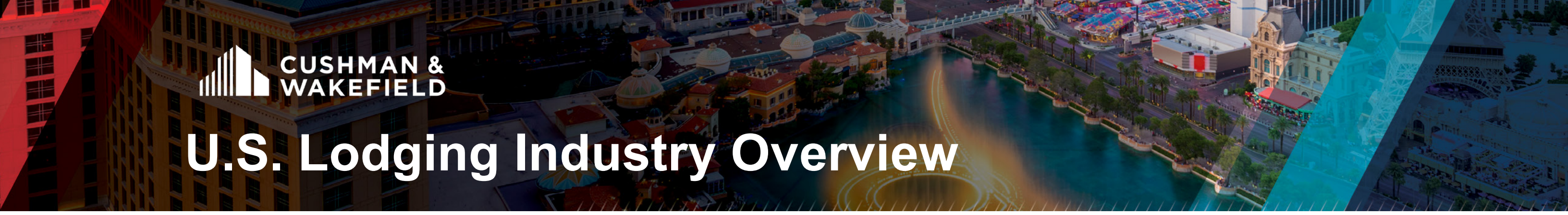


U.S. Lodging Industry Overview

Year End 2023: Finding Normal

Overall, 2023 saw the lodging sector trending toward stability while incorporating some major structural shifts in demand. While uncertainty still lingers from the impact of COVID, a post-pandemic restructuring of travel and work is resulting in a new normal for the lodging industry. Hybrid work routines are becoming institutionalized, virtual meetings continue, and in-person business travel has diminished. Overall travel continues to improve, still driven by the leisure surge of the early 2020s and on-site meetings and conferences have become the new business travel.

The lodging performance paradigm is shifting but is not stagnant. Average rate increases in 2020 and 2021 driven by the regional drive to use of hotels as an escape, seem to be sustainable. Demand, as measured by occupied room nights, continued to increase but new supply has concurrently driven the number of available rooms, moderating some occupancy growth. Nevertheless, with the higher average rates, the national RevPAR is again at a record level. The historical performance data is summarized in the chart below.

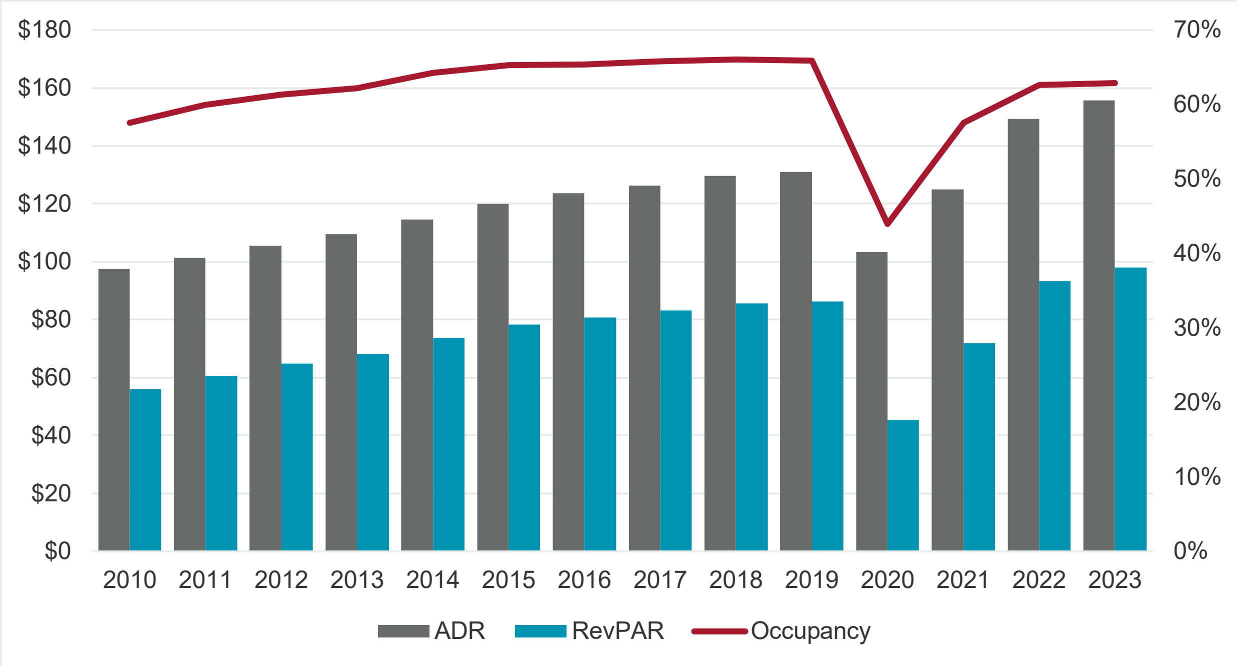
U.S. HISTORICAL OPERATING STATISTICS - 1995 THROUGH 2023

