



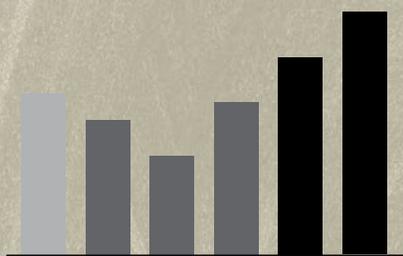
Empire State of Mind

New York Hotel Market Report

June 2018

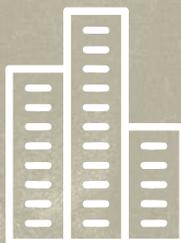


New York Investment Story *in a New York Minute*



YTD April '18 demand growth in the MSA of 6.1% to push RevPAR into *positive* territory by year-end, after two consecutive years of decline

Rooms absorption to be further supported by *transformational real estate developments* such as Hudson Yards and One Vanderbilt



RevPAR performance to date suggest new additions to supply are being absorbed



Liquidity in the market to be provided by

New York centric

owners/developers and private equity

Active transactions market with YTD April '18 investment volume¹ of

\$1.9 billion

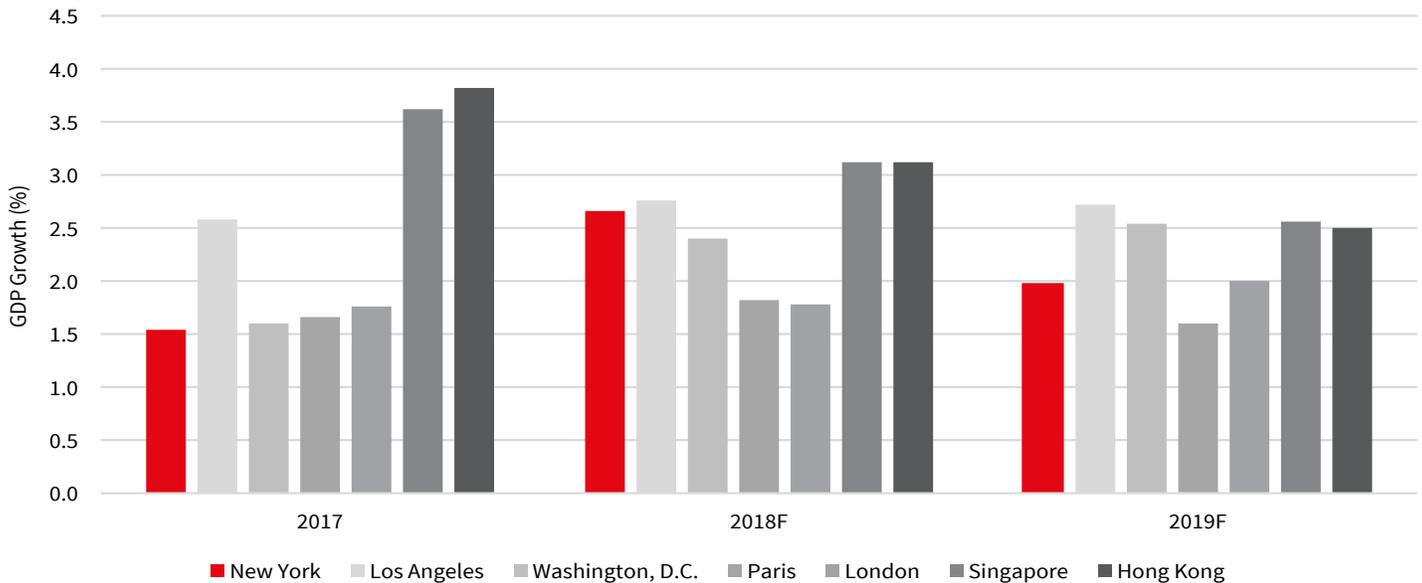
As the 40th Annual NYU International Hospitality Investment Conference approaches, it is timely to focus our attention on the conference's host city and shed light on the current state of New York. This report reflects our views on the New York lodging market and our outlook for the remainder of 2018.

