

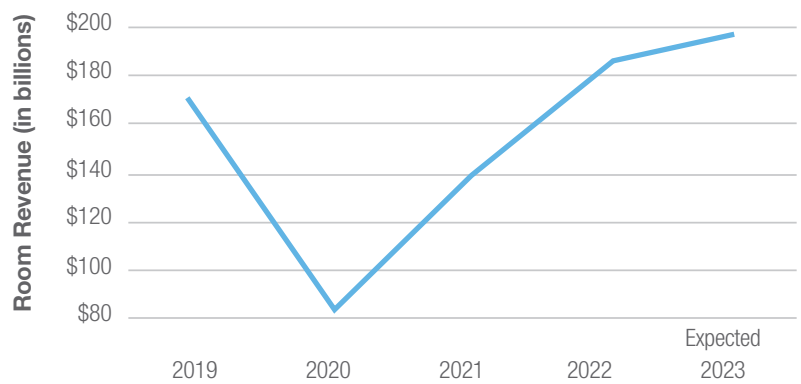
Hospitality Demand Expected to Surge

The return to business and leisure travel positions the sector for an expected strong rebound in 2023

The COVID-19 pandemic wreaked havoc on the hospitality sector with a myriad of unprecedented travel restrictions, lockdowns, cleaning requirements, and a general fear of guests not wanting to be in a room where someone slept the night before. In 2020, hotel room revenue fell nearly 50 percent across the U.S. to approximately \$86 billion from \$170 billion in 2019. In 2022, the room revenue rebounded to \$189 billion and is expected to reach nearly \$200 billion by year-end 2023.¹

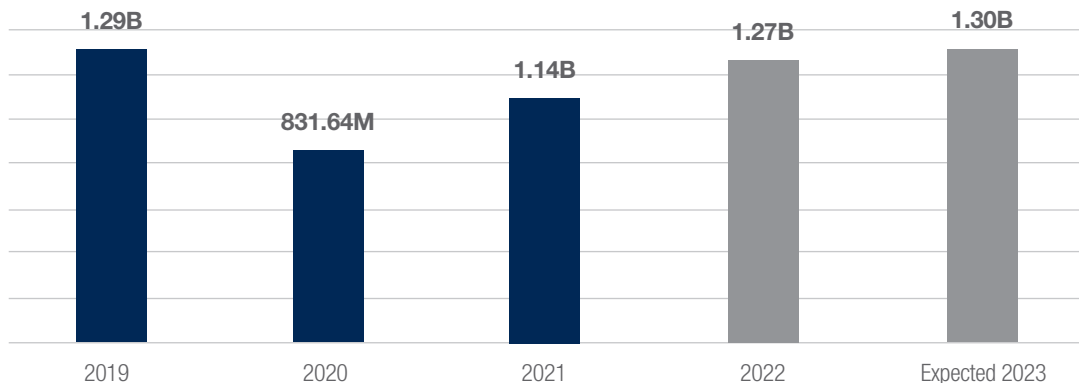
Although the hospitality sector was decimated in 2020, 2021 and 2022 brought positive changes with hotel room demand improving by 11.1 percent to reach 1.14 billion occupied room nights in 2021 and 1.27 billion occupied room nights in 2022. Hotel demand in 2023 is forecasted to achieve 1.3 billion occupied room nights, an increase of 56.9 percent from 2020's low of 831.64 million.¹

