

U.S. Hotels State of the Union

CBRE Hotels Research



January 31, 2022

Key takeaways

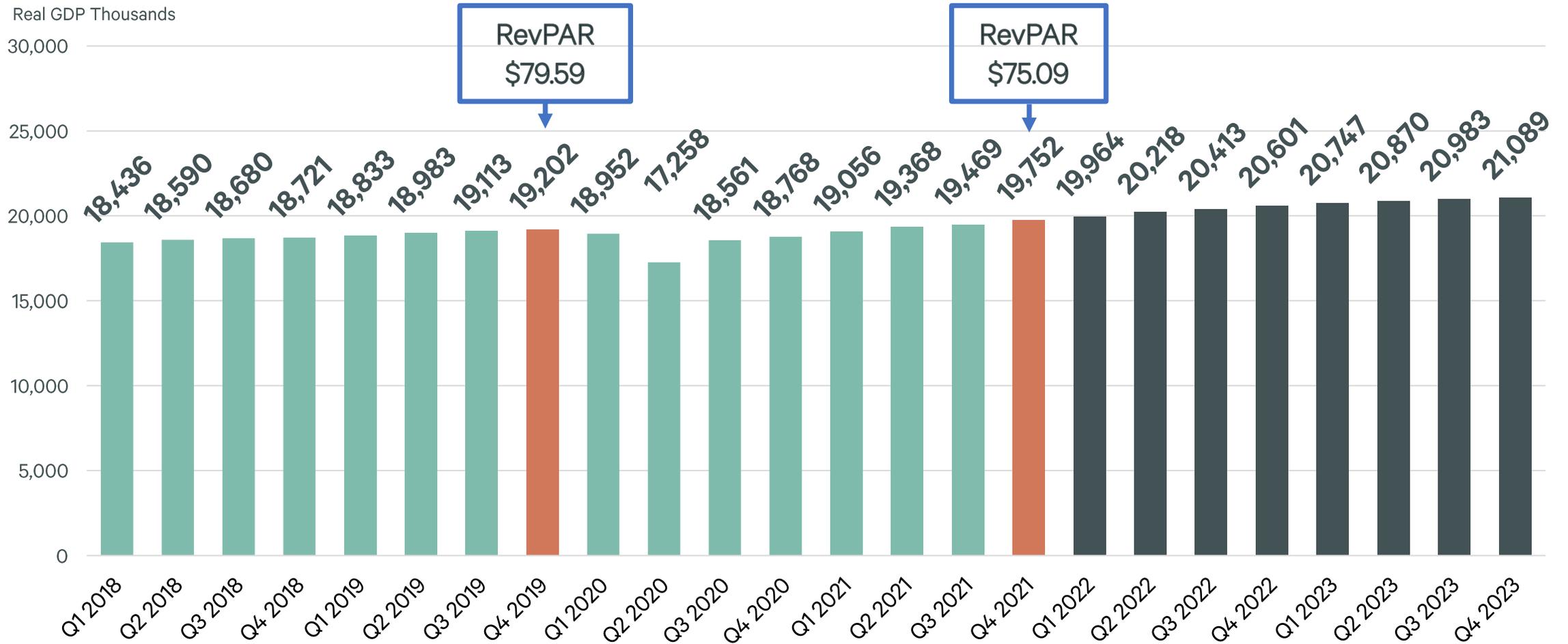
- GDP continues to set new records and CBRE forecasts most markets will return to full employment by mid-2022. [\[4-11\]](#)
- Despite the Omicron variant, December RevPAR surpassed 2019 levels and we saw strong improvement across geographies, asset type and chain scale. [\[17-23\]](#)
- Recent travel trend data and leading indicators – TSA throughput, Google searches show softening demand in 1Q for both business and leisure travel. [\[25-26\]](#)
- Office vacancy and remote work are headwinds to a near-term recovery in business travel. [\[33-34\]](#)
- International travel restrictions eased in November triggering a large up-tick in inbound international travel. We expect NY, San Francisco, Los Angeles, and Miami to be key beneficiaries in 2022. [\[35-37\]](#)
- Increases in construction costs and labor challenges are translating into slower supply growth. [\[45-47\]](#)
- Short-term rental market share has normalized as hotels have reopened. Large units in southern and drive-to destinations are driving revenue growth. [\[38-42\]](#)
- Wage pressures and labor shortages show no signs of abating, for now. [\[52\]](#)
- Hotel delinquency and special servicing rates have declined steadily as fundamentals have improved. Sales volumes have also recovered nicely. [\[57-59\]](#)

1

The Economy



The question is when, not if, RevPAR will recover

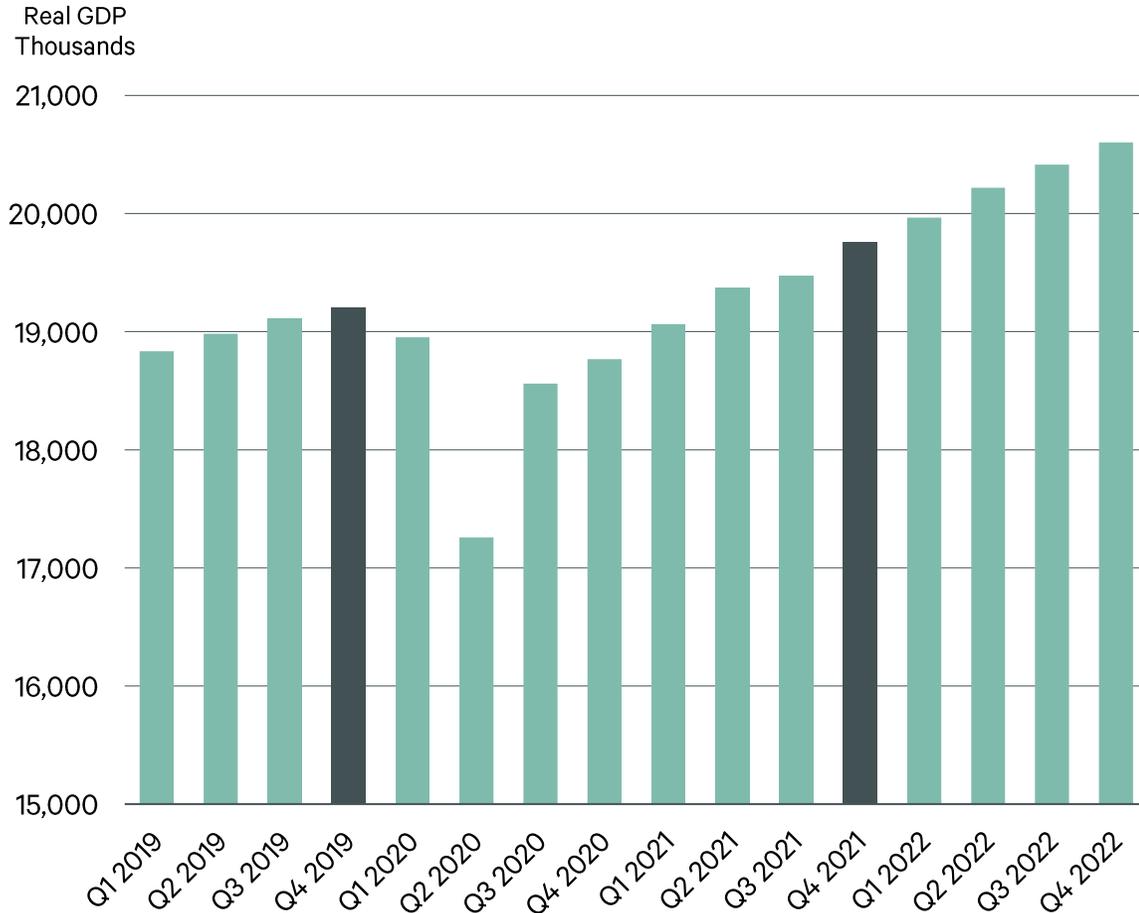


Source: CBRE Hotels Research, CBRE EA, BLS, Kalibri Labs

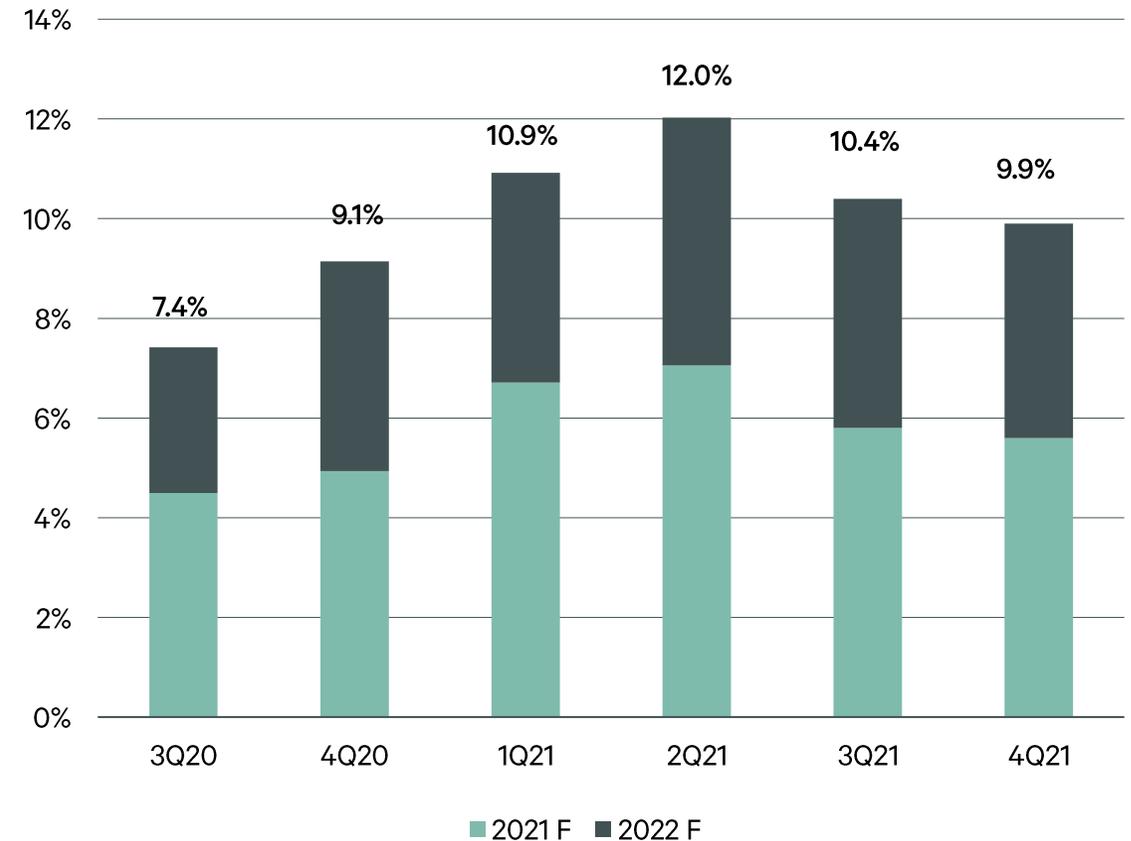
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The question is when, not if, RevPAR will recover

GDP has surpassed pre-pandemic levels



Cumulative 2021 and 2022 GDP growth



Source: CBRE Hotels Research, CBRE EA, BLS

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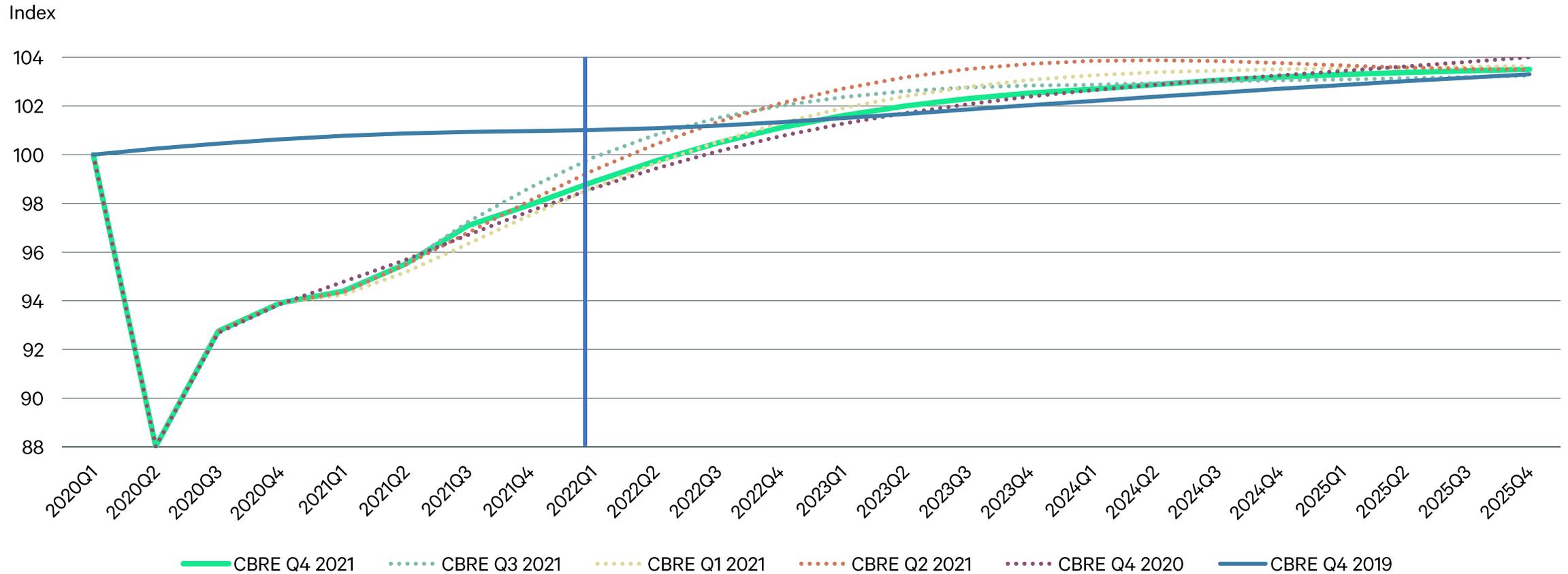
2022 GDP forecasts have moderated



Source: CBRE Hotels Research, CBRE EA, Wall Street Journal.

CBRE revised employment forecast calls for full recovery by Q2 2022

Employment Index



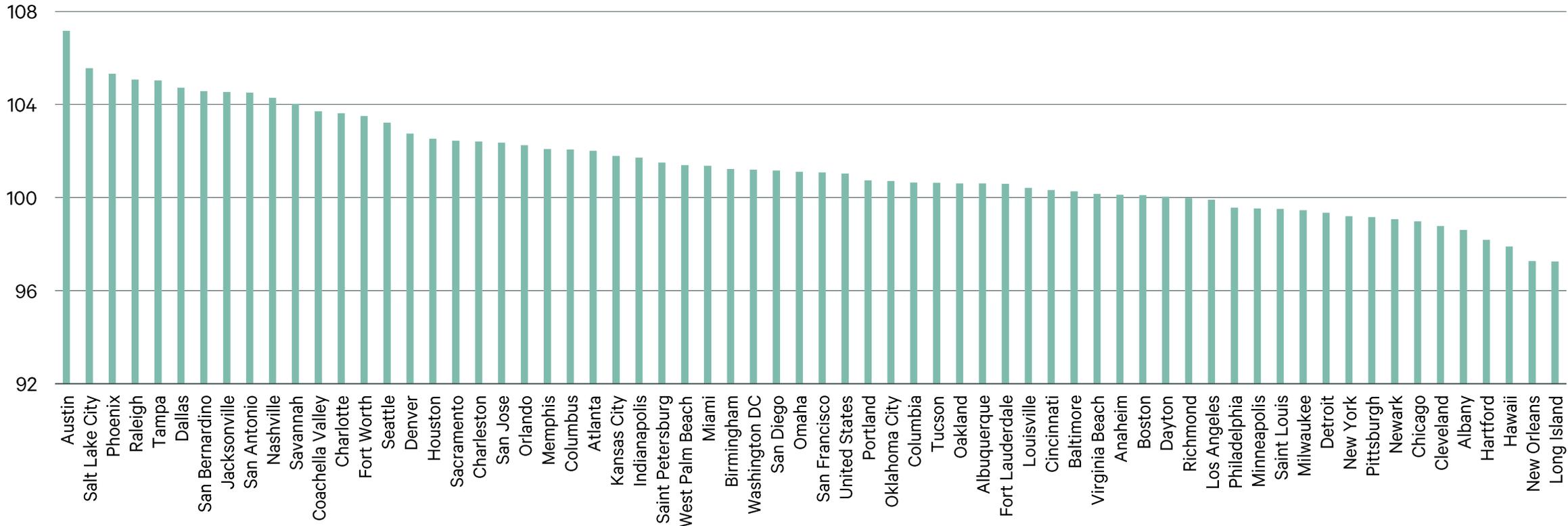
Source: CBRE Hotels Research, CBRE EA, BLS.

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Majority of markets will return to 2019 employment levels by 2022

2022 Employment Forecast Indexed to 2019 Levels

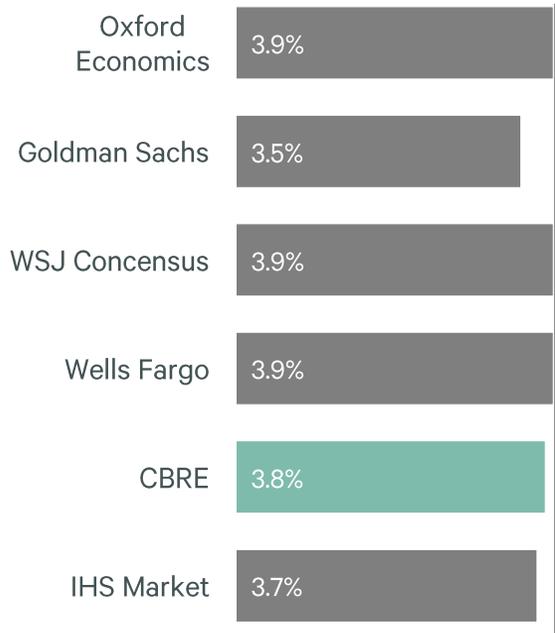
Indexed To 2019 Levels



Source: CBRE Hotels Research, CBRE EA, BLS
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2022 Unemployment outlook continues to improve

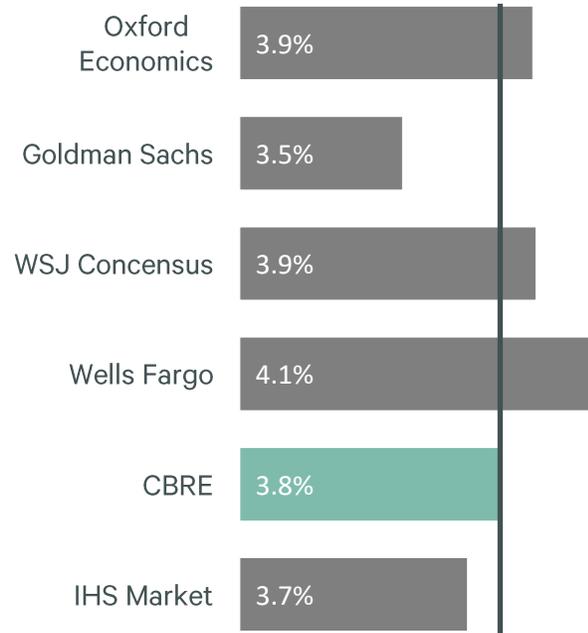
2022 Unemployment Rate Forecast



3.8% Average

JULY 2021

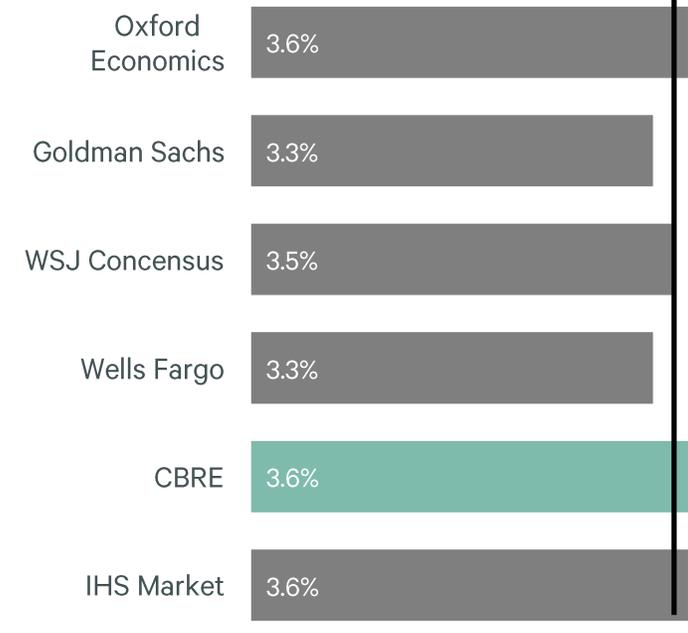
2022 Unemployment Rate Forecast



3.8% Average

OCTOBER 2021

2022 Unemployment Rate Forecast

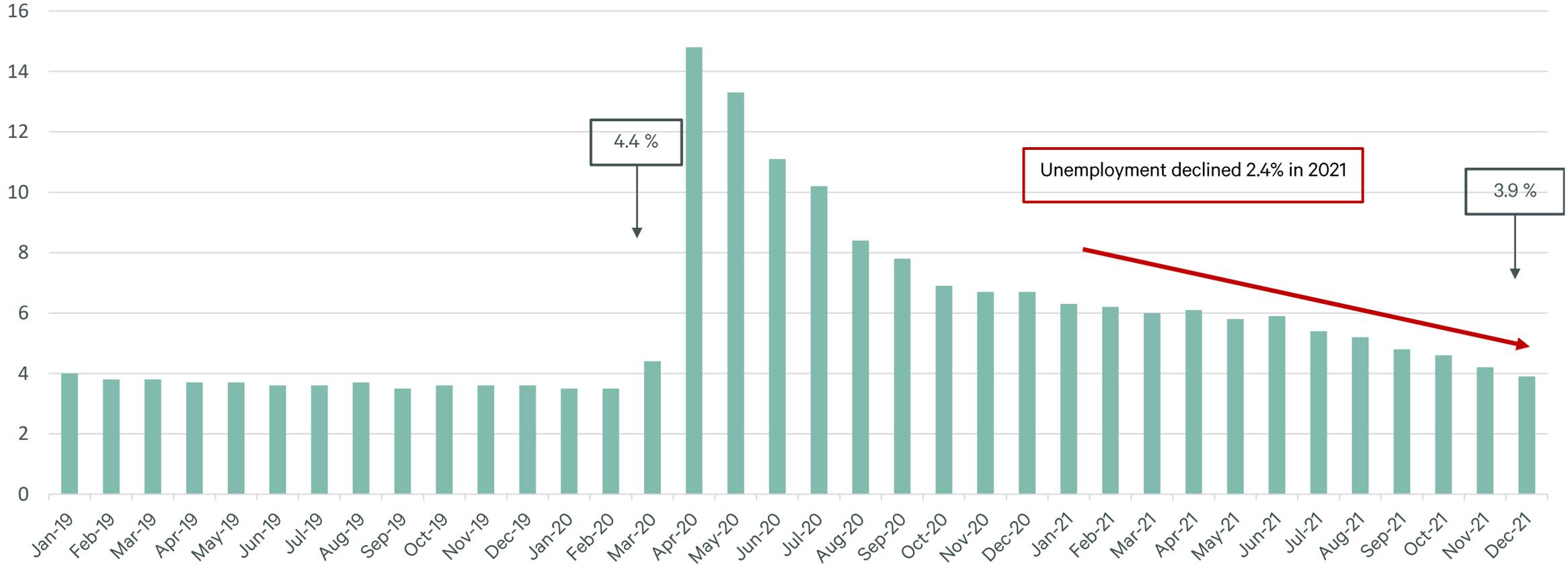


3.5% Average

JANUARY 2022

2022 Unemployment beat CBRE's 4.3% forecast, 2022 forecast is 3.6%

Unemployment Rate



Source: CBRE Hotels Research, CBRE EA, BLS

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College educated employment has fully recovered

Unemployment Rate – Bachelor's Degree and Higher, 25 Yrs. & Over



Source: CBRE Hotels Research, CBRE EA, BLS

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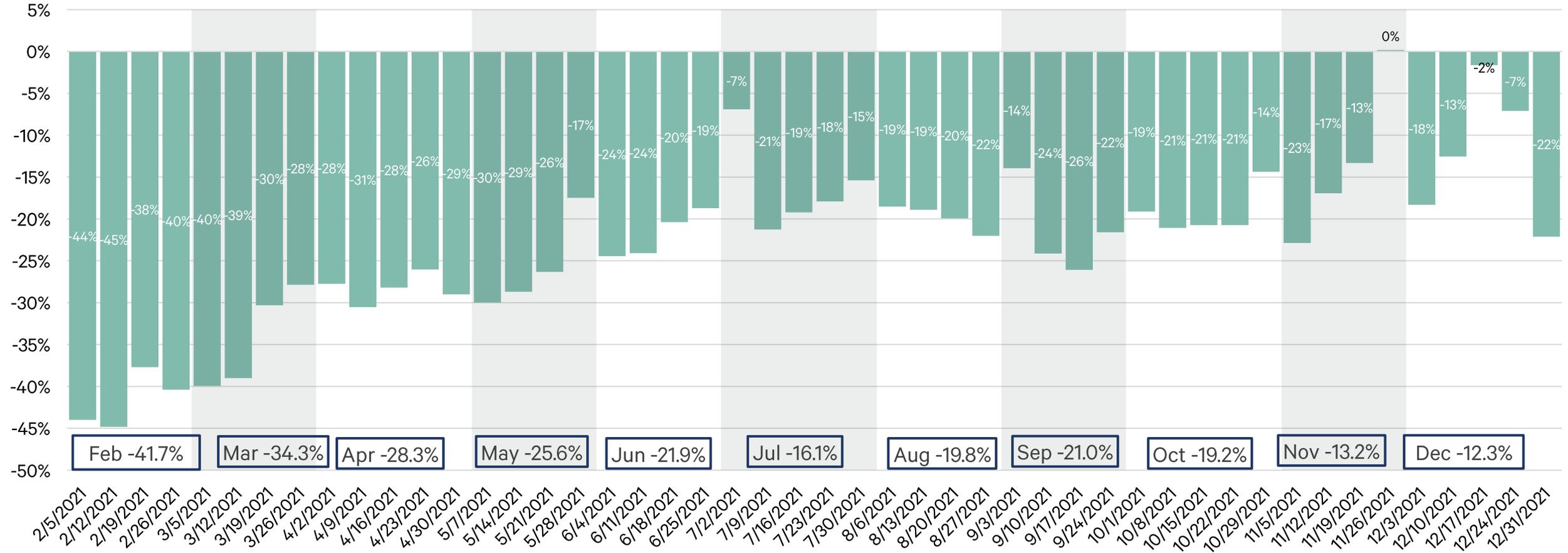
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Current Trends