Year	Supply	% Change	Demand	% Change	Eq. Index	Occ	% Change	ADR	% Change	RevPAR	% Change
1995	3,702,163	---	875,295,528	---	---	64.8	---	$65.25	---	$42.27	---
1996	3,790,540	2.4	890,859,542	1.8	(0.6)	64.4	(0.6)	$69.40	6.4	$44.68	5.7
1997	3,919,068	3.4	912,461,521	2.4	(1.0)	63.8	(0.9)	$73.50	5.9	$46.89	4.9
1998	4,070,696	3.9	937,711,336	2.8	(1.1)	63.1	(1.1)	$76.89	4.6	$48.53	3.5
1999	4,222,903	3.7	968,235,474	3.3	(0.5)	62.8	(0.5)	$79.67	3.6	$50.04	3.1
2000	4,343,387	2.9	1,002,633,121	3.6	0.7	63.2	0.7	$83.99	5.4	$53.12	6.1
2001	4,446,560	2.4	969,023,349	(3.4)	(5.7)	59.7	(5.6)	$82.94	(1.3)	$49.52	(6.8)
2002	4,517,242	1.6	971,426,146	0.2	(1.3)	58.9	(1.3)	$82.04	(1.1)	$48.34	(2.4)
2003	4,565,439	1.1	980,918,561	1.0	(0.1)	58.9	(0.1)	$82.20	0.2	$48.39	0.1
2004	4,587,954	0.5	1,020,006,067	4.0	3.5	60.9	3.5	$85.85	4.4	$52.29	8.1
2005	4,589,223	0.0	1,051,982,185	3.1	3.1	62.8	3.1	$91.84	7.0	$57.68	10.3
2006	4,603,589	0.3	1,059,897,001	0.8	0.4	63.1	0.4	$98.92	7.7	$62.40	8.2
2007	4,659,556	1.2	1,066,850,286	0.7	(0.6)	62.7	(0.6)	$105.31	6.5	$66.06	5.9
2008	4,766,459	2.3	1,042,740,317	(2.3)	(4.6)	59.9	(4.5)	$107.97	2.5	$64.71	(2.0)
2009	4,898,500	2.8	976,266,327	(6.4)	(9.1)	54.6	(8.9)	$98.97	(8.3)	$54.04	(16.5)
2010	4,979,295	1.6	1,046,560,947	7.2	5.6	57.6	5.5	$98.78	(0.2)	$56.88	5.3
2011	4,999,590	0.4	1,095,041,249	4.6	4.2	60.0	4.2	$102.76	4.0	$61.67	8.4
2012	5,017,035	0.3	1,125,954,989	2.8	2.5	61.5	2.5	$106.82	4.0	$65.68	6.5
2013	5,042,617	0.5	1,144,331,071	1.6	1.1	62.2	1.1	$110.77	3.7	$68.87	4.9
2014	5,071,191	0.6	1,188,510,838	3.9	3.3	64.2	3.3	$115.73	4.5	$74.31	7.9
2015	5,114,254	0.8	1,216,616,382	2.4	1.5	65.2	1.5	$120.80	4.4	$78.73	6.0
2016	5,181,148	1.3	1,234,842,064	1.5	0.2	65.3	0.2	$124.46	3.0	$81.27	3.2
2017	5,261,268	1.5	1,261,780,677	2.2	0.6	65.7	0.6	$127.01	2.1	$83.45	2.7
2018	5,354,896	1.8	1,290,234,748	2.3	0.5	66.0	0.5	$130.13	2.5	$85.90	2.9
2019	5,450,011	1.8	1,309,742,056	1.5	(0.3)	65.8	(0.3)	$131.42	1.0	$86.53	0.7
2020	5,232,231	(4.0)	837,782,191	(36.0)	(32.0)	43.9	(33.4)	$103.03	(21.6)	$45.20	(47.8)
2021	5,487,730	4.9	1,151,691,842	37.5	32.6	57.5	31.1	$124.40	20.7	$71.53	58.3
2022	5,584,222	1.8	1,275,441,975	10.7	9.0	62.6	8.8	$149.24	20.0	$93.39	30.6
2023	5,601,056	0.3	1,287,052,395	0.9	0.6	63.0	0.6	$155.62	4.3	$97.97	4.9
Avg Annual % Change		**1.5**		**1.4**	**(0.1)**		**(0.1)**		**3.2**		**3.0**

Source: STR-Costar / Cushman & Wakefield

U.S. Lodging Industry Overview

ADR, REVPAR, OCCUPANCY TRENDS



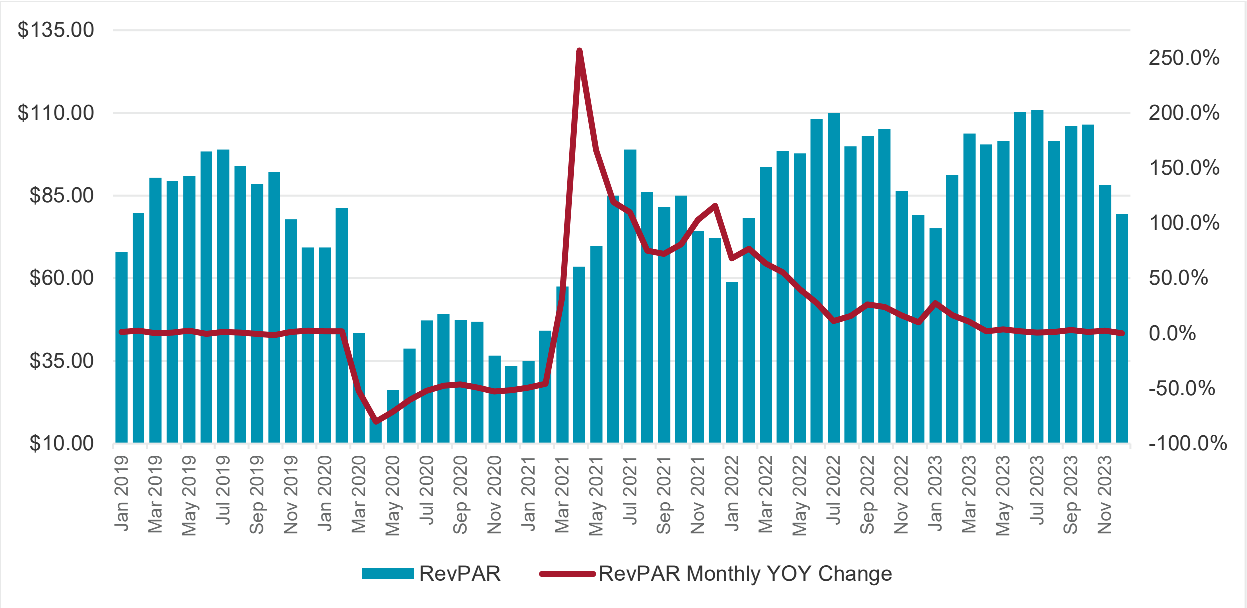
Unlike other real estate sectors with measurable lease data, lodging trends are notably fickler, with uncertainty being the predominate sentiment of the last three years. In prior economic cycles, the performance metrics could be viewed with more confidence as business, group, and leisure travel patterns were well established and periodically affected by the economic environment. The recovery patterns were clearer with V-shaped expectations. In the current consideration, the pandemic disrupted decades of hotel revenue curves.

The average rate post-recovery in 2021 and 2022 far exceeded the average rate growth of the years leading up to 2019. Some of the increases in those years related to regional hotel use, particularly in leisure destinations, that allowed operators to benefit from specific area supply and demand imbalances. Housebound residents, families and workers sought drive-to accommodations where they could work and play and were willing to pay high rates. However, beginning in March 2023, RevPAR growth dramatically slowed as ADR peaked and US travelers travelled abroad en masse and domestic demand softened. The market spoke and hotel users balked at a continuation of rate increases when alternate destinations were once again available. YOY monthly RevPAR growth beginning in March 2023 has resembled pre-pandemic levels. In this sense, arguable hotel room revenue has normalized.

U.S. Lodging Industry Overview

The strong average rate increases, that drove RevPAR, from mid-2020 to the first quarter of 2023 levelled out for the remainder of the year, and in retrospect, reflected the tail end of the recovery as shown in the chart below.

