

# HOTEL INDUSTRY OVERVIEW

## Winter 2015

### Summary of Key Performance Indicators

The industry closed out 2014 with a bang, registering nearly 10% RevPAR growth in the fourth quarter. Except for New York City, just about every other market and segment participated in the rally. 2014 tied with 2011 for the second highest annual RevPAR growth in the last 25 years, behind only the 8.7% pickup in 2005. 2015 looks like it is starting off a little slower, due in part to the unusually severe weather in the Northeast. There is some concern this could affect performance later in the year due to cancellation of school vacations.

	Q1 2015 (thru 02/21/15)			Q4 2014			Total Year 2014		
	ADR	Occ.	RevPAR	ADR	Occ.	RevPAR	ADR	Occ.	RevPAR
<b>Industry Total</b>	<b>4.8%</b>	<b>2.0%</b>	<b>6.9%</b>	<b>4.7%</b>	<b>3.8%</b>	<b>9.6%</b>	<b>4.6%</b>	<b>3.6%</b>	<b>8.3%</b>
Luxury	6.3%	(1.0%)	5.2%	6.4%	1.5%	7.9%	5.7%	1.2%	6.9%
Upper Upscale	4.2%	0.1%	4.3%	5.0%	2.6%	8.0%	5.0%	2.5%	7.7%
Upscale	5.0%	0.6%	5.7%	5.1%	4.2%	9.5%	4.7%	3.6%	8.4%
Economy	6.6%	0.9%	7.6%	5.1%	3.8%	9.3%	4.4%	3.9%	8.5%
Resort	NA	NA	9.1%	6.1%	5.2%	11.6%	5.2%	3.6%	9.0%
<b>Key Markets</b>									
NY	(6.7%)	(3.2%)	(9.2%)	0.5%	1.2%	1.7%	1.9%	0.5%	2.4%
Boston	3.5%	1.4%	5.1%	7.0%	2.3%	9.6%	7.3%	3.2%	10.8%
DC	1.8%	2.8%	4.7%	3.3%	8.0%	11.7%	0.6%	4.4%	5.5%
Chicago	5.3%	2.2%	8.1%	7.8%	3.8%	12.1%	4.0%	2.7%	7.1%
SF	9.7%	1.0%	10.7%	10.8%	1.2%	12.4%	10.9%	1.6%	12.6%
LA	7.3%	(0.5%)	6.9%	7.4%	1.5%	9.1%	7.4%	2.9%	10.6%

Source: STR, Inc., Deutsche Bank, Sun Trust Robinson Humphries

Although New York made up some ground last week due to the NBA All Star game and Fashion week, it has otherwise been a tough year, as predicted. The lack of growth in New York can be attributed to a combination of new supply (nearly a 10% increase in inventory over the past year), a weak US dollar (although that probably influences more Americans to go overseas rather than discouraging European visitation), and tough comparisons which include the Super Bowl in 2014. Another factor is the changing mix, as many of the new additions are in “upscale” categories (e.g. Hilton Garden Inn) as opposed to “luxury” brands, so this has the effect of bringing ADR’s down. Chicago has done very well since the middle of 2014, as has Washington DC. LA is softening, possibly due to some new supply additions, while Northern California continues to outperform. In other markets, Houston is starting to feel the impact of lower oil prices, as it has shown RevPAR declines over the past few months, while Dallas and San Diego are doing well. Phoenix saw a good pop from the Super Bowl, but it is not clear if that momentum will carry forward beyond Q1.

Finally, the “upper upscale” chain scale, which includes many of the high-visibility large urban hotels such as Hilton, Marriott, Westin and Hyatt, has lagged far behind the other segments so far this year, even though they were only a little behind the rest in 2014. This number is somewhat surprising given the pickup in group business over the past six to nine months, but this could be an indication of a demographic shift towards millennial generation travelers who are not as loyal to the big brands and prefer limited service properties with more unique design features. Other factors could be the disproportionate influence of New York (see above), and weather. Also, as noted in the following chart, the Starwood brands have not fared as well as the others in this segment, which may be one of many factors which led to the recent departure of their CEO.

