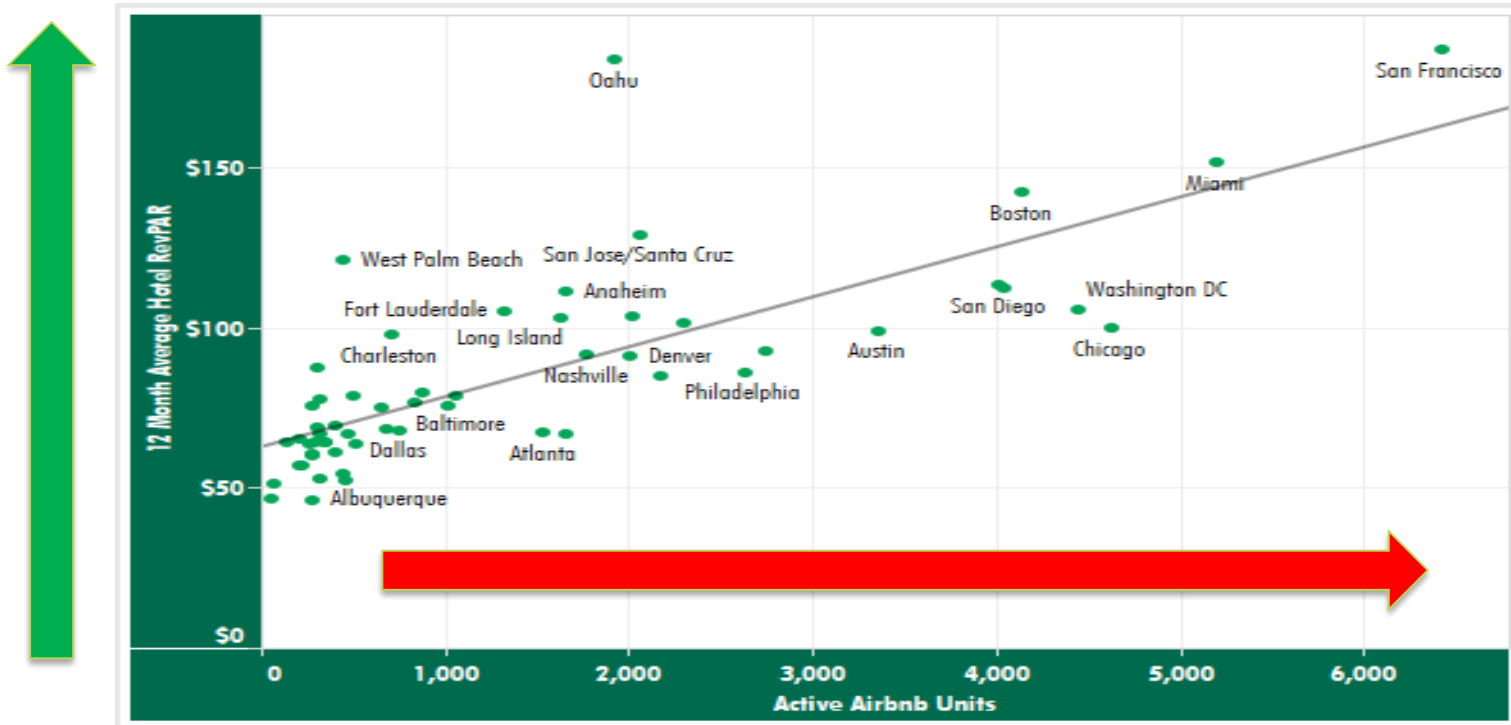**CBRE**

TOP 10 AIRBNB MARKETS – RELATIVE SUPPLY

MARKET	ACTIVE AIRBNB UNITS	ACTIVE AIRBNB BEDROOMS	BEDROOMS PER UNIT	HOTEL ROOMS	AIRBNB UNITS/HOTEL ROOMS
New York	22,876	27,965	1.2	117,367	19.5%
Los Angeles	13,023	17,967	1.4	98,166	13.3%
San Francisco	6,428	8,790	1.4	51,561	12.5%
Miami	5,199	7,368	1.4	51,498	10.1%
Chicago	4,626	6,153	1.3	111,408	4.2%
Washington DC	4,443	5,784	1.3	107,776	4.1%
Boston	4,147	5,566	1.3	52,119	8.0%
Seattle	4,044	5,601	1.4	42,455	9.5%
San Diego	4,016	6,290	1.6	60,754	6.6%
Austin	3,357	6,024	1.8	33,877	9.9%
Top 10 U.S	72,159	97,508	1.4	726,981	9.9%
Overall U.S.	173,057	277,256	1.6	5,031,645	3.4%

