Meet The Money

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Better Lodging Analytics For Better Business Decisions

May-2023

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U.S. Lodging Outlook

Covid-19 and Fiscal Policy Assumptions

Macro Assumptions

- The Fed will raise rates by another 25 bps in May, then pause rate increases until rate cuts begin in 2024
- Inflation will moderate to under 3% by 3Q-2023
- Labor supply constraints will continue to ease but elevated wage growth remains in place for the hotel industry into 2023
- No new Covid-19 variants impact children or the vaccinated in any meaningful way
- Russia/Ukraine conflict does not lead to military involvement from the U.S. or the rest of Europe
- As a result, the greatest risk of U.S. recession has moved from 2023 to 2024, but is not built into our base case

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Macro-Factors Influencing our Current Outlook

Factors of Influence

- The corporate Return to Office has remained sluggish. We do not believe there will be the same number of people working in offices the same number of days as pre-pandemic in the foreseeable future.
- Corporate profits are expected to drop 5% in 2023 and remain flat in 2024.
- As of 4/28, the stock market was up 9% YTD after being down 19% in 2022. However, The S&P 500 is still 29% above year-end 2019 levels.
- The U.S. Personal Savings Rate ended 2020 at an all-time high over 2x the 4Q-2019 rate. However, following a year of elevated inflation and pent-up discretionary spending, the personal savings rate has dropped to the lowest level since 2010.
- The 2023 convention booking pace is up 12% from 2022 but still 7% below 2019 levels. However, the 2024 convention booking pace is down 9% from 2023 levels.
- Inflation is moderating and won't be the ADR tailwind that it has been in recent quarters.

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Demand Segment Recovery

Corporate Transient

- In 2021, corporate transient demand was about 2/3 of 2019 levels and almost 80% of 2019 levels in 2022.
- We forecast corporate transient demand to increase to between 85% and 90% of 2019 levels in 2023, which is where it will hold for the next few years.

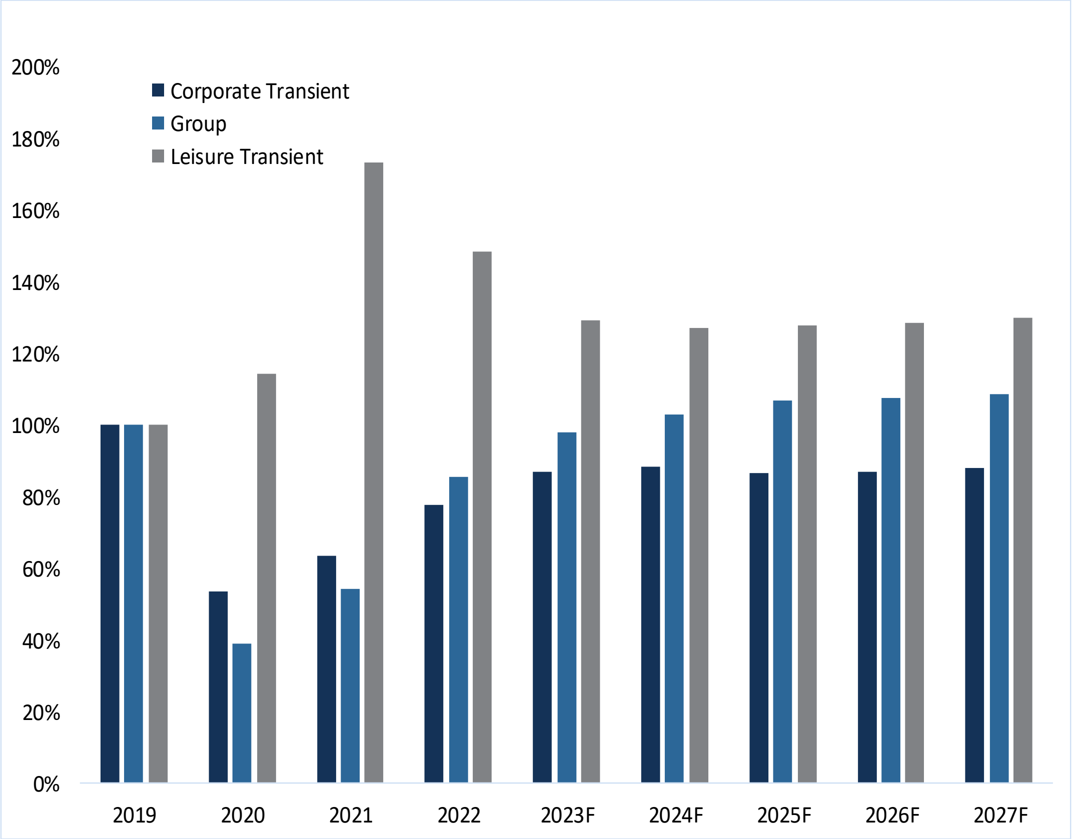
Group

- In 2021, group demand was about half of the levels from pre-pandemic and about 15% below 2019 levels in 2022.
- We forecast a strong snap back in group demand with 2023 levels only slightly below 2019 levels. Group demand will gradually improve through 2027, stabilizing around 110% above 2019 levels.

Leisure Transient

- In 2021, leisure demand was about 75% above the levels of 2019 and was close to 50% above 2019 levels in 2022.
- We forecast leisure demand to gradually moderate, but leisure will remain a larger component of demand moving forward than historically. Overall, we expect leisure demand to stabilize around 130% of 2019 levels by 2023.