## Brand Detail

(Highlighted cells are above national averages for segment)

	Q4 2014			Total Year 2014		
	ADR	Occ	RevPAR	ADR	Occ	RevPAR
<b>Luxury</b>						
Ritz-Carlton	4.0%	1.6%	5.7%	4.0%	2.1%	6.2%
Waldorf Astoria	5.6%	0.4%	5.9%	6.0%	0.4%	6.4%
St Regis/Lux Coll	4.8%	0.7%	5.5%	6.2%	0.5%	6.9%
W	3.1%	0.3%	3.4%	4.3%	0.6%	5.1%
<b>Upper Upscale</b>						
Marriott	4.4%	0.6%	4.9%	4.0%	2.1%	6.2%
Hilton	2.5%	3.3%	5.8%	3.3%	2.6%	6.0%
Sheraton	1.9%	2.3%	4.4%	2.8%	2.7%	5.6%
Westin	3.6%	2.3%	6.0%	4.6%	2.6%	7.2%
Hyatt Regency	3.1%	0.6%	3.7%	3.8%	1.6%	5.4%
<b>Upscale</b>						
Doubletree	4.4%	2.9%	7.4%	4.6%	3.3%	8.1%
Courtyard	4.8%	3.5%	8.4%	4.5%	4.7%	7.8%
Four Points	1.3%	3.2%	4.6%	2.7%	3.1%	6.0%
<b>Upper Midscale</b>						
Hampton Inn	3.0%	4.4%	7.7%	3.8%	3.9%	7.9%
Fairfield	4.1%	3.8%	8.1%	3.9%	3.2%	7.3%
<b>Midscale</b>						
Ramada	(3.4%)	0.4%	(3.1%)	(0.6%)	2.3%	1.7%
La Quinta	3.3%	4.9%	8.4%	4.4%	3.4%	8.0%
Quality Inns	3.0%	7.1%	10.3%	2.5%	5.6%	8.4%
<b>Economy</b>						
Day's Inn	2.7%	3.2%	6.0%	2.1%	4.5%	6.6%
Econo Lodge	2.7%	8.7%	11.6%	2.4%	5.7%	8.4%
Knights Inn	5.0%	5.3%	10.5%	3.6%	6.9%	10.7%
Super 8	(2.6%)	3.1%	0.4%	(0.6%)	2.3%	1.7%

Source: Q4 Company earnings releases

As mentioned above, Starwood had a disappointing fourth quarter. Except for Westin, most of their brands came in near the bottom of their respective chain scales. This chart also highlights the lower-end brands are the ones driving most of the industry-wide RevPAR. Although those individual hotels are generally small (typically 100 keys or less), their sheer number weights the scale. For example, there are only about 350 full service Marriott's and 250 full service Hilton's in the US, but there are about 3,200 Best Westerns, 2,500 Super 8's, 2,000 Holiday Inn Expresses and 2,000 Hampton Inns. Once again, this is evidence of the depth of this recovery, as cost-sensitive leisure travelers are returning to the market, their confidence buoyed by improving job prospects and more money being put in their pocket (at least temporarily) by low gasoline prices.

## Outlook

The near and middle term outlook is still very positive. The table below summarizes the current 2014 year end and 2015 forecasts from the major hospitality consultants:

	2015			2016		
	STR	PKF	PWC	STR	PKF	PWC
<b>Supply</b>	1.3%	1.1%	1.4%	1.4%	1.7%	NA
<b>Demand</b>	2.4%	3.2%	2.5%	2.2%	2.2%	NA
<b>Occupancy</b>	1.2%	2.1%	1.1%	0.8%	0.5%	NA
<b>ADR</b>	5.2%	5.4%	6.2%	5.0%	6.1%	NA
<b>RevPAR</b>	6.4%	7.6%	7.4%	5.9%	6.8%	NA

To put these in perspective, the 25 year CAGR for supply and demand are each 1.9% (meaning that occupancy has averaged out flat across that time span), while ADR and RevPAR have each averaged just about 3%, which has more than kept pace with the 2.7% compound increase in the CPI.

Most observers expect supply to continue to grow, and those numbers have not changed much recently. The prevailing opinion on new supply is not an immediate issue since the growth is highly concentrated in areas that are known to have high demand growth, or at least the potential for high demand growth such as New York City (and with the exception of a handful of publicly subsidized convention hotels that are generally confined to smaller limited service properties). The gradual loosening of credit for construction financing is, to some extent, balanced by more restrictive building and zoning regulations, which will act to constrain supply. California, in particular, is extremely sensitive to development impacts on water usage, energy consumption and traffic. It is not unusual to see municipalities asking for “impact fees” that can easily amount to 10% of construction costs to mitigate these concerns.

The trend is still upward. All of the 2015 projections have been revised in recent months to show increases in both demand (PKF is up a whole percentage point since November, for example) and ADR, and the first releases of 2016 numbers are encouraging as well. Although many analysts feel we are starting to get into the proverbial “late innings” of the cycle, others feel (to mix sports metaphors) there is still plenty of time on the clock. The industry is currently almost five years into the cycle having seen as of January, 59 straight months of increasing RevPAR. While there were only 56 consecutive months of growth in the 2003-08 cycle, the profile of this recovery appears to be more like the 1992-2001 period, which had 107 months of positive RevPAR growth marred by only one month (August 1998) that showed a minor (0.4%) drop. Accordingly, the consensus continues to be we should be good at least through the end of 2018, and the hope is for a soft landing because there should not be the massive supply overhang that has characterized previous downturns.

