U.S. Hotel Investment Trends

State of the Lodging Industry | Year-End 2022

JLL Research Hotels & Hospitality

2022 in review

RevPAR Reaches a Full Recovery Driven by a Comeback in Top-25 Markets

RevPAR accelerated in 2022 to reach its highest point in U.S. history, surpassing 2019 by 8.1%. ADR fueled the growth underpinned by strength in luxury hotels, particularly resorts, as consumers continue to prioritize spending* on travel. While secondary markets have benefitted from outsized demand levels, RevPAR in Top-25 markets grew 48.9% relative to 2021 as urban gateway cities make a comeback.

Hotel Transaction Activity Accelerates Despite Macroeconomic Volatility

Hotel transaction volume reached $42.4 billion in 2022, its second-highest annual total in U.S. history and an increase of 7.2% relative to 2021. While activity decelerated in the back-half of the year underpinned by capital market dislocation, single-asset liquidity reached $28.4 billion, its highest annual total ever driven by 1,038 trades, nearly double that of 2021.

International Travel and Foreign Hotel Investment Remains Limited

While inbound international travel increased 94.5% in 2022 relative to 2021, foreign hotel investment remained largely absent underpinned by geopolitical volatility. China's reopening, following three years of border closures, should spark further growth in travel, particularly to the West Coast; however, ongoing tensions with the U.S. may limit some cross-border investments.

Capital Market Dislocation Persists, With Debt Markets Mispricing Risk

Despite strong hotel fundamentals, there has been significant capital market volatility tied to aggressive Fed interest rate increases and credit spread widening. Resultantly, hotel assets are no longer getting credit for rising performance. The all-in cost of debt increased 500-600bps since the start of the year, with loan coupons generally in the mid-to-high single digits.

Cost to Buy Significantly Less Expensive than Cost to Build

Recent supply chain disruptions coupled with increases in cost of labor and materials have sky-rocketed development costs. Now the cost to buy is significantly less expensive than the cost to build, with U.S. urban markets showing an even greater opportunity. This trend is expected to continue over the medium term, particularly with limited construction financing available.

Resurgence in Group & Corporate Travel Boosts Urban Hotel Performance

While urban RevPAR is still behind 2019 levels by 5.7%, group and corporate demand surged in 2022 vaulting markets like Dallas, Nashville, and New Orleans to RevPAR levels above 2019. In tandem, urban markets were the most liquid in 2022. With pricing in many markets still below pre-pandemic levels, investors may have an opportunity to acquire quality assets at relative discounts.

Note: *Refers to real personal consumption expenditures. Categories include Housing & Utilities, Transportation Services, Food Services & Accommodations, Health Care, Recreation Services, Financial Services & Insurance, and Other Services .

Top trends for 2023

1 Multiple Catalysts for Hotel Investment on the Horizon

Rising debt costs, fund-life expirations, impending interest rate cap renewals, a high volume of loans reaching maturity, and depleted capex reserves with PIPs likely being reinstituted should all present an opportunity for investors to acquire quality hotel assets in 2023. Expect well-capitalized buyers who are less reliant on leverage to have an advantage, particularly in the first half of 2023 as capital market dislocation persists.

2 All Eyes on China and the Return of International Travel & Cross-Border Investments

The potential impact of China's reopening cannot be understated. Domestic and regional travel has already seen an uptick, with travel to the U.S. and Europe likely to increase soon. Widespread border reopenings could be the impetus to the reemergence of cross-border investments which have been largely absent for the past three years. Look for cash-rich Middle Eastern and Latin American investors to deploy capital across Europe and in select U.S. markets, particularly in the luxury space.

3 Juxtaposition of Acquisition Composition

Amidst ongoing capital market dislocation, two sectors on opposite ends of the spectrum have emerged as most appealing and liquid: irreplaceable luxury assets and select-service/extended-stay hotels. Both sectors reached all-time highs in portion of Q4 single-asset liquidity, with luxury hotels representing 36% and select-service accounting for 44%. Expect this trend to continue in the first half of 2023 underpinned by an increased lender pool for smaller cheque sizes and luxury assets with in-place cash flow.

4 2023 Will be a Year of Tremendous Innovation in the Hospitality Industry

As the lines between work, life, and travel become increasingly blurred, traditional hotel brands and investors have an opportunity to expand their product offerings to new verticals. Look for a rise in non-traditional hotel offerings (e.g., branded residential, short-term rentals, and private membership clubs, etc.), particularly in the luxury space, as investors embrace the opportunity to own the entire travel experience. Expect technology (driven by AI) to be at the forefront as hotels grapple with ongoing labor challenges—let humans do human tasks and allow tech to fill in the gaps.

U.S. hotel investment trends

by the numbers | Full Year 2022

$42.4B **Total Transaction Volume**,
Up 7.2% to 2021 and up 60.8% to 2019
2nd-Highest annual total in U.S. history

1,138 **Total Transactions**,
Up 80.3% to 2021 and up 133.2% to 2019
Highest annual total in U.S. history

$28.5B **Total Single Asset Volume**,
Up 24.1% to 2021 and up 49.9% to 2019
Highest annual total in U.S. history

50.7% **Portion of Select-Service Transaction Volume***,
Up 11.9pp to 2021 and up 14.8pp to 2019
Highest annual portion in U.S. history

63 **Luxury Transactions***,
5 more than 2021 and 38 more than 2019
Most in U.S. history

Source: JLL Research. Includes all transactions in the U.S. (including PR & USVI) $5M+ excluding casinos. Entity deals are also included.
*Based on single asset transactions only

Top-3 largest U.S. markets

by transaction volume
Full Year 2022

NEW YORK

$2.05B

Down 21% to 2019

Up 5% to 2021

Total Transaction Volume

ORANGE COUNTY

$1.41B

Up 57% to 2019

Up 296% to 2021

Total Transaction Volume

PHOENIX

$1.21B

Up 70% to 2019

Up 256% to 2021

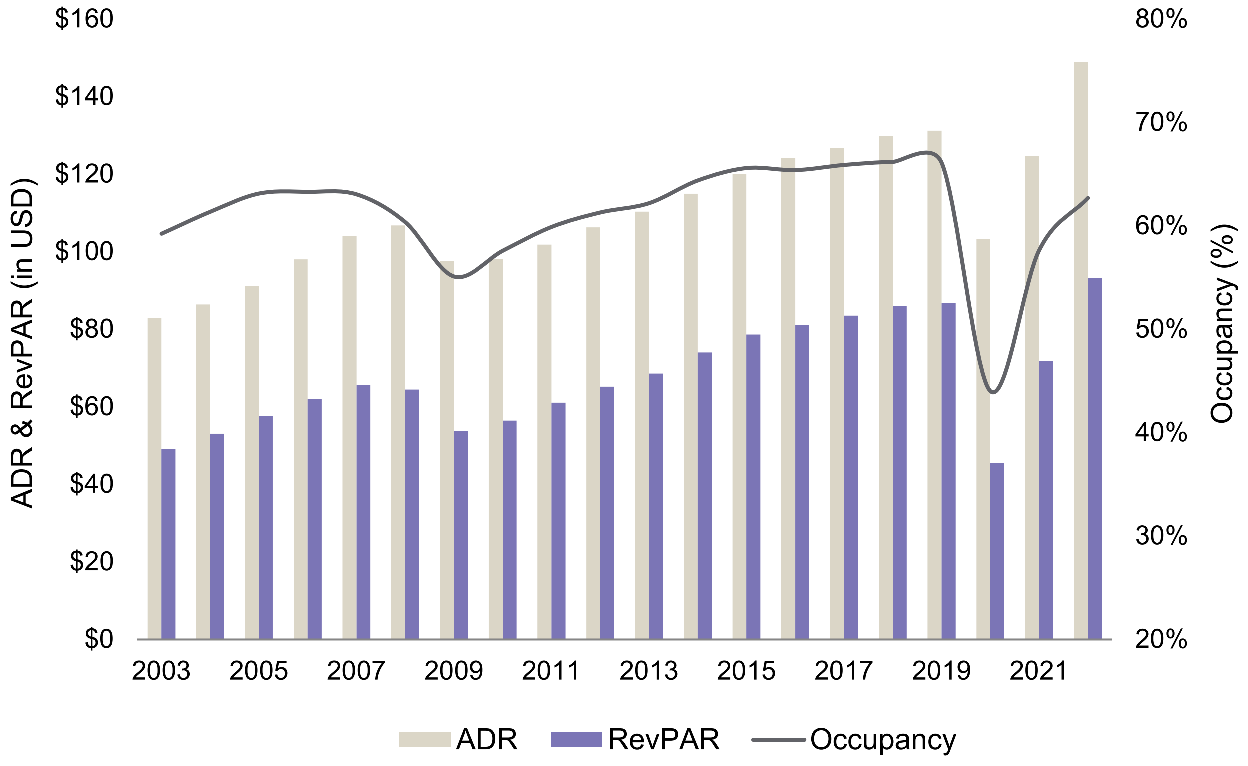
Total Transaction Volume

Source: JLL Research. Includes all transactions in the U.S. (including PR & USVI) $5M+ excluding casinos. Portfolios are included only when all hotels traded were in the same market.

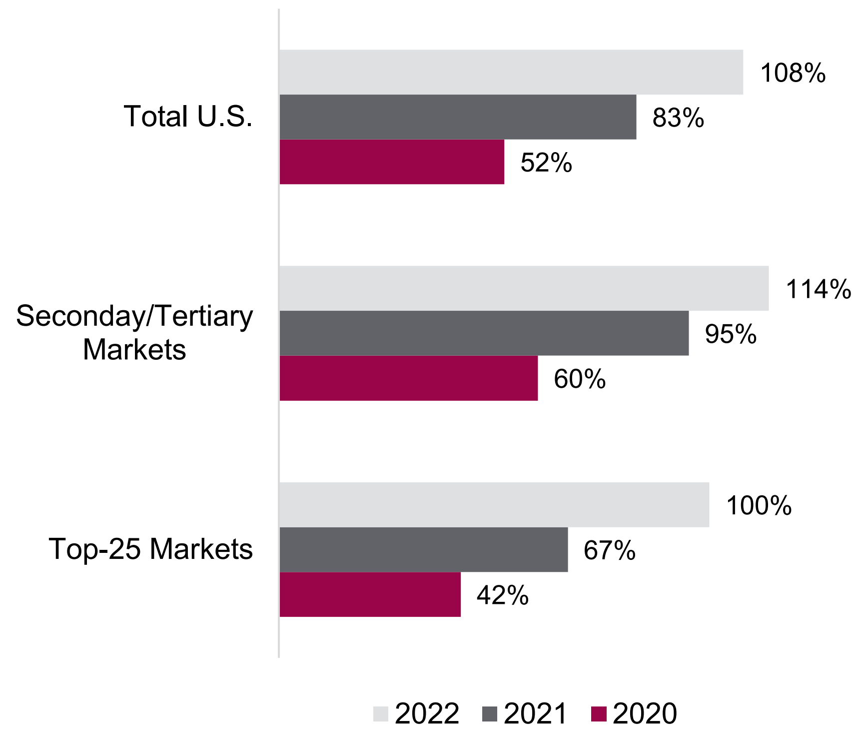
Performance, Supply and Demand Trends

U.S. RevPAR has surpassed pre-pandemic levels, with ADR reaching new heights coupled with high-demand for secondary markets; albeit top-25 markets are observing tremendous growth in performance from the continued improvement in business and group travel.

