

Welcome



2014 DALLAS HOTEL CONFERENCE

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Welcome Remarks and Introduction

Cliff Risman

Partner

Gardere Wynne Sewell LLP

Presented by:



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2014 DALLAS HOTEL CONFERENCE

Market Update

Dan Lesser

President and CEO

LW Hospitality Advisors LLC

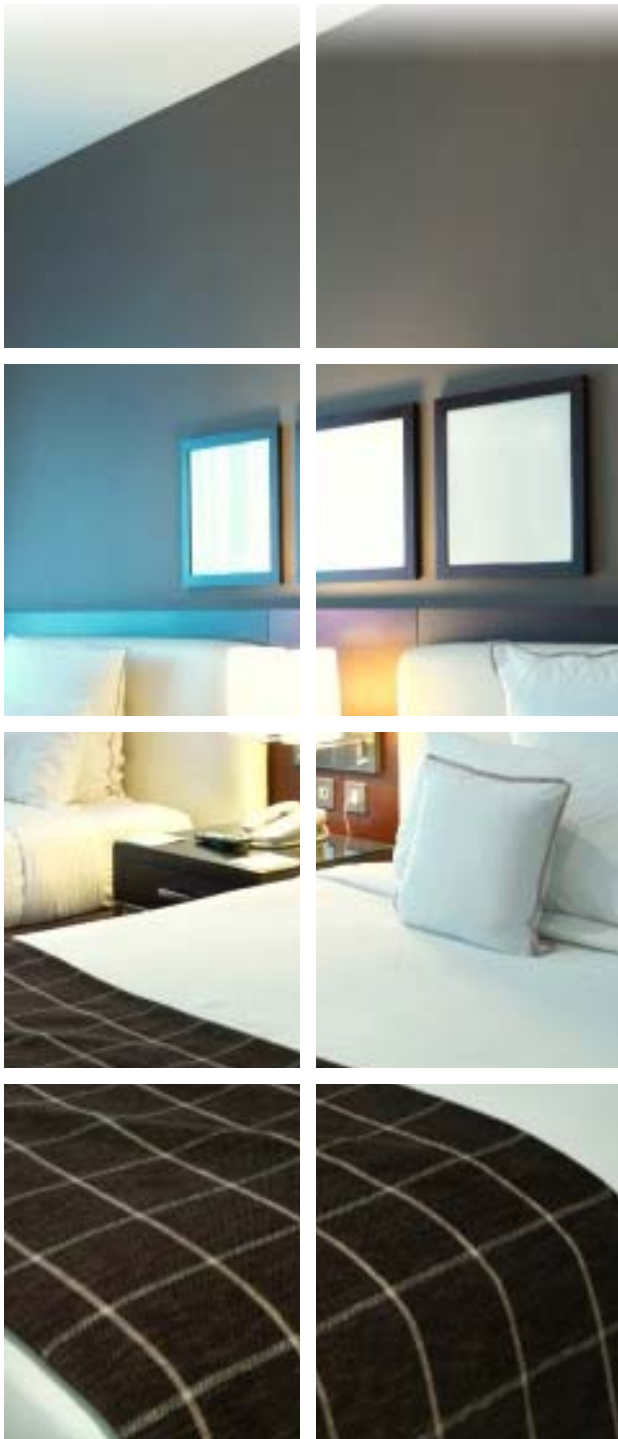
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U.S. LODGING FUNDAMENTALS

Paradigm Shift or Movie Rerun?

2014 Dallas Hotel Conference

Presented by:

Daniel Lesser, President & CEO

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November 19, 2014



U.S. Hotel Industry Macro Overview

	1/1/2009	1/1/2011	11/1/2012	11/1/2014
Economy	Contracting	Expanding	Expanding (Slowly)	Expanding (Modestly)
Jobs	Declining	Declining	Increasing (Slowly)	Increasing (Modestly)
Consumer Spending	Declining	Expanding	Increasing	Increasing
Business Spending	Declining	Expanding	Increased (Now Stagnant)	Accelerating
Supply Growth	Accelerating	Stabilized	Muted	Accelerating
Room Night Demand	Declining	Growing	Record Levels	Continued Record Levels

<u>U.S. Hotel Performance</u>	2008	2009	2010	2011	2012	Projected 2013	Projected 2014
Supply	▲ 2.6%	▲ 3.2%	▲ 2.0%	▲ 0.6%	▲ 0.5%	▲ 1.0%	▲ 1.3%
Demand	▼ 1.9%	▼ 5.8%	▲ 7.8%	▲ 5.0%	▲ 3.0%	▲ 3.6%	▲ 2.1%
Occupancy	▼ 4.4%	▼ 8.7%	▲ 5.7%	▲ 4.4%	▲ 2.5%	▲ 2.6%	▲ 0.7%
ADR	▲ 2.7%	▼ 8.8%	▼ 0.1%	▲ 3.7%	▲ 4.2%	▲ 4.2%	▲ 4.4%
RevPAR	▼ 1.8%	▼ 16.7%	▲ 5.5%	▲ 8.2%	▲ 6.8%	▲ 6.9%	▲ 6.0%

Source: (Data Only) STR, Inc.



