Hospitality Newsletter

Virtua Partners

September 30, 2020

VIRTUA™ PARTNERS

Hospitality Industry Updates

Virtua Partners Announces Strategic Alliance With The Witness Group ("TWG")[1]

- Virtua affiliate Hotel Equities transitioned and assumed operations of TWG's portfolio of 36 hotels on Sep 1, 2020; brands represented include Marriott, Hilton, IHG, and Hyatt
- The hotels are primarily located in the Midwest, ranging from Minneapolis to Indianapolis, Cincinnati, Columbus, Cleveland, and Washington DC
- With the addition of TWG's portfolio, Hotel Equities is estimated to be the #9 hotel management company in the U.S. by room count and the #2 hotel management company in the U.S. by the number of hotels

"It had everything to do with two groups that were very aligned in terms of priorities, vision and the way they took care of their associates, and then creating a platform that is unique and powerful in our space."

—Brad Rahinsky
Hotel Equities

A pandemic is a time when most companies hold things close to the vest and keep the ship afloat by any means necessary. For Hotel Equities, based in Atlanta, it was a time to move forward and make 1+1=3 (synergize) with new strategic partner The Witness Group (TWG), an Ohio-based owner, operator and developer with a portfolio of 36 hotels located in Indiana and Ohio, including five under construction and one in development. After transitioning the TWG portfolio onto Hotel Equities' platform, the management company's portfolio will comprise 166 hotels in the U.S. and Canada.

"We started the conversation with The Witness Group pre-COVID. The deal had nothing to do with a number or geography," said Brad Rahinsky, Hotel Equities' president/CEO. "It had everything to do with two groups that were very aligned in terms of priorities, vision and the way they took care of their associates, and then creating a platform that is unique and powerful in our space. People will covet our services because of this 1+1=3 engine that we're creating. It's about getting better and groups that were very aligned making that powerful engine, versus a transactional piece of business for the sake of getting bigger."

The two companies first came together via a chance meeting at a brand event, noted TWG Chief Investment Officer Sagar Patel. "I had the fortunate

Note: 1. Lodging Magazine, published on Sep 22, 2020.

Hospitality Industry Updates

U.S. Hotel Occupancy & ADR Both Down After Labor Day Weekend[1]

U.S. Hotel Industry KPIs		
	Week Ended Sep 19, 2020	YoY Change*
Occupancy	48.6%	-31.9%
ADR	$95.84	-28.9%
RevPAR	$46.54	-51.6%
RevPAR YoY Change		
	Luxury	-73.9%
	Upper Upscale	-75.2%
By Class Type	Upscale	-57.3%
	Upper Midscale	-41.9%
	Midscale	-28.0%
	Economy	-15.7%
	Independent	-43.1%
By Guest Type	Group	-88.6%
	Transient	-58.6%

*Sep 13 – Sep 19, 2020 vs. Sep 15 – Sep 21, 2019. Source: STR

- U.S. hotel occupancy and ADR levels both dropped from the week ending Sep 5, 2020 due to leisure travels moderating after the Labor Day weekend
- Markets housing displaced residents from Hurricane Laura and the western wildfires were once again registered with highest occupancies for the week
- Urban/business travel heavy areas continue to be the least performing locations while economy hotels continue to outperform other class segments
- Top Performing Markets[2]:
    - Norfolk/Virginia Beach, Virginia (56.4% occupancy)
    - San Diego, California (53.9%)
    - Los Angeles / Long Beach, California (53.3%)
    - Detroit, Michigan (50.6%)
- Least Performing Markets[3]:
    - Oahu Island, Hawaii (19.7%)
    - Orlando, Florida (29.9%)

Note: 1. STR, published on Sep 24, 2020. 2. Markets with over 50% occupancy for the week ended Sep 19, 2020. 3. In terms of occupancy level.

