

50
Years of Excellence

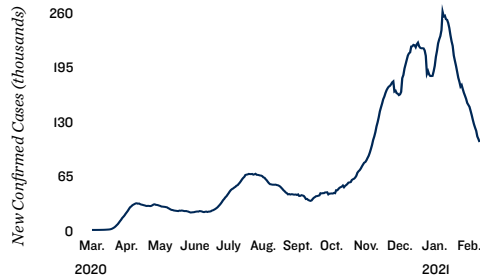
Marcus & Millichap



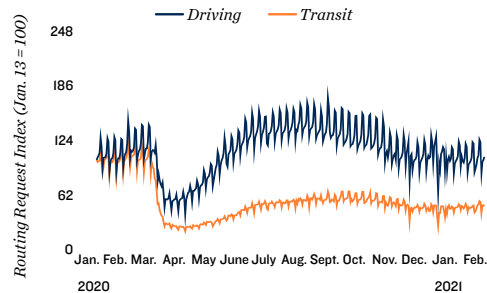
2021

U.S. Commercial Real Estate
INVESTMENT OUTLOOK
HOSPITALITY

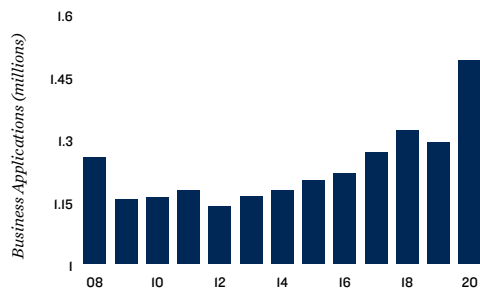
Daily U.S. COVID-19 Cases Ease From Spike



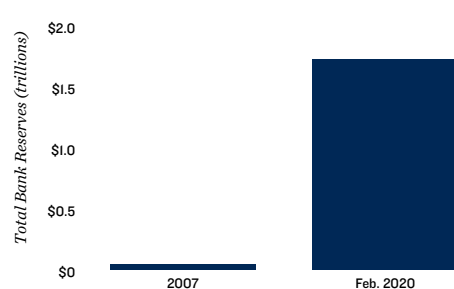
Aversion to Public Transit



New Business Applications Surge



Banks in Stronger Position Than in 2007

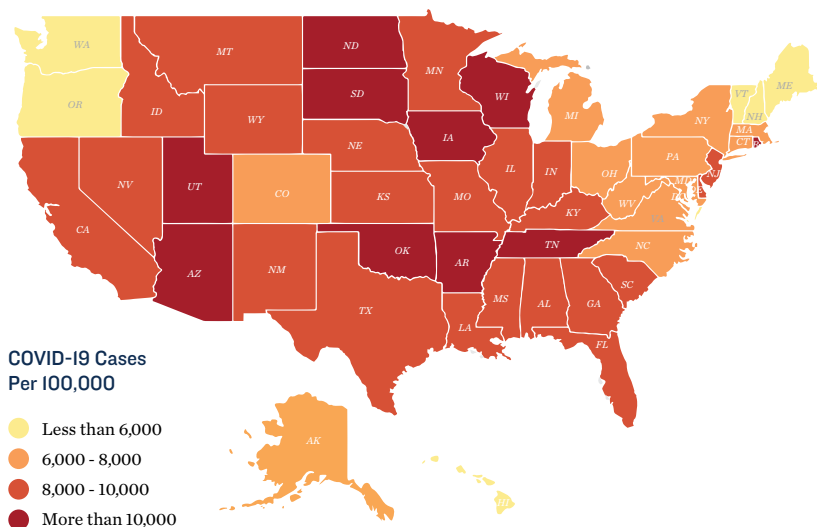


Health Crisis Upends Commercial Real Estate; Uncertainty Will Carry Well Into 2021

Pandemic transforms commercial real estate. COVID-19 changed the world in early 2020 as efforts to curb the spread of the pandemic had a dramatic impact. Stay-at-home orders, the need to physically distance, and having to abide by health and safety protocols had harsh effects on many real estate sectors. Hospitality, seniors housing and brick-and-mortar retail were hit hard while others including necessity-based retailers, medical offices, e-commerce retailers, life science and pharmaceutical firms, and many industrial segments thrived. As of February 2021, more than 486,000 Americans have died from the coronavirus and after reaching a peak in mid-January that strained healthcare systems across a wide swath of the U.S., cases, hospitalizations and deaths have begun to taper.

Health crisis exacerbated demographic shifts. Employers laying off workers and sending staff home to work remotely contributed to an acceleration of demographic changes that were already underway. Economic uncertainty led many households to search for lower-cost housing, while the need to work from home and attend school online generated demand for larger spaces. Commute times became less of a factor in housing decisions, pushing residential and apartment demand away from dense urban cores that are more reliant on mass transit to the benefit of suburbs as well as secondary and tertiary markets. Although driving returned during the summer months, public transit usage remains well below the pre-coronavirus level as fewer people are commuting to offices and physical distancing protocols limit ridership. Higher unemployment is also leading to more people spending time at home, which consequently may have boosted new business applications to the highest rate since the Great Recession. This surge in entrepreneurship could have positive results in the years ahead.

Coronavirus Cases Continue to Spread*



* As of Feb. 11, 2021

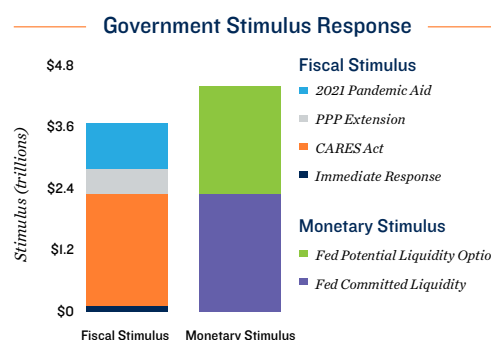
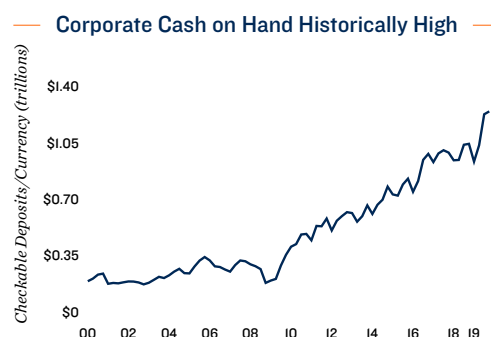
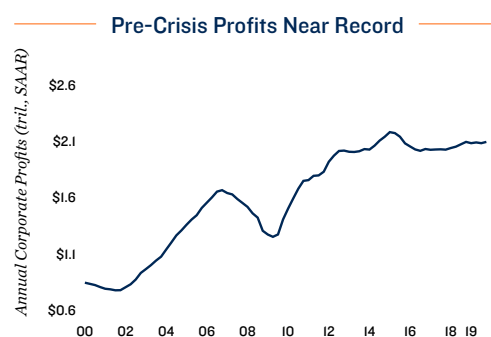
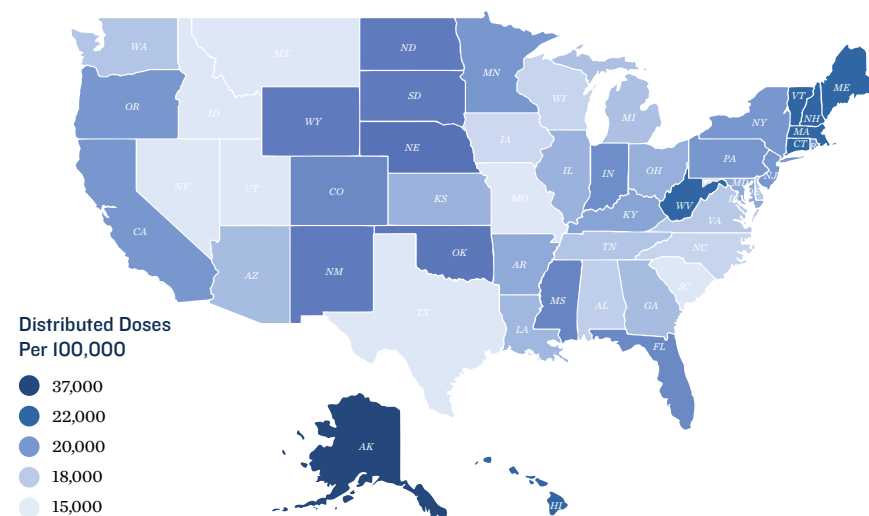
Sources: Apple; Federal Reserve; New York Times; U.S. Census Bureau

Government Response, Market Liquidity, Fast-Track Vaccine Development Provide Optimistic Outlook

Economy jolted as coronavirus spread. The economy was on relatively solid footing heading into the pandemic. Company profits were hovering near the 20-year peak and corporate cash on hand had set a new high, supplying many firms with cushions to weather a downturn. Bank reserves were also significantly above those registered in 2007, providing a much healthier comparison to the start of the Great Recession. Through the health crisis, the money supply has remained liquid as the federal government quickly infused cash into the market and funded stimulus measures via the CARES Act and other legislation. The Paycheck Protection Program (PPP) was one of several systems that assisted in keeping people employed and allowed businesses and households to make rent payments. Additional infusions in 2021 will provide further economic stimulus.

Immunizations provide a path forward. In response to the coronavirus, the government initiative Operation Warp Speed was established to fast track the development and approval of vaccines to combat COVID-19. By the end of 2020, two vaccines had been approved and others were in trial phases. Inoculations were underway by mid-December, providing some hope, especially to real estate segments hit hard by the pandemic. Immunization efforts, however, were slow to ramp up, extending the time needed before enough people are vaccinated to a level that would provide herd immunity and allow a freer movement of people. Although clarity is in sight, these delays will prolong uncertainty for investors well into 2021.

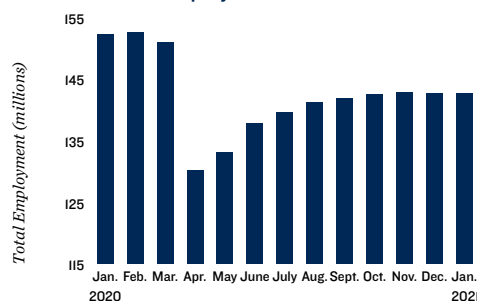
Immunizations Ramping Up Across the Nation*



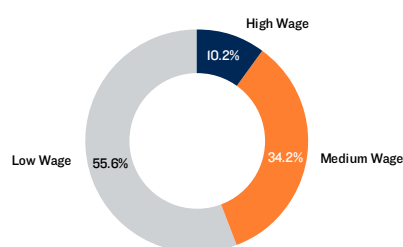
* As of Feb. 11, 2021

Sources: BEA; Federal Reserve; U.S. Census Bureau

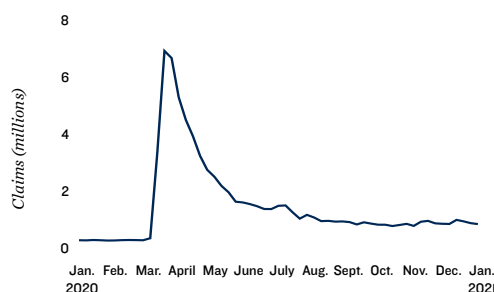
Employment Trends



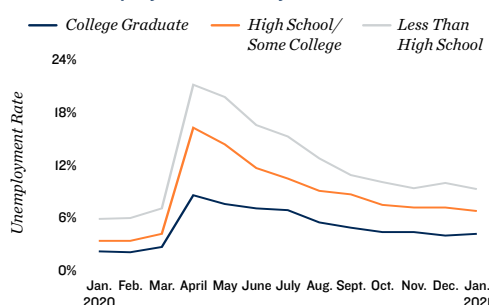
Share of Job Losses*



Unemployment Claims



Unemployment Rate by Education Level



Possibilities for Second Growth Surge or Double Dip in 2021 Hinge on Vaccine Rollout and Labor Recovery

Vaccine distribution to play a critical role in economic outlook. The nation's economic situation has regained much of the momentum lost last spring as it continues along an upward path in 2021. Ongoing health challenges and other potential hurdles may suspend or abate that progress, however. If the current set of COVID-19 vaccines are distributed as efficiently as predicted, then enough people may be inoculated by midyear to safely allow most businesses to fully reopen. Employed consumers with idle cash on hand from months in sequestration will be able to more freely travel and patronize bars, restaurants, entertainment venues, and brick-and-mortar retailers, potentially boosting the economy. If, however, the pace of the vaccine rollout is slowed or the nature of the virus changes, these exogenous encumbrances to the economy will remain in place longer. Employers who are challenged by physical distancing requirements and areas of the country where infection risk is higher will fall further behind other segments of the economy. This disparity, if severe enough, could lead to another quarterly economic contraction. The fortitude displayed during the second half of 2020 makes this scenario improbable, however, especially with continued government support.

