



COVID-19 HOTEL OUTLOOK

March 18, 2020

TABLE OF CONTENTS

COVID-19 Origination in China	3	Past Event Recovery	9-11
hotelAVE Response	4	Group vs. Transient Recovery	12
RevPAR Week of 3/1 to 3/7	5	Planning Post-COVID 19	13
Commonly Asked Questions	6	ADR: Avoid Race To The Bottom	14
Coronavirus Outlook	7		
Duration of Recovery	8		

COVID-19 ORIGINATION IN CHINA

Coronavirus Impact Crisis was 2.5 to 3 Months of Duration Before Announcing “Return to Work”

Timeline

- ✓ 12/31/2019 – WHO notification
- ✓ 1/23/2020 – Mandatory quarantine
- ✓ 2/28/2020 – 206 new cases that week vs. 2,478 the prior week

Concern about China as Bellweather for US Timeline

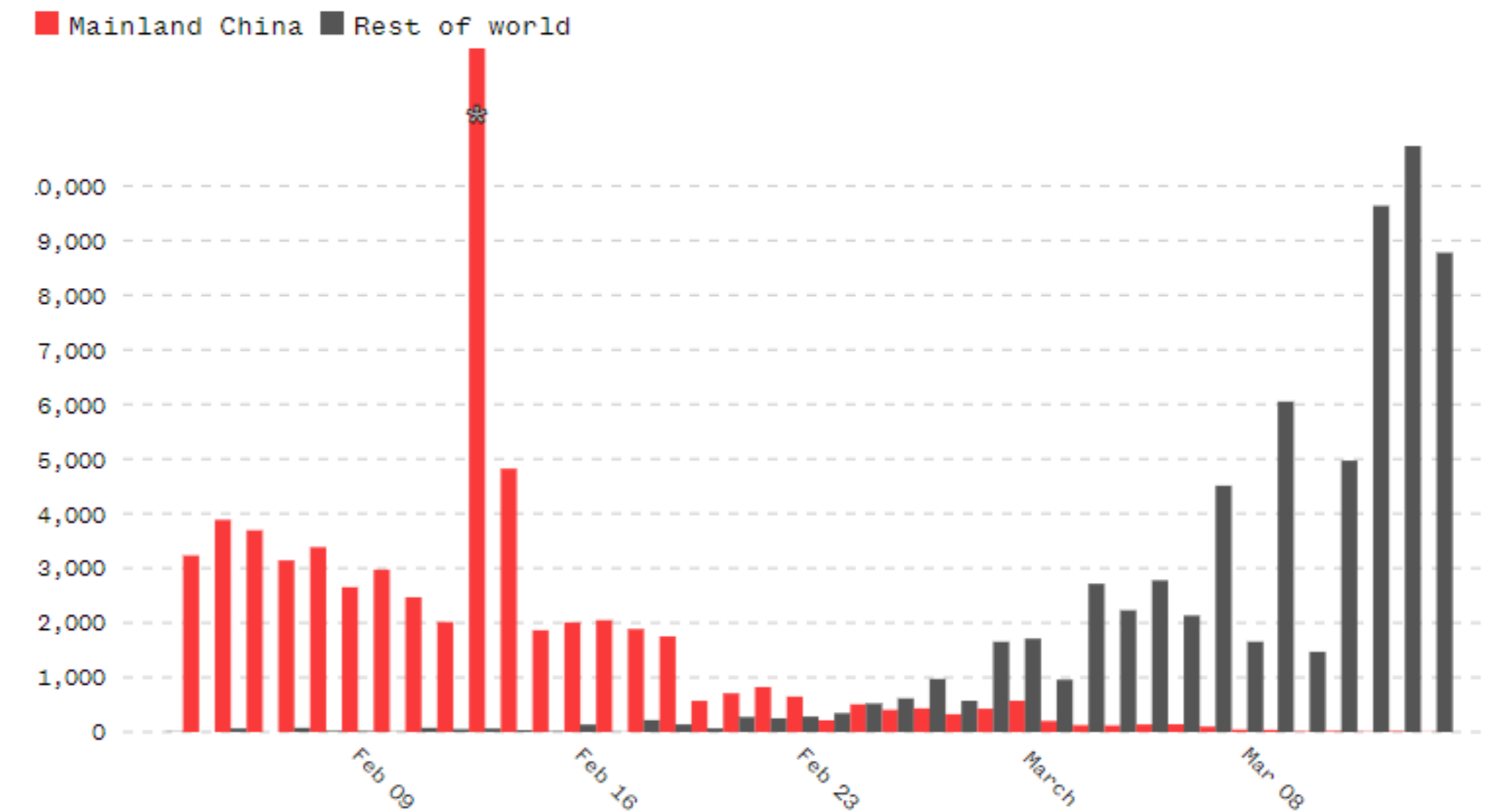
- ✓ Quarantines were government mandated and monitored
- ✓ Test kits were more readily available
- ✓ Had prior experience with SARs
- ✓ Is data accurate?

Operating Declines are Global

- ✓ China occupancy dropped by 89% within 2 weeks (Jan 15 - 29) to 10% - 15% where it remained thru February, per STR. (March data not available).

New coronavirus cases per day

Global cases have outpaced those in mainland China since late February.



Notes

Data as of March 14, 6:30 p.m. EDT.