U.S. Hotel Industry SWOT Analysis- Strengths

- Construction financing relatively limited
- Declining gas prices
- Developing overseas middle classes
- Emerging U.S. energy markets
- Foreign investor perception of U.S. safety
- Group demand has finally rebounded
- Occupancy near highest levels since 1984
- Rising hotel investment market
- Strengthening consumer confidence
- Technology advances increase efficiency and maximize profits



U.S. Hotel Industry SWOT Analysis-Weaknesses

- Brands forcing execution of delayed PIP's
- Increasing costs of employee benefits
- Labor unrest
- Low growth U.S. economy
- Sluggish income growth
- Sharp increases in the hourly minimum wage
- Technology advances with OTA's continue negative pressure on room pricing



U.S. Hotel Industry SWOT Analysis- Opportunities

- Industry well positioned to react to any inflation
- Raising negotiated corporate rates
- Increase leisure to build up weekend occupancy
- Ancillary revenue opportunities similar to airlines
- Emergence of micro hotels such as Yotel, Pod, CM
- Hotel brands tie in to unique experiences
- Physical and/or functionally obsolete hotel product situated on excellent sites/locations



U.S. Hotel Industry SWOT Analysis- Threats

- Brand standard changes
- Economic recession
- Event risk
- Labor unrest
- Rising interest rates and/or inflation
- Stock market bubble
- Proliferation of new hotel brands
- Technology advances create new competitors (Airbnb)
- Terrorism Risk Insurance Act (TRIA) expiration 12/31/14
- Tax reform: modifications of depreciation schedules, tax treatment of carried interests, capital gains rates, mortgage interest deductibility, fate of 1031 exchanges
- NLRB determination holding McDonald's Corp. a joint employer with its franchisees



U.S. Lodging Industry Summary - 2014

Economic Environment

- Modest growth

Lodging Fundamentals

- Strong demand for hotel accommodations placing upward pressure on room rates
- Construction ticking up but will remain below long term average
- Net new supply positively impacted by removal of functionally obsolete product

Investor Interest

- Public REITs
- Private Equity Funds
- Sovereign Wealth Funds
- Non-traded REITs
- Family Offices

Capital Markets

- Hotel CMBS, Opportunistic debt, & Traditional balance sheet lenders
- Lower cost of debt at higher leverage has increased equity returns
- Near term outlook is favorable as far as cost and availability of capital

Transaction Activity

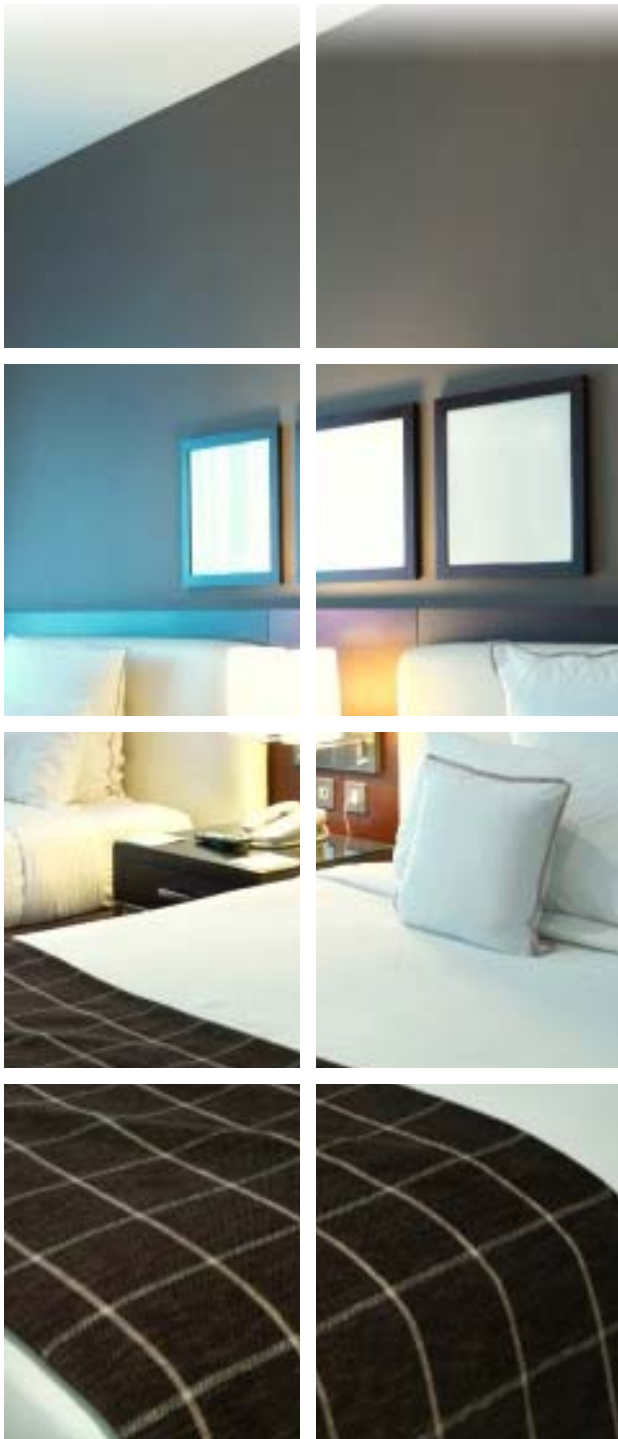
- Capitalization rates and discount rates have reached a point of stabilization
- Values expected to continue to rise at moderate rate primarily due to ADR gains
- New supply and/or economic factors are starting to impact cap rates and values in some markets



