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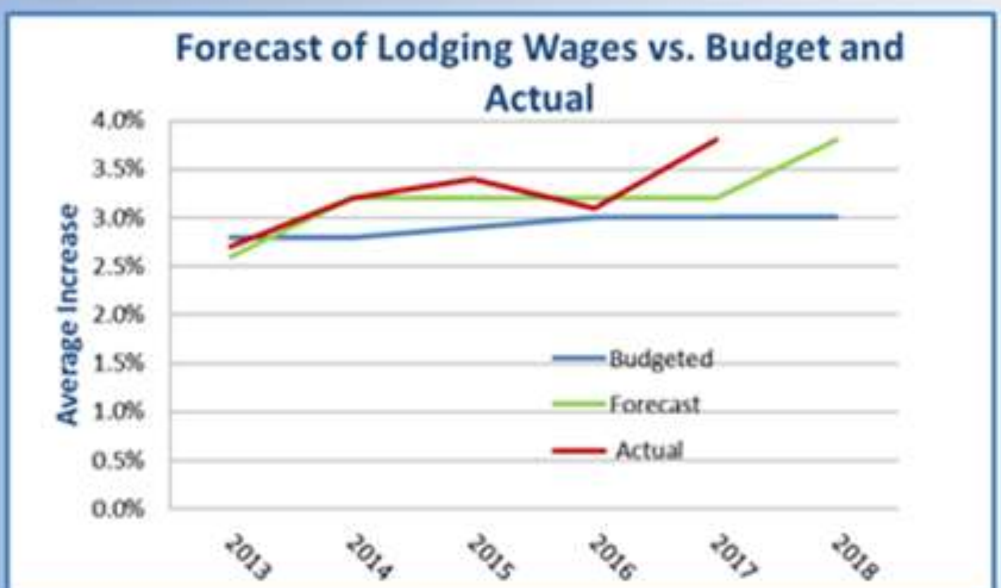
U.S. Lodging

WAGE FORECAST — 2018



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U.S. LODGING
WAGE FORECAST
2018

WageWatch Forecast of Wages – 2018; Published 2/27/18

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SUMMARY

WageWatch is forecasting salary and wage increases for the U.S. lodging industry of 3.8% in 2018. This will be equal to the 2017 actual wage increases of 3.8% as reported in the WageWatch PeerMark™ Salary Survey for 2017. We forecast wages for non-exempt positions on average will increase by 4.0% and exempt positions on average will increase by 2.5% in 2018.

Our forecast of average wage increases for the lodging industry in 2018 is higher than the WageWatch 2018 Budgeted Wage Survey for hotel employees, conducted from January 7 to February 23, 2018. Lodging companies representing 10,000 hotels with 1.9 million rooms and 595,000 employees were surveyed. The survey results disclosed budgeted or planned wage increases ranging from a low of 1.0% to a high of 6.0% with a median of 3.0% and a weighted average of 3.0%.

RECAP OF LODGING WAGES FOR 2017

The U.S. Lodging industry continues to outperform the U.S. labor market in terms of wage increases and growth of the labor force. Last year was the sixth year in a row the Lodging industry outperformed the U.S. labor market. Based on the WageWatch PeerMark™ 2017 Wage Survey of 6,000 hotels with 400,000 employees, the overall average increase in pay was 3.8%.

Most of the increases occurred in non-exempt jobs with an increase of 4.2% as compared to exempt jobs with a 2.0% increase. The national average pay increase for 2017, as reported by the Bureau of Labor Statistics, was 2.8% for all civilian workers. The following table presents the wage increases for the period 2013 through 2017 for all reported positions, exempt and non-exempt.

