CUSHMAN & WAKEFIELD

October 2016

U.S. LODGING INDUSTRY OVERVIEW

HOSPITALITY & GAMING

A Cushman & Wakefield Valuation & Advisory Publication

INTRODUCTION

Much of the lodging industry discussion in the first half of 2016 relates to the trends that are playing out relative to a moderating U.S. hotel performance. Coming off of the record occupancy and rate achievements of 2015, when the national occupancy level reached 65.6 percent with an average daily rate of $120 and an average RevPAR of $79.00, the first half of 2016 reflects a deceleration from six consecutive years of post-recessionary growth. While the growth in occupancy and average daily rate are lessening, the overall national trends are still positive. On a regional basis, however, a number of the top 25 markets had some contraction in rate and/or occupancy, while others continue to thrive.

As expected, the pipeline of new supply continues to increase, and new hotels are now opening regularly, affecting some areas more than others. Compared with the first six months of 2015, when demand grew at 3.3 percent and supply grew at 0.9 percent, in the same period of 2016, demand grew almost by 1.2 percent while supply increased almost equivalently by 1.3 percent. Demand nationally has kept pace with the new rooms, resulting in a relatively stable occupancy level. The first quarter of 2016 showed a softening of demand that portended a less robust year, yet improvement in occupied room nights in the second quarter exceeded supply growth. Occupancy through June 2016 is 65.1 percent compared to 65.2 percent for the same period in 2015. Average rate growth in both quarters remained relatively stable averaging 3.2 percent, above the national inflation rate of 1.06 percent. Consistent with our year-end 2015 analysis, the slower growth is one of the major concerns of investors and lenders as are the lingering decline in transactions and lending activity.

NATIONAL HISTORICAL ANALYSIS

Despite the slackening national industry growth, the U.S. hotel industry expansion currently sits at 76 months, with RevPAR increasing 3.1 percent in the last six months. In line with the expectation expressed in 2015, national RevPAR growth decelerated in the first half of 2016, and industry experts are revising their expectations downward for the remainder of the year. The following chart depicts operating performance for the U.S. Lodging Industry from 1995 through 2015. Additionally, we have illustrated quarter-over-quarter comparisons for the last two quarters compared to the same time frame from the prior 12 months

The graph on the following page illustrates trends in occupancy, average rate and RevPAR from 1990 through 2015, as well as the 2016 and 2017 projections.

U.S. Historical Operating Statistics: 1995-2015; YTD June '15 vs. YTD Jun '16; 1Q16-2Q16

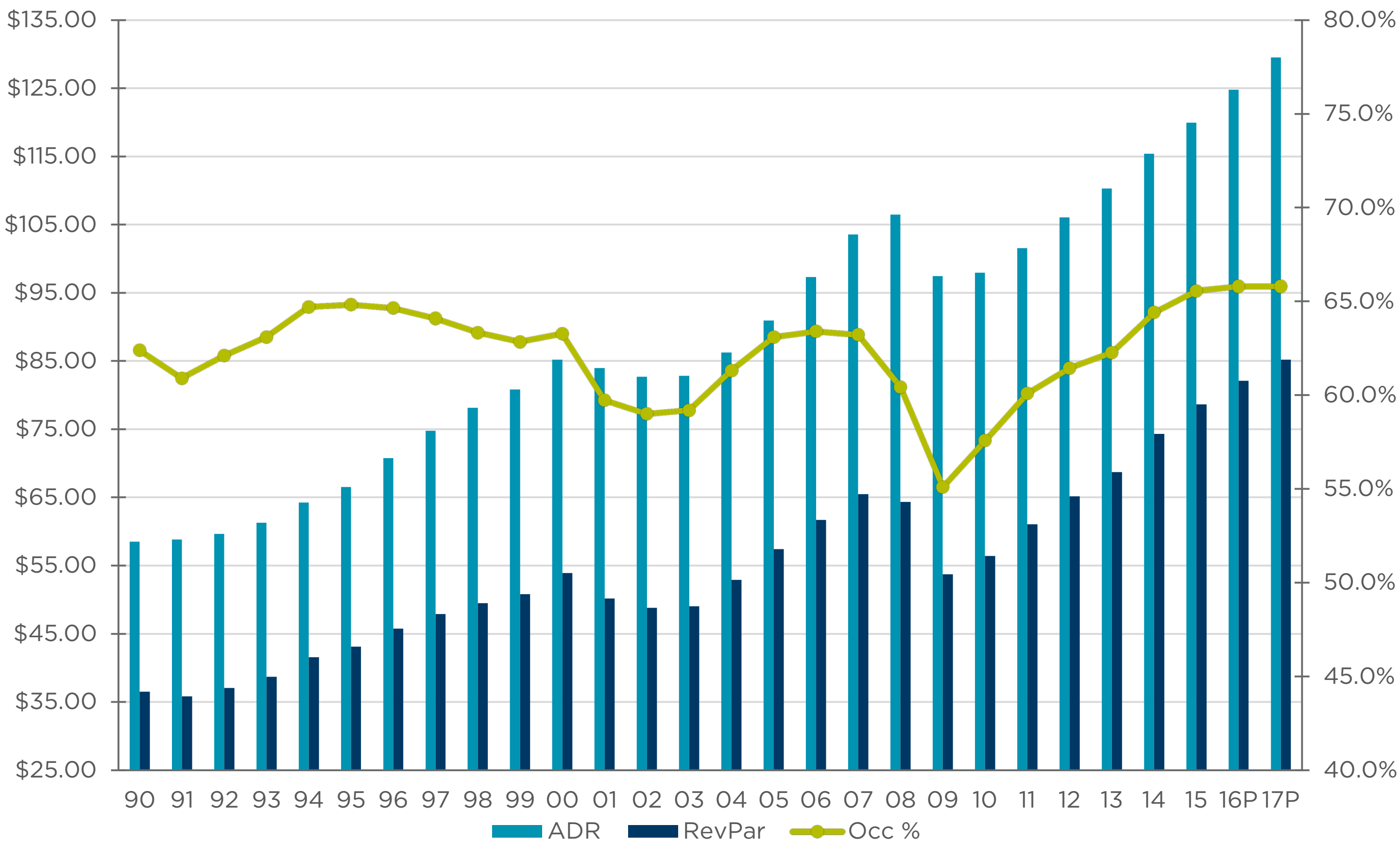
Year	Room Nights	Supply	% Change	Demand	% Change	Eq. Index	Occ	% Change	ADR	% Change	RevPAR	% Change
1995	1,296,206,105	3,551,250	---	840,198,343	---	---	64.8 %	---	$66.51	---	$43.11	---
1996	1,327,378,229	3,636,653	2.4 %	857,953,667	2.1 %	(0.3) %	64.6	(0.3) %	70.77	6.4 %	45.74	6.1 %
1997	1,373,655,064	3,763,439	3.5	880,383,612	2.6	(0.9)	64.1	(0.8)	74.75	5.6	47.91	4.7
1998	1,428,239,890	3,912,986	4.0	904,625,348	2.8	(1.2)	63.3	(1.2)	78.12	4.5	49.48	3.3
1999	1,482,967,994	4,062,926	3.8	931,878,372	3.0	(0.8)	62.8	(0.8)	80.84	3.5	50.80	2.7
2000	1,525,108,531	4,178,380	2.8	965,098,664	3.6	0.7	63.3	0.7	85.19	5.4	53.91	6.1
2001	1,561,252,452	4,277,404	2.4	932,657,287	(3.4)	(5.7)	59.7	(5.6)	83.96	(1.4)	50.16	(7.0)
2002	1,585,818,384	4,344,708	1.6	935,753,763	0.3	(1.2)	59.0	(1.2)	82.71	(1.5)	48.80	(2.7)
2003	1,602,339,641	4,389,972	1.0	948,463,191	1.4	0.3	59.2	0.3	82.83	0.1	49.03	0.5
2004	1,609,856,123	4,410,565	0.5	987,155,136	4.1	3.6	61.3	3.6	86.26	4.1	52.90	7.9
2005	1,611,095,859	4,413,961	0.1	1,016,609,518	3.0	2.9	63.1	2.9	90.95	5.4	57.39	8.5
2006	1,620,521,609	4,439,785	0.6	1,027,327,729	1.1	0.5	63.4	0.5	97.31	7.0	61.69	7.5
2007	1,630,881,234	4,468,168	0.6	1,030,858,746	0.3	(0.3)	63.2	(0.3)	103.55	6.4	65.46	6.1
2008	1,673,991,040	4,586,277	2.6	1,011,561,443	(1.9)	(4.5)	60.4	(4.4)	106.48	2.8	64.34	(1.7)
2009	1,728,062,260	4,734,417	3.2	952,266,656	(5.9)	(9.1)	55.1	(8.8)	97.47	(8.5)	53.71	(16.5)
2010	1,762,020,903	4,827,455	2.0	1,014,568,881	6.5	4.6	57.6	4.5	97.95	0.5	56.40	5.0
2011	1,767,355,160	4,842,069	0.3	1,062,135,606	4.7	4.4	60.1	4.4	101.57	3.7	61.04	8.2
2012	1,769,610,554	4,848,248	0.1	1,087,435,148	2.4	2.3	61.5	2.3	106.05	4.4	65.17	6.8
2013	1,783,137,587	4,885,308	0.8	1,110,527,243	2.1	1.4	62.3	1.3	110.31	4.0	68.70	5.4
2014	1,796,907,059	4,923,033	0.8	1,157,230,900	4.2	3.4	64.4	3.4	115.39	4.6	74.32	8.2
2015	1,814,674,194	4,971,710	1.0	1,189,614,896	2.8	1.8	65.6	1.8	119.97	4.0	78.65	5.8
Avg Annual % Change			1.7 %		1.8 %	0.1 %		(0.0) %		3.0 %		3.1 %
YTD Jun-15	895,403,473	4,946,981	---	583,532,587	---	---	65.2 %	---	$118.97	---	$77.53	---
YTD Jun-16	907,256,222	5,012,465	1.3 %	590,264,894	1.2 %	(0.2) %	65.1	(0.2) %	122.84	3.2 %	79.92	3.1 %
Q1 2015	442,368,154	4,915,202	---	270,334,373	---	---	61.1 %	---	$117.09	---	$71.56	---
Q1 2016	447,869,137	4,976,324	1.2 %	271,649,810	0.5 %	(0.8) %	60.7	(0.7) %	120.92	3.3 %	73.34	2.5 %
Q2 2015	453,035,319	4,978,410	---	313,198,214	---	---	69.1 %	---	$120.60	---	$83.37	---
Q2 2016	459,387,085	5,048,210	1.4 %	318,615,084	1.7 %	0.3 %	69.4	0.3 %	124.47	3.2 %	86.33	3.5 %

