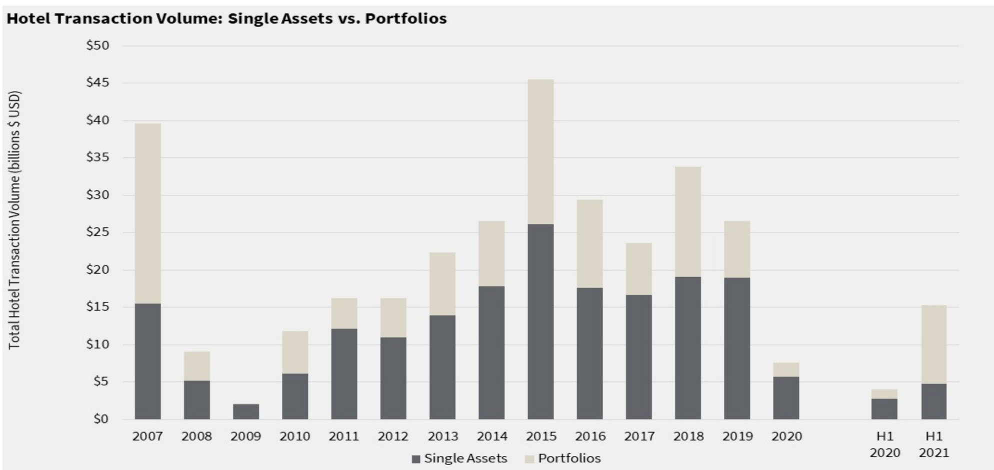
H1 2021 U.S. Lodging Capital Market Trends

Notable improvement in lodging performance spurred transaction activity in H1 2021

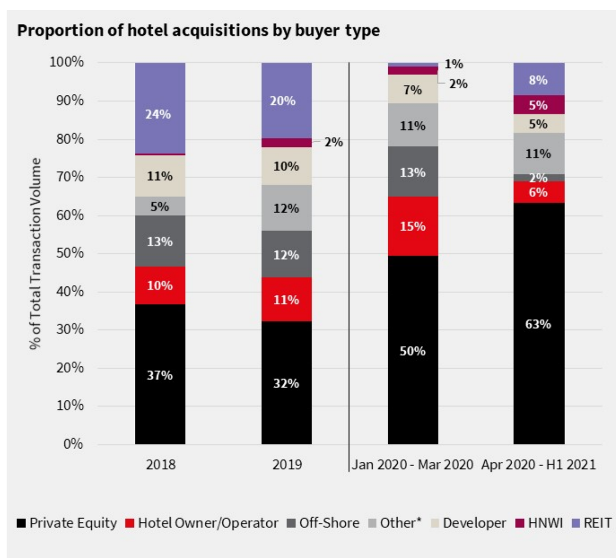
The COVID-19 pandemic had a drastic and immediate impact on U.S. hotel investment activity, with total hotel transaction volume down 72% in 2020 relative to 2019. In 2021, we are seeing renewed optimism around hotel investment following the rapid dissemination of vaccines, which has boosted leisure demand and consumer travel sentiment. In YTD June 2021, RevPAR recovered to 70% of 2019 levels. This performance is translating to increased transaction volume, with H1 2021 sales totaling $15.3 billion, up nearly three times the level achieved in the same period in 2020 and 40% above H1 2019 levels. The extraordinary surge in volume was supported by portfolio transactions, most notably The Blackstone Group and Starwood Capital Group's joint acquisition of Extended Stay America for $6.0 billion. Moreover, Q2 2021 saw four staggering luxury resort transactions close at $1.0 million+ per room.



Source: JLL Research

Record levels of dry powder make private equity the dominant acquirer of hotel assets

Despite the flurry of fundraising activity that occurred in 2020 – $17.8 billion raised in closed-end funds targeting hotels & hospitality assets in North America – private equity groups continue to raise funds in early 2021, raising $6.3 billion in H1 2021. Given the buyer group's vast financial resources, it's no surprise that since April 2020, private equity has accounted for 63% of overall hotel transaction activity. With an abundance of capital to be deployed, private equity is anticipated to continue searching for high-yield acquisition opportunities across the hotel sector.

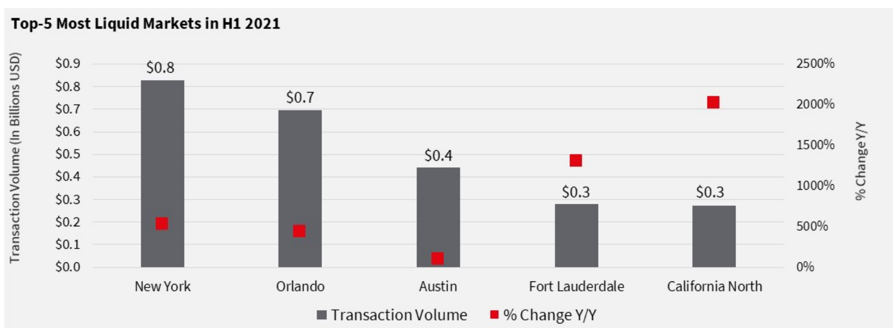


Source: JLL Research

Family offices and high net worth investors are also increasing their participation in the hotel investment space by evaluating opportunistic hotel investments at meaningful discounts. Hotel REITs have been selective acquirers, with the buyer group embracing a disciplined investment strategy as they continue to monitor liquidity levels and pay off debt.