Occupancy levels stable, in low teens

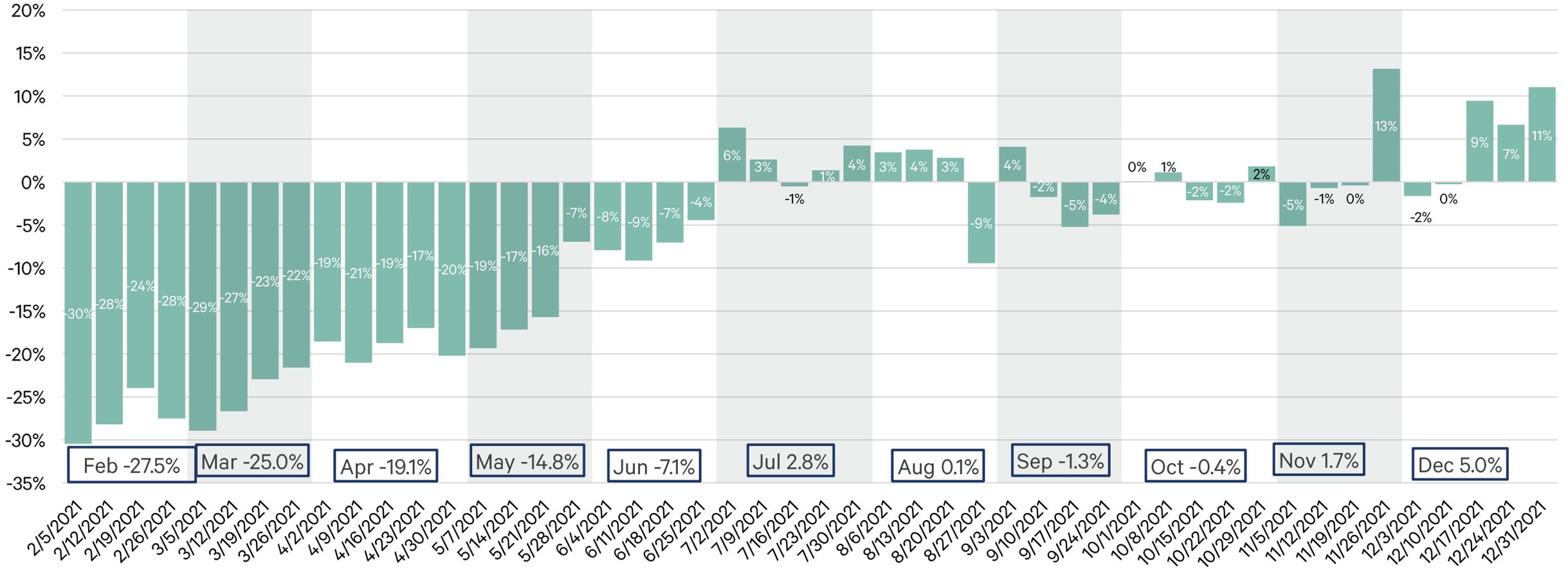
2021 Occupancy change from 2019



Source: CBRE Hotels Research, Kalibri Labs, Weekly Sample, not scaled to full U.S. Hotel Industry Representation

ADR was above 2019 in 4Q

2021 ADR change from 2019

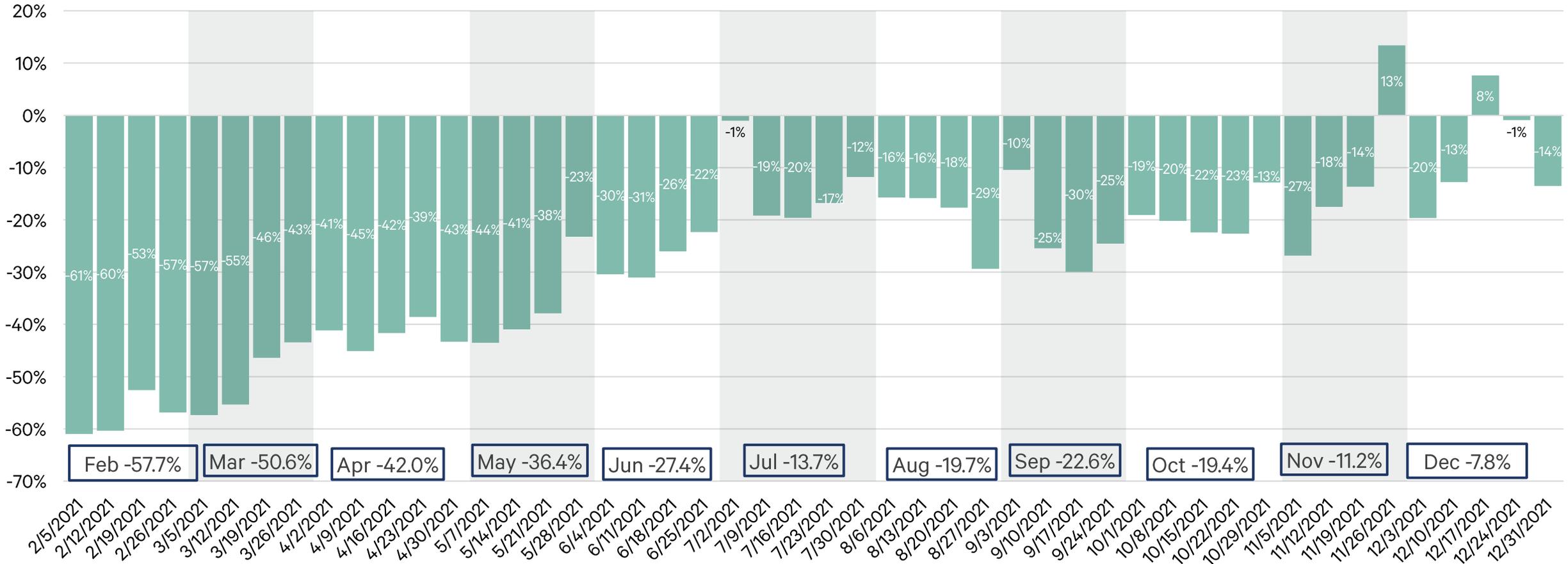


Source: CBRE Hotels Research, Kalibri Labs, Weekly Sample, not scaled to full U.S. Hotel Industry Representation

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RevPAR continued to improve in 4Q

2021 RevPAR change from 2019

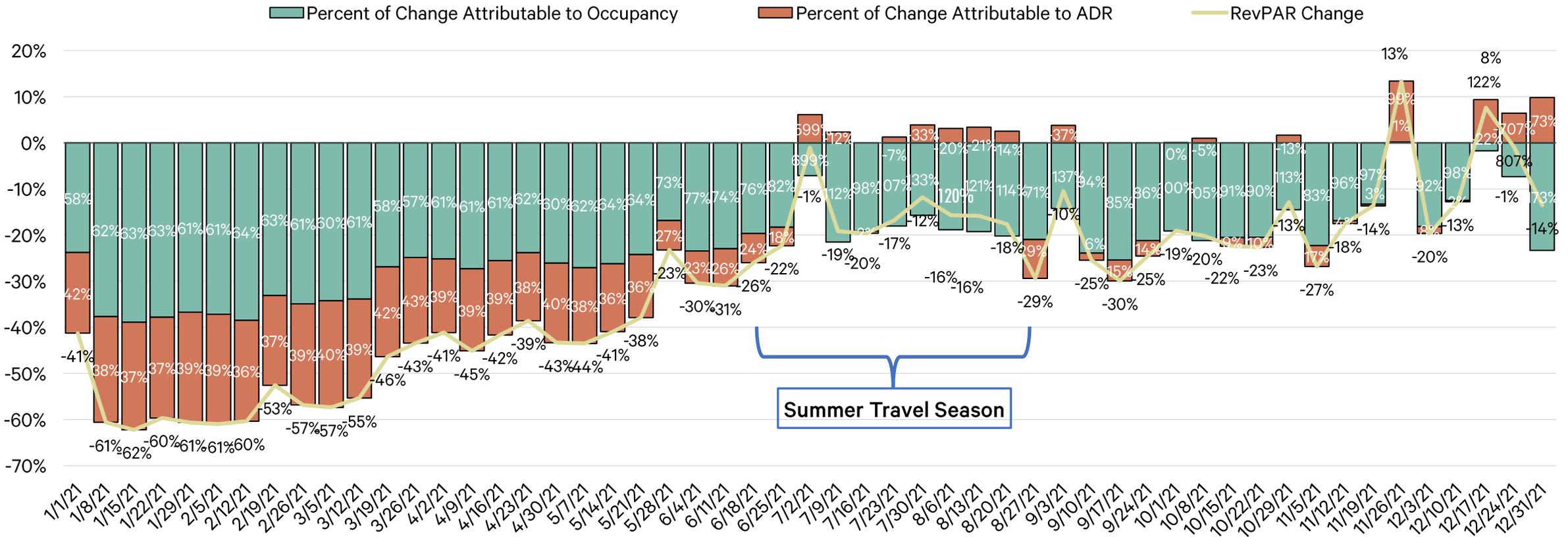


Source: CBRE Hotels Research, Kalibri Labs, Weekly Sample, not scaled to full U.S. Hotel Industry Representation

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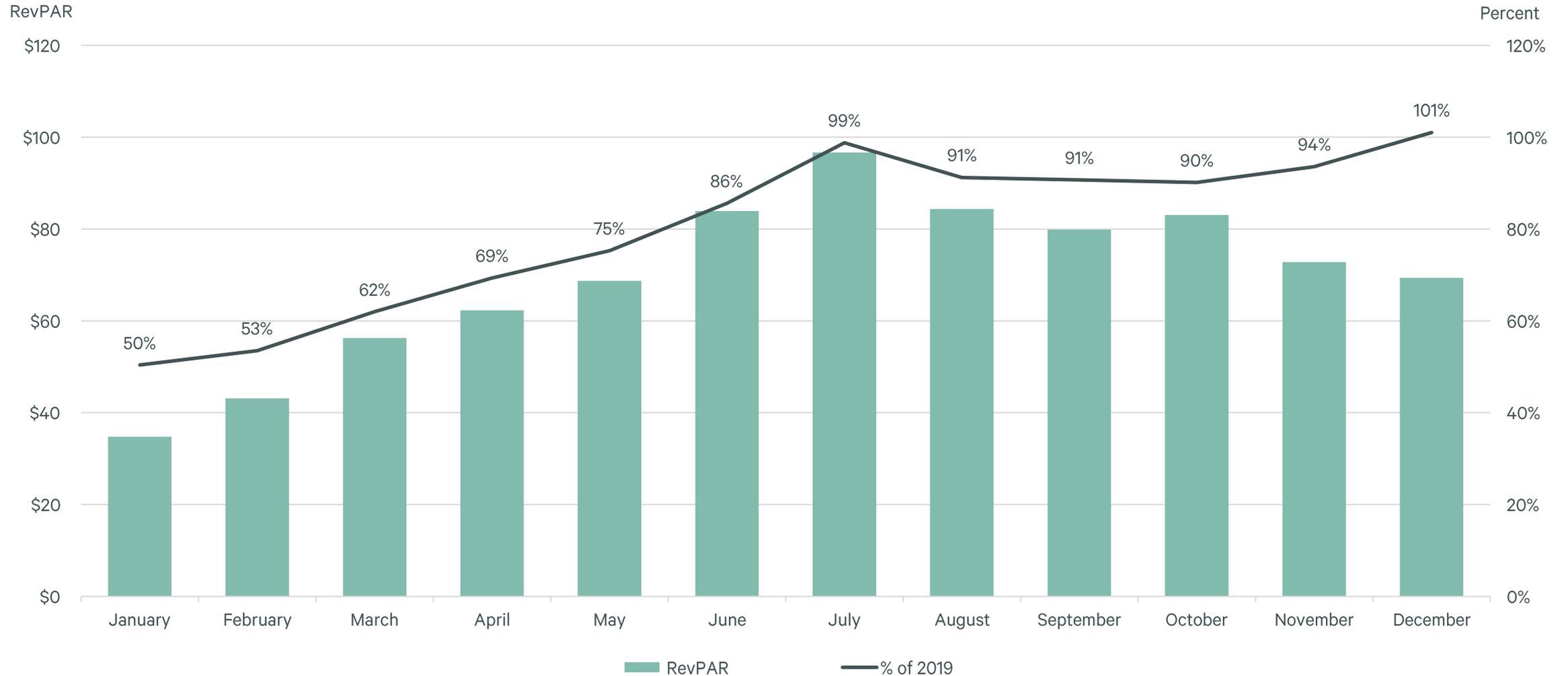
Breaking down 2021 RevPAR decline

Relative to 2019 the bulk of the short fall is from Occupancy



Source: CBRE Hotels Research, Kalibri Labs, Weekly Sample, not scaled to full U.S. Hotel Industry Representation

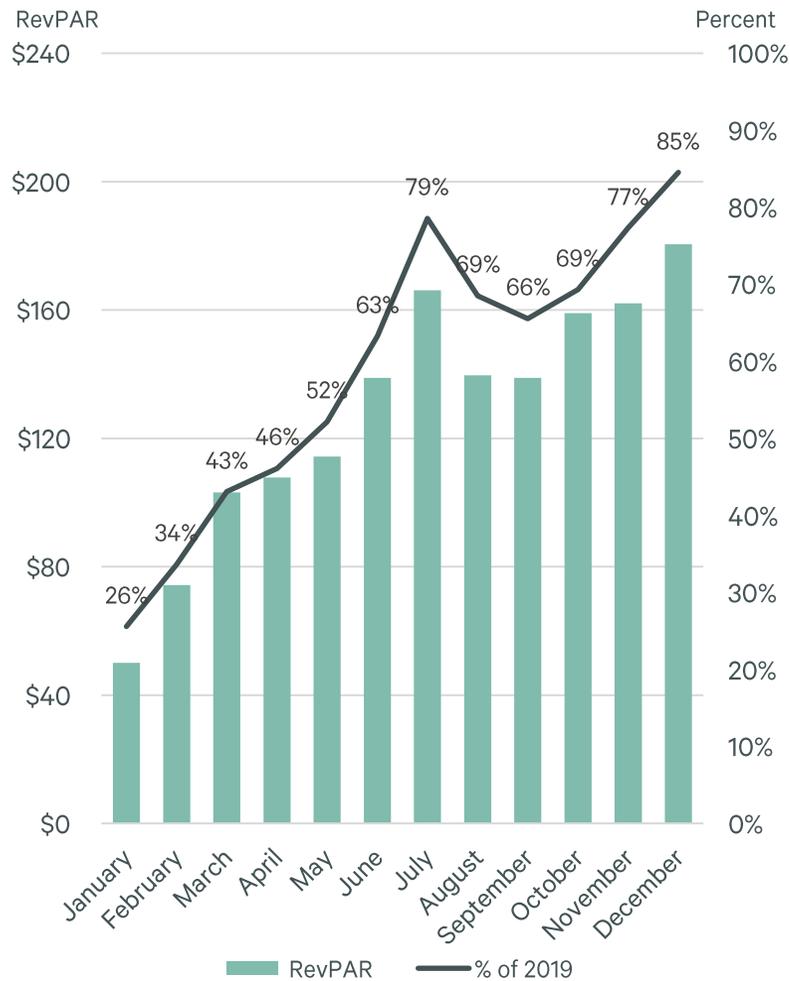
December RevPAR beat 2019 levels



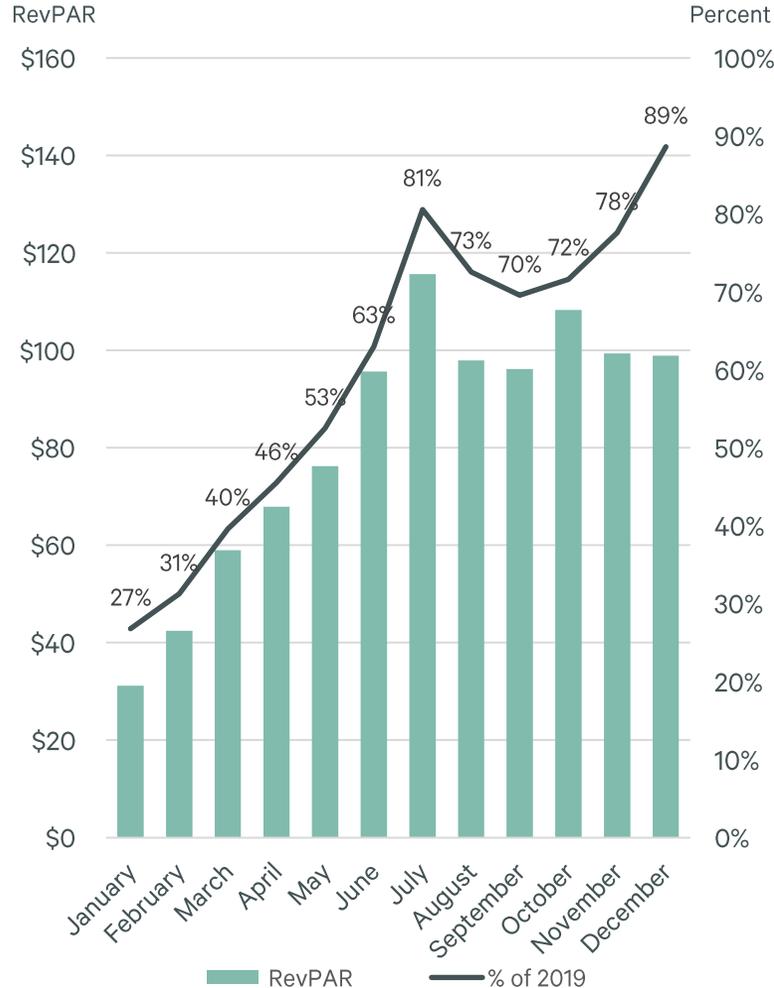
Source: CBRE Hotels Research, Kalibri Labs

