Los Angeles County
Economic Development Corporation
Economic Forecast

Tourism and hospitality

February 18, 2015

Building a better
working world

Agenda

Disclaimer

The information contained in this presentation is based on assumptions and other third party information which is subject to change, and those changes may be significant. Therefore, this information should not be relied upon for investment decisions or key decision-making.

Thoughts for 2015

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Appetite for investment

- Robust activity in the global capital markets is anticipated to continue.

Global M&A in the hospitality industry

We anticipate:

- Higher transaction volume from international investors
- The consolidation of third-party management companies

Outbound investment from Asia

- Asian investment dominates North America, Europe and Australia.
- Asian deregulation will drive more cross-border investment and a second wave of investors from China, Japan and Singapore.

Thoughts for 2015

Emerging submarkets within mature lodging markets

- Urban revitalization created opportunities in peripheral submarkets:
  - Los Angeles: Silver Lake/Echo Park and Koreatown
- Lower barriers to entry
- Return potential
- Expansion opportunities
- For tourists, lower cost alternatives to major urban cores

IPAs as catalysts for tourism investment

- Investment promotion agencies (IPA) source foreign investment into a destination.
- IPAs fuel tourism investment by enhancing transparency and navigating foreign capital through local rules and regulations.

Mutual learning: the sharing economy and the lodging industry

- Apartment-rental sites, in-home restaurants and ride-sharing match underused assets (supply) with shifting consumer preferences (demand).

