

U.S. LODGING INDUSTRY OVERVIEW

Mid-Year 2024: Leveling Off or Bottoming Out?

The shifts of the U.S. lodging market in recent years are now well accepted. The COVID-19 pandemic has structurally changed the way we work, travel, and use hotels. The workplace is now established as a hybrid location in the U.S. and globally. Leisure travel is now the dominant driver of hotel use, though this segment continues to soften. Group meetings are the new business travel and online communication dominates. Hotels continue to adapt to shifts in usage through design and pricing, but the translation of revenue strategies to bottom line benefits has been eroding as operating costs continue to increase and high interest rates temper investment. Nevertheless, industry participants anticipate modest but continued improvement in the next few years.

In the first quarter of 2024, the market's performance moderated, but gains in the second quarter have supported RevPAR improvement compared to the first half of 2023, notably all driven by ADR. While supply growth has been constrained by the cost of debt and construction, it has still outpaced demand growth in the first half of 2024; resulting in a decline in occupancy. ADR continues to increase; though the strong gains of the post-pandemic years are now muted and below inflation.

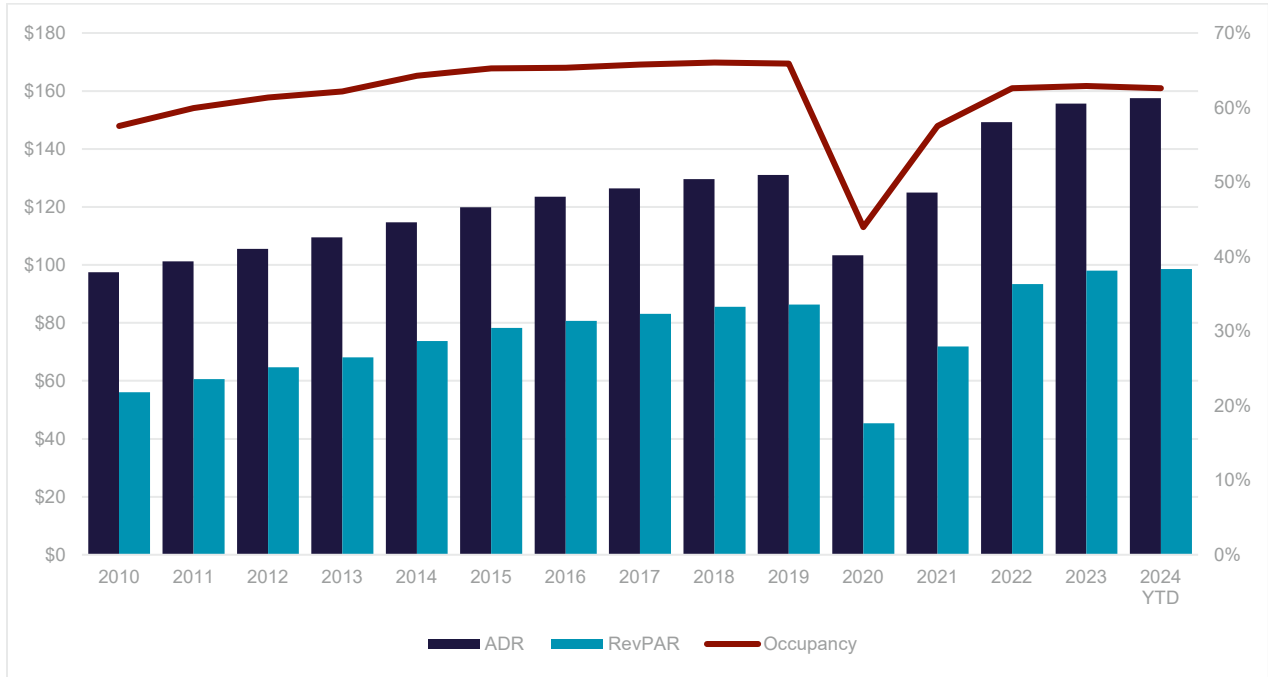
Historical performance data is summarized in the charts below.

