Effects of COVID-19 on Valuation of Hotels, Office Buildings, Retail

John S. Trabold, MAI
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COVID – 19 Timeline

• 12-31-19; Wuhan Municipal Health Commission, China, reported a cluster of cases of pneumonia in Wuhan, China
• 1-13-20; First case reported outside of China in Thailand
• 3-6-20; 21 of 46 Carnival cruise passengers test positive for COVID
• 3-7-20; 100,000 worldwide cases reported
• 3-30-20; Trump signs CARES Act
• 4-4-20; 1,000,000 worldwide cases reported
COVID – 19 Timeline

• 5-28-19; US death total passes 100,000
• 6-10-20; US Cases reach 2,000,000
• 9-28-20; Worldwide death toll surpasses 1,000,000
• 10-19-20; Worldwide cases pass 30,000,000
• 11-4-20; US surpasses 100,000 cases in a single day
• 12-11-20; Pfizer vaccine approved; Moderna approval follows one week later
• 2-22-20 US death toll passes 500,000
COVID Hotel Real Estate Impact

2019

- Occupancy: 66.1%
- Average Daily Rate: $131.11
- REVPAR: $86.73
- REVPAR Increase: 0.9%

2020

- Occupancy: 41.0%
- Average Daily Rate: $101.67
- REVPAR: $41.67
- REVPAR Increase: -51.9%
## Hotel Performance and Projections

### Baseline Forecast - US Lodging Industry

<table>
<thead>
<tr>
<th>Year</th>
<th>Occ</th>
<th>Occ^</th>
<th>ADR</th>
<th>ADR^</th>
<th>RevPAR</th>
<th>RevPAR^</th>
<th>Supply^</th>
<th>Demand^</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>65.4%</td>
<td>0.1%</td>
<td>$124.06</td>
<td>3.0%</td>
<td>$81.14</td>
<td>3.1%</td>
<td>1.4%</td>
<td>1.5%</td>
</tr>
<tr>
<td>2017</td>
<td>65.9%</td>
<td>0.7%</td>
<td>$126.81</td>
<td>2.2%</td>
<td>$83.52</td>
<td>2.9%</td>
<td>1.7%</td>
<td>2.4%</td>
</tr>
<tr>
<td>2018</td>
<td>66.1%</td>
<td>0.4%</td>
<td>$129.91</td>
<td>2.5%</td>
<td>$85.94</td>
<td>2.9%</td>
<td>2.0%</td>
<td>2.4%</td>
</tr>
<tr>
<td>2019</td>
<td>66.1%</td>
<td>-0.1%</td>
<td>$131.11</td>
<td>0.9%</td>
<td>$86.73</td>
<td>0.9%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>2020F</td>
<td>41.0%</td>
<td>-38.0%</td>
<td>$101.67</td>
<td>-22.5%</td>
<td>$41.67</td>
<td>-51.9%</td>
<td>1.5%</td>
<td>-37.0%</td>
</tr>
<tr>
<td>2021F</td>
<td>55.9%</td>
<td>36.3%</td>
<td>$110.69</td>
<td>8.9%</td>
<td>$61.83</td>
<td>48.4%</td>
<td>-1.1%</td>
<td>34.8%</td>
</tr>
<tr>
<td>2022F</td>
<td>65.0%</td>
<td>16.4%</td>
<td>$122.93</td>
<td>11.1%</td>
<td>$79.95</td>
<td>29.3%</td>
<td>0.0%</td>
<td>16.4%</td>
</tr>
<tr>
<td>2023F</td>
<td>66.6%</td>
<td>2.4%</td>
<td>$130.47</td>
<td>6.1%</td>
<td>$86.92</td>
<td>8.7%</td>
<td>0.6%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>


CBRE
### COVID IMPACT ON HOTEL VALUES BY CLASSIFICATION

**Figure 1: COVID-19 Value Impairment Classifications**

<table>
<thead>
<tr>
<th>Classification</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low (≤10%)</td>
<td>Economy / Midscale / Upper Midscale</td>
</tr>
<tr>
<td>Moderate (10-20%)</td>
<td>Upper Midscale / Upscale</td>
</tr>
<tr>
<td>High (20-30%)</td>
<td>Upper Upscale / Luxury</td>
</tr>
<tr>
<td></td>
<td>Drive to markets</td>
</tr>
<tr>
<td></td>
<td>Primary and secondary drive to markets, including resorts</td>
</tr>
<tr>
<td></td>
<td>Primary / Gateway markets, Fly to Resorts</td>
</tr>
<tr>
<td></td>
<td>Suburban / Small Metro / Interstate / Drive to Resort</td>
</tr>
<tr>
<td></td>
<td>Suburban / Small Metro / Interstate</td>
</tr>
<tr>
<td></td>
<td>Urban / Fly to Resort</td>
</tr>
<tr>
<td></td>
<td>Non-Urban Limited Service / Extended Stay</td>
</tr>
<tr>
<td></td>
<td>Non-Urban Limited Service / Select Service / Extended Stay</td>
</tr>
<tr>
<td></td>
<td>Full Service / Convention Hotels</td>
</tr>
<tr>
<td></td>
<td>&lt;$10M</td>
</tr>
<tr>
<td></td>
<td>$10M - $25M</td>
</tr>
<tr>
<td></td>
<td>&gt;$25M</td>
</tr>
<tr>
<td></td>
<td>Essential travelers; first responders; transportation industry; construction crews; temporary housing</td>
</tr>
<tr>
<td></td>
<td>Essential travelers; first responders; drive to leisure / corporate</td>
</tr>
<tr>
<td></td>
<td>Group / Convention; inbound international; fly to leisure / corporate</td>
</tr>
</tbody>
</table>

