



Horwath HTL™

Hotel, Tourism and Leisure **Celebrated 100 years in 2015**

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Is NYC coming back sooner than we think?

Clearly NYC has been in the news all year, “decelerating Revpar”, “adverse supply growth”, and of course the ever growing buzz of Airbnb. The city that never sleeps may absorb the new supply and have a rebound sooner than we think, or will the demand slow and supply increase even more? Will the demand continue to grow? The Horwath HTL NYC 2016 mid year market update may surprise you.

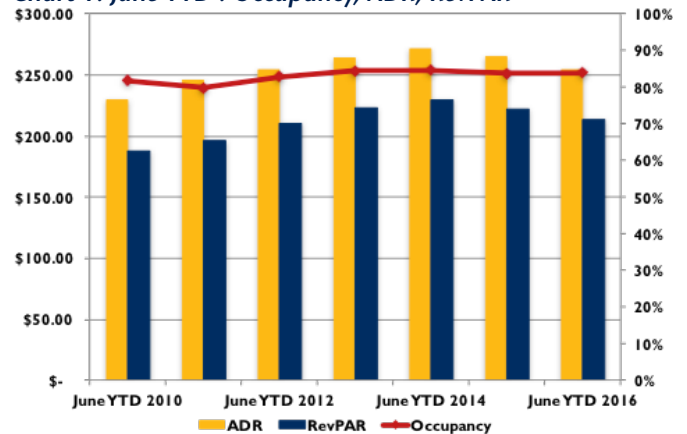
Hospitality Market Overview

- Strong supply growth continued during the first half of 2016, outpacing demand growth, which contributed to the decline in RevPAR.
- New developments focus on independent and upscale sectors, which have already reached over half of the market share.
- The average price per unit in Manhattan market decreased and the average cap rate was 5.43% at the end of Q2 2016.
- Cross-border investments are major forces in Manhattan hotel market, representing 72% of the capital flows.
- By the end of 2016, the drop rate of occupancy is expected to slow down, driving up the ADR and RevPAR.

Hotel Performance Index

The key performance indexes, including Occupancy, ADR, and RevPAR, show rapid growth from 2010 to 2014, and a declining trend for the past two years based on the June YTD 2016 data. Occupancy decreased to 83.7% in 2015 and remained flat in 2016, and ADR dropped to \$254.72, which resulted in a decline in RevPAR of \$213.60 by the end of Q2 2016.

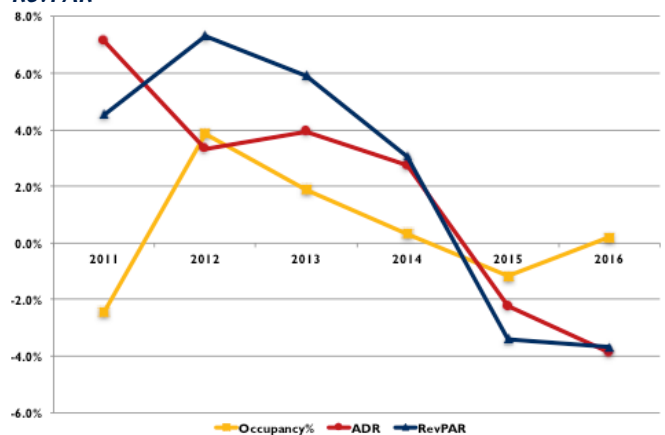
Chart 1: June YTD : Occupancy, ADR, RevPAR



Source: Smith Travel Research

Although the key performance indexes grew from 2010 to 2014, according to Chart 2, the growth rates of Occupancy and ADR have been slowing down since 2012, which resulted in a declining trend of RevPAR for the past two years.