| U.S. Historical Operating Statistics - 1995 through June 2024 | | | | | | | | | | | |
|---|-----------|-------------|---------------|-------------|---------------|--------|---------------|-----------|-------------|----------|-------------|
| Year | Supply | % Change | Demand | % Change | Eq. Index | Occ | % Change | ADR | % Change | RevPAR | % Change |
| 1995 | 3,706,175 | --- | 876,357,864 | --- | --- | 64.8 % | --- | \$65.34 | --- | \$42.33 | --- |
| 1996 | 3,794,037 | 2.4% | 891,766,469 | 1.8% | (0.6) | 64.4 | (0.6)% | \$69.46 | 6.3% | \$44.73 | 5.7% |
| 1997 | 3,922,785 | 3.4 | 913,368,564 | 2.4 | (1.0) | 63.8 | (0.9) | \$73.53 | 5.9 | \$46.90 | 4.9 |
| 1998 | 4,074,543 | 3.9 | 938,620,724 | 2.8 | (1.1) | 63.1 | (1.1) | \$76.96 | 4.7 | \$48.57 | 3.6 |
| 1999 | 4,227,134 | 3.7 | 969,116,897 | 3.2 | (0.5) | 62.8 | (0.5) | \$79.70 | 3.6 | \$50.06 | 3.1 |
| 2000 | 4,348,692 | 2.9 | 1,003,753,569 | 3.6 | 0.7 | 63.2 | 0.7 | \$84.03 | 5.4 | \$53.14 | 6.1 |
| 2001 | 4,452,020 | 2.4 | 970,034,202 | (3.4) | (5.7) | 59.7 | (5.6) | \$82.98 | (1.2) | \$49.54 | (6.8) |
| 2002 | 4,521,833 | 1.6 | 972,252,553 | 0.2 | (1.3) | 58.9 | (1.3) | \$82.12 | (1.0) | \$48.38 | (2.3) |
| 2003 | 4,570,266 | 1.1 | 981,808,909 | 1.0 | (0.1) | 58.9 | (0.1) | \$82.25 | 0.2 | \$48.41 | 0.1 |
| 2004 | 4,592,764 | 0.5 | 1,021,049,853 | 4.0 | 3.5 | 60.9 | 3.5 | \$85.92 | 4.5 | \$52.33 | 8.1 |
| 2005 | 4,594,192 | 0.0 | 1,053,282,610 | 3.2 | 3.1 | 62.8 | 3.1 | \$91.91 | 7.0 | \$57.73 | 10.3 |
| 2006 | 4,608,252 | 0.3 | 1,061,224,736 | 0.8 | 0.4 | 63.1 | 0.4 | \$99.01 | 7.7 | \$62.47 | 8.2 |
| 2007 | 4,663,879 | 1.2 | 1,067,974,009 | 0.6 | (0.6) | 62.7 | (0.6) | \$105.40 | 6.5 | \$66.12 | 5.9 |
| 2008 | 4,771,053 | 2.3 | 1,044,120,153 | (2.2) | (4.5) | 60.0 | (4.4) | \$108.07 | 2.5 | \$64.79 | (2.0) |
| 2009 | 4,903,046 | 2.8 | 977,059,405 | (6.4) | (9.2) | 54.6 | (8.9) | \$99.05 | (8.3) | \$54.08 | (16.5) |
| 2010 | 4,984,160 | 1.7 | 1,047,348,509 | 7.2 | 5.5 | 57.6 | 5.4 | \$98.85 | (0.2) | \$56.91 | 5.2 |
| 2011 | 5,004,402 | 0.4 | 1,095,614,812 | 4.6 | 4.2 | 60.0 | 4.2 | \$102.84 | 4.0 | \$61.68 | 8.4 |
| 2012 | 5,022,359 | 0.4 | 1,126,702,237 | 2.8 | 2.5 | 61.5 | 2.5 | \$106.92 | 4.0 | \$65.72 | 6.5 |
| 2013 | 5,047,904 | 0.5 | 1,144,830,698 | 1.6 | 1.1 | 62.1 | 1.1 | \$110.84 | 3.7 | \$68.87 | 4.8 |
| 2014 | 5,076,519 | 0.6 | 1,189,147,831 | 3.9 | 3.3 | 64.2 | 3.3 | \$115.79 | 4.5 | \$74.31 | 7.9 |
| 2015 | 5,119,972 | 0.9 | 1,217,333,316 | 2.4 | 1.5 | 65.1 | 1.5 | \$120.89 | 4.4 | \$78.75 | 6.0 |
| 2016 | 5,186,743 | 1.3 | 1,235,735,866 | 1.5 | 0.2 | 65.3 | 0.2 | \$124.53 | 3.0 | \$81.28 | 3.2 |
| 2017 | 5,266,289 | 1.5 | 1,262,376,060 | 2.2 | 0.6 | 65.7 | 0.6 | \$127.09 | 2.1 | \$83.46 | 2.7 |
| 2018 | 5,359,552 | 1.8% | 1,290,801,889 | 2.3% | 0.5% | 66.0% | 0.5% | \$130.23% | 2.5% | \$85.93 | 3.0% |
| 2019 | 5,454,681 | 1.8 | 1,310,278,418 | 1.5 | (0.3) | 65.8 | (0.3) | \$131.54 | 1.0 | \$86.57 | 0.7 |
| 2020 | 5,237,600 | (4.0) | 839,333,380 | (35.9) | (32.0) | 43.9 | (33.3) | \$103.28 | (21.5) | \$45.34 | (47.6) |
| 2021 | 5,493,427 | 4.9 | 1,153,176,967 | 37.4 | 32.5 | 57.5 | 31.0 | \$124.69 | 20.7 | \$71.71 | 58.2 |
| 2022 | 5,588,342 | 1.7 | 1,275,667,284 | 10.6 | 8.9 | 62.5 | 8.7 | \$149.47 | 19.9 | \$93.48 | 30.4 |
| 2023 | 5,603,703 | 0.3 | 1,288,004,333 | 1.0 | 0.7 | 63.0 | 0.7 | \$155.91 | 4.3 | \$98.18 | 5.0 |
| Avg Annual % Change | | 1.5% | | 1.4% | (0.1)% | | (0.1)% | | 3.2% | | 3.1% |
| H1 - 2023 | 5,586,474 | --- | 635,805,680 | --- | --- | 62.9 | --- | \$154.73 | --- | \$97.29 | --- |
| H1 - 2024 | 5,617,122 | 0.5% | 636,604,858 | 0.1 % | (0.4) % | 62.6 % | (0.4) | \$157.50 | 1.8 | \$98.62 | 1.4% |
| 1Q - 2022 | 5,556,900 | --- | 297,154,479 | --- | --- | 59.4 | --- | \$151.85 | --- | \$90.22 | --- |
| 1Q - 2024 | 5,588,438 | 0.6% | 293,202,484 | (1.3) % | (1.9) % | 58.3 % | (1.9) | \$154.84 | 2.0 | \$90.27 | 0.0% |
| 2Q - 2022 | 5,615,723 | --- | 338,651,201 | --- | --- | 66.3 % | --- | \$157.25 | --- | \$104.21 | --- |
| 2Q - 2024 | 5,645,490 | 0.5% | 343,402,374 | 1.4 % | 0.9 % | 66.8 % | 0.9 | \$159.76 | 1.6 | \$106.79 | 2.5% |