Random Dan Lesser Thoughts

- Except for The Dallas Hotel Conference too many
- Flight to yield expanding to secondary/tertiary markets
- Increase implementation of fees and surcharges
- Increasing number of independent hotels
- Industry infatuation with notion of “lifestyle”
- Industry obsession with “millennials”
- “Newbies” once again entering the hotel space
- Too many hotel brands
- **RAISE ROOM RATES aggressively NOW**

“History doesn't repeat itself, but it does rhyme.” - Mark Twain



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Paradigm Shift or Movie Rerun?

ONLY TIME WILL TELL

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The Capital Markets: Can Things Go Higher?

Moderator:

Chuck Bedsole, Managing Director,
Alvarez & Marsal Real Estate Advisory Services, LLC

Panelists:

Mahmood Khimji, Principal, *Highgate Holdings*
Brian Kim, Managing Director, *Blackstone*
Dan Peek, Senior Managing Director, *HFF*
Michele Wheeler, President and COO, *Jackson-Shaw*

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AH&LA and Legislative Update: Policy Priorities

Katherine Lugar

President and CEO

American Hotel & Lodging Association

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Unity, Participation, and Focus is Driving the New AH&LA

- Stronger, better alignment
 - Power in numbers
- Long-term, sustained focus on advocacy

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Transforming AH&LA: A Growing List of Accomplishments

- Increasing industry engagement with a stronger, unified voice
- Record membership numbers
- Increased advocacy focus
- Recruiting top talent and greater expertise
- Greater visibility in press
- Record HotelPAC: Supporting pro-industry candidates

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New Focus = Stronger Membership

January 1, 2014

8,663 properties

1.37 million rooms

October 31, 2014

19,678 properties

2.5 million rooms

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Advocacy: Keys to Success and Strength in 2014

- Defeat extreme wage initiativess
- Tackle digital and distribution challenges
- Promote travel and tourism



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Advocacy: A Snapshot of Success

- Leading the battle on extreme wage initiatives:
 - A win in San Diego, Rhode Island, & Chicago
 - An aggressive campaign in Los Angeles
- House passage of the “40-hour” bill
- House passage of BrandUSA reauthorization
- Senate passage of Terrorism Risk Insurance Act (TRIA)
- Preserving diem rates
- Raising awareness of OTC deceptive practices
- Staving off legislative action on 911-direct dial