Monthly RevPAR for upper priced hotels by chain scale

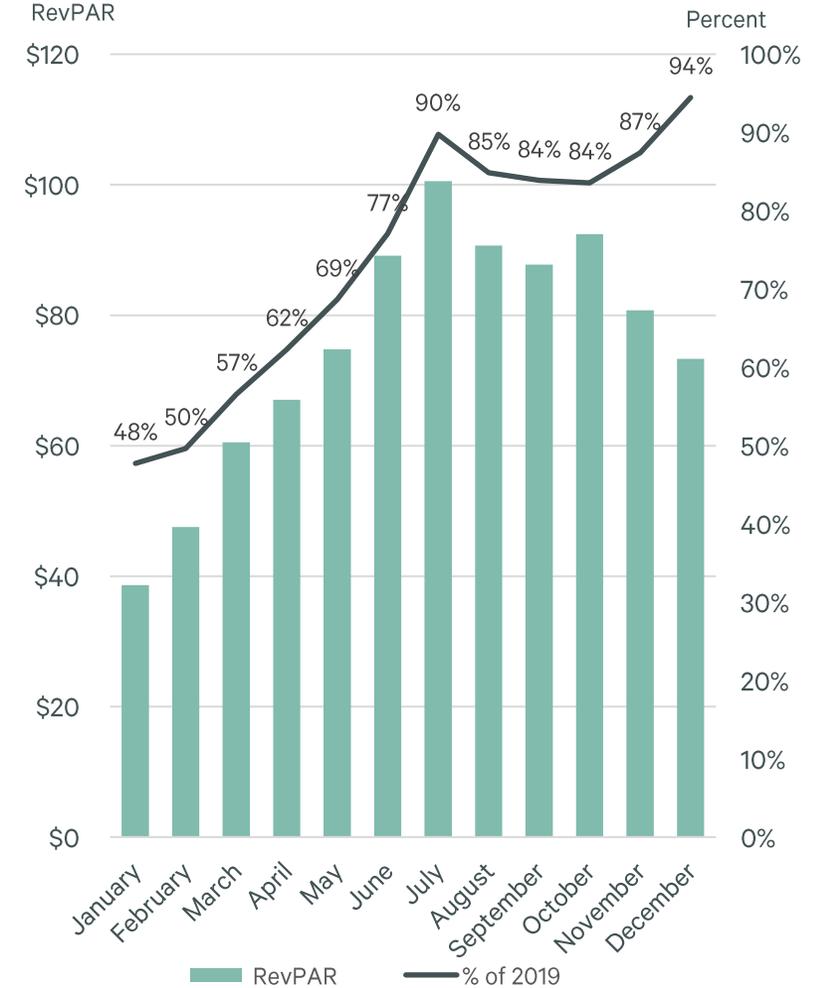
Luxury



Upper Upscale

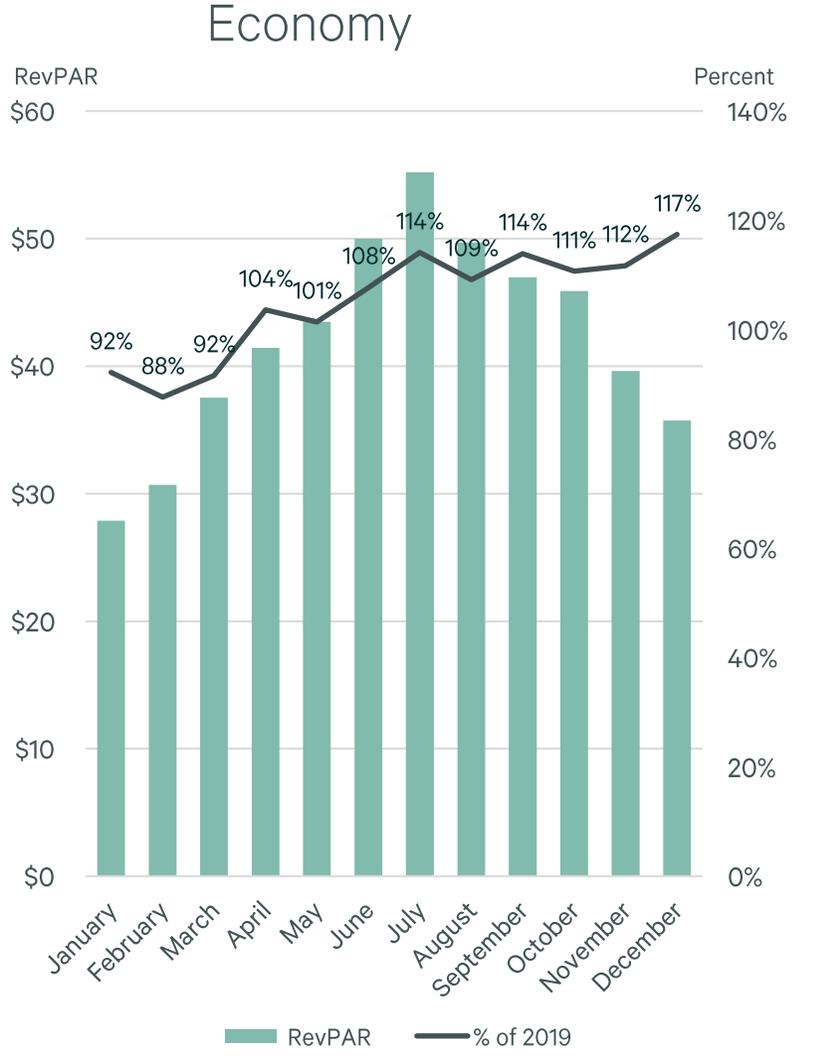
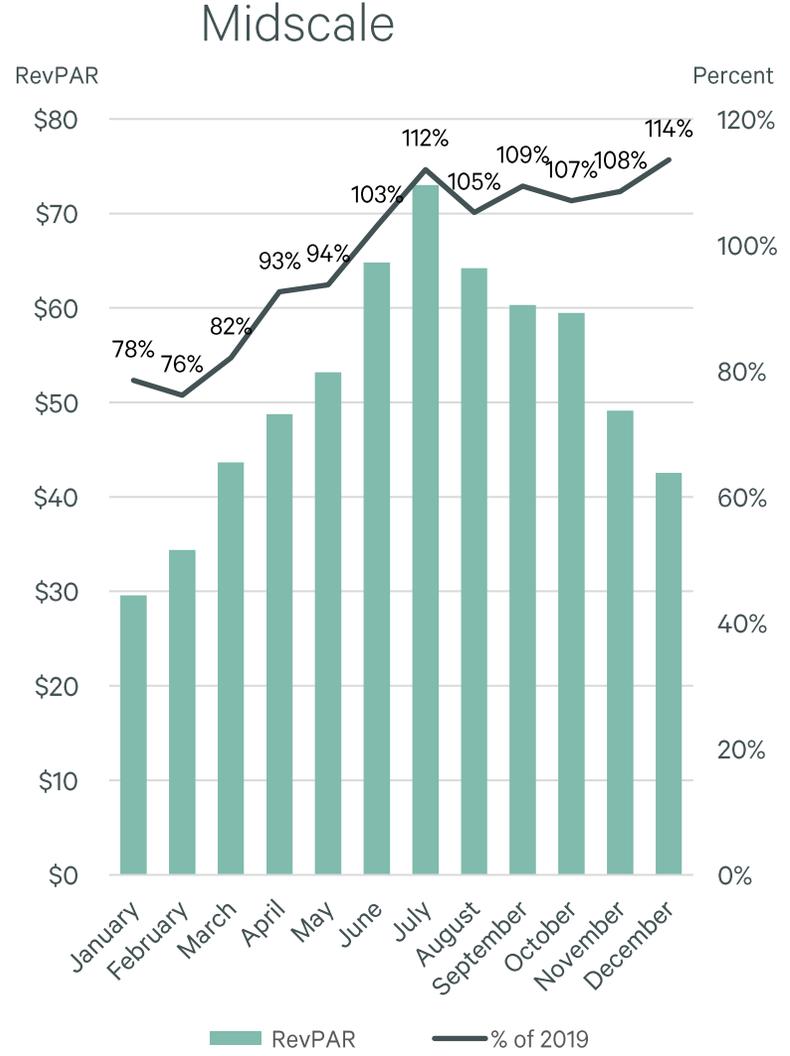
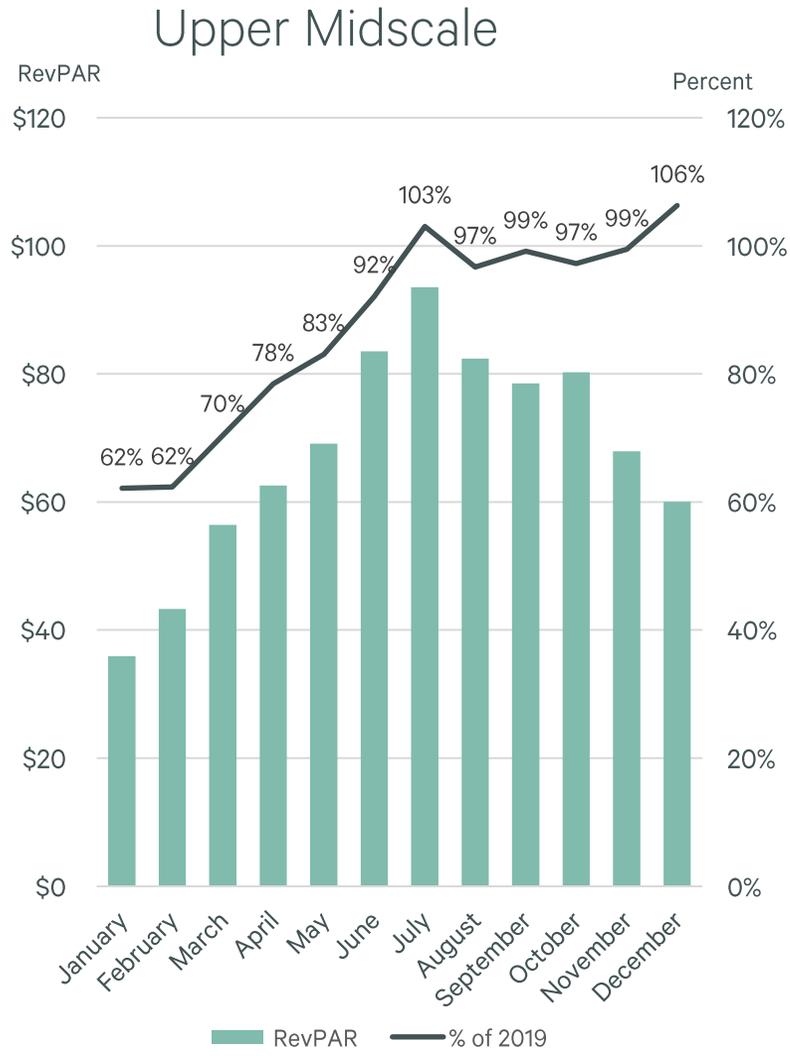


Upscale



Source: CBRE Hotels Research, Kalibri Labs
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Monthly RevPAR for lower priced hotels by chain scale



Source: CBRE Hotels Research, Kalibri Labs
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Monthly RevPAR by location

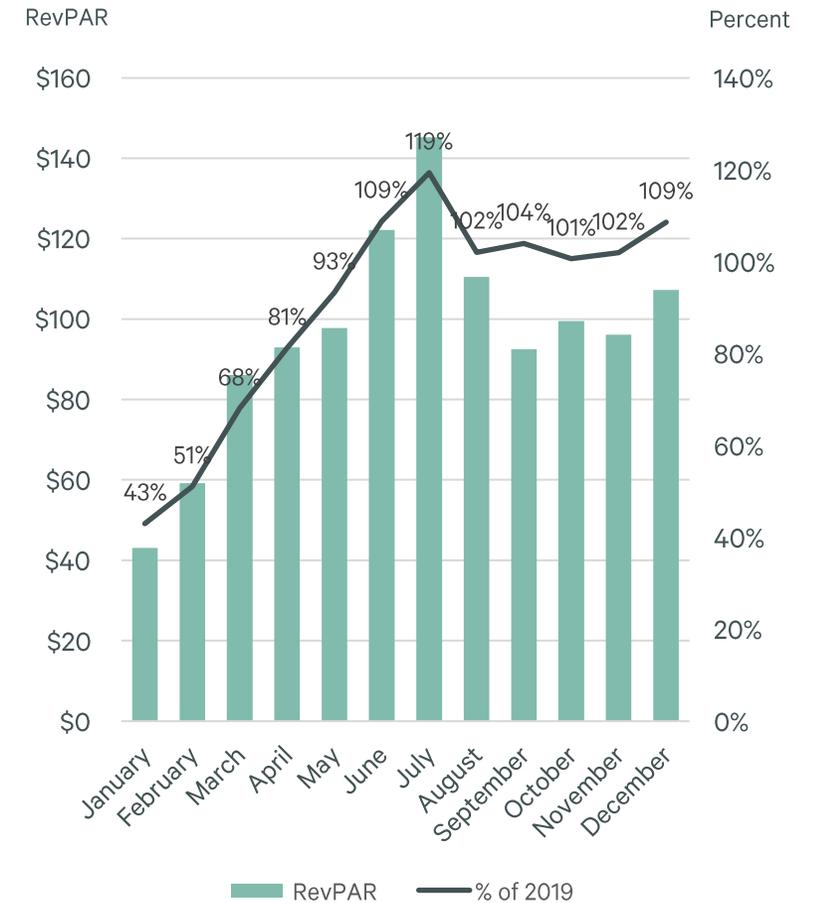
Interstate



Small Town



Resort



Source: CBRE Hotels Research, Kalibri Labs

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Monthly RevPAR by location

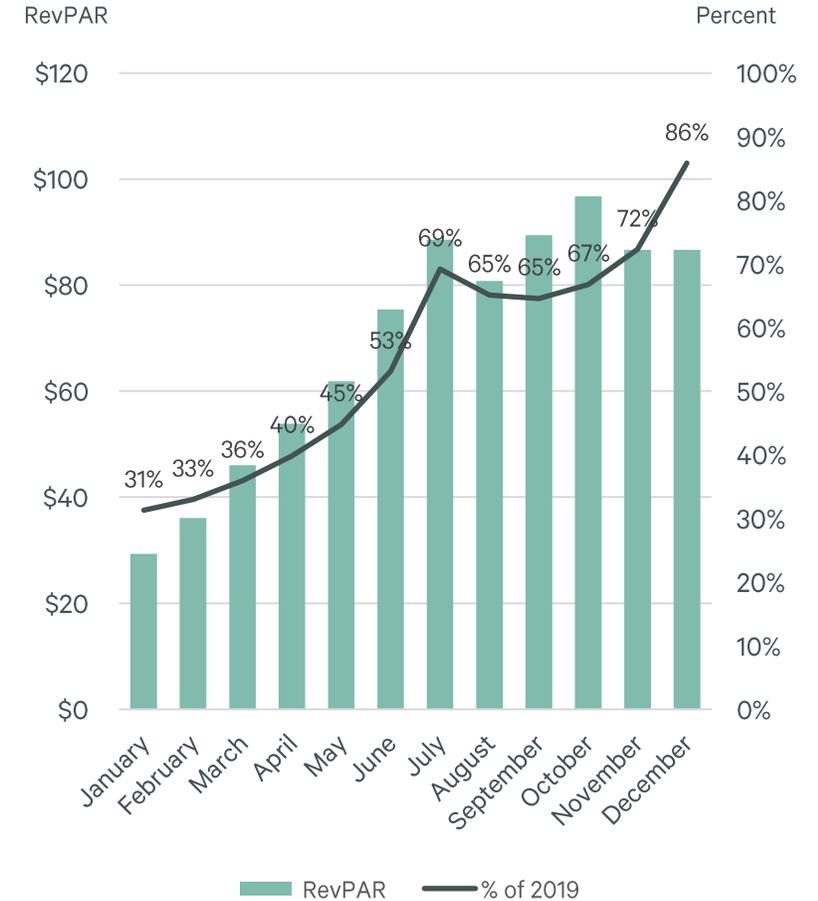
Suburban



Airport

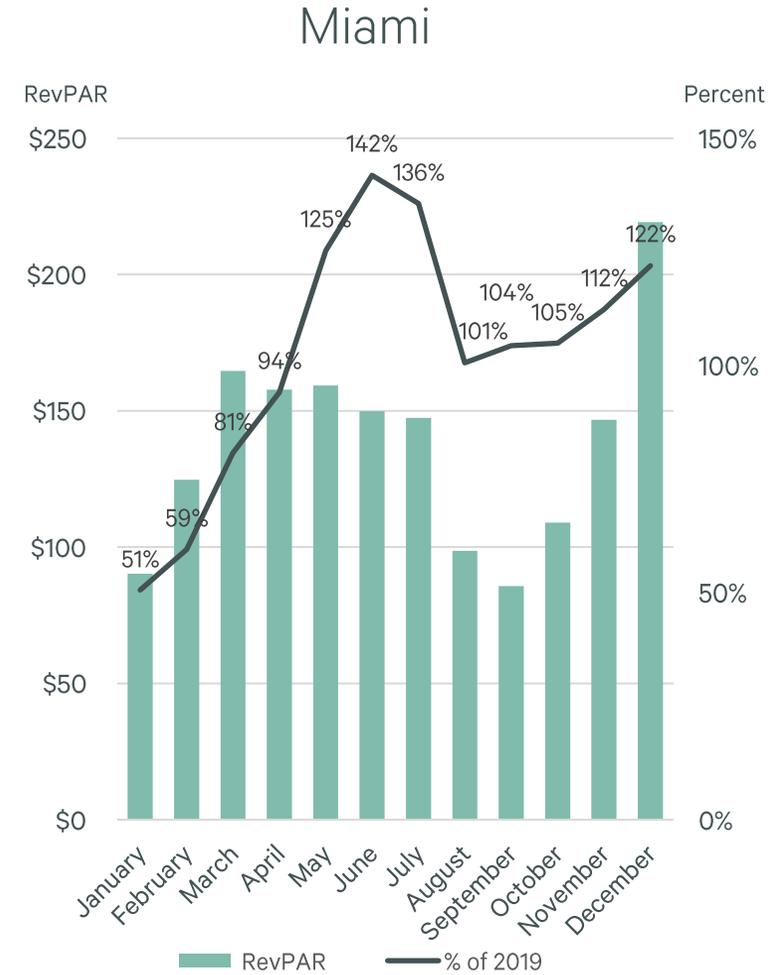
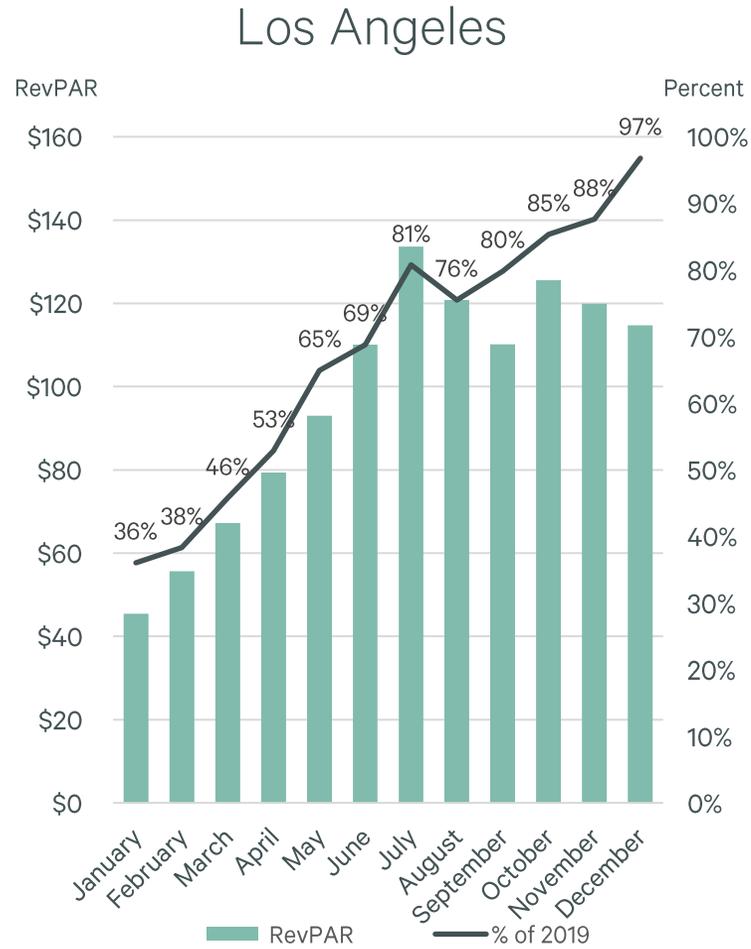
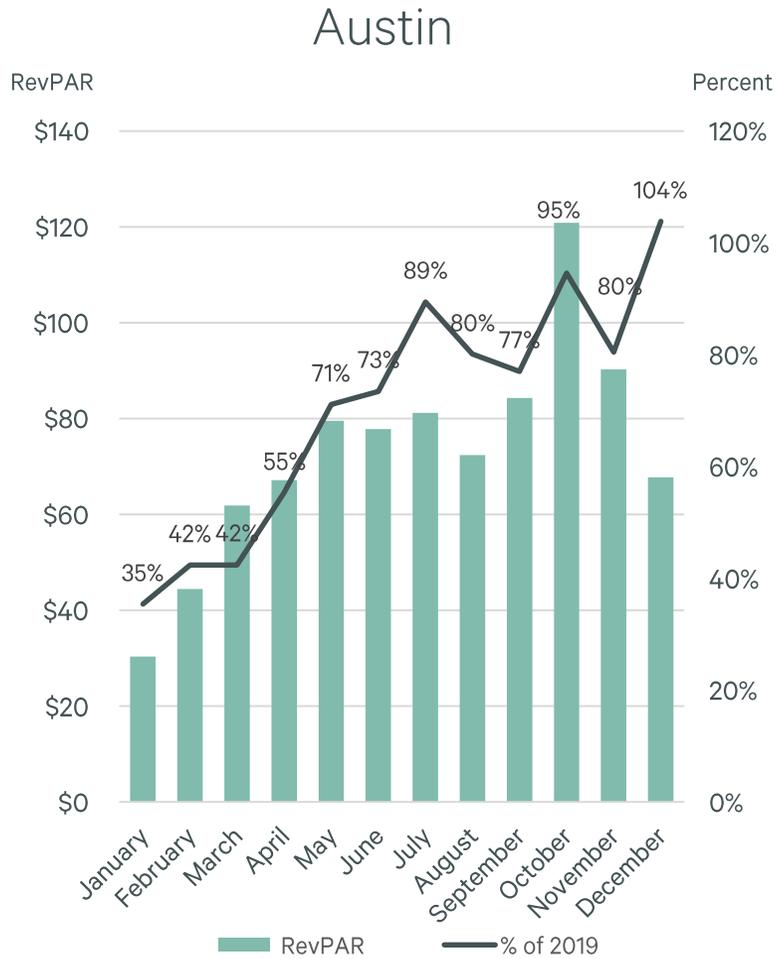


Urban



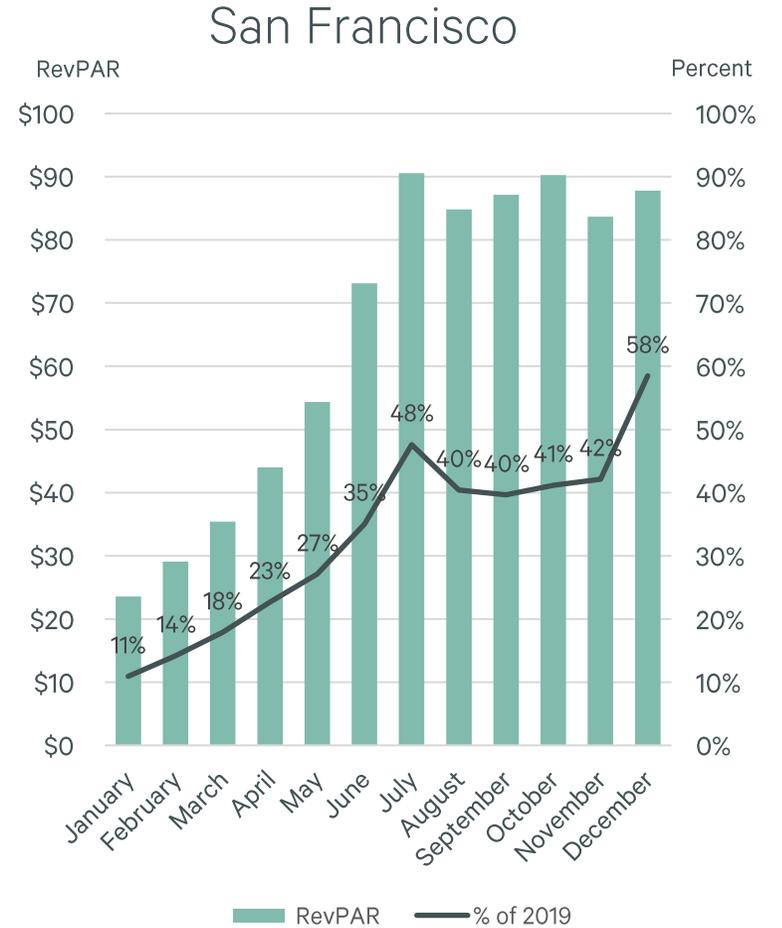
Source: CBRE Hotels Research, Kalibri Labs

Monthly RevPAR by Southern U.S. markets



Source: CBRE Hotels Research, Kalibri Labs

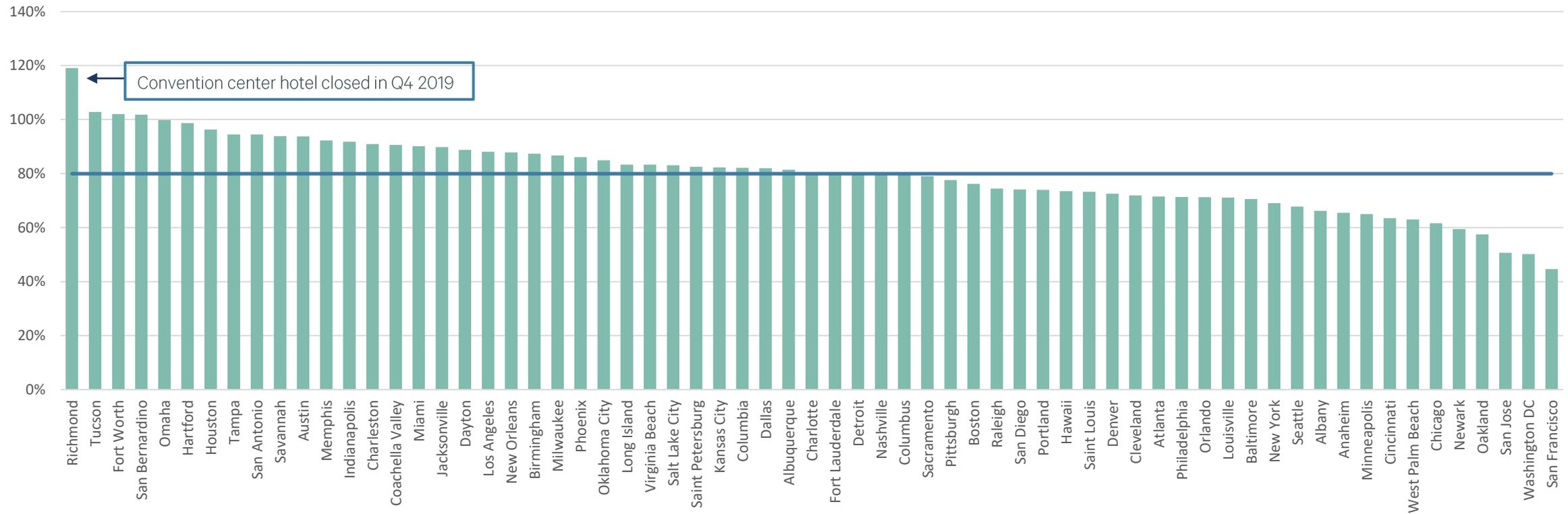
Monthly RevPAR by Northern U.S. markets



Source: CBRE Hotels Research, Kalibri Labs

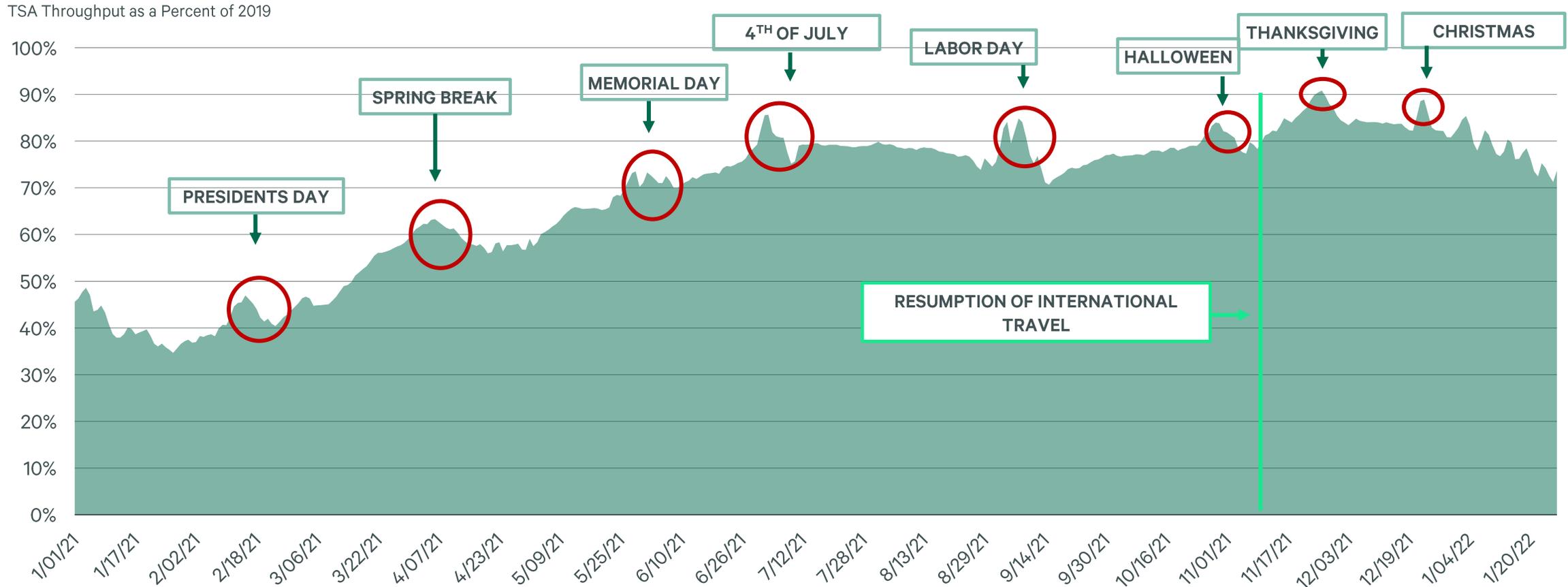
Large business convention markets still 40% to 60% from Q4 2019 levels

