

**CBRE**

**PATA**<sup>®</sup>  
Pacific Asia Travel Association  
HAWAII CHAPTER



**The Road Ahead ....**

**... a Change of Scenery?**

**STATE OF THE U.S. LODGING INDUSTRY**

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CBRE Hotels Advisory**

**CBRE HOTELS**

The World's Leading Hotel Experts.

February 7, 2019

# Agenda

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- The Economy
- Thoughts on Lodging



*First Watch on a Long Voyage*

# *Today's Message*

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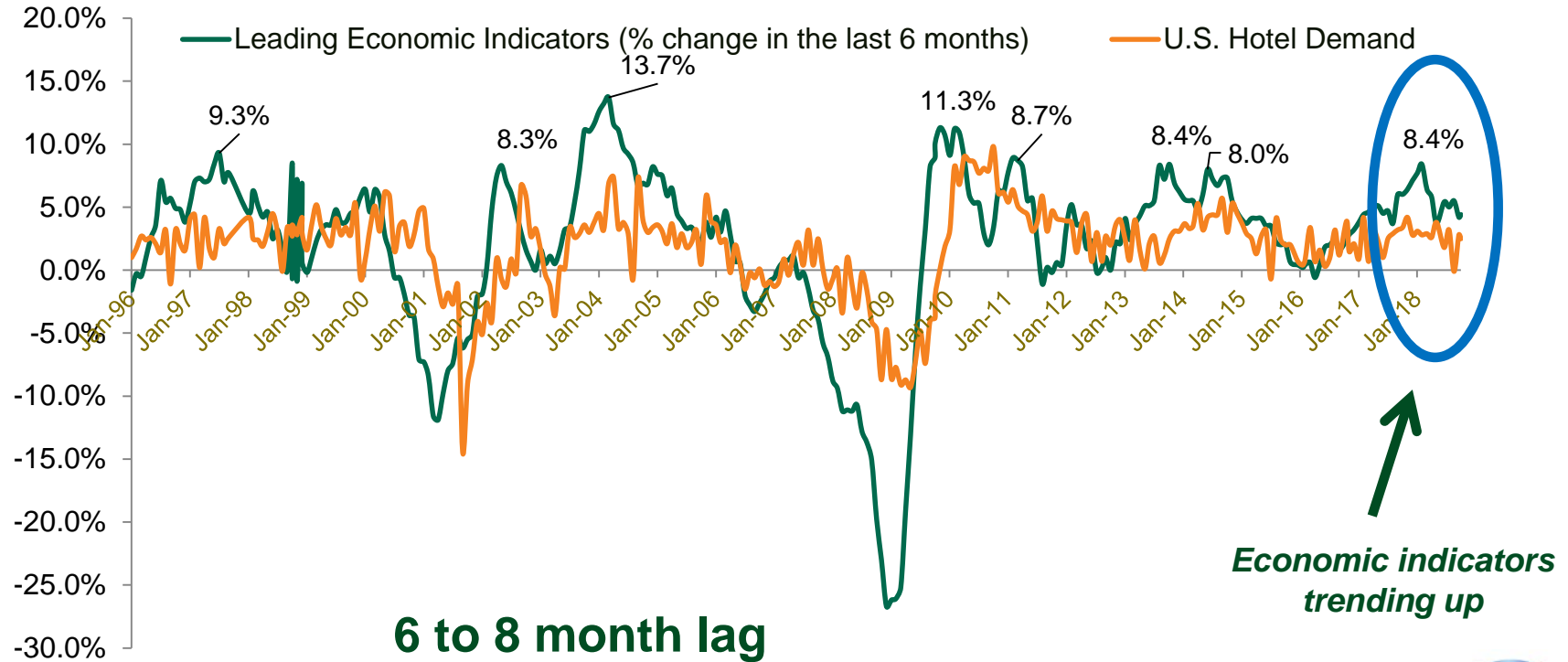
- The Economic Outlook Remains Favorable Well Into 2020.
- Labor Issues Will Persist.
- U.S. Hotels Remain Fundamentally Sound.



# THE ECONOMY

# Leading Economic Indicators

## Percent Change In the Last 6 Months



# 2019 Outlook Strong

*Job gains to moderate and wages to increase*

STRONG CONSUMER AND GOVERNMENT SPENDING DROVE GDP GROWTH IN Q3; DECEMBER JOB GAINS BEAT EXPECTATIONS WHILE WAGE GAINS SURPASSED 3%