Demand Segment Recovery Outlook



Source: Lodging Analytics Research & Consulting, STR

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Current U.S. Forecast for Occupancy, ADR and RevPAR

Highlights

- LARC's 2023 forecast is materially skewed by 1Q-2023, when we expect outsized growth related to soft comparables driven by the Omicron variant
  - RevPAR was up just over 16% in 1Q (consistent with our outlook) but will average 4% year-over-year growth the rest of the year
- Our 2023 ADR and RevPAR outlooks are the highest among industry forecasters
- However, we are the most conservative on the occupancy recovery, which we expect to stabilize around 64%

Current U.S. Forecast

	2022	2023F	2024F	2025F	2026F
Occupancy	62.7%	63.8%	63.9%	64.0%	63.9%
% Change	*8.9%*	*1.9%*	*0.1%*	*0.1%*	*-0.1%*
ADR	$148.83	$155.29	$162.03	$165.22	$168.94
% Change	*19.1%*	*4.3%*	*4.3%*	*2.0%*	*2.2%*
RevPAR	$93.28	$99.15	$103.59	$105.77	$108.01
% Change	*29.8%*	*6.3%*	*4.5%*	*2.1%*	*2.1%*

Source: Lodging Analytics Research & Consulting, CoStar

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2022 U.S. Forecast Review- LARC Outperforms

Highlights

- Heading into 2022, LARC was the most positive of all the major forecasting firms. We also anecdotally informed clients that our industry-leading ADR outlook was conservative and saw more upside than downside to it.
- CBRE bases their forecast off Kalibri data, misaligning it with the others, so we offer an adjusted version based on growth rates to more closely align with STR data

Late 2021 Forecasts for 2022 and Actual Results

	Occupancy	ADR	RevPAR
Actual STR Results	62.7%	$148.83	$93.28
LARC (as of 12/21)	**62.4%**	**$136.74**	**$85.08**
CBRE (12/21, Adjusted)	61.0%	$127.53	$77.85
STR (as of 11/21)	63.4%	$130.00	$82.00
Costar (as of 11/21)	62.1%	$128.43	$79.74
PwC (as of 11/21)	61.7%	$130.76	$80.63

Source: Lodging Analytics Research & Consulting, CBRE Hotels, STR, PwC, CoStar

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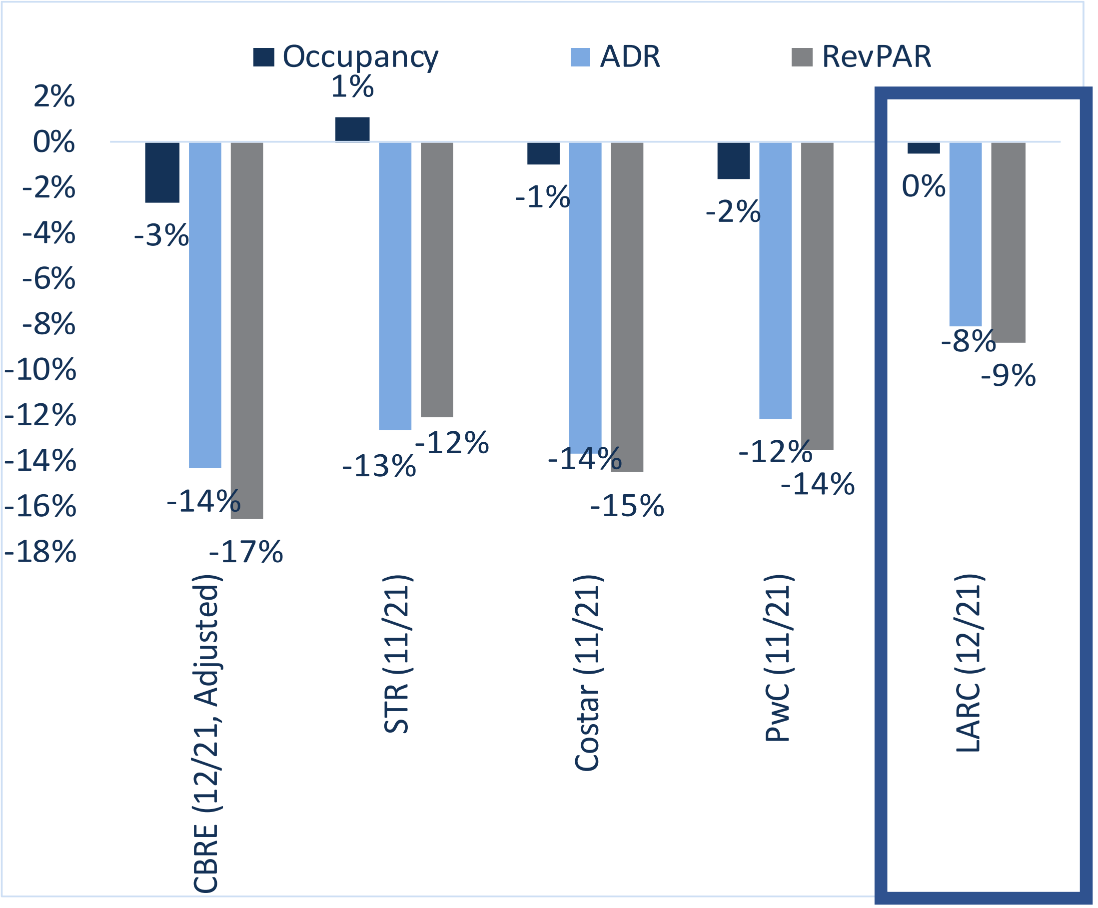
Late 2021 Forecasts for 2022 Relative to Actual Results



