Mick Law P.C. LLO
2019 Hospitality Outlook

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US Lodging Market

According to the Cushman and Wakefield US Lodging Industry Overview published in September of 2018, the U.S. lodging market is in its 100th month of record growth, driven by strong demand. While room revenue surged during the first half of the decade, gains in the latter half of the decade have been softened by increased supply. Nationally, hotel operators are reporting strengthening business travel and improvement in group demand. Through the first half of the year, group bookings were up 1.3% and business travel was up 4.7%.

In the second half of 2016 the demand and supply lines momentarily converged, however, since that time, demand has exceeded supply. The average occupancy rate nationally is 65.9%, down slightly from year-end 2017 occupancy of 66.0%. Average Daily Rate ("ADR") was up 2.7% during the first half of the year to reach a level of $129.34, and Revenue Per Available Room ("RevPar") was up 3.6% to $85.29.

Despite the steady, and in some markets improving, occupancy levels, strong growth in ADR remains elusive. Corporate business travel policies and remaining pressure from third-party intermediaries continue to impact the ability of hotels to drive strong growth in ADR. Most market participants anticipate single digit growth over the forecast horizon.

The robust pipeline of new hotels in the works for the last few years is steadily coming to fruition. In most of the primary and secondary markets, new rooms are now regularly coming online, with this trend expected to continue into 2019. However, the natural disasters in 2017 and the first half of 2018 are slowing the planned supply growth in select major markets. As new supply gets absorbed, and with RevPar growth now in the third year of low single digit results, the market is relatively stable.

The following graph illustrates the change in occupancy, ADR and RevPAR from 1990 through 2017, as well as the 2018 YTD figures:

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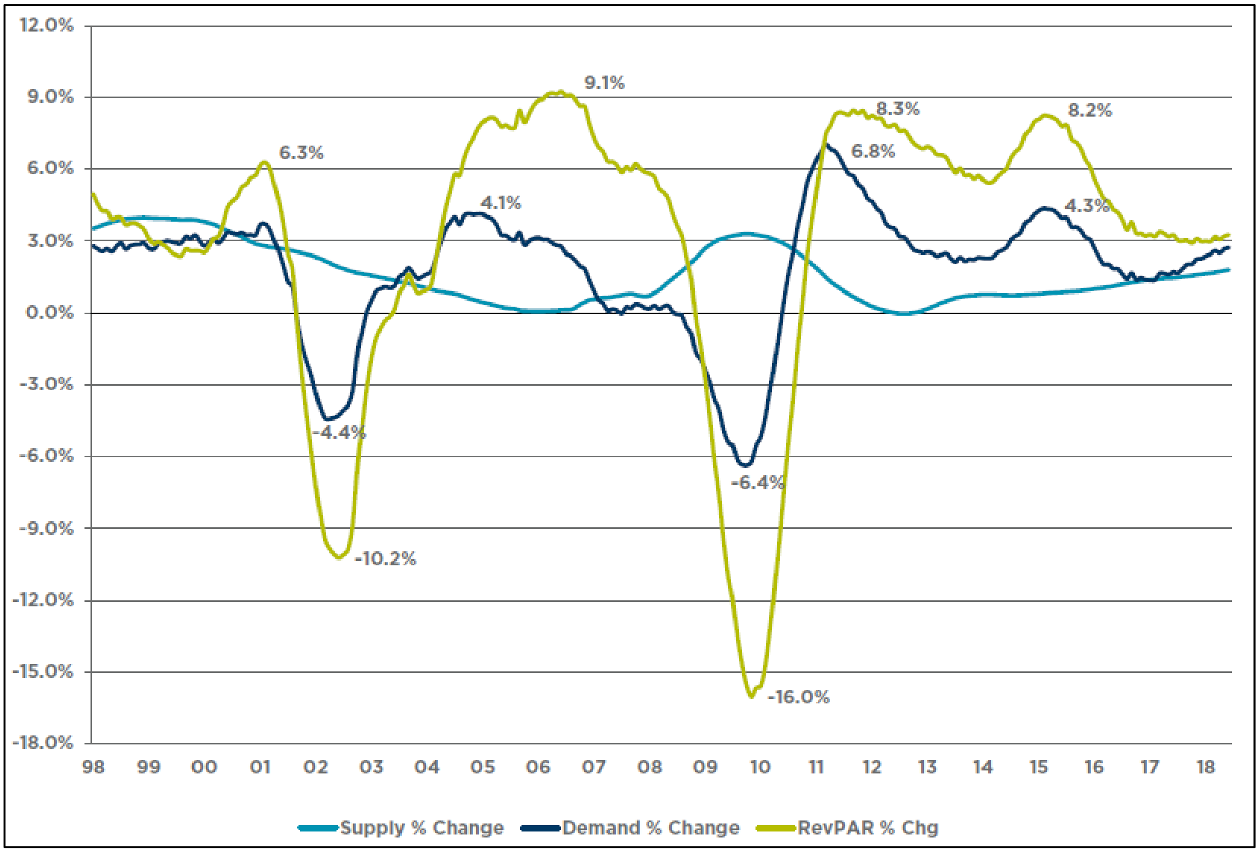