Source: STR-Costar / Cushman & Wakefield
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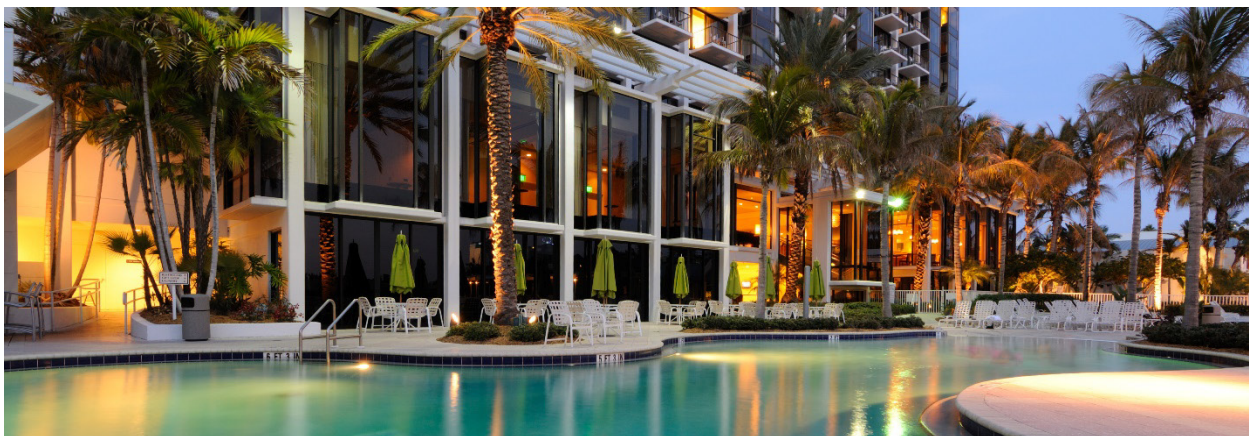
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ADR, RevPAR, Occupancy Trends

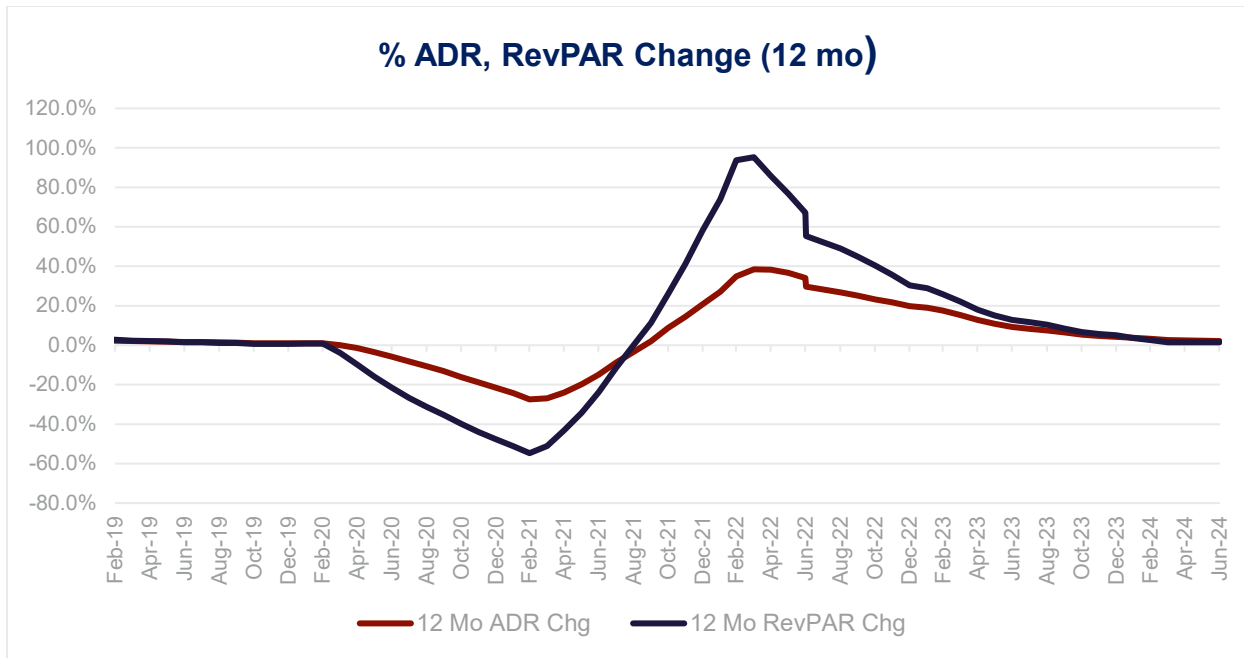


As was expected, the U.S. hotel room revenue in recent months is relatively normalized and more subject to the traditional macroeconomic trends of GDP growth, employment, inflation, interest rates, treasury yields, and currency changes, rather than events. However, potential economic challenges and after-effects of rate cuts from the Federal Reserve and the impact of the upcoming US election could cause some permutation in the overall trajectories of these factors.