U.S. lodging performance through the cycles, 2003 – 2022



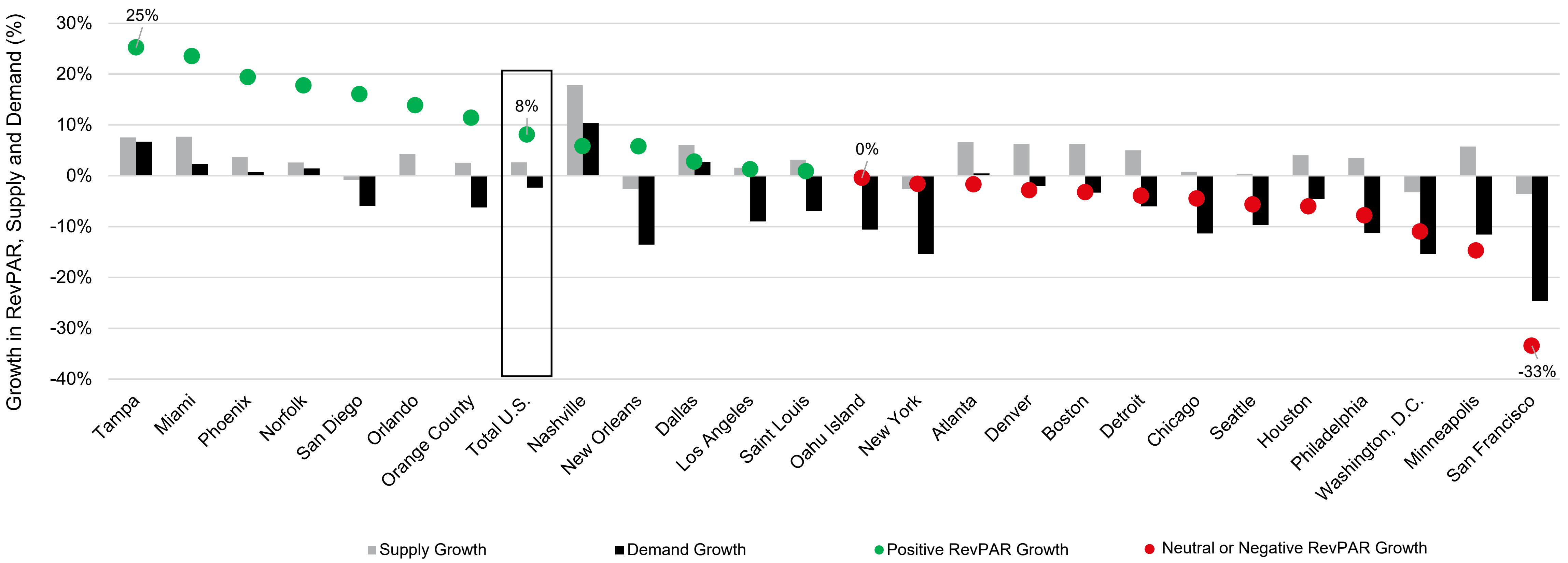
Portion of RevPAR recovery by year from 2019



Source: JLL Research, STR
Note: Based on standard reporting methodology.

Resort and small-town markets continue to lead the recovery; however, urban hotel recovery has accelerated driven by increased office occupancies, a return of small conventions, and the reopening of most tourist attractions.

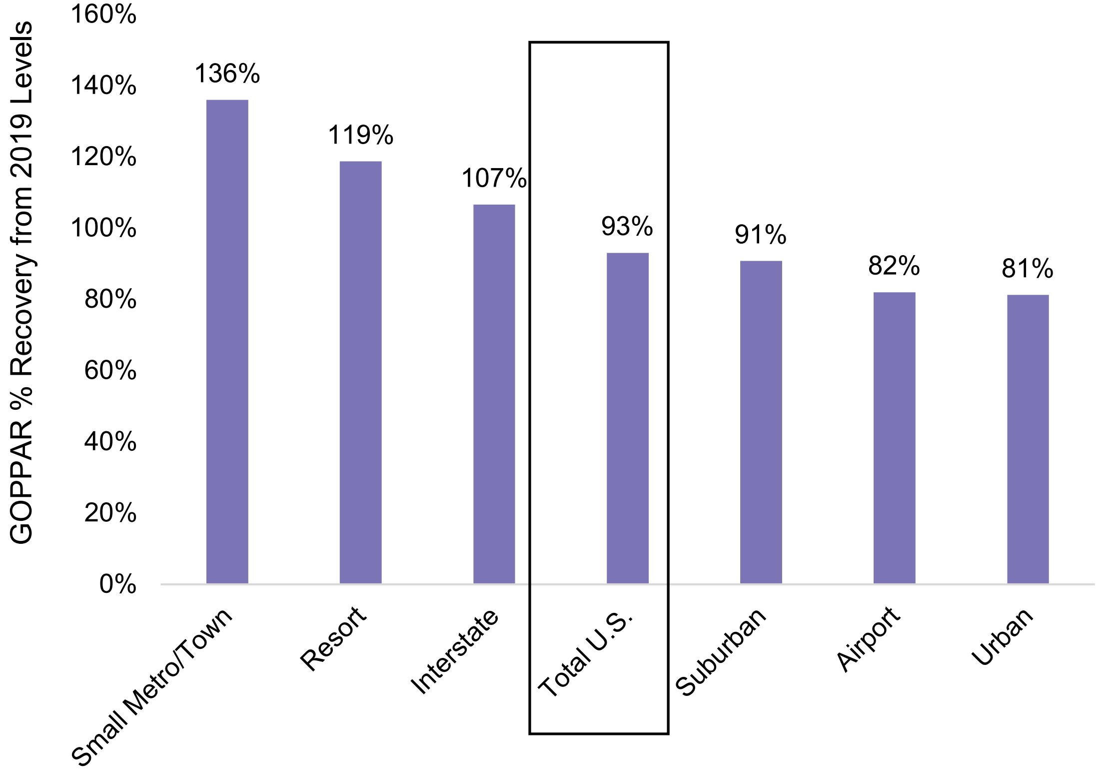
2022 U.S. & top-25 markets lodging fundamental performance compared to 2019



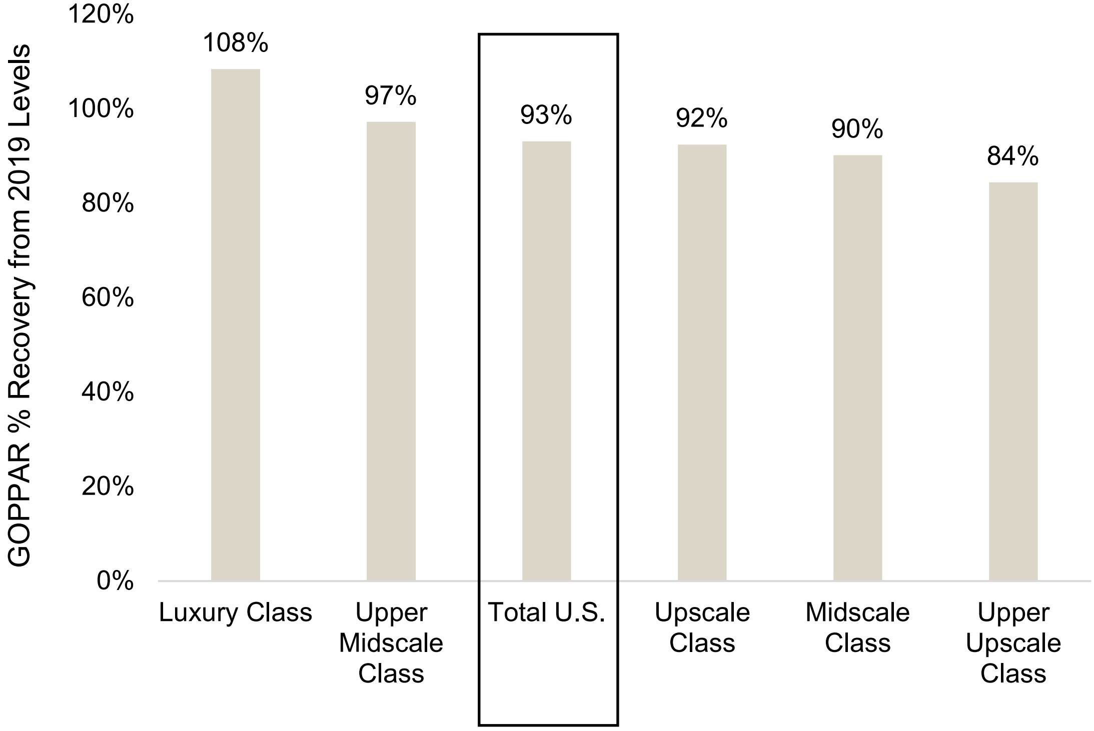
Source: JLL Research, STR
Note: Growth performance in 2022 is relative to the same period in 2019. STR relabeled Anaheim to Orange County. Based on standard reporting methodology.

U.S. hotel GOPPAR achieved 93% of 2019 levels in YTD November 2022, 4pp higher than prior quarter driven by heightened ADR levels particularly in luxury hotels and those in less-dense resort & small metro locations. Expect some distressed deals to materialize over the next 12 months as some owners face mounting margin pressures.

YTD November 2022 GOPPAR Indexed to 2019 Levels by Hotel Location



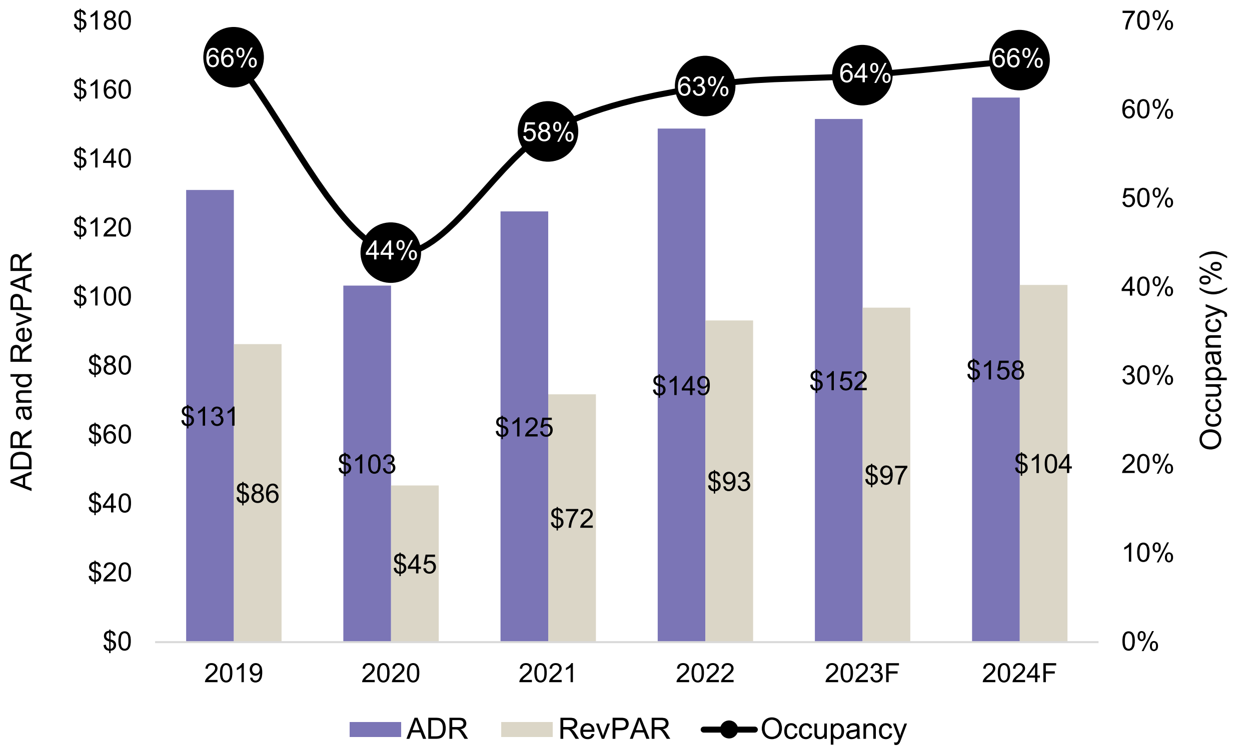
YTD November 2022 GOPPAR Indexed to 2019 Levels by Hotel Class



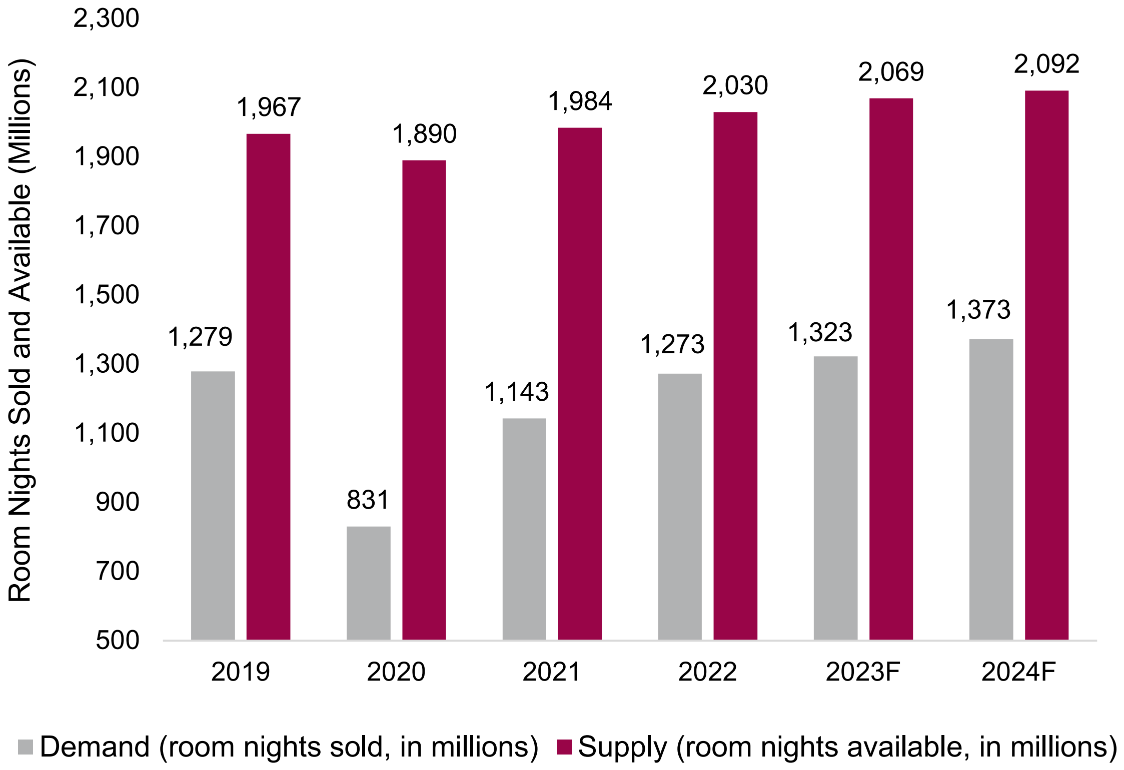
Source: JLL Research, STR
Note: Based on standard reporting methodology data as of YTD November 2022. GOPPAR = Gross Operating Profit per Available Room.

