Marcus & Millichap

2016

U.S. HOSPITALITY INVESTMENT FORECAST

NYSE: MMI

To Our Valued Clients:

The U.S. economy once again demonstrated resilience last year as it overcame a variety of headwinds that challenged its momentum. The harsh winter in the first quarter of 2015 slowed hiring, and weakening international economies, together with China's currency devaluation, sent shock waves through Wall Street. Some headwinds to the economy, however, worked to the advantage of the hotel sector.

Dramatically lower oil prices boosted households' discretionary income while the stronger dollar increased consumers' purchasing power, and both exerted downward pressure on inflation. These factors, along with steady job and wage growth, supported a respectable increase in spending on travel that required a hotel stay during 2015.

Since the sector's upswing began in 2010, a restrained supply pipeline and relatively consistent economic momentum have steadily lifted the performance of U.S. hotels. Annual occupancy is near the highest level ever recorded, while growth in the daily rate has become the primary force behind RevPAR increases. The year ahead marks an inflection point for the industry, however, as construction increases and the growth rates in occupancy, ADR and RevPAR level off, and a strong dollar curtails foreign visitor volume.

The emergence of millennials as a consumer force approaching the stature of the vaunted baby boomers will provide a new source of demand and continue to reshape the hospitality landscape. Millennials highly value travel experiences, prompting hotel brands to create new concepts. Home-sharing services including Airbnb are also making inroads into the hospitality sector, capturing demand and forcing hotel owners to employ new strategies to compete for guests. These trends will dramatically transform the hospitality sector in coming years, encouraging brands and property owners to devise creative approaches to maintaining competitive stature.

Investor demand for hotels, spurred by positive economic trends, favorable asset performance, the emergence of new brands and new design prototypes, and exceptional capital liquidity, has escalated to a new peak. Transaction activity last year ignited price gains and further tightened cap rates, and interest in both flagged and independent hotels remains keen. Additional deals will occur in 2016 as the broader outlook points to a year of steady, though tempered, advancement in property performance.

We hope this report provides useful insights on a variety of trends, markets and investment strategies in the hotel industry. Our investment professionals look forward to helping you meet your goals.

Sincerely,

Peter Nichols
National Director | National Hospitality Group

John Chang
First Vice President | Research Services

National Perspective

Market Overviews

Client Services

Written and edited by Art Gering, Senior Hospitality Analyst, with assistance from investment brokerage professionals nationwide. The Capital Markets section was co-authored by William E. Hughes, Senior Vice President, Marcus & Millichap Capital Corporation.

Hospitality Demand and Performance

- Expanding payrolls and rising business travel will underpin hospitality demand in the coming year.
- Moderate, but steady wage growth is converging with lower gas prices to support leisure trips that require a hotel stay in 2016.
- Growth in key hospitality performance indicators will likely moderate in 2016. Occupancy, ADR and RevPAR will reach a seventh consecutive year of growth, though the tempo could ease from the record pace of last year.
- The U.S. hotel sector has reached a turning point. Following several years of rising occupancy, new supply will finally accelerate sufficiently to balance demand. Beyond the hotel projects set to come online this year, a significant pipeline awaits groundbreaking.
- New challenges have begun to emerge including home-sharing services such as Airbnb. In addition, hotels will face continued wage pressure in the coming year as several municipalities consider mandatory minimum wage increases.

Investment Activity and Capital Markets

- Debt remains committed and available as banks compete with CMBS to gain market share. Spreads in the CMBS market remain wide as mortgage bond investors continue to demand higher yields.
- The Federal Reserve's increase of its overnight lending rate last December reset short-term benchmarks, but the 10-year Treasury rate tightened. The central bank's monetary policy decisions over the course of the coming year could influence market liquidity.
- Transaction volume rose once again last year, supporting rising valuations. The diverse pool of active investors are covering a wide range of markets. Select-service assets remain favored for their lean operating models and operational efficiencies.
- Private investors focusing on smaller assets remain particularly active. Limited-service properties, comprising economy and midscale flags, also remain in demand, particularly for owner-operators.

Hospitality 2016 Outlook

1.6% in available rooms

Supply:
More than 110,000 rooms are slated for completion in 2016, the greatest annual total in eight years. Available rooms will increase 1.6 percent as a result.

30 basis point increase in occupancy

Occupancy:
Rising travel volume will support a 30-basis-point rise in annual occupancy in the U.S. to 65.9 percent in 2016, marking a deceleration from the increase of 120 basis points in 2015.

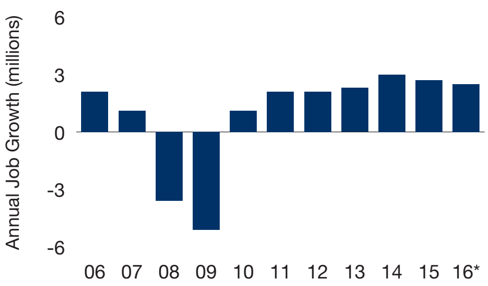
4.5% in ADR

ADR:
Higher occupancy will impart greater pricing power and support a 4.5 percent bump in the national ADR this year, to $125.41.

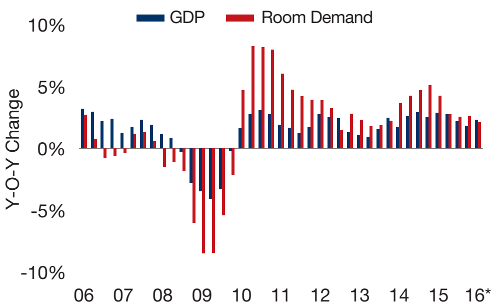
5.0% in RevPAR

RevPAR:
The projected gain in the daily rate will account for most of the 5.0 percent increase in full-year RevPAR in 2016 to $82.64. Last year, a higher rate of occupancy growth contributed to a gain of 6.3 percent.

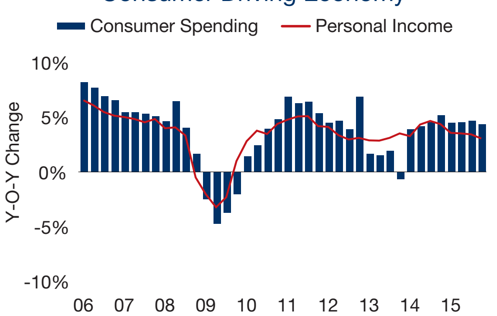
Economy Adding Jobs



Growing Economy Lifts Room Demand



Consumer Driving Economy



High Level of Job Openings

* Forecast

U.S. Economy Positioned for Gains in 2016 Under Watch of Federal Reserve

The U.S. economy expanded modestly in 2015, overcoming many obstacles to resiliently advance numerous performance metrics. The strong dollar, combined with softer international markets, weighed on exports, but these forces joined lower energy prices to minimize inflation and fortify consumers' buying power. Although the second half of the year was marked by a significant bout of turbulence on Wall Street, the U.S. economy forged onward, enabling the Federal Reserve to finally lift its overnight lending rate in December. The Fed's initial tightening move was largely priced into the market, however, so it had a limited influence on broader interest-rate movements or economic trends. The combination of moderate economic expansion countered by a variety of setbacks has formed a choppy growth pattern that will likely extend the economic cycle beyond the typical duration and support further gains in 2016. A downside risk to the outlook includes potentially higher inflation that would prompt the central bank to act more frequently.

Further tightening in the unemployment rate, accelerating wage growth and a continuation of low gas prices will enable consumers to drive economic expansion again in the year ahead. The ongoing integration of millennials into the labor force will also provide a longer-term lift to consumer spending and inspire a recalibration of hotel concepts to appeal to this burgeoning segment of the populace. In the corporate sphere, elevated business confidence will support additional expansions and expenditures on items including travel. Gross domestic private investment, a proxy for business spending that closely tracks changes in hotel room demand, remains on an upward trajectory. Gauges of service-sector activity, including new business on the books, pointed upward throughout 2015 and are positioned to generate more business-related room nights in the coming months. However, the hotel sector will likely see a reduced contribution from manufacturing during 2016 as many plants cope with reduced workloads related to the effects of the strong dollar on exports.

2016 National Economic Outlook

- U.S. Payrolls Will Touch New High in 2016: Following the addition of 2.7 million jobs in 2015, employers will maintain the steady pace of growth by creating another 2.0 million to 2.5 million positions this year. Employment growth will be broad-based, with only natural resources and mining and some segments of manufacturing likely to lag the overall trend. Potentially higher interest rates related to the Fed's actions, however, could raise the cost of business borrowing and suppress hiring.
- Consumers Underpin Modest Economic Expansion: Anticipated stable hiring and moderate wage growth together with low gas prices and comparatively inexpensive imports position consumers to lead the economy into a seventh year of expansion. Trade imbalances related to the strong dollar could subdue economic expansion, however, and foreign travel to the U.S. could also falter.
- Pipeline of Business Travelers Growing: Job openings reside near an all-time high and the rate of hiring also remains elevated. Openings in professional and business services, specifically, remain robust and represent a potential pool of new business travelers. New hires often travel initially for corporate training and thereafter for industry gatherings and client meetings.

Tempered Pace of Growth in Store As Hotel Construction Accelerates

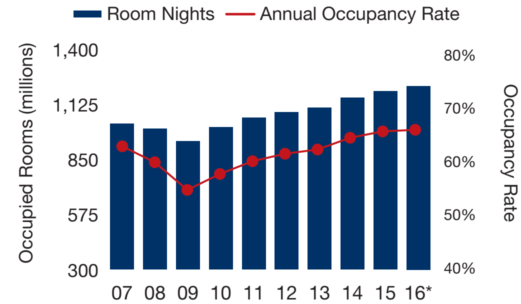
U.S. leisure and business travelers hit the road in greater numbers during 2015, generating record levels of room nights, room revenue and the highest-ever recorded annual occupancy. The U.S. hotel sector ended 2015 on a positive note, extending the duration of the cycle's current expansion to nearly six years. Trends that began to appear last year, however, will influence the growth rate of key performance measures during 2016. Supply growth of 1.1 percent in 2015 was below the long-term average, but nonetheless marks the greatest rate of growth during the current expansion. Brands continue to open new locations and a large construction pipeline remains in place, potentially disrupting the performance of existing properties when new rooms come online. Last year's increase in completions also reduced the rate of growth in U.S. occupancy and RevPAR, a trend most evident in the 25 largest markets, where construction is concentrated. Four of the 25 largest markets recorded double-digit RevPAR growth last year, a drop from nearly half of the top 25 markets in the preceding year.

These trends will carry over into 2016, translating into still slower rates of growth in primary performance measures. More than 110,000 rooms are scheduled for completion in 2016, and several thousand additional rooms are in the final phase before groundbreaking. Rooms in earlier stages of development, though, face greater uncertainty in the event that emerging problems in lower-rated corporate bonds either raises borrowing costs or reduces lending for other uses, including hotel construction. While supply growth will exert the greatest pressure on hotel performance in 2016, prospects for room nights remain positive but subject to several influences. Incremental gains in occupied rooms remain attainable through expanded leisure travel related to inexpensive gas, and lengthier paid vacation time for workers hired early in the current economic cycle. Realizing more substantial rates of growth may prove elusive, however, especially on primary travel days or during peak periods where properties are already operating at full capacity. Other downside risks in 2016 pertain to a potential decline in inbound foreign travel related to the strong U.S. dollar.

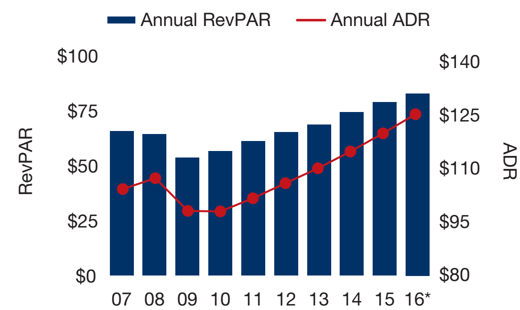
2016 National Hotel Sector Outlook

- **Hotels Employ Pricing Power as Occupancy Inches Up:** The growing U.S. economy will sustain elevated travel volume that will drive a 2.1 percent bump in room nights during 2016. Annual occupancy will inch up 30 basis points as a result, to 65.9 percent. Property owners will continue to wield considerable pricing power, resulting in a 4.5 percent rise in yearly ADR that will narrowly outpace last year's 4.4 percent bump.
- **New Inns Come Online:** Available rooms will rise 1.6 percent in 2016, primarily through the completion of new properties. Most of the rooms slated for completion this year are in the select-service tier and are primarily located in the 25 largest markets. Accelerating supply growth will restrain occupancy growth and reduce its contribution to RevPAR. This year, annual U.S. RevPAR will increase 5.0 percent, principally behind the daily rate.
- **U.S. Exporting Tourists:** The strength of the U.S. dollar will potentially weigh on inbound travel from overseas in 2016. Closer to home, the greenback's vigor will influence cross-border travel. Last year, the strength of the U.S. dollar relative to its Canadian counterpart encouraged more travel from the U.S. and contributed to respectable hotel performance improvements in leisure destinations Banff, Alberta and Niagara Falls, Ontario.