* China reported 15,152 new cases on Feb. 12. [Here's how to understand China's one-day spike in cases.](#)

This chart will update daily.

Sources: NBC News reports, World Health Organization, state government leaders and health officials.

Graphic: Jeremia Kimelman / [NBC News](#)

hotelAVE RESPONSE

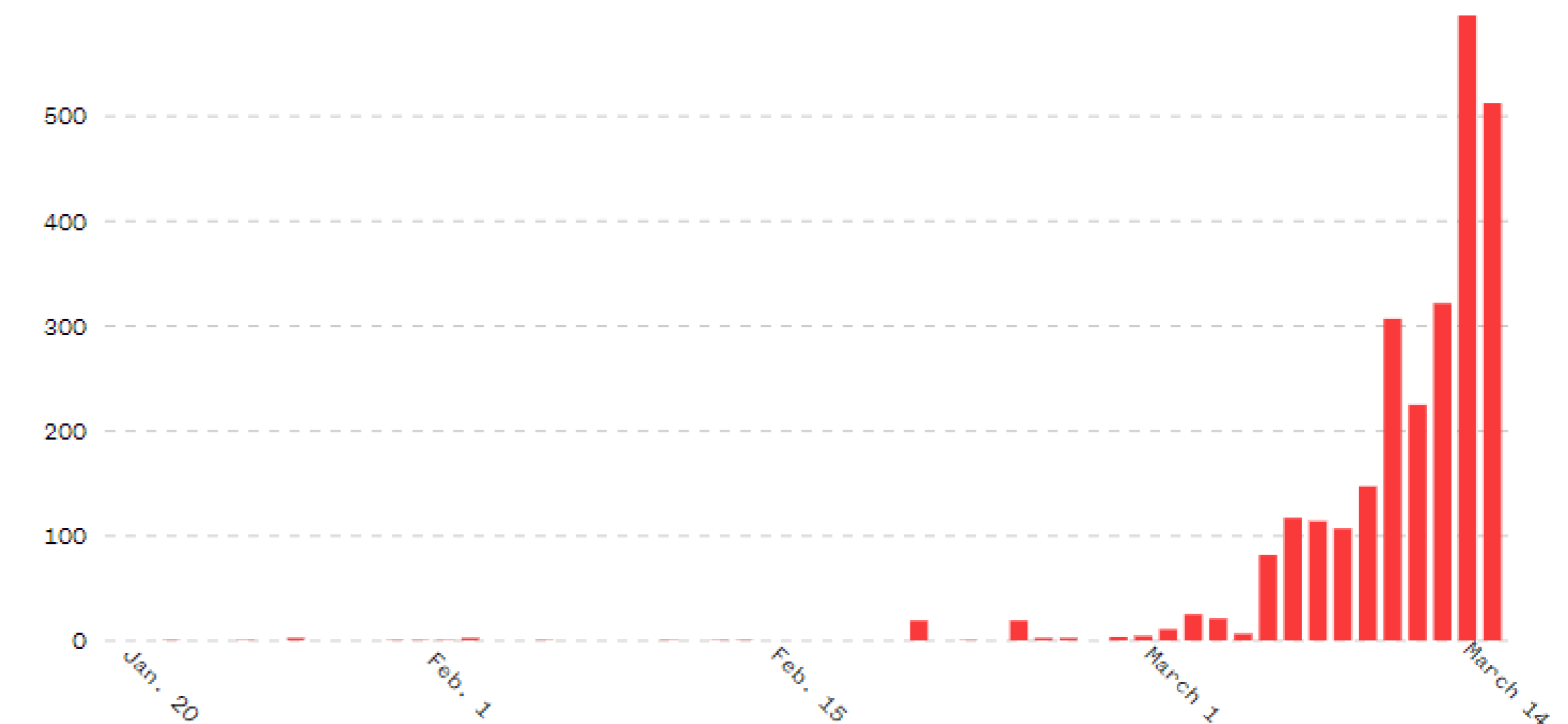
hotelAVE Asset Management Teams Initiated Proactive Actions Commencing February 28

Issues Addressed

- ✓ “Level 3” Cost Contingency Plans: Shutting all F&B operations, no stayover housekeeping, temporary layoffs and furloughs
- ✓ Hotel Closures (10% of our portfolio as of 3/15)
- ✓ Crisis Management Plans
- ✓ Cleanliness and Sanitation Plans
- ✓ Group Cancellation Policies
- ✓ Insurance Provisions / BI Claims
- ✓ Implementing extensive Brand Standard Waivers and Relief
- ✓ Lender and Operator Discussions
- ✓ Performance Tests and NOI Guarantees
- ✓ Cash Management/Prioritization of Payments

New coronavirus cases per day in the U.S.

The number of confirmed cases is expected to rise as the virus spreads and more people are tested.



Notes

Data as of March 14, 6:30 p.m. EDT.

This chart will update daily.