RevPAR actualized higher than expected in 2022 and is forecasted to grow an additional 3.9% in 2023 driven by ADR. Muted supply growth, underpinned by rising construction costs, over the next two years will allow hotels to push rates even further as well as return to normalized occupancy levels in 2024.

U.S. Lodging Industry's Path to Recovery, 2019 – 2024F



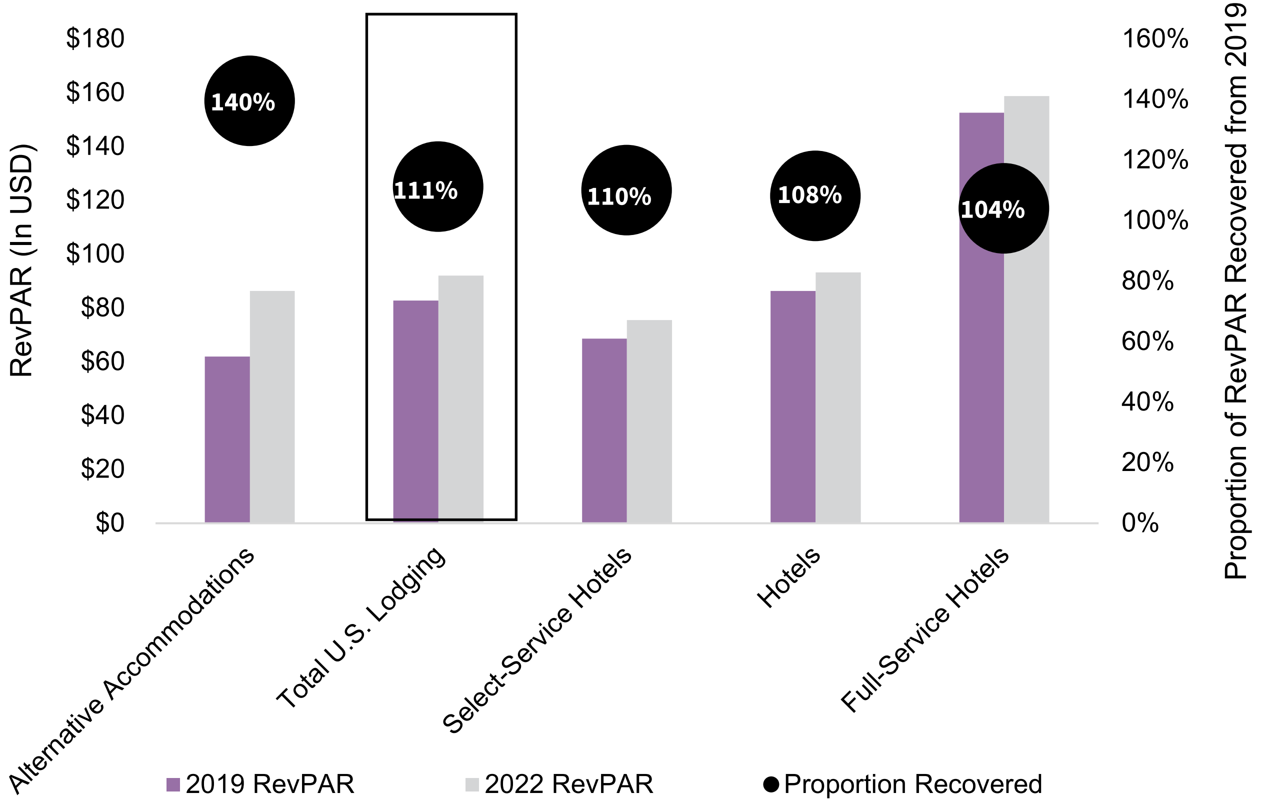
Demand & Supply Performance, 2019 – 2024F



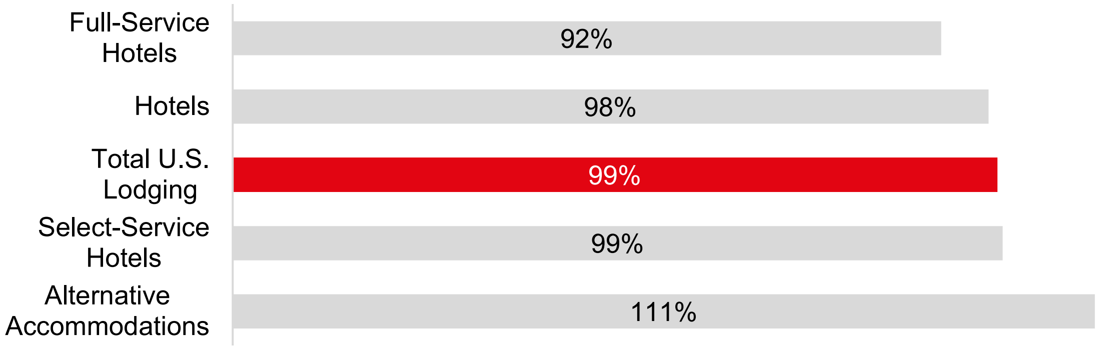
Source: JLL Research, Costar
Note: Based on standard reporting methodology. Forecast as of year-end 2022.

U.S. lodging industry performance continues to accelerate despite macroeconomic volatility underpinned by growing ADR. Alternative accommodations and select-service hotels lead the recovery underscoring changing consumer preferences and paradigm shifts in the workforce.

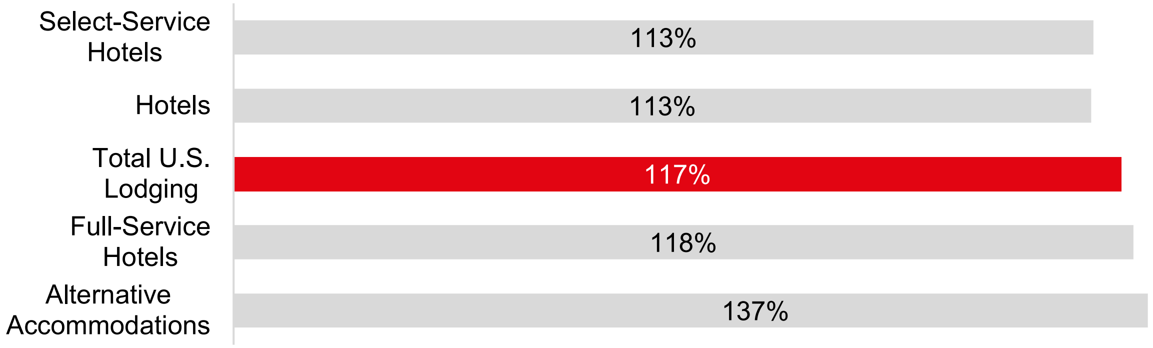
U.S. RevPAR Recovery by Lodging Type



2022 Demand Recovery to 2019 by Lodging Type



2022 ADR Recovery to 2019 by Lodging Type

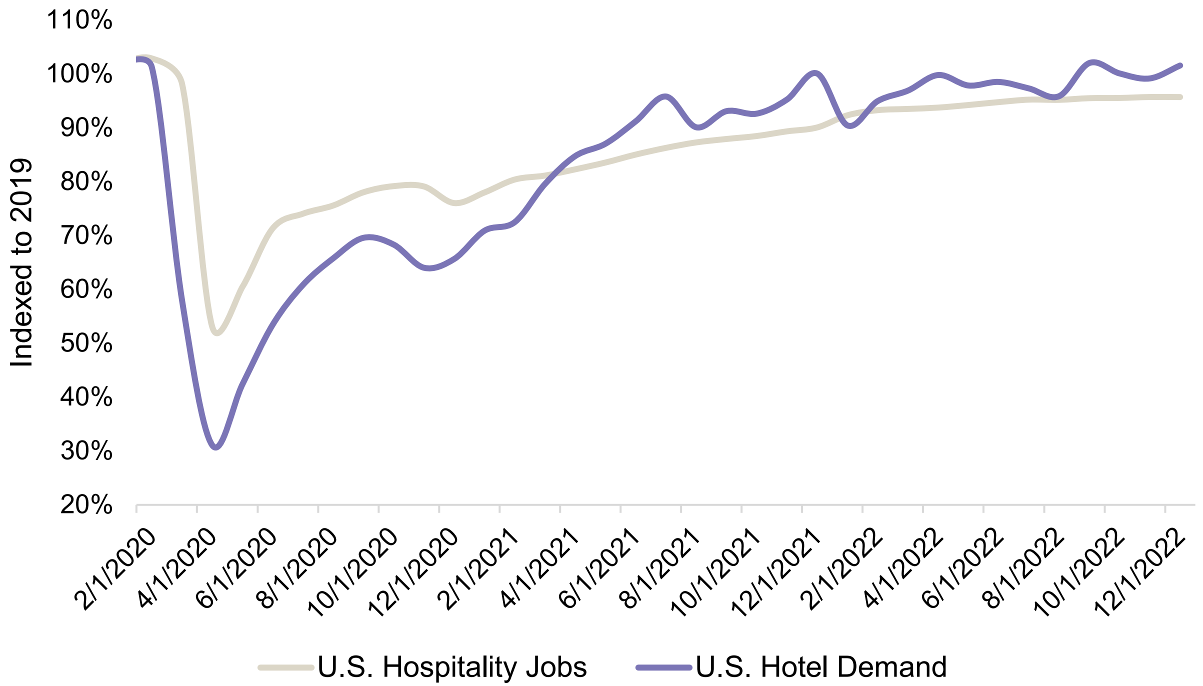


Source: JLL Research, STR, AllTheRooms

Notes: Hotel data uses STR's standard reporting methodology. Alternative accommodations data is comprised of short-term rentals and other accommodation types listed on AirBnB and VRBO. For purposes of this exercise, each listing is considered its own room.

While the U.S. added 47,940 hospitality jobs in Q4 2022, hotel demand recovery continues to outpace employment recovery. With monthly demand now fully recovered and ADR at high-levels, the industry must find new ways to recruit and retain employees to meet rising customer expectations.

