### The Sixth Annual Boston Lodging Pulse

Surveying the Boston Hotel Investment Landscape











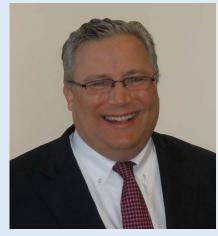


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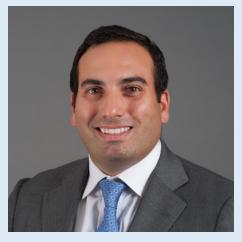
#### Moderator and Panelists



Rachel J. Roginsky
Principal
Pinnacle Advisory Group
(moderator)



Joe O'Loughlin
Vice President Investments
Wells Fargo Advisors



Jordan M. Calaguire
Principal
Walton Street Capital



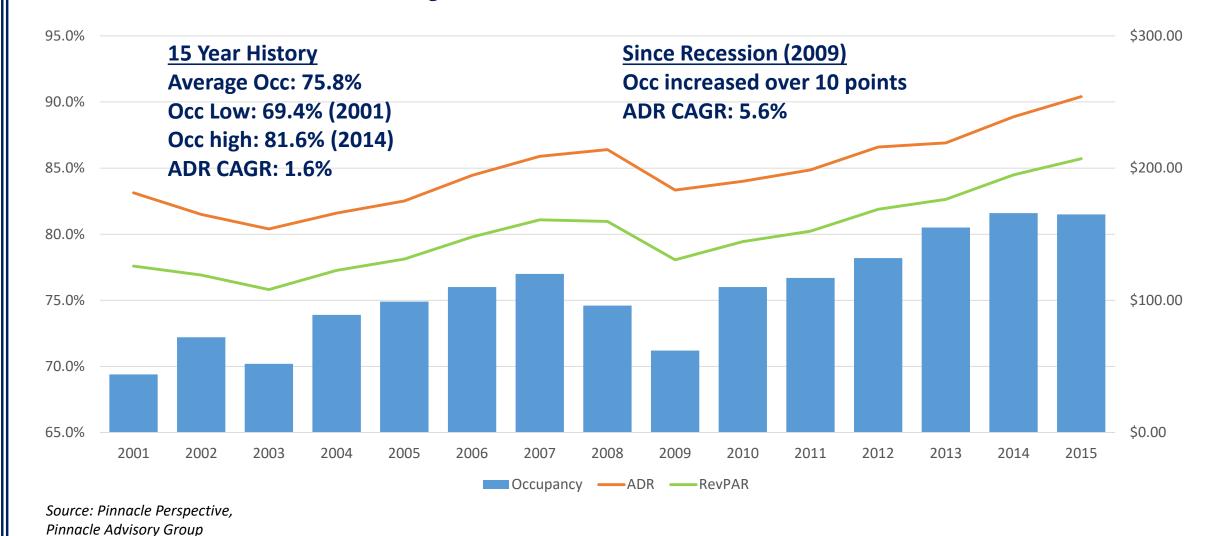
Denny Meikleham Managing Director HFF



Jason Brown
Chief Development Officer
Yotel

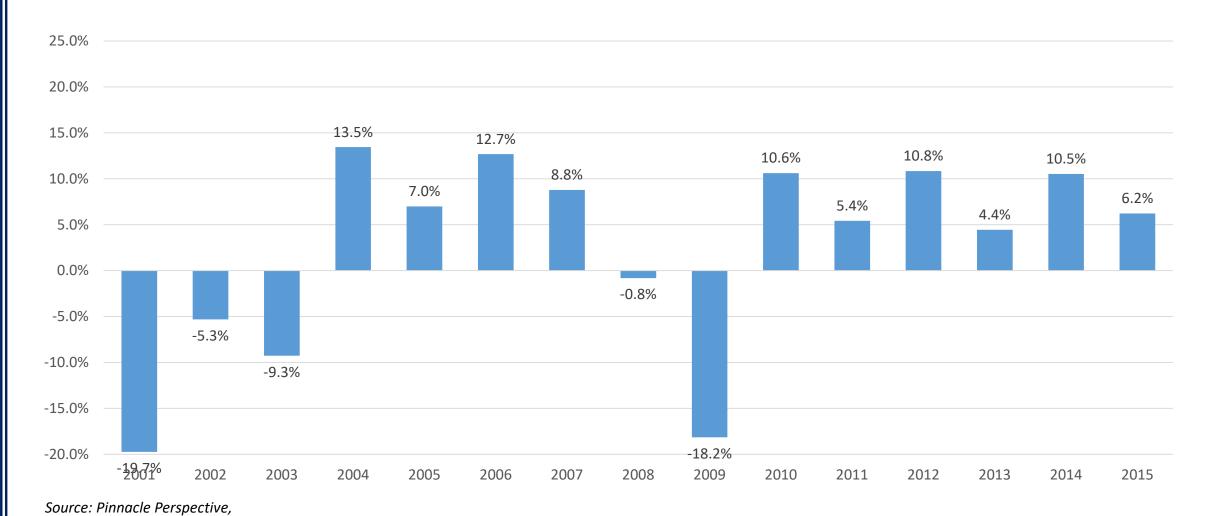
## LODGING MARKET OVERVIEW: BOSTON CAMBRIDGE & BOSTON SUBURBS