MONTHLY REVPAR CHANGE



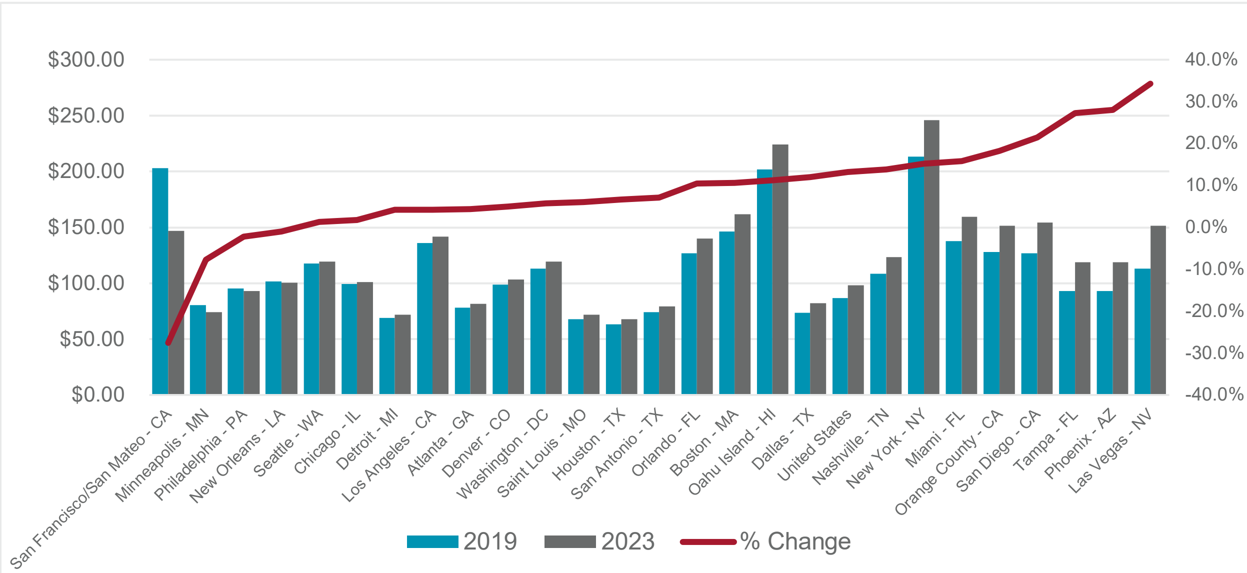
Although new supply is impacting occupancy improvement, high interest rates and construction costs have continued to constrain the opening of new hotels. According to the STR pipeline, as of December 2023, 152,114 rooms were under construction, which represents a 2.7 percent increase over the number of existing rooms as of that date. This number is 4.5 percent lower than the number of rooms under construction in 2022. High interest rates, conservative lending, and high construction costs continue to hamper supply growth. Industry expectations are for a more liberal and lower cost lending environment, as hotels in the final planning and planning stages of the pipeline are 19.7% and 32.7% respectively higher than in December 2022.

With an accelerating hotel pipeline that may get financed and open into a normalized hotel revenue environment, the potential of another hotel downturn is possible. The cost of capital is expected to decline in the next few years, supporting the potential for new projects. Lender sentiment and discipline may control the historic dynamic of new hotels being planned, financed and built as revenues are improving, only to open during periods of declining performance. However, given the current interest rates and new construction timelines, this is unlikely to happen in the near term.

Top 25 Markets

While the national trends are more than encouraging, recovery on a market-by-market basis remains uneven. The top 25 markets continue to show peaks and valleys as reflected in the chart below.

REVPAR 2019 TO 2023

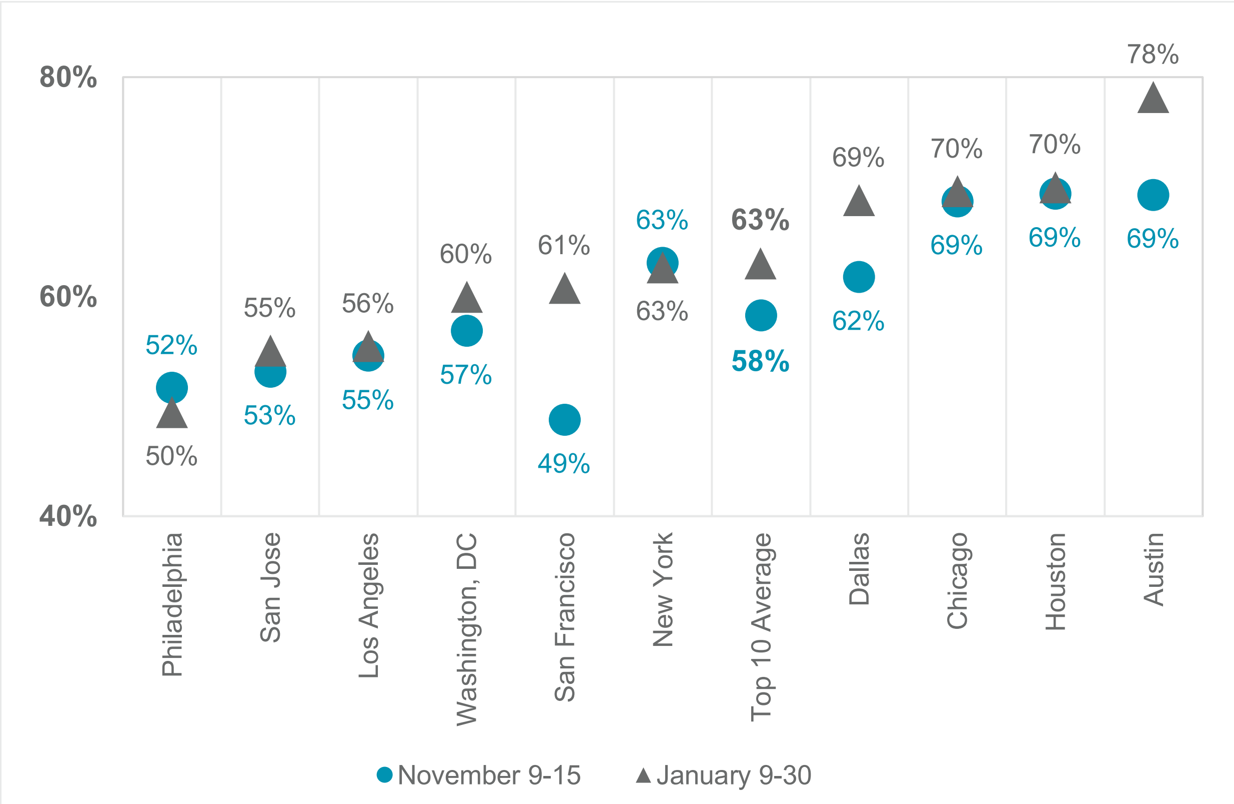


Data from the last 12 months shows that 22 of the 25 top markets have fully recovered with a TTM 2023 RevPAR performance that exceeds 2019 figures. Seattle recently closed the gap in the second half of the year. Other markets are lagging well below their historical performance. Minneapolis continues to struggle with absorbing new supply, and a convention calendar impacted by pandemic-related cancellations. San Francisco remains exceptionally challenged with its same issues: a reliance on a tech industry that is still reducing its office space and workforce, a dwindling convention center calendar, a struggling retail market, the lack of inbound overseas tourists, and myriad social challenges. The nascent AI industry may be a bright light for the city's recovery. Other markets such as Hawaii, Florida, and California continue to be impaired by natural disasters. Conversely, urban markets including New York, Washington DC, Boston, and Houston, which were significantly impacted by pandemic, had some of the strongest gains in 2023. The Taylor Swift effect was welcomed by many cities that did not host other mega events such as the Super Bowl.

