Welcome

2014 DALLAS HOTEL CONFERENCE
Welcome Remarks and Introduction

Cliff Risman
Partner
Gardere Wynne Sewell LLP
Market Update

Dan Lesser
President and CEO

LW Hospitality Advisors LLC
U.S. LODGING FUNDAMENTALS

Paradigm Shift or Movie Rerun?

2014 Dallas Hotel Conference

Presented by:

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November 19, 2014
## U.S. Hotel Industry Macro Overview

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Economy</td>
<td>Contracting</td>
<td>Expanding</td>
<td>Expanding (Slowly)</td>
<td>Expanding (Modestly)</td>
</tr>
<tr>
<td>Jobs</td>
<td>Declining</td>
<td>Declining</td>
<td>Increasing (Slowly)</td>
<td>Increasing (Modestly)</td>
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<tr>
<td>Consumer Spending</td>
<td>Declining</td>
<td>Expanding</td>
<td>Increasing</td>
<td>Increasing</td>
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<tr>
<td>Business Spending</td>
<td>Declining</td>
<td>Expanding</td>
<td>Increased (Now Stagnant)</td>
<td>Accelerating</td>
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<tr>
<td>Supply Growth</td>
<td>Accelerating</td>
<td>Stabilized</td>
<td>Muted</td>
<td>Accelerating</td>
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<tr>
<td>Room Night Demand</td>
<td>Declining</td>
<td>Growing</td>
<td>Record Levels</td>
<td>Continued Record Levels</td>
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</table>

### U.S. Hotel Performance

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Supply</td>
<td>▲ 2.6%</td>
<td>▲ 3.2%</td>
<td>▲ 2.0%</td>
<td>▲ 0.6%</td>
<td>▲ 0.5%</td>
<td>▲ 1.0%</td>
<td>▲ 1.3%</td>
</tr>
<tr>
<td>Demand</td>
<td>▼ 1.9%</td>
<td>▼ 5.8%</td>
<td>▲ 7.8%</td>
<td>▲ 5.0%</td>
<td>▲ 3.0%</td>
<td>▲ 3.6%</td>
<td>▲ 2.1%</td>
</tr>
<tr>
<td>Occupancy</td>
<td>▼ 4.4%</td>
<td>▼ 8.7%</td>
<td>▲ 5.7%</td>
<td>▲ 4.4%</td>
<td>▲ 2.5%</td>
<td>▲ 2.6%</td>
<td>▲ 0.7%</td>
</tr>
<tr>
<td>ADR</td>
<td>▲ 2.7%</td>
<td>▼ 8.8%</td>
<td>▼ 0.1%</td>
<td>▲ 3.7%</td>
<td>▲ 4.2%</td>
<td>▲ 4.2%</td>
<td>▲ 4.4%</td>
</tr>
<tr>
<td>RevPAR</td>
<td>▼ 1.8%</td>
<td>▼ 16.7%</td>
<td>▲ 5.5%</td>
<td>▲ 8.2%</td>
<td>▲ 6.8%</td>
<td>▲ 6.9%</td>
<td>▲ 6.0%</td>
</tr>
</tbody>
</table>

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
### 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
U.S. LODGING FUNDAMENTALS

Paradigm Shift or Movie Rerun?

ONLY TIME WILL TELL

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November 19, 2014
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
2014 DALLAS HOTEL CONFERENCE

AH&LA and Legislative Update: Policy Priorities

Katherine Lugar
President and CEO
American Hotel & Lodging Association

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

• Stronger, better alignment

• Power in numbers

• Long-term, sustained focus on advocacy
2014 DALLAS HOTEL CONFERENCE

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

Presented by:
## 2014 Dallas Hotel Conference

**New Focus = Stronger Membership**

<table>
<thead>
<tr>
<th>January 1, 2014</th>
<th>October 31, 2014</th>
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<tbody>
<tr>
<td>8,663 properties</td>
<td>19,678 properties</td>
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<tr>
<td>1.37 million rooms</td>
<td>2.5 million rooms</td>
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</table>

Presented by:
Advocacy: Keys to Success and Strength in 2014

• Defeat extreme wage initiatives

• Tackle digital and distribution challenges

• Promote travel and tourism
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

Presented by:
WORKFORCE ISSUES
Local Extreme Wage Initiatives

- **Seattle** - council agreed to $15/hour; damaging franchise provision subject of litigation.
- **L.A.** - $15.37 hotel-only adopted, litigation underway. Debate on broad minimum wage increase underway.
- **San Diego** - voters will decide on $11.50 in June 2016.
- **Chicago** - $13/hour proposal from Mayor's committee. State may preempt.
- **Providence** - $15/hr hotel-only initiative defeated. State legislature passed preemption legislation.
Continuing to build a multi-pronged approach and strategy

Presented by:

Aimbridge Hospitality
GARDERE
HFF
State Minimum Wage Preemption

States in which wage preemption legislation will be pursued in 2015
Minimum Wage Preemption Legislation Enacted

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2014 DALLAS HOTEL CONFERENCE

Telling Our Positive Industry Story

Presented by:

Aimbridge Hospitality
Gardere
Alvarez & Marsal
HFF
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

Presented by:
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
Other Workforce Issues

• ACA implementation: revise full-time definition to 40 hours

• Immigration reform

• New overtime rules
Airbnb Continues Rapid Expansion

Presented by:

Aimbridge Hospitality
GARDERE
Alvarez & Marsal
HFF
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.

Presented by:
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

- Hotel & Lodging (AAHOA, BNB Finder, PAIL)
- 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

Presented by:
Short Term Online Rentals: The Advocate Toolkit & Website

Presented by:

Aimbridge Hospitality  GARDERE  ALVAREZ & MARSEL  HFF
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
Deceptive Ad Buys: Unauthorized Purchase of Words

Use of hotel name in link

Use of part of hotel URL in link

Presented by:

Aimbridge Hospitality
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HFF
The inexperienced customer can often be fooled into thinking they are on Marriott.com, and/or calling the Marriott reservation center.
Deceptive Call Centers

Google search for "hampton inn" showing an advertisement for "Hampton Inn - Hampton Inn - Best Rates Guaranteed" with a phone number (877) 766-2312. The phone number connects to a third-party site.

Confidential – Not to be shared outside AH&LA CIF membership
Travel & Tourism: Open Doors, Full Rooms

- Reauthorize BrandUSA
- Pass JOLT Act in the House
- Preserve government per diem rates
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
HotelPAC Growth & Success:
92% Success in 2014 Candidate Support
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

Presented by:

[Logos of Aimbridge Hospitality, Gardere, Alvarez & Marsal, HFF]
Unity, Participation, and Focus is Driving the New AH&LA

- Stronger, better alignment
- Power in numbers
- Long-term, sustained focus on advocacy
Transaction of the Year Award

Beth Van Duyne
Mayor, City of Irving
Four Seasons Resort and Club
Dallas at Las Colinas
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
Closing Remarks and Thanks

Cindy Nelson
Partner
Gardere Wynne Sewell LLP
THANK YOU FOR BEING OUR GUEST AT THE 2014 DALLAS HOTEL CONFERENCE.

FOR MORE INFORMATION ON THE DALLAS HOTEL CONFERENCE SPONSORS, PLEASE SEE BELOW.

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

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