From April 2023 to April 2024, demand contracted but showed modest gains in May and June of 2024. But because supply has increased, occupancy has modestly declined. ADR continues to be positive with some notable slowing in the past 12 months. ADR remains the primary driver of the improvement in RevPAR as seen in the following chart.



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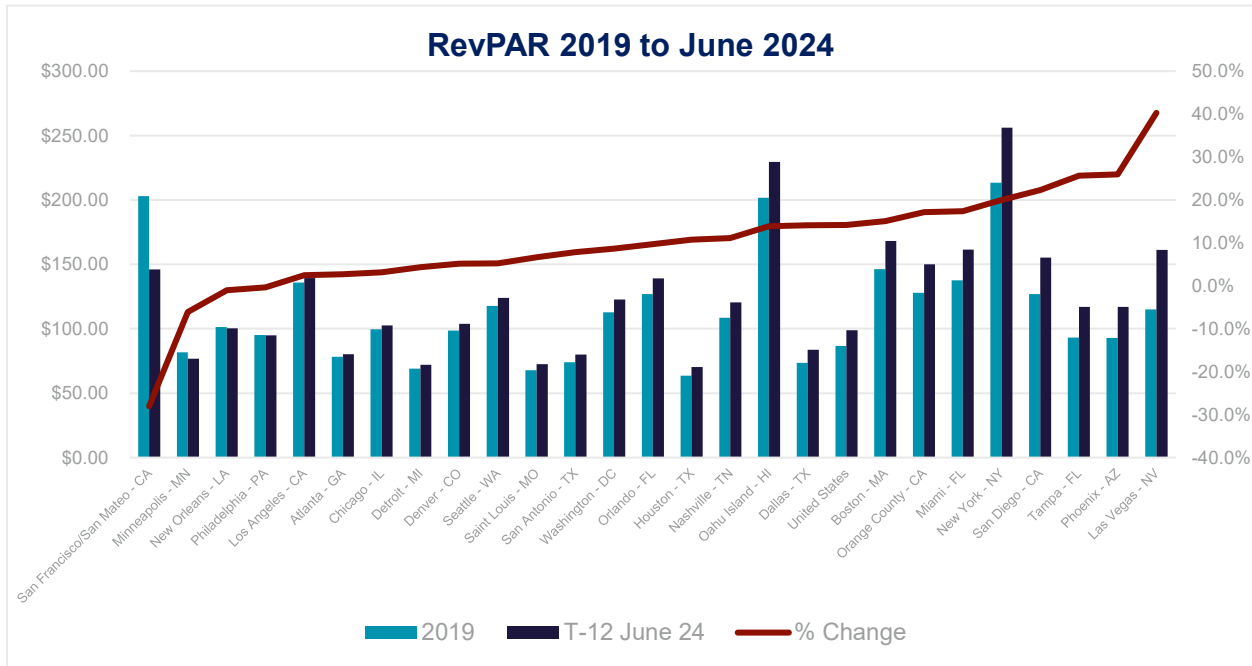


Despite high interest rates and construction costs and waning market performance, hotel development pipelines continues to increase. According to STR, as of the second quarter 2024, 157,713 rooms were under construction, equating to 20.8% of the total pipeline. This number is 5.5% higher than the number of rooms under construction in 2023. Coming through the pipeline are 266,619 rooms are in final planning, up 9.8%, and 333,827 rooms are in planning, up 38.7%. The rooms under construction represent a 2.8 percent increase relative to the number of existing guestrooms at the end of the second quarter 2024. If all proposed hotels were to open, the total 758,159 rooms would represent a 13.4 percent increase in supply. However, given moderating revenue trends and high interest rates, the construction and opening of new supply can be problematic. High interest rates and challenges in obtaining construction financing remain likely to curb delivery over the next few years.



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Top 25 Markets



National trends are generally encouraging, although recovery on a market-by-market basis remains uneven. The top 25 markets continue to show peaks and valleys as reflected in the chart below.

The majority of the top 25 markets continued to show positive gains in the first half of 2024. Only four markets still lagged their 2019 RevPAR results. Fifteen of the markets had positive RevPAR gains in the first half of 2024 compared to the same period in 2023, with 9 of the 25 markets showing a gain greater than 4%. Consistent with national results, RevPAR gains were largely driven by ADR improvement as occupancy achievements were challenging.

Among the top 25 markets, New York had the highest growth. Market participants attribute some of this improvement to prohibitions on alternative lodging. Other markets that benefited include Boston, Washington D.C., Seattle, and Los Angeles. The hosting of football’s Big Game in 2024 and strong convention turnout has also propelled Las Vegas.

