

Hospitality Newsletter

Virtua Partners | September 18, 2020



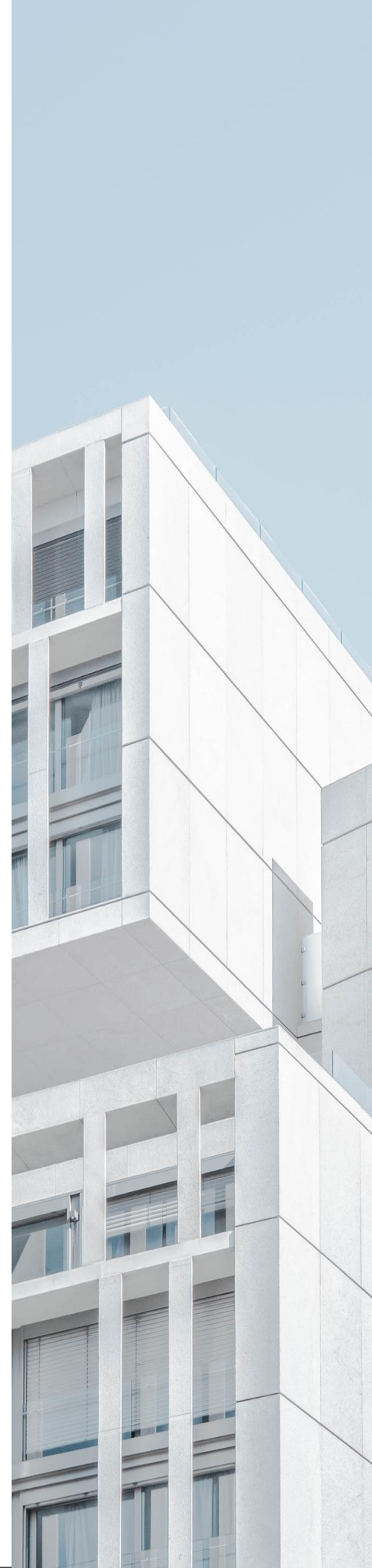
Hospitality Industry Updates

Positive Growth in U.S. Hotel Occupancy for the First Week of September¹

U.S. Hotel Industry KPIs		
	Week Ended Sep 5, 2020	YoY Change*
Occupancy	49.4%	-18.9%
ADR	\$100.97	-17.1%
RevPAR	\$49.87	-32.8%
RevPAR YoY Change		
By Class Type	Luxury	-60.5%
	Upper Upscale	-59.3%
	Upscale	-38.1%
	Upper Midscale	-24.0%
	Midscale	-13.7%
By Guest Type	Economy	-6.7%
	Group	-79.3%
	Transient	-40.7%

*Aug 30 – Sep 5, 2020 vs. Sep 1 - 7, 2019. Source: STR

- Occupancy levels increased slightly compared to the previous week due to increased demands during Labor Day weekend¹
- Markets housing displaced residents from Hurricane Laura and the California wildfires registered the highest occupancy for the week
- COVID-19 travel restrictions continue to impact the urban/business travel heavy and population dense markets; Economy hotels remain the best performing segment
- **Top Performing Markets²:**
 - Norfolk/Virginia Beach, Virginia (60.6% occupancy)
 - Houston, Texas (57.8%)³
 - Los Angeles/Long Beach, California (55.3%)
 - San Diego, California (54.6%)
 - New Orleans, Louisiana (51.7%)
 - Atlanta, Georgia (50.2%)
- **Least Performing Markets⁴:**
 - Oahu Island, Hawaii (24.4%)
 - Orlando, Florida (30.9%)



Note: 1. Lodging Magazine, published on Sep 10, 2020. 2. Markets with over 50% occupancy for the week ended Sep 5, 2020. 3. Attributable to evacuations and displaced residents due to Hurricane Laura. 4. In terms of occupancy level.

Hospitality Industry Updates

Short-Term Bookings and Web Traffic Volume Exhibited Significant Growth^{1,2}

- Net room pickup³ in hotels across North America increased 50%+ for the remaining months of 2020 (+124%, +141%, +304%, and +50% for Sep, Oct, Nov, and Dec, 2020, respectively)
 - Best performing states include Colorado (+432%), Louisiana (+590%), and Nevada (+272%)
 - Least performing states include District of Columbia (+8%), Michigan (+18%), Texas (+16%), and Washington State (+11%)
- Web traffic⁴ increased 95%+ for the remaining months of 2020 (+97%, +98%, +112%, and +110% for Sep, Oct, Nov, and Dec, 2020, respectively)
 - Best performing states include Tennessee (+219%), New York (+167%), and New Mexico (+130%)
 - Least performing states include Florida (+81%) and Georgia (+56%)

TripAdvisor's "Fall Travel Index" Shows Shifts in U.S. Domestic Travelers' Preference to Outdoor Trips, and Road Trips with Beach Destinations Becoming the Favorites⁵

- Key Largo, FL led YoY recovery for domestic hotel bookings in Fall 2020, followed by Key West, FL, Atlantic City, NJ, St. Pete Beach, FL, Myrtle Beach, SC., Sedona, AZ, and Scottsdale, AZ
- Central city getaways have become less popular among U.S. domestic travelers; e.g., 58% of Manhattan's room inventory remained closed as of early September 2020⁶
- Other preferences include more near-term trips⁷, short getaways⁸, and budget-friendly hotels

Note: 1. Duetto Pulse Report (Edition 12), last updated on Sep 17, 2020. 2. Variance between Aug 10 – Aug 23, 2020 and Aug 24 – Sep 6, 2020. 3. New bookings minus cancellations. 4. Including bookings, regrets, and denials on brand.com. 5. Lodging Magazine, published on Sep 14, 2020. 6. Hotel Business, published on Sep 14, 2020. 7. Often less than one week in advance – Lodging Magazine, published on Sep 14, 2020. 8. 55 percent of fall travelers booking two- to five-night stays, and 36 percent booking short one-night stays – Lodging Magazine, published on Sep 14, 2020.

