US Hospitality Recovery

What now for investors and owners?

June 2021

Agenda

1

How has the hospitality sector been affected by COVID-19?

2

What could happen next?

3

What are the implications for owners and investors?

1. The hospitality sector has several different participants across the value chain, from brands to owners and service providers

Hotels[1]

$245B[2]

	Global brand chains	Regional chains	Ownership groups	Management companies	Distribution channels	Service providers	Independent hotels
Owns	✓	✓	✓				✓
Manages	✓	✓	✓	✓			✓
Licenses	✓						
Sells	✓	✓	✓	✓	✓		✓
Serves	✓			✓	✓	✓	

Vacation rentals (e.g., Airbnb, VRBO, HomeAway)

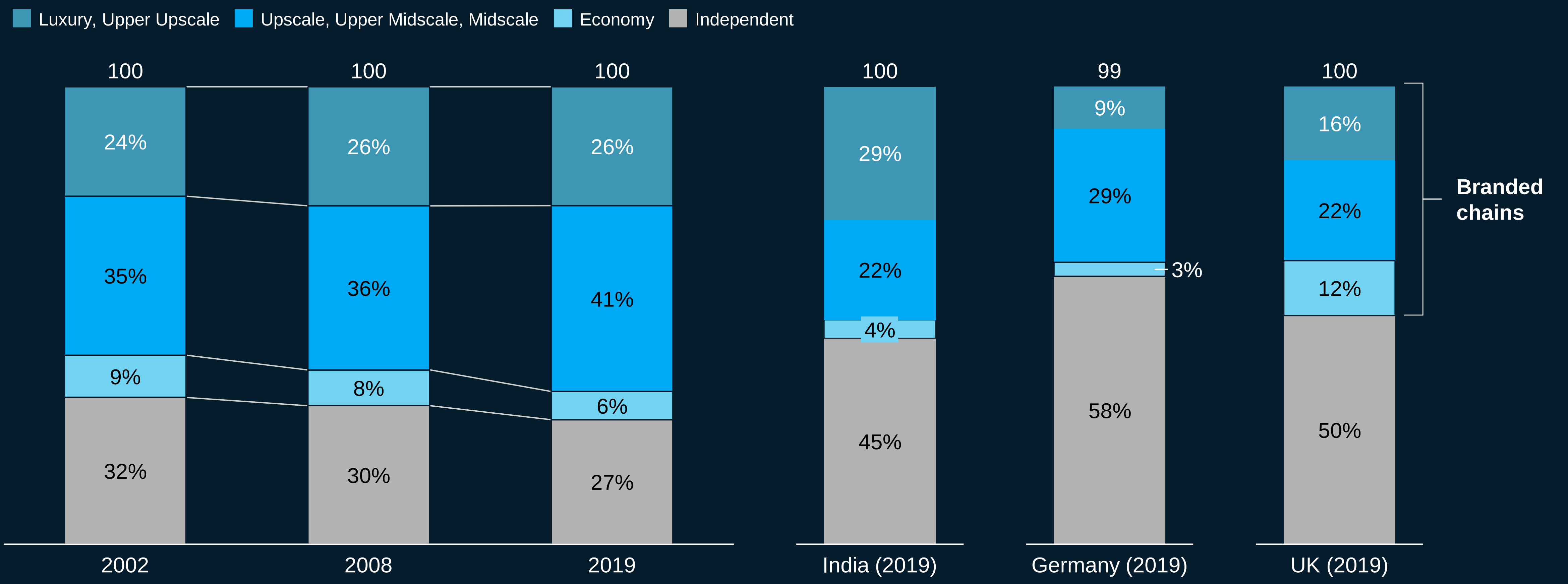
$30B[2]