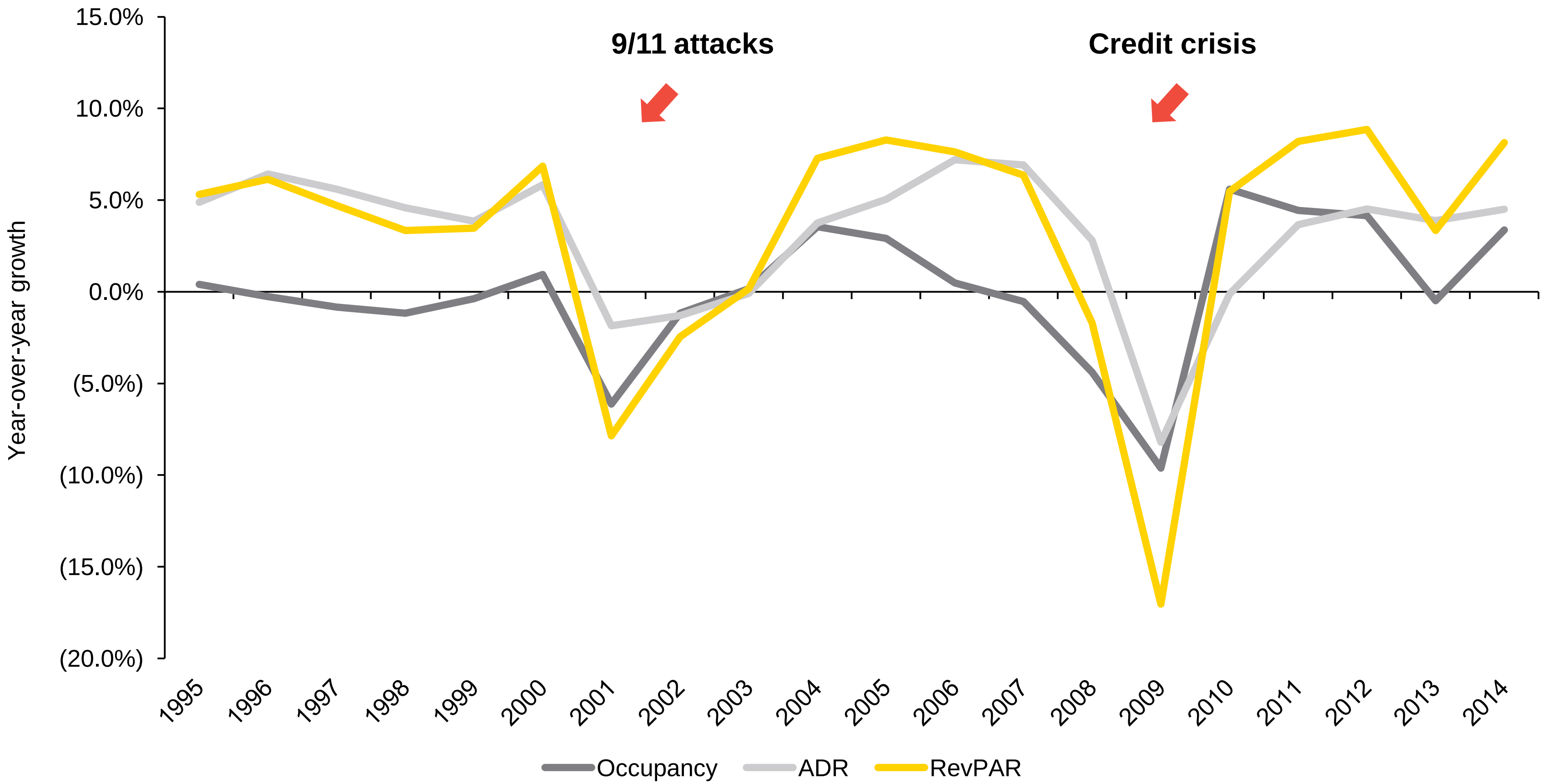
EY

Hospitality trends

Lodging cycle trends

Industry remains cyclical with 7-year to 10-year intervals between peaks

Occupancy, ADR and RevPAR percent change year-over-year

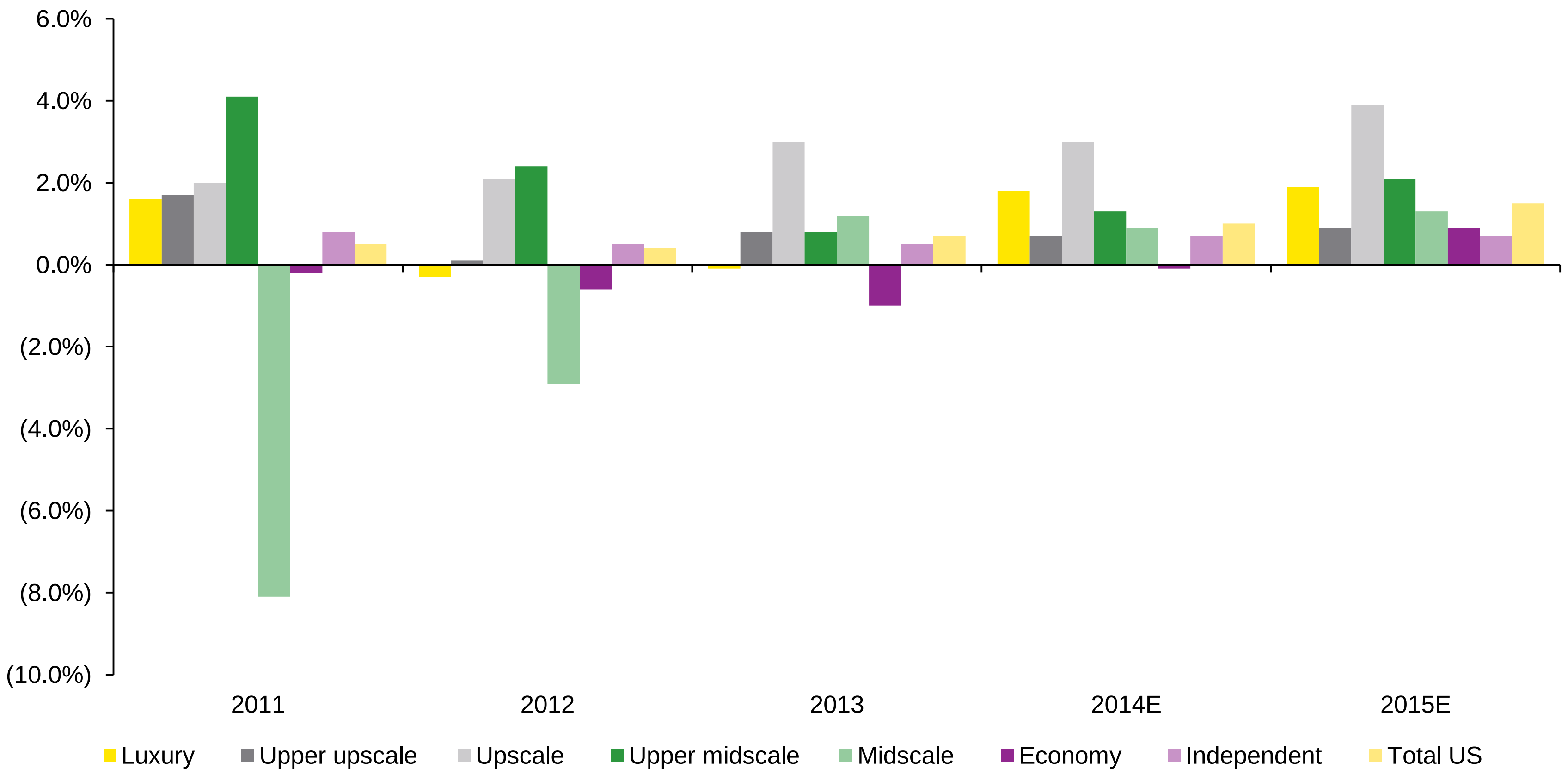


Source: Smith Travel Research Report

Lodging industry trends

Supply pipeline shows growth across all segments

Percent change in supply growth, 2011–15

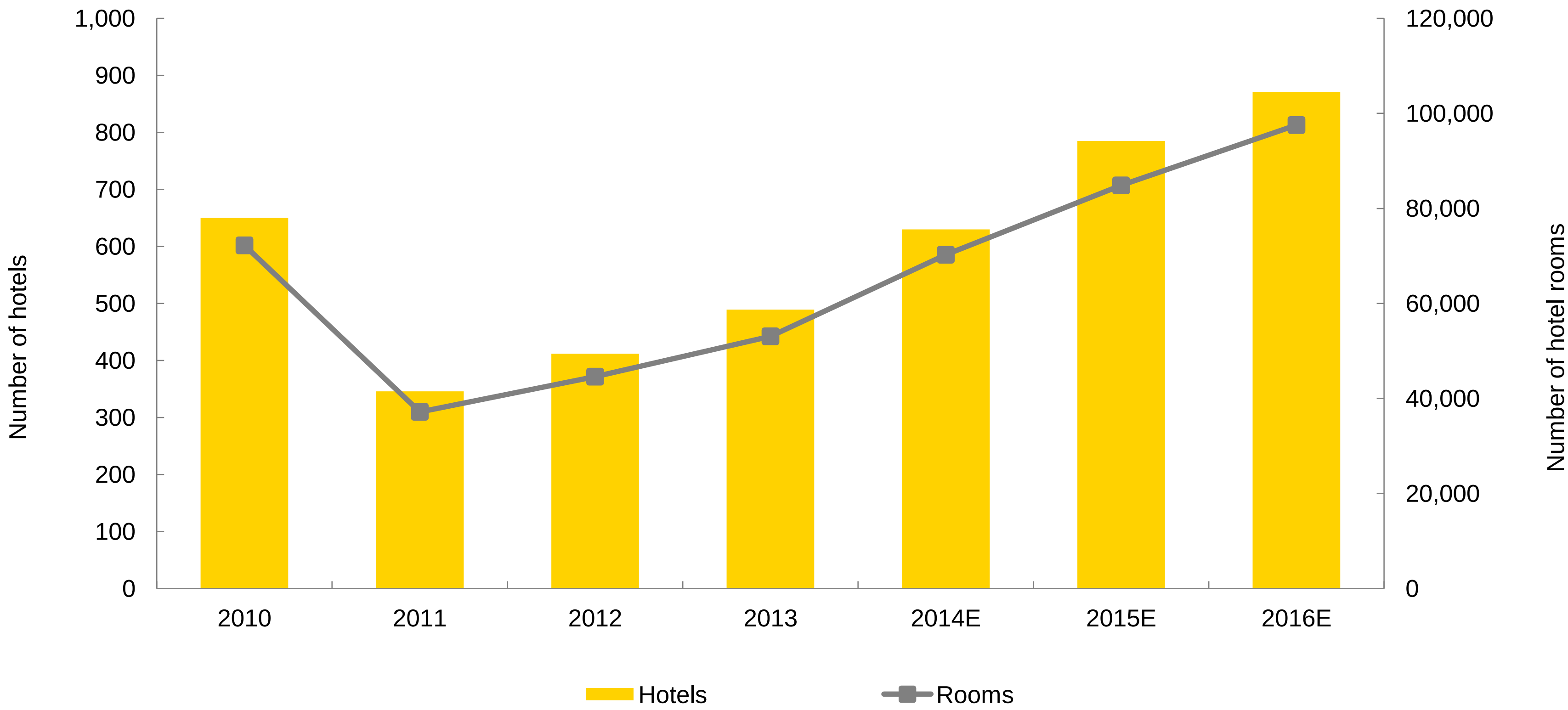


Source: Deutsche Bank Supply Monitor