Hospitality Industry Updates

U.S. Hotel Profitability in Slow Recovery; Limited-Service Hotels Exhibit Better Financial Health[2]

- U.S. YoY Profitability Metrics Comparison (Aug 2020 vs Aug 2019):
    - GOPPAR[3]: -91.3% to $6.90 (2.0 percentage point ("pp") increase from Jul 2020)
    - TRevPAR[4]: -74.5% to $55.72 (0.4pp decrease)
    - EBITDA PAR[5]: -112.1% to -$6.96 (3.0pp increase)
    - LPAR[6]: -64.4% to $27.19 (0.4pp increase)
- 37% of full-service hotels recorded negative gross operating profit while only 11% of limited-service hotels recorded negative GOP as of Aug 2020

More Than Two-Third of Hotels Struggling To See Past Next Six Months Without Further Governmental Assistance[7]

- According to a new survey by the American Hotel & Lodging Association[8], 68% of the respondents stated that they have less than half of the typical, pre-crisis staff working full time as of Sep 16, 2020
- 74% of the respondents stated they will be forced to lay off more staff without further governmental assistance
- Half of hotel owners expressed that they are in danger of foreclosure by their commercial real estate debt lenders due to COVID-19
- 67% of hotels report that they will only be able to last six more months at current projected revenue and occupancy levels absent any further relief

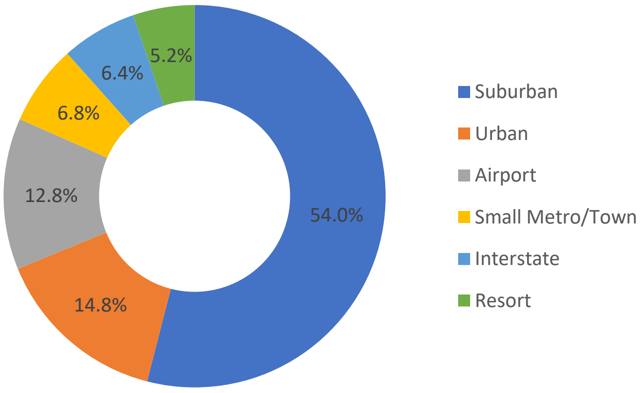
Note: 2. Lodging Magazine, published on Sep 25, 2020. 3. Gross operating profit per available room. 4. Total revenue per available room. 5. Earnings before interest, income tax, depreciation, and amortization, per available room. 6. Total labor costs per available room. 7. AHLA Survey, published on Sep 21, 2020. 8. AHLA conducted the survey of hotel industry owners, operators, and employees from Sep 14-16, 2020, with more than 1,000 respondents.

Industry Outlook

~10% of Hotels Not Expected to Recover to Pre-Recession Levels; Older Hotels Located in Suburban Areas Seem Most Risky[1]

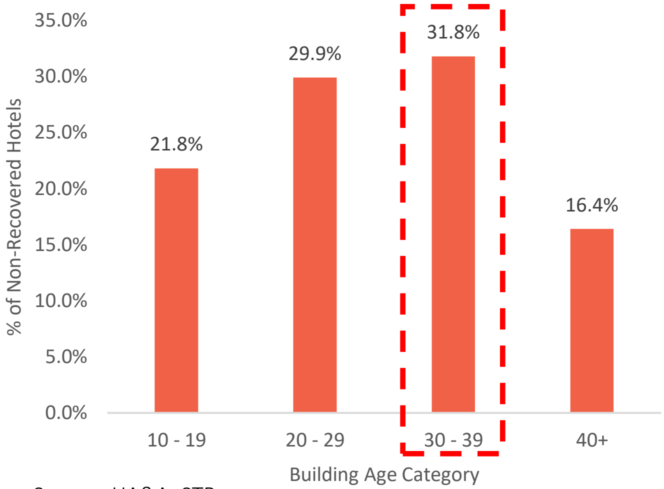
- According to Hotel Appraisers & Advisors (HA&A) and STR, 6,785 out of 7,530 U.S. hotels (~90.1%) recovered to their nominal 2008 ADR peak levels by 2019; 745 hotels never returned to their peak ADR levels (~9.9%)
- ~54.0% of non-recovered hotels comprised of suburban hotels; suburban hotels may have inherent risks related to relatively rapid changes in development trends experienced in some suburban markets
- ~31.8% of non-recovered hotels comprised of hotels with building ages between 30 – 39 years; hotels nearing the termination of a renewed franchise period may represent a greater risk than hotels within their initial franchise terms or at the beginning of a renewed term

Non-Recovered Hotels by Location Type



Source: HA&A, STR

Non-Recovered Hotels by Building Age Category



Source: HA&A, STR

Note: 1. Hotel News Now, published on Sep 28, 2020.

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