THE PATH AHEAD FOR REAL ESTATE-DRIVEN INDUSTRIES

Hospitality & Leisure

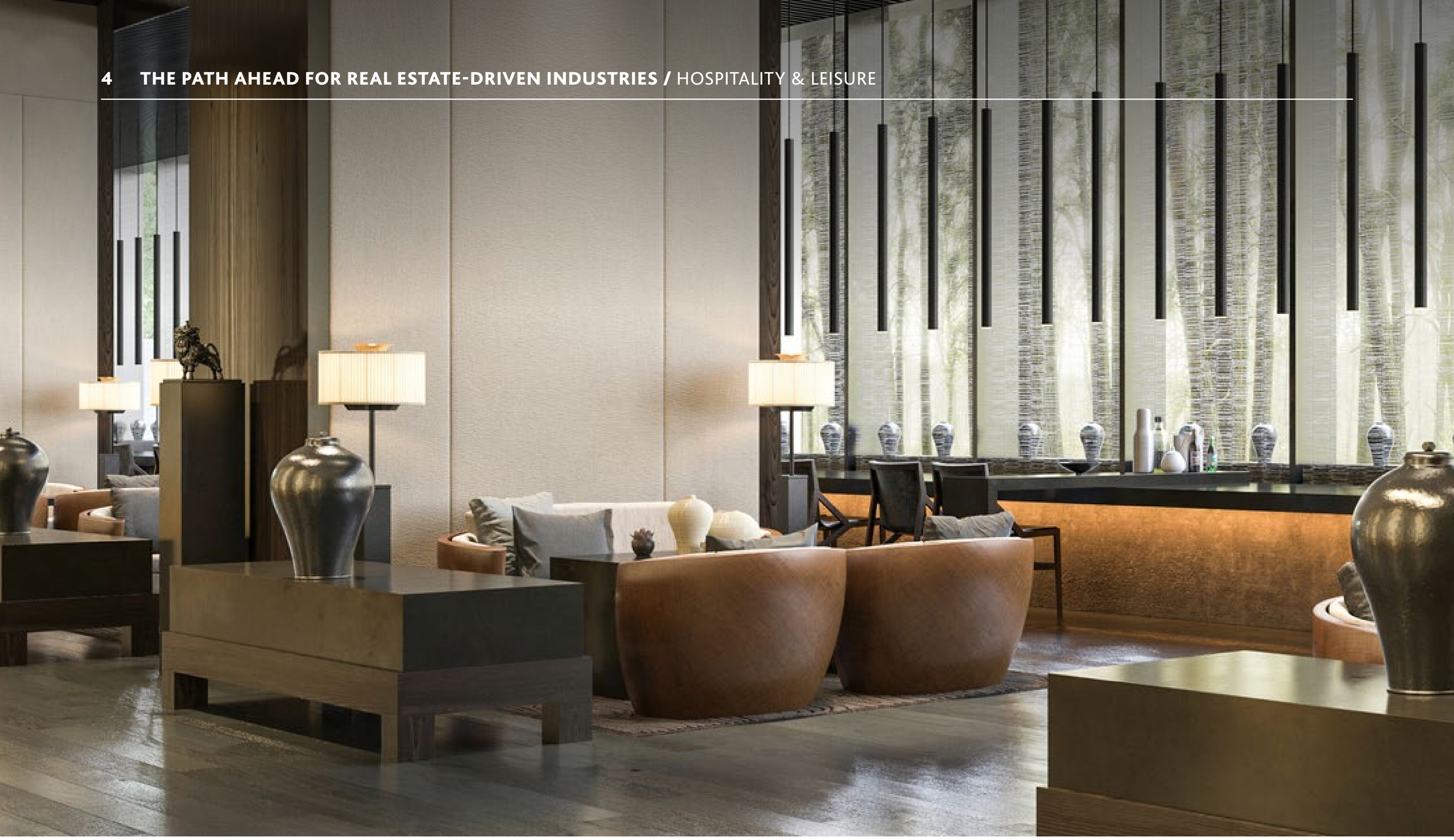
JULY 2021

BDO

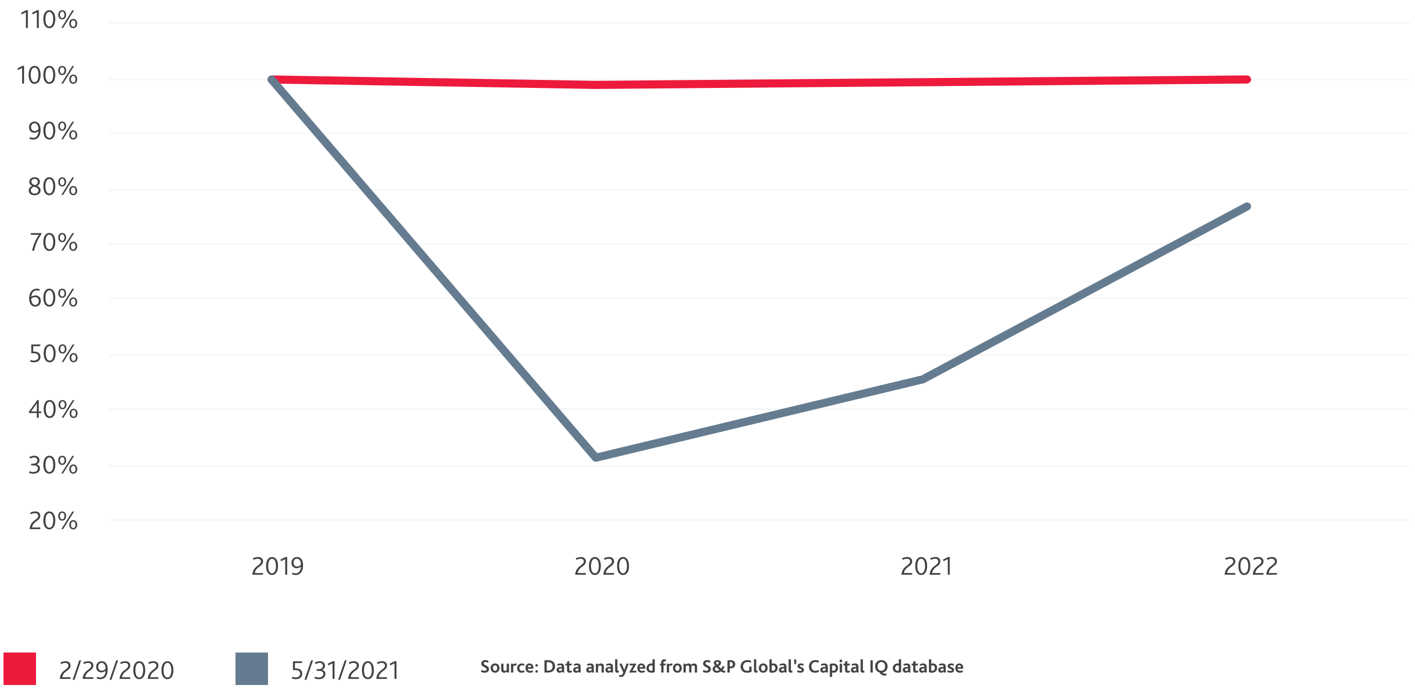
More than a year into the global pandemic, COVID-19 has altered how people work, live and relax. Such changes, both short- and long-term, have profound impacts on real estate-driven industries. In this insight, we leveraged our proprietary Forecast Engine to analyze these changes and synthesize future expectations in the Hospitality & Leisure sector. In doing so, we sought to answer two primary questions. First, how much has this sector of the real property market been impacted by COVID-19 to date? Second, how long until this sector returns to pre-COVID-19 results, if at all?

For a unique perspective, we have garnered insights on the impact to the real property market by analyzing real estate investment trusts (REITs) which buy, sell, lease and operate the real assets in the sector. This analysis accumulated data for 18 publicly traded REITs that operate in the Hospitality & Leisure sector by leveraging data algorithms and dashboard analytics from our Forecast Engine.

The information was then synthesized, revealing future expectations of key operating metrics from 2019 through 2024. As immediately evident through the chart on page 4, and not surprisingly, this sector's revenues have been significantly impacted by the pandemic. Interestingly, when comparing the pre-COVID-19 expectations line (red) to the current expectations line (slate), it's clear that the expected revenue recovery to pre-COVID-19 results (i.e., 2019 figures) is quite long. In fact, in aggregate, by 2022 the set of 18 REITs analyzed are only expected to achieve approximately 75% of pre-COVID-19 revenue levels.