Group and leisure demand continues to steer the performance of many of the top 25 markets. For many events, meeting and groups have replaced individual travel. Nevertheless, this segment is also facing headwinds. In the second quarter 2024 edition of MPI’s Meetings Outlook research, there was a notable pullback in expectations for favorable business conditions over the next year, with 68% of respondents expecting to see them materialize. That was the lowest result since first quarter 2022, when 65% projected favorable conditions in the near future. Meetings Outlook data also found a notable jump in the percentage of respondents saying that trade shows were important, with that percentage up from 18% in 2023 to 27% in 2024. The cost of meetings and availability at popular locations are cited as the largest constraints.

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International inbound travel is slowly improving. The U.S. Travel Association does not expect volume to fully recover until 2025 with spending levels, when adjusted for inflation, not expected to recover until 2026. The strong dollar, long wait times for visas, limited air routes and other factors continue to influence this timeline. The slow recovery of inbound international travel continues to contribute to occupancy challenges, although industry expectations are for a fuller rebound in the next few years.

The following charts shows the change in the STR national hotel forecast since the end of 2024.

| | 2023 | PRIOR FORECAST | CURRENT FORECAST |
|------------------|----------|----------------|------------------|
| | Actual | Est. 2024 | Est. 2024 |
| Occupancy | 63.0% | 63.6% | 62.9% |
| ADR | \$156.00 | \$160.84 | \$159.00 |
| RevPAR | \$98.28 | \$102.29 | \$100.01 |

Softer leisure travel and new supply are expected to moderate occupancy and ADR growth.

As new supply continues to open and leisure demand moderates, occupancy growth is forecast to be modest. Steady improvement of inbound international travel and ground demand is anticipated to support additional growth, while the loss of mid-week business travel has hampered performance both in occupancy and ADR. Forecasters recognize these considerations. Amanda Hite of STR reported

“We have seen a bifurcation in hotel performance over the first four months of the year, which we dont believe will abate soon. The increased cost of living is affecting lower-to-middle income households and their ability to travel, thus lessening demand for hotels in the lower price tier. The Upscale through Luxury tier is seeing healthy demand, but pricing power has waned given changes in mix and travel patterns and to a lesser extent, economic conditions. Travel remains a priority for most Americans, but the volume has lessened as prices on goods and services continue to rise.”



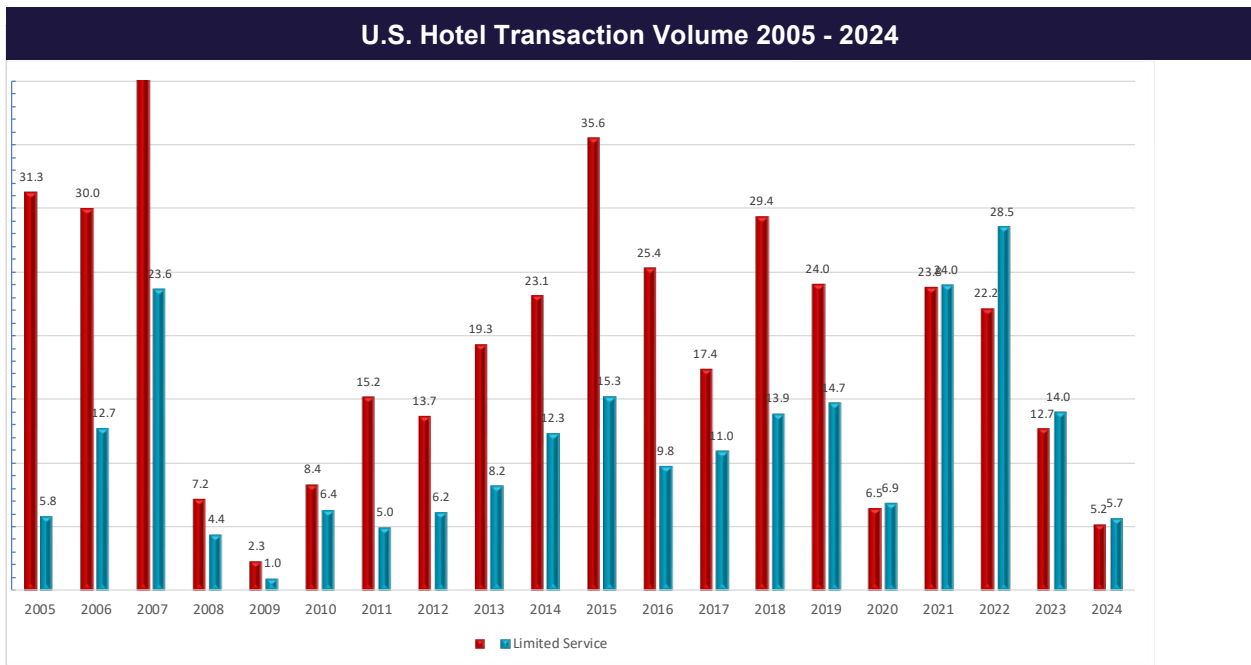
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Hotel Transaction Overview

On a national basis, transaction volume through mid-2024 continued to be sluggish and was overall lower than the same period in 2023. Overall volume is down 15% from 12.8 billion to 10.9 billion. Through second quarter 2025, the number of hotels sold declined 21% resulting in an increase of the per room amount of 7.3%.

Hotel sales for both full-service and limited-service transactions are transacting through traditional marketing and quieter off-market negotiations. Other transactions involve some favorable debt, either the assumption of lower rated mortgages or some form of seller financing. C-PACE financing continues to gain traction as part of the capital stack.