## Boston Cambridge Lodging Market 15-Year Historic Performance



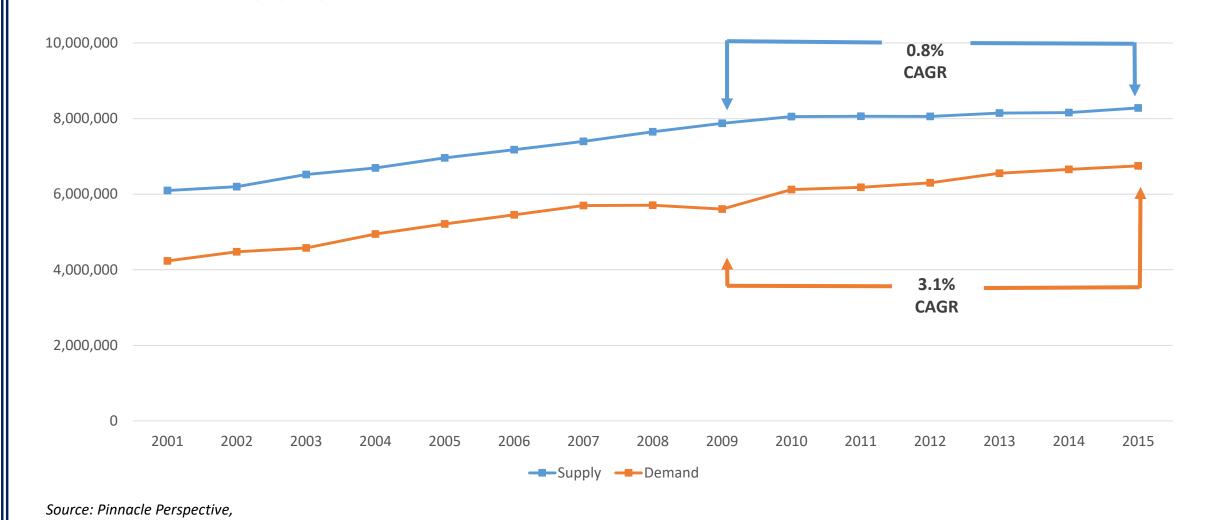
## Boston Cambridge Lodging Market 15-Year RevPAR % Change

Pinnacle Advisory Group



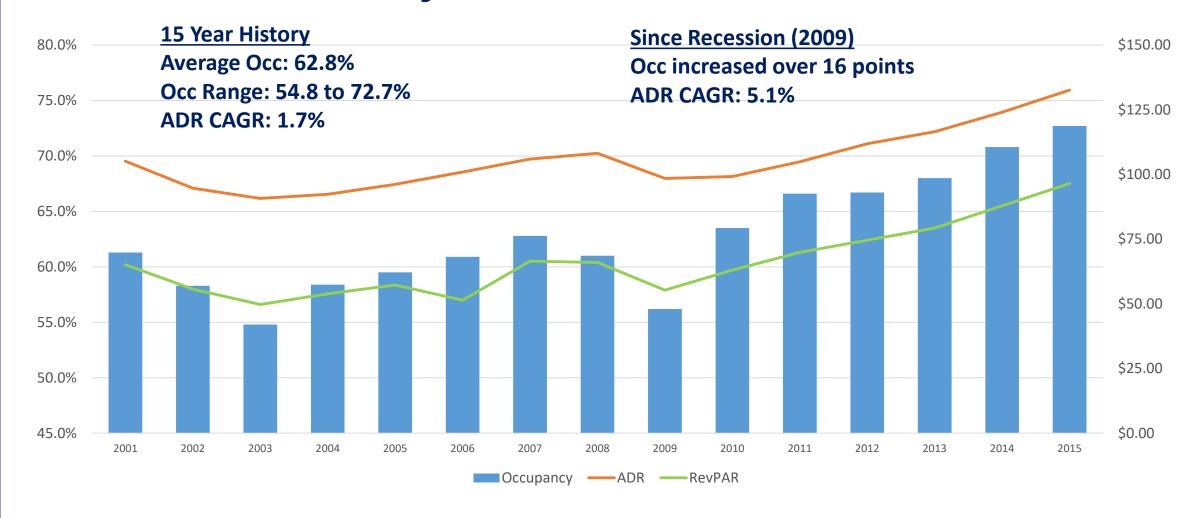
## Boston Cambridge Lodging Market 15-Year Supply & Demand