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WORKFORCE ISSUES

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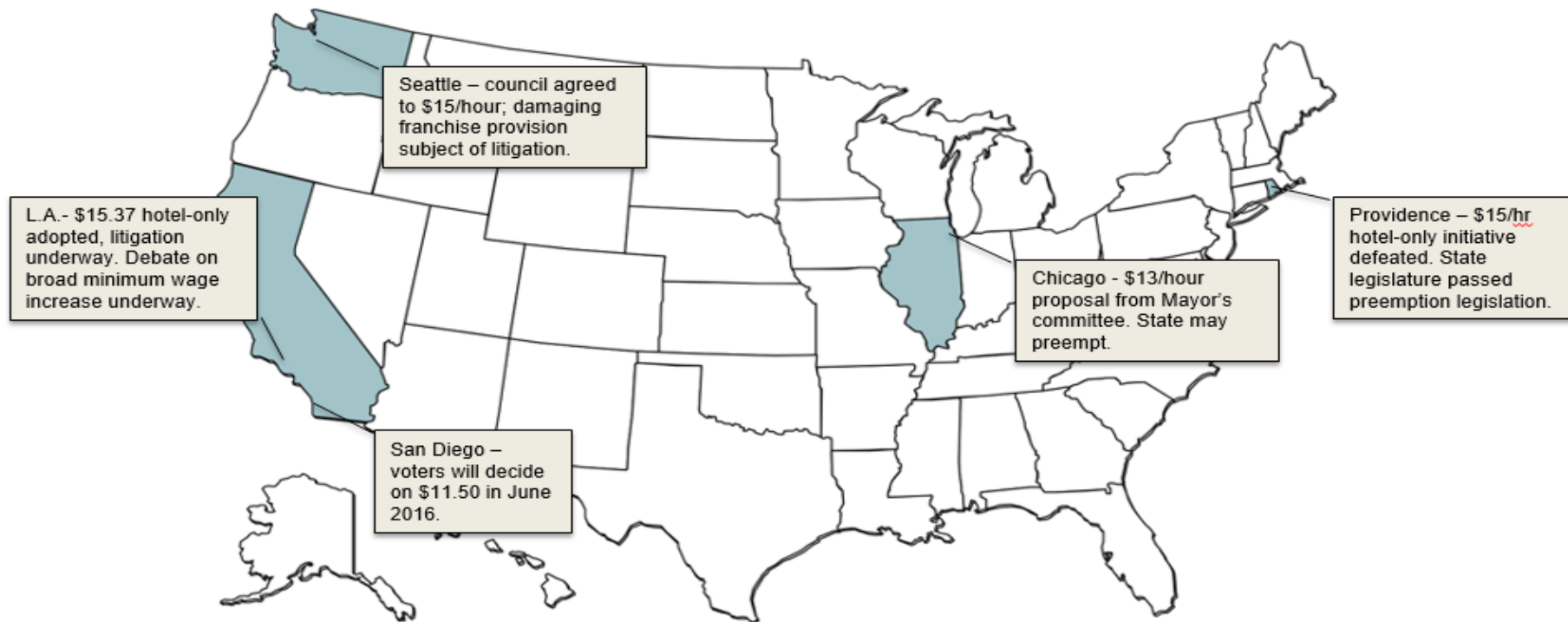
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Local Extreme Wage Initiatives



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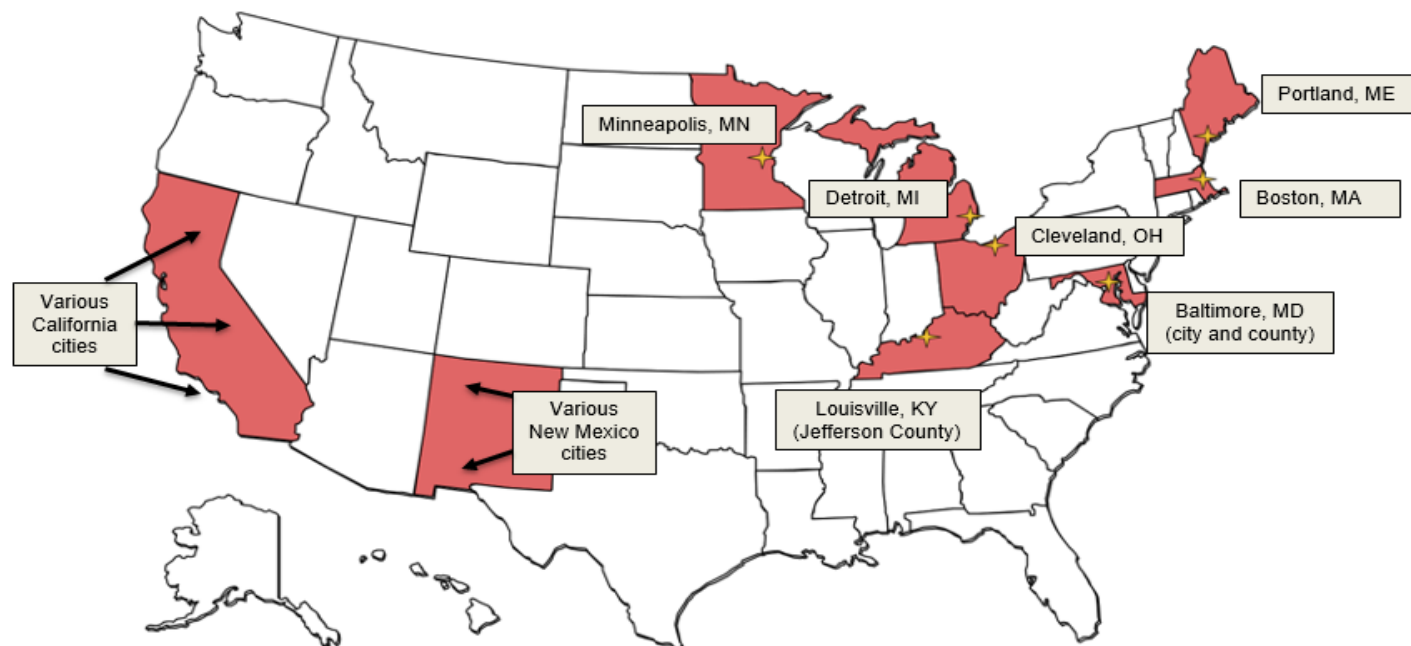
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Future Threats