Since the pandemic, mid-week business has been one of the weakest links to a full recovery, particularly in urban areas. From 2020-2022, the ephemeral nature of reduced business travel was readily attributed to the sudden and global shift to work-from-home and the use of virtual meeting platforms. Now, the extent of the return of business travel remains uncertain.

The return to office usage varies significantly by location and industry as seen in the following chart.

HIGHEST OFFICE ATTENDANCE NOVEMBER 2022 VS FEBRUARY 2024



Many markets, including heavily affected markets such as San Francisco, saw growth in office activity over the last quarter of 2023. In terms of the effect on business travel, highly travel-focused sectors such as Business & Professional Services are currently experiencing 17% office centric, 65% hybrid and 17% remote centric. Increasingly companies are mandating return to office requirements; some with specific day requirements that result in more reliable compliance than policy that just specify the numbers of days a week. Five of seven industry categories have hybrid work over 60 percent of the time which translates to 3 to 4 days in the office. Either way, hybrid work is more institutionalized than ever and here to stay.

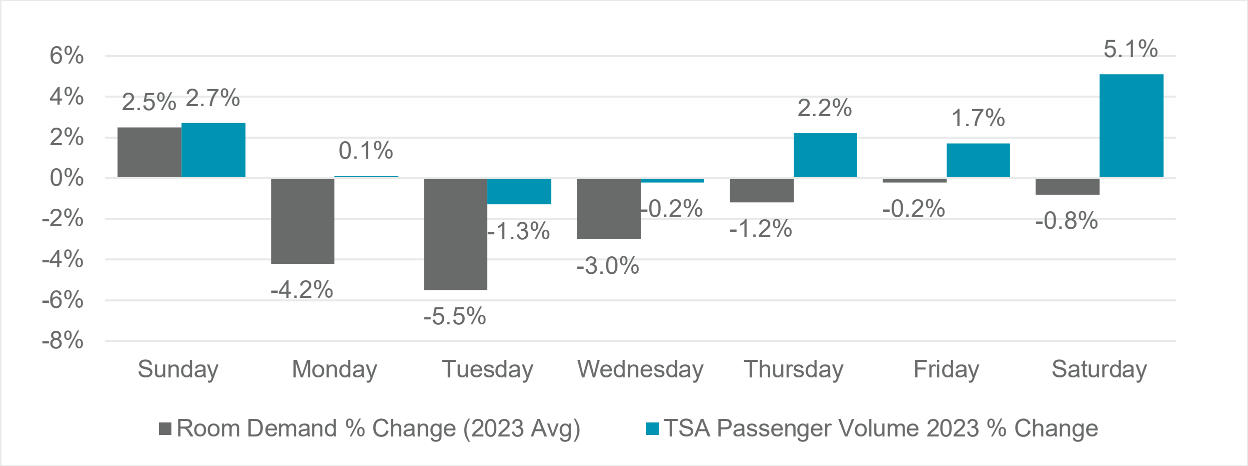
The growth of hybrid work has not led to a surge in business travel, although anecdotally, operators report that mid-week hotel use is improving as most days in the office fall from Tuesday to Thursday. Group demand continues to improve and is compensating in many markets for the decrease in business travel. Hotel owners and operators report the appeal of multi-day meetings that are gaining corporate acceptance as a cost-efficient means of gathering and socializing groups that typically work remotely across a range of locations.

However, online gatherings, which proliferated during the pandemic, continue to dominate corporate interactions. The ease and efficiency of these engagements has replaced many of the one-on-one meetings formally held in person. The use of this low-cost technology has also bled into both generic business travel as well as conferences and trade shows.

U.S. Lodging Industry Overview

A hybrid workplace may not be all bad for hotels. Days out of the office can mean more days for travel. Airlines are also recognizing this twist. Airline volume during the pandemic resulted in greater weekend demand while weekday demand continues to lag. The airline industry views this as a prominent potential for greater revenue from remote workers that use their locational flexibility to travel more frequently, as either leisure or ‘bleisure’ (combining business and leisure) travel. Hotels may benefit from this trend as travel patterns continue to evolve.

2023 VS 2019 % CHANGE IN PASSENGER VOLUMES, HOTEL ROOM DEMAND

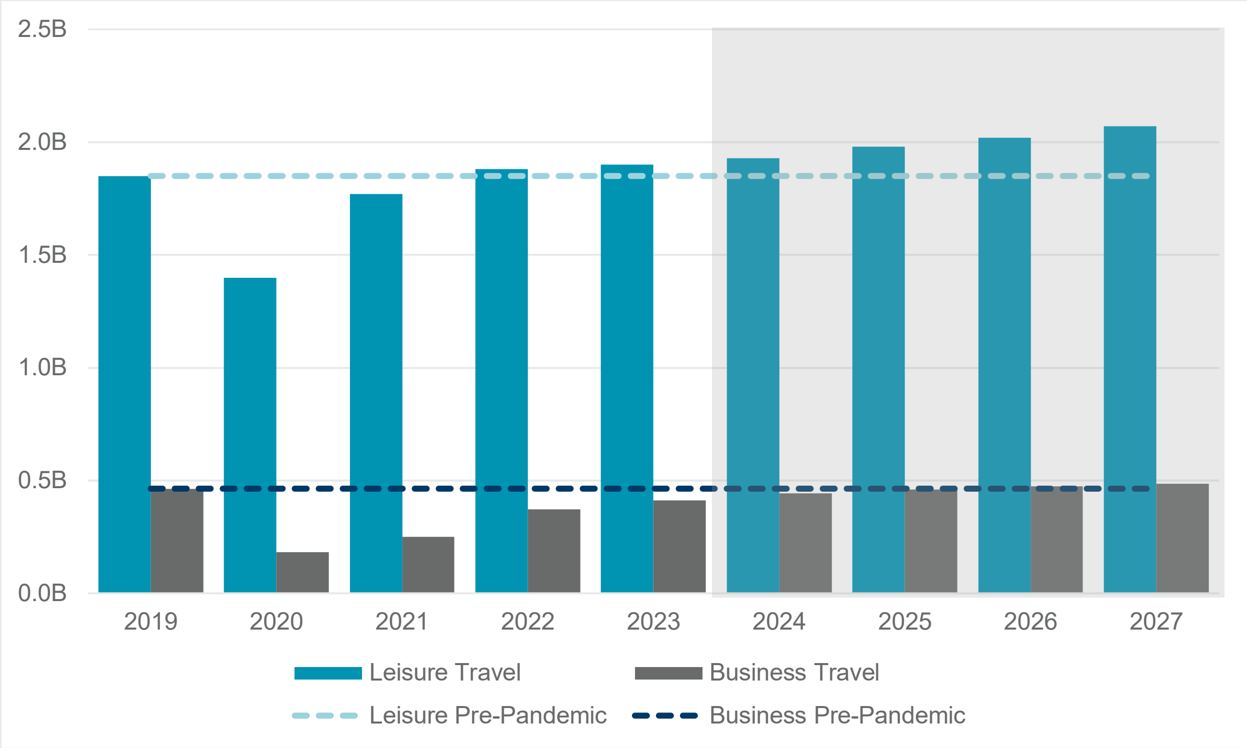


Source: TSA, CoStar/STR, Cushman & Wakefield Research

U.S. Lodging Industry Overview

Airlines anticipate a continued focus of leisure travel. TSA reports that Checkpoint Volumes in 2023 exceeded 2019 Levels by 1.6%., and this segment offers opportunities for continued strengthening of revenue performance. As shown in the data from the U.S. Travel Association, leisure domestic trips are higher than pre-pandemic levels. Although overseas arrivals improved in 2023, Inbound international demand has yet to return to pre-pandemic level as seen in the chart below.