1. Includes motels, casino hotels, and traditional B&Bs
2. US gross rooms revenue (2019)

Source: Skift Research

1. In the US, hotel brands have higher penetration than in many other parts of the world

US hotels rooms revenue by scale, % of total

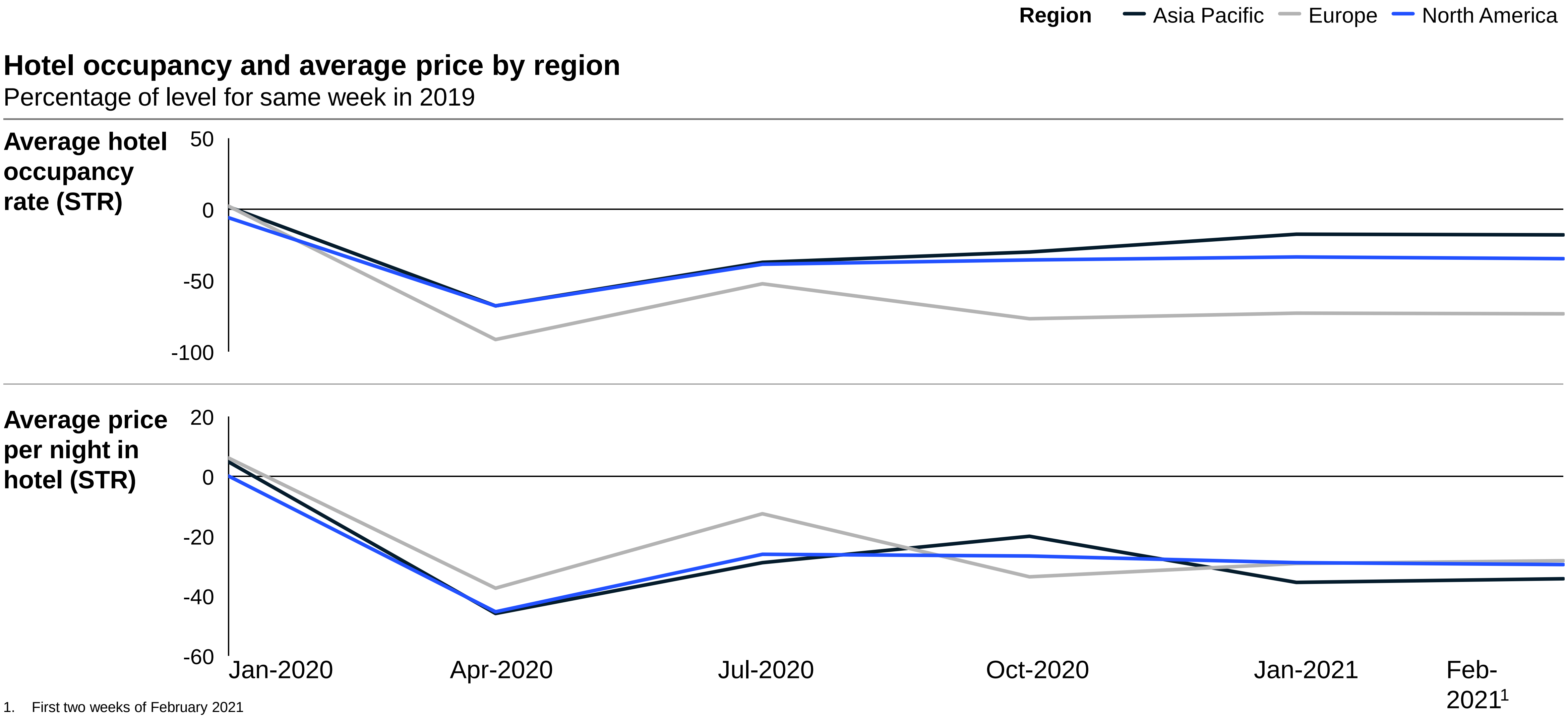


Source: STR

1. As of spring 2021, US occupancy has reached ~65% of pre-COVID levels; rates remain off pre-crisis levels to a similar degree