## Transactions

The pace of property sales has quickened in recent months. According to RCA Analytics, hotel sales in January were up 32% over last year. The following chart lists the largest individual property sales over the past three months. There are several significant things to note:

- As expected, Hilton deployed the proceeds of the Waldorf sale into the purchase of several other properties to defer gains using a Section 1031 tax exchange. The aggregate purchase price was about \$1.2 billion, or almost 600,000 per key, at a reported trailing cap rate of 5.8%. The Hilton Bonnet Creek in Orlando and Parc 55 in San Francisco appear on this list. Others included the Waldorf Astoria Orlando (498 keys), Casa Marina Resort in Key West (311 keys), and the Reach Resort in Key West (150 keys). All of these properties were purchased from either Blackstone or joint ventures in which Blackstone was a party.
- Public REIT’s really stepped up as buyers- seven of these deals were sold to REIT’s, and all of these were either in Florida or California except Strategic’s purchase of the Four Seasons at Troon North in Scottsdale AZ.
- Besides the two Chinese insurance companies (Anbang who purchased the Waldorf and Sunshine Insurance Group who purchased the Baccarat at a record price of over \$2 million per key), there were several other Middle Eastern and Chinese investors including ADIA (an arm of the government of Abu Dhabi), Al Faisal (a diversified holding company from the UAE), Al Khalifa (ruling family of Bahrain) and Shanghai Yudu group (a medical technology firm). All of these groups are buying in New York, Florida or California.

- Besides these large single-asset transactions, there were several portfolio sales including:
  - ARC's long-awaited acquisition of the 116 property select-service Equity Inns portfolio from Goldman Sachs/Whitehall for \$1.8 billion, or about \$130K per key. This was reportedly the largest ever hotel acquisition by a non-traded REIT.
  - Also, there was RLJ's disposition of 24 select service properties in secondary and tertiary markets for \$240 million (at \$82K per key just under an 8 cap).
  - Blackstone bought 15 hotels from OTO development for a rumored price of \$325 million, which works out to about \$188K per key, but these are in stronger markets and are more heavily weighted towards extended stay.
  - Finally Aimbridge Hospitality, in partnership with Garrison Investment group, bought 15 select service properties in the Pittsburgh area from the Kratsa group for an undisclosed price last December.
  - Lone Star Funds acquired a portfolio of 38 Hyatt Place and Hyatt House hotels for \$590 million (\$119K per key). They plan on spending another \$50 million (\$10K/key) on renovations.
- Other notable transactions include Vornado (a diversified REIT) picking up controlling interest of the 770 key Crowne Plaza in New York's Times Square (a property formerly asset managed by Pyramid, who also managed the renovation of the hotel when it was owned by Morgan Stanley affiliates several years ago). Pyramid also was named the asset manager of the Marriott East Side which appears on the transaction list.