Continuing to build a multi-pronged approach and strategy

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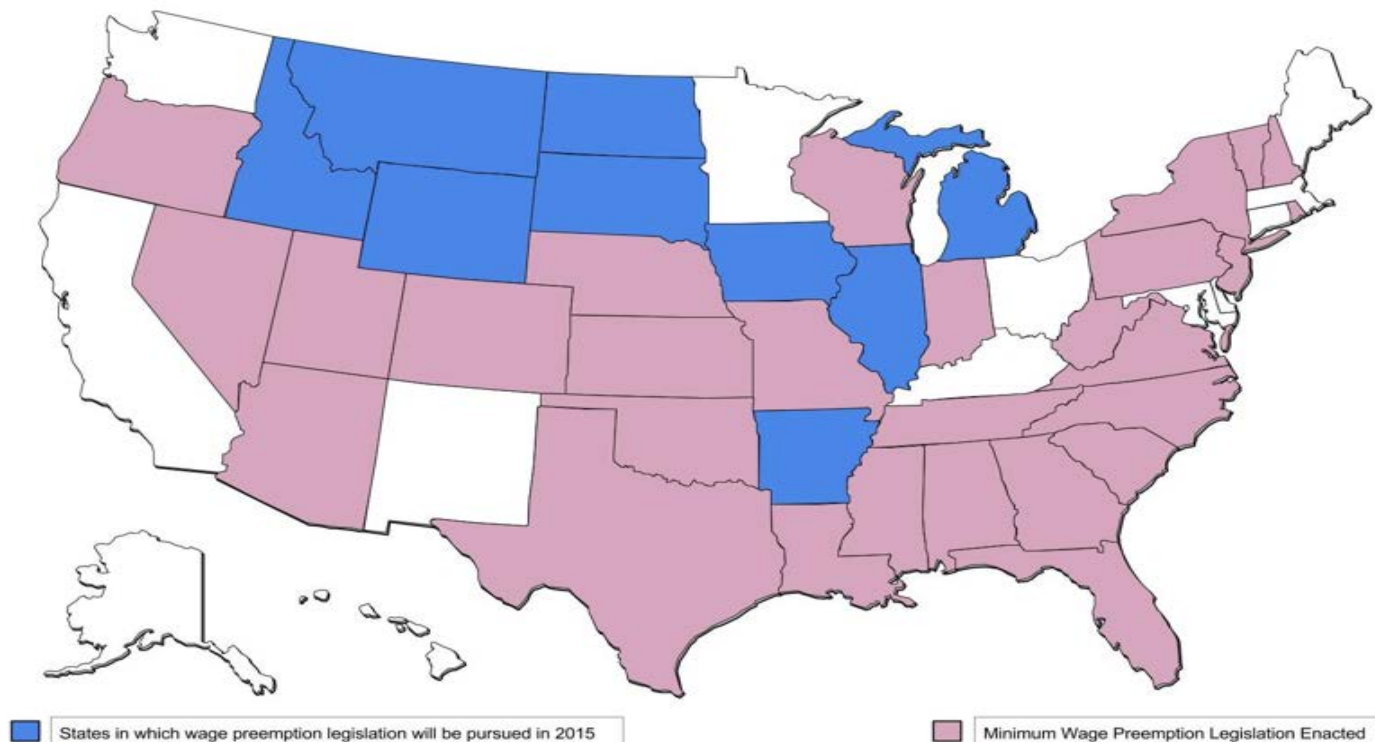
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State Minimum Wage Preemption



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Telling Our Positive Industry Story



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Extreme Wages: Next Steps

- Focus on state, local initiatives targeting hotels; too high & too fast
- Fight LA hotel-only ordinance: litigation, public relations, local operatives, city-wide
- Target state pre-emption efforts
- Engage with Congress on Federal minimum wage

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NLRB Joint Employer

- NLRB Division of Advice: McDonald's USA and McDonald's franchisee are joint employers
- Coalition efforts underway:
 - Emphasize small business impact in PR efforts
 - Develop industry communications
 - Pursue Congressional action
 - Explore litigation strategy

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Other Workforce Issues

- ACA implementation: revise full-time definition to 40 hours
- Immigration reform
- New overtime rules