Source: STR

In 2015, RevPAR increased 5.8 percent, which was primarily driven by ADR growth. In the first six months of 2016, RevPAR has increased 3.1 percent, also driven by rate growth, but at the anticipated reduced pace. Industry pundits are still expecting 2016 to finish with RevPAR increases of 4.2 to 4.6 percent, but anticipate that 2017 results will continue the soft landing at 3.8 to 4.7 percent. The growth in both years is almost entirely attributed to rate growth, as occupancy levels are forecast to stabilize or decline in the face of new supply and slowing demand.

The following graph illustrates trends in occupancy, average rate and RevPAR from 1990 through 2015, as well as the 2016 and 2017 projections.

U.S. Occupancy, ADR and RevPAR – 1990-2017



Source: STR
Republication or Other Re-Use of this Data Without the Express Written Permission of STR is Strictly Prohibited

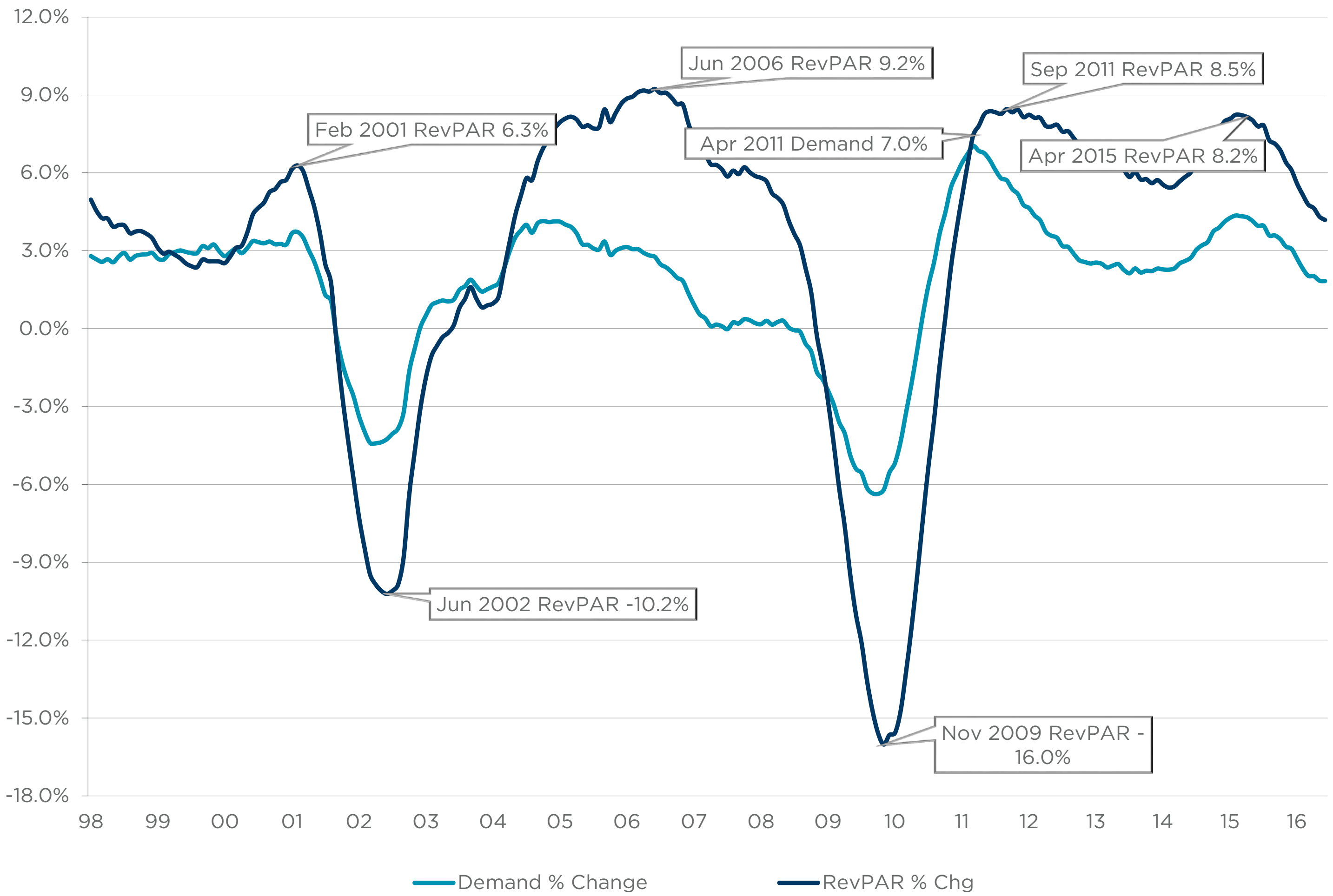
The above chart illustrates both the absolute operating trends and the cyclical nature of the industry. The record-breaking ADR and RevPAR growth since 2013 continues and occupancy is showing greater stability.

