

# IN BRIEF...

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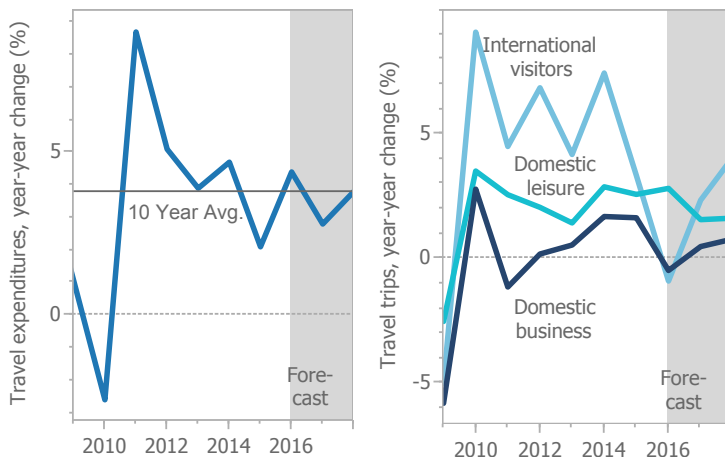
January 15, 2017

## Hotel fundamentals expected to remain strong

• **Travel spending has increased but growth is slowing.** Demand for travel and lodging tends to be highly cyclical; consumers quickly cut back on leisure trips when economic conditions worsen, and businesses reduce discretionary travel when revenues falter. After a massive drop-off during the recession, travel expenditures increased steadily from 2010 to 2015, but the uncertainty surrounding Brexit and the decline in the value of the pound has caused international trips to decrease in 2016 due to the UK being a major overseas inbound market. Also, the uncertainty of domestic economic stability has led to a reduction within domestic business trips.

• **A resurgence in demand, coupled with increasing supply, has led to improvements in hotel fundamentals.** About 192,000 net new hotel rooms (4.9 percent growth) are expected in the next year. Occupation rates have increased beyond the prior historic peak of 1996. Demand growth is decreasing while supply growth is increasing and at the inflection point between the two, the historically high occupation rates are projected to slowly fall.

### U.S. travel expenditures increase but number of trips are projected to slow

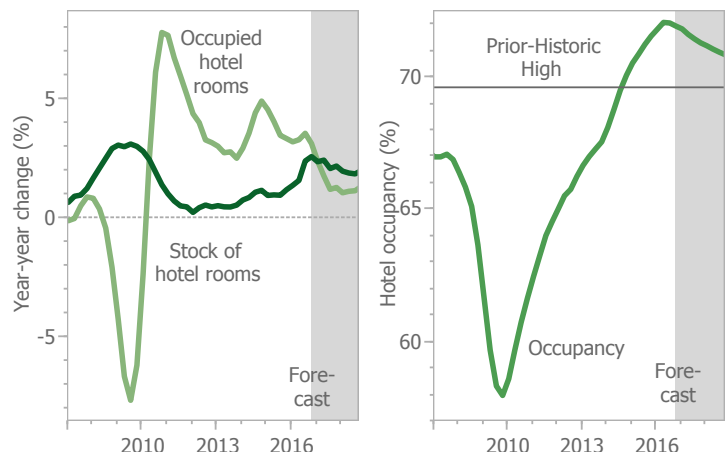


Source: U.S. Travel Association

• **Hotel prices have risen to levels at their prior peak.** In Q3 of 2016 price levels broke the peak of 2007 before the 40 percent fall in the downturn. Hotels in major markets, such as New York, led the increase in prices beginning in 2010. These markets benefit from demand from travelers of all types: domestic, foreign, leisure and business, and they attract many investors. Hotel prices in a few markets have risen significantly, but overall they continue to increase gradually.

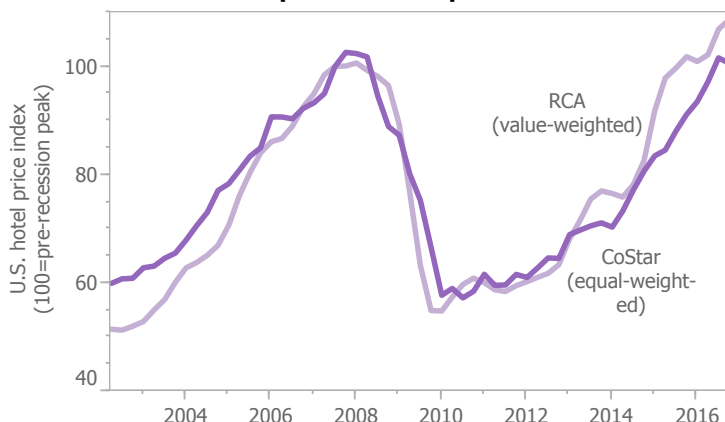
• **Hotel originations have been increasing, but there is a recent stall.** Lenders have gradually increased hotel originations, with levels close to 2005 levels. But securitized lenders have been less aggressive in the market, with 30% less originations in 2016 than 2015. That coupled with the high dependency the hotel industry has on the CMBS market has shown a stall of loan originations. This could create a problem in 2017 with a 24 billion dollar wave of CMBS loans coming to maturity. It will make it difficult to refinance as well as take out new loans.

### Hotel construction increasing gradually; occupancies at all-time high



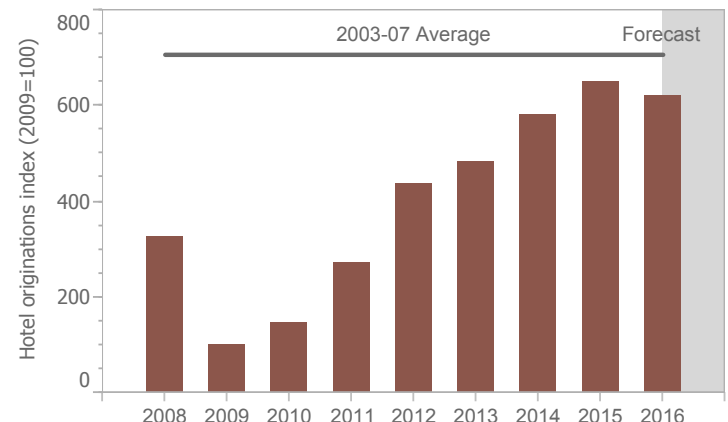
Source: Smith Travel Research; CoStar Portfolio Strategy (4Q:2016 forecast)

### Hotel property prices up from bottom and are at pre-recession peak levels



Source: Real Capital Analytics; CoStar Group (as of 3Q:2016)

### Total originations for hotel loans close to pre-recession levels but at stall



Sources: Mortgage Bankers Association; Economics department calculations  
Note: Annual averages of quarterly data. Q4 for 2016 forecasted.