



Given the close relationship between occupancy and supply, we closely monitor the industry's construction pipeline. In October 2017, the total number of rooms under construction stood at 183k (flat versus the prior year). It is worth noting that the construction pipeline currently stands at 3.5% of existing supply, putting aggregate rooms in construction at ~90% of peak levels. It's interesting to note that in 2008, the peak in RevPAR coincided with supply growth exceeding 2%. The 1990's cycle, however, was able to withstand nearly 30 months of supply growth in excess of 2%.

While the window of low supply growth is slowly receding, the uptick in construction activity is bullish for hotel franchisors such as Hilton or Choice Hotels, as this should produce incremental unit growth domestically. For hotel REITs, an increase in construction activity can introduce new competitive supply, but the impact is highly dependent on exactly where the new hotels are opening, how large they are, and whether they will truly be competitive with the REITs' existing nearby hotels.