In the current environment, many sales are motivated by some challenge. Trades are primarily driven by impending financial events, particularly debt coming due. Renovation needs, high insurance costs, and declining profitability are pushing assets to market. These categories of seller motivations imply that pricing is less than optimal. Concurrently, those sellers who do not need to sell, particularly with lower cost debt, remain off the market.



Source: RCA; Cushman & Wakefield
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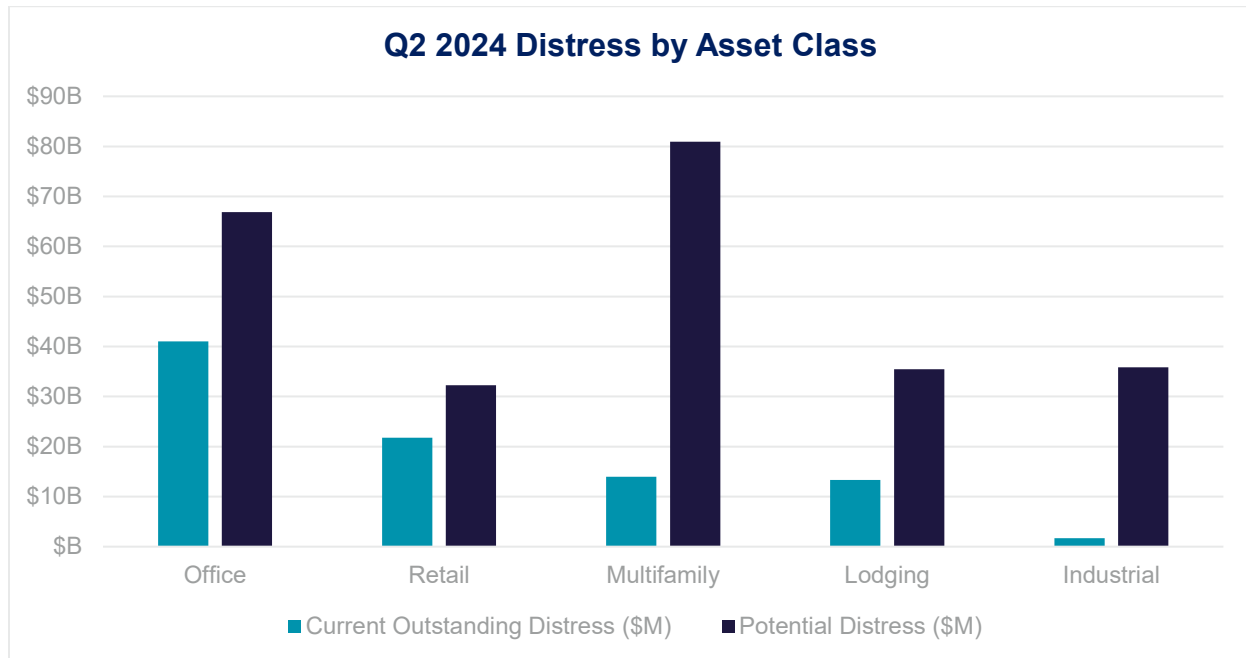
The following chart summarizes historical transaction data.

Market participants continue to cite the challenges of high interest rates, particularly as revenues and profitability are moderating. Smaller local and regional banks are reported as being more receptive to hotel lending through relationship accounts. The transfer of debt also continues to be pursued by lenders and investors as an alternative to hard asset transactions.

In terms of distress, all asset types have faced rising challenges with \$10.6 billion in newly distressed assets in second quarter 2024 taking the total cumulative distress to \$94.2 billion. Simultaneously, some owners have been able to navigate resolutions to their troubled properties, resolving \$8.6 billion in distress volume to result in a net increase of \$2 billion. Much of the current distress has been focused in the office sector, but lodging distress has risen to \$13.3 billion.

Low-cost available debt is the fuel of the hotel investment market, and this commodity has been in short supply over the last two years. The high-cost debt market has suppressed acquisition, refinancing, and PIP financing activity even as performance fundamentals were improving. Debt investors were busy amassing funds for preferred and mezzanine deals but were relatively inactive. Hotel franchisors and operators stepped in to fill some gaps for owners with fee waivers and PIP deferrals. Market participants are expressing a growing belief that even with the wave of CMBS financings coming due in 2024, distress across commercial real estate will remain relatively contained to the poorest performing assets.