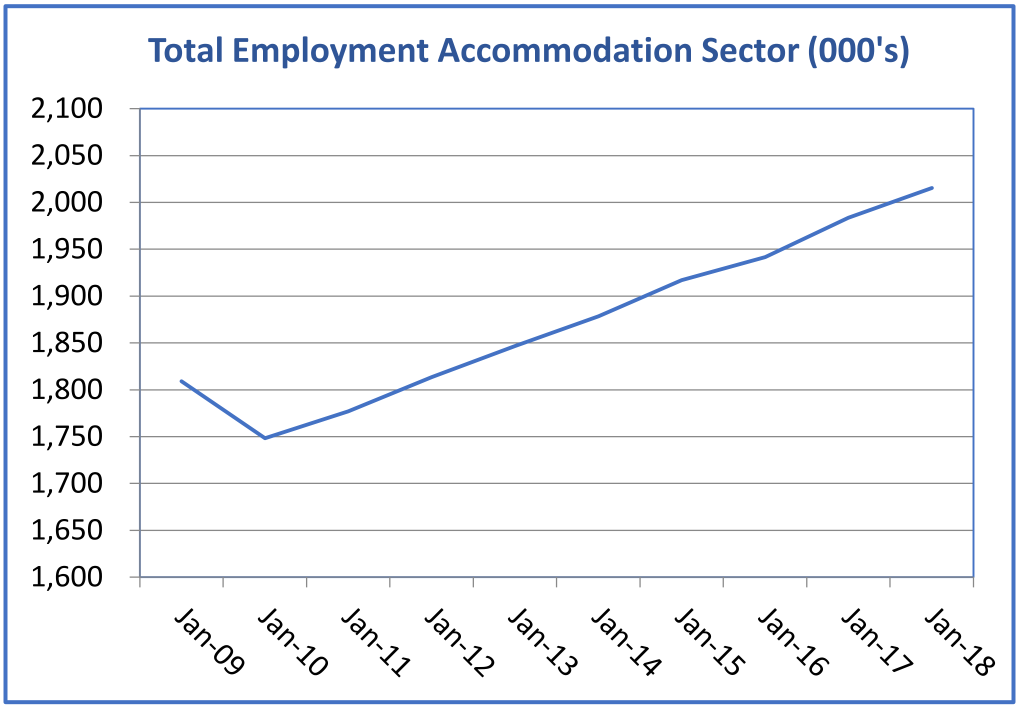
WAGE INCREASES	2013	2014	2015	2016	2017
All Reported Positions	2.7%	3.2%	3.4%	3.1%	3.8%
Exempt Positions	2.8%	4.2%	4.3%	2.2%	2.0%
Non-Exempt Positions	2.7%	2.9%	3.2%	3.8%	4.2%

Source: WageWatch 2017 PeerMark™ Survey

The table illustrates an annual growth rate which has increased every year for all reported positions and non-exempt positions. Exempt position wages have stabilized after a period of upward adjustment from 2013 to 2015 and track the national inflation rate as reported by the Federal Reserve Board. As will be discussed later in this report, WageWatch attributes the strong growth of non-exempt wages to two factors:

- First, the labor market has tightened substantially with the unemployment rate as reported by the Bureau of Economic Analysis (BEA) at a low point of 4.1%.
- Second, the overall employment situation for the Accommodations sector, as reported by the Bureau of Labor Statistics, continues to reach new levels of employment as the industry adds new hotels to supply and continues to have strong financial performance.

In April 2017 employment surpassed 2,000,000 and ended the year at 2,015,500. The following chart of the BLS Accommodation Sector data shows the record level of employment. This trend will continue in 2018 as new hotels are added to supply.



The average percentage increase in wages for full-service and focused/economy-service hotel employees continued to diverge in 2017, as focused and economy-service hotels' wages grew at a much faster rate than full-service hotels. The 4.8% increase in wages for focused and economy-service hotels this past year reflects the continuing strong financial performance of the economy and midscale chains in the lodging industry as reported by STR. It also reflects the impact of increases in minimum wages in states and cities across the country. Focused-service and economy hotels as compared to full-service hotels have fewer supervisory and management positions, which are not subject to minimum wage increases.