Occupancy Climbing

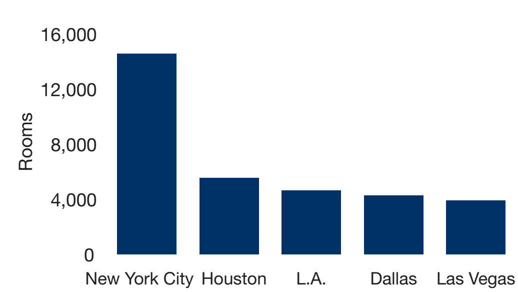


Revenue Trends



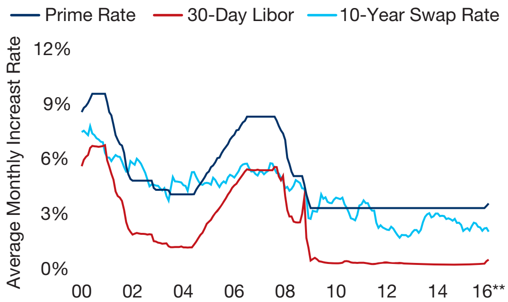
Construction By Brand

Rooms Under Construction in Large Markets

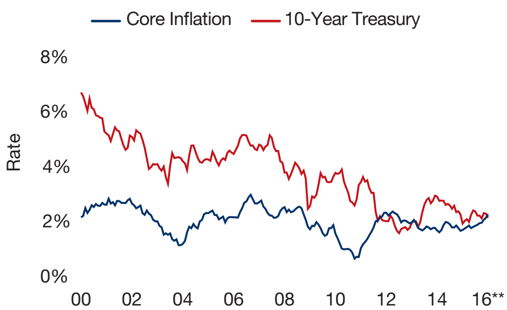


* Forecast

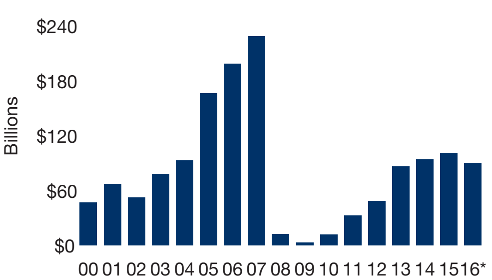
Common Hotel Lending Benchmarks



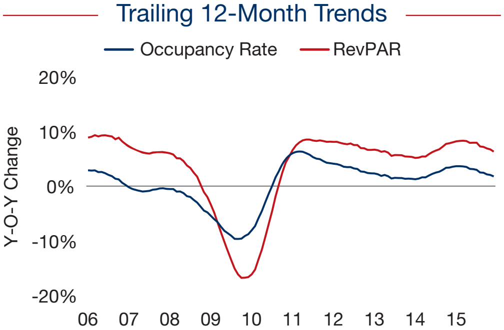
Core Inflation Remains Restrained



CMBS Issuance



Trailing 12-Month Trends



* Forecast
** Through January

Competitive Debt Marketplace Offers Options for Hotel Investors

Further strengthening in occupancy, ADR and RevPAR propelled an active and liquid investment market during 2015 and provided abundant new opportunities for debt providers to participate. Targeting long-term loans starting at $8 million, CMBS witnessed a drop in market share in 2015, after accounting for half of origination volume in the prior year, as mortgage bond investors demanded higher yields. Nonetheless, the conduits come into 2016 with sufficient capacity to compete and will continue to focus on well-known brands and select independents in primary markets during the year. A modest reduction in leverage late last year by CMBS and other long-term lenders, however, may indicate a more concerted effort to manage exposure to the hotel sector that will raise equity requirements for borrowers during 2016. Among other debt sources in 2015, national, regional and local banks stepped up lending to account for roughly one-fourth of total origination volume during the year.

The outlook for additional growth in principal hotel performance indicators will maintain flows of equity and debt into the sector during 2016. Potential downside scenarios, though, could arise as the industry's cycle matures and growth rates subside. A sudden shock to travel volume and room demand stemming from events outside the industry, for example, could prompt a further reconsideration of risks by lenders. In previous instances, hotel debt providers have responded to industry downturns by lowering leverage and exercising greater selectivity on markets and property brands. For short-term borrowers, the Fed's decision to raise its overnight lending rate last year led to a resetting of other interest rates. The prime rate and Libor, specifically, are frequently used to benchmark short-term loans on hotels in transition, and the tempo and magnitude of further tightening by the central bank could affect borrowing costs. Less frequent and incremental increases in the overnight rate, however, may ensue in the coming months and thus minimize the impact on borrowers.

2016 Capital Markets Outlook

- **Fed Keeps Eye on Economic Indicators:** The Federal Reserve's rate hike in the fourth quarter last year was anticipated for some time and offers a clear endorsement of the central bank's confidence in the U.S. economy. Inflation remains tame, however, and economic growth expectations are modest, suggesting that the central bank may put off additional rate increases until the middle of 2016. In January, the central bank opted to leave its benchmark lending rate unchanged.
- **U.S. Treasury Yield Rangebound:** The 10-year U.S. Treasury yield remained well below the long-term average throughout 2015 and in early 2016. The benchmark long-term rate will remain near record low levels as slowing economies in other parts of the world generate demand for risk-free investments, including U.S. government debt. China remains a variable, however, as potential cutbacks in purchases of the 10-year Treasury resulting from the country's softening economic growth could pressure the 10-year rate.
- **Government Programs Offer Financing Option:** The lengthy upswing in hotel performance continues to attract first-time buyers, including some that are crossing over from other commercial property sectors. For these investors, small balance loans up to $5 million backed by the Small Business Administration will remain a viable financing source during 2016. SBA-backed loans are typically indexed to the prime rate, a short-term benchmark, and can run for a term up to 25 years.

Lengthy Upswing Buoys Investor Sentiment, Driving More Capital into Hotel Sector

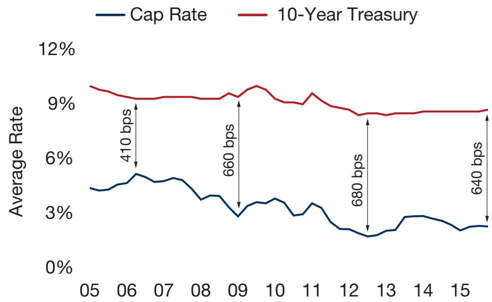
Hotel investors expressed confidence in the near-term outlook for the lodging sector in 2015, maintaining an elevated pace of acquisitions and placing upward pressure on prices in many markets. Overall, sales of flagged U.S. hotels rose last year, while transactions involving independent assets were essentially flat. In the flagged segment, luxury hotels were the big gainer, posting higher dollar volume even with the exclusion of the sale of the Waldorf Astoria. However, the select-service tier remained the focus of attention; collectively, sales of upper midscale and upscale brands accounted for more than 40 percent of all flagged hotel sales during 2015. Upscale transaction volume also remained elevated, and a spate of recently completed assets and hotels slated for delivery in the near term will intensify efforts to make purchases in the coming months. Upper midscale hotel deals, meanwhile, rose substantially last year as small private investors and larger equity players continued to fill out portfolios, focusing extensively on Holiday Inn and Hampton Inn.

Lean operating models and the significant flow-through of revenue to the bottom line will sustain interest in the select-service segment in 2016. Opportunities to grow revenue and enhance bottom lines will focus extensively on rate growth as room demand and occupancy growth moderate. As the cycle ages, market selection and due diligence will assume greater importance in all hotel transactions as investors intensify efforts to ensure they are striking a balance of opportunities and risks. Many investors may increasingly seek to recalibrate risk tolerance and take longer looks at properties in primary markets, or seek greater diversification of demand drivers among the hotels in their portfolios. Accordingly, properties in college markets or near major regional medical facilities may garner greater attention this year. Reflagging to capture greater upsides also remains an option, though the availability of some flags in many markets may be reduced as brands increasingly fulfill expansion objectives through development, not conversions. In the independent space, interest in well-located assets will persist and potential upsides may be realized through various soft brand initiatives that enable hotels to leverage brand reservation systems and loyalty programs.

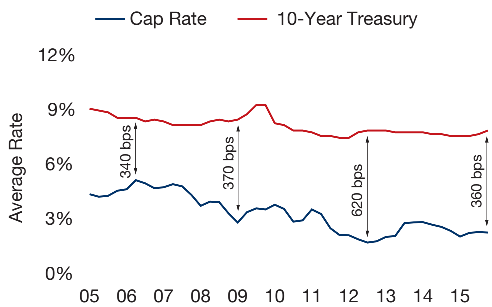
2016 Investment Outlook

- **Active Market for Extended Stay:** Sales of extended-stay hotels rose nominally last year, and investors focused primarily on upper midscale and upscale brands. Tight conditions in the apartment sector will continue to stoke demand for the short-term accommodations provided by extended-stay assets. Extensive construction pipelines by Homewood Suites, Residence Inn, Value Place and others will offer potential new opportunities for investors in 2016.
- **Economy Sector Flourishing:** The greater availability of acquisition debt is driving a more rapid turnover of flagged economy hotels. Investors and owner-operators poured equity into the sector last year to drive up velocity, while higher prices pushed up dollar volume. With recent property performance gains enhancing values and the flow of debt uninterrupted, additional properties will come to market in 2016.
- **Labor Becoming Larger Expense:** Labor costs continue to rise and present a greater challenge for hotel owners to manage. Last year, the average weekly wage in the hotel industry increased 3.7 percent; a 4.7 percent bump was posted in the preceding year. Hotel owners in multiple municipalities will also confront the phase-in of higher minimum wages during the year, while new federally mandated overtime laws will go into effect in the second half of 2016.

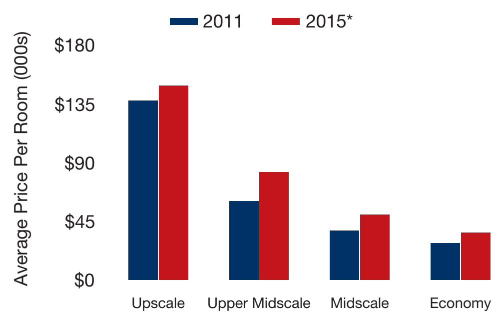
Limited-Service Cap Rates



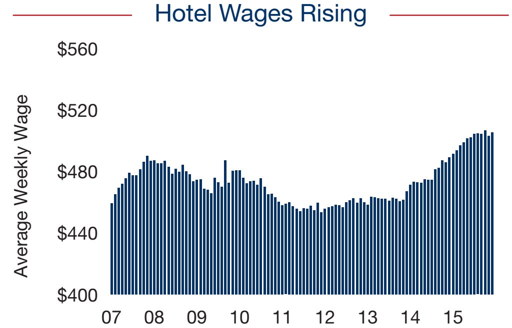
Full-Service Cap Rates



Chain Scale Prices



Hotel Wages Rising



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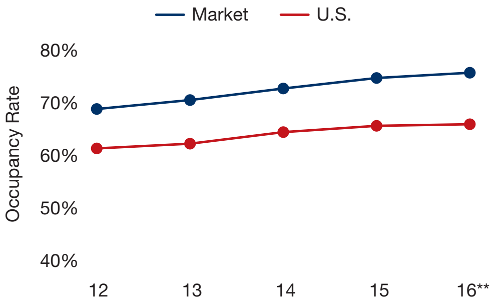
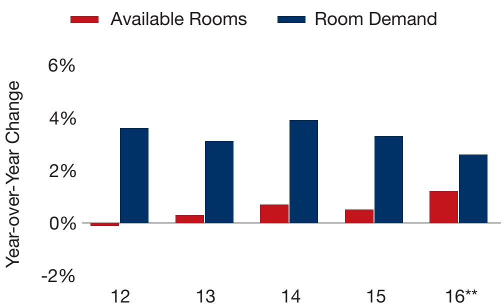
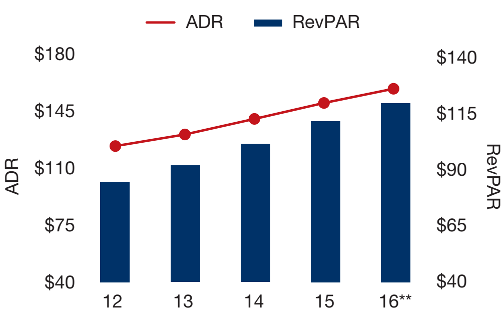
Annual Occupancy



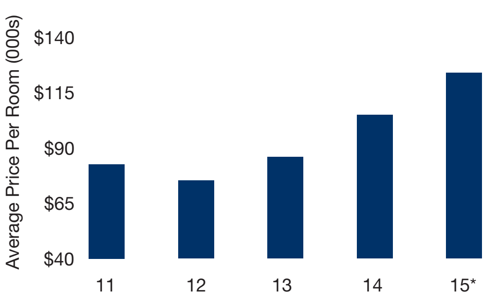
Supply and Demand



Full-Year Revenue Measures



Flagged Hotel Sales



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

Surging Economy Fills Rooms in California, Stirs Competitive Investment Climate

Relatively modest, albeit rising, hotel construction and robust drivers of room demand will maintain California's stature as one of the top performing statewide hotel markets during 2016. Roughly 4,000 additional hotel rooms were under construction in the state at year-end 2015 than were underway one year earlier. However, more acute needs for affordable housing in many parts of the state will divert prime sites and construction crews to residential development, thereby minimizing the potential of overbuilding hotels. Room demand, meanwhile, is positioned to grow. Employment in major metros Los Angeles, Orange County, San Francisco and San Jose will grow at a faster rate this year as key industries continue to expand. Projected payroll growth will support gains in business travel throughout the state for client meetings and industry events, in addition to providing the means to new workers to spend on leisure trips. The state's smaller metros also continue to make sizable contributions to room demand, while late-recovering Sacramento and Inland Empire are also providing a jolt.

