

OUTLOOK 2021

August 20, 2020



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Today's Agenda

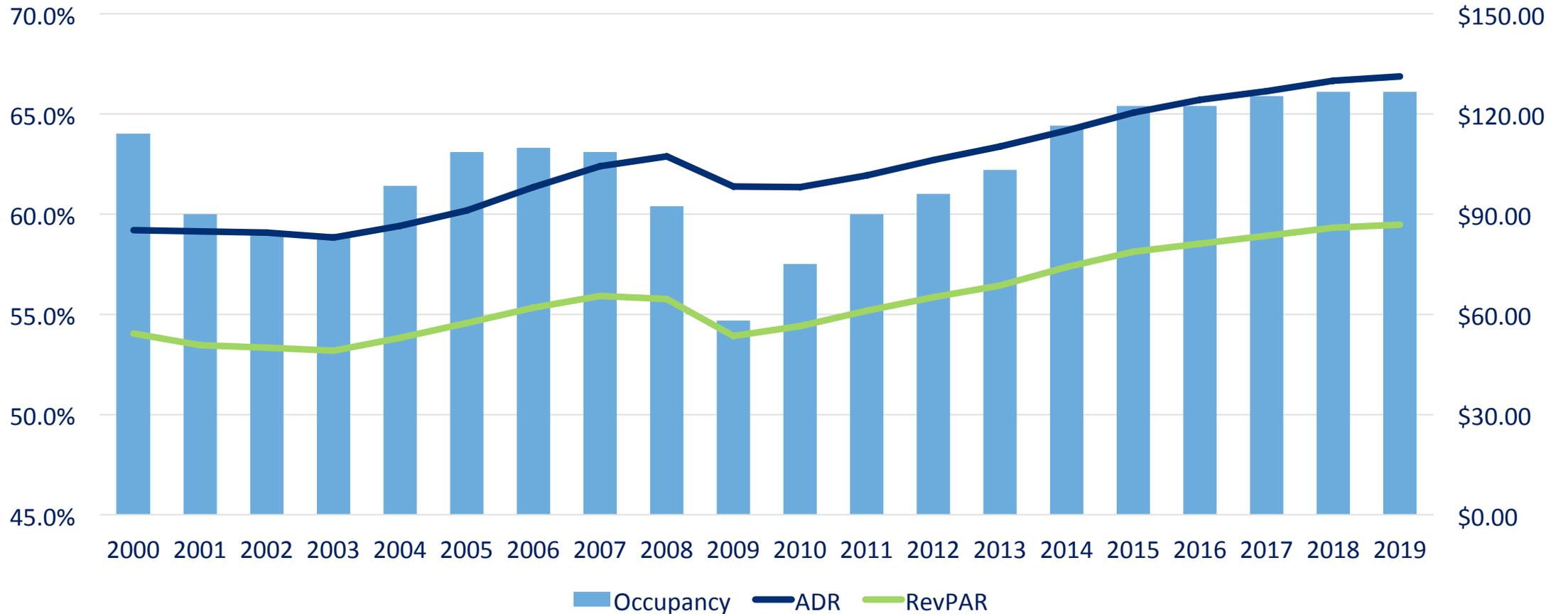
- 1. National Lodging Market**
- 2. Suburban Boston Market**
- 3. Boston & Cambridge Market**