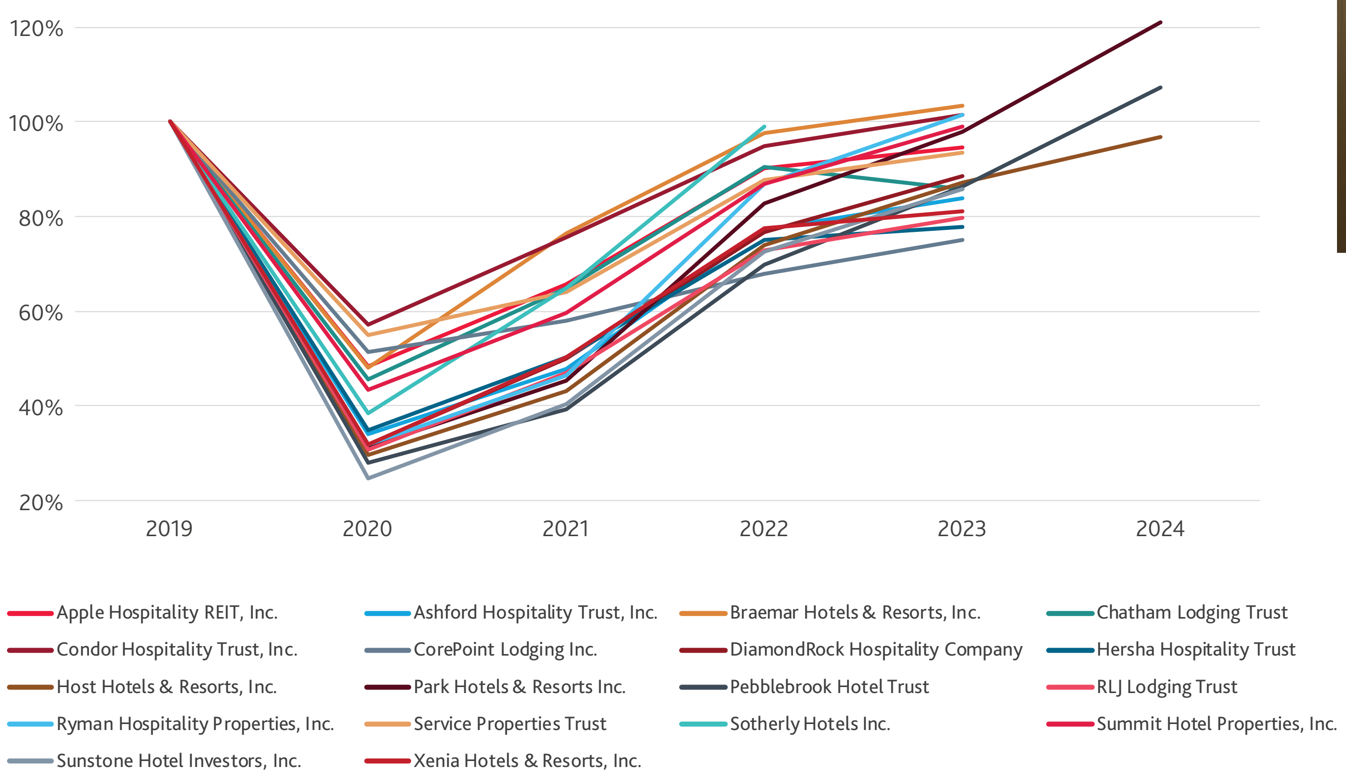
TREND ANALYSIS OF REVENUE ESTIMATES FOR PUBLIC HOSPITALITY & LEISURE REITS



Source: Data analyzed from S&P Global's Capital IQ database

The below chart separately analyzes these 18 publicly traded REITs operating in the Hospitality & Leisure segment. Interesting trends emerge from this deeper dive. First, while the revenue impact in 2020 does vary significantly by company (e.g., ranging from -40% to -80%), the slope of the recovery from 2020 to 2023 is nearly identical for all companies. Additionally, only a few of the 18 companies are expected to rebound to 2019 revenue levels by 2023. This may drive a sell off by cash strapped owners within this segment bending to the will of opportunistic buyers looking to deploy idle capital.