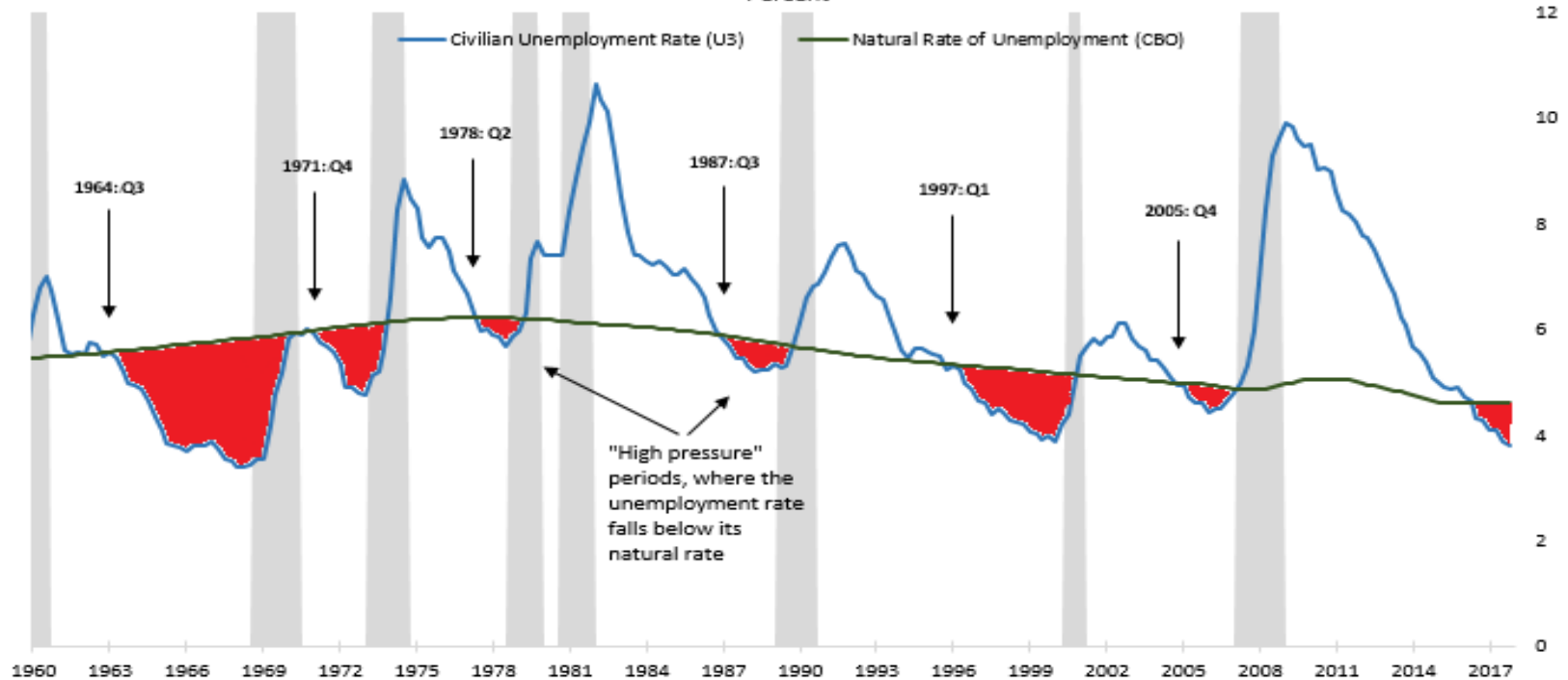
- Consumer spending continues to be the primary driver of the current economic expansion.
- The December jobs report showed solid gains across all economic sectors.
- Tax Cuts & Jobs Act will continue to act as a stimulus, but job growth will likely moderate.
- Wage growth continues to expand; gas prices remain low.

A HEALTHY ECONOMIC OUTLOOK FOR 2019, WITH A SLOWDOWN BY MID-2020

- More moderate growth in 2019 than in 2018.
- Rising interest rates will weigh on business and consumer activity by late-2019.
- By H2 2020, we expect the economy to slow. The slowdown will be relatively mild and short.