NATIONAL LODGING MARKET

Historic Market Performance – National



Source: STR

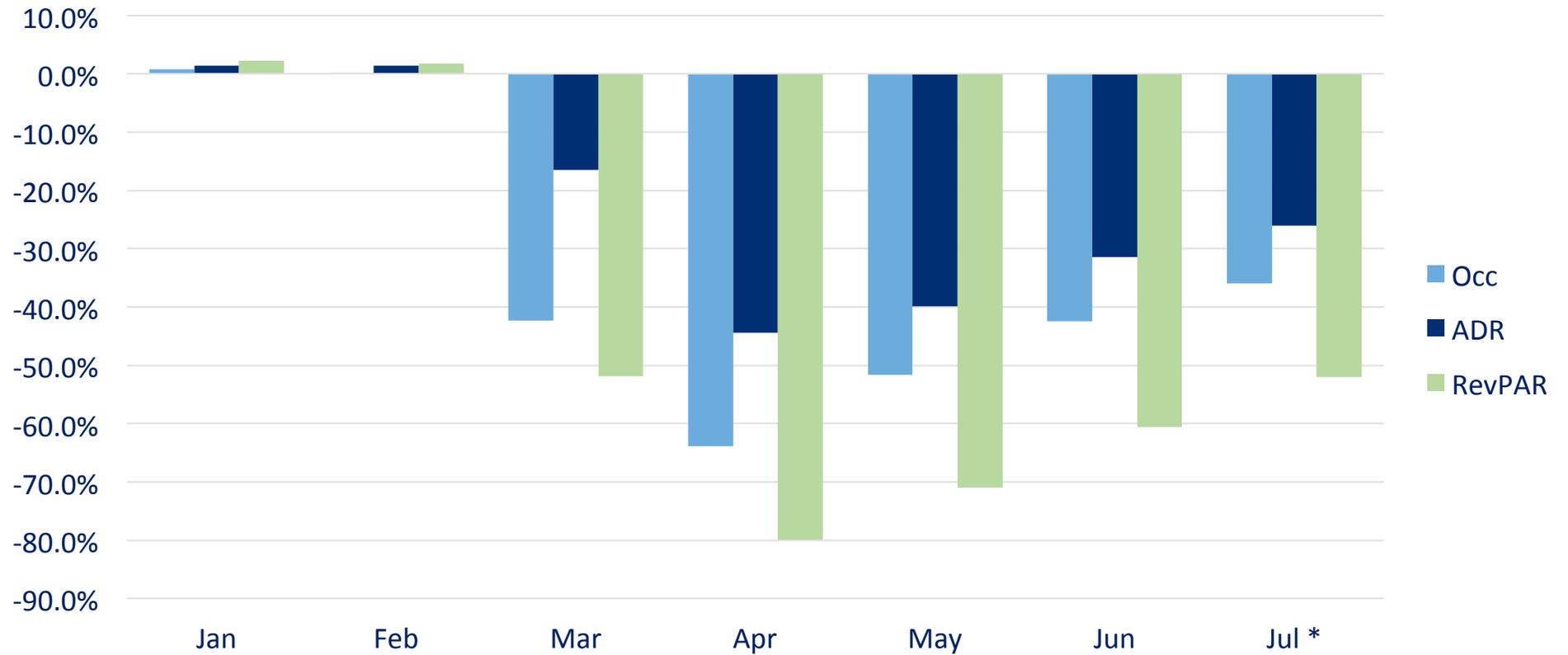
YTD June 2020 – National

-34.5%
Occupancy

-16.8%
ADR

-45.5%
RevPAR

2020 US Performance by Month

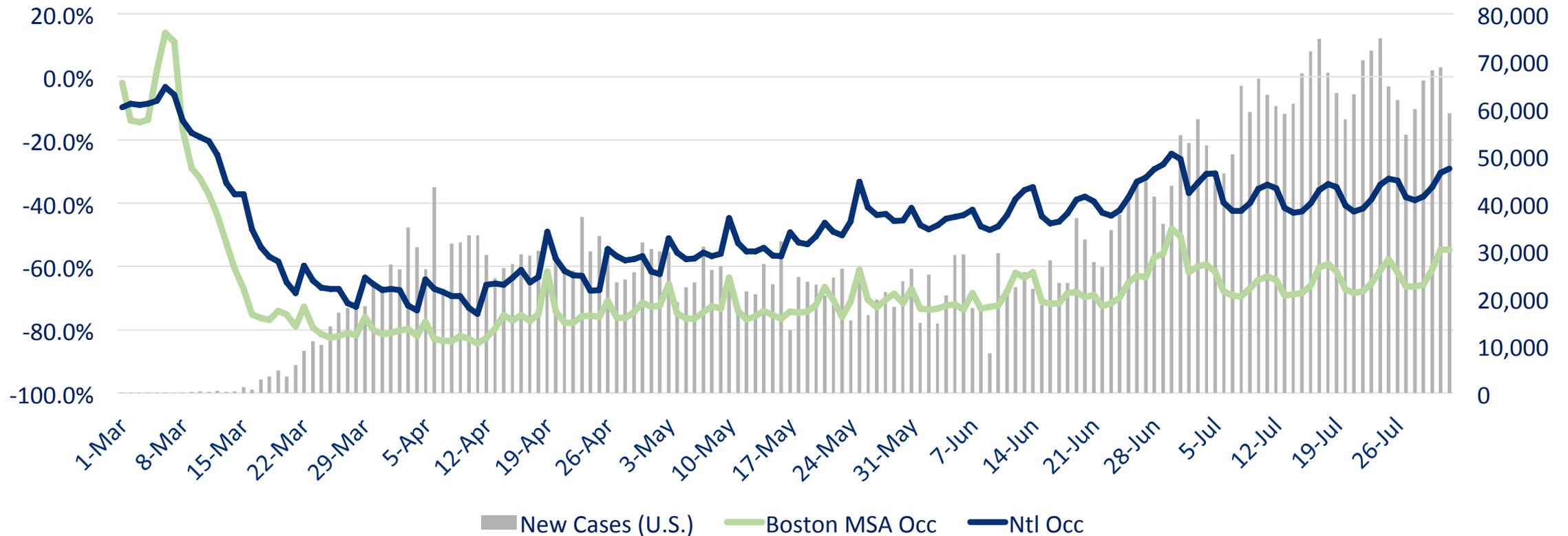


* Preliminary July figures
Source: STR



March to July - National

Hotel Occ YOY % Change vs. New COVID-19 Cases



Source: STR, Centers for Disease Control and Prevention



General 2020 Trends – National

- New SOPs addressing hygiene and disinfection, employee training, F&B safety, technology, public spaces and capacities, etc. Increase in operating expenses while providing customers confidence in cleanliness and safety.
- The U.S. had 2.8m and 2.4m foreign visitors in January and February respectively. Between April and June, the monthly totals were less than 40,000. This will hurt gateway markets and larger cities disproportionately.
- State-led policies for hotels and restaurants have created a patchwork of guidelines difficult for both operators and consumers to understand.
- The lower-rated properties, such as economy and midscale, continue to outperform full-service hotels. Given these very low occupancies, and no compression to drive premiums, properties have very little pricing power. The ADR and RevPAR declines are steepest within the full-service hotel scale.
- Year-to-date through June, demand at urban hotels has seen a steeper decline in RevPAR (-48%) when compared to suburban market (-33%). Although still facing steep declines, interstate market has seen the least impact (-28%).
- According to STR, roughly one in four luxury rooms and about one in five upper-upscale rooms are closed. Many owners are waiting for demand levels to increase before reopening which will ultimately drive down occupancies.



Forward Looking Trends – National

- After years of a ‘cautiously optimistic’ tone, it is now a tone of concern with little clarity. Underlining hope for a vaccine and pent up demand.
- Economic free fall began in Q1. Driven by layoffs and furloughs within the hospitality and tourism industry (7.7 million), April recorded the worst month of job losses in modern history. High unemployment rates negatively impact income and consumer confidence and as a result limit travel activity.
- Regional outbreaks, like those seen this summer in the south and west, are expected to continue through Q1 2021 if not further. Successful containment of COVID-19 is necessary for an economic recovery.
- International, group, and corporate travel will be impacted significantly, especially in the top-25 markets. Group is typically the slowest segment to recover. Leisure travel will return in moderation with emphasis on regional, drive-to- destinations.
- Room rates will remain significantly depressed and slow to recover. Travelers will insist on lower rates given low occupancy and lack of sell outs. And higher rates that are typically driven by compression will be generally non existent.
- Construction delays and abandoned starts will reduce the amount of new supply entering the market. Additionally there will be an increase in permanent closures and conversions to alternative uses as hotels face increased financial pressure.
- Due to its severity, this recession is expected to take longer to recover than the last two recessions. The longer the current circumstances continue, the longer the recovery is likely to take.



Industry Projections – National

2020

	STR	PWC	CBRE
Occupancy	-39.7%	-41.4%	-38.0%
ADR	-20.9%	-19.9%	-22.5%
RevPAR	-52.3%	-53.1%	-51.9%

2021

	STR	PWC	CBRE
Occupancy	30.5%	49.9%	36.3%
ADR	5.6%	10.6%	8.9%
RevPAR	37.9%	65.9%	48.4%

Source: STR (8/13), PWC (5/27), CBRE (7/1)

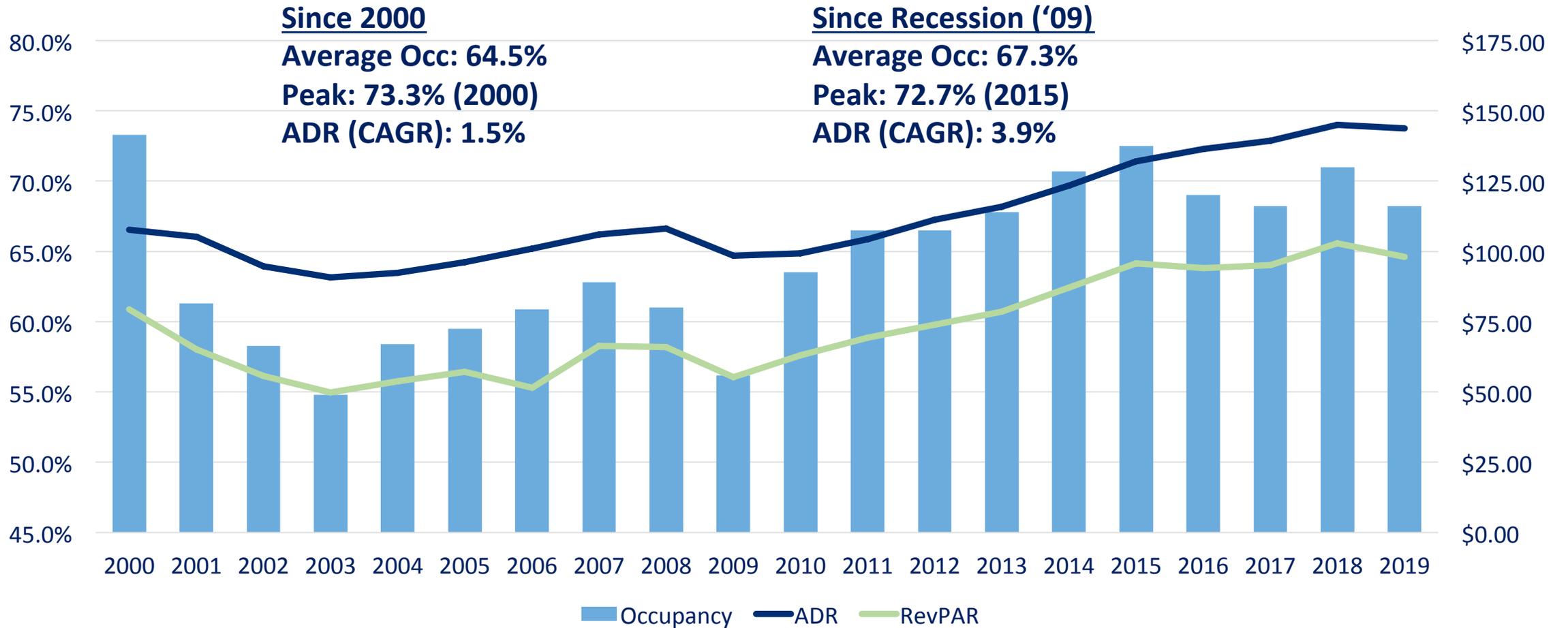
* STR & CBRE reflect total-room inventory methodology, assuming no temporary hotel closures