Source: Lodging Analytics Research & Consulting, JF Capital, CoStar

2021 U.S. Forecast Review- LARC Outperforms

Highlights

- Heading into 2021, LARC was the most positive of all the major forecasting firms. However, even we underestimated the pricing power the industry would exhibit.
- Our occupancy outlook for 2021 was considerably closer than that of our peers, despite the uncertainty heading into the year.
- CBRE bases their forecast off Kalibri data, misaligning it with the others, so we offer an adjusted version based on growth rates to more closely align with STR data

Late 2020 Forecasts for 2021 and Actual Results

	Occupancy	ADR	RevPAR
Actual STR Results	57.6%	$124.67	$71.86
LARC (as of 12/20)	**56.0%**	**$111.86**	**$62.59**
CBRE (12/20, Adjusted for comparison)	52.7%	$101.91	$53.76
STR (as of 11/20)	52.2%	$109.21	$57.03
PwC (as of 11/20)	52.7%	$103.25	$54.41

Source: Lodging Analytics Research & Consulting, JF Capital, CoStar

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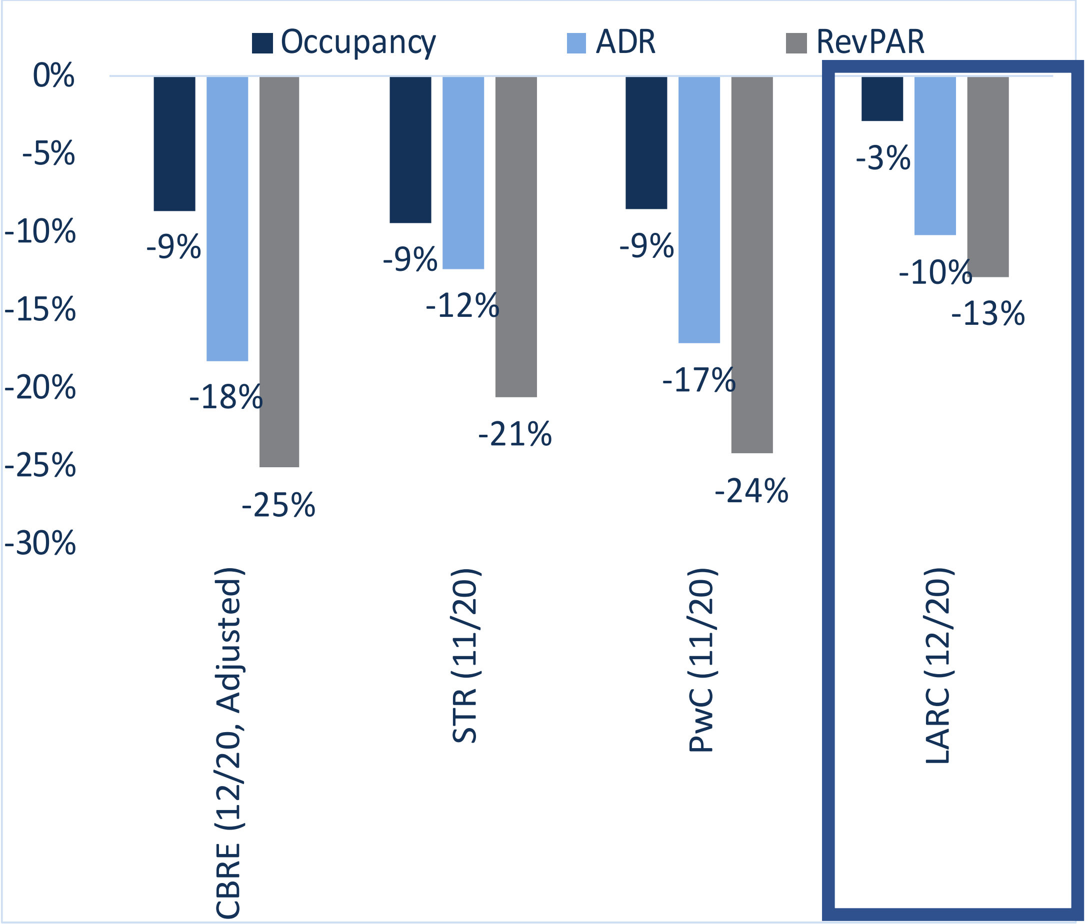
Late 2020 Forecasts for 2021 Relative to Actual Results



Source: Lodging Analytics Research & Consulting, JF Capital, CoStar

Expenses and EBITDA

Key Expense Assumptions

- Property Taxes will grow at a 5.4% CAGR through 2027
- Wages will increase at a 5.8% CAGR through 2027
- Other Expenses will grow at inflation
- We assume historical levels of cost flexing related to occupancy and for negative environments

U.S. Lodging Wage Growth

(forecasts begin 1Q-2023)

	1Q	2Q	4Q	4Q	Annual
2019	4.5%	4.6%	4.5%	2.9%	**4.1%**
2020	2.1%	-10.4%	-6.2%	-0.2%	**-3.7%**
2021	0.7%	27.0%	29.1%	21.7%	**19.2%**
2022	16.4%	8.1%	2.7%	4.7%	**7.6%**
2023 F	*12.6%*	*11.5%*	*9.6%*	*9.9%*	***10.9%***
2024 F	*7.1%*	*5.1%*	*6.0%*	*4.3%*	***5.6%***
2025 F	*4.5%*	*4.6%*	*4.5%*	*4.5%*	***4.5%***
2026 F	*4.4%*	*4.3%*	*4.2%*	*4.1%*	***4.3%***
2027 F	*4.0%*	*4.0%*	*3.9%*	*3.9%*	***3.9%***

