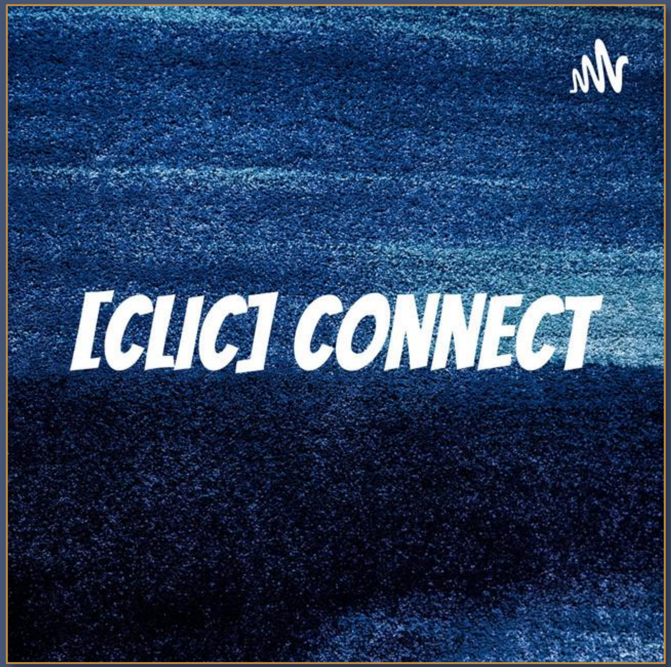
U.S. Lodging Industry H1 2023



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U.S. Lodging Industry H1 2023

Summary

- Lodging fundamentals remain solid despite all the noise in the background.
    - RevPAR has never increased during a recessionary environment, however today rates continue to rise, and demand outpaces supply.
    - Continued sector growth will need to be fueled by corporate and group segments which are sensitive to macro economic conditions.
- ADR will continue to be the driver for RevPAR growth.
    - 2023 RevPAR growth will be front-loaded as Jan/Feb 2022 included negative impact of Omicron variant.
        - Balance of 2023 will realize decelerating RevPAR growth.
- Inflationary expense pressure will persist.
- Diminishing new supply will be a tailwind for most markets.
- Investment dollars continue to prioritize acquisition over construction.

U.S. Lodging Industry H1 2023 Summary

- Transaction volume has slowed, though not due to liquidity issues.
  - Market participants are adjusting to the rising cost of capital and uncertainty surrounding when interest rates will stabilize.
- Transaction volume will accelerate in 2H 2023, generally at reduced prices per key.
  - Rising debt costs, private equity fund-life expirations, impending interest rate cap renewals, a high volume of loans reaching maturity, and depleted capex reserves with PIPs being reinstituted should all catalyze hotel transaction activity over the medium-term.
  - Current wide bid-ask spreads will decrease during 2H 2023.
  - Some sponsors will be forced to sell in a high-interest rate environment resulting in a compelling investment basis for many buyers.
  - Preferred equity will become backstop for sponsors unable to secure traditional bank financing.
  - Distress deals are coming soon however many compelling opportunities will not represent distressed pricing.

U.S. Lodging Industry H1 2023 Summary

- $15B hotel CMBS is coming due in 2023 of which $5B will be stressed.
  - Future lender credit defaults will be dealt with more aggressively when compared to the notion during peak COVID of *“lets all play nicely in the sandbox”* a.k.a. *“kick the can down the road.”*
- Billions of dollars have been raised to deploy debt and equity into the U.S. lodging sector.
  - Long term well capitalized opportunistic investors that bet big, at the right basis, and early in the cycle acquiring and/or investing in loans, assets, and operating companies will likely reap financial rewards that generate outsized returns ……particularly contrarian sponsors who acquire large urban corporate and group meeting/convention hotels at fractions of replacement cost.
- Capital originating from Asia, Europe and the Middle East seeking safe-haven markets such as the U.S. will result in increased cross-border investment opportunities.
- First-time hotel buyers, predominantly comprised of family offices and high net-worth individuals are increasing.
- Some lodging investors are adjusting their internal rates of return (IRR) downward to consummate acquisitions.