

U.S. Hotels State of the Union

CBRE Hotels Research



December 3, 2021

Key takeaways

- The macro tailwinds continue to offset COVID headlines and infection rates. Slides [4 – 7]
- RevPAR ranges from the mid-60% of 2019's levels for Luxury hotels to close to 110% for Economy hotels. Slides [14-15]
- By location type, RevPAR at Interstate hotels are +110% of 2019's levels, while Urban hotels are performing at roughly 65% of 2019's levels. Slides [16 – 17]
- Large convention markets continue to lag, while smaller ones are showing strength. Slide [20]
- Public transport did not trail off despite return to school or the Delta variant. Air passenger counts held steady and have shown recent strength owing to the resumption of international travel and Thanksgiving. Slides [21 – 22]
- Most corporate and personal leading indicators continue to show improvement, with particular strength in luxury (the Centurion Lounge) and All-Inclusive resorts. Slides [24 – 27]
- Virtual work, office vacancies, limited international travel, and short-term rentals remain headwinds. Slides [29 – 37]
- Supply growth by market varies widely from a 2%+ decline to nearly 7%. Increasing construction cost inputs, supply chain disruptions, and wage inflation will lead to lower supply growth coming out of the downturn. Slide [39 – 44]
- Revised Chain Scale, National, and market-level forecast summaries. Slides [46-47]
- Wage rates and job openings remain challenges, but gross operating profit is surprisingly strong outside of convention hotels. Slides [49-52]
- Delinquencies and special servicing rates continue to decline but remain well above pre-pandemic levels. Slides [54 – 55]

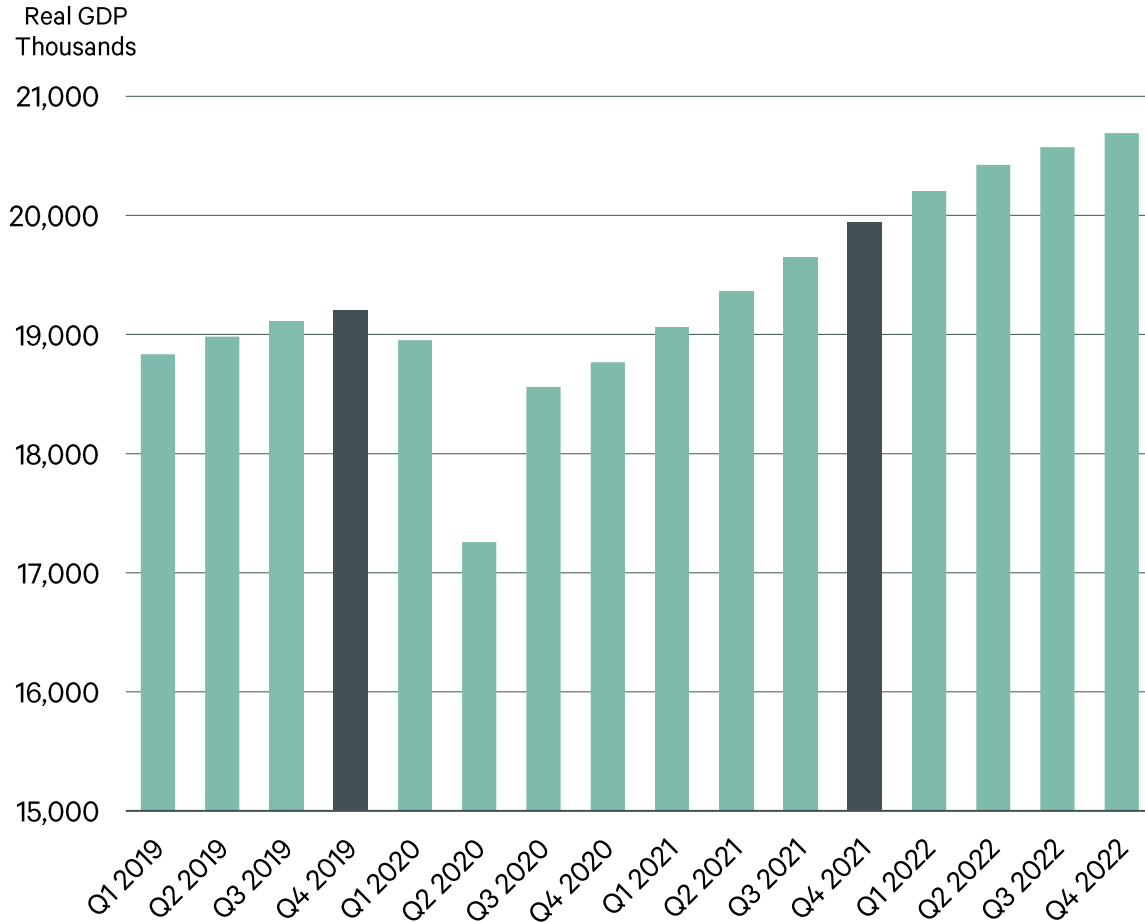
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The Economy

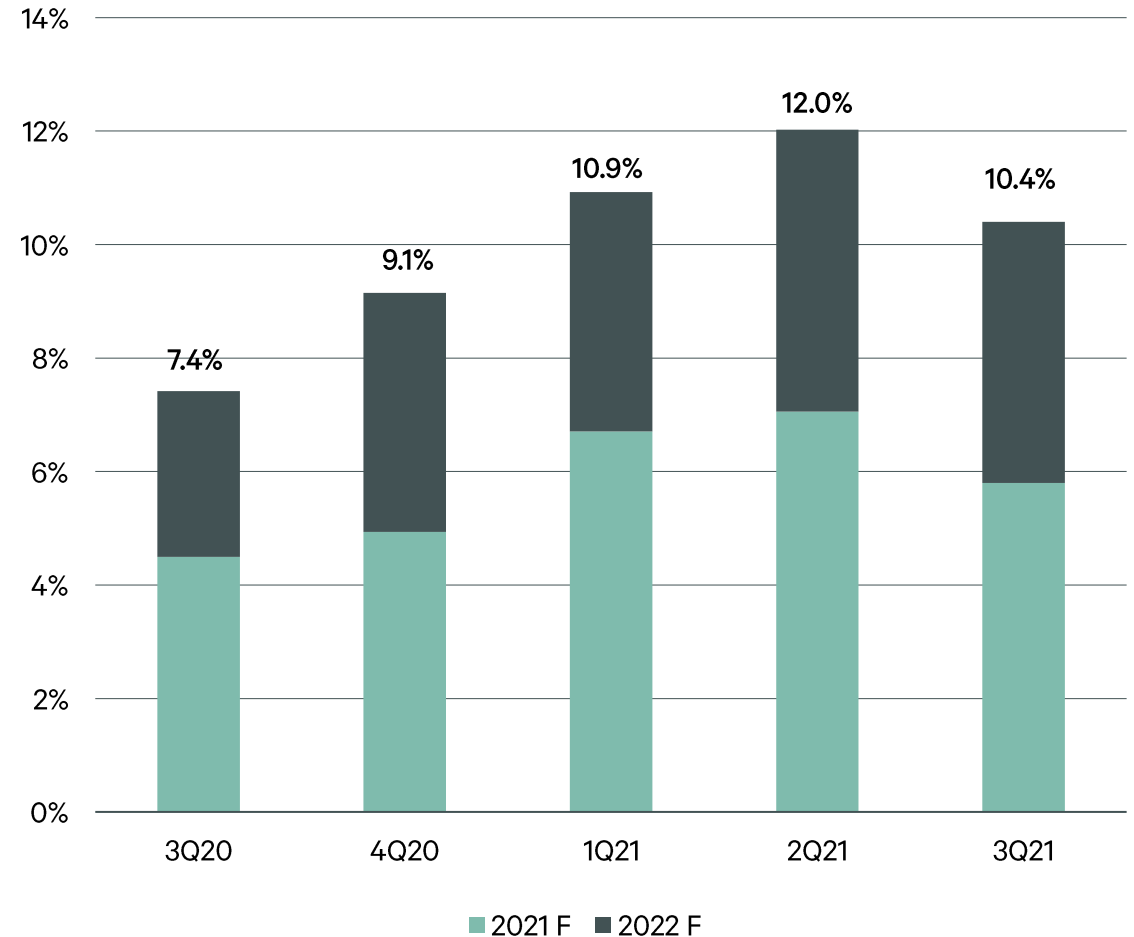


The question is when, not if, RevPAR will recover

GDP has surpassed pre-pandemic levels



Cumulative 2021 and 2022 GDP growth

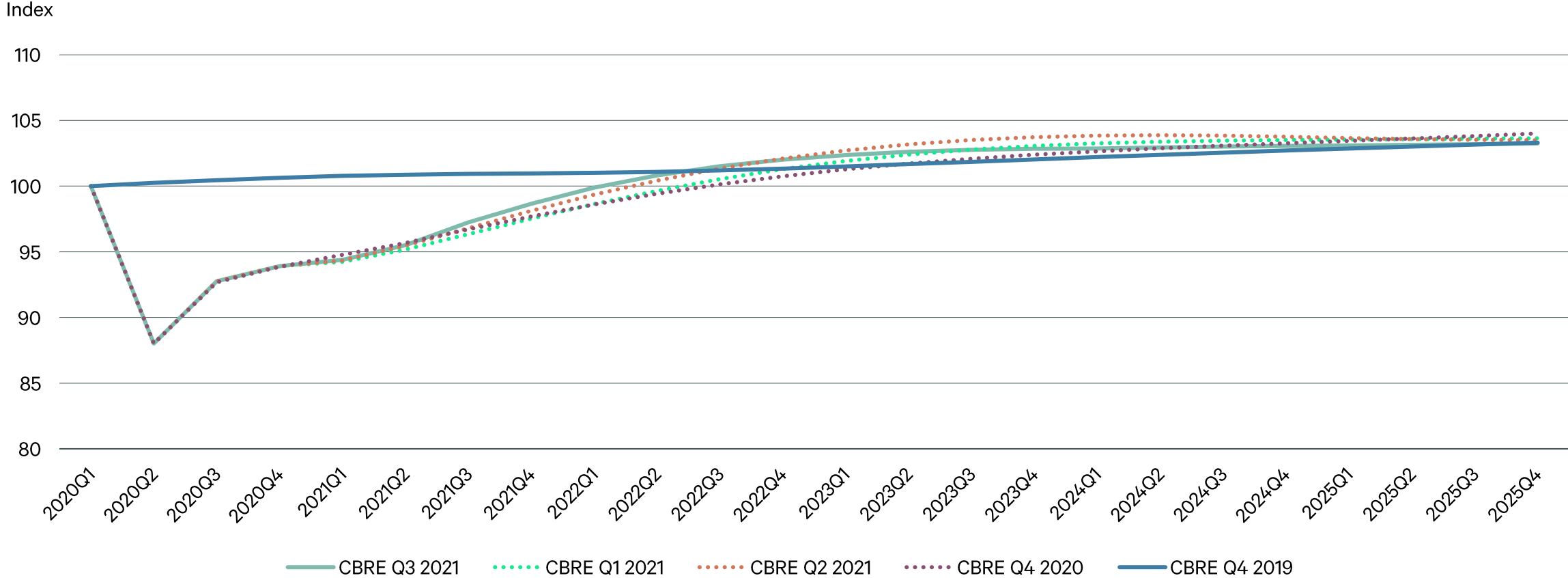


Source: CBRE Hotels Research, CBRE EA, BLS

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CBRE revised employment forecast calls for full recovery by Q2 2022

Employment Index



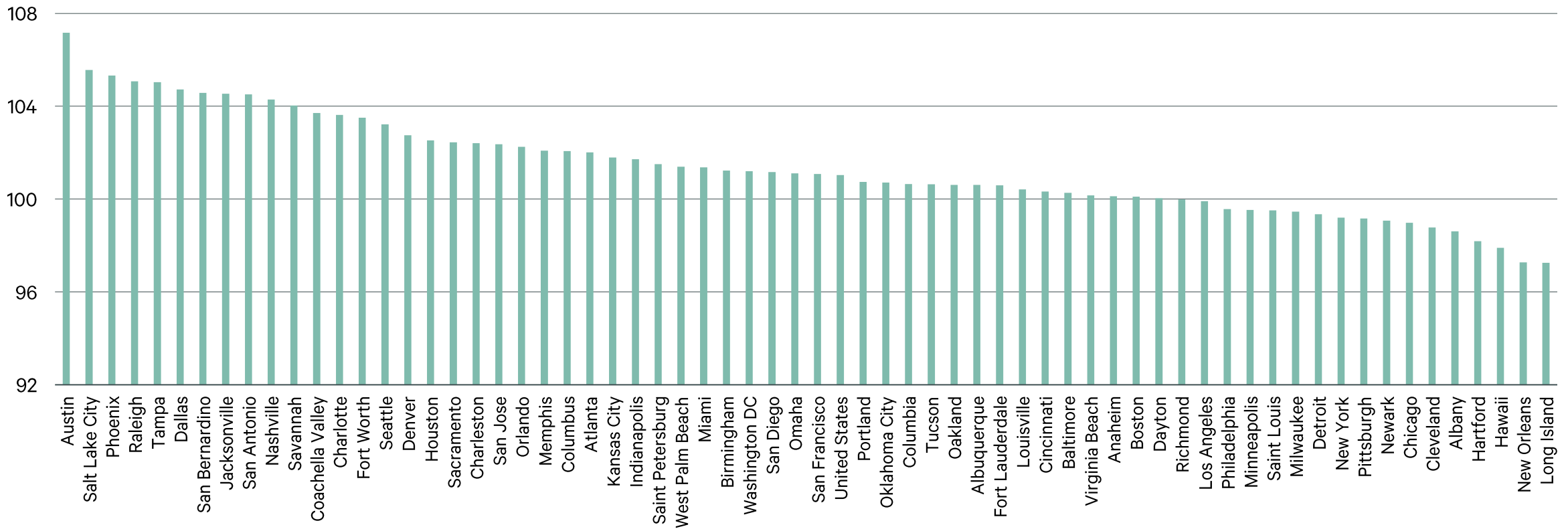
Source: CBRE Hotels Research, CBRE EA, BLS.

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Majority of markets will return to 2019 employment levels by 2022

2022 Employment Forecast Indexed to 2019 Levels

Indexed To 2019 Levels



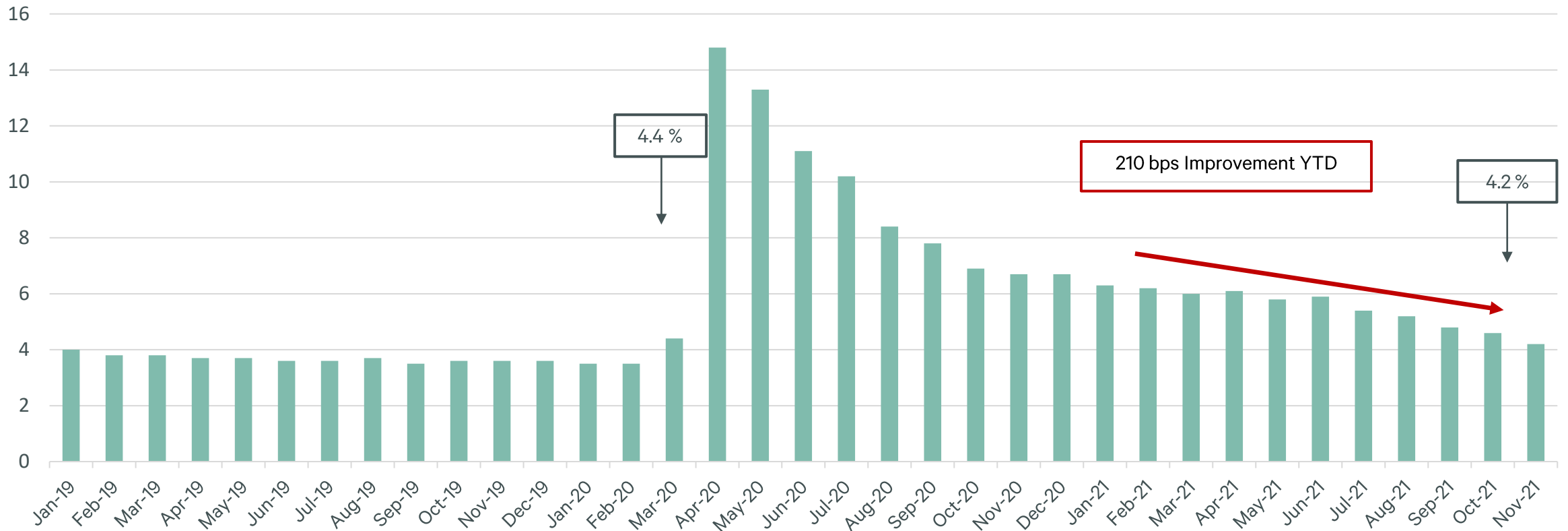
Source: CBRE Hotels Research, CBRE EA, BLS

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Labor market CBRE forecasts 4.6% 2021 Unemployment

Unemployment Rate

Percent (%)



Source: CBRE Hotels Research, CBRE EA, BLS

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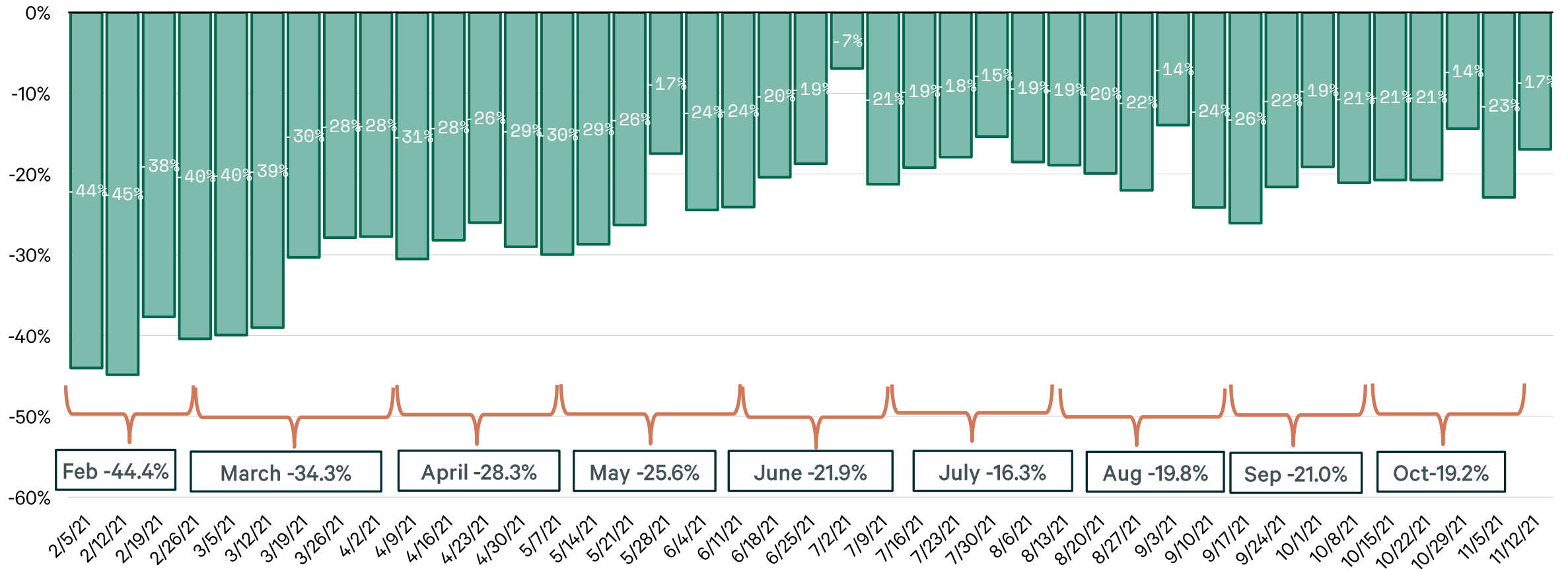
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Current Trends



Occupancy levels stable at down ~20%

2021 Occupancy change from 2019

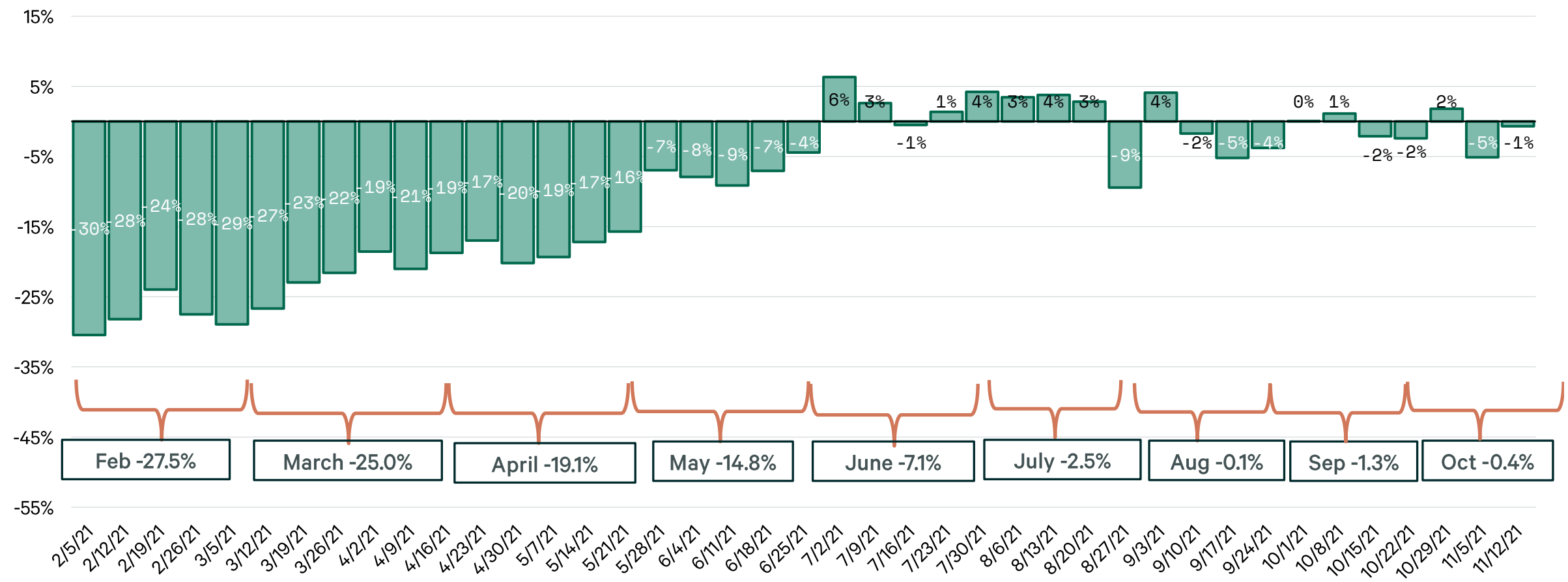


Source: CBRE Hotels Research, Kalibri Labs, Weekly Sample, not scaled to full U.S. Hotel Industry Representation

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ADR is close to Pre-Covid 19 Levels

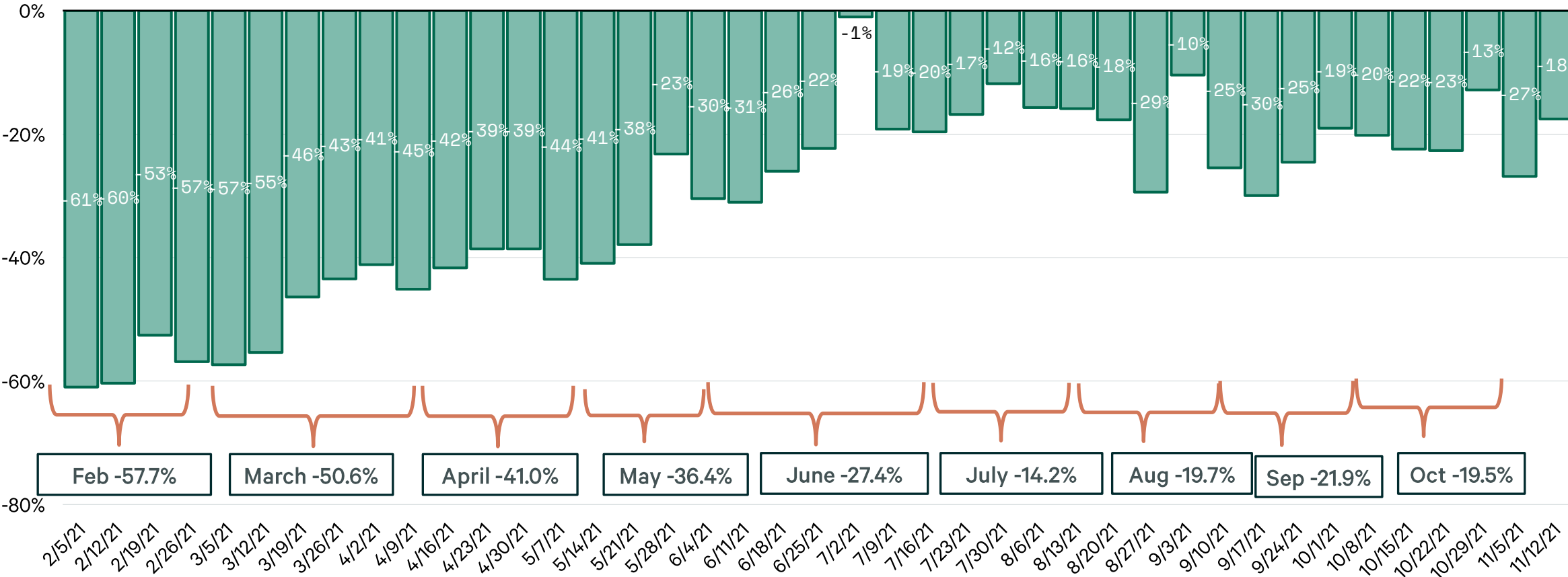
2021 ADR change from 2019



Source: CBRE Hotels Research, Kalibri Labs, Weekly Sample, not scaled to full U.S. Hotel Industry Representation