New York's strong economic fundamentals and positive lodging demand growth have fueled the market's notable RevPAR performance in early 2018

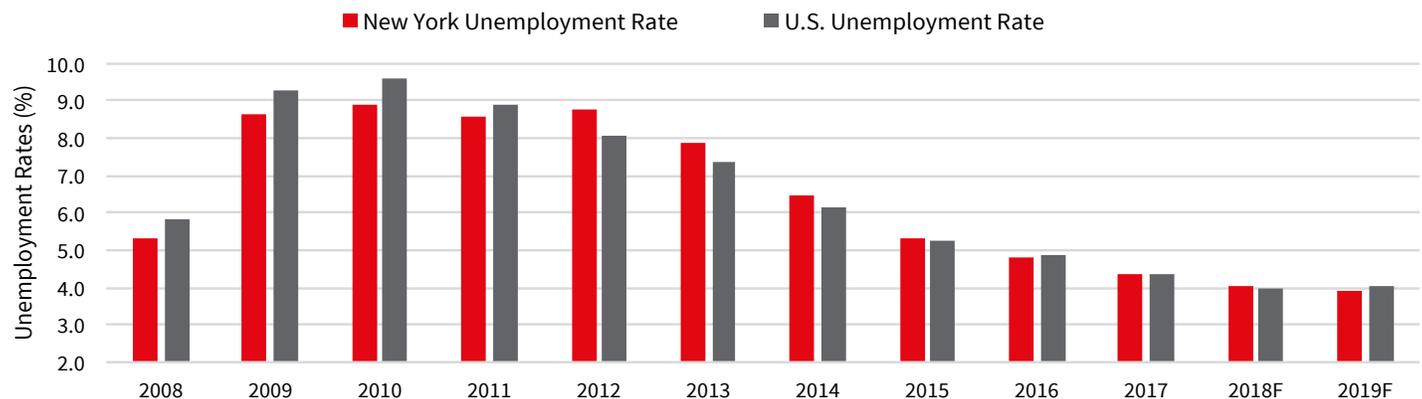
New York benefits from a mature and relatively stable economy. After the Great Recession of 2008, the Big Apple's economy has evolved and become even more diversified, with companies now spanning technology, healthcare, education and professional business services. In fact, New York's total employment in the securities industry declined by 11.3% in 2017 relative to 2000 levels and according to Moody's Analytics, the market has increased its overall employment diversity to .69, with 1.0 representing the most diverse economy. The city's economic diversity has made it less susceptible to systematic shifts in any one industry i.e. financial services. As a result, in 2017, New York's unemployment rate dropped to 4.3%, the lowest level achieved over the past decade.

What do the numbers say?