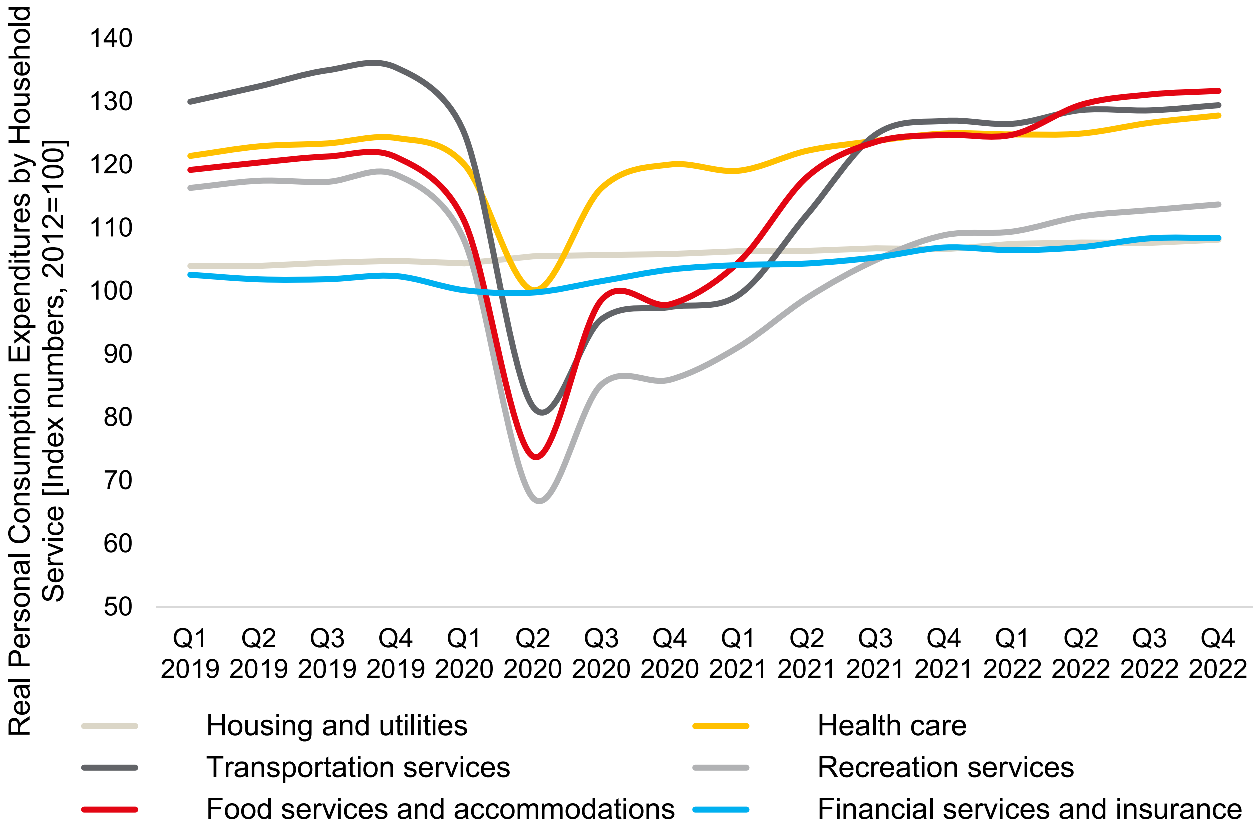
U.S. Monthly Hotel Demand & Hospitality Job Recovery Relative to 2019



Source: JLL Research, Bureau of Labor Statistics, STR.
Note: Data is seasonally adjusted.

For the past three quarters, food services & accommodations surpassed all other consumption expenditures, highlighting the industry's resilience to economic headwinds.

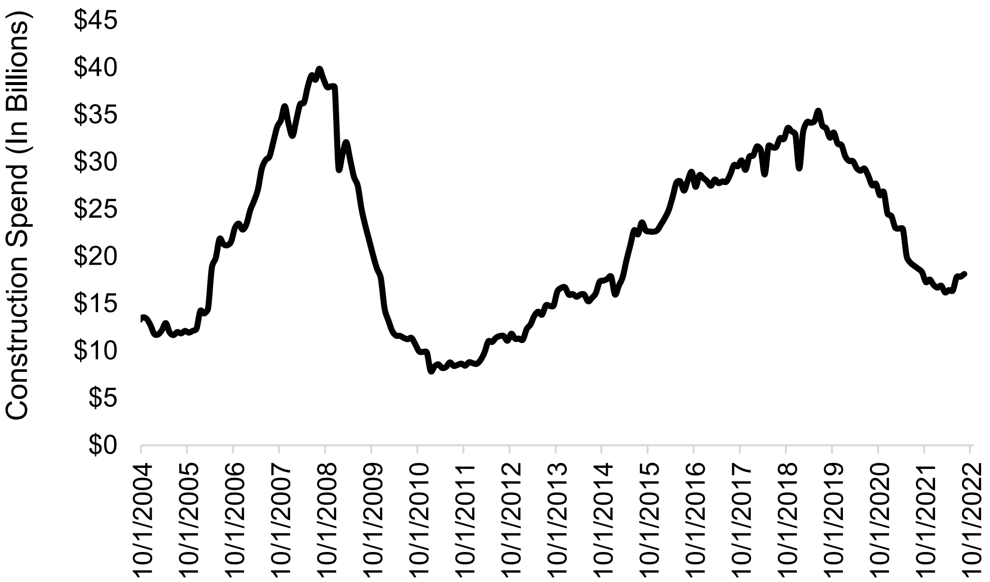
U.S. Real Personal Consumption Expenditures by Major Household Service



Source: JLL Research, U.S. Bureau of Economic Analysis
Note: Data as of year-end 2022.

With new hotels taking more than double the amount of time to build relative to pre-Covid driven by rising construction costs & labor shortages, investment dollars have shifted to focus on acquiring hotels rather than constructing new ones. This trend is expected to continue over the medium term, particularly with limited construction financing available.

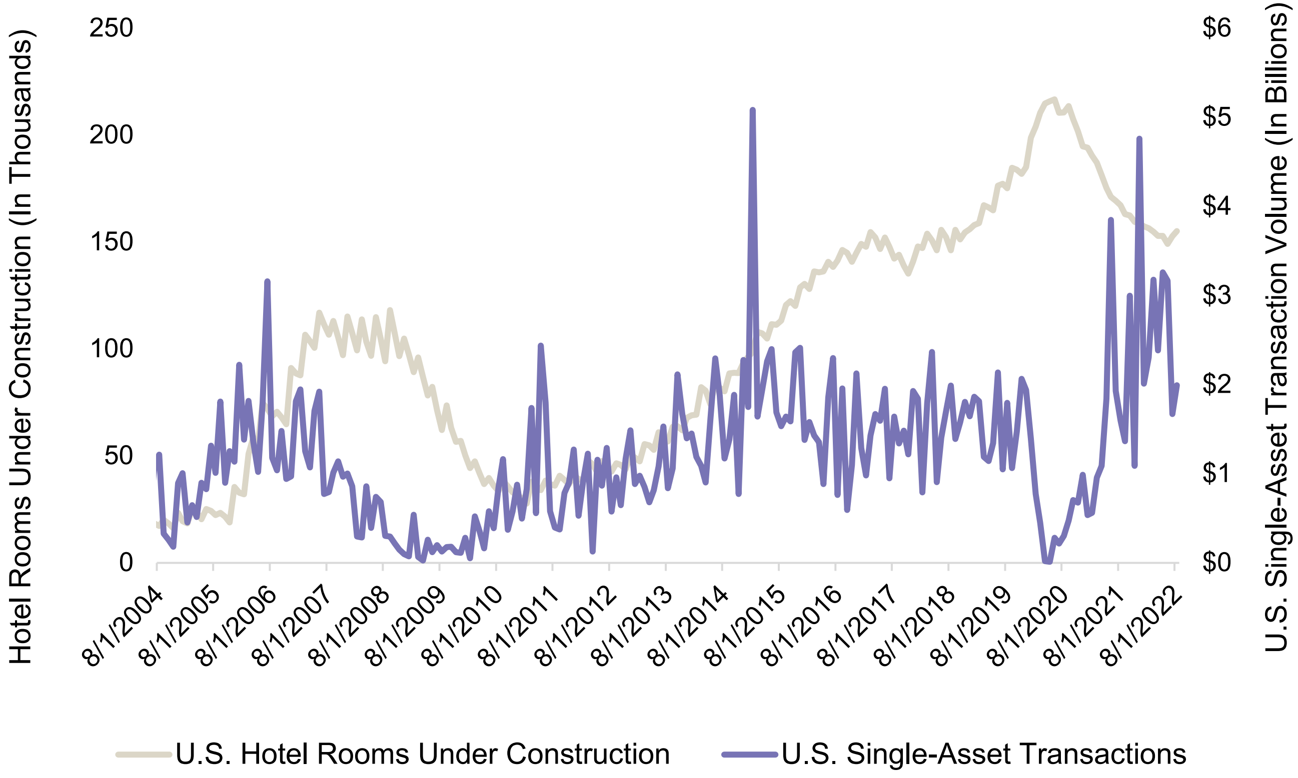
U.S. Lodging Construction Spend, 2004 – 2022



Expected Duration: Construction to Opening (U.S. Hotels)

	Average Number of Months
Current Pipeline (Dec 2022)	74.4
Pre-Covid Pipeline (Feb 2019)	17.8

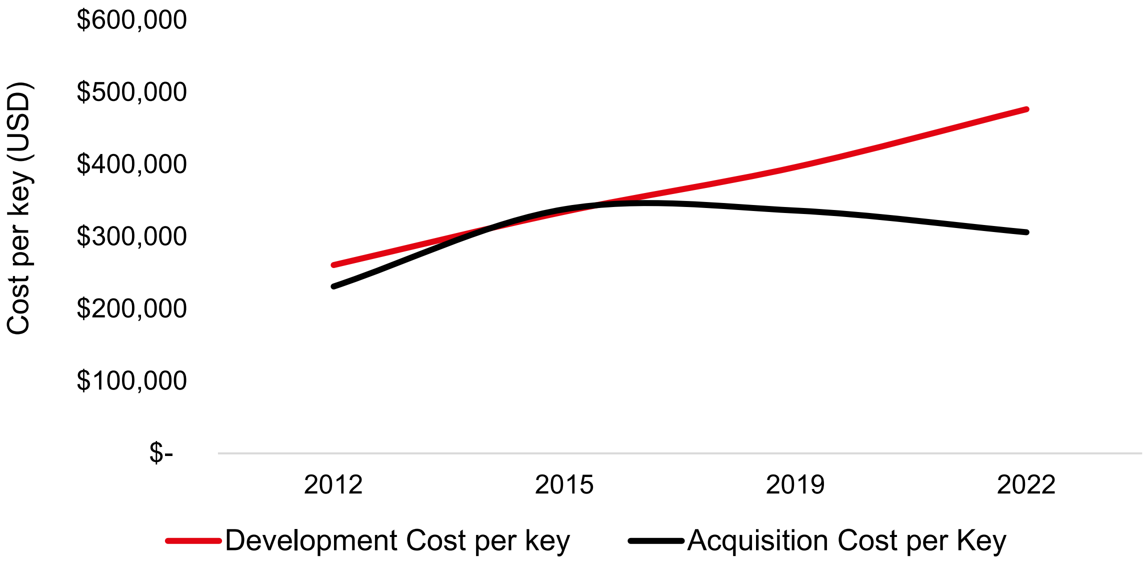
U.S. Hotel Rooms Under Construction vs U.S. Single-Asset Transaction Volume



Source: JLL Research, STR, U.S. Census Bureau
Note: Seasonally adjusted annual rate. Construction spend data is only available through Oct 2022 and is inclusive of both public and private lodging construction spending.

Full-service hotel development and acquisition costs per key have historically been relatively aligned, but recent supply chain disruptions coupled with increases in cost of labor and materials have sky-rocketed development costs. Now, cost to buy is significantly less expensive than cost to build, with U.S. urban markets showing an even greater opportunity.

