Lodging Performance Outlook 2023

National & Los Angeles

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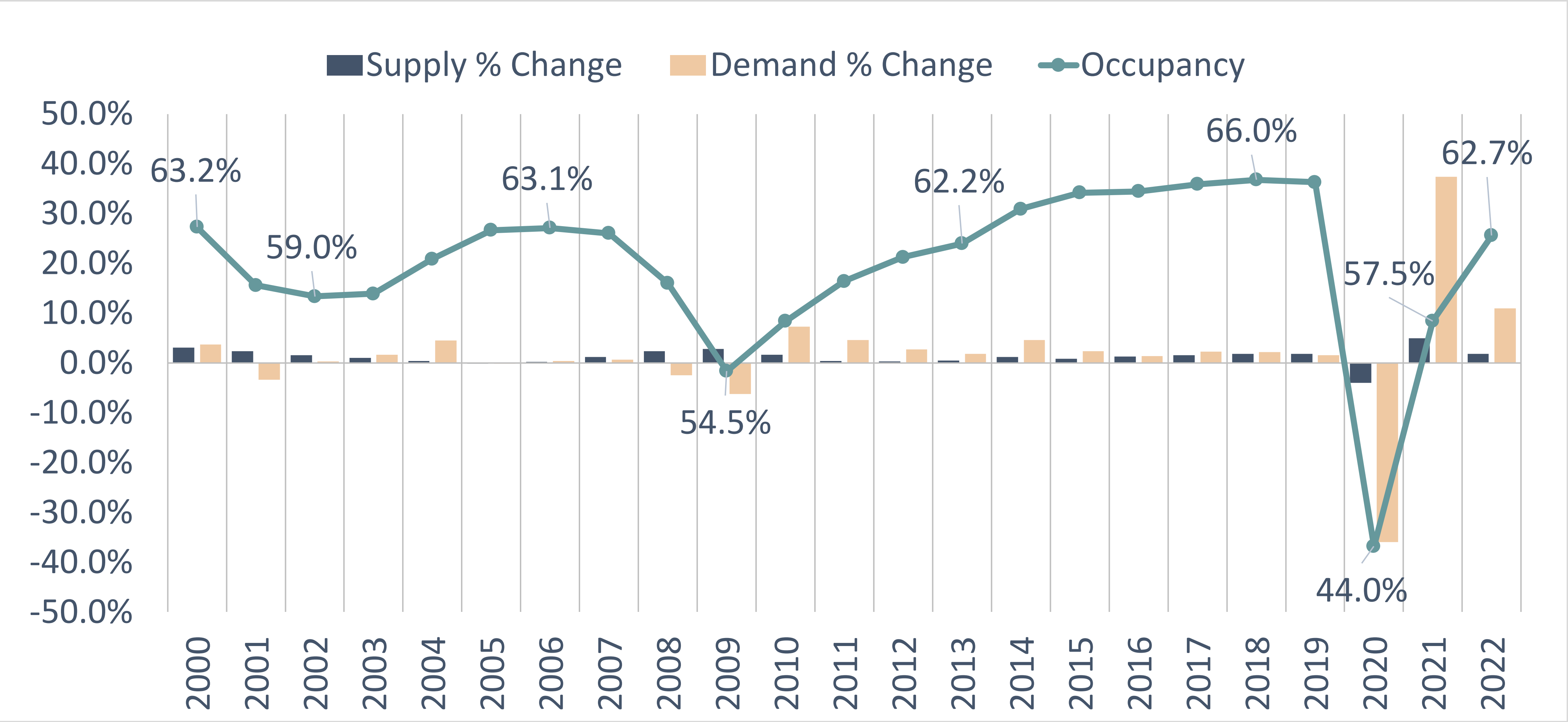
April 2023

Occupancy, ADR, RevPAR

Our Forecast

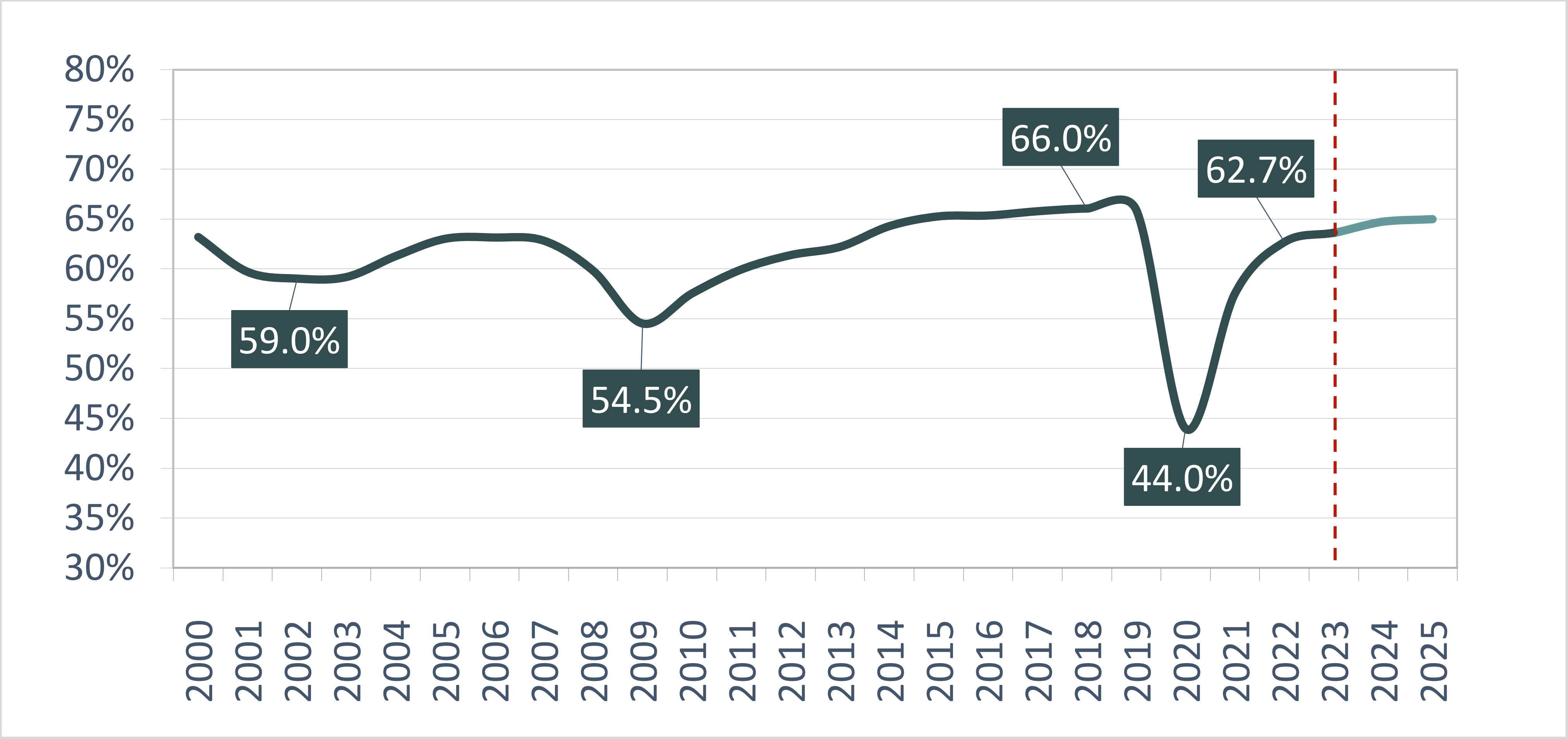
U.S. Lodging Demand & Occupancy Recovered