Source: Airdna, STR, Inc., CBRE Hotels'' Americas Research

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REVENUE DRIVES SUPPLY

Hotel RevPAR and Airbnb Units in a Market

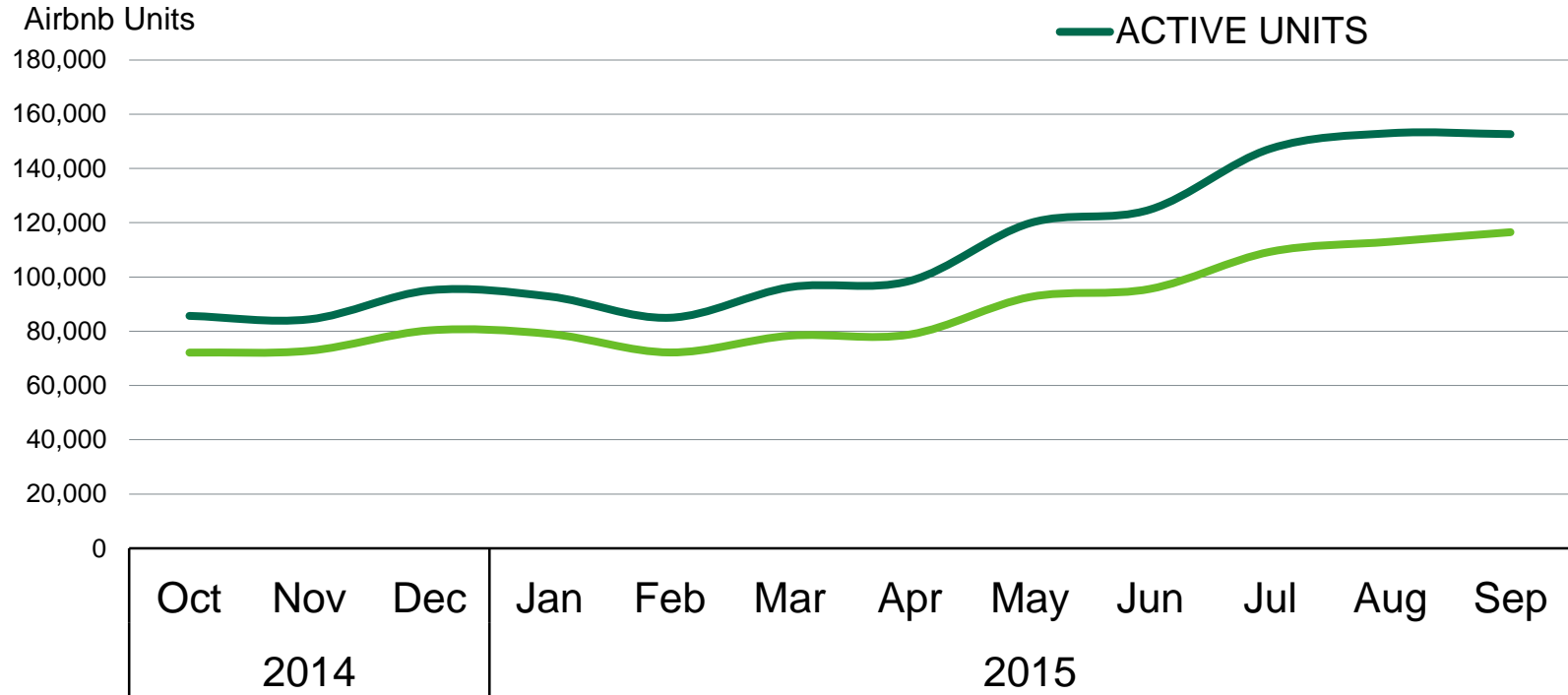Source: Airdna, STR, Inc., CBRE Hotels'' Americas Research

Note: Los Angeles and New York have been excluded as outliers due to a high number of Active Units

Airbnb Active Unit Growth

"The Greater the Growth, the Greater the Concern"

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U.S. AIRBNB ACTIVE UNITS & SUPPLY

Average Daily Active Units and Supply (Oct. 2014 – Sept. 2015)