Lodging industry trends

Supply pipeline is projected to grow into 2016

Historical and forecast of US new hotel openings as of Q3 2014

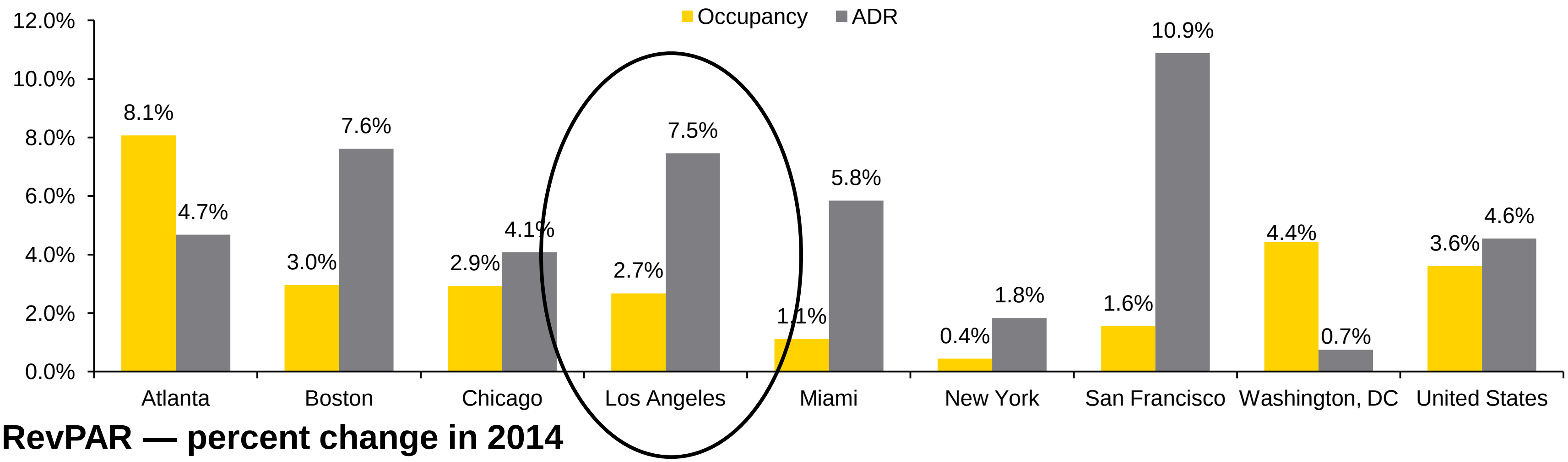


Source: Lodging Econometrics

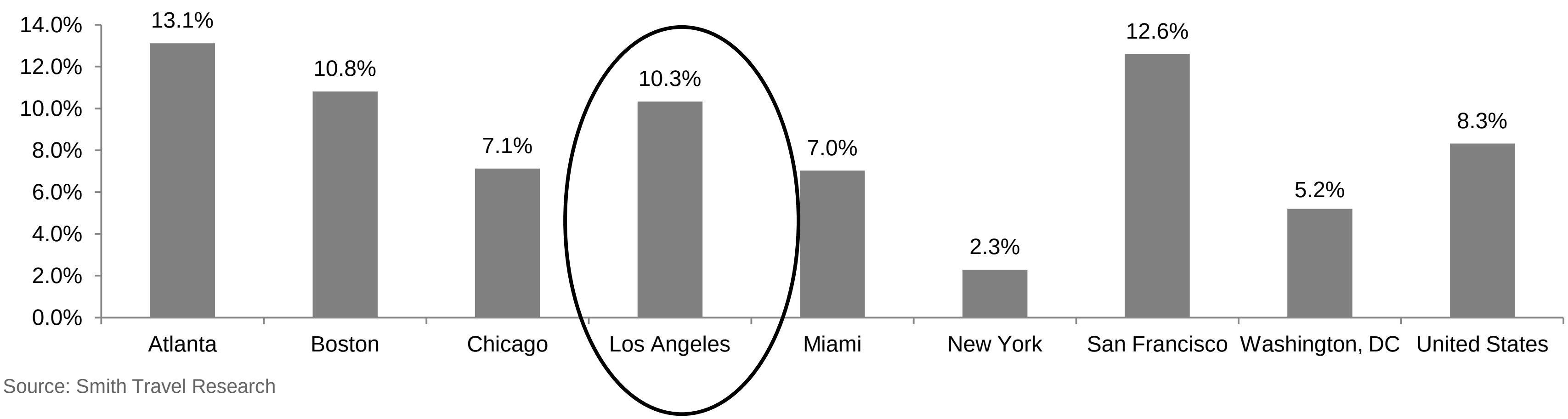
Lodging industry trends

Primary US markets metrics indicate ADR-led RevPAR growth

Occupancy and ADR — percent change in 2014



RevPAR — percent change in 2014

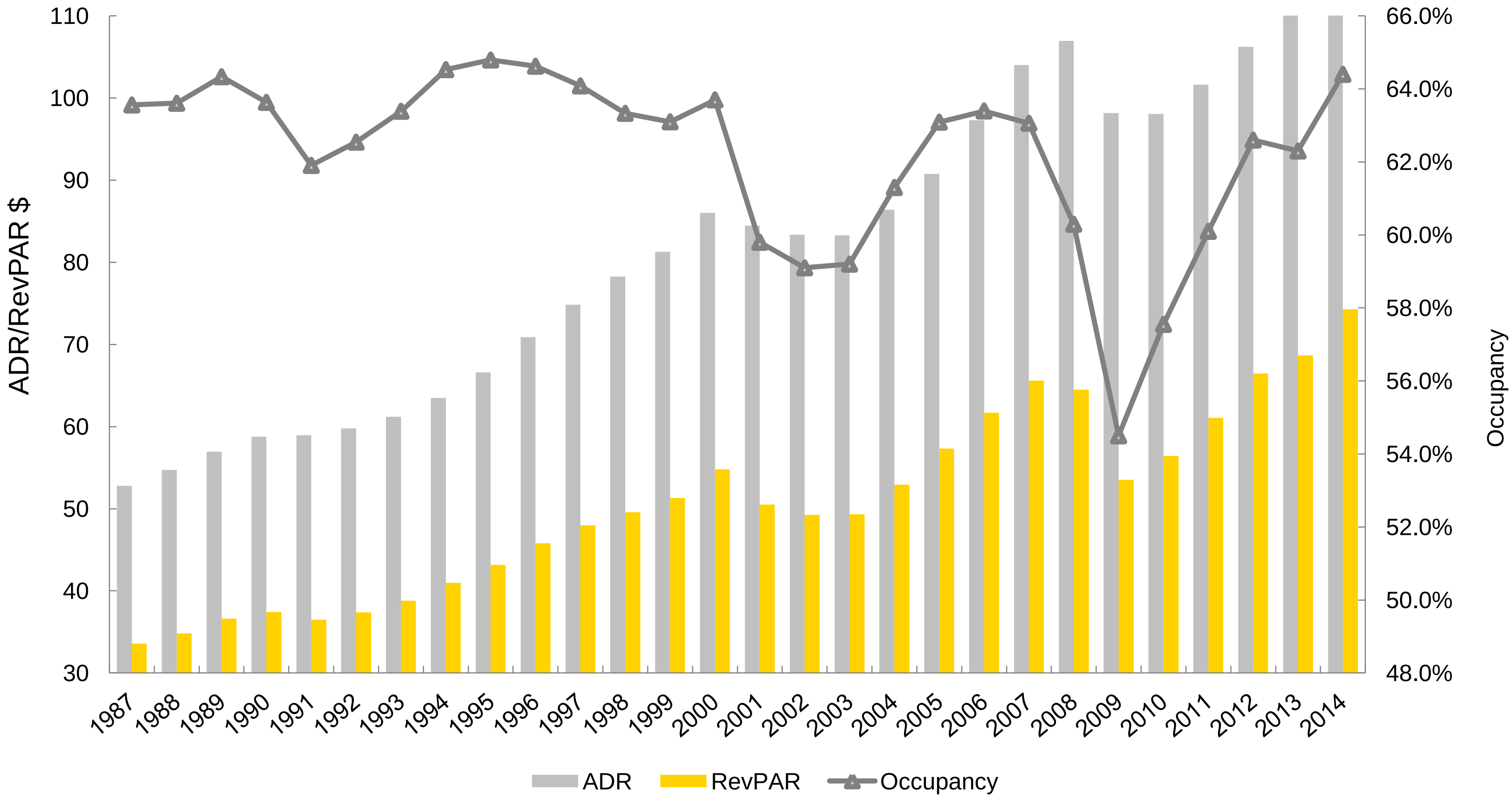


Source: Smith Travel Research

