

U.S. Travel & Lodging Sector Update

**ANKURA REAL ESTATE ADVISORY
HOSPITALITY & LEISURE**

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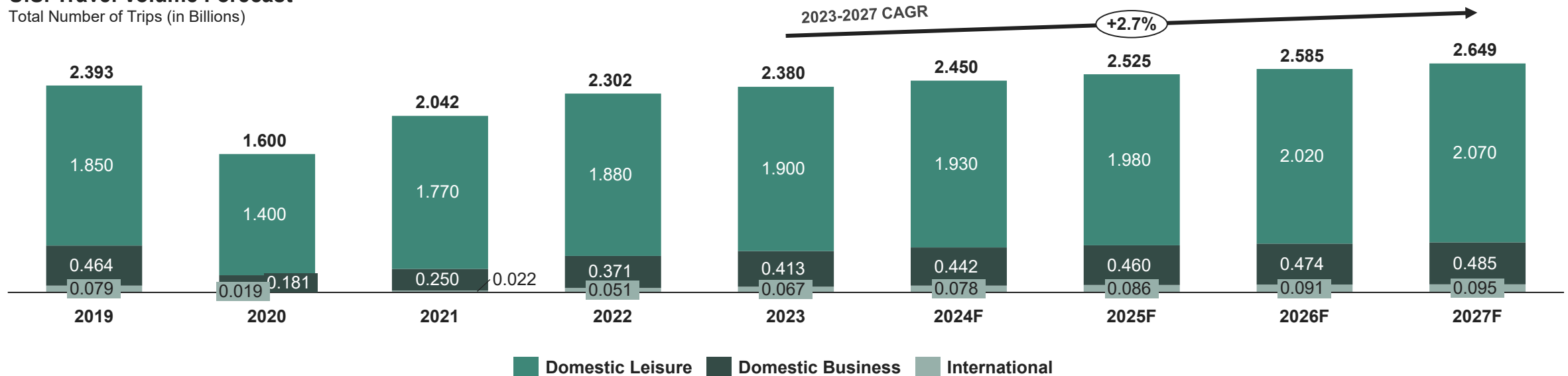


U.S. Travel & Tourism

Overall U.S. travel volume is forecasted to exceed pre-pandemic levels in 2024 and continue to grow at an annual rate of 2.6% through 2027.

U.S. Travel Volume Forecast

Total Number of Trips (in Billions)



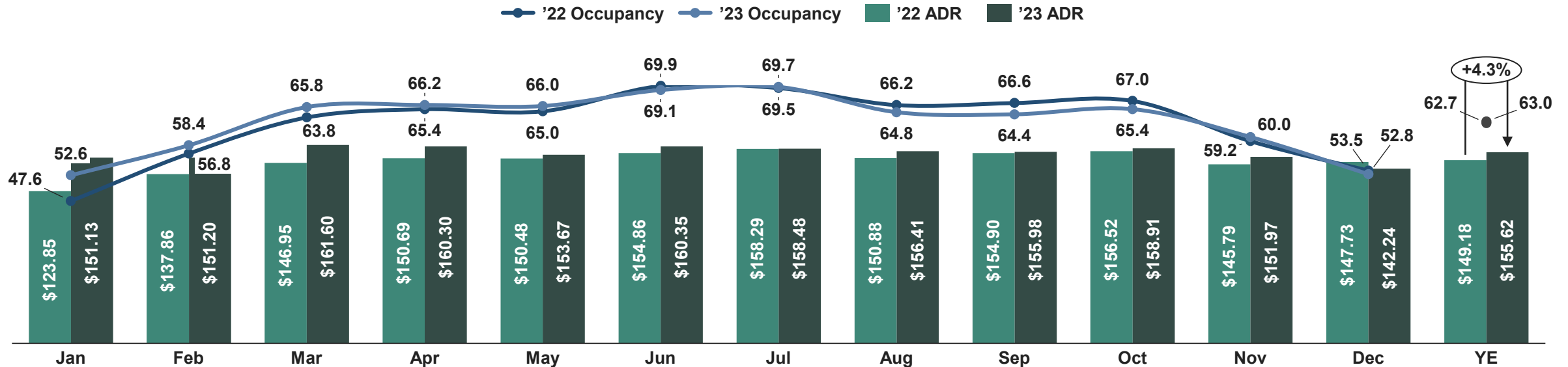
BUSINESS TRAVEL is expected to grow in 2024, albeit at a slower rate. Slowing economic growth will impact domestic business travel’s recovery, with a full comeback in volume not expected until 2026.