Source: STR

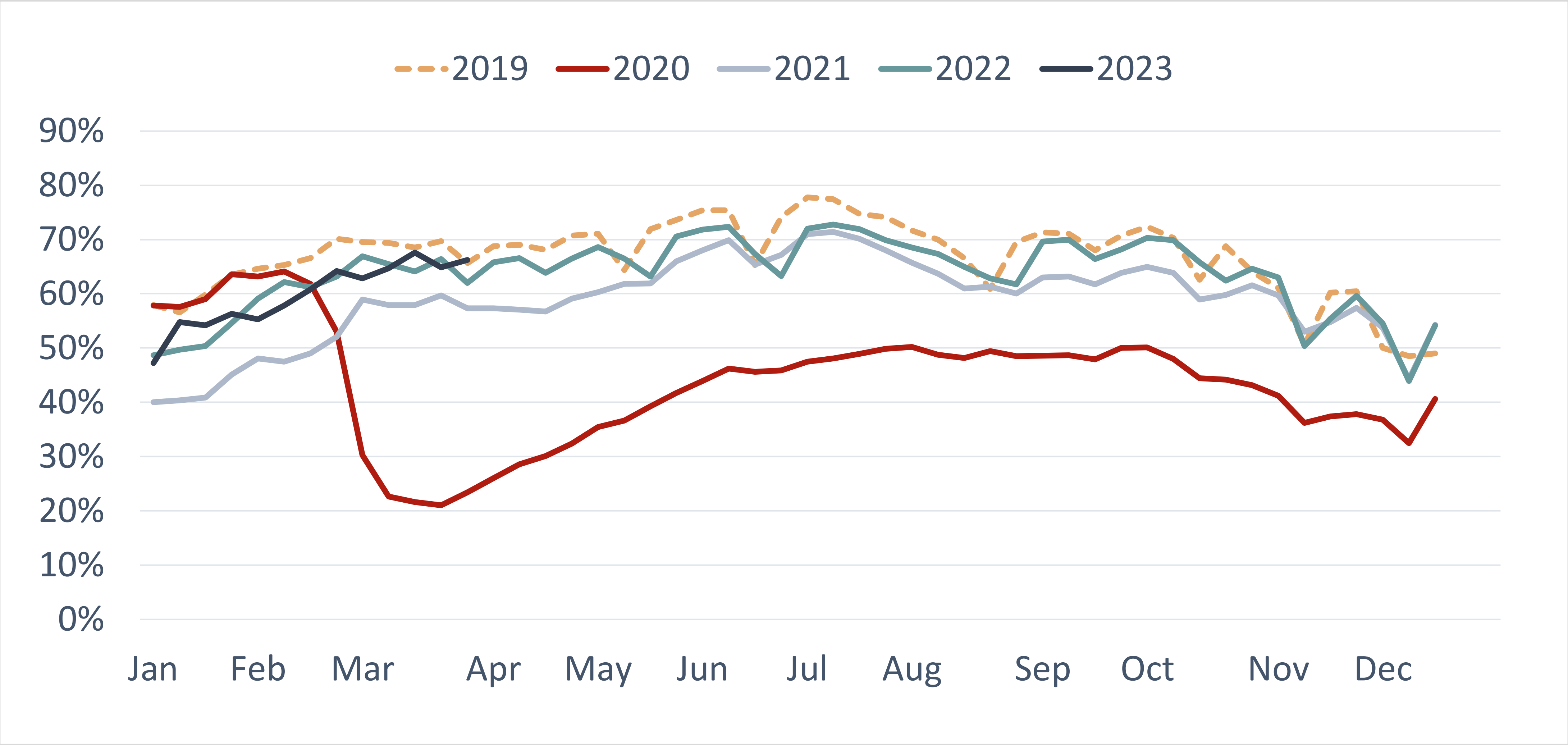
Occupancy Continues Its Slow Climb

Q1 2023 demand comparisons to Q1 2022 (Omicron) was favorable



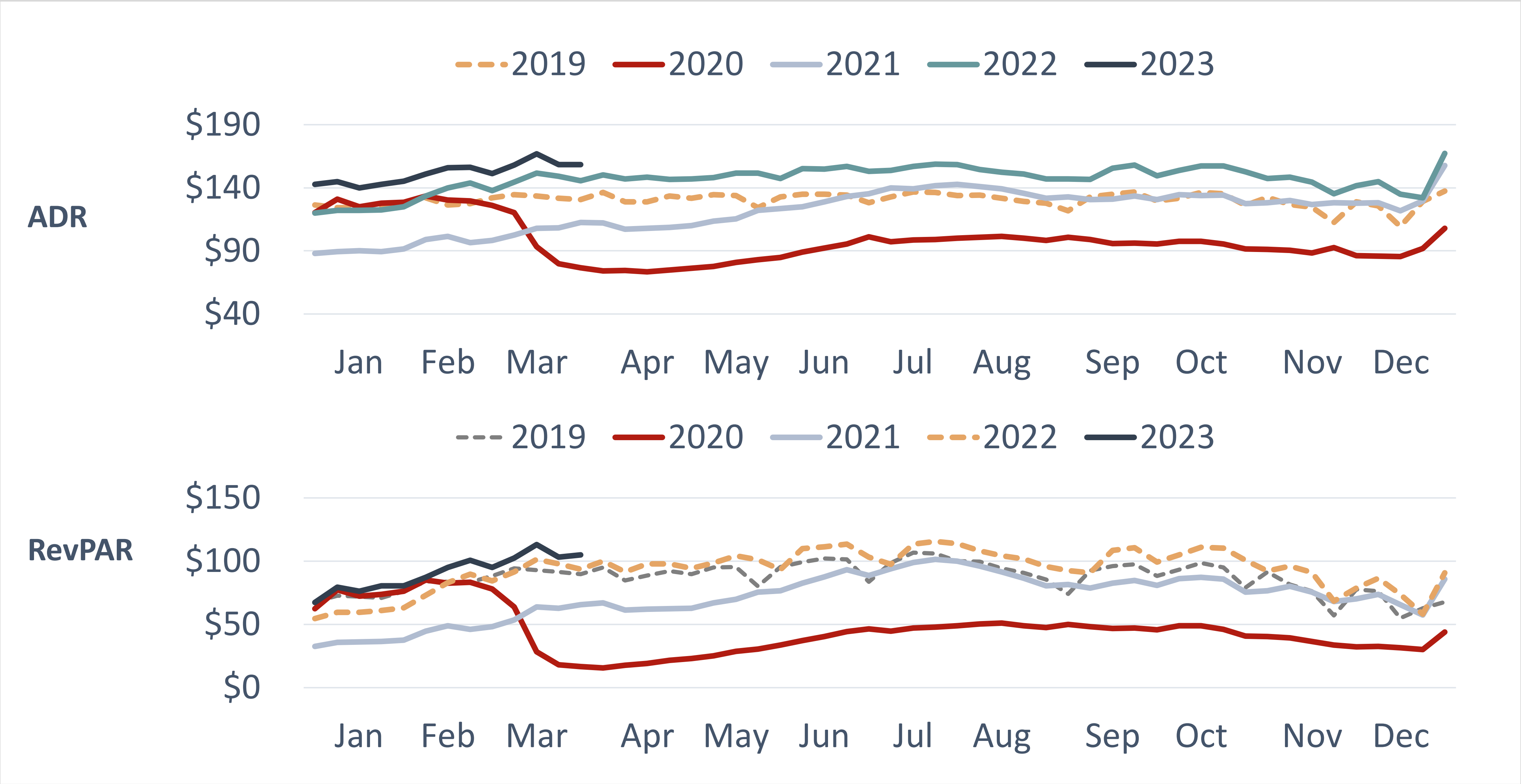
Source: STR (Historical), HVS (Forecast as of January 2023)