US LEISURE VS BUSINESS ANNUAL TRAVEL



Source: US Travel Association

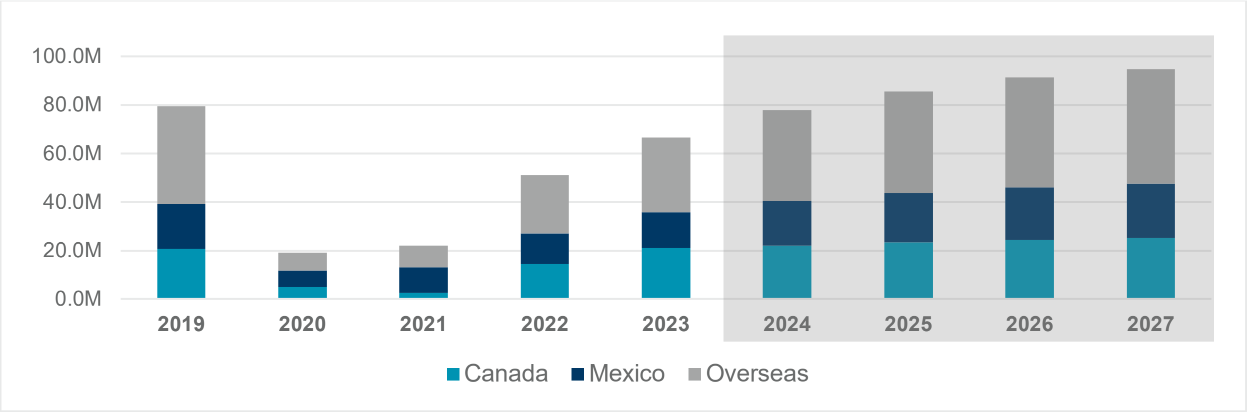
U.S. Lodging Industry Overview

INTERNATIONAL TRAVEL TRENDS

Inbound Asian travel, particularly from China has not yet materialized. Additional COVID waves, economic challenges, visa policies, and a focus on domestic travel are some of the issues that have suppressed this demand. China's aviation regulator recently reported it expects the number of international flights to and from the country to reach 6,000 per week by the end of this year, or about 80% of pre-COVID levels, compared to about 4,600 currently. At the start of 2023, there were fewer than 500 international flights weekly. It added that for the year ahead it would continue to promote a "significant" increase in direct flights between China and the United States from 63 flights presently. US West Coast markets are particularly interested in seeing these visitors return.

The slow recovery of inbound international travel has also inhibited occupancy growth, although industry expectations are for a fuller rebound in the next few years.

US INBOUND TRAVEL COUNTRY OF ORIGIN



Source: US Travel Association

While the trends stabilize, operators are looking for a continued positive trend in ADR growth in the next few years, with more modest occupancy increases than prior years, as represented by the STR/CoStar/Tourist Economics forecast below.

Metric	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast
Occupancy	63.0%	63.6%	64.0%	64.1%
ADR Change	4.3%	3.1%	2.8%	3.1%
RevPAR Change	4.9%	4.1%	3.5%	3.2%
Real RevPAR Change from 2019	-5.0%	-3.5%	-2.1%	-1.0%

As new supply continues to open and alternative destinations to the US expand, occupancy increases are anticipated to be relatively modest. Even with positive ADR growth, the loss of mid-week business travel is impacting RevPAR, which is expected to remain below the 2019 pre-pandemic level for the next few years. Overall, the market has reset with the expectation of a more durable steady RevPAR growth.

CUSHMAN & WAKEFIELD

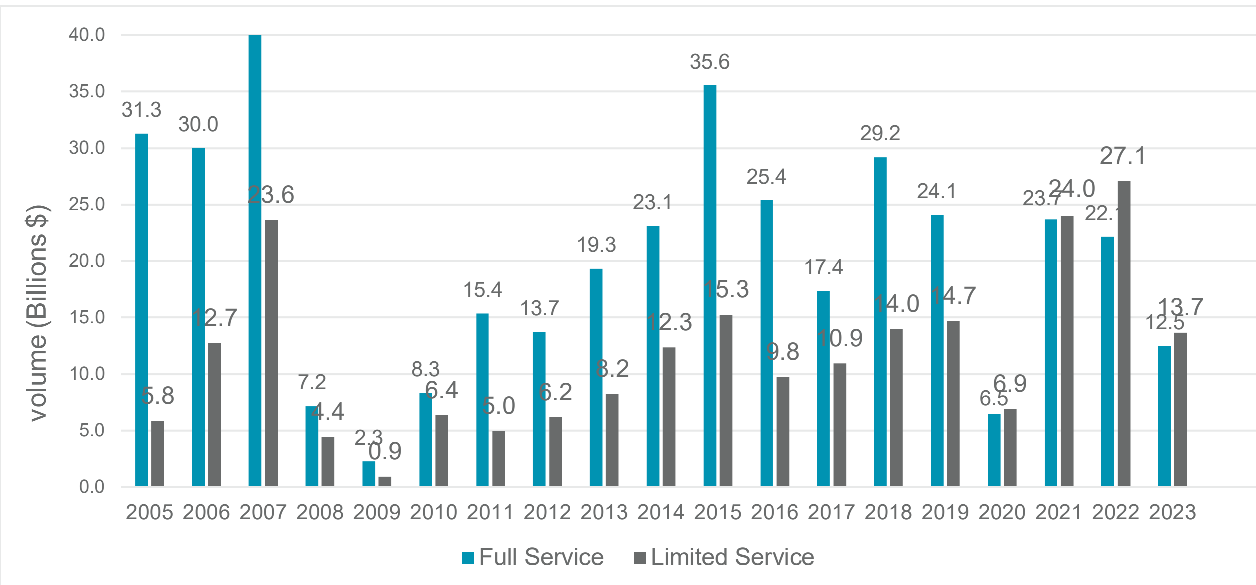
U.S. Lodging Industry Overview

Hotel Transaction Overview

On a national basis, the year-end hotel transaction volume for 2023 was disappointing. Interest rates remained high and regional and local banks were more likely to provide relationship loans for lower volume acquisitions and refinancings. The ability to finance the smaller hotel sales continued to be an advantage in 2023 and large transactions were rare.