Source: Lodging Analytics Research & Consulting, Moody's Analytics

U.S. Hotel EBITDA Growth

	1Q	2Q	4Q	4Q	Annual	Vs. 2019
2021	-79.4%	-351%	-11748%	1709%	**491.2%**	**-43.2%**
2022	494.7%	108%	23%	24%	**67.1%**	**-5.0%**
2023 F	*25.0%*	*-2.6%*	*9.6%*	*16.4%*	***10.2%***	***4.6%***
2024 F	*27.7%*	*11.5%*	*0.8%*	*-1.2%*	***8.6%***	***13.7%***
2025 F	*-3.8%*	*-3.0%*	*-0.8%*	*-0.3%*	***-2.0%***	***11.4%***
2026 F	*0.0%*	*-0.5%*	*-1.2%*	*-2.5%*	***-1.0%***	***10.3%***
2027 F	*-2.3%*	*-2.5%*	*-2.2%*	*-2.6%*	***-2.4%***	***7.6%***

Source: Lodging Analytics Research & Consulting

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U.S. Forecast Summary

Key Takeaways

While ADR and RevPAR reached 2019 levels in 2022, we forecast Hotel EBITDA and Hotel Values to reach them in 2023. Occupancy will stabilize around 64% (below 2019 levels) in 2023.

U.S. Hotel Industry Forecast Summary

	2023 Growth	2022-2025 CAGR	2022-2027 CAGR
Economic Supply	1.4%	1.1%	1.0%
Demand	3.3%	1.8%	1.4%
Occupancy	1.9%	0.7%	0.4%
ADR	4.3%	3.5%	2.9%
RevPAR	6.3%	4.3%	3.3%
Hotel EBITDA	10.2%	5.5%	3.2%
Hotel Values	6.2%	4.3%	1.7%

Source: Lodging Analytics Research & Consulting

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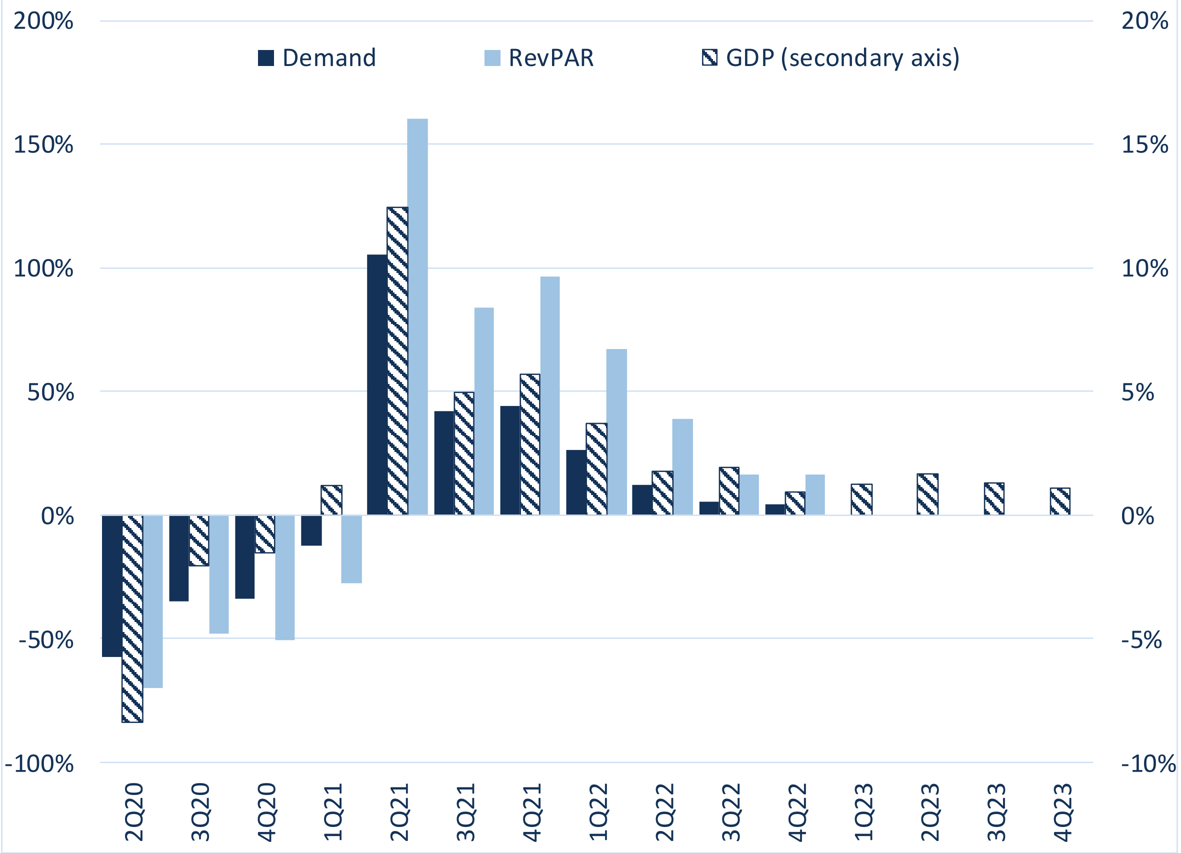
Market Highlights

National Recovery Has Aligned with Economic Growth

National Fundamentals Remain Aligned with GDP

	Demand	RevPAR
2000-2019		
Correlation	77.9%	79.2%
R-Square	60.7%	62.7%
2019-2022		
Correlation	96.8%	93.0%
R-Square	93.7%	86.5%

U.S. GDP vs. Lodging Demand and RevPAR (Year-over-Year Growth)



