September 2023 Client Letter

Notwithstanding the recent (but expected) deceleration in U.S. RevPAR growth, America's lodging industry performance remains vibrant. Although Lodging Analytics Research & Consulting's (LARC) forecast is modestly altered for 2023 and beyond, the overall outlook continues to be encouraging.

Despite a turbulent first half of the year that included rising interest rates, regional bank failures and other complications, remarkedly the U.S. economy has demonstrated continued resilience with additional growth anticipated during the near term. Despite the expeditious pace at which the Federal Reserve Board has increased interest rates, according to the Wall Street Journal July 2023 Economist Survey, consensus expectations for a recession over the next twelve months declined to 54%, the lowest level since July 2022. Furthermore, year-to-date through August 25, the S&P 500 index is up 14.7%, with almost half of that gain having occurred since May 31.

Confidence in the underlying national economy is anticipated to support continued expansion of hotel demand, particularly across the corporate and group segments. According to the U.S. Bureau of Economic Analysis, during 2Q-2023, business investment (private non-residential fixed investment) increased by 6.1% on an annualized basis, the highest quarterly increase since 1Q-2022.

Despite the positivity, there remain risks related to tightening lending standards across all industries, which will undoubtedly limit the pace of economic growth moving forward. Moody's Analytics forecasts GDP growth to slow from the 2.1% growth rate in 2Q-2023 to under 1% in 4Q-2023 and 1Q-2024, before growth gradually accelerates again. Slowing economic growth will likely weigh on the rate of increase(s) across national lodging fundamentals.

While pockets of soft comparisons remain, the national lodging industry in general has moved past the period of pandemic-induced soft comparisons. As a result, 2Q-2023 RevPAR increased just 2.5%, with occupancy declining year-over-year, following the 16.7% RevPAR growth experienced in 1Q-2023.

Looking ahead, industry growth will be fueled by the corporate and group segments. We remain optimistic that these segments will continue to recover, however they can be sensitive to economic downturns, creating a considerable amount of uncertainty over the next couple of years.

Additionally, the corporate recovery will be somewhat dependent on the return-to-office, which we expect to continue to gradually progress.

As we peer into 2024, there is little doubt that slowing economic growth will limit RevPAR growth. However, if 2022 was the year of the leisure segment recovery and 2023 has been the year of the group segment recovery, we expect 2024 to be the year when the corporate transient segment substantially recovers. However, that growth will be predicated on an acceleration of the return-to-office.

According to Jones Jang LaSalle, over one million employees will be called into the office at least part of the week for the first time, beginning in September 2023, a 67% increase over all the year-to-date mandates combined. Companies implementing a post-Labor Day return-to-office mandate span numerous sectors and include some of the largest players in the U.S. economy including FedEx, Zoom Communications, Lyft, Blackrock, Meta and many more.

The acceleration of return-to-office is driven by executive concerns over eroding productivity since the end of the pandemic. According to the Bureau of Labor Statistics, productivity has declined 1.9% over the past two years, the sharpest two-year decline on record. Without a change in productivity levels, it is reasonable to expect momentum to continue in favor of increased return-to-office mandates.

Estimates from Stanford University's Institute for Economic Policy Research (SIEPR) indicate that in 2019, office employees spent 95% of their workdays in the office, while in 2023, it is just 75%, a gap which provides considerable room for continued recovery of office utilization.

While we do not expect a full recovery of office utilization to 2019 levels, a continued increase in office utilization will spur corporate transient travel.

Furthermore, group trends appear robust, helping generate a base level of demand that will further support pricing power as the calendar shifts to 2024. Nationally, we estimate that the 2023 convention center booking pace is 18% above 2022 levels and on par with 2019 levels. Current 2024 convention bookings are pacing down just

2% year-over-year as well, marking a considerable improvement from just a couple quarters ago.

Our economic forecast from Moody's Analytics incorporates the following key national assumptions:

- The Fed will no longer raise interest rates and begin to ease them beginning in mid-2024.
- Inflation will reach the Fed's 2.0% target by summer 2024.
- U.S. GDP will increase 2.0% for 2023 and 1.3% for 2024.

With this backdrop, we expect U.S. RevPAR growth to modestly reaccelerate after Labor Day, however the period of outsized national RevPAR growth is in the past. Overall, we expect U.S. RevPAR to be up 6.0% this year, followed by 4.4% in 2024. Should any of the above core macroeconomic assumptions meaningfully change, it could have a substantial impact on our U.S. lodging industry forecast.

Our detailed, transparent process has continually led to the most accurate forecasts for the U.S. industry and for the specific markets we track. We continue to expect there to be U.S. lodging markets that materially outperform as well as those that underperform national averages. As the lodging industry shifts to the next stage of the cycle, we generally believe leisure markets will cool, while inbound international demand should drive stronger growth to gateway markets, however, they will also take the longest to fully recover to pre-pandemic levels.

Furthermore, we anticipate hotel capitalization rates to stabilize, financing costs to moderate and transaction volumes to rebound. However, expense pressures will become a substantial factor in identifying markets that are winners and those that are losers. Wage growth and margin pressures materially shape our views on markets that are best and worst for investment today.