DOMESTIC LEISURE TRAVEL, which accounts for the largest share of total travel volume, achieved full recovery to pre-pandemic levels in 2022. However, growth decelerated through three quarters of 2023 as consumer spending slowed amid higher borrowing costs, tighter credit conditions and the restart of student loan repayments.

INTERNATIONAL VISITATION’S future growth may be impacted by a global macroeconomic slowdown, a strong dollar, and lengthy visa wait times. Volume expected to reach 98% of 2019 levels in 2024, with full recovery by 2025, although international spending is not expected to recover until 2026 when adjusted for inflation. In terms of competitiveness, the U.S. currently trails other nations in reclaiming international demand, ranking 17 out of 18 top travel markets.

U.S. Lodging Performance | Year-End 2023

Inflation is slowing down, and concerns about a recession are diminishing, leading to a positive outlook for the hotel sector.



OCCUPANCY



The U.S. lodging industry concluded 2023 with an occupancy rate of 63.0%, slightly higher than 62.7% generated in 2022. Business travel improved, albeit more slowly, while the group segment continued to report robust year-over-year improvements.

AVERAGE DAILY RATE (“ADR”)



ADR increased by 4.3% in 2023, supported by strong growth in the first quarter of the year (10.6% YoY) followed by moderate growth over the remaining months of the year. Quarterly ADR was higher YoY throughout 2023 but declined after Q2 when adjusted for inflation.

REVENUE PER AVAILABLE ROOM (“REVPAR”)



RevPAR for year-end 2023 was up by 4.9% versus 2022, surpassing 2019 levels by 13.6%.