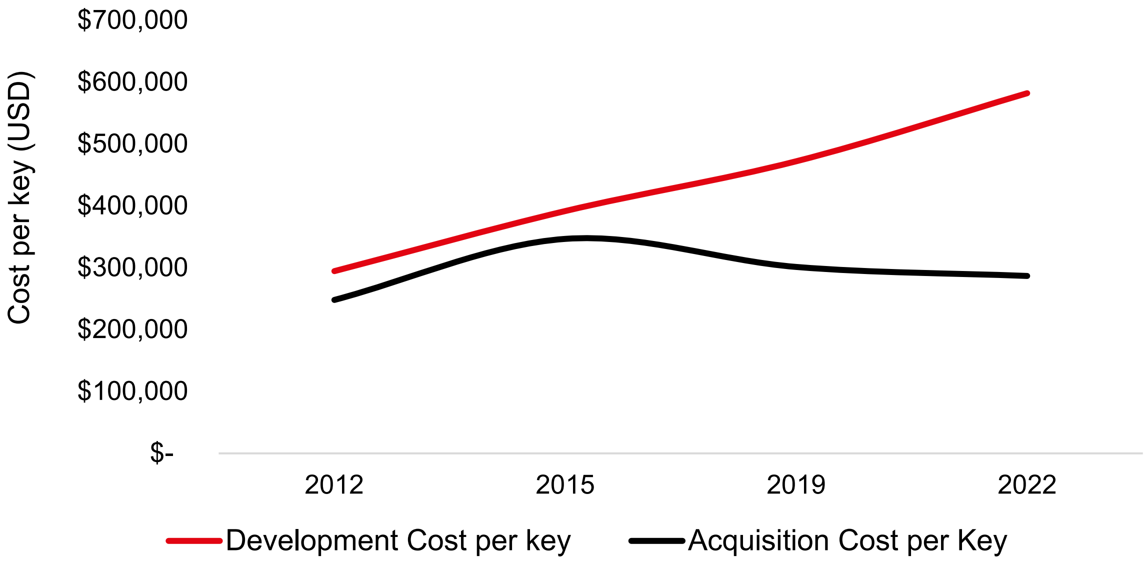
U.S. Full-Service Hotel Acquisition & Development Cost 2012 – 2022



Acquisition Discount to Replacement

2012	2015	2019	2022
-$30K	+3K	-$60K	-$171K
-11.4%	**+1.0%**	**-15.2%**	**-35.7%**

U.S. Full-Service Hotel Acquisition & Development Cost 2012 – 2022 in Urban Markets



Acquisition Discount to Replacement

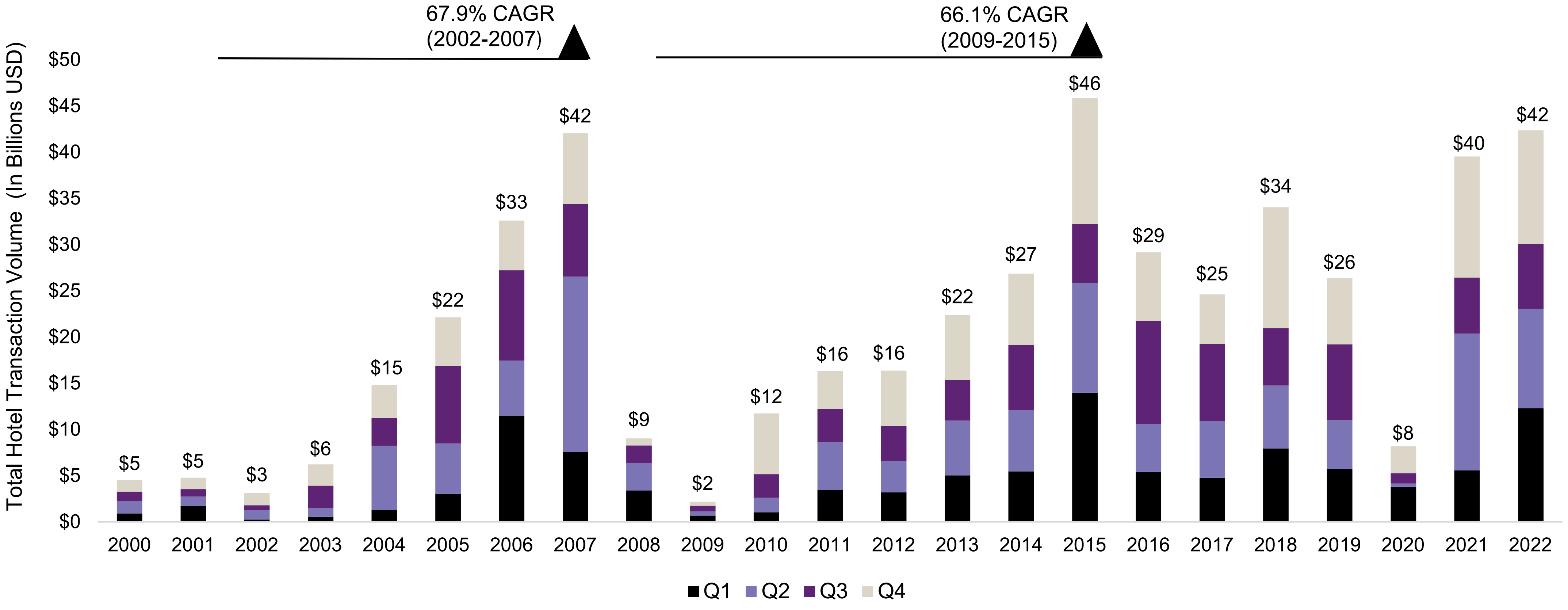
2012	2015	2019	2022
-$46K	-$44K	-$170K	-$295K
-15.8%	**-11.4%**	**-36.1%**	**-50.7%**

Source: JLL Research, HVS Hotel Development Survey, RLB Construction Cost Report
Notes: All transactions data is based on single-asset transactions $5M+, excluding casinos. Full-service is defined using STR criteria. Construction data is based on weighted averages across largest U.S. markets. Construction costs include land, site improvements, soft costs, FF&E, working capital, and development fees.

Investment Trends

Despite ongoing capital market dislocation, 2022 hotel investment volume actualized at near-record levels underpinned by strength in luxury and select-service trades. Expect a wave of transactions to materialize in 2023 catalyzed by owners facing impending loan maturities, interest rate cap renewals, and fund-life expirations.

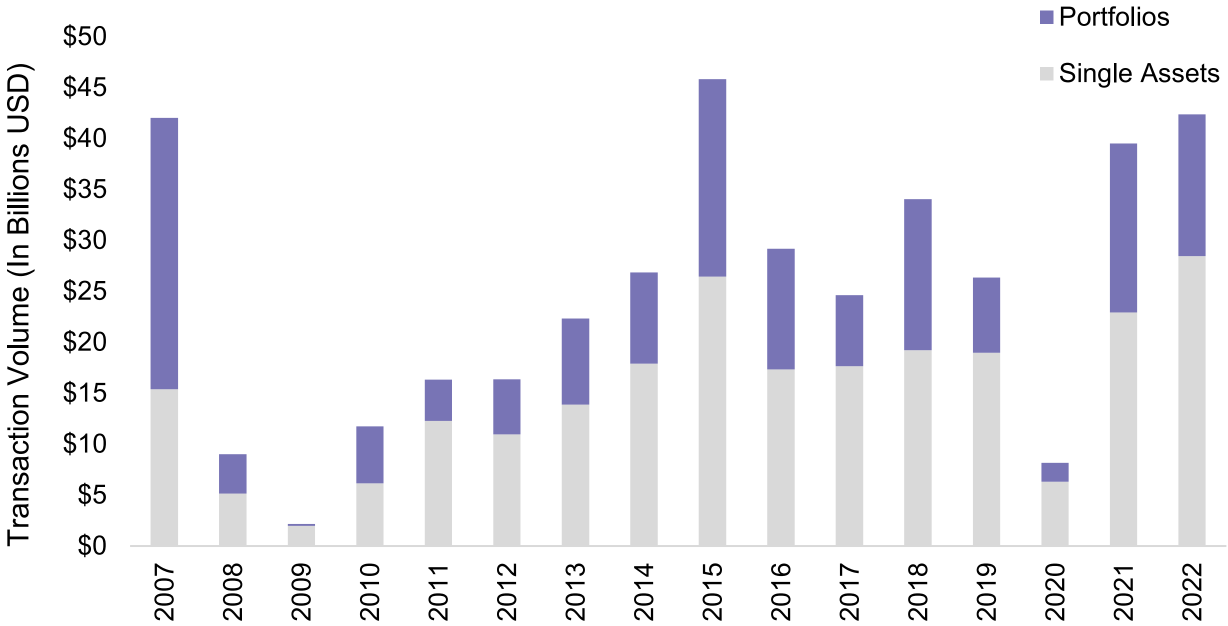
Quarterly U.S. Hotel Investment Volume, 2000 – 2022



Source: JLL Research. Includes all transactions $5M+ excluding casinos.
Note: Figures shown above each bar represent total volume by year. Percentages represent CAGRs calculated over the referenced period: 2002-2007 and 2009-2015.

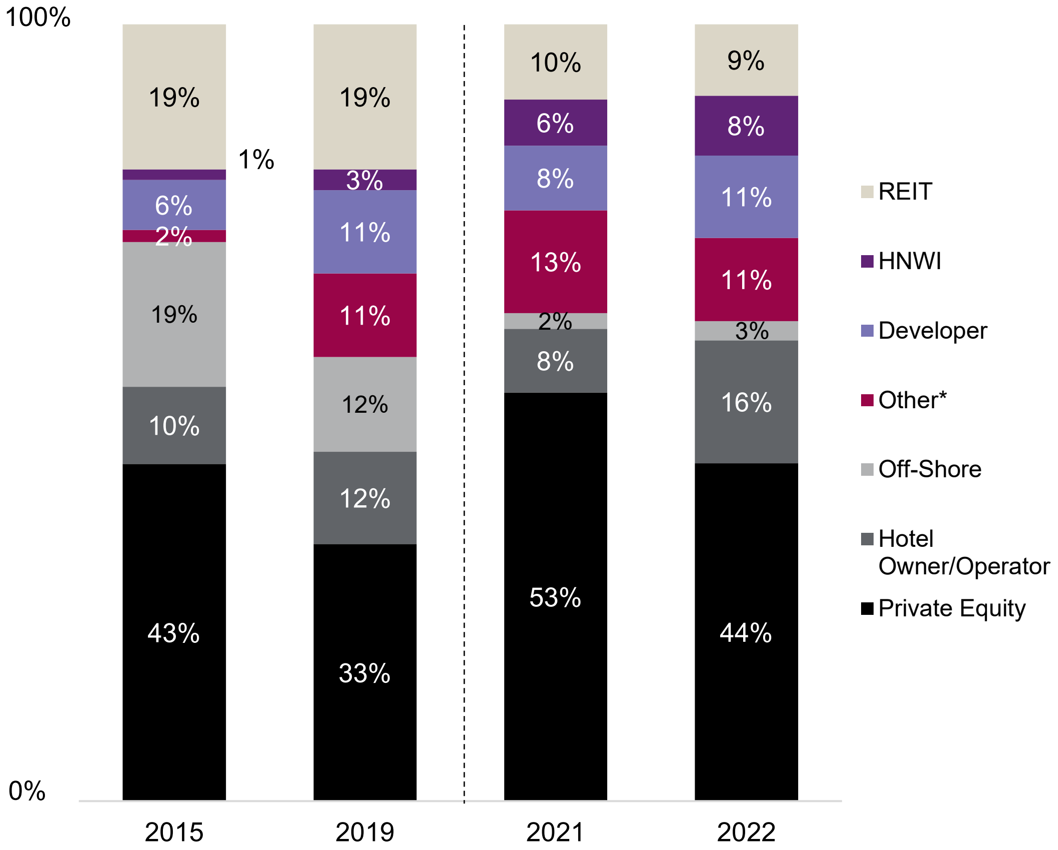
With more than $28 billion in transaction volume, single-asset liquidity reached its highest annual total in U.S. history. Private Equity has been the largest acquirer of hotel assets post-Covid, with Hotel Operators and HNWIs increasing notably in 2022. Expect well-capitalized buyers who are less reliant on leverage to have an advantage as rising interest rates are not anticipated to subside in the near-term.