## REAL CAPITAL ANALYTICS

Property Name	City	State	Units	Price in \$	\$/Units	Cap Rate	Buyer	Seller
Waldorf-Astoria	New York	NY	1,425	1,950,000,000	1,368,421		Anbang Insurance Group	Hilton Worldwide
Hilton Orlando Bonnet Creek	Orlando	FL	1,001	589,589,000	589,000	5.8%	Hilton Worldwide	GEM Realty JV Farallon Capital Management JV Blackstone
Manhattan at Times Square	New York	NY	665	544,312,797	818,515		Al Faisal Holding	Rockpoint Group JV Highgate Holdings JV Whitehall Real Estate Funds
Parc 55 Wyndham	San Francisco	CA	1,010	530,000,000	524,752	5.0%	Hilton Worldwide	Blackstone JV Highgate Holdings JV Rockpoint Group
Montage Laguna Beach	Laguna Beach	CA	250	360,000,000	1,440,000	5.0%	Strategic	Ohana Real Estate Investors
Park Central San Francisco	San Francisco	CA	681	350,000,000	513,950	5.0%	LaSalle Hotel Properties	Westbrook Partners
Nomad Hotel	New York	NY	168	300,000,000	1,785,714		Sydell Group Ltd JV Yucaipa Cos	Square Mile Capital
Marriott East Side	New York	NY	655	290,000,000	442,748		Ashkenazy Acquisition	Morgan Stanley
James Royal Palm	Miami Beach	FL	398	278,000,000	698,492		Chesapeake Lodging Trust	KSL Capital Partners
Hilton Garden Inn	New York	NY	401	240,000,000	598,504		Morad Ghadamian	Starwood Capital Group
Baccarat Hotel (4F-12F)	New York	NY	113	230,500,000	2,039,823		Sunshine Insurance Group Corp	Starwood Capital Group JV Tribeca Associates
Miami Beach Edition (1F-9F)	Miami Beach	FL	294	230,000,000	782,313		ADIA	Marriott International
Hyatt Lost Pines Resort & Spa	Cedar Creek	TX	491	220,434,783	448,951		Hyatt Hotels	Anschutz Entertainment JV Woodbine Development Corp
Hotel Carter	New York	NY	600	191,850,000	319,750		Chetrit Group	Estate of Tran Dinh Truong
The Fairmont Washington DC	Washington	DC	415	179,500,000	432,530		MeLlife	Ivanhoe Cambridge OBO Caisse de Depot JV Westmont
Marriott LAX Airport	Los Angeles	CA	1,004	153,750,000	153,137	6.6%	Shanghai Yudu Grp	JV Invest REIT
Marriott Residence Inn	New York	NY	243	151,150,000	622,016		Al Khalifa family	DiamondRock Hospitality Co
Westin Beach Resort & Spa Fort Lauderdale	Fort Lauderdale	FL	432	149,000,000	344,907	7.1%	DiamondRock Hospitality Co	Highgate Holdings JV Crown Acquisitions JV Carlyle
Four Seasons at Troon North	Scottsdale	AZ	210	140,000,000	666,667	6.0%	Strategic	Group JV Tribeca Associates
Hilton Clearwater Beach Resort	Clearwater Beach	FL	416	134,000,000	322,115		Columbia Sussex Corp	Starwood Capital Group JV Gill Family
Marriott Burbank Airport	Burbank	CA	488	109,100,000	223,566		AWH Partners OBO August Group Ventures JV Winston Harton Holdings JV Starr Cos	Walton Street Capital
Sheraton Ft Lauderdale	Fort Lauderdale	FL	486	100,000,000	205,761		Insile Group	Blackstone
Residence Inn San Diego Downtown/Gaslamp Quarter	San Diego	CA	240	90,000,000	375,000	7.6%	Chatham Lodging Trust	Westbrook Partners
Oakland Marriott City Center (Leasehold)	Oakland	CA	484	84,000,000	173,554		Apollo Global RE JV DiNapoli Capital Partners	Starwood Capital Group JV George Gill/Linda Gill/Mary Gill
The Revel	Atlantic City	NJ	1,898	82,000,000	43,203		Arena Ventures LLC - Glenn Straub	J Street Hospitality
Nickelodeon Family Suites	Orlando	FL	777	80,000,000	102,960		Urban Commons	CIM Group
Hotel Palomar	Los Angeles	CA	268	78,700,000	293,657	7.0%	Pebblebrook Hotel Trust	JP Morgan Chase JV Revel Entertainment Group
Renaissance Stanford Court	San Francisco	CA	393	76,000,000	193,384		Woodridge Capital LLC JV Oaktree	Miller Global Properties
New York Edition	New York	NY	355	Price not disclosed			ADIA	BH Strategic Op Fund I JV Realty America Group
Mandarin Oriental (38F-48F)	San Francisco	CA	158	Sale pending; price not disclosed			Loews Hotels	Westbrook Partners
DoubleTree New Orleans	New Orleans	LA	364	Price not disclosed				Marriott International
								GEM Realty JV Metropolis Realty Trust Inc
								Burrus Investment Group

## Public Company News

### Earnings

The table below summarizes Q4 2014 earnings reported by major public hospitality companies. With a couple of exceptions (notably Hyatt and Host), results generally met or exceeded expectations. Common themes were exposure to New York City, impact of the stronger US dollar on international property results, and benefitting from strong RevPAR growth in select markets and in the economy/limited service sectors. Shareholders have been rewarded with higher dividends and buyback programs, so the profile of the industry on Wall Street is probably as good as it has been in a long time. The companies seem to be tempering their expectations for 2015, but analysts have continued to raise their price targets and expand their multiples.