All of the six STR chain-scale categories showed shifts in the mid-year data. Supply increased for all product types, but, as expected, the biggest growth was in the Upscale category (5.1 percent) though the rate of change was close to that of mid-year 2015 (4.8 percent). The Upper Upscale and Upper Midscale categories grew at the same rate as in the prior year's period (1.5 percent and 1.6 percent, respectively) while the Luxury and Midscale hotel inventory continue to expand at a greater rate (1.7 percent mid-year 2016 compared to 1.2 percent for mid-year 2015 for Luxury and 1.1 percent compared to 0.5 percent for Midscale). Even supply in the Economy segment, which had contracted by mid-year 2015, grew in 2016, albeit at less than 1 percent.

As with most hotel development cycles, the properties coming online were conceived and financed as the performance of the hotel market was strengthening and construction financing was more readily available. The hotel pipeline remains robust with rooms in all segments proposed and under construction. Consistent with prior cycles, supply growth often peaks while the market performance is waning, intensifying the weakening of occupancy and rate results. We are beginning to see this trend in some markets already.

The following chart shows a 12 month moving average of supply, demand and RevPAR since 1989. This chart is an effective tool for measuring the current, "real-time" performance for the industry and provides a good indication of the industry's recovery and sustainability.

Supply, Demand and RevPAR – 12-Month Moving Average Jan '89 - Dec '15



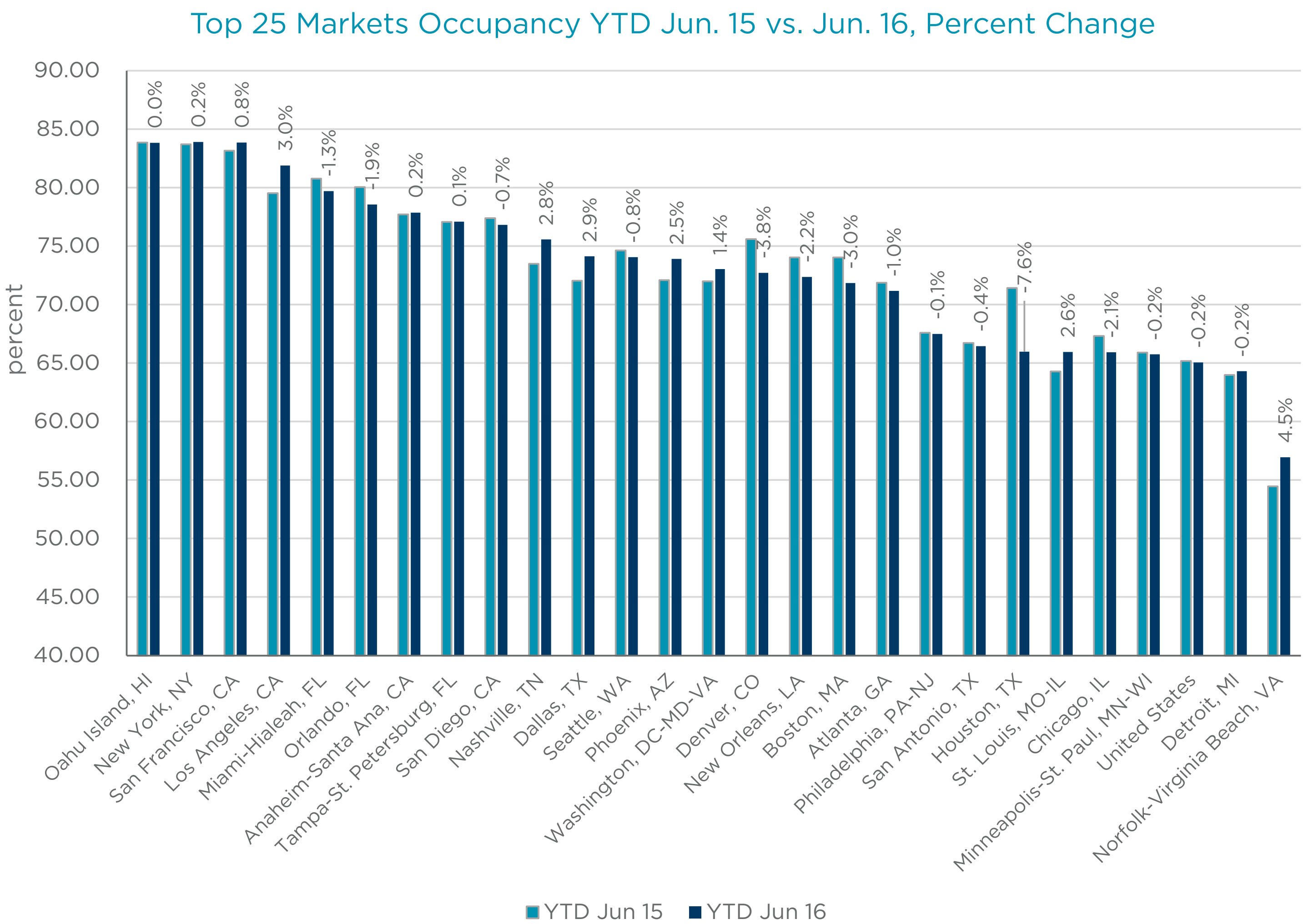
Source: STR
Republication or Other Re-Use of this Data Without the Express Written Permission of STR is Strictly Prohibited

The cyclical peaks and valleys of the industry are amplified on this chart. While the magnitude of the last downturn in 2009/10 was greater than the prior nadir in 2002, the recovery was similar; however, the chart is clear that demand and RevPAR growth is declining while supply growth is increasing. It is interesting to note that the supply peak in the prior cycle coincided with the lowest performance point. Both prior downturns had major economic/world events that precipitated the hotel market crashes, but the demand and RevPAR trend lines were already heading downward. The most recent periods on the chart show the shifting market performance. Barring an unforeseen event that could impact the industry, experts are not expecting dramatic declines seen in prior cycles.

