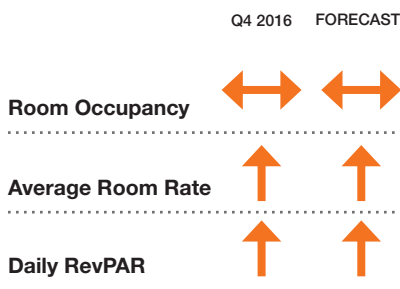


Portland Hotels

Market Forecast



Market Up Close

Hotel occupancy rates near Portland Airport have remained quite strong for several years. Occupancy in the Rose Quarter slipped slightly in 2016, but remained at a healthy level. Hotels in North Portland reported lower rates of occupancy.

Room prices increased in every market surveyed. Especially strong rate growth was achieved by upscale and midscale hotels near the airport.

Since January 2015, there have been 23 significant hotel sales in the Portland MSA. The highest price was paid for a luxury hotel in Downtown Portland.

Eleven new hotels with 1,480 guestrooms have opened since 2014. Six hotels with 1,079 guestrooms are under construction in Portland, Hillsboro, and Camas.

In some markets, increases in supply could outpace growth in demand, resulting in lower occupancy rates and more competitive pricing.

Hotels in and near Portland are operating near equilibrium, with minimal fluctuation in occupancy and sustained growth in room prices. Nearly a dozen hotels have opened over the past three years, but market demand has proved sufficient to absorb this new capacity. While pending additions to supply could reduce occupancy rates in the Portland CBD, we expect that most markets will see higher room prices and continued growth in revenue.

There are still opportunities for development of new hotels. Many small and midsize communities outside the Portland metro area have seen little or no construction in over a decade. In such markets, a new hotel can quickly become the dominant lodging property if properly sized, positioned, and branded.

HOTEL PERFORMANCE

During 2016, Kidder Mathews completed 41 appraisals of hotels in the Pacific Northwest and California. The results discussed below reflect the performance of selected Oregon submarkets. Measures of demand include the market occupancy rate, the market average daily room rate (ADR), and revenue per available room (RevPAR). Sources of historical data include property managers, franchise representatives, and targeted surveys. Estimates for 2016 were extrapolated from partial year results and adjusted for seasonality.

Portland MSA

The upscale hotels near Portland Airport reported very strong performance. For 2016, we estimate that this set generated a market occupancy rate of 80%, a market average room rate of \$145, and market RevPAR of \$116. The nearby midscale hotels reported similar rates of occupancy, but with an ADR of only

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Area Review

Hotel Performance

Market	Tier	Room Occupancy			Average Room Rate			Daily RevPAR		
		2015	2016 est.	Change	2015	2016 est.	Change	2015	2016 est.	Change
Portland Airport	Upscale	82%	80%	-1.8%	\$135	\$145	7.4%	\$110	\$116	5.4%
Portland Airport	Midscale	79%	79%	0.0%	\$96	\$103	7.3%	\$76	\$81	7.3%
Portland North	Overall	64%	66%	3.1%	\$109	\$113	3.7%	\$70	\$75	6.9%
Portland Rose Quarter	Midscale	75%	72%	-4.0%	\$111	\$114	2.7%	\$83	\$82	-1.4%
PORTLAND MSA		75%	74%	-0.8%	\$113	\$119	5.3%	\$84	\$88	4.4%
Coos Bay	Overall	63%	65%	3.2%	\$86	\$88	2.3%	\$54	\$57	5.6%
Eugene	Upscale	73%	74%	1.4%	\$123	\$136	10.6%	\$90	\$101	12.1%
Seaside	Overall	61%	61%	0.0%	\$135	\$138	2.2%	\$82	\$84	2.2%
OTHER OREGON		66%	67%	1.5%	\$115	\$121	5.2%	\$75	\$80	6.8%
SAMPLE AVERAGE		71%	71%	0.1%	\$114	\$120	5.3%	\$81	\$85	5.4%

\$103 and RevPAR of \$81. For each subset, room prices increased by more than 7% over the prior year.

The Portland North market is made up of hotels in Jantzen Beach, North Harbour, and Delta Park. The market occupancy rate for these hotels was 64% in 2015 and is estimated at 66% in 2016. The market ADR increased from \$109 to \$113, for growth of nearly 4%.