SUBURBAN BOSTON LODGING MARKET

Suburban Boston Historic Performance

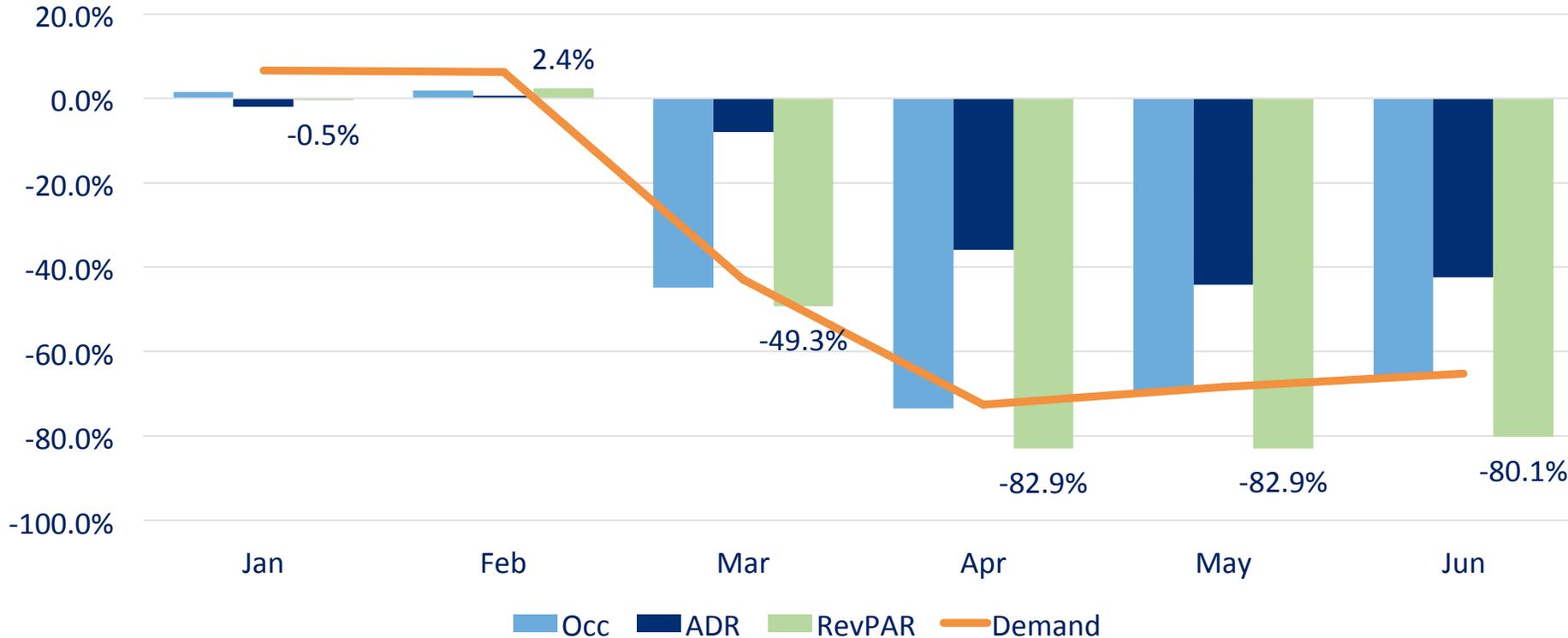


Source: STR



YTD June 2020 – Suburban Boston

2020 Boston Suburbs Performance by Month



-47.3%
Occupancy

-22.5%
ADR

-59.1%
RevPAR

Note: The Governor of Massachusetts declared a state of emergency on March 10. Beginning April 1, hotels were only permitted to accommodate the COVID-19 essential workforce, other workers responding to the COVID-19 public health emergency, and vulnerable populations. This order ran until June 8 when hotels were permitted to reopen to the general public.

Source: STR

* Adjusted to reflect **total-room inventory methodology**, assuming no temporary hotel closures



Suburban Boston New Supply 2020

Hotel	City	Scale	Rms	Opening
Hampton Inn Chelsea	Chelsea	Upper Midscale	105	Aug
Avid Hotel Revere	Revere	Midscale	104	Aug
Holiday Inn Express Revere (dual)	Revere	Upper Midscale	80	Aug
Staybridge Suites Revere (dual)	Revere	Upscale	72	Aug
Hampton Inn Salem	Salem	Upper Midscale	113	Sep
Hilton Garden Inn Brookline	Brookline	Upscale	174	Nov
Hilton Garden Inn Canton	Canton	Upscale	138	Dec
Hampton Inn & Suites Watertown	Watertown	Upper Midscale	146	Dec
TownePlace Suites Wrentham (dual)	Wrentham	Upper Midscale	80	Dec
SpringHill Suites Wrentham (dual)	Wrentham	Upscale	80	Dec

+ 3.0%
Supply Increase
in 2020

Source: Various Sources, Compiled by Pinnacle Advisory Group
Projected changes to supply do not reflect temporary closures



Suburban Boston New Supply 2021

Hotel	City	Scale	Rms	Opening
EVEN Bedford	Bedford	Upscale	130	Q2
The Beacon Street Hotel	Somerville	Independent	35	Q2
Hyatt Place Braintree (reopening)	Braintree	Upscale	204	Q2
TownePlace Suites Medford (dual)	Medford	Upper Midscale	72	Q2
Hilton Garden Inn Plymouth	Plymouth	Upscale	101	Q3
Cambria Somerville	Somerville	Upscale	163	Q4

+ 3.9%
Supply Increase
in 2021

Openings dates are subject to change.