# Lowest Jobless Claims Since 1959

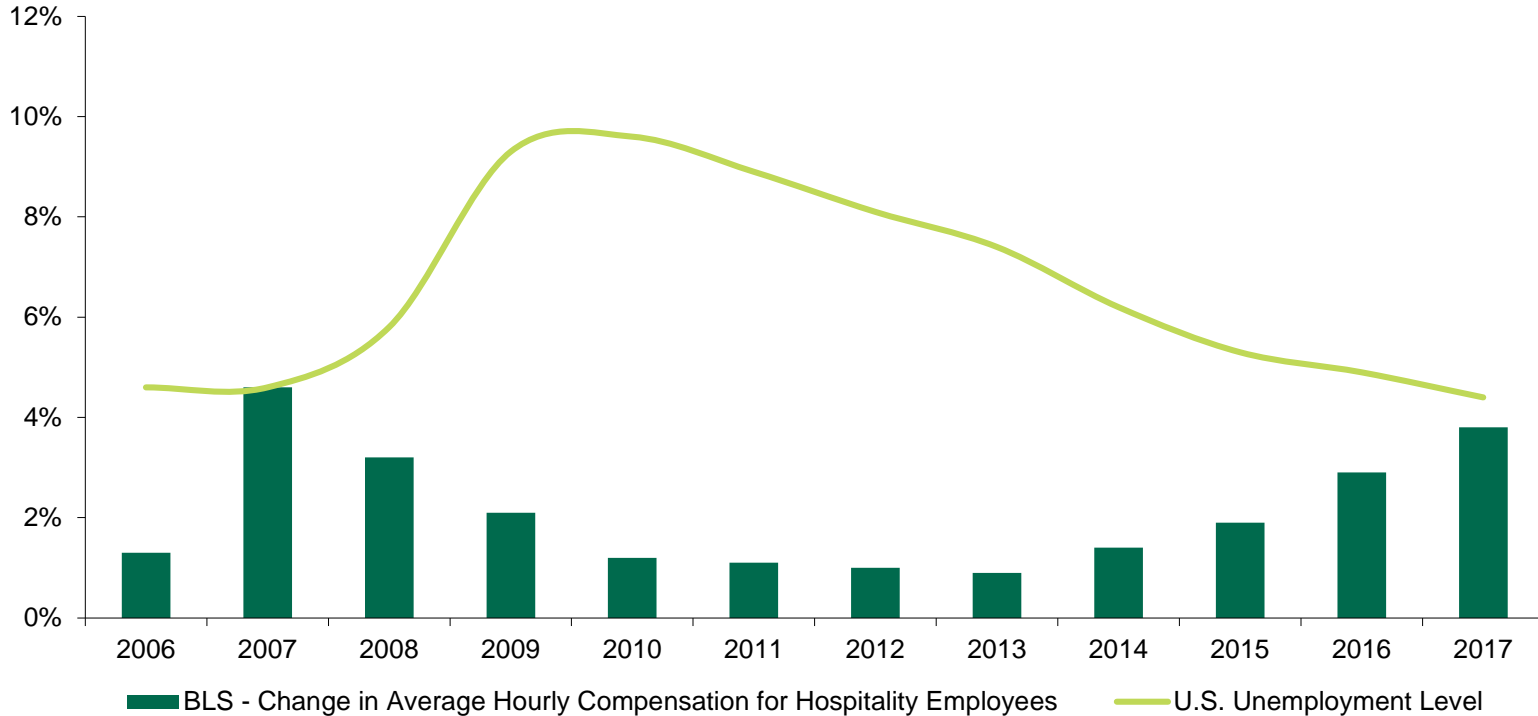
"Undershooting" the Natural Unemployment Rate  
Percent



Sources: Bureau of Labor Statistics; Congressional Budget Office (CBO); BEA; Federal Reserve Board

