September 2021 Client Letter

This year has been a seesaw of optimism and apprehension. As the year began, we were optimistic that the vaccine roll-out would be swift and broad, however by the end of February, those expectations had been tempered as the vaccine roll-out seemed to be much slower than had initially been hoped for. In March, the nation began to see an acceleration in vaccine distribution and the inoculation rate began a rapid climb. Then, leading into the summer leisure travel season, bookings accelerated, and the summer looked to be headed to unprecedented leisure demand levels. Major employers were planning a return to the office after Labor Day, pointing to the start of a corporate and group demand recovery for September. The summer leisure period ended up even better than expected, with leisure markets generating RevPAR's well above their 2019 levels (Miami's June RevPAR was 47% above June 2019 levels). However, vaccination rates began to slow and by late July the emergence of the Delta variant created an uptick in Covid-19 infection rates and hospitalizations. Employers began pushing their office plans into 2022, the need for vaccination boosters was confirmed by the FDA and then optimism from the summer leisure recovery had dissolved.

That seesaw, which started the year very positive, then led us to be cautious by late February and then positive again by April has now flipped back to cautious. The good news is that we know that the seesaw will flip to positivity again; the big question is when, not if.

In an environment where unprecedented epidemiological challenges are driving the lodging recovery, it is difficult to forecast near-term performance. The reality is no one knows when the corporate recovery will gain momentum, but we do know that it will happen at some point. Hopefully by late 2021 or early 2022 vaccination rates will increase, and employees will begin to return to their offices, at least in a hybrid structure. Once that materializes, we expect several years of unprecedented growth, sparked not only by recovery from the worst freefall the industry has ever experienced, but also by unprecedented levels of fiscal stimulus, savings rates and pent-up demand for travel and new experiences. While we acknowledge the risks tied to remote working and reduced corporate travel, we believe they are offset by more leisure travel and the desire and need to reconnect with our coworkers, clients, and peers.

While we expect growth to be robust, there remains risk related to additional variants and reaching global herd immunity levels. Clearly there will be markets that are winners in the coming years and those that will be losers. As we move through this recovery, sector participants will need accurate, transparent, and detailed information if they wish to take advantage of the numerous potential market dislocations that are likely to occur in the near-term.

We believe the best business decisions are based on the best information that is available at the time of making that decision. We take that approach with our forecasts; using the best available information to provide the most likely outcome, while acknowledging that the situation will continue to evolve and some of the underlying information is likely to change. As such, we believe transparency surrounding forecasting is critical to the lodging industry, which is why we are transparent with our clients, not just on what our forecasts are, but how we arrived at them.

LARC's industry-leading market intelligence referred to throughout this document will help all industry participants navigate the current environment and position themselves for success as the recovery progresses. Please contact us directly to learn more about our services and products and if there is any other way we may be able to serve you.

Sincerely,

Ryan Meliker
President & Co-founder
Lodging Analytics Research & Consulting

U.S. Lodging Industry and Market Outlook – September 2021

Moving Beyond the Pandemic…Fiscal Stimulus, Variants, and the Return to the Office

With the acceleration in vaccine distribution during 2Q-2021, which coincided with a rapid decline in the Covid-19 infection rates across the country, the U.S. had seemed poised to begin a massive economic and lodging recovery this summer. While the growth was remarkable (2Q U.S. RevPAR was up 160.4%), especially related to leisure travel, the proliferation of the Delta variant has increased reluctance to return to some sense of normalcy.

We expect that apprehension to translate into a delay in the return to the office for many Americans by several months, however the Delta variant has also caused a reacceleration in vaccinations across the country. That reacceleration should enable the U.S. to reach herd resiliency (65%+ of the adult population being fully vaccinated or previously infected) by early September.

While that is positive and points to the end of the pandemic approaching and a full travel recovery, the U.S. is still part of a global ecosystem. Many experts believe that the U.S. will maintain a level of risk until the world vaccination rate approaches that 65% level, which is not likely to occur before mid-2022.