RevPAR gains have lost some momentum as we head towards winter

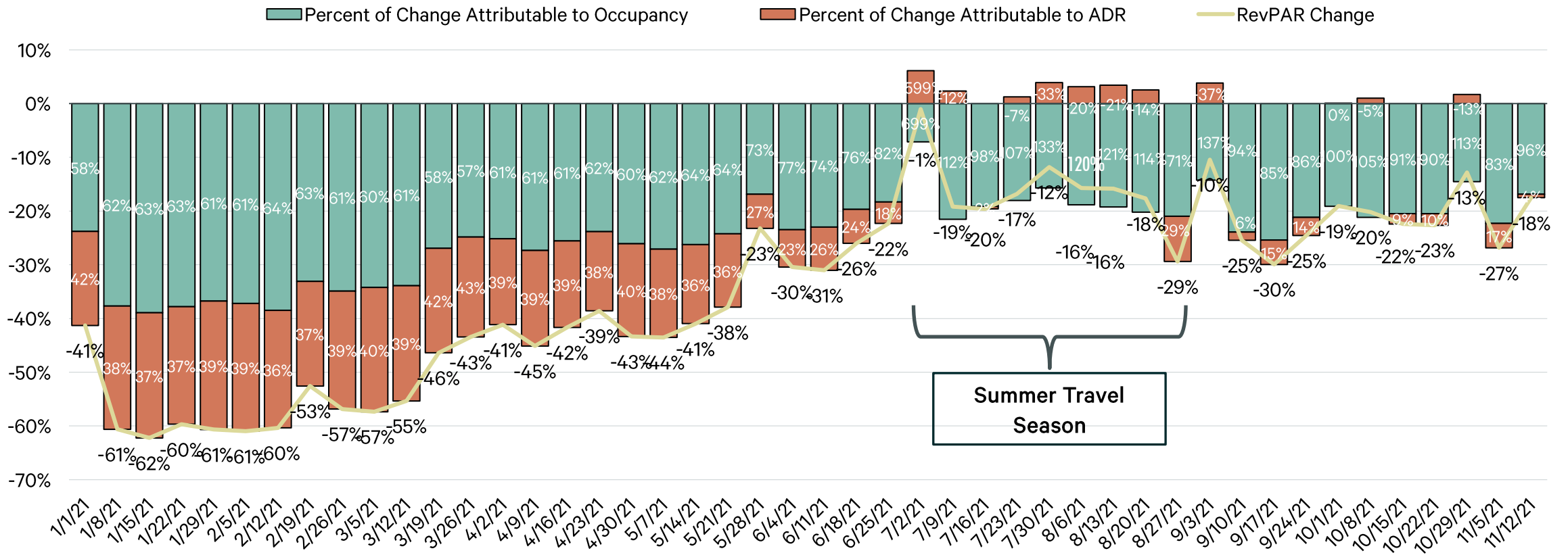
2021 RevPAR change from 2019



Source: CBRE Hotels Research, Kalibri Labs, Weekly Sample, not scaled to full U.S. Hotel Industry Representation

Breaking down 2021 RevPAR decline

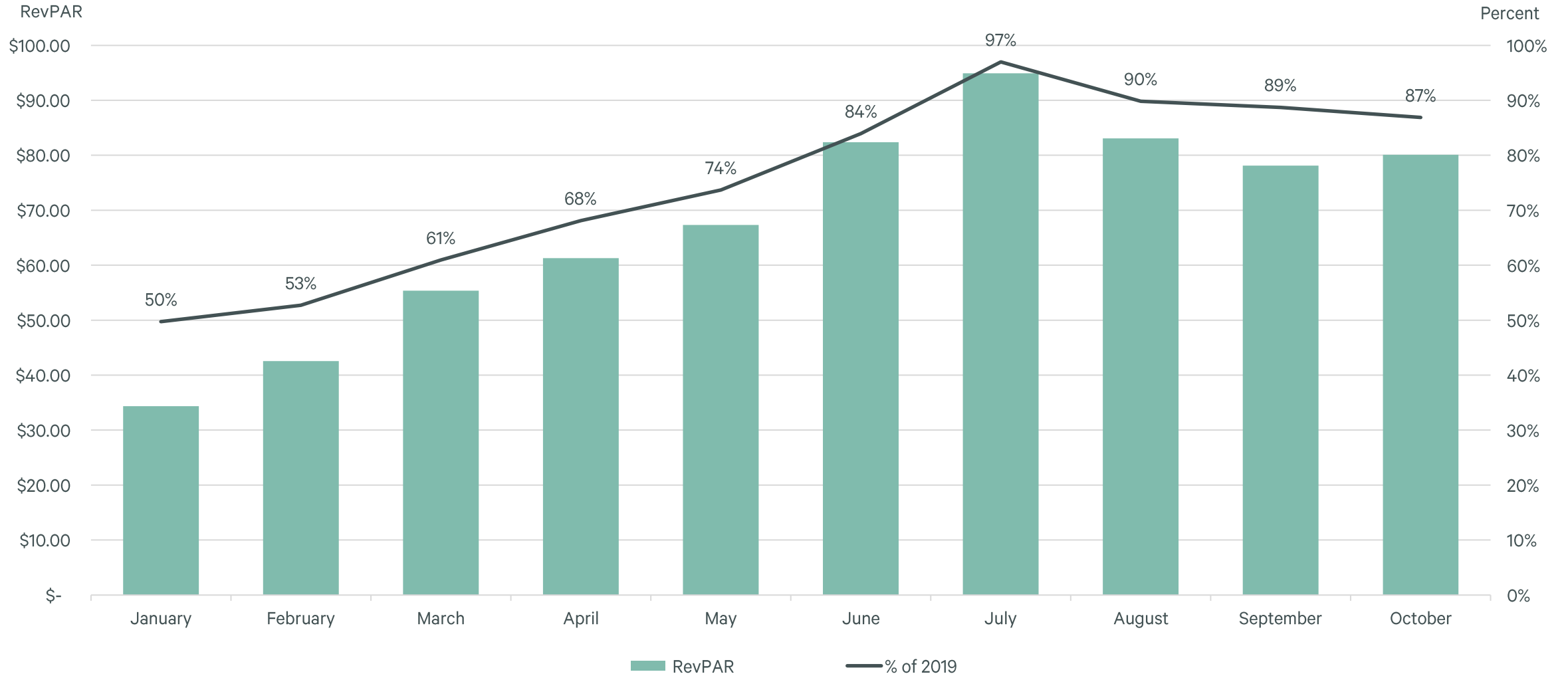
Relative to 2019 the bulk of the short fall is from Occupancy



Source: CBRE Hotels Research, Kalibri Labs, Weekly Sample, not scaled to full U.S. Hotel Industry Representation

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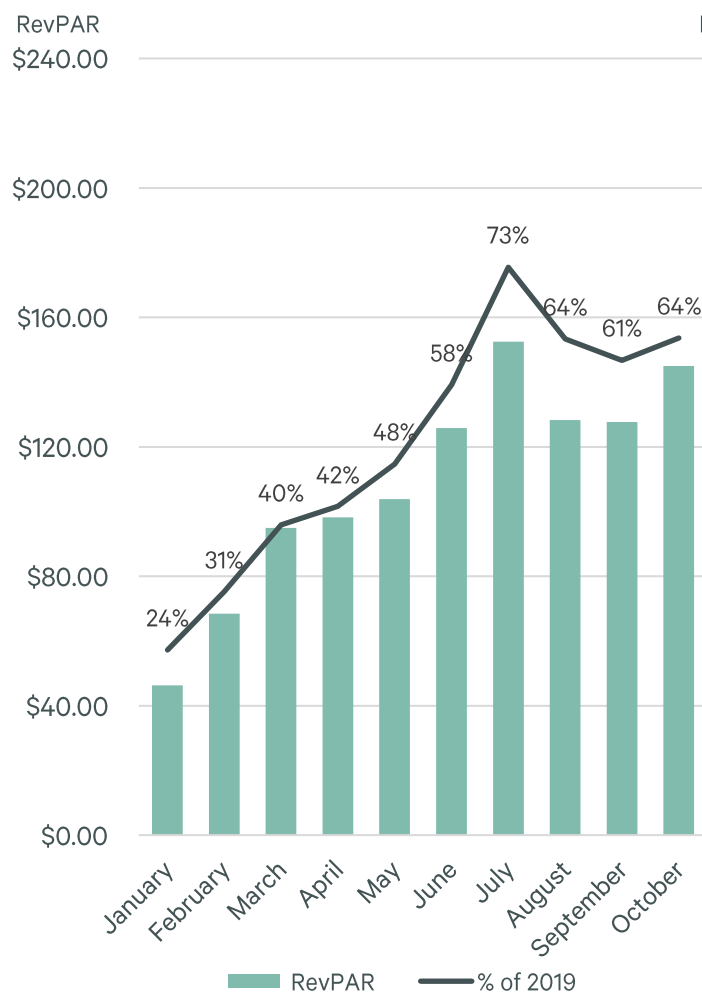
2021 national monthly RevPAR



Source: CBRE Hotels Research, Kalibri Labs

Monthly RevPAR for upper priced hotels by chain scale

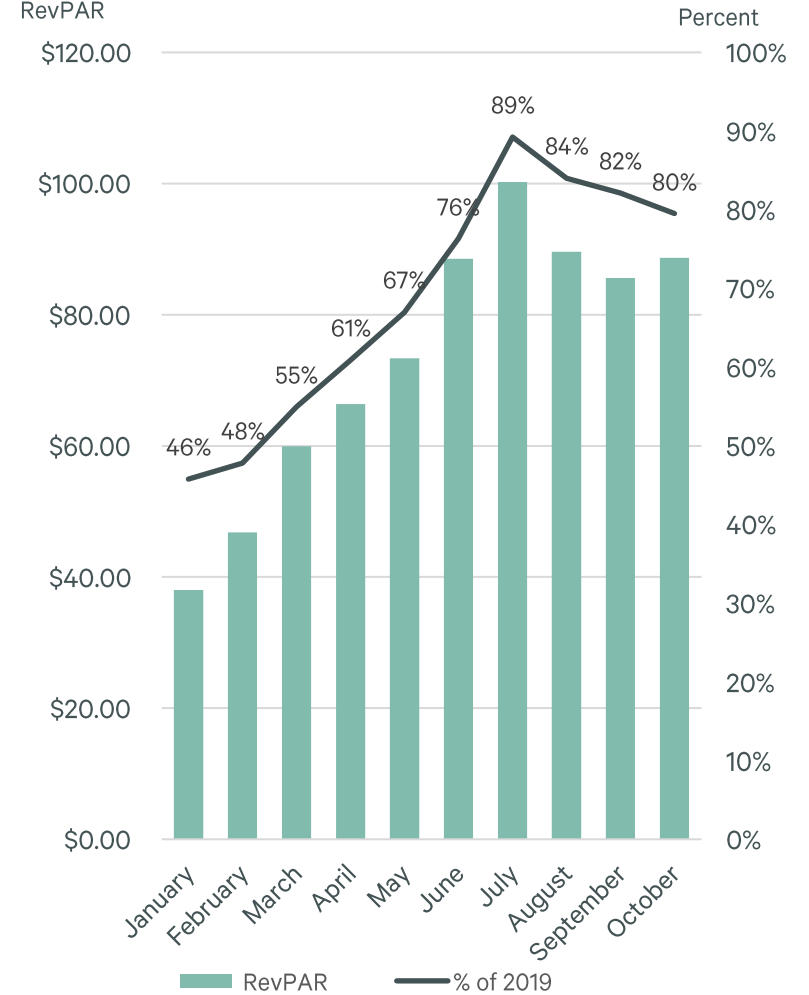
Luxury



Upper Upscale



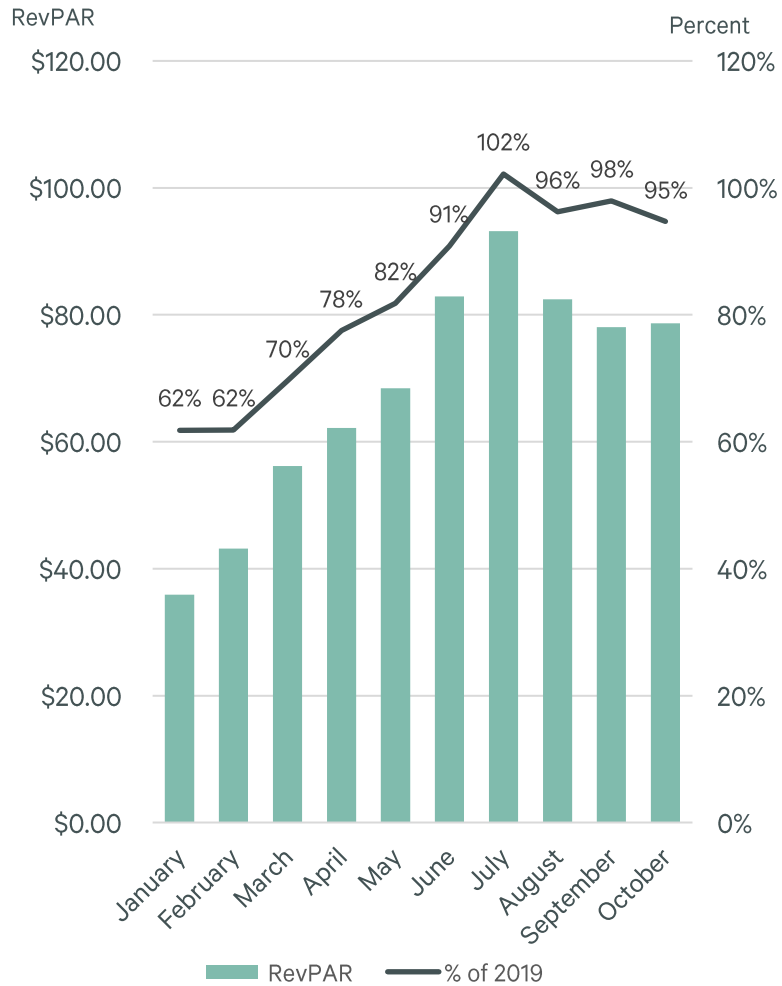
Upscale



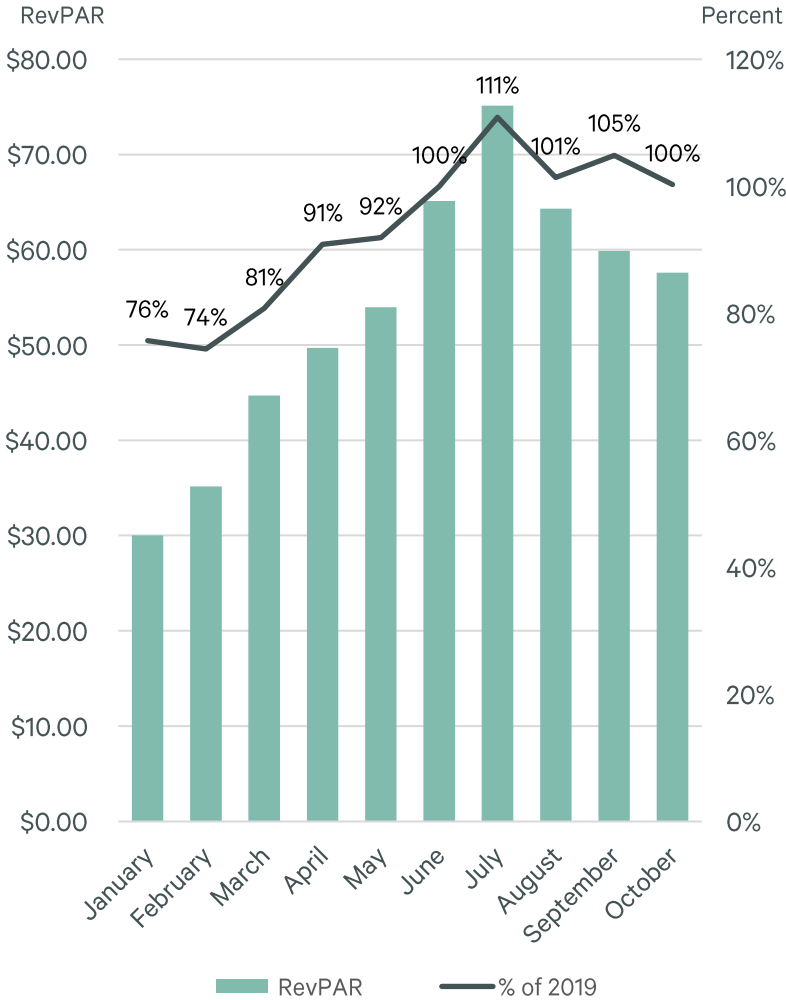
Source: CBRE Hotels Research, Kalibri Labs
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Monthly RevPAR for lower priced hotels by chain scale

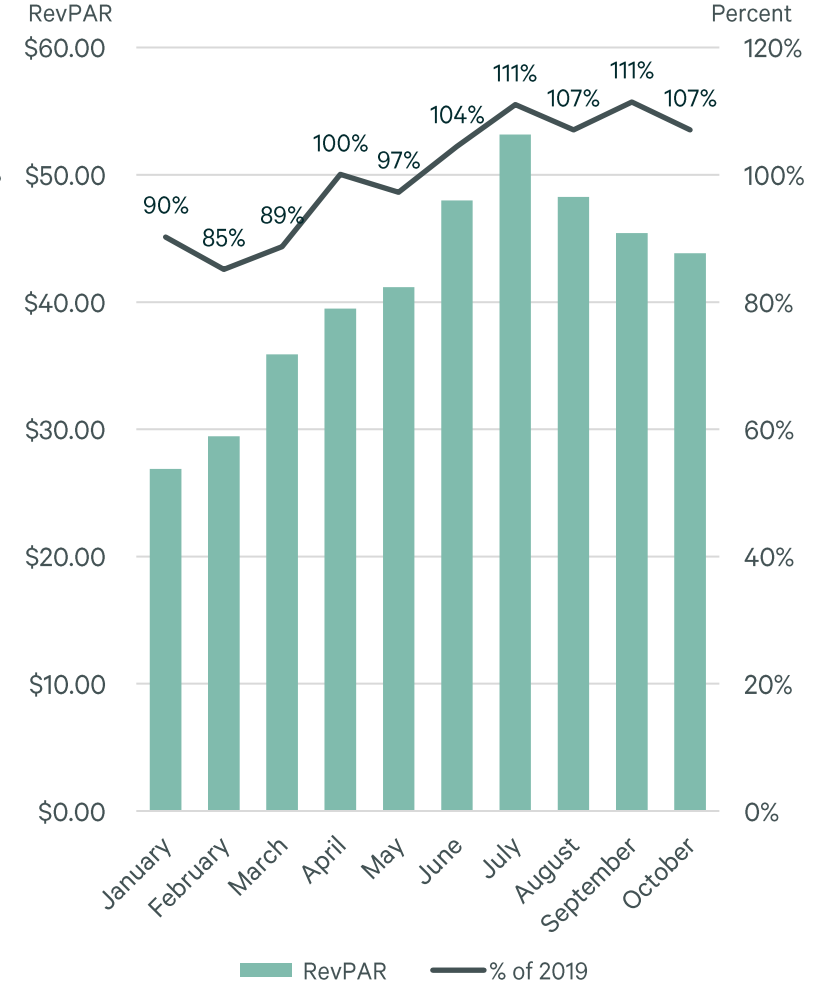
Upper Midscale



Midscale



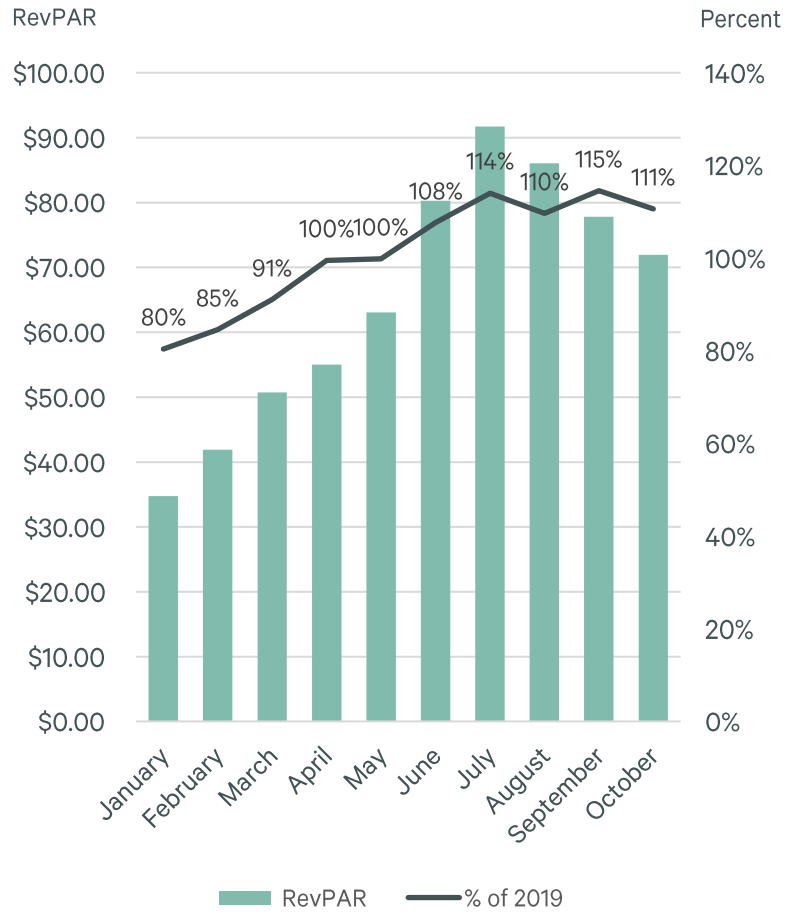
Economy



Source: CBRE Hotels Research, Kalibri Labs
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Monthly RevPAR by location