Source: Various Sources, Compiled by Pinnacle Advisory Group



Suburban Boston Office Markets, Q2 2020

	Inventory (SF)	Absorption (SF) YTD 2020	Vacancy Q2 2020
Inner Suburbs	6.8 M	35,200	12.1%
Route 128	68.2 M	517,800	14.0%
Route 495	45.6 M	(104,000)	19.6%
Total Suburbs	120.0 M	449,000	16.0%

Source: Colliers International



Suburban Boston Lodging Trends

- In the Burbs, occupancy and ADR is higher midweek than on weekends. The suburban lodging markets relies heavily on corporate demand, much of which is driven by the local office inventory. A collection of major employers have announced remote work through yearend, others through July 2021. Without an active office inventory in the suburbs, corporate travel will be extremely limited.
- The suburbs has indirectly benefitted from the capacity constraints of Boston & Cambridge for many years. The suburbs accommodate compression from the city, transient demand from colleges, friends/family, tourists looking for lower priced hotels. Given the low demand levels, these travelers, assuming they visit in the near term, will have more options at lower rates.
- Group demand in the suburbs is mostly made up of SMERF, such as sports teams, social events weddings. The larger, full-service hotels accommodate corporate group. Unfortunately due to social distancing measures and guidance on large gathers, group demand has mostly been eliminated from the market and it is expected to be the slowest to return.
- Colleges and universities have begun to rent blocks of hotel rooms in an effort to spread their students. Colleges located in the suburbs have already begun contracting these blocks in a win:win relationship.
- Following 9/11, ADR declined three straight years, and took almost 8 years to fully recover. After the 2008 financial crises, ADR in the suburbs declined one year and took almost 4 years to recover. Given the steep declines seen the last three months, ADR is expected to take an extended period of time to recovery fully.



Suburban Boston Projections 2020



Assuming 10% of inventory is offline at YE:

	2019	2020	% Change
Occupancy	68.2%	32%	-53.1%
ADR	\$143.83	\$104	-27.7%
RevPAR	\$98.05	\$33	-66.1%

2020	% Change
36%	-47.9%
\$104	-27.7%
\$37	-62.3%

Reflect **total-room inventory methodology**, assuming no temporary hotel closures
Source: STR (Historic), Pinnacle Advisory Group (Projections)



Suburban Boston Projections 2021



Assuming 10% of inventory is offline:

	2020	2021	% Change
Occupancy	32%	46%	42.5%
ADR	\$104	\$116	11.5%
RevPAR	\$33	\$53	59.0%

	2021	% Change
Occupancy	51%	42.5%
ADR	\$116	11.5%
RevPAR	\$59	59.0%

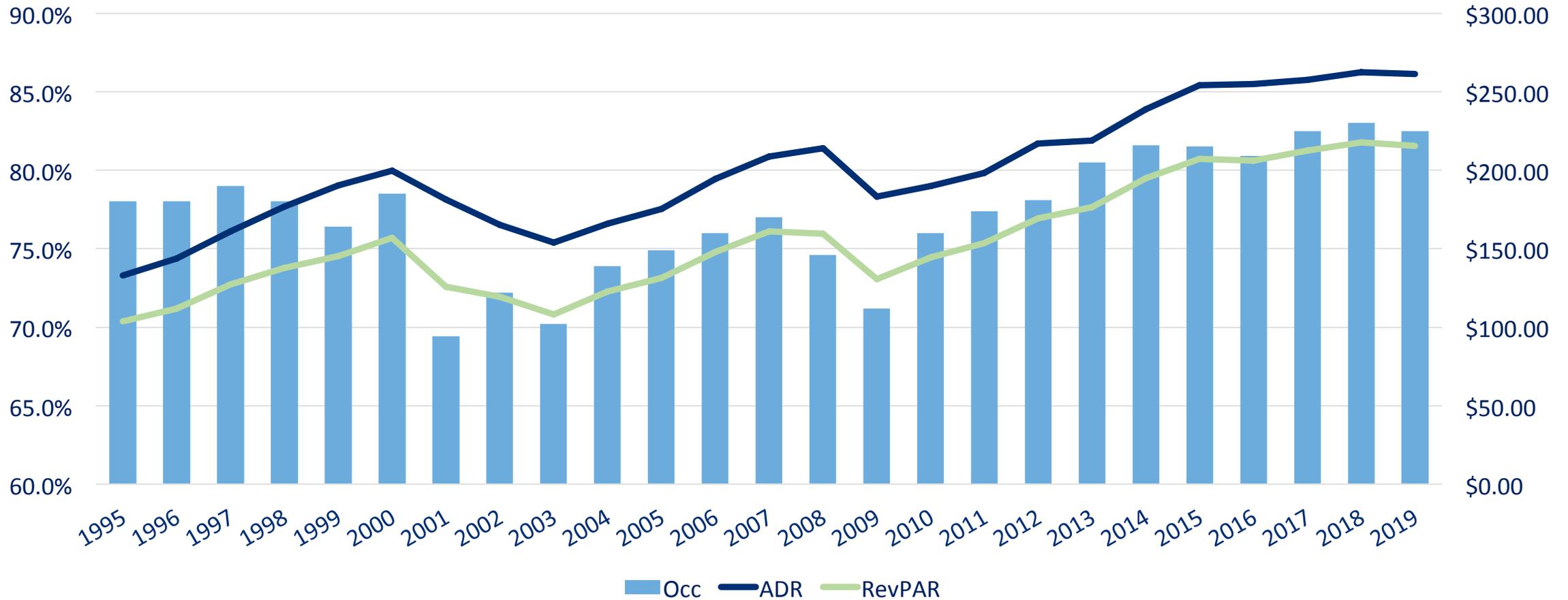
Reflect **total-room inventory methodology**, assuming no temporary hotel closures
Source: STR (Historic), Pinnacle Advisory Group (Projections)