Smith Travel Research Report Review

A major indicator of marketplace performance is provided by Smith Travel and Research STR, which is an industry leading provider of information and data for the lodging industry. Below is a summary of the US Historical Operating Statistics for the past ten years:

US Historical Operating Statistics; 2008-2018				
Year	**Room Nights**	**Occupancy**	**ADR**	**RevPar**
2008	1,673,991,040	60.4	$106.48	$64.34
2009	1,728,062,260	55.1	$97.47	$53.71
2010	1,762,202,903	57.6	$97.95	$56.40
2011	1,767,355,160	60.1	$101.57	$61.04
2012	1,769,610,554	61.5	$106.05	$65.17
2013	1,783,137,587	62.3	$110.31	$68.70
2014	1,796,907,059	64.4	$115.39	$74.42
2015	1,814,674,194	65.6	$119.97	$78.65
2016	1,839,582,345	65.5	$123.90	$81.17
2017	1,869,428,066	66.0	$126.69	$83.57
Mid-Year 2018	938,544,708	70.2	$130.02	$91.94

Investment Market

Pursuant to the First Half 2018 CB Richard Ellis Cap Rate Survey, (the most recent survey as of the date of this report), nearly every hotel market segment within a CBD (full service, select service and economy) reported single-digit downticks in cap rates ranging from two to seven basis points. Luxury cap rates were up one basis point, however. The average cap rate during the 1st half of 2018 across all property classes and all metros was 7.94%, down three basis points from the year-end 2017 level. The greatest cap rate change was among select service hotels, which declined by seven basis points; select service in Tier I markets fell by 11 basis points. A summary of CBD Cap rates for stabilized properties can be found below:

Cap Rates for Stabilized CBD Properties

METRO TIER	CLASS	H1 2018 (%)	H2 2017 (%)	CHANGE (bps)
ALL	ALL	7.94	7.97	-3
	LUXURY	7.02	7.01	1
	FULL-SERVICE	7.67	7.69	-2
	SELECT-SERVICE	7.98	8.05	-7
	ECONOMY	9.07	9.11	-4
I	LUXURY	6.40	6.37	3
	FULL-SERVICE	7.19	7.20	-1
	SELECT-SERVICE	7.63	7.74	-11
	ECONOMY	8.57	8.64	-6
II	LUXURY	7.22	7.25	-3
	FULL-SERVICE	7.74	7.74	0
	SELECT-SERVICE	8.08	8.11	-4
	ECONOMY	9.19	9.24	-5
III	LUXURY	7.68	7.65	4
	FULL-SERVICE	8.25	8.29	-4
	SELECT-SERVICE	8.37	8.39	-2
	ECONOMY	9.62	9.62	0

Source: CBRE Research, Q2 2018.
Note: Some numbers may not total due to rounding. Data is subject to historical revisions.

With respect to Suburban cap rates, every hotel market segment reported a slight decline. Double digit declines were seen among Tier I Full-Service, Select Service and Economy. Across all tiers, Select-Service hotel cap rates saw the greatest decline at nine basis points. The average Suburban cap rate during the 1st half of 2018 across all property classes and all metros was 8.53%, down five basis points from the year-end 2017 level. A summary of Suburban Cap rates for stabilized properties can be found below:

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Cap Rates for Stabilized Suburban Properties

METRO TIER	CLASS	H1 2018 (%)	H2 2017 (%)	CHANGE (bps)
ALL	ALL	8.48	8.53	-5
	LUXURY	7.58	7.60	-1
	FULL-SERVICE	8.17	8.23	-6
	SELECT-SERVICE	8.50	8.60	-9
	ECONOMY	9.63	9.66	-3
I	LUXURY	7.31	7.33	-2
	FULL-SERVICE	7.81	7.92	-11
	SELECT-SERVICE	8.32	8.49	-17
	ECONOMY	9.31	9.42	-11
II	LUXURY	7.53	7.58	-5
	FULL-SERVICE	8.20	8.24	-5
	SELECT-SERVICE	8.53	8.58	-5
	ECONOMY	9.67	9.72	-5
III	LUXURY	8.08	8.02	5
	FULL-SERVICE	8.63	8.63	1
	SELECT-SERVICE	8.72	8.75	-3
	ECONOMY	10.02	9.92	10

Source: CBRE Research, Q2 2018.
Note: Some numbers may not total due to rounding. Data is subject to historical revisions.

According to the report, CBRE professionals anticipated increases in all hotel cap rates in the second half of 2018, resulting from continued increases in the 10-year Treasury rate. Survey respondents cited construction cost increases in most markets, which will likely begin to curtail development, the result of which would be a lack of new investment alternatives putting downward pressure on cap rates or at a minimum stabilization

In conclusion, while underwriting a development or acquisition transaction remains a market and sub-market exercise, most markets, absent material relief in construction costs, will experience equilibrium in 2019 and ADR growth slower than the last several years. .