Company	Release Date	Reported EPS*	Consensus EPS*	Comments
<b>Starwood</b>	2/10/15	\$0.97	\$0.76	Most of the beat was from taxes and G&A, but they still picked up 6 to 7 cents on their core items. Expectations were very low, however. 2015 RevPAR guidance 5% to 7% in constant (no forex impact) dollars. See other comments elsewhere in this report relative to time share spin off and CEO resignation
<b>Marriott</b>	2/18/15	\$0.68	\$0.65	Two cents of earnings were from non recurring interest expense true up; core results were largely in line. Guiding 2015 RevPAR 5%-7% North America and 3%-5% internationally. Development pipeline is expanding.
<b>Host Hotels</b>	2/19/15	\$0.40	\$0.38	Although FFO beat estimates, EBITDA was off by \$5-\$10 million, as G&A savings offset some of the property performance weakness. They have a relatively high New York and Washington exposure, which also impacts their 2015 RevPAR guidance which is 4.5%-5.5%. Continuing to shed non-core secondary market properties but having difficulty competing for new acquisitions
<b>Hilton</b>	2/18/15	\$0.17	\$0.18	Slight earnings miss due to taxes; EBITDA was a solid beat in all segments (management, owned, timeshare). 2015 system wide RevPAR guidance 5%-7%, but owned hotels less (4-6%) due to NYC and Hawaii exposure and weighting towards full service rather than limited service. Unit growth for 2015 seen as steady
<b>LaSalle</b>	2/18/15	\$0.59	\$0.60	FFO miss not viewed as significant, as there was some dilution from a new share issuance. EBITDA was in line with their guidance. They are trading at a premium multiple because of the quality of their portfolio and the relative flexibility of their management contracts
<b>Hersha</b>	2/18/15	\$0.14	\$0.13	Although they have among the biggest proportionate exposure to NYC, they are chugging along, mostly because their properties there are on the small side and do not need as much rate discounting to fill them. They also are well represented in some stronger markets like Florida Keys and Boston. Very mixed views from the Street- some say to stay the course, while others are afraid of new supply and US dollar strength and want the company to sell its NY assets and redeploy in stronger markets



Company	Release Date	Reported EPS*	Consensus EPS*	Comments
<b>Choice</b>	2/20/15	\$0.43	\$0.37	As noted above, very strong RevPAR performance in quarter. Sky Touch system continues to become less of a drag on profits. Also issued stronger than expected RevPAR guidance for Q1 of 2015 of 11%, and 6.5% to 8.0% for the year. This company probably benefits the most on balance from lower gas prices
<b>Hyatt</b>	2/18/15	\$0.31	\$0.22	Earnings beat misleading as it was mostly due to depreciation, taxes and share buybacks. EBITDA significantly underperformed, as RevPAR was light for the quarter (sub 5%) and they had issues with international properties, particularly one in Seoul
<b>Wyndham</b>	2/10/15	\$0.90	\$0.85	Again, beat somewhat misleading as interest expense was favorable. Domestic hotels did OK (another good gas price play) but international got hammered, while timeshare was pretty much in line. However, management did a pretty good job on their conference call, so their stock had a pretty good pop (up 8% that day, and it has hung in there, trading at all-time high levels
<b>Pebblebrook</b>	2/17/15	\$0.46	\$0.43	Continues to turn in solid performance. NY hotel results were aided by completion of renovations. Still looking for acquisitions. They have plenty of dry powder including an expanded \$300MM line of credit, but they say that the executions are becoming more complicated
<b>Chesapeake</b>	2/19/15	\$0.44	\$0.45	Unchanged 2015 RevPAR guidance of 7.5%-9.5%. Generally in-line quarter. Portfolio is well positioned and will benefit from completion of renovations later this year. Also recently acquired James hotel in South Beach, which was viewed positively
<b>DiamondRock</b>	2/24/15	\$0.21	\$0.23	Miss for the quarter due to NY weakness, a big group cancellation in Minneapolis, a one-time \$4 million non cash adjustment to taxes on the gain from the sale at the LAX Marriott and a change in the Marriott Rewards redemption policy which negatively affected their Vail property. Outlook has been revised somewhat downwards, but they have cash are actively pursuing several acquisitions

*\*Generally excludes unusual items; figures are for FFO on REITs*

## Stock Prices

Since the first of the year, hotel stock prices on balance have kept pace with the broader market, including recovery from a dip in January. However, C-Corps have generally outperformed the REITs during this time, chalking up a gain of over 5% vs. a loss of nearly 5% for the REITs. Sunstone and Pebblebrook were notable outperformers in the REIT group, which is primarily a function of the location and quality of their portfolios, as the other REIT's (as noted above) generally have an above average exposure to New York City. Starwood was the laggard among the C-Corps, as they have had performance issues in certain sectors as well as the resignation of their CEO (see below). If you go all the way back to the end of 2013, Starwood and Host are the two hotel stocks that have way underperformed the rest of the industry, with a common theme being slow growth.

