5 QUESTIONS WITH ...

MIKE CAHILL

HREC
CEO AND FOUNDER

1 As 2017 winds down, what was the biggest story of the year as it related to hotel real estate?
The biggest story was indirect yet significant; namely, Donald Trump elected president of the United States and the ripple effects of a tumultuous 2016. As the old hotel school adage states, "so goes the economy, so goes the lodging industry." Hotel investors were pensive in late 2016 and not sure how the election of either Clinton or Trump would impact the U.S. economy from 2017 to 2021. Uncertainty is not good for investment.

2 What do you think will be the big trend or story as it relates to hotel real estate in 2018?
The biggest story will be if the Trump pro-business economic environment will be able to produce a calendar year 2018 with annual GDP growth over 3 percent. If so, the national average demand for hotel rooms will be able to absorb the macro new supply and hotel investment will continue to gradually improve. A "rising tide lifting all boats" will benefit all lodging industry participants.

3 What should hotel owners be most focused on in 2018?
Hotel owners should be focused on implementing strategic capital expenditures that will enable them to, at minimum, maintain market share and, at best, improve their competitive posture. For select-service assets, successful hotel investment often is a new product game. With all the newly built hotels coming to market, failure to spend in 2018 may lead to poor top-line revenue performance in 2019 and 2020.

4 Who will be the biggest buyers in 2018: REITs, private equity, other? Why and what segments will be their biggest focus?
I believe hotel buyers in 2018 will remain diversified, which is healthy. That said, anticipate increased activity from public and private REITs, decreased interest from China and possibly growth from Japan. Owner/operators with their closely associated equity buckets will remain highly active and family office investment will grow as they continue to chase highly attractive lodging cash-on-cash dividends relative to other traditional investment vehicles.

5 What is your best advice for hotel owners and management companies working together to best maximize an asset's ROI?
Hotel owners and management companies need to focus together, as a team, on keeping expenses tight in the face of increasing labor costs and other areas, such as property taxes. For some assets, if you are only able to garner 2-percent RevPAR growth due to new supply, expense creep of 3 percent to 4 percent could blindside your bottom line in 2019. Lower cash flow equals lower ROI.

> **"The biggest story will be if the Trump pro-business economic environment will be able to produce a calendar year 2018 with annual GDP growth over 3 percent."**

YOUR 2018 OUTLOOK: A CAUTIOUSLY ACTIVE YET LIQUID INVESTMENT MARKET.

5 QUESTIONS WITH ...

THOMAS MAGNUSON

MAGNUSON WORLDWIDE
CO-FOUNDER AND CEO

1 The hospitality industry has reached the proverbial peak. How do you think this will play out in 2018?
Across the world, hoteliers need to move beyond past perceptions of typical "economic trends" and accept a permanent state of slowing growth, increasing brand supply and new competitors like Airbnb. But opportunities come from chaos, and as consumers are seeking alternatives to standardized product, smart operators will differentiate their hotels via newer marketing platforms that allow them to quickly globalize from a local market base.

2 What steps are hoteliers taking now to drive revenue and maximize asset ROI, and is it on the top line or bottom line?
Successful hoteliers and management companies focus on net profit—the one true metric—by increasing revenue and reducing costs. In many flat markets, meaningful incremental growth can be achieved by simply going to the streets and asking for local nonleisure business. It's critical now to seek differentiation in your product and experience offering, and to magnify your uniqueness with a strong platform.

3 What do you see as your biggest obstacle in 2018 and what steps are you taking now to overcome it?
In early 2018, Magnuson Worldwide will be introducing a complete new technology and distribution platform in response to increasing consolidation of chains and OTAs. In 2017, our web-based 8,000-hotel global alliance with Louvre Hotels and Jin Jiang already has achieved affiliate conversion rates of 18.1 percent, equal to other tech leaders such as Amazon and Apple iTunes. In 2018, we will see significant continued expansion via virtual consolidation.

4 In discussions with owners, what are their biggest concerns for 2018?
2018's biggest obstacle for hotel owners will be the 10-percent supply increase in supply driven by new brands. 600,000 new rooms are being built in the U.S., at 80 rooms average; that represents 7,500 new hotels. It's good for franchisors who are GRR driven, but not for owners who are net-income driven.

5 As labor and other costs continue to mount, what tactics will you take in 2018 to operate more efficiently?
Our new technology platform will include significant automation components. Hoteliers will be able to reduce labor costs with better forecasting and thus implement true occupancy-based housekeeping scheduling. The new platform will also include automated revenue management, with data powered by market conditions and the strategic decisions of Magnuson Hotels' professional revenue-management team.

> **"2018's biggest obstacle for hotel owners will be the 10-percent increase in supply driven by new brands. 600,000 new rooms are being built in the U.S., at 80 rooms average; that represents 7,500 new hotels."**

YOUR 2018 OUTLOOK: LIFE STARTS WHEN FEAR ENDS.