Occupancy Gained Momentum in 2022



Source: STR

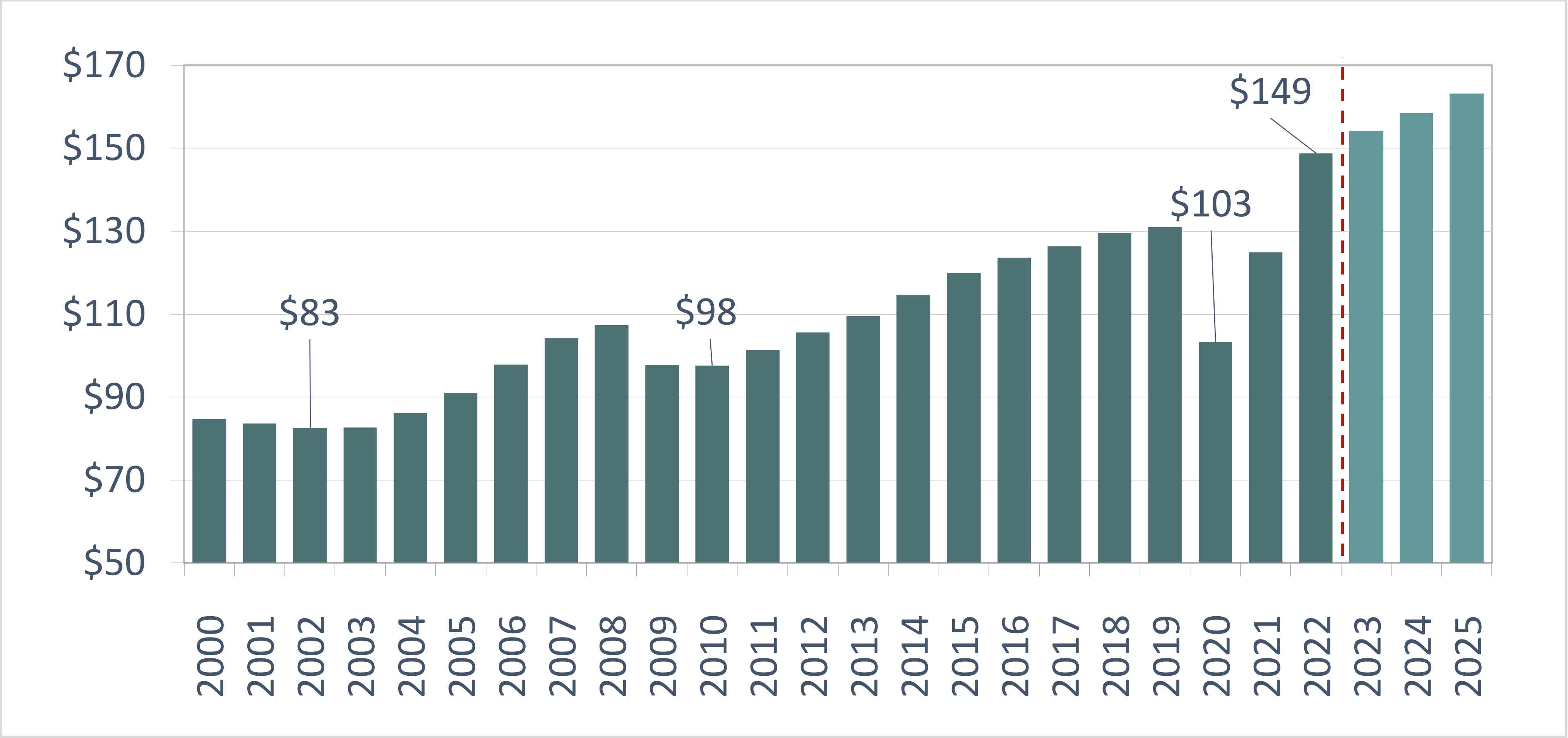
By March '22, ADR Drove RevPAR Gains



Source: STR

Paying More for Travel is the New Norm

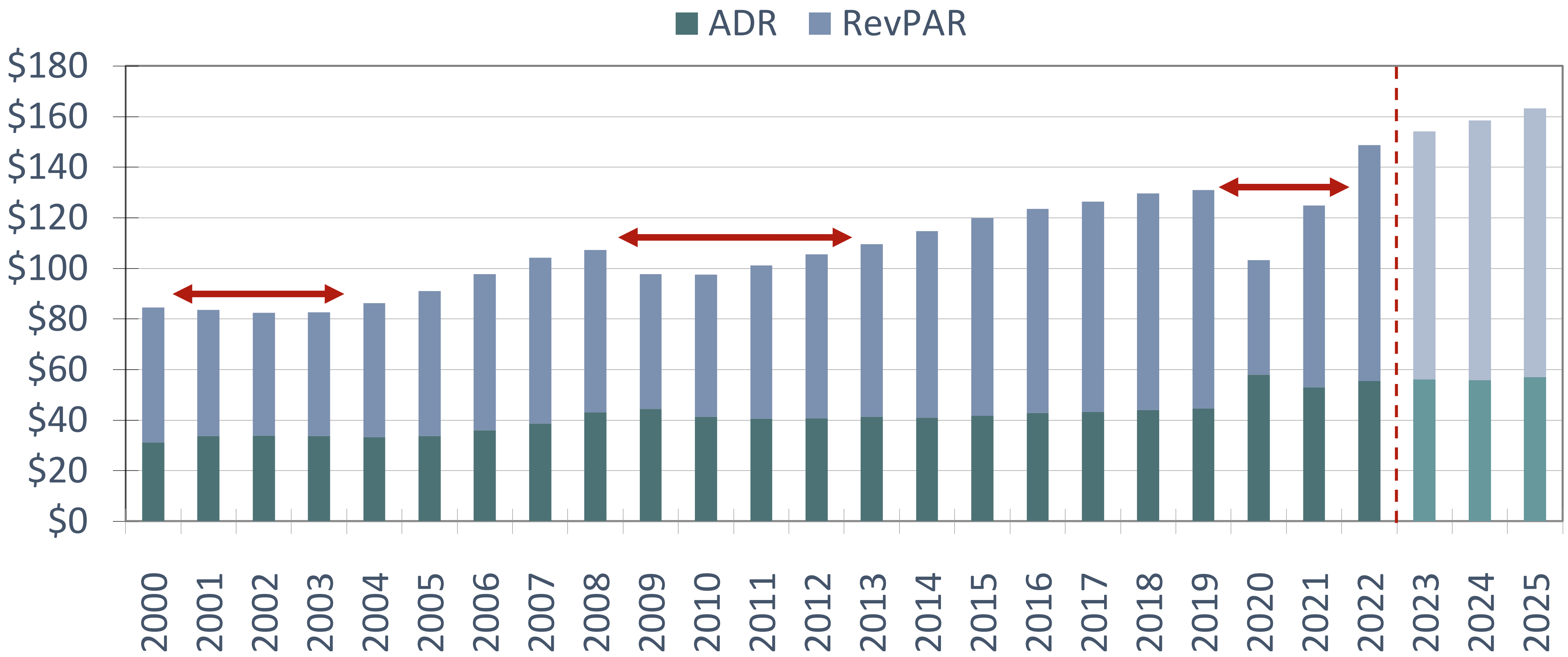
To escape their homes, which now are workplaces for more, room rate sensitivity wanes.



Source: STR (Historical), HVS (Forecast as of January 2023)

RevPAR Had a Quick Fall, but a Very Fast Rise

RevPAR moved beyond prior peak in 2022, recovering after only two down years



Source: STR (Historical), HVS (Forecast as of January 2023)

2022 RevPAR Set a New Industry High

Occupancy lags ADR recovery, with ADR having surpassed the 2019 level in 2022.

Year	Occupancy	ADR	% Chg	RevPAR	% Chg
2019	65.9%	$131		$86	
2020	44.0	103	-21.1%	45	-47.4%
2021	57.5	125	21.0	72	58.3
2022	62.7	149	19.1	93	29.8
2023	**63.6**	**154**	**3.6**	**98**	**5.1**
2024	**64.7**	**158**	**2.8**	**103**	**4.6**
2025	**65.0**	**163**	**3.0**	**106**	**3.5**

Source: STR (Historical), HVS (Forecast as of January 2023)

Outlook for Supply Growth

Supply increased by roughly 1.9% in 2022; supply growth forecast is 1.0% for 2023.

UNDER-CONSTRUCTION PROJECTS

Delays with materials/FF&E, pushing back planned opening dates.

MARKET CONDITIONS

Delayed openings; some projects on hold.

HOTEL SUPPLY

Some hotels have been taken offline for conversion to alternate uses.

FINANCING CONDITIONS

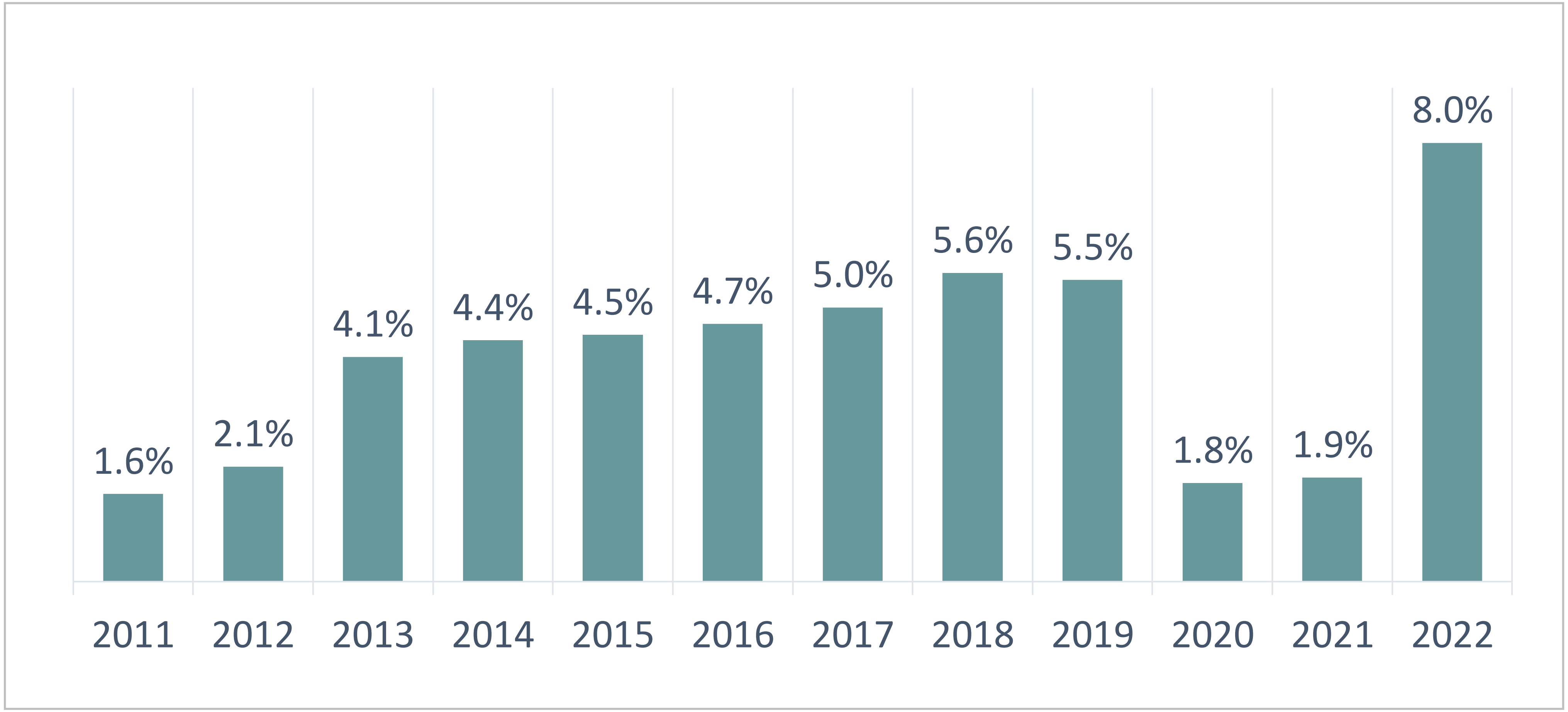
New or pending projects may be postponed or canceled due to financing concerns.