Early 2016 appears especially promising for statewide trends and will encourage investors. The state hosted a Super Bowl in February, while El Niño conditions could increase hotel stays in ski areas. Potential downsides statewide during 2016, however, include a decline in inbound foreign travel reflecting slower growth in China and the strong U.S. dollar. Overall, performance supports a vibrant and liquid investment market, and elevated prices in recent deals continue to raise owners' price expectations. Last year, the onrush of equity into the state pushed up dollar volume and prices. Velocity slipped in the select-service segment after an especially robust prior year, but institutions executed a number of deals for upper-upscale properties. Private capital, meanwhile, tapped a competitive debt market to maintain a steady pace of deals in the limited-service tranche, deploying capital in large and small markets alike across the state.

2016 Market Forecast

Supply up 1.2% — Available rooms in the state will increase 1.2 percent in 2016, trailing the U.S. rate of growth. Orange and Los Angeles counties face the greatest potential risk from new supply, with a combined 7,100 rooms underway.

Occupancy up 100 basis points — Demand drivers remain durable in California as the hotel sector's upswing enters its seventh year. In 2016, a 2.6 percent bump in room nights will lift statewide occupancy 100 basis points to 75.7 percent.

ADR up 5.8% — After an increase of 7.0 percent in 2015, hotel owners will retain considerable pricing power and push up the ADR 5.8 percent this year.

RevPAR up 7.3% — Rate growth will drive RevPAR higher statewide. This year, RevPAR will advance 7.3 percent to surpass the national rate of growth but, nonetheless, fall short of last year's hefty 10 percent jump.

Investment — Existing hotels in supply-constrained metros will maintain investors' interest and command high prices. Newly built select-service assets in Los Angeles, Orange County and San Diego will also garner attention.

Carolina Hotels Shined in 2015, Enjoy Bright Growth Prospects in Coming Year

Growing segments of the economy and travel to abundant leisure destinations will sustain further growth in occupancy, ADR and RevPAR in the Carolinas during 2016. The muscular mix of demand drivers, which includes numerous colleges and federal installations, enabled North Carolina and South Carolina to post rates of growth in all key performance measures in 2015 that exceeded U.S. results. In addition, net migration continued to grow last year and offer an incremental lift to hotels. The region's reasonable cost of living will remain attractive to domestic transplants, generating hotel stays for homebuying trips and as short-term transitional housing as relocations are completed. The labor markets in each state also continue to tighten, which will likely prompt many employers to recruit for positions outside of the region, providing another incremental source of hotel stays for job interviews. Large metros Charlotte and Raleigh-Durham, for example, are prime destinations for degreed professionals and college graduates.

Statewide RevPAR has grown nearly 40 percent in North Carolina since 2010 and at a higher rate in South Carolina over the same stretch. Property owners that have realized comparable RevPAR growth will continue to reconsider projected holding periods to determine whether selling would monetize unrealized value gains. Owners testing the market in 2016 will find a large and motivated pool of investors encouraged by the region's dynamic demand drivers, and competitive lenders seeking to gain market share. Sales of flagged hotels in Carolinas jumped substantially last year. Select-service inns took a slightly smaller share of the market, while sales of economy and midscale hotels jumped to claim nearly half of all flagged hotel transactions. Investors had modest success sourcing transactions in the Charlotte, Charleston, Columbia and Raleigh-Durham metros, but the other metros in the Carolinas retained favor with investors.

2016 Market Forecast

Supply up 1.1% — Room supply will expand 1.1 percent in 2016. More than 3,700 rooms are underway in North Carolina, while the count of rooms under construction in South Carolina totals more than 1,600.

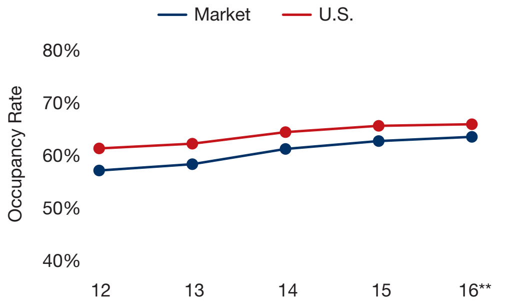
Occupancy up 80 basis points — Occupied rooms will rise 2.4 percent in 2016 to raise annual occupancy 80 basis points to 63.5 percent. A gain of 150 basis points took place last year, with nearly equal gains recorded in each state.

ADR up 4.9% — Higher occupancy will impart greater pricing power. In 2016, annual ADR in the Carolinas will rise 4.9 percent; an increase of 4.7 percent was recorded last year.

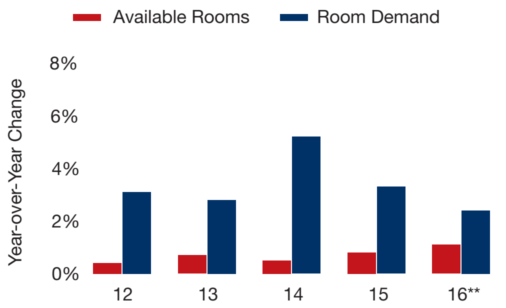
RevPAR up 6.3% — Following a 7.2 percent rise in each state last year, the full-year RevPAR in the Carolinas will advance 6.3 percent in 2016 as occupancy growth eases.

Investment — Properties that have some upside remaining for a new owner to capture, either through developing new room-demand channels or re-flagging, will receive considerable interest. Other hotels with defensive characteristics, including those in college markets or near military installations, will also grow in appeal.

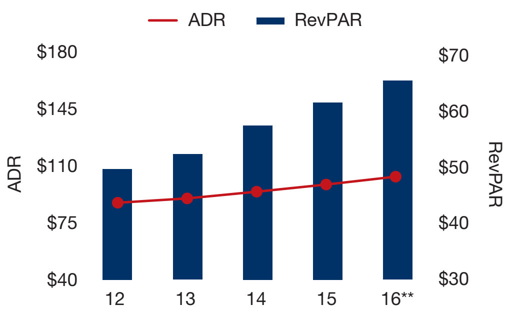
Annual Occupancy



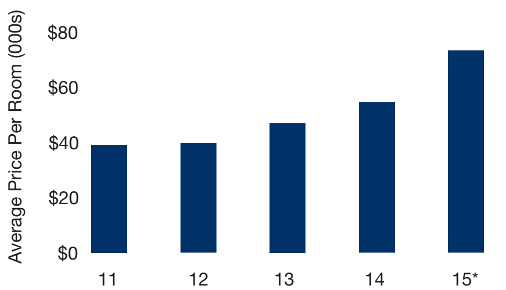
Supply and Demand



Full-Year Revenue Measures



Flagged Hotel Sales



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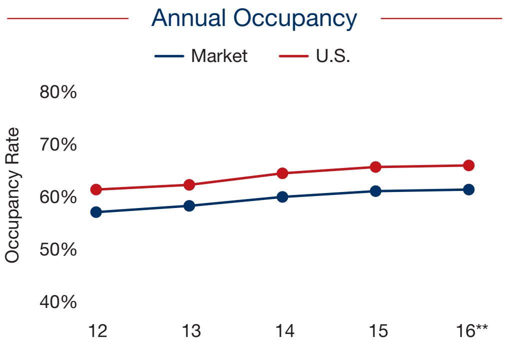
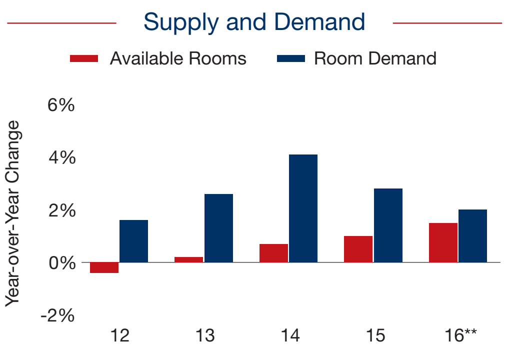
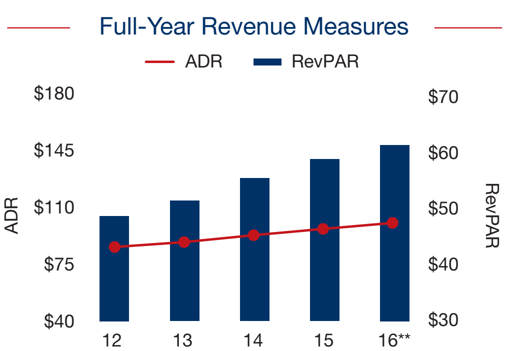
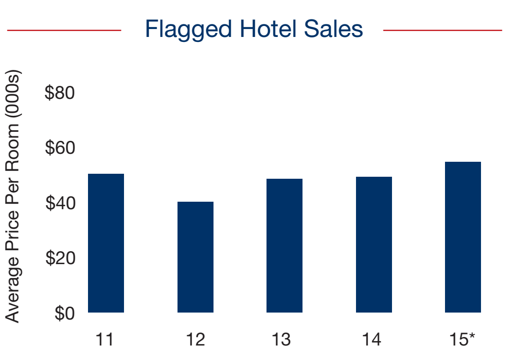








* Estimate
** Forecast
Sources: CoStar Group, Inc.; STR Inc.; Real Capital Analytics

Investors Active in Central & North Plains As Performance Hovers Near All-Time Highs

With another year of business expansions and job creation behind it, the hotel sector in Iowa, Minnesota and Missouri, or the Central & North Plains region, is firmly positioned for additional growth in 2016. Reflecting national trends, the Minnesota hotel sector will hold onto gains in annual occupancy and revenue measures registered over the past few years, but growth rates will moderate. Even as employers in the state continue to expand and inexpensive gas supports automobile travel within Minnesota, hotel operators have a high threshold to clear to significantly build on record room nights and room revenue. Regionally, low inflation will enable hotels to record real gains in ADR and RevPAR in the near term. However, each state posted increases in available rooms last year, led by a 1.5 percent bump in Iowa and pressure on RevPAR is intensifying. Projects in final planning in the Central & North Plains, the last stage preceding groundbreaking, have doubled to 6,100 rooms, including a jump of 1,700 rooms in Minnesota, and could intensify supply-related pressure on operating metrics.

Transaction velocity slowed modestly in the three-state region last year. The mix of deals, however, shifted to the select-service tier, and upper midscale assets in particular. Property owners in Minnesota took advantage of a large and motivated buyer pool to transact, with Hampton Inn and Holiday Inn concepts emerging as primary targets. Prices for these flags averaged around $70,000 per key. For all hotels, RevPAR growth in Minneapolis and in the region's other large market, St. Louis, is moderating from the lofty levels of 2014. Accordingly, additional owners may list assets in the coming months to leverage the large buyer pool, though some resistance from buyers may emerge as the years-long upswing in operations matures. Long-term owners will also assess whether to adjust their ownership timelines to strike deals while opportunities to exchange into less management-intensive assets are also abundant.

2016 Market Forecast

Supply up 1.5% — More than 3,900 rooms were under construction in the region at the start of 2016, marking an increase from one year earlier. Accordingly, available rooms will expand 1.5 percent this year, exceeding the gain of 1.0 percent in 2015.

Occupancy up 30 basis points — Room demand growth will continue to moderate. A 2.0 percent rise in room nights this year will support an increase in annual occupancy of 30 basis points, to 61.3 percent. The rate rose 110 basis points during 2015.

ADR up 3.8% — Slower occupancy growth will restrain the ability of owners to raise daily rates. After a 4.2 percent rise last year, annual ADR will advance 3.8 percent in 2016.

RevPAR up 4.3% — Fueled almost entirely by the gain in ADR, annual RevPAR in the Central Plains will climb 4.3 percent, trailing the increase of 6.2 percent last year.

Investment — Investors with lower risk tolerance may provide an exit strategy and solid return for developers of new hotels offering the most current design prototypes and longest franchise terms. Newly built properties in the Hilton, Marriott and IHG families will garner attention.