Lodging industry trends

Continued growth in ADR, RevPAR and occupancy

ADR, RevPAR and occupancy change over time (since 1987)



Source: Smith Travel Research

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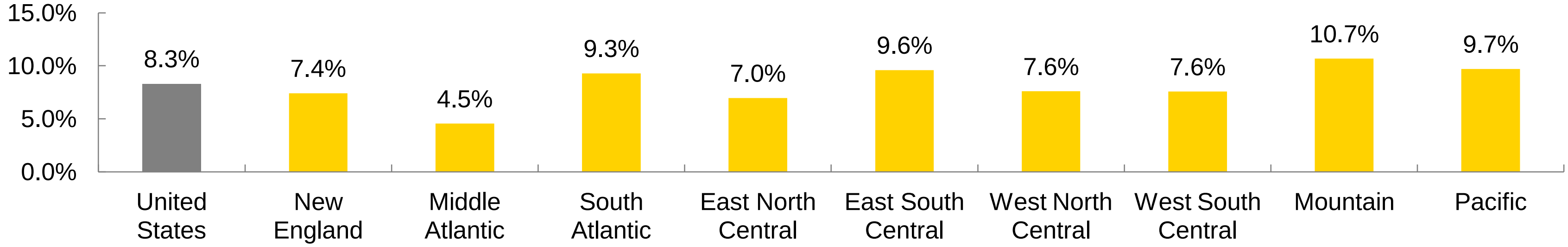
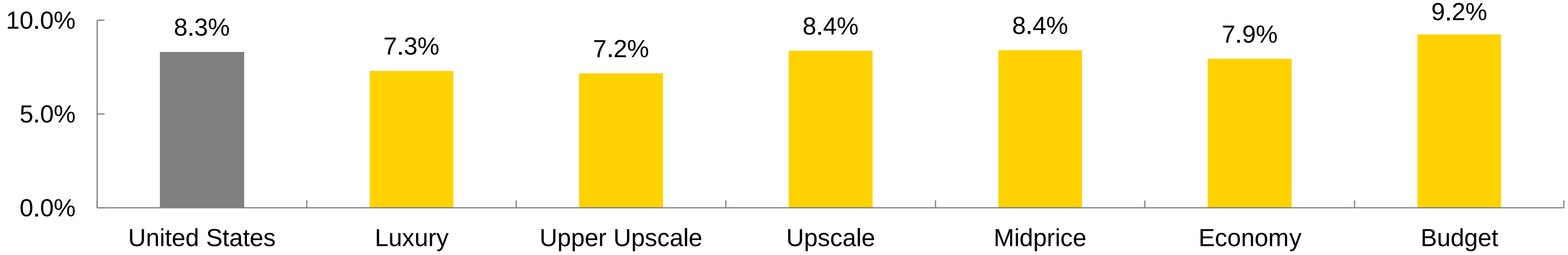
Lodging industry trends

Growth by region, price, and location year-end 2014 vs. year-end 2013

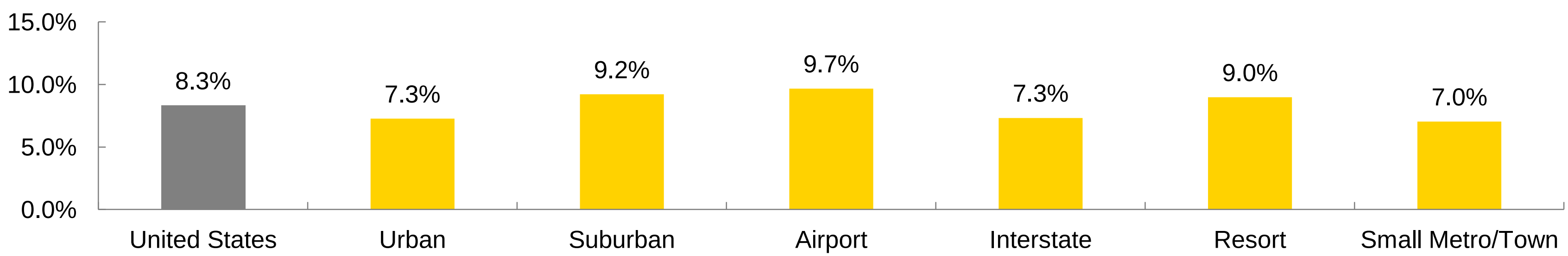
Percentage change in RevPAR by region — year-end 2014 vs year-end 2013