DEVELOPERS

2023/24 to pursue new projects given the potential decrease in construction costs.

New Hotel Supply Constrained by Growing Construction Costs

Construction costs inflation significantly increased in 2022



Source: Building Turner Cost Index (Third Quarter 2022)

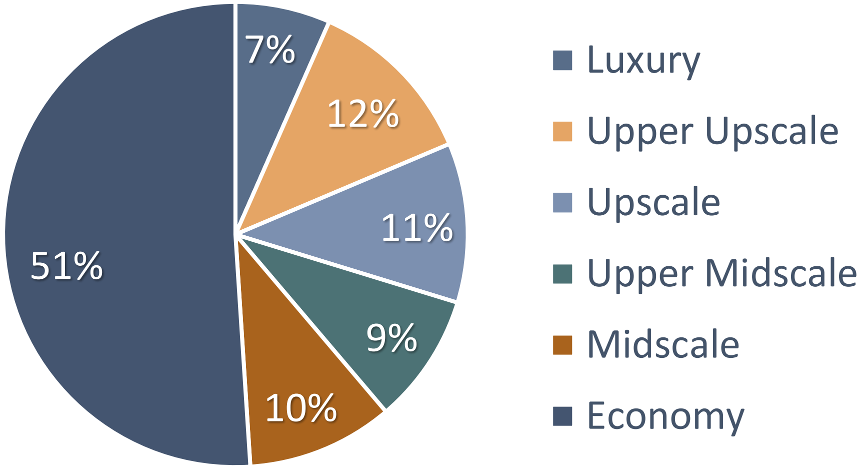
Los Angeles Hotel Performance

Los Angeles Market

Our slides reflect this data set

117,059 Rooms

1,315 Hotels



Los Angeles Forecast

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RevPAR Fully Expected to Recover by 2023

Year	Occupancy	ADR	% Chg	RevPAR	% Chg
2019	80%	$180		$144	
2020	49	139	-23.0%	68	-52.7%
2021	64	163	17.1	104	52.5
2022	71	201	23.2	142	37.4
2023	**75**	**205**	**2.0**	**153**	**7.3**
2024	**78**	**211**	**2.9**	**164**	**7.7**
2025	**80**	**217**	**3.0**	**173**	**5.1**

Source: STR (Historical), HVS (Forecast as of April 2023)

Short-Term Rentals Los Angeles

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Hotel Room Equivalents: As Listings Wane, Occupancy and ADR Rises

Year	Room Nights-Hotel Comparable: Available	Percent Change	Room Nights-Hotel Comparable: Booked	Percent Change	Occupancy	ADR	Percent Change	RevPAR	Percent Change
2015	730,410	—	466,447	—	63.9%	$126.48	—	$80.77	—
2016	1,109,888	52.0%	735,200	57.6%	66.2	128.15	1.3%	84.88	5.1%
2017	1,496,929	34.9	1,002,100	36.3	66.9	131.08	2.3	87.75	3.4
2018	1,877,079	25.4	1,304,989	30.2	69.5	131.96	0.7	91.74	4.6
2019	1,957,395	4.3	1,401,630	7.4	71.6	136.04	3.1	97.41	6.2
2020	973,410	-50.3	563,269	-59.8	57.9	136.80	0.6	79.16	-18.7
2021	732,338	-24.8	449,701	-20.2	61.4	158.18	15.6	97.13	22.7
2022	729,981	-0.3	469,462	4.4	64.3	174.29	10.2	112.09	15.4

Hotel Operating Trends

Revenues, Expenses, and NOI

Profitability Returned in 2022

Outside of CBDs and Suburban Office Parks, Hotels Began to Surpass 2019 NOI Levels

- F&B revenue recovery lagging, to extend through 2025.
- Stronger flow through of Rooms profitability is driving strong Dept. Income Profitability ratios
- Cost pressures have led to higher Undistributed Operating Expenses
- Profit ratios have recovered, but NOI dollars may not be as strong for hotels that rely on F&B departments.

	2022	Calendar Year	2019	Calendar Year
Number of Rooms:	155		155	
Days Open:	365		365	
Total Occupancy:	60.1%		64.8%	
Average Rate:	$124.65	Percentage	$121.04	Percentage
RevPAR:	$74.95	of Revenue	$78.49	of Revenue
OPERATING REVENUE				
Rooms	$4,240	86.1 %	$4,441	81.4 %
Food & Beverage	588	11.9	914	16.8
Other Operated Departments	44	0.9	60	1.1
Miscellaneous Income	54	1.1	39	0.7
Total Operating Revenue	4,926	100.0	5,454	100.0
DEPARTMENTAL EXPENSES*				
Rooms	1,169	27.6	1,242	28.0
Food & Beverage	541	92.0	812	88.8
Other Operated Departments	12	26.6	28	46.0
Total	1,722	35.0	2,082	38.2
DEPARTMENTAL INCOME	3,204	65.1	3,372	61.8
UNDISTRIBUTED OPERATING EXPENSES				
Administrative & General	527	10.7	553	10.1
Info. and Telecom. Systems	69	1.4	40	0.7
Marketing	178	3.6	207	3.8
Franchise Fee	382	7.7	400	7.3
Prop. Operations & Maintenance (POM)	236	4.8	255	4.7
Utilities	218	4.4	211	3.9
Total	1,609	32.7	1,666	30.5
GROSS OPERATING PROFIT	1,595	32.4	1,706	31.3
Management Fee	148	3.0	164	3.0
INCOME BEFORE NON-OPER. INC. & EXP.	1,447	29.4	1,543	28.3

* Departmental expenses are expressed as a percentage of departmental revenues

Source: HVS

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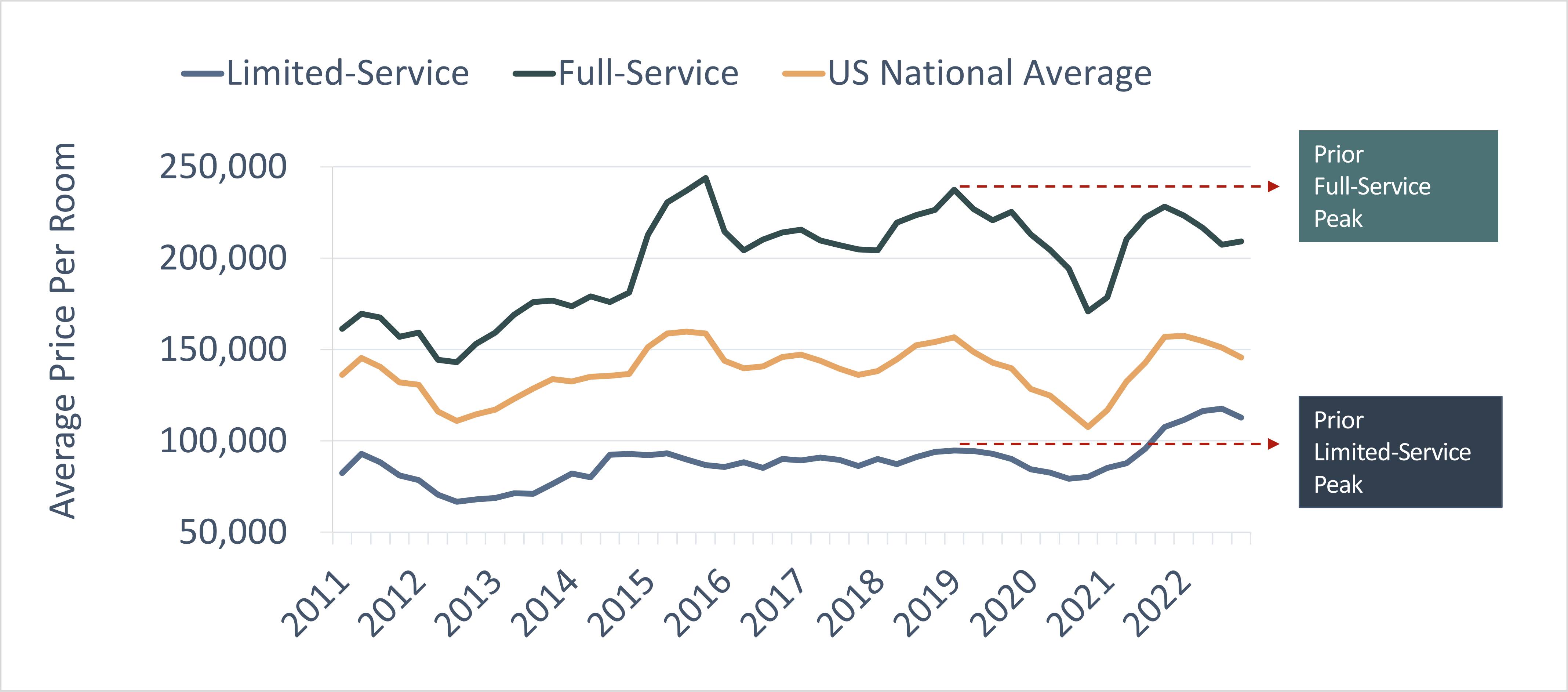
Values and Economic Indicators