Sources: Centers for Disease Control and Prevention, state officials and NBC News

Graphic: Sawyer Click / [NBC News](#)

RevPAR Week of 3/8 to 3/14

Week of March - 14 - Percent Change vs. Prior Year						
Top 25 Markets	Occ % Change		ADR % Change		RevPAR % Change	
	7-Mar	14-Mar	7-Mar	14-Mar	7-Mar	14-Mar
Anaheim/Santa Ana, CA	-27.3	-33.9	-19.9	-17.9	-41.8	-45.8
Atlanta, GA	-9.0	-22.1	-6.7	-7.4	-15.1	-27.8
Boston, MA	-5.7	-40.4	-3.3	-14.2	-8.8	-48.9
Chicago, IL	-13.5	-35.0	-5.8	-12.4	-18.5	-43.1
Dallas, TX	-5.6	-26.1	-1.6	-13.4	-7.1	-36.0
Denver, CO	-11.1	-31.8	-0.5	-11.5	-11.5	-39.6
Detroit, MI	1.9	-20.9	0.0	-10.6	1.9	-29.3
Houston, TX	-6.1	-26.6	-6.6	-17.8	-12.4	-39.6
Los Angeles/Long Beach, CA	-8.2	-31.6	-0.7	-12.2	-8.9	-39.9
Miami/Hialeah, FL	-9.0	-25.5	-1.5	-10.2	-10.4	-33.1
Minneapolis/St Paul, MN-WI	-10.7	-28.4	-3.2	-8.6	-13.6	-34.6
Nashville, TN	1.8	-16.1	-0.7	-8.6	1.1	-23.3
New Orleans, LA	-10.3	-24.6	-17.3	-22.8	-25.8	-41.8
New York, NY	-13.1	-43.9	-8.3	-19.1	-20.3	-54.6
Norfolk/Virginia Beach, VA	-2.4	-20.8	1.3	-8.2	-1.1	-27.3
Oahu Island, HI	-12.2	-19.9	1.7	-1.6	-10.6	-21.2
Orlando, FL	-12.2	-37.1	-5.3	-14.7	-16.8	-46.3
Philadelphia, PA-NJ	-6.2	-26.7	-2.0	-7.2	-8.1	-32.0
Phoenix, AZ	-10.5	-26.3	-4.5	-11.6	-14.6	-34.9
San Diego, CA	-9.9	-34.5	-1.6	-15.3	-11.3	-44.5
San Francisco/San Mateo, CA	-21.8	-51.6	-30.4	-24.2	-45.5	-63.3
Seattle, WA	-26.4	-55.0	-11.5	-24.7	-34.8	-66.1
St Louis, MO-IL	-11.1	-32.2	-4.1	-8.7	-14.8	-38.1
Tampa/St Petersburg, FL	-6.5	-17.9	-2.8	-7.0	-9.1	-23.6
Washington, DC-MD-VA	-5.2	-33.4	-2.1	-8.6	-7.2	-39.1

Total US RevPAR down 11.6% and 32.5% for weeks ended March 7 and 14, respectively

Top 25 RevPAR (Luxury and Upper Upscale Classes)

Week Ended	7 - Mar	14 - Mar
Transient	-16.3%	-43.0%
Group	-21.4%	-64.1%
Contract	-20.9%	-27.1%

Urban vs. Non-Urban (week of March 14 only)

- Urban locations saw the worst RevPAR decline of -48.6%
- Rest of the location segments ranged from -42.7% to -33.7%

Week of 3/15 - 3/21 Reporting on March 25

COMMONLY ASKED QUESTIONS

How Long Will it Last?

- Marriott assuming biggest negative impact in Q2, with decelerating impact in Q3 and business as usual estimates for Q4
- Hyatt planning for biggest negative impact thru April 15

Is the Group Cancellation Window Expanding?

- No. As of mid-March, April cancellations have picked up. Not seeing meaningful May cancellations yet

Is New Business Being Booked for Future Periods?

- No for group. Group cancellations from March and April are generally rebooking in 2H20
- Multiple operators stated that they are seeing bookings pick up for summer/fall leisure demand

Which Hotels are Seeing the Largest Impact?

- Convention hotel occupancies fell from high 70s and 80s to single digits for March; all cancellations for March hit the first 10 days of March. April is expected to be worse. The spring is a key group meeting season
- Hotels in major markets hardest-hit by Covid-19 outbreaks and reliant on international demand, including Seattle, San Francisco, New York City and Boston are seeing the biggest immediate impact – losing 70%+ occupancy

Are Hotels Closing?

- 10% of the hotels in our portfolio will be closed before March 25
- Expect a lot more temporary hotel closures across the country over the next 15 days as carry costs calculate less than projected operating losses

Which Markets are Faring Best or Having Less Impact?

- Drive to leisure markets are faring better as consumers modify vacation plans from international and tourism dense locations
- Surprisingly, Hawaii has held up and experiencing positive transient pickup; we forecast this market's impact is delayed by the longer lead booking window

CORONAVIRUS OUTLOOK

We Project it Will Take the Industry 5+ Years to Recover to Pre-COVID 19 Operating Levels

Hotel Industry was Healthy Pre-Covid 19

- ✓ Even though profit per available room (GOP PAR) peaked in 2017, the industry was profitable and generally well run
- ✓ Hotel real estate loans were sensibly underwritten at 60-65% LTV with 1.2-1.4x coverage
- ✓ In March, the industry has a negative NOI vs. past historical events, where the industry lost money, but was still profitable

Hotel Industry Fundamental Deceleration Started Before COVID-19; to Contribute to the Duration of the Recovery Period

- ✓ RevPAR growth forecasted to be flattish in 2020
- ✓ Corporate demand was negative in 2019
- ✓ Above inflation wages and real estate tax pressures
- ✓ GOP PAR peaked in 2017
- ✓ Above average new supply growth
- ✓ Airbnb and alternative accommodations effectively doubling new supply