Q4 2021 group demand as a percent of Q4 2019



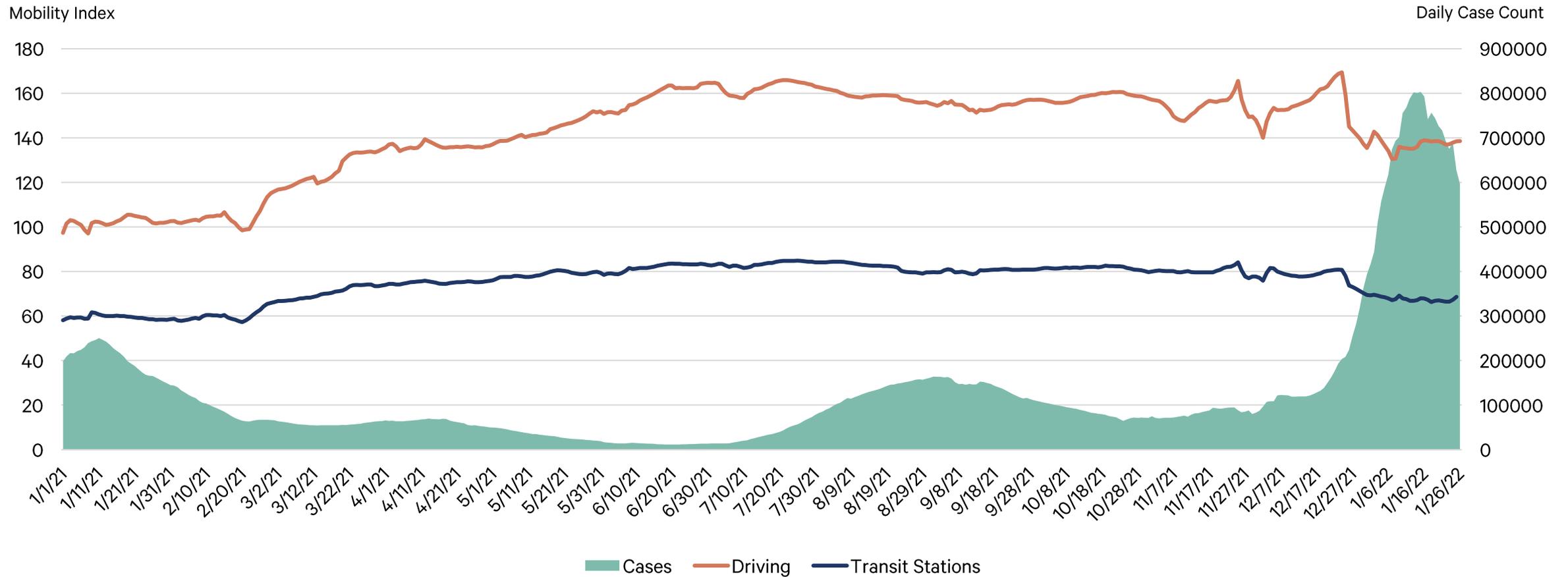
Source: CBRE Hotels Research, Kalibri Labs,

TSA throughput has softened in January



Omicron and the holidays negatively impacted public transit and driving

Mobility vs. Case Count



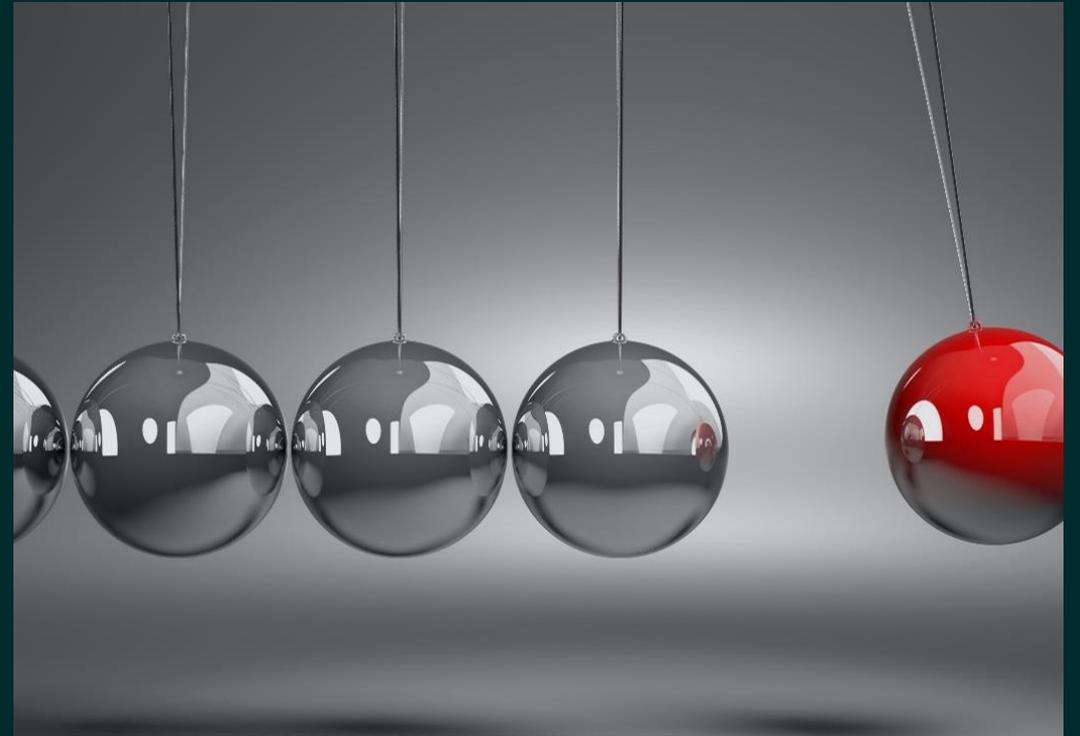
Source: CBRE Hotels Research, COVID Tracking Project, Oxford University, Apple Mobility, Google Mobility Index

*US Daily Cases, 7-day moving average, weighted by population

**"Transit Stations" Includes public transport hubs such as subway, bus, and train stations.

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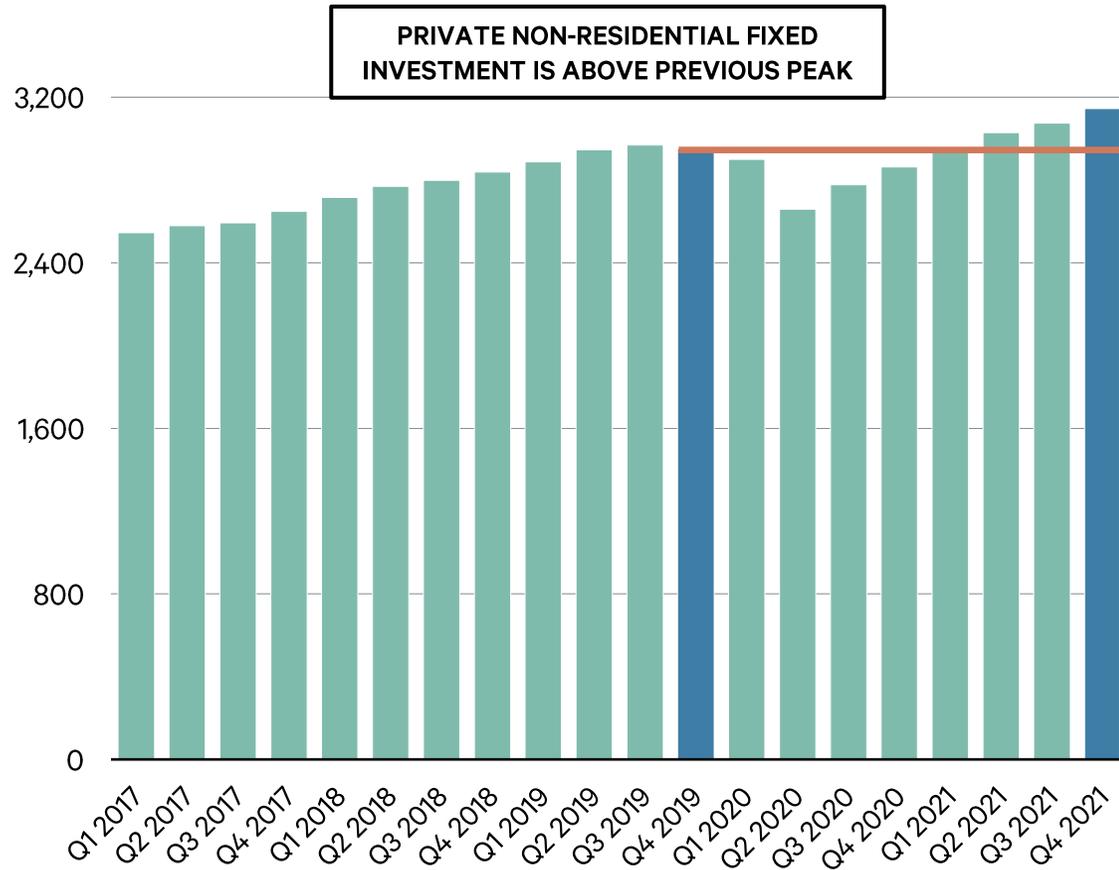
Leading Indicators



Record fixed investment, but more recent trends suggest waning confidence

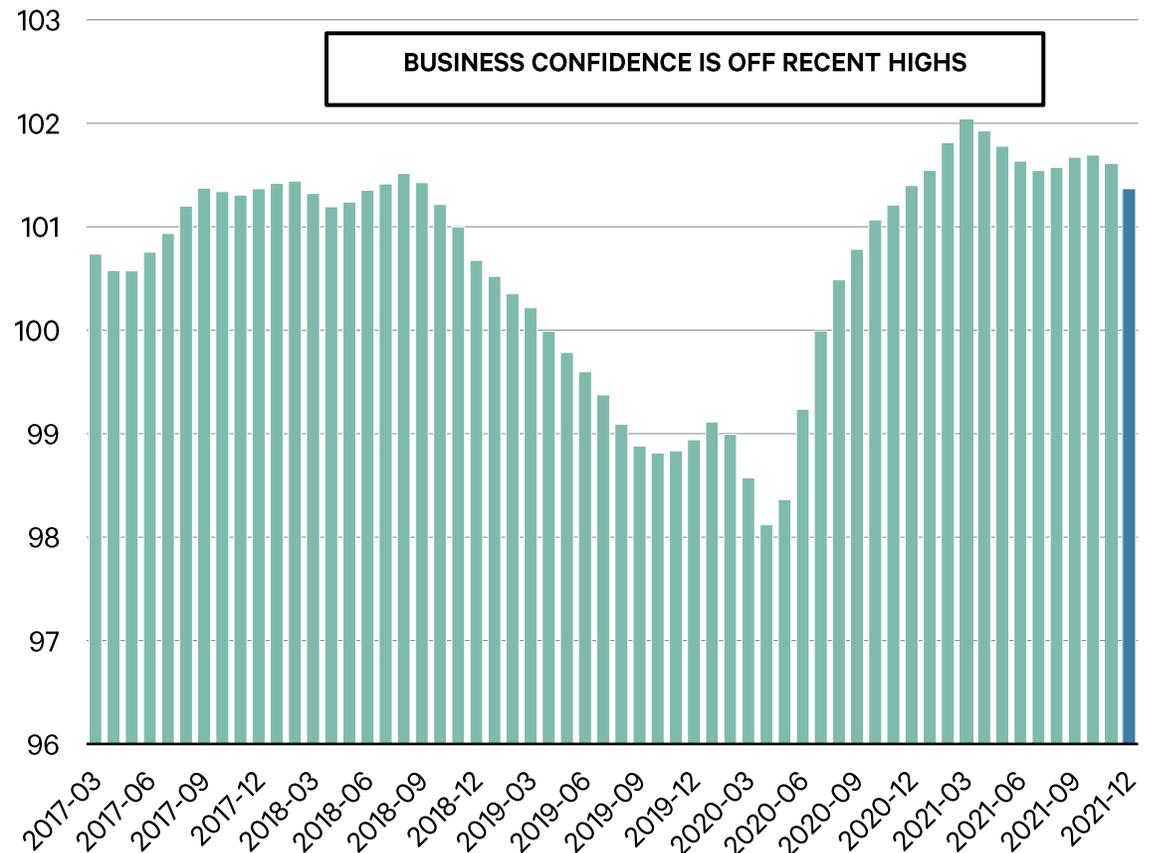
Private Nonresidential Fixed Investment

Billions of Dollars



Business Confidence Index

Index

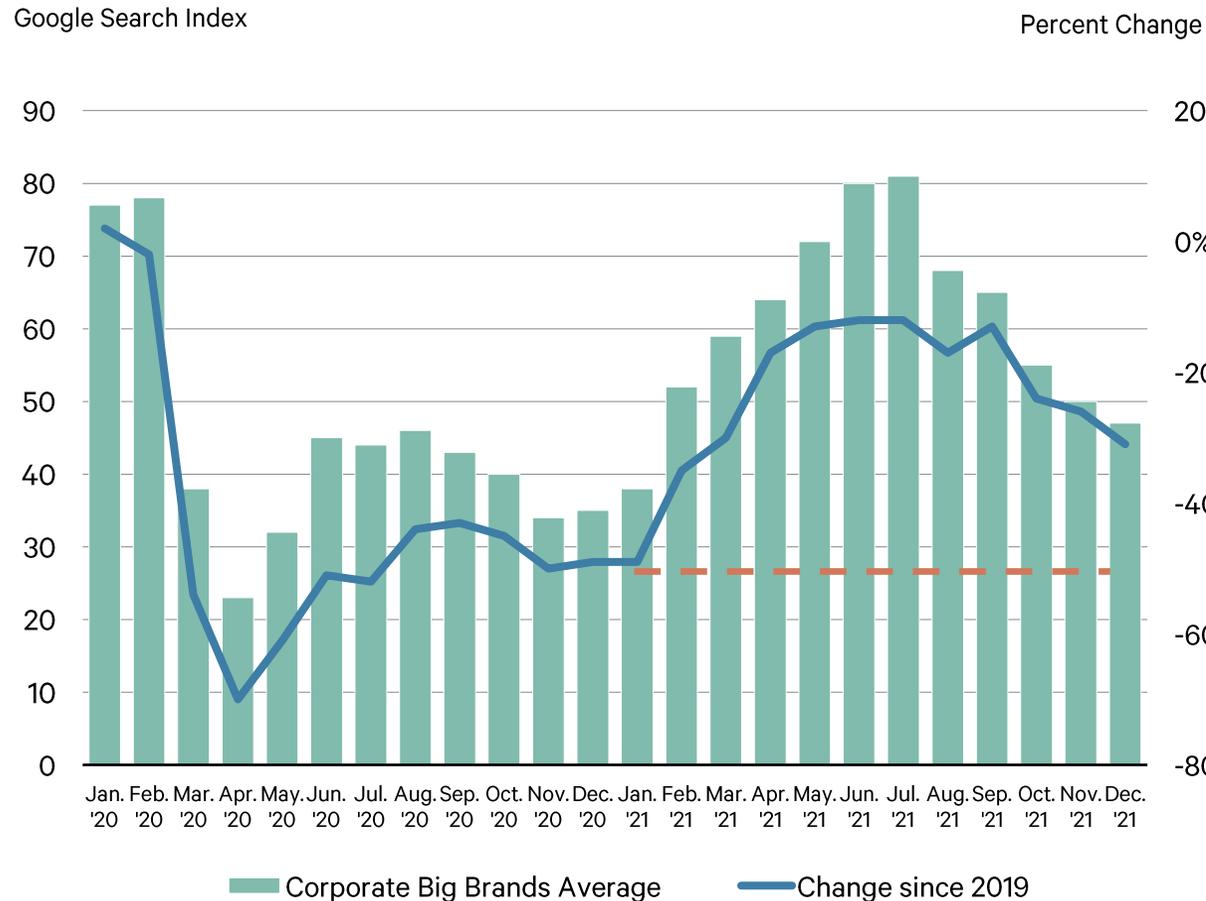


Source: CBRE Hotels Research, CBRE EA, BLS, OECD

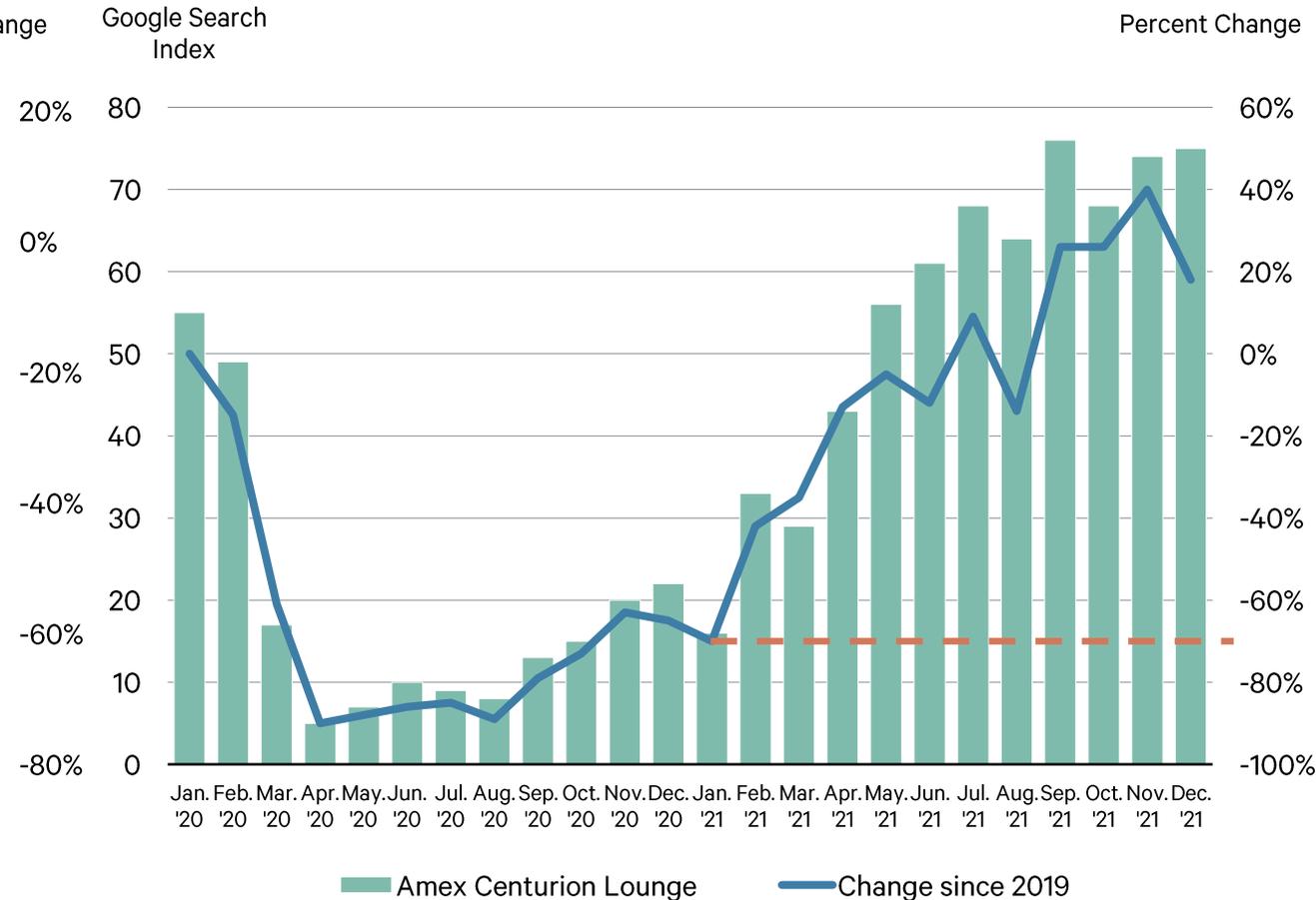
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Search trends for future business travel softened in 4Q

Corporate Brands Average



Amex Centurion Lounge

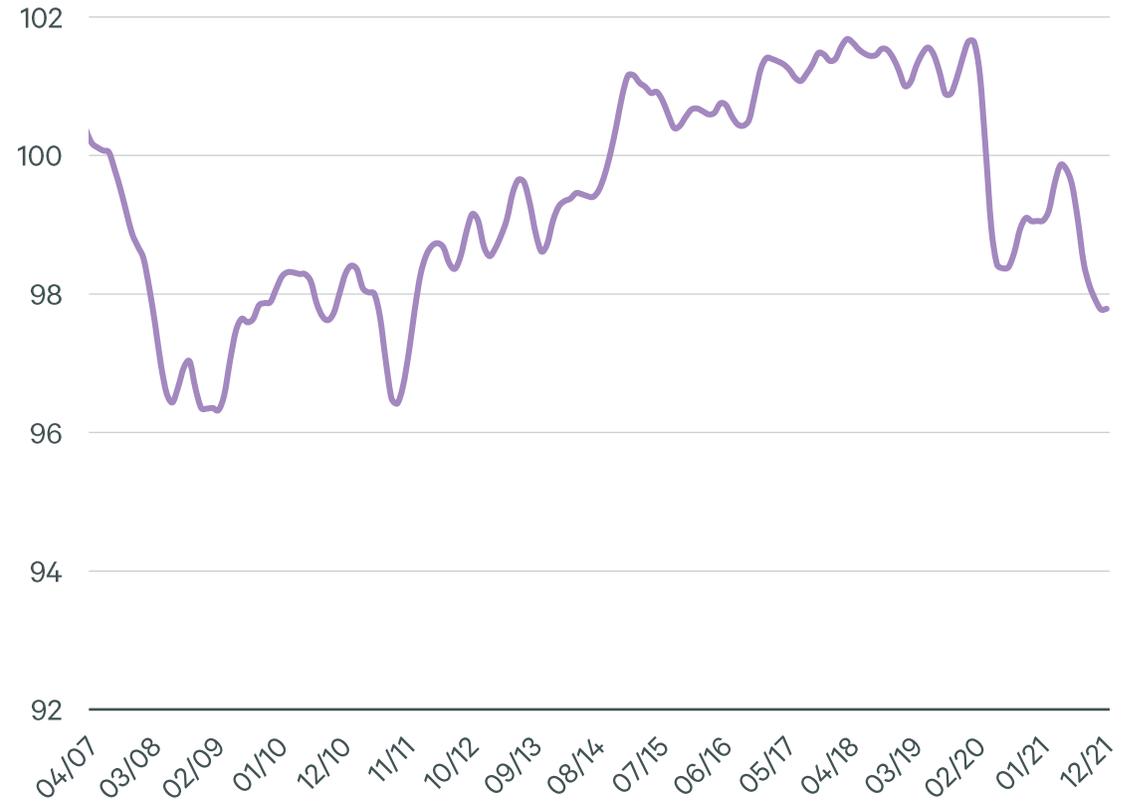


Consumer confidence is below the pandemic low

Household Checkable Deposits



Consumer Confidence Index



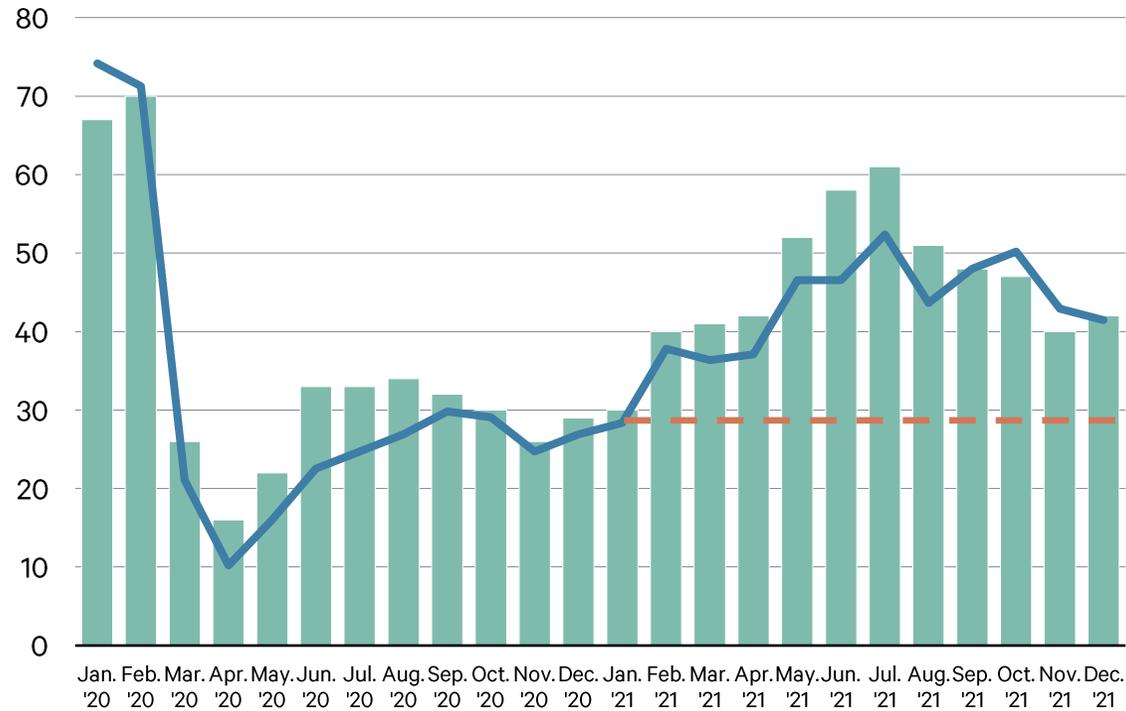
Source: CBRE Hotels Research, BLS, OECD

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Search trends for future leisure travel soften in 4Q

Brand Loyalty Programs

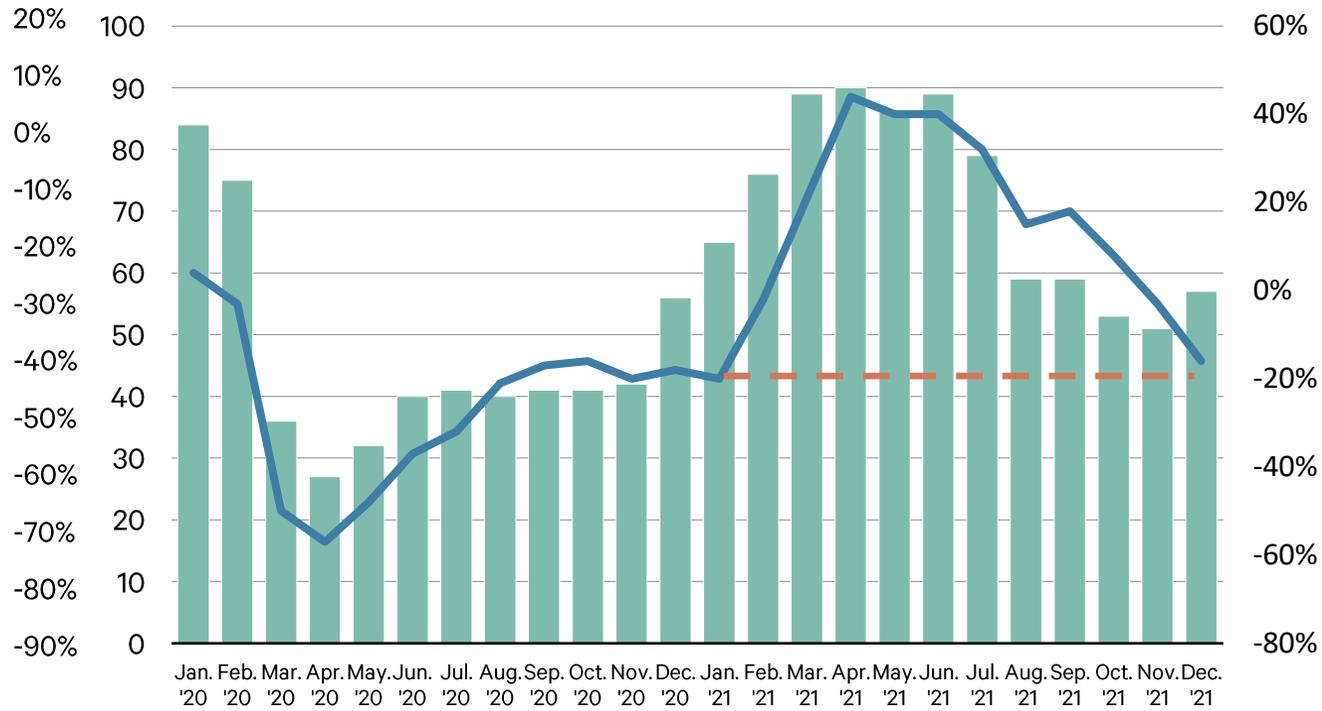
Google Search Index



Big Brand Loyalty Programs Change since 2019

All Inclusive Resorts

Percent Change Google Search Index



All Inclusive Resorts Change since 2019

Source: CBRE Hotels Research, Google Trends. Key words: Bonvoy, Hilton Honors, World of Hyatt, IHG Rewards, All-inclusive Resort.