Percentage change in RevPAR by class— year-end 2014 vs year-end 2013



Percentage change in RevPAR by location— year-end 2014 vs year-end 2013

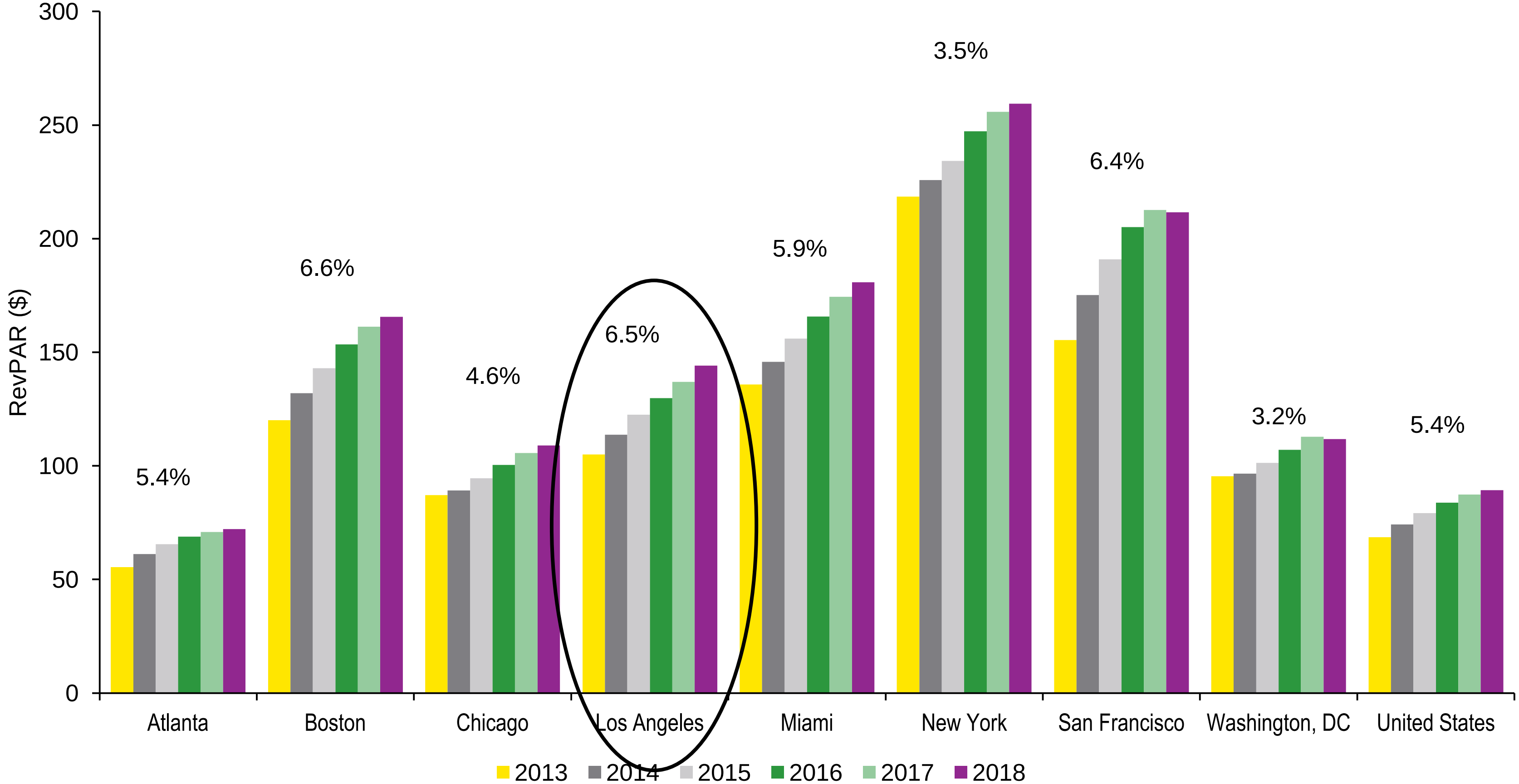


Source: Smith Travel Research

Lodging industry trends

US major markets are projected to sustain RevPAR growth through 2018

US RevPAR forecast for select cities and 2013–2018 CAGR

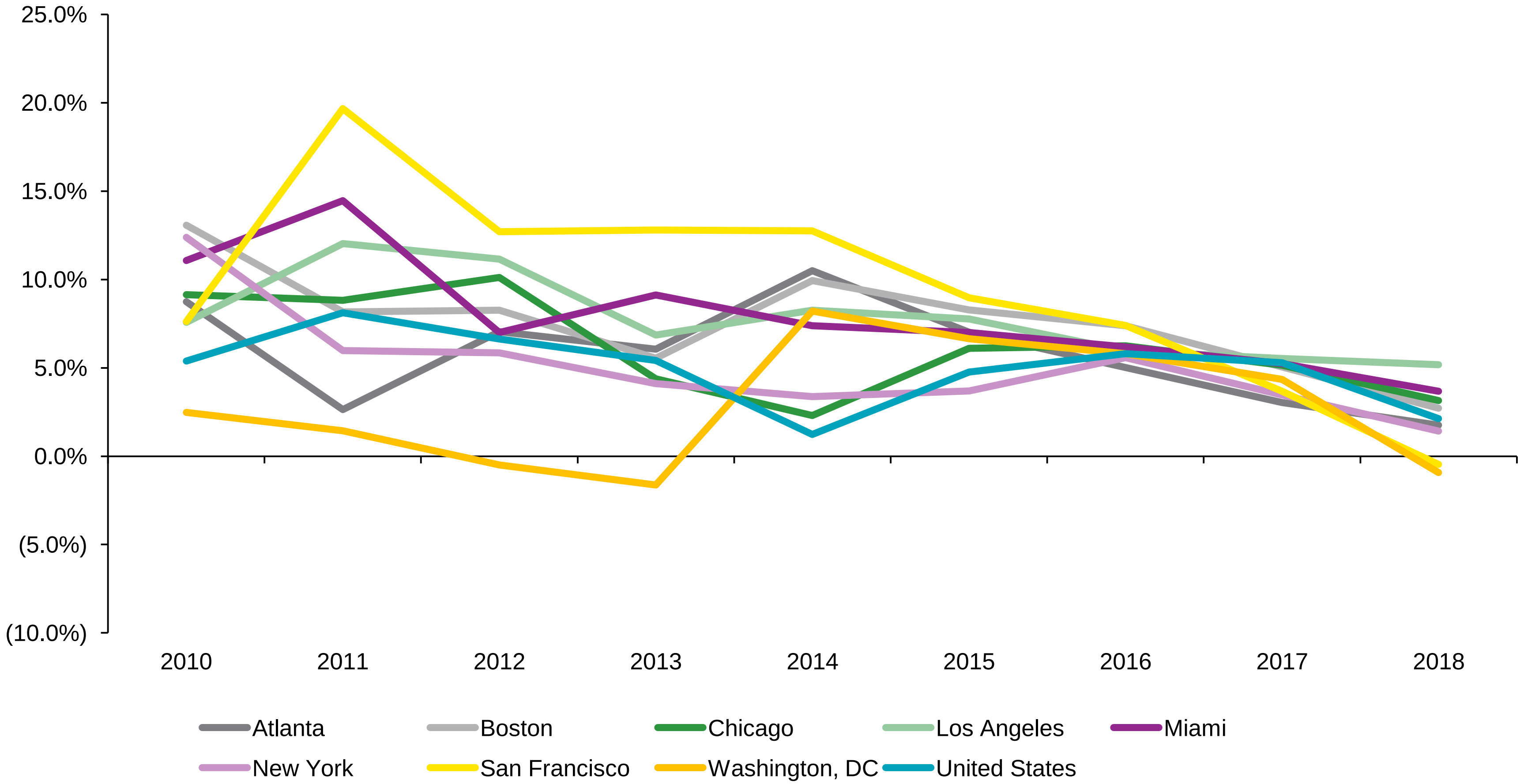


Source: PKF Consulting