Pinnacle Advisory Group

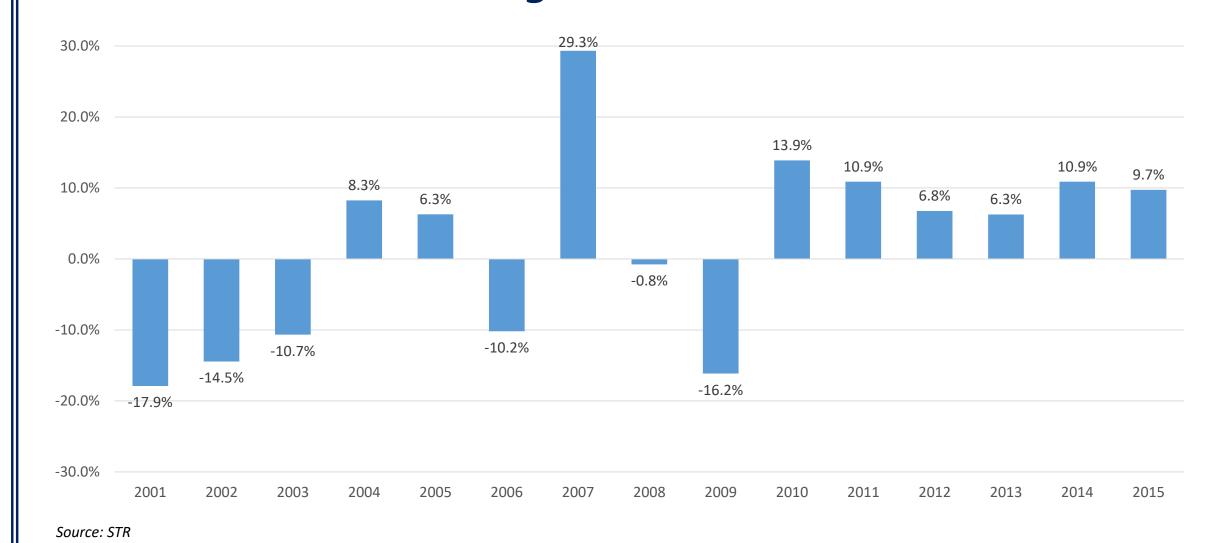


## **Boston Suburban Lodging Market**15-Year Historic Performance

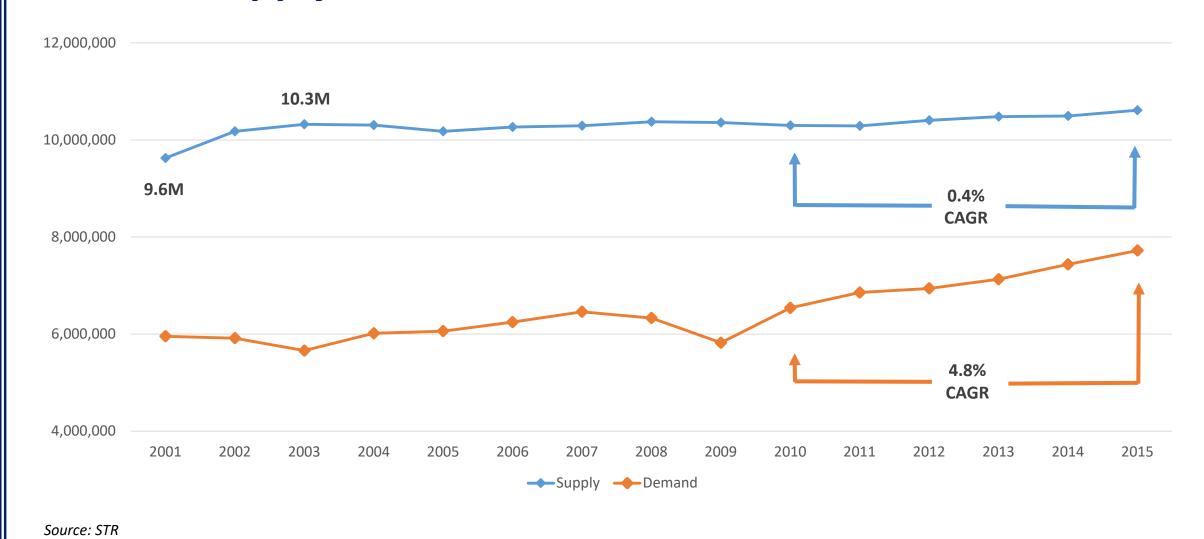
Source: STR



## Boston Suburban Lodging Market 15-Year RevPAR % Change



## Boston Suburban Lodging Market 15-Year Supply & Demand



# **NEW SUPPLY & DEVELOPMENT**

## Boston Cambridge Lodging Market New Supply 2016 & 2017

Hotel
Commonwealth
Expansion
(96 rooms)
Jan 2016



The Godfrey Hotel (224 Rooms) Feb 2016



AC Hotel By Marriott
Cambridge
(150 Rooms)
Oct 2016



Holiday Inn Express South Boston (60 rooms) Q3 2017



element (180 rooms) Jan 2016

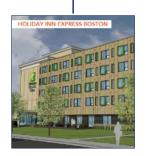
aloft (330 rooms) Feb 2016



The Porter Square Hotel (65 Rooms) Oct 2016



Yotel Seaport (326 rooms) Q2 2017



#### **Increases to Supply (calendar yrs)**

2016: 1,045 New Rooms

2017: 386 New Rooms

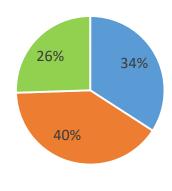
2018 Estimate: ~1,500 New Rooms

Source: Various Sources, Compiled by Pinnacle Advisory Group

## Boston Cambridge Lodging Market Future Rooms Supply

The Boston Planning & Development Agency pipeline includes 26 projects with hotel components, combined for approximately 5,300 rooms. Cambridge Community Development Department accounts for 2 projects, one of which is under construction and the other in permitting, combined for 123 rooms.

#### **Boston & Cambridge Proposed Hotel Rooms by Status**



- Under Construction
- Approved
- Under Review / Letter of Intent



There are 9 projects currently under construction with opening dates between now and 2018, a total of 1,853 rooms.



There are 2,192 hotel rooms approved which are not yet under construction.



Six projects await approval in Boston and Cambridge and represent 1,386 hotel rooms.

Projects as of October 20, 2016. Does not include preliminary or rumored projects.