Features of the Rose Quarter include the Oregon Convention Center, Moda Center (sporting events), and Lloyd Center (retail shopping). During 2016, we estimate that the midscale hotels in this area achieved a market occupancy rate of 72% and a market ADR of \$114. Room prices increased by about 3%, but the market occupancy rate declined slightly. The performance of the midscale hotels may have been indirectly affected by the opening of the upscale Hotel Eastlund.

Other Oregon

Upscale hotels in Eugene and Springfield achieved very strong results. Room prices surged during commencement and on football weekends, and were further boosted by high demand during the Olympic track and field trials. The high rates of occupancy achieved in recent years have prompted development of several new hotels.

In the two coastal markets studied, Seaside and Coos Bay, lodging demand is highly seasonal: most hotels operate near capacity in the summer but may struggle to attract guests in the off-season. While the annual occupancy rates of these markets are both relatively low, room prices are much higher in Seaside due to its proximity to Portland.

HOTEL DEVELOPMENT

We identified 11 hotels that have opened in the Portland MSA during the past three years. Together, these properties have 1,480 guestrooms. At year-end, six hotels with 1,079 guestrooms were under construction.

Portland

Downtown Portland is a high-profile target for hotel developers. In 2014, a 223-room Residence Inn opened in the popular Pearl District. The Society Hotel, a trendy but affordable property with 62 guestrooms in a restored vintage structure, opened in 2015. Also in 2015, the former Red Lion Hotel near the convention center was thoroughly renovated and rebranded as the 168-room Hotel Eastlund.

The youngest hotel in Portland is the 203-room Hyatt House, which opened in August 2016. This extended stay hotel features Studio and 1BR suites, each with full

Hotel Development

Name	Address	City	Type	Opening	Rooms
Residence Inn	1150 NW 9th Avenue	Portland	Extended	April 2014	223
Hampton Inn & Suites	19999 NW Tanasbourne Drive	Hillsboro	Limited	July 2014	106
Hampton Inn & Suites	315 SE Olympia Drive	Vancouver	Limited	September 2014	99
Embassy Suites	20001 NW Tanasbourne Drive	Hillsboro	Full	December 2014	165
Hotel Eastlund	1021 NE Grand Avenue	Portland	Select	June 2015	168
TownePlace Suites	17717 SE Mill Plain Boulevard	Vancouver	Extended	July 2015	115
Society Hotel	203 NW 3rd Avenue	Portland	Boutique	November 2015	62
Candlewood Suites	2010 SE 192nd Avenue	Vancouver	Extended	January 2016	83
Residence Inn	3160 NE Brookwood Parkway	Hillsboro	Extended	June 2016	146
Hyatt House Downtown	2080 SW River Drive	Portland	Extended	August 2016	203
Holiday Inn	2575 NW Aloclek Drive	Hillsboro	Select	August 2016	110
AC Hotel by Marriott	888 SW 3rd Avenue	Portland	Select	Under Construction	204
The Hi-Lo Autograph	320 SW Stark Street	Portland	Boutique	Under Construction	120
aloft Hotel	1705 NW Amberglen Court	Hillsboro	Select	Under Construction	137
Hampton Inn & Suites	338 NW 9th Avenue	Portland	Limited	Under Construction	243
Holiday Inn Express	1805 SE 192nd Avenue	Camas	Limited	Under Construction	82
The Porter Hotel	202 SW Jefferson Street	Portland	Full	Under Construction	293

kitchens. It is the lodging component of a large mixed-use development in the southeastern portion of the CBD.

At year-end, four hotels were under construction in Downtown Portland. Projects in the heart of the CBD include the 204-room Marriott AC Hotel (204 rooms), the Marriott Hi-Lo Autograph Hotel (120 rooms), and the Porter Hotel by Hilton (293 rooms). A 243-room Hampton Inn & Suites is being developed in the Pearl District.

Hillsboro

Intel, the largest private employer in the Portland MSA, occupies several campuses in and near Hillsboro. The demand generated by Intel and by numerous peripheral tech companies has supported very high rates of hotel occupancy over a sustained period. In response, developers opened a Hampton Inn & Suites and an Embassy Suites in 2014, and a Residence Inn and a Holiday Inn in 2016. Together, these projects increased the

Hillsboro market supply by more than 500 guestrooms. A 137-room aloft Hotel is projected to open in 2017.

Vancouver/Camas

A Holiday Inn Express is nearing completion in Camas, Washington, just east of the Vancouver city limits. This 82-room hotel is related in ownership to the nearby Vancouver Candlewood Suites that opened in 2016. Vancouver also saw the opening of a Hampton Inn & Suites in 2014 and a TownePlace Suites in 2015.