Lodging industry trends

US major markets are projected to sustain RevPAR growth through 2018

Historical and forecast RevPAR change for select cities

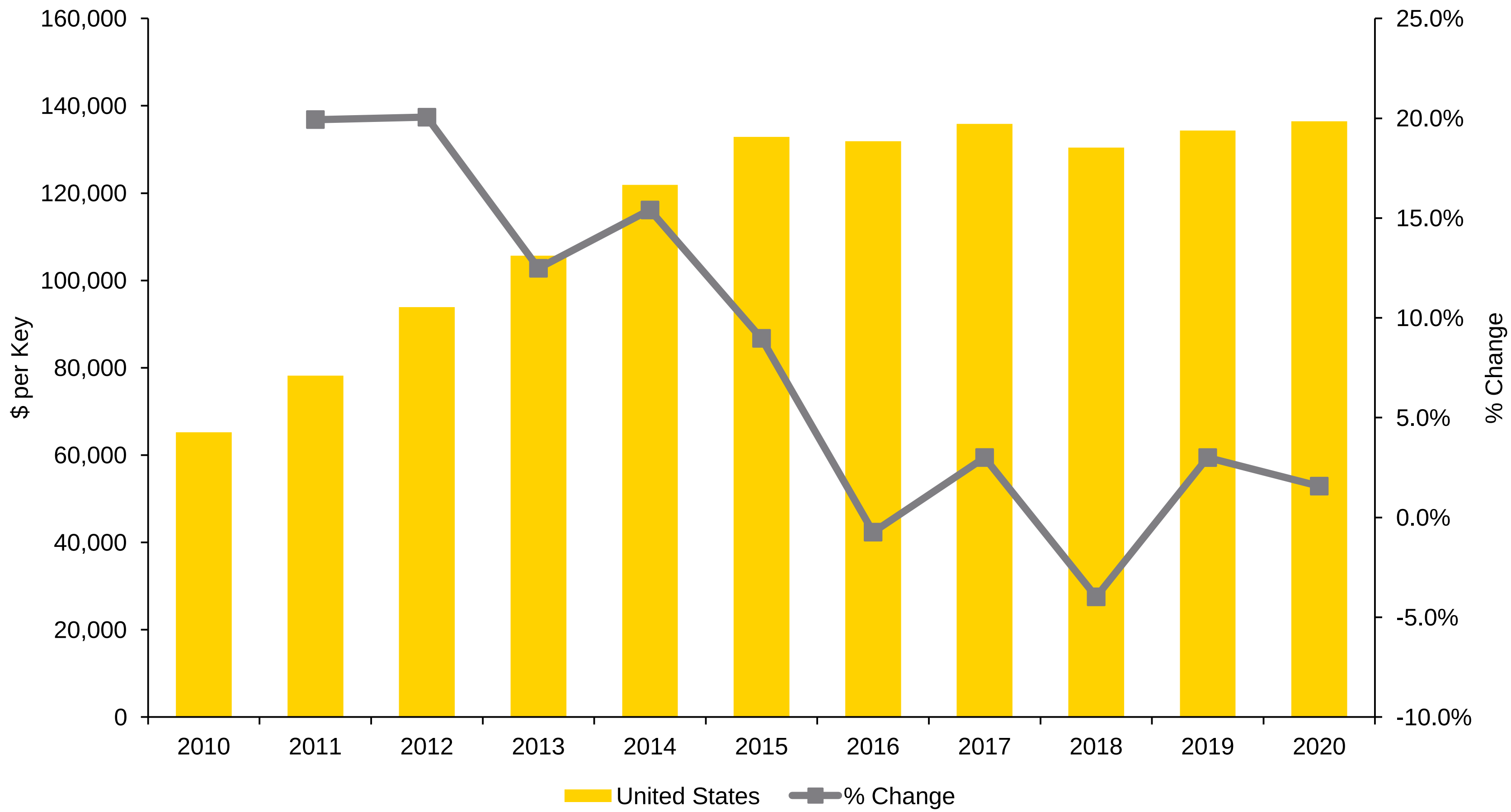


Source: PKF Consulting

Hotel values

Hotel values (on a per-key basis) are projected to increase at a decreasing rate and then stabilize

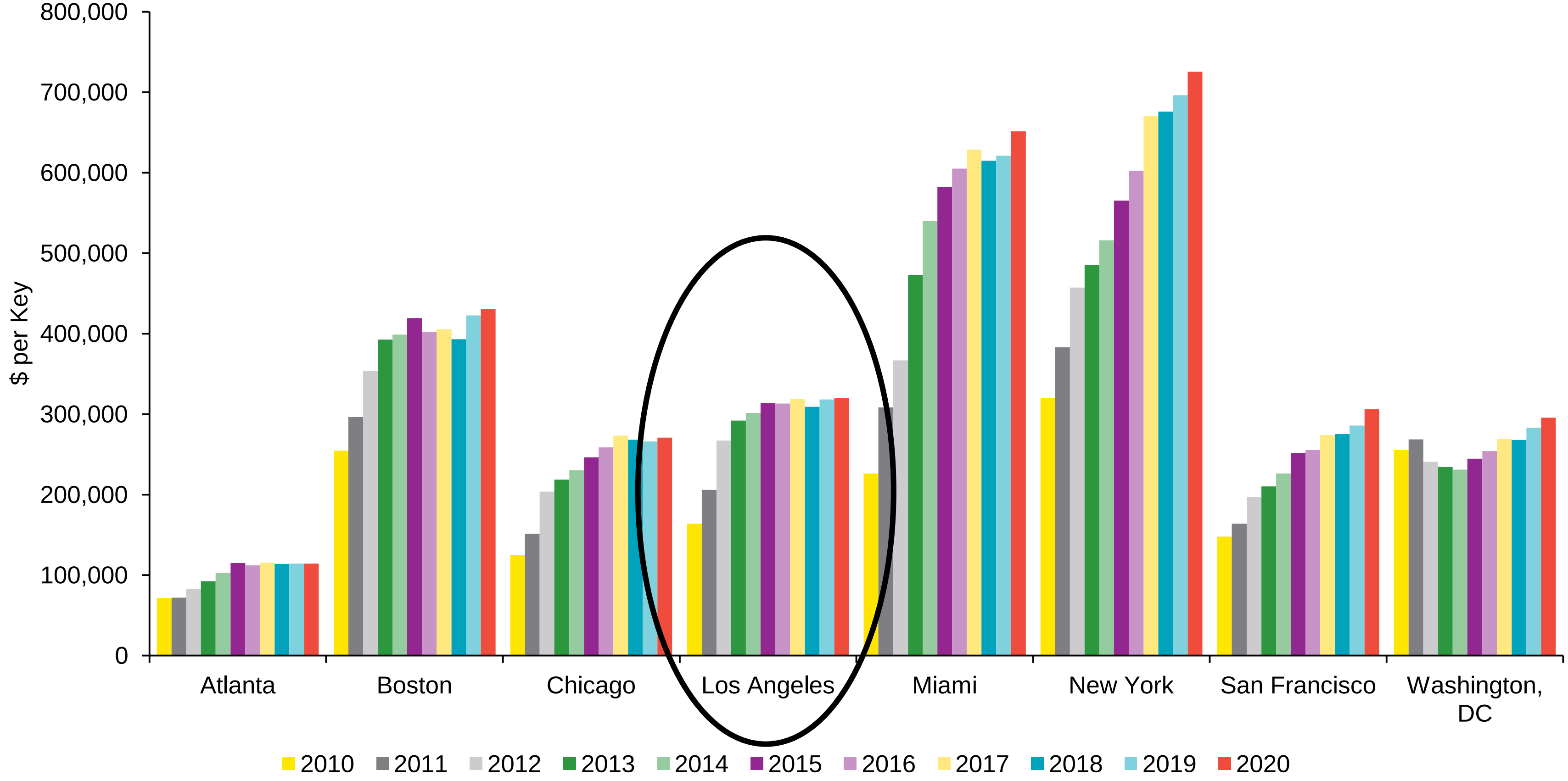
Historical and forecast of hotel value per-key and percent change



