RobertDouglas MARKET INTELLIGENCE. CAPITAL SOLUTIONS

ROBERTDOUGLAS MARKETPULSE
January 2021

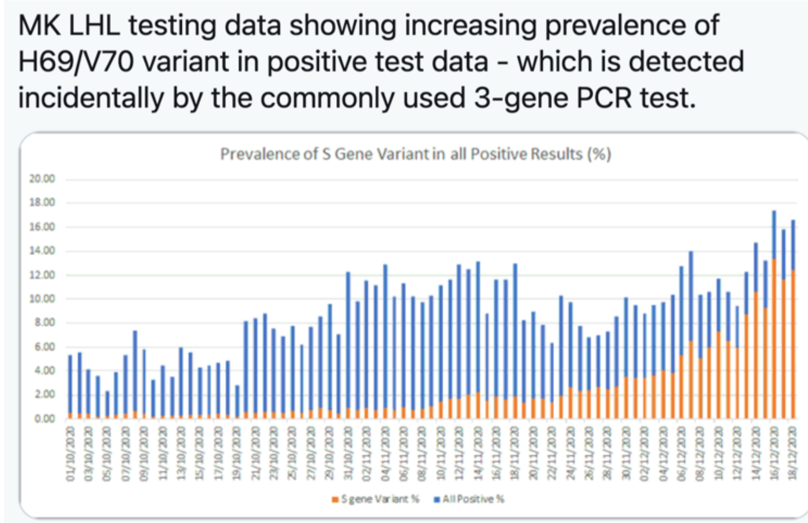
The Cavalry is Coming

Welcome to 2021 and the seventh edition of MarketPulse. Entering 2021 it is fair to say that the hospitality industry has (finally) good reason to be optimistic. Three separate companies -- Pfizer, Moderna and AstraZeneca -- have received approvals for their vaccines and are increasing production daily, powerful therapeutics are in the offing, and Congress approved a $900 million relief package including v2.0 of PPP with specific elements aimed at helping the beleaguered hospitality industry. Travel data, though still painfully depressed by historical standards, is trending up, and the AirBnB IPO was a resounding success, closing at $149 on its first day of trading after being offered at $68.

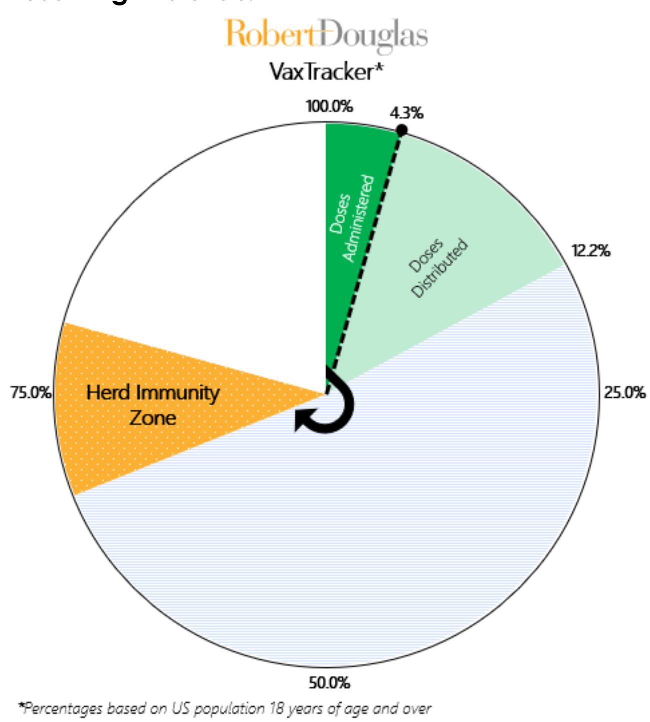
The reaction in the public markets has been ebullient. The Dow and NASDAQ indexes have entirely escaped the pull of gravity as they reach all-time highs while companies like Marriott and Hilton are trading within a whisker of their historic highs.