EXPECTATIONS

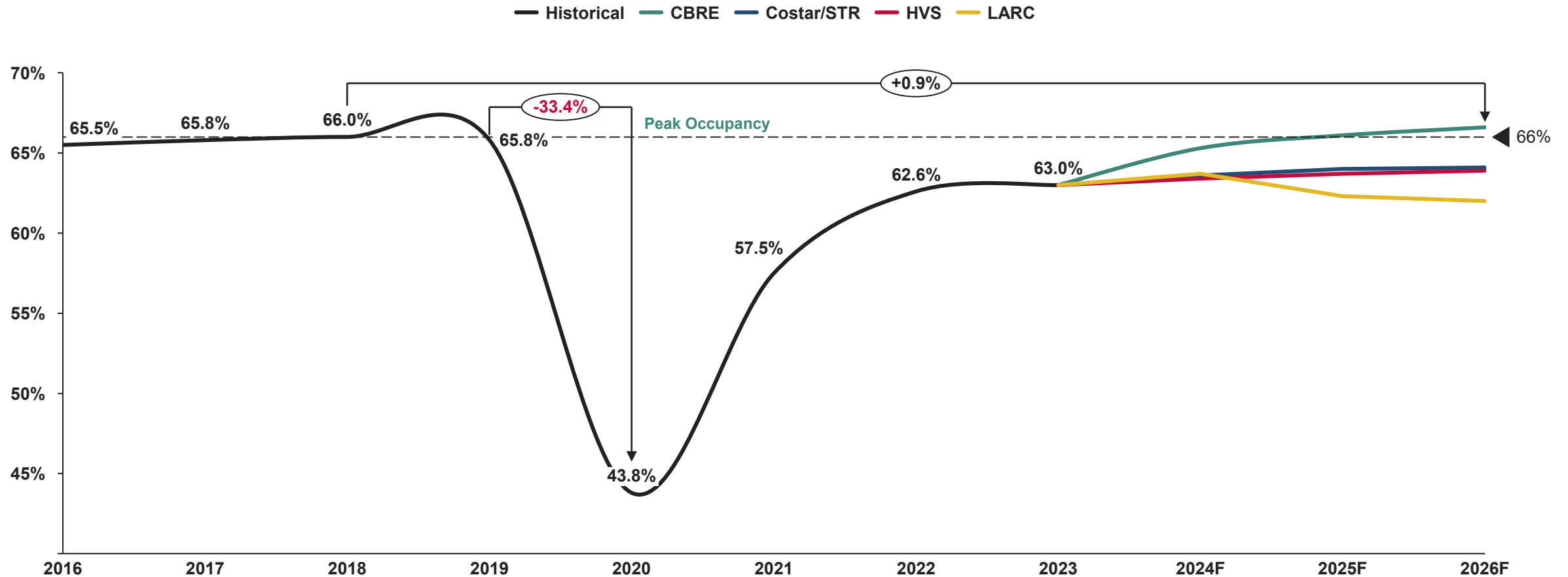


Unemployment rate among college-educated individuals remains low which bodes well for business and leisure travel. Economic outlook has improved but a potential deceleration in economic growth remains.

Modest lodging demand growth is expected to be driven by household prioritization of travel, a continued rebuilding of business travel and group events, and a rebound in international visitation.

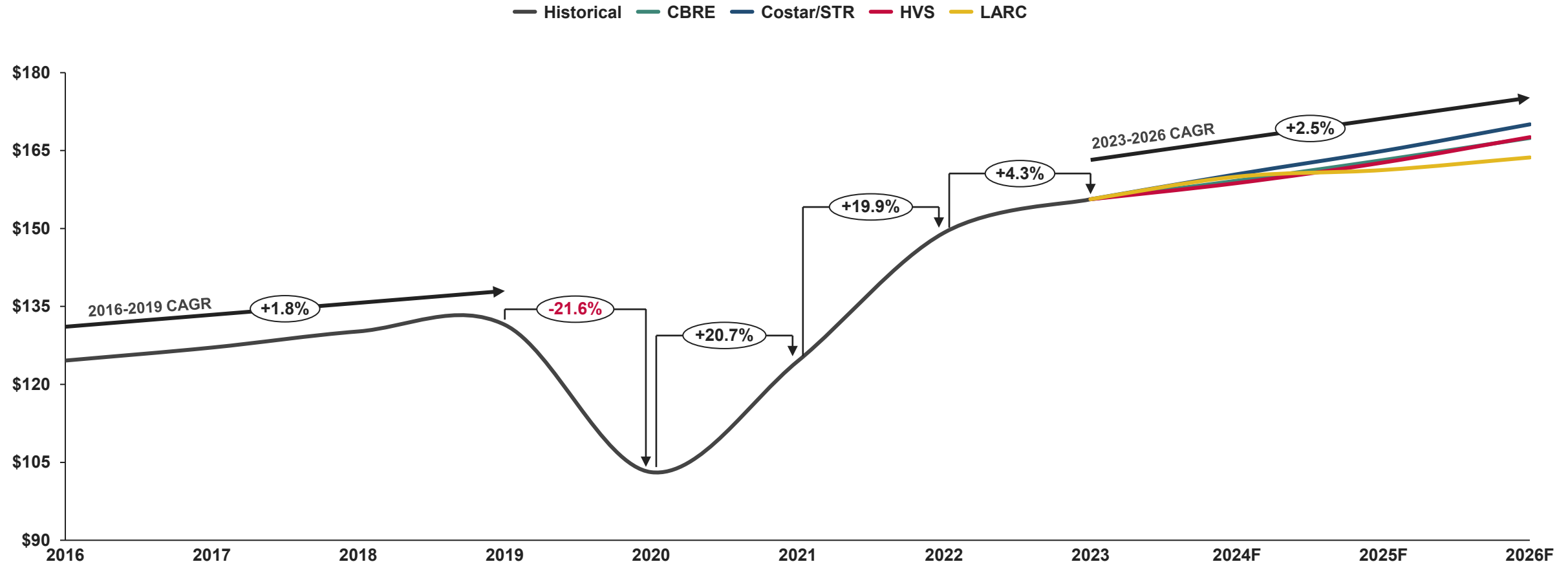
U.S. Lodging Occupancy Outlook

With the exception of CBRE, most third-party projections anticipate modest increases in occupancy over the next couple of years but still below pre-pandemic levels.



