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

Recovery Has Begun, But Not Running on All Cylinders…Yet

The U.S. economy accelerated in the first quarter 2021, due in part to fiscal stimulus passed at year-end 2020 and again in March 2021. GDP growth accelerated to an estimated 6.4% in 1Q-2021, an increase from 4.3% in 4Q-2020. While the first quarter started with renewed optimism tied to vaccine distribution, the initial roll-out of the vaccine in January and February proved to be much slower than expected. Vaccine distribution began to meaningfully accelerate in March across the country, and as of May 19th, 38% of the U.S. population had been fully vaccinated, and 48% over the age of 18. Current herd immunity estimates are in the 60% to 70% range, indicating that at the current pace of vaccinations, the U.S. could reach herd immunity by late summer. It is worth noting that there is a 75% correlation between U.S. TSA traveler throughput and the number of fully vaccinated U.S. citizens, suggesting that as more people get vaccinated, more people will travel.

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 and economy and only 8% of the world population was vaccinated as of May 10th. Most experts believe that the U.S. will not obtain herd immunity without the world vaccination rate approaching that 60% level, which is likely to take considerably longer. Scientists believe it may be 2023 before emerging economies get to those levels.

As such, the pandemic's impact on the lodging industry will continue to evolve, rather than disappear. By September, we expect the negative impact across the U.S. to be tied to gateway markets reliant on international travel.

We remain optimistic that the summer leisure season will be strong, while the U.S. should be mostly vaccinated by the end of the third quarter which will lead to a meaningful acceleration in demand across all segments beginning in the fourth quarter, except for international in-bound arrivals, which will lag for some time. We expect corporate and group travel demand to return in a meaningful way driven in part by a considerable amount of pent-up demand. Until then, we expect incremental improvements in travel demand.

The primary risk to LARC's recovery schedule would be a vaccine-resilient variant, that has yet to materialize.

Under that backdrop, our economic forecast from Moody's Analytics expects U.S. GDP to increase 10.6% in 2Q-2021 and 6.8% in 2021.

It is worth noting that the level of fiscal stimulus passed up to now is unprecedented with more stimulus likely to follow in the form of President Biden's 'Build Back Better" agenda. As such, in the coming years, we expect economic growth, travel demand and hotel asset values to be propped up by trillions in government spending, leading to a much swifter recovery than experienced during past cycles.

Lastly, it is important for lodging industry market participants to remember that most of the economy is holding up, which bodes well for a travel recovery once the pandemic is over. In fact, the sectors that drive most of the industry's corporate and group lodging demand (Information Technology, Financial Activities and Professional and Business Services) in aggregate had a year-over-year increase in output in 2020. This data points to an aggressive snap back in lodging demand, once the pandemic is behind us.

LARC's Industry Outlook

Currently, LARC expects U.S. RevPAR to increase by 30.6% in 2021 and increase at a 16.0% CAGR from 2020 through 2025 (5-year outlook). LARC also anticipates U.S. hotel property values to increase 1.2% in 2021 and increase at a 6.7% CAGR from 2020 through 2025. We forecast ADR and asset values to recover to 2019 levels by the end of 2022, while RevPAR and EBITDA reach 2019 levels in 2023 and occupancy in 2024.

With regards to 2021, our outlook for lodging fundamentals has improved considerably related to the acceleration in vaccine distribution from the first two months of the year (data our March forecast was based on). However, it is essentially a pull forward of growth from later years, as we expect 2023 RevPAR to be essentially the same now as we did last quarter.

However, it is important to note that the outlook for base rates has also increased considerably. In fact, Moody's Analytics now expects investment grade bond yields to increase over 100 bps this year, which is over 60 bps more 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, despite a more positive view on lodging fundamentals and cash flows, our outlook for asset values moderates from our March forecast.

LARC's U.S. RevPAR model has an R-squared of 99.7% with a standard error of 4.6%, back-tested to 2000. LARC's U.S. Cap Rate model has an R-squared of 98.2% 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.