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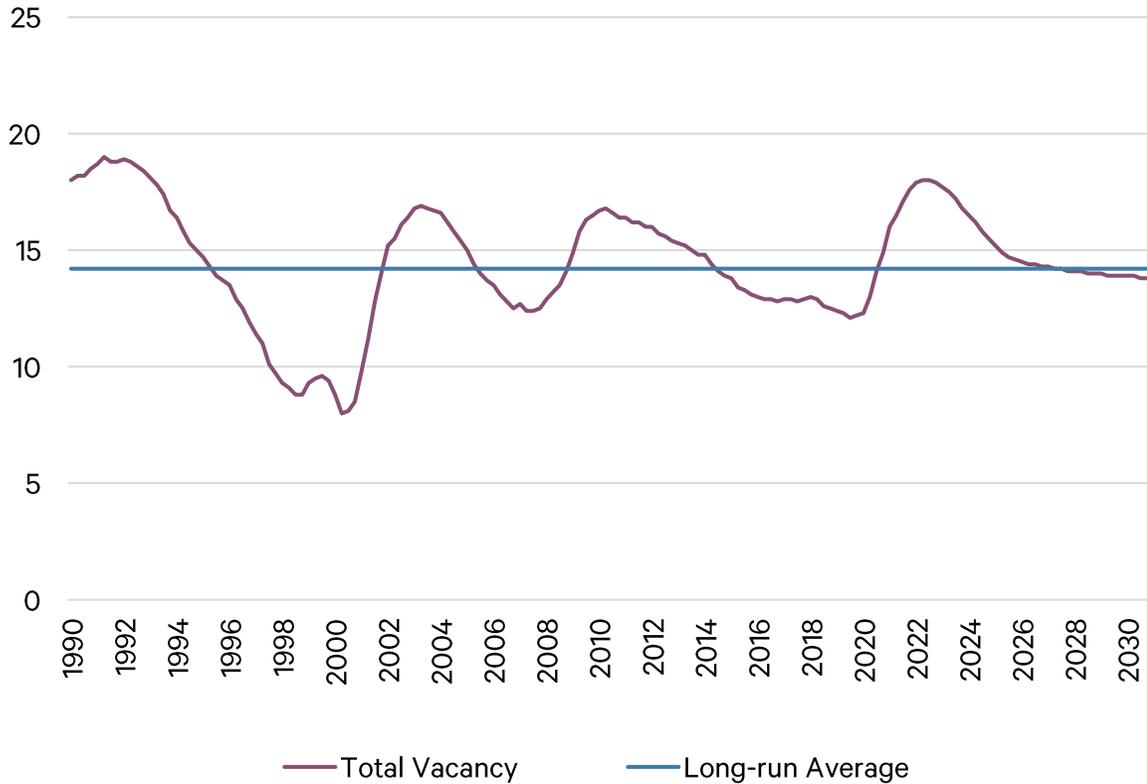
Potential
Headwinds



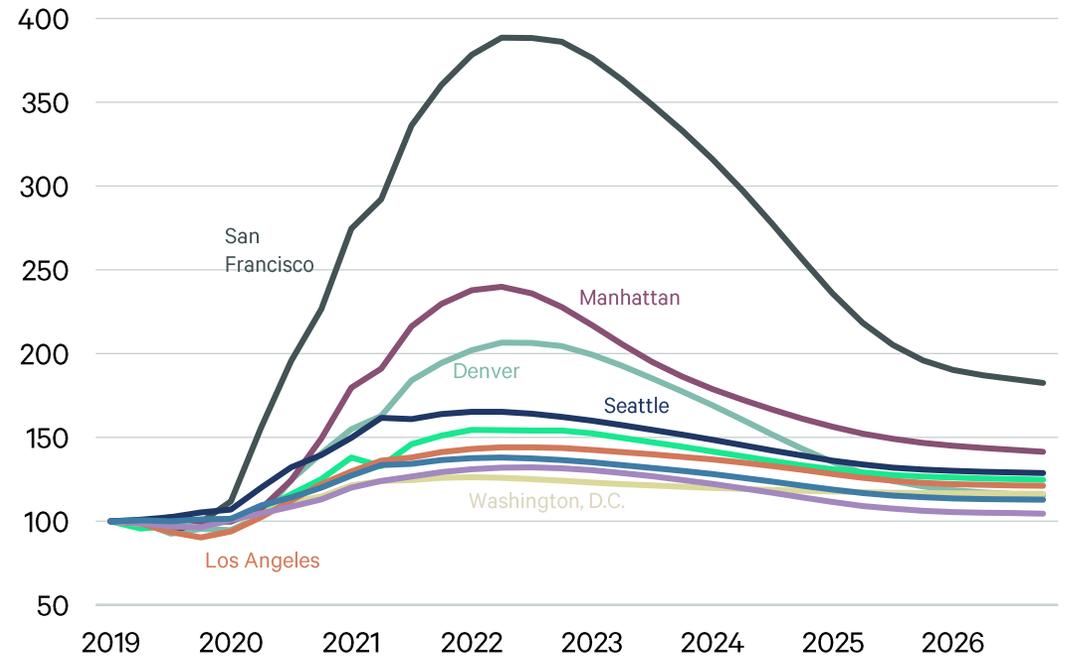
Office vacancy will remain elevated through 2026

Office Vacancy

Vacancy (%)



Vacancy rate index, 2019 Q1 = 100

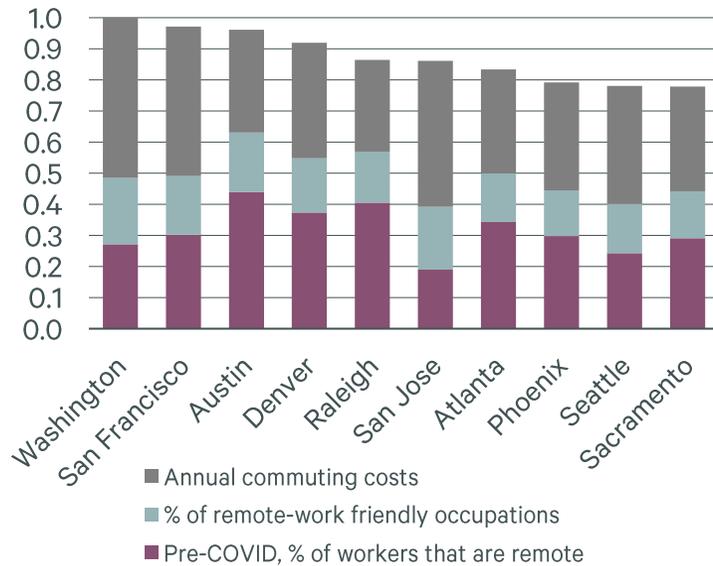


Source: CBRE Hotels Research, CBRE EA

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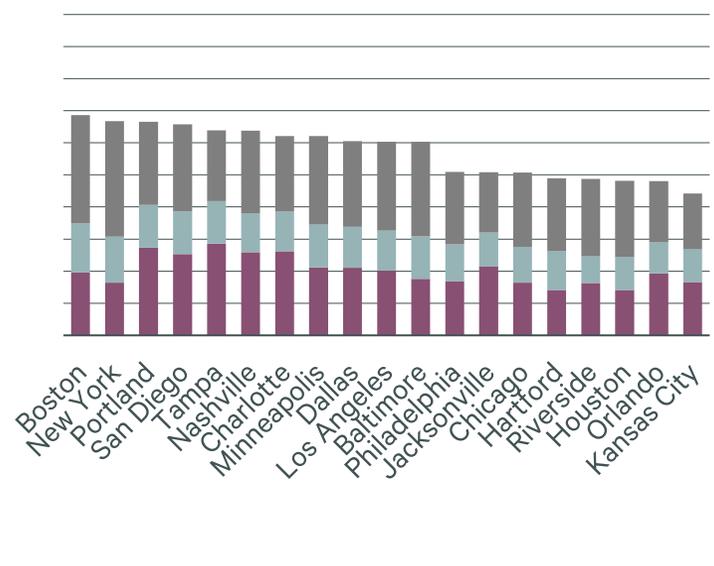
Potential impact from remote work by market

Greatest Prevalence of Virtual Work



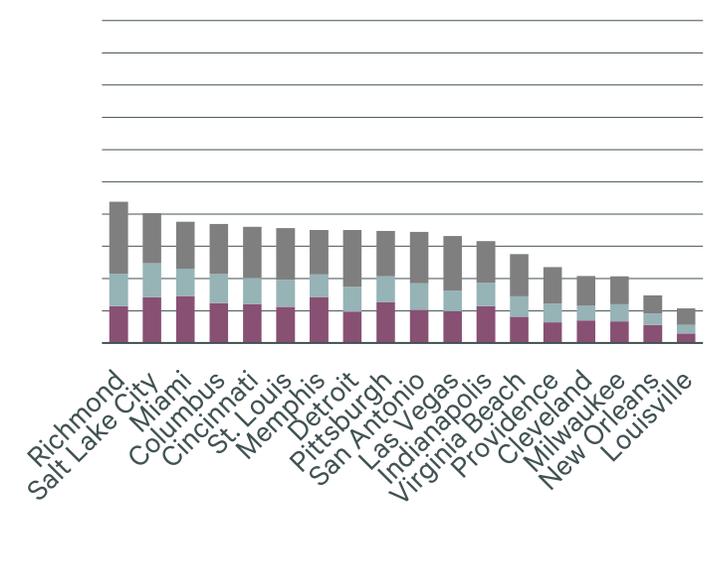
- Tech markets are poised to see more virtual work.
- Markets with high in-migration historically saw many newcomers work virtually.
- Many high-performing office markets have a legacy of virtual work.

Moderate Prevalence of Virtual Work



- Markets with sizable creative and transactional sectors, such as New York and Los Angeles, will need relatively more office/meeting space.
- Medium-sized Sunbelt cities with shorter commute times offer easier access to the office.

Less Opportunity for Virtual Work



- High-tech sectors are less prevalent in the Midwest, limiting the propensity for virtual work.
- More manageable commute times encourage office use.

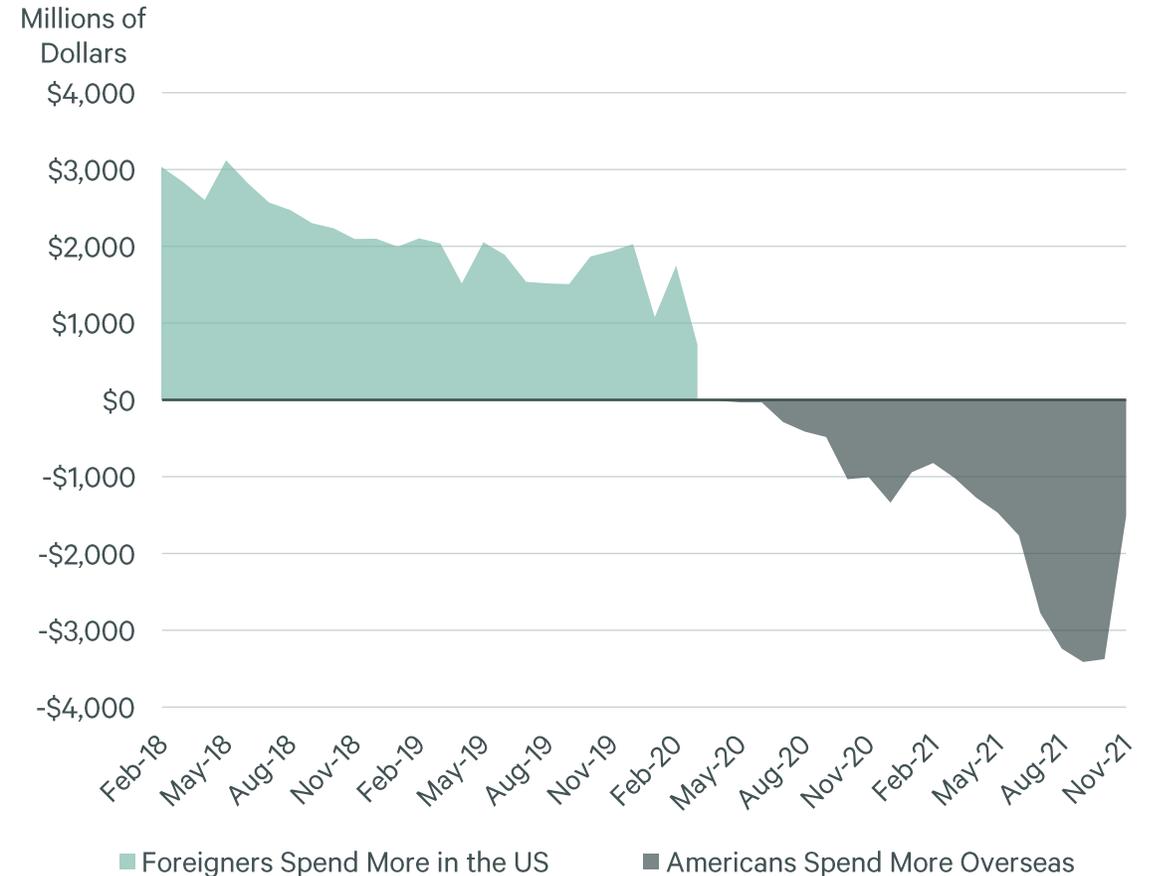
Source: CBRE EA, U.S. Census, University of Chicago, Clever.

November saw an increase in inbound international spending

International Travel Spending



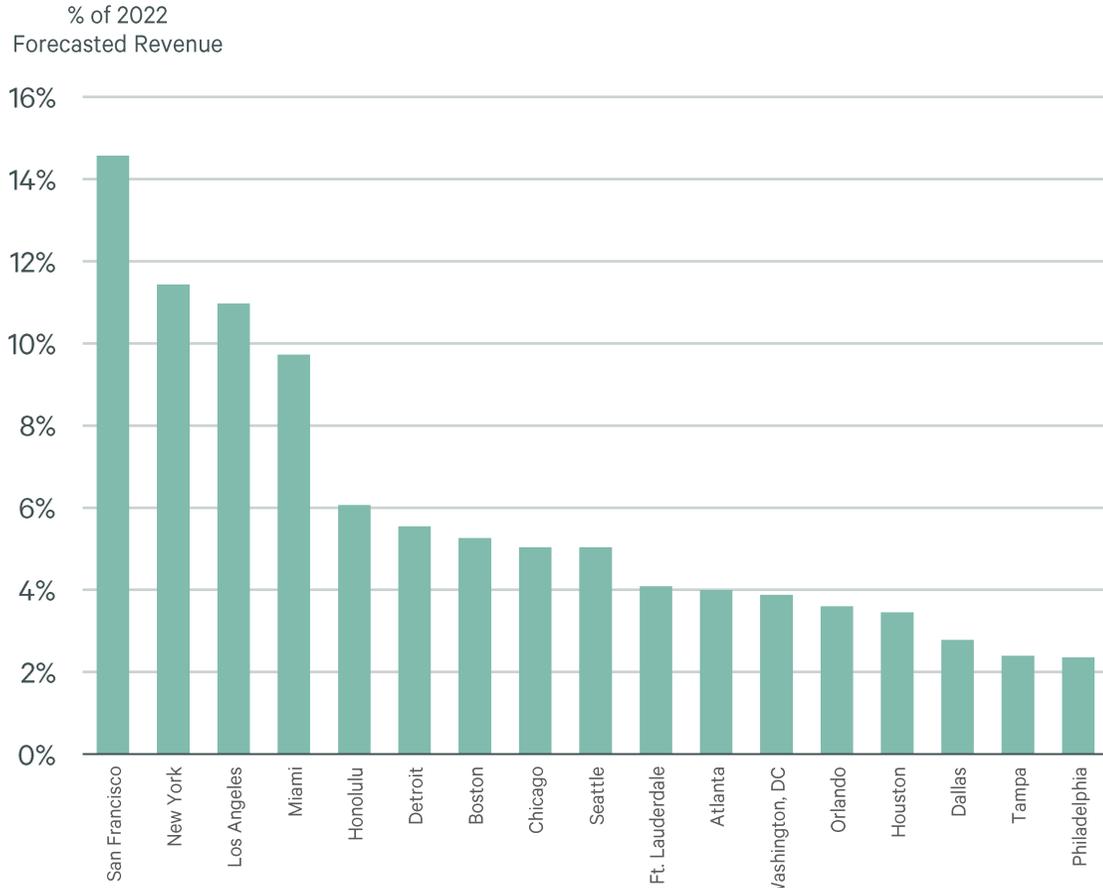
INTL. Travel Restrictions Hurting US Hotels



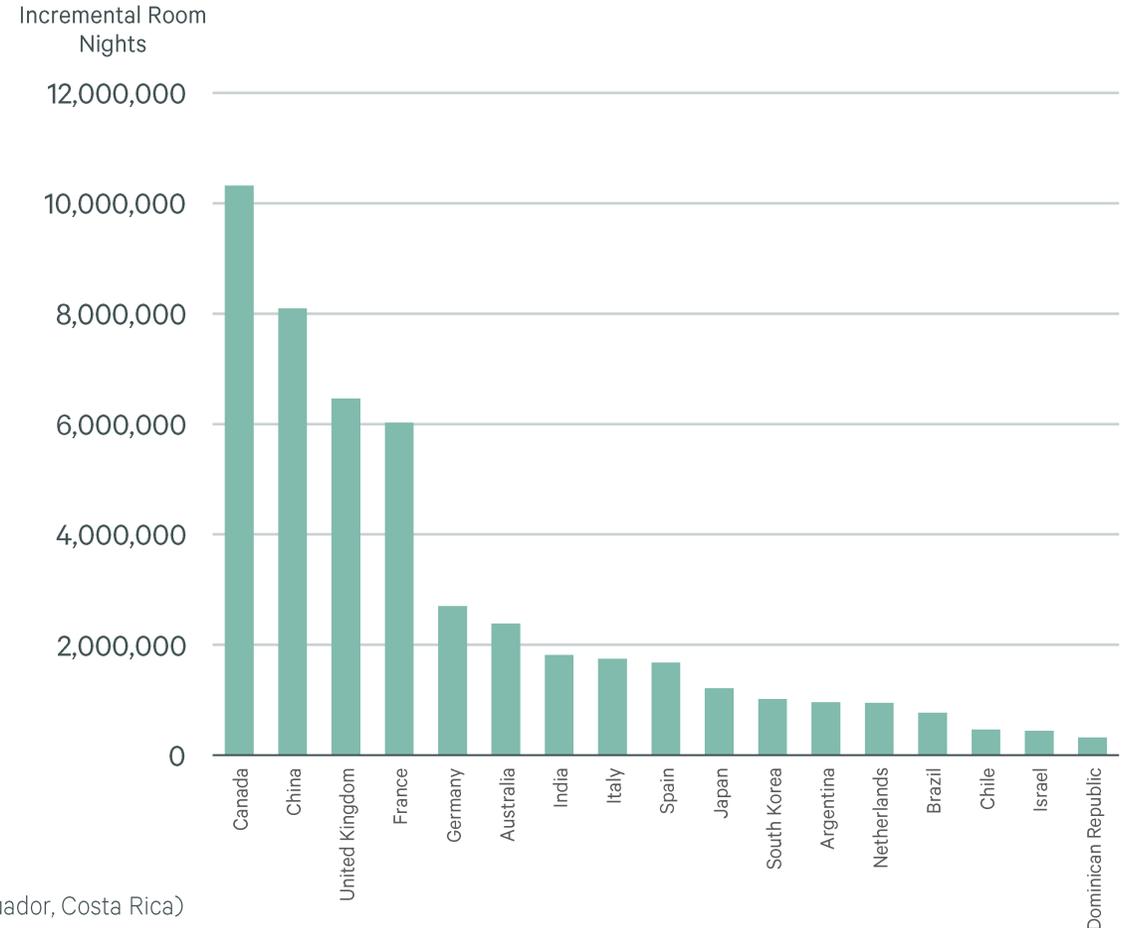
Source: CBRE Hotels Research, Bureau of Economic Analysis and the National Travel and Tourism Office (NTTO)

International travel recovery forecast

Revenue Growth From International Visitors



2022 Expected Incremental Hotel Guest Room Nights



Source: CBRE Hotels Research, NTTO, Deloitte, Hotel Horizons, Brand USA (Excluding Mexico, Colombia, Ecuador, Costa Rica)

U.S. border entrants by country

Year to Date November 2019

RANK	Country
1	Mexico
2	Canada
3	United Kingdom
4	Japan
5	South Korea
6	Brazil
7	Germany
8	China, PRC (excluding Hong Kong)
9	France
10	India

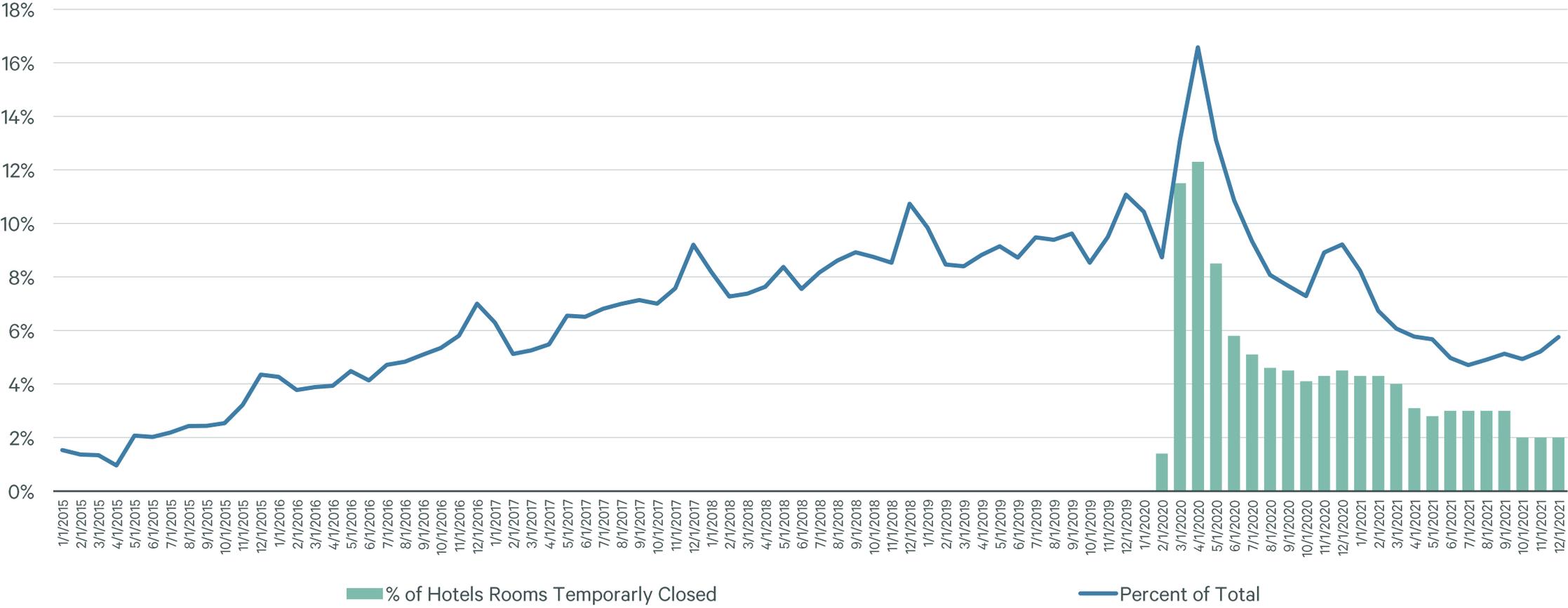
Year to Date November 2021

RANK	Country
1	Mexico
2	Canada
3	United kingdom
4	Colombia
5	India
6	Germany
7	France
8	Brazil
9	Ecuador
10	Spain

Source: CBRE Hotels Research, Bureau of Economic Analysis and the National Travel and Tourism Office (NTTO).