Hotel Industry Relies on US and Worldwide Economy for Recovery

- ✓ Hotel industry performance is tied to GDP and non-residential private fixed investment so a recession will drag recovery
- ✓ Loss of wealth will affect consumer (and thus leisure travel) due to stock market declines and layoffs
- ✓ Uncertain whether individuals and companies will change their approach to travel for a period of time

DURATION OF HOTEL RECOVERY

hotelAVE Coronavirus Recovery Estimate

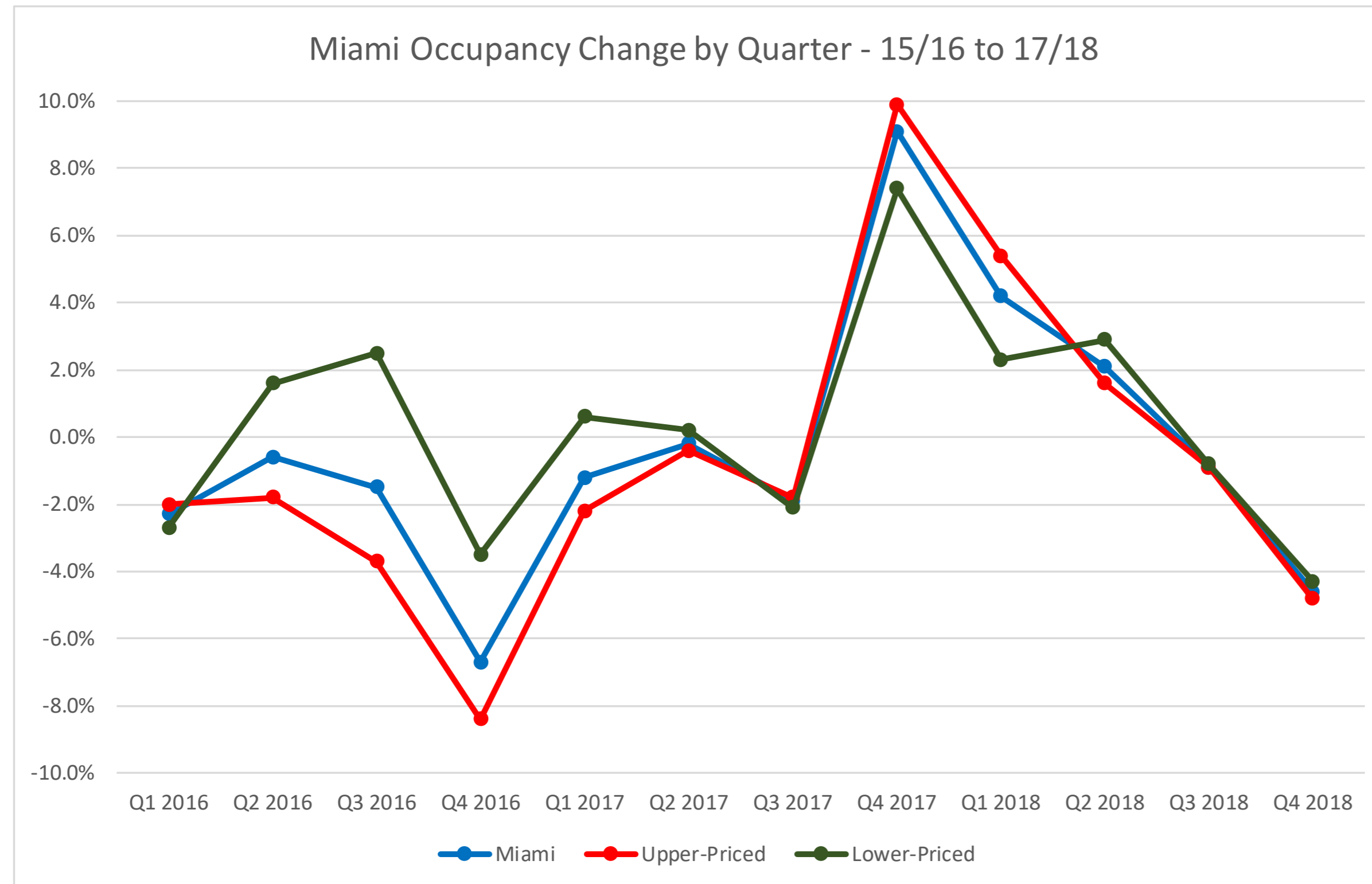
Hotel Recovery Time Line (in Years)								
Approximate Recovery Time (in Years) to "Period Prior to Event"								
Economic Environment	Event	Study Area	Duration of Travel Advisory or State of Emergency	Months until 1st month of positive Occupancy	Occupancy	ADR	RevPAR	GOP PAR
Deceleration	Coronavirus	National	Ongoing		+/- 2 Years	+/- 4 years	+/- 5 years	+/- 5 years
Expansion	Zika	Miami only	3 months	9	1.8 Years	2 Years	2 Years	2 Years
Expansion	SARS	Toronto only	3.5 months	7	1 Year	4 Years	4 Years	Not Available
Recession	Financial Crisis	National	None	18	2.5 Years	4.5 Years	4.5 Years	5 Years
Recession	9/11	National	16 years	12	5 Years	3 Years	5 Years	5.5 Years
<i>Sources: hotelAVE, CBRE, HVS, SunTrust</i>								
Coronavirus recovery estimate by hotelAVE								