Hotel investment recovery will be uneven and influenced by market characteristics

While travel sentiment and overall trends in the lodging industry are pointing in a positive direction, the recovery timeline for different markets and hotel types stands to be uneven, more so now with the rise of the delta variant. When we take a closer look at hotel investment activity across the top-five most liquid markets in H1 2021, it becomes apparent that investor interest is focused on resort destinations or high-growth, less dense secondary markets. As evidenced, markets such as Fort Lauderdale and California North observed the highest year-over-year increases in transaction volume. While it is true that New York reigns as the top liquid market under the analyzed period, it is also the market that remains the most depressed when comparing YTD June 2021 RevPAR to YTD June 2019 RevPAR, suggesting that the market's recovery timeline will be more protracted. This is a phenomenon other urban markets are expected to observe given their dependence on transient business and group demand. In the second half of the year, we could see more investment activity in urban centers influenced by opportunistic hotel investors looking to enter markets at a historically attractive basis.



	New York	Orlando	Austin	Fort Lauderdale	California North	Total U.S.
YTD June 2021 RevPAR % Change vs. YTD June 2019	-60.2%	-44.6%	-41.2%	-2.7%	-19.6%	-30.5%

Source: STR, JLL Research

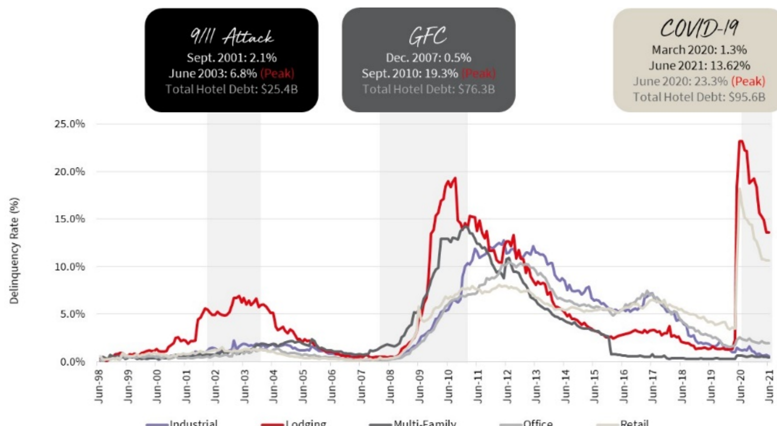
The hospitality debt markets strengthened in the first half of 2021

The hospitality debt markets improved significantly in the first half of 2021 with spreads tightening 100 - 200 basis points since January. While the focus remains on the highest quality assets, markets, and sponsors, all major lender types – banks, debt funds, life insurance companies and fixed/floating rate CMBS lenders – are now back in the market and the number of active lenders within each lender type is growing. Moreover, leverage levels have increased with banks and insurance companies pushing leverage to 65% from 55% - 60% earlier in the year. Similarly, debt funds are willing to push leverage levels as high as 75% - 80% for the best assets but prefer to maintain leverage at 70% or lower. In terms of pricing, apart from CMBS Single Asset Single Borrower (SASB) securitizations which offer higher leverage and lower pricing, banks continue providing the lowest cost of capital. Construction financing is selectively available, but only for the most extraordinary projects and best sponsors.

Based on the amount of available liquidity and improving fundamentals, we expect this positive momentum to continue through the balance of the year. As evidence, our pipeline includes balance sheet financings – bank, debt fund and life insurance company – and SASB CMBS financings, and covers the broad array of transaction types: existing stabilized assets, light and heavy value add situations, new hotels with modest cash flows that are ramping up, medium and large construction deals, preferred equity/joint venture equity and loan restructurings and modifications.

The lodging sector's delinquency rate remains flat relative to prior month at 13.6% but impending loan maturities point to the potential for rising distress on the horizon

Lenders continue being accommodative with hotel owners by granting forbearance agreements and as such, the level of distress originally anticipated has not manifested as yet. At the height of the pandemic, hotel delinquency rates peaked at 23.2% in June 2020. Since then, rates have steadily declined and in June 2021, stabilized at 13.6%. Helping curtail the level of distress in the market has been the $1.9 trillion government stimulus packaged provided by the Biden Administration coupled with improving cash flows at the property level as demand has recovered quicker than expected once city COVID-19 restrictions were lifted.



Source: JLL Research, Trepp

Nevertheless, as the lodging industry continues to face challenges while operating in a COVID-19 environment, many owners will soon have to grapple with maturing debt loans. According to data reported by Trepp, between 2022 and 2025, $31.8 billion worth of securitized hotel debt is set to mature. Looming debt maturities and relatively elevated loan delinquency and foreclosure rates should result in increasing opportunities for hotel acquisitions at attractive price points in the mid- to long-term.