Hospitality Newsletter

Virtua Partners | *September 3, 2020*

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Hospitality Industry Updates

U.S. Hotels in a Slow Recovery[1]

U.S. Hotel Industry KPIs		
	Week Ended Aug 22, 2020	YoY Change*
Occupancy	48.8%	-30.3%
ADR	$100.08	-22.7%
RevPAR	$48.81	-46.1%

Source: STR

*Aug. 16-22, 2020 vs. Aug. 18-24, 2019

Lower occupancy during the week of Aug. 18th - 24th came as U.S. room demand declined week over week for the first time since mid-April, reflective of school openings and less vacation travel[1]

Top Performing Markets[2]:

- Norfolk/Virginia Beach, Virginia (61.2% occupancy)
- San Diego, California (54.1%)
- Los Angeles/Long Beach, California (54.0%)
- Detroit, Michigan (50.3%)

Least Performing Markets[3]:

- Oahu Island, Hawaii (26.5%)
- Orlando, Florida (29.3%)

Note: 1. Lodging Magazine, published on August 27, 2020. 2. Markets with over 50% occupancy for the week ended Aug 22, 2020. 3. In terms of occupancy level.

Hospitality Industry Updates

Economy Hotels Exhibited the Greatest Resilience

- RevPAR YoY change for the week ended Aug 22, 2020: economy (-16.7%), midscale (-26.5%), upper midscale (-39.5%), upscale (-52.8%), luxury (-68.2%), upper upscale (-69.5%)[1]
- Longest recovery expected for luxury and large group / convention hotels, contingent on governmental and corporate policies on corporate travel and group gatherings[2]

U.S. Hotel Monthly P&L Showed Incremental Improvement[3]

- GOPPAR[4] reached positive territory for the first time since February ($5.74 in July, -93.9% YoY)
- Full-service hotels registered positive GOPPAR in July 2020
- Limited-service hotels remained positive GOPPAR since May 2020

42.5MM Americans are Estimated to Hit The Road over the Labor Day Weekend[5]

- Location data company Arrivalist projects that Labor Day holiday road trip volume will be down just 5.3% compared to last year[6]
- Hotels at the drive-to markets are expected to benefit the most in the upcoming holiday

Pandemic Beginning to Force Hotel Owners into Bankruptcy

- Kinser Group LLC filed a voluntary petition for Chapter 11 relief in the U.S. Bankruptcy Court for the District of Arizona on Aug 14[7]
    - Kinser Group owns two hotels in Bloomington, Indiana[8]
    - In explaining what led to its bankruptcy, Kinser Group stated that its hotels were negatively impacted by increased market competition and the COVID pandemic[8]
- Pandemic also cited as a reason for the recent bankruptcy filing by operator of Trump International Hotel in Vancouver, Canada[9]
- We expect that the pandemic will result in more bankruptcy filings, and M&A opportunities, as reduced hotel occupancy depresses revenues and leads to loan defaults

Note: 1. STR, published on Aug 27, 2020. 2. U.S. Lodging Industry Overview, H1 2020. Source: Cushman & Wakefield. 3. Lodging Magazine, published on August 24, 2020. 4. Gross operating profit per available room. 5. Lodging Magazine, published on August 31, 2020. 6. A trip is measured as one where the user has travelled a min of 50 miles and spent a min of two hours at the destination, excluding commuter travel or other frequently repeated trips. 7. Phoenix Business Journal, published on Aug 28, 2020. 8. "Emergency Motion for Interim and Final Orders Authorizing the Debtor's Use of Cash Collateral" filed by Kinser Group on Aug 14, 2020. 9. Reuters, published on Aug 29, 2020.

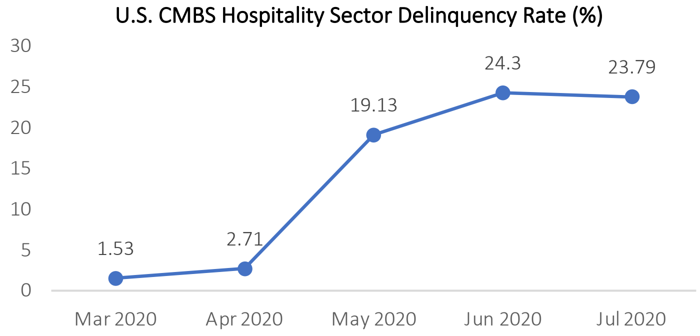
Capital Market Update

Declining CMBS Delinquency Rate[1]

- The CMBS delinquency rate for the hospitality sector dropped 83 bps to 22.96% in Aug for CMBS 1.0 and 2.0 loans[2], and dropped 84 bps to 22.75% for CMBS 2.0+ loans[2] as a result of loan modification and reserve relief[3]
- However, with relief windows ending for some loans and new parts of the country being hit with the virus for the first time over the last 60 days, an uptick in delinquencies in the future is possible

Buyers' Market Is Expected To Come in 2021[5]

- Q2 2020 saw the lowest transaction volume in over 15 years with only 71 hotels sold
- Pricing per key decreased by 11.0% from Q1 2020 to Q2, and down 36.0% compared to 2019
- Private equity funds dominated the buyer profile in H1 2020, followed by cross border buyers, and institutional investors, all of which are focusing on distressed asset acquisitions
- M&A activity in the U.S. hotel sector is likely to remain gridlocked for at least six months to a year[8] as a result of wide bid/ask gap[6] and scarcity on the debt financing[7]