WAGE INCREASES	2013	2014	2015	2016	2017
Full-Service Hotels	2.8%	3.9%	2.8%	2.4%	2.9%
Focused/Economy-Service Hotels	1.8%	2.7%	4.3%	4.2%	4.8%

Source: WageWatch 2017 PeerMark™ Survey

The following two tables present the average wage increases for a sample of key positions for focused/economy-service hotels and full-services hotels. As the tables show, wages in 2017 increased, on average, well above 2016 for focused/economy-service and full-service hotels.

Positions with average wage increases below the industry average, and with a median lower than the position average, are indications of churning with higher turnover or promotions with new hires coming in at entry level wages. Starting pay rates are typically 15% to 20% lower than the average or median pay rate for line positions.

FOCUSED/ECONOMY- SERVICE HOTELS	2016 Increase	2017 Increase
Engineering Supervisor/Chief Engineer	8.3%	3.0%
Maintenance Technician II, Intermediate Level	10.1%	2.9%
Maintenance Technician III Advanced	7.5%	2.6%
Housekeeping Supervisor/Inspector	4.0%	8.4%
Housekeeper/ Environmental Services Attendant	4.7%	4.3%
Front Desk/Shift Supervisor	3.9%	7.0%
Front Desk Agent	4.5%	3.4%
Cook, Breakfast	2.5%	6.1%
Food Server/Wait Staff	2.8%	15.0%
Laundry Worker	4.6%	3.6%

Source: WageWatch 2017 PeerMark™ Survey

FULL-SERVICE HOTELS	2016 Increase	2017 Increase
Maintenance and Engineering Manager	6.4%	2.0%
Maintenance Technician II, Intermediate Level	4.0%	7.3%
Maintenance Technician III, Advanced	4.2%	4.7%
Director of Food and Beverage	4.2%	2.8%
Restaurant Supervisor	3.2%	7.0%
Cook, Breakfast	1.6%	6.7%
Steward/Dishwasher	4.2%	7.1%
Food Server/Wait Staff	2.4%	10.9%
Housekeeping Supervisor/Inspector	3.5%	7.0%
Housekeeper/ Environmental Services Attendant	2.8%	8.4%
Laundry Manager	2.6%	4.1%
Laundry Worker	2.5%	6.1%

Source: WageWatch 2017 PeerMark™ Survey

WAGEWATCH 2018 BUDGETED WAGE SURVEY

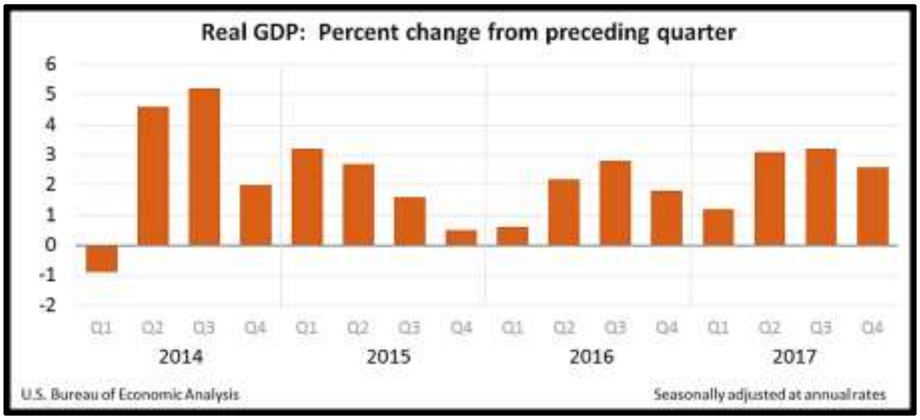
WageWatch conducts an annual survey of hotel management companies to gain insight into planned or budget wage increases for the forthcoming year. The survey for 2018 was conducted from January 5 through February 23. Management companies representing 10,000 hotels and 595,000 employees were included in the survey. The key findings of the survey this year were as follows:

- Planned increases to base pay, on average, for all employees range from a low of 2% to a high of 5%. The 25th percentile, the 50th percentile (Median), and the 75th percentile are all 3.0%.
- Planned increases for hourly employees to base pay range from a low of 2% to a high of 8%. The median is 3% as well as the 25th percentile. The 75th percentile is 4%.
- Planned increases in 2018 to base pay for salaried employees ranged from a low of 2% to a high of 8%. The median is 3% as is the 25th percentile. The 75th percentile is 4%.
- Planned increases in 2018, to base pay, for executives ranged from a low of 0% to a high of 20%. The median and 25th percentile is 3%. The 75th percentile is 4.5%.
- Most hotel companies target base pay using the median for each job from a composite of competitive hotels. The second most used target is the 60th percentile.
- The preferred month for implementing a pay increase is January, April is the second choice, and the anniversary date of the employee being the third most used.
- Most management companies pay bonuses independently from pay increases.
- Part-time hours are reported with a median of 29 hours, the 25th percentile of 29 hours, and the 75th percentile of 29.9 hours.
- The median for the percentage that labor costs represent, on average, of all operating expenses is 30%, with 22.2% as the 25th percentile, and 40% is the 75th percentile.

ECONOMIC TRENDS AND THEIR IMPACT ON EMPLOYMENT AND WAGES

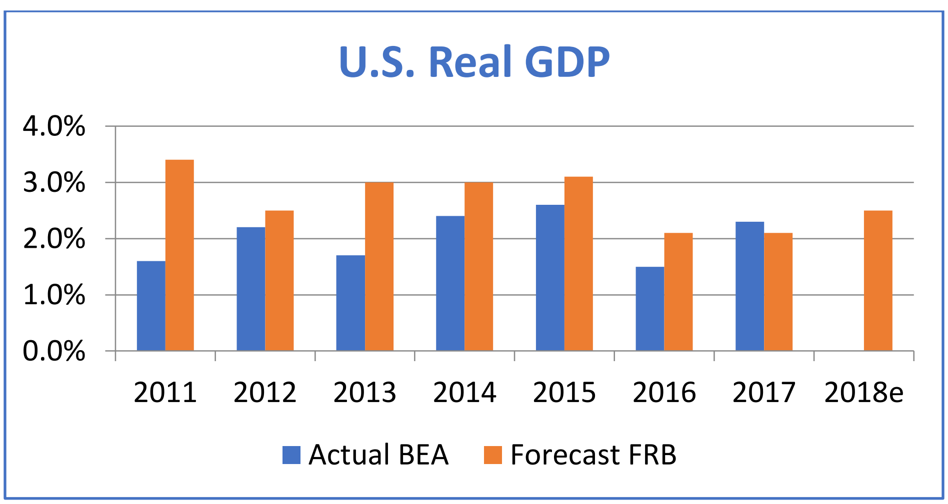
The economic outlook for 2018 in the U.S. and internationally is very positive. The upswing in the global markets, which began in 2016 and continued through 2017, is forecast to strengthen in 2018 and 2019. The International Monetary Fund's World Economic Outlook Update, as of January 2018, forecasts global growth for 2018 and 2019 of 3.9% each year following a solid growth rate of 3.7% in 2017. For emerging markets, the IMF forecast is for 4.9% growth in 2018 with China and India leading the way with increases of 6.6% and 7.4%, respectively. After a stronger than expected growth rate of 2.6% in 2017 in the U.S., the IMF increased its forecasts of U.S. real GDP to 2.7% for 2018 and to 2.5% in 2019.