GDP Growth Across Major Markets



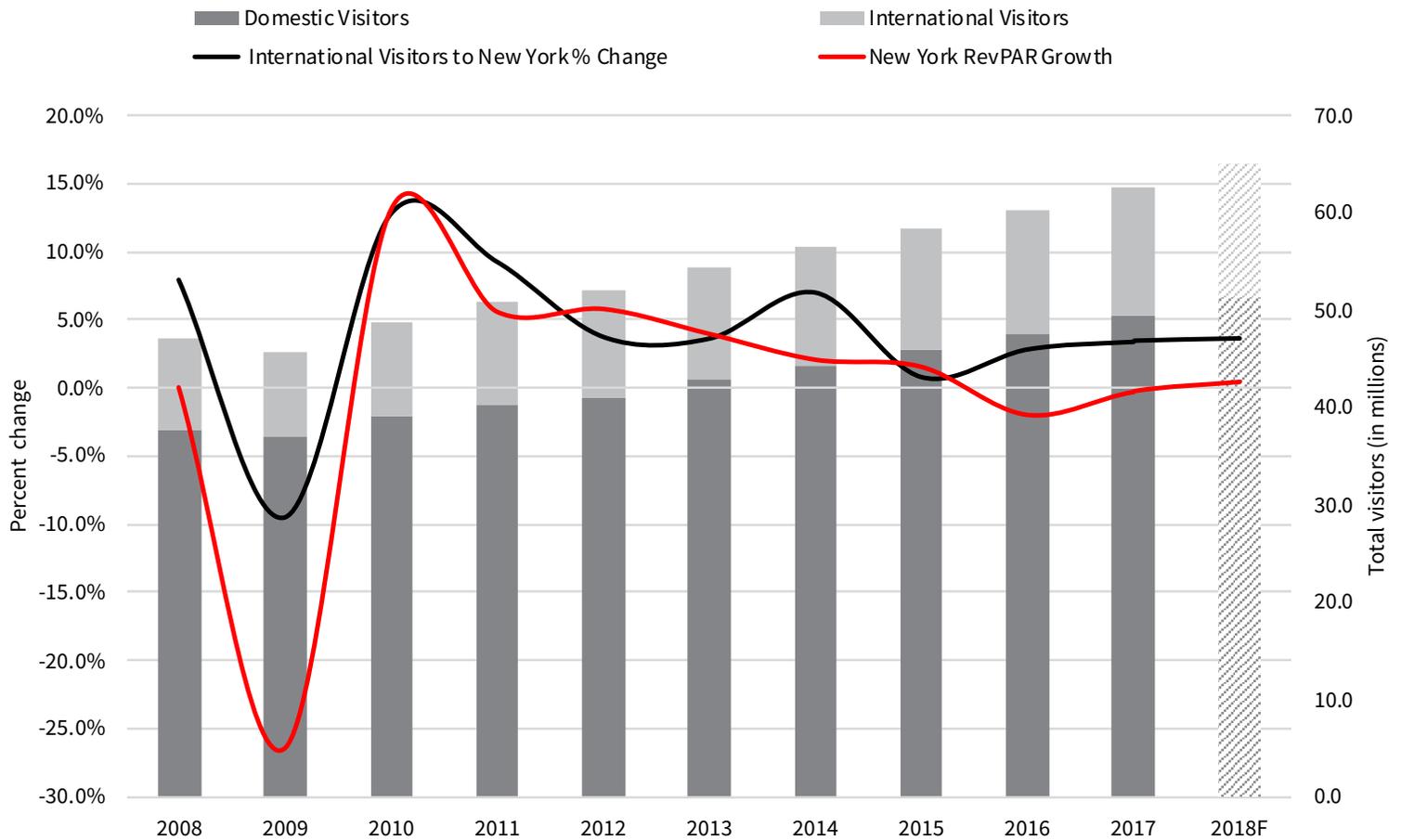
Source: Oxford Economics, JLL



Source: Oxford Economics, JLL

Strength in the national and local economy, increasing disposable income and long overdue vacations spurred growth in visitation to New York in 2017, as the market observed 3.9% growth in domestic travel. And despite concerns over U.S. political rhetoric hindering international visitation to major gateway markets across the country, a weaker dollar coupled with NYC & Company's – New York's tourism marketing agency – New York City Welcoming the World campaign, helped international visitation to New York increase 3.4% in 2017. Robust visitation has translated to strong demand levels, with YTD April RevPAR growth of 4.7%. At year-end we expect sustained positive RevPAR growth, after two consecutive years of decline.

.90 correlation between international visitation and RevPAR



Source: NYC & Company, STR, JLL



Transformational real estate development across New York bodes well for hotel room absorption, with some submarkets potentially facing an under supply of rooms over the next five years

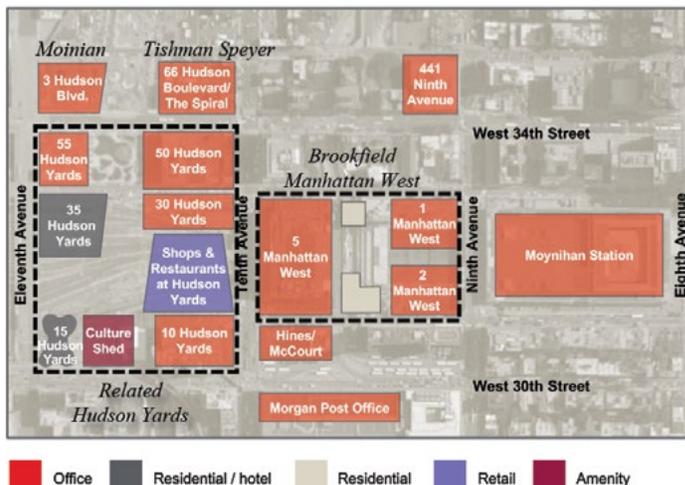
Major development is rapidly taking place throughout New York with transformational projects changing the market's landscape. As a testament to this stands Hudson Yards, which is situated in the Midtown West submarket. The development currently represents the largest private real estate development in the history of the United States and the largest development in New York since the Rockefeller Center. Other additions to Midtown West include the Manhattan West District and Moynihan Station, which should all be fully delivered by 2022.

