

VALUATION & ADVISORY

HOSPITALITY & GAMING

U.S. LODGING INDUSTRY OVERVIEW

MID-YEAR 2021

MID-YEAR 2021: PLENTIFUL CAPITAL AND STILL ROOM AT THE INN

The first half of 2021 brought more than a year of impact from the COVID-19 pandemic and a roller coaster of hotel activity. As industry participants anticipated, the roll-out of vaccinations in the first quarter of 2021 spurred hotel demand at a level beyond forecasters' expectations. Continuing the trend from the first half of 2021, leisure drive-to travelers continue to be the primary users of hotels. While construction and infrastructure crews have returned to economy and midscale hotels, the road

warrior corporate business traveler has not yet returned in any significant numbers. Corporate travel policies remained constrained, although some conventions and trade shows were held in major urban venues with lower attendances. Overall, hotel occupied room nights more than doubled for the second quarter of 2021 compared to 2020 as 1.7 million more guests stayed in hotels each night. The national trends for the recent period are shown in the chart below.

U.S. HISTORICAL OPERATING STATISTICS - 2016 THROUGH Q2 2021

YEAR	SUPPLY	% CHANGE	DEMAND	% CHANGE	EQ. INDEX	OCC	% CHANGE	ADR	% CHANGE	REVPAR	% CHANGE
2016	5,039,952	1.4	1,205,133,146	1.3	(0.1)	65.5	(0.1)	123.90	3.3	81.17	3.2
2017	5,121,721	1.6	1,233,203,792	2.3	0.7	66.0	0.7	126.69	2.3	83.57	3.0
2018	5,216,000	1.8	1,260,586,980	2.2	0.4	66.2	0.4	129.70	2.4	85.88	2.8
2019	5,310,981	1.8	1,282,326,605	1.7	(0.1)	66.2	(0.1)	131.21	1.2	86.79	1.1
2020	5,130,728	(3.4)	824,364,472	(35.7)	(32.3)	44.0	(33.5)	103.14	(21.4)	45.40	(47.7)
AVG ANNUAL % CHANGE		1.5%		(0.1)%	(1.6)%		(1.5)%		1.8%		0.2
1Q - 2020	5,342,784	---	249,214,791	---	---	51.8%	---	\$123.76	---	\$64.14	---
1Q - 2021	5,285,411	(1.1)%	221,004,855	(11.3)%	(10.2)%	46.5%	(10.4)%	\$99.35	(19.7)%	\$46.16	(28.0)
2Q - 2020	4,776,449	---	145,507,097	---	---	33.5%	---	\$83.59	---	\$27.98	---
2Q - 2021	5,423,061	13.5%	300,896,593	106.8%	93.3%	61.0%	82.1%	\$119.62	43.1%	\$72.93	160.6
YTD 2020	5,058,052	---	394,721,888	---	---	43.1%	---	\$108.96	---	\$46.98	---
YTD 2021	5,354,616	5.9%	521,901,448	32.2%	26.4%	53.8%	24.9%	\$111.04	1.9%	\$59.79	27.3

Source: STR / Cushman & Wakefield

STR, LLC republication or other re-use of this data without the express written permission of STR is strictly prohibited.

The unprecedented decline in performance in 2020 is now in the rear-view mirror as hotel markets moved solidly into the recovery phase of the cycle. Data for the U.S. in 2021 through June shows the clear upward trend in all metrics.



