

HOTEL REAL ESTATE - NEWSLETTER #2
COVID-19 UPDATES FROM WEEK OF 04.13.2020
by hotelAVE

6 WEEKS OF COVID-19 IMPACT – WE’VE BOTTOMED IN LOW -80% RevPAR DECLINE

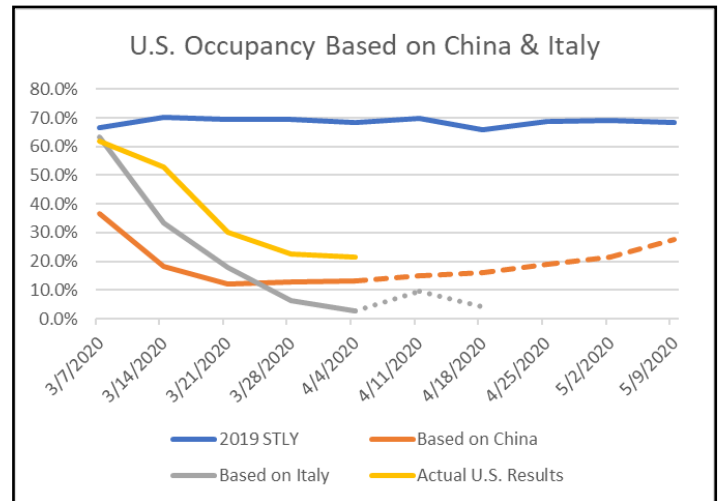
Week Ended:	Week of April - 11 - Percent Change vs. Prior Year																	
	Occ % Change						ADR % Change						RevPAR % Change					
	3/7	3/14	3/21	3/28	4/4	4/11	3/7	3/14	3/21	3/28	4/4	4/11	3/7	3/14	3/21	3/28	4/4	4/11
Total US	-7.3	-24.4	-56.4	-67.5	-68.5	-69.8	-4.6	-10.7	-30.2	-39.4	-41.5	-45.6	-11.6	-32.5	-69.5	-80.3	-81.6	-83.6
Luxury	-12.2	-38.3	-79.2	-87.5	-87.6	-88.3	-1.9	-2.2	-14.6	-46.7	-47.1	-52.2	-13.9	-39.7	-82.3	-93.3	-93.4	-94.4
Upper Upscale	-11.2	-39.0	-79.7	-87.1	-88.0	-88.7	-4.4	-7.1	-18.8	-35.3	-39.7	-46.2	-15.2	-43.4	-83.5	-91.6	-92.7	-93.9
Upscale	-7.9	-28.8	-68.3	-77.6	-78.7	-79.3	-4.8	-7.3	-18.0	-24.7	-27.8	-33.0	-12.4	-34.0	-74.0	-83.1	-84.6	-86.1
Upper Midscale	-6.2	-21.8	-57.0	-71.1	-72.9	-74.7	-3.7	-6.0	-16.1	-22.0	-24.6	-28.8	-9.7	-26.5	-63.9	-77.4	-79.6	-82.0
Midscale	-5.7	-17.9	-44.0	-57.7	-60.0	-61.9	-2.7	-6.4	-16.3	-22.1	-23.4	-26.0	-8.2	-23.2	-53.1	-67.1	-69.4	-71.8
Economy	-5.2	-13.6	-30.4	-41.6	-43.9	-45.6	-3.6	-7.7	-19.1	-22.6	-23.6	-27.4	-8.6	-20.2	-43.7	-54.8	-57.1	-60.5
Urban	-10.9	-38.9	-76.6	-81.8	-81.4	-81.2	-8.3	-15.9	-36.3	-41.9	-47.7	-52.9	-18.3	-48.6	-85.1	-89.4	-90.3	-91.1
Airport	-10.0	-25.9	-56.7	-66.6	-68.7	-72.2	-5.6	-10.6	-24.0	-29.2	-32.2	-38.0	-15.1	-33.7	-67.1	-76.4	-78.8	-82.7
Destination Resort	-11.8	-33.2	-73.6	-86.3	-87.3	-87.8	0.3	-1.9	-11.8	-46.9	-47.3	-51.3	-11.5	-34.5	-76.7	-92.7	-93.3	-94.0
Convention	-13.3	-39.3	-77.9	-84.6	-85.1	-86.7	-3.2	-5.1	-26.3	-42.7	-46.8	-52.4	-16.1	-42.4	-83.7	-91.2	-92.1	-93.7
Spa	-11.6	-33.6	-74.0	-83.6	-83.6	-84.8	-1.7	-3.0	-22.3	-47.4	-49.5	-54.7	-13.0	-35.7	-79.8	-91.4	-91.7	-93.1
Boutique	-10.5	-36.5	-79.1	-86.2	-86.4	-86.3	-7.2	-9.8	-23.5	-40.4	-44.0	-53.7	-16.9	-42.7	-84.0	-91.8	-92.4	-93.7
Segments (Luxury / Upper Upscale)	-11.5	-38.9	-79.6	-87.2	-87.9	-88.6	-3.6	-5.2	-17.1	-39.3	-42.3	-48.3	-14.6	-42.0	-83.0	-92.2	-93.0	-94.1
Transient	-8.4	-31.7	-76.3	-89.5	-90.2	-90.5	-5.0	-5.6	-13.5	-34.7	-39.2	-46.0	-13.0	-35.5	-79.5	-93.1	-94.0	-94.9
Group	-16.7	-56.6	-96.1	-96.8	-94.8	-93.3	-1.2	-4.0	-13.9	-38.3	-37.3	-48.6	-17.7	-58.3	-96.6	-98.0	-96.7	-96.6
Contract	-12.2	-12.9	-5.9	19.3	4.4	-18.2	-3.1	-4.8	-12.9	-14.0	-16.8	-22.2	-14.9	-17.0	-18.1	2.6	-13.1	-36.4