Airbnb Units

ACTIVE UNITS

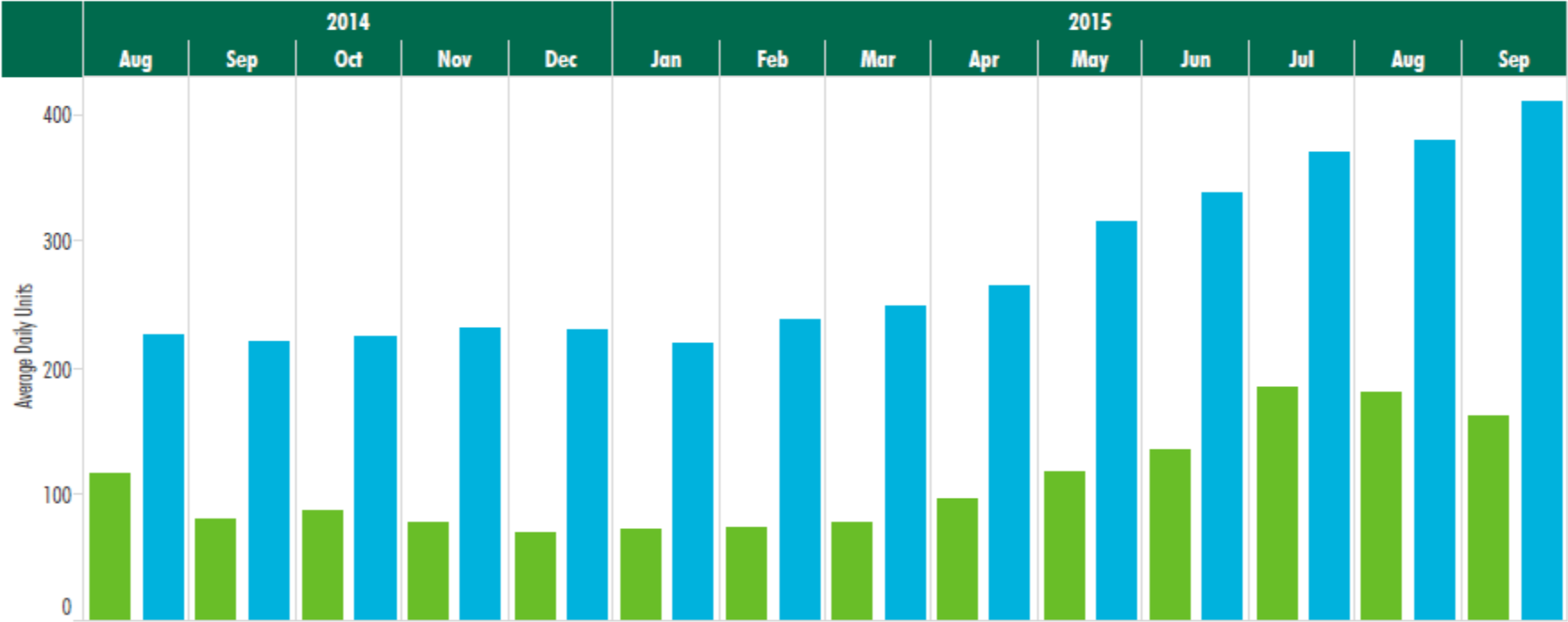Source: Airdna, STR, Inc., CBRE Hotels" Americas Research

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SAN LUIS OBISPO COUNTY - AIRBNB ACTIVE UNITS & SUPPLY

Average Daily Active Units and Supply (Oct. 2014 – Sept. 2015)

California Central Coast - San Luis Obispo/Paso Robles, CA Airbnb Monthly Supply and Demand

Source: Airdna, STR, Inc., CBRE Hotels'' Americas Research

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Average Daily Active Units and Supply (Oct. 2014 – Sept. 2015)

San Luis Obispo/Paso Robles, CA

Airbnb & Hotel Performance (Oct 2014 - Sep 2015)

	AIRBNB	HOTELS	PREMIUM (DISC)
OCC	38.3%		
ADR	$169.59		
RevPAR	$64.92		

	AIRBNB	HOTELS	AIRBNB/HOTELS
Available Supply	105,807		
Units Sold	40,566		
Total Revenue	$6,883,765		

Sources: Airdna, STR, Inc.,PKF Hospitality Research | CBRE Hotels, Q4 2015.

Submarket Snapshot: September 2015

Active Airbnb Units	604
Active Airbnb Bedrooms	1,028
Bedrooms per Unit	1.7
Submarket Rooms	8,916
Airbnb Units/ Hotel Rooms	6.8%

Sources: Airdna, STR, Inc.,PKF Hospitality Research | CBRE Hotels, Q4 2015.

Source: Airdna, STR, Inc., CBRE Hotels" Americas Research

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WHERE WILL IT BE FELT?

Airbnb Impact

- Supply: It seems reasonable that the level of Airbnb supply and its growth rate will be an impediment to traditional hotel construction.

  - Is this a good thing? i.e. reduced likelihood of overbuilding.

- Fluid nature of Airbnb supply suggests that historic price premiums realized during peak demand periods will be mitigated.

- Potential opportunity to provide services to Airbnb hosts and guests.

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CONCLUSION

- Airbnb is here to stay.

- More relevant in some markets than in others.

- Airbnb is facing headwinds from:

  - Regulators

  - Potential appeal of alternative use

  - Host fatigue

- Seems reasonable that Airbnb has, and will continue to encroach on the business of the traditional lodging industry.

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