Source: Lodging Analytics Research & Consulting, Moody's Analytics, CoStar

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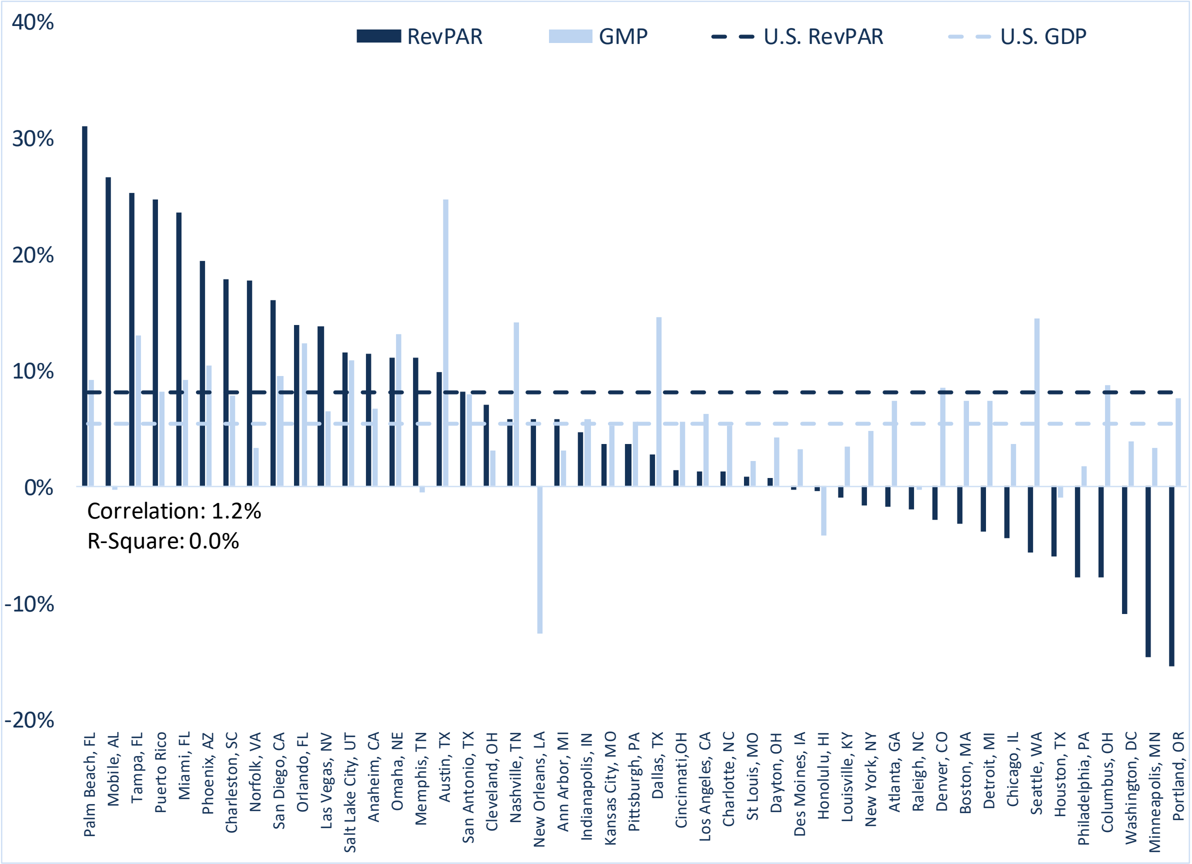
But at the Local Level the Relationship Has Broken Down

- No relationship between GDP and RevPAR across LARC’s 49 markets since 2019
  - Correlation of 1.2%
  - R-Square of 0.0%
- STR’s Top 25 Markets from 2000 – 2019
  - Correlation of 42.2%
  - R-Square of 17.8%

2022 MSA GMP Growth over 2019 vs. RevPAR Growth over the Same Period



Source: Lodging Analytics Research & Consulting, Moody’s Analytics

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2023 RevPAR Outlook

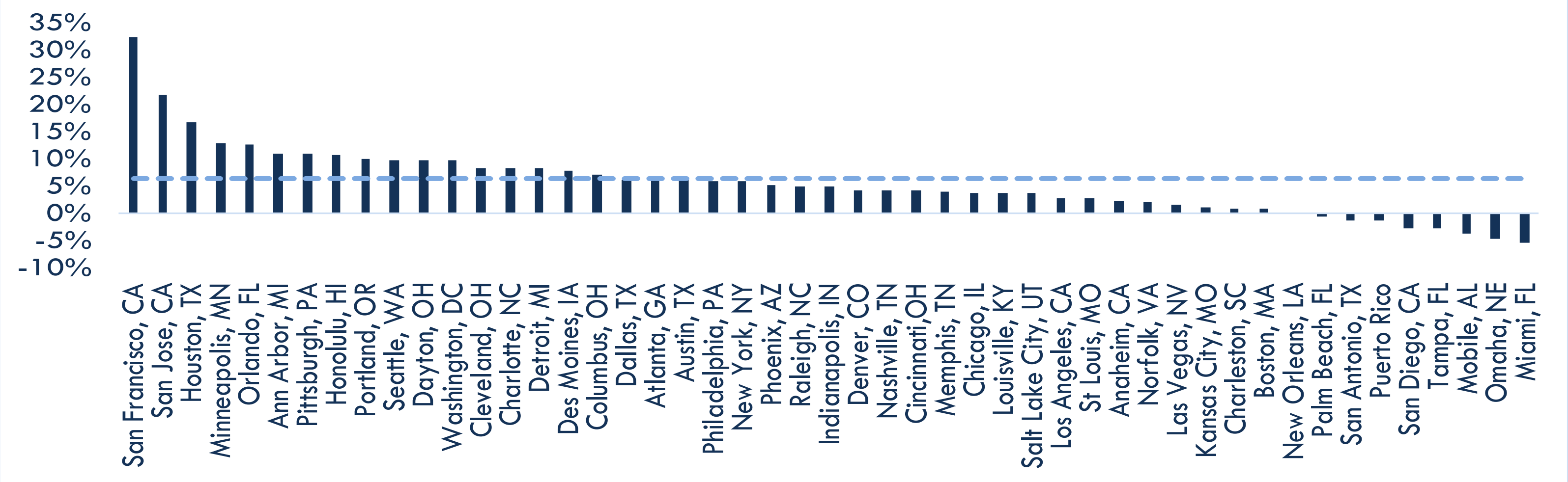
2023 Top Performers (vs. 2022)