# 2018 Trends® In The Hotel Industry

Annual Change in Employee Hourly Compensation vs. Unemployment Rate

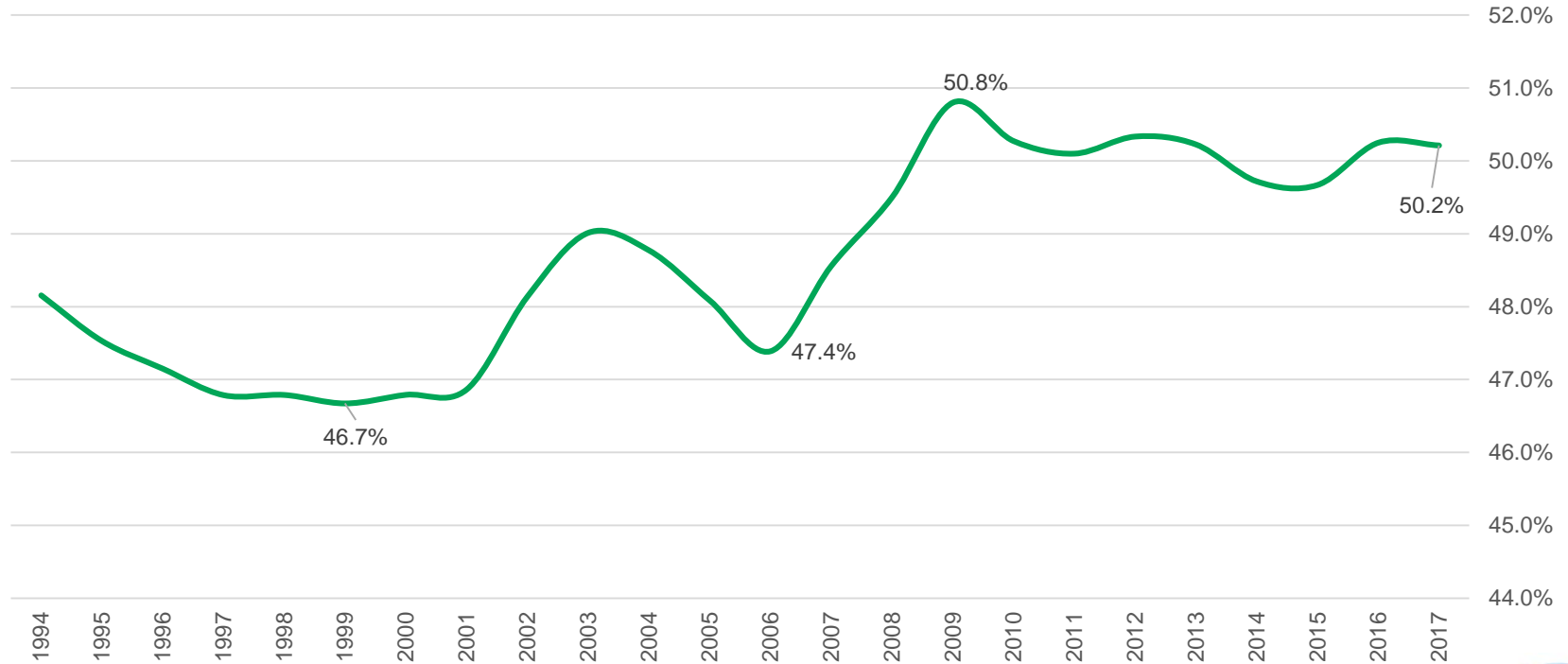


Source: Bureau of Labor Statistics



# Total PTEB As a Ratio of Total Expenses

(Thru GOP)