BOSTON & CAMBRIDGE LODGING MARKET

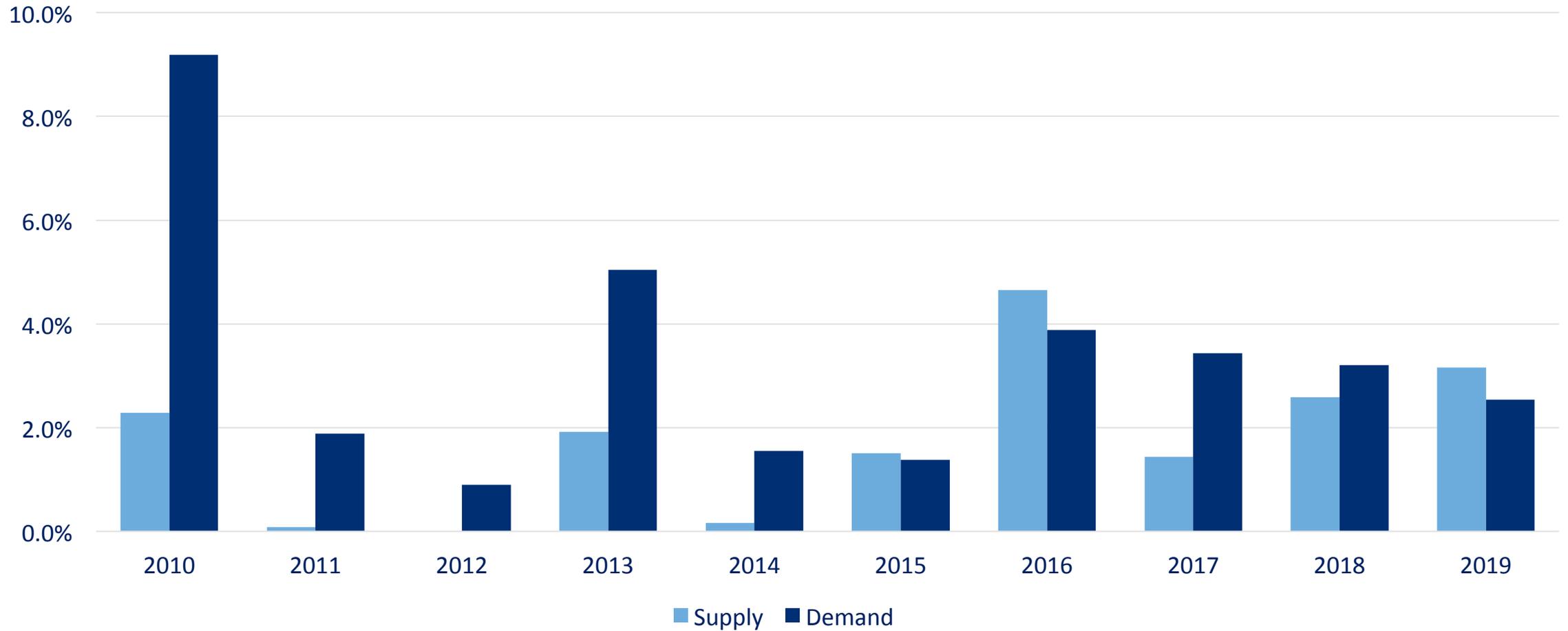
Boston & Cambridge Historic Performance



Source: Pinnacle Perspective, Pinnacle Advisory Group



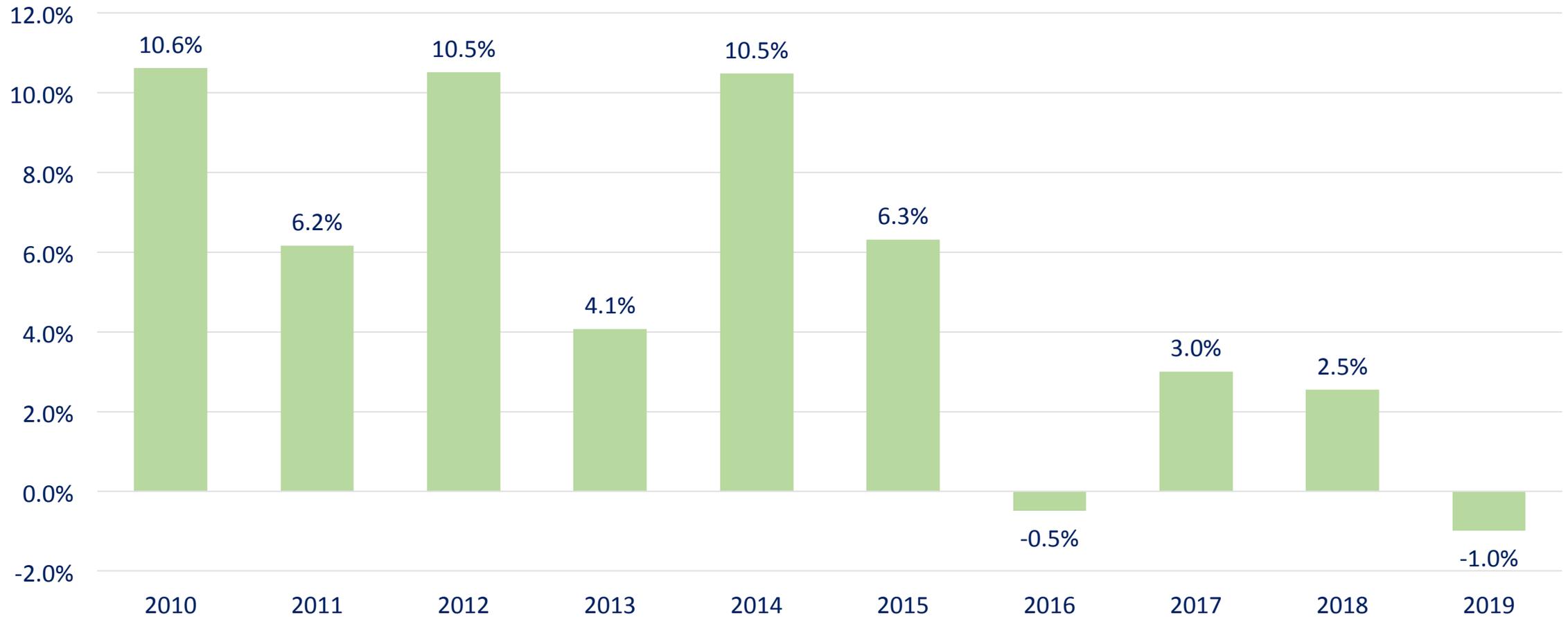
Boston & Cambridge Supply & Demand, % Change



Source: STR (supply), Pinnacle Advisory Group (demand)



Boston & Cambridge RevPAR % Change



Source: Pinnacle Perspective, Pinnacle Advisory Group



Boston & Cambridge YTD Performance

Two approaches...

1.5M
Occupied Rms

\$175
ADR

YTD June 2020 - Total Room Inventory							
	Jan	Feb	Mar	Apr	May	Jun	YTD
Occ	66.8%	73.0%	30.2%	5.0%	5.5%	7.1%	31.1%
ADR	\$170	\$179	\$203	\$127	\$110	\$141	\$175
RevPAR	\$114	\$130	\$61	\$6	\$6	\$10	\$54
* Total room inventory assumes all properties remain open, except seasonal closures and properties under renovation for greater than six months.							

100%
Rooms Supply
Assumption YTD

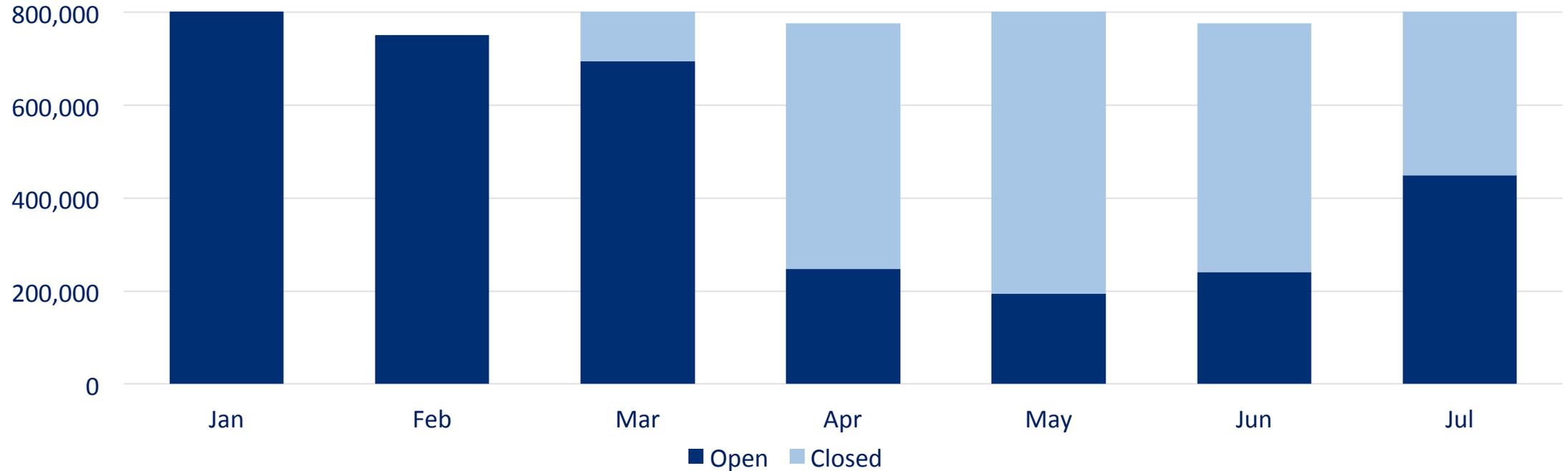
YTD June 2020 - Partial/Actual Room Inventory							
	Jan	Feb	Mar	Apr	May	Jun	YTD
Occ	66.8%	73.0%	34.7%	15.6%	22.9%	22.9%	49.9%
ADR	\$170	\$179	\$203	\$127	\$110	\$141	\$175
RevPAR	\$114	\$130	\$70	\$20	\$25	\$32	\$87
* Actual inventory assumes properties that are temporarily closed for the full month are removed from supply. Supply estimates based on property surveys, GBCVB, and interviews with property management							