Economy has been resilient so far, aided by robust federal aid. The forced closure of many businesses last year led to the sharpest decline in Gross Domestic Product in the post-World War II era. After sliding 5 percent in the first quarter, U.S. GDP fell an annualized 31.4 percent in the April-to-June period as 22 million jobs were shed and the unemployment rate soared to 14.8 percent. This unprecedented shock was met with an equally unprecedented government response. Applying lessons learned during the last downturn, the Federal Reserve and Congress collectively delivered roughly \$5 trillion in aid within a matter of weeks, divided between direct fiscal stimulus and added financial market liquidity. These actions, followed by the implementation of other lending programs and federal legislation in subsequent months, helped GDP leap 33.4 percent in the third quarter and a more modest 4 percent in the fourth quarter. The strong gains made in the second half of the year mostly offset the earlier losses, translating to an overall economic contraction of 3.5 percent in 2020.

Labor market recovering but some sectors are falling behind. Over half of the jobs lost in March and April last year were restored or replaced by December, but as 2021 progresses certain industries face a longer road to total recovery than others. Physical distancing requirements and travel restrictions had a disproportionate impact on the leisure and hospitality sector, which encompasses hotels, bars, restaurants and other entertainment venues. While the overall employment base remained 6.5 percent below its pre-pandemic level at the start of 2021, the leisure and hospitality sector was still down 23.2 percent. Conversely, staff working in essential services or in positions more easily shifted to a remote setting were better protected. The number of jobs in financial activities, construction and in the trade, transportation and warehousing sector were all at or within 3 percent of their February 2020 mark by the start of the new year. How the labor market improves going forward will depend on how well vaccines are administered. If infection rates drop enough to permit widespread reopening and social patterns normalize, many of the jobs most impaired by the health crisis could quickly return, although not all roles are likely to be restored this year as some employers have permanently closed.

* February to December 2020

Sources: BLS; ETA

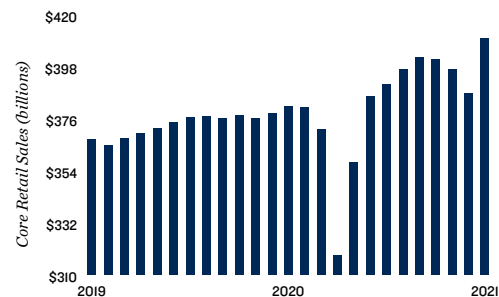
Administration Weighs Policy Goals Against Stimulus Needs While the Federal Reserve Guides Inflation

Biden administration must balance policy objectives and health crisis management. President Biden campaigned on a platform of widespread legislative reform, including taxation, healthcare and public spending on infrastructure. Achieving these goals must be managed in relation to the immediate needs of the health crisis. Some intended policy reforms, such as increasing taxes on businesses and investors, could weigh on economic growth in the short term. Even if political division in Congress does not preclude the passage of wide-sweeping changes, the focus of the legislative and executive branches will likely to be dominated by the health crisis through at least the middle of the year. Making more substantial alterations to laws and regulations could create uncertainty among consumers and investors, dampening the intended effects of stimulus measures that the Biden administration is currently pursuing.

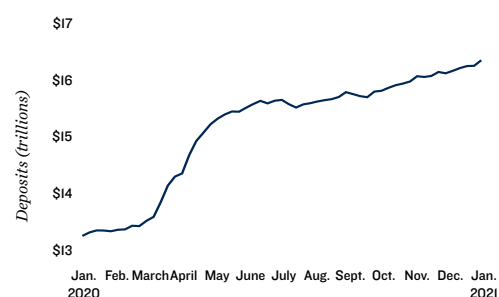
Additional federal aid likely incoming; holds significant implications on growth. The \$900 billion stimulus package passed at the end of last year is serving as a vital economic stopgap as the country deals with the difficult health challenges. Many of the legislation's key benefits, such as renewed federal unemployment insurance, will nevertheless fade by the spring. The Biden administration is therefore pursuing a \$1.9 trillion stimulus package to further buttress the economy. The legislation would include a third round of larger direct payments to taxpayers as well as expanded unemployment benefits, rental assistance, and funding for state and local governments. While the final stipulations of the bill are almost certain to change, the incoming aid will uplift the economy in the near term, but at the cost of introducing some potential longer-term risks. The extensive deficit spending necessitated by the health crisis will likely result in an overall higher tax burden down the line, whether at the local or federal level or both. The ample amount of liquidity injected into the market also raises inflation risk.

The Federal Reserve continues to carefully monitor inflation. As this year progresses, the Fed will have to walk a tightrope balancing economic growth and the potential for accelerated inflation. The Federal Open Market Committee has already signaled that it is willing to allow inflation to rise above a 2 percent annual growth rate following multiple years of below-target increases. To what extent above that threshold the FOMC will permit is as of yet unclear. Even so, the Fed may still be forced to raise interest rates and tighten monetary policy later this year if the risk of spiraling inflation becomes likely. This shift in policy could elicit an unintended reaction from the market, derailing economic growth in unexpected ways. If the central bank acts too early it could also prematurely temper economic growth. Even if the FOMC executes its strategy flawlessly, high inflation could still occur. Recent government actions have injected ample liquidity into the market. At the same time, many consumers have added to their savings while staying at home, expanding their potential spending power. The financial standings of many households have also improved via rising home equity values, a byproduct of a competitive single-family housing market fueled by low interest rates and recent lifestyle changes. All of these factors together create a scenario in which, once the health crisis is mitigated, consumer spending substantially jumps ahead of the available supply of goods and services, raising prices. Depending on the timing, however, this wave of spending could also act as its own form of stimulus.

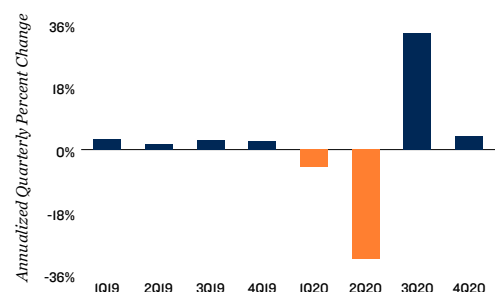
Core Retail Sales Bounce Back



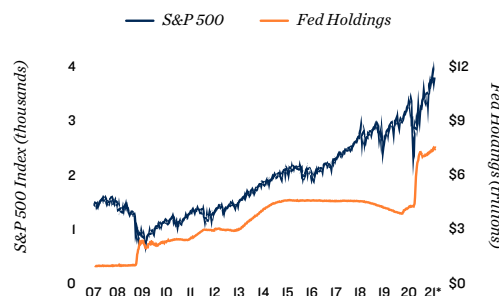
Savings Deposits Steadily Climbing



GDP Growth Trends



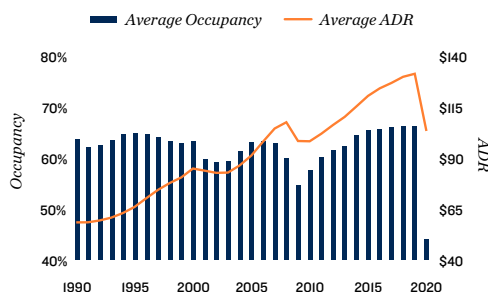
Fed-Injected Liquidity Lifting Equity Prices



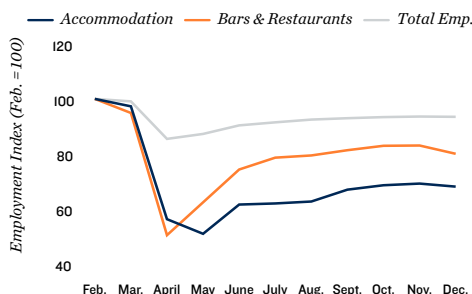
* Through January

Sources: BEA; Federal Reserve; Standard & Poor's; U.S. Census Bureau

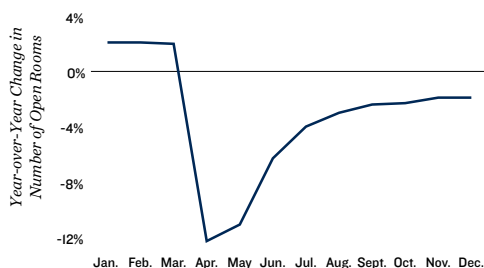
Hotel Performance Historically Low in 2020



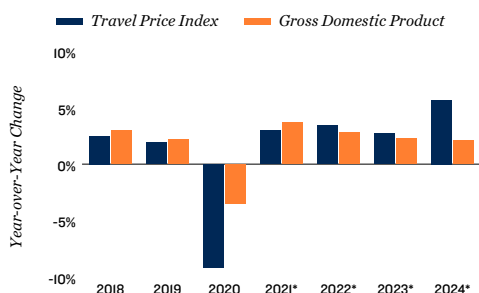
Hospitality Payrolls Deeply Affected in 2020



Pandemic Limits Available Rooms



Travel Prices Forecasted to Grow Most in '24



* Forecast

Sources: BLS; STR, Inc.; U.S. Travel Association

Hotel Room and Investor Demand Could Take Positive Steps Forward in 2021 if Health Risks Abate

Health crisis inhibited hotels more than most other property types last year. The travel restrictions and stay-at-home orders enacted in the first quarter of 2020 to slow the spread of COVID-19 had an immediate and severe impact on the hospitality sector. Occupancy levels quickly dropped from weekly averages above 60 percent to a low of 21 percent in mid-April, with revenue per available room (RevPAR) down over 80 percent year over year. Some properties temporarily closed, either due to local mandates or from minimal guest demand. As the first wave of infections crested and the weather improved, more individuals and families took vacations, lifting occupancy to over 50 percent by October. At year end that metric was back to 40 percent, however, as a resurgence of infections renewed downward pressure on occupancies, and daily rates. Full-service hotels situated in the urban cores of major metros were more affected than limited-service properties in smaller, scenic venues. Though challenged by the current health environment, the rollout of multiple vaccines paves a more positive road forward this year.