Source: BP&DA, CCDD, Compiled by Pinnacle Advisory Group

#### Boston Suburban Lodging Market New Supply 2016

• AC Hotel Medford (152-rooms) Mar

• Courtyard Littleton (115) May

• Beauport Hotel (94) Jun

• Hilton Garden Inn Marlborough (160) Jun

• Homewood Suites Brookline (130) Jul

• Hampton Inn Amesbury (92) Aug

• Hampton Inn & Suites Westborough (106) Aug

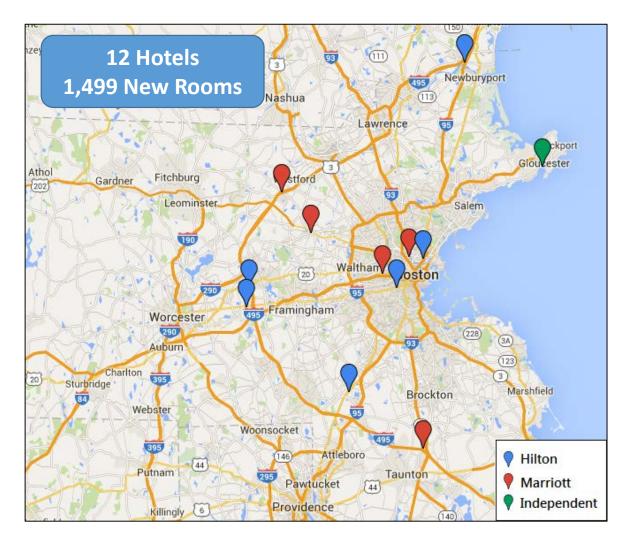
• Residence Inn Concord (118) Sep

• Residence Inn Watertown (148) Sep

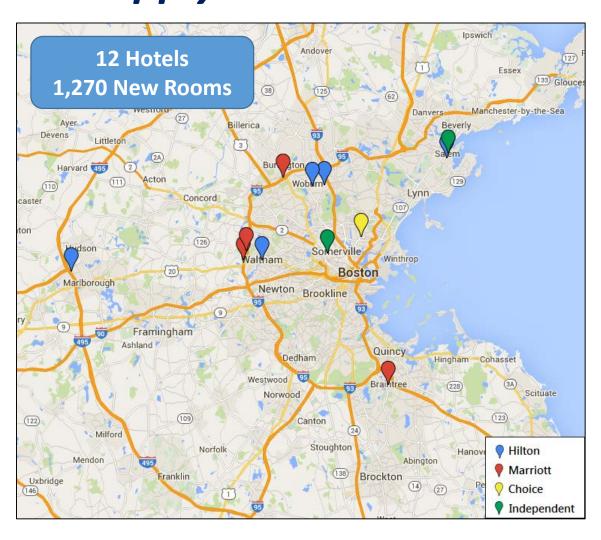
• Residence Inn Bridgewater (96) Sep

Hilton Garden Inn Foxboro (136)

• Homewood Suites Chelsea (152) Dec



#### Boston Suburban Lodging Market New Supply 2017



<ul> <li>Residence Inn Burlington (170-rooms)</li> </ul>	Q2
<ul> <li>Hampton Inn Salem (112)</li> </ul>	Q2
<ul> <li>Ascend Collection Everett (101)</li> </ul>	Q2
• Hotel Salem (44)	Q2
• Residence Inn Braintree (140)	Q3
• Beacon Street Hotel Somerville (35)	Q4
• Residence Inn Waltham (100)	Q4
• Fairfield Inn & Suites Waltham (90)	Q4
<ul> <li>Homewood Suites Berlin (105)</li> </ul>	Q4
<ul> <li>Hampton Inn Waltham (138)</li> </ul>	Q4
<ul> <li>Homewood Suites Woburn (125)</li> </ul>	Q4
<ul> <li>Hampton Inn Woburn (110)</li> </ul>	Q4



