The State of the Current Economy and the Impact on Hospitality
5th Annual Economic Forecasting Seminar

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Beacon Economics, LLC.
U.S. Economy
Economic Expansions Don’t Die of Old Age
Not when, but why?

Economic Expansionary Periods (Months): 1854 to Present

Source: National Bureau of Economic Research
WSJ Next Recession Poll (May 2018)

Source: WSJ Survey of Economists
The Good, the Bad, and the Ugly

- **Meet the new economy, same as the old economy**
  - Economy on a steady path since 2014-2015 global commodity bust
  - Labor markets, business investment, wages, exports, energy, housing all on good trends
  - 2018 better: Good momentum with fiscal stimulus after-burner
  - Beacon Economics models still have a low probability of recession in next 24 months

- **Brakes and Imbalances**
  - Labor shortages impacting employers
  - Aggressive Fed: rising rates, flattening yield curves
  - Sharp growth in government deficits
  - Global trade / security worries
GDP
2017: 2.3% - 2018: 2.2 to 4.1% YTD

Real Gross Domestic Product Growth
YTY % Change

Contributions to Change in GDP

<table>
<thead>
<tr>
<th>Sector</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer</td>
<td>2.5</td>
<td>1.9</td>
<td>1.9</td>
</tr>
<tr>
<td>Investment</td>
<td>0.9</td>
<td>-0.3</td>
<td>0.5</td>
</tr>
<tr>
<td>Net exports</td>
<td>-0.7</td>
<td>-0.2</td>
<td>-0.2</td>
</tr>
<tr>
<td>Government</td>
<td>0.2</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Total GDP % Chg.</td>
<td>2.9</td>
<td>1.5</td>
<td>2.3*</td>
</tr>
</tbody>
</table>

Source: Bureau of Economic Analysis
Real Consumer Spending by Type
(Year-Over-Year Percentage Growth to June 2018)

Source: Bureau of Economic Analysis
U.S. Job Openings Rate – All Time High

- Nationwide job openings rate at an all time high
- Not just total non-farm jobs but also job opening rates among industries closely related to hotels.
- As of June 2018:
  - Arts, Entertainment and Recreation: 3.7%
  - Leisure and Hospitality: 5.2%
  - Accommodation and Food Services: 5.4%

Source: Job Openings and Labor Turnover Statistics (JOLTS), Bureau of Labor Statistics
San Francisco Economy

Hotel Industry
San Francisco’s Overall Economy is Very Strong

Change in Full-Time Employment by Income for San Francisco Residents, 2012-2016

Number of Full-Time Jobs

-30,000 -20,000 -10,000 0 10,000 20,000 30,000 40,000 50,000 60,000 70,000 80,000

- Less than $35,000
- $35,000 to $64,999
- $65,000 to $99,999
- $100,000 or more

Lowest Unemployment Rate: June 2018

San Francisco (MD)
San Rafael (MD)
San Jose
Santa Rosa
Orange County (MD)
San Luis Obispo
Oakland (MD)
Napa
San Diego
Ventura
Sacramento
Santa Barbara
Vallejo
California

Source: American Community Survey and Bureau of Labor Statistics
Declining Hotel and Motel Employment in SF

- Employment in hotels and motels have failed to recover post Great Recession in San Francisco.
  - Since the 2008 employment peak, the industry had lost 15% of jobs.
  - In contrast, hotels and motels employment increased by 7% statewide during the same period.

Source: Quarterly Census of Employment and Wages, Bureau of Labor Statistics
### San Francisco and Neighbors

#### Hotel Industry Statistics and 5-Year Change

<table>
<thead>
<tr>
<th>Location</th>
<th>Employment</th>
<th>Establishments</th>
<th>Avg. Annual Wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Francisco</td>
<td>15,650 (-7.9%)</td>
<td>257 (+6)</td>
<td>$51,614 (+20.2%)</td>
</tr>
<tr>
<td>San Mateo</td>
<td>6,034 (+15.2%)</td>
<td>137 (-6)</td>
<td>$41,480 (+27.7%)</td>
</tr>
<tr>
<td>Santa Clara</td>
<td>8,646 (+16.8%)</td>
<td>246 (+38)</td>
<td>$36,902 (+23.9%)</td>
</tr>
<tr>
<td>Santa Cruz</td>
<td>1,204 (+10.9%)</td>
<td>66 (+7)</td>
<td>$28,361 (+27.1%)</td>
</tr>
<tr>
<td>California</td>
<td>210,774 (+10.1%)</td>
<td>5541 (+473)</td>
<td>$35,885 (+18.7%)</td>
</tr>
</tbody>
</table>