Guest bookings poised for large upswing later this year. Hotel room demand is anticipated to make up considerable ground in 2021, though a complete restoration to pre-pandemic levels may not occur until well beyond this year. The recovery will be led by leisure travel, similar to the summer of last year. As vaccines steadily become more available throughout the first half of 2021, households are expected to take trips with greater frequency, initially by road and then later by air. Moving into the second half of the year, more companies will permit employees to travel, likely starting with smaller firms for which trips are necessary components of the business. Once a large portion of the U.S. population has been inoculated, the return of larger professional and entertainment events should inspire even more people to travel, boosting hotel demand in late 2021 going into 2022. A full return to 2019's historically high performance figures may take multiple years to come to fruition, however, especially if international travel remains constrained due to differing levels of COVID-19 containment globally.

Investors avoid pitfall from the previous economic downturn. The anticipated recovery trajectory for hotels will continue to propel investment this year. Sales velocity has already improved from the nadir in the second quarter of 2020. The comparatively stronger performance of limited service hotels in suburban settings and smaller metros has momentarily shifted investor interest more toward assets priced under \$10 million. Buyers seeking premium, full-service hotels should nevertheless return to the market in greater numbers as travelers to these same destinations do. A wave of distressed sales has yet to manifest, unlike during the 2008-2009 financial crisis, reflecting the exogenous nature of the current shock to the economy and high level of capital liquidity still in the market. While the number of active hotel lenders has fallen, relationship and private equity financiers continue to work with borrowers, reducing the immediate need to sell an asset. Although not every property in every location will improve in unison, the demand by travelers as well as buyers is poised to rise in 2021.

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Getaway Destinations

Austin
Fort Lauderdale
Memphis
Norfolk-Virginia Beach
Phoenix
Raleigh
Riverside-San Bernardino

Sacramento
San Diego
Tampa-St. Petersburg

- Markets near larger gateway cities have better weathered the pandemic's impact on hospitality. Those living in dense urban environments where lockdowns have been more severe are escaping to these settings, where more businesses are open and there are outdoor amenities.
- Occupancy, ADR and RevPAR metrics remain below pre-health-crisis highs but lead the country in the current environment.

Measured Setback

Atlanta
Charlotte
Cincinnati
Detroit
Los Angeles

Indianapolis
Salt Lake City
San Antonio

- A mix of temperate weather, natural attractions, and less-stringent lockdowns place these Sunbelt and Midwest secondary markets in this category. While the Los Angeles community has been significantly impacted by COVID-19, warm weather and nearby beaches improve the outlook for hotels once travel restrictions lift.
- Hotel performance metrics were challenged throughout 2020 but a focus on leisure demand should contribute to a 2021 upswing.

Moderate Headwinds

Cleveland
Dallas/Fort Worth
Denver
Houston
Kansas City

Minneapolis-St. Paul
New Orleans
Philadelphia
Pittsburgh
Portland

- Some larger Midwest and Southwest metros where business travel represented a larger part of regular room demand will take longer to see a full recovery in room sales.
- Elevated construction pipelines in Denver, Minneapolis-St. Paul and Portland pose potential challenges this year. Hotels in Philadelphia, Pittsburgh, and Cleveland may see a slower return.

Urban Destinations

Boston
Chicago
New York City
San Francisco
Seattle-Tacoma
Washington, D.C.

- Major gateway markets where hotels normally post nation-leading performance metrics fueled by robust international and corporate travel were some of the most challenged areas in 2020.
- Occupancy levels in some of these metros dropped below 20 percent during the initial lockdown period even with numerous temporary room closures. Demand will be slow to recover until barriers to overseas travel and holding large-scale events are removed.

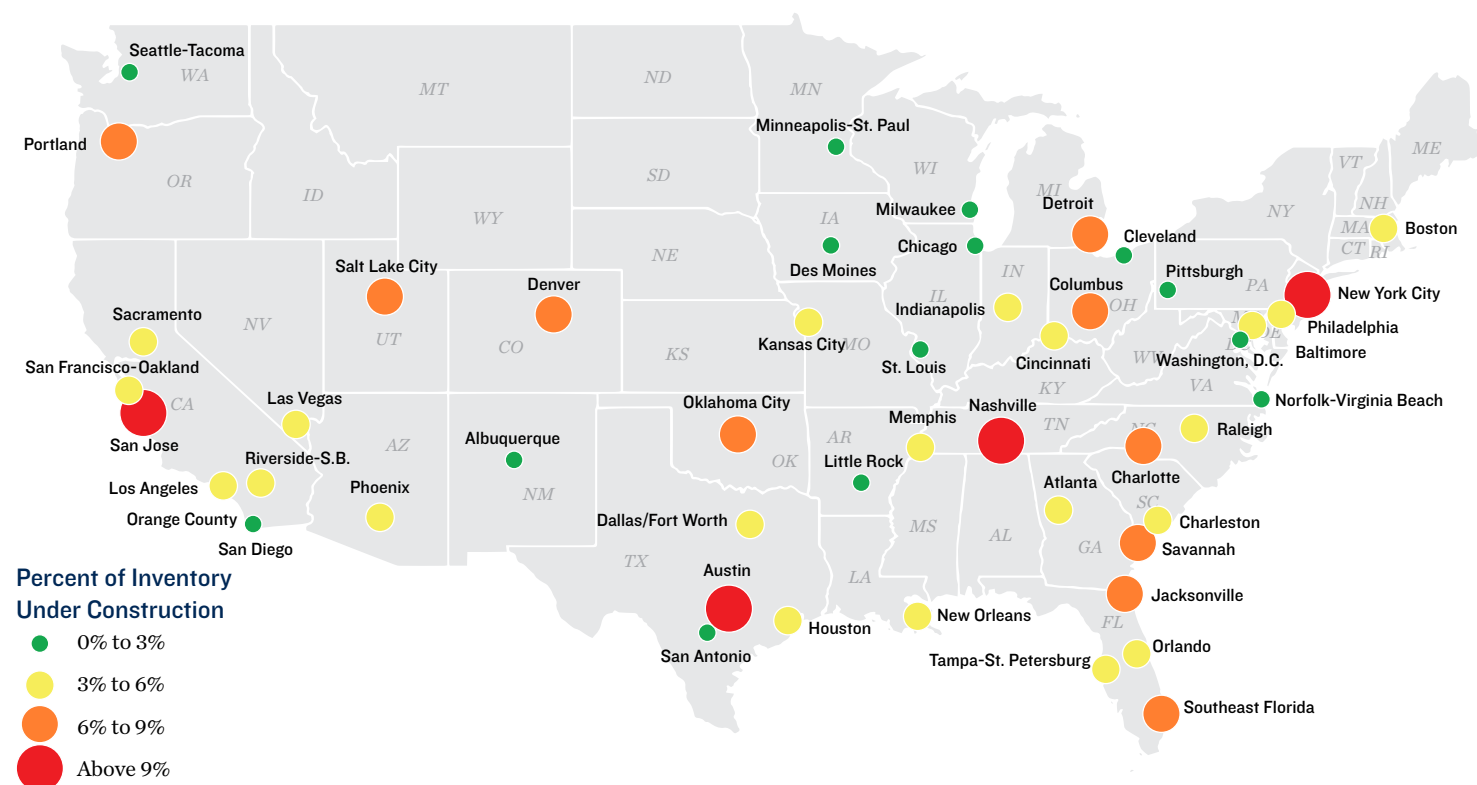
High Tourism Exposure

Las Vegas
Nashville
Orlando
Orange County

- A select number of metro economies were acutely impaired by the health crisis last year, given a large focus on tourism and corporate travel. The temporary closure of theme parks and casinos did much to constrain demand in 2020, but visitors are returning to the extent allowed by current safety guidelines.
- While theme parks remained closed in Orange County in early 2021, access to beaches will still attract numerous leisure visitors.

Traditionally Popular Travel Markets Most Encumbered With New Supply

Rooms Underway at Start of 2021



Top 15 Markets by Total Rooms Under Construction at the Start of 2021

| Metro | Existing Inventory | Rooms Opened in 2020 | Openings as a % of Inventory | Rooms Under Construction | Construction as a % of Inventory |
|-----------------------|--------------------|----------------------|------------------------------|--------------------------|----------------------------------|
| New York City | 178,600 | 2,400 | 1.3% | 20,300 | 11.4% |
| Las Vegas | 154,900 | 1,600 | 1.0% | 8,400 | 5.4% |
| Los Angeles | 151,700 | 2,600 | 1.7% | 8,400 | 5.5% |
| Dallas/Fort Worth | 132,600 | 4,200 | 3.2% | 7,500 | 5.7% |
| Southeast Florida | 108,000 | 2,700 | 2.5% | 7,200 | 6.7% |
| Atlanta | 105,000 | 2,700 | 2.6% | 6,200 | 5.9% |
| Orlando | 114,700 | 4,300 | 3.7% | 4,900 | 4.3% |
| Houston | 105,600 | 2,400 | 2.3% | 3,600 | 3.4% |
| Phoenix | 66,900 | 1,800 | 2.7% | 3,400 | 5.1% |
| Chicago | 114,600 | 1,000 | 0.9% | 3,200 | 2.8% |
| Boston | 61,400 | 1,100 | 1.8% | 3,100 | 5.0% |
| Washington, D.C. | 101,600 | 1,700 | 1.7% | 2,500 | 2.5% |
| San Francisco-Oakland | 65,600 | 200 | 0.3% | 2,200 | 3.4% |
| Philadelphia | 55,900 | 1,000 | 1.8% | 1,700 | 3.0% |
| San Diego | 62,700 | 700 | 1.1% | 900 | 1.4% |

Source: STR, Inc.

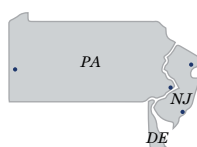
2020 Hotel Performance by Region

**California**Occupancy: **48.6%**

Y-O-Y Change: -2,640 bps

RevPAR: **\$63.09**

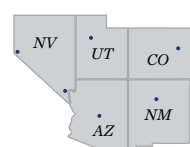
Y-O-Y Change: -51.0%

**Mid-Atlantic**Occupancy: **40.2%**

Y-O-Y Change: -2,370 bps

RevPAR: **\$40.77**

Y-O-Y Change: -49.3%

**Southwest**Occupancy: **46.1%**

Y-O-Y Change: -2,180 bps

RevPAR: **\$47.91**

Y-O-Y Change: -42.6%

**Carolinas**Occupancy: **45.1%**

Y-O-Y Change: -1,920 bps

RevPAR: **\$42.26**

Y-O-Y Change: -40.9%

**Mid South**Occupancy: **42.8%**

Y-O-Y Change: -2,050 bps

RevPAR: **\$38.23**

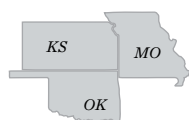
Y-O-Y Change: -46.5%

**Texas**Occupancy: **45.6%**

Y-O-Y Change: -1,920 bps

RevPAR: **\$38.02**

Y-O-Y Change: -43.8%

**Central Midwest**Occupancy: **39.5%**

Y-O-Y Change: -1,790 bps

RevPAR: **\$31.09**

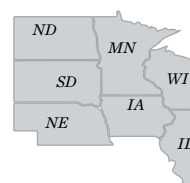
Y-O-Y Change: -41.0%

**New York**Occupancy: **42.3%**

Y-O-Y Change: -3,160 bps

RevPAR: **\$54.44**

Y-O-Y Change: -63.6%

**Upper Midwest**Occupancy: **37.5%**

Y-O-Y Change: -2,280 bps

RevPAR: **\$32.20**

Y-O-Y Change: -53.1%

**Florida**Occupancy: **47.0%**

Y-O-Y Change: -2,530 bps

RevPAR: **\$61.72**

Y-O-Y Change: -41.3%

**North Central**Occupancy: **41.1%**

Y-O-Y Change: -1,910 bps

RevPAR: **\$35.17**

Y-O-Y Change: -43.6%

**Washington, D.C.
Central Atlantic**Occupancy: **41.1%**

Y-O-Y Change: -2,390 bps

RevPAR: **\$40.16**

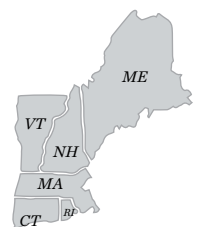
Y-O-Y Change: -51.9%

**Georgia**Occupancy: **47.7%**

Y-O-Y Change: -1,740 bps

RevPAR: **\$40.89**

Y-O-Y Change: -41.6%

**Northeast**Occupancy: **38.3%**

YOY Change: -2,580 bps

RevPAR: **\$46.65**

YOY Change: -54.3%

**Gulf Region**Occupancy: **47.0%**

Y-O-Y Change: -1,280 bps

RevPAR: **\$39.36**

Y-O-Y Change: -31.9%

**Northwest**Occupancy: **44.6%**

Y-O-Y Change: -2,010 bps

RevPAR: **\$45.43**

Y-O-Y Change: -44.0%

Note: Occupancy change is measured in basis points or bps.