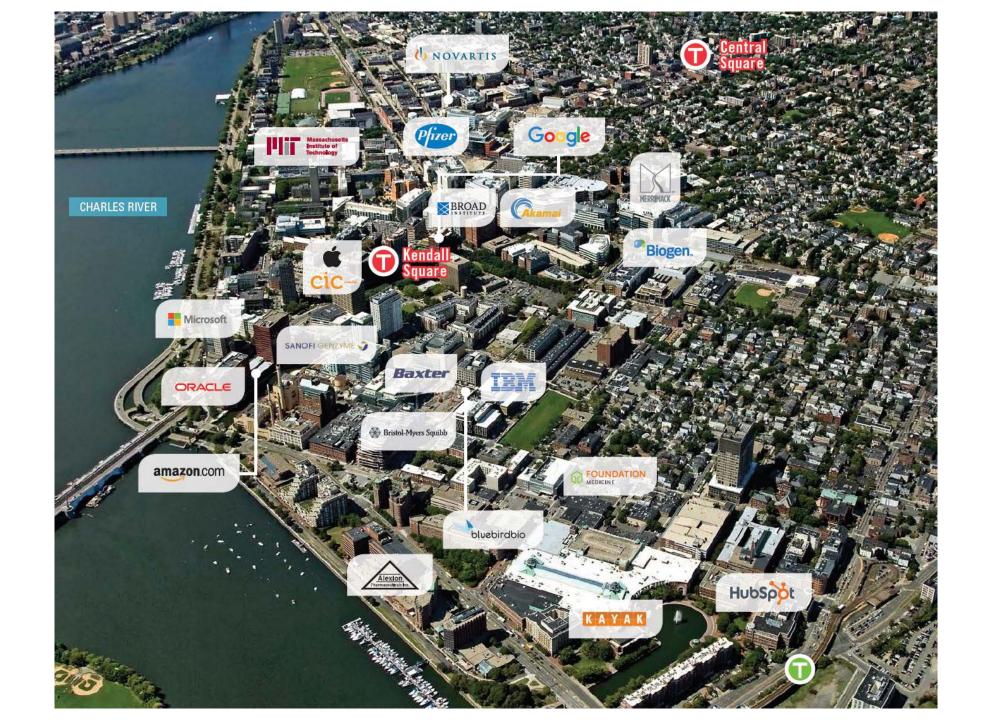
#### **Employment & Economic Environment**

Boston MSA - Unemployment						
August 2015 August 2016						
4.3% 3.5%						

Boston MSA - Employment					
August 2015 August 2016					
2,527,540	2,601,630				

Source: Bureau of Labor Statistics

- Employment is expanding at a faster pace than the country.
- Unemployment in Greater Boston (MSA) was 3.5% in August 2016, its lowest point since 2001.U.S. employment is currently 4.9%.
- Job growth has been broad based across industries. Finance employment has fully recovered to prerecession levels, while high tech jobs will continue to fuel growth in professional and business services. Knowledge intensive job growth is expected to continue to boost our economy driven by Boston's innovation ecosystem.
- The Greater Boston area is a top U.S. life science cluster given its mix of top-notch universities, research hospitals, innovation centers, venture capital funds and a strong labor force. Comprised of 13.1 million square feet, the region houses the second largest concentration of life science space in the U.S. The life science industry includes pharmaceuticals, biotechnology and medical technology.







