

CBRE HOTELS

The World's Leading Hotel Experts.

Temecula Lodging Market

June 21, 2018

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CBRE Hotels**

AGENDA

- The National Economy
- A Look at Temecula & the IE
 - Temecula Hotel Market Performance
 - The Impact of New Supply
 - Sharing Economy Update
 - Our Forecasts



THE ECONOMY

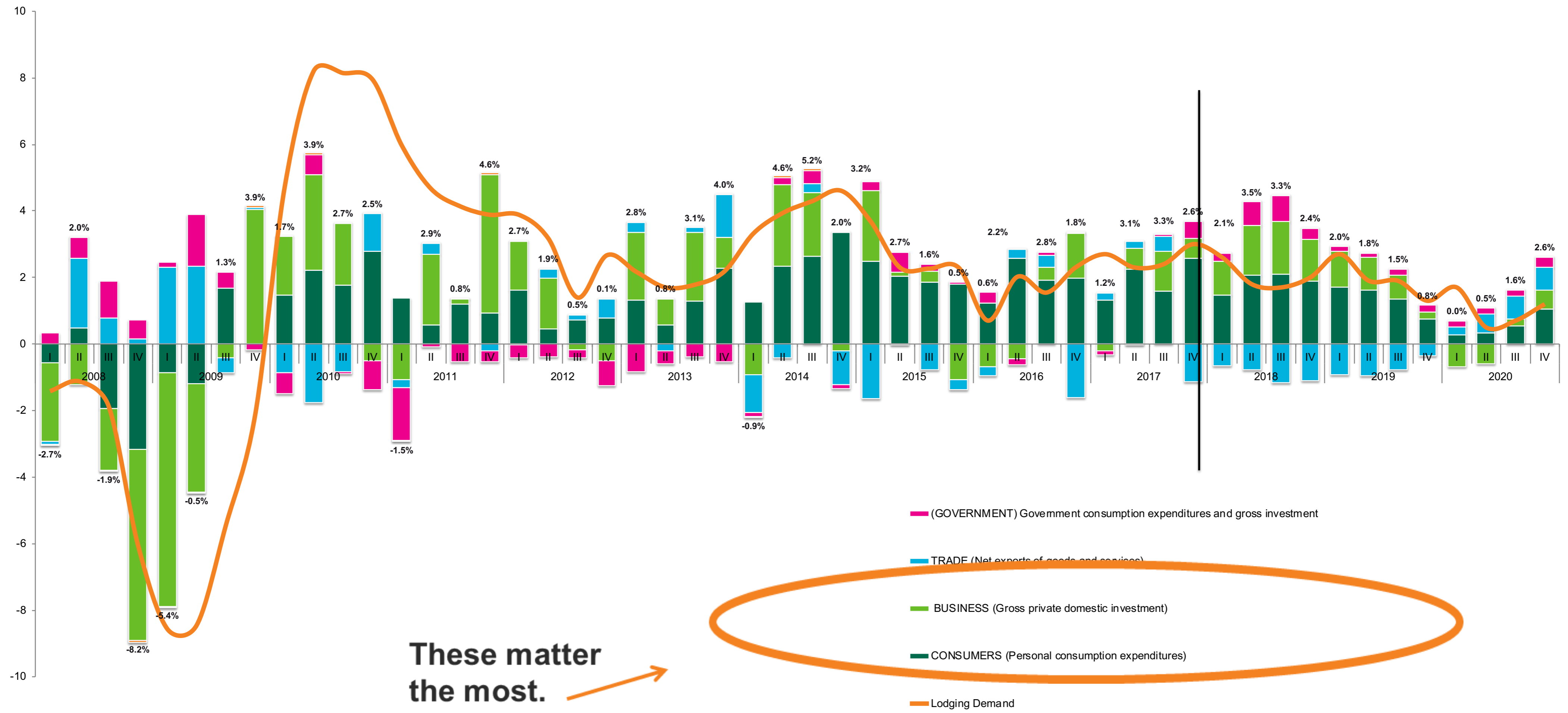
HAPPY THOUGHTS

- Recent indicators show that the economic expansion is accelerating.
- Consumer and small business confidence remain high.
- The labor market is healthy; wage growth is picking up.
- Inflation remains contained.
- The economic effects of the recently passed tax legislation ... the possibility of further acceleration in economic growth moving forward is very real.
- The Current Travel Index (CTI) has registered at or above the 50 mark for nearly 100 straight months, as the industry nears its ninth consecutive year of expansion according to the latest Travel Trends Index.