Source: STR

According to CBRE and SunTrust, we are 7 weeks behind China and 3 weeks behind Italy. U.S. occupancy levels bottomed out in low 20s vs 13% for China and single-digits for Italy.

United States Occupancy Based on China & Italy				
2019 Occ	Week Ending	Based on China	Based on Italy	Actual U.S. Results
66.6%	3/7/2020	36.5%	63.3%	61.8%
70.1%	3/14/2020	18.1%	33.4%	53.0%
69.5%	3/21/2020	12.2%	17.9%	30.3%
69.4%	3/28/2020	13.0%	6.2%	22.6%
68.5%	4/4/2020	13.2%	2.7%	21.6%
69.9%	4/11/2020	14.8%	9.5%	
65.7%	4/18/2020	16.0%	4.2%	
68.9%	4/25/2020	18.8%	-	
69.1%	5/2/2020	21.5%	-	
68.3%	5/9/2020	27.8%	-	

Source: hAVE, STR



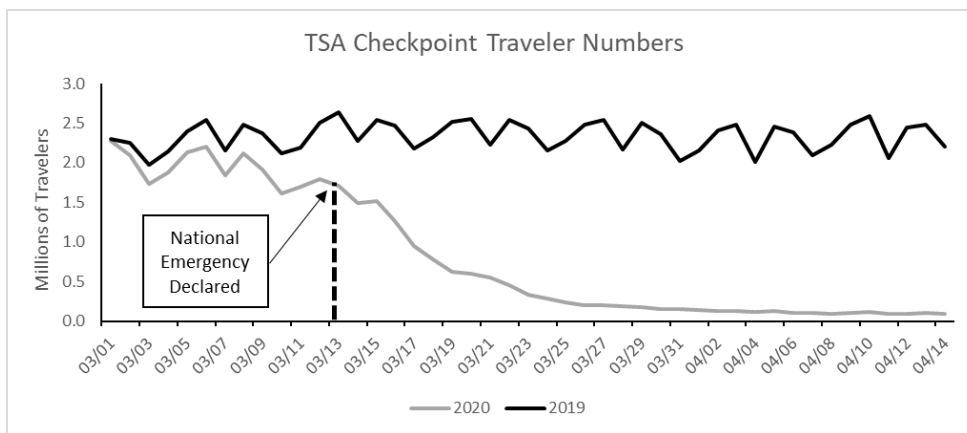
China occupancy recovery started after 4 weeks of trough occupancy. We anticipate the US recovery to be slower and may take longer due to the delay in the US rolling out social distancing and safety guidelines and the inconsistency of state to state guidelines.