Source: CBRE Hotels Advisory
COVID IMPACT ON HOTEL VALUES BY CLASSIFICATION

**FIGURE 2: COVID-19 VALUE IMPAIRMENT DATA**

<table>
<thead>
<tr>
<th>SERVICE LEVEL</th>
<th>CHAIN SCALE</th>
<th>LOCATION TYPE</th>
<th>PRICE TIER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Service</td>
<td>-15.5%</td>
<td>Upper Tier</td>
<td>&gt; $25M</td>
</tr>
<tr>
<td>-27.0%</td>
<td>-17.1%</td>
<td>Mid-Tier</td>
<td>&lt; $25M</td>
</tr>
<tr>
<td>-35.0%</td>
<td>-9.0%</td>
<td>Non-Urban / Resort</td>
<td></td>
</tr>
<tr>
<td>-40.0%</td>
<td></td>
<td>Urban / Resort</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lower Tier</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>-15.9%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>-26.6%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>-26.7%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>-15.1% Average</td>
<td></td>
</tr>
</tbody>
</table>

Source: CBRE Hotels Advisory, Transaction and Appraisal Data
COVID IMPACT ON HOTEL VALUES STABILIZED

FIGURE 3: COVID-19 STABILIZED VALUES - APPRAISAL DATA ONLY

- **SERVICE LEVEL**: -10.2%
- **CHAIN SCALE**: -10.3%
- **LOCATION TYPE**: -10.8%
- **PRICE TIER**: -9.2%

- **Full Service**: -21.5%
- **Upper Tier**: -22.5%
- **Urban / Resort**: -20.4%
- **> $25M**: -21.8%
- **LS / SS / ES**: -35.0%
- **Mid-Tier**: -30.0%
- **Non-Urban / Resort**: -25.0%

Source: CBRE Hotels Advisory Appraisal Data
Valuation Keys

• Data
  • Get pre-COVID operating statements. YE 2019 and 2018 preferable.
  • Make a reasonable estimate of when the new normal will occur.
  • Deduct the loss of income during lease up.
  • Good news – business value argument may disappear for a period of time.
  • Monitor markets closely for transactions.
COVID Office Impact (Colliers)

**3Q-2019**

- Absorption: 10,400,000 in one quarter; 17,900,000 in the previous quarter
- Vacancy Rate: 11.4%. Vacancy had been has now been below its historic average for 19 consecutive quarters
- Gross Asking Rate: $50.05 psf in the CBD Class A; $31.15 Suburban Class A

**3Q-2020**

- Absorption: -36,100,000 in one quarter; lowest total in 20 years, surpassing -25,900,000 in Q1 2009 (Global Financial Crises)
- Vacancy Rate: 12.6% (70 basis points over previous quarter). Sublease part of problem (168,800,000 sf available)
- Gross Asking Rate: $50.80 psf in the CBD Class A; $32.03 Suburban Class A. More concessions
- Future of flexible office space: WeWork; floorplans
- Year over year transactions down 52%
Office Key Takeaways

• We will see the true impact of COVID as leases begin to expire across the market. More work at home.

• We will see more concessions across many markets. These concessions impact the top line and the bottom line.

• Many operating expenses are going to increase (especially janitorial and security).

• Designs could be shifted as to what is “productive”.

• Monitor markets closely for transactions.
COVID Retail Impact – Jones Lang LaSalle (JLL)

### 3Q-2019
- Total SF: 11,356,718,005
- Total Vacancy: 4.5%
- Quoted Rent: $18.36
- Absorption: 8,400,000 SF in 3Q alone

### 3Q-2020
- Total SF: 11,589,282,893 SF
- Total Vacancy: 5.0%
- Quoted Rent: $21.58
- Absorption: -19,200,000 SF; a 329.9% decline year over year
Retail Key Takeaways

• At quarantine peak, 263,250 stores were closed (61.8% of total). This represents 55.8% of all space.

• There have been 56 bankruptcy filings by major retailers since 2019. 89.3% have taken place since COVID-19. These bankruptcies will include the closing of over 7,800 stores. Most in Apparel, Health & Beauty and Department stores.

• Since COVID-19, entertainment visits are down 75% and fitness centers are down 50.8%.

• Grocery anchored centers have outperformed non-grocery anchored centers.

• Consumers continue the flight to on-line purchases. In store purchases focused on value.

• UBS forecasts that 100,000 brick and mortar stores will permanently close by 2025, while on-line sales will represent 25% of total sales.

• Monitor markets closely for transactions.
Rays of Sunshine

• Many residential markets have demonstrated appreciation during the pandemic.
• Many markets experienced a surge in residential remodeling.
• Demand has been extremely high for large distribution centers.
• Please stick around next year for my presentation...
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