WHAT HISTORY TELLS US ABOUT WHAT MATTERS

- A Lot:
 - Employment and Jobs
 - Personal Income
 - GDP
- Somewhat:
 - Corporate Profits
 - Leading Economic Indicators
- Not So Much:
 - Foreign Exchange Rates

THE OUTLOOK FOR THE DRIVERS THAT ARE MOST IMPORTANT TO HOTELS REMAINS FAVORABLE



Source: BEA, Moody's Analytics, CBRE Hotels Americas' Research Hotel Horizons, STR, February 2018

WHAT COULD END THE CURRENT CYCLE?

1. The Economy

2. Over Building

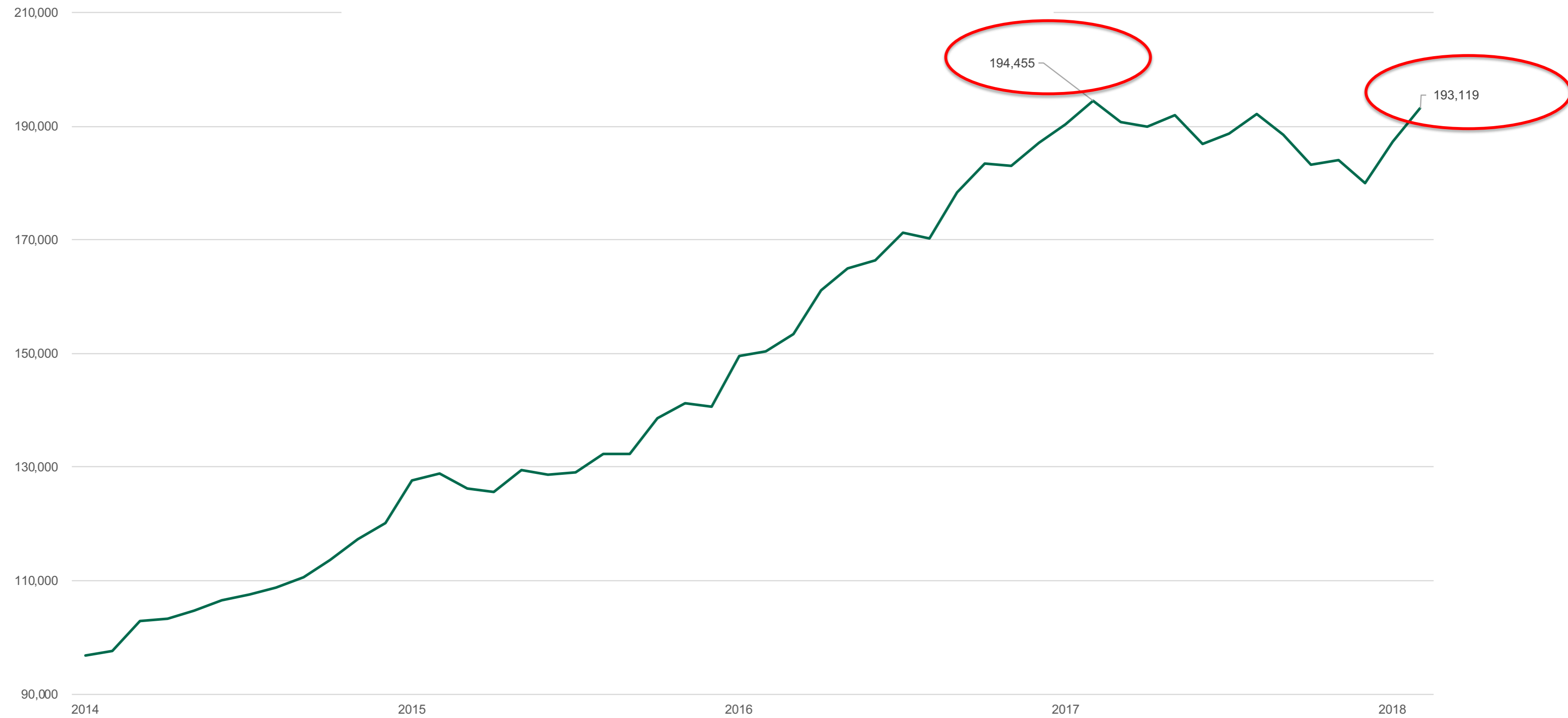
3. Unpredictable Demand Shock

4. Oil/Energy Price Increases

5. Asset Price Bubble

PIPELINE PLATEAU'S?