Chart 2: June YTD: % Change of occupancy %, ADR and RevPAR

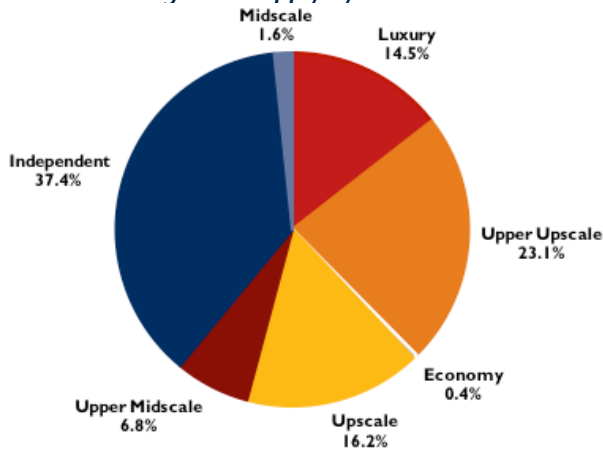


Source: Smith Travel Research

Supply, Demand and Pipeline

According to Smith Travel Research, as of the end of Q2 2016, there are 410 hotels in Manhattan, totaling 93,616 rooms. Economy and midscale hotels have the smallest presence in Manhattan market. The supply of independent and upper upscale hotels has been the main players, representing 60.5% of the market, followed by upscale and luxury brands.

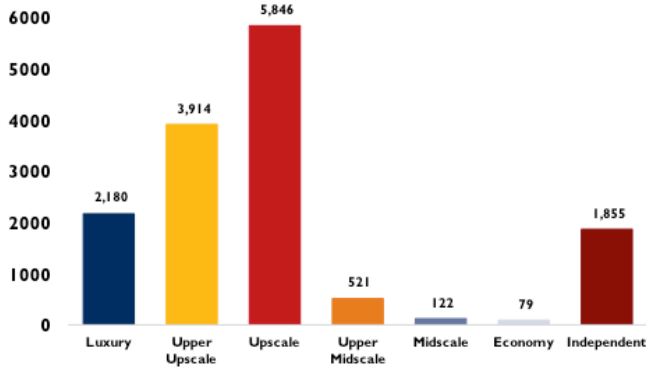
Chart 3: Existing room supply by hotel chain scales



Source: Smith Travel Research

Compared to five years ago, Manhattan gained a great number of rooms in all chain scales. The significant increase in rooms supply lies in the upscale and upper upscale properties.

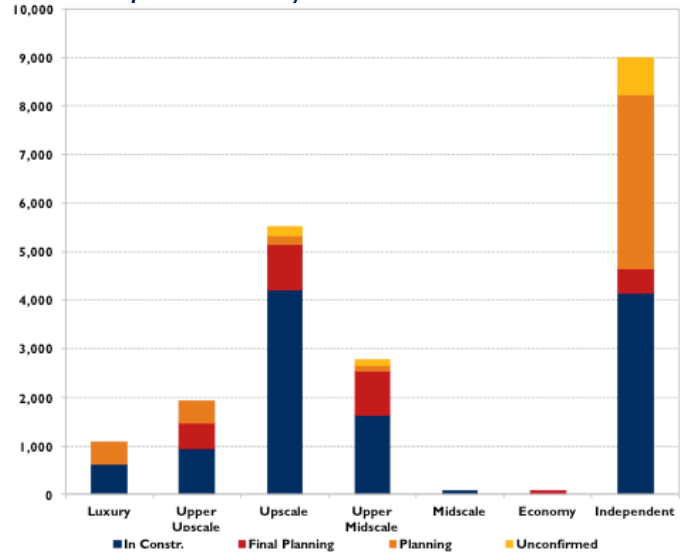
Chart 4: 60-month supply change by room number



Source: Smith Travel Research

As of June 2016, there are 91 hotels and 19,402 rooms that are either under construction or in the planning phase. Most developments lie in the independent, upscale and upper upscale sectors. Among them, independent hotels take a large part of planning properties, which indicates its dominant presence in future Manhattan market.