Week of April - 11 - Percent Change vs. Prior Year																		
Top 25 Markets	Occ % Change						ADR % Change						RevPAR % Change					
	Week Ended:	3/7	3/14	3/21	3/28	4/4	4/11	3/7	3/14	3/21	3/28	4/4	4/11	3/7	3/14	3/21	3/28	4/4
Anaheim/Santa Ana, CA	-27.3	-33.9	-75.8	-80.2	-80.3	-80.4	-19.9	-17.9	-36.4	-42.4	-46.8	-47.9	-41.8	-45.8	-84.6	-88.6	-89.6	-89.8
Atlanta, GA	-9.0	-22.1	-56.8	-65.0	-65.2	-68.6	-6.7	-7.4	-35.5	-43.3	-46.6	-50.6	-15.1	-27.8	-72.2	-80.2	-81.4	-84.5
Boston, MA	-5.7	-40.4	-74.9	-80.6	-80.2	-82.7	-3.3	-14.2	-29.7	-39.0	-44.2	-56.0	-8.8	-48.9	-82.4	-88.1	-89.0	-92.4
Chicago, IL	-13.5	-35.0	-69.6	-74.8	-75.6	-77.8	-5.8	-12.4	-31.9	-37.6	-46.7	-55.1	-18.5	-43.1	-79.3	-84.3	-87.0	-90.0
Dallas, TX	-5.6	-26.1	-55.9	-66.3	-65.6	-69.0	-1.6	-13.4	-32.3	-42.1	-43.7	-47.1	-7.1	-36.0	-70.1	-80.5	-80.6	-83.6
Denver, CO	-11.1	-31.8	-62.2	-70.9	-74.7	-75.9	-0.5	-11.5	-27.4	-29.6	-39.2	-48.3	-11.5	-39.6	-72.6	-79.5	-84.6	-87.5
Detroit, MI	1.9	-20.9	-49.3	-64.6	-64.2	-66.1	0.0	-10.6	-29.3	-38.9	-36.4	-39.0	1.9	-29.3	-64.1	-78.4	-77.2	-79.3
Houston, TX	-6.1	-26.6	-52.8	-61.1	-62.7	-66.5	-6.6	-17.8	-33.7	-39.3	-41.7	-44.6	-12.4	-39.6	-68.7	-76.4	-78.3	-81.5
Los Angeles/Long Beach, CA	-8.2	-31.6	-64.9	-74.1	-73.3	-74.4	-0.7	-12.2	-29.0	-32.0	-34.6	-41.7	-8.9	-39.9	-75.1	-82.4	-82.5	-85.1
Miami/Hialeah, FL	-9.0	-25.5	-62.8	-77.4	-77.1	-75.8	-1.5	-10.2	-30.5	-57.9	-42.9	-59.3	-10.4	-33.1	-74.1	-90.5	-86.9	-90.2
Minneapolis/St Paul, MN-WI	-10.7	-28.4	-67.5	-74.5	-76.8	-78.9	-3.2	-8.6	-26.4	-36.6	-57.0	-56.0	-13.6	-34.6	-76.1	-83.8	-90.0	-90.7
Nashville, TN	1.8	-16.1	-61.4	-74.4	-75.1	-76.7	-0.7	-8.6	-39.4	-49.0	-51.3	-56.7	1.1	-23.3	-76.6	-86.9	-87.8	-89.9