Number of Rooms Under Construction



Source: STR, February 2018.



THE TEMECULA LODGING MARKET

TEMECULA VALLEY HOTEL SUPPLY

| Select Temecula/Murrieta Hotels | | | Select Wine Country Hotels | | |
|---------------------------------|------------|---------------------------------|---|------------|-------------------------------|
| Hotel | Room Count | Opening Date | Hotel | Room Count | Opening Date |
| Temecula Creek Inn | 130 | 1969 | South Coast Winery | 132 | 2004 |
| Embassy Suites | 176 | 1990 | Ponte Vineyard Inn | 90 | 2012 |
| Holiday Inn Express Temecula | 90 | 1999 | Carter Estate and Winery | 42 | 2015 |
| Hampton Inn and Suites Temecula | 98 | 2004 | | | |
| Fairfield Inn Temecula | 94 | 2007 | | | |
| Springhill Suites | 134 | 2009 | | | |
| Residence Inn Temecula/Murrieta | 101 | 2015 | | | |
| Hampton Inn Temecula/Murrieta | 106 | 2017 | | | |
| Courtyard Temecula/Murrieta | 183 | 2017 | | | |
| <i>Additions to Supply</i> | | | <i>Additions to Supply</i> | | |
| Best Western Plus Temecula | 54 | Under Construction (Mid-2018) | Autograph Collection: Twelve Oaks Resort and Winery | 250 | Planning (2021) |
| Home 2 Suites Temecula | 120 | Under Construction (Early 2019) | Europa Village Expansion | 78 | Under Construction (Mid 2020) |
| Hilton Garden Inn Temecula | 104 | Approved (Late 2019) | | | |
| Staybridge Suites Temecula | 112 | Approved (Late 2019) | | | |
| Truax Boutique Hotel | 180 | Approved (Early 2020) | | | |

Notable Projects

- **Ponte Vineyard Inn recently completed a 30-room expansion and new Pool Deck**
- **Pechanga added 568 Guest Rooms, 68,000 Square Foot Event Center, 2 New Restaurants, and a 4.5 Acre Resort Style Pool Complex in late 2017**



• **180-Room Truax Boutique Hotel, Garage, and Marketplace Development has the potential to transform Old Town Temecula**

VISIT TEMECULA IMPACT OF TOURISM

TEMECULA/MURRIETA VALLEY: LODGING MARKET

Transient Occupancy Tax Returns: Temecula

| Year | | TOT | % Change |
|------|----|-----------|----------|
| 2013 | \$ | 2,504,630 | N/A |
| 2014 | \$ | 2,716,862 | 8% |
| 2015 | \$ | 3,008,061 | 11% |
| 2016 | \$ | 3,184,162 | 6% |
| 2017 | \$ | 3,321,698 | 4% |

Source: City of Temecula CAFR

Transient Occupancy Tax Returns: Murrieta

| Year | | TOT | % Change |
|------|----|---------|----------|
| 2013 | \$ | 145,252 | N/A |
| 2014 | \$ | 152,266 | 5% |
| 2015 | \$ | 180,655 | 19% |
| 2016 | \$ | 406,402 | 125% |
| 2017 | \$ | 588,862 | 45% |

Source: City of Murrieta CAFR

TEMECULA/MURRIETA VALLEY: LODGING MARKET

Historical Performance of the Temecula/Murrieta Valley Competitive Supply

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | Market REVPAR | Percent Change |
|--------|---------------|----------------|----------------|----------------|------------------|--------------------|----------------|---------------|----------------|
| 2013 | 194,910 | N/A | 143,904 | N/A | 73.8% | \$121.92 | N/A | \$90.02 | N/A |
| 2014 | 194,910 | 0.0% | 151,701 | 5.4% | 77.8% | 125.94 | 3.3% | 98.02 | 8.9% |
| 2015 | 201,054 | 3.2% | 159,074 | 4.9% | 79.1% | 131.67 | 4.6% | 104.18 | 6.3% |
| 2016 | 231,775 | 15.3% | 176,320 | 10.8% | 76.1% | 138.49 | 5.2% | 105.35 | 1.1% |
| 2017 | 254,344 | 9.7% | 196,944 | 11.7% | 77.4% | 142.01 | 2.5% | 109.96 | 4.4% |
| CAAG | 6.9% | | 8.2% | | | 3.9% | | 5.1% | |
| May-17 | 254,405 | N/A | 196,991 | N/A | 77.4% | \$142.01 | N/A | \$109.96 | N/A |
| May-18 | 270,465 | 6.3% | 209,427 | 6.3% | 77.4% | 142.01 | 0.0% | 109.96 | 0.0% |