Source: STR, Inc.

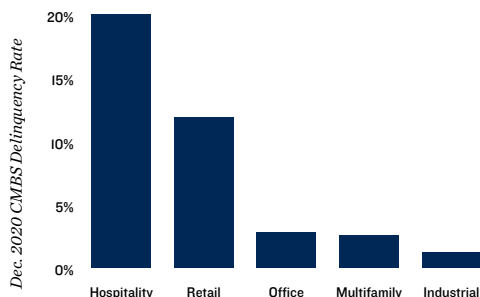
Hospitality Data Summary

| State | Employment Growth | | | | Rooms Currently Under Construction | Occupancy | | |
|----------------------|-------------------|------|-------|--------|------------------------------------|-----------|-------|-------|
| | 2017 | 2018 | 2019 | 2020 | | 2017 | 2018 | 2019 |
| Alabama | 0.9% | 1.7% | 1.3% | -1.7% | 1,800 | 60.6% | 62.4% | 63.1% |
| Alaska | -0.9% | 0.6% | -0.2% | -6.9% | 140 | 63.0% | 63.6% | 65.7% |
| Arizona | 2.8% | 3.2% | 2.5% | -2.8% | 4,550 | 66.3% | 67.6% | 68.7% |
| Arkansas | 1.5% | 1.8% | 0.2% | -2.8% | 1,400 | 53.4% | 52.6% | 53.6% |
| California | 2.4% | 1.6% | 1.5% | -8.0% | 22,480 | 75.2% | 75.3% | 75.0% |
| Colorado | 2.7% | 2.3% | 1.9% | -5.4% | 5,620 | 66.6% | 67.2% | 67.9% |
| Connecticut | -0.2% | 0.1% | 0.5% | -6.1% | 690 | 61.5% | 62.1% | 62.6% |
| Delaware | 1.1% | 0.5% | 1.1% | -6.5% | 1,400 | 78.7% | 77.5% | 76.4% |
| District of Columbia | 0.5% | 1.4% | 0.9% | -7.8% | 350 | 58.7% | 58.8% | 59.9% |
| Florida | 2.0% | 2.4% | 2.0% | -4.6% | 22,550 | 73.7% | 72.9% | 72.3% |
| Georgia | 1.7% | 2.4% | 1.2% | -1.7% | 9,470 | 65.2% | 65.4% | 65.1% |
| Hawaii | 0.6% | 0.2% | 0.3% | -13.8% | 110 | 80.2% | 80.3% | 80.8% |
| Idaho | 3.0% | 3.2% | 2.4% | 0.6% | 720 | 63.6% | 63.4% | 63.5% |
| Illinois | 0.9% | 0.7% | 0.1% | -6.9% | 3,580 | 64.0% | 64.5% | 65.0% |
| Indiana | 1.0% | 1.6% | -0.1% | -2.8% | 3,720 | 61.9% | 60.8% | 60.2% |
| Iowa | 0.7% | 0.7% | -0.4% | -4.3% | 1,010 | 55.8% | 55.7% | 55.7% |
| Kansas | 0.6% | 0.7% | 0.9% | -4.2% | 810 | 55.7% | 55.8% | 56.2% |
| Kentucky | 0.2% | 1.0% | 0.3% | -5.2% | 1,830 | 60.2% | 58.8% | 58.9% |
| Louisiana | 0.2% | 1.0% | -0.4% | -4.2% | 1,910 | 61.1% | 61.4% | 61.3% |
| Maine | 0.8% | 1.3% | 0.6% | -7.7% | 570 | 57.1% | 58.7% | 58.7% |
| Maryland | 0.7% | 1.1% | 1.0% | -4.5% | 1,820 | 65.2% | 63.7% | 64.2% |
| Massachusetts | 1.1% | 1.2% | 0.9% | -9.1% | 3,400 | 68.7% | 70.2% | 67.7% |
| Michigan | 0.9% | 0.8% | 0.5% | -10.9% | 6,090 | 61.0% | 61.7% | 59.9% |
| Minnesota | 1.0% | 0.7% | 0.3% | -8.3% | 1,930 | 61.4% | 62.4% | 61.6% |
| Mississippi | 0.0% | 0.9% | 0.1% | -1.4% | 1,970 | 57.7% | 58.0% | 58.4% |
| Missouri | 0.4% | 0.9% | 0.3% | -3.1% | 2,030 | 60.7% | 58.7% | 58.9% |
| Montana | 1.2% | 1.4% | 1.4% | -2.9% | 590 | 57.5% | 58.1% | 58.2% |
| Nebraska | 0.4% | 0.7% | 0.8% | -2.3% | 1,070 | 55.3% | 55.8% | 57.8% |
| Nevada | 2.9% | 3.4% | 1.7% | -6.8% | 8,800 | 70.5% | 69.4% | 69.8% |
| New Hampshire | 0.8% | 1.2% | 0.9% | -8.8% | 300 | 60.8% | 62.6% | 60.6% |
| New Jersey | 1.0% | 1.2% | 1.3% | -8.0% | 2,170 | 65.6% | 67.1% | 66.1% |
| New Mexico | 1.1% | 1.6% | 1.8% | -7.6% | 620 | 61.1% | 63.4% | 63.7% |
| New York | 1.1% | 1.5% | 0.8% | -10.4% | 20,300 | 73.3% | 74.5% | 73.9% |
| North Carolina | 1.7% | 2.4% | 1.1% | -4.2% | 6,190 | 63.3% | 64.8% | 65.4% |
| North Dakota | 0.3% | 1.3% | 0.6% | -6.7% | 130 | 49.7% | 51.2% | 55.1% |
| Ohio | 0.5% | 1.0% | 0.0% | -6.3% | 4,760 | 60.1% | 60.4% | 60.6% |
| Oklahoma | 1.9% | 1.3% | 0.0% | -4.7% | 2,250 | 55.0% | 57.3% | 56.0% |
| Oregon | 3.0% | 1.9% | 1.0% | -7.8% | 2,050 | 66.3% | 65.6% | 65.8% |
| Pennsylvania | 1.0% | 1.2% | 0.7% | -7.8% | 3,240 | 61.4% | 63.4% | 62.6% |
| Rhode Island | 0.3% | 1.4% | 0.6% | -8.7% | 220 | 66.1% | 65.6% | 65.1% |
| South Carolina | 2.8% | 1.7% | 1.9% | -2.4% | 4,080 | 63.9% | 63.6% | 62.8% |
| South Dakota | 0.8% | 1.0% | 0.7% | -2.9% | 190 | 54.5% | 54.7% | 56.7% |
| Tennessee | 1.5% | 2.3% | 1.5% | -3.2% | 7,310 | 64.5% | 64.9% | 65.5% |
| Texas | 1.9% | 2.6% | 2.3% | -3.3% | 20,300 | 64.9% | 64.9% | 64.8% |
| Utah | 3.2% | 3.0% | 2.8% | 0.6% | 1,980 | 65.3% | 64.0% | 63.3% |
| Vermont | -0.5% | 0.8% | -0.3% | -9.0% | 200 | 60.7% | 61.2% | 62.0% |
| Virginia | 1.3% | 1.3% | 1.3% | -4.4% | 2,650 | 63.8% | 64.2% | 64.1% |
| Washington | 2.7% | 2.1% | 2.1% | -6.0% | 2,130 | 69.6% | 69.0% | 68.6% |
| West Virginia | 0.5% | 0.8% | -1.3% | -6.1% | 380 | 57.4% | 63.1% | 59.6% |
| Wisconsin | 1.0% | 0.7% | 0.2% | -7.0% | 1,740 | 56.9% | 57.4% | 56.2% |
| Wyoming | 0.7% | 1.6% | -0.6% | -4.3% | 190 | 48.9% | 52.5% | 57.4% |
| United States | 1.5% | 1.6% | 1.4% | -6.1% | 195,730 | 66.0% | 66.2% | 66.2% |