Interstate



Small Town



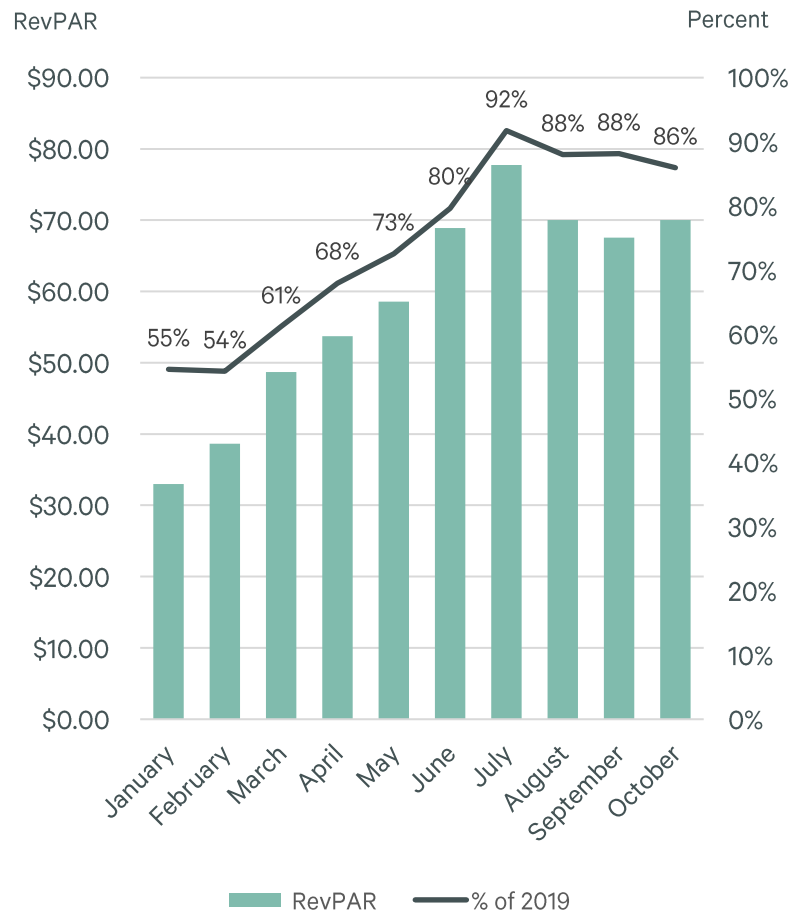
Resort



Source: CBRE Hotels Research, Kalibri Labs

Monthly RevPAR by location

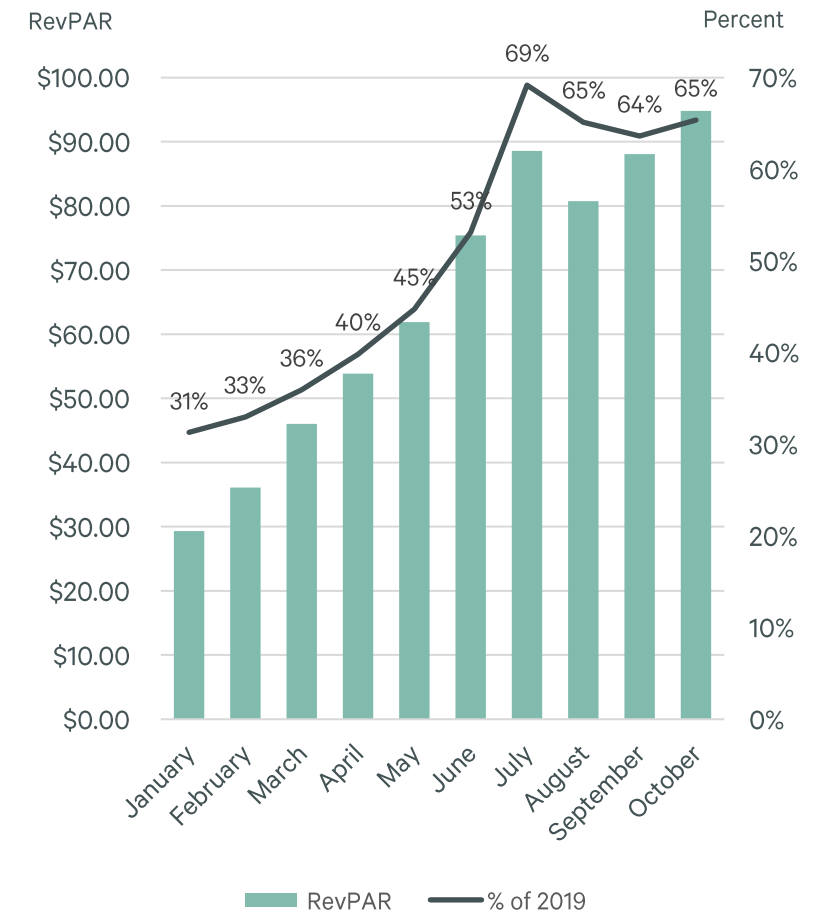
Suburban



Airport

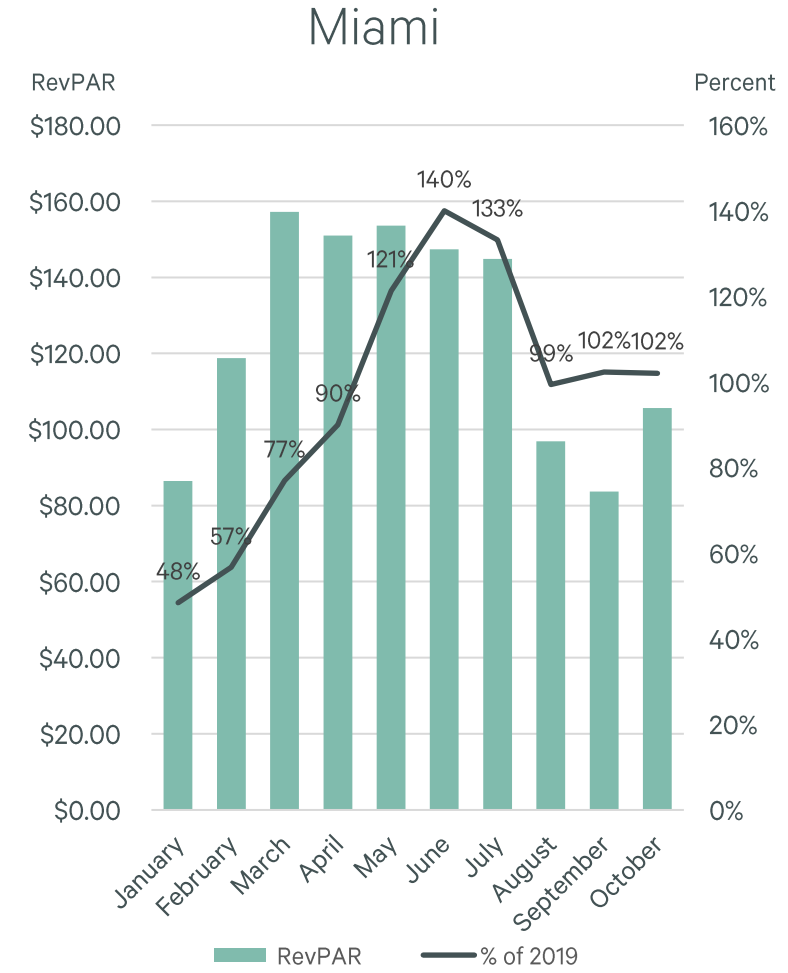
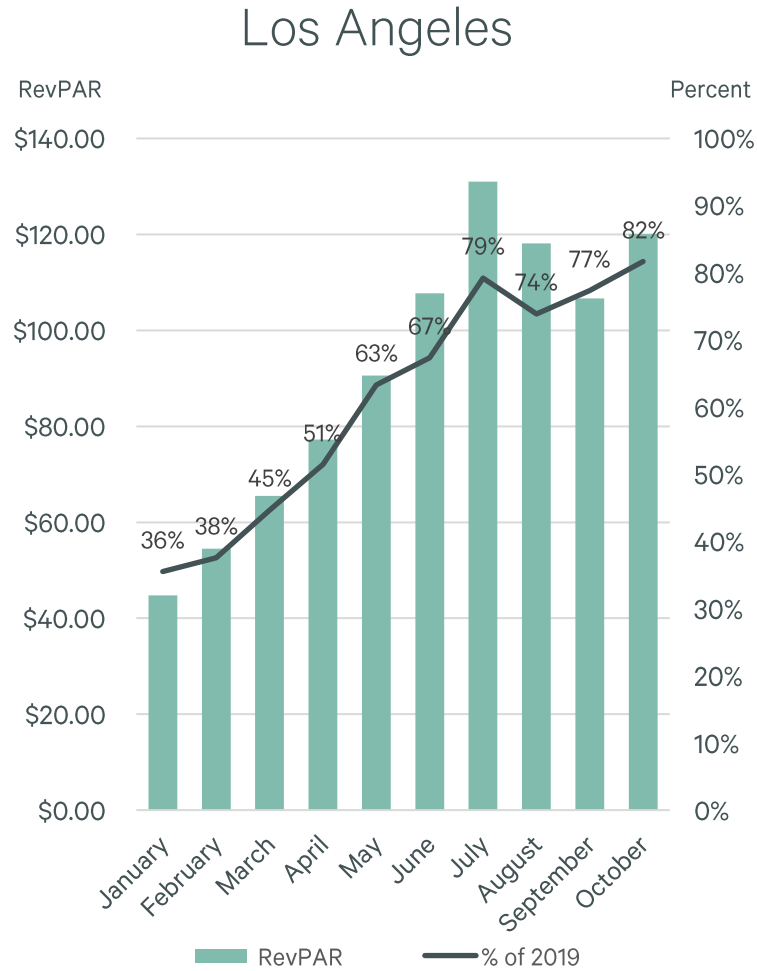
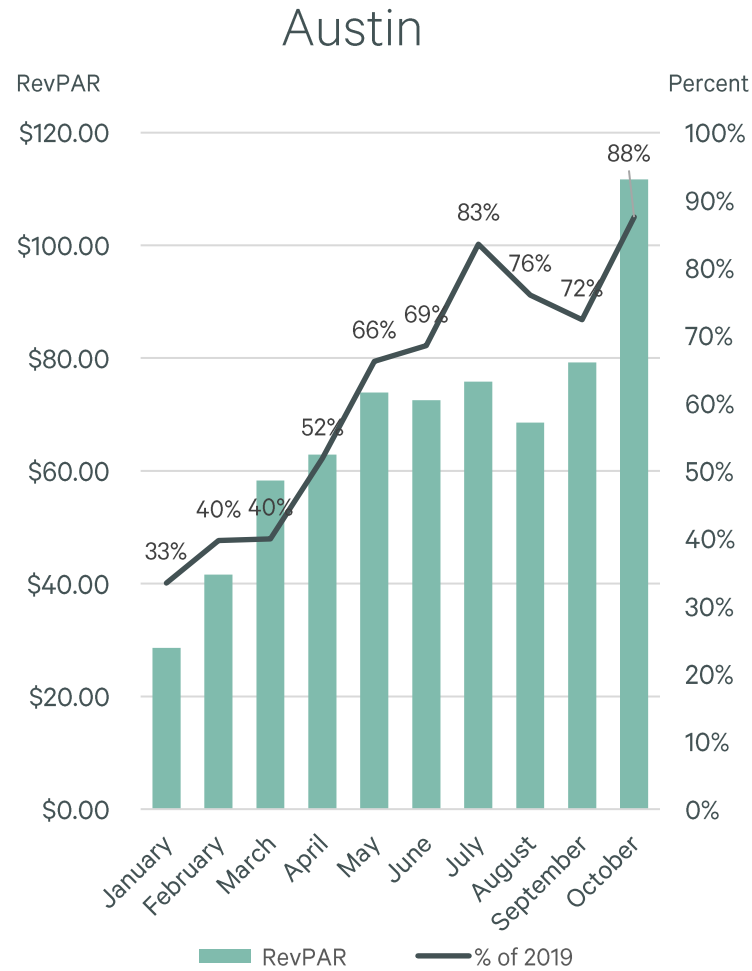


Urban



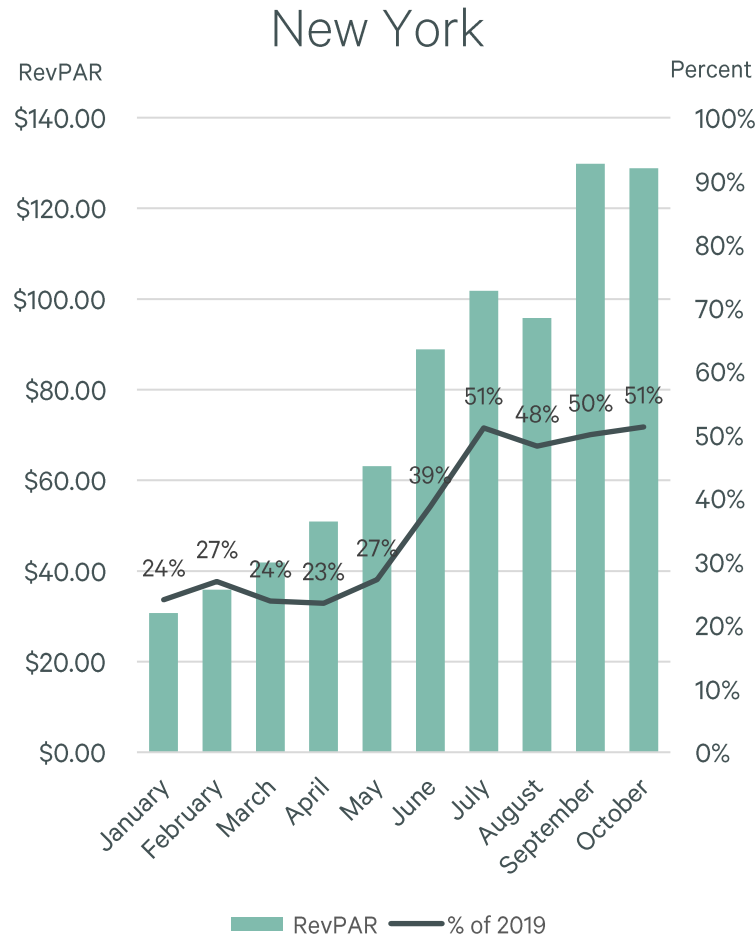
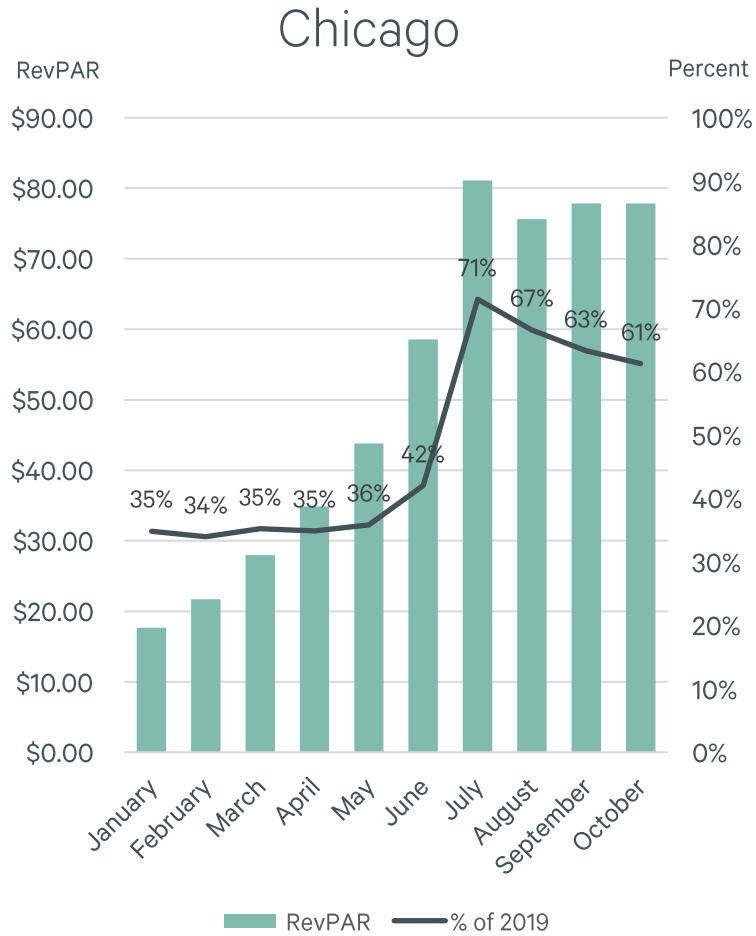
Source: CBRE Hotels Research, Kalibri Labs

Monthly RevPAR by Southern U.S. markets



Source: CBRE Hotels Research, Kalibri Labs

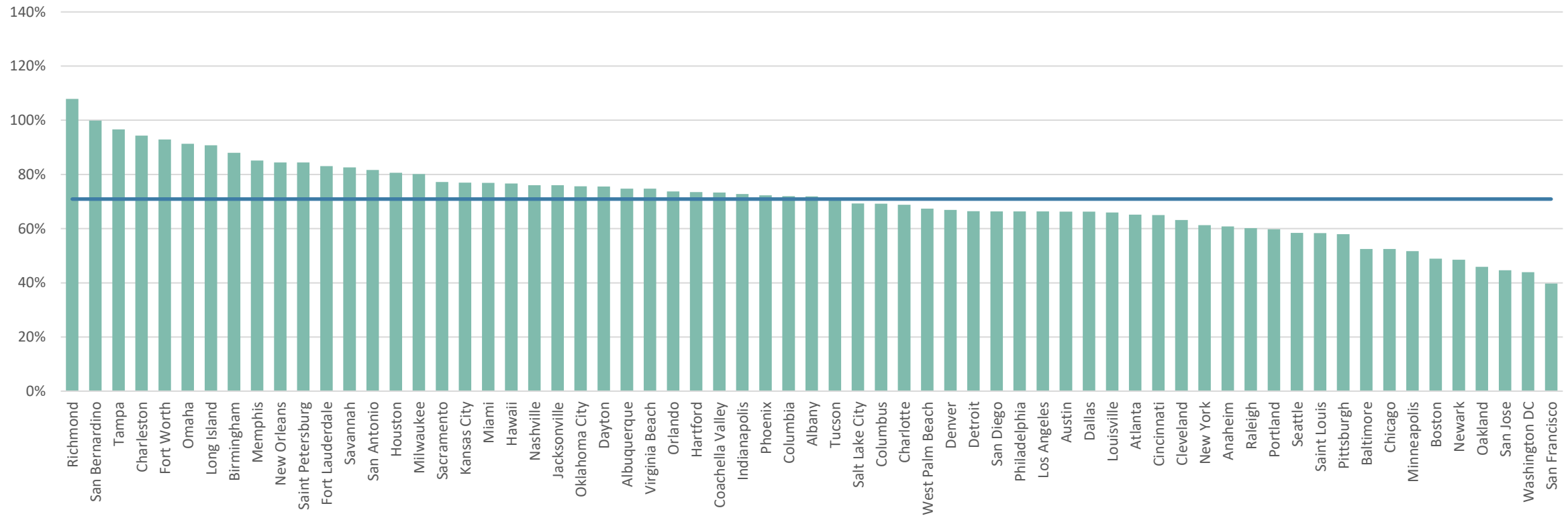
Monthly RevPAR by Northern U.S. markets



Source: CBRE Hotels Research, Kalibri Labs

Large business convention markets still 40% to 60% from Q3 2019 levels

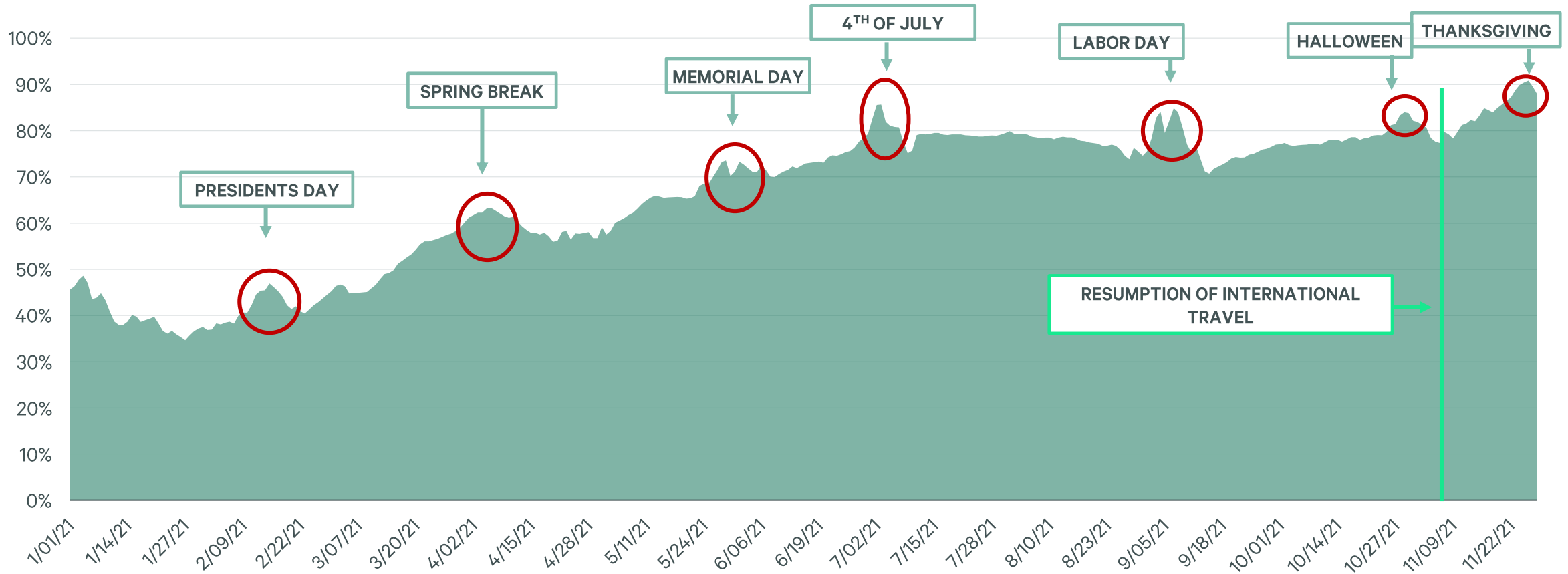
Q3 2021 group demand as a percent of Q3 2019



Source: CBRE Hotels Research, Kalibri Labs,

International inbound travel lifts TSA throughput to +85% of Pre-COVID-19

TSA Throughput as a Percent of 2019 Levels

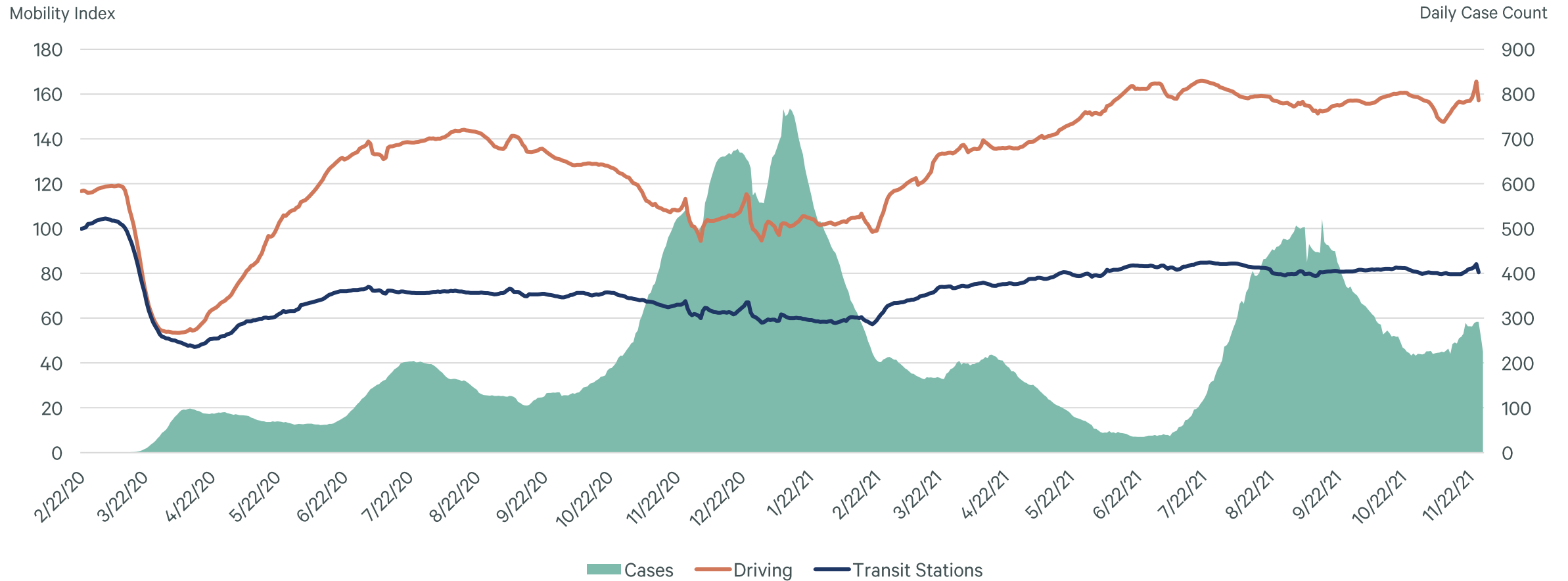


Source: CBRE Hotels Research, TSA

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COVID-19 resurgence did not hinder mobility

Mobility vs. Case Count



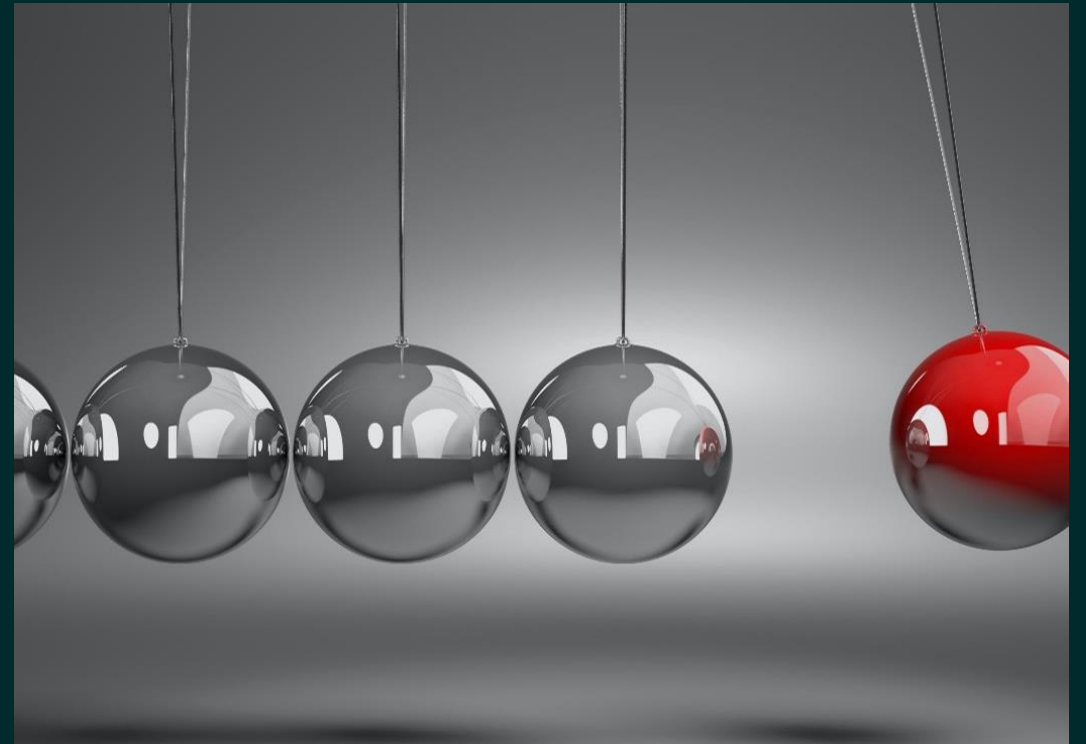
Source: CBRE Hotels Research, COVID Tracking Project, Oxford University, Apple Mobility, Google Mobility Index

*US Daily Cases, 7-day moving average, weighted by population

**"Transit Stations" Includes public transport hubs such as subway, bus, and train stations.

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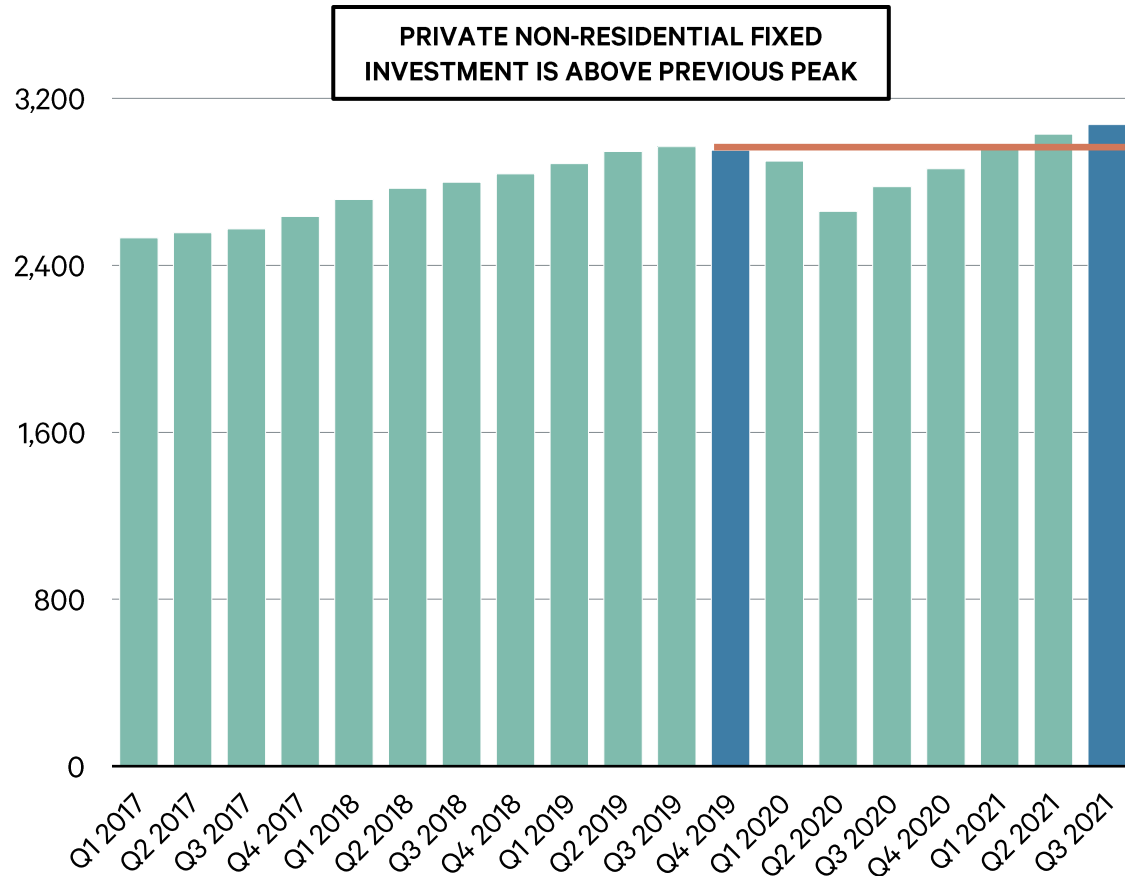
Leading Indicators