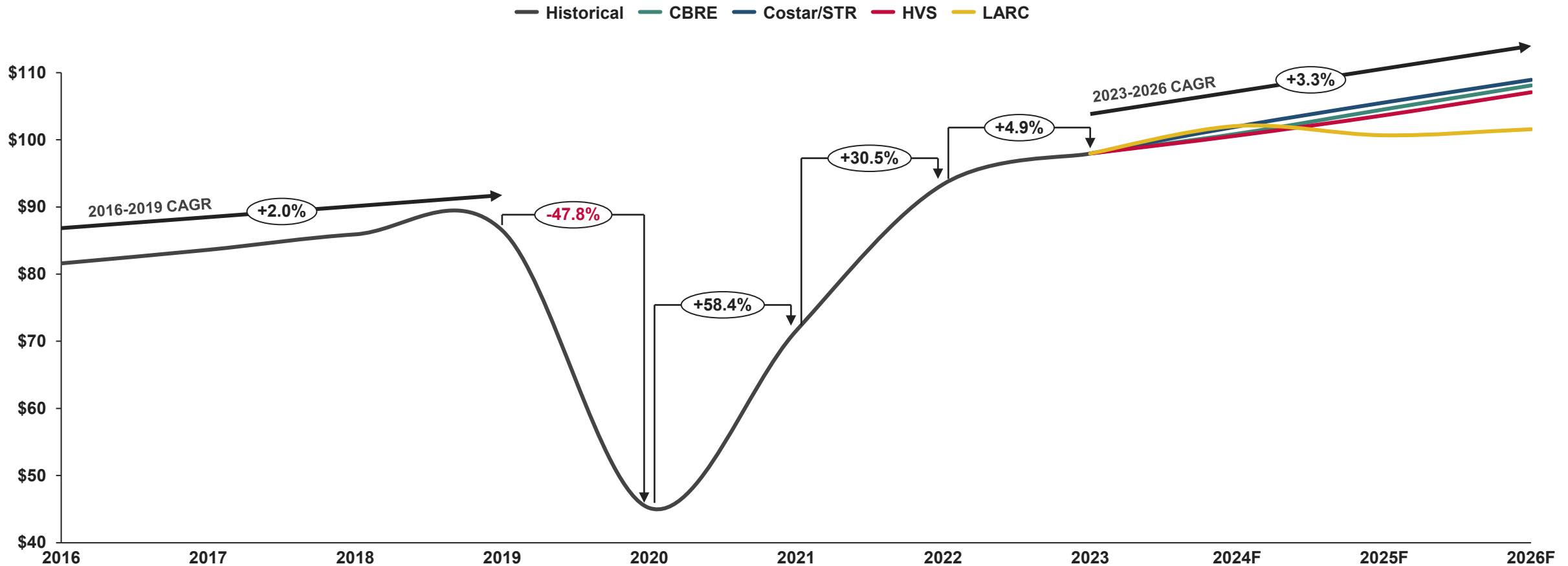
U.S. Lodging ADR Outlook

ADR levels are expected to experience a modest growth in the near term mostly driven by the nominal demand growth expectations and limited supply increases over the next couple of years.