New Orleans, LA	-10.3	-24.6	-76.0	-84.9	-82.3	-82.5	-17.3	-22.8	-43.6	-52.3	-47.1	-52.7	-25.8	-41.8	-86.5	-92.8	-90.6	-91.7
New York, NY	-13.1	-43.9	-80.5	-81.8	-79.1	-71.7	-8.3	-19.1	-30.9	-33.1	-45.3	-49.3	-20.3	-54.6	-86.5	-87.8	-88.6	-85.7
Norfolk/Virginia Beach, VA	-2.4	-20.8	-46.0	-56.5	-57.2	-58.0	1.3	-8.2	-23.2	-31.3	-34.6	-36.5	-1.1	-27.3	-58.6	-70.1	-72.0	-73.3
Oahu Island, HI	-12.2	-19.9	-52.2	-86.4	-90.7	-90.9	1.7	-1.6	-9.3	-26.5	-31.9	-34.0	-10.6	-21.2	-56.7	-90.0	-93.7	-94.0
Orlando, FL	-12.2	-37.1	-74.7	-83.6	-85.3	-84.7	-5.3	-14.7	-40.5	-42.7	-46.0	-50.4	-16.8	-46.3	-84.9	-90.6	-92.1	-92.4
Philadelphia, PA-NJ	-6.2	-26.7	-62.1	-69.0	-68.7	-70.9	-2.0	-7.2	-35.5	-39.1	-42.8	-49.0	-8.1	-32.0	-75.6	-81.1	-82.1	-85.2
Phoenix, AZ	-10.5	-26.3	-64.7	-71.6	-72.1	-71.6	-4.5	-11.6	-35.8	-48.7	-46.6	-50.0	-14.6	-34.9	-77.3	-85.4	-85.1	-85.8
San Diego, CA	-9.9	-34.5	-66.0	-70.9	-70.5	-69.5	-1.6	-15.3	-32.3	-39.2	-43.3	-44.9	-11.3	-44.5	-77.0	-82.3	-83.3	-83.2
San Francisco/San Mateo, CA	-21.8	-51.6	-80.7	-82.4	-80.7	-82.6	-30.4	-24.2	-44.7	-38.3	-48.9	-62.5	-45.5	-63.3	-89.3	-89.1	-90.1	-93.5
Seattle, WA	-26.4	-55.0	-72.0	-76.6	-73.3	-70.9	-11.5	-24.7	-34.4	-38.1	-40.5	-40.9	-34.8	-66.1	-81.6	-85.5	-84.1	-82.8
St Louis, MO-IL	-11.1	-32.2	-60.3	-70.6	-74.3	-74.2	-4.1	-8.7	-24.6	-32.8	-40.0	-42.7	-14.8	-38.1	-70.1	-80.3	-84.6	-85.2
Tampa/St Petersburg, FL	-6.5	-17.9	-54.2	-72.1	-74.2	-75.4	-2.8	-7.0	-22.6	-48.6	-51.3	-51.0	-9.1	-23.6	-64.5	-85.7	-87.4	-88.0
Washington, DC-MD-VA	-5.2	-33.4	-69.8	-77.0	-77.9	-78.2	-2.1	-8.6	-38.0	-46.3	-48.1	-51.9	-7.2	-39.1	-81.3	-87.6	-88.5	-89.5