5 QUESTIONS WITH ...

PETER L. NICHOLS

MARCUS & MILLICHAP

VP/NATIONAL DIRECTOR OF THE NATIONAL HOSPITALITY GROUP

"Focus should remain on efficient operations, evaluation of debt and current financing vs. opportunities to reshuffle the capital stack, and market evaluation. Depending on the results of market evaluation and the proposed changes to the tax code, 2018 could be a very favorable time to sell and redeploy equity into the marketplace."

1 As 2017 winds down, what was the biggest story of the year as it related to hotel real estate?
The closing of the Waldorf Astoria in February, after 86 years, was one of the biggest stories of 2017. This single transaction is an indicator of the changing landscape of hospitality real estate. Maximizing revenue opportunities, brand strength, location and market conditions all playing a significant role in asset-positioning strategies.

2 What do you think will be the big trend or story as it relates to hotel real estate in 2018?
The narrowing gap in some markets between supply and demand. In some cases, new hotel supply is increasing more quickly than demand—how will this affect pricing and interest in those markets?

3 What should hotel owners be most focused on in 2018?
Focus should remain on efficient operations, evaluation of debt and current financing vs. opportunities to reshuffle the capital stack, and market evaluation. Depending on the results of market evaluation and the proposed changes to the tax code, 2018 could be a very favorable time to sell and redeploy equity into the marketplace.

4 Who will be the biggest buyers in 2018: REITs, private equity, other? Why and what segments will be their biggest focus?
As the economy continues to strengthen, GDP growth rates for Q2 (3.1 percent), Q3 (3 percent) of 2017 indicate growth opportunities in the hospitality sector. This trend should stimulate corporate travel at a time when new supply is beginning to stabilize, thus resulting in improved RevPAR. Primary markets will be dominated by REITs and private equity, while secondary and tertiary markets will remain attractive to local and regional buyers.

5 What is your best advice for hotel owners and management companies working together to best maximize an asset's ROI?
Focus on guest satisfaction, listen to what your guests are asking for and deliver.

YOUR 2018 OUTLOOK: FUNDAMENTALLY STRONG, STEADY AND OPTIMISTIC.

5 QUESTIONS WITH ...

RYAN RIVETT

MY PLACE HOTELS OF AMERICA

PRESIDENT AND CEO

"A well-rounded approach to maximizing ROI is always advisable. I've found that anytime one gets focused too heavily on the top line, the bottom line slips and vice versa."

1 The hospitality industry has reached the proverbial peak. How do you think this will play out in 2018?
We're excited about the proliferation of extended-stay. As guests become more educated in the value of extended-stay, and operators continue to drive refinement through sound input, I expect growth, depth and breadth of extended-stay product in the marketplace. Our guests are telling us that amenities are taking a back seat to the price/value proposition and they're happy to pay for more autonomy and to have the comforts of home in their room.

2 What steps are hoteliers taking now to drive revenue and maximize asset ROI, and is it on the top line or bottom line?
A well-rounded approach to maximizing ROI is always advisable. I've found that anytime one gets focused too heavily on the top line, the bottom line slips and vice versa. Maximizing ROI starts on day one and presents itself as an ongoing cycle. Buy well and build it right. Quality and service drive value and loyalty. Loyalty reduces acquisition costs and provides sustainability. Training and empowerment produce operational efficiencies and a sense of ownership.

3 What do you see as your biggest obstacle in 2018 and what steps are you taking now to overcome it?
Keeping up with rising extended-stay demand and differentiating ourselves from other extended-stay brands. As an economy and extended-stay brand that focuses on quality and friendly service, expressing our determination for a mid-scale experience with flexible rate tiers is key. On development, scaling in a smart and organized manner to offer our franchisees and developers the support to move and move quickly is crucial in maintaining our momentum in franchise development.

4 In discussions with owners, what are their biggest concerns for 2018?
There's a short list of concerns that seem to be fairly consistent: volatility of credit markets, saturation points for their upper-midscale properties and labor, to name a few. The labor concern is not only relative to cost. Supply really is coming to the forefront of these discussions. In spite of a positive long-term outlook on entitlement reform, etc., I think 2018 will continue to be challenging in terms of labor supply.

5 As labor and other costs continue to mount, what tactics will you take in 2018 to operate more efficiently?
My Place is a fairly simple operating model where efficiency in operations is fundamental; there just isn't much, if any, fat to trim. Continual focus on refining operational processes, effective and ongoing training and human resource empowerment to ensure sustainability of our cost efficiencies, while very deliberate efforts to stave off rising acquisition costs are a daily focal point for operators and brand representatives alike.

YOUR 2018 OUTLOOK: IN A WORLD OF CONSOLIDATION, STAND-OUTS WIN.