As such, Covid-19's impact on the lodging industry will continue to evolve, rather than disappear. While we expect a return to the office to materialize this Fall, it will likely be in the form of a more hybrid/ flexible structure until vaccines are available for children or Covid-19 is no longer a threat. We expect disruption from Covid-19 to moderate going forward, but the negative impact on urban and gateway markets will persist for some time.

As a result of these factors, we have delayed our acceleration in group and corporate lodging demand by a couple months, negatively impacting our 4Q-2021 outlook. However, the robust leisure travel recovery experienced during the summer months exceeded even our lofty expectations, which will more than offset the modest pullback we now forecast in 4Q-2021, driving a more positive 2021 RevPAR outlook than last quarter.

The primary risk to our recovery schedule remains a vaccine-resilient variant, that has yet to materialize.

Against that backdrop, our economic forecast from Moody's Analytics makes the following key national assumptions:

- $550 billion infrastructure bill passes this Fall
- $3 trillion "Build Back Better" program passes this Fall and is enacted over the next few years
- Elevated inflation is transitory and labor supply constraints ease in September.

Moody's Analytics forecasts U.S. GDP to increase 8.2% in 3Q-2021 and 6.3% in 2021.

LARC's Industry Outlook

Currently, LARC expects U.S. RevPAR to increase by 49.9% in 2021 and increase at a 16.8% CAGR from 2020 through 2025 (5-year outlook). LARC also anticipates U.S. hotel property values to increase 19.5% in 2021 and increase at a 7.0% CAGR from 2020 through 2025. We forecast ADR to recover to 2019 levels by the end of 2022, while RevPAR, Hotel EBITDA an asset values reach 2019 levels in 2023 and occupancy in 2024.

With regards to 2021, our outlook for lodging fundamentals has improved as the summer leisure season has been even stronger than our already elevated expectations, particularly related to ADRs. However, it is essentially a pull forward of growth from later years, as our longer-term outlook for RevPAR is only slightly higher than last quarter's.

It is important to note that the outlook for base rates in the near-term moderated considerably. In fact, Moody's Analytics now expects investment grade bond yields to increase about 60 bps this year, which is almost 50 bps less than the prior outlook. As base rates are a primary driver of our cap rate outlook, this forecast meaningfully adjusts our view for near-term value appreciation. As such, a more positive view on 2021 lodging fundamentals and cash flows, coupled with a more positive view on 2021 cap rates drive a positive view on the 2021 asset value recovery.

LARC's U.S. RevPAR model has an R-squared of 99.7% with a standard error of 4.3%, back-tested to 2000. LARC's U.S. Cap Rate model has an R-squared of 98.3% with a standard error of 22 bps, back-tested to 2005.

The tables below illustrate a summary of LARC's current U.S. Hotel Industry Outlook in contrast to last quarter's outlook.

September 2021 U.S. Hotel Industry Forecast Summary

	2021 Growth	3-Year Forward CAGR	5-Year Forward CAGR
Economic Supply	1.6%	1.7%	1.8%
Demand	29.6%	15.9%	10.4%
Occupancy	28.0%	14.2%	8.6%
ADR	17.1%	10.7%	7.5%
RevPAR	49.9%	26.4%	16.8%
Hotel EBITDA	403.1%	117.1%	61.6%
Hotel Values	19.5%	11.8%	7.0%

Source: Lodging Analytics Research & Consulting

2021 U.S. Hotel Industry Forecast: September 2021 Edition vs. June 2021 Edition

	9/2021 Update		6/2021 Update		Outlook
	YoY Growth	Growth vs. 2019	YoY Growth	Growth vs. 2019	Change vs. 2019
Economic Supply	1.6%	2.9%	1.4%	2.9%	**0.0%**
Demand	29.6%	-13.7%	28.4%	-17.4%	**3.8%**
Occupancy	28.0%	-14.7%	21.8%	-18.8%	**4.1%**
ADR	17.1%	-7.9%	7.2%	-15.7%	**7.8%**
RevPAR	49.9%	-21.4%	30.6%	-31.5%	**10.1%**
Hotel EBITDA	403.1%	-51.0%	167.7%	-73.8%	**22.8%**
Hotel Values	19.5%	-8.9%	1.2%	-22.9%	**14.1%**

Source: Lodging Analytics Research & Consulting

Market Outlooks

We continue to expect the various demand segments of the hotel business to recover in the following order: drive-to leisure, fly-to domestic leisure, domestic business travel, large citywide conventions, small in-house group, international business travel, international leisure. Therefore, markets with a greater concentration of hotel demand from the leisure segments and less from international and in-house groups are likely to recover relatively faster.