Similarly, the Federal Reserve Open Market Committee (FRB) has increased its forecast for U.S. economic growth for 2018 to 2.5% after a better than expected real GDP growth rate in 2017 of 2.5% as compared to 1.9% for 2016. The BEA January 2018 report shows 2017 real GDP growth of 2.3% year over year. The following chart depicts the quarterly growth rate for the past three years. The last three quarters were the three strongest quarters back to back since the Great Recession ended.



Source: Bureau of Labor Statistics, January 2017

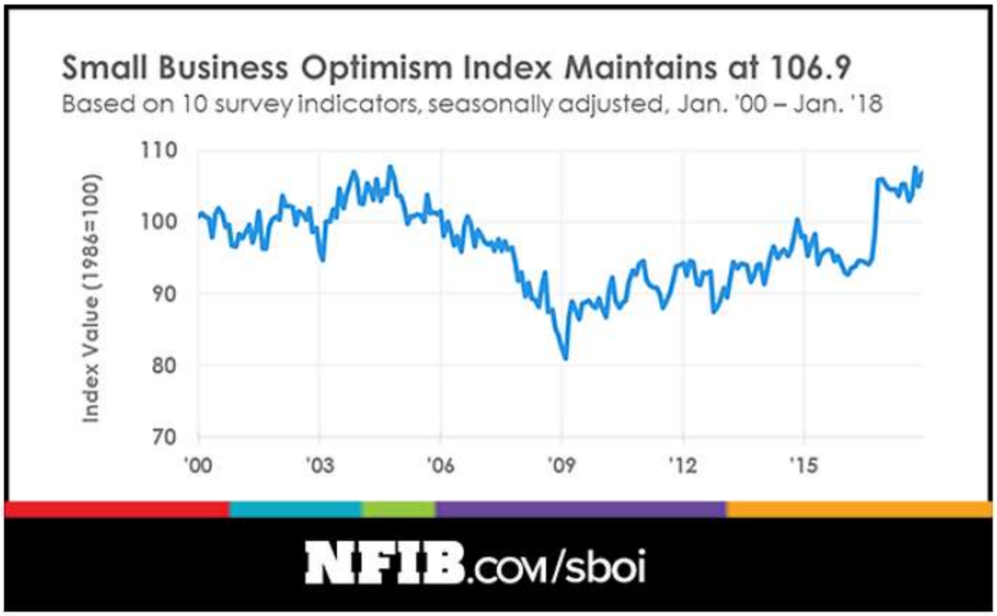
Interestingly, 2017 was the first year in which actual U.S. economic performance exceeded the FRB forecast. The FRB's forecasts have, on average, exceeded the actual performance of the U.S. economy by 30% except for 2017, where the U.S. economy grew at a faster rate than forecast by the FRB. The following chart depicts the forecasts of real GDP by the Federal Reserve economists and actual real GDP as reported by the U.S. Bureau of Economic Analysis for each year. Looking ahead, as the chart shows, the FRB is forecasting 2.5% GDP growth in 2018.



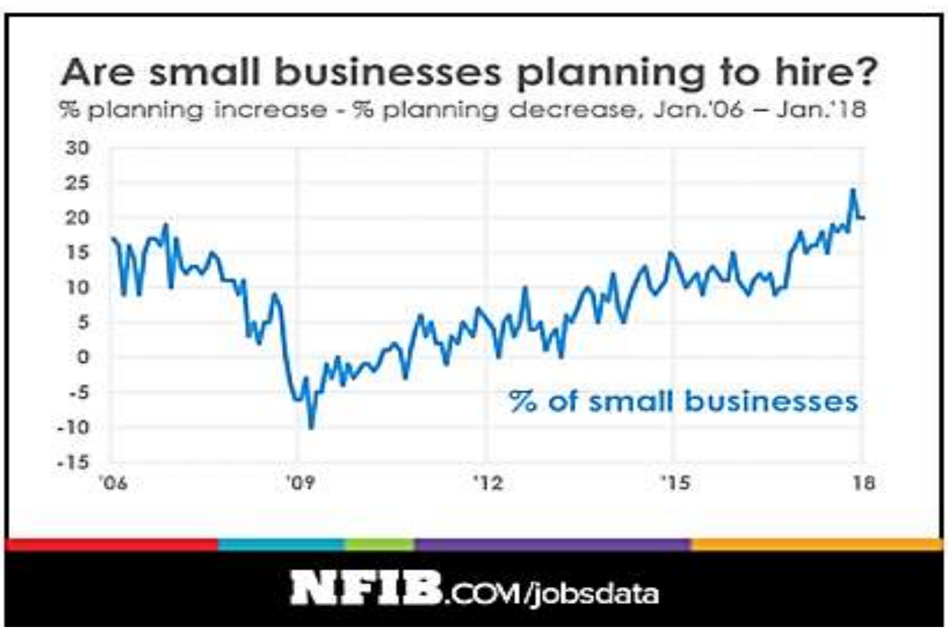
Source: Federal Reserve Board, U.S. Bureau of Economic Analysis