Short term rental demand share normalizes as hotels reopen

STR demand as a percent of total demand vs. temporarily hotel closures

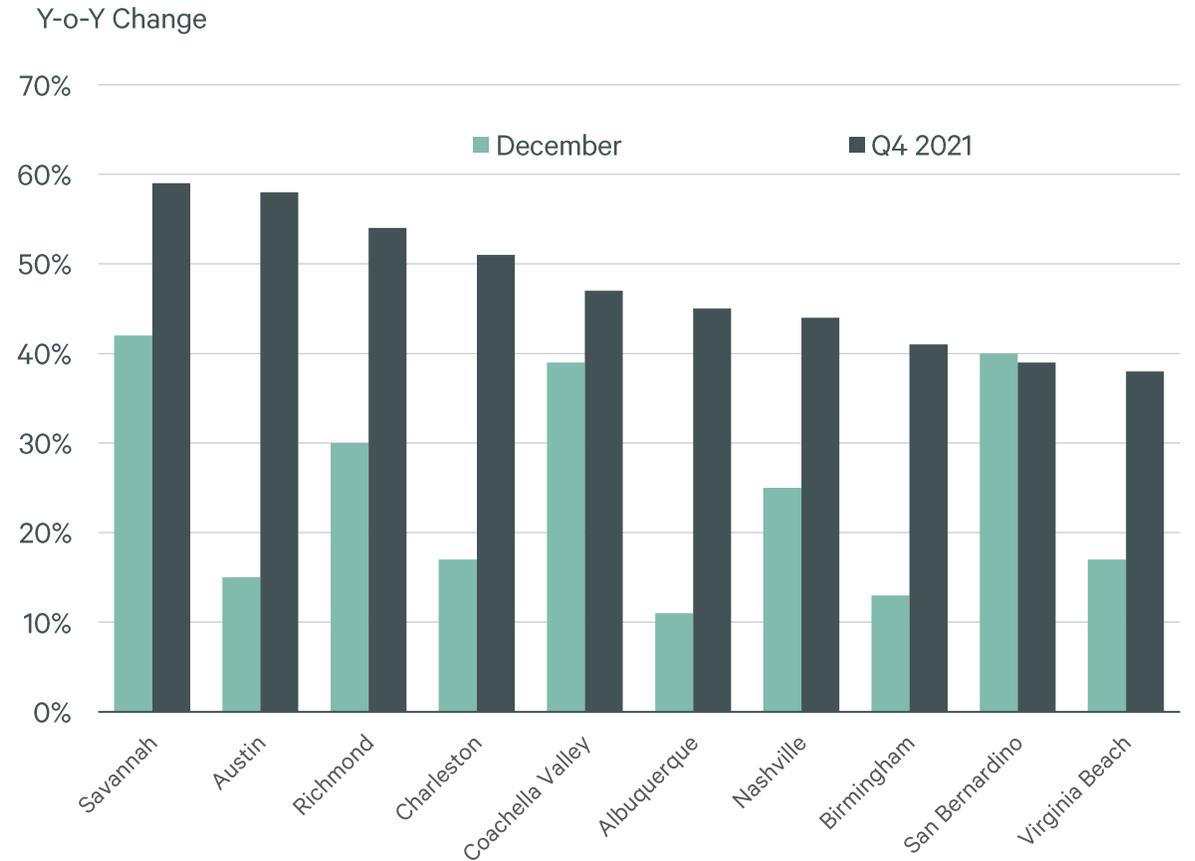
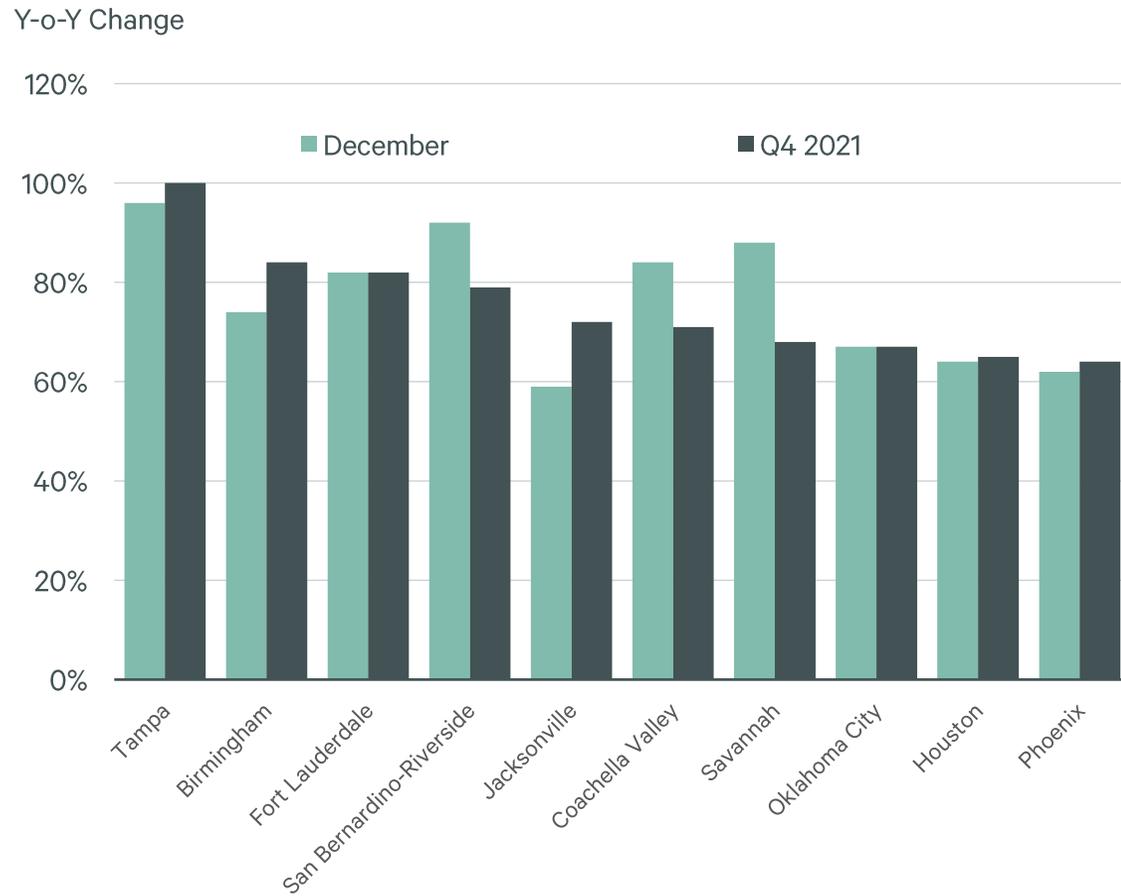


Source: CBRE Hotels Research, Kalibri Labs, AirDNA

Both STRs and Hotels show strength in southern and drive-to leisure destinations

Top 10: Short Term Rental Revenue 2021 vs. 2019

Top 10: Hotel Revenue 2021 vs. 2019

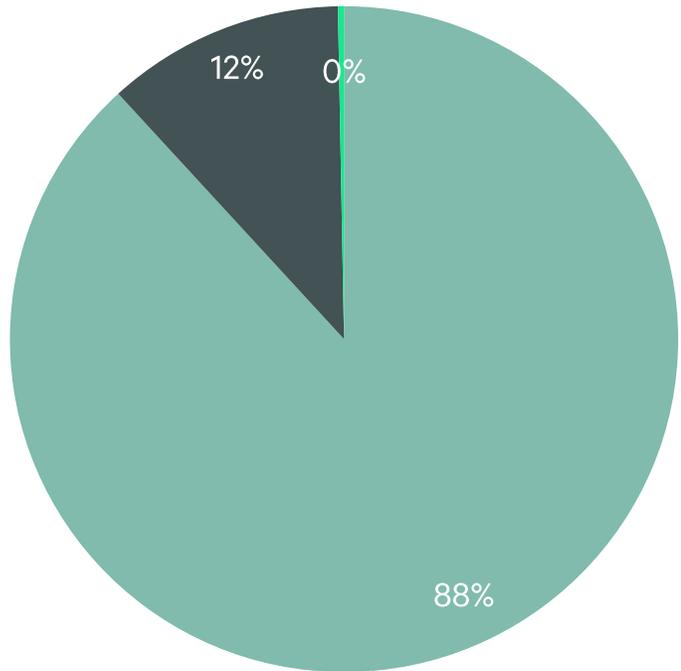


Source: CBRE Hotels Research, Kalibri Labs, AirDNA

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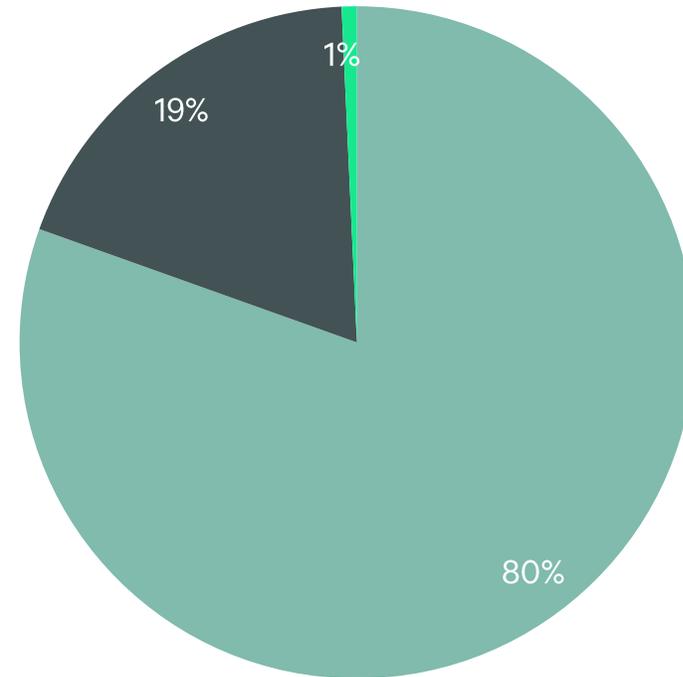
— The composition has changed to larger, more expensive short term rental units

December 2021



■ Entire home/apt ■ Private room ■ Shared room

December 2019

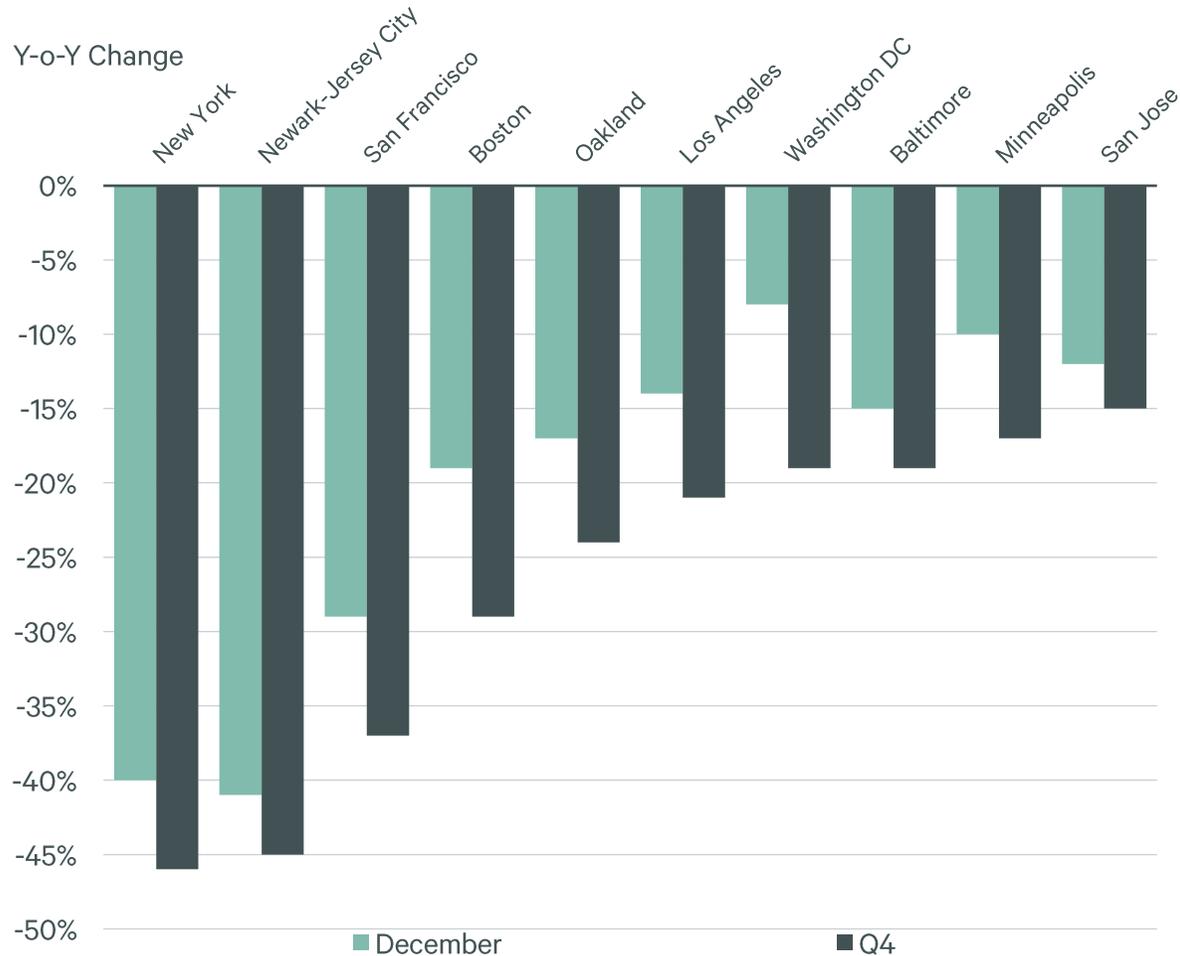


■ Entire home/apt ■ Private room ■ Shared room

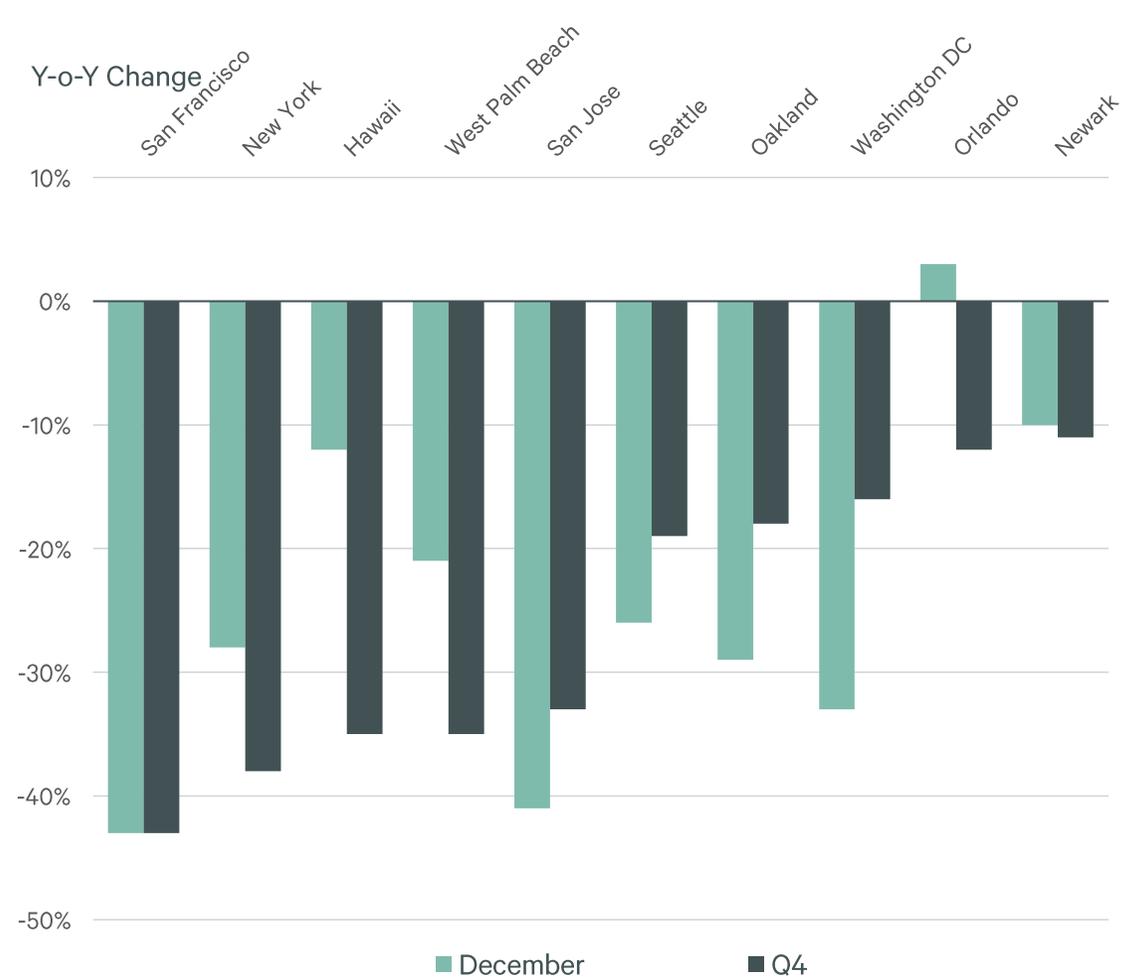
Source: CBRE Hotels Research, Kalibri Labs, AirDNA

Most challenged markets are urban areas

Bottom 10: Short Term Rental Revenue 2021 vs. 2019



Bottom 10: Hotel Revenue 2021 vs. 2019

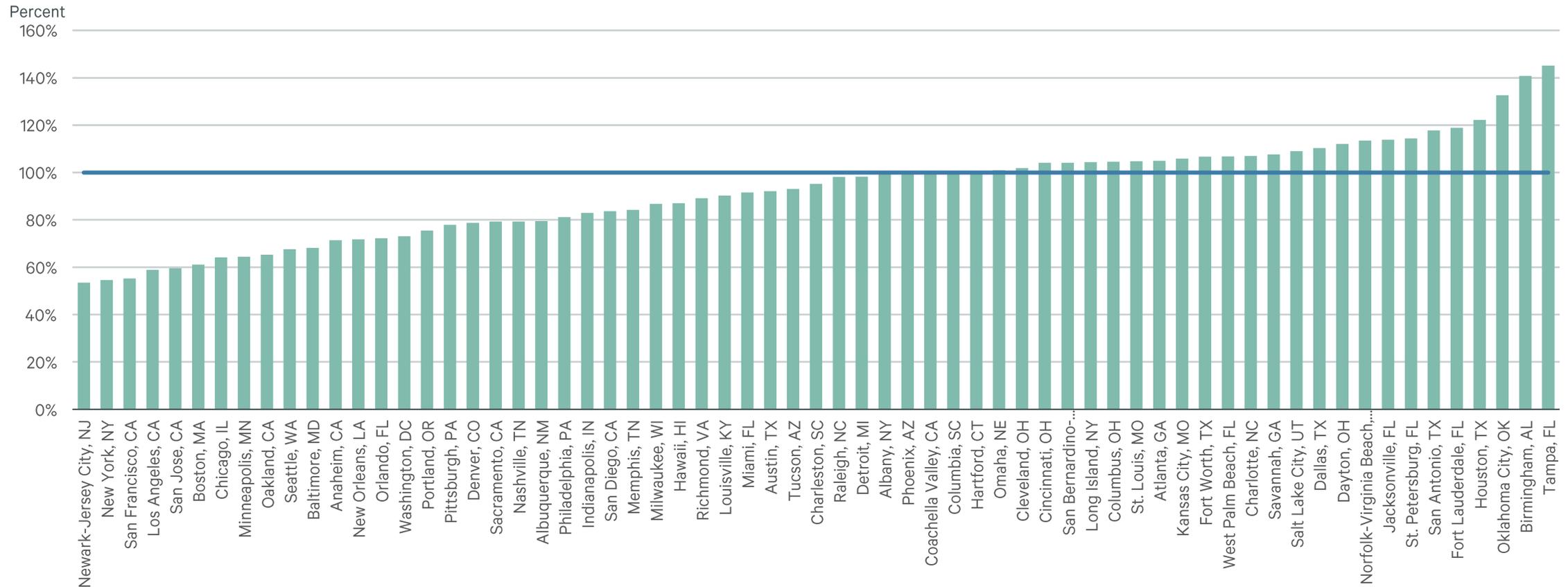


Source: CBRE Hotels Research, Kalibri Labs, AirDNA

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Short term rental supply only up in select markets, urban markets are down

December 2021 Supply as a percent of 2019



Source: CBRE Hotels Research, Kalibri Labs, AirDNA

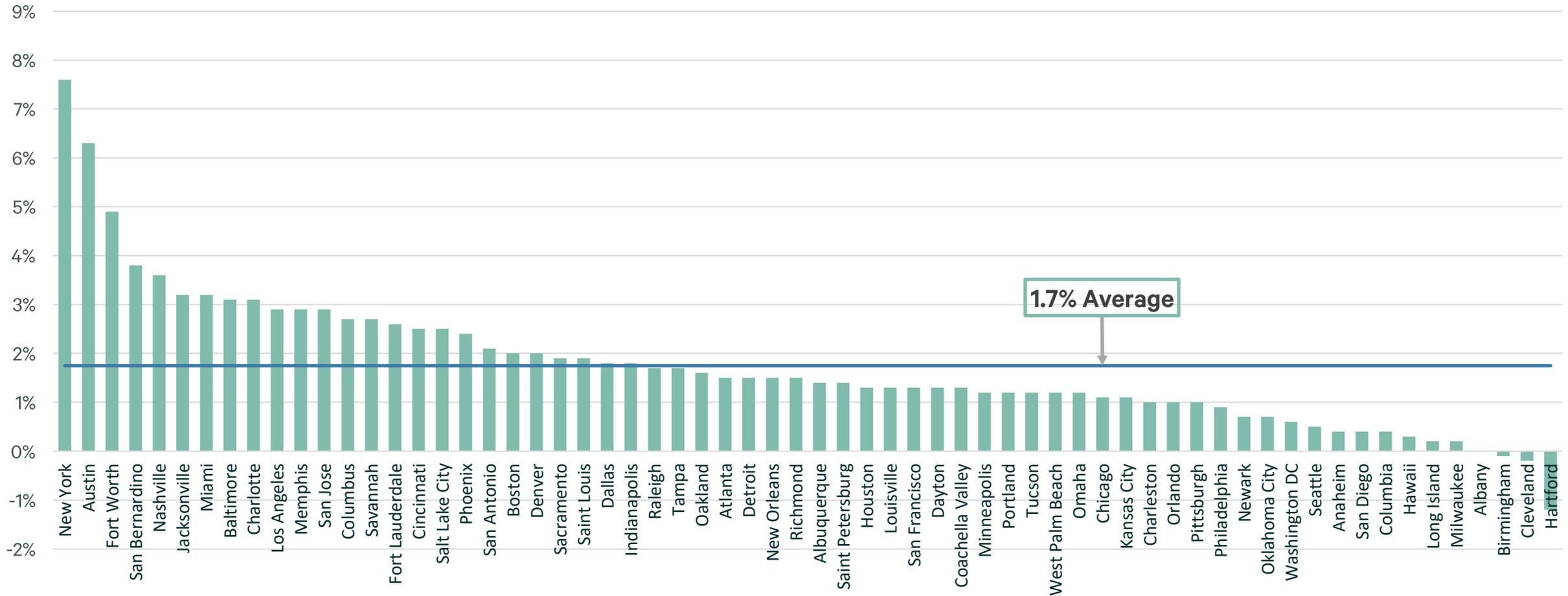
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Supply