Transformative redevelopments are also occurring in Midtown East and Downtown, all of which will elevate each respective neighborhood's profile. In the Midtown East submarket is the under construction One Vanderbilt. This 1.7 million gross square foot office skyscraper will stand next to Grand Central Terminal and will represent the second tallest building in the city upon completion. Lower Manhattan is also being rejuvenated and is expecting the delivery of 3 World Trade Center by year end. The World Trade Center hub and memorial have recently been activated and millions of square feet of retail have been added such as Pier 17.

These unprecedented developments create a dynamic where submarkets previously concerned with increasing hotel room supply may become under supplied over the next five years.

The level of existing and anticipated Class A office space in the market will support rapid hotel room absorption

Hudson Yards/Manhattan West Mega-developments



Source: JLL

Existing Class A Office Space vs. 2018F Hotel Rooms

Submarket	Class A Office Space (SF)	Total Rooms (2018F)	Office Space SF / Hotel Room
Downtown	59,025,884	10,198	5,788
Midtown	194,123,281	75,143	2,583
Midtown South	38,337,180	15,194	2,523
Uptown	1,698,574	4,463	381

Existing + Under Construction Class A Office Space vs. 2021 Hotel Rooms

Submarket	Class A Office Space Under Construction (SF)	Existing + Under Construction Class A Office Space	Total Rooms (2021F)	Office Space SF / Hotel Room
Downtown	2,861,402	61,887,286	10,606	5,835
Midtown	10,964,854	205,088,135	79,079	2,593
<i>Penn Plaza / Garment District¹</i>	<i>7,139,745</i>	<i>26,133,699</i>	<i>19,867</i>	<i>1,315</i>
Midtown South	1,562,411	39,899,591	16,895	2,362
Uptown	169,131	1,867,705	4,463	418

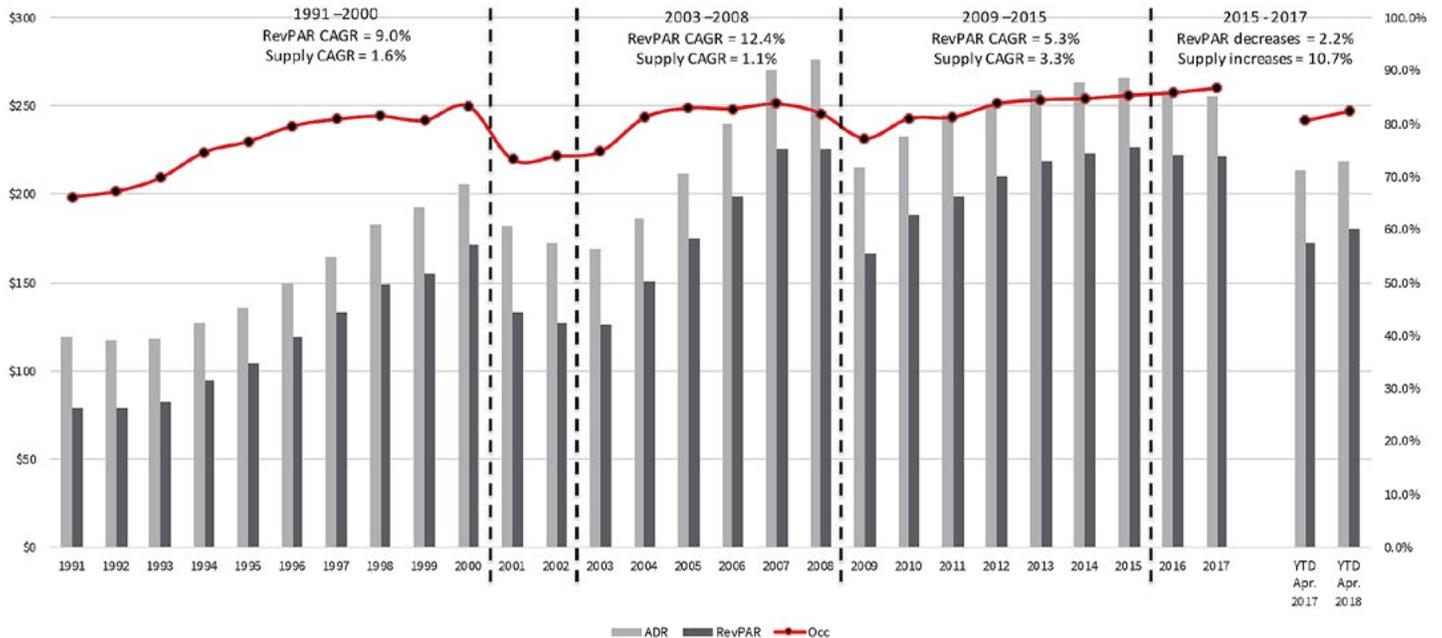
¹The 7.1 million square feet of Class A office space under construction in the Penn Plaza / Garment District accounts for the development of 1 Manhattan West, 30 Hudson Yards, 441 Ninth Avenue, 55 Hudson Yards and Moynihan Station, all of which JLL classifies as part of the Hudson Yards / Midtown West mega-developments. Source: JLL, Costar

