Hospitality Research

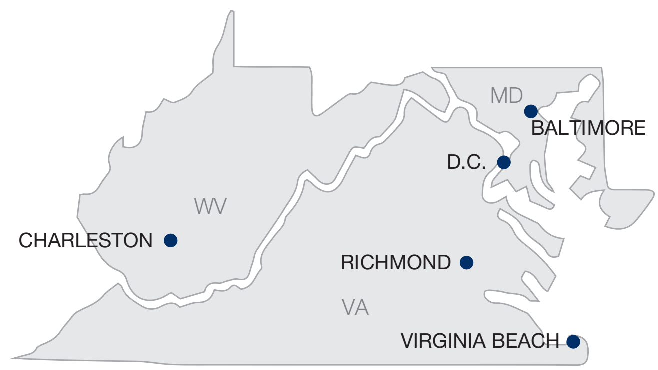
2018 INVESTMENT FORECAST

Washington, D.C./Central Atlantic

Vacation Destinations, Secondary Markets Garner Increased Attention

Heightened development has varied impact on region. Ample demand continues in the Washington, D.C./Central Atlantic Region, although a high level of construction will weigh on some markets. Approximately 2,000 rooms, or 6.5 percent of existing inventory, are under construction in the capital, limiting occupancy growth. The metro is a tourism destination, however, with 20 million visitors a year, meaning ADR and RevPAR are still expected to improve. Across the Potomac River in the state of Virginia, a similar number of incoming rooms will be dispersed among a much larger supply pool. Reduced supply-side pressure in the state, combined with increased business travel created by multiple corporate expansions and relocations, will prompt hotel occupancy and revenue to rise. 2018 will be a quiet year for West Virginia. A modest development pipeline of 317 rooms, or 1 percent of current inventory, will have a minimal impact on occupancy as tourism spending has recently declined in the state.

The District remains the focus of institutions; private investors look into eastern Virginia. Although Washington, D.C., regularly attracts the most number of hotel transactions of all Central Atlantic metros, most of these deals do not actually involve properties located in the District of Columbia itself. In 2017, twice as many hotels were traded in the suburbs of northern Virginia than in the capital. Institutional investors primarily targeted these assets, which consisted almost entirely of upscale or luxury establishments. In other markets, including Baltimore, Richmond and Hampton Road, the average sale price scales down by almost a factor of 10, as most sales involve lower-priced limited service properties. Within this group of markets, buyers who seek assets in the $1 million to $10 million range tend to look toward the tourism destinations within Hampton Road, closer to the coast. Last year multiple trades were completed in oceanside Virginia Beach and in Williamsburg, a college town.



States: Maryland, Virginia, Washington, D.C., and West Virginia

1.7% 2017 Year-over-Year Leisure and Hospitality Employment Growth

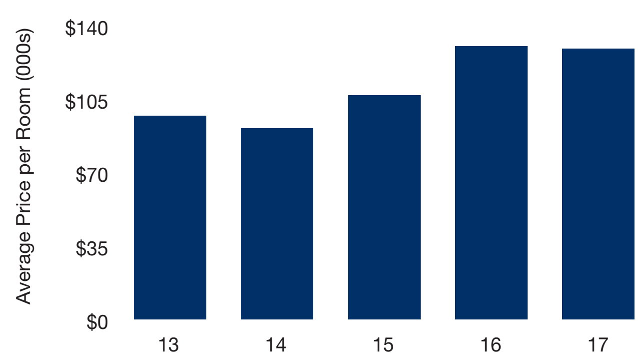
240 bps Five-Year Occupancy Growth 2014-2018