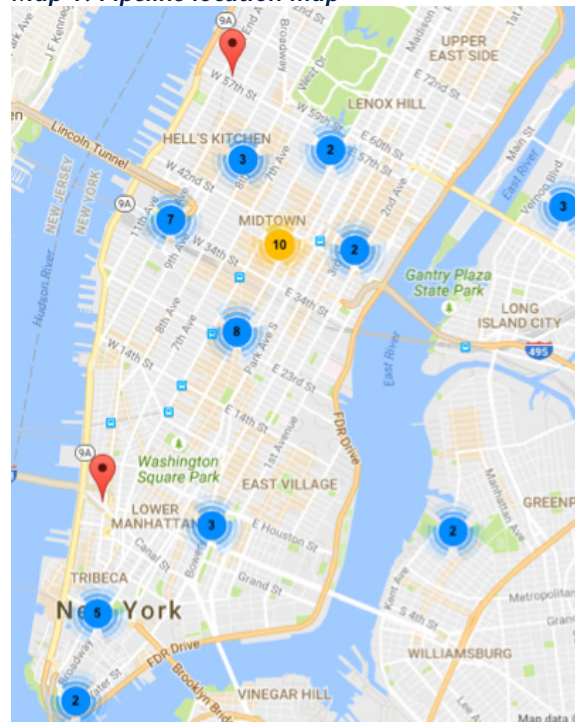
Chart 5: Pipeline hotels by room number



Source: Smith Travel Research

Most of the new developments are located near Midtown and Lower Manhattan area. Among the hotel projects under pipeline, 15% of properties are conversions and 10% of properties are refurbishments.

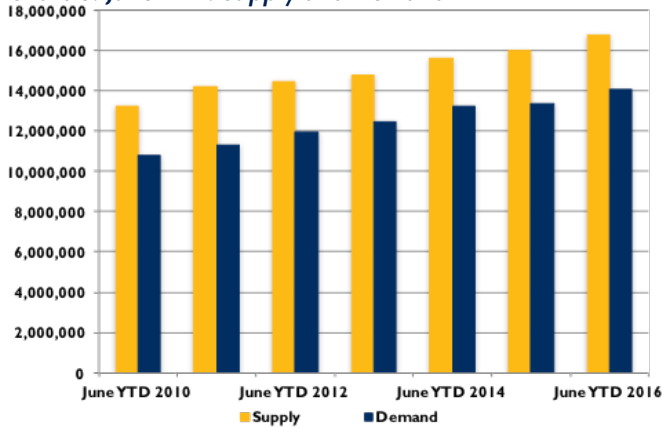
Map 1: Pipeline location map



Source: Top Hotel Projects

Overall, supply and demand have been growing for the past six years. However, while the growth of supply has been booming in recent years, the demand growth has been slowing down year by year.

Chart 6: June YTD: Supply and Demand



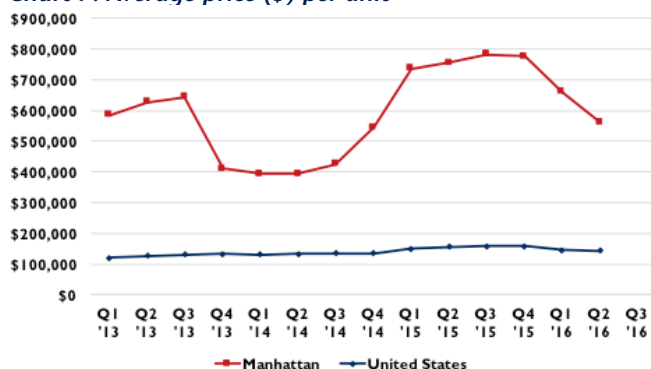
Source: Smith Travel Research

Hotel Transaction Market

Average Price Per Unit

The average price per unit (PPU) for hotel transactions has been flat during the past four years in the United States. The average PPU in Manhattan has been much higher than the national average for the past four years. Since the first quarter of 2016, there has been a decreasing trend in the average PPU in Manhattan and the United States, with the drop rate being higher in Manhattan compared to the national average. This trend indicates a cooling down of buyers' activities after all the big transactions made by foreign groups, which boosted the selling price in 2015.

Chart 7: Average price (\$) per unit



Source: Real Capital Analytics

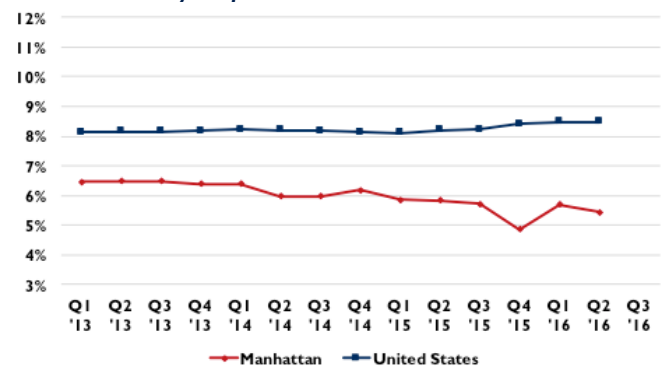
Cap Rate

In the last 12 months, there were 35 hotel transactions at an average cap rate of 5.43% in Manhattan, while nationwide has 1,760 transactions at an average cap rate of 8.47%.