Last year, we predicted 2017 could be the year "Animal Spirits" (Irrational Exuberance as the FRB would say) reentered the U.S. economy. There were signs of a surge in business and consumer confidence that had not occurred in a decade. Business executives surveyed in February 2017, by the American Institute of Certified Public Accountants, reported that 69% were optimistic about the 2017 economy. For 2018, the AICPA survey, conducted from

November 1-28, 2017, of business executives showed 74% were optimistic about the economy because of the easing of banking and environmental regulations and the planned reduction of U.S. taxes. Another indicator of the potential for strong growth in 2018 is the survey of 350,000 small businesses conducted by the National Federation of Independent Businesses in January 2018. Their index of 10 important business indicators was 106.9, its highest level since 2005. Small business owners remain confident about the future as the following chart shows.



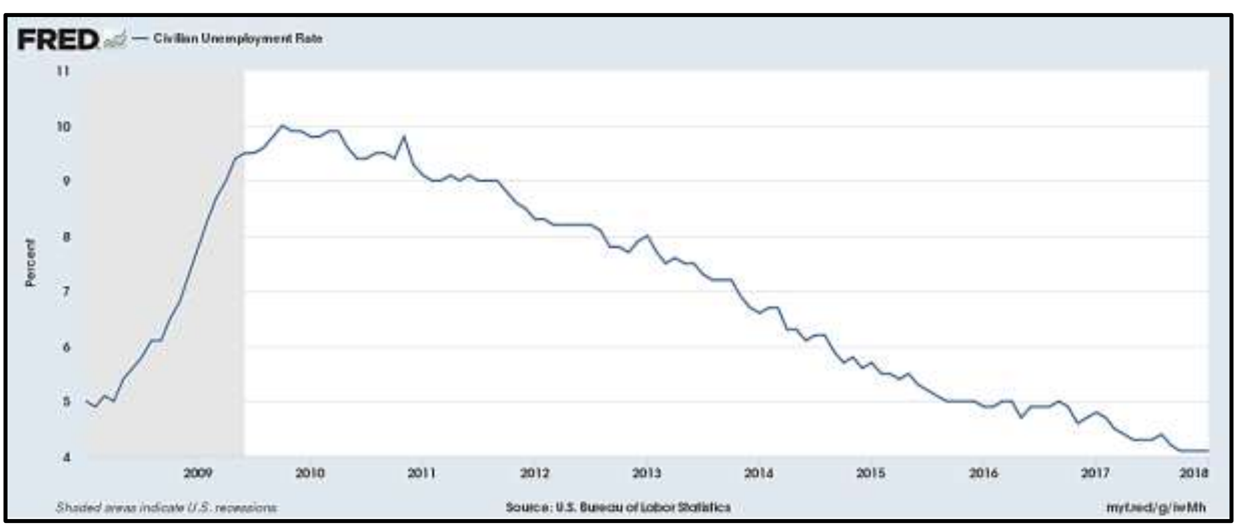
One of the business indicators that the NFIB surveys is the how many small businesses are planning on hiring versus those who are not planning on hiring. This index is at its highest point since the survey was started in 1974. The following chart shows the percentage is over 20%.



