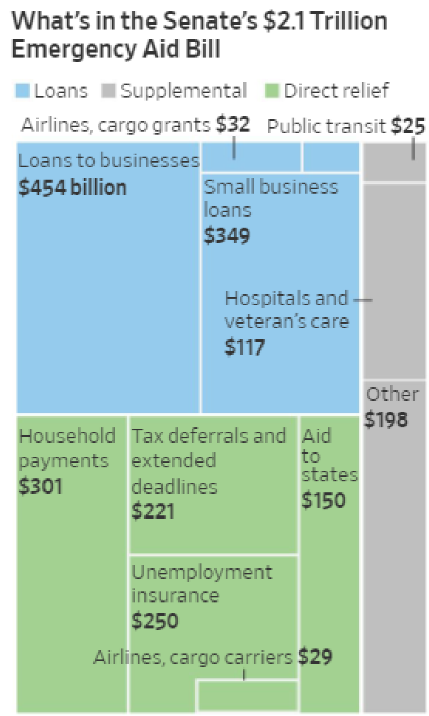
Welcome to the RobertDouglas MarketPulse. The good news is that the market still has a pulse. The bad news is that the "black swan" that began circling the global economy in late December has landed, is building a nest, and appears to be settling in for an extended stay.

Two or three weeks ago we might have been able to comfort ourselves by repeating the mantra, **"this is a global health crisis, not a financial crisis."** Today, it is clear that this crisis has metastasized and that the economic crisis, and its aftermath, are likely to be as challenging as the pandemic itself.

Happily, **our commercial banking system is responding the way you would hope**. It appears the initiatives to both recapitalize and de-risk the banking system following the Great Recession have been successful so we have not seen bank runs, significant liquidity events or a catastrophic pull-back in credit. Banks also appear to be taking a constructive approach to helping distressed borrowers. But more on that later.

The other big distraction this week for hotel owners has been trying to figure out how to take advantage of the $350B portion of the **$2.1 trillion CARES Act.** This subset of CARES, administered by the SBA, is intended to push cash out, in the form of loans, to help small business owners with their payroll costs. Designed by hard-working congressional aides pulling all-nighters and voted into law barely a week after being conceived, the CARES program seems like a good first response to a giant problem. Now we just have to figure out how and where to apply.



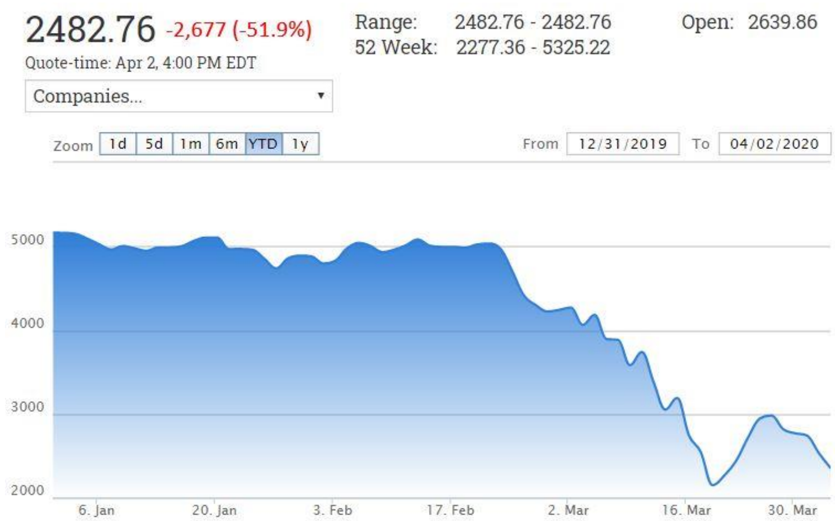
Source: WSJ

It is hard to keep up with the data streaming at us, and when you do stop to look at the numbers, they are hard to fathom. In no particular order:

- **The Department of Labor** announced last week that initial jobless claims reached 6.6 million people, which was on top of the 3.3 million people the previous week. To put this into perspective, the previous record for weekly initial claims was 695,000 people.