U.S. Hotel Investment Volume, 2007 – 2022



Annual Comparisons	2015	2019	2021	2022
Total Volume (USD Billions)	$45.8	$26.4	$39.5	$42.4
Volume Y/Y % Change	+69.8%	-22.6%	+382.7%	+7.2%

Portion of Investment Volume by Buyer Type

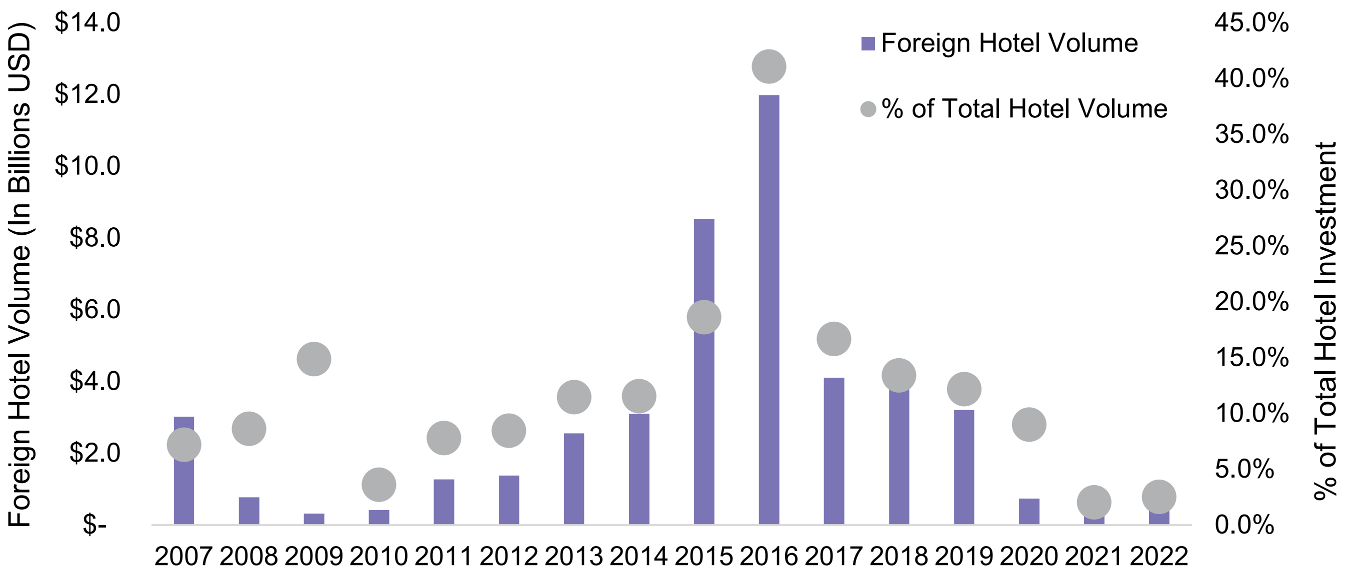


Source: JLL Research

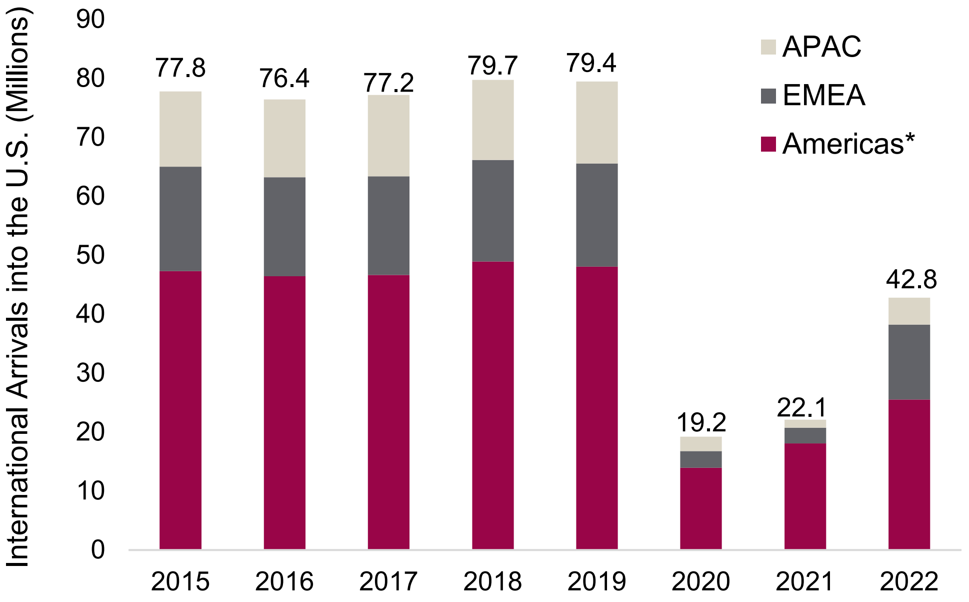
Note: Pertains to transactions worth $5 million and above. Includes entity-level transactions in which real estate was traded. *Buyer type of "Other*" includes Corporates, Banks, and Institutional Investors. Post-Covid, "Other*" has increasingly been comprised of government and/or nonprofit agencies buying hotels to redevelop into subsidized housing. 2020 buyer type is intentionally omitted due to limited transaction activity.

Foreign investment has been largely non-existent since the onset of Covid underpinned by extensive border closures and geopolitical volatility. Expect some foreign investment, predominantly from the Middle East, to reemerge in the next 6-12 months, with the luxury sector likely the largest beneficiary.

Foreign Investment Hotel Volume into the U.S.



International Arrivals by Region of Origin



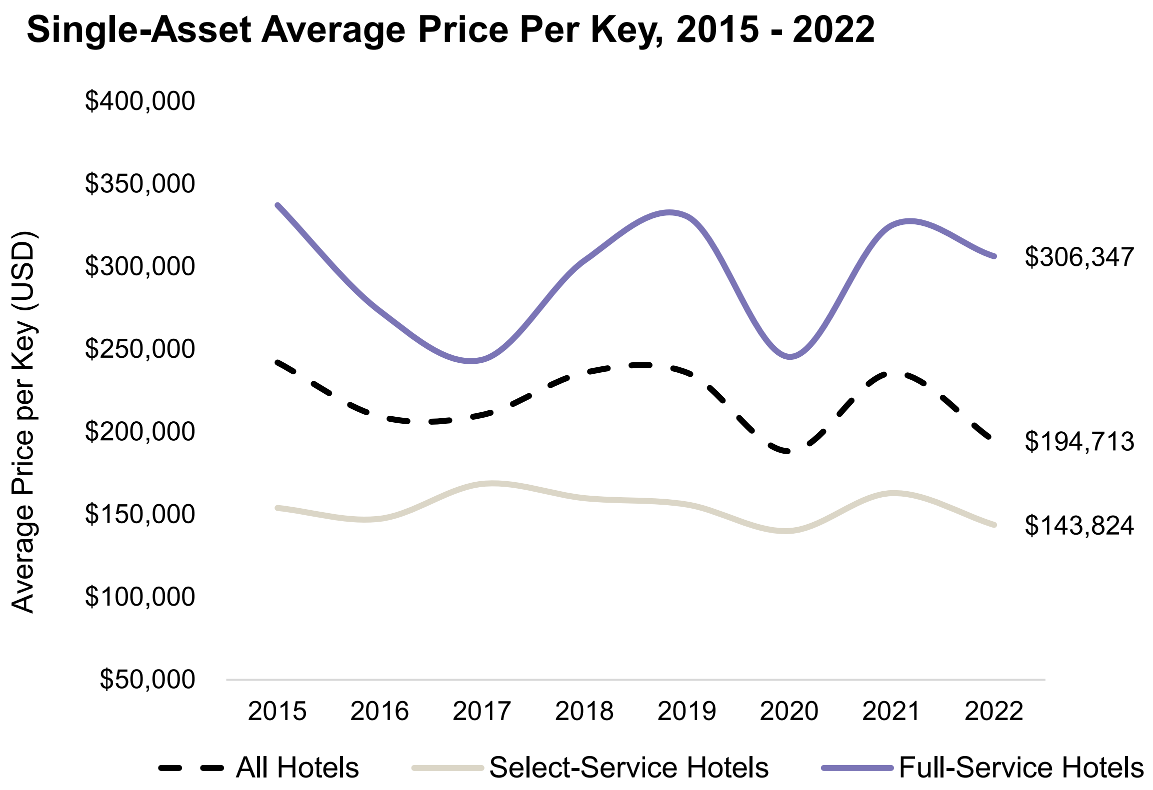
Top-5 U.S. Markets for Foreign Investment	2015 – 2019	2020 – 2022
New York City	$8.7 billion	$187.2 million
Oahu Island	$1.6 billion	$142.1 million
San Francisco	$1.4 billion	$0
Los Angeles	$1.3 billion	$339.8 million
Miami	$813.3 million	$318.5 million

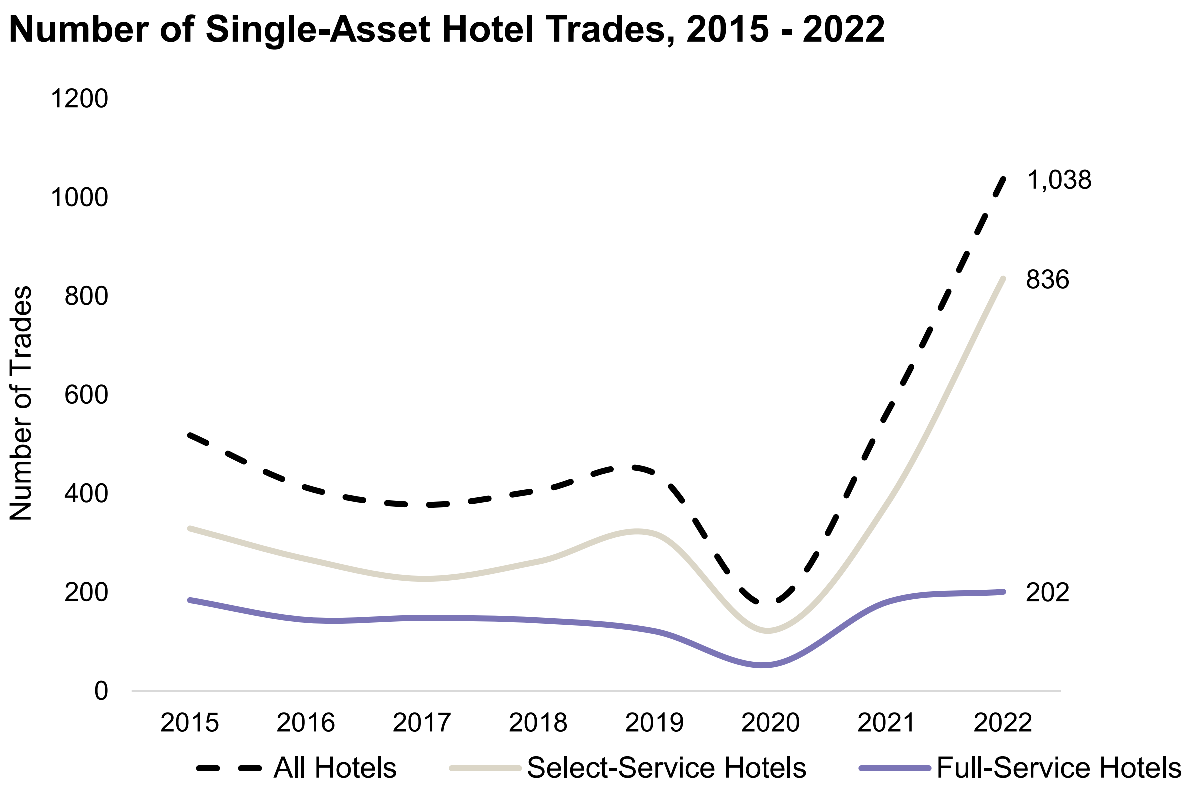
Top-5 U.S. Markets for International Arrivals	2019	2022
New York City	13.5 million	7.1 million
Miami	8.3 million	6.4 million
Los Angeles	7.6 million	6.3 million
Orlando	6.1 million	4.2 million
San Francisco	3.2 million	1.7 million

Source: JLL Research, International Trade Administration

Notes: Investment data includes all transactions $5M+ excluding casinos. Foreign investment includes all transaction volume in which capital originated outside the U.S. *Americas excludes United States. Since investment data excludes casinos, Las Vegas has also been omitted from top international arrival cities

Driven by a significant increase in select-service liquidity, there were a record 1,038 single-asset hotel transactions in 2022. With 202 trades, full-service activity also reached a record-high; however, rising debt costs and sales in slower-to-recover markets resulted in an average price per key decline of 5.7% relative to 2021.