STR TOP 25 MARKETS

The changing trends in hotel fundamentals have affected the top 25 markets unevenly. As expected, hotel room expansion is coming to fruition across the U.S. New supply is affecting 23 of the top 25 markets. It is interesting to note in 17 of the top 25 markets with supply increases, demand also improved, although for most of these, the rate of supply growth exceeded supply change, resulting in occupancy declines. Some markets are being affected by the dual impacts of the reduction in business travel and the increase in hotel inventory. Despite these challenges, as seen in the following chart, 22 of the top 25 markets exceed the national occupancy average.

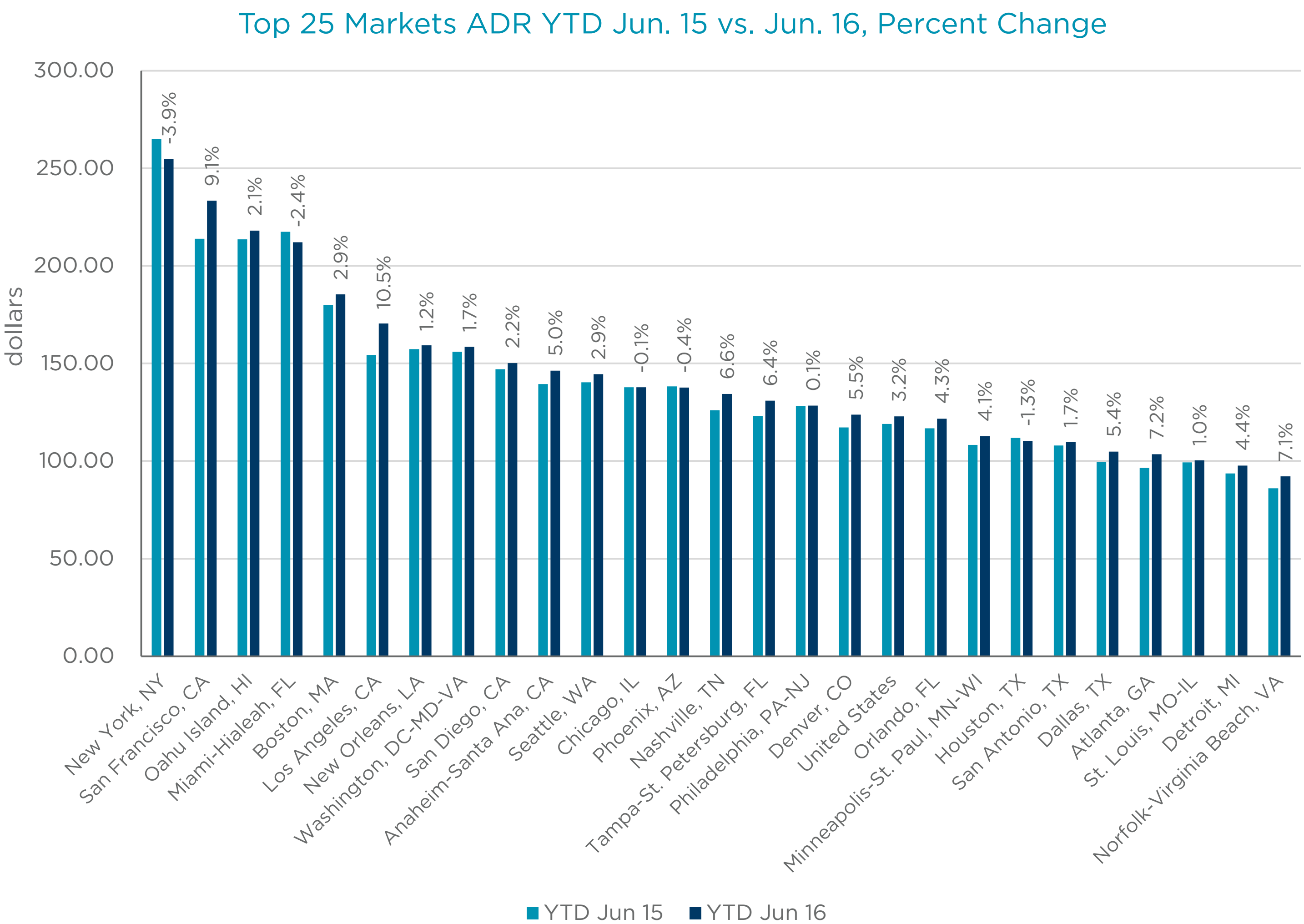
Top 25 Markets Occupancy Percent Change – Mid-Year 2016



Source: STR
Republication or Other Re-Use of this Data Without the Express Written Permission of STR is Strictly Prohibited

National average rate growth was still above inflation but with a wide range of gainers and losers among the 25 markets.