Value Recovery Takes Different Trajectories

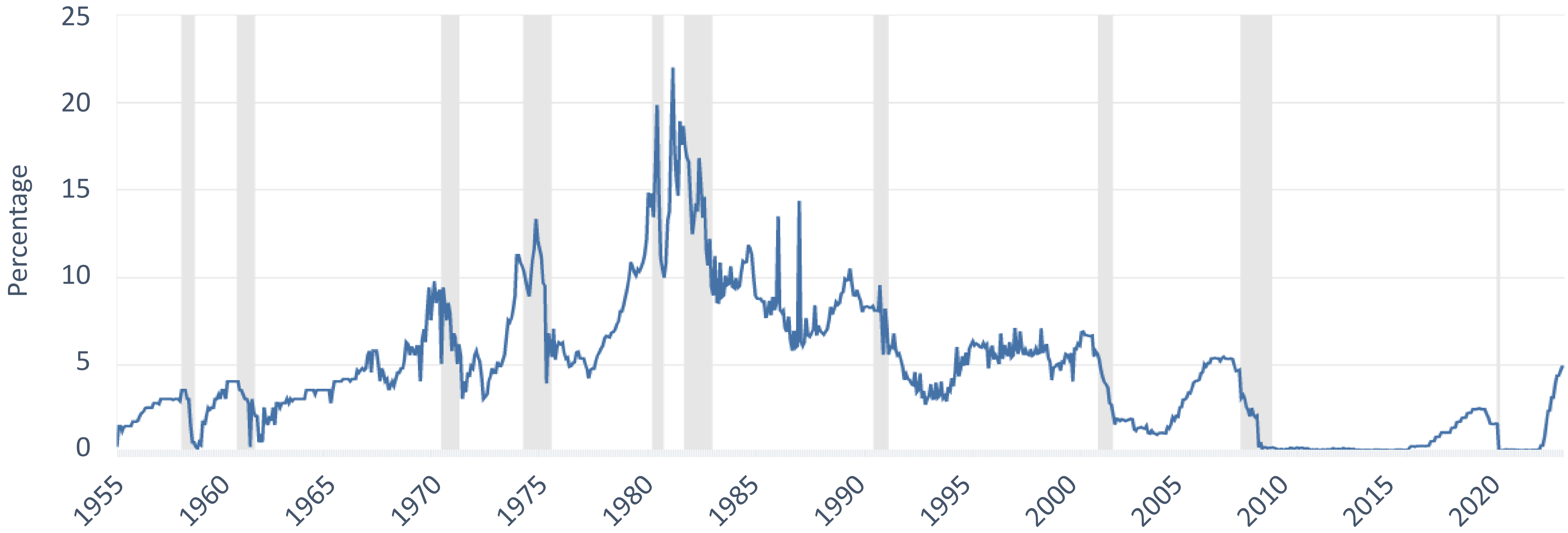
Limited-service sector surpasses prior peak, while full-service sector below prior peak.



Source: Real Capital Analytics

Federal Funds Rate

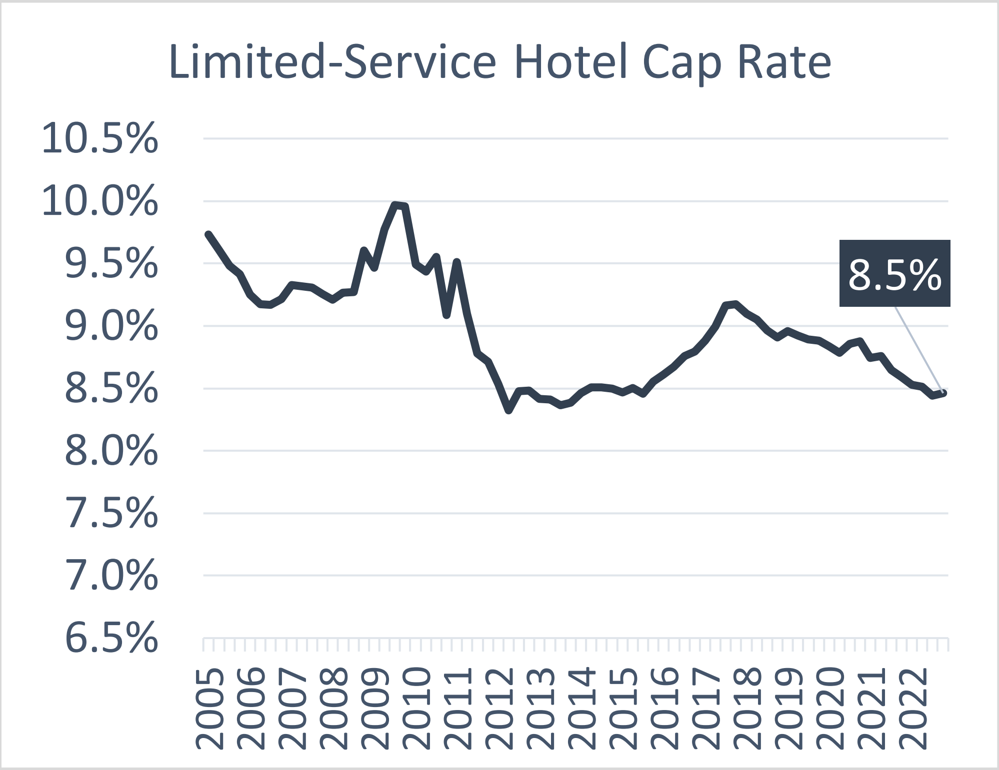
Current Rate Hike Cycle reflects fastest increase in recent history

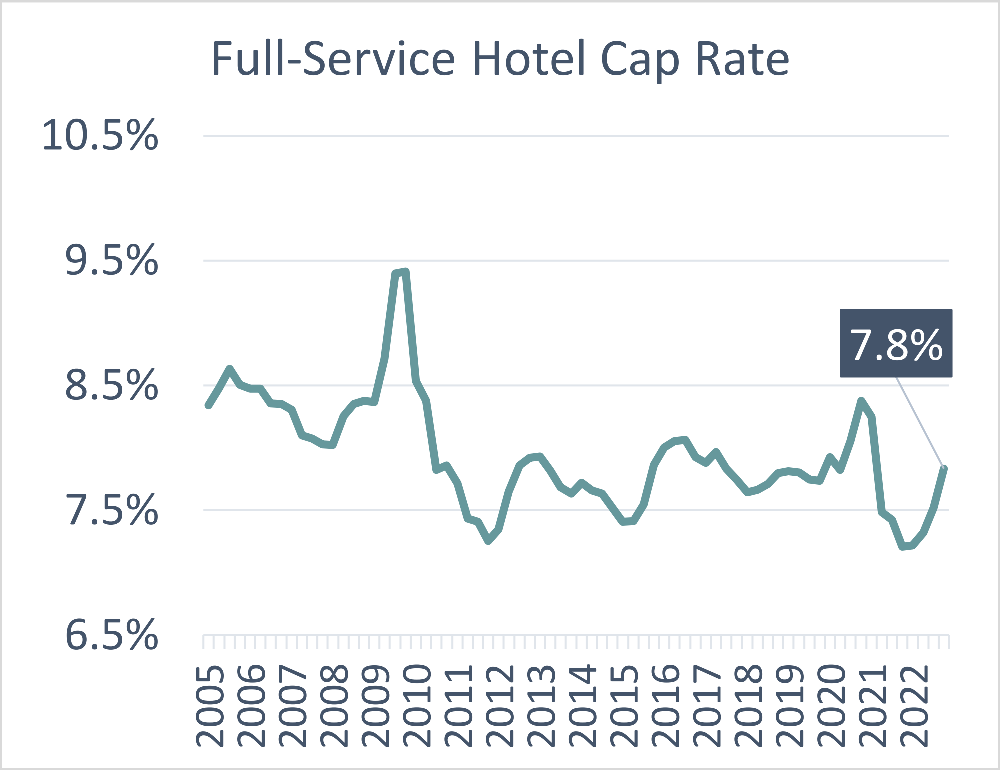


Source: Board of Governors of the Federal Reserve System (US)
Shaded areas indicate U.S. recessions.

