US ECONOMY AND HOTEL INDUSTRY 2020 OUTLOOK
Navigating the slowdown

Adam Sacks
President
Tourism Economics
<table>
<thead>
<tr>
<th>Agenda</th>
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<tr>
<td>Outlook for the economy</td>
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<td>State of the US lodging sector</td>
</tr>
<tr>
<td>Travel sector prospects</td>
</tr>
<tr>
<td>Lodging outlook</td>
</tr>
</tbody>
</table>
ECONOMIC OUTLOOK
Global activity recently showing signs of bottoming out

World: PMIs

Source: Oxford Economics/Markit
And leading indicators pointing to early-2020 pick up

World: GDP & PMI

Source: Oxford Economics/Haver Analytics/Markit
But then the coronavirus hit…

Faster spreading virus, but lower mortality rate

Source: Oxford Economics/WHO/CDC

*As of February 24th, 2020
This time is different because of China’s global role

**China's importance to the world economy**

- China share of overseas travel to the US
  - 1% in 2002
  - 7% in 2019
- China is the #1 source of international travel spending in the US

Source: Oxford Economics/Haver Analytics
Asia worst affected but US and eurozone not untouched

GDP revisions due to coronavirus

Source: Oxford Economics/Haver Analytics
US trade flows have stalled

US: Trade growth at its worst outside recession
% y/y (12m ma)

Source: Oxford Economics/Haver Analytics
Corporate profits have narrowed

Corporate profits

As a ratio to GDP, quarterly

14%
12%
10%
8%
6%
4%

Historical average

2019Q4 9.8%


Note: History through 2019 Q4. Pre-tax corporate profits. With IVA and CGAdj.
Source: Bureau of Economic Analysis, Oxford Economics
Investment intentions have fallen sharply

Global trade slowdown is having its effect

Services have been more resilient
The long, steady expansion has pulled unemployment down to 3.5%.

The unemployment rate is the lowest it’s been in over 50 years (May 1969 it was 3.4%).
Household wealth has improved, and households have de-leveraged.

**Household net wealth**

In trillions of 2019 dollars

- 2019 Q4: 38.2% above the prior peak

**US: Household debt to disposable income**

- Household debt to disposable income ratio
- 20-year average
- 10-year average

Source: Oxford Economics/Haver Analytics
Wages continue to outpace inflation

**US: Average hourly earnings**

- Average hourly earnings
- Average hourly earnings, 3-mo rolling average

Source: Oxford Economics/Haver Analytics
Despite recent volatility, consumer confidence is buoyant

US: Consumer attitudes

Source: Oxford Economics/Haver Analytics
A slower 2020 is inevitable

US: Policy tailwinds diminish over time

Real GDP growth, Q4/Q4

Source: Oxford Economics

BBA, 2018 = Bipartisan Budget Act of 2018
TCJA, 2017 = Tax Cuts and Jobs Act of 2017
STATE OF THE US LODGING INDUSTRY
## 2019 Results: Flat Is The New “Up”

<table>
<thead>
<tr>
<th>Metric</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Room Supply</td>
<td>2.0%</td>
</tr>
<tr>
<td>Room Demand</td>
<td>2.0%</td>
</tr>
<tr>
<td>Occupancy</td>
<td>66.1%</td>
</tr>
<tr>
<td>ADR</td>
<td>$131</td>
</tr>
<tr>
<td>RevPAR</td>
<td>$87</td>
</tr>
<tr>
<td>Room Revenue</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

Source: STR

2020 © CoStar Realty Information, Inc.
Long Run Trends Point In One Direction: Down!

Total U.S., ADR & OCC % Change, 12 MMA 1/1990 – 12/2019

Source: STR
2020 © CoStar Realty Information, Inc.
Real ADR Growth (ADR% minus CPI%) Has Now Been Negative For Six Quarters

Total U.S., Real ADR % Change (ADR minus CPI), by quarter, Q1/1990 – Q4/2019

Source: STR
2020 © CoStar Realty Information, Inc.
Segmentation ADR % Change: Transient ADR Growth Much Weaker Than Group ADR Growth

*ADR % Change, Transient & Group, 12MMA, 1/2018 – 12/2019
Limited Service Construction Is The Name Of The Game

70%

Luxury: 14.3
Upper Upscale: 27.5
Upscale: 61.8
Upper Midscale: 60.0
Midscale: 13.4
Economy: 3.8
Unaffiliated: 19.4

*US Pipeline, Rooms In Construction, '000s Rooms, by Scale, December 2019

Source: STR
2020 © CoStar Realty Information, Inc
January 2020

RevPAR
2.2%

Transient RevPAR
5.0%

January Room Demand
91 Million

ADR
1.4%

Group RevPAR
1.8%

In Construction Rooms
+6.8%

Source: STR 2020 © CoStar Realty Information, Inc.
## Miami Hotel Performance Lifts US Data