U.S. Lodging RevPAR Outlook

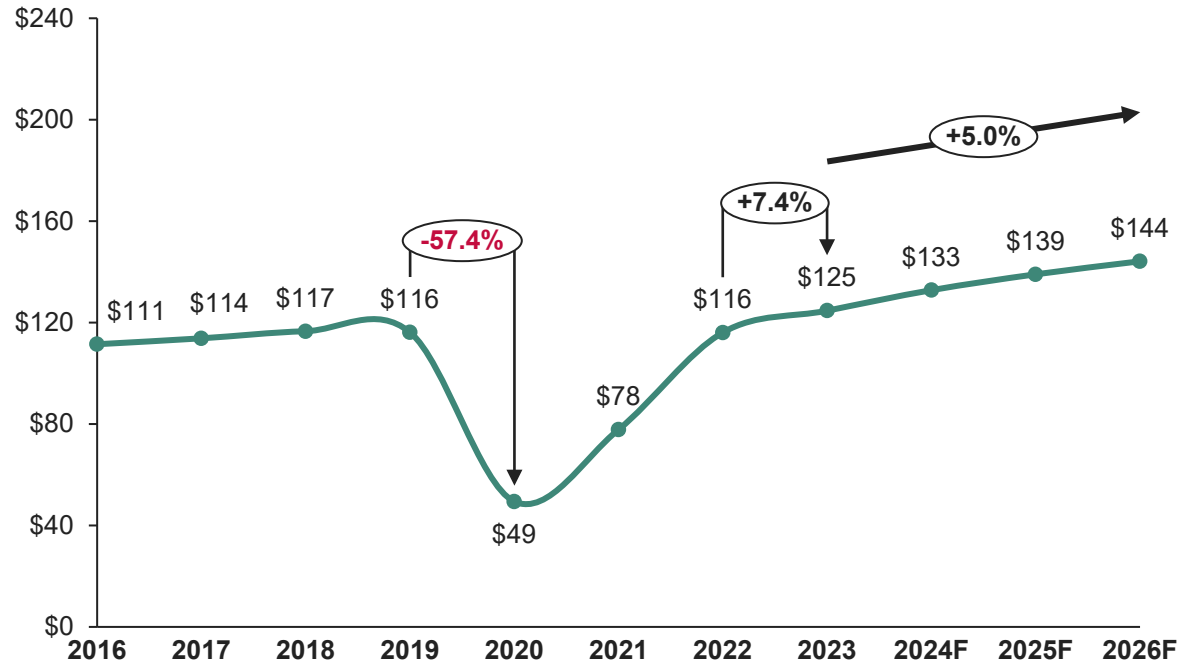
2023 saw RevPAR levels surpass those of 2019, primarily driven by higher ADRs (still below 2019 levels when adjusted for inflation). Future outlook remains modest in light of lower consumer spending, the prospects of an economic slowdown, increased competition from alternative lodging sources, and the potential impacts from military unrest in the EMEA region.