According to the chart below, the national average cap rate has been increasing in recent years, while the cap rate in Manhattan has been slightly decreasing year by year, with a drop in Q4 2015 potentially due to some big foreign transactions in Manhattan.

In general, the cap rate in Manhattan is lower than the national average, which indicates that the sales price in Manhattan transaction market has been exceeding the national average price for the past four years.

Chart 8: Average cap rate: Manhattan vs. United States



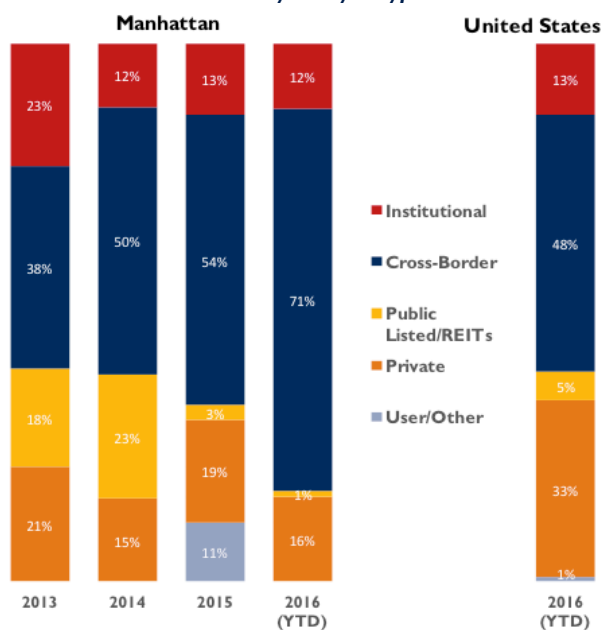
Source: Real Capital Analytics

Investment Activity - Buyer Types

The major capital flow in Manhattan hotel market for the past four years has been coming from cross-border groups, institutional groups, public listed groups or REITs, and private groups.

Referencing the chart below, there has been an increasing trend of foreign investment in Manhattan; conversely the investment interests of REITs and public listed companies have been declining; lastly the institutional and private investment activities have remained steady.

Chart 9: Investment activity - Buyer types



Source: Real Capital Analytics

Top Buyers in the Market

In the past two years, the top five buyers in the Manhattan hotel market were the Anbang Insurance Group, Lotte Group, ADIA, Blackstone, and Maefield Development.

These investment activities indicate a trend of cross-border capital flows as Anbang Insurance Group is an institutional group in China, Lotte Group is a corporate group in South Korea, and ADIA is an institutional group in United Arab Emirates.

Top Sellers in the Market

In the past two years, the top five sellers in the Manhattan market were Hilton Worldwide, Blackstone, Northwood Investors, Highgate Holdings, and Goldman Sachs.

Among the list of transactions, top 20 sellers are US based companies, which shows an opposite trend regarding to capital inflows.

Top Transactions in the Market

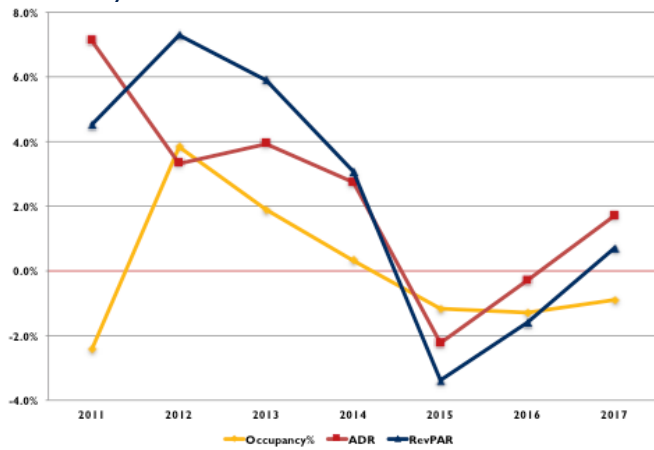
In the last 12 months, there were 35 hotels sold in Manhattan area, totaling \$533 billion in transactions, at the average price of \$562,578 per unit.