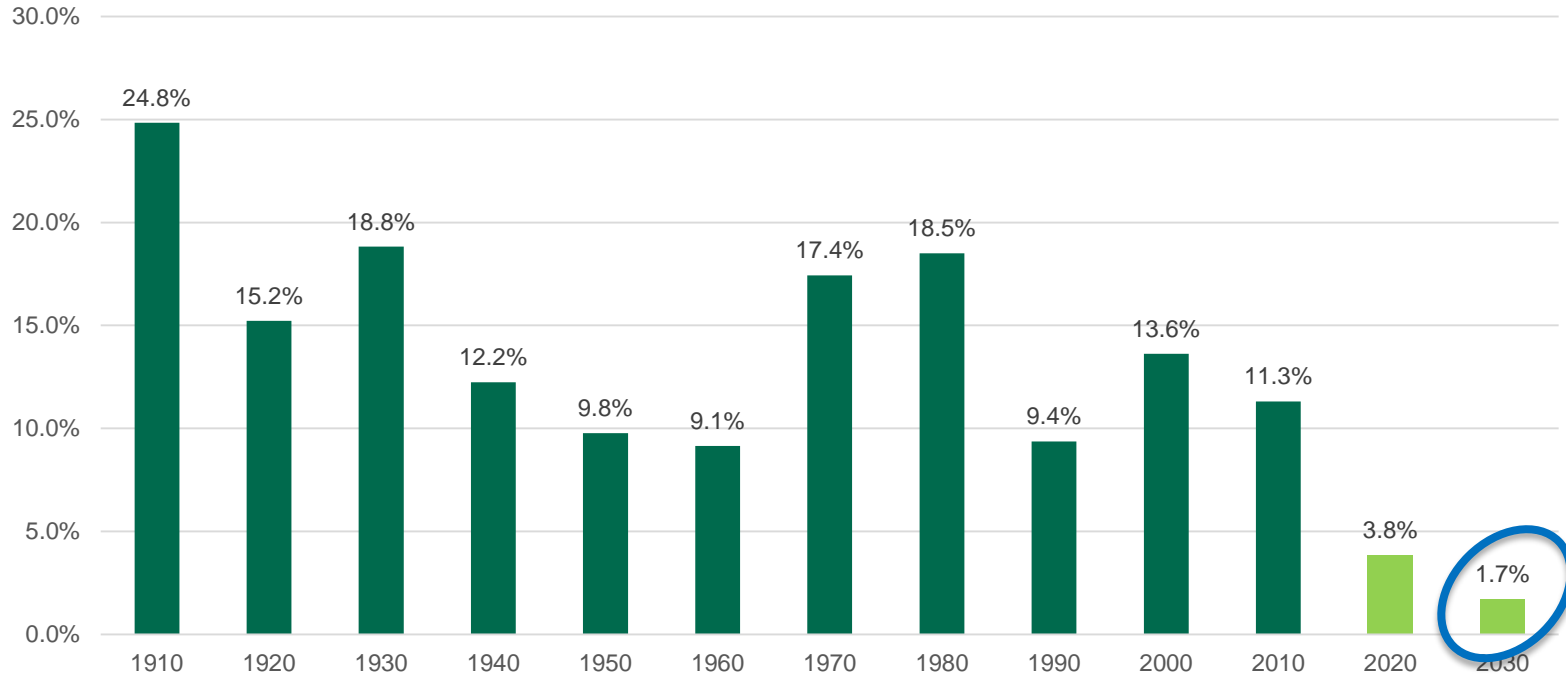


Source: CBRE Trends® in the Hotel Industry Survey



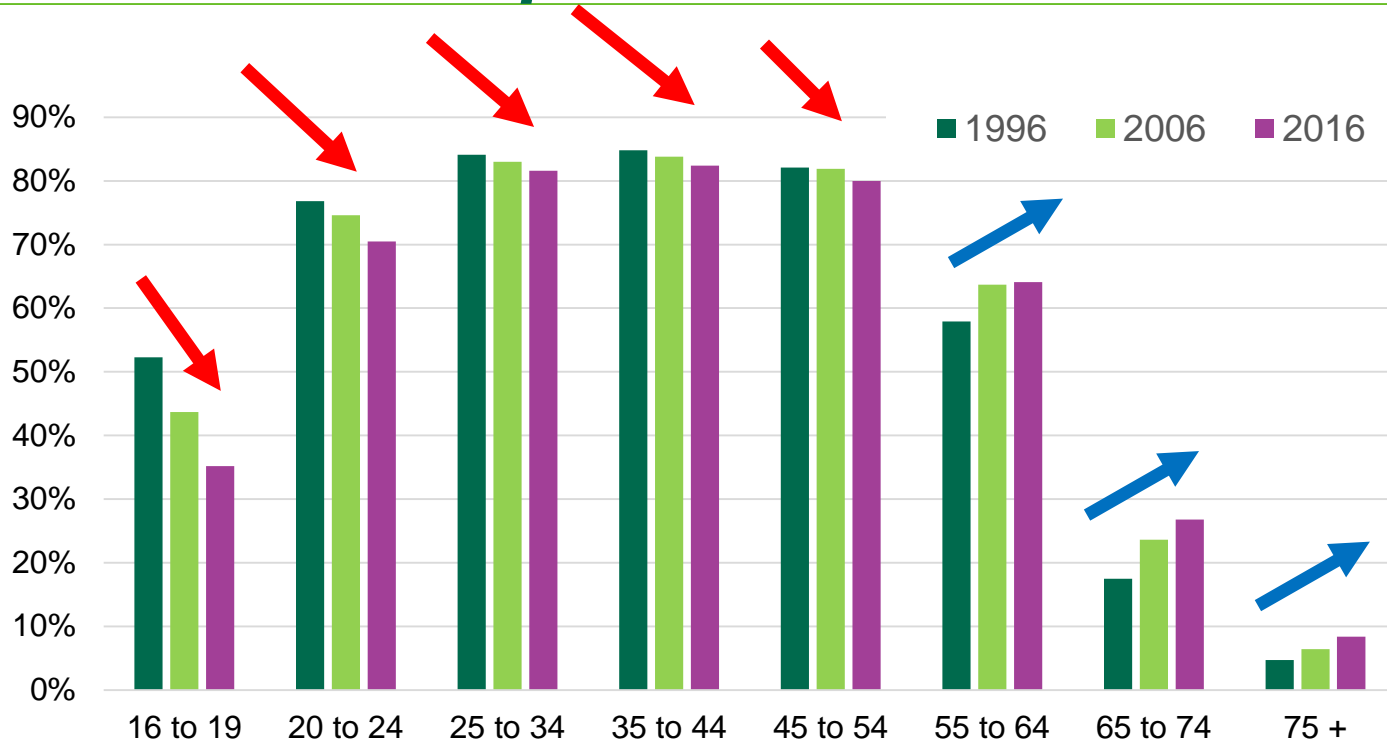
# Where Will We Find Workers?

## 10 Year Change in Working Age Population



Source: U.S. Census, Moody's Analytics, Q3 2018.