But, It Is Always Darkest Just Before the Dawn

At the same time that we watch our 401(k)'s swell in value and read daily about Musk's race to the top of the Forbes 400, the pandemic continues to rage unabated throughout the world with the spread of a new, more infectious, variant of the virus (chart on right for U.K. showing new variant in red vs. original variant in blue) prompting a new national lockdown in the U.K. and increased travel restrictions in Europe and the U.S.. **What is sobering about that chart is how long the new variant bubbled below the surface before breaking out in December.** That variant has been identified in several locations in the U.S. and we should expect a similar trajectory for the U.S..



Most importantly, despite having many months to prepare, the national roll-out of the vaccine in the U.S. has been disappointing to say the least. With the notable exception of our 535 elected representatives and their staff, who managed to barge in ahead of many first responders, medical workers and critical service providers, America is doing a woeful job of organizing the distribution of the vaccine. **This should be of critical concern to people in the hospitality and travel industries since getting people vaccinated is the only silver bullet to resolving this crisis.**



Many workers have yet to return to their offices. NYC estimates that only ten percent of workers are actually going into their offices. Happily, Americans did return to the skies, kind of, over the holidays. On January 3rd, the TSA recorded 1,327,289 travelers passing through its checkpoints, the single highest travel day since March 15th of last year, but that's still only 55% travel activity from a year earlier.

However, with many businesses extending their WFH protocols well into the second quarter, **our expectation is that business travel, always weak in the first quarter, will be extremely depressed**. We previously described the November to March months as the "Survive the Winter" (hat-tip to GOT) phase of the pandemic, and we continue to believe that the hotel and travel industries are entering what is likely to be the **most challenging three-month period** since the pandemic began.

The Fire Sale That Never Happened

Expecting a tidal wave of distressed selling and recapitalizations at 30-50% discounts to pre-Covid values, the private equity industry raised an unprecedented amount of capital in the early months of the pandemic. Fund after fund reported breathlessly the size of their newest, distressed real estate offering and the ease and speed with which they attracted capital. In Q2 of 2020, new funds dedicated to real estate investing raised $45.5B, the largest second quarter amount in each of the past five years and 24.4% higher than the $36.5B raised in Q2 2019.

However, since then, other than some creative structured financings by the likes of Starwood Capital, Angelo-Gordon, Oaktree, MSD Capital and Ramsfield, there have been surprisingly few institutional-quality, distressed real estate closings. The lament throughout P/E land is that sellers have an unrealistic sense of value and that lenders are not forcing a day of reckoning. What the heck happened?

The answer is multi-dimensional:

- **First, there are few "bad guys" in this crisis**. Delinquent borrowers are generally trying their best to deal with an unprecedented situation and lenders have been inclined to work with borrowers rather than punish them.
- **Second, Dodd-Frank successfully forced the banking industry to reduce leverage**, maintain greater liquidity, and limit their holdings of complex financial instruments. As a result, the banking industry entered the crisis in an unprecedented state of fiscal strength, which gave banks the financial capacity to be more flexible with borrowers.
- **Third, banks recognized**, especially in the early months of the pandemic, **that the negative press likely to accompany foreclosure actions would be intense** and wisely elected not to repeat their PR mistakes during the Great Recession.
- **Finally, critically, lenders were unwilling to step into the chain of title** in situations where they would be writing checks every month to cover operating losses and would also be vulnerable to lawsuits from guests and workers exposed to COVID.