Source: Trepp

Source: Real Capital Analytics, Cushman & Wakefield

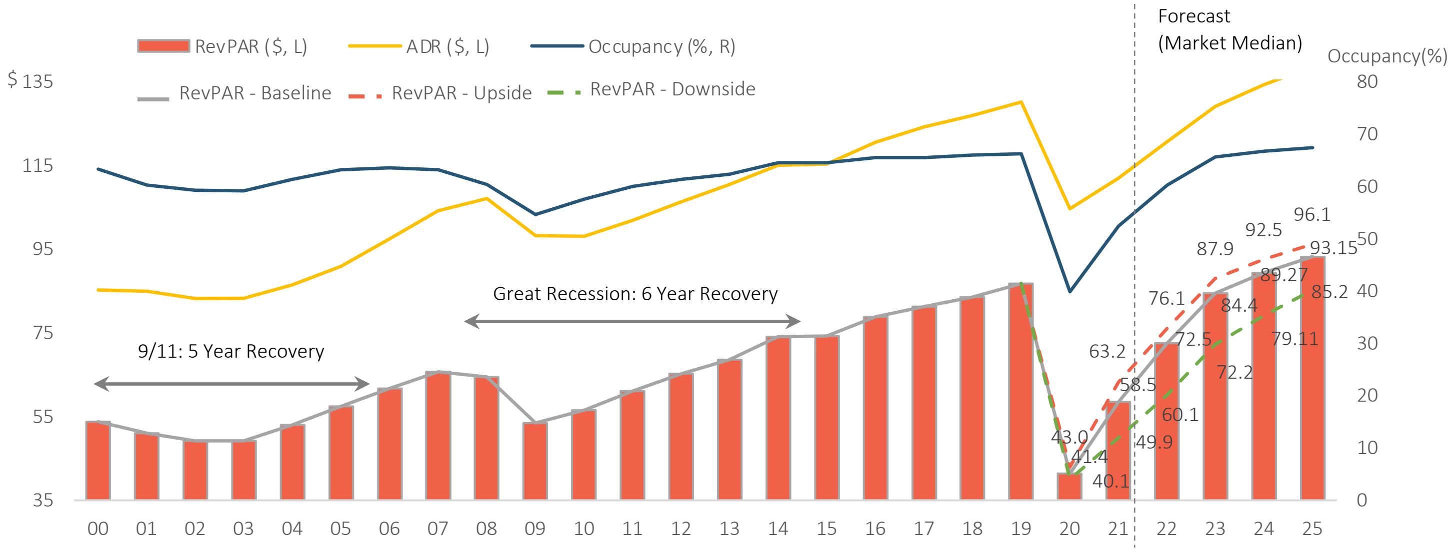
Note: 1. Refers to CMBS Loans that were 30+ day delinquent. Source: Trepp, Aug 28, 2020. 2. CMBS 1.0 refers to CMBS lending till 2007. CMBS 2.0 refers to CMBS lending starting in Nov 2009. CMBS 2.0+ refers to CMBS lending starting in Aug 2011. Source: Urban Land Institute. 3. Whereby borrowers were permitted to use reserves to keep the loan current. Source: Trepp. 4. U.S. Lodging Industry Overview, H1 2020. Source: Cushman & Wakefield. 5.Berkadia. 6. According market information, the price sellers will accept is at 10% - 15% discount to pre-COVID value vs. 30% - 50% discount for buyers. Source: JF Capital Advisors, Berkadia. 7. The CMBS new loan origination market for hotels is effectively closed per JF Capital. As of early August, debt pricing was being offered at 500 to 700 bps spread over LIBOR. Acceptable LTV ratios were declining from pre-COVID levels of 60.0% - 65.0% to 50.0% - 55.0%. Source: Cushman & Wakefield. 8. U.S. M&A Outlook, Hotels Magazine, Aug 31, 2020.

Industry Outlook

HVS Expects National Hotel Values to Return to 2019 levels by 2024-2025[7]

- Occupancy: forecast to plunge by 19.8% - 41.4% in 2020[1], hitting a historical low of 38.7% - 53.0%[2,3]
- ADR: expected to decrease by 13.1% - 20.9 % in 2020[4]; rebound following the stabilization of occupancy and the recovery of group/ corporate demand[5]
- RevPAR: expected to slump by 30.3% - 54.1% in 2020[6]
- The CBRE forecast in August 2020 suggested that RevPAR is unlikely to return to 2019 levels until 2024 in the base case, consistent with the latest estimation released by STR and Tourism Economics

Occupancy, ADR, RevPAR[6]



Note: 1. 19.8% decline - LARC as of Aug 31, 39.7% decline - STR as of Aug 13, 40.3% decline -CBRE as of Aug 13, 41.4% decline - PWC as of Aug 31. 2. 53.0% - LARC as of Aug 31, 39.8% - STR & CBRE as of Aug 13, 38.7% - PWC as of Aug 31. 3. Since 2000. 4. 13.1% decline - LARC as of Aug 31, 20.9% decline - STR as of Aug 13, 20.4% decline -CBRE as of Aug 13, 19.9% decline - PWC as of Aug 31. 5. JF Capital Advisors, Aug 31. 6. 30.3% decline - LARC as of Aug 31, 52.3% decline - STR as of Aug 13, 52.5% decline -CBRE baseline as of Aug 13, 50.7% decline - CBRE upside, 54.1% decline - CBRE downside, 53.1% decline - PWC as of Aug 31. 6. Chart Source: 2000 - 2019 data based on STR, extracted on Mar 5, 2020. Market forecast based on multiple sources in the note. 7. JF Capital Advisors, Aug 31.

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