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TECHNOLOGY & DISTRIBUTION

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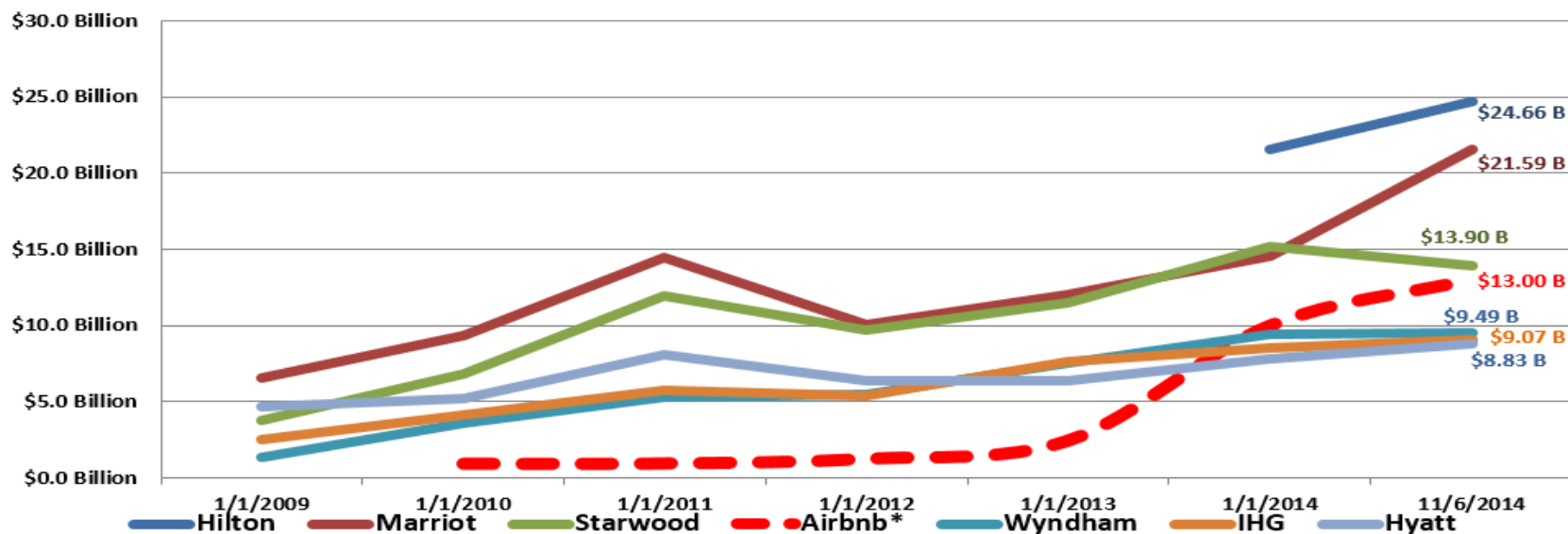
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Airbnb Continues Rapid Expansion



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Short Term Online Rentals: The Focus

- **Level playing field:** ensure equal application of city/state/federal laws
- **Equal treatment:** insist on fire and safety regulations, ADA guidelines, occupancy taxes
- **Guest safeguards:** maintain safety and security standards and procedures
- **Collaborative approach:** build a coalition of concerned citizens and like-minded organizations

The safety and security of our guests is paramount.

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Three-phased Strategy & Approach: A level-playing field within the lodging sector

Phase 1 (April-Sept 2014)

- Define Target
- Conduct Message Research
- Create Advocate Toolkit
- Build Website
- Start Coalition Building
- Internal/External Education

Phase 2 (July-Dec 2014)

- Craft Model Legislation
- Continue Coalition Building
- Conduct Legal Research
- Deploy Resources to State/Local Tier 1 Targets
- Media Outreach/Soft Launch of Website
- Industry Education
- Raise Needed Resources

Phase 3 (Jan 2015 on)

- Launch Comprehensive PR Campaign
- Deploy Resources to State/Local Tier 2 & 3 Targets
- U.S. Congress Spotlight/Introduce Federal Legislation
- Fair Enforcement of Statutes and Regulatory Oversight
- Advance Legal Strategy
- Industry Education

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Building a Broad-Based Coalition



**NEIGHBORS FOR
OVERNIGHT OVERSIGHT**

Protecting Communities. Promoting Safety.