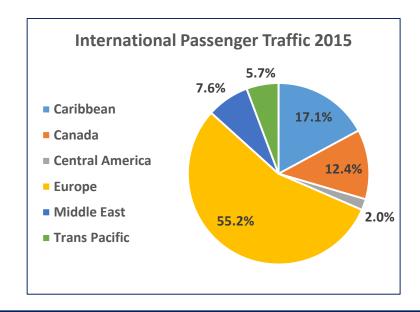
#### **Boston Logan International Airport**

	Total Passengers	Domestic Passengers	International Passengers
YE 2015	33.5 M	27.8 M	5.5 M
YTD Sept 2015	25.2 M	22.2 M	4.2 M
YTD Sept 2016	27.3 M	20.9 M	5.0 M
% Change	8.5%	6.3%	19.5%

Source: Massachusetts Port Authority

- Europe accounted for approx. 3 million passengers in 2015, over 55% of Logan's international traffic.
- YTD, all six international destinations have seen varying degrees of increases of traffic. Largest increases experienced within these three:
  - Central America traffic has increased 129% (approx. 40,000)
  - Middle East has increased 70% (approx. 105,000)
  - Trans Pacific has increased 67% (approx. 63,000)

- Logan served a record high, 33.5 million passengers in 2015, a 5.7% increase to prior year.
- For the third straight year, growth was driven by international destinations in 2015, which grew 10.9%.
- YTD Through Sept, traffic through Logan has increased almost nine percent. International has grown over 19%.



#### **Boston Office Market, Q3 2016**

Inventory	YTD Absorption (SF)	Vacancy	Vacancy
(SF)		Yr End 2015	Q3 2016
64.4 M	(650,900)	8.9%	11.1%

Source: Colliers International

- In 2015, Boston had 2.1M square feet of positive absorption, 1.3M of which was in the Financial District. Its fifth year of over one million SF. From 20011 to 2015, the city's absorption was approx. 7.4M square feet. Absorption has been *negative* for past 3 quarters.
- The slowdown is due to tenants shuffling space, and migrating/consolidating to the Seaport or inner/outer suburbs (i.e. Partners move to Somerville).
- GE announced its decision to relocate its world headquarters from Fairfield, CT (and 800 jobs), to a site in the Seaport District by 2018. The Seaport has recently welcomed other major tenants including: PWC, Goodwin, and soon Boston Consulting Group. GE's relocation to Boston has the potential to create industry clustering and long term growth for the market.
- Property markets are showing signs of topping out.
- Tenants from outside the market are looking to Boston for space, which could quickly turn absorption around.

#### Cambridge Office Market, Q3 2016

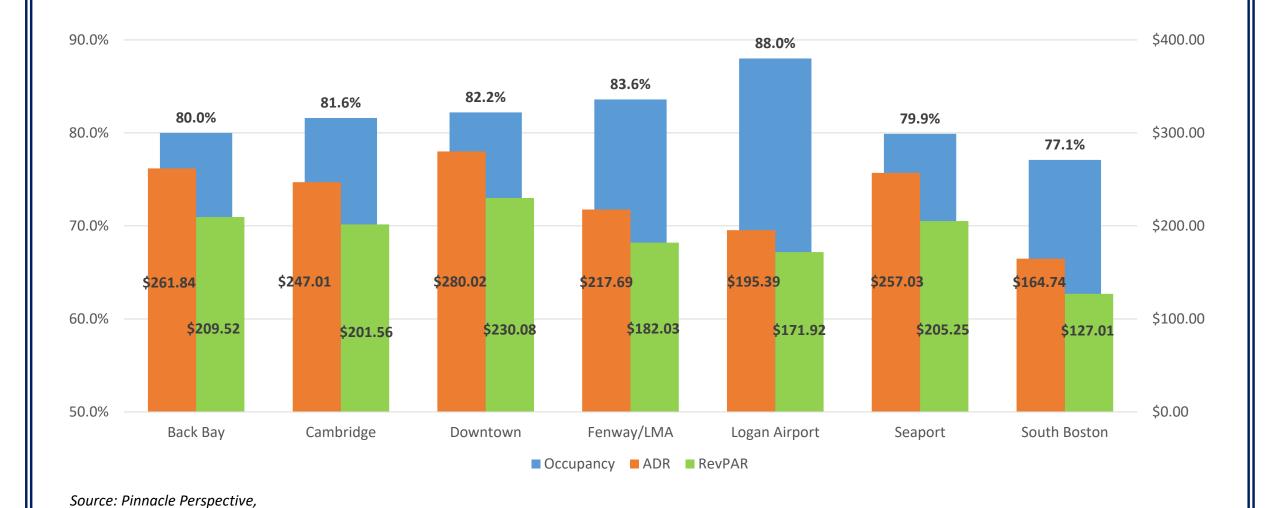
Inventory (SF)	YTD Absorption (SF)	Vacancy Q3 2016 Office	Vacancy Q3 2016 Lab	% Lab Space
22.4 M	435,000	4.2%	2.9%	48%