HOSPITALITY & GAMING

U.S. LODGING INDUSTRY OVERVIEW

MID-YEAR 2021

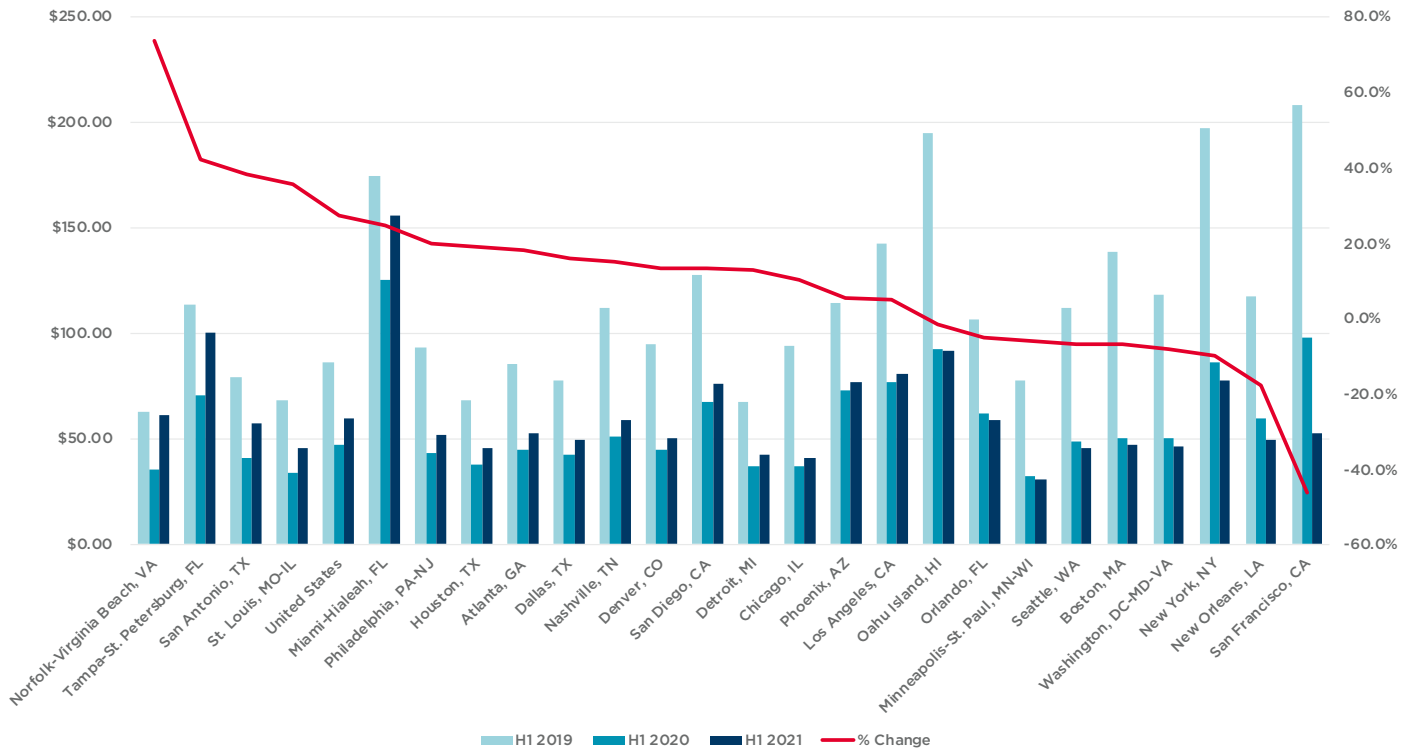


STR TOP 25 MARKETS

STR tracks the monthly performance of the Top 25 U.S. Hotel markets.

In 2021, the Anaheim/Santa Ana market was replaced by Orange County. Because of the limited data for the Orange County market, it has been excluded at this time. The performance of the Top 25 Markets (excluding Orange County) has been more erratic as shown below.

TOP 25 MARKETS -REVPAR CHANGE H1 2020 TO H1 2021



Source: STR / Cushman & Wakefield

STR, LLC republication or other re-use of this data without the express written permission of STR is strictly prohibited.

The chart ranks the markets by RevPAR percentage change between H1 2019 and H1 2021. The bars represent the RevPAR amounts in 2019, 2020 and 2021. Notable in the chart is that while the majority of markets improved in the first half of 2021, the RevPAR of all still lags the 2019 performance. Markets supported by leisure demand, including coastal destinations, show the greater rebound. Gateway urban cities reliant on conventions and/or business travel have continued to decline. New York and San Francisco were among the

top performing markets in 2019 and are still declining in the first half of 2021. Of the 24 markets shown in the chart, only four showed H1 2021 RevPAR gains above the national average.

The general expectation is still for a return to 2019 RevPAR levels between late 2023 and 2025 but the velocity of the recovery of each of the top 25 markets, relative to the balance of the U.S., will certainly have a variety of trajectories.