Top 65 market 2022 supply growth

2022 Supply Growth Forecast

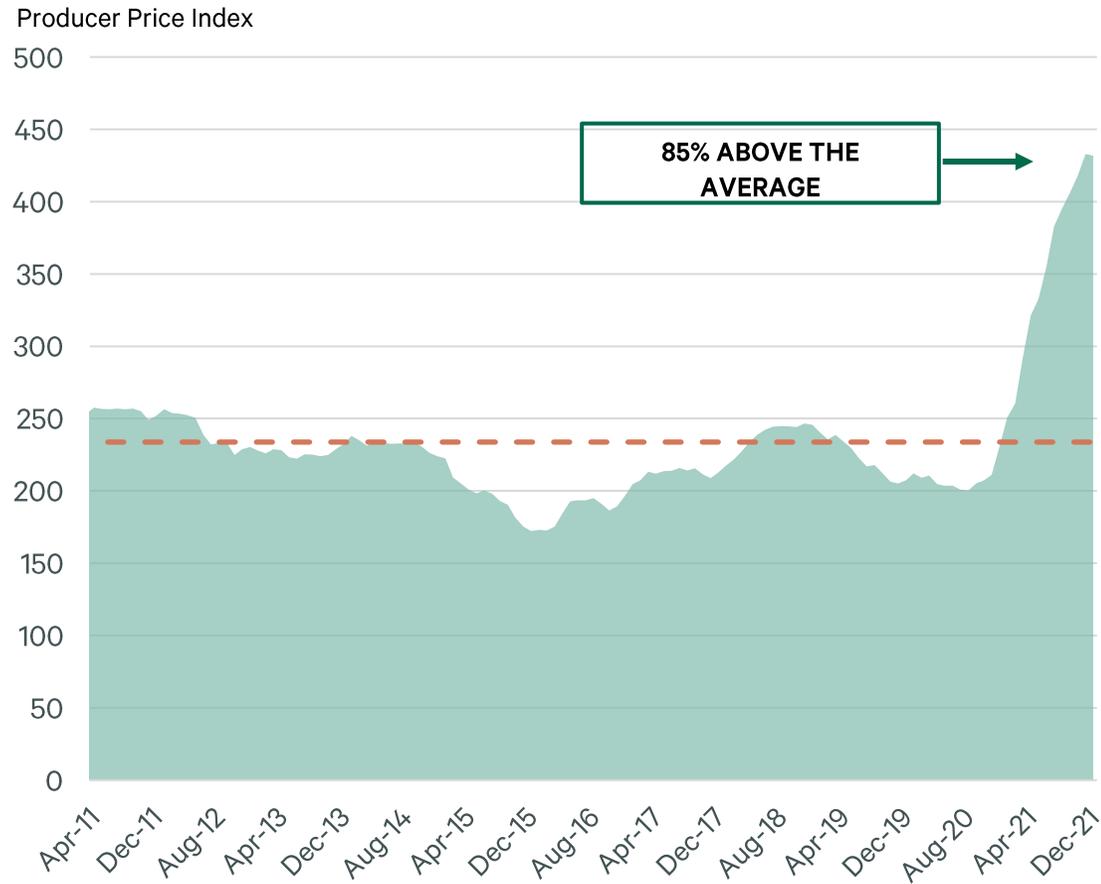


Source: CBRE Hotels Research, Kalibri Labs

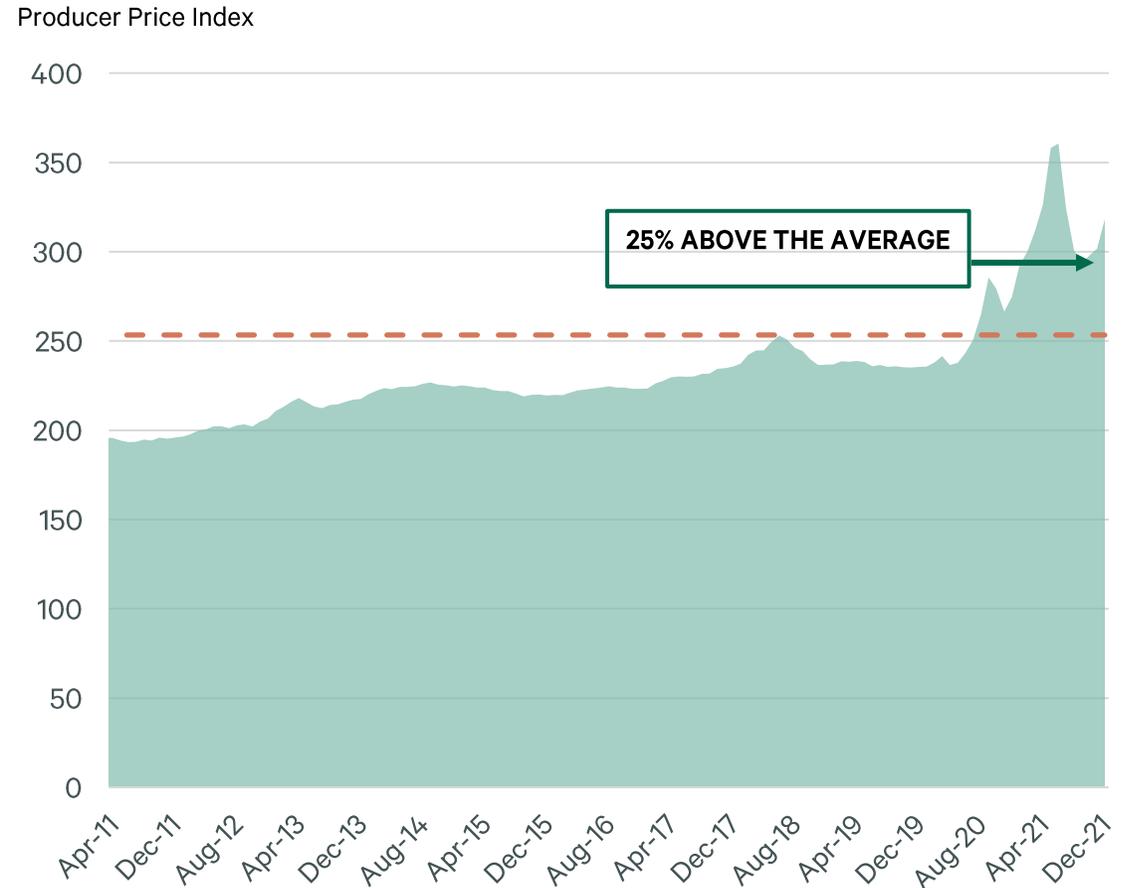
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Construction inputs are still well above their long run averages

Steel and Iron



Lumber and Wood products

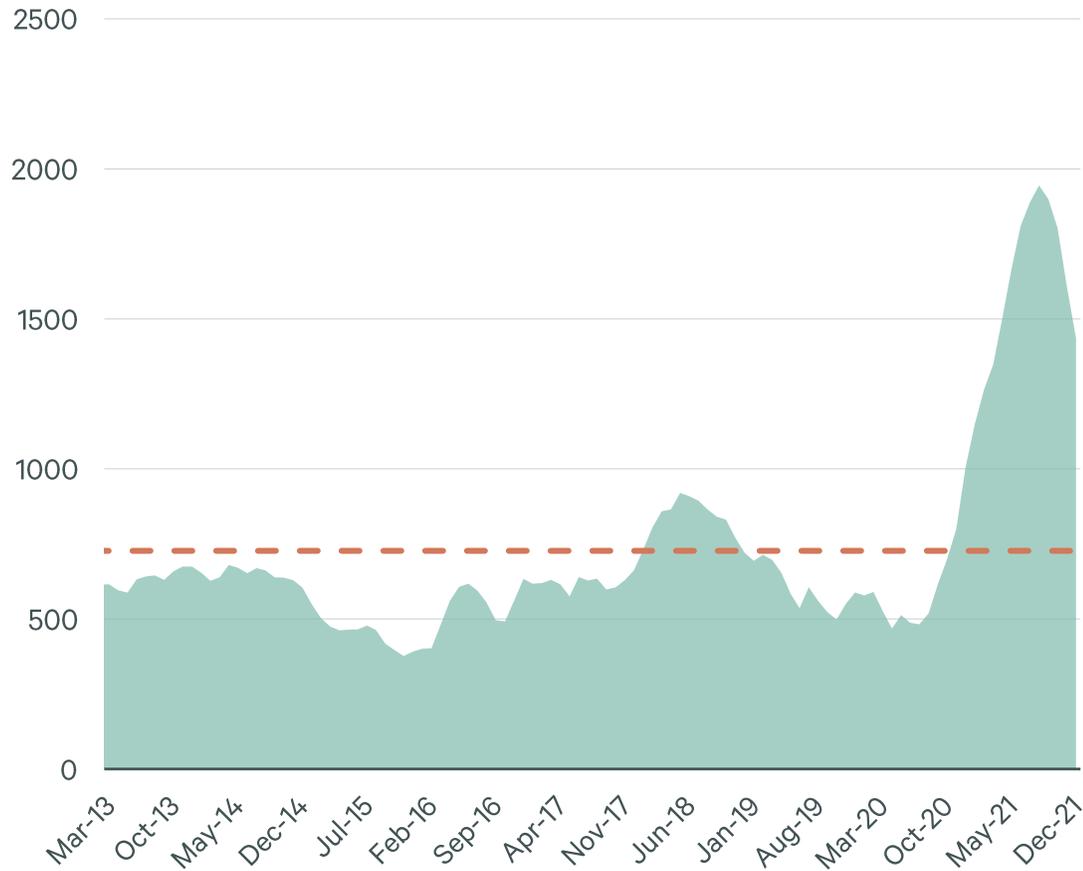


Source: CBRE Hotels Research, BLS

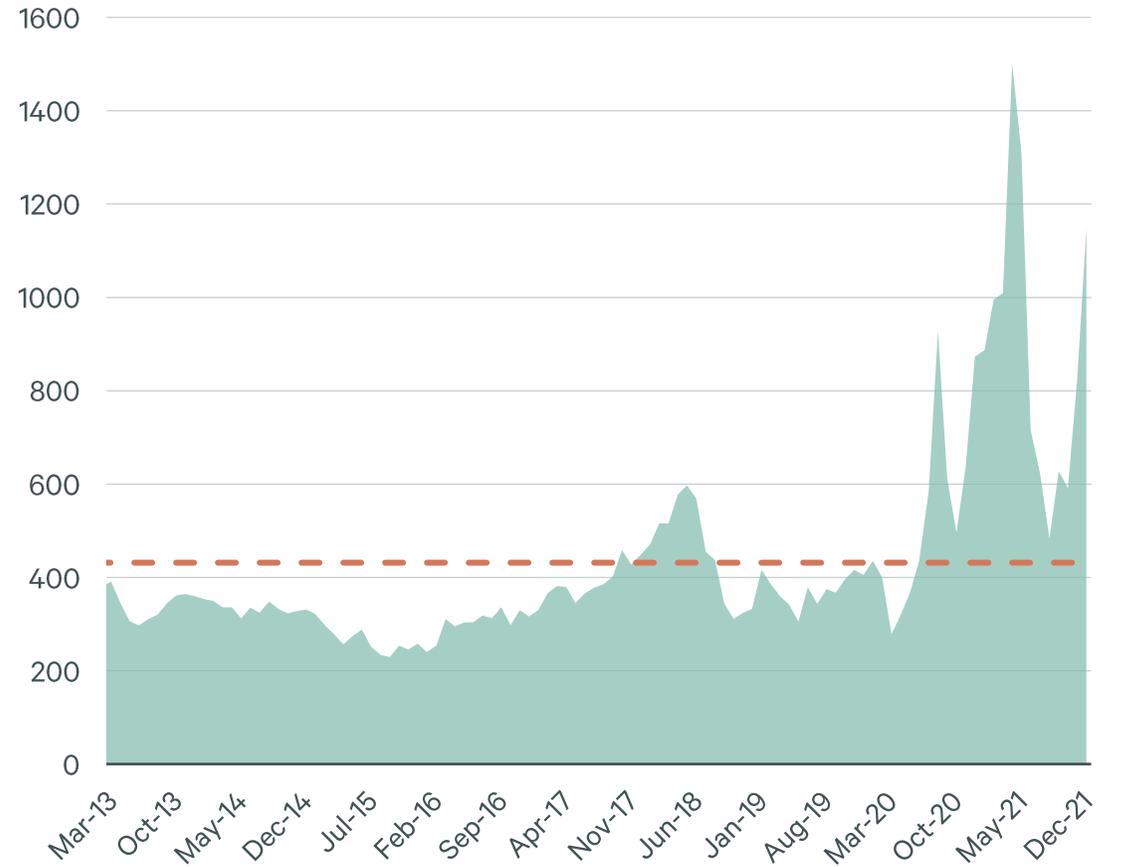
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Futures indicate headwinds

Steel Futures



Lumber Futures



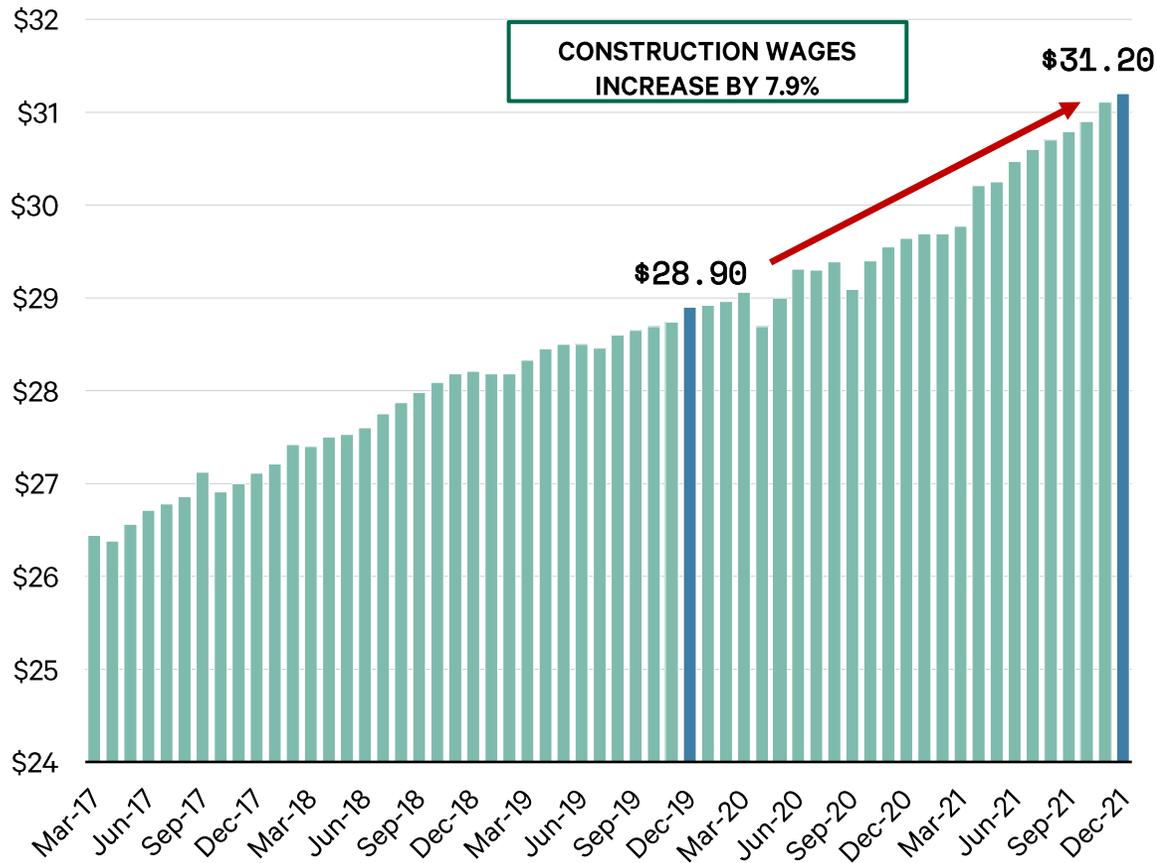
Source: CBRE Hotels Research, CME Group

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Higher wages and employment headwinds new construction

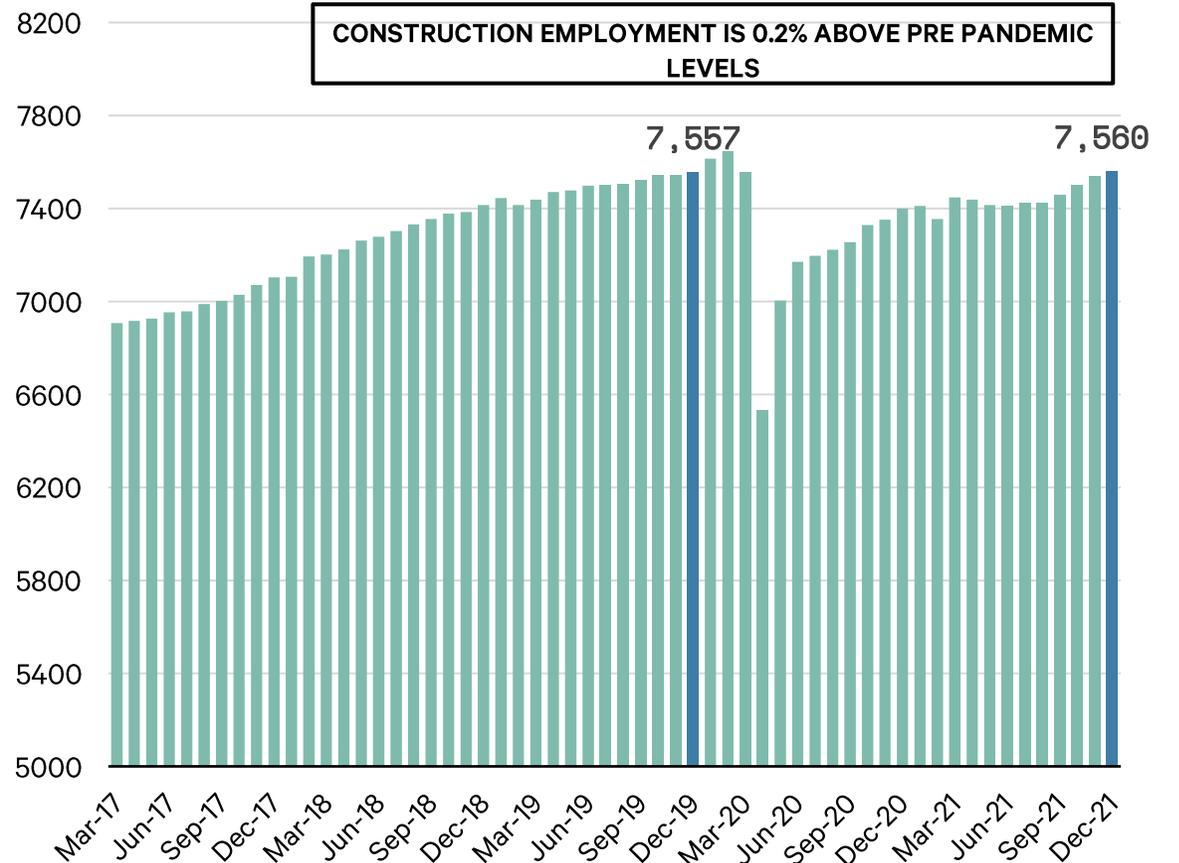
Construction Wages

Dollars Per Hour



Number of construction employees

Thousands



Source: CBRE Hotels Research, CBRE EA, BLS

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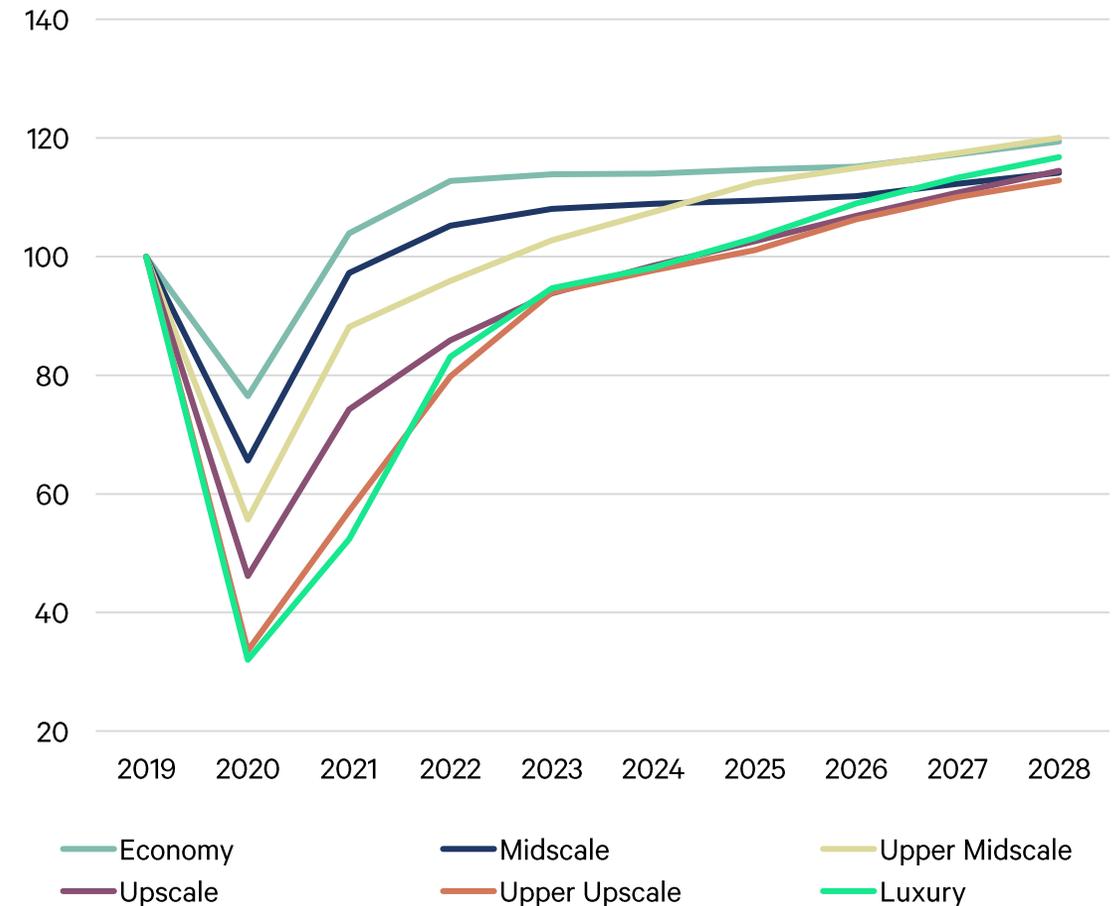
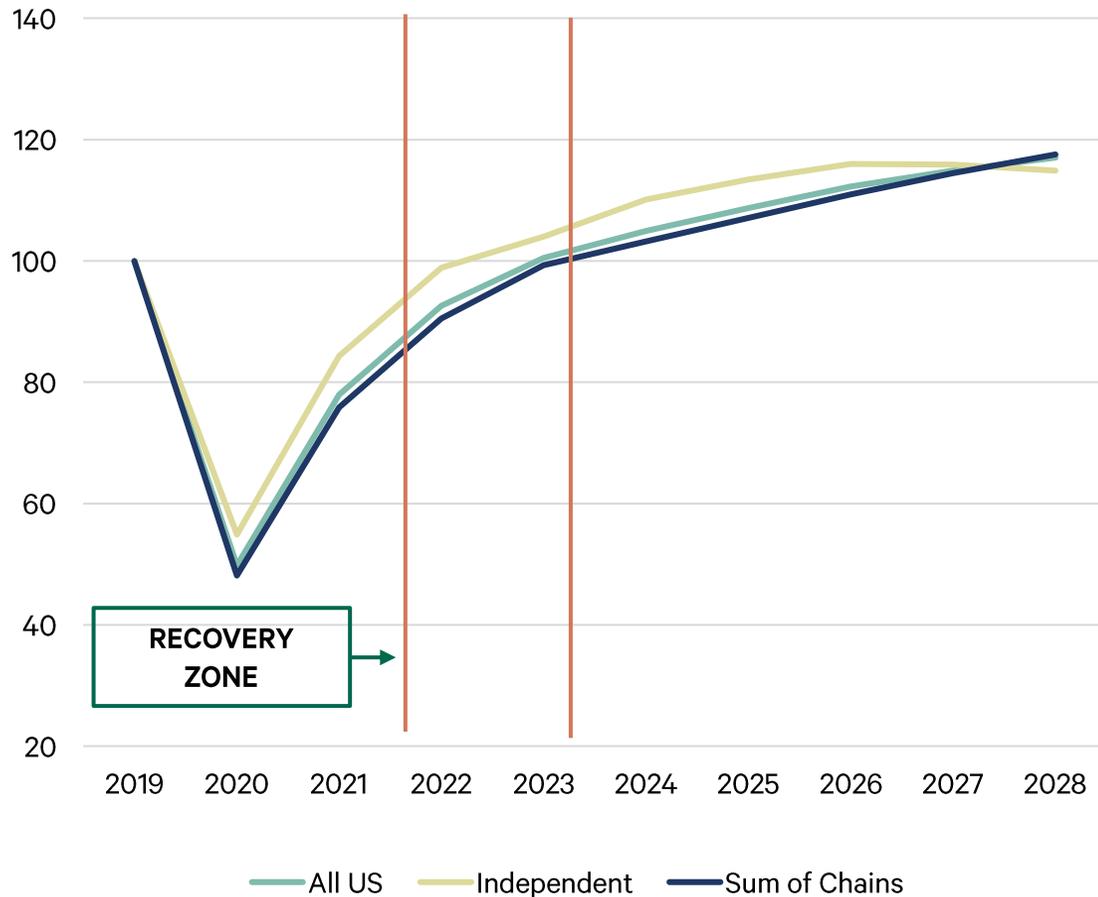
6

Current
Forecast



CBRE Hotel Horizons® U.S. lodging forecast by chain scale

RevPAR indexed to 2019 Levels

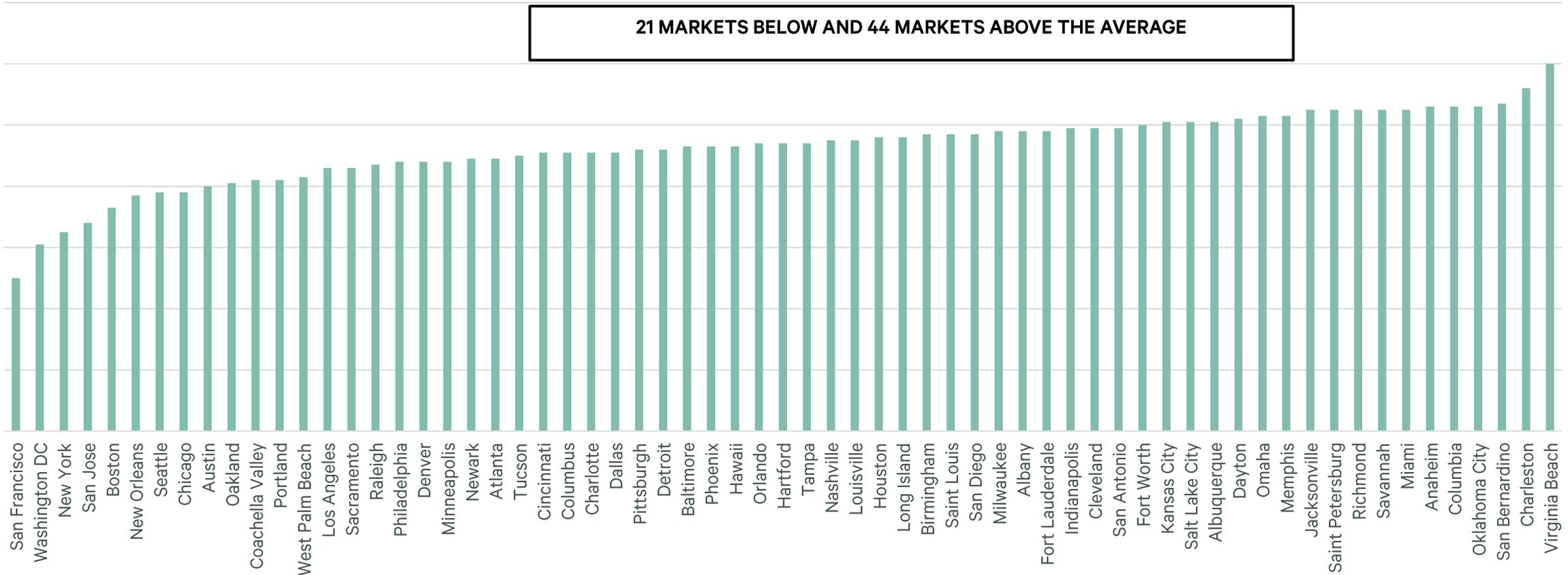


Source: CBRE Hotels Research, Kalibri Labs
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CBRE Hotel Horizons® U.S. lodging forecast by market