Estimate presumes & reflects

- Duration of event is < 4 months and social distancing works to contain the pandemic
- GDP is flat to negative in 2Q and 3Q 2020 only
- Low inflation continues (Unfortunately, because higher inflation is favorable for rate recovery)
- All new supply under construction delivers and shadow supply continues, but proposed supply stalls
- Longer lasting psychological impact affecting travel decisions due to the duration of Coronavirus as an event vs prior events

ZIKA IMPACT IN MIAMI BEACH

Occupancy Rebounded Within a Year, while ADR, RevPAR and GOP PAR Recovered in Two Years



Timeline

- 6/15/2016-9/29/2016 – Miami Beach travel advisory
- Mid July to Mid November 2016 – Wynwood advisory

Why was Miami's recovery only 2 years?

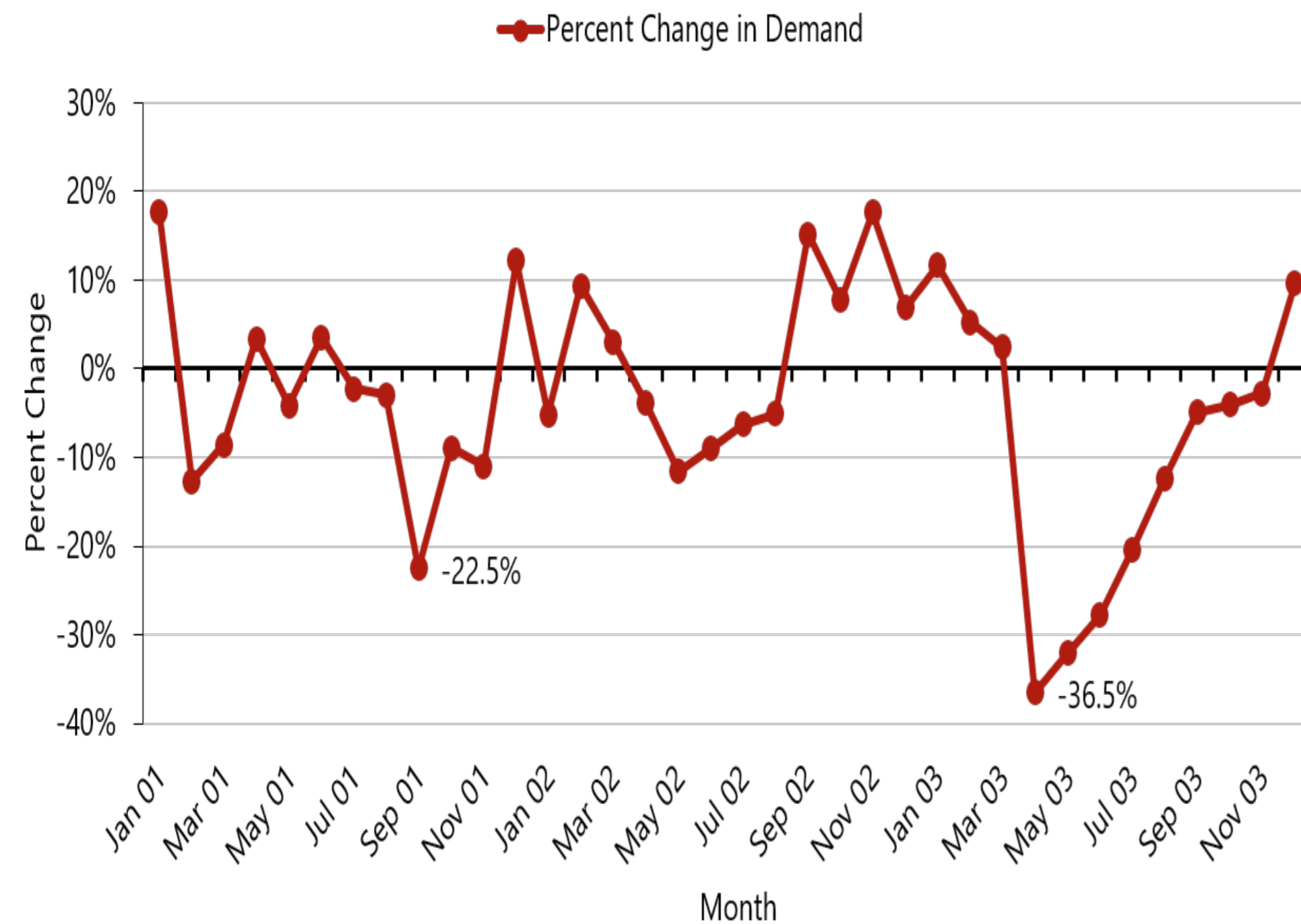
- Velocity of Zika recovery helped by tax stimulus in 2018 creating above average GDP and corporate spending growth
- Miami Beach is primarily a leisure destination
- Leisure is the segment that always recovers first
- CBRE Benchmarker of 7 stabilized Miami Beach hotels reported GOP PAR in 2017 and 2018 at 88% and 111% of that achieved in 2015, respectively

SARS IMPACT IN TORONTO

Occupancy Rebounded Within a Year, While ADR and RevPAR Recovered in Four Years

Percent Change in Lodging Demand in Toronto

2001 through 2003 (Travel advisory March 22-July 2)