RevPAR performance to date suggest new supply additions are slowing and being absorbed

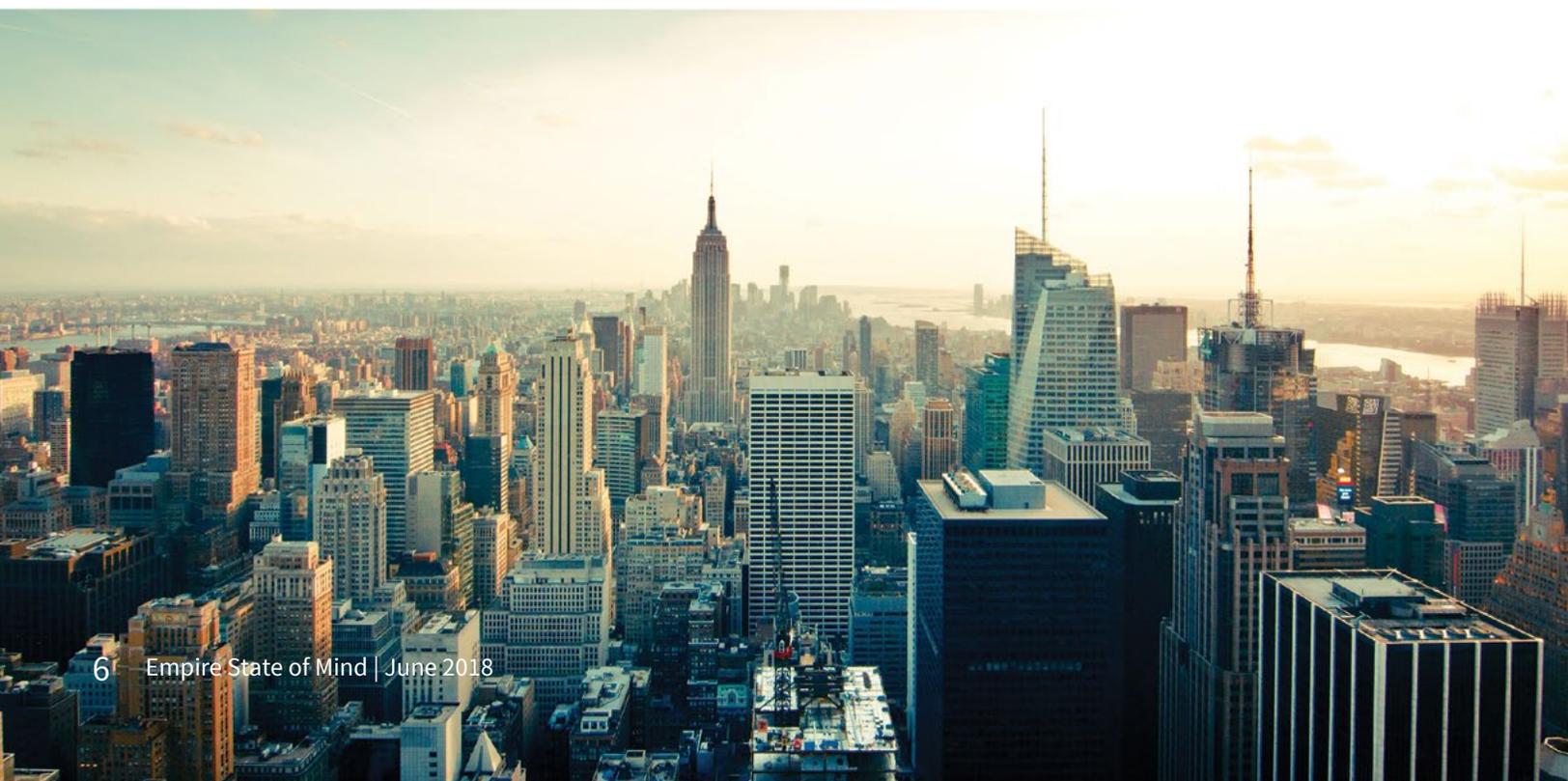
The first trimester in New York is typically the most challenging period in the market, as evidenced by the tepid growth RevPAR has observed in each of the last four years during this period. However, solid performance in both ADR and occupancy have spurred growth to date, underscoring the market's road to recovery.