Because of the questionable reliability of the FRB's forecasts, WageWatch analysts reviewed many other credible sources for their economic outlook of the U.S. economy. The primary objective of the FRB is to manage inflation. Their second objective is to reduce unemployment, but only after they have controlled inflation. These objectives may be causing a bias in their forecasts.

An example of how this may be the case is the U-3 civilian unemployment rate. The labor participation rate measures the employed people as a percentage of the labor force. During economic recessions, the ratio tends to decline as unemployed become discouraged and quit looking for employment and are removed from the equation. The following chart shows how labor participation rate remains low despite the economic recovery.

While the participation rate remains low, the U-3 civilian unemployment rate is 4.1%, the baseline often quoted in the press is at a 17-year low! Full employment is considered to have been reached at 4.7%, so we are theoretically over-employed. The following chart shows the U-3 rate.



The inverse of the U-3 civilian unemployment rate is wage inflation. So as the U-3 reaches full employment, the wage inflation rate is supposed to increase. However, we are not experiencing wage inflation anywhere close to what the equation says it should be. This ambiguity has been causing a lot of debate among economists over the past decade. The message that it delivers is the U-3 is not driving wage inflation and the likely reason is the U-3 does not correctly measure unemployment; therefore, employment is not as strong as suggested by the U-3 rate.

The significance of this debate is what will the FRB do? If they believe we are at full employment and the economy is close to being topped out and inflation is going to increase substantially in 2018 and 2019, the FRB will increase the federal fund's interest rate three or four times during the year. This will, of course, drive up the bond interest rate and funds will begin to flow from the stock market into bond purchases. The stock market will have a serious correction which will have serious consequences for all investors. It could be the beginning of a recession.

As the federal funds rate increases, interest rates for real estate purchases and development will rise sharply and the pipeline for projects will begin to stall as it becomes costlier to do business. For the hotel industry, this would mean the slowing of future hotel projects and higher finance costs for existing hotels. This situation bears watching as it could have a serious impact on the U.S. economy and the lodging industry.

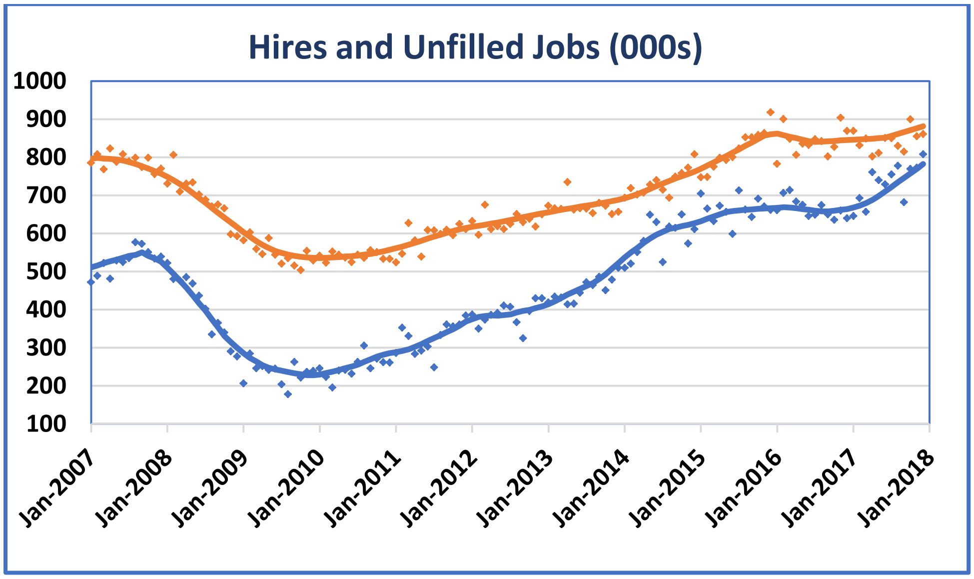
There have been many technical papers and news articles written about the uncertainty of the FRB's economic model. If you are interested in this topic, we recommend reading John Mauldin's article, Data-Dependent…on Imaginary Data, published February 18, 2018.