Source: STR

AIRLINES: INDICATORS SUGGEST EXTENDED PERIOD OF DEPRESSED TRAVEL

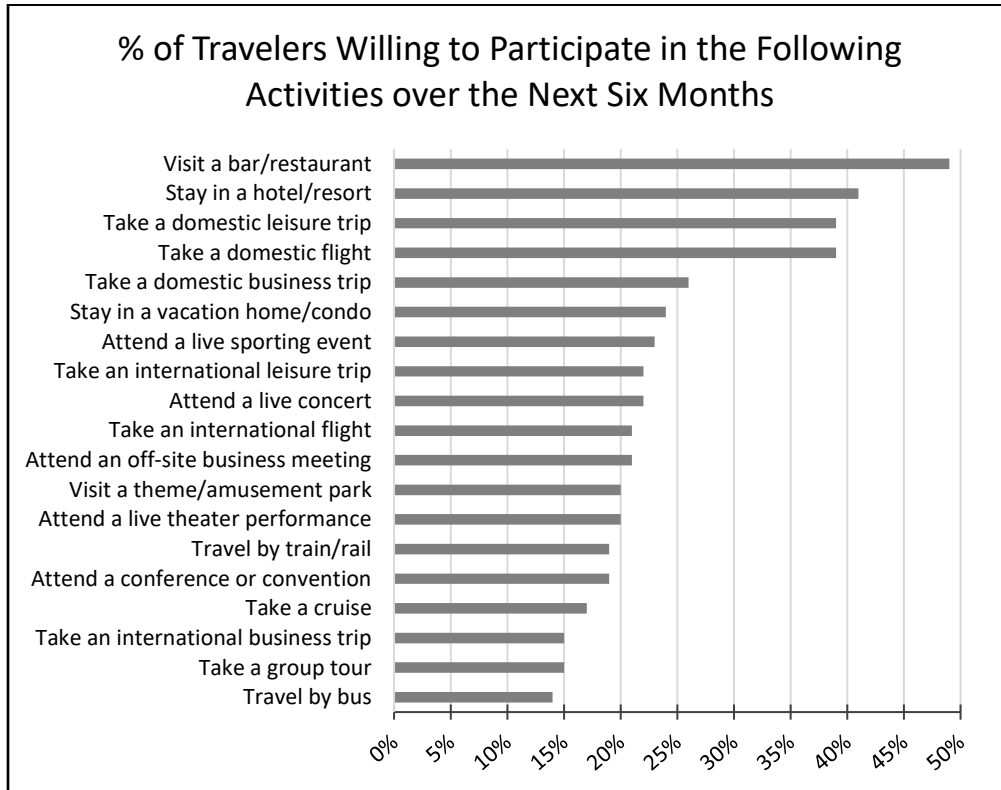
According to TSA data, U.S. airlift is down 96% vs STLY. The average throughput of passenger travel seems to have bottomed out at just under 100k travelers vs. 2.5M travelers per day STLY.



Source: Transportation Security Administration

CONSUMER SENTIMENT – LIKELIHOOD OF LEISURE & BUSINESS TRAVELERS TAKING A TRIP IN NEXT 6 MONTHS DECLINED BY NEARLY 50% BETWEEN FEBRUARY AND MARCH 2020.

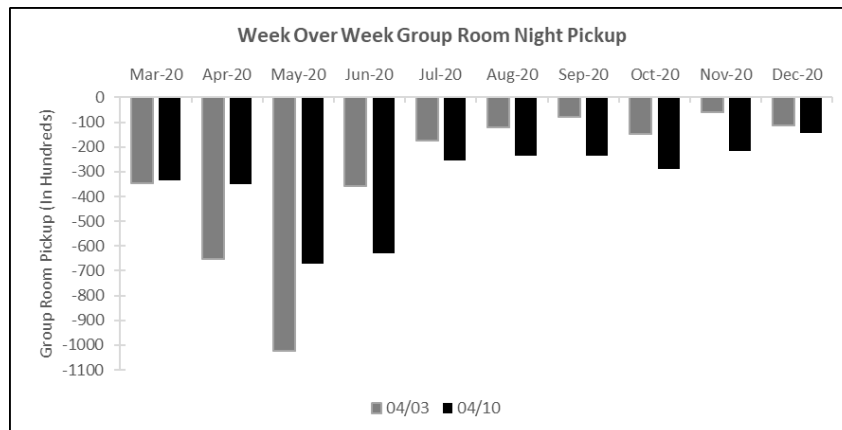
A recent consumer sentiment study published by the U.S. Travel Association and MMGY Travel Intelligence illustrates that key hospitality demand sectors will take longer to recover. Historically, leisure has recovered faster than group and this sentiment is reflected below.



Source: U.S. Travel Association, MMGY Travel Intelligence (3/27)