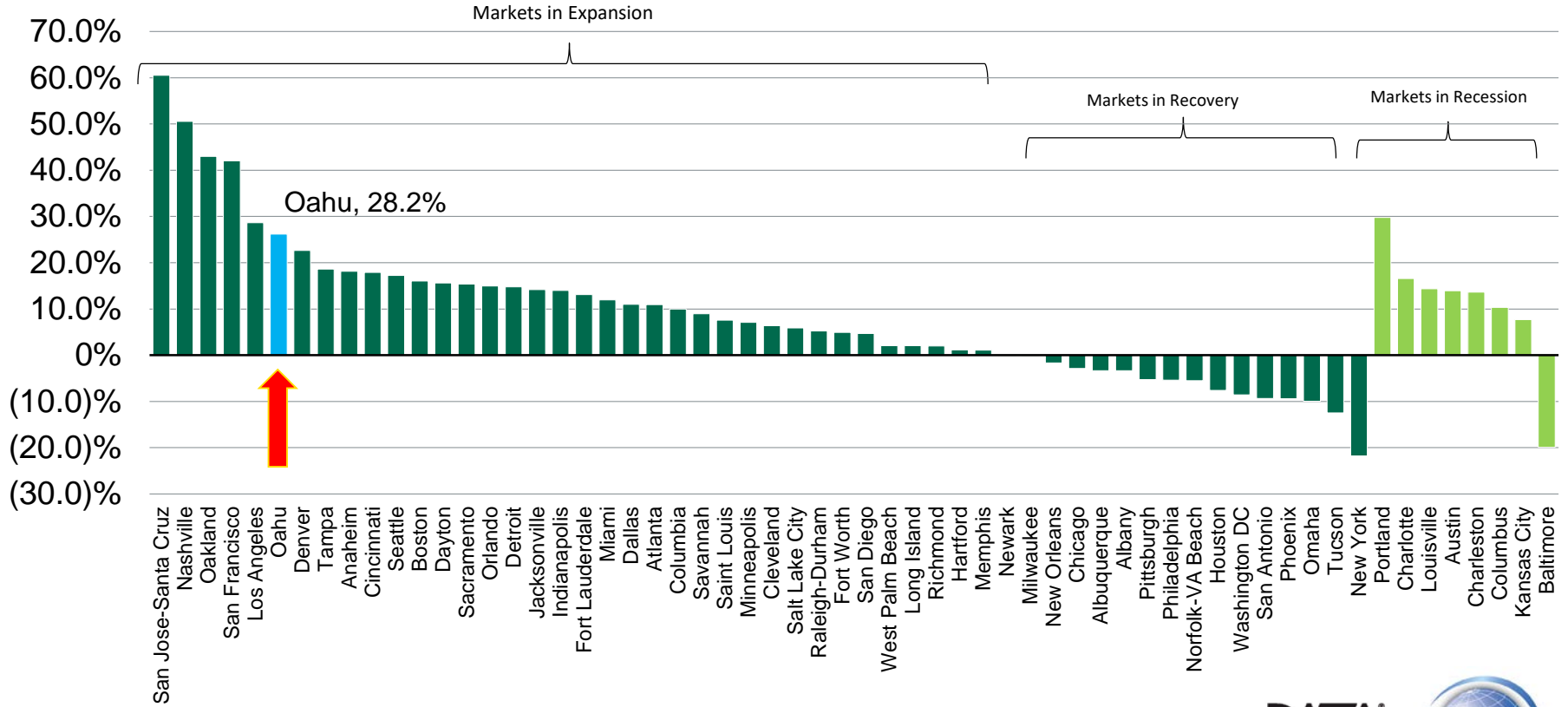
# Labor Force Participation





# SOME THOUGHTS ON LODGING

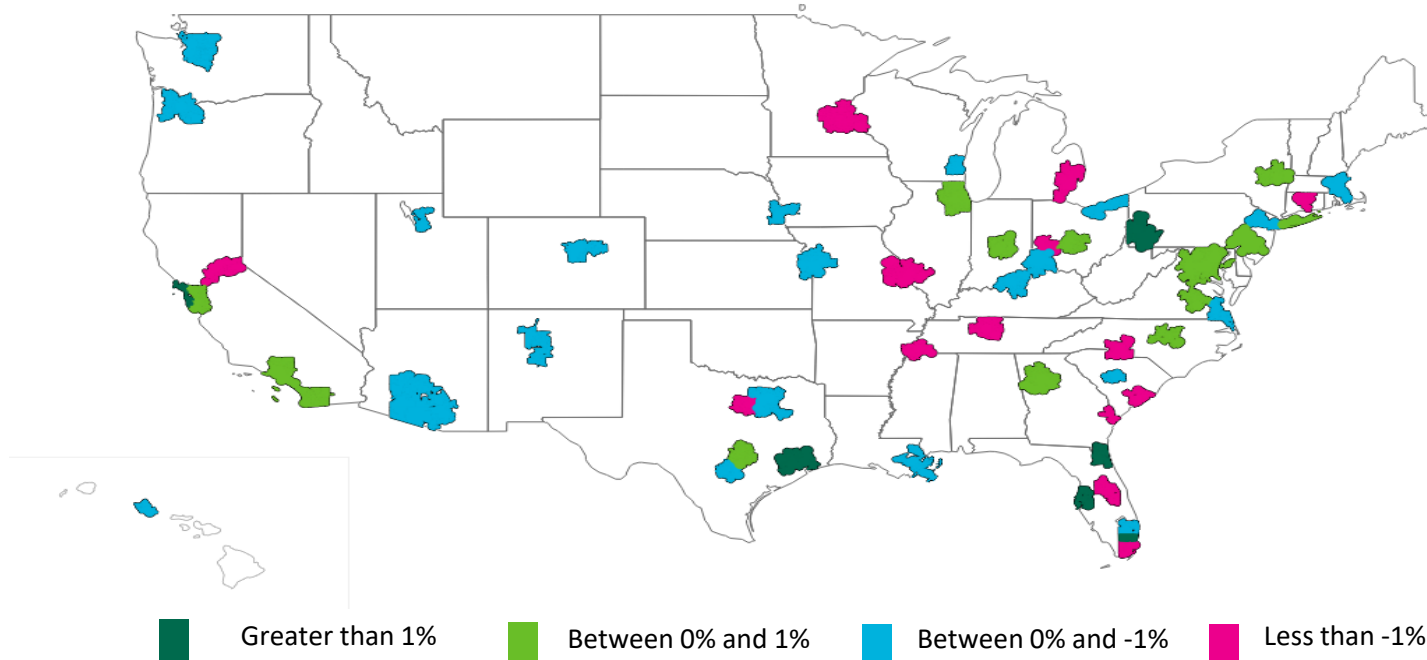
# Real RevPAR Change From Pre-Recession Peak.



Source: CBRE Hotels' Americas Research; STR, Q3 2018.

