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We live in extraordinary times as there are only a limited number of periods in America's 245-year history which have been as transformative as 2020 (i.e., 1776, 1865, 1929, 1945, 1968, 2001). The confluence of a global pandemic, mass civil disobedience, and the transfer of power will undoubtedly affect how we live and work in 2021 and beyond.

The COVID-19 pandemic which commenced in early 2020 represents yet another demarcation in life "before" and "after." 2020 began as geopolitical tensions spiked on January 3rd, and the U.S. stood at the brink of war when an American drone strike near the Baghdad International Airport in Iraq killed Iranian major general Qasem Soleimani. In addition to the human tragedy of illness and death produced during a global plague, the U.S. president was impeached by the House of Representatives, the nation has endured wide-ranging civil unrest, deadly wildfires that burned millions of acres throughout the western U.S, and a divisive nation elected a new president. The year culminated in yet another infamous day in American history, namely the shocking and unprecedented event at the U.S. Capitol in Washington DC on January 6th, 2021.

Since the onset of the deadly COVID-19 pandemic, citizens throughout the globe have experienced dramatic changes in everyday life. As of February 1, 2021, nearly 200 countries and territories around the world have reported a total of more than 100 million confirmed cases of the coronavirus COVID-19, and a death toll of more than 2.2 million. This once-in-a-century, worldwide pandemic has caused more than half the world's population to have endured shocking and incomprehensible full or partial lockdowns. The result has been a swift, wide, and deep economic recession that has decimated key travel and leisure-related industries including airlines, car rentals, cruise lines, ridesharing, tour operators, and transient lodging facilities.

Hotel industry metrics realized an unprecedented, sudden, and significant decline, all within just days of all-time highs, and after a ten-year rally. Nearly one year into the COVID crisis the U.S. lodging sector continues to experience negative stress as all segments of travel demand experience a sharp and sustained decline which continues to significantly lag behind pre-pandemic levels.

As we enter 2021, the U.S. is experiencing a record surge in coronavirus cases and continued government restrictions on travel and trade resulting in an astonishing economic crisis. That is the bad news; the good news is there are several reasons for optimism. In addition to the recent $900 billion second stimulus package for COVID-19 relief, a third round of $1.9 trillion appears to be on the horizon. Due to a reduction of spending in the services sector, the U.S. personal savings rate has increased dramatically. Combined, these elements should fuel consumer spending during the second half of 2021. Additionally, low interest rates are anticipated to endure for the foreseeable future. Furthermore, Democratic administrations tend to generate infrastructure investments to stimulate the economy. Finally, during the midst of one of the worst human and economic crises we have seen in our lifetimes, the Dow Jones Industrial Average (DJI) closed at a record high on January 20, 2021.

There have been several significant economic downturns over the past forty years, and with the benefit of hindsight, each has presented wonderful investment opportunities. It appears that this downturn may very well produce a period that rivals the very best in both returns and depth of opportunity. Given the widespread reduction in corporate, group, and leisure travel across the U.S., the lodging industry has been one of the hardest-hit sectors by the coronavirus pandemic. Many property owners, seduced by historically low interest rates, entered this era with healthy levels of leverage. Now with severely impacted net incomes for most property types (specifically larger, full-service hotels), the seeds for broad distress are now planted. Like prior downturns, many anticipate deep distress will produce increasing levels of loan defaults, which will likely continue for some time. While the coronavirus pandemic will ultimately wane and the beginnings of growth should be lined up for strong U.S. and global economic expansion, the reality is that no one knows how the effects of this crisis will continue to evolve, and how and when they will ultimately sunset.

The LW Hospitality Advisors (LWHA) Q1 2020 Major U.S. Hotel Sales Survey included 30 single asset sale transactions over $10 million, none of which are part of a portfolio. Allocations of individual prices from a portfolio sale transaction do not necessarily reflect market value for each asset and thus are not considered in the survey. The survey data reflects hotel sale price data prior to any impact of the COVID-19 spread across the U.S.