Many of the sales in 2023 for both full-service and limited-service transactions occurred through quieter marketing. Some trades were motivated by impending financial events, particularly debt coming due. A number of hotels transferred during the year through deed-in-lieu transfers to a party in the capital stack including mezzanine and other lenders. These transfers are not represented in the transaction volume shown in the chart below.

U.S. HOTEL TRANSACTION VOLUME 2005 – 2023



Source: RCA; Cushman & Wakefield

Republication or Other Re-Use of This Data Without the Express Written Permission of RCA and Cushman & Wakefield is Strictly Prohibited

Consistent with the first half of the year, high interest rates and challenges in sourcing debt contributed to large bid/ask spreads that limited investment transaction activity overall. Unless sellers were particularly motivated, few assets were offered for sale and fewer sold. Sellers who had older debt with favorable terms sought to benefit from the recovering performance in 2023. The large bid-ask spread resulted in very few transactions and many hotels were withdrawn from marketing efforts during the year.

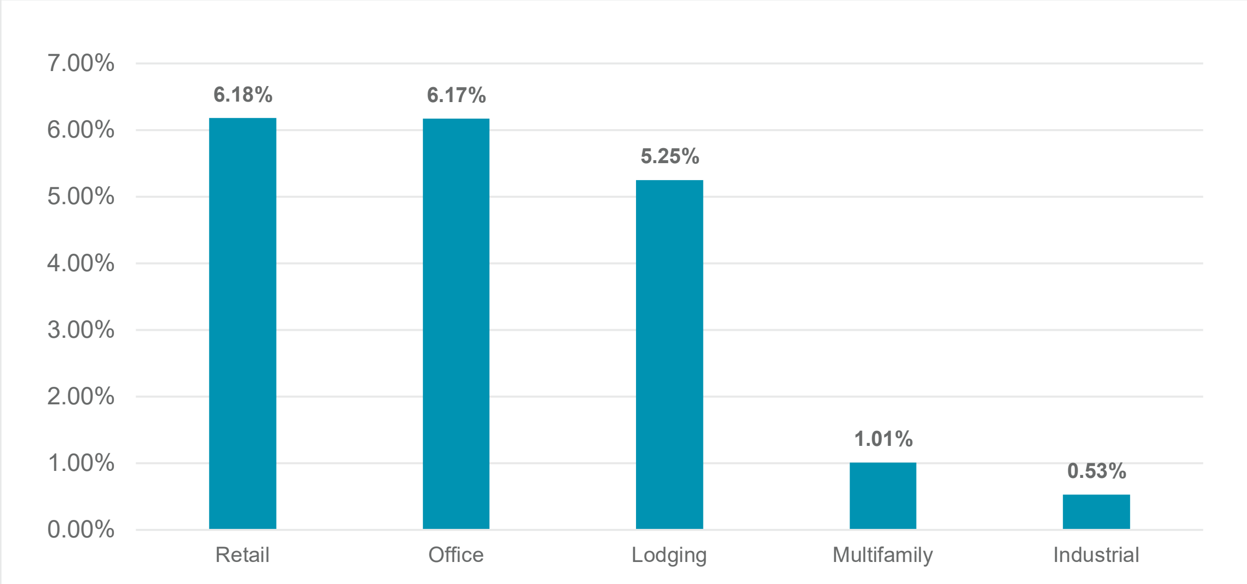
In the area of commercial mortgage-backed securities, Trepp reports a recent improvement in the lodging delinquency rate. The most recent reported rate of 5.25% is notably below the delinquency rates for both the office and retail, and also a decrease from the 5.48% total delinquency rate in H1 2023. According to Trepp, over $33 billion in hotel loans matured in 2023, with $21 billion scheduled to mature in 2024, providing potential future challenges.

U.S. Lodging Industry Overview

Low-cost available debt is the fuel of the hotel investment market, and this commodity has been in short supply in the last 18 months. The high-cost debt market has suppressed acquisition, refinancing, and PIP financing activity even as performance fundamentals were improving. Debt investors were busy amassing funds for preferred and mezzanine deals but were relatively inactive. Hotel franchisors and operators stepped in to fill some gaps for owners with fee waivers and PIP deferrals. Market participants are expressing a growing belief that even with the wave of CMBS financings coming due in 2024, a matching level distress is not coming.

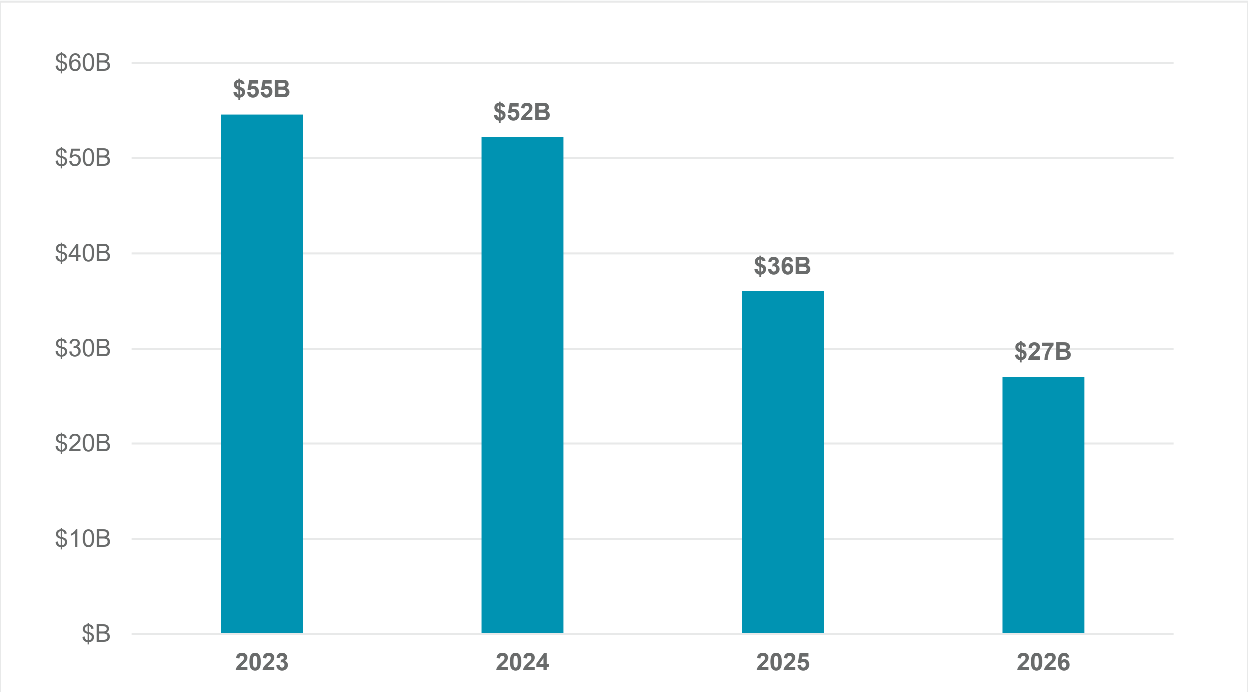
Counter to prior downcycles, lodging has a lower delinquency rate compared to office and retail. As shown in the following chart, the hotel delinquency rate is moderating as the rates for other sectors increase.