HOSPITALITY & GAMING

U.S. LODGING INDUSTRY OVERVIEW

MID-YEAR 2021



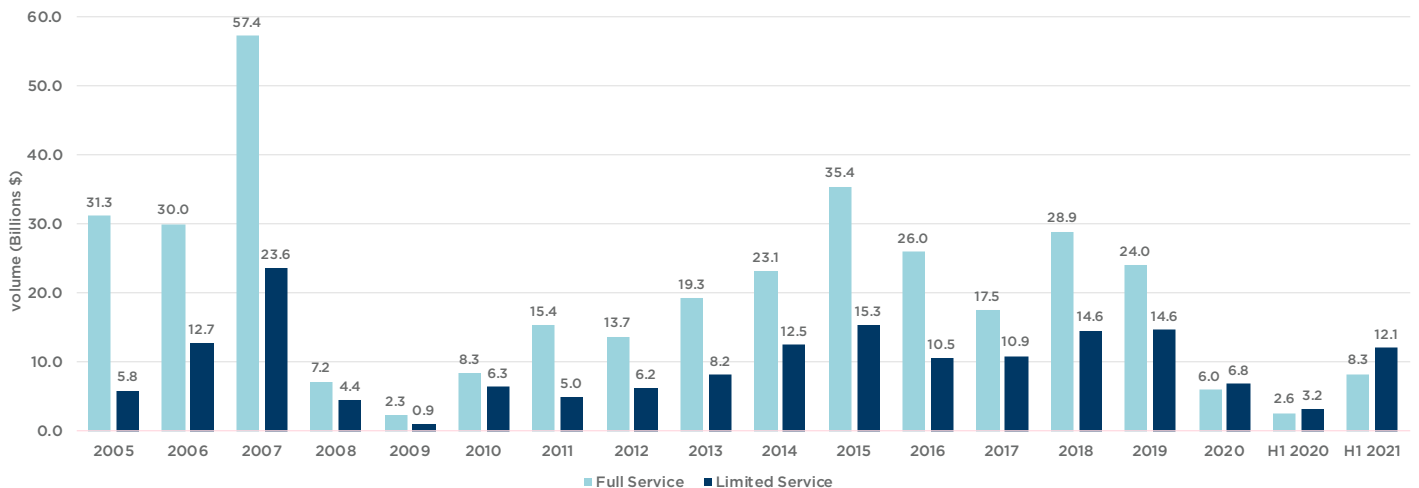
HOTEL TRANSACTION OVERVIEW

The buoyant expectation for demand to accelerate into a confirmed recovery led industry groups to improve their forecasts for 2021 and 2022. Conventional wisdom held that travel would beget more travel and hotel guests, newly confident from their successful and safe summer trip, would happily return to the road in the fall. Despite this anecdotal positioning, bookings continued to be relatively short-term as masking and other restrictions were lifted over the summer and travel decisions were made more spontaneously.

Pent up demand in 2021 was not only driving travel decisions but also informing investors. With war chests of capital, private investment funds and family offices were

screaming for deals. As with prior down cycles, hotel buyers began to raise capital in anticipation of sourcing value plays with troubled assets. Consistent with historical cycles, the deals did not materialize as forbearance negotiations and PPP assistance allowed some breathing room for owners. The immediate closures of hotels and a quick reduction in staffing through layoffs and furloughs, coupled with more disciplined lending in the last recovery relative to the prior cycles, stemmed potentially worse financial outcomes for many owners. As a result, very few hotels came to market. Brokers report that troubled assets that did hit the market were likely already challenged prior to the pandemic. The recent transaction volume is shown in the chart below.

U.S. HOTEL TRANSACTION VOLUME 2005 - 2020



Source: RCA, Cushman & Wakefield

Republication or other re-use of this data without the express written permission of RCA is strictly prohibited

Note that the volume of limited service sales in the first half of 2021 included the sale of Extended Stay America which comprised the brand and 563 properties.