Source: HVS International and STR

- Demand dropped by 36.5% in April 2003 vs April 2002, the first full month when the SARS situation was known
- The market continued to experience demand decreases in excess of 20% through July
- Demand levels were lower than the same month of the prior year through November
- Demand recovered within a year and 2004 occupied rooms exceeded 2002
- The market did not regain the revenue levels recorded in 2002 until 2006, due to price discounting in 2002
- ADR for this set of hotels dropped by over \$20 in April and \$40 in May-July
- 25% decrease over the ADR reported in the previous year
- Annualized 2003 ADR was 14%, or almost \$24, lower than that 2002

Source: Anne Lloyd-Jones of HVS International "Pandemics and the Lodging Industry" February 12, 2020

9/11 & FINANCIAL CRISIS IMPACT IN US

ADR and GOP PAR Took +/- 5 Years to Recover to Prior Peak

Occupancy, ADR, RevPAR, Total Revenue PAR & GOP PAR - 1999 to 2017											
Year	Occupancy	Change From Prior Year	ADR	Change From Prior Year	RevPAR	Change From Prior Year	Total Operating Revenue PAR	Change From Prior Year	GOP PAR	Change From Prior Year	GOP Margin
2017	75.6%	0.4%	\$179.26	1.6%	\$135.52	2.0%	\$72,020	2.0%	\$27,551	2.2%	38.3%
2016	75.3%	0.2%	\$176.45	2.5%	\$132.85	2.7%	\$70,608	2.4%	\$26,958	3.7%	38.2%
2015	75.1%	0.8%	\$172.15	3.8%	\$129.36	4.6%	\$68,953	5.3%	\$25,996	6.3%	37.7%
2014	74.6%	3.0%	\$165.84	4.1%	\$123.67	7.2%	\$65,482	6.9%	\$24,455	10.7%	37.3%
2013	72.4%	1.7%	\$159.31	4.2%	\$115.36	5.9%	\$61,256	5.4%	\$22,092	8.9%	36.1%
2012	71.2%	1.8%	\$152.89	4.4%	\$108.94	6.3%	\$58,117	5.0%	\$20,286	8.7%	34.9%
2011	69.9%	3.1%	\$146.45	3.9%	\$102.48	7.1%	\$55,350	6.2%	\$18,663	9.8%	33.7%
2010	67.8%	6.2%	\$140.95	-0.9%	\$95.69	5.6%	\$52,119	4.8%	\$16,997	7.0%	32.6%
2009	63.9%	-7.5%	\$142.23	-12.1%	\$90.61	-18.7%	\$49,731	-18.5%	\$15,888	-28.6%	31.9%
2008*	69.0%	-1.8%	\$161.81	0.9%	\$111.45	-1.0%	\$61,020	-1.3%	\$22,258	-1.1%	36.5%
2007	70.3%	-0.2%	\$160.37	6.2%	\$112.58	6.0%	\$61,824	5.5%	\$22,507	6.0%	36.4%
2006	70.4%	0.4%	\$151.00	8.3%	\$106.22	8.7%	\$58,601	8.2%	\$21,228	11.6%	36.2%
2005	70.2%	2.9%	\$139.43	7.4%	\$97.69	10.5%	\$54,167	8.8%	\$19,027	13.2%	35.1%
2004	68.2%	4.6%	\$129.78	3.9%	\$88.38	8.7%	\$49,785	7.6%	\$16,807	9.2%	33.8%
2003	65.2%	0.8%	\$124.91	-2.6%	\$81.32	-1.9%	\$46,269	-1.8%	\$15,397	-7.4%	33.3%
2002	64.7%	-0.8%	\$128.24	-3.9%	\$82.85	-4.6%	\$47,117	-4.0%	\$16,629	-6.1%	35.3%
2001**	65.2%	-7.4%	\$133.45	-3.1%	\$86.88	-10.3%	\$49,081	-9.9%	\$17,701	-15.0%	36.1%
2000	70.4%	1.8%	\$137.72	5.0%	\$96.83	6.9%	\$54,474	7.7%	\$20,824	9.3%	38.2%
1999	69.2%	-0.1%	\$131.16	3.5%	\$90.59	3.4%	\$50,579	3.9%	\$19,052	3.0%	37.7%

*Note: Financial Crisis in August 2008
 **Note: September 11th Events
 Source: CBRE Hotels

PLANNING POST-COVID19

Expect the Industry will Experience Short Term and Permanent Changes

Revenue

- ✓ Minimizing rate discounting will expedite recovery
- ✓ Focus on industries that will produce in recovery environment – health care and pharma related, government, logistics, and legal
- ✓ Leverage geo-targeting for “stay-cation” offers to local/drive-in market
- ✓ International travel will lag; redeploy sales and marketing resources to focus domestically

Operating Costs/Cash Flow

- ✓ The ramp-up to reopen or from skeleton staffing requires a capital outlay pre-opening (recruiting/re-onboarding, operating supplies, F&B inventory)
- ✓ Brand standards will have to be renegotiated thru 2022 relative to available cash flow
- ✓ Hotels who “do right thing” have potential ability to retain or attract top talent
- ✓ Operating standards and business practices (including services, offerings, amenities and hours of operation) will be modified vs. return to pre-event practices
- ✓ Cleaning standards and sanitation processes will become part of the lodging industry’s marketing message
- ✓ Availability of J-1 and H2-B visa workers for seasonal resorts is unclear as program is on hold