Source: HVS International — Hotel Valuation Index

Hotel per-key value trends — key markets

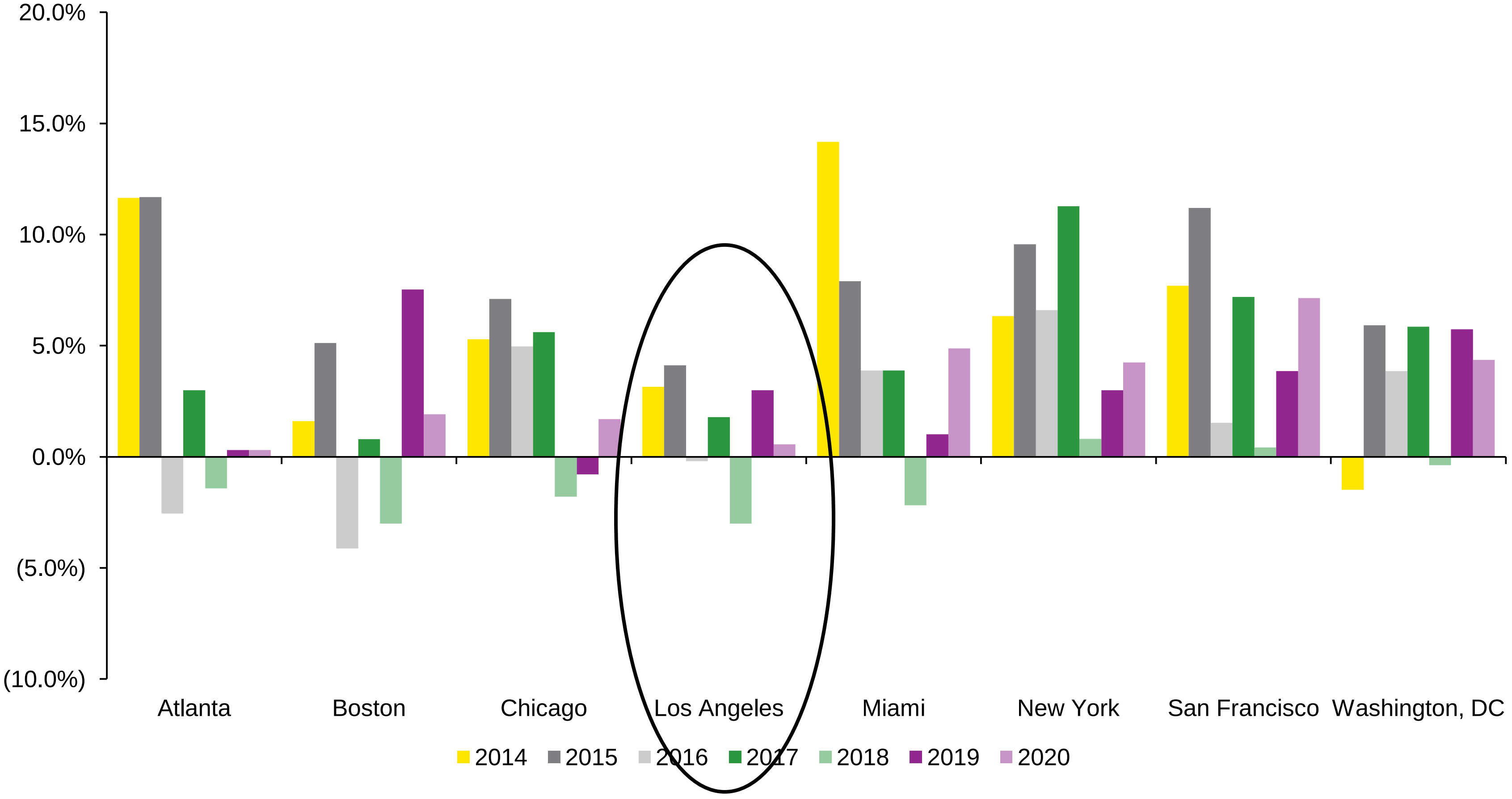
Hotel per-key value in major metro markets in the US (2010–2020)