Below is a list of the best and worst performing markets based on our forecasts. Similar to our U.S. forecast, our market level forecasts are built entirely on multi-variable regression models with high historical accuracy (R-squareds for each model seen on the next page).

More detail on our market outlooks can be found in LARC's Market Intelligence Reports. Please contact us if you are interested in purchasing any of LARC's offerings.

2021 (relative to 2019)

Top Markets for RevPAR Growth:
Norfolk, Miami, Tampa, Phoenix and San Diego

Bottom Markets for RevPAR Growth:
San Francisco, Boston, New York, Washington, D.C. and Seattle

2022 (year-over-year)

Top Markets for RevPAR Growth:
San Francisco, Boston, Washington, D.C., New Orleans and Minneapolis

Bottom Markets for RevPAR Growth:
Norfolk, Miami, Tampa, San Diego and St. Louis

2019 - 2025 Outlook

Top Markets for RevPAR Growth:
Miami, Tampa, Denver, Honolulu and Las Vegas

Bottom Markets for RevPAR Growth:
San Francisco, Detroit, Houston, Boston and Chicago

Top Markets for Value Change:
Tampa, Phoenix, Denver, Los Angeles and Nashville

Bottom Markets for Value Change:
San Francisco, New York, Chicago, St. Louis and Detroit

We use multi-variable regression forecasting to drive our industry and market outlooks. Using this methodology, we look beyond correlation relationships between variables to causal relationships. R-Squared is a statistical measure to define the causal relationship between a regression forecast model and the actual results historically. The highest R-Squared possible is 100%, indicating that the model has forecasted the actual results historically perfectly. We generally view any R-Squared above 80% as highly accurate, indicating that the model forecasts 80% of the volatility of the forecast variable.

Model Accuracy Based on R-squareds and Back-Testing to 2000 (2005 for cap rates)

	RevPAR Forecast	ADR Forecast	Cap Rate Forecast
Anaheim, CA	99.2%	99.8%	99.6%
Atlanta, GA	99.2%	99.8%	98.2%
Boston, MA	99.4%	91.1%	99.5%
Chicago, IL	99.2%	99.7%	98.3%
Dallas, TX	99.5%	89.2%	99.8%
Denver, CO	92.3%	99.7%	99.8%
Detroit, MI	99.4%	89.9%	99.6%
Houston, TX	91.7%	92.1%	98.2%
Las Vegas, NV	99.5%	99.7%	99.5%
Los Angeles, CA	94.0%	93.8%	98.3%
Miami, FL	99.5%	99.6%	99.7%
Minneapolis, MN	99.4%	99.8%	99.7%
Nashville, TN	99.3%	99.6%	99.6%
New Orleans, LA	99.2%	99.6%	98.4%
New York, NY	99.6%	99.7%	94.8%
Norfolk, VA	98.9%	99.7%	98.4%
Honolulu, HI	95.5%	97.6%	98.3%
Orlando, FL	99.5%	98.7%	98.3%
Philadelphia, PA	99.6%	99.8%	99.7%
Phoenix, AZ	99.5%	99.8%	99.2%
San Diego, CA	99.6%	99.8%	98.3%
San Francisco, CA	94.7%	92.3%	98.3%
Seattle, WA	93.6%	92.9%	99.7%
St Louis, MO	89.8%	93.1%	99.6%
Tampa, FL	99.2%	91.2%	99.8%
Washington, DC	89.7%	99.8%	99.5%
United States Total	**99.7%**	**98.6%**	**98.3%**

Source: Lodging Analytics Research & Consulting