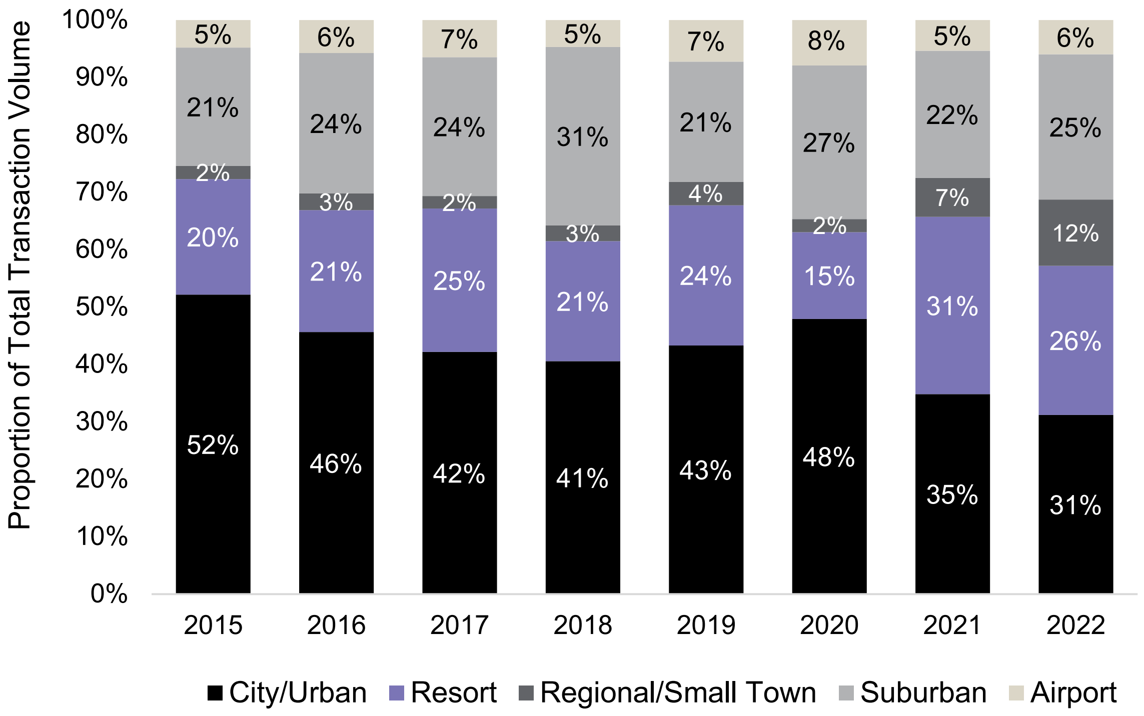




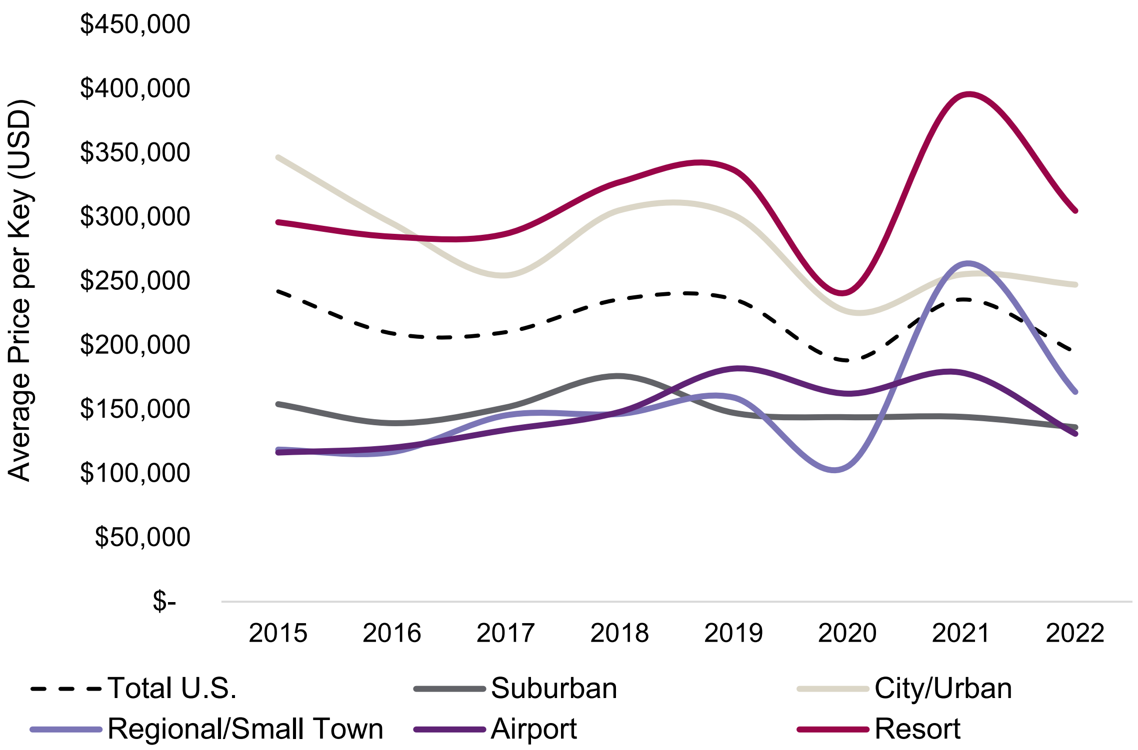
Source: JLL Research. Includes all single-asset hotel transactions of $5M+ excluding casinos.
Note: JLL follows STR's classifications for full-service and select-service hotels.

Buoyed by a resurgence in group and corporate demand, city/urban markets were most liquid in 2022 accounting for 31% of single-asset transaction volume. Pricing in those markets remains behind both last year and pre-pandemic levels though driven by generally slower RevPAR recoveries.

Single-Asset Liquidity by Hotel Location



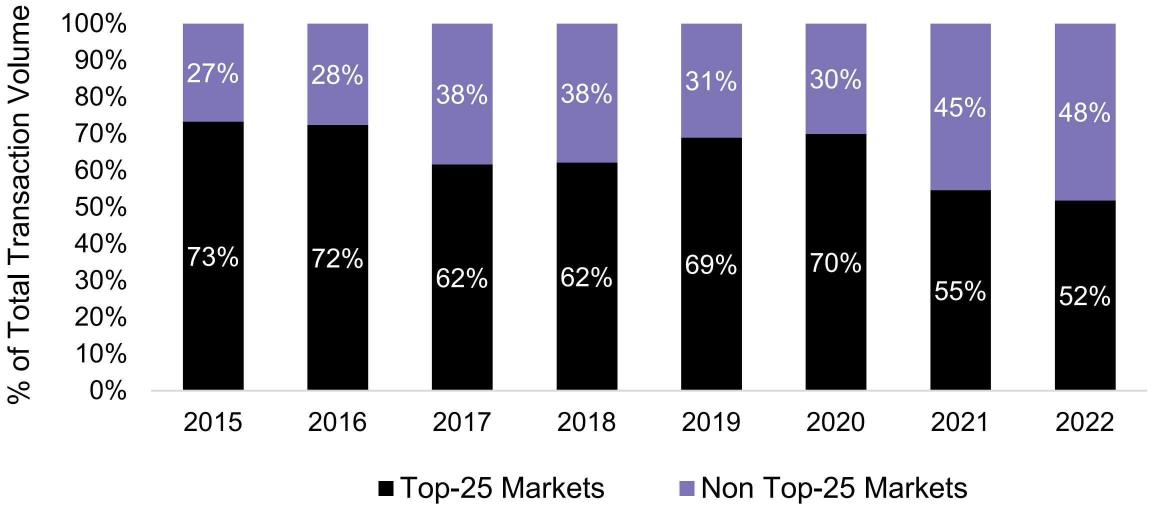
Single-Asset APPK by Hotel Location



Source: JLL Research. Includes all single-asset hotel transactions of $5M+ excluding casinos.

Secondary/tertiary markets continue to drive a larger share of U.S. hotel liquidity post-Covid underpinned by strong fundamentals; however, the top-5 most liquid markets remain in the top-25 due to increased supply and expectations of more long-term growth.

Portion of Single-Asset Hotel Investment Volume by Market Type, 2015 – 2022



2022 RevPAR % Change	2022 vs 2021	2022 vs 2019
Top-25 Markets	48.9%	0.2%
Non-Top-25 Markets	19.3%	14.0%
Total U.S.	29.8%	8.1%

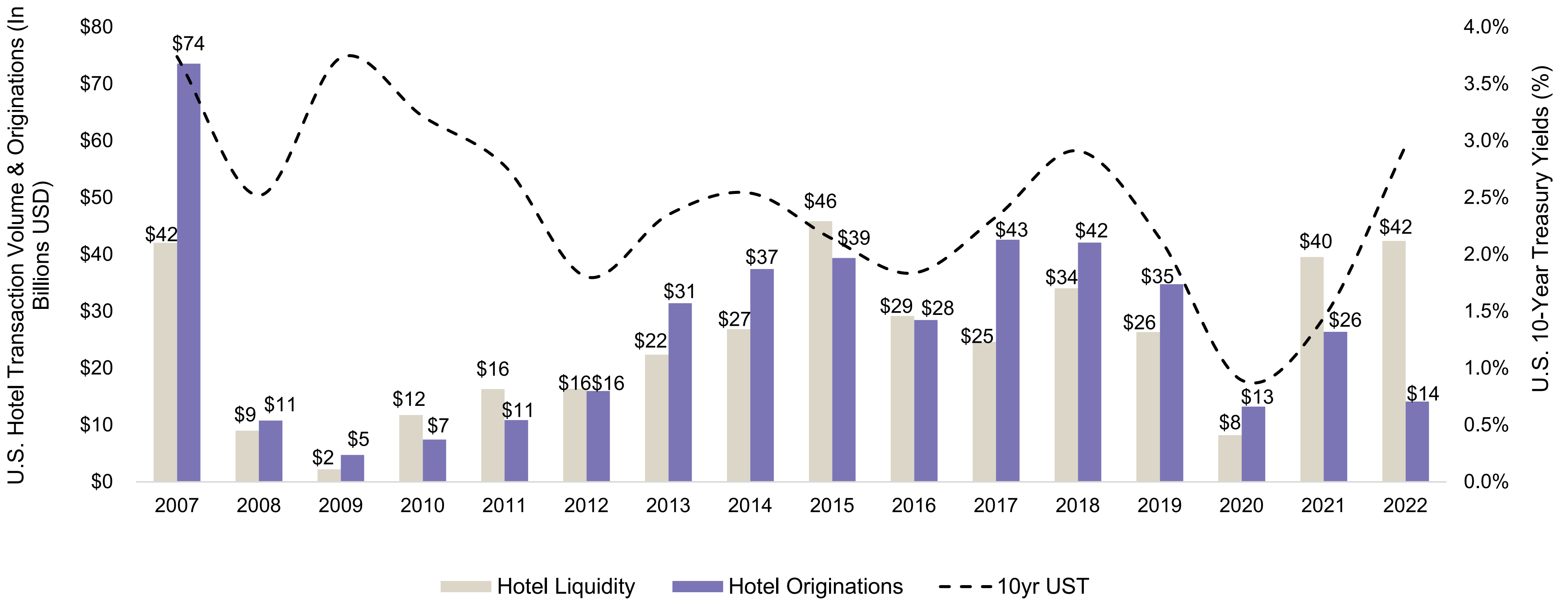
Rank	Market	Total Transaction Volume	vs 2019	vs 2021
1	NEW YORK	$2.05B	▼ 20.6% to 2019	▲ 5.1% to 2021
2	ORANGE COUNTY	$1.41B	▲ 56.6% to 2019	▲ 296% to 2021
3	PHOENIX	$1.21B	▲ 70.3% to 2019	▲ 256% to 2021
4	LOS ANGELES	$1.12B	▲ 56.9% to 2019	▲ 1.5% to 2021
5	NASHVILLE	$1.12B	▲ 109% to 2019	▲ 95.0% to 2021

Source: JLL Research, STR
Notes: Liquid markets analysis is inclusive of single-asset and portfolio transactions in which all hotels in the portfolio are within the listed market.

Debt Market Trends

Despite debt market volatility, liquidity for hospitality loans remains available; however, lenders have become selective with many offering lower leverage and higher spreads. Expect an increase in loan maturities over the next 24-months following nearly $120 billion in hotel loan originations from 2017-19, which may be a catalyst for increased transactions.