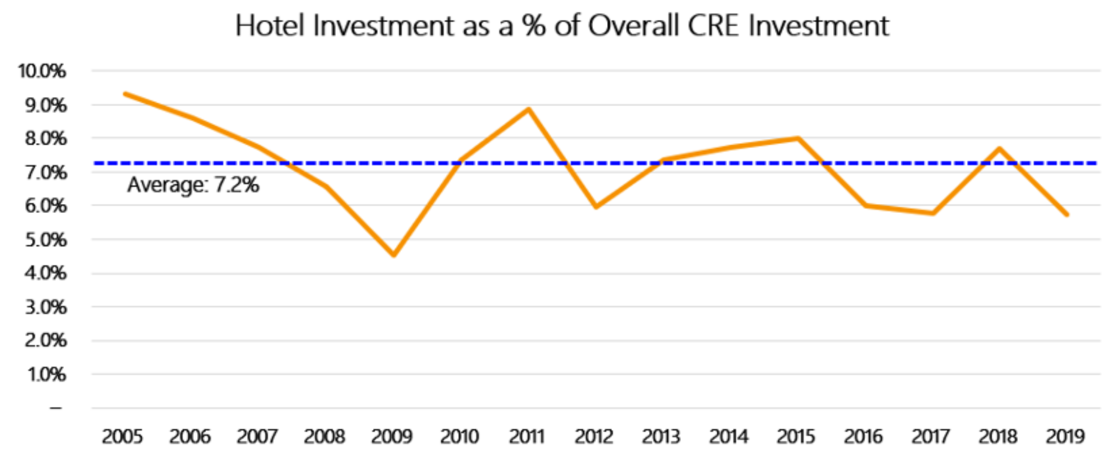
It is our view that, with the vaccines being rolled out, lenders will continue to **"kick the can"** and the window to buy truly distressed assets will rapidly close. That doesn't mean that there won't be good deals available, but the opportunity to buy quality hotel properties at steep discounts will disappear more quickly than anyone imagined. Instead, beginning late in the second quarter and extending through the rest of 2021 we believe we will see a large number of recapitalizations, and quite a few sales, by "motivated" owners (as opposed to "distressed sellers") at valuation levels generally in the range of a 10-25% discount to 2019 levels.

With banks and securitized lenders relegated to the sidelines in the hospitality market because of their pesky requirement for trailing cashflow to support their underwriting, the debt funds should have a heyday for the next 12-18 months.

The tidal wave that was looming on the horizon in the summer of 2020 will reach the beach as a large, but comfortably surfable, wave this summer.

...The One-Eyed Man is King

Most institutional investors view hotels as a niche investment class and place fairly strict limits on their hotel exposure. That viewpoint makes sense when one considers the relatively small size of the hotel market, the operating complexities of lodging properties, the daily "mark-to-market" on room rates and the cyclical nature of the industry. Interestingly, we believe that this cycle could be different and that **hospitality assets will comprise a much larger share of most institutional portfolios**, especially those of private equity funds and large family offices, and for a more sustained period than we've seen in past recoveries.



RCA Analytics

The reason for this change is less a function of something good happening in the hotel industry than it is of **secular changes in other classes of commercial real estate**. Specifically, when one looks at the four major classes of commercial real estate (office, multi-family, retail and industrial/warehouse), office and retail are severely challenged by the complex, still-evolving changes in demand for those assets while multi-family and industrial/warehouse have seen prices soar powered by low interest rates and a Niagara Falls of equity capital. Put more simply: office investment is a conundrum, everything but grocery-anchored retail is toxic, **multi-family is overpriced and warehouse/distribution is wildly overpriced.**

That leaves hotels as one of the only CRE classes where (i) assets can be acquired at a discount to long-term value, (ii) there is a reasonable expectation that demand will (eventually) return to historical levels, and (iii) valuations are expected to recover to pre-Covid levels.

Recovery Snapshot: "Revenge Travel"

This "Recovery Snapshot" is the first in what will be a series of discussions in which we evaluate specific elements of what we believe the recovery will look like for the industry.

The phrase "revenge travel" may have been coined years ago but it came of age in 2020 as researchers began analyzing the projected snap-back in travel once people start traveling again. Corporate group demand is expected to grow back slowly over the course of 2021, but the early booking data, as well as anecdotal evidence, suggests that there could be a genuinely huge level of "pent-up" demand in the leisure market for "feel good" travel like spa retreats, "entertainment splurges" like visits to DisneyWorld, beach vacations and for major social celebrations such as weddings and fundraising galas.

September, 2021: "A Month of Saturdays"

The wedding business (excluding the travel and other costs incurred by guests) is a $50B business annually in the U.S., fueled by an average of 2.2 - 2.3 million weddings a year. In 2020 however, the number of weddings is estimated to have dropped in half, to 1.1 million, and the total spend on weddings in 2020 is estimated to have dropped more than $30B, with an estimated 40-50% of engaged couples choosing to delay the celebration of their nuptials until after the epidemic has passed in 2021. What will this mean for the hotel industry?