Record fixed investment, but more recent trends suggest waning confidence

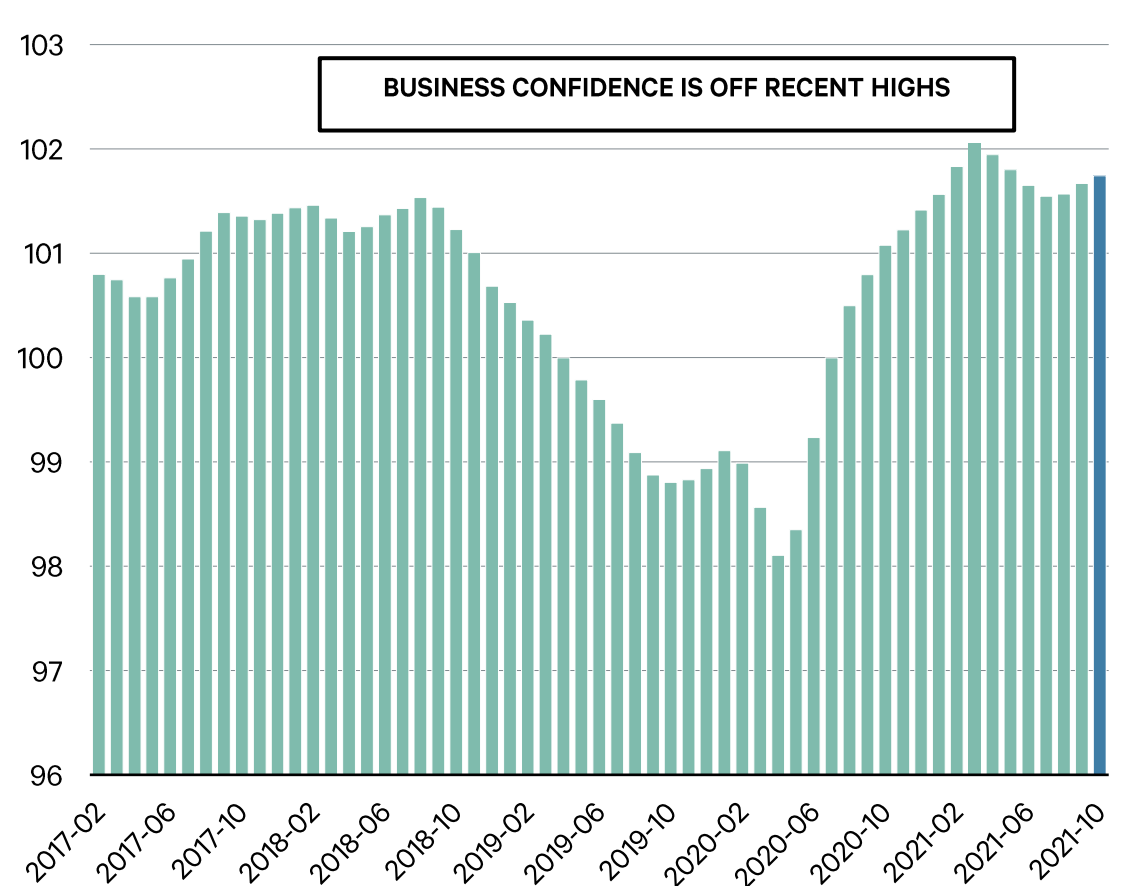
Private Nonresidential Fixed Investment

Billions of Dollars



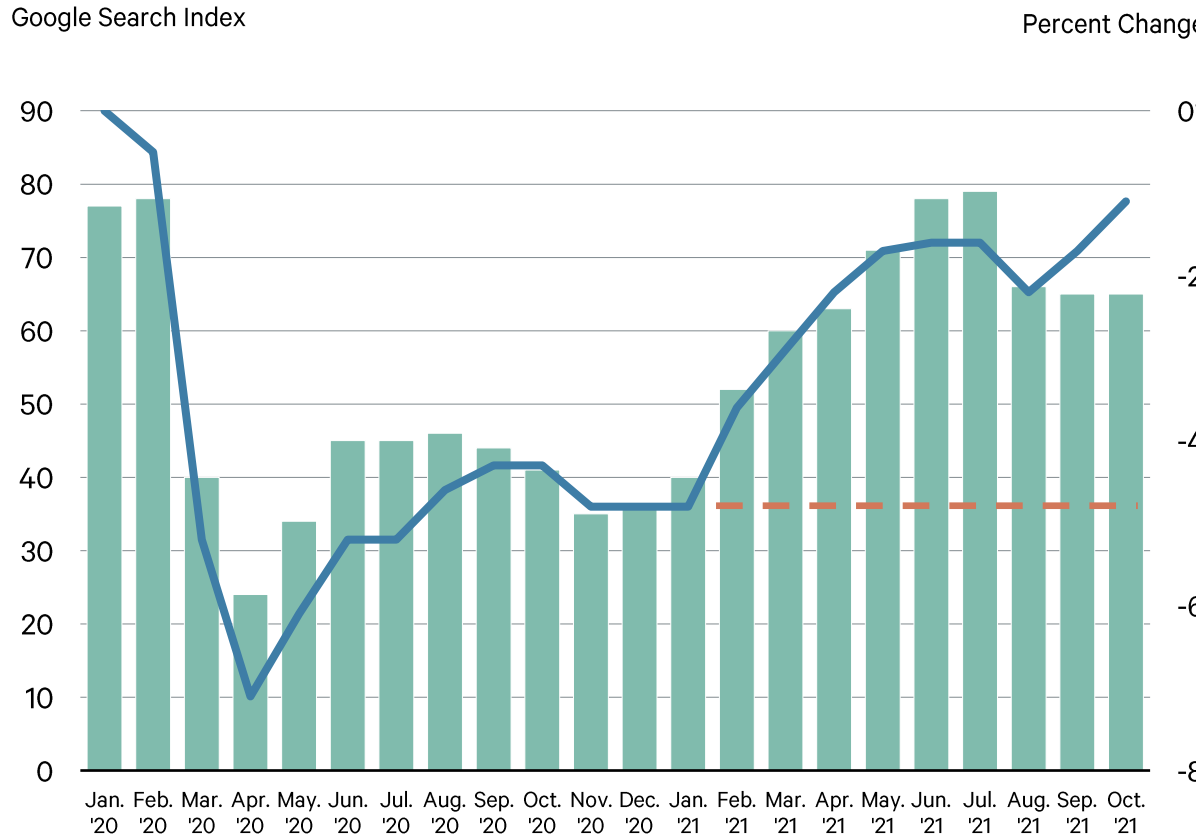
Business Confidence Index

Index



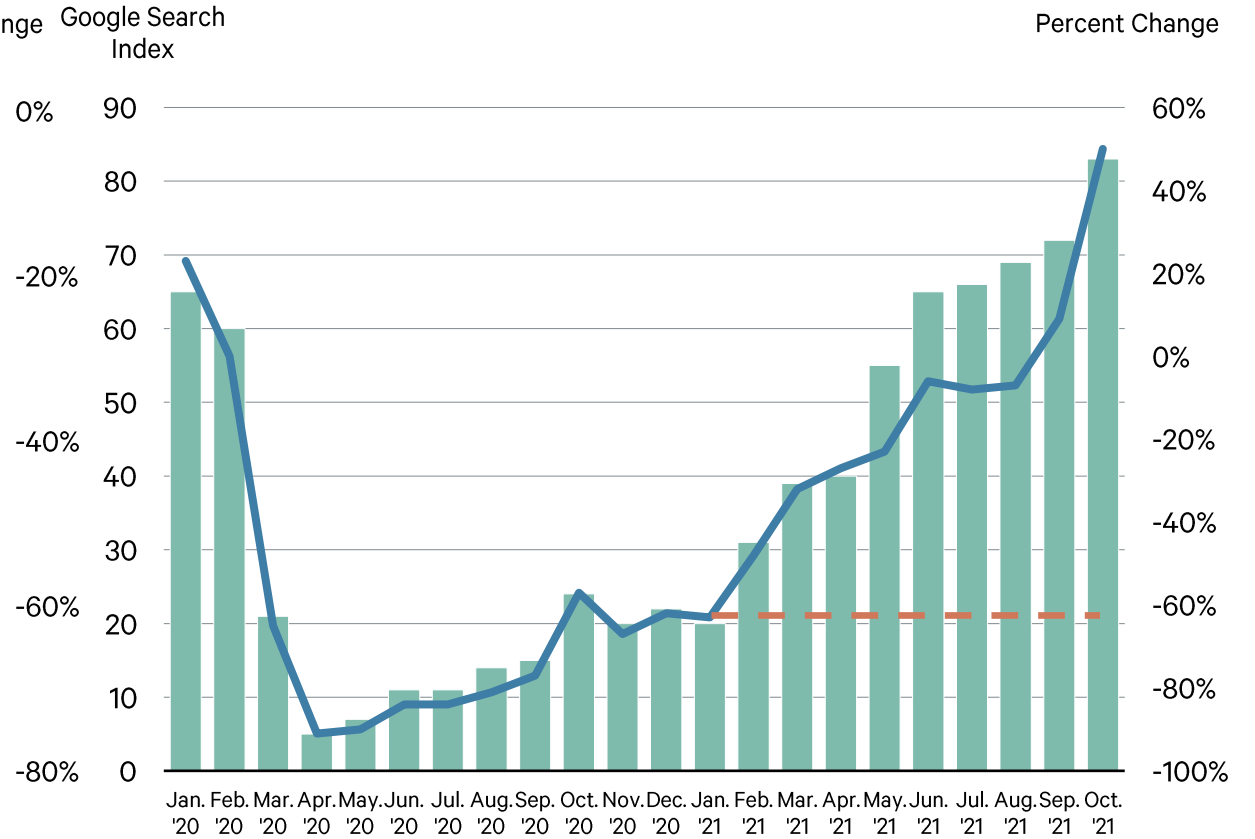
Google trends analysis increasingly bullish for business travel

Corporate Brands Average



Corporate Big Brands Average Change since 2019

Amex Centurion Lounge

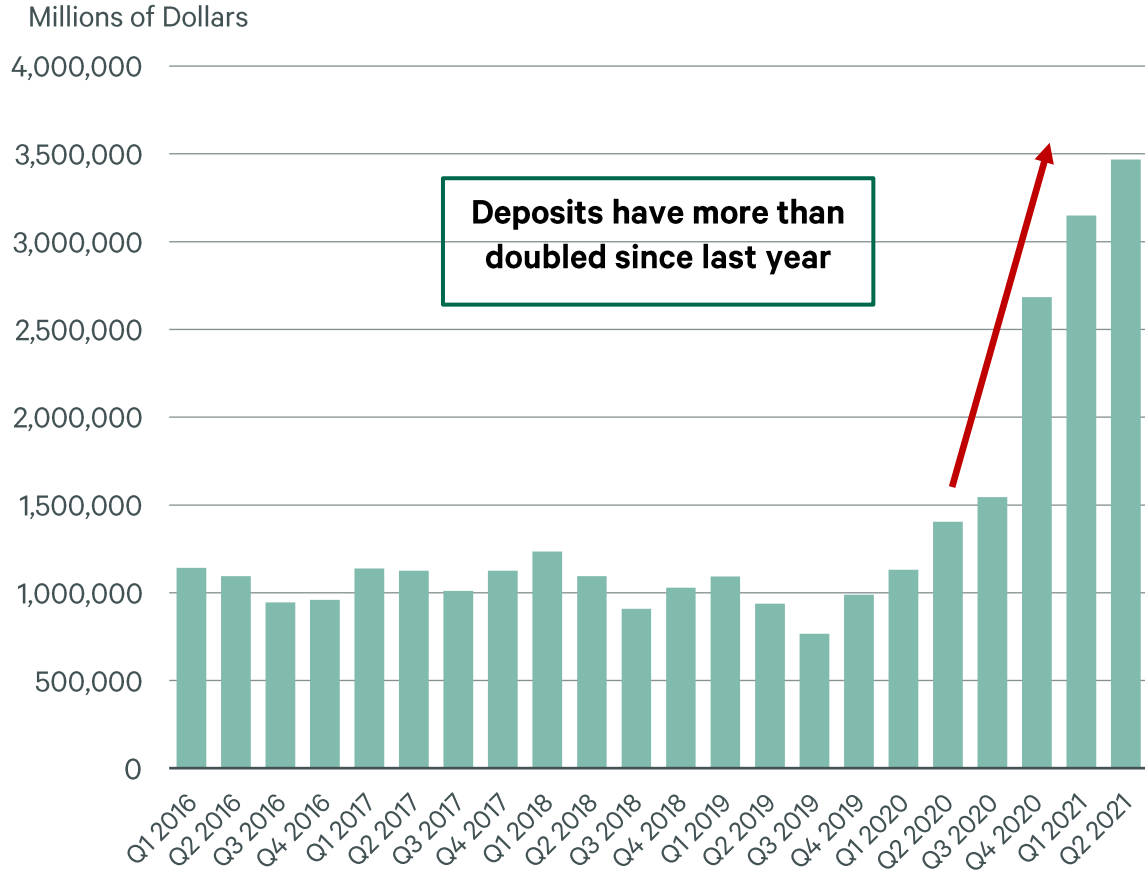


Amex Centurion Lounge Change since 2019

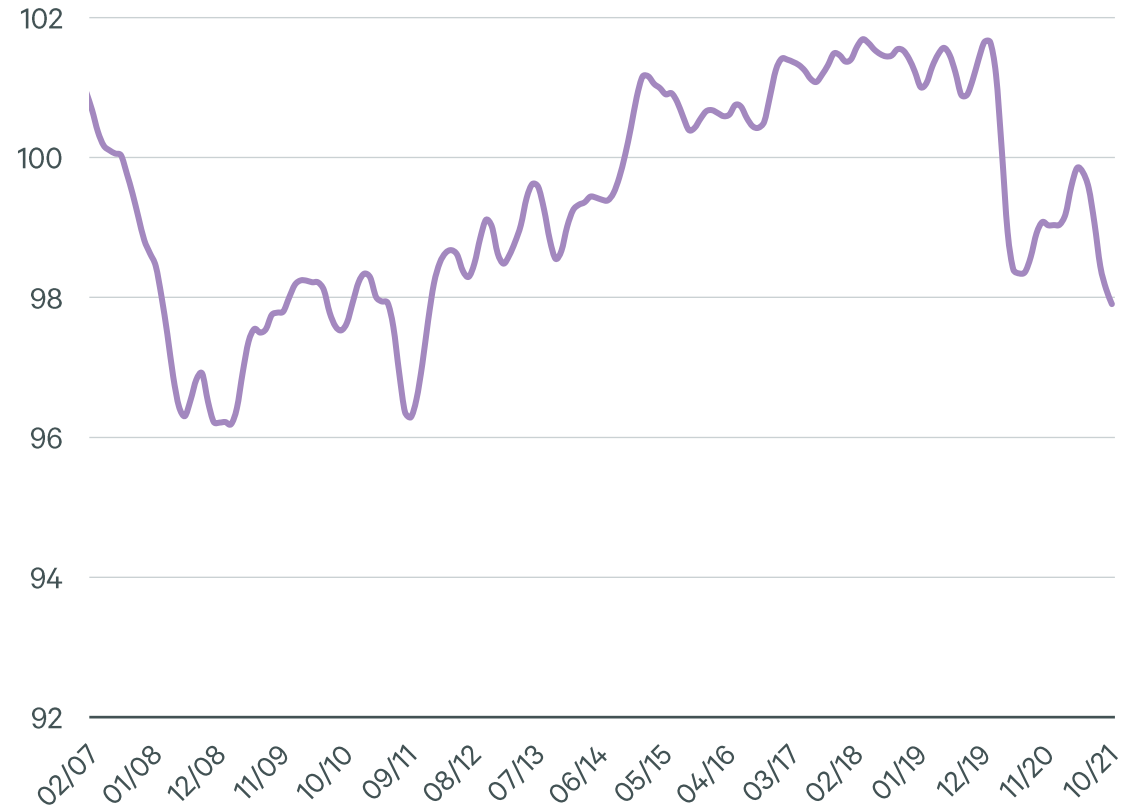
Source: CBRE Hotels Research, Google Trends. Key words: Hilton, Marriott, Hyatt, IHG Hotels, Amex Lounge, Centurion Lounge
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Consumer confidence is below the pandemic low

Household Checkable Deposits



Consumer Confidence Index

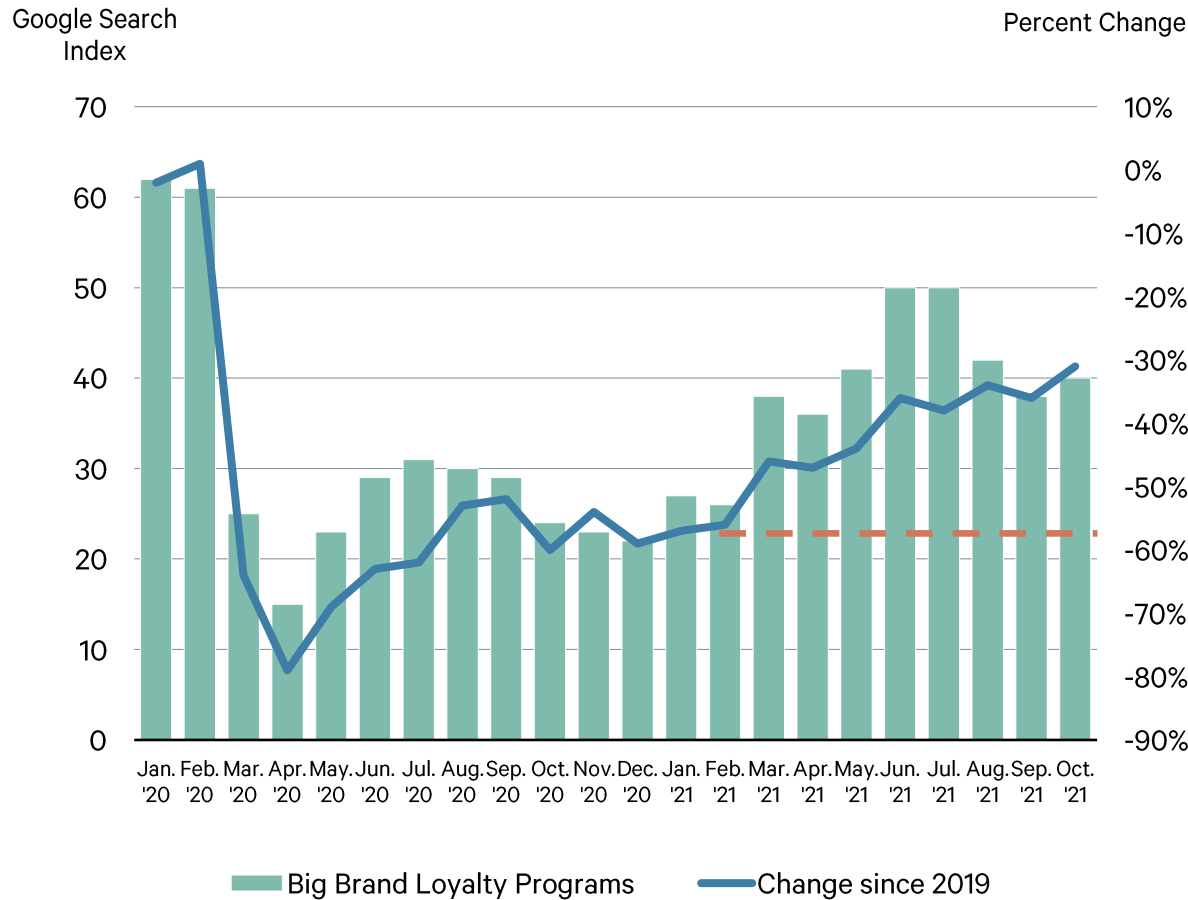


Source: CBRE Hotels Research, BLS, OECD

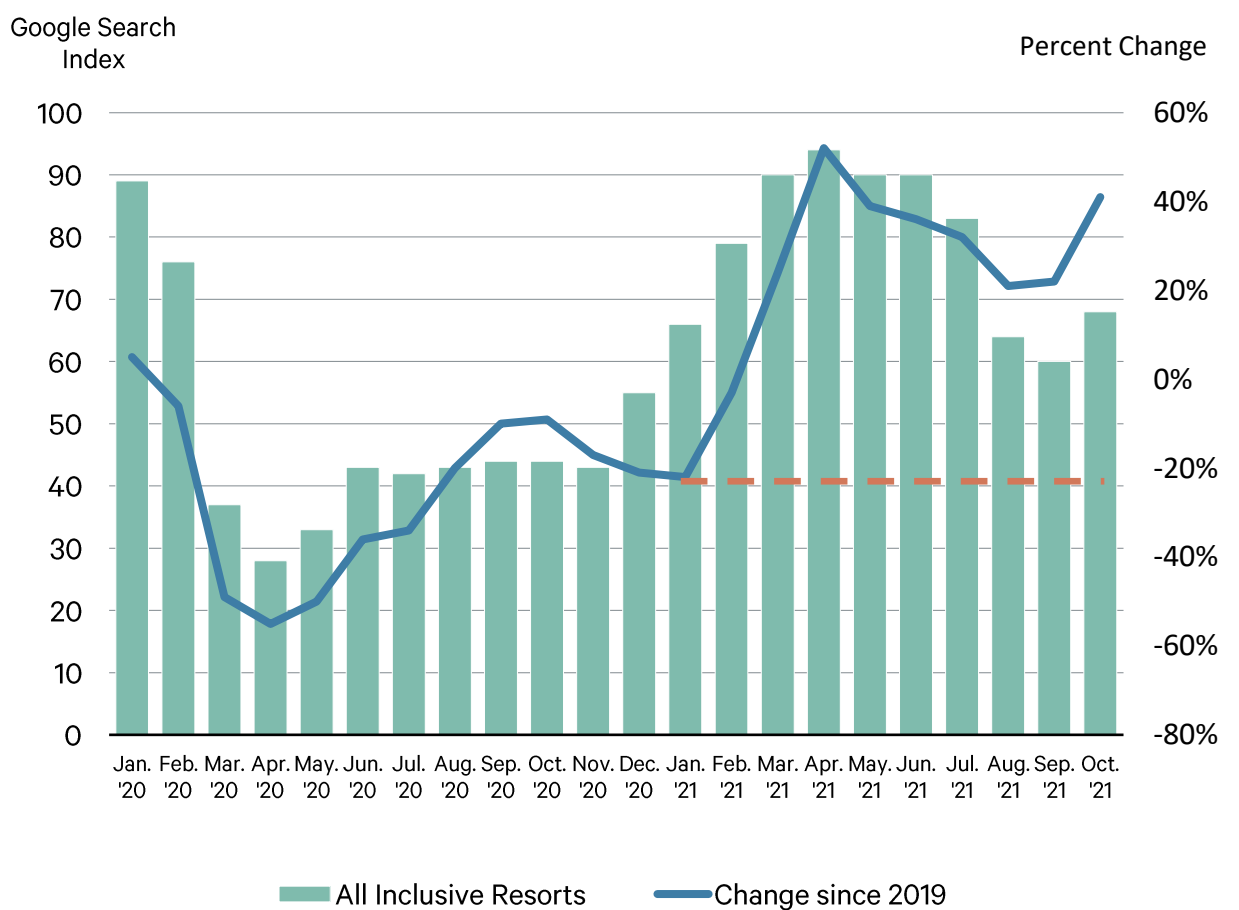
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Google trends analysis show continued improvement in leisure

Brand Loyalty Programs



All Inclusive Resorts



Source: CBRE Hotels Research, Google Trends. Key words: Bonvoy, Hilton Honors, World of Hyatt, IHG Rewards, All-inclusive Resort.

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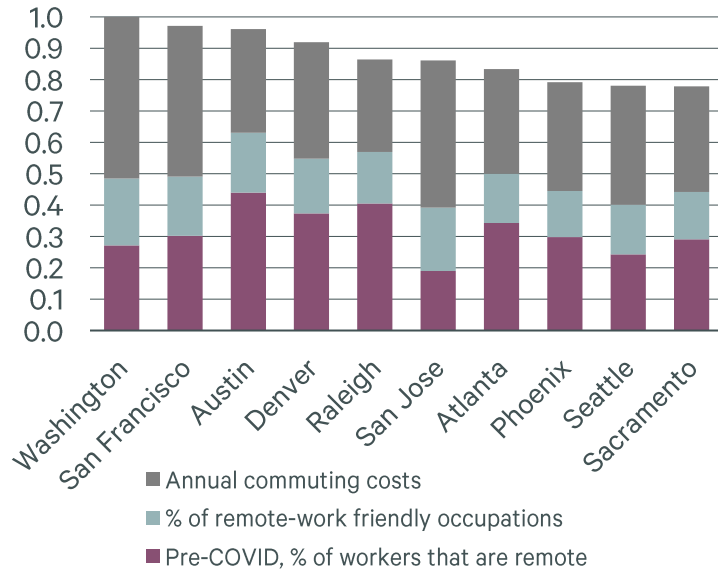
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Potential
Headwinds



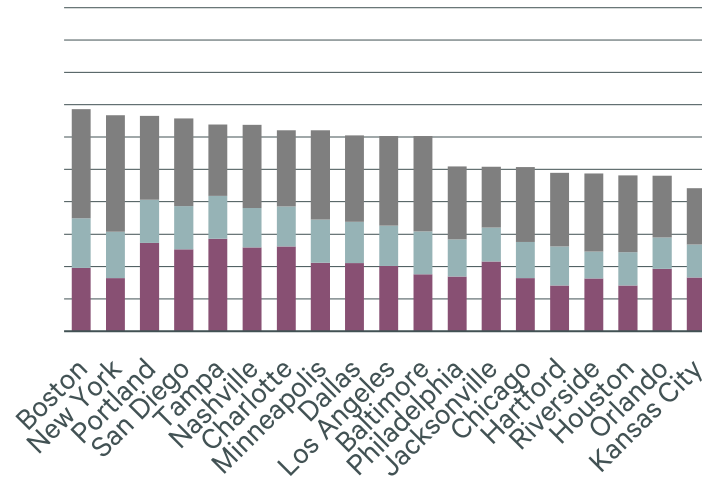
Potential impact from remote work by market

Greatest Prevalence of Virtual Work



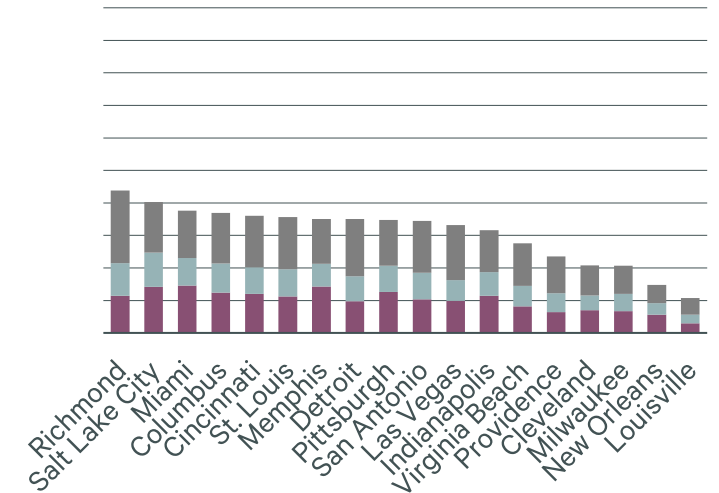
- Tech markets are poised to see more virtual work.
- Markets with high in-migration historically saw many newcomers work virtually.
- Many high-performing office markets have a legacy of virtual work.