- Hotel & Lodging (AAHOA, BNB Finder, PAII)
- Small business groups
- Public safety organizations
- Concerned neighbor groups
- Real Estate developers (RER)
- Consumer rights groups
- State and local government
- Real Estate, condo, apartment associations,
- Insurance organizations

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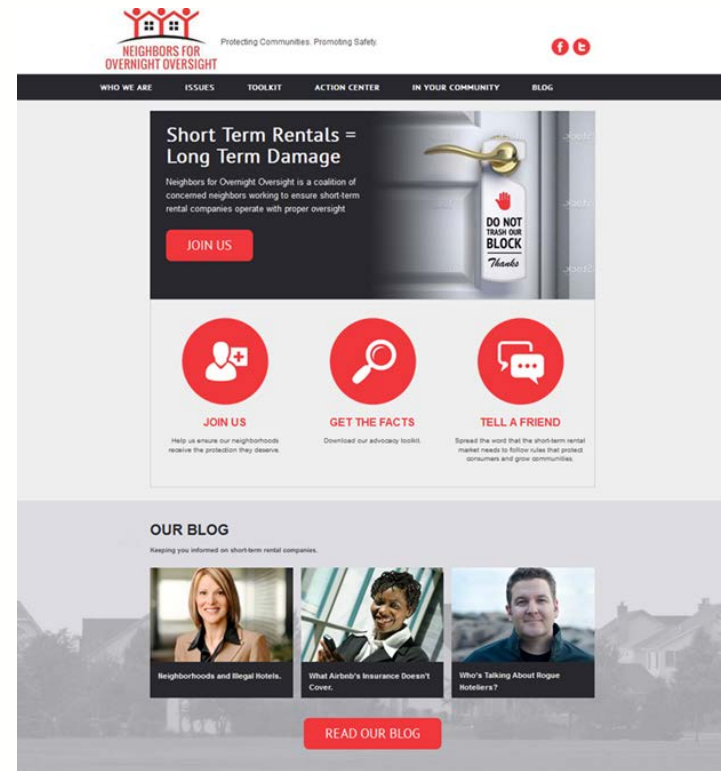
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Short Term Online Rentals: The Advocate Toolkit & Website



WWW.OVERNIGHTOVERSIGHT.COM



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Online Consumer Deception: A New Focus for AH&LA

- Shine the light on deceptive practices by OTCs
- Engage with the FTC and outreach to Congress
- Collaborate with the Consumer Innovation Forum

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Deceptive Ad Buys: Unauthorized Purchase of Words

The screenshot shows a Google search for "the standard hotel new york". The search results include several ads. Two ads are highlighted with red boxes and blue arrows pointing to callout boxes:

- Ad 1:** The Standard East Village - Expedia.com. The link is www.expedia.com/The_Standard_Hotel. A callout box points to the link with the text: "Use of hotel name in link".
- Ad 2:** The Standard New York - hotels.com. The link is www.hotels.com/The_Standard_New_York. A callout box points to the link with the text: "Use of part of hotel URL in link".

Other visible ads include:

- Ad 3:** The Standard Hotel in NYC - DesignHotels.com. The link is standard-highline.designhotels.com/.
- Ad 4:** The Standard, High Line Boutique Hotels New York City ... The link is standardhotels.com/high-line.

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Deceptive Landing Page

RESERVATION COUNTER

Book by phone
TOLL FREE! (888)-959-4032

My Reservation

Select Your Dates: mm/dd/yyyy mm/dd/yyyy Search

1 room: 2 adults & 0 Children

Marriott
HOTELS & RESORTS

Marriott Hotels & Resorts Atlanta, GA

16 Hotels Available

Renaissance Atlanta Midtown \$95.01
LOVEST NIGHTLY RATE

The Ritz-Carlton, Atlanta \$549.00
LOVEST NIGHTLY RATE

JW Marriott Atlanta Buckhead \$159.02
LOVEST NIGHTLY RATE

The inexperienced customer can often be fooled into thinking they are on Marriott.com, and/or calling the Marriott reservation center.

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Deceptive Call Centers

The screenshot shows a Google search for "hampton inn". The search results include a link to "Hampton Inn® by Hilton" with the URL "hamptoninn.hilton.com/". Below this, there is an advertisement for "Hampton Inn - Hampton Inn - Best Rates Guaranteed" with the URL "hampton-inn.hotelreservations.com/" and the phone number "(877) 766-2312".

Annotations on the screenshot:

- A blue box labeled "Third Party Site" points to the URL "hamptoninn.hilton.com/" in the search results.
- A blue box labeled "Phone number connects to 3rd party" points to the phone number "(877) 766-2312" in the advertisement.
- A red box highlights the URL "hampton-inn.hotelreservations.com/" in the advertisement.