2022 RevPAR as a Percent of 2019

21 MARKETS BELOW AND 44 MARKETS ABOVE THE AVERAGE



Source: CBRE Hotels Research, Kalibri Labs

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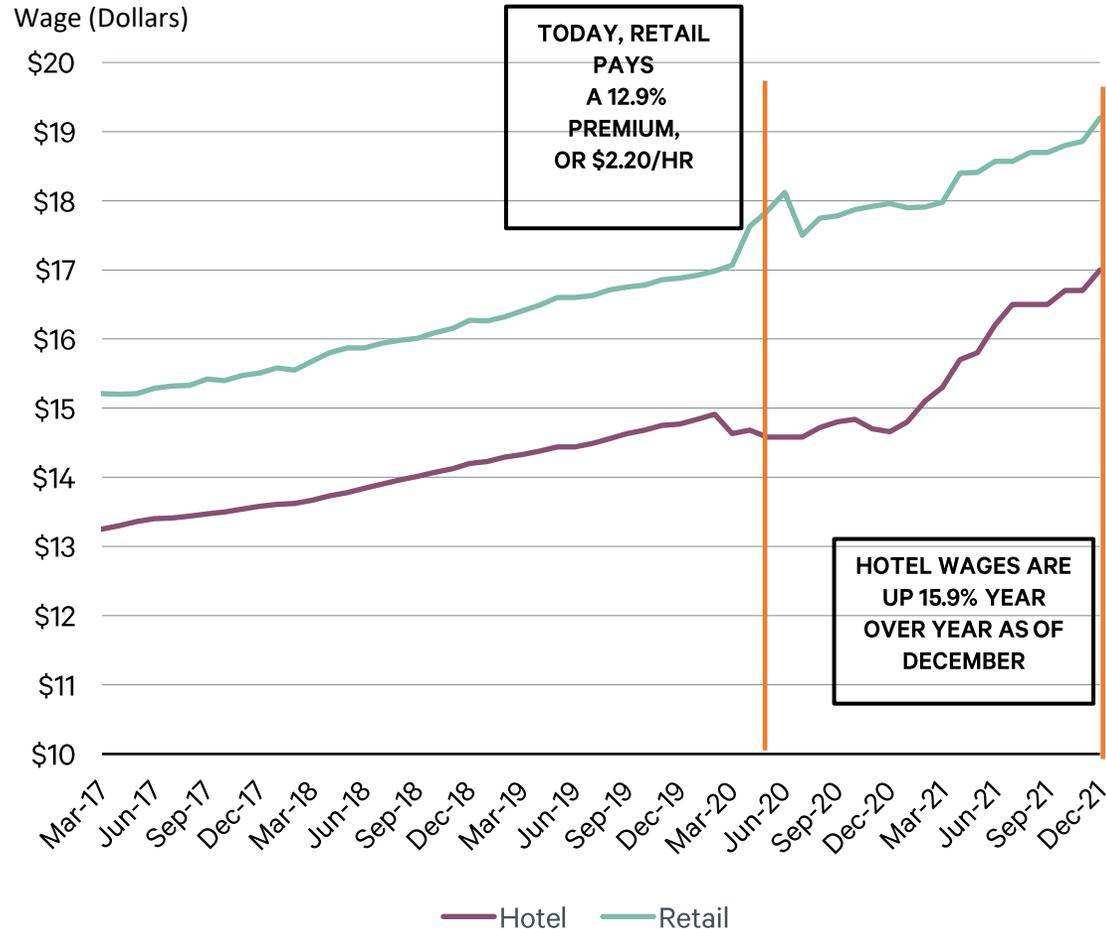
7

Operating Performance



Hotel operators continue to confront a challenging labor environment

Wage Pressures a Headwind to Margins

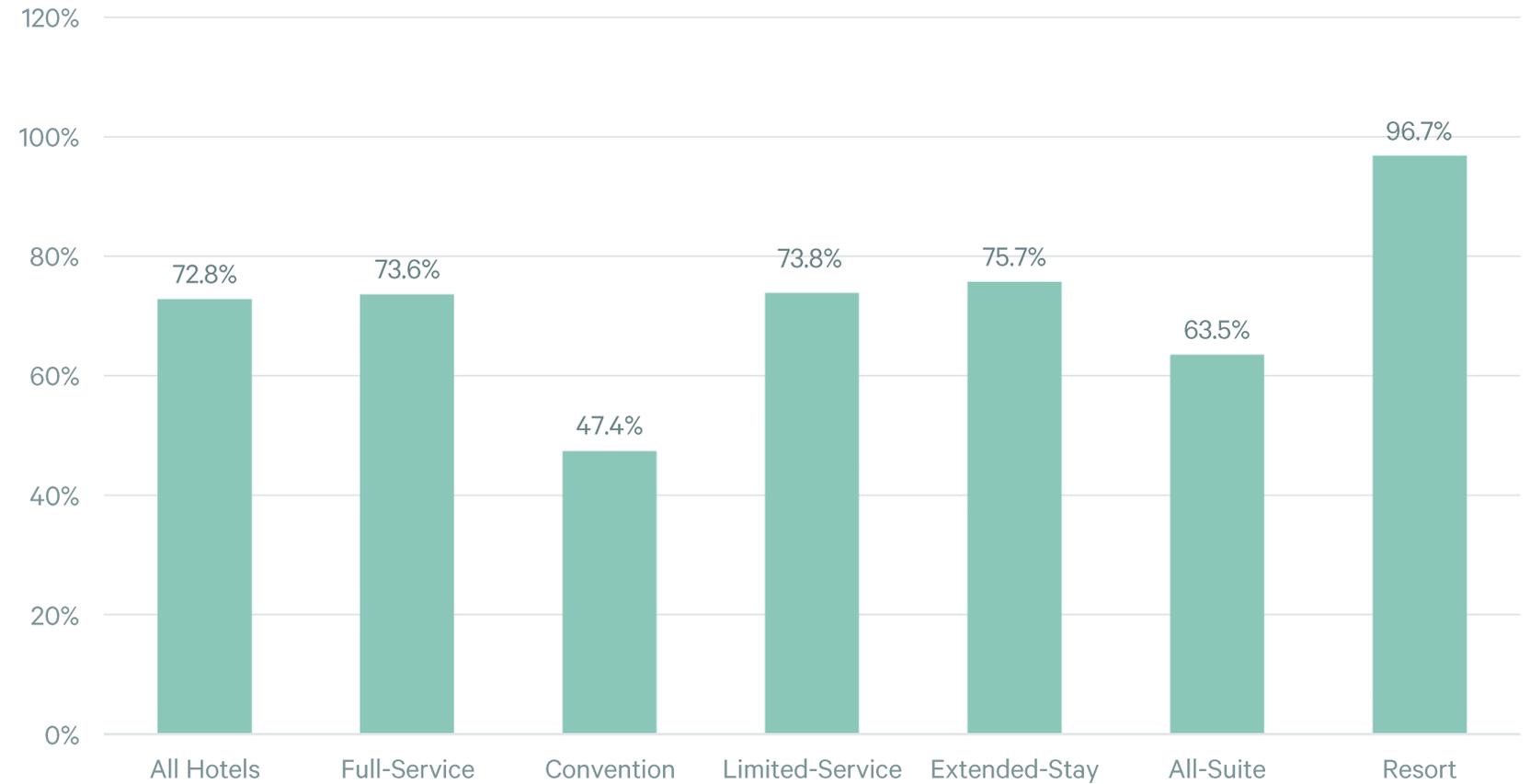


Job Openings Per Hotel are Still Up



U.S. hotel total operating revenue – by property type

YTD November 2021 as a Percent of YTD November 2019 Dollars Per Available Room (%)



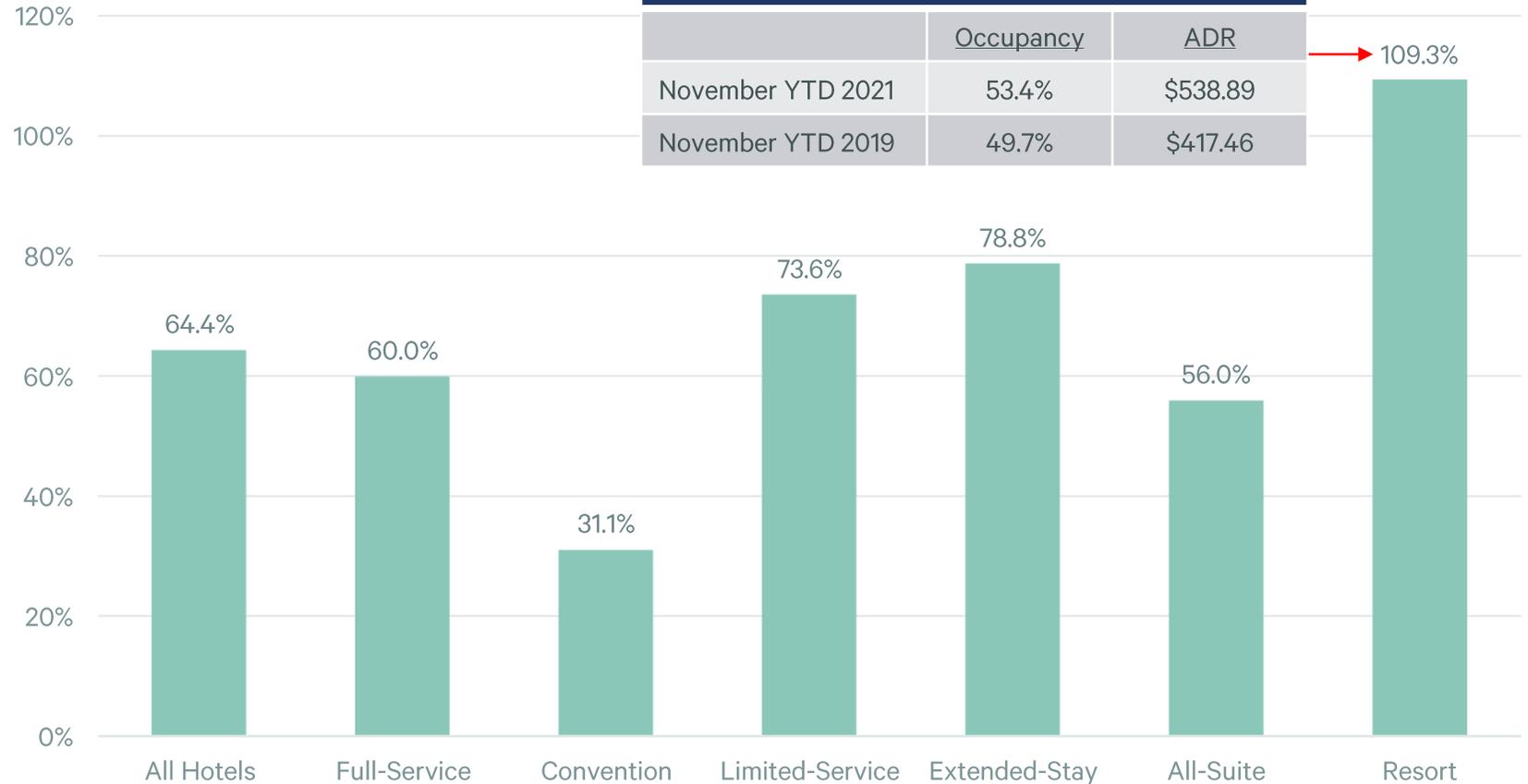
Source: CBRE Hotels Research

U.S. hotel gross operating profit – by property type

YTD November 2021 as a Percent of YTD November 2019

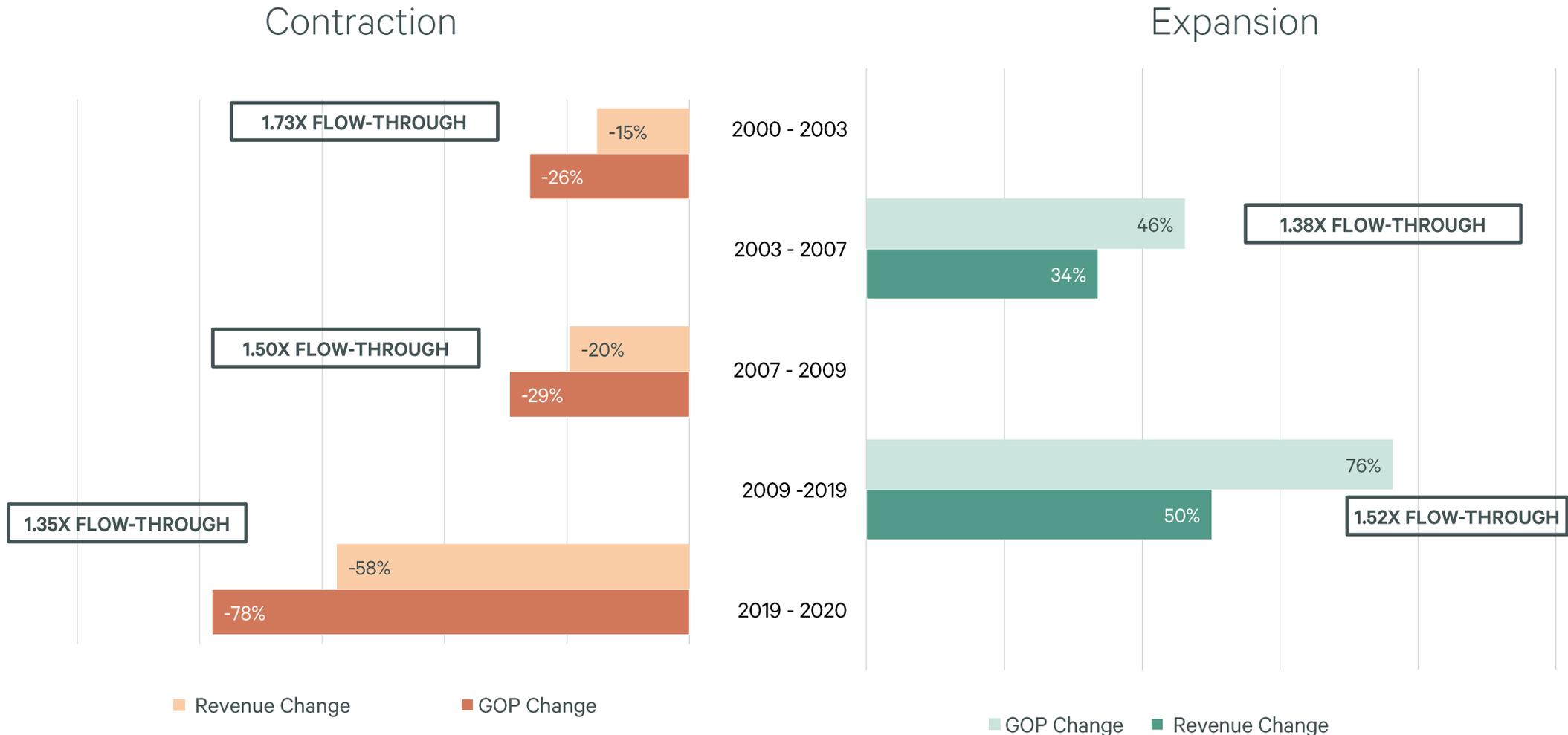
Dollars Per Available Room

(%)



Source: CBRE Hotels Research

Operators have become more efficient with each cycle



Source: CBRE Hotels Research, Trends, Same-Store Sample.

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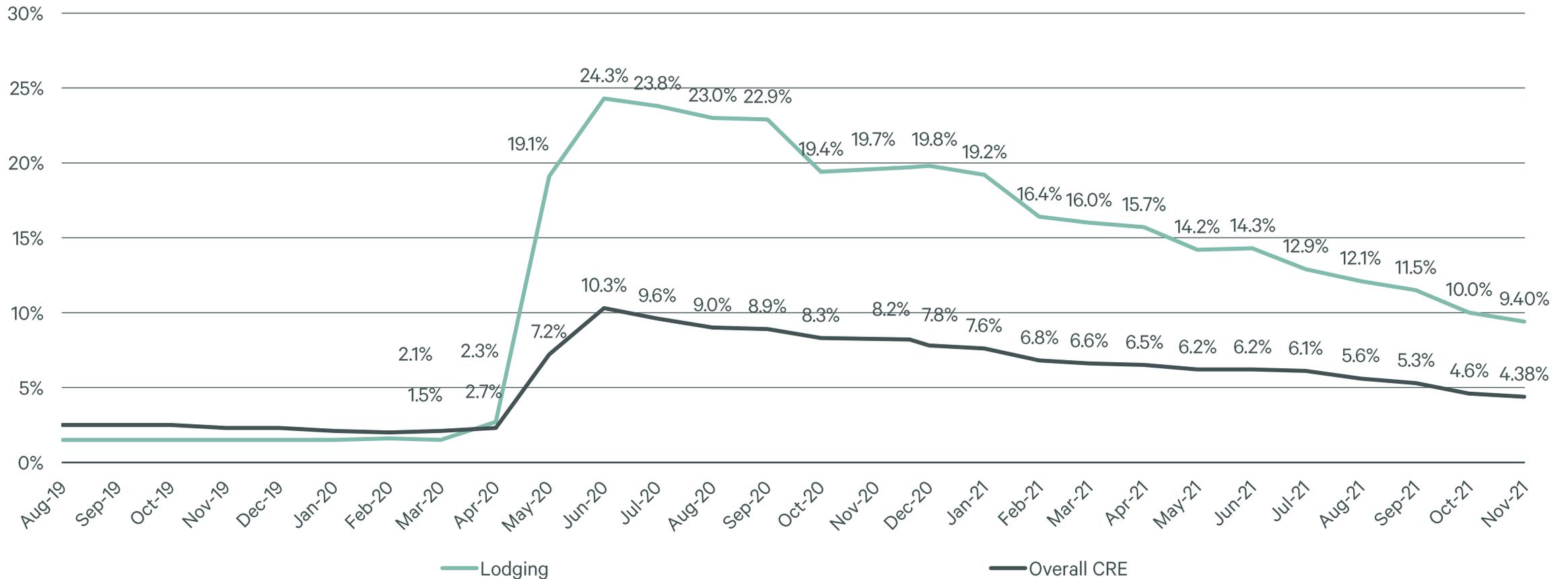
8

Capital Markets



The delinquency rate has improved as hotels have reopened

The delinquency rate should continue to improve as hotels reopen

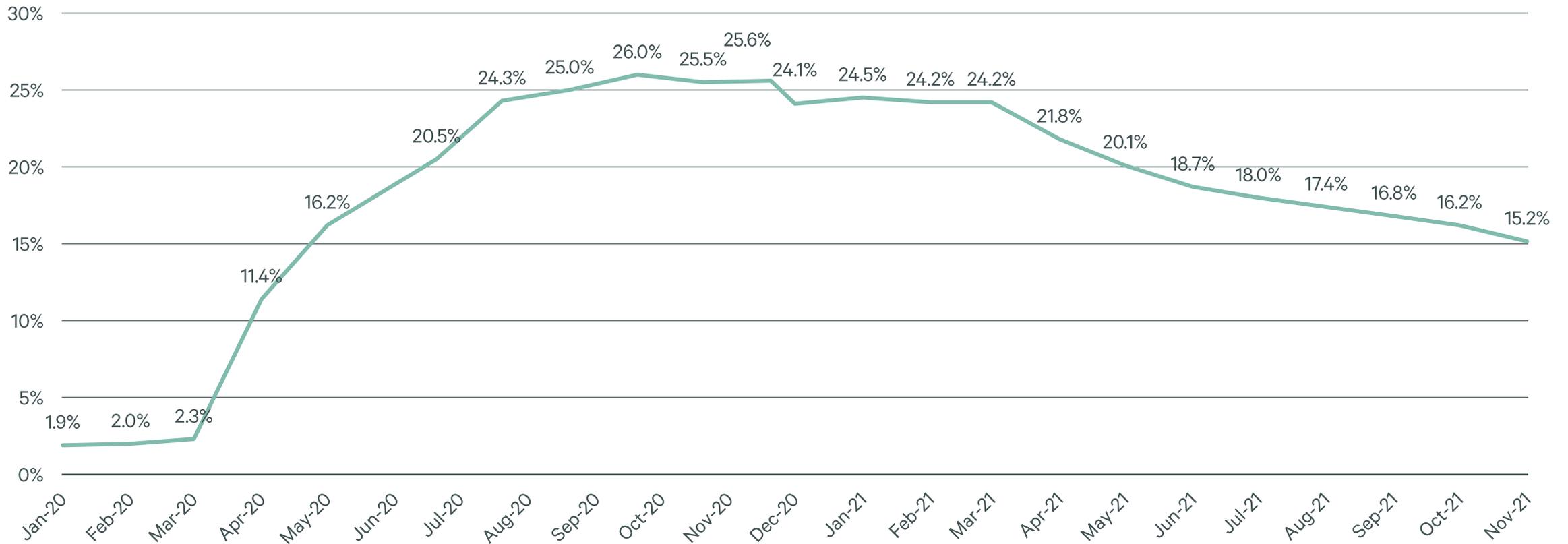


Source: CBRE Hotels Research, CBRE Debt & Structured Finance.

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Lodging CMBS special servicing

Pre-/Post-COVID - Special Servicing Rate Lodging CMBS



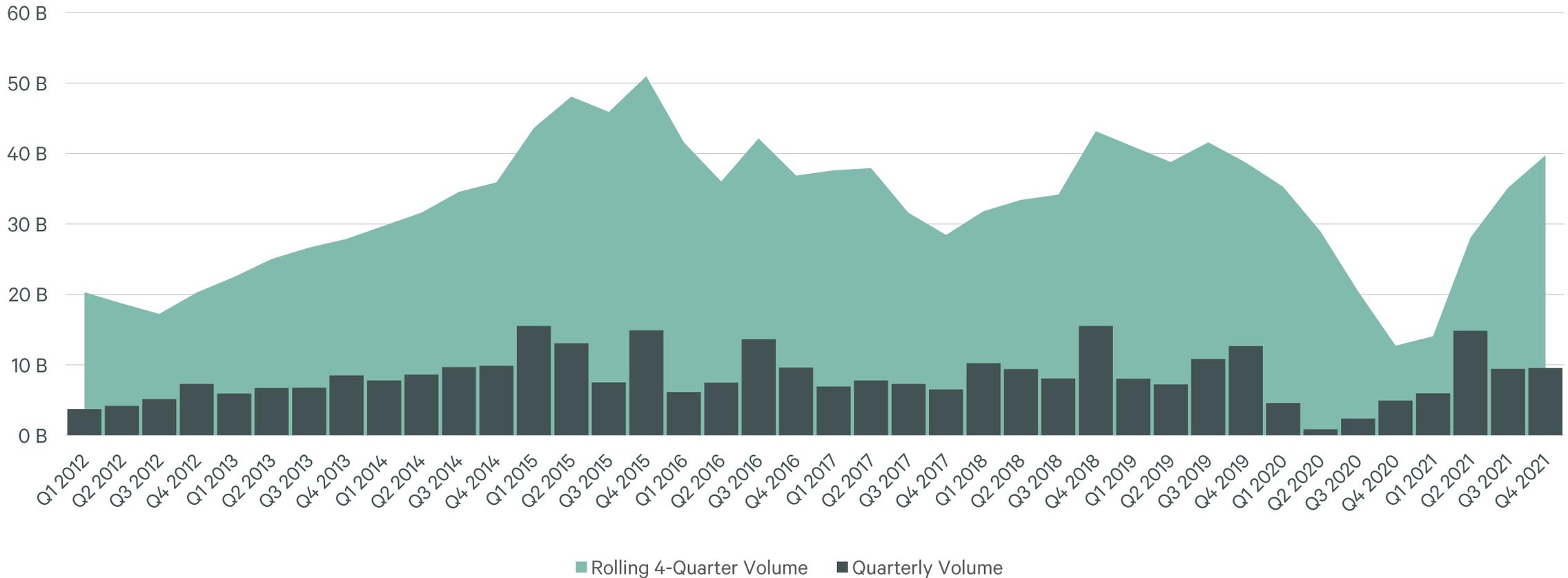
Source: CBRE Hotels Research, CBRE Debt & Structured Finance.

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Sales Volume Approaching Pre-Pandemic Levels

Total Hotels Sales Volume

Hotel Transaction Volume



Source: CBRE Hotels Research, RCA

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Thank You



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