**January 2020**

<table>
<thead>
<tr>
<th></th>
<th>Occ %</th>
<th>ADR %</th>
<th>RevPAR %</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>0.8</td>
<td>1.4</td>
<td>2.2</td>
</tr>
<tr>
<td>Miami</td>
<td>3.5</td>
<td>14.5</td>
<td>18.6</td>
</tr>
<tr>
<td>US excl. Miami</td>
<td>0.8</td>
<td>0.9</td>
<td>1.7</td>
</tr>
</tbody>
</table>
As Expected: Slow Occupancy Month
YTD January 2020 & 2019

Luxury: 2019 - 62.4, 2018 - 61.3
Upper Upscale: 2019 - 62.8, 2018 - 61.7
Upscale: 2019 - 60.9, 2018 - 60.3
Upper Midscale: 2019 - 55.0, 2018 - 54.7
Midscale: 2019 - 46.9, 2018 - 47.2
Economy: 2019 - 49.1, 2018 - 48.9

Source: STR. 2020 © CoStar Realty Information, Inc.
RevPAR Growth Still Alive At Upper End

12 MMA January 2020

<table>
<thead>
<tr>
<th>Category</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luxury</td>
<td>1.7</td>
</tr>
<tr>
<td>Upper Upscale</td>
<td>0.9</td>
</tr>
<tr>
<td>Upscale</td>
<td>-0.1</td>
</tr>
<tr>
<td>Upper Midscale</td>
<td>-0.1</td>
</tr>
<tr>
<td>Midscale</td>
<td>-0.3</td>
</tr>
<tr>
<td>Economy</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Source: STR 2020 © CoStar Realty Information, Inc.
People are traveling more than ever

Room nights per capita, US

2019 Q4: 3.9 room nights per capita

Occupancy

Note: Seasonally adjusted
Source: STR; Tourism Economics

Note: Recession shaded; data seasonally adjusted, history through 2019 Q4, forecast through 2021 Q4.
Source: STR, NBER, Tourism Economics
Even in “severe recession” occupancy rates are higher than in the past three decades.
International inbound performing as expected

“We expect inbound travel performance to remain tepid in 2019 consistent with recent monthly trends.”

Tourism Economics, January 2019

- After averaging growth of 6.4% from 2011-2016, overseas travel to the US has slowed markedly.

**Overseas Visits to the US**

<table>
<thead>
<tr>
<th>% change</th>
<th>Average 2011-2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>6.4%</td>
<td>2.0%</td>
<td>2.5%</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

Source: NTTO, Tourism Economics
For total inbound, a recession is underway

- Negative performance in 8 out of 11 months this year
- Total inbound is down -1.1% through November of 2019

**US international inbound arrivals**

% change y/y

Source: NTTO, StatCan, Banco de Mexico
A wide mix of performance last year

**US Inbound arrivals**
% change, Jan-Dec 2019

<table>
<thead>
<tr>
<th>Country</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>-10%</td>
</tr>
<tr>
<td>Brazil</td>
<td>-5%</td>
</tr>
<tr>
<td>Australia</td>
<td>0%</td>
</tr>
<tr>
<td>Colombia</td>
<td>5%</td>
</tr>
<tr>
<td>Germany</td>
<td>10%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-10%</td>
</tr>
<tr>
<td>Italy</td>
<td>-5%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>0%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>5%</td>
</tr>
<tr>
<td>South Korea</td>
<td>10%</td>
</tr>
<tr>
<td>France</td>
<td>10%</td>
</tr>
<tr>
<td>India</td>
<td>-5%</td>
</tr>
<tr>
<td>Japan</td>
<td>0%</td>
</tr>
<tr>
<td>Spain</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: NTTO

- Key emerging markets, including China and Brazil, contracted in 2019.
- Spain, Japan, and India posted robust results.
Visitors can get sticker shock from currency exchange

The US is significantly more expensive to visitors relative to six years ago.

$US Exchange rates, $/LC
2013=100, annual average

Source: Oxford Economics
Coronavirus impacts

- Based on historical precedent, a 25% drop in visits to the US from China is expected in 2020.
- The rest of Asia also likely to see a drop up to 10%.
- 1.6 million visits and $7.7 billion in visitor spending lost in 2020.
Coronavirus hotel impacts

- 7.5 million hotel room nights will be lost in 2020 alone
- In 2020, 0.6% of US hotel room demand will be forfeited

Source: Tourism Economics, STR
City exposure to China

• Los Angeles and New York City are the largest US city destinations with 1.2 million and 1.1 million overnight visits from China in 2019, respectively.

• As a share of total overseas visitors to each city in 2019, Riverside CA, Los Angeles, and Seattle are most exposed to the Chinese market.