We believe the best business decisions are based on the best information available at the time of making that decision. We take that approach with our forecasts, using the best available information to provide the most likely outcome. As such, we believe transparency surrounding forecasting is critical to the lodging industry.

LARC's industry-leading market intelligence referred to throughout this document can help all industry participants navigate the current environment and position themselves for success. Please contact us directly to learn more about our services and products or if there is any other way we may be able to better serve you.

Sincerely,

Ryan Meliker
President & Co-founder
Lodging Analytics Research & Consulting

U.S. Lodging Industry and Market Outlook – September 2023

LARC's Industry Outlook

Currently, Lodging Analytics Research & Consulting (LARC) expects U.S. RevPAR to increase by 6.0% to $99.02 in 2023, resulting in an annual RevPAR that is 14% above 2019 levels. LARC anticipates ADR to rise by 4.4% this year to $155.80, or 19% above 2019 levels, while occupancy will increase 1.6% to 63.6%. For 2024, LARC expects RevPAR to increase 4.4%, driven by a 4.3% increase in ADR and a 0.1% increase in occupancy.

LARC anticipates 2023 U.S. Hotel EBITDA to grow by 4% and Hotel Values to increase 8%. LARC believes 2022 Hotel Values were merely 1% below 2019 levels and will reach 2019 levels in 2023.

September 2023 U.S. Hotel Industry Forecast Summary

	2023 Growth	2022-2025 CAGR	2022-2027 CAGR
Economic Supply	0.8%	1.0%	1.1%
Demand	2.4%	1.3%	1.4%
Occupancy	1.6%	0.3%	0.3%
ADR	4.4%	3.7%	3.0%
RevPAR	6.0%	4.0%	3.4%
Hotel EBITDA	4.0%	1.9%	1.2%
Hotel Values	7.6%	4.5%	3.0%

Source: Lodging Analytics Research & Consulting

LARC's U.S. RevPAR model has an R-squared of 99.6% with a standard error of 4.5%, back-tested to 2000. LARC's U.S. Cap Rate model has an R-squared of 98.4% with a standard error of 26 bps, back-tested to 2005.

2023 U.S. Hotel Industry Forecast: September 2023 Edition vs. June 2023 Edition

	9/2023 YoY Growth	6/2023 YoY Growth	Outlook Change
Economic Supply	0.8%	1.2%	**-0.4%**
Demand	2.4%	3.3%	**-0.9%**
Occupancy	1.6%	2.0%	**-0.5%**
ADR	4.4%	4.5%	**0.0%**
RevPAR	6.0%	6.6%	**-0.5%**
Hotel EBITDA	4.0%	7.6%	**-3.5%**
Hotel Values	7.6%	5.3%	**2.3%**

Source: Lodging Analytics Research & Consulting

The above table illustrates a summary of LARC's current U.S. Hotel Industry Outlook in contrast to last quarter's outlook. Ultimately, our 2023 view for supply and demand both moderated, driving our occupancy forecast slightly lower. Our outlook for ADR is minimally changed, which combined with our reduced occupancy growth outlook, drives a modest 0.5% decrease to our 2023 RevPAR outlook, impacting Hotel EBITDA which is anticipated to decline 3.5%. However, fueled by strengthening economic growth, our outlook for cap rates moves lower, driving hotel values up 2.3%.

Market Outlooks

Below is a list of the best and worst performing markets based on our forecasts. Similar to LARC's U.S. forecast, our market level forecasts are structured on multi-variable regression models with a high level of historical accuracy.

More detail on our market outlooks can be found in LARC's Market Intelligence Reports. Please contact us if you are interested in purchasing any of LARC's offerings.

2023 (relative to 2019)

Top Markets for RevPAR Growth:
Kauai, Florida Keys, Palm Springs, Palm Beach, and Savannah

Bottom Markets for RevPAR Growth:
San Jose, San Francisco, Portland, Minneapolis, and Philadelphia

2023 (year-over-year)

Top Markets for RevPAR Growth:
Washington, D.C., San Francisco, New York City, Houston, and Las Vegas

Bottom Markets for RevPAR Growth:
Maui, Florida Keys, Santa Barbara, Miami, and Kauai

2024 (year-over-year)

Top Markets for RevPAR Growth:
Maui, Seattle, San Francisco, San Jose, and Chicago

Bottom Markets for RevPAR Growth:
Florida Keys, Kansas City, Kauai, Phoenix, and Omaha

2019 - 2027 Outlook

Top Markets for RevPAR Growth:
Maui, Palm Beach, Las Vegas, Santa Barabara, and Florida Keys

Bottom Markets for RevPAR Growth:
San Francisco, San Jose, Indianapolis, San Antonio, and Cincinnati

Top Markets for Value Change:
Tampa, Phoenix, Las Vegas, Nashville, and Dallas

Bottom Markets for Value Change:
San Francisco, St. Louis, Portland, San Antonio, and San Jose

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