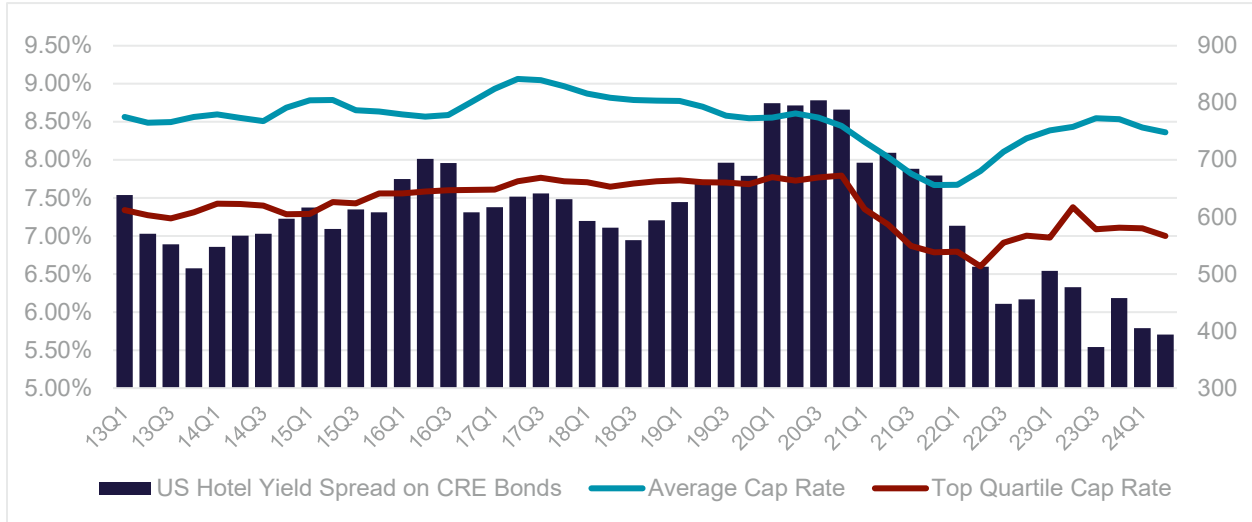
Counter to recent performance, potential distress growth is not as precipitous for lodging as compared to multifamily or industrial. As shown in the following chart, the potential distress wave is likely to be much greater from both the office and multifamily sectors.



Source: MSCI/Real Capital Analytics, Cushman & Wakefield Research

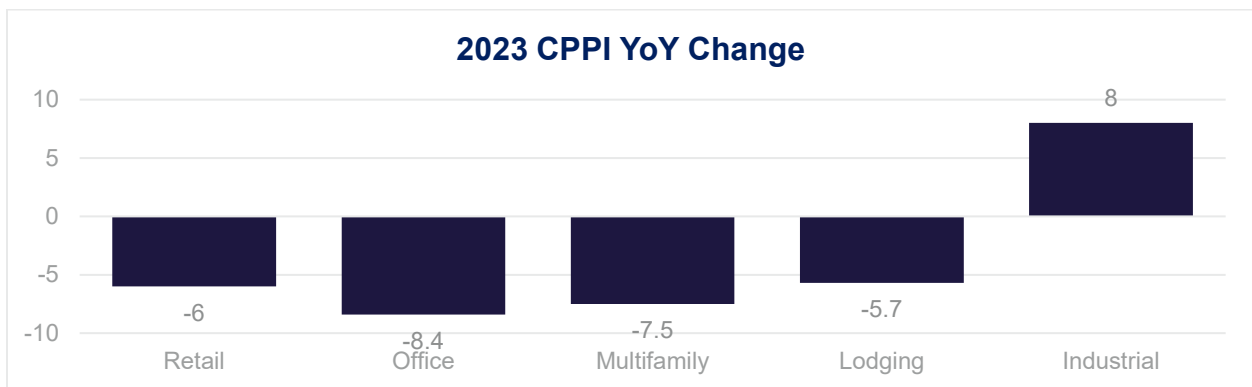
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The continued higher debt costs have kept cap rates high as seen in the following chart.



Cap rate growth has begun to at least plateau in the hotel sector. Since reaching a peak at 8.55% in third quarter 2023, the average hotel cap rate has compressed by 29 bps. Cap rates for top quartile product has similarly compressed by 38 basis points (bps) since their peak. Yield spreads remain relatively low compared to historical levels, hovering just around 400 bps.

As an asset class, hotels have become more attractive than other real estate sectors since the pandemic. The following chart from MSCI shows the pricing index of hotels relative to the other major investment real estate types. Over the past two quarters there has been positive YoY CPPI movement across the major four asset classes, though yet to materialize for the hotel sector, suggesting this will be an area to watch over the course of the next year.



Source: MSCI Real Capital Analytics, CPPI indexed at Q4 2006

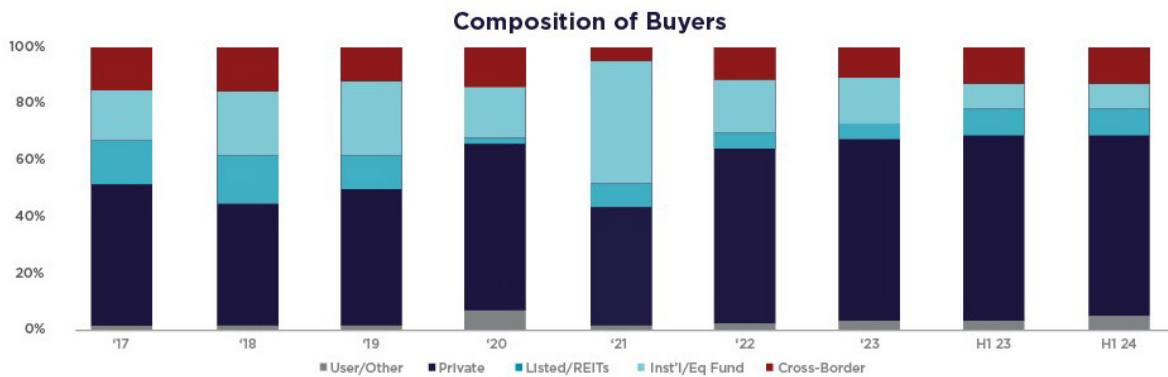
With the Federal Reserve announcement of a 50 bps cut in interest rates in September, the forward-looking picture for the hotel sector is cautiously positive. As rates decline, expect transaction volumes to increase and activity to move beyond many of the value add and distressed plays that have been common.