- **American Airlines** announced its summer schedule and it is somewhat encouraging to see that they are still planning to fly 40% of their international flights. They are dropping flights to secondary cities in Europe but continuing to serve major markets such as London and Madrid that link with their global partners.

- **Baird Hotel Stock Index: -51.9% YTD**



(Stock Index of Top 20 Largest Market Capitalization Hotel Companies)

Source: HNN

The State of Play in Hospitality or "Wait, What?!"

Jumping over to hotel land, the STR Year-over-Year stats for the week ending March 28th, 2020 paint a picture of acute distress:

- **US RevPAR fell -80.3%** to $18.05 marking the fourth straight week of double-digit RevPAR decline and the largest drop in STR's history

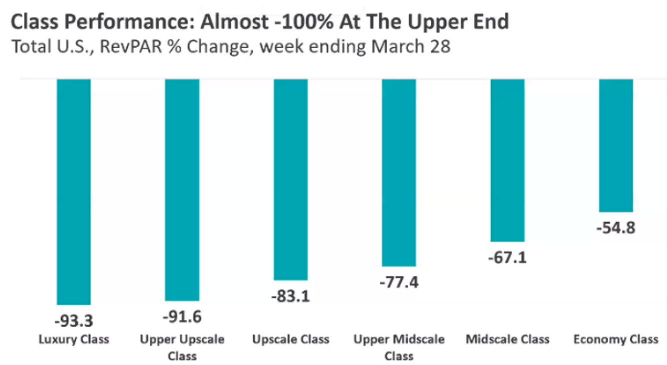
- **STR projects 2020 RevPAR to decline -50.6%** compared to relatively flat projections a few months ago. Since 1987, the lowest level of absolute occupancy ever recorded was 54.6% during the Great Recession in 2009 - this year absolute occupancy is projected to be 37.9%

U.S. Outlook		
Metric	2020 Forecast	2021 Forecast
Supply	-14.9	+15.6
Demand	-51.2	+81.8
Occupancy	-42.6	+57.3
ADR	-13.9	+3.7
RevPAR	-50.6	+63.1

Source: STR

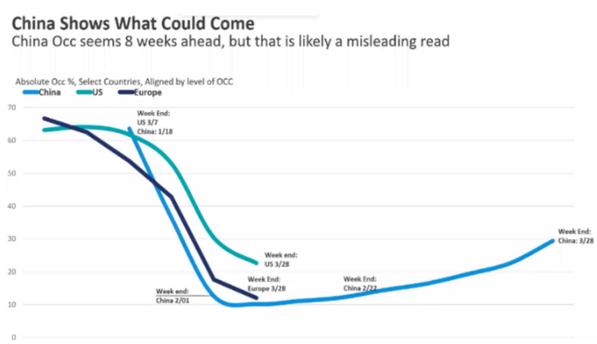
- **Select Top 25 Markets:**
    - **New Orleans, LA, recorded a -92.8% RevPAR decline** to $10.27, occupancy fell -84.9% to 12.7%, and ADR was sliced in half down -52.3% to $80.74
    - **Oahu Island, HI, experienced a severe occupancy drop** of -86.4% to 10.5%
    - **Miami/Hialeah, FL, recorded the nation's steepest decline** in ADR -57.9% to $116.64
    - Occupancy in **New York, NY fell -81.8% to 15.2%** and **Seattle, WA, recorded** an occupancy drop of -76.6% to 18.5%.