March 2021 U.S. Hotel Industry Forecast Summary

	2021 Growth	3-Year Forward CAGR	5-Year Forward CAGR
Economic Supply	1.4%	1.7%	1.8%
Demand	23.3%	14.8%	10.3%
Occupancy	21.8%	13.1%	8.6%
ADR	7.2%	10.6%	6.9%
RevPAR	30.6%	25.1%	16.0%
Hotel EBITDA	167.7%	118.0%	61.1%
Hotel Values	1.2%	12.4%	6.7%

Source: Lodging Analytics Research & Consulting

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

	6/2021 Update		3/2021 Update		Outlook
	YoY Growth	Growth vs. 2019	YoY Growth	Growth vs. 2019	Change vs. 2019
Economic Supply	1.4%	2.9%	2.1%	3.5%	**-0.6%**
Demand	23.3%	-17.4%	14.5%	-26.4%	**9.0%**
Occupancy	21.8%	-18.8%	6.8%	-28.8%	**10.0%**
ADR	7.2%	-15.7%	1.7%	-20.0%	**4.3%**
RevPAR	30.6%	-31.5%	8.7%	-43.0%	**11.5%**
Hotel EBITDA	167.7%	-73.8%	102.3%	-80.2%	**6.4%**
Hotel Values	1.2%	-22.9%	10.3%	-15.9%	**-7.0%**

Source: Lodging Analytics Research & Consulting

Market Outlooks

We now 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 in 2021.

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

Top Markets for RevPAR Growth:
Minneapolis, Boston, St. Louis, Chicago, and Norfolk

Bottom Markets for RevPAR Growth:
New Orleans, Anaheim, Orlando, Phoenix and New York

2019 - 2025 Outlook

Top Markets for RevPAR Growth:
Denver, Tampa, Phoenix, Las Vegas and Atlanta

Bottom Markets for RevPAR Growth:
Orlando, St. Louis, Detroit, Boston and New York

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

Bottom Markets for Value Change:
New York, Norfolk, New Orleans, Chicago, and San Francisco

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)

	R-Squareds for our Mult-Variable Regression Forecasting Models		
	RevPAR Forecast	ADR Forecast	Cap Rate Forecast
Anaheim, CA	92.5%	97.5%	99.6%
Atlanta, GA	99.2%	99.8%	98.3%
Boston, MA	99.4%	90.9%	99.6%
Chicago, IL	99.2%	99.7%	98.2%
Dallas, TX	99.7%	89.9%	99.8%
Denver, CO	92.2%	99.8%	99.8%
Detroit, MI	99.4%	89.2%	99.7%
Houston, TX	92.1%	92.3%	98.2%
Las Vegas, NV	99.4%	99.7%	99.6%
Los Angeles, CA	94.8%	94.2%	98.3%
Miami, FL	96.2%	95.5%	99.7%
Minneapolis, MN	99.4%	99.8%	99.6%
Nashville, TN	99.4%	99.6%	99.7%
New Orleans, LA	99.3%	99.6%	80.9%
New York, NY	99.6%	99.7%	94.9%
Norfolk, VA	98.9%	99.7%	98.4%
Honolulu, HI	95.6%	97.8%	98.3%
Orlando, FL	99.6%	98.7%	98.3%
Philadelphia, PA	85.2%	90.7%	99.8%
Phoenix, AZ	99.5%	99.8%	99.2%
San Diego, CA	99.5%	99.8%	98.3%
San Francisco, CA	95.1%	94.6%	98.3%
Seattle, WA	93.4%	92.9%	99.6%
St Louis, MO	90.5%	93.0%	99.6%
Tampa, FL	99.6%	91.7%	99.8%
Washington, DC	90.2%	99.8%	99.6%
United States Total	**99.7%**	**98.6%**	**98.2%**

Source: Lodging Analytics Research & Consulting

We are extremely excited for the remainder of 2021 and the years that follow for the lodging industry. We expect several years of unprecedented growth, sparked not only by recovery form the worst year the industry has ever seen, but also by unprecedented levels of fiscal stimulus, savings rates and pent-up demand for experiences, people missed over the past year.

We believe leisure travel will come roaring back this summer with business travel to follow after Labor Day. Our data regarding citywide demand also suggests that convention business will approach 2019 levels after Labor Day and in 2022, highlighting the fastest ever recovery of large group demand for the industry. 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 reaching global herd immunity levels and there will be markets that are clear winners in the coming years and those that will be clear losers. As we move from pandemic to 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. As such, we believe LARC's industry-leading Market Intelligence referred to throughout this document will help all industry participants navigate the current environment. Please contact us directly to learn more about our products and/or if there is any other way we may be able to serve you.

Sincerely,

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