

To our friends in the hospitality industry,

We have launched this newsletter to share the information that we are receiving from investors, lenders and capital providers of every kind. We know that it is impossible for anyone to genuinely stay abreast of the market while this hurricane rages around us, but we hope that we can contribute in a small way to filling in the gaps and helping to prepare for that time when we can begin to un-batten the hatches and think about a path forward. **If you are interested in having a conversation, please contact Alexander Bauman at [abauman@robert-douglas.com](mailto:abauman@robert-douglas.com) to coordinate a time.**

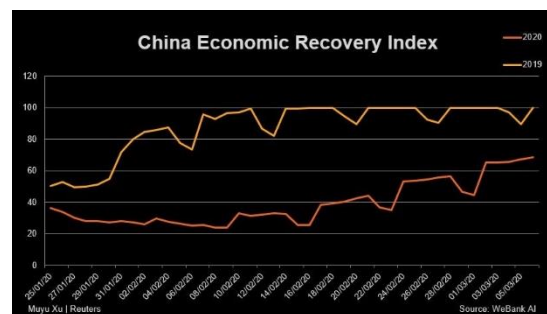
During the past two weeks, the team at RobertDouglas has maintained an active outreach to lenders and investors with the goal of understanding how those groups are responding to this crisis while providing counsel to our clients. No surprise, those discussions continue to evolve in a severely depressed environment. However, there are some rays of sunshine breaking through even these darkest of clouds.

The reality is that the hospitality capital markets are in unprecedented territory and the quarantines required in major markets from Milan to San Francisco to combat the spread of the coronavirus have landed a bullseye hit on the hospitality and travel industry. Hotel shares are experiencing a level of volatility that exceeds even the periods following 9/11 and 2008. However, many in the hospitality industry are less aware of the unprecedented tumult in the debt capital markets. The private and publicly-traded debt funds have been hammered, and, right now, those companies are more focused on managing their own balance sheets than they are on restructuring loans with existing borrowers. Life companies are evaluating their portfolios and the securitized market is essentially closed until further notice. Unlike 2008-09, the strongest money center and regional banks have taken a blow but are still standing.

HERE'S THE GOOD NEWS...

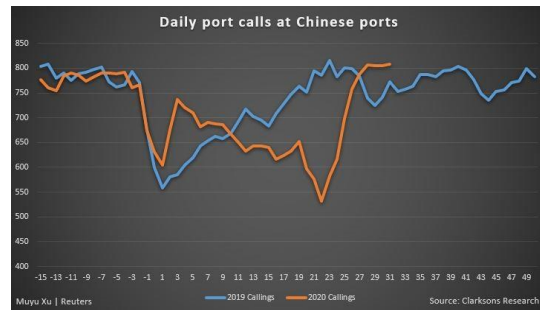
**Lenders and investors are still closing deals.** Last week we closed a JV equity investment with a major family office as well as a refinancing in Tennessee with a regional bank. Investors continue to look at new opportunities. No one knows when or where the bottom of this market will be, but everyone remembers Warren Buffett's observation, "when it's raining gold, reach for a bucket, not a thimble." The capital will be there for restructuring loans, strengthening balance sheets, acquiring new properties and reinvesting.

Here's some more good news. Two months after announcing the complete lockdown of Wuhan and a host of other quarantine-like measures, **China is recovering.** Beginning a week ago, travel restrictions began to be lifted in the province of Hubei. While data in China is notoriously unreliable, Apple has re-opened all 42 of its brand-operated retail stores in China and Starbucks has re-opened hundreds of its more than 3,500 locations in China. The China Economic



Recovery Index is slowly climbing back towards 2019 level after plunging by 75% following the Wuhan quarantine in late January.

Europe and North America are still on the most treacherous stretch of path that China appears to have navigated but we will, like them, find our way to firmer ground.

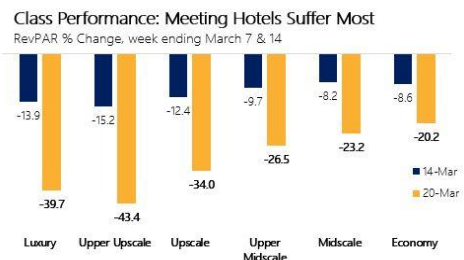


## The State of Play in Hospitality: A General Market Overview

Week Ending March 14th, 2020: STR Year-over-Year (YoY) Statistics

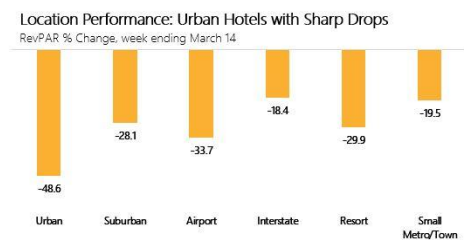
- **US RevPAR fell 32.5%** marking the second week in a row of double-digit RevPAR decline - but we know that this is not the trough. Anecdotal evidence from discussions with clients suggest that the next set of STR data is going to show most major metros down sharply again, with occupancy in the teens and single digits.

- **Class Performance:** Large, meeting (Upper Upscale) and Luxury hotels recorded sharp RevPAR declines of 43% and 40% respectively followed by Upscale, Upper Midscale, Midscale and Economy. Hotels dependent on group business held up for an extra week but are now almost empty. Convention Centers have emptied out and discussions with Convention and Visitor associations in major markets suggests that there will be zero convention business in most North American markets during the second quarter.