Top 25 Markets Average Rate Percent Change – Mid-Year 2016

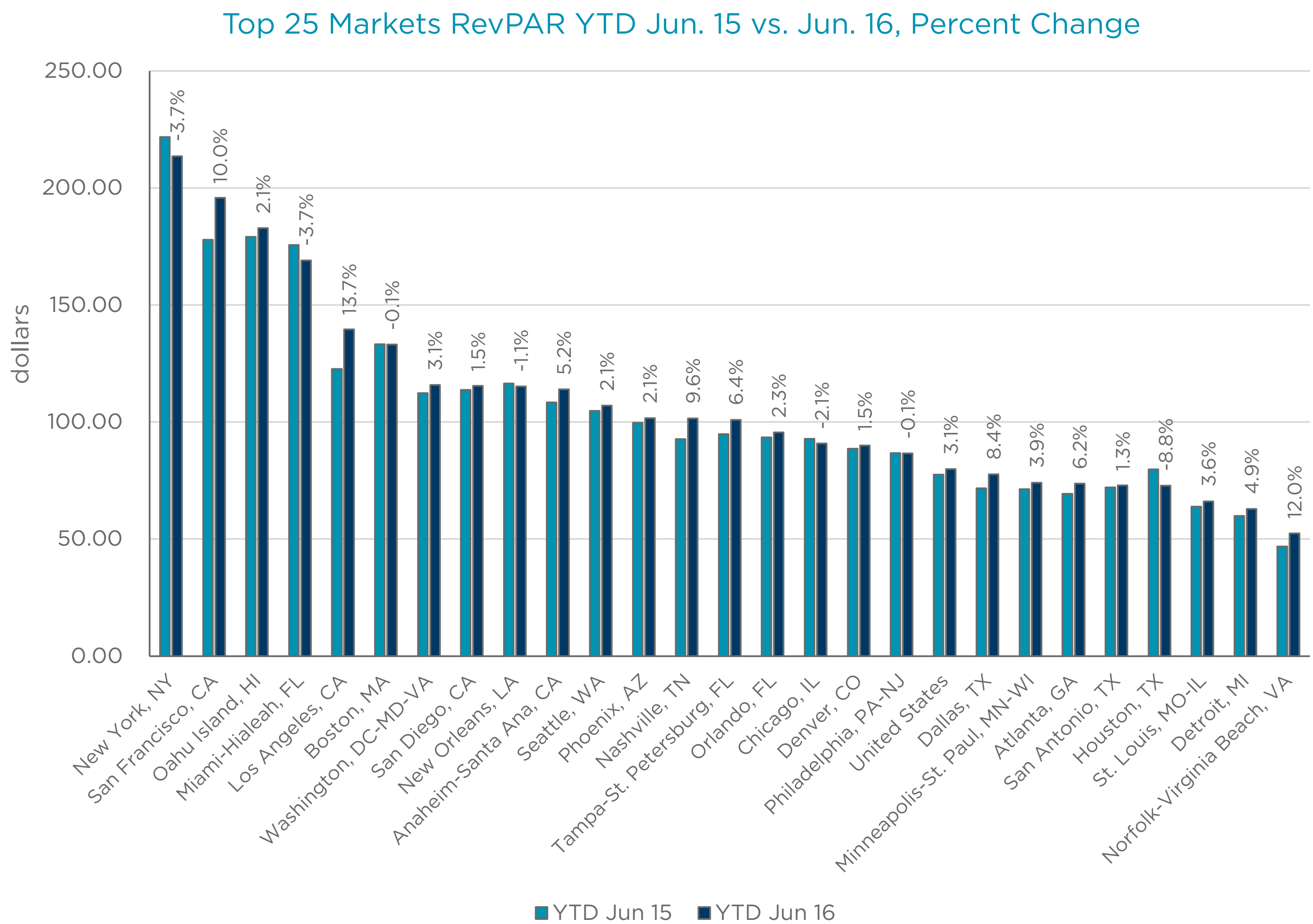


Source: STR
Republication or Other Re-Use of this Data Without the Express Written Permission of STR is Strictly Prohibited

Many of the top occupancy markets are also average rate leaders. Nevertheless, 20 percent of the top 25 markets had declining average rates. It is interesting to note that approximately half of the markets exceeded the national average, and those markets had rate growth of over 100 basis points.

Changes to the top 25 markets' mid-year RevPAR results were largely driven by average rate shifts as seen below.

Top 25 Markets RevPAR Percent Change – Mid-Year 2016



Source: STR

However, while only five markets showed average rate declines, seven markets experienced RevPAR decreases. Many of the highest RevPAR markets are witnessing the largest amount of new supply. According to STR, the top 25 markets have more than 50 percent of the under-construction rooms nationally. Some markets are showing continued absorption of new rooms; however, other markets are flirting with declining occupancy levels while average rate growth remains healthy in most areas.

SUPPLY

The following tables compare the U.S. hotel development pipeline as of June 2016 compared to the same period in 2015

.

Active Development Pipeline All U.S. Hotels				
Stage	June '15	June '16	Change	% Change
In Construction	128,734	166,397	37,663	29.3%
Final Planning	172,481	196,689	24,208	14.0%
Planning	124,828	159,238	34,410	27.6%
Unconfirmed	44,416	37,000	-7,416	-16.7%
Total Development	**470,459**	**559,324**	**88,865**	**18.9%**

Source: STR
Republication or Other Re-Use of this Data Without the Express Written Permission of STR is Strictly Prohibited

The supply pipeline in the near term continues to grow, dominated by properties with no or limited food and beverage facilities. As with all hotel development cycles, new supply is most supported when markets are at or near their peak. Several of the top performing markets also have large pipelines of new supply; however, other cities that are clearly starting to hurt also have new hotels under construction which could prove more problematic.

Of the top 25 markets, 24 have new supply under construction, which, as a percentage of existing supply, is greater than 2.0 percent. These are led by New York, Denver and Seattle. New York still has the largest number of rooms under construction (15,699 rooms or 14.0 percent of supply). Other secondary markets have supplanted primary gateway cities over the last six months with new hotel construction. Denver has now supplanted Miami for second place with 4,327 rooms or 10.0 percent of supply. Seattle (3,238 rooms or 8.0 percent of supply) and Minneapolis/St. Paul (2,657 rooms or 7.0 percent of supply) are now ahead of Dallas (5,127 rooms or 6.0 percent of supply) and Miami, also with 6.0 percent of supply or 3,256 rooms.

Beginning in mid-2015, financing for hotel construction became more challenging to source and execute. While much of the construction underway was financed by commercial banks, large and small, industry participants are noting that these lenders are more selective about funding new hotel projects, particularly in the light of slowing RevPAR growth and louder discourse about decelerating hotel industry growth. Developers are increasingly seeking private debt, which can also be more expensive.

The flourishing hotel pipeline could be further tempered by increasing construction costs. Developers are reporting enough volatility in construction costs to derail projects that had previously penciled out earlier in the year or requiring project plans to be modified. However, the increase in construction costs is not from material costs, it is attributed to the steep competition for labor. Increasing hotel construction costs are also causing difficulty in underwriting. We have heard that costs for a number of urban hotel projects have been increasing 20 to 30 percent over the last year. With less financing for new hotel development available and construction cost increasing, we expect a growing number of projects will likely be shelved until a more favorable development market returns.

INFLUENCES ON HOTEL DEMAND

The performance of some hotel markets began to decline in 2015, and we are now seeing more markets with downward trending occupancies and a contraction of hotel transactions. On a macro level, the issues of concern to industry participants in the U.S. are more and more global impacts: disease (currently the Zika virus); personal and technological security; terrorism; and the elections. The unpredictability of these matters imparts a bothersome uncertainty for buyers, sellers and operators.

But when considering the main market segments in the U.S. that we analyze every day – business travel, meeting and group attendees, and leisure guests – the trends are less fluid. When conducting research for this mid-year industry overview, the reported experiences of hotel industry participants showed the changing nature of the cycle.

Business travel contracted in the first half of 2016. Hotel operators had identified the peaking business environment as a threat over the last several months. Initially isolated in 2015 to energy markets impacted by oil and gas price drops, the decline in corporate travel has hit other markets in the U.S. Corporate travel measurably declined during the first half of 2016, as confirmed by the commentary of the large public hotel and hotel REITS during the second quarter earnings releases. Hilton, Marriott and Hyatt all reported declines in business travel trends, which may have been obscured by the overall high occupancy levels in many markets. The challenges in the financial and banking sectors are reported as notably affecting business travel. Expectations for a more robust second half of 2016 were expressed by several participants. According to a report by the Global Business Travel Association, business travel is forecast to increase 5.2 percent worldwide, but less than 1 percent in the U.S. For many markets, however, continued rate growth has made up for some of the decline in occupied room nights.