Moderate Prevalence of Virtual Work



- Markets with sizable creative and transactional sectors, such as New York and Los Angeles, will need relatively more office/meeting space.
- Medium-sized Sunbelt cities with shorter commute times offer easier access to the office.

Less Opportunity for Virtual Work

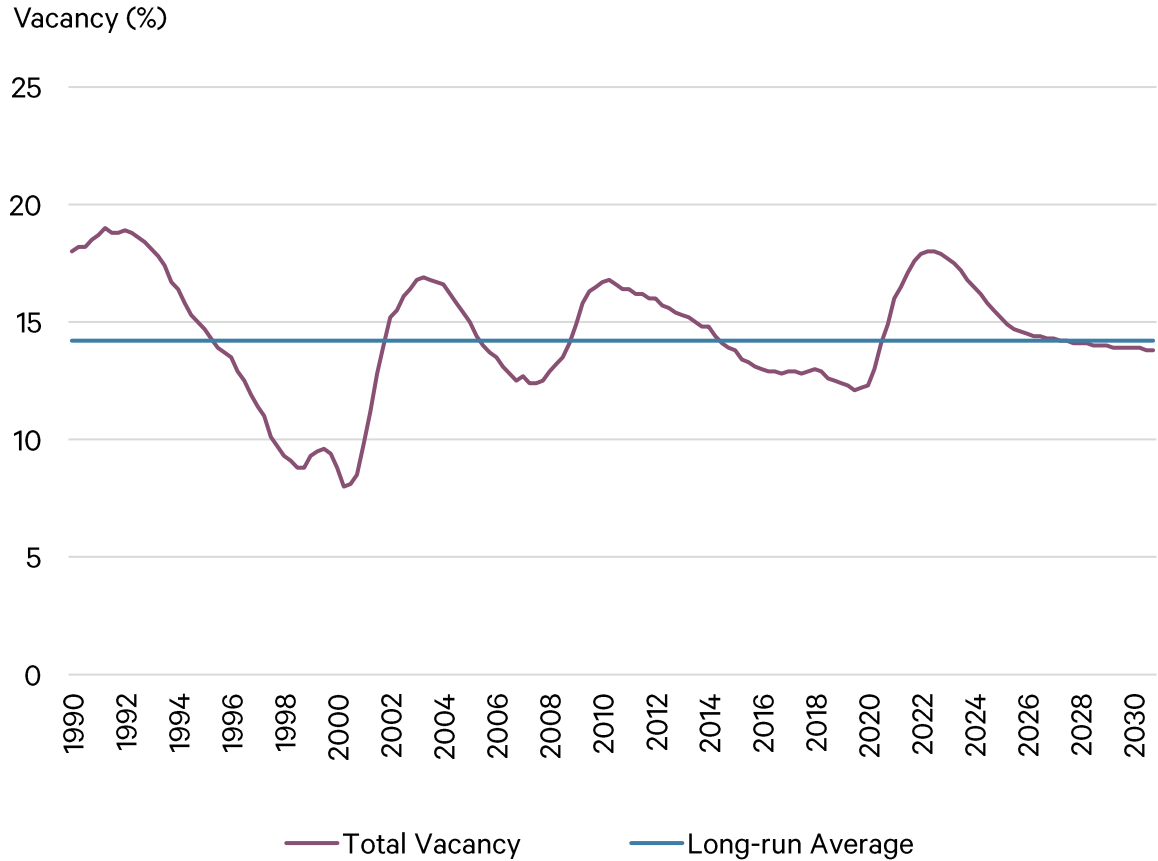


- High-tech sectors are less prevalent in the Midwest, limiting the propensity for virtual work.
- More manageable commute times encourage office use.

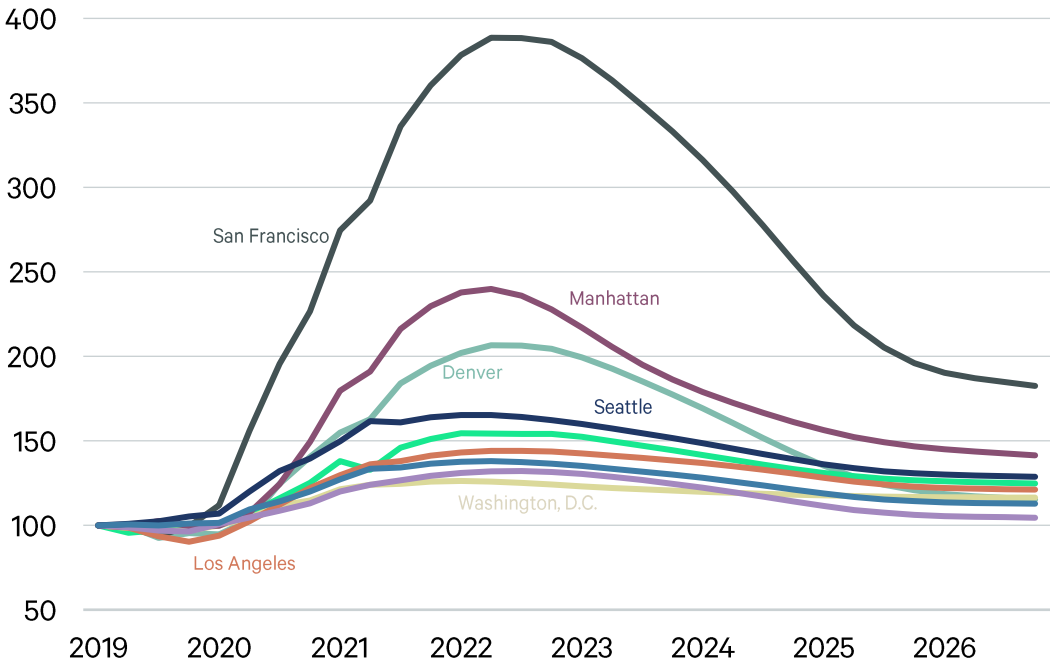
Source: CBRE EA, U.S. Census, University of Chicago, Clever.

Office vacancy will remain elevated through 2026

Office Vacancy



Vacancy rate index, 2019 Q1 = 100

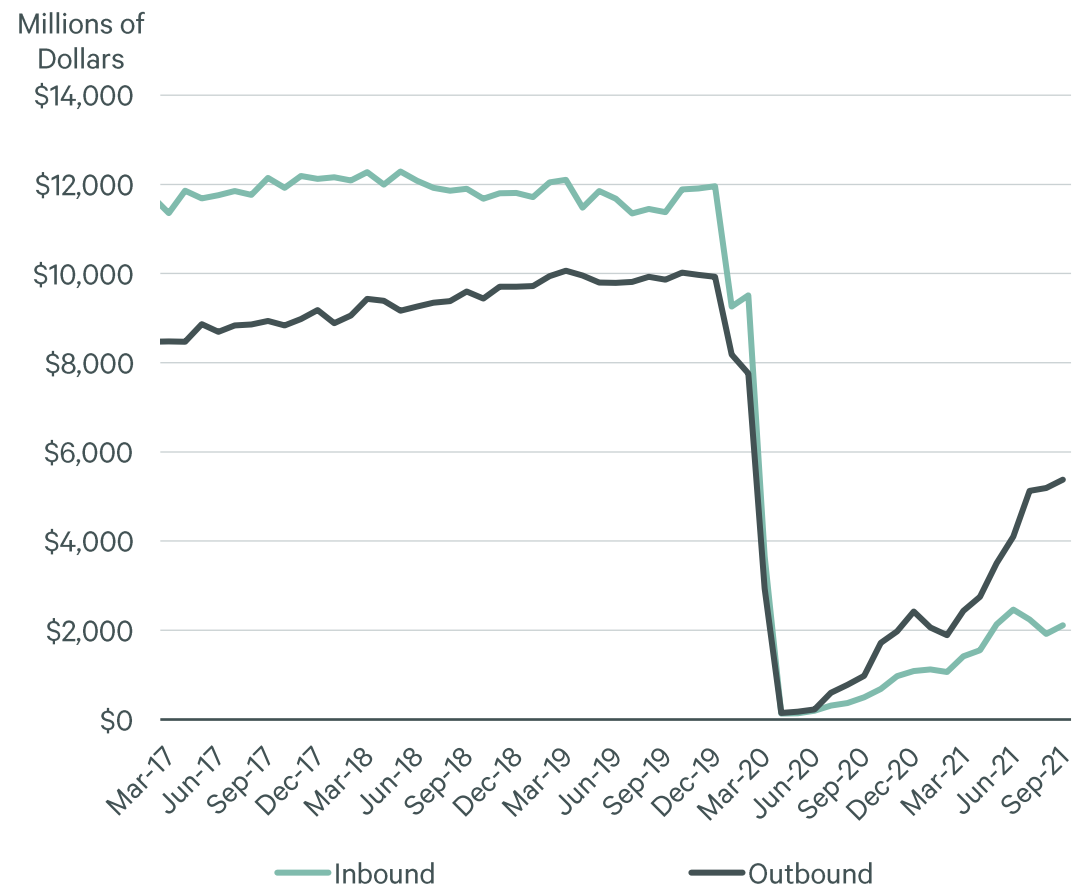


Source: CBRE Hotels Research, CBRE EA

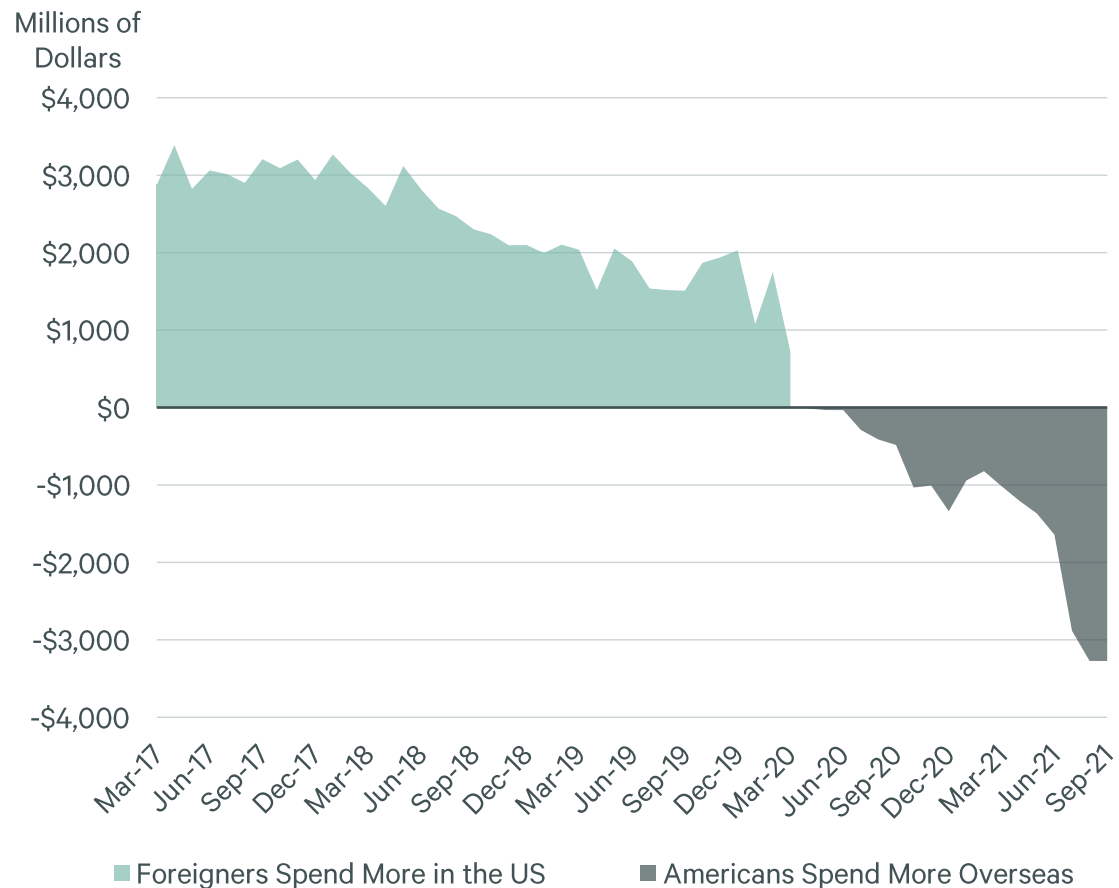
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International travel restrictions are hurting US hospitality

International Travel Spending



INTL. Travel Restrictions Hurting US Hotels



Source: CBRE Hotels Research, Bureau of Economic Analysis and the National Travel and Tourism Office (NTTO)
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U.S. border entrants by country

Year to Date September 2019

RANK	Country
1	Canada
2	Mexico
3	United Kingdom
4	Japan
5	Venezuela
6	Jamaica
7	Brazil
8	Germany
9	France
10	India

Year to Date September 2021

RANK	Country
1	Mexico
2	Canada
3	Colombia
4	Peru
5	Ecuador
6	Dominican Republic
7	India
8	Guatemala
9	Argentina
10	Costa Rica

Source: CBRE Hotels Research, Bureau of Economic Analysis and the National Travel and Tourism Office (NTTO).

Short term rentals demand share normalizes as hotels reopen

STR demand as a percent of total demand vs. temporary closures

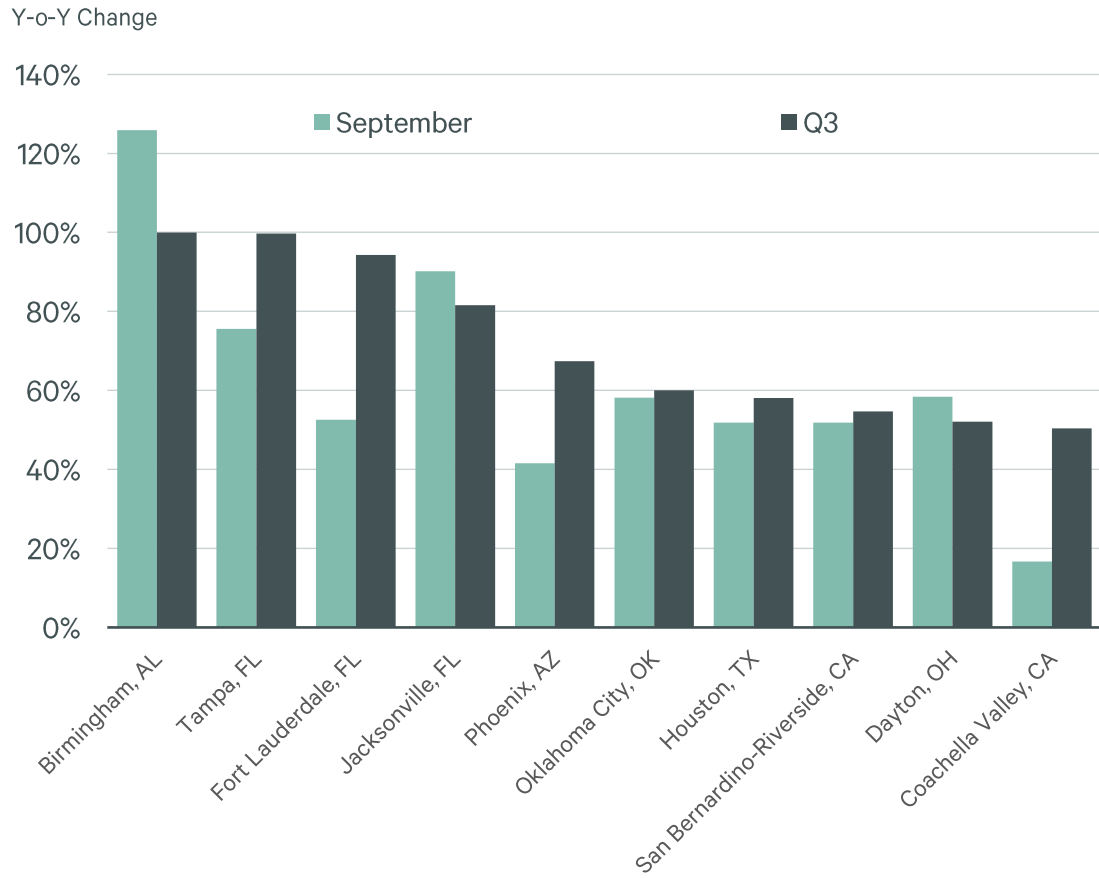


Source: CBRE Hotels Research, Kalibri Labs, AirDNA

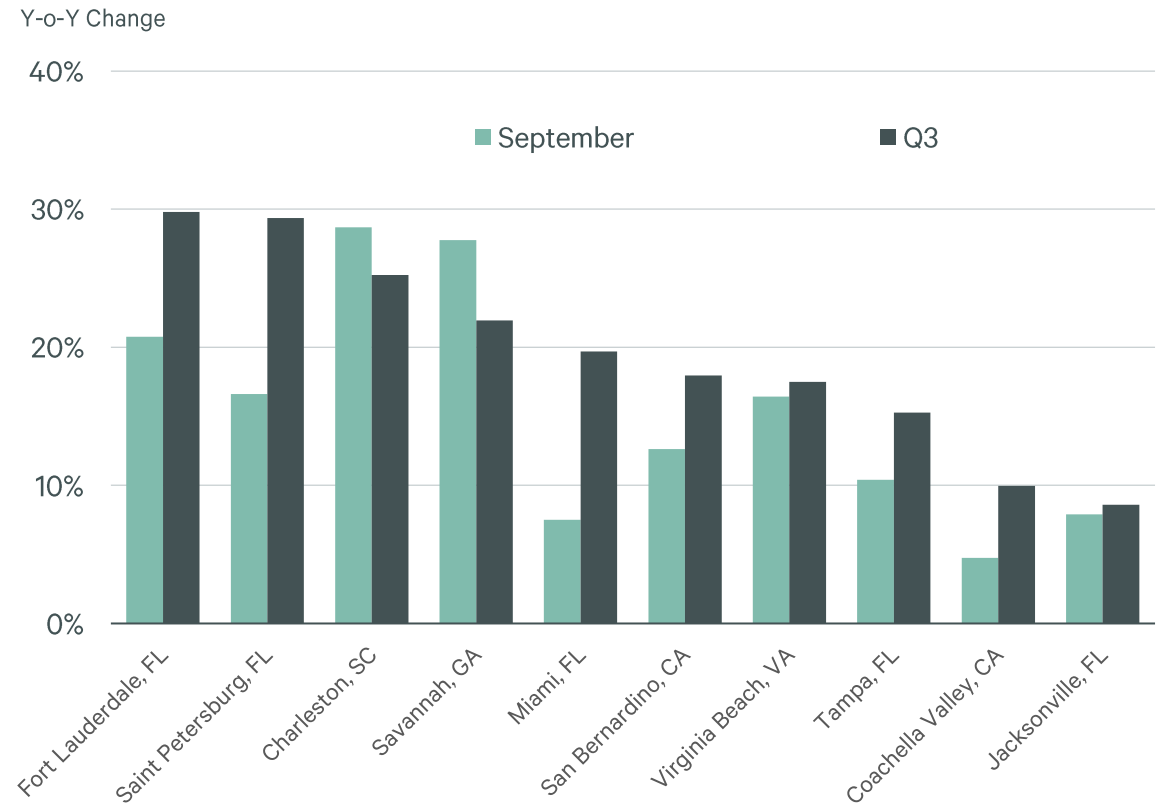
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Both STRs and Hotels show strength in southern and 'drive-to' leisure destinations

Top 10 Short Term Rental Revenue 2021 vs. 2019



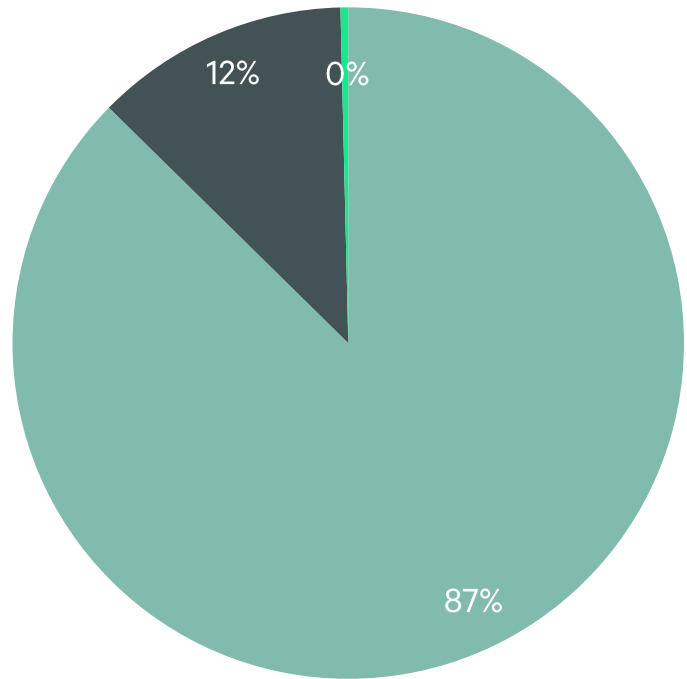
Top 10 Hotel Revenue 2021 vs. 2019



Source: CBRE Hotels Research, Kalibri Labs, AirDNA

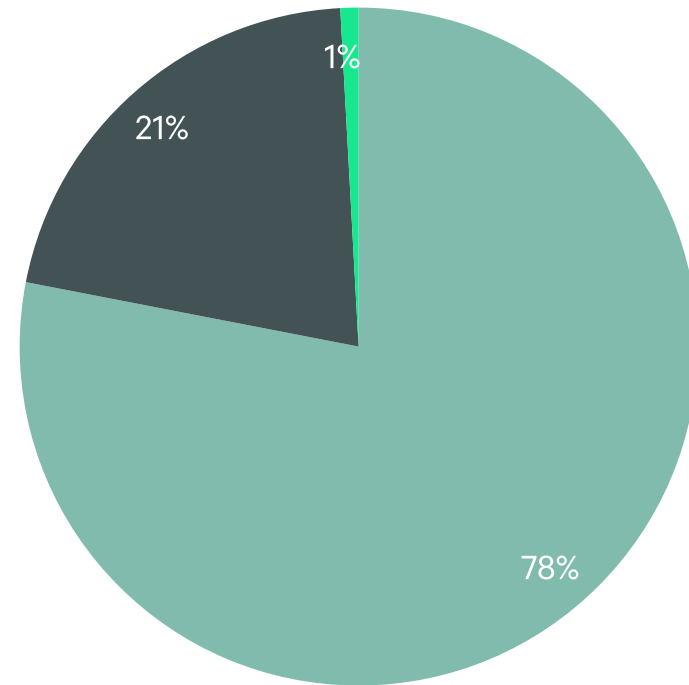
— The composition has changed to larger, more expensive short-term rental units

September 2021



■ Entire home/apt ■ Private room ■ Shared room

September 2019



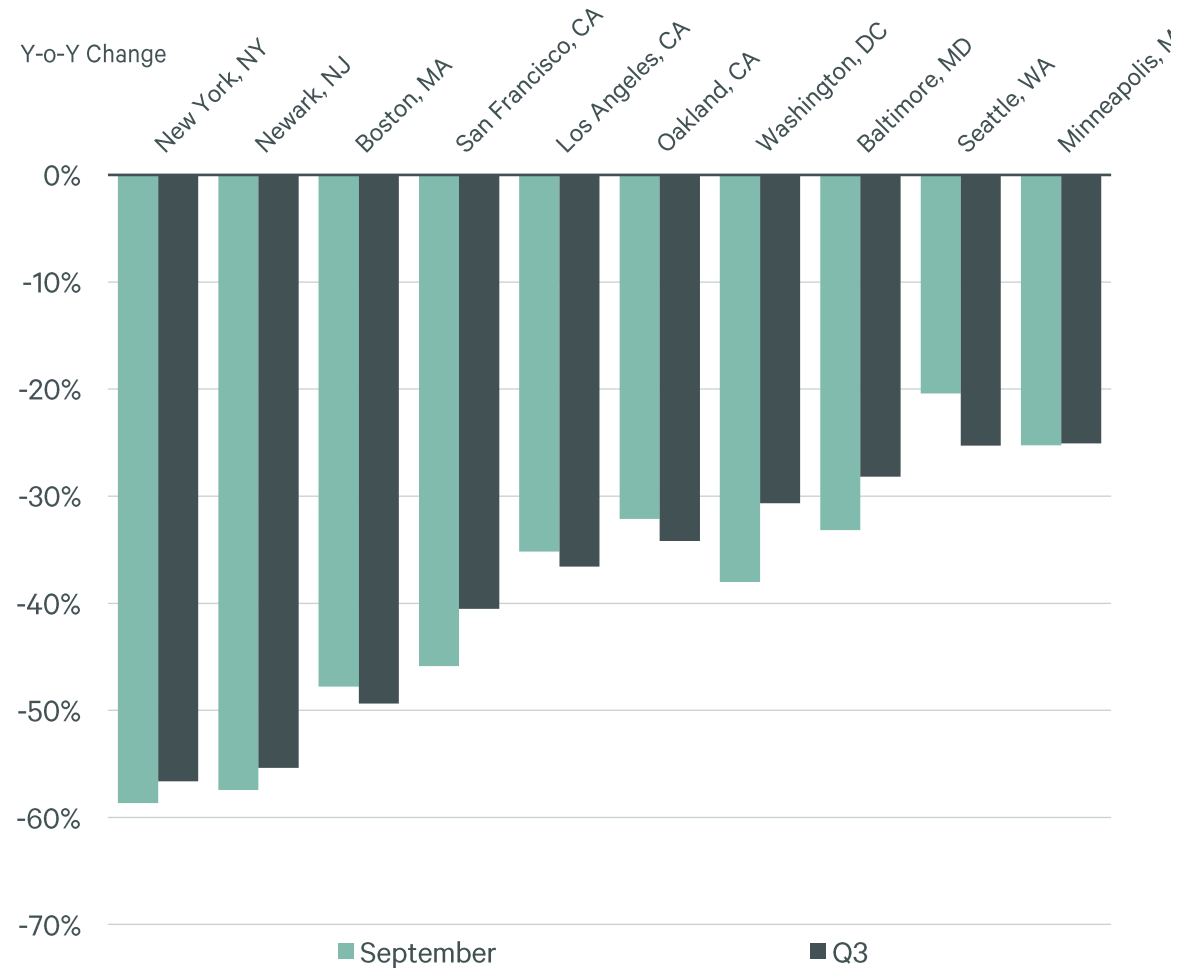
■ Entire home/apt ■ Private room ■ Shared room