Source: STR

- **Location Performance:** Urban and Airport



Source: STR

hotels reported RevPAR declines of 49% and 34% respectively followed by Resort, Suburban, Small Metro/Town, and Interstate

- **Select Top 25 Markets:** Group RevPAR fell 90% in Seattle, 88% in San Francisco and 82% in Houston and Tampa recorded overall Occupancy of 75%, the highest in the country due to Spring Break
- **How does coronavirus compare to 9/11 and 2008?**

- The week ending September 22, 2001 marked the biggest RevPAR decline following 9/11: -38.0%
- The week ending September 12, 2009 marked the largest RevPAR drop post Lehman Brothers' collapse: -25.3

Week Ending	RevPAR % Decline	Following Week
September 22, 2001	-38.0%	-24.8%
September 12, 2009	-25.3%	-18.3%
March 14, 2020	-32.5%	Likely Worse

Source: STR

- **United States' Robust Construction Pipeline:** Supply has been the bugaboo of the market for the last five years, but this shock will likely change that dynamic. Lenders are pulling back on all but the most conservative development loans. Construction mezzanine lenders and tax credit lenders are walking back term sheets, so many projects will not move forward without large equity infusions. Expect to see many development projects stall for a period of time. The good news is that construction costs will certainly decline for a period of time

**In Construction Room Count: Matching Prior Record High**



Source: STR

BAIRD Hotel Stock Index: -50.2% YTD

2567.72 -2,593 (-50.2%) Range: 2567.72 - 2567.72 Open: 2575.18  
 Quote-time: Mar 23, 4:00 PM EDT 52 Week: 2277.36 - 5325.22

Companies...

Zoom 1d 5d 1m 6m YTD 1y

From 12/31/2019 To 03/23/2020



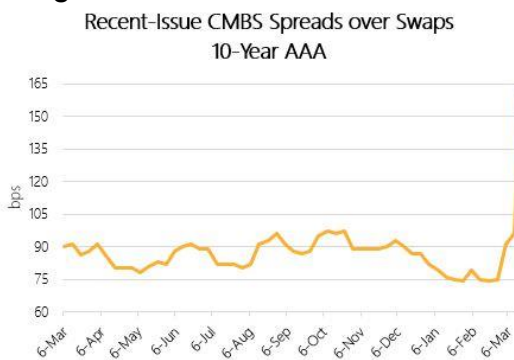
Source: HNN  
 (Stock Index of Top 20 Largest Market Capitalization Hotel Companies)

## Debt Capital Markets Overview

In the face of a global demand shock measured to be more impactful to the travel industry than each of the past two recessions combined, select lenders are still lending, but with extreme caution.

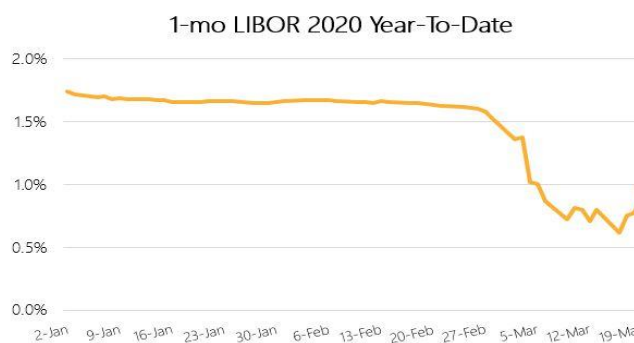
Lenders with liquidity are still willing to quote loans for the strongest borrowers, but those quotes have a shelf life of about twenty-four hours. **If you are working with a lender to close a loan, our advice is to count yourself lucky, stop quibbling over terms, accept newly introduced lender reserves and get it closed.**

Over the past week spreads have blown out while base rates have oscillated in a maddening fashion. Long-term "super senior" bond spreads on CRE widened to 250 basis points over swaps from 75 basis points in January. Bear in mind, those are spreads for all classes of CRE. The market for super-senior bonds on hotels is in excess 500bps.



One-month LIBOR on March 20th was 0.92%, off 81 bp and 50% year-to-date (floors estimated between 25 - 100 bp). On March 18th, HUD was ordered to suspended evictions and foreclosures for the next 60 days to homeowners with mortgages insured by the FHA. Commercial borrowers, especially hotel borrowers, are hopeful forbearance could pour over to commercial mortgages.

CMBS markets froze last week as no debt was originated and the bid for new bonds evaporated. Master and special servicers are beginning to have workout conversations with hotel borrowers and are signaling they will be flexible as many will allow FF&E Reserves to be used



to pay debt service. Overall, CMBS players plan to learn from their mistakes in 2008 and will likely let markets calm down rather than liquidating positions at an extreme discount. CMBS originators are also encouraging servicers to work cooperatively with borrowers. Whether the servicers, many of which are owned by private equity shops interested in using those servicing platforms as a feeder for distressed deals, will heed this advice remains to be seen.

Given all the fear and negativity in the marketplace, Neel Kashkari, President of the Federal Reserve Bank of Minneapolis expressed a positive sentiment during his 60 Minutes interview Sunday night, "Overall, I'm optimistic. Having been at the front line of the 2008 financial crisis and I saw how devastating that was, we did get through it. It was very painful for millions of Americans. We did get through it. We will get through this crisis."

We will continue to share our insights with you and hope this correspondence finds you safe and healthy.

Sincerely,

Robert Douglas