Improving hotel performance and the increase in transactions are providing lenders with greater confidence. Debt funds and commercial banks looking to benefit from a rising tide are expanding their lending allocations and offering more generous terms. Loan-to-value ratios have increased, and interest rates have dropped. There is still a high degree of selectivity for lenders based on property characteristics and location. Deals with fresh capital are reportedly being done with

more favorable terms and pricing than refinancing with existing equity.

With very few hotels for sale, and lenders and buyers clamoring to place money, pricing has become more aggressive. Good quality assets are attracting more buyers competing with terms and pricing that often exceeds brokers' guidance. But despite this exuberance, the volume of transactions remains muted. Owners are still only sellers when their strategy provides better expectations than holding assets and benefitting themselves from the recovery and/or the recycling of capital provides more attractive internal opportunities.

HOSPITALITY & GAMING

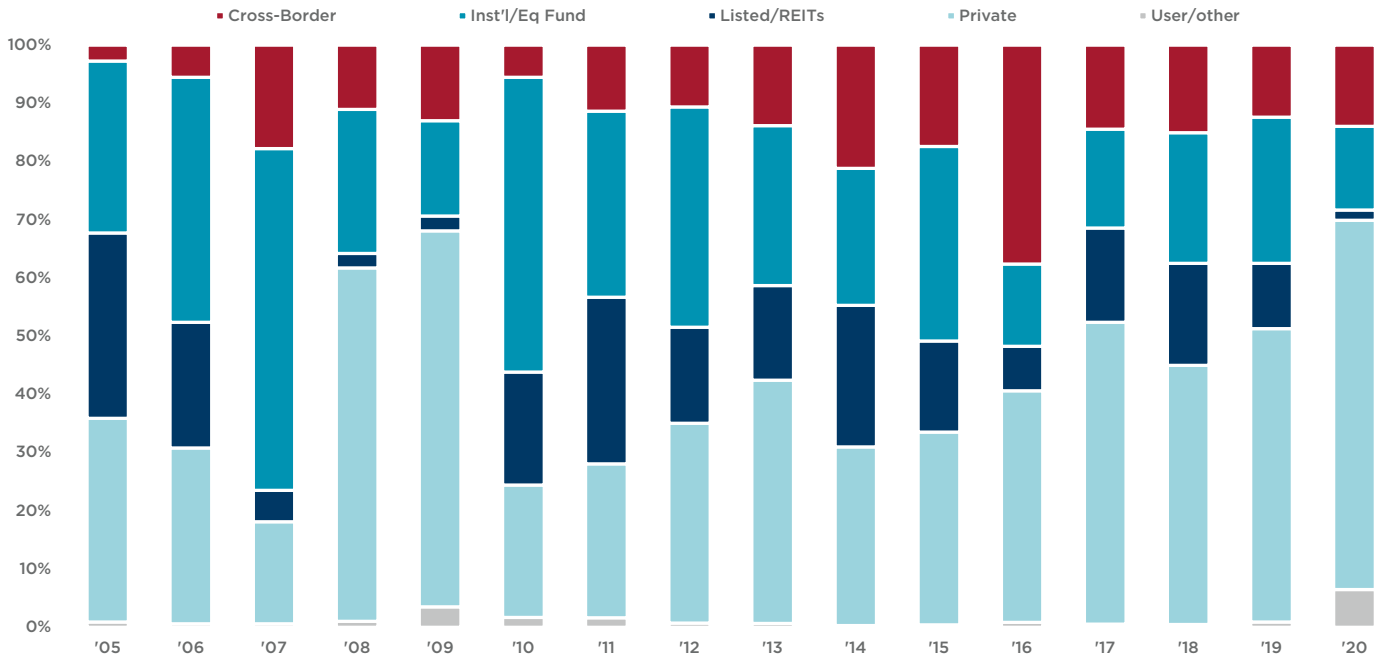
U.S. LODGING INDUSTRY OVERVIEW

MID-YEAR 2021



Armed with cash, the pool of buyers has notably changed from the recent pre-COVID-19 market although the H1 2021 data is skewed by the large Extended Stay America (ESA) transaction. The following chart based on Real Capital Analytics (RCA) data, shows the distribution of hotel buyer categories.