16% Five-Year RevPAR Growth

2018 Demand Growth

2.2% Year-over-Year Room Nights

Hotel Sales

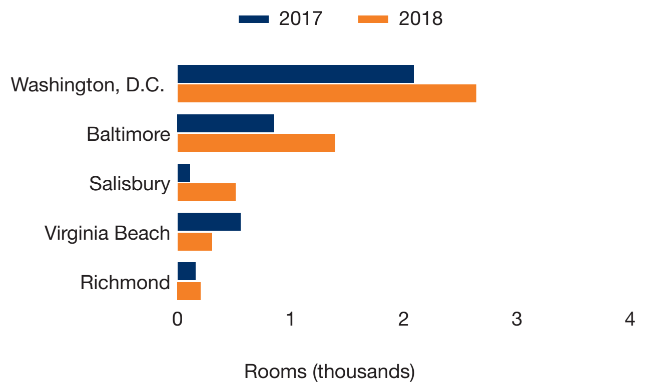


Sources: CoStar Group, Inc.; STR, Inc.; Real Capital Analytics

2018 Regional Highlights

- Richmond hotels are well positioned for 2018. Minimal construction at just 0.9 percent of inventory relieves supply-side pressure during a time when the area is becoming a more popular destination for those who travel to enjoy fine cuisine, craft beer and nature.
- Norfolk-Virginia Beach reported a 270-basis-point jump in occupancy and 9.3 percent increase in RevPAR last year. A consistent trend of increased visitor spending will lead to continued positive metrics for 2018.
- Tourism in Baltimore is on the upside as more than 25 million visitors come to the city each year, spending a collective $5.6 billion. An effort by tourism organizations has also increased the number of citywide conventions that will be held in the metro going forward.

Development Trends♦



2018 Region Forecast

Supply up 1.8% — The number of rooms under construction in the region increases from last year to 7,320. D.C., Virginia and Maryland will each receive more than 2,000 rooms.

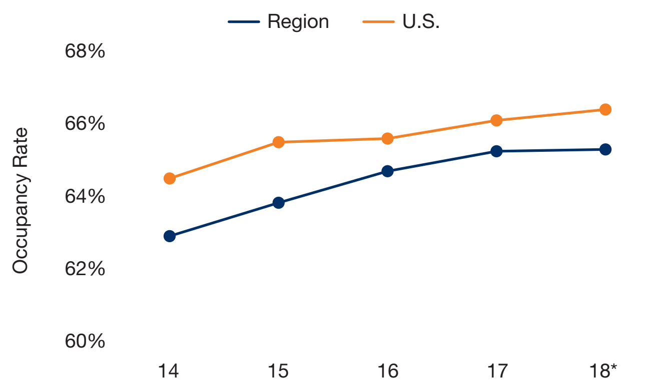
Occupancy up 10 bps — A higher rate of supply growth this year will keep occupancy from advancing beyond a value of 65.2 percent.

ADR up 2.2% — ADR will improve to $125.55, less than it did last year, as new supply reduces the number of high occupancy nights essential for driving strong rate growth.

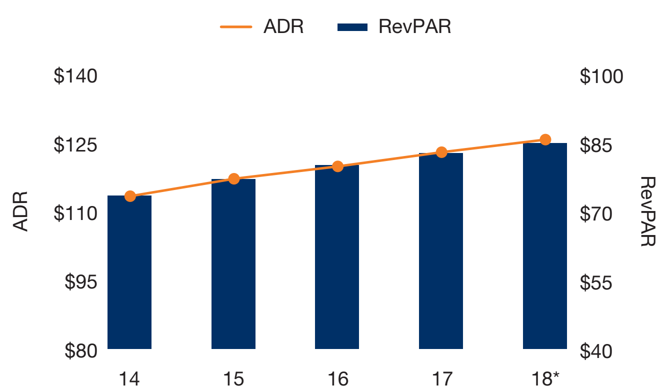
RevPAR up 2.7% — As ADR advances, RevPAR will increase for the eighth straight year to $84.94. Last year RevPAR rose by 3.3 percent.

Investment — Private investors looking to cross into the hospitality market may find opportunities in the Richmond area. Accounting for differences in room number and building age, entry costs in the city are lower than in other Virginia markets for similar asset types. Buyers interested in holding properties for longer periods will observe lower cap rates in the Williamsburg area.

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.

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