- Weddings in 2021 are projected to increase by 30-40% and, assuming that there is lingering concern about air travel, we expect drive-to resorts near major metro areas to see a doubling in wedding demand in the second half of 2021 and into 2022.

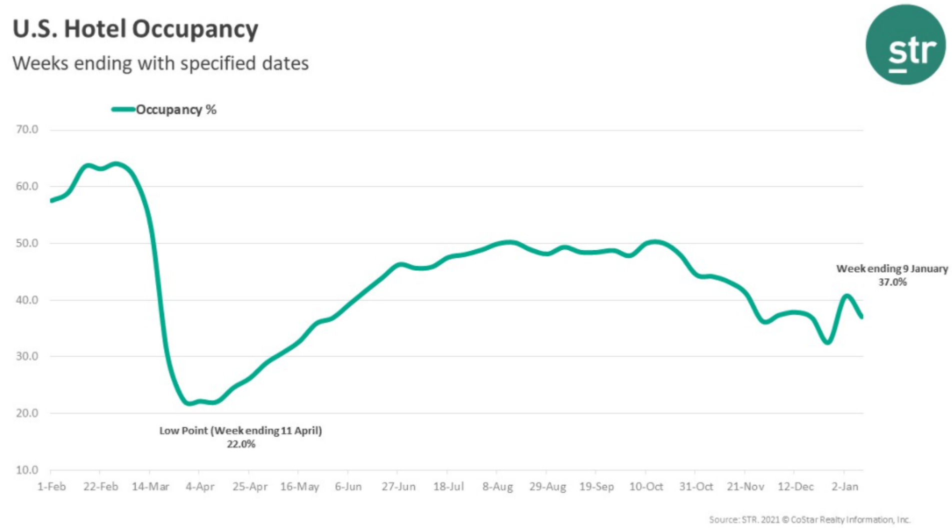
- Wedding planners expect the average wedding spend to drop 10-15% below the 2019 average of $24,700 but recover by 2023. That said, the "Roaring 20's" were a response, in part, to the privations of the Great War and became a legendary time for excess in fashion and culture. There will certainly be many that treat their weddings as an opportunity to make up for lost time.
- For a while at least, hotels will continue to be "price takers" rather than "price setters," but in the wedding business, prime weekends next fall will be small goldmines for hotels.

Unfortunately, there are only 52 weekends in a year and many wedding planners are scrambling to book weekend weddings anytime in the next 18 months, with some observing, "we need a month of Saturdays to catch up." Something to add to the next stimulus package, perhaps?

By The Numbers:

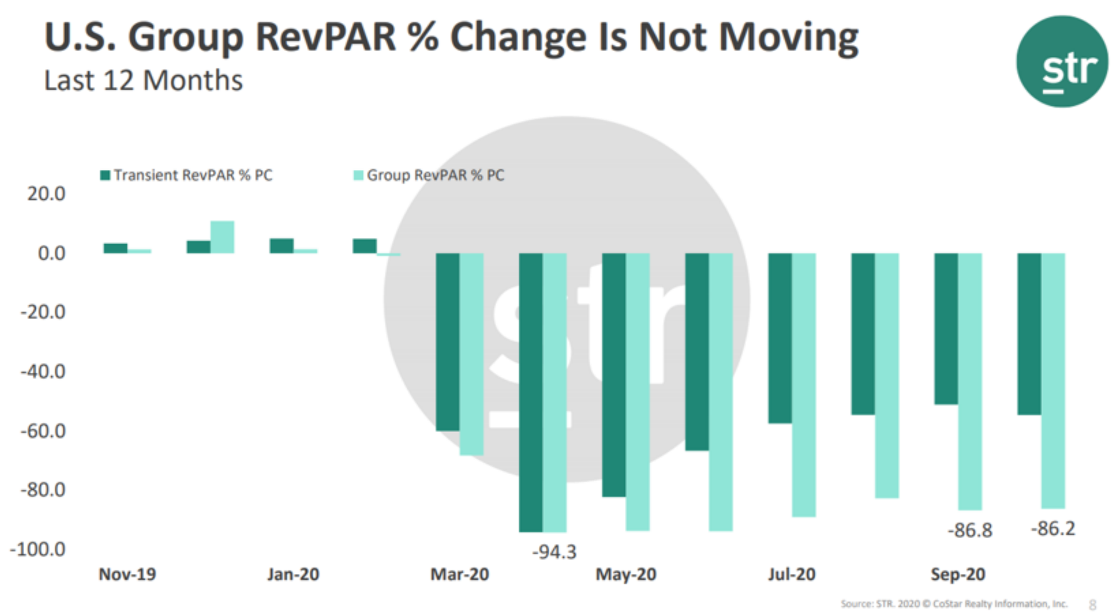
STR data during the week of January 3rd - 9th:

US Hotel Statistics
Occ: 37.0% (-28.3%)
ADR: $87.97 (-27.1%)
RevPAR: $32.59 (-47.7%)



Hospitality Market Stats

- Among STR's Top 25 markets, **Miami/Hialeah saw the highest Occ: (51.4%)** boosted by the College Football National Championship
- Markets in the Top 25 which saw the lowest Occ include **Oahu Island (22.1%) and Minneapolis/St. Paul (24.2%)**
- **Group RevPAR** continues to lag behind transient demand: (-86.2% vs. -55.0%)



- The holiday season sparked a temporary demand surge evidenced by five days in a row of more than 1 million passengers passing through TSA checkpoints. **Since the depths of April 2020, TSA checkpoint data has trended upwards, reaching 40% of 2019 levels**
- Different sources predict different recovery speeds...see below for a compilation of recovery forecasts from a several industry leaders

Year	Occupancy %	Occupancy Change	Occupancy % of 2019	ADR $	ADR Change	ADR % of 2019	RevPAR $	RevPAR Change	RevPAR % of 2019	Supply Change	Demand Change
CBRE											
2019	66.8%	0.4%	100.0%	131.17	0.5%	100.0%	87.65	0.9%	100.0%	1.7%	2.1%
2020F	41.8%	-37.4%	62.6%	102.94	-21.5%	78.5%	43.06	-50.9%	49.1%	1.8%	-36.2%
2021F	50.1%	19.7%	74.9%	101.65	-1.3%	77.5%	50.89	18.2%	58.1%	1.4%	21.3%
2022F	57.3%	14.4%	85.7%	111.06	9.3%	84.7%	63.60	25.0%	72.6%	1.0%	15.5%
2023F	63.8%	11.4%	95.5%	121.35	9.3%	92.5%	77.40	21.7%	88.3%	1.6%	13.1%
2024F	67.1%	5.3%	100.5%	134.07	10.5%	102.2%	90.01	16.3%	102.7%	1.9%	7.2%
STR											
2019	66.0%	0.4%	100.0%	131.22	0.5%	100.0%	86.67	0.9%	100.0%	1.7%	2.1%
2020F	42.2%	-36.1%	63.9%	103.65	-21.0%	79.0%	43.76	-49.5%	50.5%	-3.7%	-38.9%
2021F	52.2%	23.7%	79.1%	109.21	5.4%	83.2%	57.03	30.3%	65.8%	5.8%	32.2%
LARC											
2020F	NM	-31.4%	NM	NM	-21.4%	NM	NM	-46.1%	NM	-2.9%	-34.2%
2021F	NM	23.3%	NM	NM	8.5%	NM	NM	33.8%	NM	6.5%	29.8%
PWC											
2019	66.0%	-0.7%	100.0%	131.22	0.5%	100.0%	86.67	-0.2%	100.0%	2.0%	1.8%
2020F	44.4%	-32.8%	67.2%	102.96	-21.5%	78.5%	45.70	-47.3%	52.7%	-3.6%	-35.2%
2021F	52.7%	18.7%	79.8%	103.25	0.3%	78.7%	54.41	19.1%	62.8%	3.5%	22.9%