San Francisco, San Jose, Houston, Minneapolis and Orlando: Three of these five markets will be among the farthest behind 2019 levels in 2022. Growth will be the strongest in 2023, but off a low base. Houston will continue to benefit from a strengthening energy industry. Orlando will benefit from strong group demand and international travel.

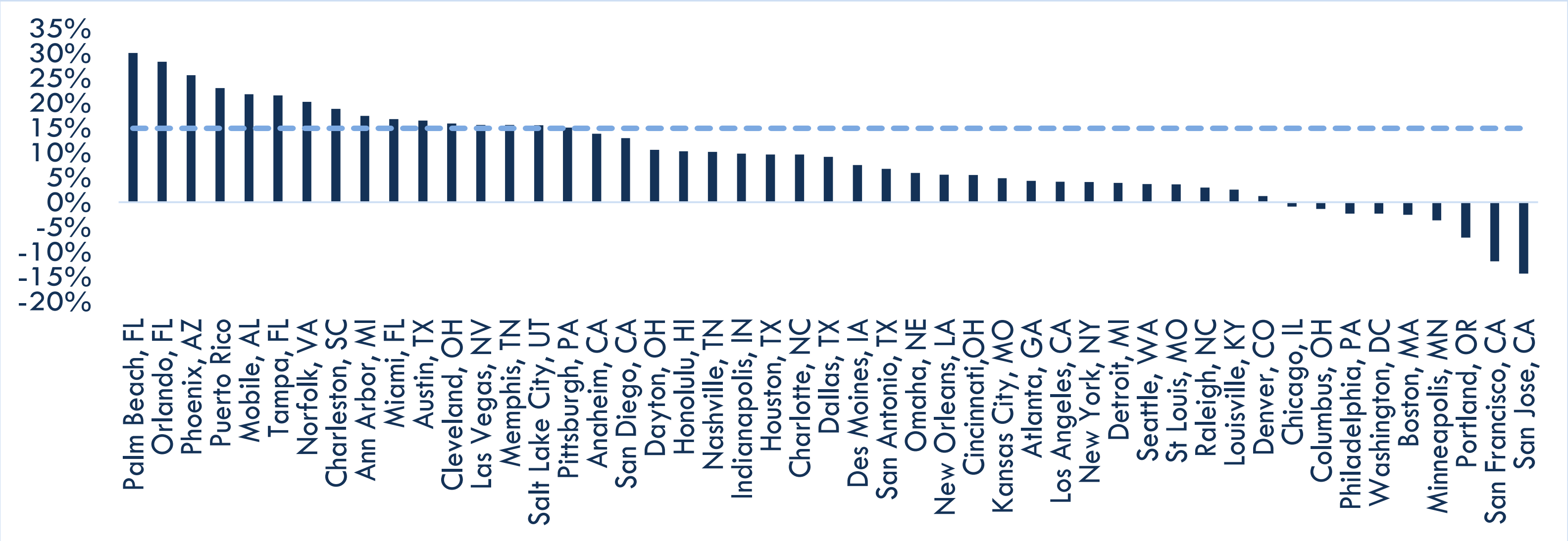
2023 Top Performers (vs. 2019)

Palm Beach, Orlando, Phoenix, Puerto Rico, and Mobile: Heavy leisure exposure and strong pricing power will lead all of these markets to generally maintain their recent gains in RevPAR.