Selective Assets, Markets Within Energy Belt Could Shine Amid Downturn

Hotel owners that are not heavily reliant on oil-and-gas business demand will enjoy opportunities to realize improvements in property performance this year in the Energy Belt, a region comprising Kansas, Nebraska, Oklahoma and the Dakotas. While cuts in drilling related to depressed oil prices are eroding hotel performance in North Dakota and in sections of Oklahoma, other states may fare better as lower gas prices encourage additional travel. Hotel performance in South Dakota, specifically, stood above the region in 2015; only 11 states recorded higher RevPAR growth during the year. The state's supply pipeline is in check, with roughly 100 rooms under construction, imposing little competition to secure guests traveling the Interstates or visiting national parks or regional medical facilities. Interstate hotels in Oklahoma and other properties that count colleges and universities as demand drivers may also prove to be well insulated from further disruptions in energy sector activity.

The pipeline of hotels under construction in the region remains considerable, with projected room additions in Nebraska and Oklahoma representing 4.0 percent and 3.5 percent of current stock, respectively. An additional 4,400 rooms are planned in the Energy Belt, though declining hotel performance may leave several projects unable to secure financing. Generally, debt providers in the region will exercise greater discretion in funding development and acquisitions. Last year, sales volume increased modestly and was concentrated heavily in the limited-service tier, with some forays by investors into select service. Most transactions continue to occur in Oklahoma due to the state's more extensive inventory, and primarily involve single-asset deals. Activity was most significant in large metros Oklahoma City and Tulsa, where economy, midscale and upper midscale inns were swept up. Pricing in the state varied widely, but typically reflected some value-add component.

2016 Market Forecast

Supply up 2.4% — The pipeline of rooms under construction is smaller than one year ago, when completions expanded available rooms 2.9 percent. In 2016, available rooms will grow 2.4 percent.

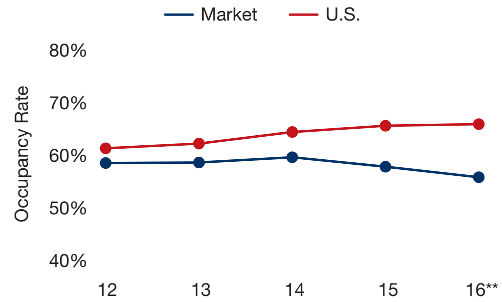
Occupancy down 200 basis points — Elevated supply growth and a 1.0 percent drop in room nights will slice annual occupancy 200 basis points in 2016, to 55.8 percent. Only Nebraska and South Dakota registered increases in annual occupancy last year.

ADR down 1.6% — Discounting will become more common, resulting in a 1.6 percent fall in the annual regional ADR. The daily rate rose less than 2 percent in 2015, reflecting statewide increases everywhere except North Dakota.

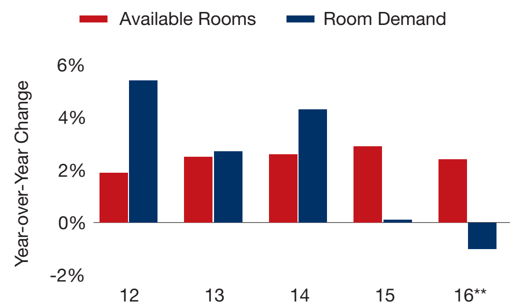
RevPAR down 4.9% — Falling occupancy and rate translates into a 4.9 percent drop in annual RevPAR in the Energy Belt, erasing the net gain in RevPAR posted in the region during the preceding three years.

Investment — Local owner-operators and small private capital sources will tighten their focus in the coming year, targeting assets with solid and established demand drivers capable of withstanding the energy sector downturn.

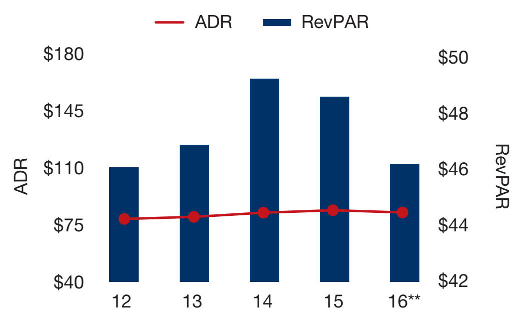
Annual Occupancy



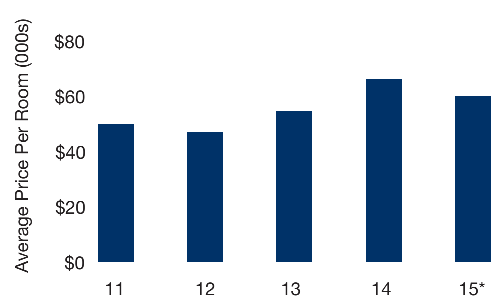
Supply and Demand



Full-Year Revenue Measures

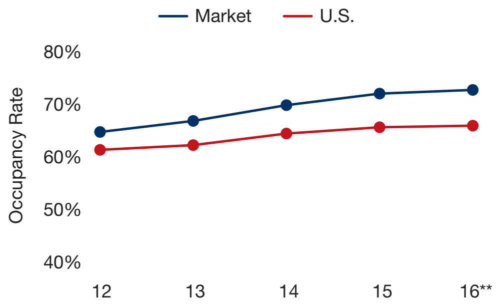


Flagged Hotel Sales

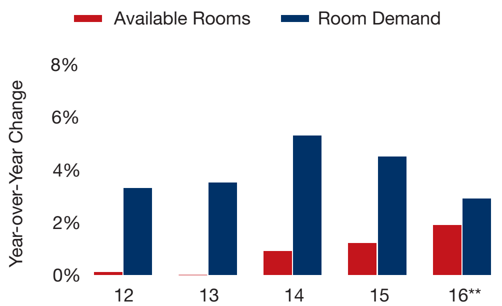


* Estimate
** Forecast
Sources: CoStar Group, Inc.; STR Inc.; Real Capital Analytics

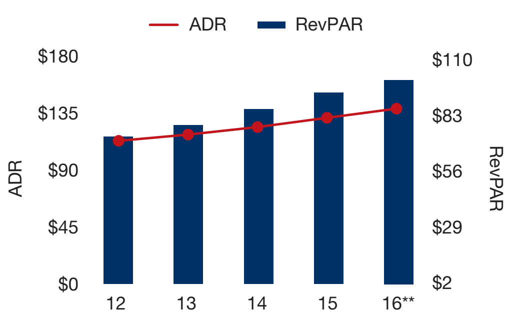
Annual Occupancy



Supply and Demand



Full-Year Revenue Measures



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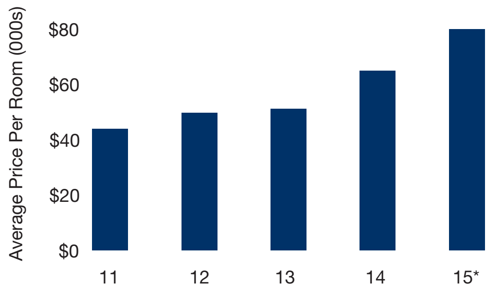


* Estimate
** Forecast
Sources: CoStar Group, Inc.; STR Inc.; Real Capital Analytics

Growth in Florida Market Widespread, Will Drive Investment Volume in 2016

After a robust performance in 2015, additional growth in domestic leisure and business travel will drive gains in key performance measures in Florida during 2016. The lengthy U.S. economic expansion and strengthening in the statewide economy continue to support strong operations beyond the state's three largest markets. Booming leisure travel, for example, underpinned a double-digit gain in RevPAR in Fort Myers last year. Despite the gains realized in a range of markets and the heightened prospects of further RevPAR growth in the year ahead, some emerging trends could potentially affect statewide hotel operations. Notably, a stronger U.S. dollar may curtail growth in overseas inbound travel and visitor volume from Canada. Foreign visitors account for 12 percent to 15 percent of annual visitor volume in the state. Supply growth is also picking up, setting up a more intense competitive environment to secure guests. More than 11,000 rooms are underway in Florida, including 3,800 rooms in markets outside of Miami-Dade County, and the Orlando and Tampa metros.

Investors leveraged more readily available debt to maintain a vigorous transaction market in Florida last year. Sales of independents dipped, but deals involving select-service hotels jumped substantially and drove an increase in total franchised sales volume. Investors were willing to accept generally higher prices for select-service assets in South Florida, Orlando and Tampa. Sales of upper midscale and upscale hotels in these markets accounted for 56 percent of all such assets sold in Florida last year, up from less than one half in the prior year. These properties retain vast appeal to investors in 2016, but sellers may need to adjust price expectations after the flurry of deals in large markets last year. Bidding by REITs will likely be constrained by a higher cost of capital, while private capital will become more diligent in identifying potential performance upsides hotel industry's lenghty current upcycle persists.

2016 Market Forecast

Supply up 1.9% — Available rooms in the state will expand 1.9 percent in 2016, exceeding last year's pace and marking the largest annual gain during the recovery. Supply pressures are most acute in Miami-Dade County, where 3,900 rooms are under construction.

Occupancy up 70 basis points — Room nights will rise 2.9 percent to drive up annual occupancy 70 basis points to 72.7 percent; an increase of 220 basis points was recorded last year behind a jump in demand of 4.5 percent.

ADR up 5.5% — Pricing power will reign. Statewide ADR will advance 5.5 percent following a robust gain of 5.9 percent in 2015.

RevPAR up 6.6% — Slower occupancy growth will restrict the rise in annual RevPAR. After a gain of 9.3 percent in 2015 fueled by a double-digit increase in Tampa, growth will taper to 6.6 percent this year.

Investment — With local banks in the soundest health since prior to the recession, small private capital sources and owner-operators will continue to take advantage of capital availability to acquire flagged limited-service properties in 2016.

Investors Broaden Search for Hotels in Georgia As Occupancy and RevPAR Gain

Rising room demand and minimal construction propelled the Georgia hotel market for the past two years, culminating in post-recession highs in annual occupancy, ADR and RevPAR in 2015. The year ahead offers the promise of additional opportunities for hotels to strengthen bottom lines, but current trends indicate an inflection point and encourage a slight tempering of expectations. Job growth, a primary indicator of inbound business travel, will remain solid, but some service-sector rates of growth are leveling off. Travel to or within the state related to manufacturing for export and logistics may also soften in 2016 as global economies falter. The supply pipeline is also filling; 3,700 more rooms are in the pipeline than one year ago, including more than 1,400 additional rooms under construction. Of the 3,200 rooms under construction statewide, about half are in metro Atlanta and mainly comprise select-service brands.

While completions in Atlanta this year represent a manageable amount for the market to absorb, the rate of occupancy and rate growth will nonetheless slow. RevPAR grew more than 9 percent last, but the pace will moderate in 2016, encouraging additional hotel owners to explore transactions. Upper midscale and upscale hotels remain primary targets in the market and in the entire state, accounting for more than 40 percent of all brand-affiliated hotel sales last year. While assets in Atlanta will consistently command interest, investors moved farther afield in 2015. Properties outside of the Atlanta metro accounted for nearly one-half of all hotels sold in the state, an increase from one-third of all deals in the prior year. Limited-service was the prevailing choice, but investors also found pricing on upper midscale inns enticing. Savannah, an increasingly popular leisure destination and key logistics hub, elicited interest, and properties near the airport and port commanded more than $200,000 per key.

2016 Market Forecast

Supply
up 1.3%

Available rooms statewide will increase 1.3 percent in 2016; a gain of 0.6 percent was posted last year. Approximately 1,400 rooms are under construction in Atlanta, all in the self-service tier, and an additional 4,200 rooms are approaching groundbreaking.

Occupancy
up 70 basis points

Behind a 2.3 percent rise in occupied rooms, the annual statewide occupancy rate will rise 70 basis points in 2016 to 65.1 percent. An increase in room nights of 3.7 percent generated a 200-basis-point jump in occupancy last year.

ADR
up 4.9%

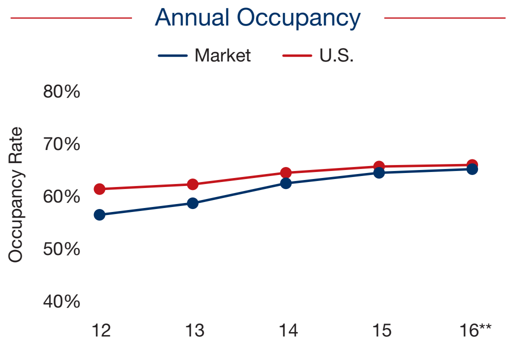
Strong demand generators will support a gain in the statewide ADR of 4.9 percent in 2016, marking a deceleration from last year's lofty 6.1 percent rise.