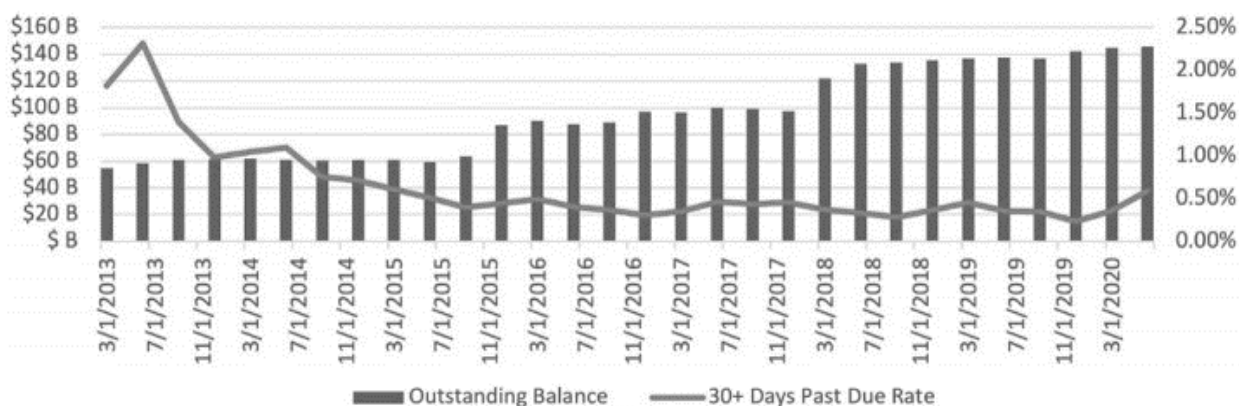


Capital Market Update

Hospitality Sector Ranked #2 in CRE Loan Delinquency Rate¹

- According to Trepp², overall delinquency rate was ~0.74% as of Sep 2020 for hotel-related CRE loans; ~150bps greater than the CRE loan industry average
- CRE loans with maturity dates in the next five quarters have delinquency rates materially higher than the overall portfolio
- Smaller businesses are more directly impacted by the pandemic related economic shutdown; loans with <\$1M loan balances had delinquency rates more than twice of the overall CRE loan portfolio (1.24% vs. 0.59%, respectively)
- Loans with large outstanding balances (\$25M+) maturing in the next five quarters constitute ~57% of the total CRE delinquency balance; expected to be driven by borrowers strategically stopping payments in advance of the maturity

CRE Loans, Active Loan Balance and Delinquency Rate²



Source: Trepp, published on Sep 14, 2020.

Note: 1. Trepp, published on Sep 14, 2020, 2. Based on Trepp's Anonymized Loan Level Repository (T-ALLR) bank loan data consortia, which captures detailed loan characteristics, activity, and performance on all CRE and commercial and industrial (C&I) loans held on the balance sheet of participating banks.



Industry Outlook

RevPAR Recovery Forecast Revised to 70/80 Percent of 2019 Levels by 2022¹

- Pressures for most lodging-related companies expected to stretch into 1H21 before improving; opportunities for conversions and property trading expected to favor the larger branded systems and stronger balance sheets as distress takes hold later this year
- REITs with less leverage and more cash are expected to simultaneously weather the storm and capitalize on potential opportunities although dividends are pushed out to 2022
- Jefferies expects lodging stocks to recover more gradually with near term pressures continuing

Economy and Midscale Hotel Properties Expected to Show Greater Resilience to Price Impairment Post COVID-19^{2,3}

- Hotel properties with less than 10% price impairment were primarily constituted of economy and midscale properties as of Aug 21, 2020; remaining upper-tier chain scale hotels exhibited 10 – 30% impairment
- Demand for economy and midscale hotels were primarily driven by the following sources: essential travelers, first responders, transportation industry, construction crews, and temporary housing
- We expect the impairment trend to continue across the same chain scale hotel properties in the near term

COVID-19 Value Impairment Classifications			
	Low	Moderate	High
Value Impairment	<10%	10-20%	20-30%
Chain Scale	Economy/Midscale/Upper Midscale	Upper Midscale/Upscale	Upper Upscale/Luxury
Market	Drive to markets	Primary and secondary drive to markets, including resorts	Primary/Gateway markets, Fly to Resorts
Location	Suburban/Small Metro/Interstate	Suburban/Small Metro/Interstate/Drive to Resort	Urban/Fly to Resort
Service Level	Non-Urban Limited Service/Extended Stay	Non-Urban Limited Service/Select Service/Extended Stay	Full Service/Convention Hotels
Price Range	<\$10M	\$10M - \$25M	>\$25M
Demand Sources	Essential travelers; first responders; transportation industry; construction crews; temporary housing	Essential travelers; first responders; drive to leisure/corporate	Group/Convention; inbound international; fly to leisure/corporate

Source: CBRE Hotels Advisory, as of Aug 21, 2020

Note: 1. The Daily Lodging Report for 9/14/20 – Gaming USA Corporation. 2. CBRE – Published on Sep 10, 2020. 3. Excluding upper midscale since included in 10 – 20% impairment range.



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