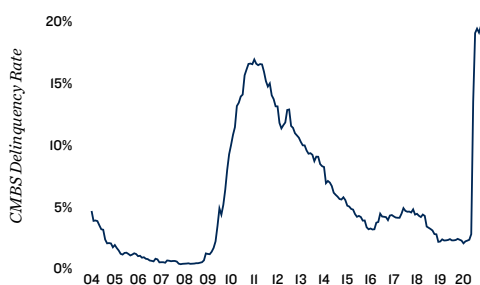
| | ADR | | | | RevPAR | | | | State |
|-------|----------|----------|----------|----------|----------|----------|----------|---------|----------------------|
| 2020 | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 | 2019 | 2020 | |
| 49.7% | \$85.21 | \$87.69 | \$90.97 | \$81.23 | \$51.85 | \$54.99 | \$57.66 | \$40.89 | Alabama |
| 45.2% | \$120.13 | \$125.03 | \$133.00 | \$103.08 | \$79.94 | \$84.48 | \$92.82 | \$47.28 | Alaska |
| 49.8% | \$117.36 | \$120.17 | \$123.07 | \$104.09 | \$78.85 | \$82.34 | \$85.58 | \$54.40 | Arizona |
| 41.1% | \$81.34 | \$82.23 | \$83.50 | \$73.42 | \$43.56 | \$43.38 | \$44.95 | \$30.41 | Arkansas |
| 48.6% | \$161.41 | \$167.59 | \$171.14 | \$124.49 | \$121.81 | \$126.66 | \$128.75 | \$63.09 | California |
| 46.2% | \$139.79 | \$141.30 | \$145.22 | \$116.13 | \$93.09 | \$95.13 | \$98.72 | \$56.00 | Colorado |
| 40.2% | \$115.86 | \$118.62 | \$118.19 | \$94.61 | \$71.72 | \$74.14 | \$74.48 | \$39.08 | Connecticut |
| 27.6% | \$231.70 | \$217.91 | \$221.52 | \$154.95 | \$183.70 | \$171.69 | \$172.22 | \$46.20 | Delaware |
| 45.9% | \$117.56 | \$119.67 | \$122.27 | \$100.33 | \$70.52 | \$71.85 | \$74.89 | \$47.61 | District of Columbia |
| 47.0% | \$137.31 | \$142.61 | \$143.77 | \$122.49 | \$101.87 | \$105.01 | \$105.06 | \$61.72 | Florida |
| 47.7% | \$100.88 | \$103.77 | \$107.35 | \$83.96 | \$65.87 | \$68.03 | \$70.06 | \$40.89 | Georgia |
| 31.7% | \$264.14 | \$276.05 | \$282.63 | \$208.28 | \$212.05 | \$221.93 | \$228.65 | \$80.05 | Hawaii |
| 50.2% | \$100.32 | \$102.53 | \$104.99 | \$94.52 | \$65.25 | \$66.37 | \$68.13 | \$49.13 | Idaho |
| 35.9% | \$126.10 | \$130.61 | \$128.22 | \$83.34 | \$82.21 | \$86.01 | \$84.89 | \$30.79 | Illinois |
| 41.6% | \$99.02 | \$100.89 | \$101.80 | \$80.63 | \$61.68 | \$61.67 | \$61.58 | \$34.12 | Indiana |
| 40.5% | \$91.54 | \$92.20 | \$92.05 | \$79.83 | \$51.42 | \$51.81 | \$51.69 | \$32.95 | Iowa |
| 40.8% | \$87.13 | \$86.91 | \$87.73 | \$75.36 | \$48.72 | \$48.65 | \$49.47 | \$31.08 | Kansas |
| 38.6% | \$96.47 | \$98.29 | \$100.49 | \$79.20 | \$58.61 | \$58.31 | \$59.76 | \$31.01 | Kentucky |
| 46.5% | \$111.48 | \$112.20 | \$111.60 | \$88.85 | \$68.42 | \$69.36 | \$68.86 | \$42.83 | Louisiana |
| 39.9% | \$119.90 | \$126.82 | \$131.18 | \$109.65 | \$72.21 | \$79.00 | \$82.04 | \$46.49 | Maine |
| 42.8% | \$119.54 | \$119.48 | \$120.67 | \$96.64 | \$79.00 | \$77.30 | \$78.67 | \$42.37 | Maryland |
| 35.3% | \$178.52 | \$181.64 | \$184.50 | \$128.28 | \$125.62 | \$130.36 | \$128.04 | \$47.40 | Massachusetts |
| 42.2% | \$103.86 | \$105.90 | \$106.73 | \$89.81 | \$63.88 | \$65.99 | \$64.60 | \$39.34 | Michigan |
| 36.3% | \$110.19 | \$115.53 | \$114.92 | \$89.13 | \$68.34 | \$72.56 | \$71.64 | \$33.33 | Minnesota |
| 49.6% | \$84.07 | \$85.69 | \$85.94 | \$78.41 | \$48.70 | \$49.91 | \$50.40 | \$39.24 | Mississippi |
| 38.0% | \$98.44 | \$99.37 | \$100.39 | \$84.14 | \$60.14 | \$58.75 | \$59.56 | \$32.60 | Missouri |
| 46.3% | \$99.32 | \$100.92 | \$103.66 | \$94.87 | \$59.66 | \$61.13 | \$62.88 | \$46.08 | Montana |
| 40.5% | \$91.63 | \$91.15 | \$91.43 | \$76.83 | \$51.24 | \$51.46 | \$53.47 | \$31.51 | Nebraska |
| 44.2% | \$113.92 | \$112.49 | \$114.91 | \$91.02 | \$80.50 | \$77.89 | \$80.20 | \$42.16 | Nevada |
| 40.5% | \$130.09 | \$134.83 | \$136.35 | \$119.75 | \$80.54 | \$86.03 | \$84.32 | \$51.25 | New Hampshire |
| 42.1% | \$117.29 | \$124.54 | \$127.23 | \$100.36 | \$77.61 | \$84.39 | \$84.93 | \$43.74 | New Jersey |
| 43.7% | \$87.47 | \$94.62 | \$96.76 | \$78.26 | \$53.72 | \$60.35 | \$61.98 | \$34.57 | New Mexico |
| 42.3% | \$199.38 | \$204.73 | \$200.86 | \$125.85 | \$147.09 | \$153.38 | \$149.51 | \$54.44 | New York |
| 45.0% | \$102.11 | \$104.67 | \$107.02 | \$89.16 | \$64.90 | \$68.16 | \$70.30 | \$40.92 | North Carolina |
| 39.2% | \$80.64 | \$80.77 | \$80.63 | \$72.08 | \$40.14 | \$41.41 | \$44.64 | \$28.54 | North Dakota |
| 39.8% | \$96.59 | \$98.47 | \$99.79 | \$79.49 | \$58.49 | \$59.95 | \$60.91 | \$32.25 | Ohio |
| 40.8% | \$78.75 | \$79.41 | \$79.96 | \$70.18 | \$43.36 | \$45.58 | \$44.91 | \$28.93 | Oklahoma |
| 46.0% | \$119.56 | \$120.85 | \$121.40 | \$98.82 | \$80.91 | \$80.84 | \$81.33 | \$46.63 | Oregon |
| 38.3% | \$118.31 | \$120.36 | \$122.83 | \$96.21 | \$73.13 | \$76.86 | \$77.53 | \$38.00 | Pennsylvania |
| 41.3% | \$141.94 | \$146.02 | \$146.74 | \$117.81 | \$97.08 | \$99.02 | \$98.63 | \$51.20 | Rhode Island |
| 45.4% | \$111.90 | \$114.32 | \$114.54 | \$95.41 | \$72.78 | \$74.20 | \$73.22 | \$44.18 | South Carolina |
| 44.8% | \$89.83 | \$89.45 | \$89.22 | \$81.56 | \$50.75 | \$50.74 | \$52.34 | \$38.24 | South Dakota |
| 45.0% | \$110.50 | \$114.11 | \$117.42 | \$91.10 | \$71.72 | \$74.49 | \$77.33 | \$41.86 | Tennessee |
| 45.6% | \$102.34 | \$105.16 | \$104.07 | \$81.22 | \$66.57 | \$68.39 | \$67.63 | \$38.02 | Texas |
| 46.7% | \$121.89 | \$123.17 | \$124.46 | \$104.41 | \$79.30 | \$78.76 | \$78.51 | \$50.33 | Utah |
| 41.9% | \$142.29 | \$146.12 | \$147.28 | \$119.00 | \$87.54 | \$90.84 | \$92.80 | \$51.97 | Vermont |
| 43.1% | \$108.73 | \$109.54 | \$111.49 | \$87.48 | \$70.02 | \$71.15 | \$72.26 | \$38.48 | Virginia |
| 41.7% | \$130.28 | \$134.21 | \$133.55 | \$95.09 | \$92.11 | \$94.03 | \$92.95 | \$40.88 | Washington |
| 40.9% | \$93.68 | \$96.27 | \$99.54 | \$88.12 | \$54.11 | \$61.12 | \$59.65 | \$36.40 | West Virginia |
| 36.0% | \$104.88 | \$106.25 | \$108.20 | \$89.34 | \$60.65 | \$62.04 | \$61.78 | \$33.03 | Wisconsin |
| 44.2% | \$120.58 | \$120.04 | \$120.17 | \$115.39 | \$61.90 | \$65.32 | \$71.32 | \$54.35 | Wyoming |
| 44.0% | \$126.65 | \$129.67 | \$131.16 | \$103.09 | \$83.57 | \$85.87 | \$86.80 | \$45.39 | United States |

Sources: BLS; STR, Inc.

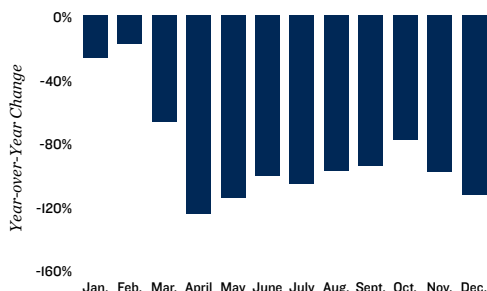
Hotels & Retail Stores Lead Delinquencies



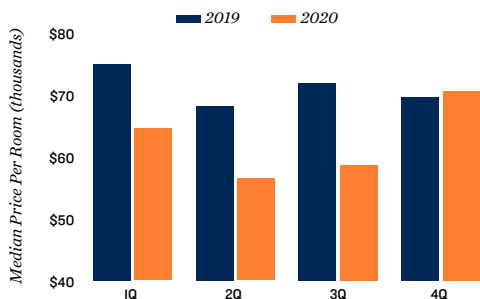
Hospitality Delinquency Hits New Record



Average EBITDA per Available Room in 2020



Median Hotel Sale Prices Recover in 4Q*



* Sales \$2.5 million and greater

Sources: Moody's Analytics; Real Capital Analytics; STR, Inc.

While Loan Delinquencies Elevated, Wave of Distress Sales Not Seen in Current Investment Climate

Health crisis requires hoteliers to adjust operations. Global lockdowns significantly disrupted hotel revenue generation across the country last year as properties only welcomed a fraction of their regular guest volumes. After posting moderate growth year over year in February, gross operating profit per available room (GOPPAR) had fallen 118 percent year over year in May. To compensate for the lost demand, hoteliers reduced expenses. Between March and May, over 1 million accommodation jobs were lost, roughly half the pre-pandemic workforce. By shrinking staffs and suspending some services, lodging businesses were able to decrease labor costs per available room and as an industry record a positive year-to-date average GOPPAR value by October. Hoteliers nevertheless continue to face negligible margins, raising steep financial hurdles for some investors as debt obligations remain undiminished.

Hospitality loan delinquency sets new record, raising questions of distress. The rapid drop of income last year made it harder for hotel owners to meet their debt obligations. Despite forbearance on the part of many lenders, as well as a range of other government-backed support programs, more hoteliers fell behind on their loan payments. The delinquency rate on outstanding CMBS hospitality loans jumped from 2.6 percent in May to 13.3 percent in June and fluctuated within the 18 percent to 20 percent band through the rest of the year. This increase was both more sudden and severe than during the 2008-2009 global financial crisis when, in 2010, the CMBS delinquency rate only reached 16.8 percent. That downturn also resulted in a surge of distressed hotel sales, which by some estimates reached as high as 60 percent of total trade volume in the fourth quarter of 2010. Such a spike in distressed sales activity has yet to occur in the hotel sector.

Distressed sales remain a small segment of recent investment activity. Despite current challenges, distress in commercial real estate sales has not become widespread. Distressed trades only represented about 1 percent of total dollar volume last year, a small fraction of the level recorded during the previous economic downturn. Among hotels, the share of distressed transactions was higher, reaching 10 percent in the second quarter before dipping to 9 percent in the fourth quarter. Although high compared with the other major property types, the measure is still well below the benchmark set in 2010. Sale prices and cap rates have also not deteriorated in a manner that would be consistent with large-scale distress. Following a drop in mid-2020, the median sale price per room reached parity with 2019 measures by year end.

Widespread distress unlikely as year advances. The period when distressed sales were most likely to occur was between March and June of 2020 when uncertainty was greatest. Every day since has brought added clarity, allowing hotels and investors to problem solve. Many lenders have collaborated with borrowers to form modified payment plans. As more vaccines are administered, people are anticipated to travel in larger numbers, improving hotel performance. At the micro level however, some hotels, especially those in high-cost urban centers, will be heavily challenged. This may prompt a higher frequency of defaults and distressed sales in these locations. Generally though, property owners can turn to a liquid capital market, something that was unavailable during the financial crisis. Paired with growing clarity, these factors will keep most investors from entering into a forced transaction in 2021.