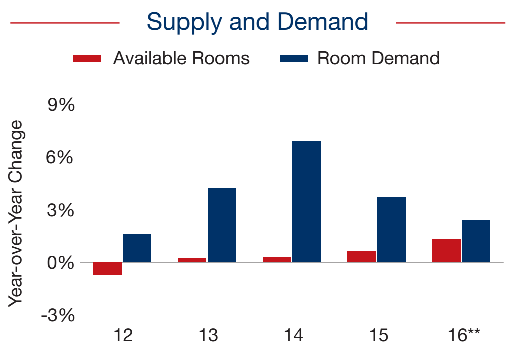
RevPAR
up 6.1%

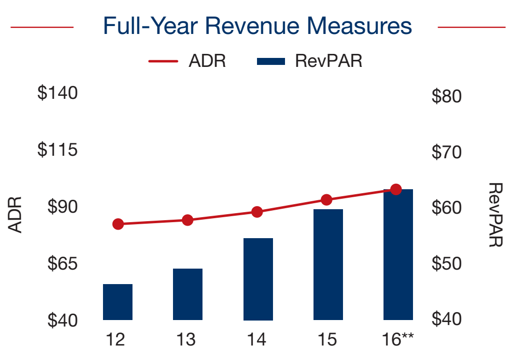
The pace of RevPAR growth will also moderate behind slower rate and occupancy growth. This year, RevPAR in Georgia will advance 6.1 percent.

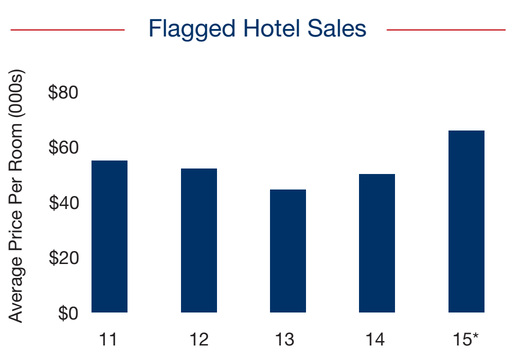
Investment

Property owners will continue to monitor discussions on raising the minimum wage in Atlanta and assessing the potential impact of a hike on a hotel's expense profile and bottom line.



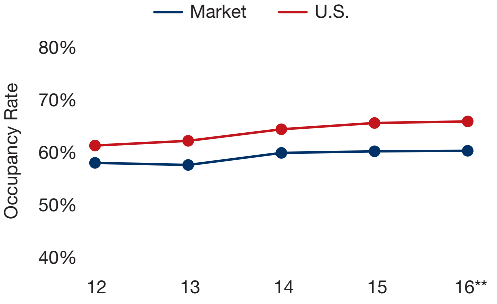




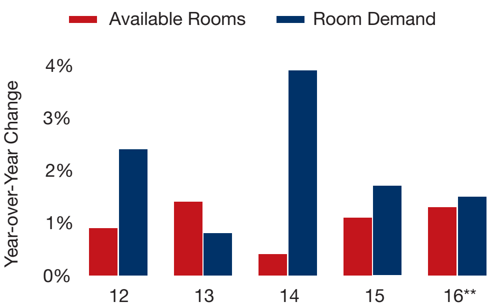


* Estimate
** Forecast
Sources: CoStar Group, Inc.; STR Inc.; Real Capital Analytics

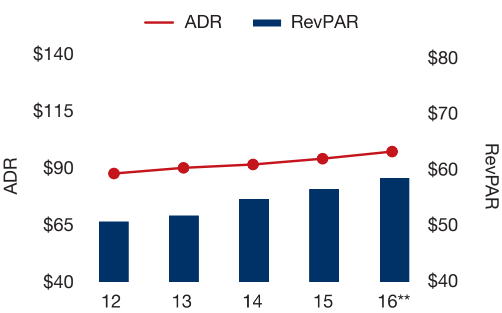
Annual Occupancy



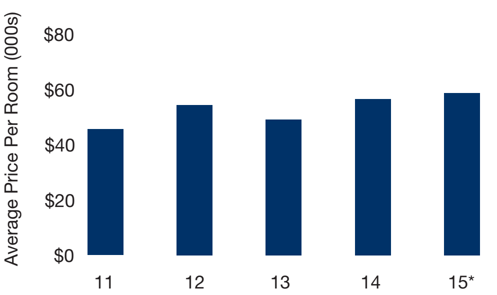
Supply and Demand



Full-Year Revenue Measures



Flagged Hotel Sales



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

Steady Growth in Operating Metrics Foreseen in Gulf Coast in 2016

Improvements in inbound business travel and inexpensive gas that will draw leisure travelers from nearby states will support the sound operation of hotels in Alabama, Louisiana and Mississippi, or the Gulf Coast region. Respectable gains in occupancy, ADR and RevPAR were posted in 2015 in front of rising room demand and marginally stronger pricing power. Although New Orleans remains the largest market and draws visitors nationwide, the strength of the region lies in Alabama, where consistent monthly performance generated a 6.6 percent gain in annual statewide RevPAR in 2015. A network of interstates converge in Birmingham, making that emerging leisure destination a potential beneficiary of increased automobile traffic in the year ahead. Manufacturing also generates substantial room demand in the state related to plant visits by vendors and subcontractors. However, a reduction in business travel budgets could result if slower growth takes hold in China, an important market for many goods made in Alabama.

The supply buildup in the region has been gradual, culminating in approximately 5,900 rooms underway at the end of last year, primarily in Louisiana and Mississippi. Hotel openings will reduce the contribution of occupancy to RevPAR but may also prevent many planned projects from proceeding. The greater proliferation of brands will also attract local and regional investors, and gain the notice of national investors assembling multistate portfolios. Some upper midscale assets were swept up in small portfolio deals last year, and most hotels were in secondary markets with established demand drivers. Pricing generally reflected the presence of some value-add component, although upper midscale inns sold in New Orleans commanded more than $100,000 per key. Moving down the chain scale ladder, sales of flagged economy and midscale assets also remain strong as small private capital tapped more readily accessible debt to transact.

2016 Market Forecast

Supply up 1.3% — Property openings and expansions will increase available rooms in the Gulf Coast region 1.3 percent during 2016, slightly more than the rate of growth registered last year.

Occupancy up 10 basis points — Room nights will increase 1.5 percent to yield a 10-basis-point uptick in annual occupancy to 60.3 percent. The occupancy rate advanced 30 basis points one year ago despite a supply-driven dip in Louisiana.

ADR up 3.0% — Annual ADR in the Gulf Coast will increase 3.0 percent in 2016 to narrowly outpace last year's modest gain but will lag the forecast U.S. growth rate of 4.5 percent.

RevPAR up 3.5 % — For the seventh consecutive year, yearly RevPAR will increase in the region. The projected 3.5 percent rise in 2016 will virtually match the results posted in 2015 and will be achieved primarily through higher daily rates as occupancy growth ebbs.

Investment — The region's unique mix of room demand drivers in secondary and tertiary metros will continue to lure investors seeking to geographically diversify holdings. Properties in college towns and hotels near federal facilities may garner closer scrutiny due to their defensive attributes.

Room Nights Positioned to Grow in Mid-Atlantic As Investors Look to Fill Out Portfolios

In 2016, hotels in the Mid-Atlantic region face favorable prospects for building on the respectable results recorded over the preceding two years. Occupancy, ADR and RevPAR in the region, which consists of Delaware, the District of Columbia, Maryland, Virginia and West Virginia, will grow during 2016 behind multiple demand drivers. Leisure destinations are within a day's drive of major population hubs on the Eastern seaboard, and inexpensive gas will encourage motor vehicle travel between states. Office-using establishments in the Washington, D.C., metro and Baltimore are adding workers and expanding, generating more inbound business travel to attend meetings and business events. Foreign tourism to the District could waver, however, due to the strong dollar. Growth in regional room nights this year will slightly outpace an expansion in the room count and suppress the increase in occupancy. Maryland and Virginia have smaller pipelines of rooms under construction than one year ago, but volume has expanded in the District.

While few obstacles stand in the way of achieving higher readings in key performance measures, the region's hotel sector swings into 2016 in the midst of slowing increases in RevPAR. The District and Virginia improved on the prior year's performance in 2015, but reduced occupancy growth will impact RevPAR during 2016. Accordingly, many owners who have put off selling may elect to shorten holding periods and bring properties to market to leverage keen investor interest and accessible debt markets. Transactions in the region declined modestly last year, partly reflecting limited for-sale inventory. Nonetheless, the transaction market continues to show considerable depth and breadth. Small private capital and owner-operators are driving activity in the limited-service segment and combine with larger capital sources to maintain liquidity in the select-service space. The District and Virginia metros, meanwhile, continue to command attention from investors in full-service assets.

2016 Market Forecast

Supply up 1.2% — Available rooms in the Mid-Atlantic region will increase 1.2 percent in 2016, reflecting the delivery of a portion of the 6,600 rooms that are under construction. A gain of 0.9 percent was recorded in 2015.

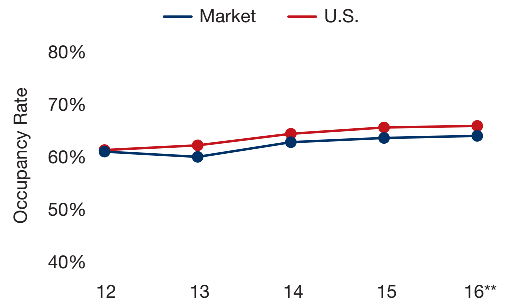
Occupancy up 40 basis points — A 1.8 percent increase in room nights, fueled largely by higher travel volume in Maryland and Virginia, will outpace supply growth and underpin a 40-basis-point rise in the annual occupancy rate to 66 percent this year. Despite a decline in Delaware and West Virginia, occupancy climbed 80 basis points in 2015.

ADR up 4.3% — After posting an increase of 3.1 percent in 2015, the regional ADR will advance 4.3 percent this year. The U.S. ADR is projected to rise 4.5 percent.

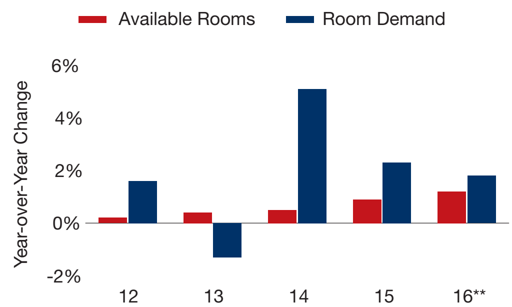
RevPAR up 4.9% — With occupancy growth leveling off, ADR will account for most of this year's 4.9 percent bump in RevPAR.

Investment — Potential relocations of federal departments and agencies within the Washington, D.C., metro will augment demand drivers and raise investor interest in the new locations while potentially removing a potent source of room nights at former addresses.

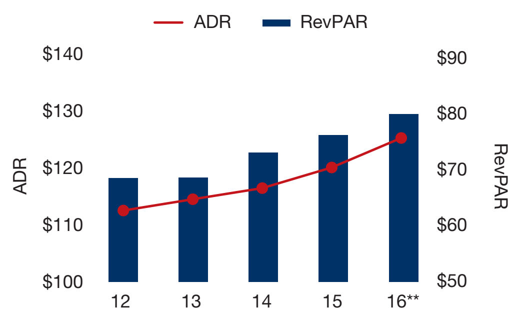
Annual Occupancy



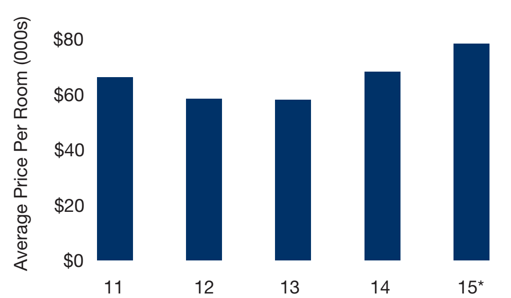
Supply and Demand



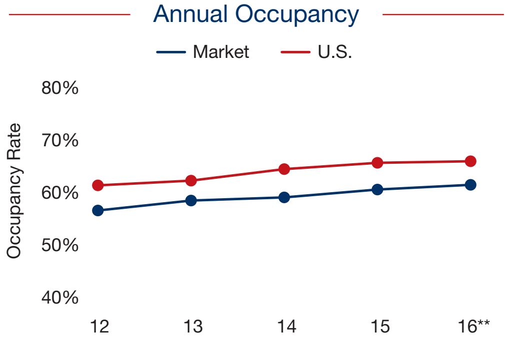
Full-Year Revenue Measures

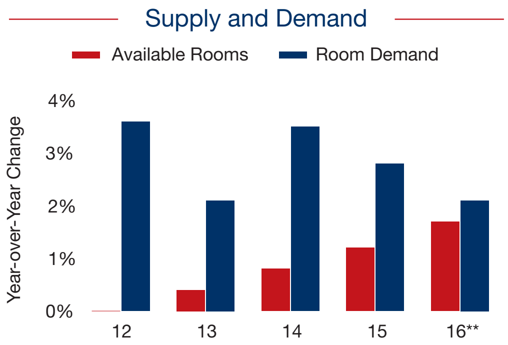


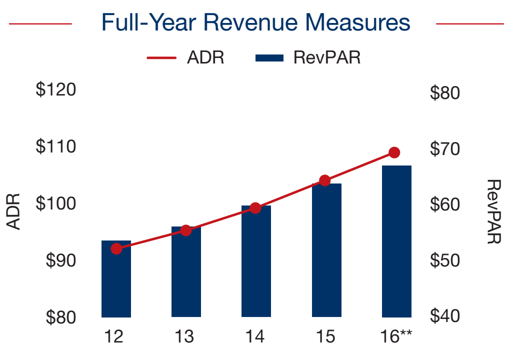
Flagged Hotel Sales

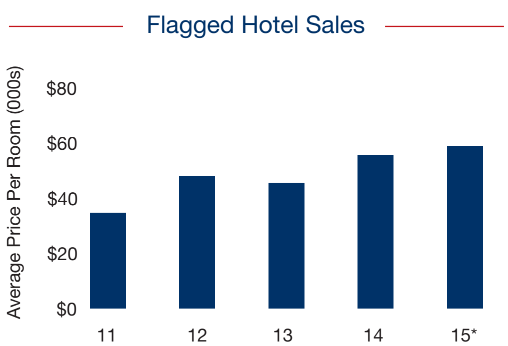


* Estimate
** Forecast
Sources: CoStar Group, Inc.; STR Inc.; Real Capital Analytics









