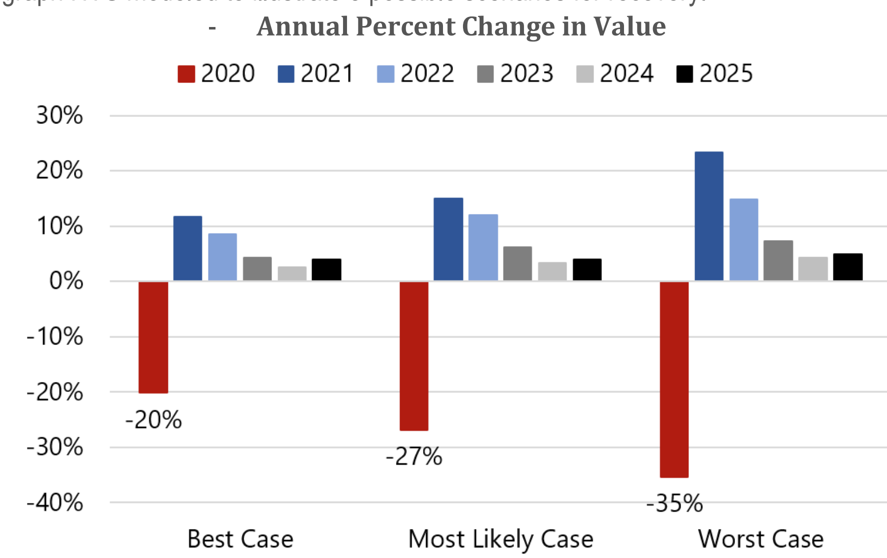
Update on Performance STR European & US Hospitality Market- April 16 Webinar Highlights

- European Hotel Occupancy average is currently 7.7% with RevPar down by 90%
- America's Occupancy is currently 21% with economy hotels as the best performers (34% occupancy) compared with luxury hotels yielding the lowest occupancy at 9% with RevPar down by 84%
- Middle east occupancy is mixed as there are hotels being used for quarantine
- China is 2 months ahead of the West, and has seen slight improvement with occupancy average increase to 32% driven by domestic leisure travelers. STR believes this occupancy level will not significantly improve for the near term

-International tourism grew 53% from 2009-2019 YE (UNWTO data)

HVS Assessment of COVID 19's impact On Hotel Values

- Historical sales price/ room data shows full-service hotel asset pricing is more volatile than limited service hotels due to high labor and operating costs
- As with all real estate, estimated recovery times are location specific
- During healthy economic periods, full serviced hotels are typically traded at 150 bps lower than limited service hotels
- During Q1 2008 and Q4 2009, in US, **full-serviced cap rates increased by 150 bps, while limited service hotels increased by 75 bps in the same period. Once recovery commenced, full-serviced cap rates dropped more rapidly and to a larger extent than limited service (greater risk, greater return).**
- Transaction activity is currently muted, but a **rebound in activity is likely to commence once travel resumes**
- Below is a graph HVS modeled to illustrate 3 possible scenarios for recovery.



- **In the most likely case, if you acquire a hotel in 2020, you will <u>see a 47% increase in value between now and 2025.</u> If an acquisition occurs in 2021, there is 28% upside in value through 2025.**

China

- China Occupancy is currently 32%, Midscale and Economy hotels drive the recovery. China hit bottom in February and stayed at bottom for 1 month and then started resuming occupancy. 90% of hotels are now open, up from 50% in February.

- China seems to be at the end of the beginning, driven by domestic demand of leisure and less so business. It will likely flatten out around this 32% occupancy level for some time

Europe

-Strong RevPar declines in Europe started in march when RevPar dropped 60%..

-As of April**, Rev Par in Europe is down 90%** compared with worst point of 2009 financial crisis where it was down 28%. **Occupancy is at 7.7% for Europe as a whole.**

-In Europe **more cancellations of reservations than bookings through August**.

-Domestic leisure travel is likely to be the first hospitality segment to recover. Corporate travel is contingent on economic status and recovery. Corporate Group travel will not resume until 2021.

- Europe has not begun to recover, new hotels are still closing. **Borders will likely remain closed longer than restrictions on hotels and travel; possibly until a vaccine is approved.**

- As of December 2016, Europe had 264,080 rooms in the pipeline (lodging economics) with 132,225 under construction. Many developers who have not commenced construction will likely delay.

US Hospitality Market

-April Revpar down 84%; steepest RevPar decline in 35 year history, however when there is no demand, US still sells 1.1 million room nights per day.

-16% of rooms are closed (848,000 out of 5,400,000) versus 12% of rooms the week prior (April 9), will likely drop further in Q2. Most closures are temporary, banks are unlikely to foreclose as it is more difficult to liquidate a closed hotel as opposed to an operating one.

- 60% of room demand used to coincide with airplane travel, now 10% of room demand coincides with flights.

- **Economy Class hotels have performed the best during COVID** (drop of 60% versus luxury of 94%), **economy hotels will likely perform the best during recovery.**

-Extended stay hotels are still operating at a 51% occupancy; best performing sector.

-As of January there were 215,000 keys planned in the pipeline. However, 21 projects have changed status from planning to deferred in March, and likely more delays are coming in the future months.

Decker & Halabi Takeaway

-COVID 19 has temporarily ceased demand for the global hospitality market, and current data reflects the bottom of the market.

-The US Hospitality Market has faired better than the European Hospitality Market in this current pandemic

-Volume of transactions and valuations are driven by operating performance and availability of capital. As both of these metrics will be muted for the remaining of 2020 and likely into 2021, there is opportunity to acquire assets at a discount.

- If investors are searching for less volatile hotel investments in exchange for less possible upside**, investment criteria should include economy and extended service hotels in secondary and tertiary markets that are driving distance for domestic travelers.**

- if investors are searching for highest potential returns, **gateway markets that rely on international travel and/or business will be the most impacted by COVID 19 pandemic, allowing for the greatest value maximization over the 5 year forecast.**

-**There will likely be a massive buying opportunity for well capitalized, long term investors starting in H2 2020.**