We expect for RevPAR growth to become more pronounced in 2019 and 2020, as less rooms are anticipated to be delivered over these two years than are projected to be delivered in 2018 alone.

RevPAR grows more aggressively during times of low supply growth



Source: STR, JLL



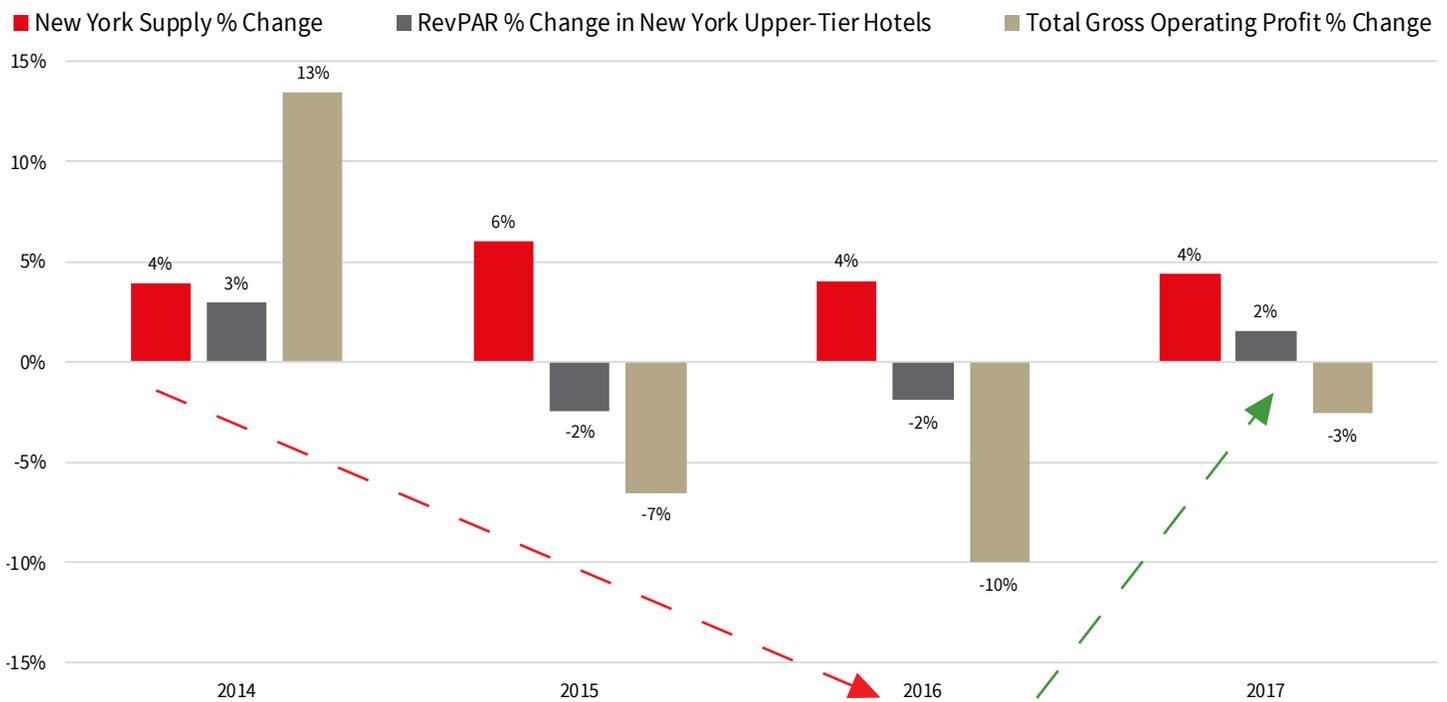
Tapering supply growth and strong demand fundamentals create opportunity for operators to improve margins