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

Steady Midwest Hotel Performance Commands Notice of Investors, Draws Capital

Moderating growth in the U.S. and state economies provides a solid foundation for further increases in performance measures during 2016 in the Midwest, which consists of Illinois, Indiana, Michigan, Ohio and Wisconsin. Growing travel volume lifted annual occupancy in the Midwest to the highest level in the past 10 years during 2015 with the largest market, Chicago, capably absorbing new supply to post an increase to 70 percent. Expanding service-sector businesses continue to drive corporate demand regionwide and, alongside steady trends in automobile manufacturing, provide a sizable pipeline of business travelers to raise weekday room nights. Personal income in the region is also increasing and will support auto travel to regional leisure destinations throughout 2016. Potential obstacles to the 2016 outlook include an increase in hotel openings that will affect occupancy growth and potentially suppress daily rate increases, which have been the primary mover behind higher RevPAR. Chicago and Cleveland, notably, have robust pipelines of rooms under construction.

The superior performance of local hotels is stoking keen interest among investors. Sales of independents slipped last year, but the number of flagged hotels switching hands increased and was heavily concentrated in the limited- and select-service segments. More than three-fourths of the room stock in Illinois, Indiana and Ohio carry flags, a proportion exceeded by only a few other states. Investors seeking flagged hotels with the resources of a national brand and guest loyalty programs to drive bookings will continue to search the region intently in the coming months. Brands in major metros may be targeted by holders of national portfolios to provide geographic diversification. Slightly behind Illinois in the number of properties typically sold, Ohio hotels will also garner attraction. Metro-level economies continue to grow, although investors will closely monitor the performance of assets in the Utica Shale region.

2016 Market Forecast

Supply up 1.7% — Completions in Chicago and in Ohio will support a 1.7 percent increase in available rooms in the five-state region in 2016, the highest annual supply growth during the current cycle.

Occupancy up 30 basis points — A combination of decelerating growth in room demand and a larger construction pipeline will yield a modest increase in annual occupancy in 2016. The rate will advance 30 basis points to 61.7 percent following a gain of 90 basis points in 2015.

ADR up 4.7% — Property owners will build on pricing power accrued over the past two years. In 2016, the regional ADR will rise 4.7 percent; a gain of 4.9 percent occurred last year.

RevPAR up 5.1% — Slower occupancy and ADR growth will reduce the increase in annual RevPAR to 5.1 percent in 2016, down from a 6.5-percent bump last year.

Investment — Opportunities to execute brand-to-brand conversions in the region to create value in an asset could dwindle in the coming months as major flags continue to fulfill expansion goals through new construction.

After Years of Growth, Mountain West Owners Seek To Tap Large Buyer Pool

All measures of property performance rose last year in the Mountain West region, comprising Colorado, Idaho, Montana, Utah and Wyoming, albeit at a more subdued rate of growth than was recorded in 2014. An additional moderation will take place in 2016 as new construction increasingly weighs on occupancy growth. Hundreds of rooms are under construction in the five states, and the additional stock will only raise the room-nights threshold required to surpass prior years' performance, and reduce the contribution of occupancy to RevPAR. Visitation to numerous national parks and outdoor recreation will sustain leisure demand throughout the region and in Salt Lake City and Denver, where airports serve as the Mountain West's gateways. This winter's ski season, meanwhile, looks promising, while business demand drivers are mixed. Regions of states heavily dependent on oil and gas, and mineral extraction industries to fill beds will feel the pinch of weaker commodity markets, and some spillover to other industries could occur.

Coming into 2016, annual RevPAR in the region has jumped more than 40 percent since 2010, and a larger increase was recorded in the largest market, Denver. A likely slower pace of RevPAR growth in 2016 will encourage additional property owners to consider listing. Property owners electing to list will find a liquid investment market, where transaction velocity has steadily climbed and capital flows are strong. Flagged upper midscale and midscale hotels represented more than 40 percent of all deals of hard-branded assets in 2015, up from about one-third in the prior year. Transactions in Denver picked up during 2015, with strike prices typically topping $100,000 per key for coveted brands that include the Hampton Inn and the extended stay TownePlace Suites. Elsewhere in the region, several hotels in Utah continue to change hands. The construction pipeline in the state is equal to 10 percent of existing stock, the highest regionally, which will potentially limit conversion options for investors.

2016 Market Forecast

Supply up 1.8% — Roughly 5,800 rooms are under construction in the Mountain West. Projects slated for completion this year will expand available rooms 1.8 percent, exceeding last year's increase of 1.3 percent.

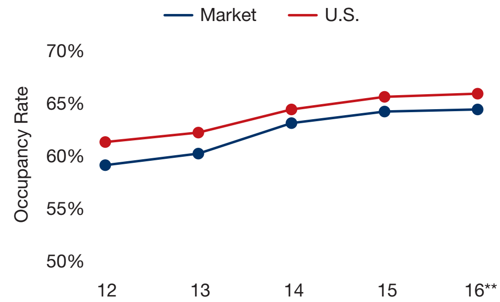
Occupancy up 20 basis points — The pace of demand growth will continue to level off. A projected 2.1 percent rise in room nights during 2016 marks a deceleration from last year and will support a slight 20-basis-point uptick in regional occupancy to 64.4 percent.

ADR up 4.7% — Higher occupancy will enable property operators to retain rate-setting ability and drive up RevPAR. After a 5.2 percent gain in the regional ADR last year, a 4.7 percent rise is on tap in 2016.

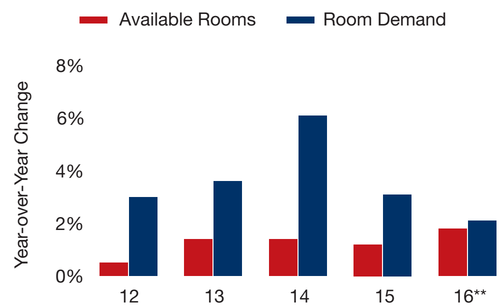
RevPAR up 5.0% — Full-year RevPAR will rise 5 percent in 2016. A gain of 7.2 percent was registered in 2015, which represented a decline from a double-digit increase in the prior year.

Investment — Large national players seeking single-asset purchases may turn to full-service properties in Denver in the year ahead to add greater geographic and demand-driver diversification in portfolios.

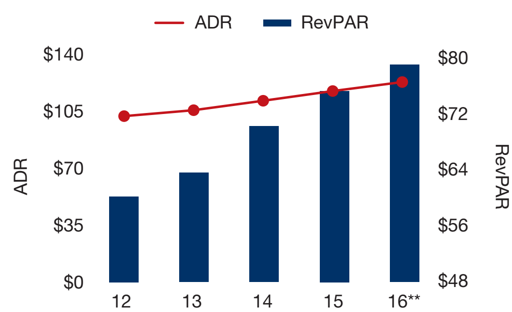
Annual Occupancy



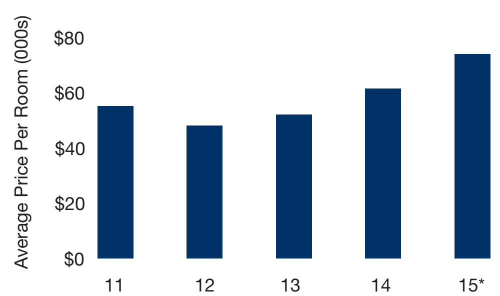
Supply and Demand



Full-Year Revenue Measures



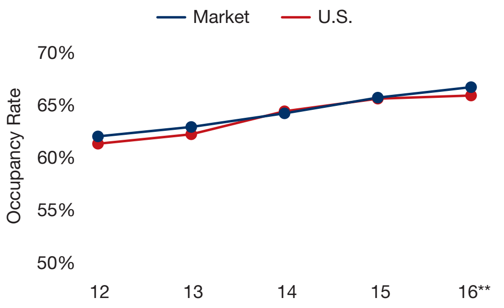
Flagged Hotel Sales



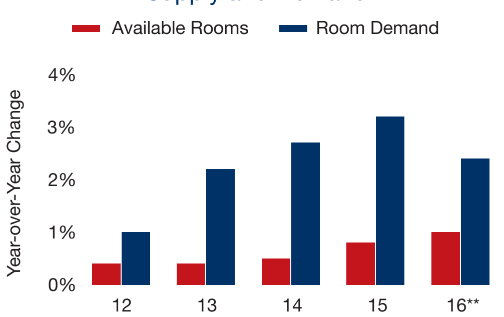
* Estimate
** Forecast
Sources: CoStar Group, Inc.; STR Inc.; Real Capital Analytics

Marcus & Millichap

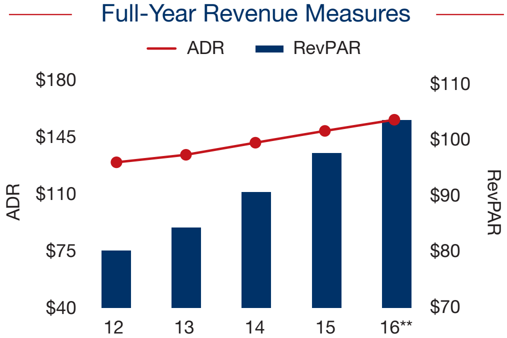
Annual Occupancy



Supply and Demand



Full-Year Revenue Measures



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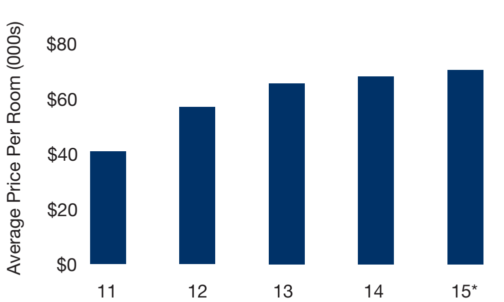


* Estimate
** Forecast
Sources: CoStar Group, Inc.; STR Inc.; Real Capital Analytics

Wealth of Driveable Destinations Will Spark New England Performance in 2016

Regional economic growth continues to stir a potent mix of leisure and business demand drivers in the New England region, comprising Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. Following solid gains in annual occupancy, ADR and RevPAR last year, prospects for additional growth in 2016 persist. Strong demand drivers will take the lead, and low gas prices will encourage additional motor vehicle travel within the region and from densely populated nearby states. In addition, casinos in Rhode Island remain a strong regional draw, creating room demand for hotels near casinos and supporting the state's double-digit gain in RevPAR last year. The region's construction pipeline, meanwhile, appears manageable. Hundreds of rooms are under construction in Boston, where unfulfilled demand likely exists for accommodations at price points that fit modest travel budgets.

As the New England region enjoyed a decisive upswing in property operations and performance metrics last year, investors took dead aim at hard-branded assets. Transaction velocity and dollar volume soared in 2015. Owners of flagged properties capitalized on intense investor interest to harvest recent gains in value created through stronger property performance. In the entire region last year, only Vermont posted a drop in flagged hotel sales. Overall, hard-branded hotels accounted for roughly 40 percent of all transactions in the prior year, but the share jumped to more than half in 2015. Upper midscale, upscale and upper upscale assets garnered the greatest attention, and the Boston metro was the primary focus. Pricing here was elevated and generally reflected the relatively tight supply constraints in the metro, with the best upper upscale hotels typically commanding more than $200,000 per key. Interest in newly built upscale hotels will likely emerge in the coming months as properties come online, providing developers with potential exits through the transaction market.

2016 Market Forecast

Supply up 1.0% — Supply will increase 1.0 percent in 2016, topping the 0.8 percent expansion last year. Approximately 3,700 rooms are under construction in New England; the total includes about 1,800 select-service rooms in Boston.

Occupancy up 100 basis points — An increase in room nights of 2.4 percent will yield a 100-basis-point increase in annual regional occupancy in 2016 to 66.7 percent. Rhode Island and Massachusetts fueled an increase of 150 basis point last year.