Cap Rates Climb Given Debt Costs

Strong hotel performance and competition have somewhat offset debt costs.

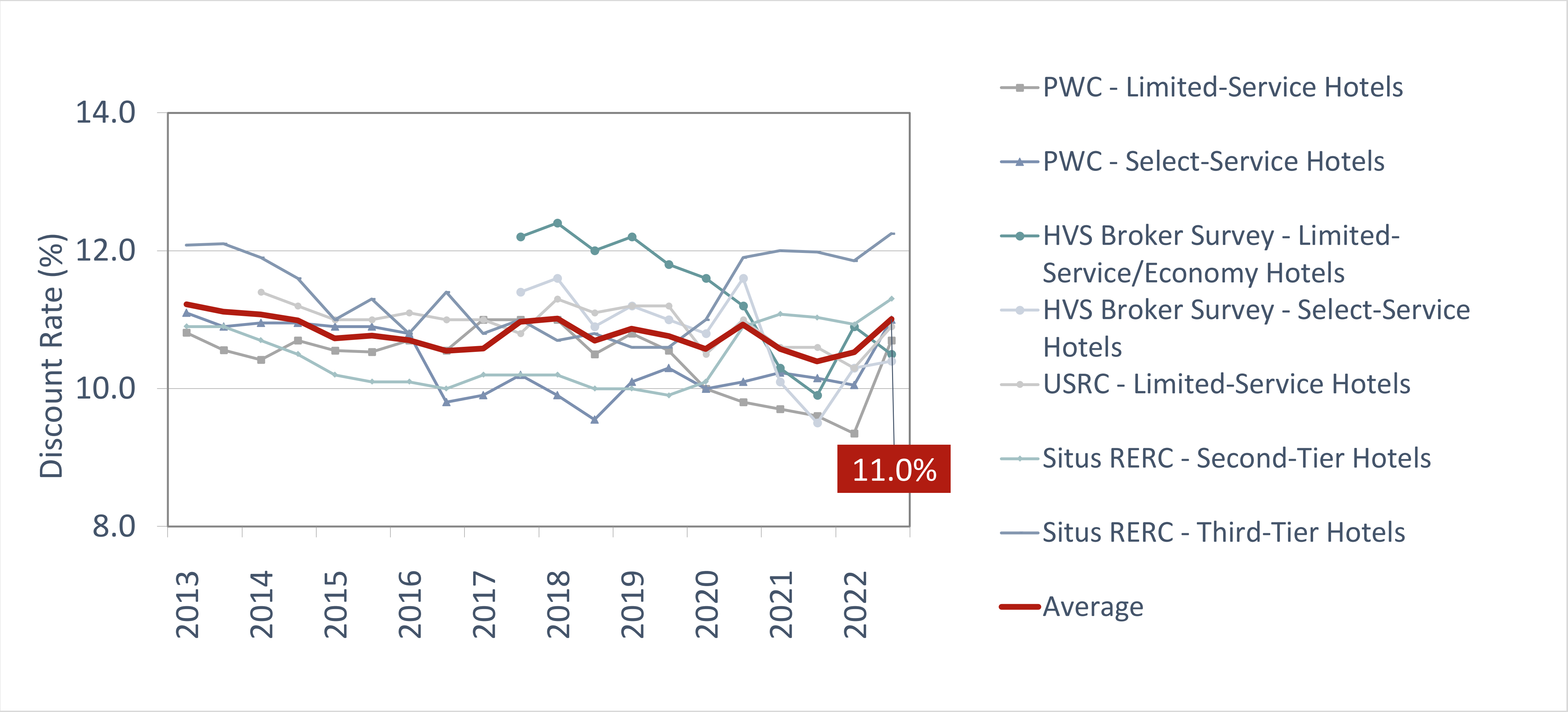




Source: Real Capital Analytics

Discount Rates on the Rise for Limited/Select

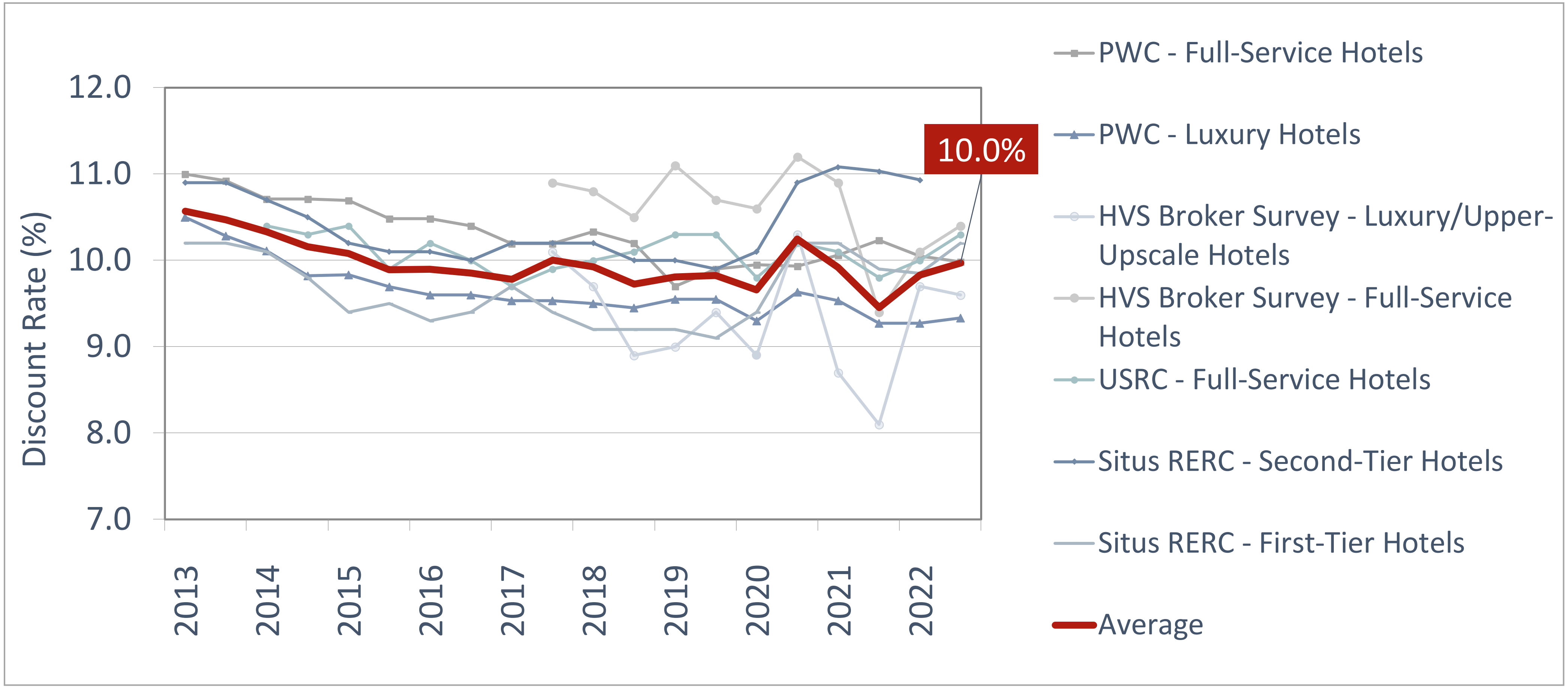
With 1H 2022 Discount Rates At Their Lowest, Values Peaked Mid-Year 2022



Source: PWC, HVS, USRC, Situs RERC

Discount Rates Lower For FS/Luxury

A rise in discount rates for these categories is a return to normal.