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Travel & Tourism: Open Doors, Full Rooms

- Reauthorize BrandUSA
- Pass JOLT Act in the House
- Preserve government per diem rates

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Communications: Defining our industry before others do it for us

- Targeted, proactive outreach on key issues:
 - Extreme minimum wage battles
 - OTCs, deceptive practices
 - Labor regulations/Franchise issue/Overtime
 - TRIA, BrandUSA
 - 911 direct-dial
- Providing media guidance and tools for members
- Proactively telling the industry narrative

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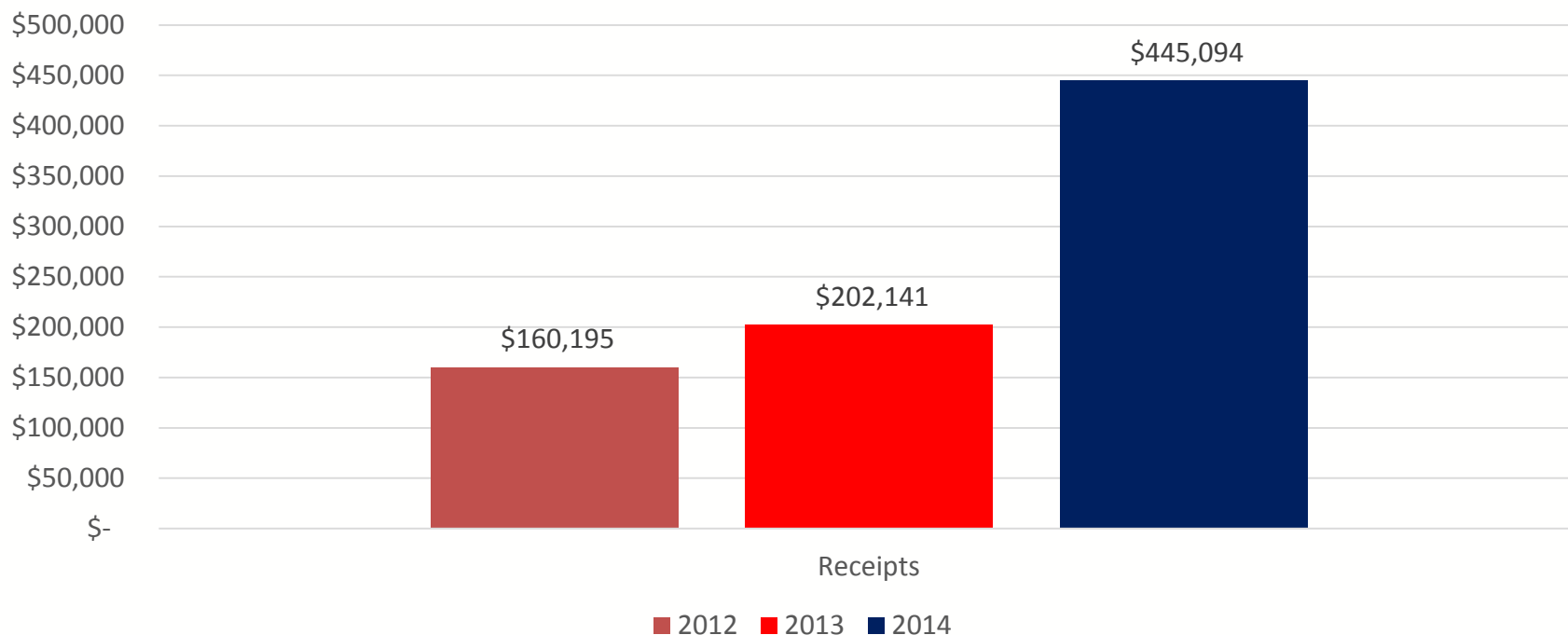
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HotelPAC Growth & Success: 92% Success in 2014 Candidate Support



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2015: A Look Ahead

Workforce

- Local, extreme wage battles
- NLRB joint employer issues and labor regulations
- Affordable Care Act changes – “40-Hour” work week
- Overtime regulations
- Immigration reform

Technology and Distribution

- Short-term online marketplace
- OTC's, remittance of taxes & deceptive practices

Travel and tourism promotion/ Government per diems

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Unity, Participation, and Focus is Driving the New AH&LA

- Stronger, better alignment
 - Power in numbers
- Long-term, sustained focus on advocacy

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Transaction of the Year Award

Beth Van Duyne
Mayor, City of Irving

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Four Seasons Resort and Club Dallas at Las Colinas



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Operators and Brands: What is Coming Next?

Moderator:

Cindy Nelson, Partner,
Gardere Wynne Sewell LLP

Panelists:

Mike Deitemeyer, President, *Omni Hotels & Resorts*

Dave Johnson, President and CEO, *Aimbridge Hospitality L.P.*

Leslie Ng, Chief Investment Officer, *Interstate Hotels & Resorts*

Todd Wynne-Parry, SVP of Development, *Commune Hotels & Resorts*

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Closing Remarks and Thanks

Cindy Nelson

Partner

Gardere Wynne Sewell LLP

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THANK YOU FOR BEING OUR GUEST AT THE 2014 DALLAS HOTEL
CONFERENCE.

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For general conference questions, please contact Ashley Barnes (abarnes@gardere.com).

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