ADR up 4.6% — In 2016, regional ADR will advance 4.6 percent to slightly outpace the U.S. rate of growth. A gain of 5.1 percent was posted in New England during 2015.

RevPAR up 6.1% — The higher daily rate will drive full-year RevPAR growth of 6.1 percent in 2016, a healthy pace that nonetheless trails growth rates in excess of 7 percent in each of the two preceding years.

Investment — Independent properties, which account for a considerable portion of rooms in the region, elicit keen interest. Properties in areas with established demand drivers, including colleges, and constraints on adding supply will generate strong bids.

Large Supply Pipeline in the Northeast Pressures Hotel Sector Performance

A potential reduction in room nights from a key demand source and completions of new properties will affect hotel performance in the Northeast, consisting of New Jersey, New York and Pennsylvania. In New York City, the stock of upper midscale and upscale rooms will expand at a time when a strong dollar may curtail foreign visitor volume and raise the temptation to cut rates to maintain occupancy. An alternative upside scenario could arise, however, with the substitution of higher-rated domestic business to cover the potential loss of visitors from abroad. A drop in room demand may also occur in New Jersey, where hotels in Newark serve as a jumping off point for many Chinese tourists visiting New York City. The supply pipeline in the Garden State, though, remains the most manageable in the region and will not present as large an obstacle to achieving higher occupancy. In Pennsylvania, completions in the state's small markets and softer operations in oil and gas regions will push down annual occupancy.

The regional hotel sector's lengthy run of performance gains continues to encourage investors and supported a slight rise in transactions last year. Independent hotels led the increase and accounted for a greater share of all transactions. Sales of unflagged properties jumped notably in Manhattan in one-off transactions, and even small, low-profile assets commanded more than $300,000 per room. Numerous soft brand initiatives have provided an alternative value-enhancement strategy for many investors and will sustain a high level of interest in unaffiliated assets in the coming months. While sales of hard-branded properties fell slightly last year in the region, trades of upper midscale hotels rose behind unfaltering investor demand in this segment of the chain hotel universe. Most of the sales took place in Pennsylvania, principally in the Philadelphia and Pittsburgh metros. Prices varied widely depending on property conditions and franchise status, but the best assets commanded prices starting in the $70,000 per key range.

2016 Market Forecast

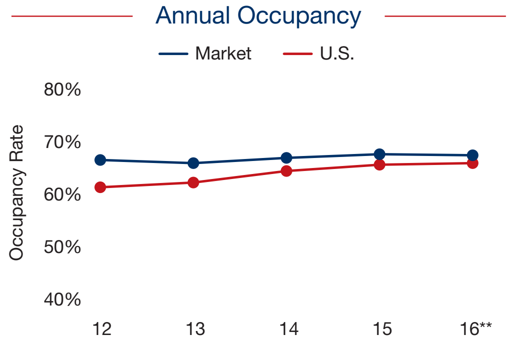
Supply up 2.0% — The construction pipeline in the region continues to swell, totaling nearly 24,000 rooms at the beginning of 2016. Hotels slated for completion this year will expand available rooms 2 percent.

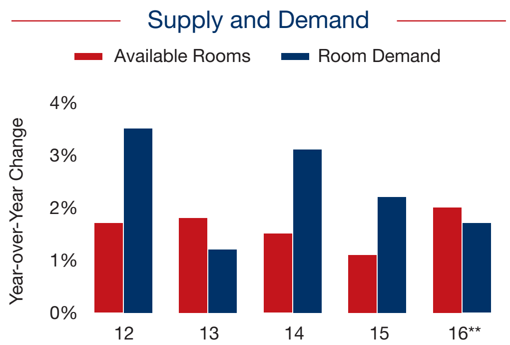
Occupancy down 20 basis points — Annual occupancy will slip 20 basis points to 67.4 percent. A gain of 70 basis points was logged last year.

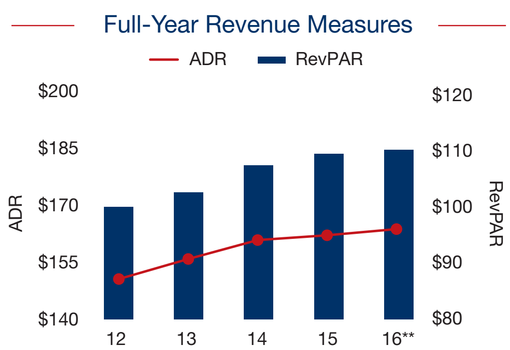
ADR up 2.8% — ADR in the region will advance 2.8 percent in 2016, narrowly outpacing last year's pace, which was influenced by a decline of 1.6 percent in New York City.

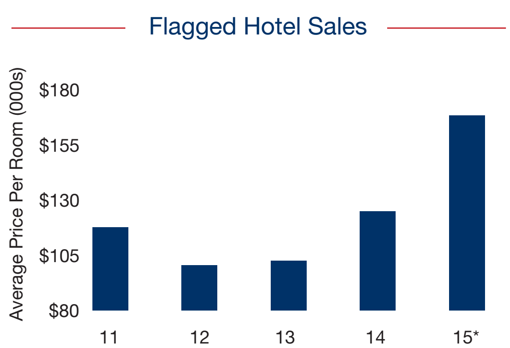
RevPAR up 2.5% — The minor drop in occupancy and nominal gain in the daily rate will suppress RevPAR growth. This year, RevPAR will inch up 2.5 percent, exceeding the meager increase of 1.9 percent in 2015.

Investment — The buildup of stock in upper midscale and upscale brands in New York City will continue to attract investors seeking the newest assets and design prototypes. Merchant builders may accelerate disposition timelines to accommodate motivated investors and liberate capital for new projects while opportunities remain.









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

Robust Occupancy, RevPAR Growth Pulls Investors to Pacific Northwest

Hotels in Oregon and Washington, or the Pacific Northwest region, turned in an astonishingly robust performance in 2015, especially in the largest markets in the respective states. Occupied rooms in Portland rose 5.2 percent during the year, imparting greater pricing power to operators and supporting a 14.2 percent jump in RevPAR, one of the highest rates of growth in any market nationwide. Construction remains relatively restrained, while business and leisure demand drivers are potent. Additional gains in occupancy, ADR and RevPAR are likely in Portland this year, and those increases will have a significant effect on results for the entire state. A slight headwind is forming, however, in the event visitor volume from China decreases. Seattle faces the identical obstacle and may also see a drop in visitor volume from Canada due to the strength of the U.S. dollar. Nonetheless, the vigor of industries in the metro and its prominence as a leisure destination will strengthen key performance measures.

Seattle also has roughly 2,900 rooms under construction after the delivery of more than 900 select-service rooms alone last year and a supply-induced dip in occupancy in the final two months of 2015. While supply growth will temper the pace of future RevPAR gains, the local hotel sector has logged an increase in annual RevPAR of more than 40 percent since 2011. Further growth in the daily rate will primarily drive RevPAR in the near term, providing potential upsides to investors seeking to enter the Seattle market. In the entire region, transactions jumped significantly last year. Most of the activity occurred in the limited-service tier, a segment of the market dominated by small private capital and owner-operators. Sales of select-service hotels account for a smaller portion of all deals involving hard-branded assets than in other regions of the country. Property owners willing to list upper midscale and upscale inns during 2016 will likely find a deep pool of investors, including investment groups from outside of the region.

2016 Market Forecast

Supply up 1.5% — Room supply will expand 1.5 percent in 2016, down from a 2 percent gain in 2015. More than half of the rooms underway in the Pacific Northwest are in Seattle and feature a heavy representation of select service.

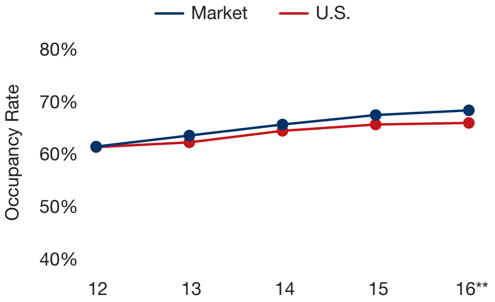
Occupancy up 90 basis points — Annual occupancy will rise 90 basis points to 68.3 percent behind a 2.8 percent climb in room nights. In 2015, a substantial jump in Portland contributed to an increase in occupancy of 180 basis points in the region.

ADR up 5.7% — The yearly ADR in the Pacific Northwest will advance 5.7 percent this year, far exceeding the U.S. rate of growth. Regional ADR grew 6.8 percent last year.

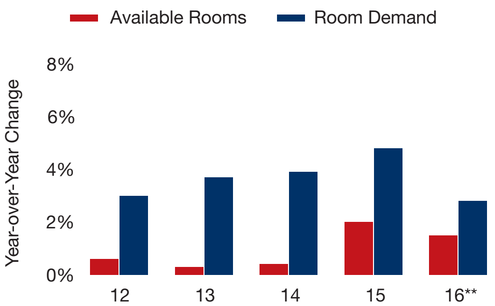
RevPAR up 7.1% — After posting a cumulative increase of more than 20 percent in the past two years, annual RevPAR will climb a still-healthy 7.1 percent during 2016.

Investment — Opportunities for independent-to-flag conversions or soft branding could arise in Oregon due to the state's modest construction pipeline and large pool of hotels that operate without an affiliation but might meet brand specifications.

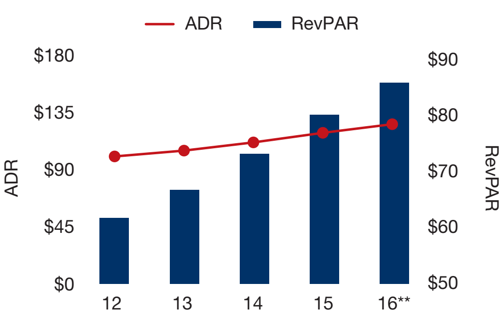
Annual Occupancy



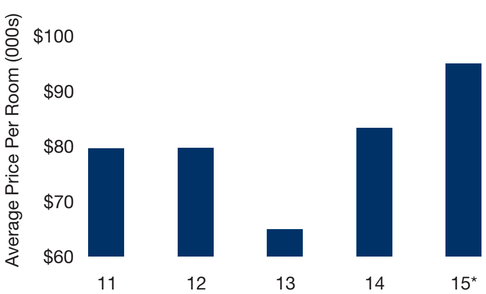
Supply and Demand



Full-Year Revenue Measures



Flagged Hotel Sales



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

Lengthy Performance Run, Rising Construction May Trigger More Deals in 2016

Continuing, albeit moderating, growth in business and leisure demand drivers will nudge up occupancy in the South Central region and support improvements in revenue measures. The region, consisting of Arkansas, Kentucky and Tennessee, will post an increase in room nights behind business travel related to expanding service-sector businesses, and additional leisure trips from nearby states where economies are reasonably strong. After room supply increased in 2015, additional completions of new hotels will suppress the gain in regional occupancy this year, however. Kentucky and Tennessee sport the largest pipelines and will come under the greatest pressure in the coming months. Regionally, fewer properties are under construction than one year ago, but an increase in the number of rooms in final planning, the last phase before shovels break ground, is conspicuous. Downward pressure on occupancy and other principal performance indicators will only intensify beyond 2016 if a large portion of these projects, currently numbering 9,500 rooms, come online.

Nashville accounts for a sizable portion of the entire construction pipeline in the South Central region, and supply growth triggered minor declines is monthly occupancy on four occasions last year. Nonetheless, robust rate-fueled increases in RevPAR and vibrant mixes of business and leisure demand drivers continue to fan the aspirations of investors seeking entry into the market. Transactions in Nashville were virtually flat last year and represented but a small portion of all the deals in the state. Overall, regional sales take place primarily outside of the major metros of Louisville, Memphis and Nashville; the majority of deals involve flagged economy and midscale assets, the domain of small private investors and owner-users. Pent-up demand for coveted select-service brands in the major metros persists among investors, as owners continue to set high price targets based on recent stellar performance.

2016 Market Forecast

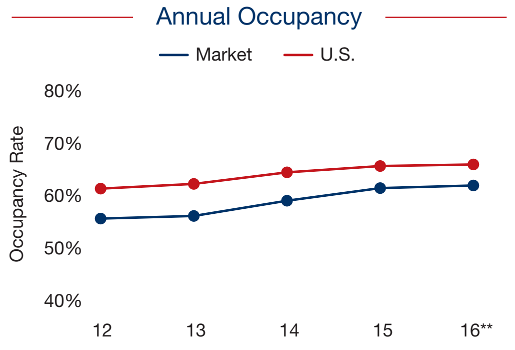
Supply up 1.7% — Available rooms will expand 1.7 percent this year, exceeding the gain of 1.3 percent in 2015. Approximately 4,500 rooms are under construction in the region; the total includes 2,000 rooms in Nashville.