Source: PWC, HVS, USRC, Situs RERC

Discount Rate Trends in 2022/23

Impact of Interest Rate Increases and Lower Loan-to-Value Ratios on the Cost of Capital

	Q2 2022			Q3 2022			Q4 2022		
Interest Rate	5.25%			6.00%			7.00%		
Amortization	25 Years			25 Years			25 Years		
Debt Service Constant	0.07191			0.7732			0.08481		
	LVT	RATE	WACC	LVT	RATE	WACC	LVT	RATE	WACC
Debt	65%	0.07191	0.04674	65%	0.07730	0.05025	60%	0.08481	0.05089
Equity	35%	0.16000	0.05600	35%	0.16000	0.05600	40%	0.16000	0.06400
WACC (Weighted Average Cost of Capital)			**10.27%**			**10.62%**			**11.49%**
Indicated Value based on $1M EBIDTA	***$9,733,000***			***$9,412,000***			***$8,704,000***		
Change in Value from Q2				***-3.3%***			***-10.6%***		

Source: HVS

Refinancing Expectation Tempers The DR

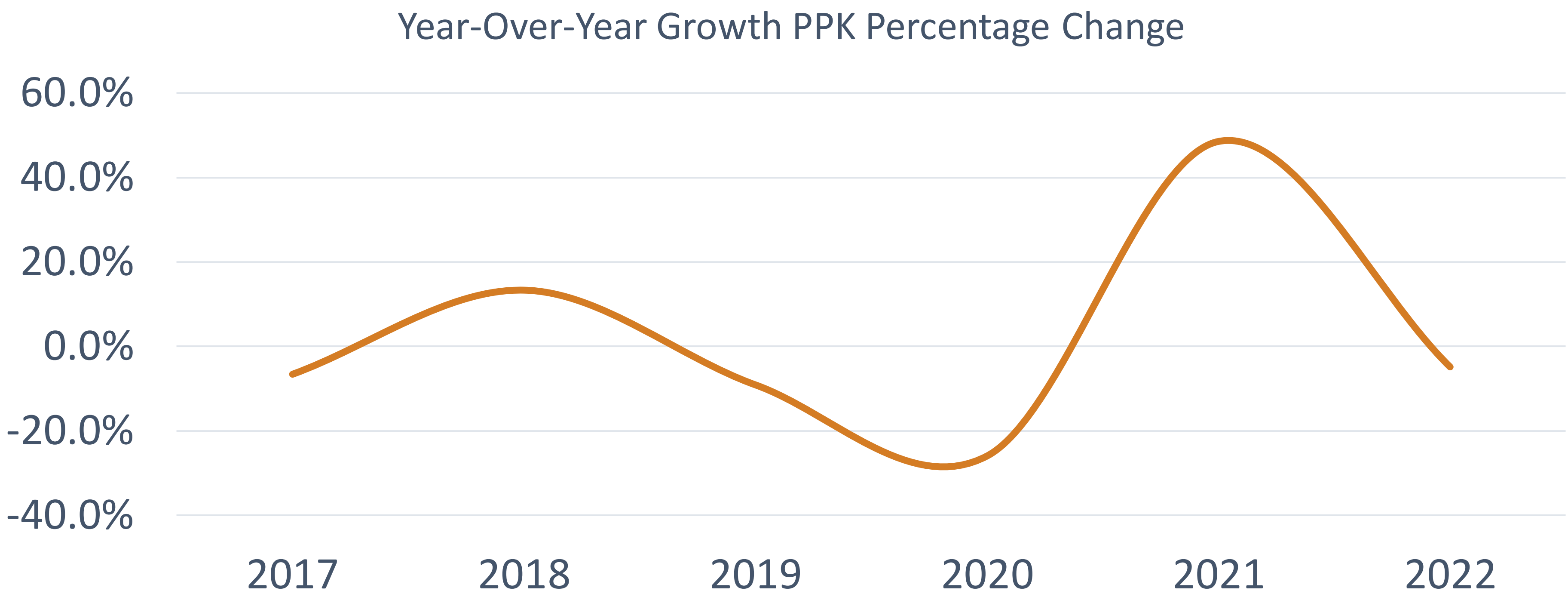
An assumed refinancing can allow a buyer to justify a higher contract price today.

	CURRENT FINANCING TERMS	REFINANCING TERMS
Loan/Value	60%	70%
Amortization	30 Years	30 Years
Term	10 Years	10 Years
Interest Rate	7.0%	5.5%
Terminal Cap Rate	8.5%	8.5%
Transaction Costs	1.5%	1.5%
Equity Yield	16.0%	17.0%
Total Property Yield	11.3%	9.8%
Years of Refinancing		4 Years
Overall Discount Rate	*10.5%*	

Source: HVS

Value Gains Decelerating

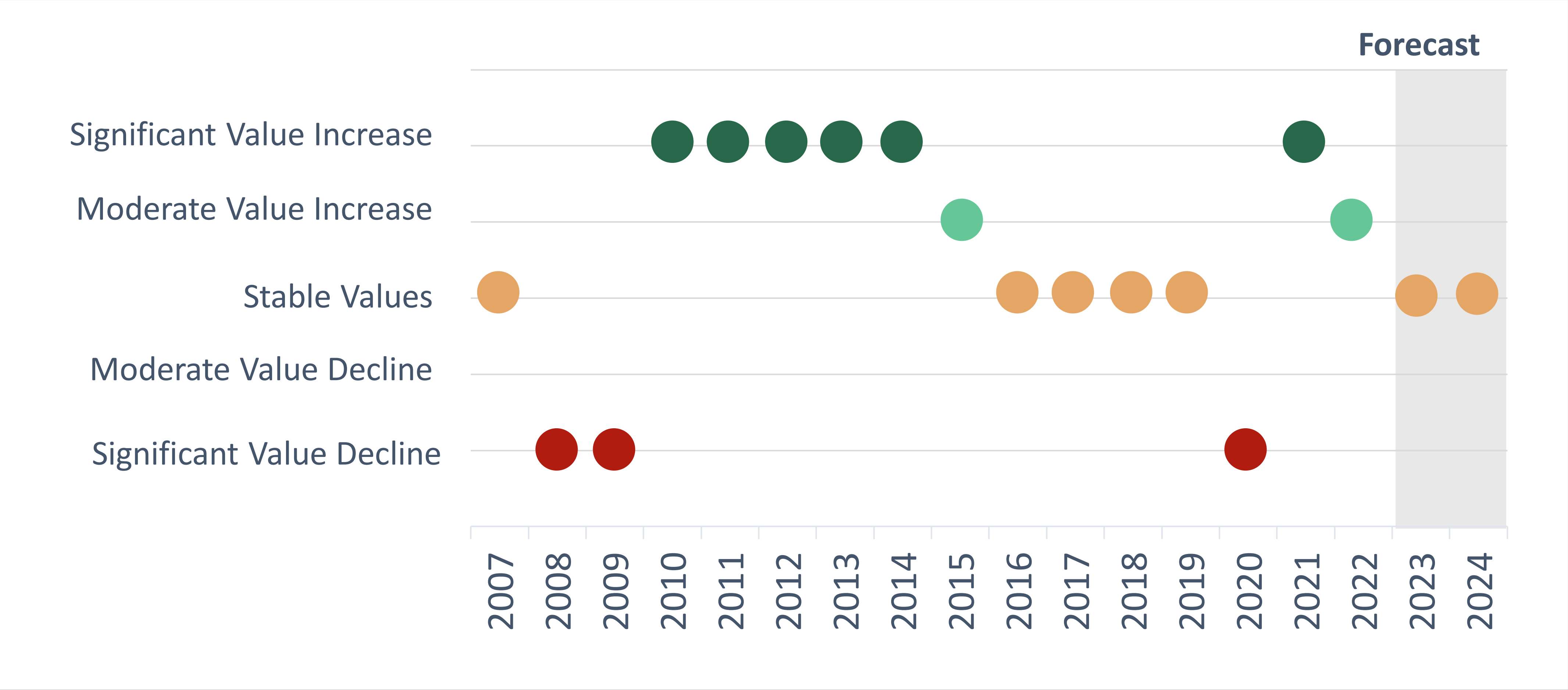
Rising debt costs, discount rate, and cap rates, resulting in decelerating values increases



Source: MSCI

Valuation Trends Stabilize

Valuations will moderate as revenue growth normalizes and operational pressures persist



Source: HVS

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Transactions Cool, with Loans Harder to Find

Los Angeles Transactions Since 2021

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Prime assets in prime locations still garner top value