JLL analyzed 90 P&L statements of hotels situated in New York City from 2013 to 2017 and the data suggest that gross operating profit (GOP) performance bottomed in 2016. Performance in 2017 started trending upward and performance in 2018 is off to a promising start driven by YTD April 2018 demand growth of 6.1%. Over the analyzed period, we noted that GOP is more sensitive to changes in RevPAR than supply and that on average when RevPAR shifts one percentage point (negative or positive direction), GOP will shift a corresponding three percentage points.

As such with sustained improvement in demand fundamentals and muted supply growth, the market will gain more rate integrity, resulting in positive RevPAR growth and stabilized margins at year-end.

Improving hotel margins ahead

New York Hotels' Operating Performance



Source: JLL, STR

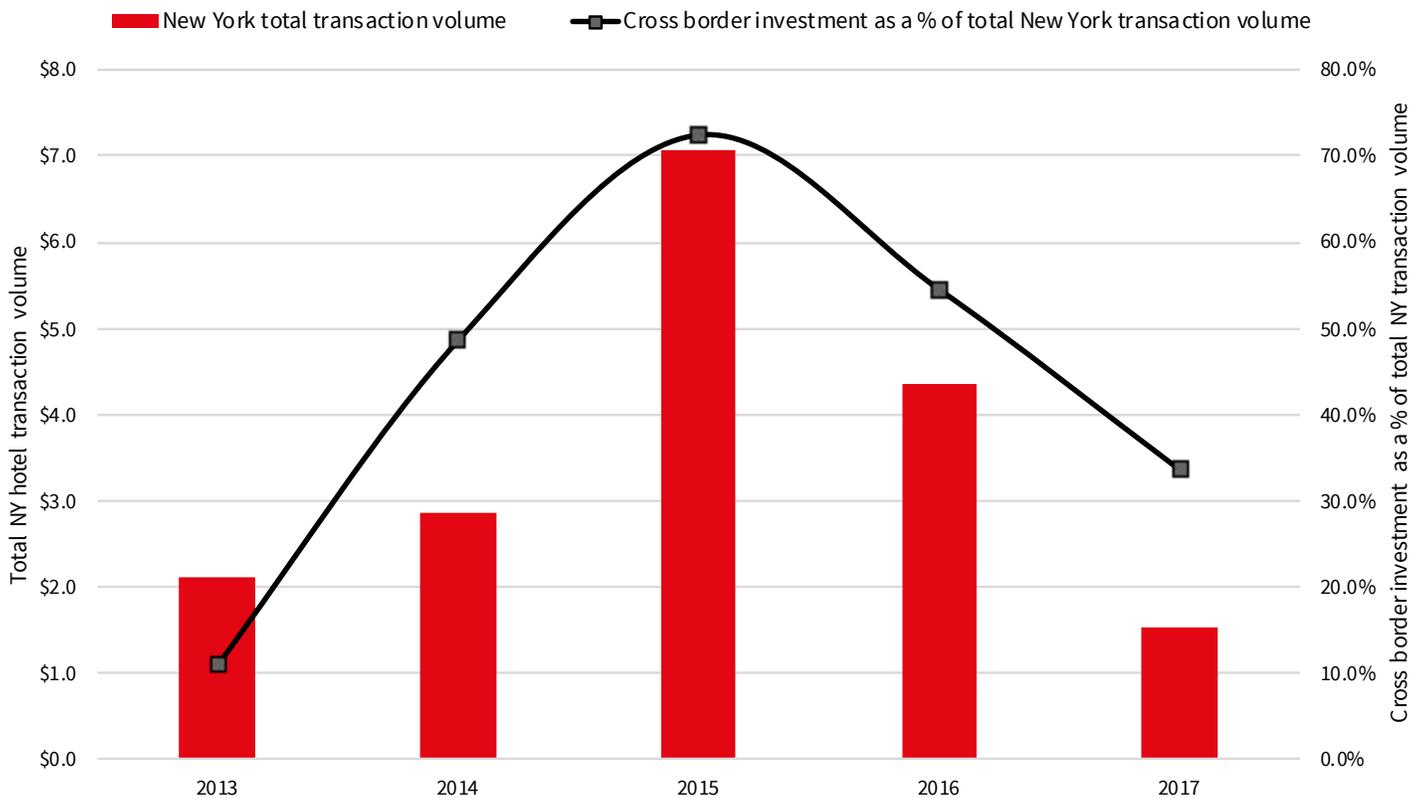
Note: Analysis pertains to a sample of 90 P&L statements of upper-tier hotels situated in New York City from JLL's internal database