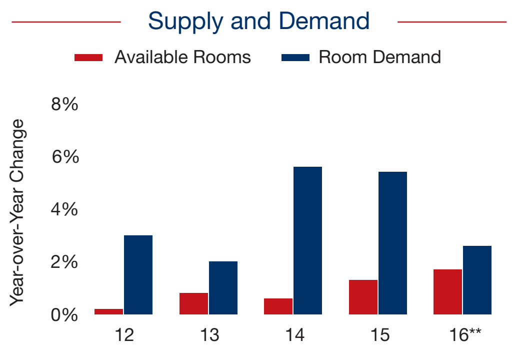
Occupancy up 50 basis points — Statewide economies are growing and leisure travel remains reasonably strong, supporting a 2.6 percent rise in room nights and a 50-basis-point increase in annual occupancy to 61.9 percent. A gain of 240 basis points was posted in 2015.

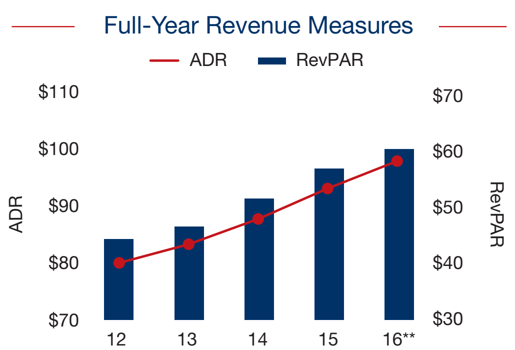
ADR up 5.2% — Supply growth will slightly suppress rate. During 2016, the ADR in the region will increase 5.2 percent, less than the gain of 6.1 percent last year.

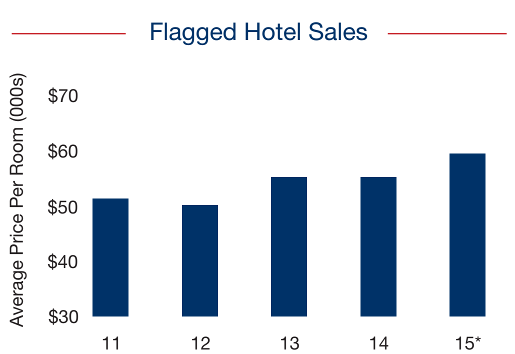
RevPAR up 6.1% — Following a 10.3 percent leap last year, RevPAR will advance 6.1 percent in 2016 to outpace the projected U.S. rate of growth.

Investment — Among the operating factors for owners in the region to consider are rising labor costs. In addition to tighter labor markets overall, an increase in the statewide minimum wage to $8 per hour became effective in Arkansas on the first of this year.



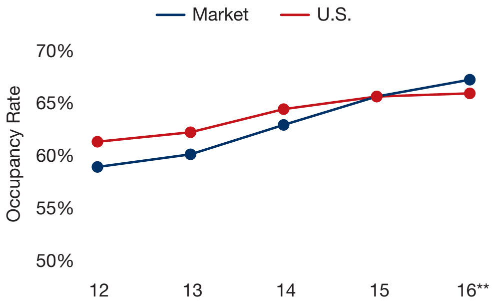




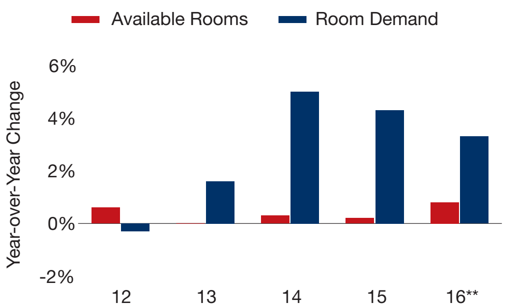


* Estimate
** Forecast
Sources: CoStar Group, Inc.; STR Inc.; Real Capital Analytics

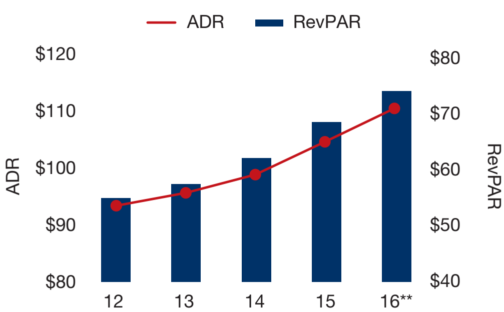
Annual Occupancy



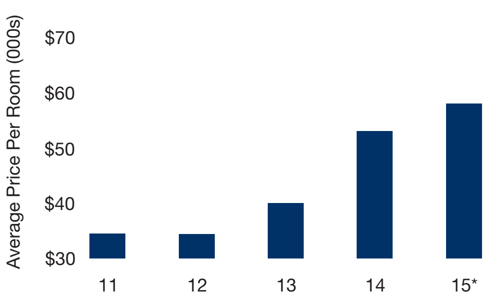
Supply and Demand



Full-Year Revenue Measures



Flagged Hotel Sales



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

Following Big Gains in 2015, Region's Hotels Seeking More in 2016

The Southwest region, encompassing Arizona, Nevada and New Mexico, saw a significant improvement in hotel sector performance during 2015. Last year's gains in key performance measures will be followed by additional improvements in 2016 as leisure and business demand drivers grow more potent and construction pipelines remain manageable. In Nevada, as Las Vegas goes, so goes the remainder of the state. A key for sustaining further gains in hotel performance in the nation's largest market by room count is the continued execution of local officials' strategy of diversifying the visitor experience to include non-gaming activities. Local officials will also seek this year to formulate a plan to upgrade and expand convention facilities to fend off competition for large events from other cities. In Arizona, and Phoenix most notably, hotels routinely benefit from marquee events such as Super Bowls, but further strengthening in demand from recurring sources will support gains in occupancy and revenue metrics this year. Commercial-property sectors in Phoenix are strengthening and will likely generate an increase in inbound business travel.

Hotel performance in New Mexico, meanwhile, lags the other two states in the region. However, wider access to acquisition debt enabled a handful of properties in the state to change hands last year, which contributed to an increase in hotel sales regionwide. Branded economy and midscale brands represented half of all flagged hotel deals in the Southwest. Most of these sales were executed in markets other than Las Vegas and Phoenix, in interstate highway through-points including Flagstaff and Yuma in Arizona; and Albuquerque, N.M. Higher vehicle volume potentially raises the performance prospects of these assets. An increase in independent hotel sales primarily reflects more deals in Nevada, and a greater array of options available for improving the performance of these hotels, including conversions and soft brand initiatives for well-located properties.

2016 Market Forecast

Supply up 0.8% — Supply pressures remain relatively subdued. Following a scant 0.2 percent increase in available rooms regionally last year, room supply will increase 0.8 percent in 2016, trailing the national rate of growth.

Occupancy up 160 basis points — Demand drivers in the region will strengthen during 2016, fueled by rising tourism in Las Vegas. This year, room nights will rise 3.3 percent to support a 160-basis-point jump in annual occupancy to 67.2 percent.

ADR up 5.6% — Rate growth will moderate slightly. In 2016, the ADR will advance 5.6 percent; a gain of 5.8 percent was recorded last year.

RevPAR up 8.1% — RevPAR in the Southwest will increase 8.1 percent in 2015, following up on a double-digit gain one year ago that primarily reflected an outsize jump in Phoenix.

Investment — The recent fortifying of property performance and improved price transparency will encourage additional owners to test the market in the coming months. Activity will be centered in Las Vegas and Phoenix, while areas in New Mexico that draw business from the Permian Basin, an oil drilling region, will warrant closer inspection.

Pockets of Strength Dot Texas Landscape, But State's Hotel Performance Will Waver

Growing service-sector businesses will support a subdued pace of economic growth and a slight increase in room demand in Texas during 2016. However, despite projected net growth in business travel and steady leisure volume, performance disparities will persist between properties reliant on energy-sector demand and those with other demand drivers. As an example, Dallas and Austin outperformed the state last year, registering RevPAR increases of 10.0 percent and 8.3 percent, respectively. Further expansion of local economies will spur increases in hotel performance measures this year. In Houston, 23,000 jobs were added in 2015, but the effect of hiring on inbound travel was insufficient to offset reduced room nights related to energy sector demand. The trend will persist in 2016, intensifying investors' searches for properties in Houston submarkets insulated from oil and gas. Statewide, the construction pipeline is full and completions this year will weigh on occupancy growth. Lenders, though, will likely exercise greater caution, potentially leading to the deferral or cancellation of some projects in initial phases.

Continuing flows of equity and acquisition debt maintain sound conditions for hotel transactions in the state. Deal volume rose modestly in 2015 behind a contribution from flagged hotel sales. Activity will likely remain concentrated in the select-service tier, which accounted for more than half of all branded hotel sales last year, up from 40 percent of all deals in the prior 12 months. Investors also showed a willingness to venture beyond the four largest metros during 2015 but will likely be more selective in choosing secondary markets in the coming year. Hotels with resilient demand drivers in locations that include airports, sports facilities and federal installations will garner closer scrutiny. Flagged hotel sales moderated in Houston during 2015, but solid opportunities will continue to arise. PIPs can be performed with reduced guest disruptions to position the property to take advantage of an eventual upswing in room demand.

2016 Market Forecast

Supply up 3.0% — More than 21,000 rooms are under construction statewide, and roughly half of the total is in Dallas and Houston. Hotels completed this year will expand available rooms 3.0 percent, topping the 2.4 percent expansion in 2015.

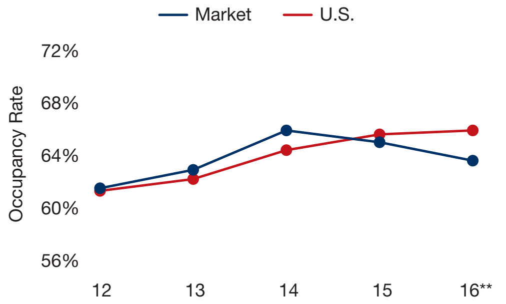
Occupancy down 140 basis points — Room nights will rise nominally, but the increase will not avert a decline in annual statewide occupancy. Following a drop of 90 basis points last year, the occupancy rate will fall 140 basis points in 2016 to 63.6 percent.

ADR up 2.0% — Rising daily rates in Dallas and Austin will contribute to a 2.0 percent gain in annual statewide ADR in 2016. An increase of 2.2 percent occurred last year.

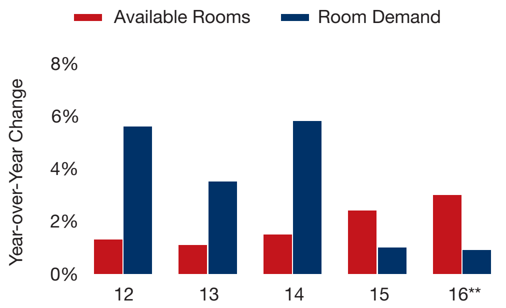
RevPAR down 0.1% — Annual RevPAR will fall nominally this year; increases in Austin, Dallas and San Antonio yielded a modest 0.9 percent statewide gain during 2015.

Investment — Long-time owners of limited service hotels will continue to find an extensive pool of prospective investors. In addition, expanding opportunities are emerging to re-deploy proceeds into other less management-intensive property types.

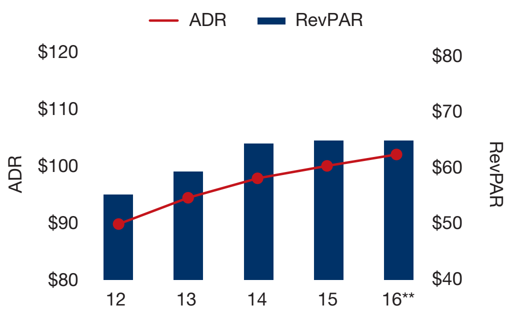
Annual Occupancy



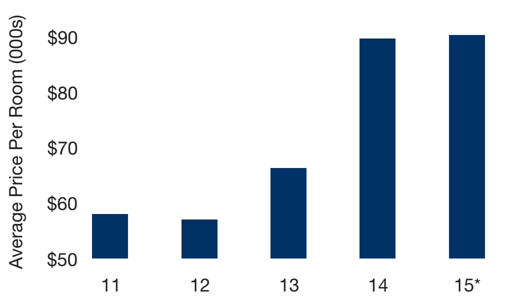
Supply and Demand



Full-Year Revenue Measures



Flagged Hotel Sales



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

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Statistical Summary Note: Employment, hotel performance statistics, and chain scale definitions are year-end figures and are based on the most up-to-date information available as of December 2015. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Multi-state hotel markets are created by weighting the size of the hotel market in each individual state as a portion of the whole. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein.

Sources: Marcus & Millichap Research Services, AH&LA, Bureau of Economic Analysis, CoStar Group Inc., Economy.com, Federal Reserve, PKF Hospitality, Real Capital Analytics, STR Inc., Trepp, U.S. Bureau of Labor Statistics, U.S. Census Bureau, U.S. Department of Health and Human Services, U.S. Treasury Department.

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