ECONOMIC IMPACT ON LODGING EMPLOYMENT AND WAGES

The continued strong optimism expressed by businesses, the strongest economy we have had in 10-years, the tightening labor market for hotels as more rooms are added, and the continued regulatory pressure to increase minimum wages around the country, translates into continued strong growth in wages for hotel employees. For 2017, the Bureau of Labor Statistics reported the average increase for all wages and salaries in the U.S. was 2.8%. For the Accommodations sector, wages and salary increases were 2.2%; however, separating out the nonsupervisory and management jobs, the average increase was 3.1% for line employees.

As discussed in the Recap of Lodging Wages for 2017, our analysis of wage increases for 2017 over 2016 are based on the WageWatch PeerMark™ Survey. The increase of 3.8% in the average base pay for all jobs in the lodging industry is 1% higher than that reported by the BLS for all civilian workers. This is a strong indicator of a tighter labor market for the lodging industry when compared to the overall labor market.

The following chart shows the number of hires and unfilled job openings in the Accommodation and Food Service sector at the end of each month, as provided by the Bureau of Labor Statistics. Unfilled jobs increased significantly from 650,000 at the 2016 year-end to 780,000 at the 2017 year-end. This represents about 47% of jobs remain open. As you can see from the chart, unfilled jobs have exceeded the highest level experienced before the Great Recession for the last three years. These factors will continue to lead to higher turnover rates as employees working in the Lodging and Food Service industries feel more confident about leaving a job in search of a better job opportunity and higher pay.



WAGEWATCH 2018 FORECAST OF WAGES

WageWatch is forecasting a continuation of record employment for the lodging industry in 2018. As reported by the BLS, the Accommodations sector ended the year with 2,014,100 employees as compared to 1,983,300 employees in 2016. For 2018, we forecast that an additional 35,000 employees will be added, bringing the total to 2,050,000. This will be 150,000 more employed than the last high, just before the Great Recession.

This estimate is based, in part, on the STR Market Forecast and Pipeline reports and CBRE Hotels Americas Research's Hotel Horizons. For 2018, both are forecasting an increase in rooms supply of 2% and a RevPAR increase of 2.7%. Their forecasts call for a small increase in occupancy from 65.7% in 2017 to 65.9% in 2017.

For 2018, WageWatch forecasts an increase in wages of 3.8% for all positions in the lodging industry, which is the same increase that occurred for 2017. Exempt positions will increase, on average, 2.5% in 2018 as compared to 2.0% last year. Non-exempt positions will increase by 4.0% as compared to 4.2% in 2017.

This conclusion is based on economic growth in 2018 as measured by real GDP is at least 2.5%, as forecast by the FRB, and likely closer to 2.7% to 2.9% as forecast by several other reliable forecast sources. The strong financial performance of the lodging industry and the continued improvement of the national economy will result in a tightening labor market and increasing pressure on filling open positions, which translates into higher starting wages in the lodging industry.

The forecast wage increase of 3.8% for the lodging industry, is well above the increase for the total civilian workforce in the U.S. of 2.8% for 2017, and should exceed the overall increase for civilian employment in 2018. The following chart compares our forecast wage increase versus budgeted or planned wage increases by hotels as surveyed by WageWatch in January 2018, actual performance for the years 2013 through 2017, as reported in the WageWatch PeerMark™ Survey, and our 2018 forecast of wage increases.