RevPAR Growth Rates for LARC's 50 Markets – 2023 vs. 2022



RevPAR Growth Rates for LARC's 50 Markets – 2023 vs. 2019



Source: Lodging Analytics Research & Consulting

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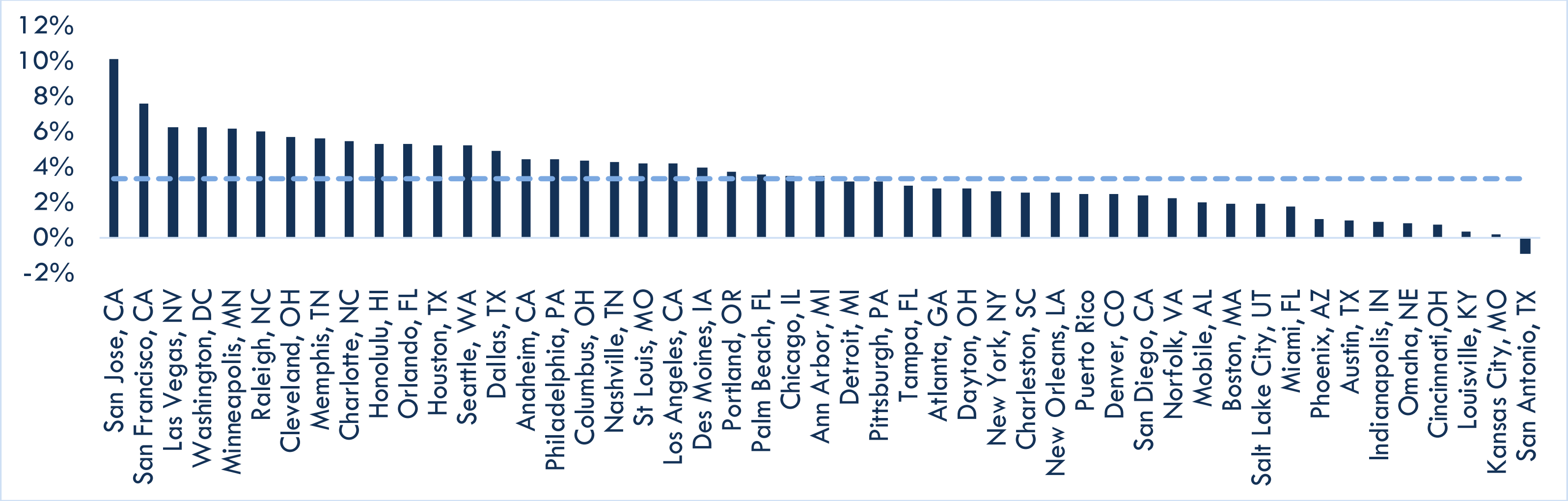
Five-Year RevPAR Outlook

2027 Top Performers (vs. 2022)

<u>San Francisco, San Jose, Las Vegas, Washington, D.C. and Minneapolis</u>: Four of these five markets were among the farthest behind 2019 levels in 2022. Growth will be the strong going forward, but off a low base. Las Vegas is the outlier, supported by robust economic growth and strong group trends.

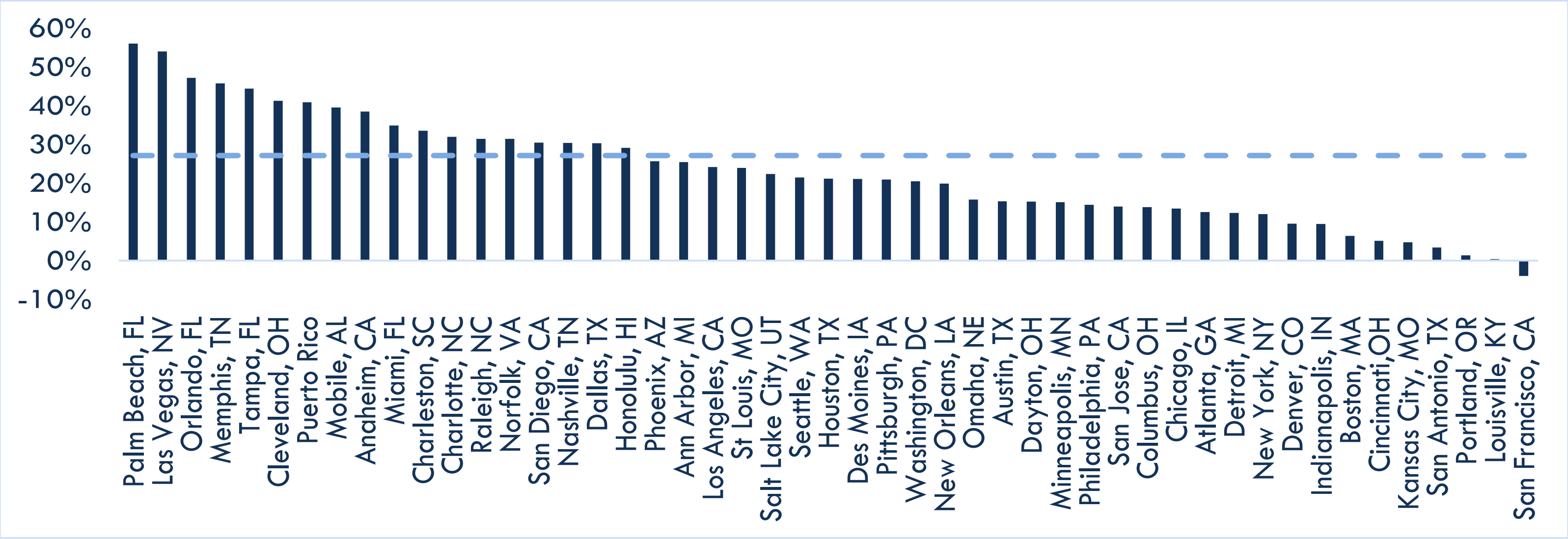
RevPAR CAGR for LARC's 50 Markets – 2027 vs. 2022



2027 Top Performers (vs. 2019)

<u>Palm Beach, Las Vegas, Orlando, Memphis and Tampa</u>: Heavy leisure exposure and strong economic growth will lead all of these markets to build on their recent gains in RevPAR.