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Investor Profile

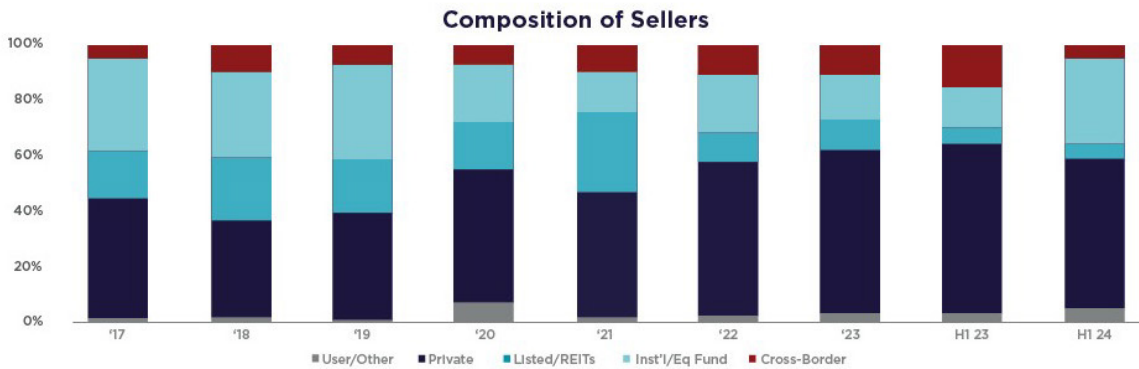
The distribution of seller types has been dominated by private equity buyers, including family offices, since the onset of the pandemic. Private funds continue to accrue capital for hotel investments, with buyers primed when opportunities become available. Cross-border buyers and institutional investors are limited.

A lack of inventory from sellers is part of the equation. With opportunity for yield in other countries, investors in the current environment are less interested in U.S. hotel deals.



Still, hotel investors remain primed for acquisitions with funds continued to be set up, and as the hotel revenue market performance moderates and costs increase, the expectation of favorable pricing accelerates.

The high interest rate environment continues to hinder investment activity, and moderating market performance is adding to the lull. Private equity also dominates hotel transactions as sellers as shown below.



As with other cycles, transaction volumes are anticipated to increase in the second half of 2024 driven primarily by loan expirations and moderating performance. Pricing is still in a period of discovery as individual markets are still in transition and there have been few sales. For sales and refinancing activity to accelerate, the bid-ask spread will need to tighten.

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Other Industry Considerations:

Fading (though not gone) threat of a recession – As with 2023, 2024 continued to see the threat of a potential recession wax and wane. While experts remain divided as to future performance, projections have generally moved to a brighter outlook for the end of 2024. Cushman & Wakefield is currently forecasting a mild recession to take hold at the end of 2024.

Operating Cost Increases – Operating costs are frequently cited as the greatest concern for hotel operators and investors, particularly as top line revenues growth softens. Higher expenses, particularly payroll costs, are eroding profitability. The impact is heightened by the softening RevPAR trends.

Natural Disasters and Climate Change – The accelerated impact of climate change directly affects hotel real estate and operations. Rising sea levels, wildfires, and higher temperatures are all impacting hotels across the U.S. Some properties are being physically changed with beach erosion and flooding, others have been destroyed or damaged during wildfires. Construction impacts from decreased construction curing times and asphalt deformation are a concern for development, while higher cooling costs and food safety risks are now everyday challenges.

Utility and insurance costs are rising across the country. Both expenses are largely uncontrollable and curbing potential hotel profitability, and increasing operating expenses in this higher interest rate environment are impacting valuations.

Ecotourism, Experience, and Sustainability – The industry continues to evolve in response to both the quest for experience and mandate for sustainability. New outdoor-oriented properties are proliferating as seen by brands such as Under Canvas and AutoCamp. Existing properties are expanding with activities and amenities that embrace their locales. Shifts in operating protocols to support sustainability and lower waste and emissions are becoming an expected standard rather than an exceptional differentiator. The installation of solar panels is an expanding practice that supports sustainability and is lowering operating costs. Corporate and leisure travelers will continue to demand improvements in sustainably designed and operated hotels at all chain scale levels.



Conclusions and Outlook

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The tempering of the market and macroeconomic challenges are slow moving impacts. Without a major shock to the system, the outlook as of mid-year 2024 considers slow moving tailwinds and expectations that national RevPAR growth will soften, resulting in lower expectations than were held earlier. Improvement over the long run is also anticipated but at a moderate pace. Optimism is stronger for a lowering of interest rates. Even if interest rates decrease more slowly or erratically, refinancings and lower performing hotels are anticipated to spur more transactions.

Furthermore, operators who have elected to delay necessary renovations or improvements due to the high cost of capital are expected to feel pressure to either invest in making their property more competitive, or begin the process of transitioning the hotel to new ownership. While this will likely impact a limited number of hotels, it is expected to add to increased transactional activity. Overall, the second half of 2024 should bring greater clarity into pricing for investors and increased opportunity to acquire assets which have remained on the sidelines.