62%
Rooms Supply
Assumption YTD



Boston & Cambridge 2020 Closures

Available Rooms (Open vs Closed) by Month 2020
As of August 15, 2020



Source: Pinnacle Advisory Group, Greater Boston Convention & Visitors Bureau

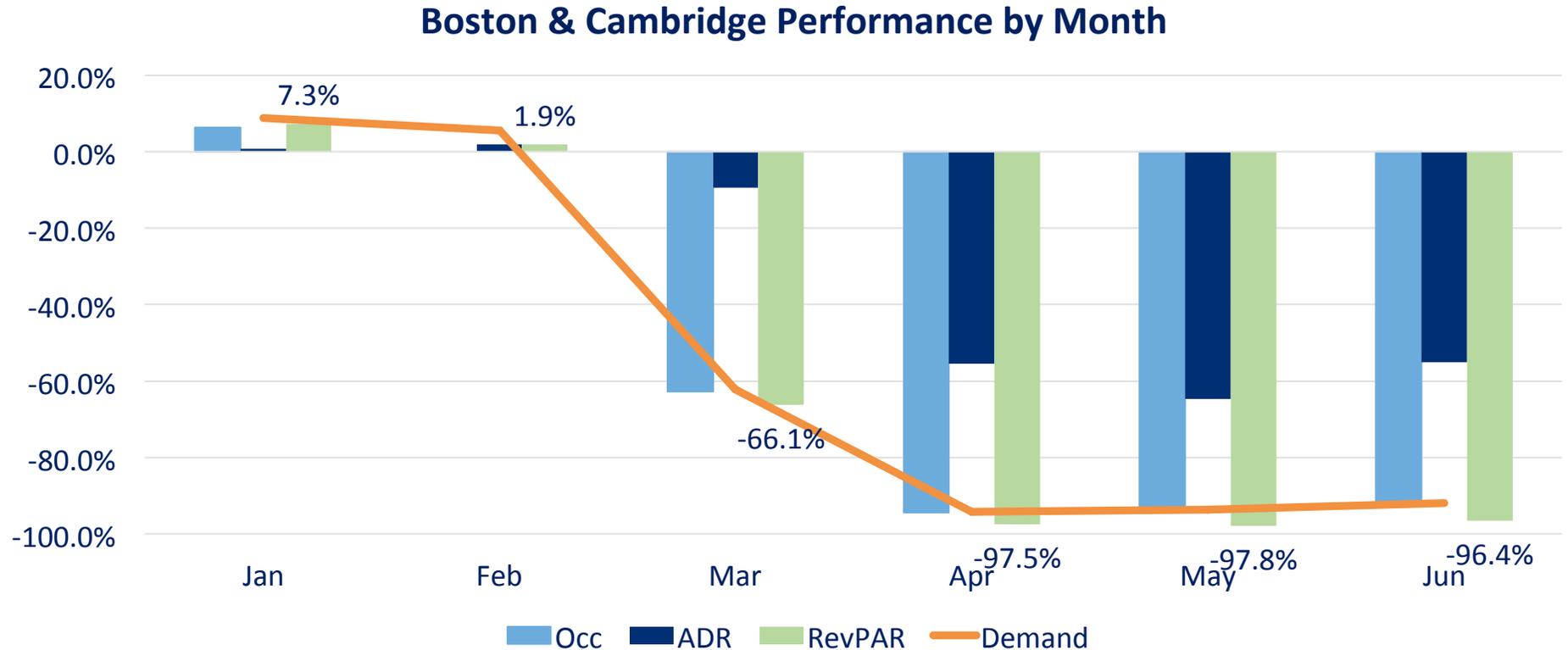


Boston & Cambridge YTD Performance

-61.4%
Occupancy

-31.1%
ADR

-73.4%
RevPAR



Note: The Governor of Massachusetts declared a state of emergency on March 10. Beginning April 1, hotels were only permitted to accommodate the COVID-19 essential workforce, other workers responding to the COVID-19 public health emergency, and vulnerable populations. This order ran until June 8 when hotels were permitted to reopen to the general public.

Source: Pinnacle Perspective

* Adjusted to reflect **total-room inventory methodology**, assuming no temporary hotel closures.



Boston & Cambridge New Supply 2020 & 2021

Opening 2020	Neighborhood	Scale	Rms	Est. Opening
Home2 by Hilton South Bay	Dorchester	Upper Midscale	130	Aug
907 Main	Central Square	Independent	67	Sep
Hyatt Place Boston Seaport	Seaport District	Upscale	293	Sep
Hilton Garden Inn Logan Airport (expansion)	East Boston	Upscale	83	Nov
The Newbury (prev. The Taj, closed Nov '19)	Back Bay	Luxury	286	Dec

+2.0%
2020 Increase

Opening 2021	Neighborhood	Scale	Rms	Est. Opening
Hampton Inn Boston Seaport (dual)	Seaport District	Upper Midscale	245	Q1
Homewood Suites Boston Seaport (dual)	Seaport District	Upscale	166	Q1
The Langham (closed Apr '19)	Downtown	Luxury	312	Q1
Omni Boston Seaport	Seaport District	Upper Upscale	1,055	Mid/Late