Other

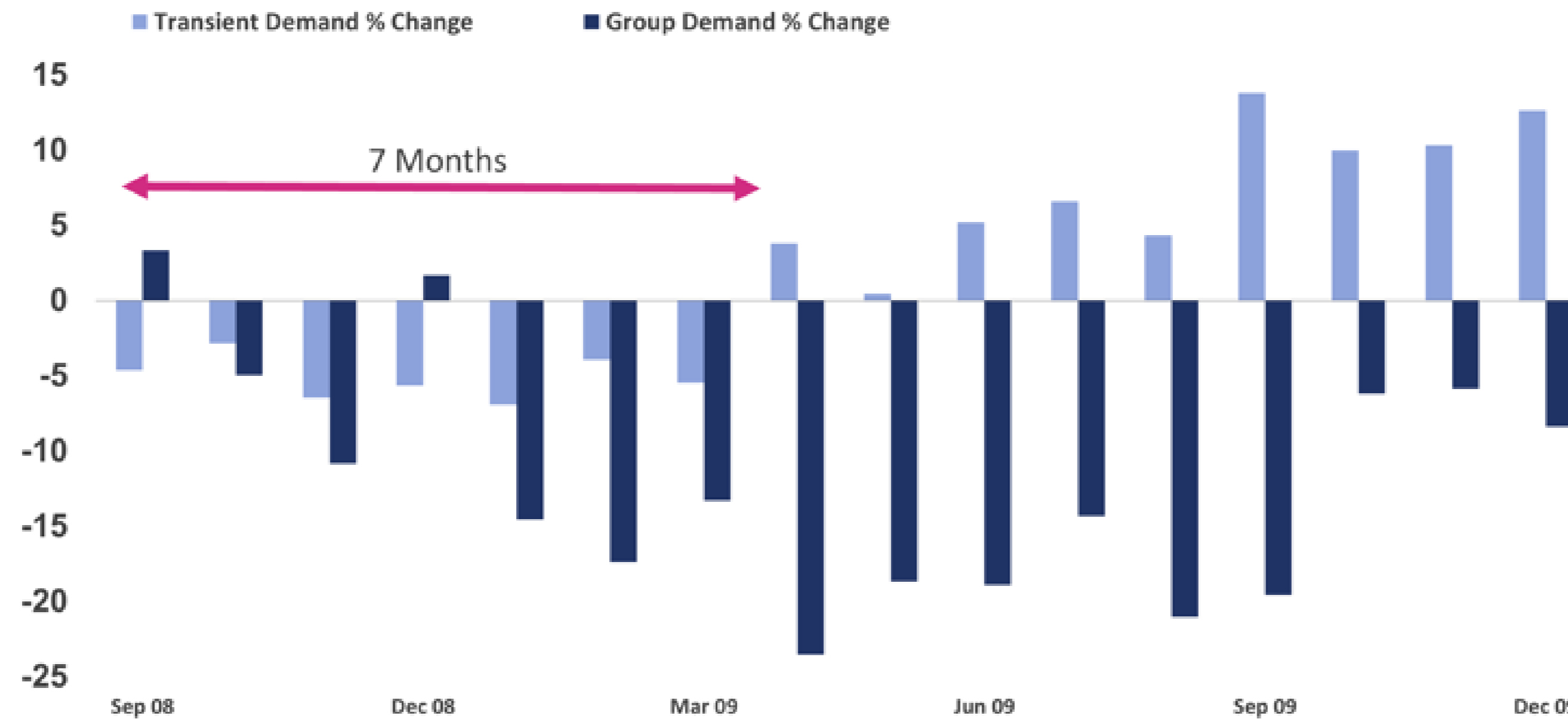
- ✓ Force Majeure will be redefined. Implications for group contracts, loans and HMAs

GROUP VS. TRANSIENT RECOVERY

Group Demand Lags Transient. Transient Recovery is typically “Price Induced”