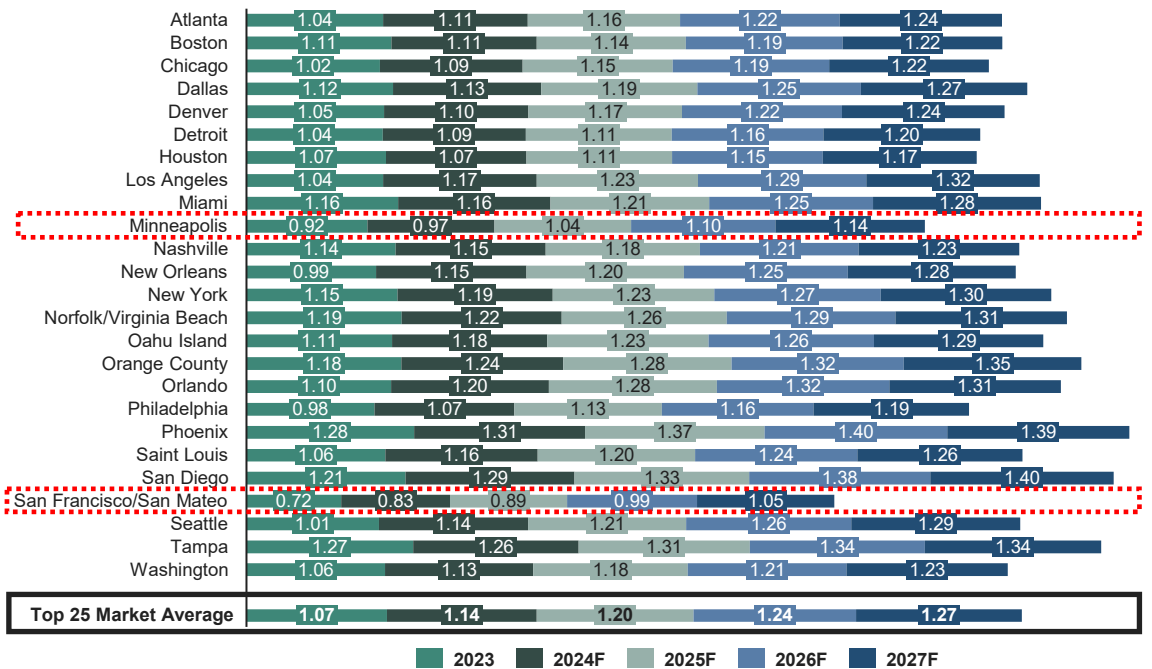
U.S. Top 25 Market RevPAR Performance

With the pandemic impact now in the past, Top 25 Markets are back on top.

RevPAR Outlook Performance for Top 25 Markets



Top 25 Markets RevPAR Performance Outlook (Indexed to 2019)



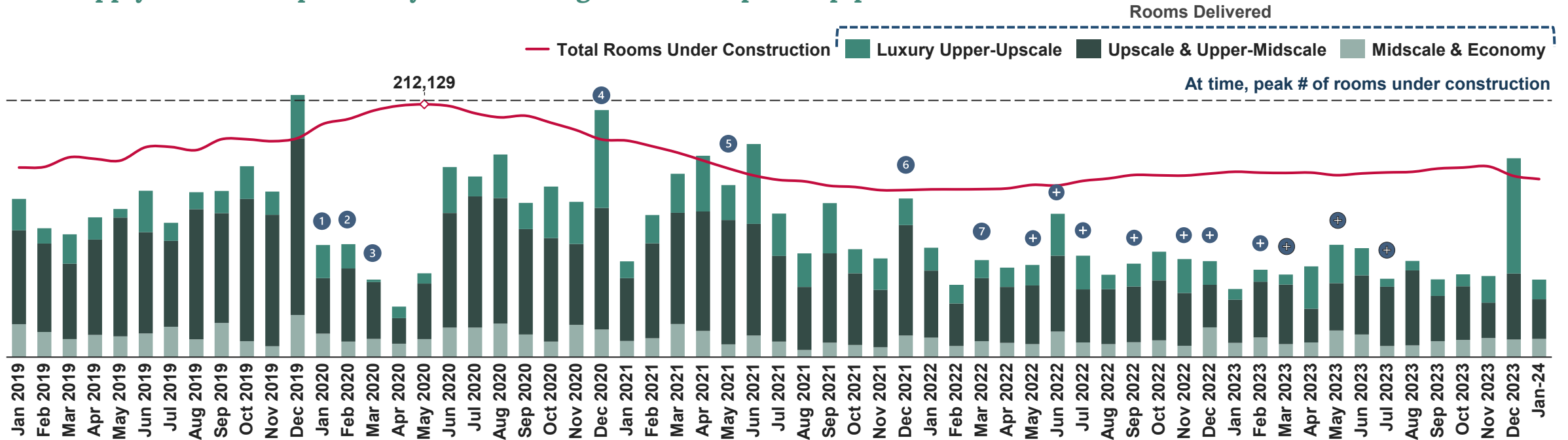
OBSERVATIONS

- The return of business and group travel has benefited many of the top 25 markets, improving weekday performance.
- Most of the Top 25 Markets showed higher occupancy and ADR versus all other markets for 2023.
- Among U.S. Top 25 Markets, **New York City** reported the highest performance levels across the board in 2023.

- Miami and New Orleans**, were the only two Top 25 Markets that experienced RevPAR decreases in 2023.
- San Francisco/San Mateo**, despite higher ADR's, has not fully recovered to 2019 levels, making it one of the least recovered Top 25 Markets in the U.S..
- Minneapolis's** 12-month average RevPAR increased at a rate of 8.3%, but occupancy remains below the national average.