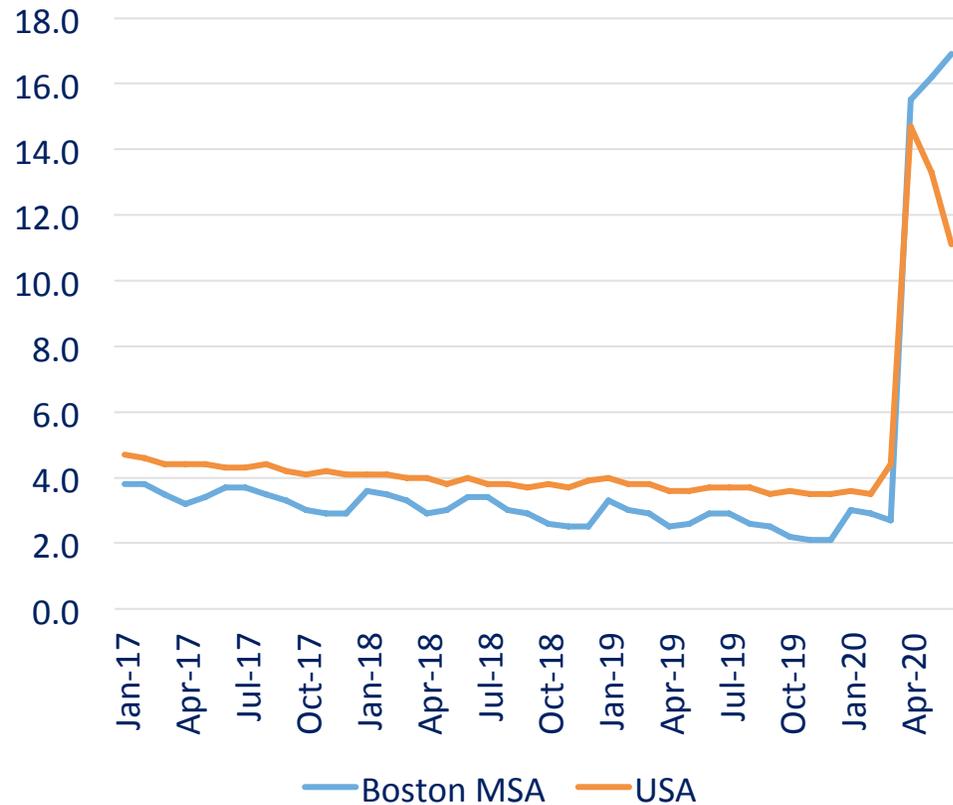
+6.0%
2021 Increase

Source: Various Developers, Operators, Brand Representatives, etc. Compiled by Pinnacle Advisory Group
Estimated opening dates subject to change. Projected changes to supply do not reflect temporary closures.

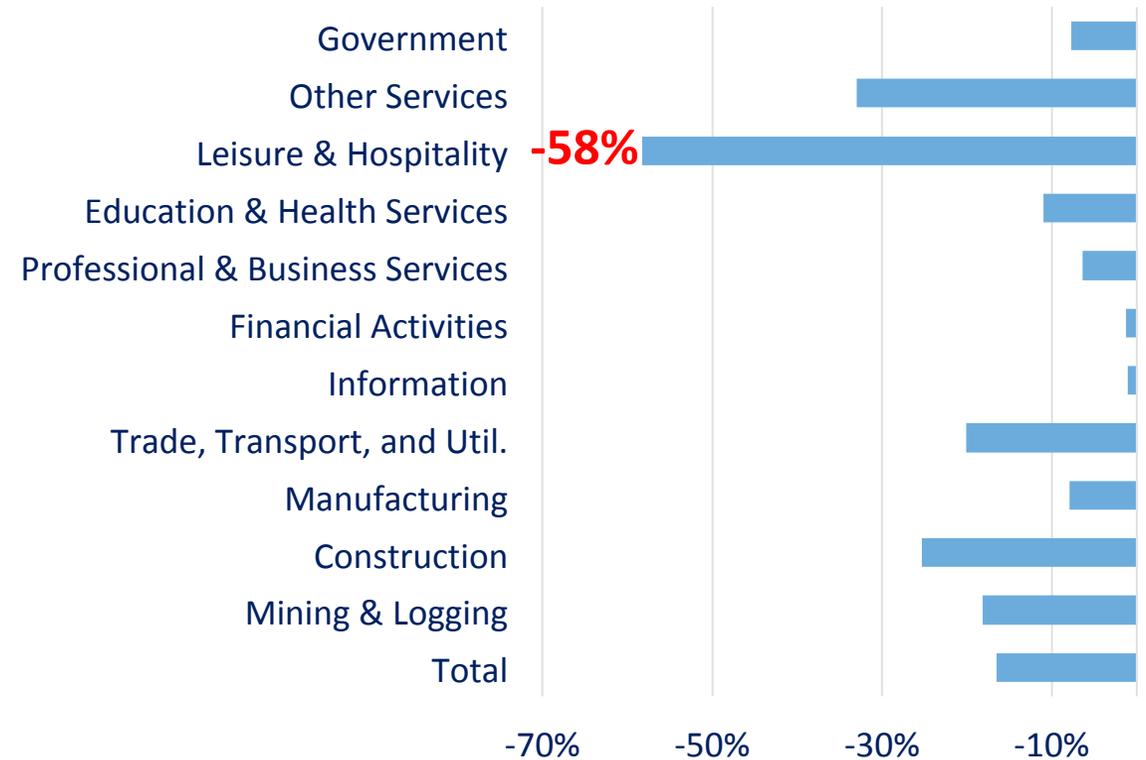


Greater Boston Economic Environment

Monthly Unemployment Rate



Mass. Employment by Industry June 2020, 12-month % Change



Source: Bureau of Labor Statistics



Boston Logan International Airport

Total Monthly Passengers



- 2019 was another record-breaking year for passenger traffic. Reaching 42.5 million, a 3.9% increase to prior year. International passenger traffic increased 9.7%.
- Driven by the negative impacts of the global pandemic, traffic through Logan Airport has decreased 60% YTD through June 2020.
- April was an all time low, with less than 100,000 passengers. This has increased the last two months reaching over 430,000 in June.
- Expansion plans have been significantly reduced; the monorail, two parking garages, and three of the original seven new international gates have been put on hold.



Boston & Cambridge Office Market, Q2 2020

Boston	Inventory (SF)	Absorption (SF)	Vacancy %
2019	72.0 M	1,358,800	7.9%
Q1 2020	72.4 M	(154,000)	8.6%
Q2 2020	72.3 M	(1,500,000)	10.6%

Cambridge	Inventory (SF)	Absorption (SF)	Vacancy %
2019	24.5 M	582,800	4.7%
Q1 2020	24.5 M	127,300	4.2%
Q2 2020	24.7 M	301,900	4.2%

Source: Colliers International



Boston & Cambridge Demand Trends

Corporate

- *Employers - Remote working, Travel cuts, Managing risks*
- *International – Dampening travel activity*
- *Economy – Stock prices volatile, Chapter 11, Uncertainty*

Group

- *Corporate and SMERF almost completely gone for 2020*
- *Cancellations now pushing into Q1 and Q2 of 2021, especially for larger groups*

Leisure

- *Schools – Hybrid models with virtual and in-person learning*
- *Tourism – Limited, potential impact from new travel restrictions and quarantine requirement*
- *Sports/Events – Sports without fans, events and concerts cancelled/postponed*