- One of the tightest market in US, continually rising rents and virtually no availability. While there is a considerable amount of new construction, the vast majority is preleased and will not increase vacancies.
- Everything from large tech companies to smaller startups have pushed vacancies to near zero in East Cambridge and Kendall Square. Demand for office space will continue as more inventory is converted to lab to accommodate growing biotech tenants.
- With the surrounding Cambridge and inner suburban lab and research markets extremely supply constrained, demand for urban innovation hubs remains extremely strong. Tenants are now forced to consider suburban markets along 128 and even 495.
- Existing tenants are expanding, migration of out-of-market tenants continues, and there has been considerable growth in life science the last few year for which Cambridge is considered a hub.
- There is approx. 1.2 million SF of construction planned to be delivered by the end of 2016 and Cambridge has become the world's first city with at least 10 million square feet of lab space.

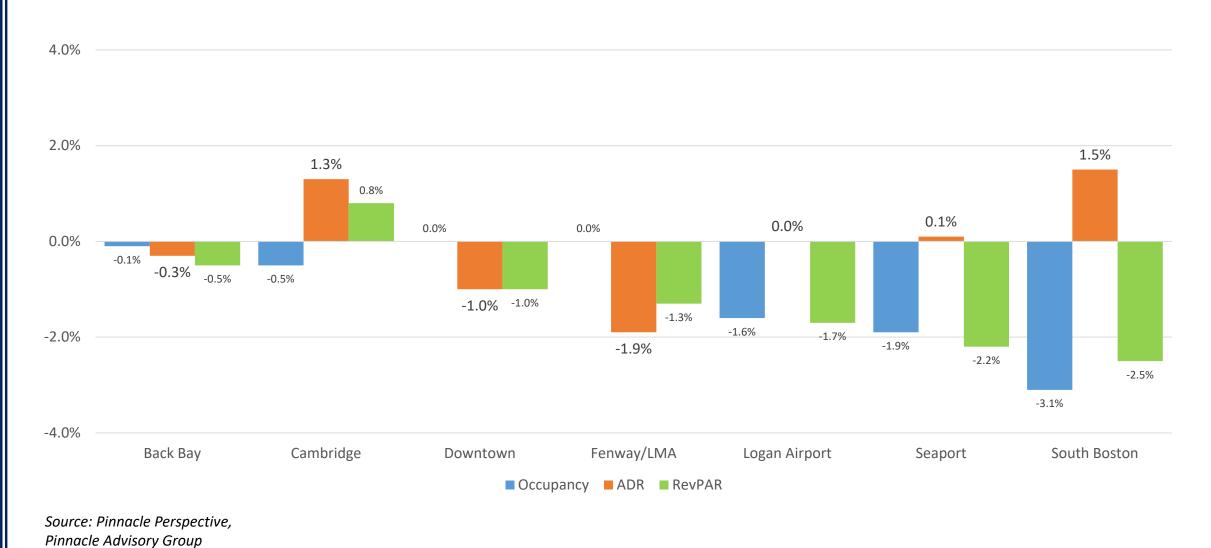
# **EMERGING NEIGHBORHOODS**

#### **2015** Performance by Submarket

Pinnacle Advisory Group



#### YTD August 2016 Performance by Submarket



## BOSTON MSA TRANSACTIONS & INVESTMENT FUNDAMENTALS

#### BOSTON, MA HOTEL MARKET TRANSACTIONS – YTD 2016:

URBAN HOTELS TRADING AT RECORD PER KEY PRICES AND CAP RATES...SUBURBAN HOTELS OFFER MUCH HIGHER YIELDS

#### **CAP RATES**

• Urban: 5.4% Average

• Suburban: 8.5% Average

#### PRICE PER KEY

- Mandarin Oriental sold for \$945,946 per key, a record for Boston
- The Envoy Hotel sold for \$827,206 per key, not too far behind