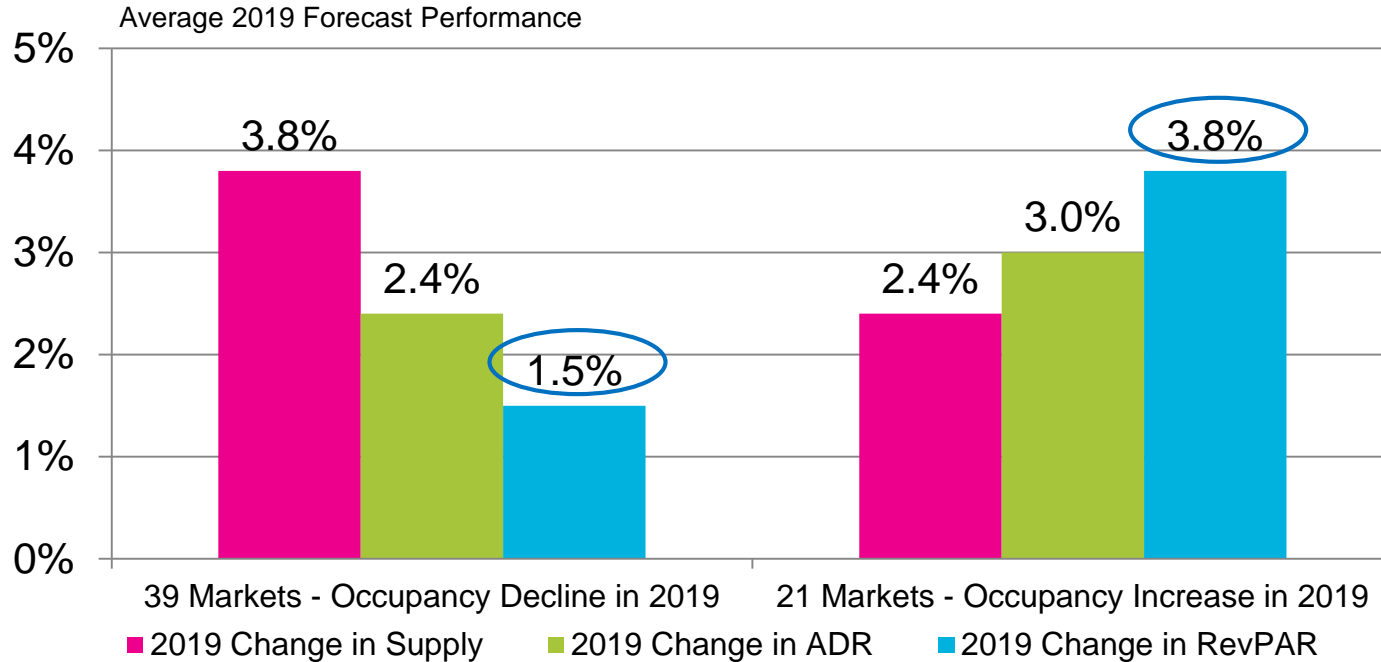
# 2019 Occupancy Change Forecast

## Oahu In The Middle of The Pack



Source: STR, CBRE Hotels' Americas Research, Hotel Horizons® Q3 2018

# U.S. Lodging Performance – 60 Horizons® Markets\*



Note: \* Universe of 60 major markets covered by CBRE Hotel Horizons® forecast reports.

Source: CBRE Hotels' Americas Research, December 2018 – February 2019 Hotel Horizons® Forecast

# Oahu Lodging Forecast

Long Run Averages 1988 to 2017: 78.8% Occupancy, 4.5% ADR Growth, 4.5% RevPAR Growth

## Oahu Forecast Summary

YEAR	OCC	Δ OCC	ADR	Δ ADR	REVPAR	Δ REVPAR
2013	83.7%	-1.1%	\$207.95	12.7%	\$174.07	11.4%
2014	84.4%	0.8%	\$213.54	2.7%	\$180.27	3.6%
2015	85.3%	1.1%	\$219.52	2.8%	\$187.29	3.9%
2016	84.4%	-1.1%	\$227.33	3.6%	\$191.80	2.4%
2017	83.5%	-1.1%	\$233.00	2.5%	\$194.49	1.4%
2018F	83.9%	0.5%	\$238.20	2.2%	\$199.89	2.8%
2019F	83.8%	-0.2%	\$242.12	1.6%	\$202.86	1.5%
2020F	83.9%	0.1%	\$245.63	1.4%	\$206.01	1.5%
2021F	83.3%	-0.7%	\$248.80	1.3%	\$207.16	0.6%
2022F	82.6%	-0.8%	\$249.93	0.5%	\$206.53	-0.3%