Despite the fact that the majority of the new hotel supply is being built with only modest meeting space, demand continues to increase for hotel rooms for meetings and groups. According to the Center for Exhibition Industry Research Census report, the number of events in the U.S. increased 3.5 percent in 2015 over 2014. Meeting planners' negotiations with hotels are impacted by challenges on both sides but more in the hotels' favor. Lead times for group meetings continue to shrink. With high occupancy levels and demand from transient travelers, hotels still have the upper hand with regard to availability and rate. As hotels continue to beneficially yield group meetings, concessions are being reduced. Meeting planners in some markets, responding to the clients' budgetary concerns, are more heavily negotiating food and beverage spend such as trading down on menu items or scheduling fewer breaks.

The pace of summer bookings began slowing in 2016. TravelClick reports that new bookings in July were down 3.6 percent compared to the same period in 2015.

> For the next 12 months (July 2016 to June 2017), transient bookings are up 3.2 percent year-over-year, and ADR for this segment is up 1.6 percent. When broken down further, the transient leisure (discount, qualified and wholesale) segment is showing occupancy gains of 6.7 percent, with

> ADR gains of 1.8 percent. The transient business (negotiated and retail) segment is down 4.0 percent, but ADR is up 2.8 percent. Lastly group bookings are up 6.1 percent in committed room nights over the same time last year, and ADR is up 3.2 percent. (TravelClick)

The TravelClick data is consistent with the experience of hotel operators discussed above; the trend is primarily affecting commercial travel. Leisure hotel use is still growing. The airline industry is also optimistic, projecting to have carried a record 231 million passengers in the summer of 2016. Hotels are aggressively courting leisure travelers with services, programs and experiences, targeting children and families.

TRANSACTIONS MARKET

Hotel transaction volume in 2015 represented what may be pointed to as the peak of the current cycle. Not only was the volume notable in 2015, but the price per room was also impressive, over 50 hotels sold for over $600,000 per room. The hotel sector posted 42.0 percent growth in investment activity for 2015 over the prior year, on sales of $49.0 billion, second only to the volume recorded in 2007.

The slowdown in all commercial real estate deal volume began in the second half of 2015. In what is still being characterized as “choppy,” total commercial real estate transaction volume is down 16 percent year over year in the first half of 2016. Hotel sales volume fared the worst of all commercial real estate asset classes with a decline of 50 percent over the first half of 2015. According to the data from Real Capital Analytics (RCA), the majority of transactions so far this year have occurred in the second quarter of 2016 as hotel sales virtually stalled in the first quarter. The downward trend in transactions in the first quarter of 2016 was a continuation of the decline which began in the second half of 2015. While 2015 ended up as very strong transaction year, 42 percent of all deal activity in 2015 occurred in its first quarter.

Hotel REITs, which effectively withdrew from the market in mid-2015, have continued to sit on the sidelines as buyers, with some being more active as sellers. A major story for 2015 was the growth of foreign investment activity in U.S. commercial real estate. Private and sovereign fund investors from the Middle East and China were active hotel buyers in 2015, and foreign investment continues to be important for hotel transactions. Institutional buyers and private equity groups, however, are recognized as the leading acquirers of hotels in the first half of 2016.

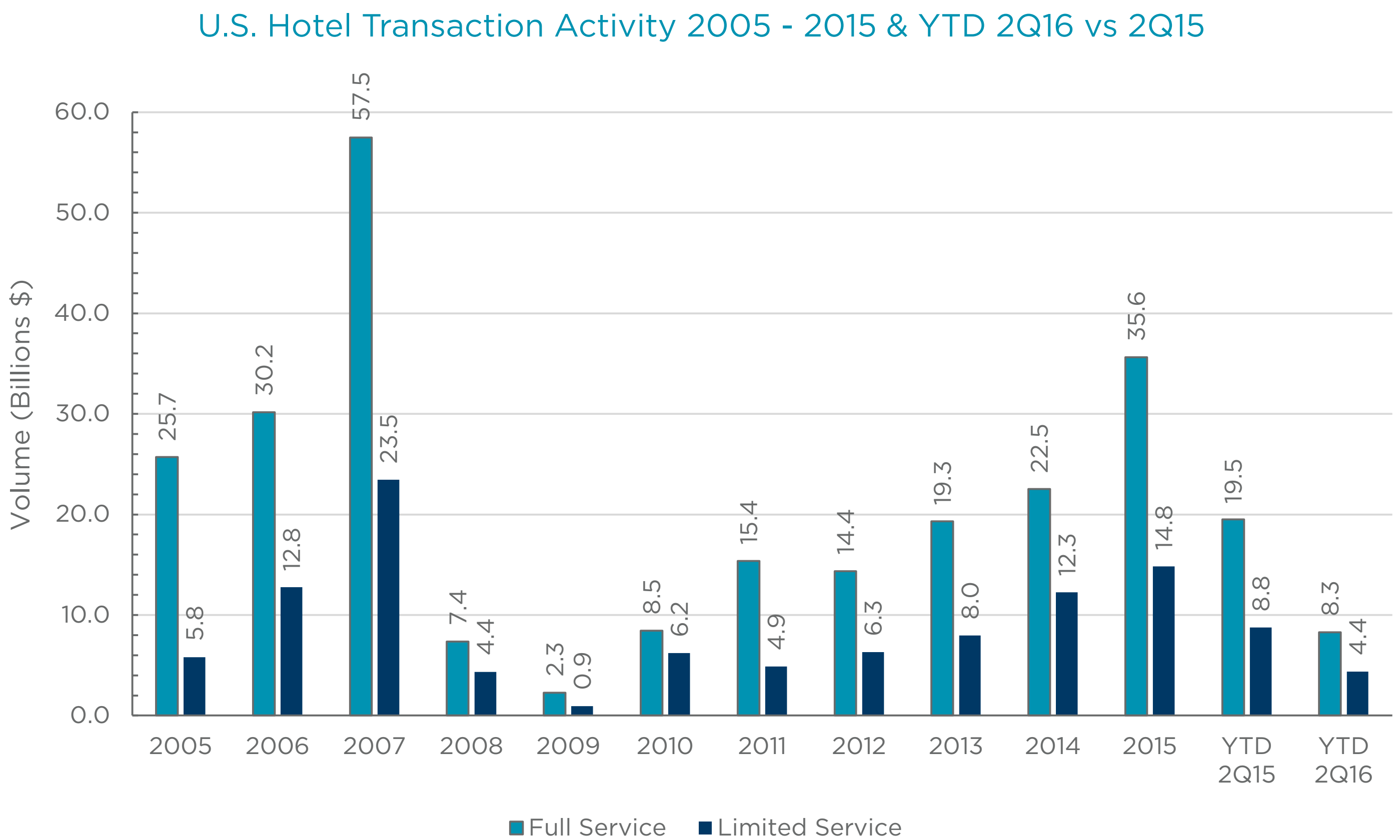
Manhattan remains the most active hotel transaction market in terms of volume, and Chicago has crept up from number four to number two. Washington, D.C. is now the third most active market, and increases in sales activity in Boston and Miami have propelled these destinations to numbers four and five. San Francisco, a key target market for hotel investors for many years, has plummeted to 23 out of 25. With heavy transaction activity in the last six years, many hotels have recently traded hands and these buyers are not yet strategic sellers. Replacing San Francisco as more popular hotel acquisition markets are Seattle, Tampa and Atlanta. Reflecting the softening of the transaction market, of these three cities, only Seattle had a significant increase in hotel investment activity, the other two markets actually had declines in the overall hotel sales volume.

