Lodging Performance Outlook 2023

Impact of current events on hotel performance and values

Luigi Major, MAI | Managing Director - Americas

May 2023
Occupyancy Continues Its Slow Climb

Q1 2023 demand comparisons to Q1 2022 (Omicron) was favorable

Source: STR (Historical), HVS (Forecast as of January 2023)
A return to prior peak occupancy is not expected in the near term.

Factors Keeping Sector Under Prior Peak

INTERNATIONAL TRAVEL
- Asia
- West Coast

SHORT-TERM RENTALS
- Increased Popularity
- Siphoning off demand from traditional hotel sector

HYBRID/VIRTUAL MEETINGS
- Format remains
- Many prefer face-to-face, some would rather attend virtually

WORK FROM HOME
- Proliferation of remote jobs
- Business travel elected on Tuesday/Wednesday
Group Demand on the Rise

A Feb/Mar 2023 survey of 350 travelers to business events revealed that more expect to travel in 2023.

Estimated Change (2022 vs. 2023)

In-Person Participation

- Conventions: 38%
- Sales Meetings: 38%
- Conferences: 33%
- Exhibitions & Trade Shows: 22%
- Corporate Events: 13%

Remote Participation: 0%

Source: HVS and Access Intelligence
Many Group Travelers Plan to Extend Trips

The reported change from actual 2022 travel to the expected travel in 2023 reflects new trends.

When attending business events, are you more or less likely to do the following?  
2022 vs. 2023 Net Change*

- Extend Travel Time for Recreation and Leisure: 33%
- Travel with Family and Friends: 32%
- Extend Travel Time for Work: 22%
- Book Short-Term Accommodations: 17%

* Weighted average of all respondents by type of event

Source: HVS and Access Intelligence
2022 RevPAR Set a New Industry High

*Occupancy lags ADR recovery, with ADR having surpassed the 2019 level in 2022.*

<table>
<thead>
<tr>
<th>Year</th>
<th>Occupancy</th>
<th>ADR</th>
<th>% Chg</th>
<th>RevPAR</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>65.9%</td>
<td>$131</td>
<td></td>
<td>$86</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>44.0</td>
<td>103</td>
<td>-21.1%</td>
<td>45</td>
<td>-47.4%</td>
</tr>
<tr>
<td>2021</td>
<td>57.5</td>
<td>125</td>
<td>21.0</td>
<td>72</td>
<td>58.3</td>
</tr>
<tr>
<td>2022</td>
<td>62.7</td>
<td>149</td>
<td>19.1</td>
<td>93</td>
<td>29.8</td>
</tr>
<tr>
<td>2023</td>
<td>63.6</td>
<td>154</td>
<td>3.6</td>
<td>98</td>
<td>5.1</td>
</tr>
<tr>
<td>2024</td>
<td>64.7</td>
<td>158</td>
<td>2.8</td>
<td>103</td>
<td>4.6</td>
</tr>
<tr>
<td>2025</td>
<td>65.0</td>
<td>163</td>
<td>3.0</td>
<td>106</td>
<td>3.5</td>
</tr>
</tbody>
</table>

*Source: STR (Historical), HVS (Forecast as of April 2023)*
New Hotel Supply Constrained by Growing Construction Costs

Construction costs inflation significantly increased in 2022

Source: Building Turner Cost Index (Third Quarter 2022)
Value Recovery Takes Different Trajectories

Limited-service sector surpasses prior peak, while full-service sector below prior peak.

Source: Real Capital Analytics
Market shocks caused by Fed’s Hiking Cycles

Source: Board of Governors of the Federal Reserve System (US)
Cap Rates Climb Given Debt Costs

Strong hotel performance and competition have somewhat offset debt costs.

Source: Real Capital Analytics, *Preliminary Data
Discount Rates on the Rise for Limited/Select

With 1H 2022 Discount Rates At Their Lowest, Values Peaked Mid-Year 2022

Source: PWC, HVS, USRC, Situs RERC
Discount Rates Lower For FS/Luxury

A rise in discount rates for these categories is a return to normal.