New Lodging Supply Environment

The "higher-for-longer" interest rate environment negatively impacted construction and deal volume, with the expectation of future rate cuts allowing projects to move more readily from "final planning" to "in construction." Inflation and supply chain disruption may still challenge the development pipeline.



TIMELINE FAST FACTS

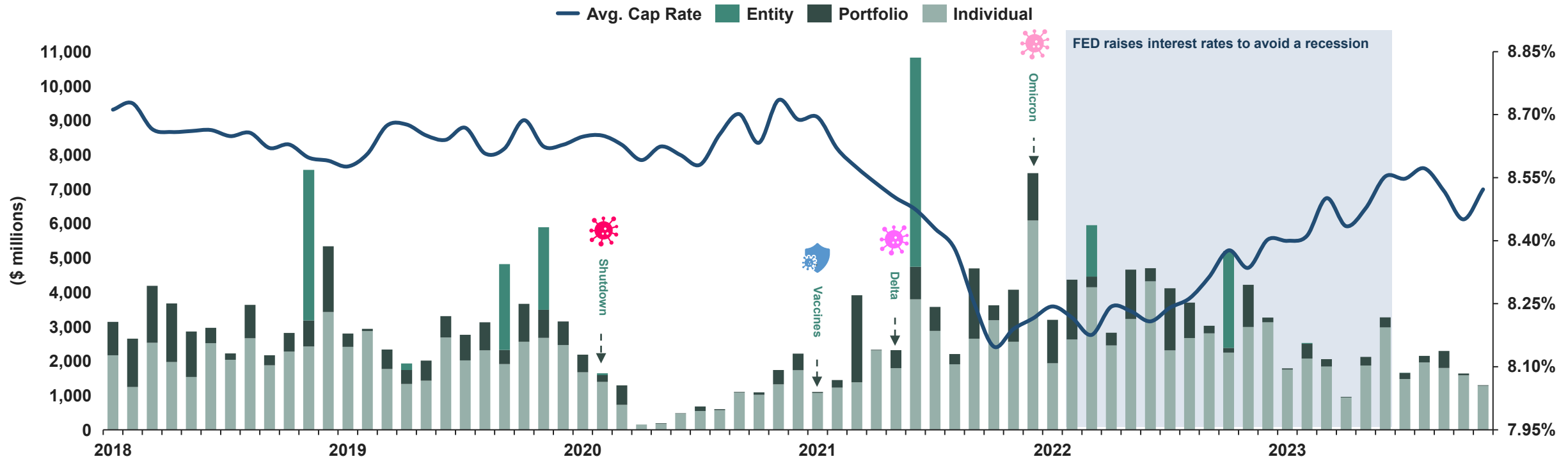
1. The U.S. reports first confirmed case of person-to-person transmission. The WHO decides the outbreak constitutes a Public Health Emergency of International Concern.
2. The WHO names the coronavirus Covid-19. **A 62% decrease in occupancy would ultimately be recorded as a results of the measures implemented by authorities to minimize the spread of the virus.**
3. **COVID-19 declared a pandemic and by March the U.S. declares national emergency.**

Source: Costar and Ankura Research

4. U.S. officials announce the first doses of the FDA authorized vaccine.
5. Delta variant detected and by July 2021 widespread across all 50 U.S. states.
6. Omicron variant detected, with expected surge. Lodging occupancy forecasts a decrease of 22%, coupled with a high U.S. inflation rate speculating a potential U.S. recession.
7. **In March 2022, the Fed increased interest rates, followed by six additional increases in 2022, the highest number of raises within a single year since 2005, followed by four increases in 2023. The increases ranged from 25 to 75 bps (+ mark increases).**

U.S. Lodging Transaction Landscape

The challenged debt markets environment resulting from interest rates hikes, higher credit spreads, and potential recessionary fears have challenged hotel transactions over the last 12 months.



OBSERVATIONS

In 2021 and 2022, investors displayed a willingness to accept certain risks, leading to an investment boom driven by low interest rates. This surge in investment continued only while the low-rate environment persisted.

In Q2-2021, Blackstone and Starwood capital acquired Extended Stay America for \$6.08 billion (Entity sale in graph above)

Deal volume remains challenged due to the increased cost of financing new acquisitions leading to a ~53% year-over-year decline in transaction volume through November 2023.