After a flurry of hotel transaction activity in recent years, markets such as Dallas, Austin, San Diego, Orlando and Phoenix saw some of the largest declines in transaction volume. Some of the markets are still supporting strong performance fundamentals, however, issues such as new supply, the energy economy, and the cost of financing, have muted interest from investors. A summary of the RCA transaction data is shown on the following page

Key Findings Include:

- The public markets are causing REITS to be net sellers given their low stock prices; the primary purchasers are institutional buyers and private equity firms.
- The volume of legacy CMBS hotel loans maturing in 2016 and 2017 is of concern to some rating agencies as market fundamentals slow. However, many lenders are anticipating to benefit from the need for debt and are actively poised to pursue refinancing or extension transactions.
- CMBS lenders continue to curtail new lending activity relative to recent years due to shifting spreads and regulatory requirements. The newly required risk retention rules oblige banks that underwrite CMBS offerings to hold on to some of the debt, an attempt to align their interests with those of their investors. 2016 will be a down year for CMBS. Trepp estimates that U.S. CMBS lending will total just $50 billion this year, down from $97 billion in 2015 and the lowest volume since 2013. Volume is well below 2007 levels, when CMBS lending hit $206 billion. With the general consensus being that financing is available for existing performing assets, other lenders, including insurance companies, private equity, and commercial banks, continue to close some of the debt gap.
- On a global note, the impact of Brexit is still unclear though some overseas investors are eyeing real estate in the U.S. gateway – and even secondary markets – as more stable investments. Hotel buyers may bypass London and major European cities in favor of U.S. properties.
- Capitalization rates for full-service hotels were generally flat from 2013 to the second quarter of 2015, averaging 7.6 percent. In the second half of 2015 and through the first quarter of 2016, average capitalization rates increased about 50 basis points. Data for the second quarter 2016 shows capitalization rates returning to prior levels as transaction volume improves. For select-service hotels, capitalization rates show a similar trend with an approximately 100 basis point spread to full-service transactions.

U.S. Hotel Transaction Volume – 2005-Mid-Year 2016



Source: STR
Republication or Other Re-Use of this Data Without the Express Written Permission of STR is Strictly Prohibited

Large portfolio transactions have notably slowed. The first half of 2016 has not seen any major-scale acquisitions. Of the top ten portfolios reported by RCA, most were two- to four-properties trades while four had five to ten properties. To date this year, we have not seen the transfers of the large scale investments of the prior years.

Earlier this year, Blackstone agreed to sell Strategic Hotels & Resorts Inc. to China's Anbang Insurance Group Co. for about $6.5 billion. The deal is set to be completed later this year. Strategic owns 16 luxury properties, including the Hotel del Coronado near San Diego and the JW Marriott Essex House in New York. The portfolio acquisition has not yet closed.

In April 2016, HNA Tourism Group announced its intent to acquire Carlson Hotels 1,400 hotels, establishing HNA's presence in the U.S. and expanding its footprint globally increasing HNA's hotel portfolio from 500 to 1,900. HNA originally started as an airline to shuttle tourists to and from what was dubbed China's Hawaii. Today, its flagship Hainan Airlines Co. is China's fourth-largest publicly listed airline by fleet size. The company has since expanded into other areas such as logistics, hotels, retail, real estate and travel. The transaction is expected to close later in the year.

And finally, the big hotel industry news in 2015 continues to be the big news in the first half of 2016, namely Marriott's acquisition of Starwood. Originally announced in November 2015, the remaining hurdle for the transaction is its pending review by China. The combined company will own or franchise more than 5,500 hotels with 1.1 million rooms worldwide and give Marriott greater presence in markets such as Europe, Latin America and Asia including India and China. Marriott currently has three-quarters of its rooms in the United States. Starwood, which also owns St. Regis and Aloft hotel brands, gets nearly two-thirds of its revenue from outside the country.

Continuing into 2016, the investment market remains concerned about the slowing of the hotel industry's growth, though many anticipate a greater velocity of transactions in the second half of the year. The Moody's/RCA CPPITM posted strong growth in hotel prices between the second quarter of 2014 through the first half of 2015. During this period, price growth peaked in the fourth quarter of 2014 and has remained positive since then with the exception of the fourth quarter of 2015. In the first half of 2016, although volume is down, prices per room have increased each quarter. While a distinct trend has not yet been firmly established, the hotel investment market is expected to finish stronger in the second half of the year.

Industry experts, such as Jonathan Gray of Blackstone expect to see more consolidations in the industry to monetize the efficiencies presented by larger entities.

OUTLOOK FOR 2016 AND OTHER CONSIDERATIONS:

As of mid-September 2016, STR recently revised their forecast of nationwide average rate growth downward from of 4.0 percent to 3.2 in 2016, which is below the 2015 growth of 4.0 percent. As the national average rate growth in the first half of 2016 was 3.2 percent, STR is anticipating consistent rate growth for the remainder of the year. In 2017, the ADR growth is projected to moderate to 3.1 percent. Travel slowdowns in the first half of the year are challenging demand while new hotel construction is pushing the supply part of the equation higher. Supply is forecast to increase 1.6 percent in 2016 and 2.0 percent in 2017, with the overwhelming majority of new rooms opening in the limited- and select-service sectors.

The national occupancy level is forecast to be flat in 2016, and hence, RevPAR growth is anticipated to be based on the average rate growth of 3.2 percent. With occupancy levels remaining at stable levels, operators continue to maintain pricing power and average rates should continue to increase. In 2017, the STR forecast an actual decline in occupancy and a lower ADR of 3.1 percent and RevPAR growth of 2.8 percent. The forecast for 2017 is now below inflation, reflecting the industry's slowing fundamentals. Nevertheless, if realized, this expected growth will again set record RevPARs.

Airbnb

With the slowdown in the market performance and the underlying global concerns, other industry influences are becoming more pronounced. Noteworthy among the "disrupters" is Airbnb. The company started eight years ago, and was coined part of the "sharing" economy, now more accurately referred to as the "rental" economy, and it is big business. According to Phocuswright, several estimates put Airbnb's 2015 gross bookings at approximately $7.5 billion (some are as high as $9 billion, while the low end of one model is a little more than $6 billion) and nearly one in three U.S. travelers stayed in some form of private accommodation in 2015, up from about one in ten in 2011. In the U.S., most of the Airbnb demand was reported in five cities: New York, Los Angeles, San Francisco, Miami and Boston. Competition from Airbnb is growing in Oakland and Oahu.

In July 2016, Airbnb announced it will partner with three travel management companies (American Express Global Business Travel, BCD Travel and Cason Wagonlit Travel). Travelers will book on the Airbnb site and the reservation data will be available on the guest's corporate travel site.