Source: HVS International, Hotel Valuation Index

Projected hotel per-key value trends — major metro markets

Forecast in major markets



Source: HVS International, Hotel Valuation Index

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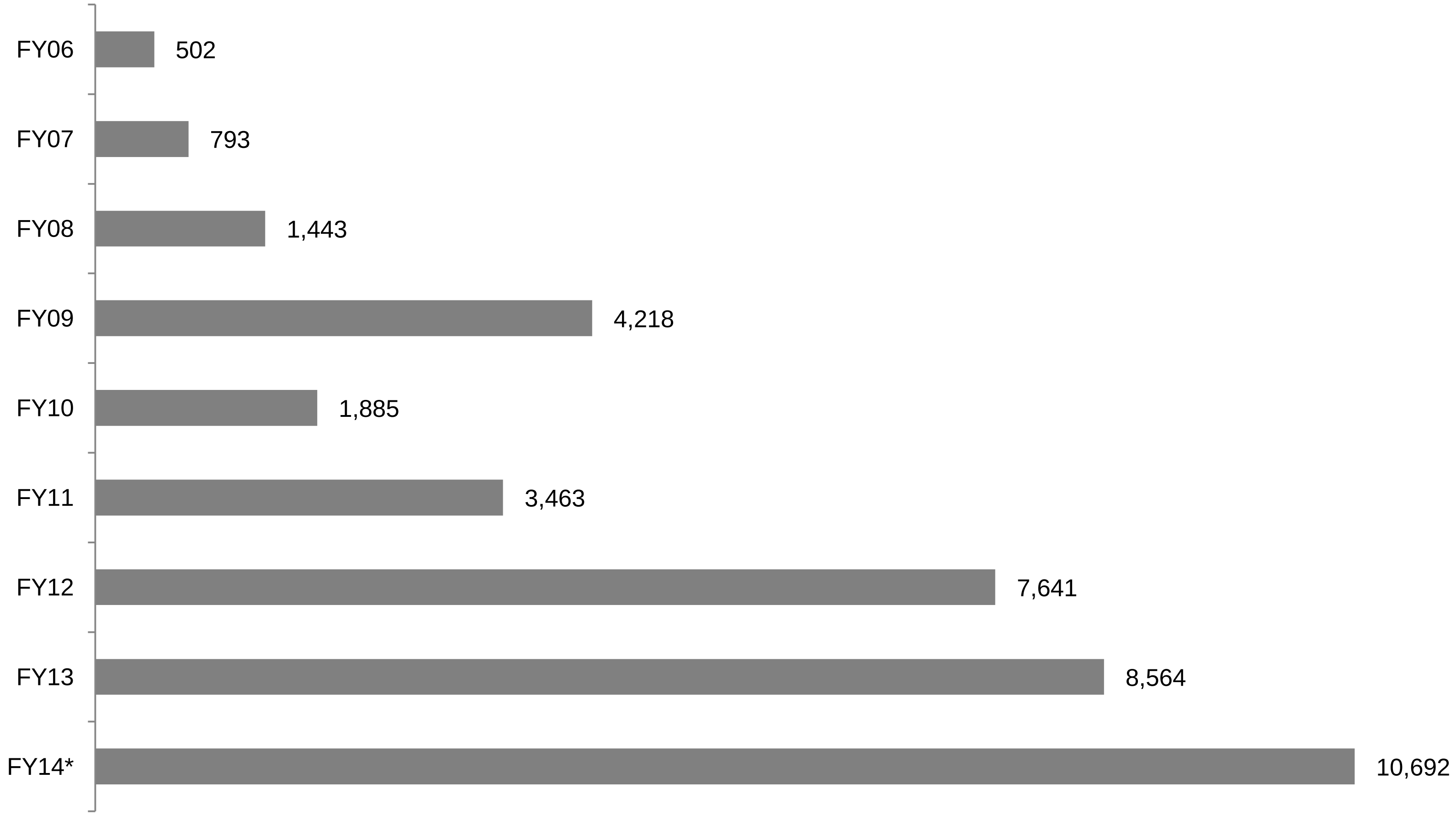
EB-5 visas explode, raising capital for real estate projects

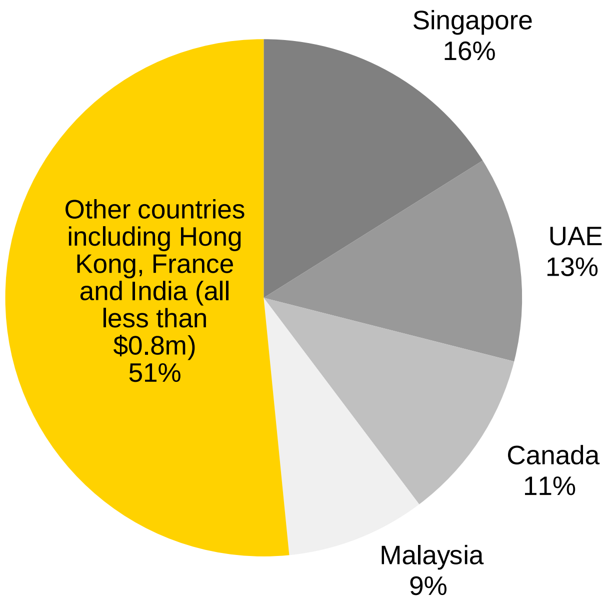
EB-5 visas issued



Source: Association to Invest in the USA
* 10,000 is the statutory limit

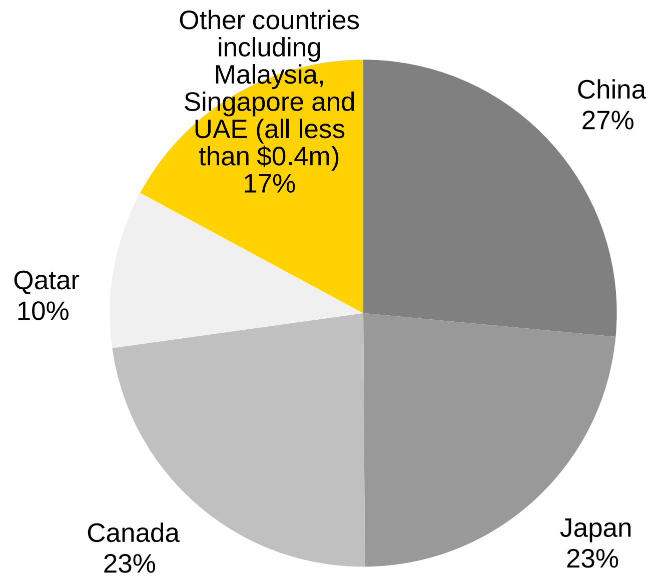
Which countries represented the top three foreign investors in US hospitality assets?

Foreign capital into US hospitality industry in last five years (2009–2013)



Total foreign capital invested: **$9.8b**

Foreign capital into US hospitality industry, 2014



Total foreign capital invested: **$9.8b**

Source: Real Capital Analytics

Hospitality insights

Emerging submarkets within mature lodging markets

- Urban revitalization and city expansion create lodging opportunities in peripheral submarkets, adjacent to established lodging markets.
- Silver Lake/Echo Park, Koreatown, Broadway Theater District (Los Angeles), Warner Center and others gained investors' interest due to lower barriers to entry, return potential and expansion opportunities.

Investment promotion agencies — catalysts for tourism investment

- IPAs represent a strategic shift that aims to drive local and foreign investment into the destination to improve both the product offering and visitor experience.
- IPAs take a multidimensional view on the best channels for increasing tourism — matching the most suitable investors with tourism needs.
- Well-structured IPAs are crucial to the global expansion of hospitality and tourism markets and attract investors.

Mutual learning opportunities — the sharing economy and lodging industry

- Consumers are cast as service providers, enabling underused assets to be operated for financial gain.
- Traditional lodging industry and the new-age sharing economy companies can learn from one another.
- Sharing economy provides unique, authentic experiences anchored in the destination.

Questions?

Thank you

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