Source: CBRE Hotels Research, Kalibri Labs, AirDNA

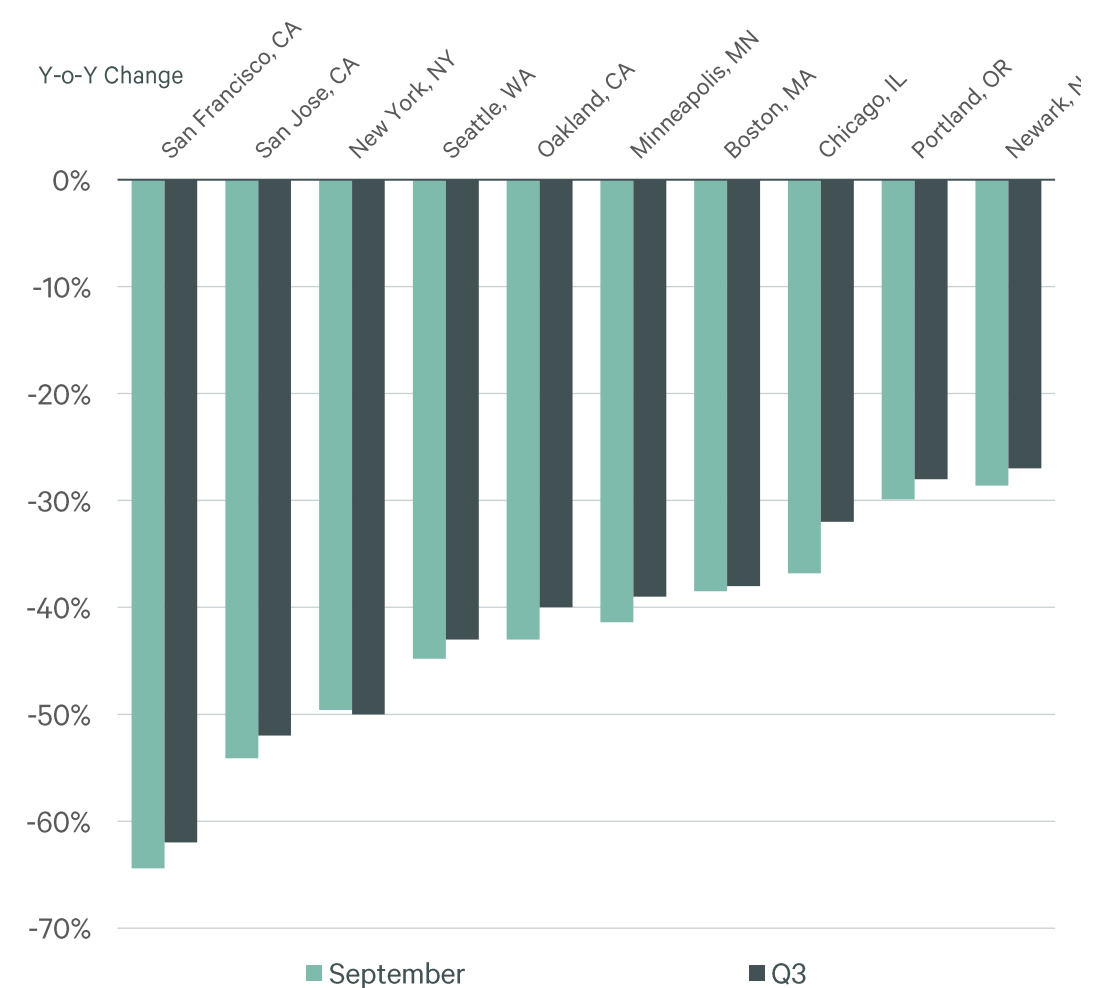
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Most challenged markets are urban areas

Bottom 10 Short Term Rental Revenue 2021 vs. 2019



Bottom Ten Hotel Revenue 2021 vs. 2019

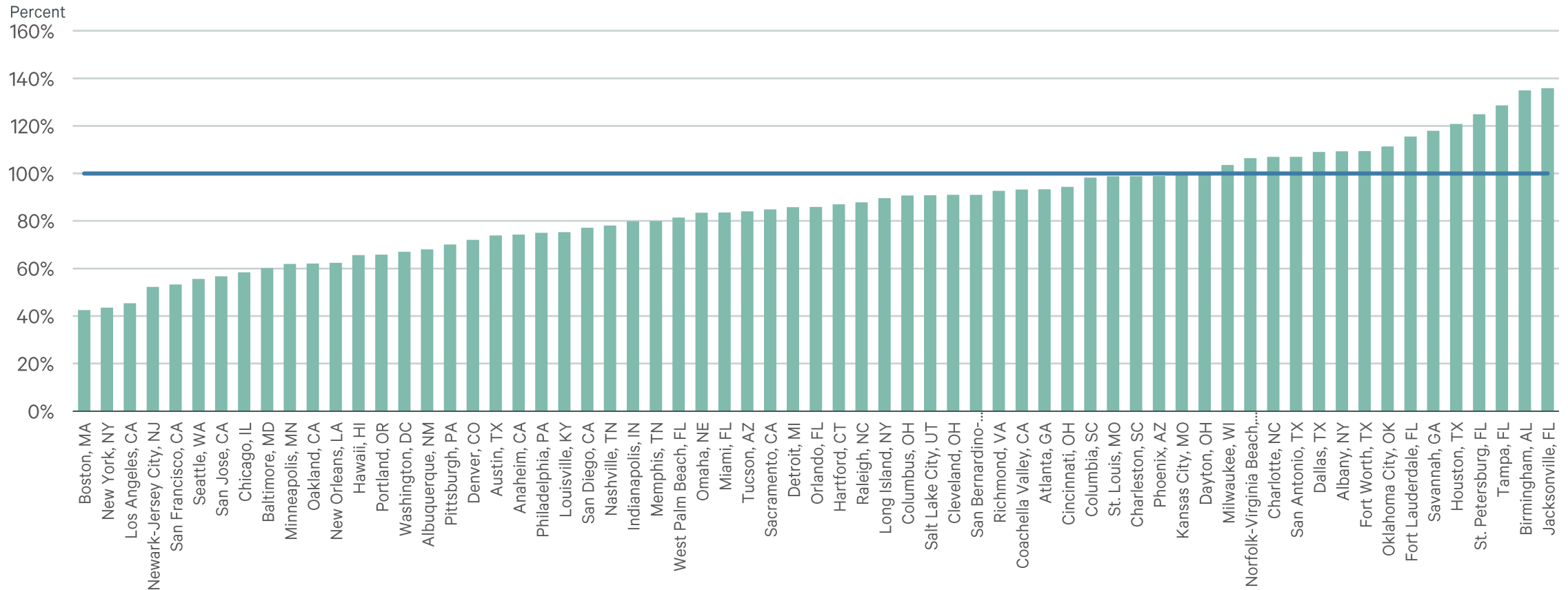


Source: CBRE Hotels Research, Kalibri Labs, AirDNA

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Short-term rental supply only up in select markets, urban markets are down

September 2021 Supply as a percent of 2019



Source: CBRE Hotels Research, Kalibri Labs, AirDNA

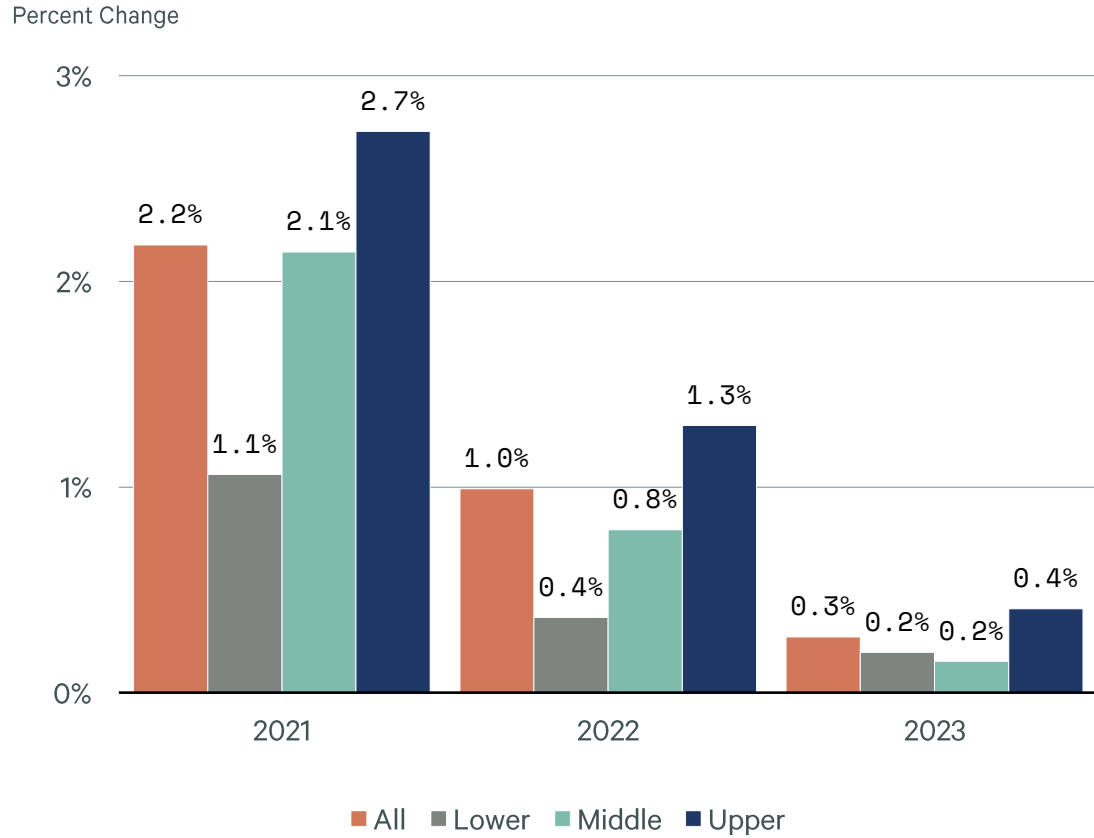
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Supply

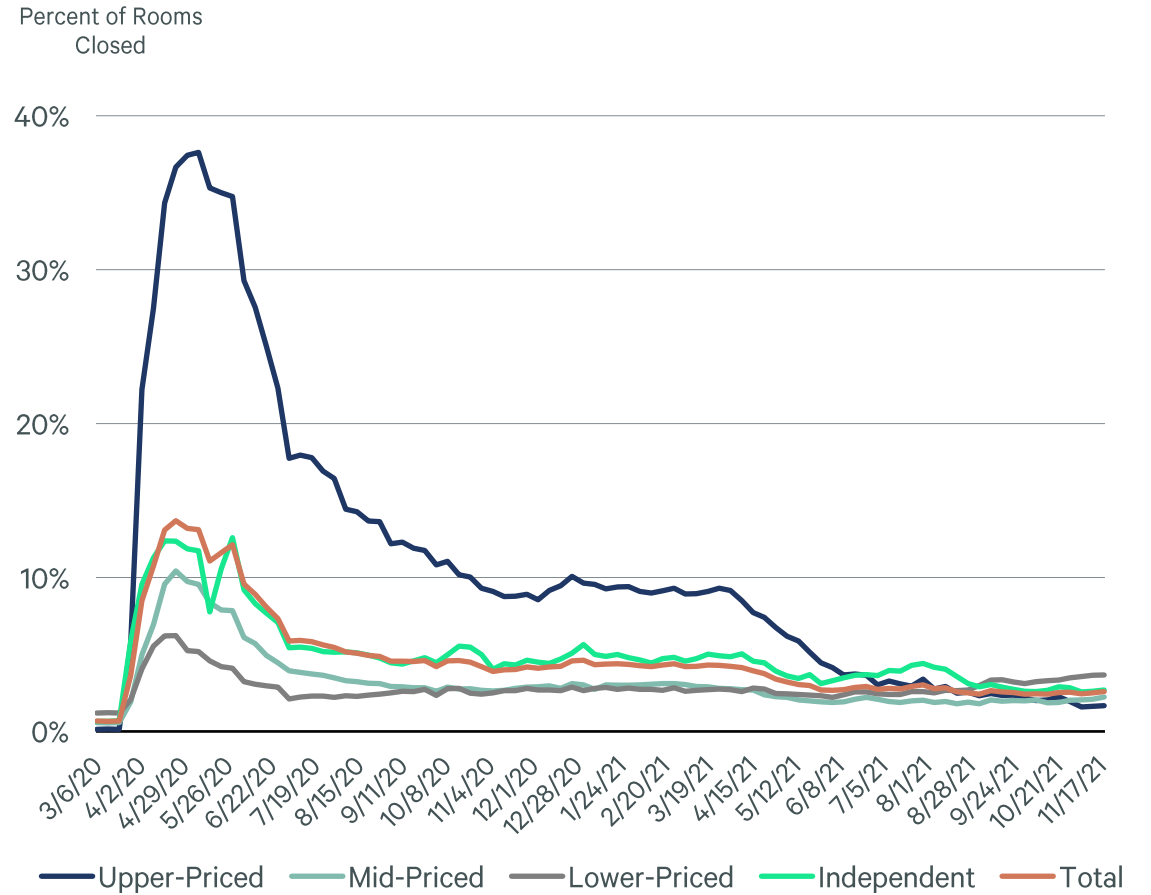


New projects + re-openings represent above average supply growth

“In Construction” Supply Growth

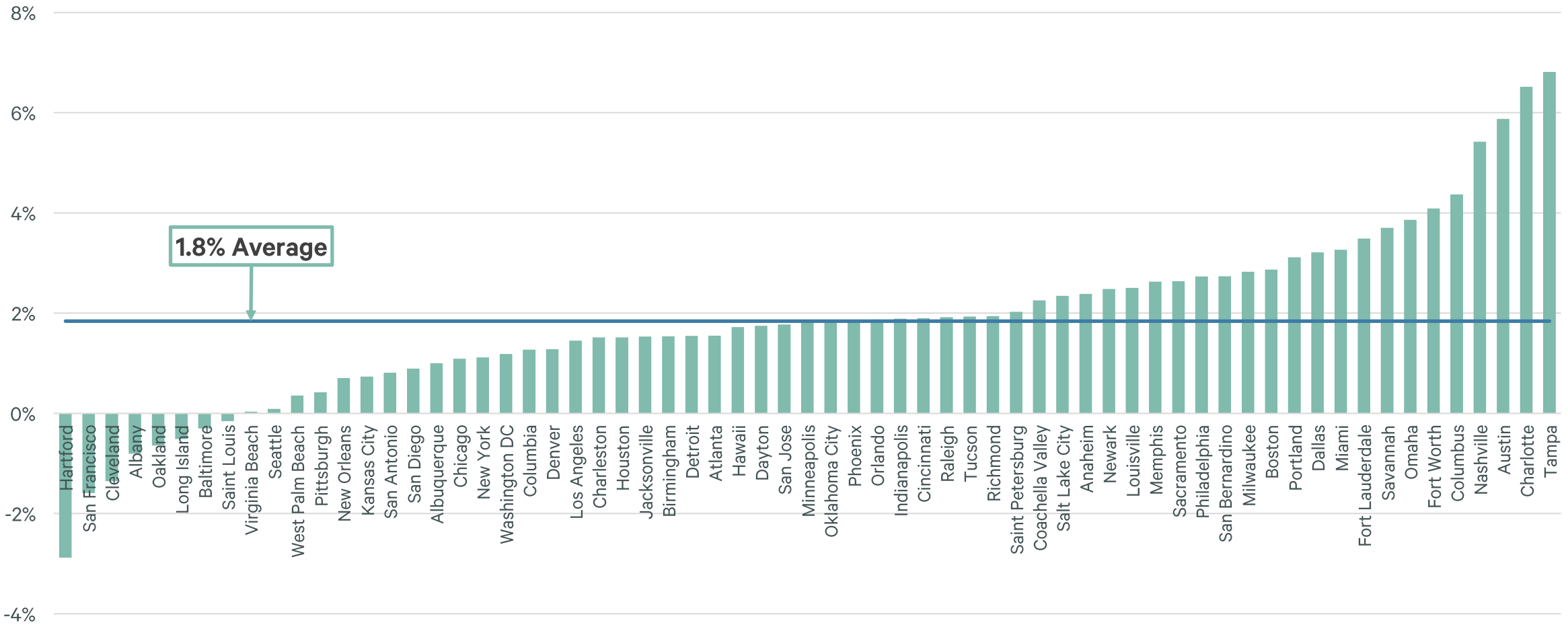


3.0% of Rooms Remain Closed



Top 65 market 2021 supply growth

2021 Supply Growth Forecast



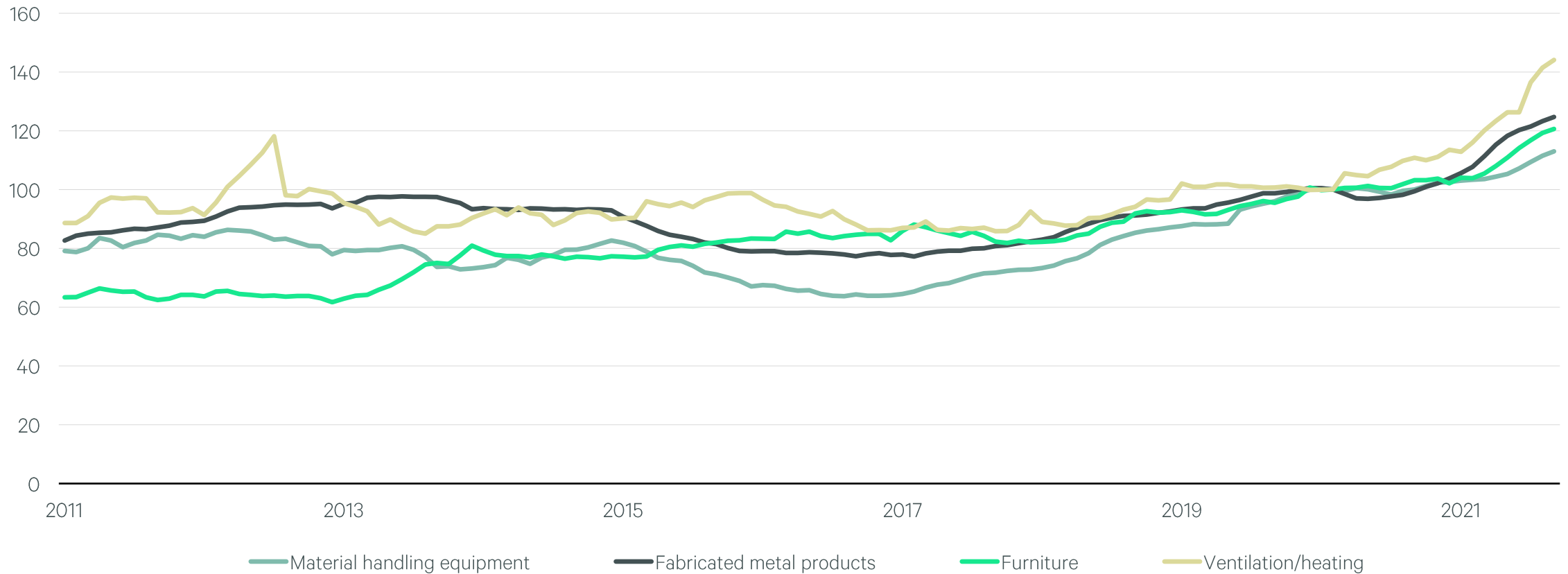
Source: CBRE Hotels Research, Kalibri Labs

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Supply chain disruption continues

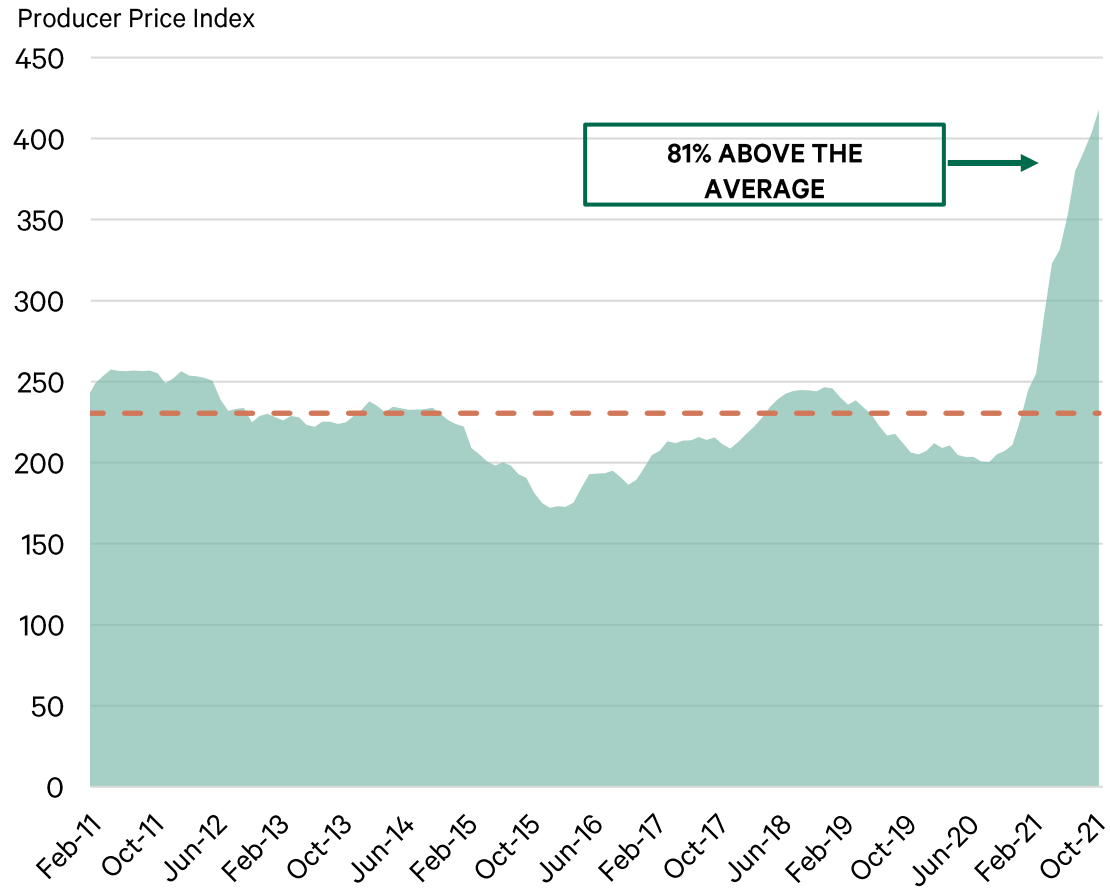
U.S. Unfilled durable goods orders Index (100 = Feb. 2020)

Index (100 = Feb 2020)