New issuance of hotel debt mortgage was improving, but due to the recent increases in interest rates the conventional financing market is now upside down.

Navigating the Industry's Challenges & Bright Spots



DEFERRED PROPERTY IMPROVEMENT PLANS (PIP'S) COMING DUE

Deferred mandated renovations from the pandemic are now due in 2024, leading to high capital costs and potential sales by over invested lodging owners. This may boost hotel transactions, as well as streamline portfolios, while also benefiting recently launched conversion brands.



BRAND OVERFLOW / PROLIFERATING OFFERINGS

The growth of hotel brands is partly due to some conceding territorial market rights to hotel owners and in response, hotel chains developed and launched alternative brands to expand their presence in these markets which leading to saturation.



WILL THERE BE ANY FORECLOSURES?

Upcoming maturities of almost one trillion in CRE loans for 2024, combined with unstable values and fundamentals for most asset classes, suggests the Fed's choice to lower interest rates may indicate a greater concern for potential issues in the CRE market than for ongoing inflation.



NEW LODGING SUPPLY

New lodging supply growth in 2024 is anticipated at 0.8%. While certain projects remain viable, most developers are on standby for lower rate signals, which is key to making both construction loan interest and, subsequent permanent loan interest more attractive.



LABOR SHORTAGES & RISING INSURANCE COSTS

A survey of 408 hotels conducted by AHLA found 67% of respondents reporting labor shortages, and more than 80% boosting wages to hire and retain staff. Similarly, the rising number of losses and rate of occurrence, and the increases in replacement costs drove insurance costs by over 20% YoY in 2023.



RECESSIONARY CONCERNS

In 2023, the economy grew by 2.5%, surpassing expectations that the FED's interest rate hikes to combat inflation would lead to a recession. Based on growth forecasts, it seems the Fed may achieve a coveted "soft landing" by restraining the economy enough to tamp down inflation without triggering a recession.



INTEREST RATES FORECASTS FOR 2024

Fed Chairman Jerome Powell acknowledged that inflation remains above the Fed's 2% target, yet the Fed's updated economic projections for 2024 anticipate three rate cuts by year-end, suggesting an end to the current cycle of rate hikes.



WILL DEAL ACTIVITY ACCELERATE IN 2024

Despite the challenges faced by the commercial real estate sector in 2023, 2024 is expected to see a continued demand for luxury hotels, select-service, and extended-stay properties. This trend is most likely to be driven by the growth in global wealth and the blending of living and traveling lifestyles.

Solutions & Services for the Lodging Industry

Ankura solutions effectively navigate the intricate challenges of the current business landscape, enabling our clients to achieve their desired outcomes.

Performance Improvement

Translating strategy into results, achieving operational excellence and navigating change

- Financial & Operational Diagnostics
- Asset & Portfolio Optimization
- Financial & Operational Restructuring

- Interim Management
- Asset Management

- Finance Transformation
- Shared Services Model Creation

Transactions

Delivering agility, focus, and precise execution in every deal

- Mergers & Acquisitions
- Joint Ventures & Partnerships
- Synergy Assessment
- Divestitures & Spin-Offs

- Commercial & Operational Due Diligence
- Financial Due Diligence / Quality of Earnings
- Investment Banking

- Valuation Services (Asset, Portfolio & Company)
- Deal Structuring & Negotiations
- Integration Planning & Management

Analysis & Planning

Developing the right strategy to drive performance and results

- Market Analysis
- Project & Financial Feasibility

- Strategic Planning
- Brand/Operator Selection

- Franchise/HMA Contract Negotiations

Specialist & Other Services

Adeptly guiding organizations through ever-changing situations

- Litigation Support
- Expert Testimony

- Owner Representation
- Project Management

- Business Technology & Data Strategy
- Construction / Development Advisory

Ankura's Hospitality & Leisure Team

We welcome the opportunity to discuss how we may be able to assist your needs in the lodging sector. Contact any of our real estate and hospitality professionals directly or email us at hospitality@ankura.com



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