Source: CBRE Hotels

STRENGTHS

- Proximity to major transportation corridors including I-15 and I-215 with access to San Diego and LA
- Burgeoning and rapidly expanding wine country (42 wineries)
- Murrieta has emerged as a healthcare and technology hub
- New Hotels in Murrieta have performed well upon opening.
- Transformation of Old-Town underway

OPPORTUNITIES:

- Lack of a vibrant central core, under-developed downtown
- Still lack of quality hotel supply/rooms in Wine Country
- Conversion of Day-Visitors into Overnight Guests is still challenging as Temecula is primarily a drive-in market



**SHARING ECONOMY – A
CHANGING LANDSCAPE**

HOME SHARING MARKET PLACE



Inventory

4 M



1 M



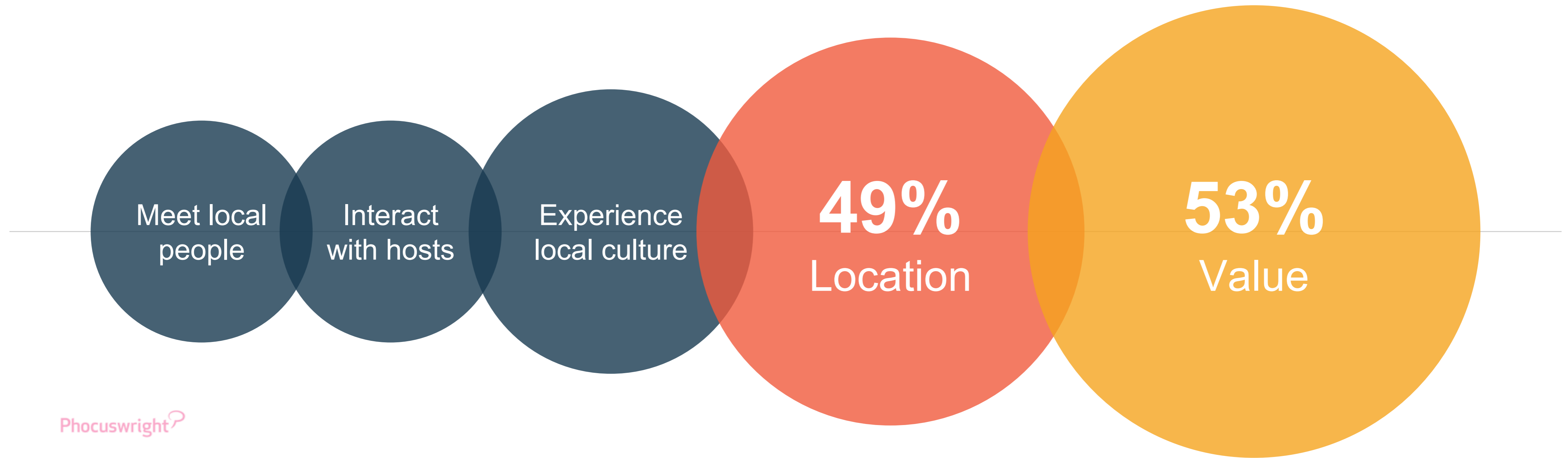
835k



721K

Sources: Airbnb, booking.com, Forbes

WHY THEY RENTED?