LONG-TERM REVENUE TREND ANALYSIS BY COMPANY AS OF MAY 31, 2021

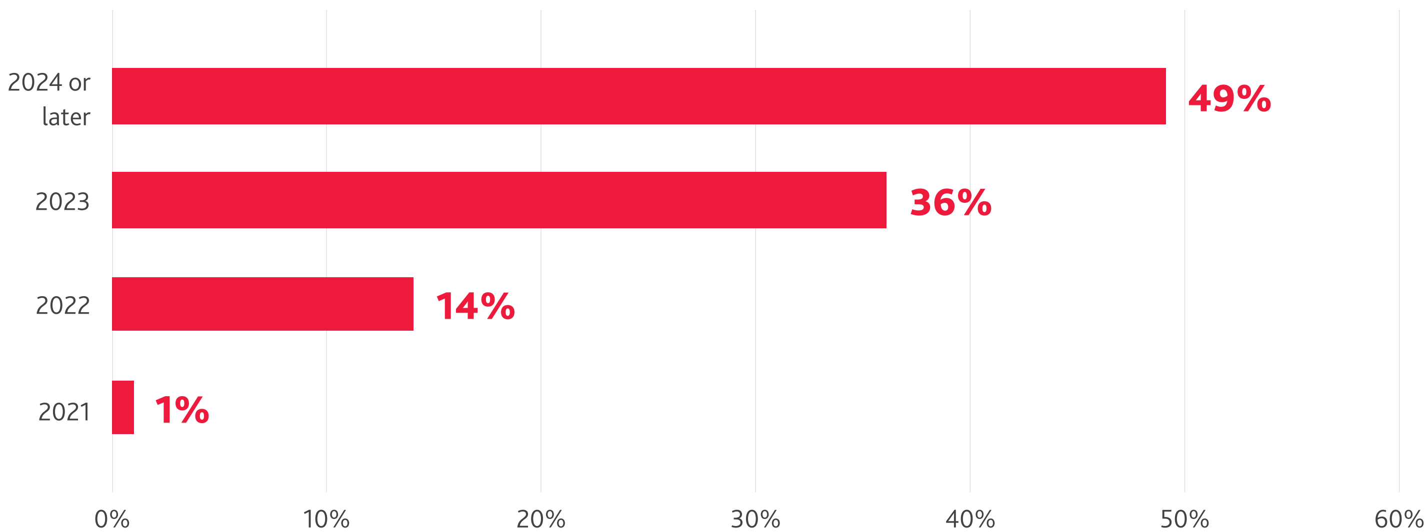


Source: Data analyzed from S&P Global's Capital IQ database as of 5/31/21

These expectations are also corroborated by a recent study conducted by the United Nations World Tourism Organization (UNWTO). The study surveyed heads of governmental tourism agencies from around the world, which shows that most experts surveyed expect the return to pre-COVID-19 levels in 2023 or 2024 and after. See below for a summary of the world view.

When do you expect international tourism to return to pre-pandemic 2019 levels in your country?