Right now, the favorite stocks among the Wall Street crowd are Wyndham, Hilton and a couple of the smaller REIT's not shown on these charts including FelCor and Ashford. However, there are a couple who say that Wyndham has peaked and Starwood and Hyatt should be bought on weakness.

*Publicly traded hotel company stock performance (includes most US based companies with market capitalization in excess of \$1 Billion)*

Company	Type	Primary Segment (s)	Price as of 03/01/15	Change Since 12/31/14	Change Since 12/31/13
<b>Marriot International</b>	C-Corp	Upper Upscale, Luxury, Resorts	82.99	6.4%	68.2%
<b>Starwood Hotels</b>	C-Corp	Upper Upscale, Luxury	80.15	(1.1%)	0.9%
<b>Choice</b>	C-Corp	Limited Service	63.30	13.0%	28.9%
<b>Wyndham</b>	C-Corp	Ltd Service, timeshare	91.48	6.7%	24.1%
<b>Hilton</b>	C-Corp	All except economy	28.22	8.2%	26.8%
<b>Hyatt</b>	C-Corp	Upper Upscale	60.76	0.9%	22.8%
<b>Host Hotels</b>	REIT	Upper Upscale, Luxury	21.00	(11.7%)	8.0%
<b>LaSalle</b>	REIT	Urban boutique, Upper Upscale	38.99	(3.7%)	26.3%
<b>DiamondRock</b>	REIT	Upper Upscale, Luxury, Urban Limited Service	14.49	(2.6%)	25.5%
<b>RLJ</b>	REIT	Limited Service with some Upper Upscale	31.87	(5.0%)	31.0%
<b>Sunstone</b>	REIT	Upper Upscale	17.50	6.0%	30.6%
<b>Strategic</b>	REIT	Upper Upscale, Luxury	13.05	(1.4%)	38.1%
<b>Pebblebrook</b>	REIT	Upper Upscale, Luxury	48.59	6.5%	58.0%
<b>Hersha</b>	REIT	Urban Limited Service	6.71	(4.6%)	20.5%
<b>Chesapeake</b>	REIT	Upper Upscale	35.64	(4.2%)	40.9%
<b>Hospitality Properties Trust</b>	REIT	Limited Service	30.83	(0.5%)	14.1%
<b>C-Corp Weighted Average</b>			50.41	5.4%	29.2%
<b>REIT Weighted Average</b>			21.33	(4.9%)	21.5%
<b>Overall Hotel Stock Average</b>			34.31	1.6%	26.5%
<b>Dow Jones Industrial</b>		(comparison)	18,146.38	1.8%	9.5%
<b>Nasdaq Composite</b>		(comparison)	4,962.31	5.0%	18.8%
<b>S&amp;P 500</b>		(comparison)	2,104.28	2.2%	13.8%

Source: Yahoo! Finance

## Other News and Trends in Brief

As has been predicted, the merger and acquisition trend has really started to accelerate over recent months. This has manifested in many segments of the industry, most notably:

- IHG acquisition of Kimpton, a popular “lifestyle” brand with hotels in many major urban markets
- Wyndham acquisition of Dolce Hotels & Resorts, which is a smaller boutique brand
- Marriott acquisition of Delta. Delta is the largest hotel chain in Canada, with mostly mid-market properties. It was previously owned by Fairmont, but was spun off several years ago.
- Expedia \$3.4 billion acquisition of Orbitz, which followed their purchase of Travelocity and several other domestic and international OTA sites. This is a defensive move to fend off possible competition from Google in this space, although there are still some anti-trust concerns (more so from European rather than domestic regulators) which may slow down Expedia’s plans.
- A merger of asset management/consulting firms Warnick (based in Phoenix) and CHM (based in suburban Boston) was also announced.
- There have also been some spin-offs, including Starwood’s divestiture of its vacation/time share. Hilton has denied that it is spinning of its time share operations as well as whether they planned to move their real estate assets into a REIT; these strategies have been questioned since before Hilton went public. Also, Ashford REIT executed its previously announced plan to seed Ashford Select, its new upper-tier company, with 16 of their existing properties.