Source: CBRE Hotels Americas Research, STR, Q3 2018

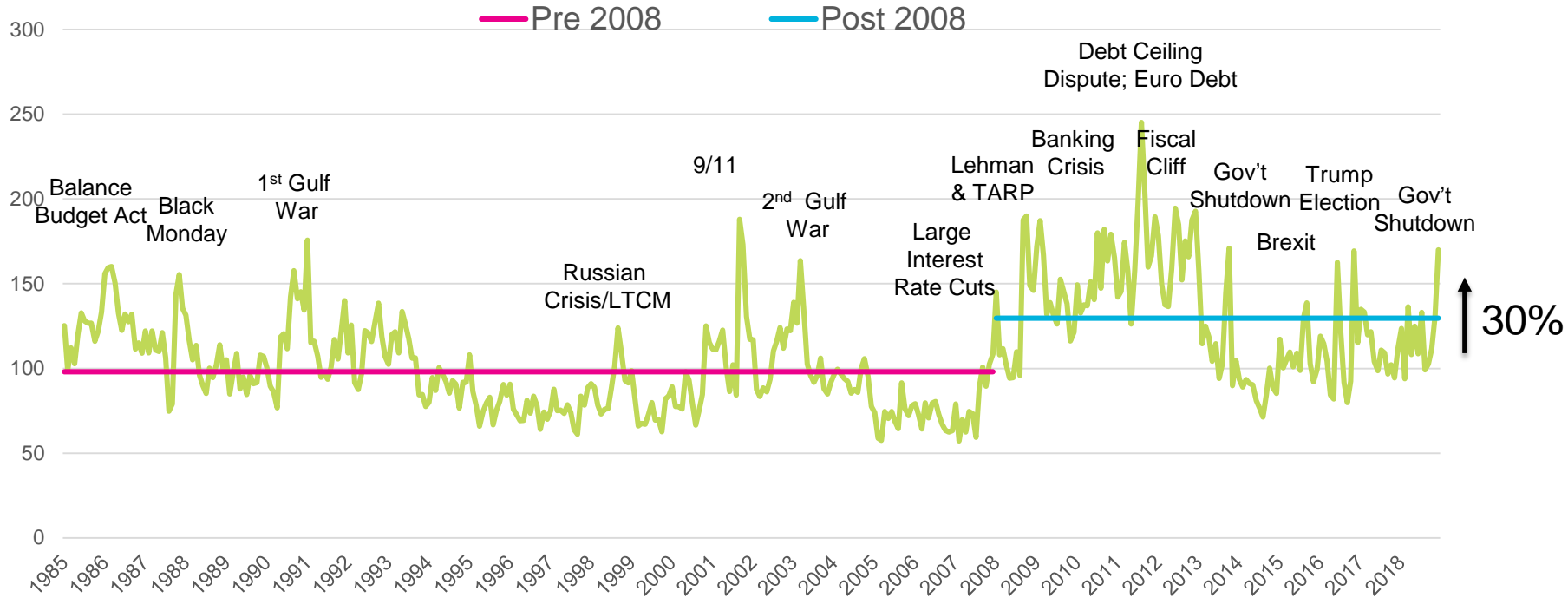


## *Another Question:*

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When you are uncertain about something, what do you typically do?

# Policy Uncertainty Index – Does DC Dysfunction Impact ADR?



Source: PolicyUncertainty.com

# YES!

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Using our Econometric Models, we can estimate the impact of Policy Uncertainty:

- Negative Impact on both Demand & **ADR (Largest impact on ADR)**
- Price Elasticity of 0.02 in our national model

While additional research is required, these preliminary observations suggest that elevated levels of uncertainty since 2008, which can mostly be attributed to actions in Washington D.C., may have caused annual ADR growth to be 0.5% lower than would have been the case if more normal levels of uncertainty were present, holding everything else constant.

Appears to be more of an issue for Upper-Upscale and Luxury hotels.

# U.S. Hotels to Peak in Mid-2020

*Slowdown Will be a Mild One*

	Long Run Average	2017	2018	2019F	2020F	2021F	2022F
Supply	1.8%	1.8%	2.0%	1.9%	1.8%	1.8%	1.7%
Demand	2.0%	2.6%	2.5%	1.8%	1.2%	-0.1%	2.5%
Occupancy	62.3%	65.9%	66.2%	66.2%	65.8%	64.6%	65.1%
ADR	3.0%	2.1%	2.4%	2.6%	2.6%	1.3%	0.6%
RevPAR	3.3%	2.9%	2.9%	2.5%	2.0%	-0.6%	1.4%

Source: STR, CBRE Hotels' Americas Research, Hotel Horizons® Q4 2018 – ALIS 2019 Preliminary Update

Source: CBRE Hotels' Americas Research; STR, Q4 2018.



# SUMMARY

# Summary Thoughts

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1. The U.S. lodging industry has been operating at peak levels for the past three years.
2. Accelerated supply growth in recent years has been readily absorbed in most markets because of the expanding economy.
3. Despite rising salary and wage rates and slowing revenue growth, operators have controlled costs sufficiently to achieve increases in profit margins.
4. While the fundamentals remain attractive across the vast majority of markets, elevated uncertainty (among other factors) has impaired management's ADR pricing power. This has also contributed to weaker-than-expected NOI growth.

# MAHALO!

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