SOURCE: PHOCUSWRIGHT'S *A MARKET TRANSFORMED: PRIVATE ACCOMMODATION IN THE U.S.*,

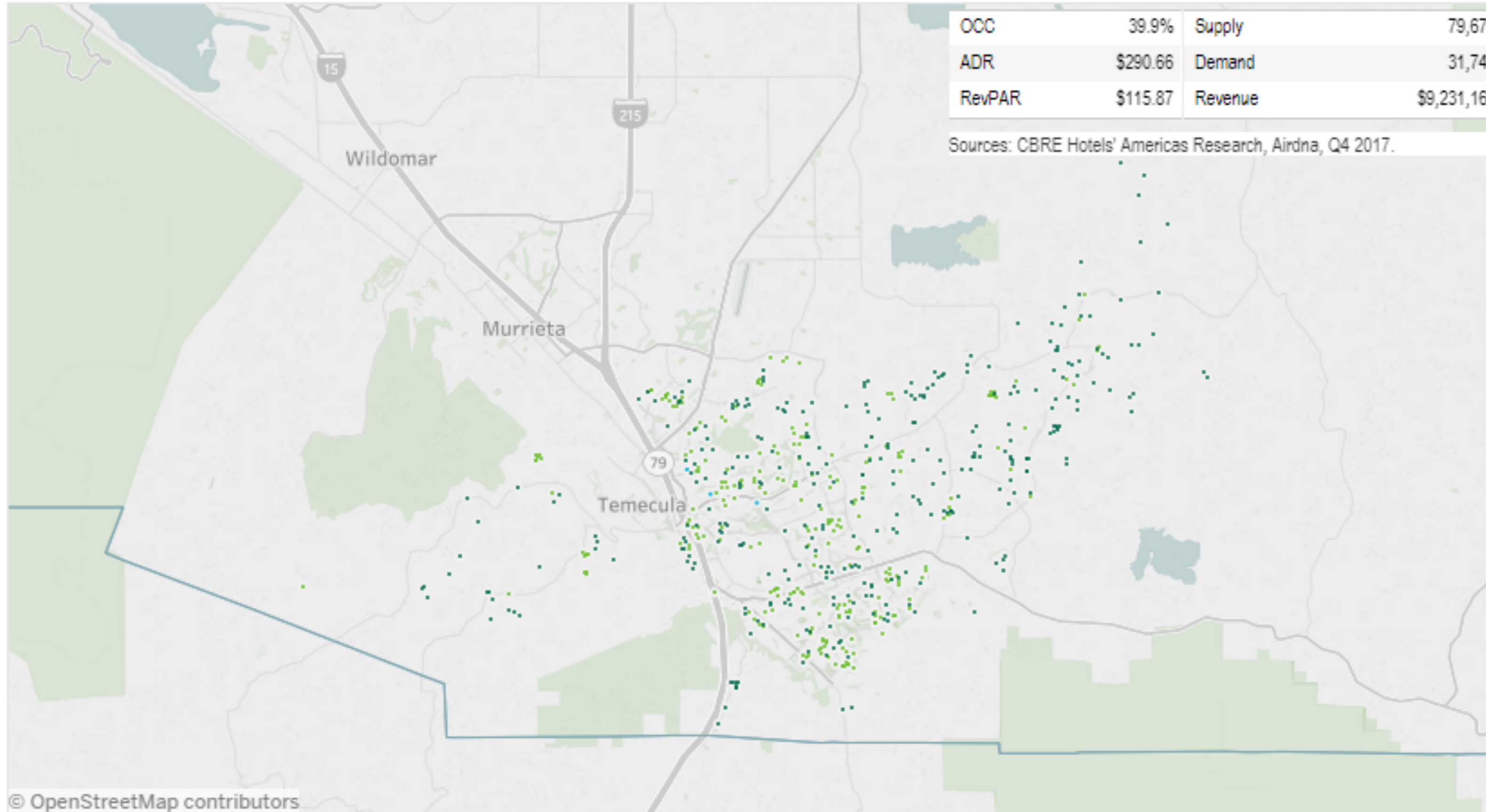
AIRBNB SUPPLY IN THE TEMECULA AREA

Riverside/San Bernardino, CA - All

Table 1: Airbnb Performance (Jan. 2017 - Dec. 2017)

| | | | |
|--------|----------|---------|-------------|
| OCC | 39.9% | Supply | 79,679 |
| ADR | \$290.66 | Demand | 31,747 |
| RevPAR | \$115.87 | Revenue | \$9,231,161 |

Sources: CBRE Hotels' Americas Research, Airdna, Q4 2017.