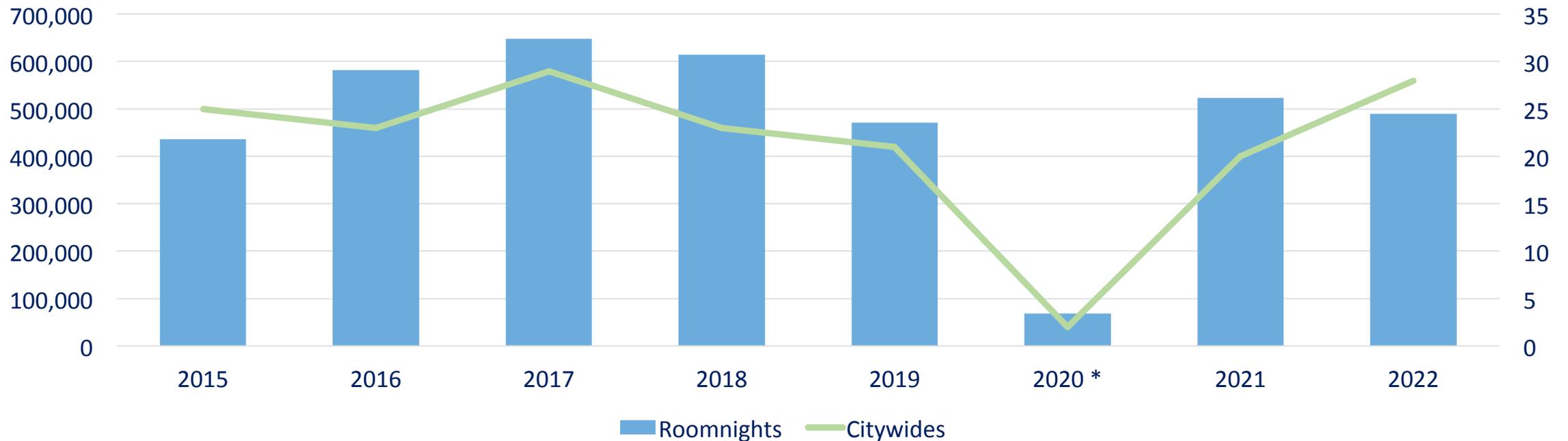
Contract

- *Flight and destination reductions*
- *Contracting to local colleges and universities*



Boston & Cambridge Convention Demand Trends

Convention Center Roomnights & Citywides On the books as of July 29, 2020



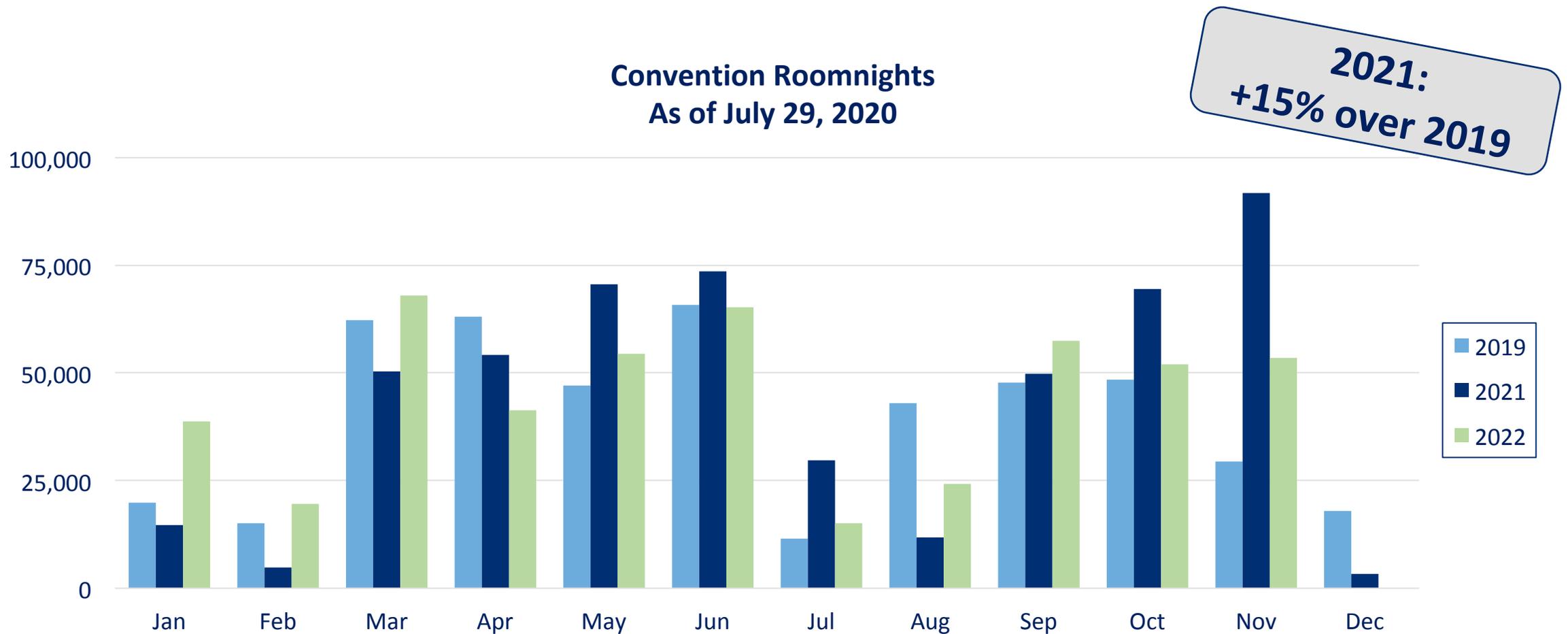
As defined by Pinnacle Advisory Group, a Citywide represents an event with 2,000+ roomnights on peak. Data does not include Head of the Charles & the Boston Marathon
Roomnights represent total rooms booked and does not account for attrition or rooms booked outside of the block.

* As a result of COVID-19, there were no events held at either convention centers in 2020 after March 9th.

Source: MCCA



Boston & Cambridge Convention Demand Trends



As defined by Pinnacle Advisory Group, a Citywide represents an event with 2,000+ roomnights on peak. Data does not include Head of the Charles & the Boston Marathon Roomnights represent total rooms booked and does not account for attrition or rooms booked outside of the block.

Source: MCCA



Boston & Cambridge ADR Trends

Past Recession Recovery Periods

- *ADR declined **15.2%** the 12 months following September 11, 2001. It took **68 months** to return to the levels experienced for the 12 months prior to the event.*
- *ADR declined **12.5%** the 12 months following the Financial Crises of 2008. It took **50 months** to return to the levels experienced for the 12 months prior to the event.*
- *ADR declines experienced since March are significantly steeper than those seen during these recessions.*

Group vs. Transient

- *During past recessions, operators discount rates and utilize OTA channels to increase demand. Leisure travelers are looking for these bargains already.*
- *In prior recession, group ADR actually increased at a faster rate because group contracts had been negotiated 12+ months prior. However, with lower-rated channels open to the public, meeting attendees in the blocks often times canceled and rebooked outside of the block.*

Compression

- *Compression night (market occupancy at/above 90%) and are responsible for the lion's share of annual RevPAR growth driven by ADR gains. City averaged approximately 145 compression nights the last three years. Without compression very little pricing power.*



Boston & Cambridge Projections 2020



Assuming 10% of inventory is offline at YE:

	2019	2020	% Change
Occupancy	82.5%	28%	-65.7%
ADR	\$261.31	\$175	-32.9%
RevPAR	\$215.61	\$50	-77.0%

2020	% Change
40%	-52.0%
\$175	-32.9%
\$70	-67.8%

Reflect **total-room inventory methodology**, assuming no temporary hotel closures
 Source: Pinnacle Advisory Group

Boston & Cambridge Projections 2021



Assuming 10% of inventory is offline:

	2020	2021	% Change
Occupancy	28%	45%	58.1%
ADR	\$175	\$195	11.3%
RevPAR	\$50	\$87	75.9%

2021	% Change
50%	25.3%
\$195	11.3%
\$97	39.4%

Reflect **total-room inventory methodology**, assuming no temporary hotel closures
Source: Pinnacle Advisory Group





The Silver Lining

Although the recovery will be slow, Greater Boston will benefit from...

- Reduction in new/existing supply
- Leisure travelers opting for domestic travel vs international
- Solid mix of business with diverse, stable demand generators
- Drive-to market, centrally located in New England



Pinnacle Advisory Group

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Portland

Washington DC

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