U.S. Hotel Room Revenue 2019-2023



Source: STR Global

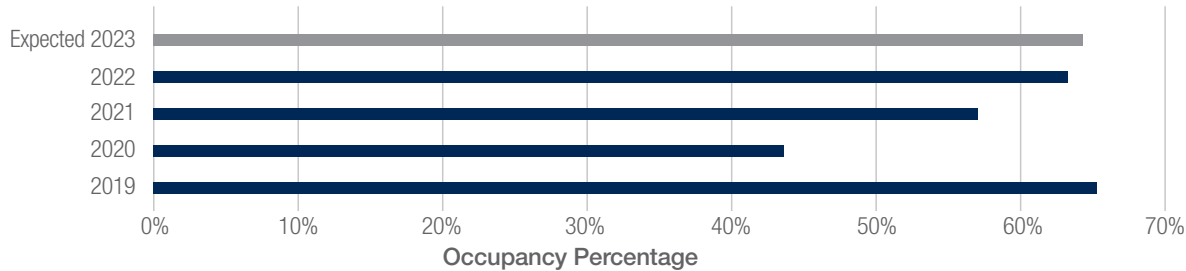
Hotel Room Demand 2019-2023



Source: STR Global

U.S. hotel occupancy is also nearing its pre-pandemic rate of 66 percent. 2022 occupancy rates were 62.7 percent, well above the 44 percent and 57.5 percent reached in 2020 and 2021, respectively. By year-end 2023, that figure is expected to continue its steady, upward trajectory to reach 63.8 percent.¹

U.S. Hotel Occupancy Rates 2019 to 2024



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The Era of the “New” Traveler

According to data from the Transportation Security Administration, U.S. passenger movement is back to 95 percent of its 2019 levels.² A pent-up desire to travel again and the flexibility to work remotely has had a profound impact on consumers’ attitudes and behaviors related to travel. “Bleisure” travel, which combines business and leisure trips, is expected to continue to surge throughout 2023 and beyond. Nearly two-thirds of individuals expect to take the same or more combo trips compared with 2019. In 2022 alone, the global bleisure tourism market was expected to reach just under \$500 billion.¹ Additionally, 78 percent of millennials want to spend their money on experiences rather than things. Hotels are starting to cater to that by offering experiential packages and accommodations that reflect the local culture rather than standardized branding.³

The average revenue per available room (RevPAR) of the U.S. hotel industry is on a steady increase despite some of the highest inflation rates in nearly forty years. STR* reported that through the week of February 11, 2023, average RevPAR was \$87.21, a 3.6 percent increase from the week prior.⁴ Average RevPAR in 2023 is projected to reach approximately \$96, up 11.6 percent from 2019.⁵

Hotels as an Inflation Hedge

The hospitality sector can be one of the best inflationary hedges in all of commercial real estate. Hospitality assets are incredibly diverse, spanning various geographic areas, brands and formats. Additionally, the length of stay for most guests is short, thus owners and operators have the ability to raise rates daily versus other real estate assets where rental or leasing rate increases could take years. This ability to raise rents frequently, combined with a large market landscape positions the hospitality sector well for periods of higher inflation.

*STR provides premium data benchmarking, analytics and marketplace insights for the global hospitality industry. STR was acquired in October 2019 as a division of CoStar Group, Inc., the leading provider of commercial real estate information, analytics and online marketplaces.

¹ American Hotel & Lodging Association. The New Era for U.S. Hotels. The American Hotel & Lodging Association 2023 State of the Hotel Industry Report. January 2023

² Hospitalitynet. The 33 Definitive Hospitality Industry Statistics You Need to Know For 2023. November 2022

³ IBISWorld. Hotels & Motels in the US - Market Size 2005–2028. July 2022

⁴ CoStar. STR: US Hotel Rates Maintain Strength in First Full Week of February. February 2023

⁵ Business Travel News. STR Increases 2023 U.S. Hotel Rate Forecast. January 2023

Disclosure

The views expressed herein are subject to change based upon economic, real estate and other market conditions. These views should not be relied upon for investment advice. Any forward-looking statements are based on information currently available to us and are subject to a number of known and unknown risks, uncertainties and factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements.

Important Risk Factors to Consider

Investments in real estate assets are subject to varying degrees of risk and are relatively illiquid. Several factors may adversely affect the financial condition, operating results and value of real estate assets. These factors include, but are not limited to:

- changes in national, regional and local economic conditions, such as inflation and interest rate fluctuations;
- local property supply and demand conditions;

- ability to collect rent from tenants;
- vacancies or ability to lease on favorable terms;
- increases in operating costs, including insurance premiums, utilities and real estate taxes;
- federal, state or local laws and regulations;
- changing market demographics;
- changes in availability and costs of financing;
- acts of nature, such as hurricanes, earthquakes, tornadoes or floods.
- economic risks associated with a fluctuating U.S. and world economy, including those resulting from the novel coronavirus and resulting pandemic.

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