OUR FORECASTS

U.S. BASELINE FORECAST

Forecast calls for a continual decline in RevPAR growth mainly due to slowing employment gains and new supply diluting ADR.

| | Long Run Average | 2015 | 2016 | 2017 | 2018F | 2019F |
|-----------|------------------|-------|-------|-------|-------|-------|
| Supply | 1.9% | 1.0% | 1.5% | 1.8% | 2.0% | 1.9% |
| Demand | 2.0% | 2.5% | 1.6% | 2.7% | 2.1% | 2.1% |
| Occupancy | 62.2% | 65.3% | 65.4% | 65.9% | 66.0% | 66.2% |
| ADR | 3.1% | 4.5% | 3.0% | 2.1% | 2.7% | 2.4% |
| RevPAR | 3.3% | 6.1% | 3.1% | 2.9% | 2.8% | 2.6% |

Sources: CBRE Hotels' Americas Research - Hotel Horizons® June 2018 – August 2018, STR

SOUTHERN CALIFORNIA HOTELS HISTORICAL ANNUAL PERFORMANCE

| Area | YE 2016 | YE 2017 | YoY Change |
|--------------------|---------|---------|------------|
| Orange County | 78.2% | 77.4% | -0.6% |
| Los Angeles County | 81.1% | 80.0% | -1.3% |
| Inland Empire | 78.6% | 77.7% | -1.1% |
| San Diego County | 77.1% | 77.3% | 0.3% |

| Area | YE 2016 | YE 2017 | YoY Change |
|--------------------|----------|----------|------------|
| Orange County | \$150.61 | \$156.54 | 3.9% |
| Los Angeles County | \$175.44 | \$175.97 | 0.7% |
| Inland Empire | \$109.92 | \$116.57 | 6.0% |
| San Diego County | \$154.86 | \$160.08 | 3.4% |

Source: CBRE Hotels' Americas Research -- Hotel Horizons® June – August 2018; STR, Inc. & CBRE Hotels LA Trends in the Hotel Industry

SOUTHERN CALIFORNIA HOTELS FORECASTED PERFORMANCE

| Area | YE 2017 | 2018F | YoY Change |
|--------------------|---------|-------|------------|
| Orange County | 77.4% | 77.5% | 0.2% |
| Los Angeles County | 80.0% | 79.8% | -0.2% |
| Inland Empire | 77.7% | 79.2% | 2.0% |
| San Diego County | 77.3% | 78.1% | 1.0% |

| Area | YE 2017 | 2018F | YoY Change |
|--------------------|----------|----------|------------|
| Orange County | \$156.54 | \$163.25 | 4.3% |
| Los Angeles County | \$175.97 | \$181.41 | 3.1% |
| Inland Empire | \$116.57 | \$122.40 | 5.0% |
| San Diego County | \$160.08 | \$163.02 | 1.8% |

Source: CBRE Hotels' Americas Research -- Hotel Horizons® June – August 2018; STR, Inc. & CBRE Hotels LA Trends in the Hotel Industry

SELECTED TEMECULA + WINE COUNTRY FORECASTED PERFORMANCE

| Projected Market Performance of the Competitive Supply | | | | | | | | | |
|--|---------------|----------------|----------------|----------------|------------------|--------------------|----------------|--------|----------------|
| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
| 2018 | 358,430 | N/A | 276,000 | N/A | 77% | 153.00 | N/A | 117.81 | 0.5% |
| 2019 | 438,365 | 22.3% | 326,000 | 18.1% | 74% | 158.00 | 3.3% | 117.50 | -0.3% |
| 2020 | 556,625 | 27.0% | 411,000 | 26.1% | 74% | 163.00 | 3.2% | 120.36 | 2.4% |
| 2021 | 556,625 | 0.0% | 417,500 | 1.6% | 75% | 168.00 | 3.1% | 126.01 | 4.7% |
| 2022 | 556,625 | 0.0% | 417,500 | 0.0% | 75% | 173.00 | 3.0% | 129.76 | 3.0% |
| 2023 | 556,625 | 0.0% | 417,500 | 0.0% | 75% | 178.00 | 2.9% | 133.51 | 2.9% |
| 2024 | 556,625 | 0.0% | 417,500 | 0.0% | 75% | 183.00 | 2.8% | 137.26 | 2.8% |
| CAAG | 7.6% | | 7.1% | | | 3.0% | | 2.6% | |

Source: CBRE Hotels

- Note: This Competitive Supply does not include Pechanga Resort and only includes Wine Country Hotels that report to STR
- The increase in supply in 2019 and 2020 account for the Hilton Garden Inn and Staybridge Suites Temecula as well as the 12 Oaks Winery, Truax Hotel and Europa Village expansion
- While we anticipate a drop in occupancy to account for new supply, there is room for significant additional rate growth as new higher quality hotels enter the market.

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