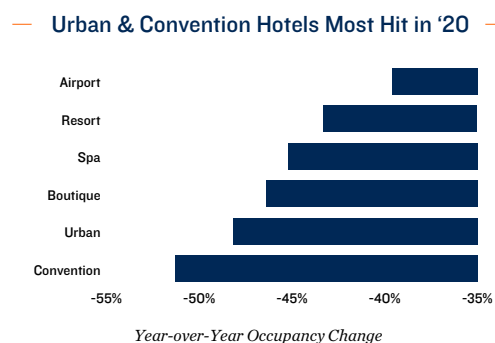
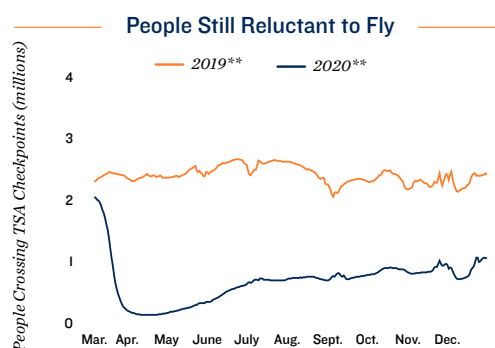
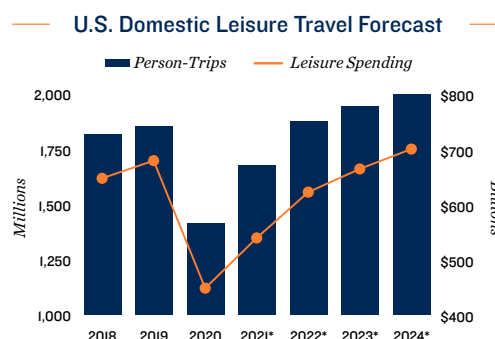
Coronavirus Curbs Vacations, Impairing Hotels; Bulk of Domestic Leisure Travel Expected Back by 2022

Vacation plans fall to the wayside during initial outbreak. The spread of COVID-19 dramatically altered travel patterns in 2020 and will continue to hold significant influence over tourism this year. After the initial series of stay-at-home orders were enacted, travel dropped precipitously. By early April the number of people crossing TSA airport checkpoints daily fell to under 100,000, less than 5 percent of normal volume, while the average hotel occupancy rate was around 21 percent. Those who were still traveling, including healthcare workers, supply-chain professionals, and others responding to personal emergencies, were largely sticking to the road. This behavior was reflected in the stronger performance of hotels located along interstates compared with facilities in other settings. As uncertainty began to abate, though, leisure travel started to recover.

Partial return of summer travel gives way to winter infections. Weary from months in sequestration, individuals and families set out in the summer for a change of scenery. This activity improved hospitality fundamentals, especially at drive-to destinations. A need to avoid crowds and the lack of many vacation activities, such as concerts, conventions and festivals, led many to seek nearby areas with outdoor amenities. Cost was also a factor as nationwide business shutdowns had led to historically high unemployment. After briefly surpassing the 50 percent threshold in late summer and early autumn, hotel occupancies began to recede in November, correlated with a rise in coronavirus infections. While numerous people continued to travel in the winter, especially around the holidays, hotel performance softened, suggesting individuals opted to stay with friends and family to limit exposure. Although health risks remain severe in early 2021, the ongoing vaccine rollout sets the stage for an upcoming recovery in leisure trips.

Domestic leisure travel restoration expected within two years. After declining more than 20 percent in 2020, domestic leisure travel is anticipated to recover by the end of 2022. As more vaccines become available through the first half of this year, individuals and families will take vacations with greater frequency. Based on last summer's behavior, these trips will likely be taken more by road and to affordable destinations with outdoor amenities, including beaches and national parks. Later in the year, once physical-distancing restrictions are lessened, smaller group events, such as weddings, will resume. Larger group trips are unlikely to occur until vaccines are widely available and major entertainment events can be safely held. This is not likely to happen until late 2021 or early 2022.

International visitation into the U.S. may not fully recover until 2024. The return of international leisure travel to the U.S. will trail that of the domestic market due to the legal, logistical and financial hurdles involved. Current travel restrictions complicate the visitation process while there are also fewer reasons to make the trek to the U.S. without marquee entertainment events. The global economic downturn also means that fewer individuals will have the financial means to travel abroad in the near future. For these reasons, international travel into the U.S. is not expected to recover to the benchmarks set in 2018 or 2019 until possibly 2024. Major gateway markets such as New York City, San Francisco and Chicago will be the most affected as the strong performance of their hospitality sectors in recent years was buttressed by demand from international visitors.

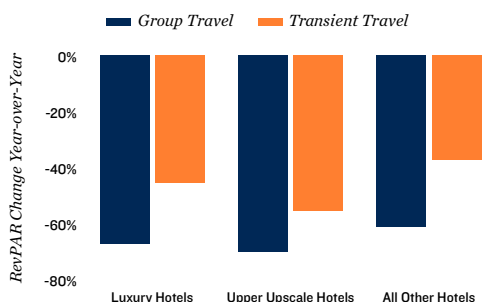


* Forecast

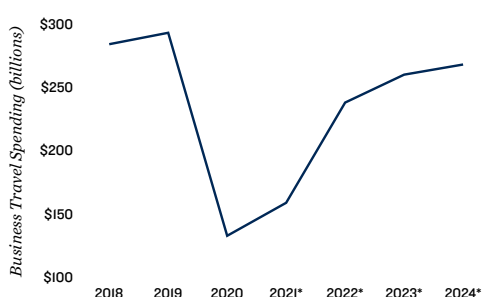
** Trailing seven-day average

Sources: STR, Inc.; TSA; U.S. Travel Association

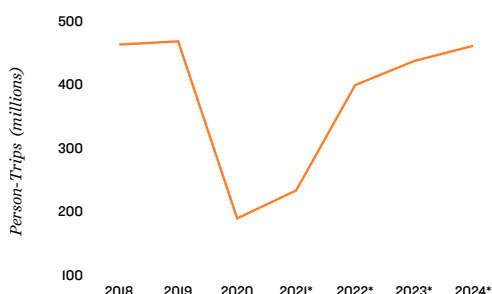
Group Revenue Drops Most in 2020



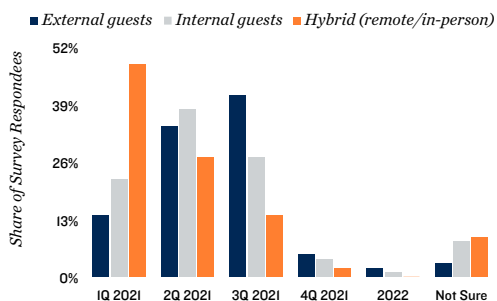
U.S. Business Travel Spending Forecast



U.S. Business Trips Forecast



When Companies Plan to Have Meetings Again



* Forecast

Sources: GBTA; STR, Inc.; U.S. Travel Association

Business Travel Will Be Slow to Return as Companies Await Widespread COVID-19 Containment

Pandemic limits company trips as events are canceled or shifted online. Business travel into and within the U.S. was more severely impaired by the health crisis than the leisure sector. The large-scale shift to remote work and cancellation of most corporate events led to an estimated annual decline in business trips of over 60 percent in 2020. The enterprise travel that did take place last year was largely associated with necessity functions, including the migration of in-demand medical personnel. People supporting logistical supply chains also traveled, and some individual entrepreneurs may have opted to assume the risk as well. Certain hotels catered to businesses in a new way by offering private spaces to work remotely or to quarantine. Despite these niche sources, hotel room demand from professionals is anticipated to remain heavily subdued until a substantial improvement in the health crisis permits employees to safely travel and interact with one another again. Even then, months of working remotely have demonstrated that a certain level of social interaction can still be conducted virtually. For companies facing financial challenges, funds for travel budgets may go elsewhere as meetings and other functions are held online.

A multiyear restoration of business travel is likely; smaller events the first to return.

The recovery in enterprise transit will trail that of the leisure sector by a year or more, until the underlying motivators for commercial trips return. Outside of essential industries, organizations are highly unlikely to permit employee travel until the coronavirus has been substantially contained via the ongoing vaccine rollout. As infection rates slow, relaxed safety precautions may permit some small business events to occur, possibly by mid- to late 2021. These functions would be local or regional in scope, limiting the health risk of air travel and reducing costs on employers. A December 2020 survey revealed that firms are anticipating spending less of their already reduced travel budgets this year on trade shows and internal company meetings, and more on travel to provide necessary services, such as repairs or training. This outlook aligns with the expectation that larger corporate group bookings will be slowest to resume.

Difficulties in holding major events will slow upswing in business travel. Large-scale corporate gatherings, such as conventions and trade shows, will be the last segment of the broader travel industry to recover. The inherent size and scope of these occasions, with attendees coming from across the country or the globe, will require substantial containment of the coronavirus. Unless that condition is met, local governments are unlikely to permit gatherings of significant size, and companies will be cautious about requiring air travel. These same larger organizations are also more likely to have the resources to conduct alternative virtual meetings. While not every aspect of a face-to-face interaction can be replicated over video conference, it remains the safest alternative in the current environment. Even when vaccines are widely available and enough people have been inoculated to allow sizable conventions and other events to occur, corporate travel budgets are unlikely to be at 2018 and 2019 levels. The economic damages of the pandemic may limit how many business trips can be afforded initially. In the interim, hotels may see new room demand from relocated employees. If remote work remains a common option moving forward, staff members who had moved to a new city during the pandemic may book a room while visiting the home office on a regular basis.

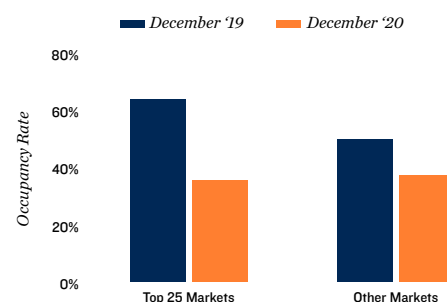
Hotels in Smaller Settings and Drive-To Destinations Likely to Perform Best for Most of 2021

Hotels in gateway markets are experiencing the most operational stress. Travel restrictions, business closures, and the lack of organized social gatherings have substantially reduced visitor volume in the country's largest urban metros. In the past, hotels in these settings have benefited from robust tourist and business traveler demand, often leading the nation in occupancies and revenues. Since the onset of the pandemic, however, the hospitality landscapes of markets such as San Francisco, Boston, Chicago, and the District of Columbia have struggled. This is acutely true of New York City, where approximately a third of hotel rooms were still temporarily closed at the start of 2021, the most of any major metro. Nationally, low occupancies paired with a protracted recovery period place lodging establishments in the country's largest urban cores at the most financial risk. More hotels will permanently shutter or sell out of distress in these settings than anywhere else. In the long term, however, the gateway markets are anticipated to make full recoveries. Investors able to weather the short-term challenges of the pandemic may be able to secure trades given a lack of competition from other buyers.

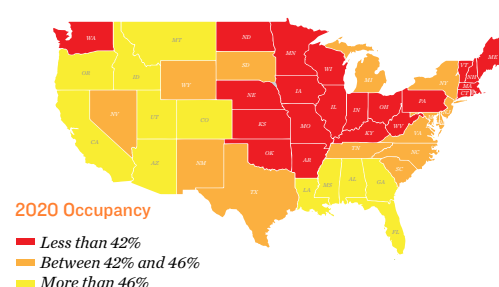
Drive-to leisure destinations with outdoor activities show resilience. Hospitality markets geared more specifically toward leisure travelers have fared better than the gateway metros in some cases and worse in others. Leisure destinations that feature outdoor attractions and draw upon a regional customer base that can travel by car are performing relatively well. Parks and beaches are clear favorites of households leaving their homes after months of sequestration. Yellowstone noted historically strong monthly attendance last summer, and occupancy in Norfolk-Virginia Beach never dropped below 30 percent. It was also the only market in the top 25 to break the 60 percent occupancy threshold last year. Hotels in the warmer climates of Phoenix and Tampa-St. Petersburg also outperformed the nation throughout 2020 as warmer weather did not interrupt activities such as outdoor dining, hiking and boating. These same attributes should capture much of the recovering travel population in the spring and summer months of 2021. In contrast, the closure of theme parks and casinos last year have cut occupancy rates in Orlando, Orange County and Las Vegas to about half of what they were in 2019. Health-based precautions and the slower return of international visitation will challenge these metros this year.