COMPOSITION OF HOTEL BUYERS



Source: RCA
 Republication or other re-use of this data without the express written permission of RCA is strictly prohibited

As the market recovered from the last downturn in 2009, the proportion of private equity buyers steadily increased as the ratio of REIT purchases moderated, and overseas acquisitions fluctuated. With the inclusion of Extended Stay America acquisition, the institutional/equity category showed the highest proportion of transactions; a ratio not unlike the 2010 recovery year of the last cycle, when hotel acquisitions began to rebound from the nadir of 2009.

Buyer's appetite for hotel product far exceeds the supply of hotels for sale; a major influence on the current higher pricing. With the exclusion of the ESA transactions, the relatively muted hotel transaction activity is reported as a lack of inventory for sale. Buyers and brokers are hoping the increasing pricing pressure from well-funded investors will motivate owners to bring their hotels to market.





COVID-19 IMPACTS

Operators, owners, lenders, guests, employees, and vendors have a range of top of mind issues.

- Labor shortages and rising labor costs across the hospitality industry are another layer of the cloud casting a shadow over the hotel recovery. Operators across the country have noted challenges in finding enough labor to meet the rising demand levels and have resorted to higher than typical use of contracted labor, signing bonuses, higher starting wages, and other incentives to lure workers back into the market. In some markets, rooms have remained un-sellable for days after check-out due to a lack of housekeeping staff. Coupled with broader inflationary trends, the uptick in labor costs is causing concern for some owners and operators who are benchmarking 2018 and 2019 operating margins. Others remain undeterred by recent labor issues, noting innovative thinking and automation helping sustain bottom line performance and anticipate longer term gains in efficiencies. As a bright spot, according to the US Bureau of Labor Statistics, labor markets added 943,000 jobs in July with the most pronounced gains in the leisure and hospitality sectors - increasing 380,000 as restaurants and hotels ramped up hiring efforts.
- In response to concerns about staffing, inflation, and guest protocols about contact and cleaning, operators are increasingly anticipating the shift of daily housekeeping from a complimentary amenity to a pay-for-service offering. In mid-July, Hilton changed its housekeeping policy to an opt-in model during a guests' stay - no other chains have followed yet, but still may.
- In many resort and drive-to leisure destinations, the sudden surge in demand has allowed operators to drive room rates, sometimes in excess of pre-pandemic levels. As more travel options increase and visitors can fly domestically or abroad and board cruise ships, the competition for guests will expand. There is uncertainty about the ability to sustain the recently higher rates, however, operators are hoping that the rediscovery of "back-yard" experiences continues as a regular vacation practice going forward.
- Urban or resort fees became a common source of revenue in recent years as hotels sought to monetize such amenities as parking, the fitness facility, complimentary lobby coffee, and other items. While some litigation has arisen from this practice, the fees were commonplace in many resort and city properties prior to the pandemic. In the recent recovery, some properties in sought after leisure locations have reinstated their fees while downtown and suburban hotels, where demand has been less robust, are evaluating the timing of restoring the fees.
- Our discussions with operators indicate a general expectation to return to these amenity fees as markets recover.
- The timing of the return of groups is also a top of mind issue. Convention center calendars are filling up in 2022 and 2023 with regularly scheduled and rescheduled citywide conventions and tradeshow. Large shows and conventions have occurred in recent months in 2021, with attendance reportedly at a fraction of pre-pandemic events. Onsite large meeting formats are expecting to continue to evolve with some hybrid component potentially continuing over the long-term.
- Business travel is critical to the post-pandemic recovery. Initial expectations were for business travel to resume, as companies mandated workers to return to the office, whether full-time or a few days a week. With the more recent shifts in the timing of the return to the office with the surge in the Delta variant, the prospect of business travel growth in 2021 is more uncertain. Business travel has been sparse since the onset of the pandemic.
- Market participants were also hoping the successful summer leisure travel would provide the confidence and experience to propel mid-week corporate travel but many now expect post-Labor Day 2021 activity to be modest. When workers return to the road and air, corporate travel is initially expected to be driven by competitive customer facing and project-based activities, followed by scheduled training, recruiting, internal meetings and other events. A recent survey by Deloitte cited a U.S. corporate travel recovery of 65-80 percent of 2019 levels by the end of 2022. Corporate travel budgets have often been perceived as items that can be used to reduce overall costs during down cycles. Deloitte reports that seven in ten companies said they planned to reduce travel frequency in an effort to bolster the bottom line. The timing of the overall improvement in hotel performance is likely to require several years.
- With the surge of the Delta variant and possible other variants down the road, the responsibility of keeping employees safe and healthy has become even more of a driving consideration for companies. These concerns, concurrent with goals to reduce emissions in the face of climate changes, are prompting some corporations to rethink their overall travel practices. More and more individual and corporate business travelers are looking for alignment between their sustainable goals and their vendors, including travel providers, particularly airlines and hotels.