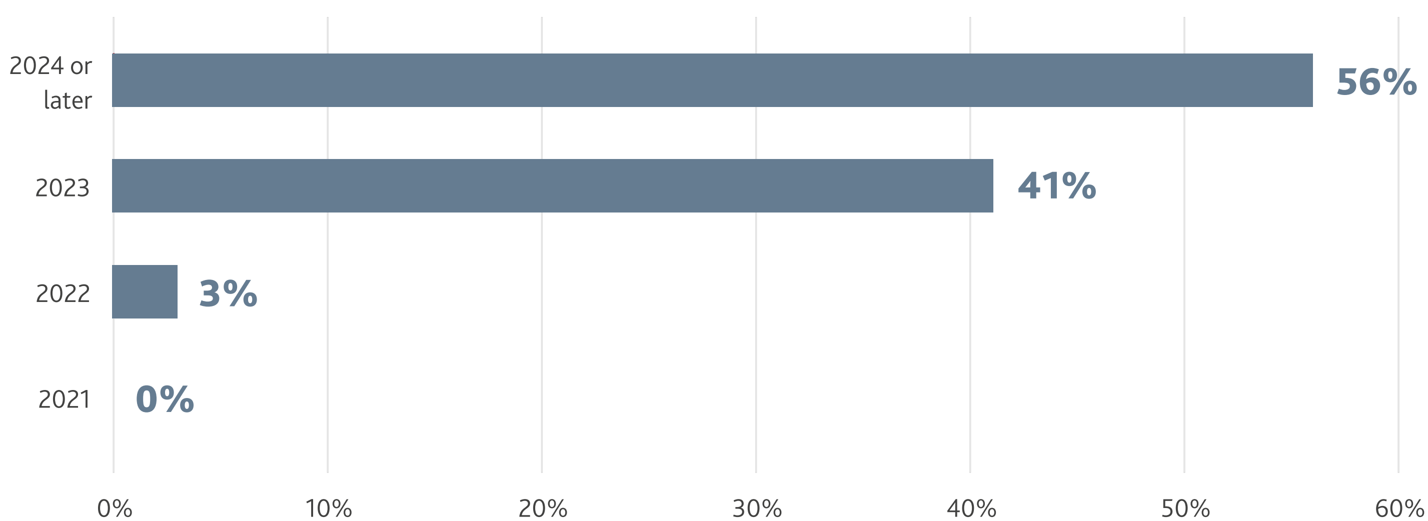
THE WORLD



Source: UNWTO (UNWTO conducted a global survey among its UNWTO Panel of Tourism Experts on the impact of COVID-19 on tourism and the expected time of recovery. Data as collected by UNWTO, May 2021. Published: 05/31/2021)

In addition, when focusing on just those respondents in the Americas, the expectations are even more drastic, as depicted below.

THE AMERICAS



Source: UNWTO (UNWTO conducted a global survey among its UNWTO Panel of Tourism Experts on the impact of COVID-19 on tourism and the expected time of recovery. Data as collected by UNWTO, May 2021. Published: 05/31/2021)

How are the implications of the trends identified translating to what is happening in the hospitality industry across the country?

- Hotels have been identified as one of the hardest hit asset types during the past year. Luxury and upper upscale are categories that experienced the largest decreases in occupancy and average daily rate. This has been especially acute in downtown/urban locations. Decreases in RevPAR[1] as large as 80% were identified in some luxury hotels that closed in March 2020 and, in many cases, recently re-opened in Q1 and Q2 2021.
- Major franchisors have reacted to decreased demand, and closures in some cases, as an opportunity to cull their ranks of weak franchisees, to update brand standards and to push Property Improvement Programs (PIPs). The updates and PIPs are costs that should be considered as we look at projections for a rebooted industry.
- Hotels catering to conventions and corporate meetings and those relying on food and beverage revenues have also been affected by the pandemic and related reduction in business and personal travel.
- The need for increased housekeeping and sanitation supplies increased expenses, while the inability to offer in-person dining at full capacity, breakfast buffets and other food and beverage choices diminished this revenue stream for many hospitality venues.
- Select service properties located in tertiary markets have exhibited the most resilience, given the ability of independent owners to negotiate daily rates with customers and the increase in car travel. During the past year, there has been an increased trend toward personal rather than public transportation, creating more demand for select service properties along highly traveled thoroughfares. According to hospitality research company STR, through the fall, the economy hotel category had the least amount of decline in RevPAR of any hotel group on the scale.
- Investment money continues to chase good product with recovery and growth potential. As recently reported by various sources including The Wall Street Journal, interest in the Four Seasons Resort in Napa, at approximately $2 million per key, is near record-setting and represents private money interest in those assets that have long-term income potential and exhibit unique investment opportunities.
- However, the availability of capital will be scarce at par. Most market participants are looking to buy paper at a discount, allowing them to raise their effective rate of return on the capital deployed. To date, most franchisees are not responding as they have had multiple rounds of Federal assistance, which has propped up the capital structure of most hospitality operators in the short term.
- The trend curves indicate that the road to recovery continues through 2024 for most properties, as there is continued uncertainty regarding in-person events and other travel. However, the recovery is likely to be influenced by the continued increase in pent up demand for both business and personal travel. This is contributing to the ability of hotels to recoup more than 75% of revenue by 2022.

1 RevPAR formula: a hotel's average daily room rate (ADR) times occupancy rate

CONTACT:

ANTHONY ALFONSO, ASA, MRICS
Global Valuation Leader & Corporate Finance Co-Leader
602-293-2358 / aalfonso@bdo.com

KEVIN PRALL
Director, Valuation & Business Analytics
612-367-3004 / kprall@bdo.com

SEAN FAVREAU
Senior Manager, Valuation & Business Analytics
612-367-3064 / sfavreau@bdo.com

LAURA HAVEL, CPA, MAI, CCIM
Senior Manager, Valuation & Business Analytics
847-602-0509 / lhavel@bdo.com