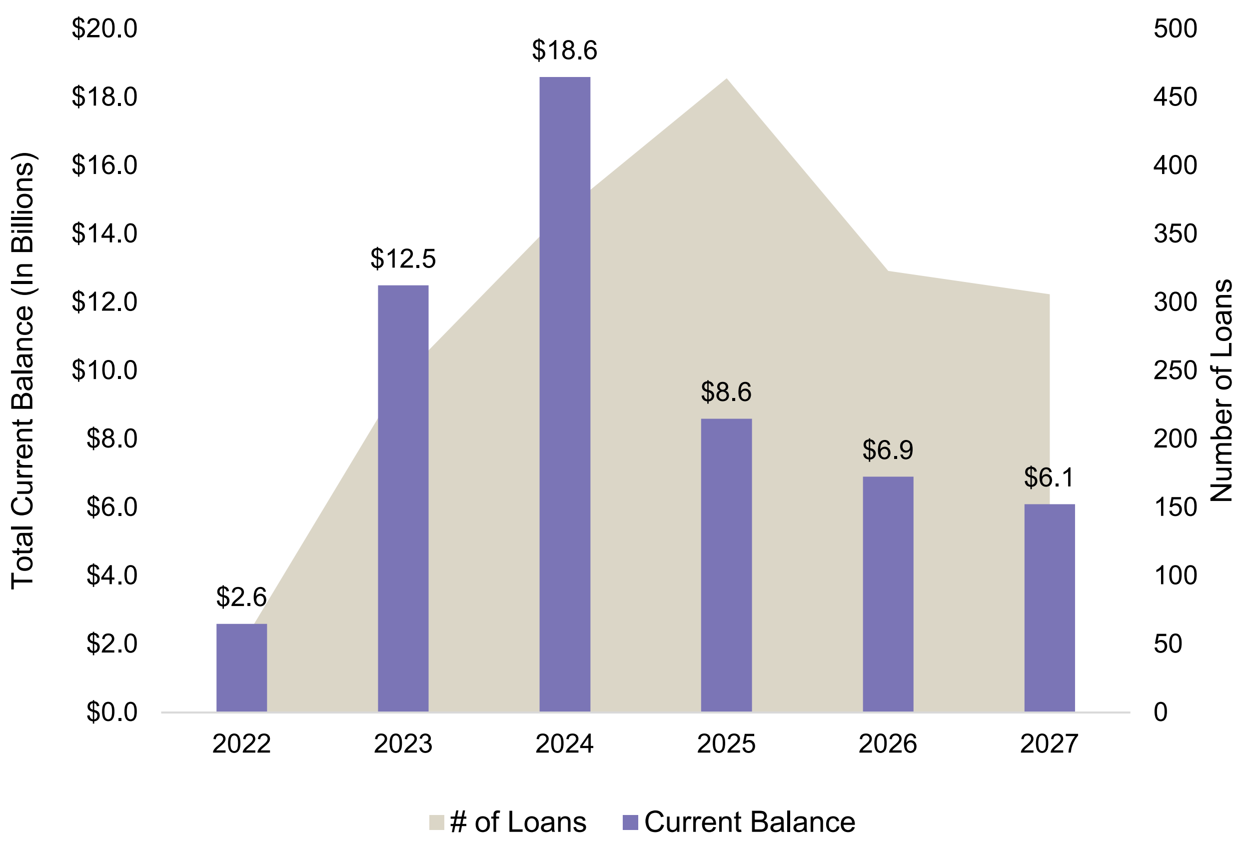
Total U.S. Hotel Transaction Volume & Originations vs 10 YR UST Yields



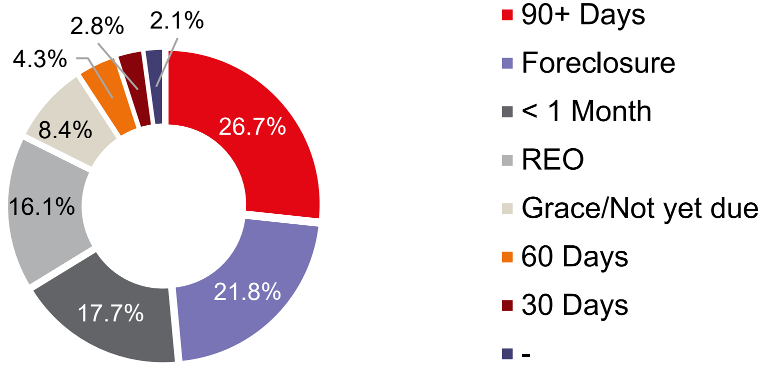
Source: JLL Research, FRED, MBA, Trepp
Notes: 10-year U.S. treasury yields are annualized. Hotel origination data is available only through H1 2022.

$52.7B in hotel securitized loan debt is slated to mature over the next four years, with nearly half of its delinquent debt 90+ days behind in payments or in foreclosure. With cost of debt continuing to rise, expect these impending maturities to be a potential catalyst for owners to sell their assets.

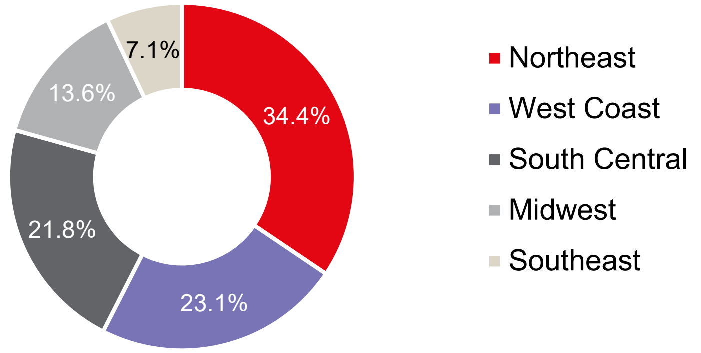
Total Hotel Securitized Loan Debt by Maturity Year



Portion of Maturities in Delinquency by Type, 2023-2027



Portion of Maturities in Delinquency by Region, 2023-2027

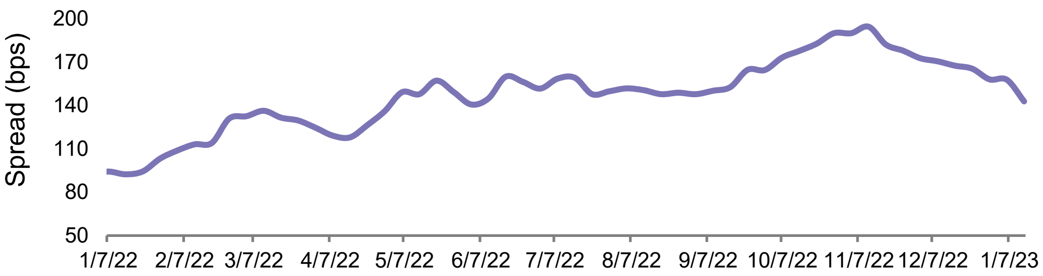


Source: JLL Research, Trepp
Note: Data as of year-end 2022 and pertains to the whole universe of U.S. securitized loans. Analyses of delinquent maturities between 2023 and 2027 do not include current and performing loans.

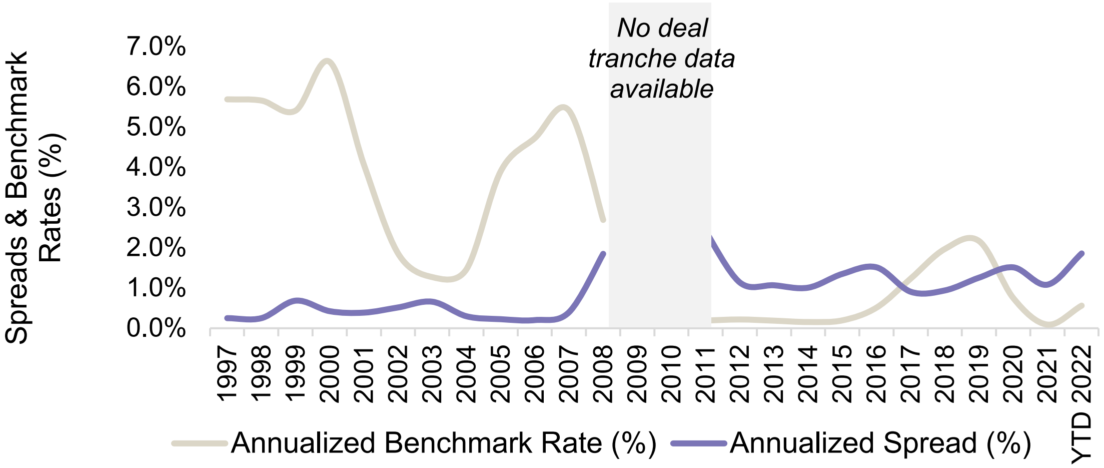
Expect the current market dynamic of wide pricing and reduced hotel debt availability to continue for the next several months as the macroeconomic drivers evolve.

- **Banks:** The local and regional banks have emerged as the most competitive lender type with loan spreads in the mid200-to mid-300s, which is easily 50bps – 150bps inside of the rest of the market. The money center and investment banks continue to be selectively active hospitality lenders by either providing low leverage whole loans to borrowers or providing A notes/credit facilities to debt fund lenders.
- **Debt Funds:** The debt funds have been among the most active hospitality lenders and continue to express a desire to lend in the space with the most flexible, underwriting criteria. Leverage has generally remained at 60-65%, albeit at spreads starting in the low 500s and higher.
- **SASB CMBS**: SASB CMBS remains open for business for loans of approximately $200mm or greater. This market, which has historically offered the highest leverage at the lowest pricing, gapped out meaningfully last year, with floating rate whole loan spreads in the low-400s and wider depending on leverage, in-place cash flow, market, and sponsorship.
- **Construction**: Hotel construction lending continues to be constrained. For borrowers with strong local/regional bank relationships and that are willing to sign repayment guarantees, these lenders provide the best source of capital for construction loans under $50-$75 million, with spreads and leverage that vary depending on the project, sponsor, and recourse levels.

10-yr AAA Fixed CMBS Spreads



SASB CMBS AAA Floating Rate Hotel Spreads & Benchmark Rates



Source: JLL Research, FRED, MBA, Trepp
Notes: 10-year U.S. treasury yields are annualized. Annualized benchmark rates are based on LIBOR pre-2022 and based on SOFR in 2022.

Appendix

2022 Notable U.S. Transactions

Notable 2022 U.S. single-asset hotel transactions					
Property	**Market**	**Price**	**Rooms**	**Price per Room**	**Buyer**
Montage Laguna Beach	Orange County	$650,000,000	260	$2,500,000	Fertitta Entertainment
Former Trump International Washington D.C. (future Waldorf)	Washington D.C.	$375,000,000	263	$1,426,000	CGI Merchant Group
Sheraton New York Times Square*	New York City	$373,000,000	1780	$210,000	MCR Development LLC
W Hotel Nashville	Nashville	$328,700,000	346	$950,000	Xenia Hotels & Resorts, Inc.
Four Seasons Resort Jackson Hole	Wyoming	$315,000,000	156	$2,019,000	Host Hotels & Resorts
Naples Grande Beach Resort*	FL Central	Confidential	474	Confidential	Henderson Park Capital Partners
Grand Hyatt San Antonio	San Antonio	$310,000,000	1003	$309,000	Community Finance Corporation
Four Seasons Resort Scottsdale at Troon North	Phoenix	$266,700,000	210	$1,275,000	Braemar Hotels & Resorts
Kimpton Hotel Van Zandt Austin	Austin	$246,000,000	319	$771,000	Host Hotels & Resorts
Sheraton Hotel Boston	Boston	$233,000,000	1220	$191,000	Varde Partners, Inc. & Hawkins Way Capital
The Confidante Miami Beach (future Andaz)	Miami Beach	$232,000,000	339	$684,000	Sunstone Hotel Investors
Hyatt Regency La Jolla at Aventine	San Diego	$227,300,000	417	$545,000	IQHQ
Sirata Beach Resort	Tampa	$207,000,000	382	$542,000	Columbia Sussex Corporation
Four Seasons Resort Vail	Colorado	$198,000,000	147	$1,347,000	MSD Capital, LP

Notable 2022 U.S. portfolio hotel transactions					
Portfolio	**Market**	**Price**	**Rooms**	**Price per Room**	**Buyer**
Watermark Lodging Trust/Brookfield Portfolio	Multi-Market	$3,800,000,000	7,478	$508,000	Brookfield Asset Management
Highgate-Cerberus CorePoint Lodging 124-Property Portfolio	Multi-Market	$1,500,000,000	17,572	$85,000	Cerberus Capital & Highgate Hotels
Blackstone-Starwood WoodSpring Suites 111-Properties	Multi-Market	$1,455,000,000	12,347	$118,000	The Blackstone Group & Starwood Capital
Flynn-Varde 88-Property Select-Service Portfolio (80% stake)	Multi-Market	$880,000,000	8,292	$106,000	Varde Partners & Flynn Properties
NewcrestImage 27-Property Portfolio	Multi-Market	$822,000,000	3,709	$222,000	Summit Hotel Properties, Inc.
BRE Core Urban Select-Service 7-Property Portfolio	Multi-Market	$504,900,000	1,403	$360,000	BRE Hotels & Resorts
Sonesta 4-Property Portfolio	New York City	$400,000,000	915	$437,000	Sonesta International Hotels Corporation

Source: JLL Research
Note: Price per room is rounded to the nearest thousand. Transactions are listed from highest to lowest, by price. Red asterisks represent JLL-advised deals.

Thank you!

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