DELINQUENCY TOTAL (%) BY ASSET CLASS



Source: Trepp, total delinquencies inclusive of 30, 60, 90 day delinquent, non-performing balance and foreclosed.

U.S. HOTEL TRANSACTION VOLUME 2005 - 2023

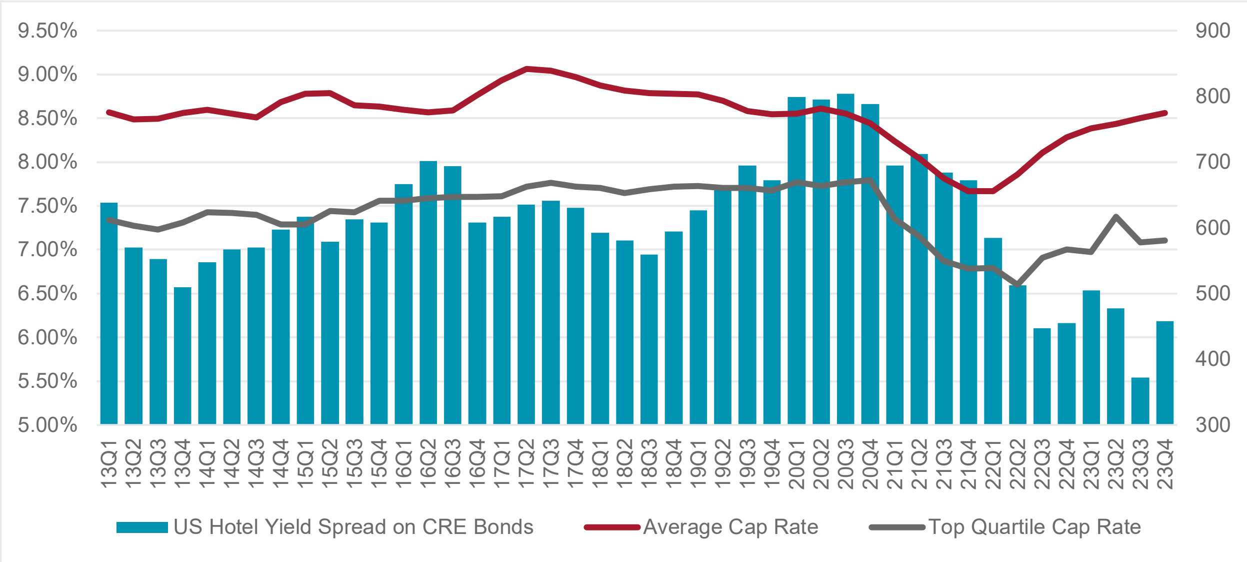


Source: NCREIF, MSCI/RCA., Cushman & Wakefield

Commercial property assessed clean energy (C-PACE) financing continues to be sourced as part of many owners' capital stacks. Available in 38 states, C-PACE financing is available for new and existing hotels to fund energy efficient infrastructure items. The funds, which can be as high as 35 percent of the property value, can also be used to upgrade systems in existing hotels. The loans are made by private lenders and repaid through property assessed administered by local governments or development authorities. The loans terms regarding repayment and foreclosure are determined and managed by the lender. Interest rates for C-PACE loans are typically lower than mezzanine debt.

U.S. Lodging Industry Overview

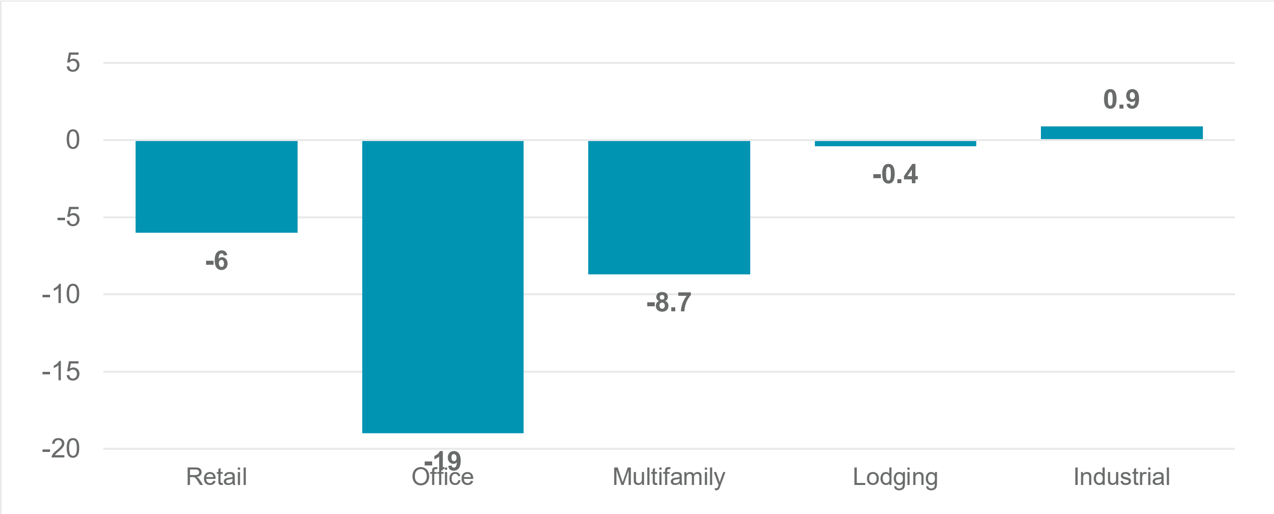
The continued higher debt costs have kept cap rates high as seen in the following chart.



Continued increases in interest rates have kept cap rates relatively high, with the exception of Q3 2023, both average and top quartile cap rates have begun to plateau as opposed to the sharp rises in 2022. During this time, the spread fell to a low of 372 basis points and since has risen back to 458 basis points.

As an asset class, hotels have become more attractive than other real estate sectors since the pandemic. The following chart from MSCI shows the pricing index of hotels relative to the other major investment real estate types.