There also were two major executive changes:

- Frits van Paasschen stepped down as Starwood’s CEO, reportedly due to pressure from their Board to grow more aggressively. Adam Aron, who has been with Starwood since 2006 has been named as interim CEO, and a search is on for a permanent replacement. His background includes leadership positions at Vail Resorts and Norwegian Cruise Lines, so he is no stranger to the industry. Van Paasschen, who came to Starwood in 2007 was one of the few CEO’s to come from outside the hotel industry (he spent much of his career at Pepsi), and had a marketing background, while most of the other hotel CEO’s have come from finance or operations. Starwood’s relatively new CFO (hired last August) also came from outside, but has kept a low profile.
- Sunstone CEO Ken Cruse was replaced by John Arabia, who has very solid Wall Street and hotel industry credentials. As shown above, it appears as though this change did not hurt Sunstone’s stock price, as it has done very well recently. Before joining Sunstone in 2011 as CFO (and later serving as President and a director), Arabia was the lead hotel analyst for Green Street Advisors, which is the #1 reference source for institutional REIT investors. Cruse joined Sunstone in 2009 and was promoted to CEO in 2011 as part of a major reorganization that included Arabia’s hiring and eventually led to the retirement of founder Bob Alter.



## Special Feature: Hotels and Gaming

Teaser- in the next report, we will report on the impact of gaming, particularly casinos, on the hotel industry. In the interim, here are a few statistics that may surprise you (sources: Deutsche Bank monthly gaming statistical summary, American Gaming Association):

- Although it has slipped over the past year, the gross gaming revenue in Macau (a former Portuguese colony off the coast of China) is more than twice as much as the total legalized gaming revenue in the entire US.
- The Las Vegas Strip accounts for less than a quarter of the total US revenue, however it is by far the largest hotel market in the US with over 150,000 rooms, running occupancy in the high 80's.
- 48 out of 50 US states allow some form of legal gaming, with Utah and Hawaii being the only holdouts. 39 of these allow slot machines or their electronic equivalents, and 20 states allow commercial (non Indian) casinos. Massachusetts will be the next state to join this party, with a massive casino planned by Vegas mogul Steve Wynn to be located in the town of Everett in a depressed old industrial complex located only a few miles from Boston.
- Amount of taxes casinos pay to the state of Nevada: 6.75% of gross winnings
- Casino tax rates in other states range from 9.25% (New Jersey) to 67% (Maryland). The average is around 25-30% and is higher on slot machines.
- There are nearly 200,000 slot machines in Las Vegas. On average, the house only keeps about 8% of the money that is fed into them. Even so, each machine can generate up to \$300 of profits per day for the casino.

## US Economy General Statistics

Employment is up, wages are beginning to rise, prices are steady and interest rates remain low. By almost any measure, the economy is better than it has been in some time, and most of the trends remain positive.

Measure	Period	Value/Trends
<b>GDP</b>	Q4 2014	The updated figure for the quarter is 2.2%, which was below the advance estimate but still close to expectations. This follows a relatively robust (5.0%) third quarter, and brought the total for the year down to 2.4%. GDP numbers are still running at a pace below the growth rates that have historically been achieved during recovery periods since WW II, but the current rate is actually above the 20 year overall average. By comparison, the 2.4% US rate compares to 7.3% for China (which is low by their standards) and 0.9% for Europe.
<b>Consumer Confidence</b>	Feb 2015	The University of Michigan's Consumer Confidence index edged down from its 11 year January peak of 98.1, falling to 95.4 in February. It was noted that some of this is attributable to the harsh winter weather, as the drop in the hard-hit Northeast and Midwest regions were two to three times as steep as the national average. Although employment prospects seem better, most consumers are not seeing a rise in wages, so they are sensitive to the threat of gas prices heading back up