Hotels are on the offensive with new design and service programs. Seeking to capture the local experience and ambience that travelers now pursue, hotels are offering room service from local restaurants, recommendations and routes to local cultural events and facilities, and are heavily marketing their non-guestroom facilities to local residents through social media. On an institutional level, industry associations are pursuing greater regulation of health and safety standards and compliance with local tax requirements for non-hotel lodging. In many urban areas, other pro-renter groups are also challenging the short-term rental companies as a threat to markets which are already struggling with rental housing shortages. Airbnb continues to seek new formats for its growth and is aggressively expanding into urban planning and development. The company is building a small housing development in Yoshino, Japan, that will double as a community center and a tourism hub. Airbnb users will be able to book rooms on the second floor of the lodging development, and the lower levels will serve as a community center for visitors and local residents. With this evolution, Airbnb is solidifying its participation as part of the hotel industry.

Booking Wars

The battle for guest acquisition and retention heated up in 2016. Impacted by the high cost of commissions from online travel agencies (OTAs), reportedly averaging 25 percent of the room rate, many hotel companies are campaigning to capture a higher proportion of reservations directly on their corporate reservation systems. The battle is escalating as the online vendors consolidate. Expedia acquired Travelocity and Orbitz in 2015 and the Airbnb competitor, Homeaway, in 2016. Its online brands also include Hotels.com, Trivago and Hotwire. Expedia's rival Priceline also owns a number of brands including Booking.com, Kayak, Agoda, and Opentable. Priceline's inventory is also available on Tripadvisor.

Online travel agents captured about 15 percent of U.S. net bookings in 2015, up from 11 percent in 2010, according to market researcher Kalibri Labs LLC. About 19 percent of bookings are made through hotels' own websites and apps. The rest come from corporate travel agents, group bookers and offline channels. Outside the U.S., where independent hotels dominate, online travel websites make up an even bigger share of the business. In 2016, hotel companies including Marriott, Choice, Hilton, Hyatt, Wyndham and Intercontinental Hotel Group responded with marketing programs that offer loyalty program members discounts ranging from 7.0 percent to 25.0 percent off best available rates. Hotel companies are optimistic these initiatives will route hotel guests directly to websites and provide other marketing opportunities.

Travel to and in the U.S.

According to the U.S. Travel Association, with 77.5 million international visitations, the U.S. is the single largest destination for global long-haul travel, and the second-largest destination for overall global travel.

Our border neighbors are the largest contributors of inbound international travel to the US. Canada is the biggest source of overseas visitors to the U.S., followed by Mexico. South Africans are the highest travel spenders when visiting the US, and India has the highest share of travel, accounting for 25 percent of its U.S. exports.

The hotel industry has enjoyed a period of robust growth and record breaking performance over the last six years, but the most recent trends point to a shift in the cycle.

Despite a small uptick in June, the U.S. Travel Association's Travel Trends Index (TTI) predicted muted international inbound travel growth for the remainder of 2016, due in part to the fallout from Britain's decision to leave the European Union. International inbound travel had been stagnant for months, with variables such as the strong U.S. dollar weighing on travel from previously robust markets like Canada. International inbound travel growth in June somewhat defied expectations as the summer travel season began in earnest, outpacing domestic travel for the first time in 13 months.

Declining fuel prices continue to challenge the economy of the "energy" markets but low gas prices supported stronger summer travel, particularly to "drive-to" destination markets throughout the U.S.

Overseas economies continue to be challenged. China's slowing economy remains a concern. The effect of the unfolding of the UK Brexit vote on U.S. travel is unclear.

And finally, hoteliers are monitoring immigration, visa policies, minimum wage and health care costs as these impact operating costs and discretionary income in this labor-intensive industry.

Zika

On July 29, Florida reported the first cases of Zika virus infections likely caused by bites of local mosquitoes in the continental U.S. The Centers for Disease Control and Prevention (CDC) has issued a notice to women who are pregnant or thinking of becoming pregnant to avoid unnecessary travel to the impacted area that is just north of downtown Miami. This is the first time the CDC has warned people not to travel to an American neighborhood for fear of catching an infectious disease.

The U.S. Travel Association continues to monitor recent developments regarding the Zika virus. The World Health Organization has publicly cautioned against instituting travel or trade bans in response to the Zika virus, even as the organization declared the outbreak to be a public health emergency.

The effect on tourism to South Florida, however, which attracted 106 million travelers worldwide in 2015 according to Visit Florida, remains yet to be seen. The outbreak has caused Public Health England to update the risk level to "moderate" for U.K. travelers to Florida, who numbered 1.7 million in 2015 according to the Inbound Report.

Long security lines at airports

After hours-long lines at some airports and public outrage over stranded passengers, the Federal Security Agency (FSA) reorganized their processes between Memorial Day and the Fourth of July, dramatically reducing wait times even as summer air travel surged to record levels. Funding for newer technology was contributed by several airlines. Additional lanes were open at major airports with bigger x-ray bins and automated return of the bins. These strategies are contributing to faster processing of passengers.

CONCLUSION

The hotel industry has enjoyed a period of robust growth and record breaking performance over the last six years, but the most recent trends point to a shift in the cycle. The expected change in the pace of the performance is starting to materialize, and new supply is now a reality in many markets.

Macro-economic impacts, such as a potential interest rate hike as recently anticipated by Janet Yellen, the Chairwoman of the Federal Reserve, and the outcome of the 2016 elections, are also on the minds of investors and travel planners. Despite the uncertainty, many investors and lenders are seeking opportunities even as the cautious environment is limiting transactions. The industry remains optimistic that the momentum in performance and transaction volume will escalate for the remainder of the year.

For more information, contact:

Eric B. Lewis, MAI, FRICS
Executive Managing Director
Practice Leader, Hospitality & Gaming
+1 212 841 5964
eric.lewis@cushwake.com

Mark Capasso, MAI, CRE
Executive Director
Practice Leader, Hospitality & Gaming
+1 213 955 6442
mark.capasso@cushwake.com

Elaine Sahlins, MAI, CRE
Managing Director
+1 415 773 3531
elaine.sahlins@cushwake.com

About Cushman & Wakefield

Cushman & Wakefield is a leading global real estate services firm that helps clients transform the way people work, shop, and live. Our 43,000 employees in more than 60 countries help investors and occupiers optimize the value of their real estate by combining our global perspective and deep local knowledge with an impressive platform of real estate solutions. Cushman & Wakefield is among the largest commercial real estate services firms with revenue of $5 billion across core services of agency leasing, asset services, capital markets, facility services (C&W Services), global occupier services, investment & asset management (DTZ Investors), project & development services, tenant representation, and valuation & advisory. To learn more, visit cushmanwakefield.com or follow @CushWake on Twitter.

Eric B. Lewis, MAI, FRICS
Executive Managing Director
Practice Leader, Hospitality & Gaming
+1 212 841 5964
eric.lewis@cushwake.com

Mark Capasso, MAI, CRE
Executive Director
Practice Leader, Hospitality & Gaming
+1 213 955 6442
mark.capasso@cushwake.com

Elaine Sahlins, MAI, CRE
Managing Director
+1 415 773 3531
elaine.sahlins@cushwake.com

cushmanwakefield.com