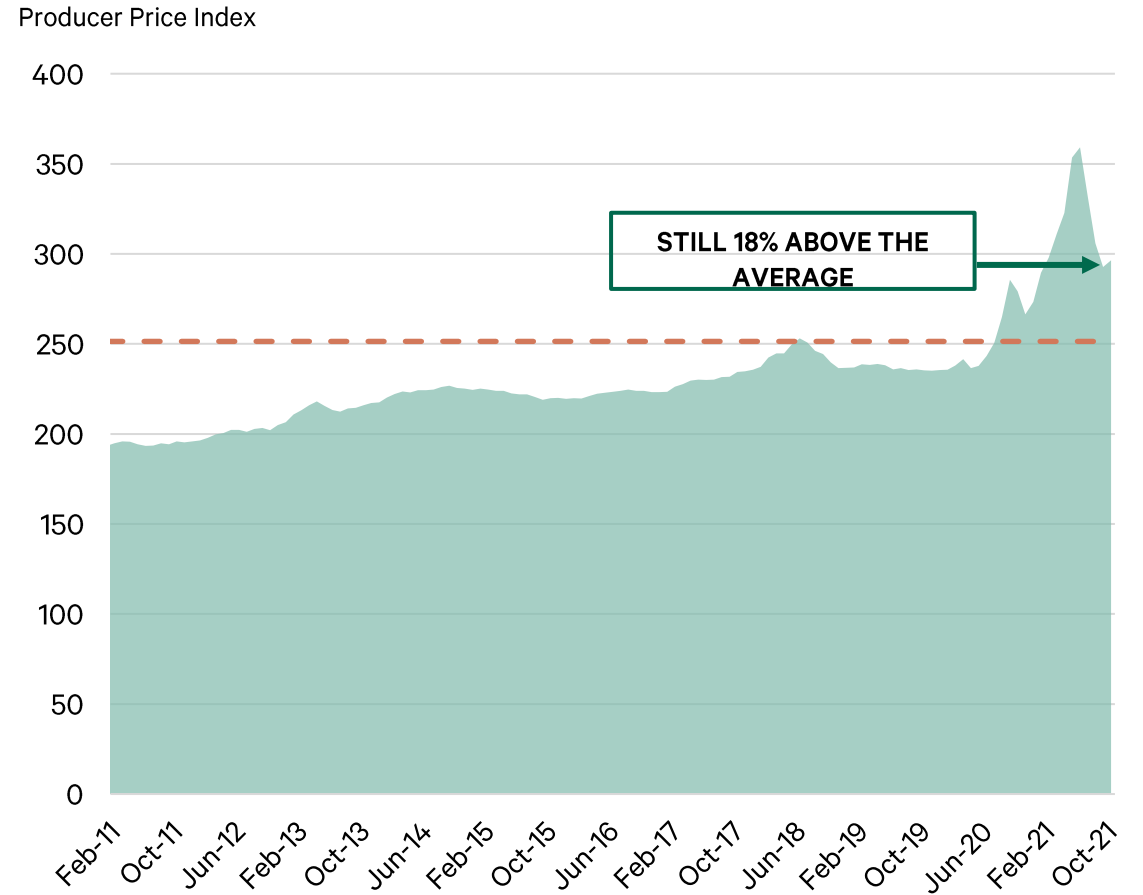


Construction inputs are still well above their long run averages

Steel and Iron



Lumber and Wood products

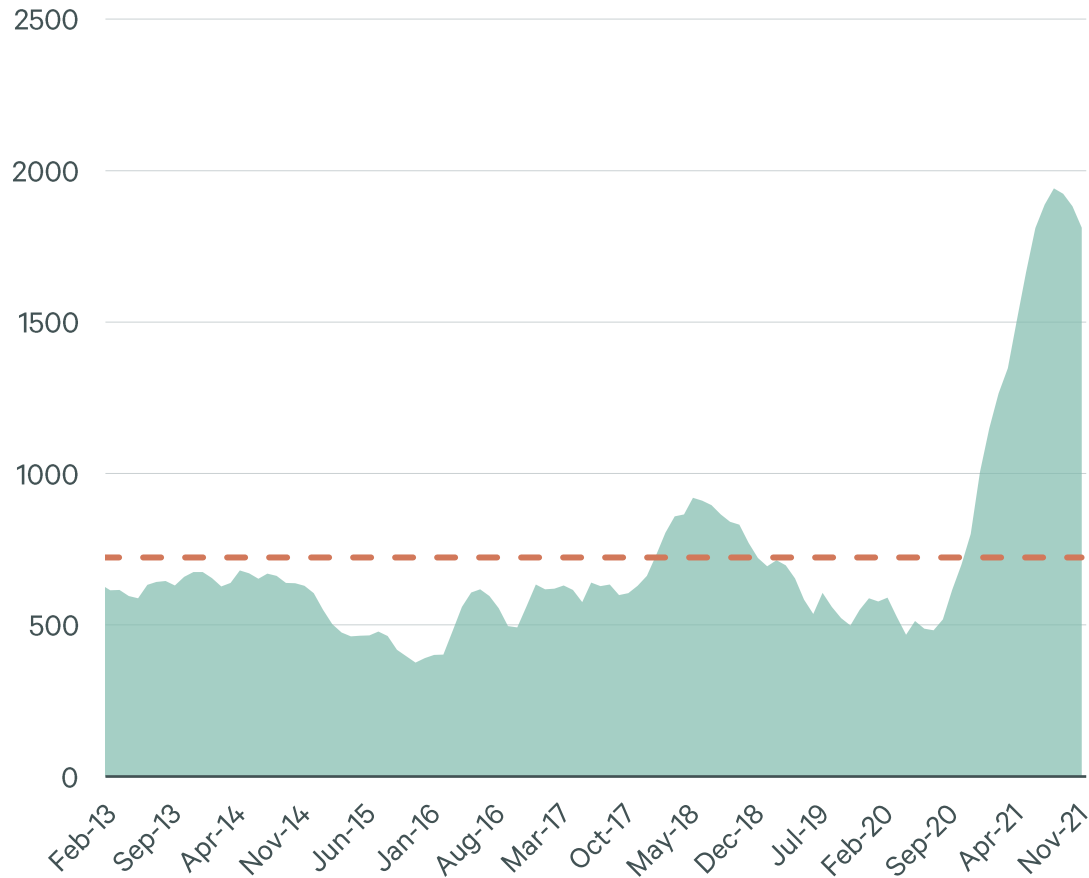


Source: CBRE Hotels Research, BLS

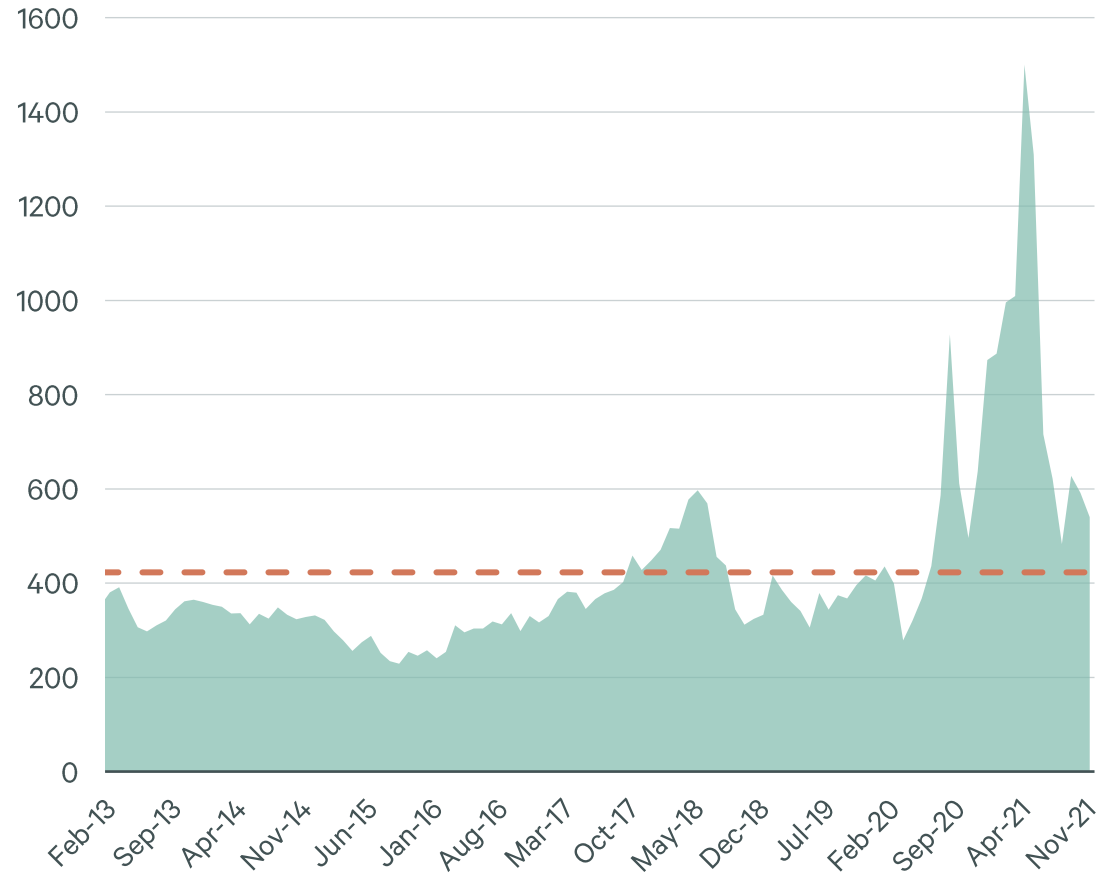
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Futures indicate headwinds but lumber declines may soften price increases

Steel Futures



Lumber Futures



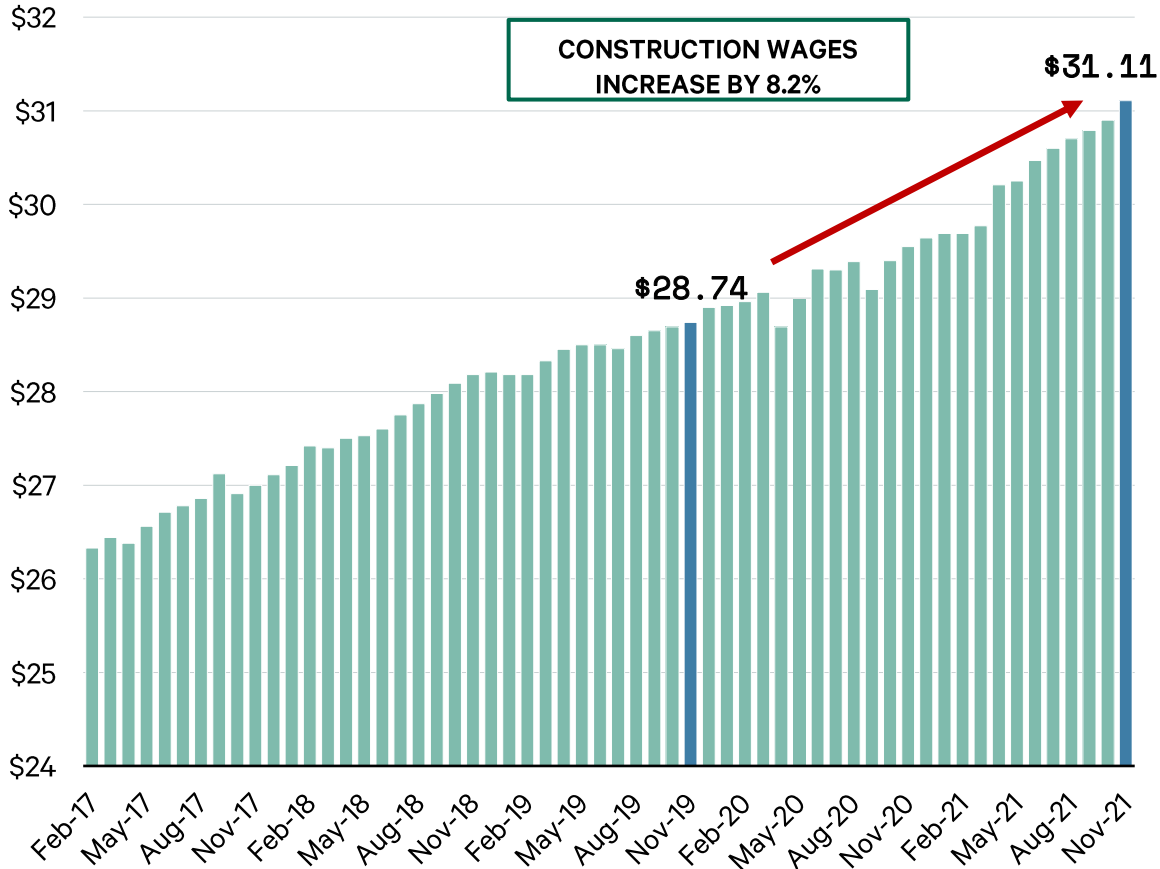
Source: CBRE Hotels Research, CME Group

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Higher wages and employment headwinds new construction

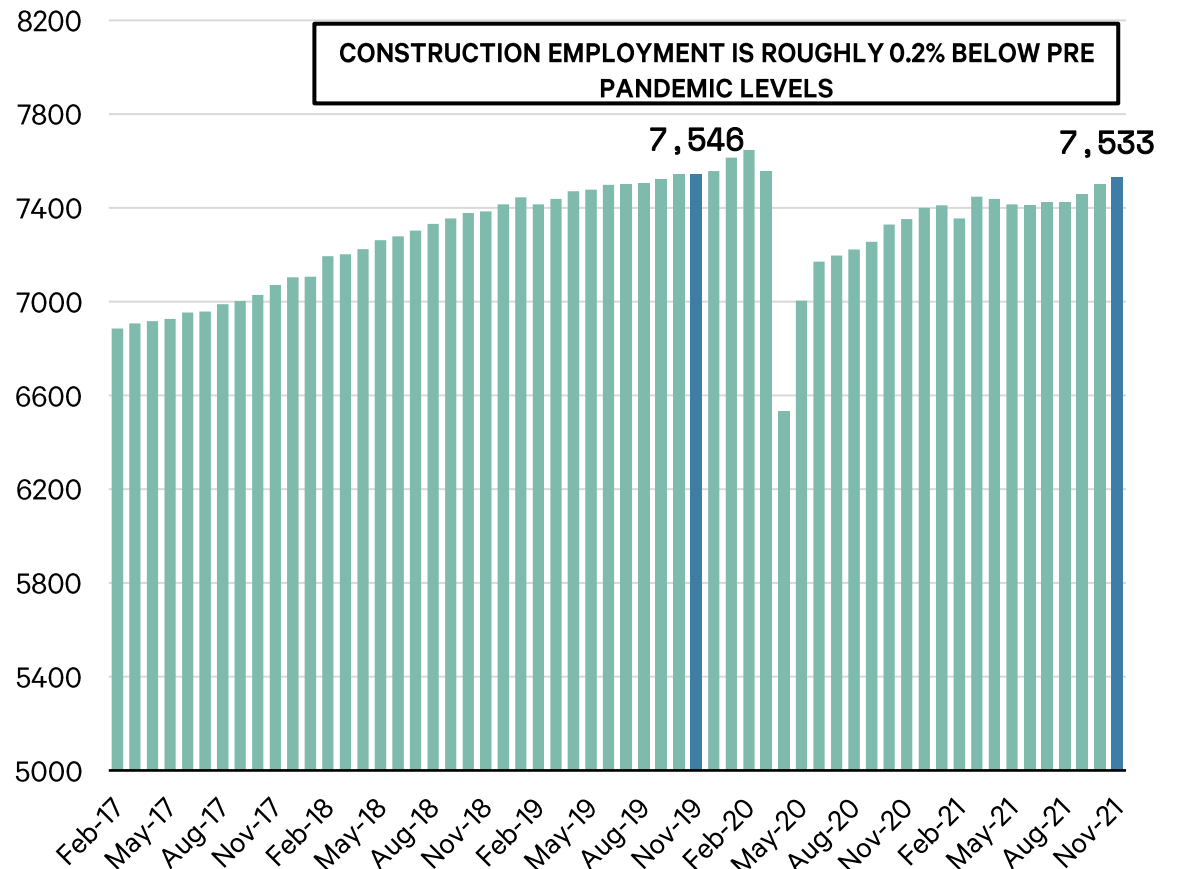
Construction Wages

Dollars Per Hour



Number of construction employees

Thousands



Source: CBRE Hotels Research, CBRE EA, BLS

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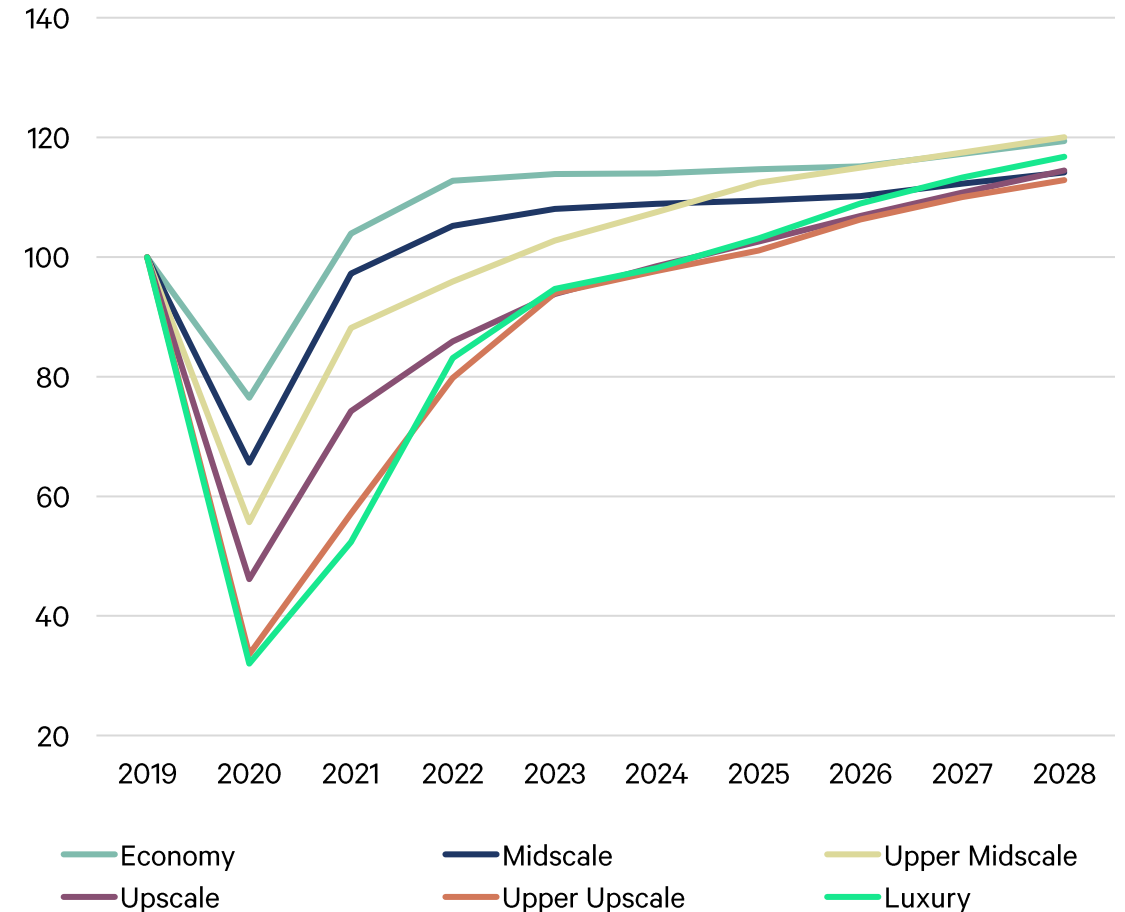
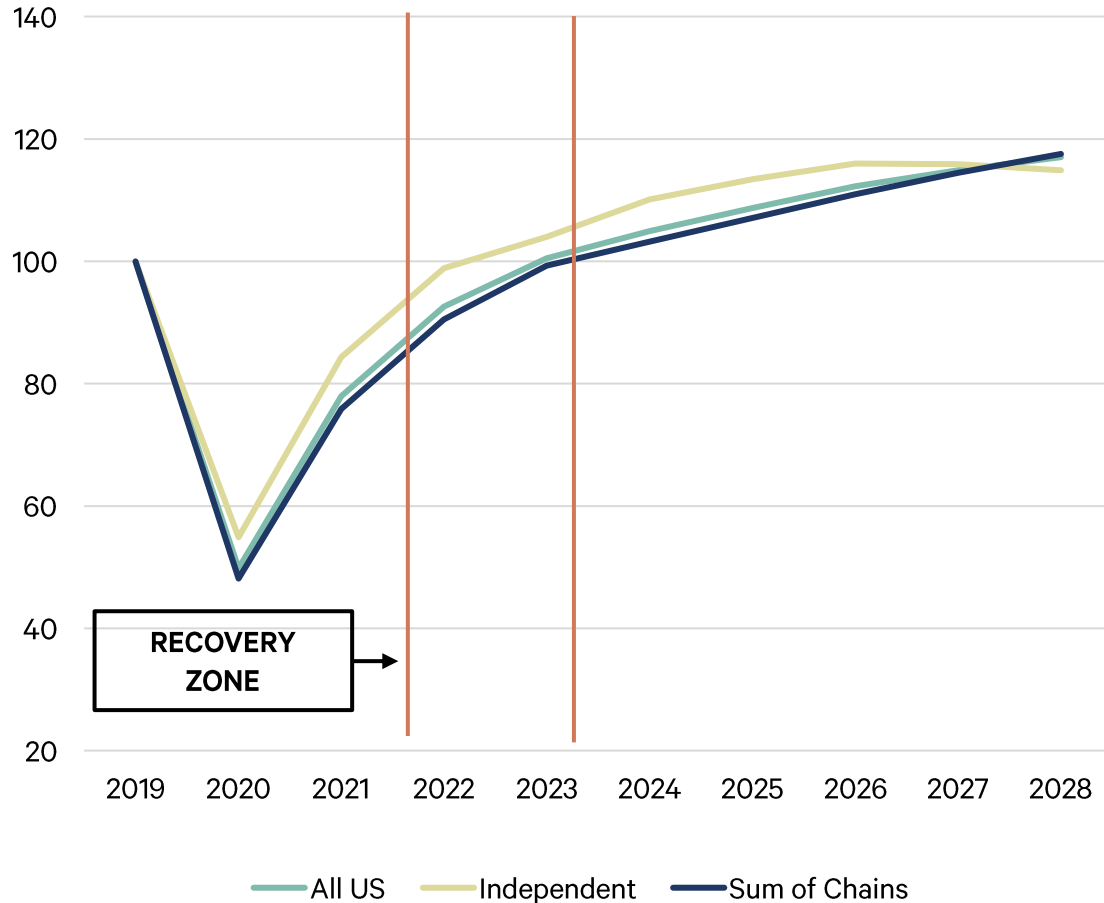
6

Updated
Forecast



CBRE Hotel Horizons® U.S. lodging forecast by chain scale

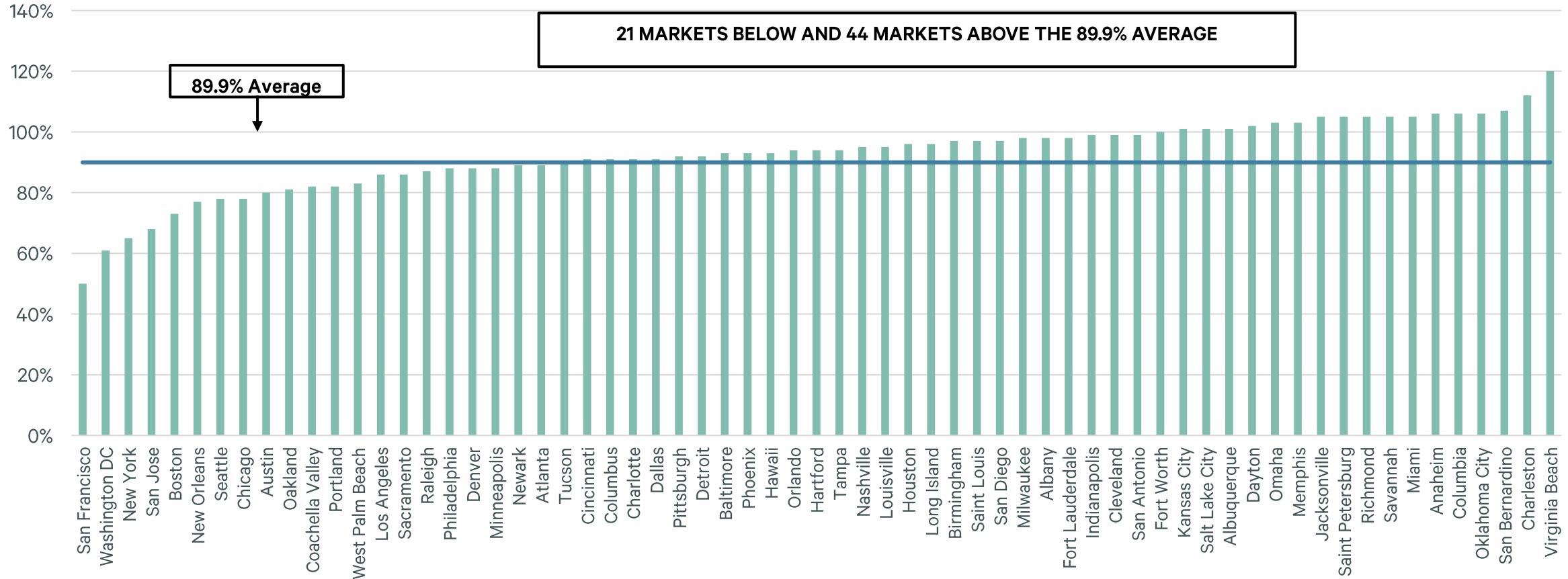
RevPAR indexed to 2019 Levels



Source: CBRE Hotels Research, Kalibri Labs
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CBRE Hotel Horizons® U.S. lodging forecast by market

2022 RevPAR as a Percent of 2019



Source: CBRE Hotels Research, Kalibri Labs

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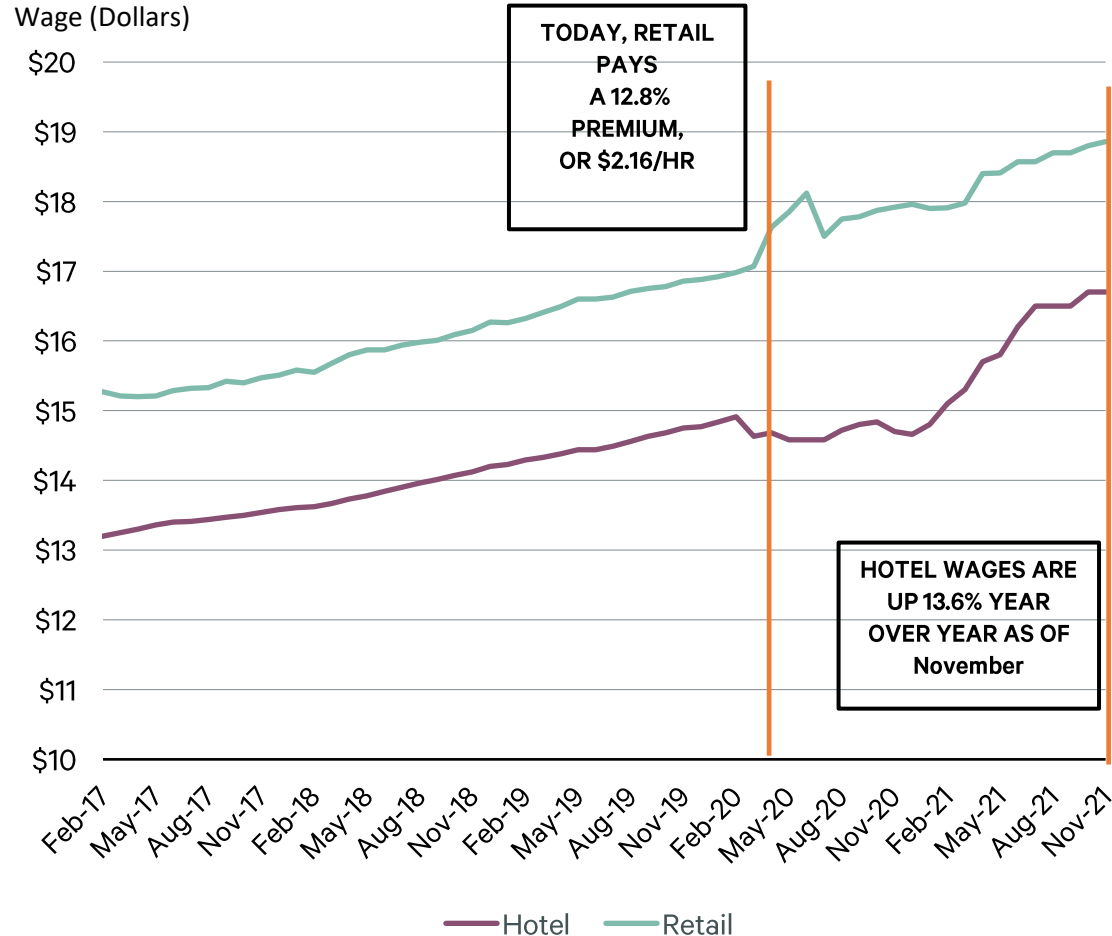
7