2009: Top 25 Transient Demand Rebounds Quickly

Lux & UU Class, Segmentation, by Month



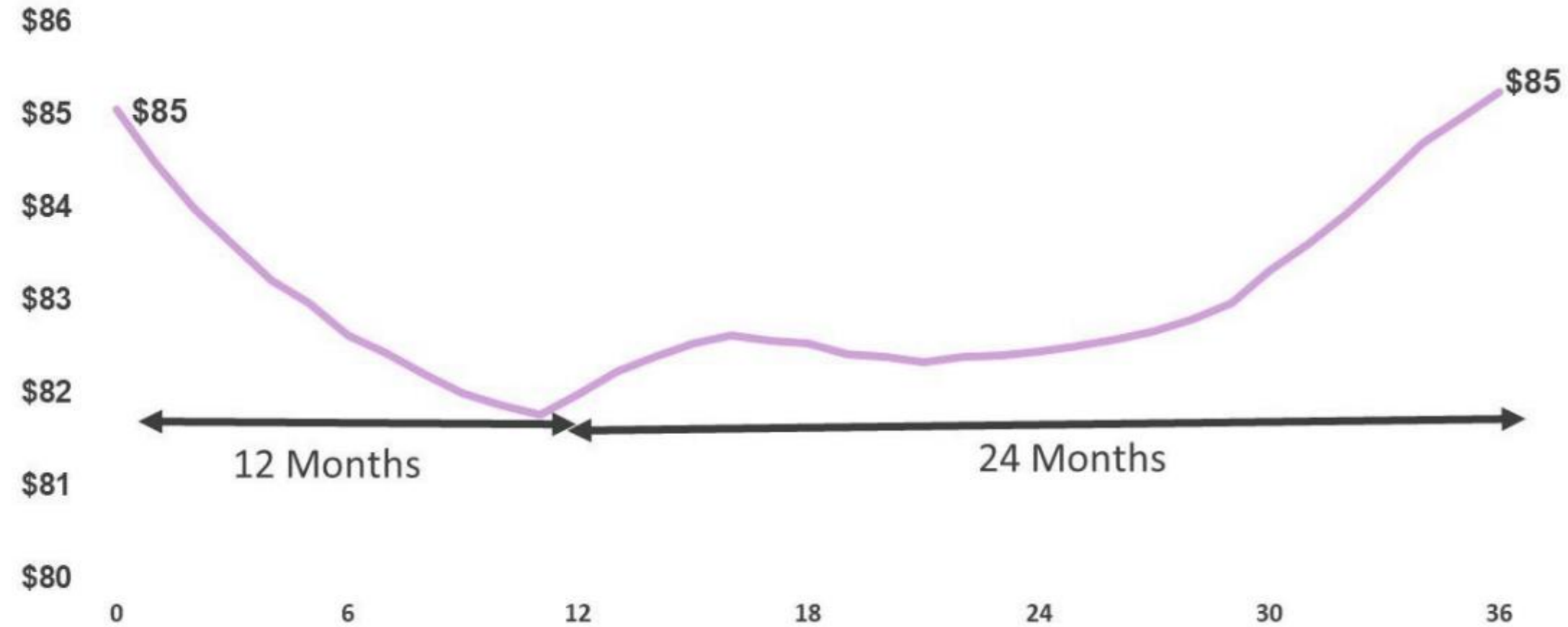
Source: STR. 2020 © CoStar Realty Information, Inc.

ADR: AVOID THE RACE TO THE BOTTOM

Excessive Discounting Retail Rates Does Not Induce Demand especially in Lack of Demand Situation

ADR Rebound After External Shock Takes Time

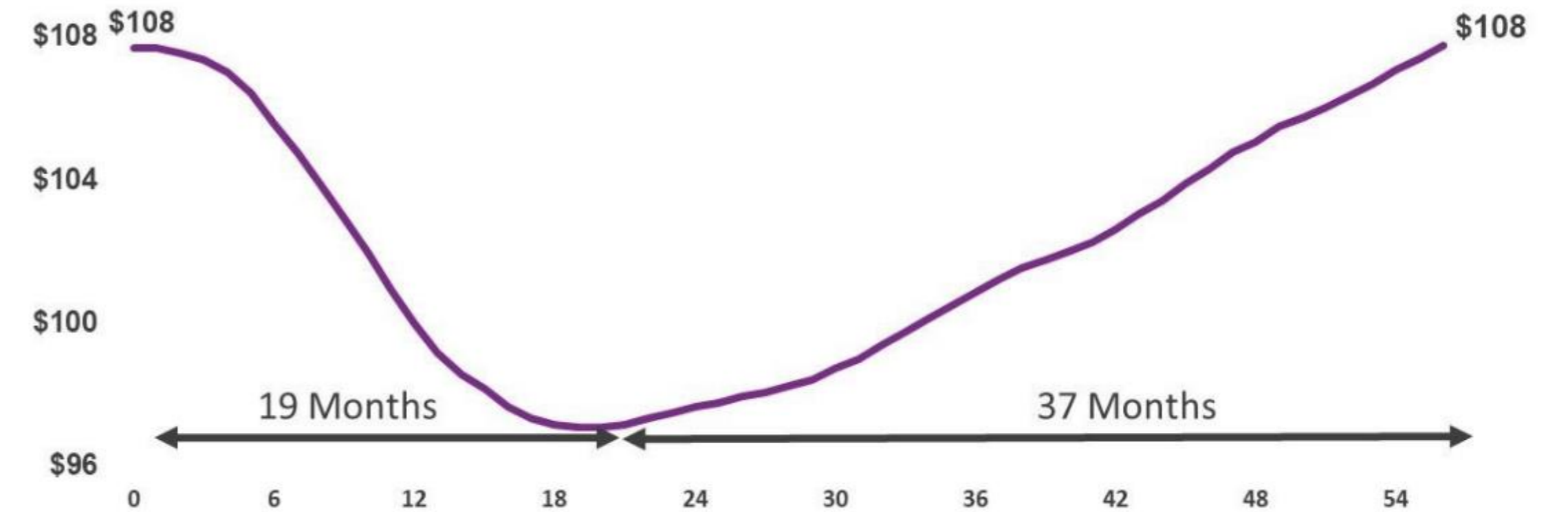
Total U.S., ADR \$, 12MMA, Post-9/11



Source: STR. 2020 © CoStar Realty Information, Inc. 3

ADR Rebound After External Shock Takes Time

Total U.S., ADR \$, 12MMA, Post Lehman Bros Bankruptcy (09/2008)



Source: STR. 2020 © CoStar Realty Information, Inc. 4

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