Table 2: Top five transactions based on price

| Property | Transaction Date | Price in mill. \$ | Rooms (units) | Buyer | Seller |
|--|------------------------|-------------------|---------------|------------------------|---------------------|
| Lotte New York Palace | August, 2015 | 805.0 | 899 | Lotte Group | Northwood Investors |
| JW Marriott Essex House | March, 2016 (contract) | 783.8 | 518 | Anbang Insurance Group | Blackstone |
| Doubletree Guest Suites Times Square Hotel | December, 2015 | 540.0 | 468 | Maefield Development | Sunstone Hotel |
| Manhattan at Times Square | February, 2015 | 535.0 | 698 | Al Faisal Holding | Rockpoint Group |
| London NYC | November, 2015 | 382.0 | 564 | ADIA | Blackstone |

Source: Real Capital Analytics

Chart 10: Occupancy, ADR and RevPAR forecast - % change from last year



Source: Smith Travel Research

Forecast

By the end of 2016, the declining trend in Occupancy, ADR and RevPAR for the past three years is expected to slow down. ADR is predicted to come back in 2017 with growth rate of 1.7%, along with the relatively small change in occupancy drop rate, RevPAR can be driven up by 0.7% compared to 2016.

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Paul Breslin, Managing Director of the Atlanta office of Horwath HTL, is a 35-year veteran of the hospitality industry. His background within the industry is all encompassing, with extensive experience in hotel operations, development and asset management with major branded hotels as well as independent and smaller luxury hotels. From asset management and operational support, planning and development services, sales, marketing and revenue management, transactional advice and financial restructuring, Mr. Breslin has provided consulting services to a global client base.

Mr. Breslin is a member of the prestigious International Society of Hospitality Consultants and the Hotel Asset Managers Association. He is a Certified Hotel Administrator by the Educational Institute of the American Hotel and Lodging Association. He is a founding member and immediate past president of the Atlanta Hospitality Alliance, and currently serves on the Board of the Atlanta Hospitality Alliance and the Governmental Affairs Committee of the Georgia Hotel and Lodging Association.

*Mr. Breslin is a Certified Hospitality Educator (CHE) and a well-respected teacher and leader within the industry. He is the Executive-in-Residence in Lodging in the J. Mack Robinson College of Business, Cecil B. Day School of Hospitality at Georgia State University. Through Sabanci University in Turkey, he has trained senior level executives at the Rixos Hotel Leadership Training Program. Mr. Breslin is a frequent lecturer at national conventions and hospitality industry conferences throughout the United States. Mr. Breslin has also been quoted on hospitality issues in publications such as *The Wall Street Journal*, *USA Today*, *Atlanta Business Chronicle*, *Atlanta Journal-Constitution* and *The Miami Herald*.*

In addition to his work as a consultant and educator, Mr. Breslin provides hotel expert witness services to attorneys specializing in hospitality law. His caseload as an expert witness includes work with both plaintiffs and defendants.



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Julia Zhang is currently pursuing her bachelor's degree in Hotel and Restaurant Management at Cornell University, School of Hotel Administration, with a minor in Real Estate. She joined the Horwath HTL Internship Program in June 2016. Julia has extensive work experience in hotel operations and knowledge of hotel development, market research & analysis. Originally from China, Julia is proficient in both Mandarin Chinese and English. She started her career in hospitality as a front desk agent at The Peninsula Spring International Hotel in Jiangsu, China. After that, she worked in the Rooms Department at the Statler Hotel, which is known for its partnership with the Cornell Hotel School and its student leadership program. She gained further experience in the F&B Department of the Statler Hotel's, Taverna Banfi. Julia has developed her career in HR and Finance with work experience in restaurants and the food distribution industry. She assisted in managing a restaurant startup with three restaurants in New York City, including managing POS system, bookkeeping, budgeting, contacting vendors, scheduling employee hours, and launching two projects with the marketing team. She has also worked as a Finance Intern in the food distribution industry. Julia is Revinate certified, ServSafe Manager certified, and TIPS certified. In her Restaurant Management class at Cornell, as a kitchen manager, she broke the sales record of the student-run restaurant opened to the public during her management night. In addition, Julia is the Vice President of Cornell China Club, a member of Cornell Real Estate Club and a main dancer at Amber Dance Troupe.

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