Measure	Period	Value/Trends
<b>Employment</b>	Jan 2015	Total employment rose by 257K in January, as the unemployment rate remained at 5.7%. Figures for prior months were adjusted upwards significantly, adding over 150K to the previous totals for November and December. This marks 11 consecutive months of job gains in excess of 200K. The gains were broad based across the private sector, including retail, construction and manufacturing, while government employment was flat. Wage growth remained relatively stagnant, averaging barely 2%. Expectations for the February report, to be released on March 6 are roughly in line with January, although there may be some impact from the slowdown in energy exploration and the winter weather conditions. Also of note is that WalMart has announced significant increases to its wage rates, essentially bringing everyone up to \$9 immediately and \$10 next year. Other retailers appear to be following suit. Although some credit pressure from Washington to raise minimum wages, most of this impetus is due to the improving economic situation there is a shortage of workers, and higher wages are necessary to attract qualified candidates. Many economists also believe that the reduction in long term unemployment benefits actually contributed to employment growth as people became more likely to rejoin the labor force when their benefits ran out.
<b>Interest Rates</b>	Mar 2015	Interest rates have generally gone down slightly since the first of the year, with declines more pronounced on longer term US Treasury securities due to the dollar's strength and general flight to quality concerns due to world unrest. LIBOR 0.17% (up 1 bp since 12/31/14); 1 yr UST 0.22% (down 3 bps); 5 yr UST 1.51% (down 20 bps); 10 yr UST 1.98% (down 22 bps); AAA bonds 3.64% (down 8 bps) Baa bonds 4.47% (down 9 bps); 30 year fixed rate mortgages 3.80% (down 7 bps)
<b>Foreign Exchange</b>	Mar 2015	The US Dollar continues to increase in value relative to other currencies, although the rate has slowed in recent months. Reasons include increasing energy independence, slowing Eurozone and Asian economic growth rates, and continued perception of the US and its securities to be a safe haven. Euro = \$1.12 (USD up about 8% since 12/31/14 but up about 24% since high point in June 2014), USD = 120 Yen (flat/18%); USD = \$1.25 Canadian (8%/18%); British Pound = \$1.54 (USD up 1%/8%).
<b>CPI</b>	Jan 2015	The CPI declined 0.7% in January, and had a 0.1% decline for the rolling 12 months. This is primarily attributable to gasoline prices, which were down almost 19% for the month. Food was unchanged for the month, which is also partially due to energy costs in its production and transportation. Excluding food and energy, CPI was up 0.2% for the month and 1.6% for the 12 month period, which is more in line with recent trends. The benign CPI figures have factored in to the Federal Reserve's decisions to keep interest rates low.
<b>Retail Sales</b>	Jan 2015	Seasonally adjusted retail sales in January were down 0.8% compared to December, but up 3.3% for the year. Gainers included restaurants and auto sales, while gas stations, of course, had a huge (23%) decline. As gas stations account for nearly 10% of the overall volume of sales, it was enough to affect the overall index.
<b>Housing</b>	Dec'14 – Jan '15	New home sales in January were slightly (0.2%) below December levels, but were 5.5% ahead of the prior year. Existing home sales, however, were down 4.9% for the month which put them at the lowest rate in 9 months but were still 3.2% ahead of last year. Lack of inventory is partially to blame, as it is still at less than 5 months supply, which is historically low. Prices are also rising, up 6.2% since last year, which will make affordability a concern in certain markets, especially if interest rates go up. Pending home sales which are a good leading indicator, were up 1.7% in January and are at the highest level in 18 months. The narrower Case-Schiller price index shows fairly flat prices over the past few months (slightly higher in December, slightly lower over a 3 month period) but are up about 4.5% in the 20 largest markets over the past year. The 3 year compound average growth is almost 8%, but if you go further back, it shows that prices have not fully recovered- prices lower now than they were 10 years ago even before adjusting for inflation.

Sources: National Bureau of Economic Research; various government agencies including US Department of Commerce

## Inside Pyramid

Recently, Pyramid added 10 unique hotels in the last quarter, bringing Pyramid's portfolio to 59 hotels with 20,400+ keys and 1.5M+ SF of meeting space.

Managed properties (7) include:

- 208-rooms Hotel Viking (Newport, RI)
- 356-rooms Revere Boston Common Hotel (Boston, MA)
- 120-rooms Residence Inn Downtown/Seaport (Boston, MA)  
*Marks as Pyramid's 4<sup>th</sup> Residence Inn by Marriott in Boston, MA*
- 502-rooms DoubleTree by Hilton Newark Airport Hotel (Newark, NJ)
- 348-rooms Hilton Philadelphia at Penn's Landing (Philadelphia, PA)  
*Extensive renovation planned converting from Hyatt Regency*
- 196-rooms JetBlue Lodge (Orlando, FL)  
*A training facility for JetBlue's new-hire and recurrent training*
- 132-rooms Temple Bar Hotel (Dublin, Ireland)  
*Extensive improvements are planned with additional guestrooms to be added*

Asset managed properties (3) include:

- 655-rooms New York Marriott East Side (New York, NY)
- 107-rooms The Place ApartHotel (Manchester, United Kingdom)
- 117-rooms The Pendulum Hotel (Manchester, United Kingdom)

### Performance Statistics

Pyramid increased same store RevPAR and NOI by 9.7% and 31.4% respectively from 2013 to 2014

## ABOUT THE AUTHOR

**Jack Levy** – Senior Vice President - Finance, Pyramid Hotel Group

Jack Levy has had over 40 years of experience in the analysis and structuring of complex financial transactions in the hotel, commercial and residential real estate and leisure industries. He is the former Executive Vice President and Treasurer of the Pebble Beach Company, and has held senior management positions with the Promus Hotel Company, DoubleTree Hotels Corporation and Beacon Properties. He has also provided consulting services to organizations including Del Webb Corporation, Best Western Hotels, Candlewood Hotels and the General Electric Pension Trust. He is a graduate of the Massachusetts Institute of Technology.