- **Group Occupancy fell to 0.8%** marking an unprecedented almost 100% decline
- **Class Performance:** Luxury and Upper Upscale properties have experienced the steepest RevPAR declines of -93.3% and -91.6% respectively. Absolute Occupancy for each property class was in the single digits - a new record (but the wrong kind of record)
  - **Interestingly, Luxury ADR bumped 10% last week**, which may be a sign that some people have decided to self-isolate in their favorite Ritz or Four Seasons
  - It is possible that some **economy class hotels have permanent residents** or are hosting doctors, nurses, truckers, etc causing occupancy to be higher than expected



Source: STR

- **Last week, 8.5 million rooms were sold nationally,** down from 11 million the week prior, representing a national Occupancy rate of 22.6%

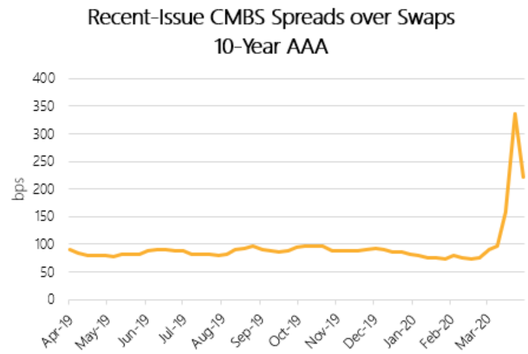


Source: STR

Debt Capital Markets Update

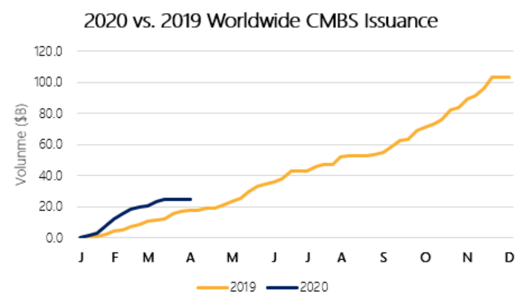
Almost all lenders have adopted a, **'wait and see' attitude extending for 30-45 days.** That said, there are still lenders willing to quote new financings, albeit on conservative terms and at spreads that would have seemed usurious a month ago.

There has been enormous volatility in the CMBS secondary market as some of the large holders of CMBS debt have been forced to reduce positions in order to meet margin calls. These sales led to a spike in super-senior spreads and an unnerving level of volatility in what is usually a boring market. By midweek, however, Congress passed its $2.1T stimulus/bail-out plan, helping to stabilize the market.



Source: CMA

The securitization market is essentially closed - this past week marks the third straight week where not a dollar of CMBS has been originated. RBC bravely tested the market with an $800M CMBS offering which failed to attract much interest. AAA bonds sold a few weeks ago at a premium are now trading at 80-90 cents on the dollar. Until we see the AAA market settle down, it's hard to imagine the CMBS market can begin to recover.



Source: CMA

What are lenders doing on restructuring?

The majority of lenders still seem to be engaging in loan workout procedures in a cooperative fashion. The FDIC announced that 90-day deferrals of interest will not be considered a troubled debt restructuring (TDR) for banks, which in normal circumstances are required to be reported to regulators. Forgiving interest still remains a last resort for most lenders, but this was positive news and hopefully indicative that regulators will allow banks to be more flexible with borrowers. Interestingly, insurance companies have not seen similar relaxation in the rules governing their risk management requirements, so it may be more difficult for them to consider certain loan modifications.

The accommodations lenders are offering include:

- FF&E Reserves can be accessed for debt service
- Principal payments can be deferred and the term of the loan extended to cover those unamortized balances
- Some interest forbearance with an accrual paid over 2-3 years
- Loan balances increased (where original debt metrics were conservative) to cover debt service and renovation costs
- Borrowers are expected to put "skin in the game" by covering debt service in April and contributing some monies out-of-pocket to cover operating losses and restructured debt service
- Loans that mature during this period are receiving full forbearance treatment for up to 12 months, with extension tests being waived

How are investors pricing properties?