#### INVESTMENT CONSIDERATIONS

- Union vs. Non-union
- New Supply
- Replacement Costs

**URBAN HOTEL TRANSACTIONS:** 

						All-in
Date	Property Name	City	Keys	Price	Price / Key	Cap Rate
9/6/2016	Nine Zero Hotel	Boston	190	\$102,000,000	\$536,842	5.0%
8/11/2016	Milner Hotel Boston Common Hotel	Boston	70	\$17,900,000	\$255,714	-
8/2/2016	Holiday Inn Boston-Brookline	Brookline	226	\$74,000,000	\$327,434	7.3%
7/21/2016	The Envoy Hotel	Boston	136	\$112,500,000	\$827,206	3.6%
5/15/2016	Taj Boston	Boston	273	\$125,000,000	\$457,875	-
4/28/2016	Mandarin Oriental Hotel & Condos	Boston	148	\$140,000,000	\$945,946	2.2%
4/19/2016	Hampton Inn Logan Airport	Revere	227	\$47,500,000	\$209,251	7.7%
2/11/2016	Club Quarters Hotel	Boston	178	\$75,420,000	\$423,708	-
2/9/2016	Best Western Plus Hotel Tria	Cambridge	121	\$40,450,000	\$334,298	6.8%
1/19/2016	Hotel Commonwealth	Boston	245	\$136,000,000	\$555,102	-
Total			1814	\$870,770,000	\$480,028	5.4%

#### **SUBURBAN HOTEL TRANSACTIONS:**

							All-in	
	Date	Property Name	City	Keys	Price	Price / Key	Cap Rate	
-	9/13/2016	Hawthron Suites Franklin / Milford Area	Franklin	100	\$8,900,000	\$89,000	9.2%	
	9/1/2016	Best Western Plus Chelmsford Inn	Chelmsford	115	\$8,800,000	\$76,522	-	
	8/17/2016	Courtyard Boston Westborough	Westborough	98	\$12,750,000	\$130,102	8.4%	
	7/1/2016	SeaCrest Beach Hotel	North Falmouth	263	\$53,500,000	\$203,422	7.3%	
	6/1/2016	Fairfield Inn Boston Dedham	Dedham	150	\$12,500,000	\$83,333	-	
	4/30/2016	Fairfield Inn Plymouth Middleboro	Middleboro	102	\$5,000,000	\$49,020	7.8%	
	4/8/2016	Best Western Plus	Concord	105	\$8,050,000	\$76,667	10.1%	
	3/22/2016	Aloft and Element Hotels	Lexington	259	\$54,000,000	\$208,494	7.3%	
_	3/22/2016	Four Points by Sheraton	Revere	180	\$23,450,000	\$130,278	9.2%	_
-	Total			1372	\$186,950,000	\$136,261	8.5%	

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Source: Real Capital Analytics, HFF Analysis

## THE FUTURE OF BOSTON'S LODGING MARKET

#### **Suburban Boston Projections 2016 and 2017**

	2015	2016	% Change	2017	% Change
Occupancy	72.7%	70.5%	-3.0%	70%	-0.7%
ADR	\$132.59	\$137.89	4.0%	\$142.72	3.5%
RevPAR	\$96.46	\$97.21	0.8%	\$99.90	2.8%

Source: Pinnacle Advisory Group

#### **Boston & Cambridge Projections 2016 and 2017**

	2015	2016	% Change	2017	% Change
Occupancy	81.5%	81%	-0.6%	80%	-1.2%
ADR	\$254.06	\$256.60	1.0%	\$266.86	4.0%
RevPAR	\$207.06	\$207.85	0.4%	\$213.49	2.7%

Source: Pinnacle Advisory Group

#### **National Projections**

	2016			2017			
	CBRE	PwC	STR	CBRE	PwC	STR	
Supply	1.6%	1.7%	1.6%	2.0%	1.9%	2.0%	
Demand	1.7%	1.4%	1.6%	1.8%	1.5%	1.6%	
Occupancy %	0.1%	-0.3%	0.0%	-0.1%	-0.4%	-0.3%	
Average Rate	3.5%	3.4%	3.2%	4.1%	3.3%	3.1%	
RevPAR	3.6%	3.1%	3.2%	3.9%	2.9%	2.8%	
Updated	Sep 2016	Aug 2016	Aug 2016	Sep 2016	Aug 2016	Aug 2016	

Source: CBRE, PwC, STR



#### Cornell Hotel Society New England Chapter &



#### Boston University School of Hotel Administration

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