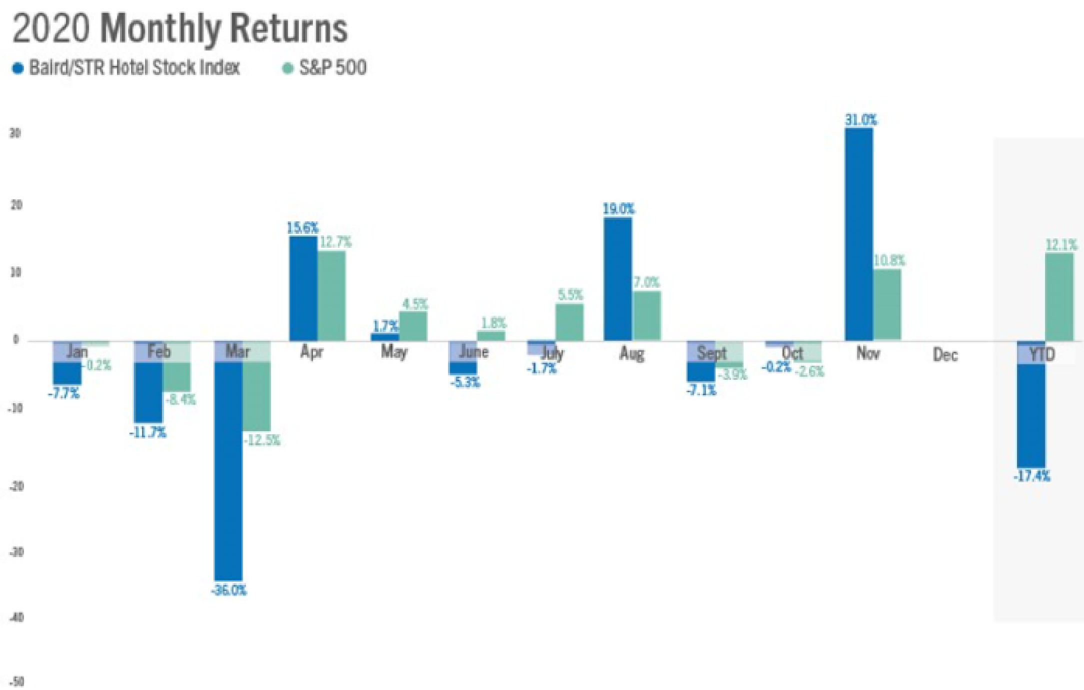
Source: CBRE Research (December 2020), STR/Tourism Economics (8/13/2020 and 11/12/2020), LARC projections (December 2020) and PWC (Nov 2020)

JF Capital

- UBS Evidence Lab found dine-in restaurant sales plunged 69% in the weekending Nov 29th while delivery sales rose 59%

- **Hotel rooms under construction reached their peak in March** and in October there are still 213,000 rooms under construction. These projects will likely be completed, but future projects in the planning phase are expected to be put on pause

BAIRD/STR Hotel Stock Index:



Hotel News Now

CMBS Market Stats

The data coming out of CMBS land is still getting worse. Hotel loans are holding onto the #1 spot for delinquency -- a dubious honor -- but retail is not far behind and we do expect hotel delinquency rates to begin showing improvement earlier than retail.

CMBS Delinquency Rate by Property Type as of:

	DEC 2020	NOV 2020	OCT 2020	3 Mo. Ago	6 Mo. Ago	12 Mo. Ago
Industrial	1.14	1.10	1.53	1.07	1.57	1.45
Lodging	19.80	19.66	19.43	22.94	24.30	1.53
Multifamily	2.75	3.11	2.95	2.80	3.29	2.00
Office	2.18	2.27	2.49	2.28	2.66	1.98
Retail	12.94	14.21	14.33	14.76	18.07	4.42

