Hospitality Research

2018 INVESTMENT FORECAST

Carolinas

Markets' New Deliveries Weigh on Occupancy; Limited Service Hotels Targeted

Surge in supply surpasses demand. Occupancy softened over the last few months of 2017, a trend that will continue in 2018 due to an increase of new inventory. Deliveries are likely to remain heightened into 2019 as many planned projects are scheduled to move forward. Construction is accelerating, especially in Charleston and Charlotte as corporate relocations and expansions bring additional business travelers and population growth. These two metros accounted for more than half of the new inventory last year and will again in 2018. Raleigh is one major market in the two state region where deliveries are expected to ease this year, although this will likely be a short-term pause as seven projects are in the final planning stage. Even though occupancy will weaken in the Carolinas this year, ADR and RevPAR are expected to rise to new highs.

Rise in construction provides additional buying opportunities. A favorable economic and demographic outlook will bolster corporate travel as well as the tourism sector in the Carolinas this year. These factors are drawing a wide range of investors and the increase in competition pushed prices higher in all but independent assets last year. Hotel deliveries in downtown cores and near tourist hubs should keep institutional investors active at cap rates in the 7 percent range. Upper midscale facilities in both North and South Carolina were most frequently sought after last year, boosting prices 12 percent and 17 percent, respectively. Buyers in the under $10 million price tranche focused on economy hotels throughout the region, many seeking assets with some upside potential through renovations and amenity upgrades at cap rates above 8 percent. Among metros, hotels in Charlotte are highly desired as the strong corporate presence in the city keeps occupancy elevated during the week. Over the last year, transaction volume jumped 29 percent while the average price more than doubled, as more upscale hotels traded.

1.4% — 2017 Year-over-Year Leisure and Hospitality Employment Growth

240 bps — Five-Year Occupancy Growth 2014-2018

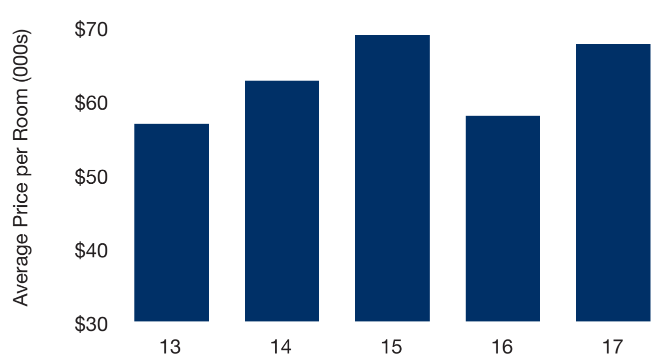
20% — Five-Year RevPAR Growth

States: North Carolina and South Carolina

2018 Demand Growth

1.0% Year-over-Year Room Nights

Hotel Sales

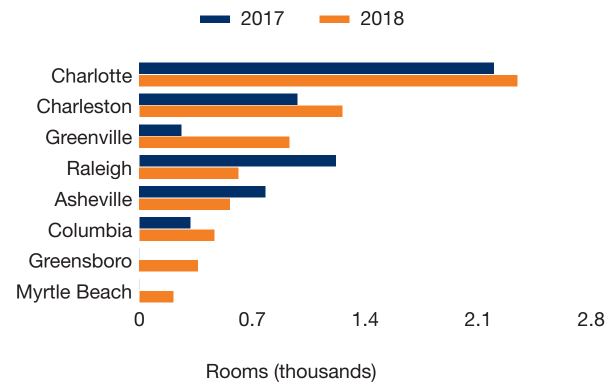


Sources: CoStar Group, Inc.; STR, Inc.; Real Capital Analytics

2018 Regional Highlights

- The uptown area of Charlotte is undergoing a boom in hotel deliveries following the addition of four new hotels last year that contained more than 700 rooms. Marriott will open 300 rooms this year in the Epi-Centre development and another 700 rooms are expected in 2019.
- This year's completion of the Raleigh Union Station, a multimodal transportation hub in the Warehouse District, will make getting around the region more convenient for visitors. The facility will also provide retail and dining options, as well as easier connections to nearby hotels.
- The Carolina coasts escaped the brunt of last year's hurricanes, with most areas receiving minimal damage or disruption. This, coupled with a strengthening economy, should position the region well for this year's tourism season.

Development Trends♦



2018 Region Forecast

Supply up 1.5% — After 5,600 rooms were delivered last year, the 90 hotels underway throughout the Carolinas will add nearly 9,900 rooms upon completion. Another 15,100 rooms are set to begin construction in the quarters ahead.

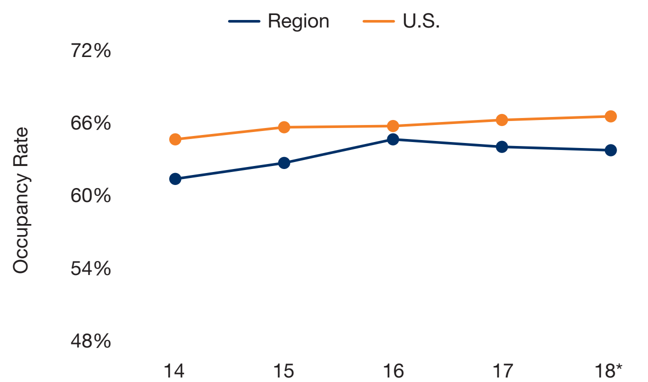
Occupancy down 30 bps — The surge in deliveries lowers occupancy to 63.5 percent at year end. This follows a 100-basis-point decline last year. Occupancy in South Carolina was 64.3 percent and 63.4 percent in North Carolina during 2017.

ADR up 2.5% — As occupancy dipped, ADR growth slowed to 3.3 percent in 2017. This year, ADR will reach $108, a 2.5 percent climb and the lowest level in eight years.

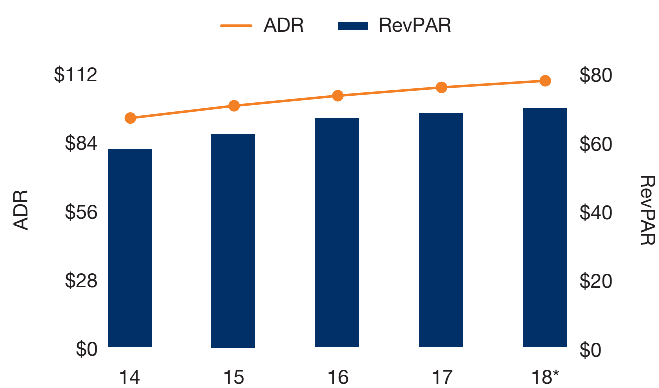
RevPAR up 1.9% — Building on a 2.3 percent increase in RevPAR last year, a smaller ADR gain in 2018 will result in a 1.9 percent advance in RevPAR.

Investment — Strong Appalachian/Blue Ridge tourism demand continues to attract out-of-state investors to Asheville. Independent and limited service hotels were most often traded 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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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.