New York transaction volume to reach robust levels supported by acquisitions from private equity and New York centric owners/developers

With YTD April hotel sales of \$1.9 billion, New York’s hotel transaction volume is nearly seven times the volume achieved during the same period in 2017. The drivers behind the extraordinary level to date are the sale of Edition Times Square for \$1.53 billion (inclusive of retail and signage) and the disposition of W Hotel New York for \$190 million.

Since 2017 capital in the market has primarily originated from domestic private equity and New York centric owners/development companies, accounting for 84.0% of acquisitions. However, over the past five years, foreign investors have acquired nearly \$10 billion in New York hotels. As such, we expect cross border investment to pick up throughout the remainder of the year as the product quality brought to market continues to improve.

What do the numbers say?



Source: JLL

Opportune time to invest in New York hotels

Hotel transaction values on a per-room basis peaked in 2015. The twelve-month moving average price per room is currently at approximately 80% of the level seen in early 2015, indicating that hotels in New York are currently transacting at multi-year lows.

New York hotels average price per room indexed to January 2015



Source: JLL

Note: Data is represented in a weighted 12-month moving average, excludes portfolio transactions and single-asset transactions above \$1.0 billion. January 2015 weighted 12-month moving average equals 100%

Hot debt markets

The hospitality debt markets are performing well and notwithstanding New York's elevated supply pipeline, lenders such as commercial banks, insurance companies, debt funds and CMBS, remain interested in financing New York hotels. And while they remain selective on construction loans, lenders have been active on opportunities with in-place cash flow or assets that have significant value-add components. Lenders are also offering financing at extremely low debt yields, but at price per room levels that provide significant comfort that the loans are well-secured by the inherent value of the real estate. Further, indicators suggest that the current economic expansion is only accelerating as the effects of the recently passed tax legislation have yet to be felt. This dynamic bodes well for the debt markets and as such, in the second half of 2018 we anticipate additional spread compression, greater liquidity available in the market and more aggressive underwriting and loan structures.

Conclusion

New York is a resilient market that on a global scale represents one of the most coveted hotel investment destinations. New York's unwavering tourism appeal and economic strength will help the market overcome current supply challenges, allowing the market to experience meaningful growth in the near-future.



Did You Know

From 2013 to YTD April 2018, New York has recorded \$17.3 billion worth of single-asset sales, placing it ahead of other major gateway markets such as London, Paris and Hong Kong.

Single-asset transaction volume 2013-YTD April 2018



Source: JLL

JLL New York City Hotel Transactions in 2017

Date	Property	Rooms	Price	Price per Key	Buyer	Seller	Yield
Dec-17	The James Hotel New York SoHo	114	\$66,250,000	\$581,000	Thor Equities	Prudential Real Estate Investors	Sub-3%
Oct-17	The Standard High Line New York	338	Confidential	Confidential	Confidential	Confidential	Sub-4%
Aug-17	Nyma Hotel	171	\$52,000,000	\$304,000	Capstone Equities	Apple Core Hotels	5.2%
Jan-17	Club Quarters Wall Street	289	\$95,000,000	\$329,000	McSam Hotels	Rockwood Capital, LLC	7.5%
Jul-17	Morgans Hotel New York	117	\$37,000,000	\$316,000	The Kash Group	FelCor Lodging Trust Incorporated	Sub-0%

Source: JLL

JLL New York City Hotel Financings in 2017

Date	Property	Loan Amount
Dec-17	The James Hotel	\$44,000,000
Nov-17	Westin Times Square	\$312,000,000
Oct-17	Crosby Street & Whitby Hotels	\$125,000,000
Aug-17	Nyma Hotel New York	\$40,000,000
Aug-17	Royalton Hotel	\$36,370,000
Total		\$557,370,000

Source: JLL

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