Hotel occupancy and average price by region

Percentage of level for same week in 2019

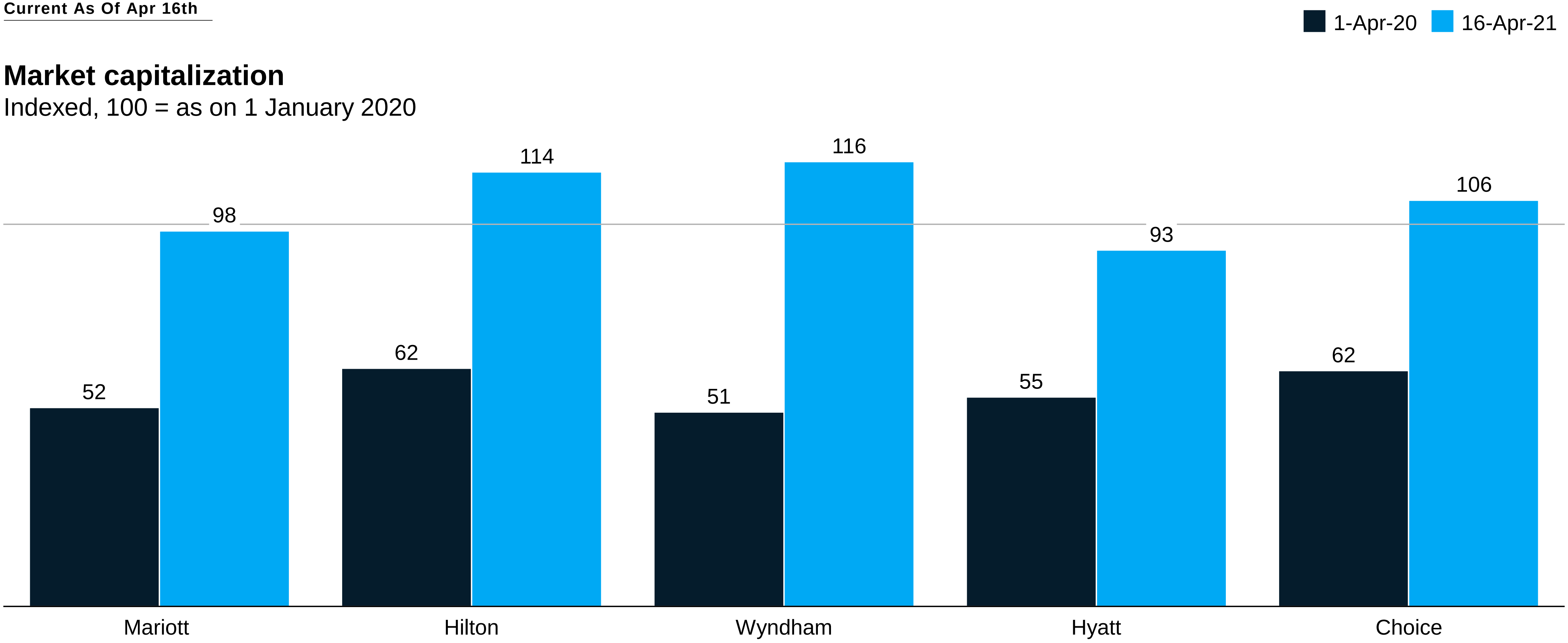


1. First two weeks of February 2021

Source: STR, WTTC

1. Market capitalization of US hospitality brands has also largely recovered

Current As Of Apr 16th



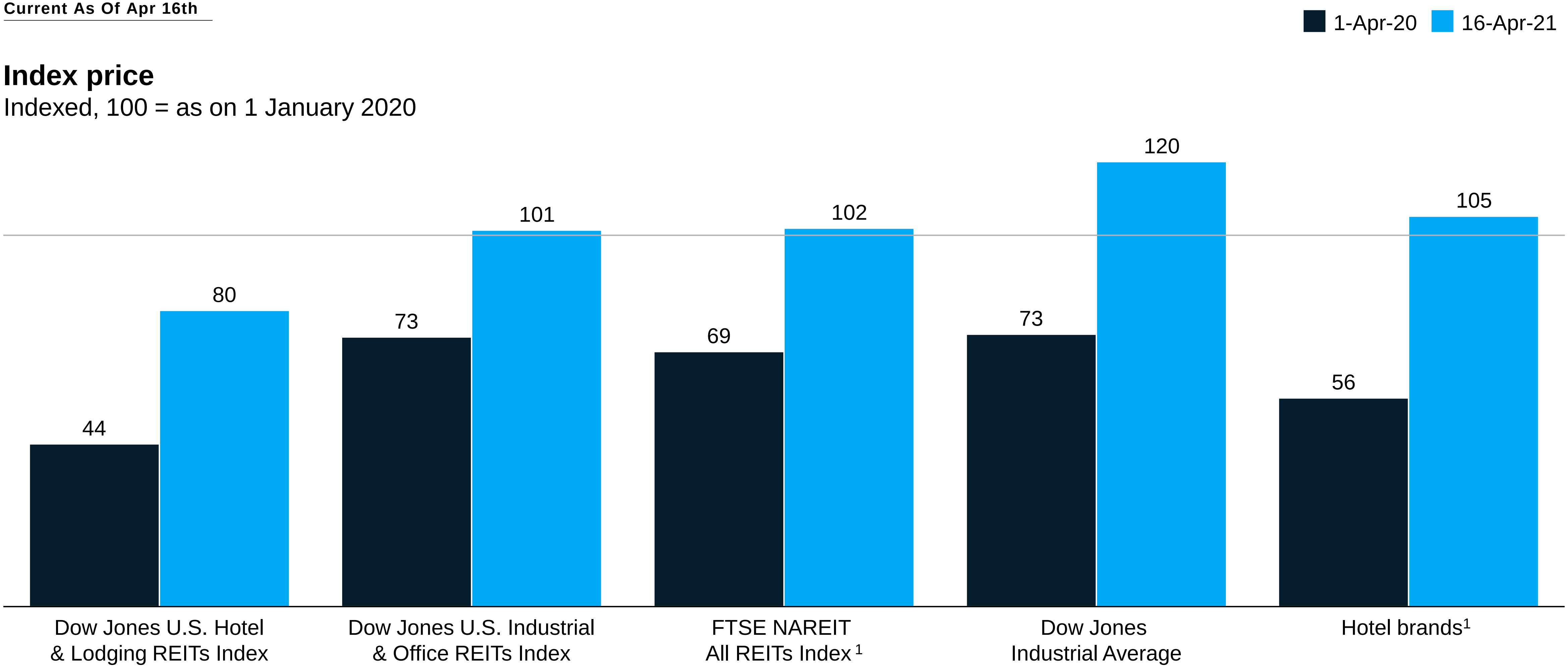
Source: Capital IQ

1. Hotel brands have performed better than REITs

Current As Of Apr 16th

Index price

Indexed, 100 = as on 1 January 2020



1. The FTSE Nareit US Real Estate Index Series is a comprehensive family of REIT-focused indexes that span the commercial real estate industry
2. Hotel brands is a weighted average of Hyatt, Marriott, Choice, Hilton and Wyndham

Source: Capital IQ

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2. Leisure travel will likely drive the recovery of the US hotel sector

Leisure destinations continue to be a bright spot in the progress to recovery and has become a priority growth area across all of our distinctive brands, including our popular select service hotels

- Tina Edmundson,
Marriott Global Officer, Brand & Marketing

…we are **on pace to see record leisure demand** in the U.S. over the summer months with April bookings for the summer exceeding 2019 peak levels by nearly 10%”

- Christopher Nassetta,
Hilton CEO

The demand levels we saw in March have continued through April. While **leisure travel continues to lead the recovery**, we are encouraged by positive indicators across other travel segments as well.