Source: Quarterly Census of Employment and Wages, Bureau of Labor Statistics
Restaurants and Hotels Spending Slowed Down in San Francisco and in California

- Spending on restaurants and hotels slowed down since beginning of 2015
  - SF’s slow down more drastic than CA’s.
- YOY sales tax receipt increased by just 1.5% for Restaurants and Hotels in San Francisco:
  - Much lower than statewide’s YOY increase (3.4%)
  - Also much lower than total tax receipts in SF (3.9%)
- Tax receipts for hotels and restaurants totaled $13.5 million in Q1-2018, or 27% of total tax receipts in SF.

Source: HdL Companies
Exodus of Workers in Leisure & Hospitality in San Francisco

San Francisco Net Migration by Industry, 2012 - 2016

- Health Care
- Leisure & Hospitality
- Government
- Retail Trade
- Wholesale Trade
- Other Services
- Construction
- Finance & Insurance
- Logistics
- Education
- Real Estate
- Agriculture
- NR & Mining
- Administrative Support
- Management
- Utilities
- Manufacturing
- Information
- Professional/Technical Services

Source: Census Bureau's American Community Survey (ACS) Public Use Microdata Sample (PUMS)
High Wage Tech Workers and Home Prices

- Compared to 2007, the median home price in 2017 is much higher in San Francisco than even nearby Bay Area Cities.
  - San Francisco: +54%
  - Oakland: +14%
  - Daly City: +29%
  - Alameda: +44%
  - California statewide: -6%

Source: DataQuick/CoreLogic and Quarterly Census of Employment and Wages, Bureau of Labor Statistics
Active Permits of Hotel Establishments in San Francisco

Source: Hdl Companies

<table>
<thead>
<tr>
<th>County</th>
<th>YOY Pct. Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alameda</td>
<td>+1.9%</td>
</tr>
<tr>
<td>Contra Costa</td>
<td>-18.9%</td>
</tr>
<tr>
<td>Marin</td>
<td>+0.0%</td>
</tr>
<tr>
<td>San Francisco</td>
<td>-6.7%</td>
</tr>
<tr>
<td>San Mateo</td>
<td>+0.0%</td>
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</table>
What can Beacon do for you?

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Continue the conversation.
Contact Dr. Chris Thornberg directly at chris@beaconecon.com or 310.571.3399

Our 6 Practice Areas
- Housing, Land Use, & Real Estate Advisory
- Sustainable Growth and Development
- Economic & Revenue Forecasting
- Economic, Fiscal, and Social Impact Analysis
- Regional and Sub-Regional Analysis
- Litigation and Testimony

Let’s discuss your goals and needs.
Beacon has 6 Practice Areas covering a range of services and products.

For more information, see Slide 2.
Portfolio Spotlight

Regional and Sub-Regional Analysis
Beacon conducts analysis at an international, national, state, county, and city level – and even down to the zip code, pending data availability. We analyze data on Employment, Industry, Real Estate, and Consumption.

Past Clients:
- City and County of Los Angeles
- City and County of Riverside
- East Bay Economic Dev. Agency

Impact (Economic, Fiscal, Social) & EB5 Analysis
Beacon has evaluated the impact of entities like universities, music festivals, infrastructure projects, and real estate development projects. Beacon has also conducted impact analyses that combine more than one of the above like that of L.A’s Olympic bid.

Past Clients:
- University of Southern California
- Metropolitan Water District
- LA 2024 Olympic Bid Committee

Sustainable Growth & Development
Beacon conducts industry and policy analysis on topics like green innovation, tech and workforce development, and industry sector strategies. Beacon has strong in-house expertise around housing policy and economic development support.

Past Clients:
- California Apartment Association
- Long Beach Downtown Dev. Corp.
- Santa Cruz Workforce Dev. Board

Housing, Land Use, & Real Estate Advisory
Economic & revenue forecasting
Litigation and testimony
Thank You

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