Hospitality Research

2018 INVESTMENT FORECAST

California

Supply Wave Meets Hotel Accommodation Needs From Tourism and Business

California hotels' occupancy, ADR and RevPAR continue to improve this year. Southern California drives performance for the region, with San Diego and Orange County reporting the highest growth rates in RevPAR and ADR, respectively, last year. In 2018, Los Angeles will open 3,880 new rooms, the most of any city in the state, experiencing a temporary drop in occupancy as a result. This measure will recover over time as the local economy remains healthy and the number of annual visitors stays strong. Tourism for LA increased 2 percent in 2017, aided by 11 new nonstop international routes into Los Angeles International Airport that make it easier for these travelers to add Southern California entertainment venues to their schedule. Improved tourism will aid Northern California as well. The Wine Country has substantially recovered from damage caused by past wild-fires, paving the way for increased occupancy, ADR and RevPAR statewide in 2018.

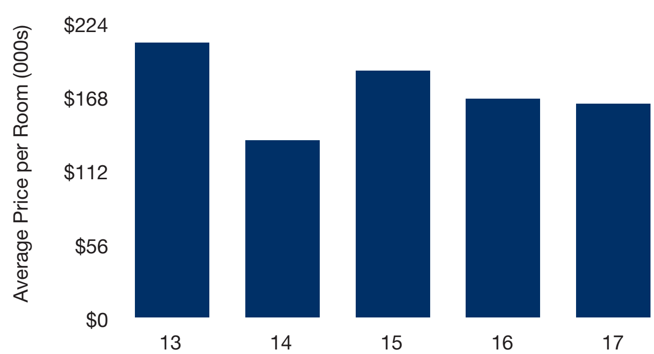
Investment landscape characterized by private investors seeking independent hotels in southern California. Positive hotel performance fuels investor demand for Golden State hotels, evidenced by an increase in transaction velocity last year across all chain scales. Overall, independent hospitality operations represented 43 percent of the deal pool. Regardless of classification, hotels located in the Inland Empire and in Los Angeles continue to be the most sought after by buyers. Orange County and San Diego also reported a higher number of trades, as region-leading increases in ADR and RevPAR drew investors' attention. Non-institutional buyers from the state are active in each of these four markets, seeking older vintage assets with fewer than 100 rooms. Yields for such properties skew higher than the regional average of mid-7 percent, offering greater initial first-year returns in top-tier markets.

2018 Demand Growth

2.0% Year-over-Year Room Nights

2.6%	2017 Year-over-Year Leisure and Hospitality Employment Growth
300 bps	Five-Year Occupancy Growth 2014-2018
11%	Five-Year RevPAR Growth

Hotel Sales

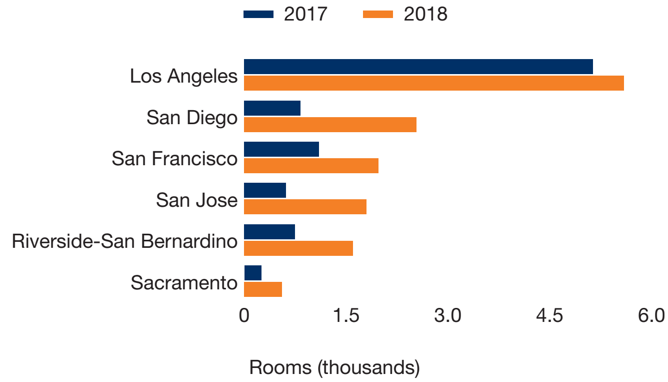


Sources: CoStar Group, Inc.; STR, Inc.; Real Capital Analytics

2018 Regional Highlights

- To meet healthy demand by business travelers heading to Silicon Valley, San Jose's Norman Y. Mineta International Airport is adding more seats faster than any other airport in the country. The tech hub's conventions alone generate $158 million in annual spending toward hotels, restaurants and attractions.
- San Diego tourism continues to benefit from profitable convention activity. San Diego Comic-Con alone adds around 58,000 hotel room nights per year, with an estimated economic impact of $143 million.
- Air traffic from the Sacramento International Airport surpassed the 2007 peak for the first time last year. This achievement facilitated improved regional commuting into and out of the state capital that helped increase hotel occupancy 3.6 percent and raised RevPAR a notable 9.8 percent year over year.