RevPAR CAGR for LARC's 50 Markets – 2027 vs. 2019



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Source: Lodging Analytics Research & Consulting

Five-Year Hotel Value Outlook

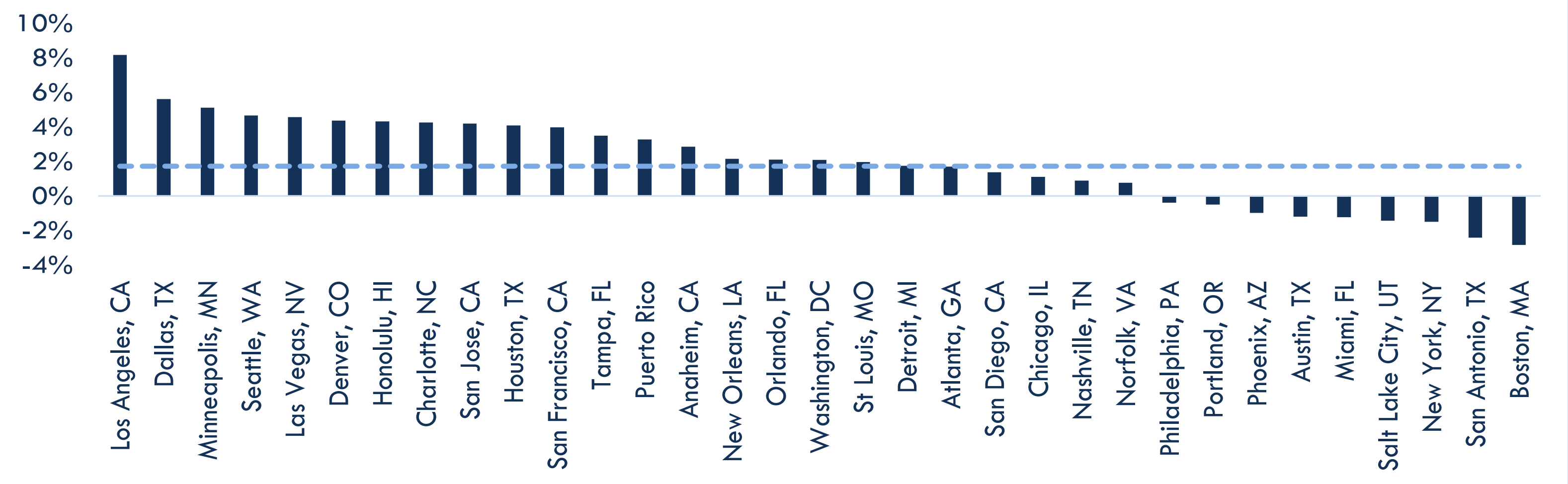
2027 Top Performers (vs. 2022)

Los Angeles, Dallas, Minneapolis, Seattle and Las Vegas: Minneapolis and Seattle make this list driven by their weak recovery to date. Los Angeles will benefit form heightened event demand leading up to the 2028 Olympics. Dallas and Las Vegas growth is driven by strong top-line growth and outsized economic growth.

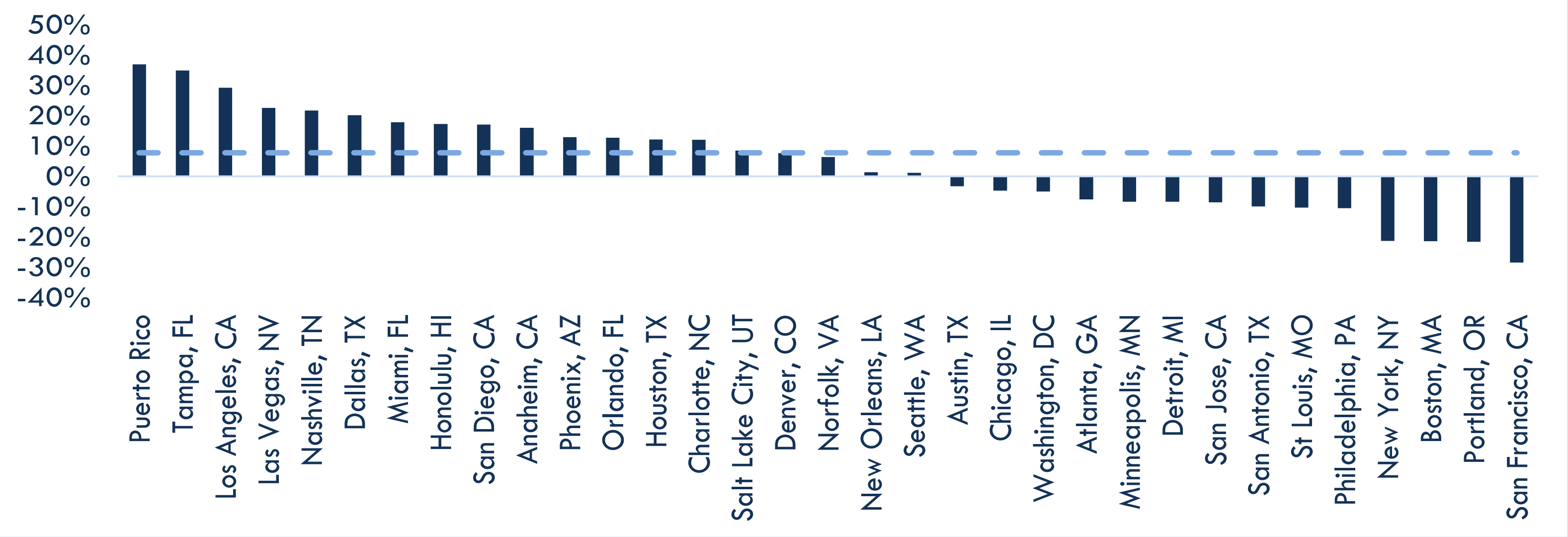
2027 Top Performers (vs. 2019)

Puerto Rico, Tampa, Los Angeles, Las Vegas and Nashville: A mix of out-sized leisure exposure, strong economic growth and modest expense growth drive these markets to be winners over the long-term.

Hotel Value CAGR for LARC's 33 Markets – 2027 vs. 2022



Hotel Value CAGR for LARC's 33 Markets – 2027 vs. 2019



Source: Lodging Analytics Research & Consulting

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Questions?

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information@larcanalytics.com

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