Lodging demand in smaller markets less impaired by the health crisis. Hotels in smaller cities and towns, where fewer large entertainment or corporate events are usually held, normally trail the top travel markets in occupancy and revenue. Partly because of this factor these locations have recorded shallower drops in performance during the pandemic than in other, more-populated areas. Many of these metros were also less impacted by the health crisis and more lenient on businesses, drawing visitors from surrounding areas under stricter lockdowns. Such has been the case in California, where occupancy rates in Sacramento and Riverside-San Bernardino surpassed those in San Francisco and Orange County by more than 1,000 basis points. Hotels along the Sunbelt also reported performance metrics above that of the U.S. average. Properties in these locations also offer comparatively more affordable room rates than in the traditionally popular travel markets. This appeals to travelers who may have a tighter budget due to the pandemic. Because of all of these factors, hotels in smaller scenic venues are likely to record the most positive performance metrics in 2021.

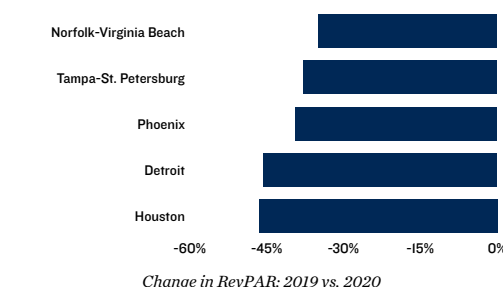
Occupancy Dropped More in Larger Metros



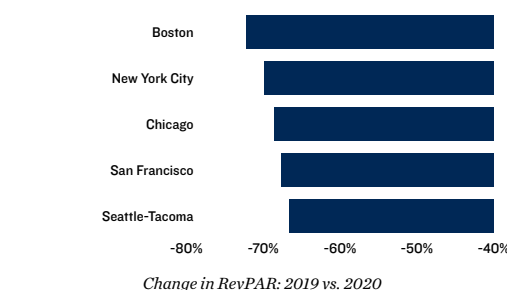
Sunbelt, Mountain States Faring Better



Markets With Least Decrease in RevPAR

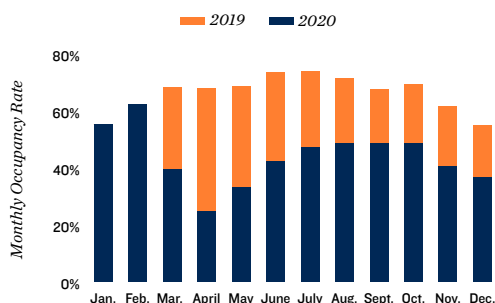


Markets With Greatest Decrease in RevPAR

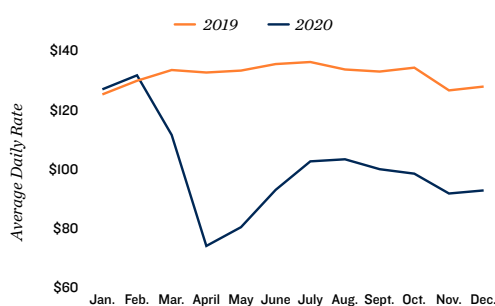


* Forecast
Source: STR, Inc.

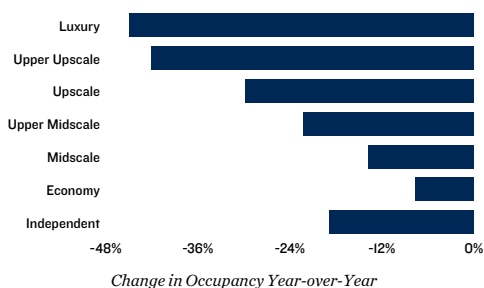
Occupancy Remains Below 2019 Levels



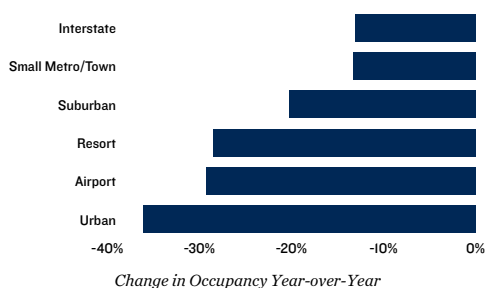
ADR Recovery Slows as 2020 Ends



Occupancy Loss in 2020 by Chain Scale



Occupancy Loss in 2020 by Location



Source: STR, Inc.

Limited-Service Hotels Near Interstates and in Smaller Towns Benefit From Shifting Travel Preferences

Cautionary budgets, fewer operational adjustments help limited-service hotels. The lower room rates offered by economy and midscale hotels, favorable during periods of economic uncertainty, and fewer supplemental amenities required to close are helping keep demand more stable. The yearlong average occupancy at economy hotels was 51 percent in 2020, which was down just 8 percentage points from the previous 12-month stretch. Occupancy at midscale hotels was soft early in the pandemic, dropping to almost 27 percent in April, but it recovered to above 50 percent during the late summer months. Room rates benefited from these comparatively high occupancy levels as well, with the economy segment maintaining an ADR in the \$50 to \$60 range throughout the year and ending December just 5 percent lower than the same month in 2019. Similarly, the average midscale ADR for all of 2020 was \$76.53, down 11 percent year over year, half the drop suffered across all hotel types over the same span. Minimal declines in these metrics among limited-service hotels supported revenue. The economy grouping posted a yearlong average RevPAR of \$29.62 and the midscale segment noted an average of \$34.14, down 21 percent and 32 percent year over year, respectively. The overall U.S. average decreased 48 percent. As such, these properties have less ground to recover this year.

Closure of desirable amenities weighs on demand and rates of full-service hotels.

Premium services such as spas and live entertainment that typically bolster demand for luxury and upper upscale hotels were required to close or operate at limited capacity during the health crisis, stunting demand and pressing on rates. Occupancy in the luxury segment bottomed at almost 6 percent in April and despite some recovery over the second half of the year only 21 percent of available rooms were occupied in December, a 69 percent decline from the same month in 2019. Upper upscale occupancy averaged roughly 32 percent in 2020, which was well below the 74 percent average logged in the previous year. Sluggish demand for rooms pressed on rates as well, with the luxury segment noting a year-over-year ADR decline of 11 percent to \$306.15. Upper upscale ADR fell by an even larger margin, dropping 23 percent on an annual basis to \$145.20. These steep drop-offs in both occupancy and daily rates were a hurdle for revenue streams. In 2020 the average luxury RevPAR was just \$93.70, down from \$253.19 in the previous year. Over that same time frame, upper upscale RevPAR dropped by roughly 64 percent to \$49.90. These full-service hotels will take the longest to recover, likely extending past 2021.

Travel trends during the pandemic impact locational metrics. Many who traveled in 2020 chose to take shorter trips, often within driving distance, which affected the hospitality landscape. Hotels along interstates and in small metros/towns outperformed their counterparts in resort destinations and urban settings. The average occupancy for hotels along interstates and in small metros in 2020 was 45 percent and 44 percent, respectively, each down from 58 percent in the previous year. Comparatively, average occupancy for urban hotels fell from 73 percent in 2019 to 37 percent last year, and the same measure for resort hotels dropped to 42 percent from 70 percent. Revenue streams were also significantly impacted. Average RevPAR in 2020 for interstate and small metros/town hotels declined nearly 30 percent from the previous year, while urban lodging establishments experienced the largest adjustment, falling roughly 65 percent year over year. RevPAR for resort hotels also dropped by a notable 46 percent annually in 2020.

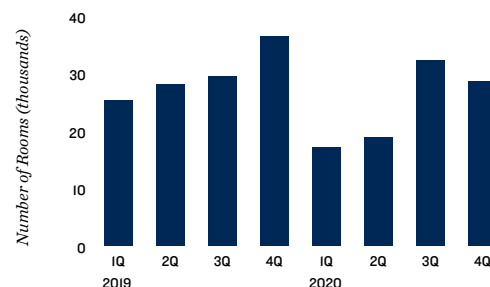
Development Activity to Ease, Though New Arrivals Could Exacerbate Challenges in Some Metros

Projects underway at a two-year low following a large second-half delivery last year. After completions fell significantly in the first half of 2020 amid construction site shut-downs, the pace of delivery ramped up in the last six months of the year. A total of roughly 96,800 rooms were finalized in 2020 and 63 percent of that volume came in the second half of the year. Now that many of the projects that had broken ground prior to the onset of pandemic have reached completion, however, the development pipeline moving forward is more modest. Uncertainty about how quickly the lodging sector will recover has put some planned projects on hold, at least for now. At the end of last year approximately 196,500 rooms were under construction nationwide, the lowest tally in two years. Nevertheless, some markets will face greater supply-side pressure than others. Inventory in New York City, Austin and San Jose will grow by more than 10 percent once the projects that have broken ground reach completion. Urban fundamentals, in particular, could be stressed by these new arrivals, as demand for hotel rooms downtown will remain sluggish with fewer business events and conferences expected to take place in the near future.

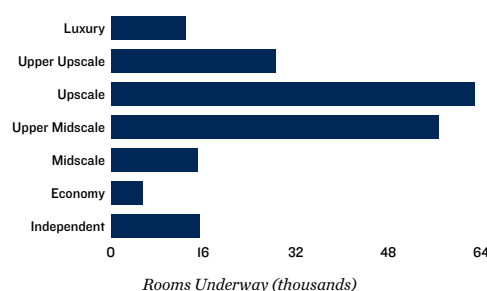
Sunbelt markets to add inventory quickly, but tailwinds in place. Three markets that have been comparatively resilient to the disruption — Dallas/Fort Worth, Atlanta and Phoenix — have a sizable volume of projects underway. These markets may be better suited to handle the new arrivals, though, as demographic trends are favorable and restrictions on businesses have been less stringent. Dallas/Fort Worth will gain the largest delivery volume among the three markets, as roughly 7,500 rooms were underway at the beginning of 2021 which will increase inventory by 5.7 percent. Atlanta will note a slightly larger inventory expansion of 5.9 percent once the 6,200 rooms currently underway finalize. In Phoenix, hotel stock will grow by roughly 3,400 rooms or 5.1 percent of inventory once the rooms being built open. Neighborhood location will also play a key factor alongside incoming supply in these metros, as air travel and business-related demand will remain soft in the near term. Competition from new builds could present an additional hurdle for operators in some sub-markets, especially those near the major airports and in the central business districts.

Limited construction activity will aid the recovery in a few challenged markets. The pipeline is relatively small in Chicago, San Diego and Seattle-Tacoma, which should help mitigate supply-side headwinds as these markets take preliminary steps toward recovery. In Chicago, roughly 3,200 rooms were underway entering this year, which would represent an inventory expansion of just 2.8 percent. San Diego and Seattle-Tacoma each had fewer than 1,000 doors in the construction stage, growing the local inventories by less than 1.4 percent upon completion. Owners of existing hotels in these three markets will benefit from subdued new building activity in the near term, though room demand will remain sluggish as well. Along the West Coast, San Diego and Seattle-Tacoma have had greater restrictions on businesses than other areas of the country, which could continue until the health crisis is combated. Outside of a limited-window beach season in San Diego, travelers may be hesitant to go to these areas when services and shops are closed, while local conferences and conventions may not be allowed for some time. Similarly in Chicago, weak international tourism will weigh on demand alongside limited in-person entertainment, festivals and business events.