Mr. C Beverly Hills

- August '21 Sale
- $65.4 Million
- $477,000 per rm
- 1965 Built

Hotel Luxe Rodeo Drive

- December '21 Sale
- $200 Million
- $2.3 Million per rm
- 1961 Built

Godfrey Hotel Hollywood

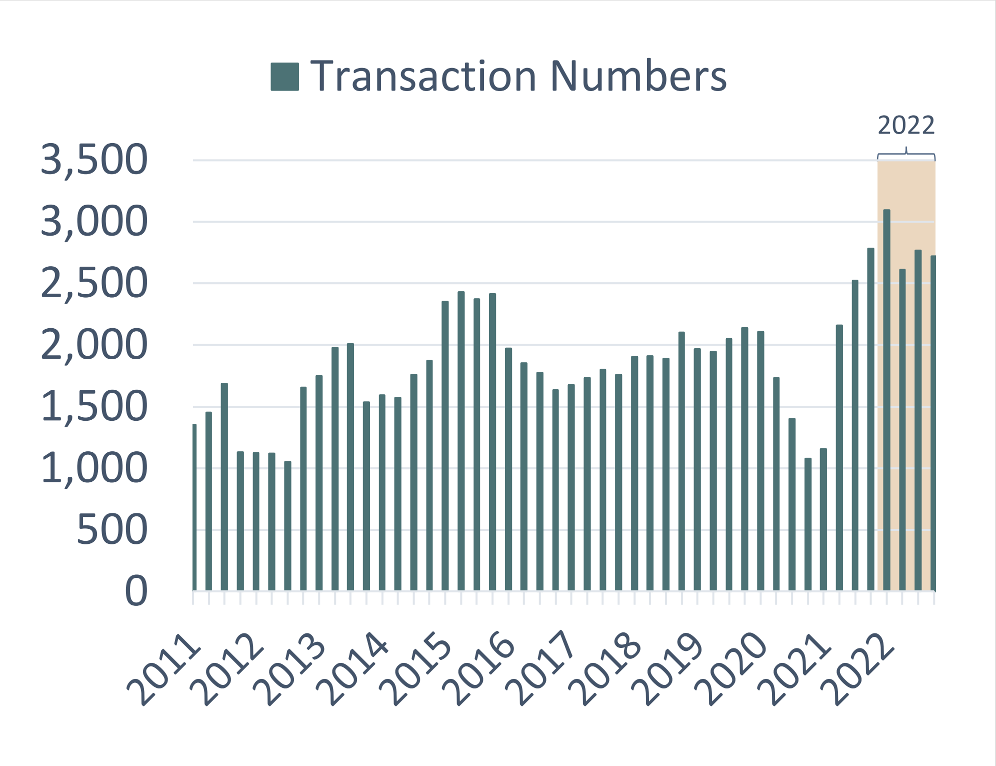
- June '22 Sale
- $114 Million
- $518,000 per rm
- 2021 Built

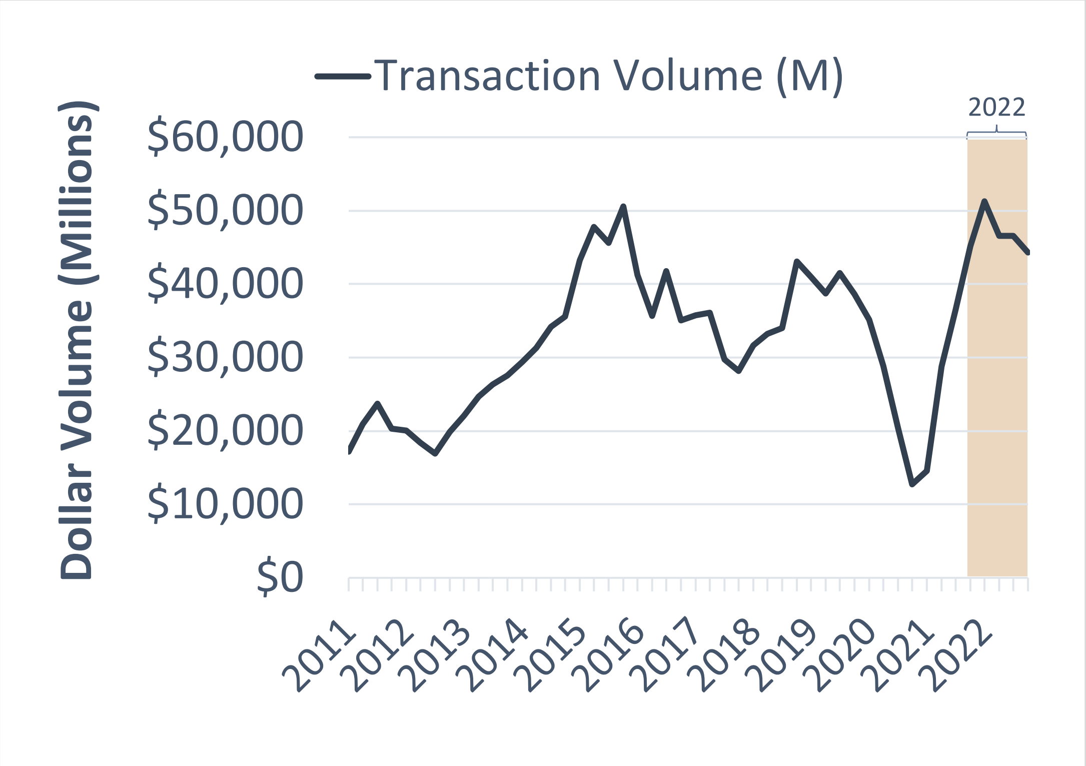
Georgian Hotel

- February '22 Sale
- $68 Million
- $815,000 per rm
- 1933 Built

Slowing of Transaction Activity in 2022

Transaction volume in 2022 has been more in line with historical levels.

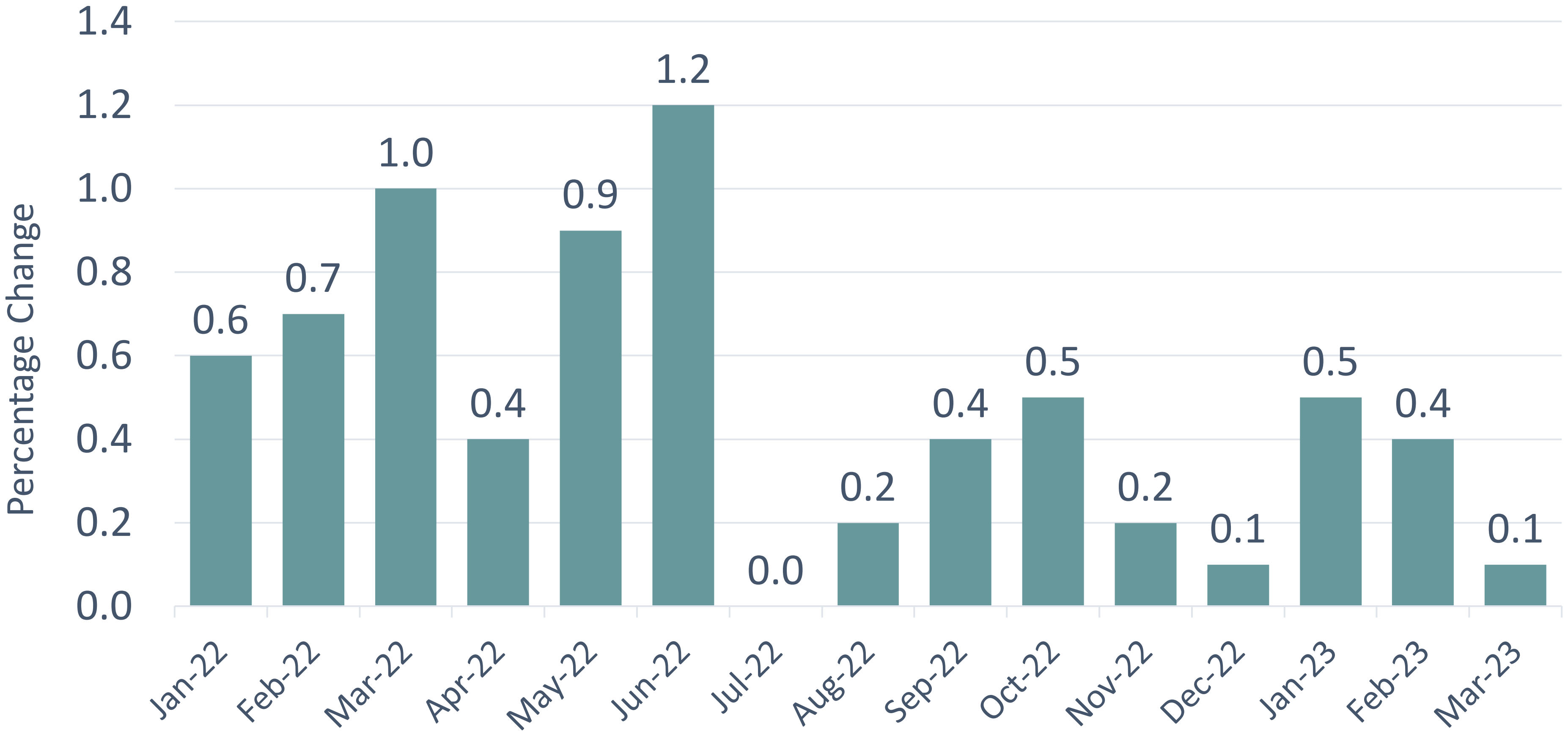




Source: Real Capital Analytics

CPI Change

One-month % change in CPI for all urban consumers, seasonally adjusted



Source: U.S. Bureau of Labor Statistics

Market shocks caused by Fed’s Hiking Cycles

Source: Board of Governors of the Federal Reserve System (US)

Final Thoughts

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Hotel Acquisitions

Less Aggressive Pricing

Financial Markets

More Stringent or Costly Cash or Seller-Financed

Operating Leverage & Improved Efficiency

EBITDA Recovery

Buyer Expectations

Revenue Recovery & EBITDA Growth; Inflation

Valuation Parameters

Interest rates affecting discount rates and capitalization rates

Potential Investors

Less Competition for Deals Supporting Value Declines

Thank you!

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