December 2021 Client Letter

As we look to 2022, the hotel industry is positioned for a corporate and group travel recovery, while leisure travel remains robust. We remain positive, but our outlook is not indicative of the euphoria shared at recent industry conferences. Our forecasts continue to inch higher, primarily fueled by rate integrity and recovery. Average daily rate growth has continued to exceed our lofty expectations, as October was the fourth consecutive month of U.S. ADR above 2019 levels. As we move through 4Q-2021 and into 2022, we expect corporate travel to reaccelerate and group travel to strengthen. However, we don't expect the strength associated with this past summer's pent-up leisure demand to persist through the winter season.

As we move through 2022, we continue to expect there to be markets that materially exceed pre-pandemic levels and markets that continue to be well behind those levels. While year-over-year growth may be strongest at some of the markets that have experienced the least amount of recovery to date, it is off of a low base and many of the markets that have already recovered will still drive the best returns relative to pre-pandemic levels. We generally expect leisure markets to remain strong while international gateway markets will take the longest to fully recover to pre-pandemic levels.

However, there remains risk of Covid-19 and variants (including the new Omicron variant) as well as concerns that future variants could become vaccine resilient. As such, while the lodging recovery will continue to progress, it will not be linear. While almost 70% of the U.S. population 12 years or older is fully vaccinated, only 20% of adults have received booster shots and only 43% of the global population is vaccinated. As such, while we hope Covid-19 is the not primary driver of the lodging industry moving forward, it is reasonable to expect it to still have an impact on gateway markets and during times that new variants emerge.

With that backdrop, the recovery may be bumpier than many hope, but we still 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.

As we look forward, 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 – December 2021

Fiscal Stimulus, Inflation, and the Return to the Office

With ample available vaccine doses and the declining Covid-19 infection rate, the U.S. is beginning to move past the pandemic. While the recovery from the pandemic will not occur overnight and there is risk to spikes in infection rates tied to new variants, we are optimistic that Covid-19 will not be the primary driver of the lodging industry moving forward.

The third quarter marked a period of continued economic recovery with Real GDP up an estimated 2.0%, despite the impact from the spread of the Delta variant. While that growth is modest, it was still positive and as the quarter came to an end, the impact from the Delta variant had meaningfully dissipated. Interestingly, CPI grew by an estimated 6.3% in 3Q-2021, illustrating outsized inflationary growth. While inflation will be stubbornly high in the short-term, we continue to view it as transitory.

The third quarter also marked a substantial pick-up in leisure travel, the return to school for most American children and the beginning of a wave of returns to the office across the country. 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 a 65% level, which is not likely to occur before mid-2022. As such, while the U.S. recently opened its borders, it will likely take a considerable amount of time for international travel to recover to pre-pandemic levels.

While leisure travel has driven the recovery to date, the incredible level of pent-up leisure demand experienced this summer will transfer into pent-up corporate and group demand in the coming months. As such, we expect corporate travel and group travel to accelerate off anemic levels in the coming months, supporting a robust and rapid industry recovery. We acknowledge that the corporate recovery will be dependent on the return to the office, but we expect that to gain meaningful momentum in 4Q-2021 and 1Q-2022. While group attendance may be lighter than historically, the number of events is recovering rapidly, helping generate a base level of demand that will further support pricing power.

Additionally, the elevated gross savings rate should continue to support leisure travel, while a stock market at all-time highs will encourage companies to grow revenues. Under that backdrop, our economic forecast from Moody's Analytics makes the following key national assumptions:

- $1.75 trillion "Build Back Better" program passes by year-end and is enacted over several years
- Elevated inflation is transitory and labor supply constraints ease in the near-term.

Moody's Analytics forecasts U.S. GDP to increase 6.6% in 4Q-2021, 5.6% in 2021 and 4.6% in 2022.

<u>LARC's Industry Outlook</u>

Currently, LARC expects U.S. RevPAR to increase by 56.2% in 2021, 20.2% in 2022 and increase at a 17.1% CAGR from 2020 through 2025 (5-year outlook). LARC also anticipates U.S. hotel property values to be 10% below 2019 levels by year-end 2021, even with 2019 values in 2022 and 8% above 2019 values by 2025. We forecast ADR and hotel values to recover to 2019 levels by 2022, while RevPAR and Hotel EBITDA reach 2019 levels in 2023 and occupancy stabilizes just below 2019 levels by 2025.

With regards to 2021, our outlook for lodging fundamentals has improved as the impact of the Delta variant waned more quickly than expected in September. Additionally, ADR growth (or resiliency) has exceeded our expectations, driving our long-term ADR outlook to be higher than previously expected. As such, our longer-term outlook for RevPAR is also slightly higher than last quarter's. Our view that current inflation is transitory is unchanged, so recent inflation concerns have limited impact on our outlook.

A slightly more positive view on ADR and RevPAR growth drives a slightly more positive view on long-term hotel values, which we now expect to be 8% above 2019 levels by 2025 (up from 7% last quarter).

LARC's U.S. RevPAR model has an R-squared of 99.6% with a standard error of 5.1%, 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.

December 2021 U.S. Hotel Industry Forecast Summary

	2021 Growth	3-Year Forward CAGR	5-Year Forward CAGR
Economic Supply	1.7%	1.8%	1.9%
Demand	32.8%	15.1%	10.1%
Occupancy	31.1%	13.2%	8.3%
ADR	19.1%	12.1%	8.2%
RevPAR	56.2%	26.9%	17.1%
Hotel EBITDA	435.8%	119.1%	61.9%
Hotel Values	18.8%	12.8%	7.3%

Source: Lodging Analytics Research & Consulting

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

	12/2021 Update		9/2021 Update		Outlook
	YoY Growth	Growth vs. 2019	YoY Growth	Growth vs. 2019	Change vs. 2019
Economic Supply	1.7%	3.2%	1.6%	2.9%	**0.3%**
Demand	32.8%	-11.9%	34.3%	-13.7%	**1.7%**
Occupancy	31.1%	-12.7%	28.0%	-14.7%	**2.0%**
ADR	19.1%	-6.3%	17.1%	-7.9%	**1.6%**
RevPAR	56.2%	-18.1%	49.9%	-21.4%	**3.3%**
Hotel EBITDA	435.8%	-47.9%	403.1%	-51.0%	**3.2%**
Hotel Values	18.8%	-9.5%	19.5%	-8.9%	**-0.7%**

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, Tampa, Miami, Charleston, Omaha

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

2022 (relative to 2019)

Top Markets for RevPAR Growth:
Norfolk, Charleston, Salt Lake City, Miami and Tampa

Bottom Markets for RevPAR Growth:
New York, San Francisco, San Jose, Chicago and Honolulu

2019 - 2025 Outlook

Top Markets for RevPAR Growth:
Miami, Charleston, Tampa, Denver and Austin

Bottom Markets for RevPAR Growth:
San Francisco, St. Louis, Portland, New York and Minneapolis

Top Markets for Value Change:
Tampa, Los Angeles, Denver, Phoenix and Salt Lake City

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