Development Trends♦



2018 Region Forecast

Supply up 1.7% — Hotel development shows no signs of stopping in California as about 18,900 rooms are under construction. An additional 25,600 rooms are in the final planning stages, producing one of the largest pipelines for any state in the country.

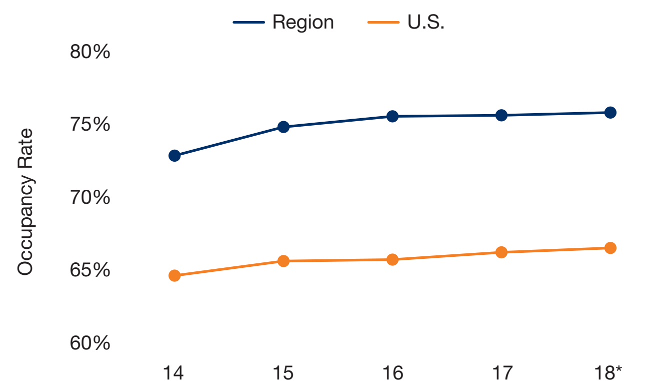
Occupancy up 20 bps — Following a 10-basis-point rise last year, annual occupancy will improve to 75.6 percent in 2018.

ADR up 1.6% — After a 2.1 percent increase in 2017, annual ADR will rise by a more modest amount to $163.73 this year.

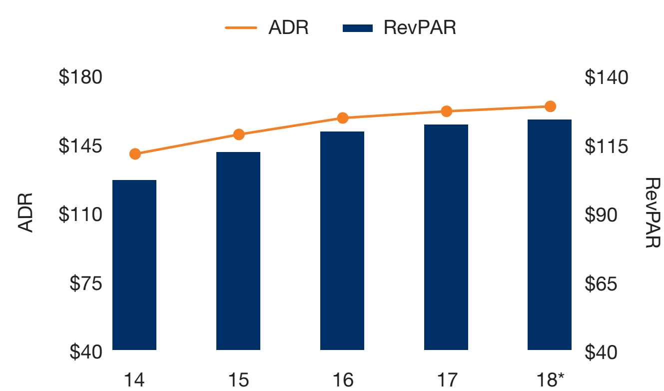
RevPAR up 1.9% — A higher ADR will mean improved RevPAR for regional hotels, with the annual average rising to $123.78 this year. In 2017 RevPAR grew by 2.2 percent.

Investment — Sales activity in the Coachella Valley has picked up 130 percent from where it was four years ago, as investors seek to capitalize on new events-driven demand sources. By some accounts, the area's thriving music festival scene generated an estimated economic impact of over $800 million last year.

Annual Occupancy



Full-Year Revenue Measures



♦2017 Recent Opens; 2018 Under Construction
* Forecast
Sources: CoStar Group, Inc.; STR, Inc.; Real Capital Analytics

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Statistical Summary Note: Hotel chain scale definitions are based on information available as of December 2017. Average prices and cap rates are a function of the age, type and geographic area of the properties trading and therefore may not be representative of the market as a whole. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.

Sources: Marcus & Millichap Research Services; AH&LA; AARP Research; Altus Data Solutions; Bureau of Economic Analysis; CoStar Group, Inc.; Federal Reserve; Moody's Analytics; PKF Hospitality; Real Capital Analytics; STR Inc.; Trepp; U.S. Bureau of Labor Statistics; U.S. Census Bureau; U.S. Treasury Department.