H2 2022 U.S. SWOT analysis

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Economists, politicians and business leaders are split on whether the U.S. economy is heading for a recession, is already in one, or will merely experience a slowdown. With continued supply chain disruptions, geopolitical conflicts (most notably the war in Ukraine), and the Fed's determination to continue increasing the federal funds interest rate, there is tremendous uncertainty around inflation and where the economy is heading.

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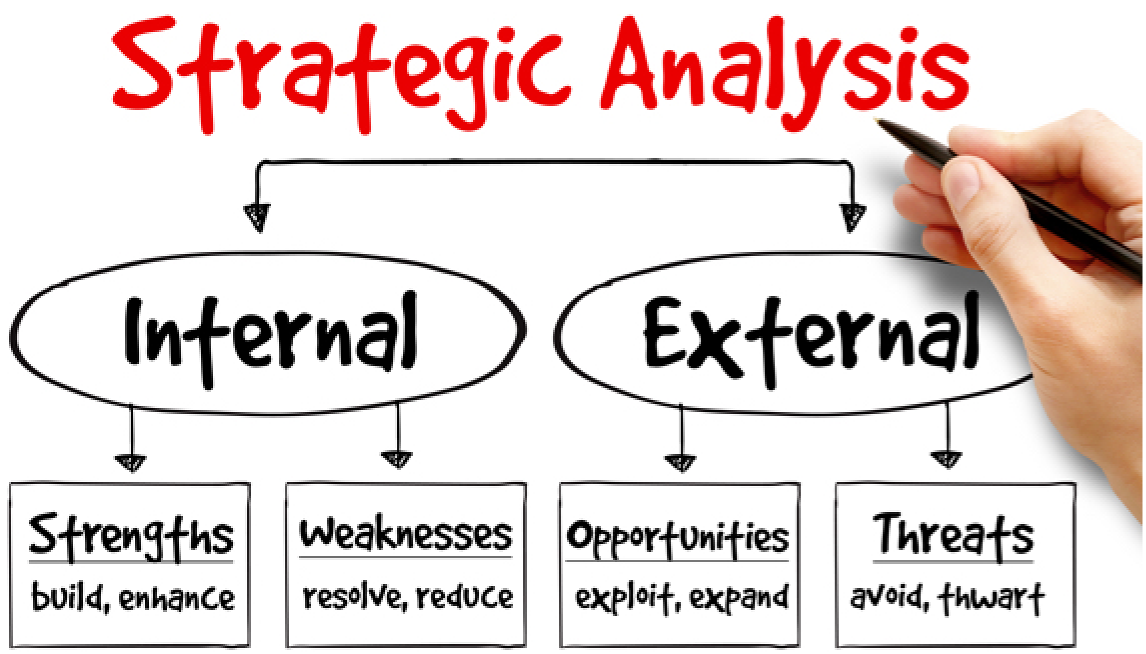
Despite macroeconomic uncertainties and capital markets volatility, remarkably the post-pandemic travel boom shows little signs of tapering off. Maintenance of pricing integrity during the COVID downturn has in part resulted in the first time that a lodging sector recovery is being led by average daily rate as opposed to demand and occupancy. As 2022 sunsets and the dawn of 2023 emerges, I have prepared the following SWOT analysis for the ever-changing and complex U.S. lodging industry.



Strengths:

- Mixed signals abound. However, U.S. gross domestic product (GDP) increased for the first time this year in the third quarter, expanding at a higher-than-expected 2.6% annually.

- Unemployment remains low, wage increases are strong and while growth and earnings are slowing, most consumers and corporations are in good financial condition with healthy underlying credit.
- Led by leisure travel, nationally, hotel room night demand has been increasing, as has group meeting/convention and at a much slower pace corporate transient business.
- Inbound foreign visitation has been increasing since the middle of this year when the U.S. ended COVID-19 testing requirements to enter the country.
- Led by rapidly rising room rates, U.S. RevPAR is projected to nominally exceed 2019 this year, and in real terms by 2025.
- Notwithstanding upward pressure on expenses, the sector has been attaining outstanding operating efficiencies, productivity and margins.
- Limited availability of construction finance and continued building labor shortages are dampening new hotel supply increases nationally, which are below long-term averages.
- Over the past several years, throughout the nation, dozens of hotels containing thousands of rooms have been demolished or converted to alternative uses and therefore permanently removed from available supply.
- The ongoing recovery in U.S. hotel performance metrics continues to attract institutional investors and spur trades, albeit at a slower pace than last year.
- Although the cost of borrowed funds has recently risen, debt capital remains available for acquisitions and refinancing.
- Copious amounts of institutional equity raised by a broad array of sources in anticipation of pandemic-induced distressed opportunities that never materialized remain available and earmarked for deployment.

Weaknesses:

- Warnings/fear of impending economic recession as rising interest rates threaten the U.S. housing market and consumer confidence.
- Heading into the winter season, the U.S. is facing a potential triple threat of flu, COVID-19, and Respiratory Syncytial Virus (RSV).
- Inordinate U.S. visa delays are limiting recovery of inbound foreign travelers.
- Although rising, U.S. return to office rates remain significantly below pre-pandemic levels.

Opportunities:

- With daily tenancies and continuous repricing of room rates, investment in lodging assets represent a terrific hedge against future inflation.
- As inflation rises, foreign investors are seeking investment in U.S. commercial real estate, including lodging assets.
- A wave of debt maturities through 2023 will result in refinancing, restructuring, and sale investment opportunities.

- Rebound in group and corporate demand is anticipated for many major urban markets where property values remain relatively depressed, and assets can be acquired at significant discounts to replacement cost.
- Increasing amounts of bleisure travel.
- Rising group demand is contributing to enhance the pricing power of hotel owners and operators.
- Technological advances continue to increase operating efficiencies.
- The developing trend of "hotelization" of real estate is an opening for lodging companies to further leverage their brand(s) and/or property management expertise toward all types of commercial and residential assets.
- Increased legal restrictions on short-term home-sharing rentals.

Threats:

- Inflation has placed upward pressure on rising operational expenses.
- Higher interest rates may create refinancing risk for the billions of dollars of U.S. hotel CMBS loans which are slated to mature through 2023.
- Supply chain disruptions continue to challenge many U.S. operations and much-needed renovations.
- Labor shortages and rising influence of unions create upward pressure on wages and benefits.
- Hotel property tax burdens and insurance premiums continue to rapidly rise.
- The sensitive data hotels capture as a fundamental part of business is vast and continues to represent high-value targets for cybercriminals.

To remain competitive, cutting-edge hotel market participants routinely consider the sector's highly fluid Strengths, Weaknesses, Opportunities, and Threats. While the aforementioned SWOT analysis covers a broad array of factors on a macro basis, it is extremely important to consider how each one may impact the future performance of an individual hotel when underwriting an acquisition or development opportunity.