GROUP PICKUP & CANCELLATIONS ARE NET NEGATIVE FOR REST OF 2020

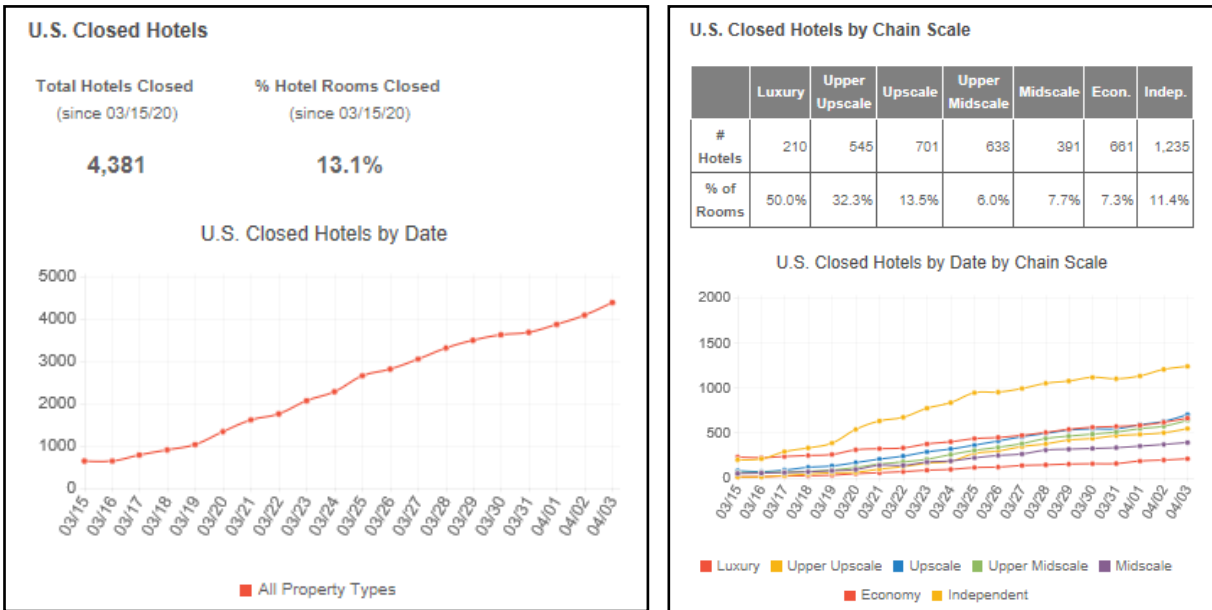
Select large group hotel data shows group pickup is negative for the rest of 2020. The data suggests that many groups are choosing not to reschedule their events for later in the year. Limitations on permitted group gathering size will continue even after general shelter-in-place restrictions are lifted.



Source: Kalibri Labs

HOTEL CLOSURES AT 13% OF INVENTORY APPEARS UNDERSTATED BY 2-3X

As of April 3rd, 13.1% of hotel rooms have been closed in the U.S as measured by Hotel Compete by tracking hotels without ANY inventory or rates available for 14-days. Therefore, “marginally open” hotels are recorded as being open. Master Association, Ground Lease or Lender requirements may obligate a hotel to operate as open. We estimate actual hotel closures at 2-3x more than as reported.



Source: Hotel Compete, Kalibri Labs

CARES ACT SHORTCOMINGS CAUSE AH&LA TO REQUEST MODIFICATIONS FOR HOTELS

AH&LA outlined the shortcomings of the CARES act to Congress requesting modifications. (The full content of this letter can be found through their website. Modifications would aid the hotel industry, if accepted:

- ✓ Reduce the 75% threshold to 50% of Payroll Costs to expand hotel owner’s ability for greater forgiveness of non-payroll items including interest on debt service.
- ✓ Clarification that the eligible borrower is the business responsible for employee payroll, benefits even if it is not the direct employer.
- ✓ Request to expand the maximum loan amount to 8 months of all covered costs (not just 2.5x average monthly payroll).
- ✓ Request to extend the covered period from 8 weeks commencing on the loan origination date to the later of December 31 or the re-hire date. *Note: Bringing employees back to work today would violate many wide spread shelter-in-place mandates.*
- ✓ Expand the two-year term to repay to 2023 at the earliest.
- ✓ Request to include franchise fees in “covered costs”.
- ✓ Request to include rent paid by a Taxable REIT subsidiary under the covered rent obligation.

COVID-19 IMPACT DRIVING NEW ACCOUNTING DISCLOSURES

Accounting firms are mandating disclosures for material current or future effects of COVID-19, similar to cybersecurity or Brexit. GAAP may require reporting of subsequent-event disclosures as well.