The biggest challenge for investors is underwriting the next 6-12 months. Specifically, how long will COVID-19 keep properties closed/operating on a skeleton basis and how long will it take properties to ramp up once the lockdowns are lifted? No one seems to be willing to put a stake in the ground on those assumptions, but investors seem to be backing into pricing assuming the following:

1. Properties will be closed for three months and will operate at a loss, followed by a three- to six-month period with limited NOI or just breakeven performance at the operating level;
2. Growing cashflow beginning in six to nine months (Q4 of 2020) with real acceleration in NOI not occurring until Q2 of 2021;
3. The residual value in three to five years is estimated at 90-95% of the actual value on 12/31/19.

How about the debt side?

A critical part of any underwriting is whether debt is available. If there is not assumable financing (probably on restructured terms since few balance sheet or CMBS lenders are going to allow assumptions on the original principal amounts), then buyers are assuming all-cash acquisitions and a need to carry the asset all-cash for a minimum of 12-18 months until a financing can be completed.

Is it too early to talk about what the market recovery looks like?

Our conversations suggest that owners and investors think the recovery for institutional assets will track as follows:

- **Premium select-service** will see earliest uptick: when travelers get back on the road, they are going to be cost conscious and will avoid crowds. Some people may be "catching up" on several months of not traveling, so look for extended stay hotels to get a lift as well with people preferring to stay in one place rather than move into new hotels.

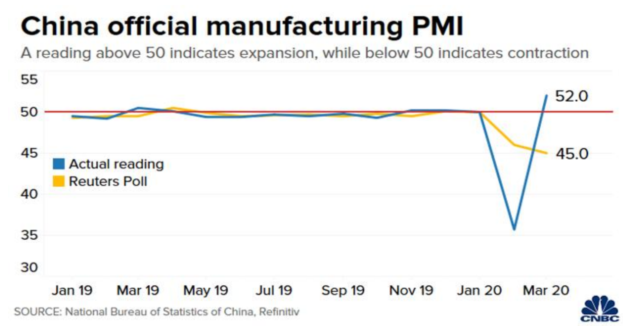
- Next will be small, **luxury, drive-to resorts:** affluent travelers will still want to take vacations, but they are likely to stay closer to home and will be willing to pay a premium for service.

- A sub-category of the luxury, drive-to category will be the relatively new **"glamping hotels,"** with companies like Auto Camp, Collective Retreats, UnderCanvas and others able to offer upscale accommodations, social distancing and the outdoor environments that we think guests will be seeking.

- Investors anticipate that **suburban and smaller urban full-service hotels, branded and unbranded,** that can host smaller groups of 20-50 people and help corporations re-start their businesses without the need to get on planes will see a demand increase.

- Finally, **full-service hotels and fly-to resorts** in areas that did not experience a significant COVID-19 outbreak will start to pick up.

- Looking at the markets or regions that will recover first, we anticipate that **markets with strong technology and biotech employment such as San Francisco/Oakland/Bay Area, Boston, Raleigh-Durham and Seattle** will see an early uptick. Additionally, **markets with strong governmental employment including the Washington, D.C.** market as well as state capitals ranging from Austin to Denver to Sacramento will see growth.



Source: National Bureau of Statistics, China

While the US is still in the eye of the storm, China appears to be recovering. China's PMI, (Purchasing Managers' Index) an economic indicator that assesses the state of an economy, has made a "V-shaped" recovery. A reading above 50 indicates an expansion, while a reading below 50 indicates a contraction and China reported a reading of 52. Additionally, STR reported that approximately 87% of China's hotels have reopened and occupancy is steadily trending upwards in major regions.

In the United States, one of the biggest questions will be how quickly people are willing to start flying actively and participating in larger conferences, conventions and social events (weddings, fundraisers, etc.). The nearly unanimous view is, "I don't know, but not soon." Our view is that, absent a vaccine, the big convention markets will struggle for at least 12-18 months. Maybe longer.

We will continue to share our insights with you and hope this correspondence finds you safe and healthy.