Overnight Visits from China in 2019

<table>
<thead>
<tr>
<th>City</th>
<th>Visits (000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Los Angeles</td>
<td>1,200,000</td>
</tr>
<tr>
<td>NYC</td>
<td>1,100,000</td>
</tr>
<tr>
<td>San Francisco</td>
<td>700,000</td>
</tr>
<tr>
<td>Riverside, CA</td>
<td>500,000</td>
</tr>
<tr>
<td>Boston</td>
<td>300,000</td>
</tr>
<tr>
<td>Las Vegas</td>
<td>200,000</td>
</tr>
<tr>
<td>Honolulu</td>
<td>150,000</td>
</tr>
<tr>
<td>Seattle</td>
<td>100,000</td>
</tr>
<tr>
<td>Chicago</td>
<td>80,000</td>
</tr>
<tr>
<td>Washington DC</td>
<td>70,000</td>
</tr>
<tr>
<td>San Diego</td>
<td>60,000</td>
</tr>
<tr>
<td>Detroit</td>
<td>50,000</td>
</tr>
<tr>
<td>Houston</td>
<td>40,000</td>
</tr>
<tr>
<td>Miami</td>
<td>30,000</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>20,000</td>
</tr>
<tr>
<td>Orlando</td>
<td>15,000</td>
</tr>
<tr>
<td>Atlanta</td>
<td>10,000</td>
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</tbody>
</table>

Share of Overseas Visits from China in 2019

<table>
<thead>
<tr>
<th>City</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Riverside, CA</td>
<td>25%</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>20%</td>
</tr>
<tr>
<td>Seattle</td>
<td>15%</td>
</tr>
<tr>
<td>Detroit</td>
<td>10%</td>
</tr>
<tr>
<td>San Francisco</td>
<td>10%</td>
</tr>
<tr>
<td>Boston</td>
<td>10%</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>7%</td>
</tr>
<tr>
<td>Chicago</td>
<td>5%</td>
</tr>
<tr>
<td>Houston</td>
<td>5%</td>
</tr>
<tr>
<td>NYC</td>
<td>5%</td>
</tr>
<tr>
<td>Washington DC</td>
<td>5%</td>
</tr>
<tr>
<td>Atlanta</td>
<td>5%</td>
</tr>
<tr>
<td>Honolulu</td>
<td>3%</td>
</tr>
<tr>
<td>Las Vegas</td>
<td>3%</td>
</tr>
<tr>
<td>Miami</td>
<td>2%</td>
</tr>
<tr>
<td>Orlando</td>
<td>2%</td>
</tr>
</tbody>
</table>
Demand forecasts have been consistently accurate

Accuracy of current year demand forecasts released in January of each year

- STR/TE January forecast demand growth
- Actual demand growth

Source: STR/Tourism Economics
…but ADR has been renegade

Occupancy and ADR growth

Source: STR; Tourism Economics
Recent growth (2018 and 2019)

ADR gains should be here

Note: Quarterly data. Occupancy is seasonally adjusted. ADR growth is year-over-year growth in nominal ADR. Equation shows predicted ADR growth based on the level of occupancy.
Source: STR, Tourism Economics
While increases in costs are eclipsing rate gains

Note: Compensation costs for leisure and hospitality sector jobs (wages, salaries and benefits at accommodation and food service establishments) based on Employment Cost Index.
Source: STR, BLS, Tourism Economics
Some pace data showing a rebound

North America 12-month lodging outlook
Performance pace: Nov 2019 - Oct 2020

- Weakness in transient business demand and in rate for transient leisure

Source: TravelClick
But the underlying economic data indicate weakness in group

Group lodging demand and capex spending
US, annual growth

Note: Capital expenditures measured as nonresidential fixed investment, private, real.
Source: STR, BEA; Oxford Economics
Domestic air travel bookings showing some volatility

Air passenger bookings rebounded strongly in January after a week finish to 2019.

Forward-Looking US Air Travel Bookings

y/y % change, advance moving-sum (month of booking)

-10%  -5%  0%  5%  10%  15%

Jul-17  Jan-18  Jul-18  Jan-19  Jul-19  Jan-20

Source: Tourism Economics, ARC

• Air passenger bookings rebounded strongly in January after a week finish to 2019.
And vacation intentions are holding

- Vacation intentions remained above prior year levels in each of the past 13 months.

**US Household Vacation Intentions**
% planning to take vacation in next six months

Source: Conference Board, Tourism Economics
THE US LODGING OUTLOOK
US Occupancy and ADR growth

% change

Str and TE forecast (Jan-2020 release)

RevPAR

- 2018: 2.9%
- 2019: 0.9%
- 2020: 0.0%

Source: STR; Tourism Economics
<table>
<thead>
<tr>
<th>Metric</th>
<th>2020 Forecast</th>
<th>2021 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply</td>
<td>1.9%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Demand</td>
<td>1.6%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Occupancy</td>
<td>-0.3%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>ADR</td>
<td>0.3%</td>
<td>0.6%</td>
</tr>
<tr>
<td>RevPAR</td>
<td>0.0%</td>
<td>0.5%</td>
</tr>
</tbody>
</table>