- ✓ Accounting considerations include: valuation and impairment of assets, contract modifications and impact of subsequent events
- ✓ Disclosure and SEC Reporting requirements include: MD&A disclosures and footnotes to financial statements

WILL HOTEL EMPLOYEES RETURN TO WORK BEFORE JULY 31?

The CARES Act authorized Federal Pandemic Unemployment Compensation (FPUC) benefits to individuals entitled to receive regular unemployment compensation to also receive an additional \$600/week (no matter how much/little they are entitled to under their state's UE program).

- ✓ As a result of this FPUC payment, many hospitality employees are earning more in unemployment benefits than average weekly salary.
- ✓ This "bonus" payment is applicable from week ending April 4th thru July 31st. All 50 states are participating in this federal program.
- ✓ This is a factor in our re-opening planning.

VALUATION, PRICING & CAP RATES– IS 10 THE NEW 7 OR 8?

hotelAVE interviewed five brokerage firms, each with active listings in the market.

- ✓ Brokers are guiding buyers to 9-10 cap rates on 2019 EBITDA that would have been 7-9 cap rates pre-COVID-19.
- ✓ Targeted valuation discounts pre-COVID-19 range from 15-20% for luxury drive to markets to as much as 50% for larger group hotels.
- ✓ Note these valuation discounts reflect the inability to conduct on-site diligence.
- ✓ Valuations are based on all-cash offers (due to lack of debt availability).
- ✓ The only "new" listings are from REIT sellers.

An HVS whitepaper published April 10 forecasts a 27% decline in value per room for 2020 and valuation recovery by 2023 to 2019 levels (assuming EBITDA recovery to pre-event levels by 2024):

- ✓ Valuations reflect strong possibility of negative EBITDA in the near term.
- ✓ Debt market's pullback from the hospitality sector has resulted in lower LTVs and higher spreads despite cuts in LIBOR.
- ✓ Capital market disruption may lead to all-cash transactions, seller financing, and other capital solutions which could depress values.
- ✓ Most vulnerable assets are group-dependent and/or located in gateway markets dependent on international travel followed by airport markets and markets influenced by energy sector.



Annual Percent Change in Value			
	Best Case	Most Likely	Worst Case
2020	-20%	-27%	-35%
2021	12%	15%	23%
2022	8%	12%	15%
2023	4%	6%	7%
2024	2%	3%	4%
2025	4%	4%	5%

Source: HVS

Relationship to 2019 Value			
	Best Case	Most Likely	Worst Case
2020	81%	74%	66%
2021	91%	86%	81%
2022	98%	96%	93%
2023	103%	102%	100%
2024	105%	105%	104%
2025	109%	109%	109%

Source: HVS

Past history, as measured by the HVS Valuation Index, supports the 5 year valuation recovery which aligns with hotelAVE’s 5-year RevPAR and EBITDA recovery forecast published on March 17.

Value Index to Peak - 2000 to 2013		
Year	Value	Index to Peak
2000	\$67,000	100%
2001	\$51,000	76%
2002	\$51,000	76%
2003	\$51,000	76%
2004	\$65,000	97%
2005	\$82,000	122%
2006	\$99,000	148%
2007	\$95,000	100%
2008	\$81,000	85%
2009	\$56,000	59%
2010	\$65,000	68%
2011	\$78,000	82%
2012	\$94,000	99%
2013	\$108,000	114%

Source: hotelAVE, HVS

Value Index to Peak Year After Downturn			
	9/11	GFC	COVID-19
Year 1	76%	85%	74%
Year 2	76%	59%	86%
Year 3	76%	68%	96%
Year 4	97%	82%	102%
Year 5	122%	99%	105%

Source: hotelAVE, HVS

ABOUT HOTELAVE

Founded on the principle of creating value through innovation and a passion for achieving results, hotelAVE is the leading hotel real estate asset manager and advisor in the hospitality industry. Our 48-person team of former hotel owners, operators, and financial professionals is solely focused on enabling our clients to reach their most ambitious goals. Powered by a combination of research, insights, and industry intelligence, our team is uncompromising in the pursuit of maximizing value and achieving above-market performance on behalf of owners and lenders.