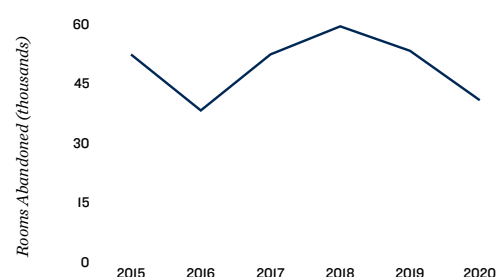
Deliveries Ended 2020 on a Strong Note



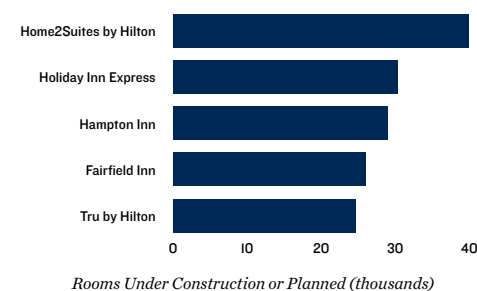
Rooms Underway by Chain Scale



No Spike in Abandoned Development Plans

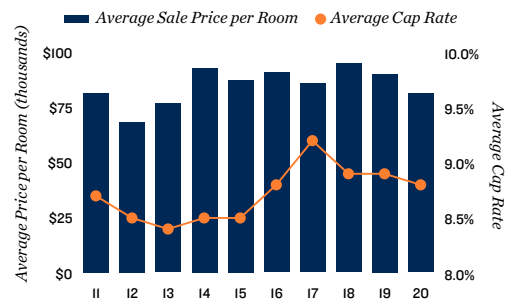


Top 5 Brands in Development

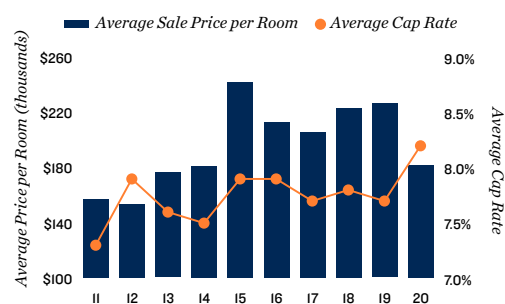


Source: STR, Inc.

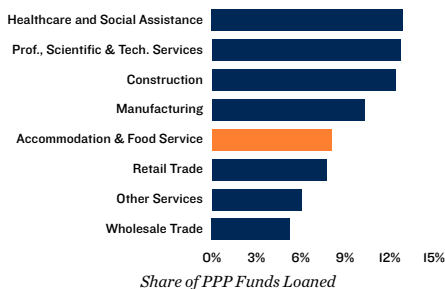
Limited Service Hotels Pricing and Cap Rates*



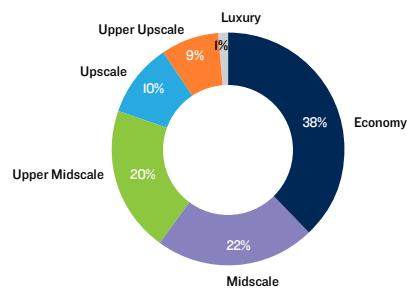
Full-Service Hotels Pricing and Cap Rates*



Hospitality a Top 5 Recipient of PPP Loans**



Trades by Chain Scale: 2Q & 3Q 2020*



* Sales \$2.5 million and greater

** First round of PPP, as of Aug. 8, 2020

* Excludes independent or unflagged sales

Sources: CoStar Group, Inc.; SBA; Real Capital Analytics

Lender Forbearance Critical to Hospitality Sector, Lower-Service Level and Unbranded Assets Lead Sales

Many lenders work with borrowers to provide forbearance. Hotel owners have been challenged to re-engineer their operations. As revenues fell, debt obligations remained, pushing loan delinquency rates up by a factor of six within just one month. Many investors were nevertheless able to obtain forbearance from their lenders before entering the default period. This often took the form of deferred loan payments for up to 12 months, giving hoteliers time to configure an alternative payment plan, many of which are now in progress. Hotels with outstanding CMBS loans received the least relief, and as a result are at the most risk of non-performance later this year. Amid varying debt management strategies, government support has been key, specifically the Paycheck Protection Program (PPP). Funding for the first wave of PPP loans expired last year although resources for a second round of loans was provided in the opening weeks of 2021. Hotels can apply for a first or second PPP loan to cover up to \$2 million in payroll expenses and other costs, including mortgages. These loans will be pivotal for smaller hotels in the short term. The possibility for more, industry-specific stimulus in 2021 remains as well. Such financial resources could go a long way to buttressing struggling hotels until COVID-19 infections dampen and more people travel, in turn fostering added investment.

After initial fall, hospitality sales activity shows upward trend. As with other property types, the spread of COVID-19 notably slowed transaction velocity in the second quarter of 2020. For hotels the drop was particularly steep, down over 60 percent quarter over quarter and 80 percent year over year. As time advanced and occupancies began to recover, investment activity improved, with private buyers less bearish on the market than institutions. The number of trades in the third quarter grew 120 percent from the previous three-month period, although year to date only about half as many assets had changed hands compared with the first nine months of 2019. The average sale price per available room followed a similar trajectory, falling to \$84,000 in the second quarter but rising after for a yearlong average of \$110,000 per room, 20 percent below 2019's average. This change was driven heavily by hotel revenue, which informed what types of hotels changed hands. Compared with years past, a smaller share of trades were represented by hotels of the upper midscale chain scale or above. The health crisis had a disproportionate impact on the financial performance of higher service level establishments. Fewer institutions, which tend to target that asset type, were also active. A greater focus was instead placed by private buyers on unflagged assets at sale prices under \$10 million.

Private buyers to be most active group in 2021. The trajectory and composition of the travel recovery in 2021, which will favor smaller hotels in regional travel markets, will likely foster more private buyer engagement. These investors are likely to target limited-service hotels in outdoor-oriented vacation destinations or along major motorways that service traveling essential workers, which often fall into the \$1 million to \$10 million price tranche. Independent assets with a strong connection to the local travel landscape will also be pursued. Some higher-net-worth individuals and small investment groups may be able to pursue higher-service level assets due to less competition from institutional investors. Market participants with sufficient reserves to weather the short-term disruption may pursue urban assets in historically strong travel metros. Institutional investors may follow later in the year when room demand is on more certain ground.

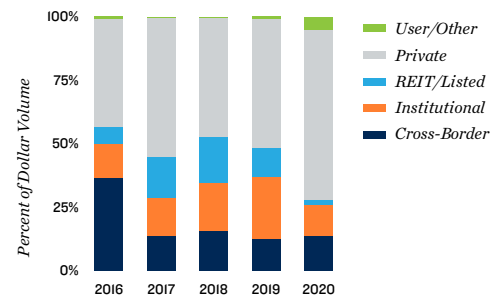
Moderate Capital Liquidity Bolsters Investment Landscape as Regional Trading Volumes Shift

Investors focus on low-entry cost assets and markets with outdoor activities. The nationwide disruption to hotel investment has varied by region. Compared with the past several years, a smaller proportion of hotels changed hands in Florida in 2020, but more assets traded in the Upper Midwest and the Southwest. California and Texas also continued to be popular destinations among hospitality investors. These trends are likely to continue this year. The temporary suspension of the cruise line industry as well as tourism more broadly will impact sales trends in Florida. A shift in vacation preferences to scenic outdoor options may underscore investor interest in the Southwestern states and Texas as well, where pandemic-related lockdowns have been generally less stringent than on the coasts. Hotels in California, while subject to stricter lockdowns, have long-term appeal aided by comfortable weather and numerous natural attractions including beaches and national parks. The Upper Midwest states, while lacking temperate winters, generally feature lower entry costs per room, advantageous during an economic downturn.

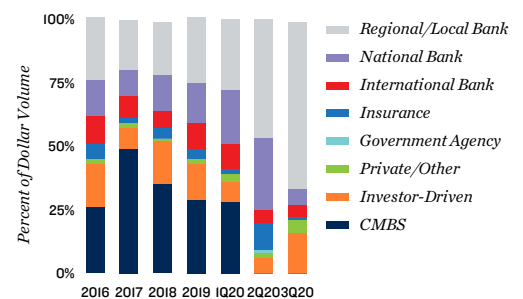
Regional sales engagement shifts. The part of the country that experienced the sharpest reduction in trading activity last year was the Central Atlantic region, which encompasses Washington, D.C. A popular destination for international summits and major trade shows, the temporary shutdown of such activities has significantly hampered hotel performance in the area through year end. The Mid-South region reported a similarly sharp slowdown last year, but unlike the Central Atlantic, trading in the Mid-South has since recovered to levels witnessed before the pandemic. The Central Midwest, Mid-Atlantic, and New York regions have also recorded an improvement in trading since the second quarter of last year. Looking into 2021, all regions are expected to benefit from investors seeking to enter long-term travel stalwarts as well as those responding to the current drive-to leisure trend.

Capital availability bolsters investment landscape, lifts outlook for 2021. The hotel investment landscape, as troubled as it is by the current health crisis, is in better shape than during the height of the global financial crisis. Much of that has been due to continued liquidity in the capital markets. While the total number of lenders conducting business with hotels as of late 2020 is down an estimated 50 percent, the number of active lenders still well exceeds levels recorded following the previous recession a decade ago. Although CMBS funding is essentially closed to hotel borrowers at this stage, local and regional banks are active as well as some investor-driven lenders, including debt funds. Between these capital sources and forbearance within existing debt obligations, most hotel owners have so far been able to weather the current climate and not had to sell a hotel out of distress. However, that does not mean all buyers and sellers are in agreement on sales price. A growing buyer-seller expectations gap could continue to constrain sales velocity in 2021 despite the availability of capital. Investors waiting on the sidelines for a wave of distress may be slower to return to the market when said wave does not materialize. Despite this, as vaccines become widely available and more people resume travel, improved revenues should allow for greater cash flow clarity. At the same time, interest rates are historically low, highlighting the return profile of hotel assets, where the average cap rate is 8.6 percent. The ability to produce high yields under normal cash flows will engage more investors moving forward as operations stabilize.

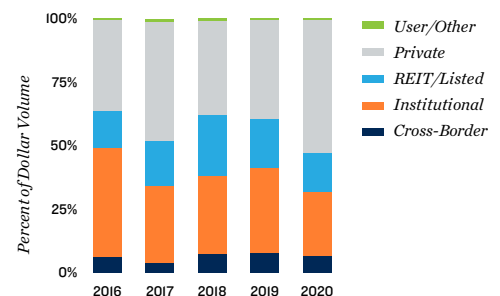
Private Buyers Take Lead in 2020*



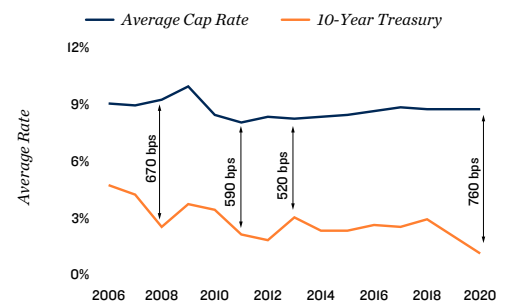
Mortgage Originations by Lender 2016-2020*



Private Sellers More Active in 2020*



Yield Margin at Multiyear High*



* Sales \$2.5 million and greater

Sources: Federal Reserve; Real Capital Analytics

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