- COVID-19 and its variants are extending the challenges to travel beyond the expectations in the second quarter of 2020 when the virus emerged. International inbound travel was curtailed fairly quickly in March and April of 2020 and has yet to return with any notable volume. Negative COVID-19 test results may be supplemented by proof of vaccination for air travel. The timing and implementation of more rigid requirements is still speculative and considers that governmental travel policies are often a result of reciprocal negotiations. Many market participants do not anticipate a meaningful return of international visitors until 2022.
- With a shortage of cash and the use of FF&E reserves to pay debt service, PIPs and renovation plans have been postponed for many hotels. Brands have provided waivers to required upgrades during the pandemic but are expected to require necessary renovations as the market improves; at the same time, new buyer PIPs are still comprehensive. Renovation budgets are expected to be a significant consideration in the next few years.
- Despite the curtailment of a linear recovery from the headwinds at the start of Q3, hotel investors are still enthusiastic about participating in the recovery, whether through the purchase of hotels, the buying of notes, providing fresh capital for challenged deals, or pursuing new development. The aggressive pricing driven by more investors than deals may appear to be out of sync with the actual performance of markets and hotels, but is consistent with the hotel investment trends in other recovery periods. While distressed hotel product was relatively sparse due to more disciplined lending, forbearance relief, and the availability of PPP funding, investors have to place capital and are still anticipating strong upside in the next few years to support their investment thesis. The operating leverage of hotels is such that net income can increase exponentially relative to revenue growth. Plentiful and well-priced debt provides additional incentives for market participants. Even with the return of uncertainty with the Delta and possibly other variants, brokers report that hotel transactions are projected to increase in the second half of 2021.

SUMMARY AND OUTLOOK

The U.S. Lodging Market's resilience was demonstrated in the first half of 2021 as demand improved and operators pursued occupancy, while still under the cloud of a global pandemic. The anticipated pent-up demand began to materialize as the roll out in vaccinations and the reopening of restaurants, attractions, and entertain allowed for greater confidence to travel. As with other hotel market recoveries, leisure demand is fueling the improved performance, and properties in drive-to destinations continued to reap the benefit of a robust summer travel season.

The experience gained in the last few hotel cycles, coupled with the technological changes of the last two decades, is supporting an historic, and surprisingly rapid, pace of recovery. The desire to travel is unquestionable. A recent American Express Global Travel Trends survey reported that "with the increase in flexible booking options, respondents are ready to book now - indicating that they miss traveling so much, that they are willing to book a trip even if they might have to cancel it in the future." While nascent in the recovery after 9/11 and evolving in the post-Great Financial Crisis recovery, online travel booking has made booking a hotel stay as ubiquitous as shopping online, democratizing travel and providing an ease of access for every traveler that facilitates the return to normalization. Lessons have been learned about crisis management through the down times of the last 25 years. In 2020, hotel owners and operators were quicker to respond operationally, and lenders and investors immediately came to the table ready to engage in financial negotiations. The knowledge that the recovery phase of the cycle can be the best time for hotel investment is informing an active market in challenging times.

ABOUT CUSHMAN & WAKEFIELD

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 53,000 employees in 400 offices and 60 countries. In 2019, the firm had revenue of \$8.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

© 2021 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.

ELAINE SAHLINS

Executive Director, MAI, CRE
Valuation & Advisory
Hospitality & Gaming Group
+1 415 773 3531
elaine.sahlins@cushwake.com