Source: PWC, HVS, USRC, Situs RERC

Discount Rate (%)

PWC - Full-Service Hotels
PWC - Luxury Hotels
HVS Broker Survey - Luxury/Upper-Upscale Hotels
HVS Broker Survey - Full-Service Hotels
USRC - Full-Service Hotels
Situs RERC - Second-Tier Hotels
Situs RERC - First-Tier Hotels
Average

Refinancing Expectation Tempers The Discount Rate

An assumed refinancing can allow a buyer to justify a higher contract price today.

### CURRENT FINANCING TERMS

<table>
<thead>
<tr>
<th>Loan/Value</th>
<th>Amortization</th>
<th>Term</th>
<th>Interest Rate</th>
<th>Terminal Cap Rate</th>
<th>Transaction Costs</th>
<th>Equity Yield</th>
<th>Total Property Yield</th>
<th>Years of Refinancing</th>
</tr>
</thead>
<tbody>
<tr>
<td>60%</td>
<td>30 Years</td>
<td>10 Years</td>
<td>7.0%</td>
<td>8.5%</td>
<td>1.5%</td>
<td>16.0%</td>
<td>11.3%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>7.0%</td>
<td>8.5%</td>
<td>1.5%</td>
<td>16.0%</td>
<td>11.3%</td>
<td></td>
</tr>
</tbody>
</table>

### REFINANCING TERMS

<table>
<thead>
<tr>
<th>Loan/Value</th>
<th>Amortization</th>
<th>Term</th>
<th>Interest Rate</th>
<th>Terminal Cap Rate</th>
<th>Transaction Costs</th>
<th>Equity Yield</th>
<th>Total Property Yield</th>
<th>Years of Refinancing</th>
</tr>
</thead>
<tbody>
<tr>
<td>70%</td>
<td>30 Years</td>
<td>10 Years</td>
<td>5.5%</td>
<td>8.5%</td>
<td>1.5%</td>
<td>17.0%</td>
<td>9.8%</td>
<td>4 Years</td>
</tr>
</tbody>
</table>

**Overall Discount Rate: 10.5%**

Source: HVS
## Discount Rate Trends in 2022/23

**Impact of Interest Rate Increases and Lower Loan-to-Value Ratios on the Cost of Capital**

<table>
<thead>
<tr>
<th>Interest Rate</th>
<th>Amortization</th>
<th>Debt Service Constant</th>
<th>LVT</th>
<th>RATE</th>
<th>WACC</th>
<th>Debt</th>
<th>Equity</th>
<th>WACC (Weighted Average Cost of Capital)</th>
<th>Indicated Value based on $1M EBIDTA</th>
<th>Change in Value from Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.25%</td>
<td>25 Years</td>
<td>0.07191</td>
<td>65%</td>
<td>0.07191</td>
<td>0.04674</td>
<td>0.07191</td>
<td>0.16000</td>
<td>10.27%</td>
<td>$9,733,000</td>
<td>-3.3%</td>
</tr>
<tr>
<td>6.00%</td>
<td>25 Years</td>
<td>0.7732</td>
<td>65%</td>
<td>0.07730</td>
<td>0.05025</td>
<td>0.07730</td>
<td>0.16000</td>
<td>10.62%</td>
<td>$9,412,000</td>
<td>-10.6%</td>
</tr>
<tr>
<td>7.00%</td>
<td>25 Years</td>
<td>0.08481</td>
<td>60%</td>
<td>0.08481</td>
<td>0.05089</td>
<td>0.08481</td>
<td>0.16000</td>
<td>11.49%</td>
<td>$8,704,000</td>
<td></td>
</tr>
</tbody>
</table>

Source: HVS
Rising debt costs, discount rate, and cap rates, resulting in decelerating values increases

Value Gains Decelerating

Year-Over-Year Growth PPK Percentage Change

Source: MSCI
Thank you!

Luigi Major, MAI
lmajor@hvs.com
+1 (310) 270-3240