HOTEL TRANSACTIONS

Since January 2015, and excluding national portfolios, there have been 23 sales of hotels in the Portland MSA at prices exceeding \$2MM. The aggregate transaction volume was \$368.5MM. With 2,374 guestrooms, the average price per room was \$155,230.

Hotel Transactions

Offices

Seattle
206.296.9600

Bellevue
425.454.7040

South Seattle
206.248.7300

Tacoma
253.722.1400

Olympia
360.705.2800

Portland
503.221.9900

San Francisco
415.229.8888

Redwood Shores
650.769.3600

Silicon Valley
408.970.9400

Sacramento
916.970.9700

Roseville
916.751.3600

Los Angeles
213.880.5250

Long Beach
562.472.0071

Commerce
323.727.1144

Orange County
949.557.5000

Inland Empire
909.764.6500

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

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Name	Location	Year Built	Sale Date	Sale Price	Rooms	\$/Room	\$/SF
Hotel Monaco	Portland CBD	1912/1996	March 2016	\$108,300,000	221	\$490,045	\$567
Hilton Garden Inn	Lake Oswego	2000	December 2015	\$33,525,000	179	\$187,291	\$368
Hilton Garden Inn	Beaverton	1999	May 2015	\$30,000,000	150	\$200,000	\$345
River's Edge Hotel	Portland CBD	1980	December 2015	\$28,000,000	99	\$282,828	\$282
Courtyard	Clackamas	1999	May 2015	\$26,000,000	136	\$191,176	\$336
Sentinel Hotel	Portland CBD	1907	March 2015	\$20,000,000	100	\$200,000	\$154
Courtyard	Portland North	1999	September 2015	\$15,184,673	133	\$114,170	\$206
Homewood Suites	Vancouver	1997	December 2015	\$14,653,757	104	\$140,902	\$176
Residence Inn	Portland North	2006	September 2015	\$14,291,457	102	\$140,112	\$179
Residence Inn	Vancouver	1987	May 2015	\$11,921,000	120	\$99,342	\$145
Fairfield Inn & Suites	Portland North	2008	September 2015	\$10,023,870	93	\$107,784	\$213
Days Inn	Clackamas	1986	January 2016	\$8,000,000	96	\$83,333	\$187
Quality Inn	Gresham	1998	October 2015	\$6,250,000	168	\$37,202	\$64
Quality Inn/Rodeway Inn	Portland Airport	1963	June 2015	\$6,043,000	138	\$43,790	\$108
Red Lion Inn & Suites	McMinnville	1998	May 2016	\$5,625,000	67	\$83,955	\$161
Quality Inn	Wilsonville	1994	March 2016	\$5,350,000	63	\$84,921	\$178
Best Western Wilsonville Inn	Wilsonville	1998	April 2015	\$5,323,500	56	\$95,063	\$118
Motel 6	Portland North	2002	September 2016	\$5,265,000	65	\$81,000	\$177
Guest House Vineyard Inn	McMinnville	1993	October 2016	\$4,100,000	65	\$63,077	\$144
Shilo Inn & Suites	Vancouver	1973	April 2016	\$3,400,000	66	\$51,515	\$83
America's Best Value Inn	Portland Airport	1973	July 2015	\$2,810,000	50	\$56,200	\$76
Camas Hotel	Camas	1910	August 2016	\$2,310,000	30	\$77,000	\$217
Howard Johnson Inn	Gresham	1974	December 2015	\$2,140,000	73	\$29,315	\$56

The 221-room Hotel Monaco occupies a vintage structure that was built in 1912 and fully renovated in 1996. It sold in March 2016 for \$108.3MM. The only other Portland hotel sales above \$100MM were the Hilton Hotel in 2012 and The Nines in 2014.

Five hotels in Portland, Clackamas, Beaverton, and Lake Oswego sold in 2015 at prices of \$20.0MM to \$33.5MM. In the same year, three hotels in Portland's North Harbour

district (a Courtyard, a Residence Inn, and a Fairfield Inn & Suites) were purchased in a portfolio transaction at a combined price of \$39.5MM.

Among the sales under \$20MM, prices ranged from \$29,315/room to \$140,902/room and from \$56/sq ft to \$217/sq ft. For the six sales at the top of the market, prices ranged from \$187,291/room to \$490,045/room and from \$154/sq ft to \$567/sq ft.