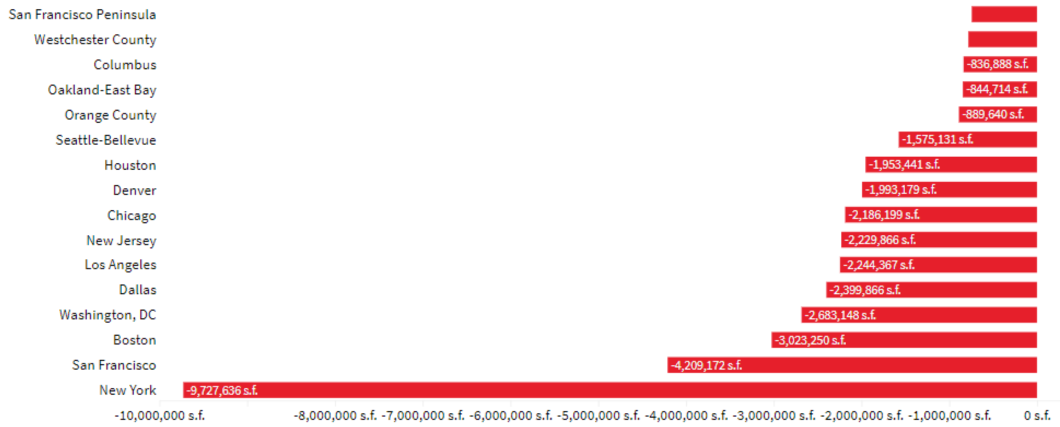
Source: Trepp

- 7.81% of all CMBS loans were delinquent as of December, up from 2.34% one year earlier
- Six months ago, the US CMBS delinquency rate was 10.32% almost eclipsing the all-time high of 10.34% measured in July 2012
- 19.80% of CMBS hotel loans were delinquent as of December, up from 1.53% 12 months ago and 14 basis points higher than November
- 2.18% of office loans are delinquent, up from 1.98% 12 months ago
- 12.94% of retail loans are delinquent, up from 4.42% 12 months ago

Office Market Stats

- CBRE reports US office rents could fall as much as 8% in 2021
- San Francisco recorded its highest ever office availability rate of 21.8%
- New York City reported its highest office availability rate since 1995 at 15.9%, as companies elected not to renew existing leases or took less space on renewals
- 86% of office users told CBRE that flexible office space will play a role in L/T RE strategy, up from 73% in June
- Co-Working space is running at about 50% vacancy nationally though WeWork is reporting an uptick in demand in the last 45 days.
- 157M SF of US office space available to sublease
- Filings to erect new buildings in NYC have dropped 22% to 1,187, the lowest number since 2010
- 10% of Manhattan workers were reporting to the office as of Q3

Net Office Absorption by Market as of Q3 2020



Source: JLL Research

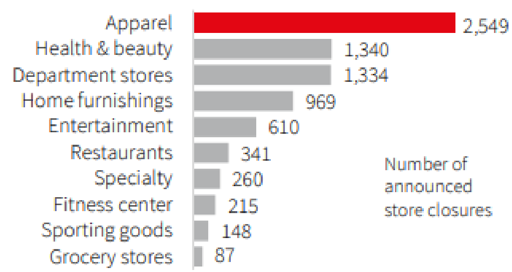
Residential Market Stats

- $310,800 is the average price of a US home in November, 14.6% higher than last year, with the biggest increases coming in the larger regional urban centers like Nashville, Columbus, Denver, Phoenix, and San Diego.
- Apartment rents in San Francisco are down 20% since March
- Since April, there have been 2.9 San Franciscans moving to Austin for every person moving from Austin to S.F.

Retail Market Stats

- Bed Bath & Beyond intends to close 63 stores
- 47-year old Phoenix Metrocenter Mall closes for good
- Boeing to shed 30% of real estate
- Retail rents have dropped 13% since last year

Most bankruptcy-related store closures coming from apparel stores



Source: PNC Creditntell, JLL Research

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

Sincerely,

RobertDouglas

If you have any questions about the RobertDouglas MarketPulse or would like to be added to our distribution list, please contact Alexander Bauman at abauman@robert-douglas.com.

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LINKEDIN WEBSITE

RobertDouglas is a real estate investment banking firm with offices in New York, Los Angeles and San Francisco that specializes in the sale, financing and equity capitalization of hotel, resort and gaming properties throughout North America. Founded in January 2013 and currently led by its four partners, Rob Stiles, Doug Hercher, Stephen O'Connor and Evan Hurd, RobertDouglas offers access to exceptional domestic and international institutional investor and lender relationships as it combines the capital markets sophistication of top-tier investment banks with diligent hotel underwriting and proven asset management experience.