Operating Performance

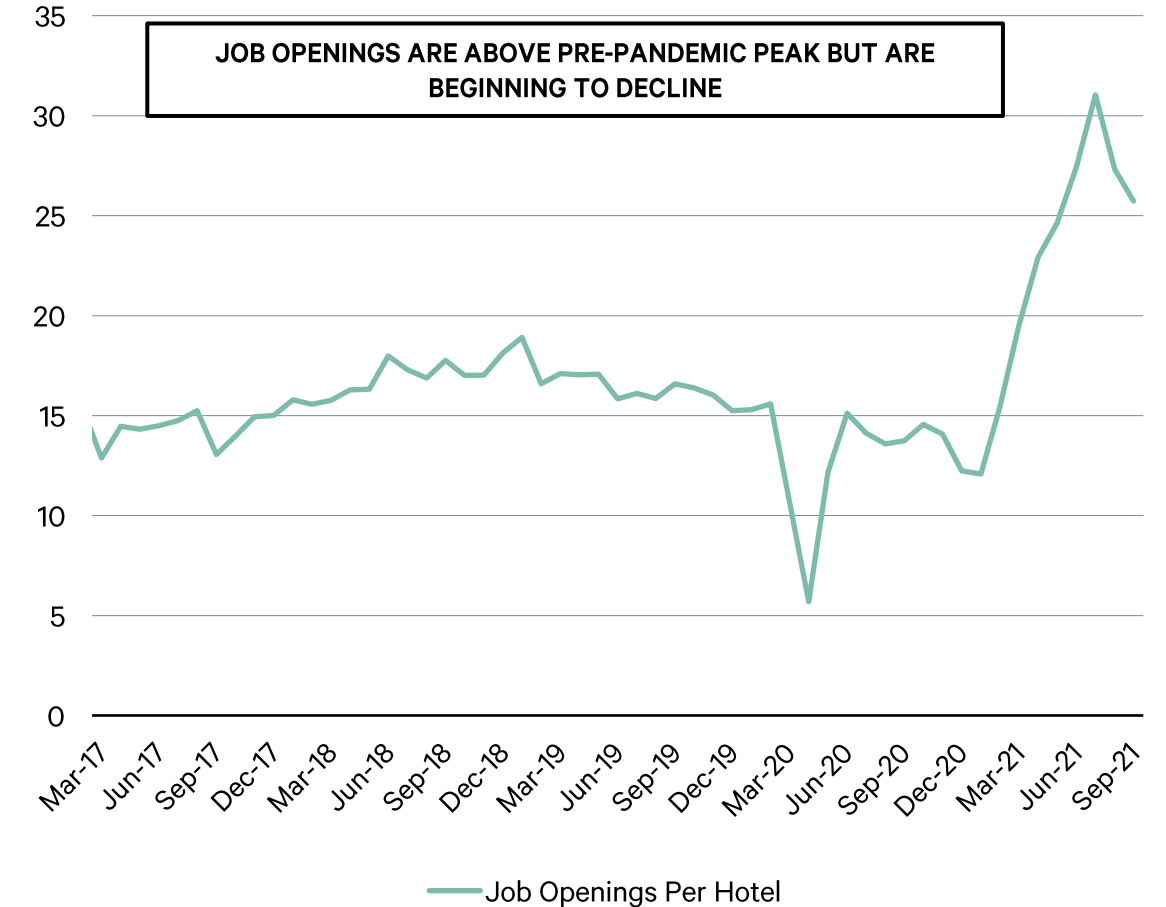


Hotel operators continue to confront a challenging labor environment

Wage Pressures a Headwind to Margins

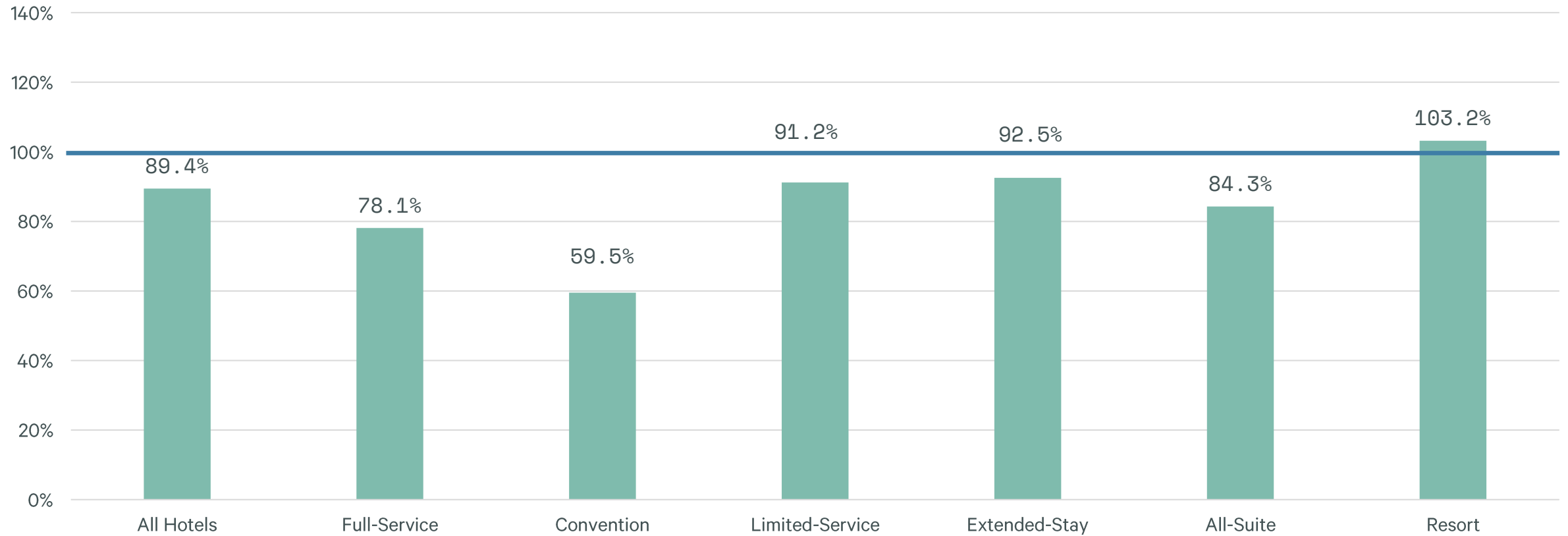


Job Openings Per Hotel are Still Up



U.S. Hotel total operating revenue - by property type

Dollars Per Available Room: September 2021 as a Percent of September 2019

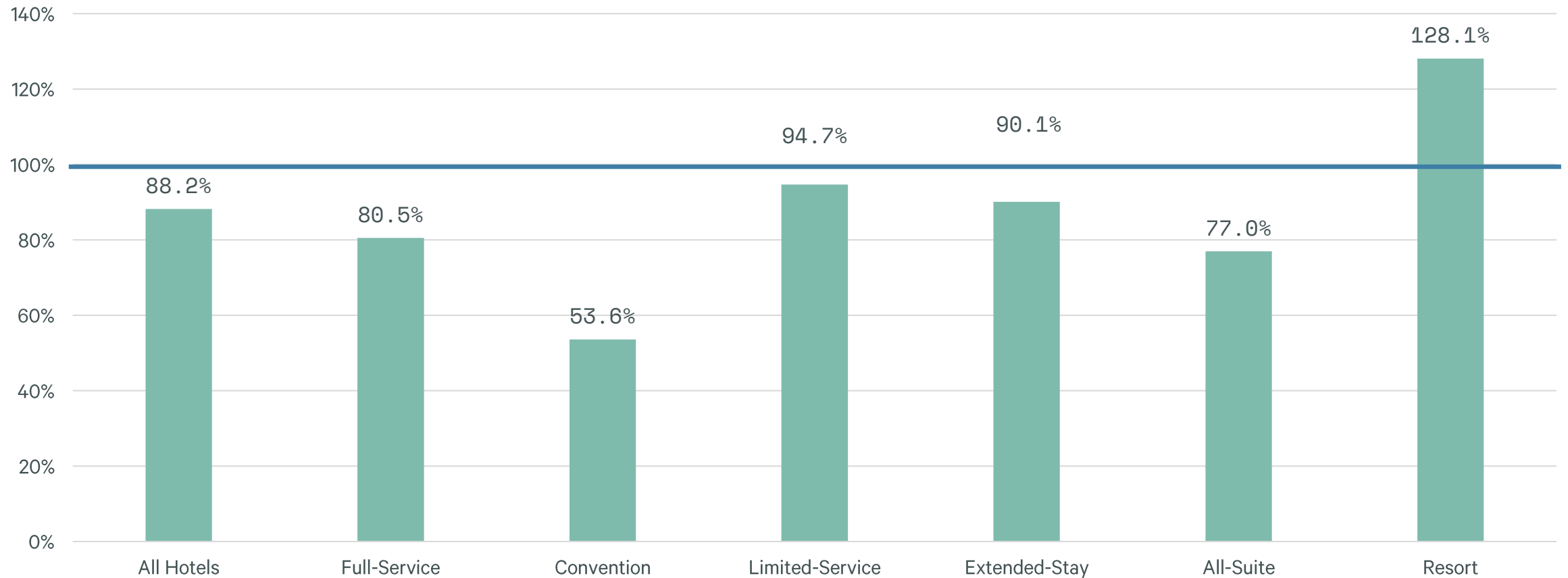


Source: CBRE Hotels Research, Trends, Same-Store Sample.

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U.S. Hotel gross operating profit- by property type

Dollars Per Available Room: September 2021 as a Percent of September 2019

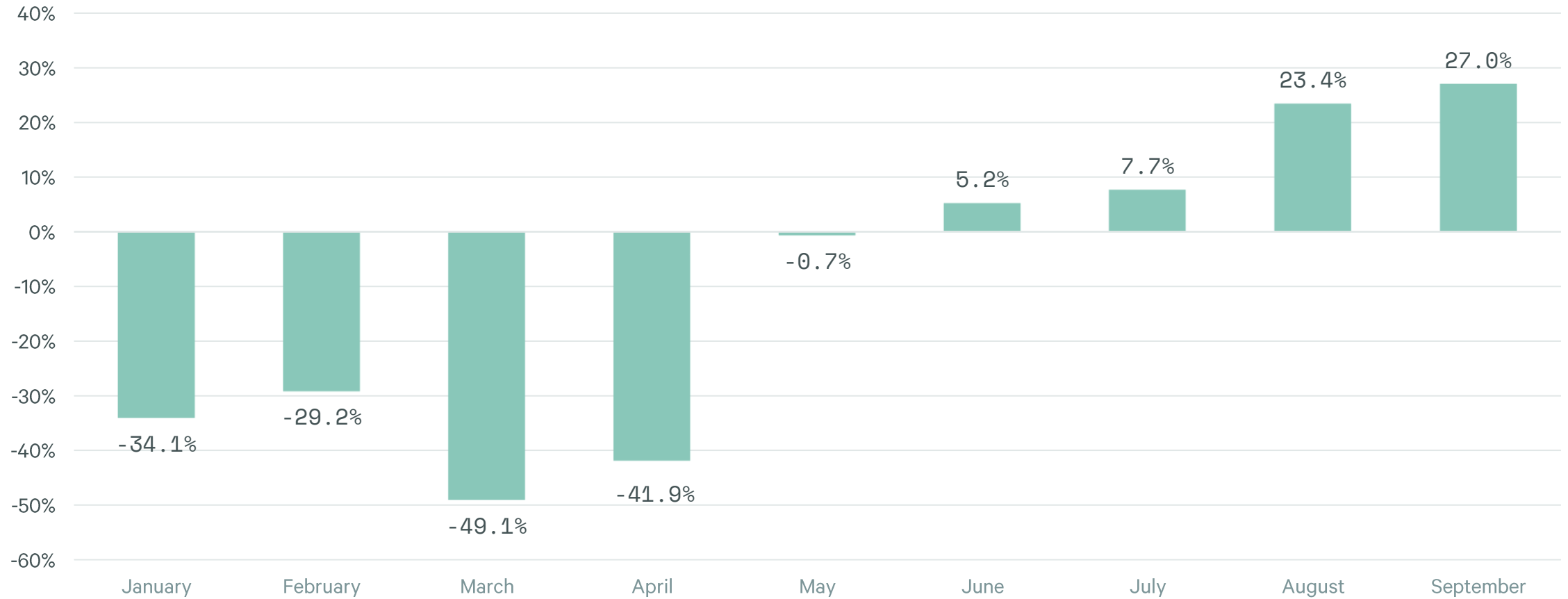


Source: CBRE Hotels Research, Trends, Same-Store Sample.

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U.S. hotel expense growth- 2021 by month

Operated Departments – Dollars Per Occupied Room Monthly Year-Over-Year Change from 2020

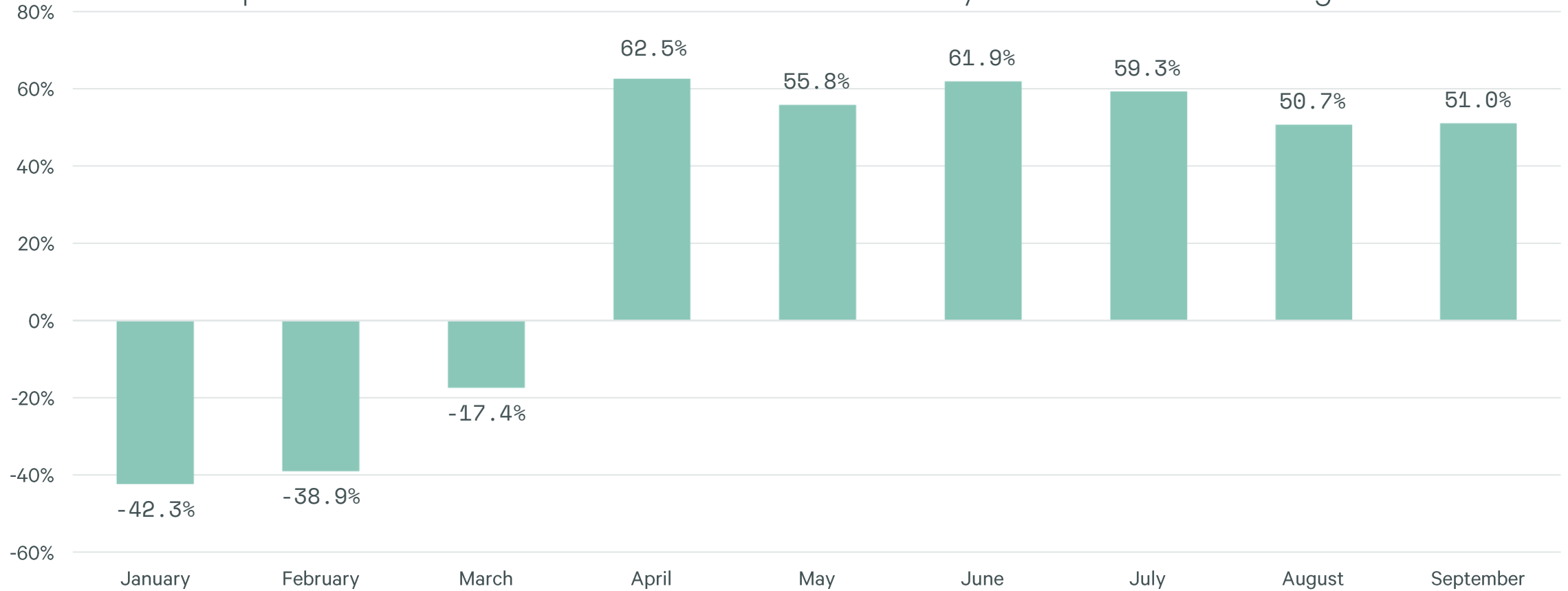


Source: CBRE Hotels Research, Trends, Same-Store Sample.

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U.S. hotel expense growth- 2021 by month

Undistributed Departments – Dollars Per Available Room Monthly Year-Over-Year Change from 2020

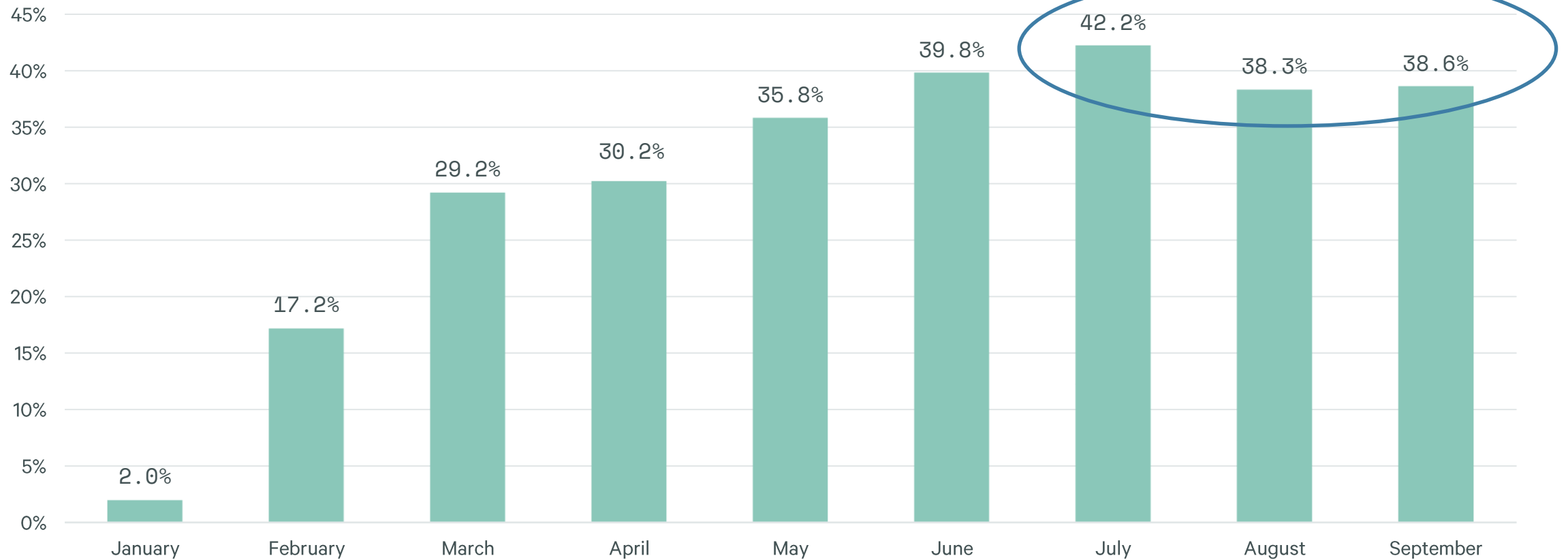


Source: CBRE Hotels Research, Trends, Same-Store Sample.

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U.S. hotel GOP margins - 2021 by month

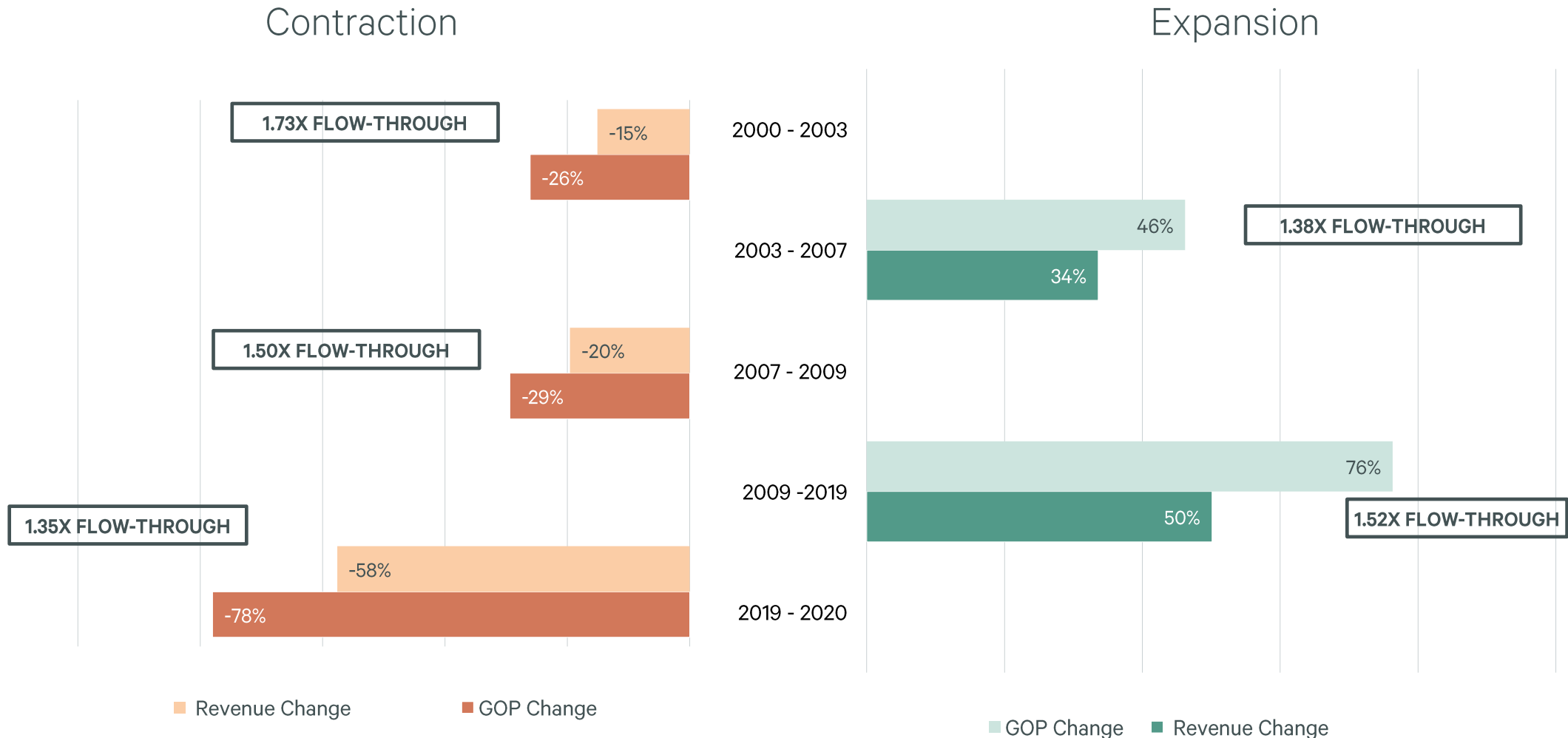
GOP as a Percent of Total Operating Revenue (%)



Source: CBRE Hotels Research, Trends, Same-Store Sample.

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Operators have become more efficient with each cycle



Source: CBRE Hotels Research, Trends, Same-Store Sample.

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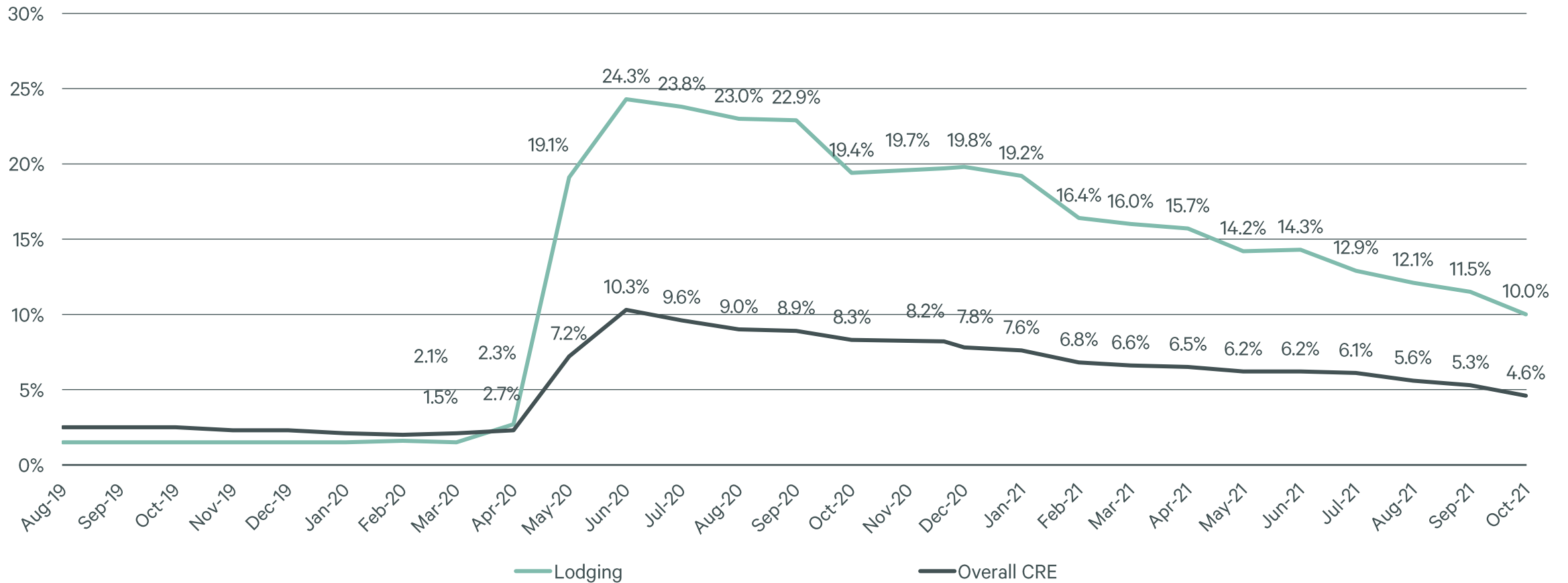
8

Capital Markets



The delinquency rate has improved as hotels have reopened

The delinquency rate should continue to improve as hotels reopen

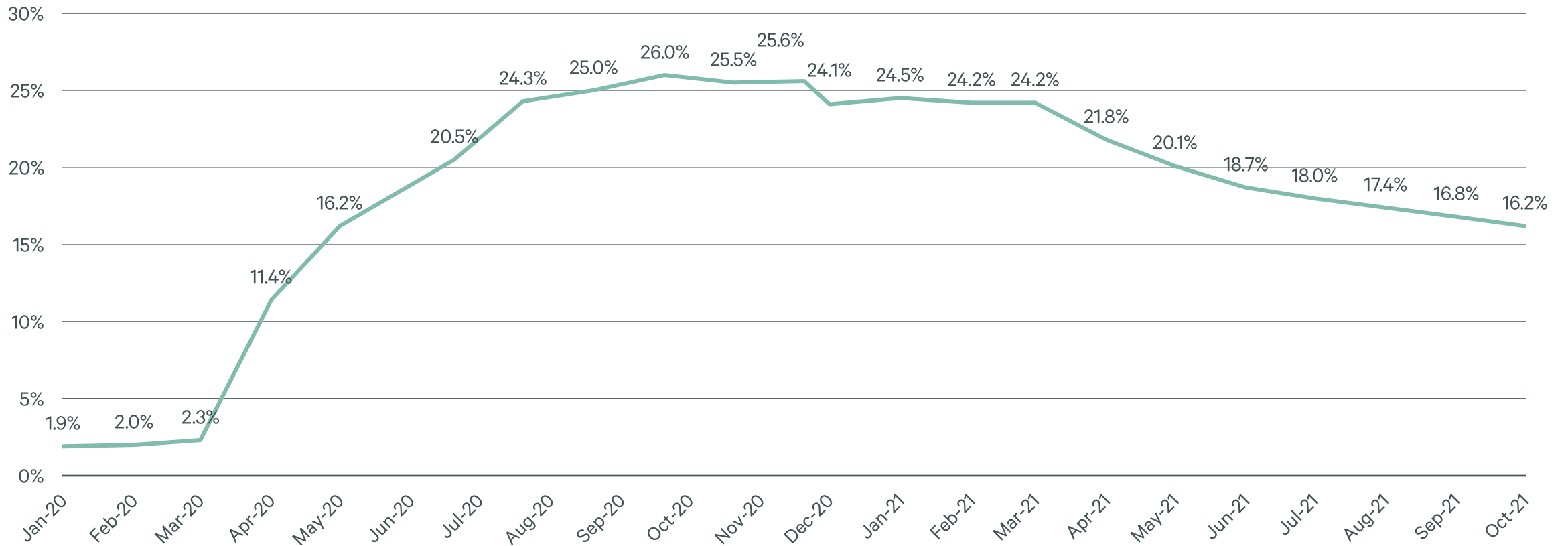


Source: CBRE Hotels Research, CBRE Debt & Structured Finance.

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Lodging CMBS special servicing

Pre-/Post-COVID - Special Servicing Rate Lodging CMBS



Source: CBRE Hotels Research, CBRE Debt & Structured Finance.

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Thank You



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