2023 CPPI YOY CHANGE



Source: MSCI Real Capital Analytics, CPPI indexed at Q4 2006

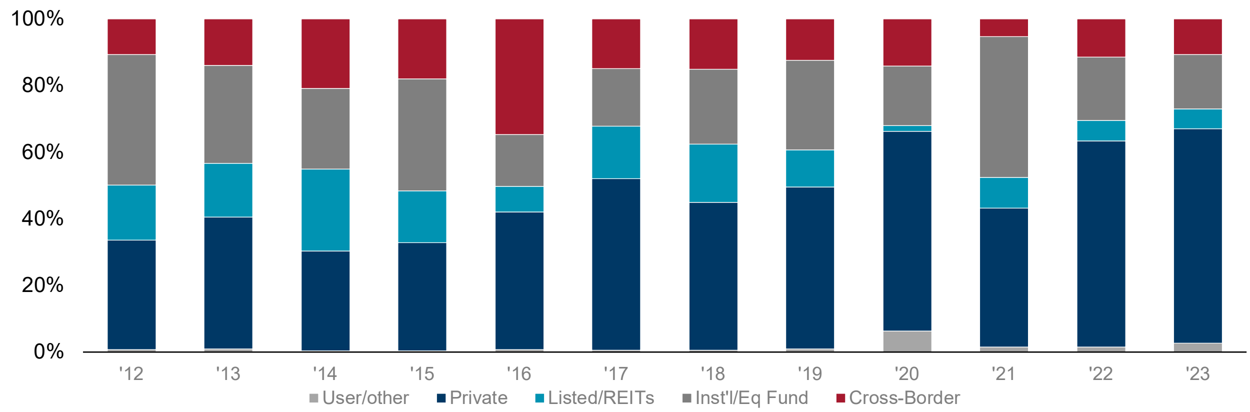
U.S. Lodging Industry Overview

With the Federal Reserve announcement in mid-December 2023 holding interest rates steady and the expectation of rates holding steady for at least the first half of 2024, the slowing of inflation, and the announcement of Blackstone's pending sale of the Waldorf Astoria Arizona Biltmore for $705 million, hotel real estate market participants are expressing greater optimism for more and larger property transaction activity in 2024, most likely in the second half of the year.

Investor Profile

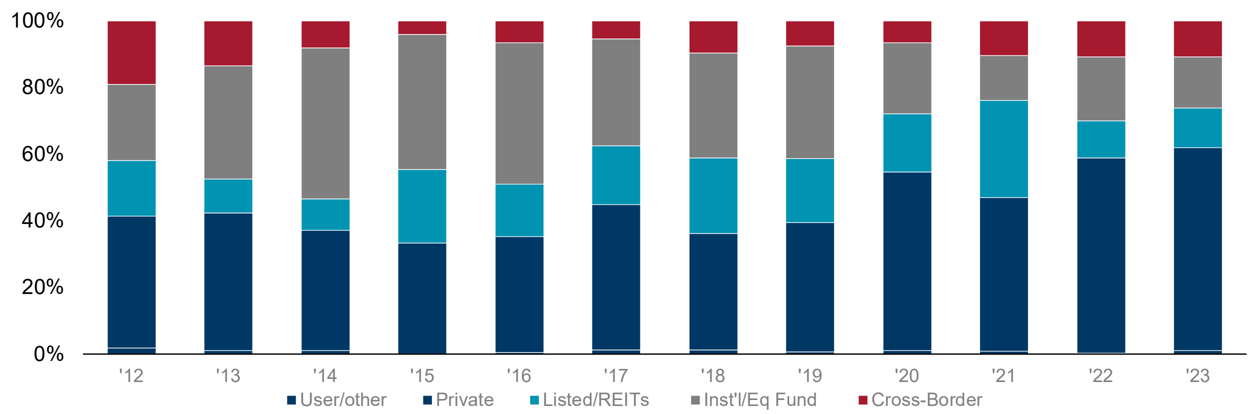
The distribution of seller types is relatively unchanged between 2022 and 2023. Private equity buyers, including family offices, remain the largest group of hotel buyers. Private funds continue to accrue capital for hotel investments, with buyers primed when opportunities become available. Cross-border buyers are limited. A lack of inventory from sellers is part of the equation. With opportunity for yield in other countries, investors in the current environment are less interested in U.S. hotel deals.

COMPOSITION OF BUYERS



Still hotel investors remain primed for acquisitions with funds continued to be set up. The high interest rate environment continues to thwart investment activity, even as performance fundamentals improve, leaving REITS and institutional buyers on the sidelines. Private equity also dominates hotel transactions as sellers as shown below.

COMPOSITION OF SELLERS



U.S. Lodging Industry Overview

Other Industry Considerations:

FADING THREAT OF A RECESSION – Through 2023, the threat of a potential recession has waxed and waned, ranging from a hard landing in the second half of 2023 to economic growth. While experts remain divided as to future performance, projections have generally moved to a brighter outlook for 2024. Cushman and Wakefield is currently forecasting a mild recession to take hold in mid-2024.

OPERATING COST INCREASES – Despite lower inflation throughout 2023, operating expenses continue to increase and are a major drag on profitability. Items such as insurance and union contract increases cannot be controlled on a day-to-day basis and directly impact income potential. Somewhat mitigating higher expenses are the operational changes since the pandemic, particularly the reduced food and beverage offerings. The increased use of AI for operational scheduling, supply and food and beverage purchasing, and scheduling offers some potential for controlling costs.

SUSTAINABILITY – The global challenges of climate change have impacted all aspects of travel. Individual travelers and corporate travel management are sensitive to the sustainability efforts of hotels and hotel companies. While insurance costs are skyrocketing for hotels, the concern is not yet reciprocated with a consistent industry response to climate change. In recent years, fires, tornadoes, hurricanes, and other natural disasters have proliferated the risk to lodging. Innovations to address the impacts are expected to be topics of interest in the next few years. Measures beyond recycling and waste management will be needed in the long term and we expect to see greater investments in these efforts and stricter requirements from guests for these programs.

EXPERIENCE IS MORE THAN A HOTEL ROOM – Competing for the guest stay is broadening. With growing interest in personalization, individualization, and experiences, the hotel room is only part of the travel event. Research from various industry sources report that travelers visit from five to dozens of sites before booking a hotel. Travel branding for hotel companies is becoming more than just establishing the identity of a building or hotel name; its providing an identity for the guest. Hospitality brands are engaging with force, penetrating social media and booking platforms and providing travel activities and offerings for every trip. Scale is king for the travel business and to capture guests looking for unique activities, more and more hotel brands are proliferating into cruise ships, vacation rentals, and alternative lodging; promoting the experience in a variety of venues.

Conclusions and Outlook

CONFIDENCE BREEDS CONFIDENCE

Hotel performance on a national basis has stabilized, and barring any unforeseen event, is expected to continue to improve over the next few years. Underlying the overall industry has been a shift in demand trends resulting in uneven performance of individual markets and product types. The contraction of business travel is expected to have a long-term impact on average rate. But a changed focus on leisure travel and the maintenance of average rate increase since the pandemic have eased some of the difference.

Current hotel investment sentiment ranges from “over the worst” to “cautiously optimistic” to “optimistic.” There is the sense that the disruption from the pandemic has normalized and although revenue performance has ratcheted down from 2019, top line revenue growth is now more predictable. Expenses remain a concern, particularly labor and insurance. Their erosion of profitability is negating some of the improved top line revenue. But adjusting to a more durable financial trend is the new positive outlook and if interest rates decline, the hotel investment paradigm will be more attractive to all.