- Mark Hoplamazian,
Hyatt Hotels CEO

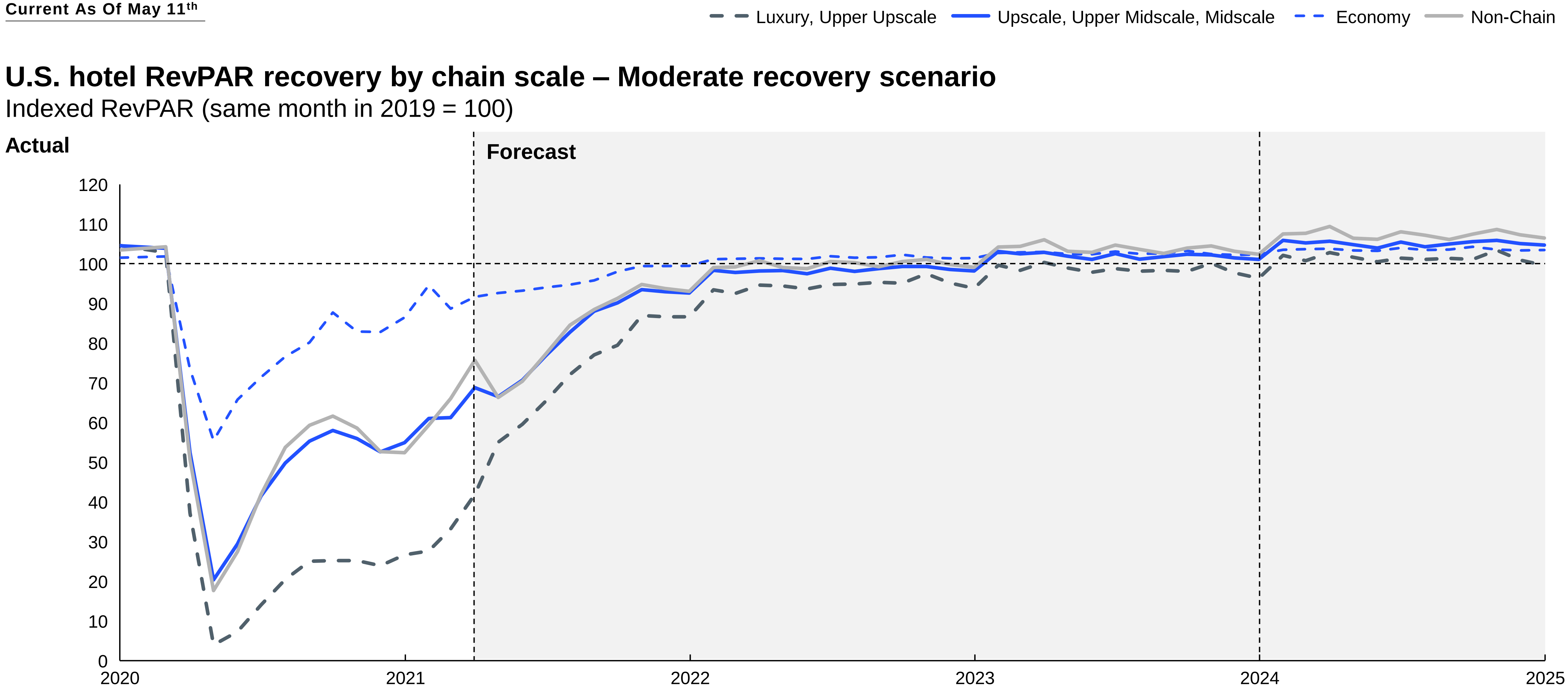
Source: Press

2. Revenue per available room (RevPAR) may only recover by 2023-24; corporate-reliant scales will likely take longer

Current As Of May 11th

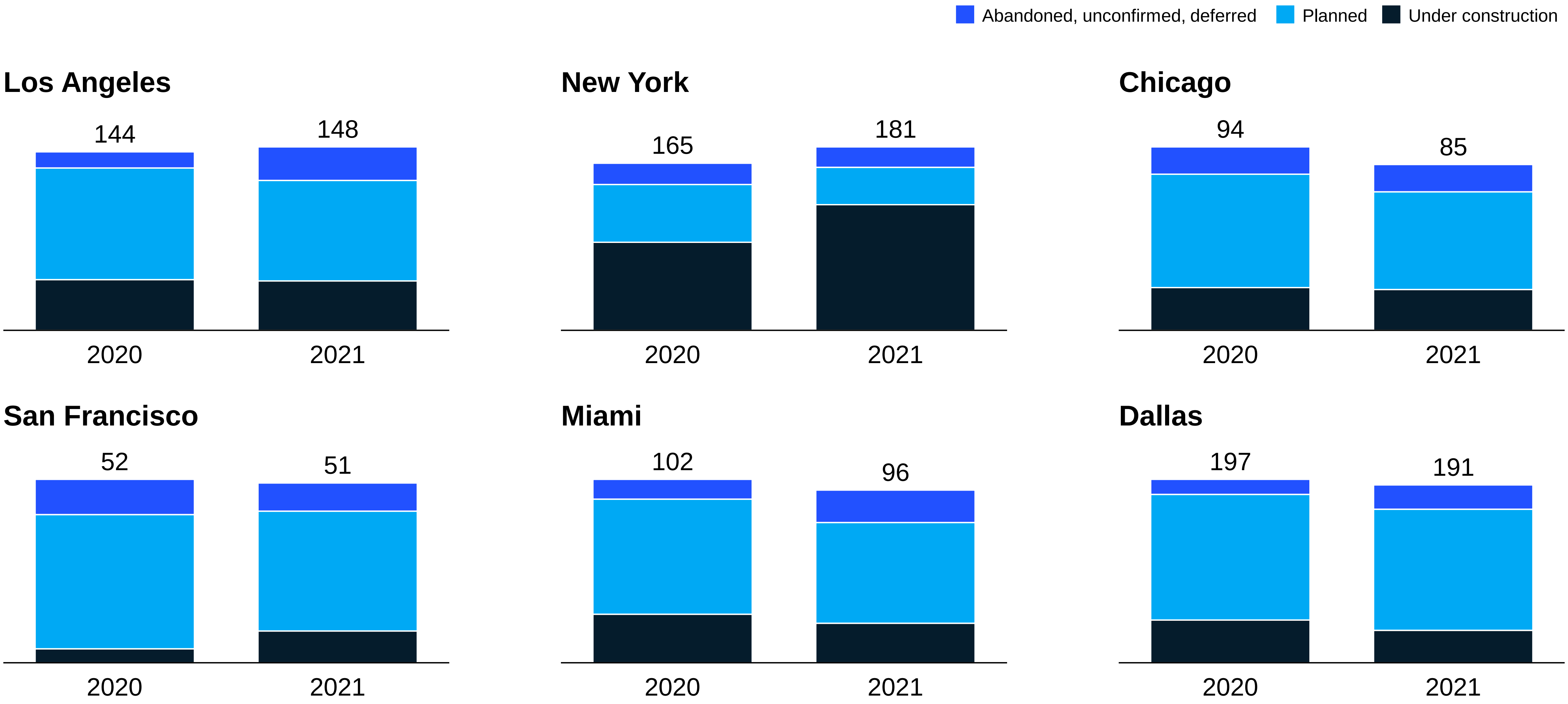
U.S. hotel RevPAR recovery by chain scale – Moderate recovery scenario

Indexed RevPAR (same month in 2019 = 100)



Source: McKinsey COVID hotel demand models

2. The pipeline of hotels currently being planned or built will remain steady or decline only slightly



Source: STR

2. Driven by strong domestic demand for leisure travel, RevPAR at the city level may hold some surprises in its recovery

	RevPAR estimate – moderate recovery scenario Indexed RevPAR (FY 2019 = 100) FY2020A	FY2021E	**Domestic share of spend** %	**Leisure share** %	**Observations**
New York NY	32	74	51%	80%	Domestic mixed destination - Significant travel restrictions in 2020
Miami FL	59	74	34%[1]	82%[1]	International leisure destination - Domestic visitors can compensate for some, but not all of the shortfall
Los Angeles CA	47	68	51%[1]	79%[1]	Domestic leisure destination - Leisure recovery and slightly weaker development pipeline contribute to recovery
San Francisco CA	36	61	38%[2]	65%	International business destination – MICE segment is a major contributor to local economic impact
Dallas TX	50	71	71%[2]	80%	Domestic leisure destination– VFR segment represented almost half of all visitors in 2019
Chicago IL	32	70	35%[3]	78%[2]	International mixed destination – Primarily driven through leisure, MICE had strong performance before the pandemic

1. Data for 2018
2. Data for 2016
3. Share of domestic spend 2018-2019 vs total tourism spend in Illinois in 2019

Source: McKinsey COVID hotel demand models, press searches, NYC & Company, Miami DDA, Discover L.A., SF Travel, VisitDallas, Choose Chicago, Enjoy Illinois

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3. Hospitality investors should consider five key questions

How can marketing spend be reprioritized to target emerging demand pockets and alternative locations?

For owners with larger portfolios, would management contract rates agreed pre-crisis continue?

How should capex plans – especially in in business or convention-focused properties – be altered (e.g. to accommodate virtual events)?

What should be the stance towards flags, especially at higher scale properties or those reliant on international travel?

For owners of facing near-term receivership – but with healthier long-term fundamentals – what should be the stance towards forbearance?