LWHA Q1 Major U.S. Hotel Sales Survey			
	Q1 2019	Q1 2020	% Chg
Transactions >$10M	39	30	-23%
Total Transaction $	$2.7B	$1.97B	-27%
Hotel Keys	7,900	7,600	-4%
Avg. Sale Price Per Key	$339,000	$259,000	-24%

Q1 2020 major hotel sale transactions totaled $1.97 billion and included approximately 7,600 hotel rooms with an average sale price per room of $259,000. By comparison, the Q1 2019 survey identified 39 transactions totaling roughly $2.7 billion including 7,900 hotel rooms with an average sale price per room of $339,000. Comparing Q1 2020 with Q1 2019, the number of trades decreased by approximately 23 percent while total dollar volume declined roughly 27 percent and sales price per room dropped by 24 percent.

The Q2 2020 survey illustrated a transaction market dramatically slowed to a crawl, with only six major U.S single asset hotel sale transactions over $10 million, none of which are part of a portfolio.

LWHA Q2 Major U.S. Hotel Sales Survey			
	Q2 2019	Q2 2020	% Chg
Transactions >$10M	35	6	-83%
Total Transaction $	$2.6B	$246M	-91%
Hotel Keys	9,100	1,459	-84%
Avg. Sale Price Per Key	$286,000	$169,000	-41%

Q2 2020 major hotel sale transactions totaled $246 million and included approximately 1,459 hotel rooms with an average sale price per room of $169,000. By comparison, the Q2 2019 survey identified 35 transactions totaling roughly $2.6 billion including 9,100 hotel rooms with an average sale price per room of $286,000. Comparing Q2 2020 with Q2 2019, the number of trades decreased by approximately 83 percent while total dollar volume declined roughly 91 percent and sales price per room dropped by 41 percent.

The Q3 2020 survey included 12 single asset sale transactions over $10 million, none of which are part of a portfolio.

LWHA Q3 Major U.S. Hotel Sales Survey			
	Q3 2019	Q3 2020	% Chg
Transactions >$10M	40	12	-70%
Total Transaction $	$3.725B	$829M	-78%
Hotel Keys	13,100	2,705	-79%
Avg. Sale Price Per Key	$283,000	$307,000	8%

Q3 2020 major hotel sale transactions totaled $829 million and included approximately 2,700 hotel rooms with an average sale price per room of $307,000. By comparison, the Q3 2019 survey identified 40 transactions totaling roughly $3.725 billion including 13,100 hotel rooms with an average sale price per room of nearly $283,000. Comparing Q3 2020 with Q3 2019, the number of trades decreased by approximately 70 percent while total dollar volume declined roughly 78 percent and sales price per room increased by roughly 8 percent.

The Q4 2020 survey included 32 single asset sale transactions over $10 million, none of which are part of a portfolio.

LWHA Q4 Major U.S. Hotel Sales Survey			
	Q4 2019	Q4 2020	% Chg
Transactions >$10M	54	32	-41%
Total Transaction $	$9.1B	$2.3B	-75%
Hotel Keys	19,900	7,700	-61%
Avg. Sale Price Per Key	$453,000	$295,000	-35%

Q4 2020 major hotel sale transactions totaled $2.3 billion and included approximately 7,700 hotel rooms with an average sale price per room of $295,000. By comparison, the Q4 2019 survey identified 54 transactions totaling roughly $9.1 billion including 19,900 hotel rooms with an average sale price per room of roughly $450,000. Comparing Q4 2020 with Q4 2019, the number of trades decreased by approximately 41 percent while total dollar volume declined roughly 75 percent and sales price per room decreased by roughly 35 percent.

The paucity of arm's length hotel sale transactions during Q2 and Q3 2020 hindered price discovery and market participants struggled to determine applicable discounts to pre-COVID levels. Q3 2020 was the second consecutive quarter during which U.S. hotel market transaction activity remained anemic with a relatively wide bid-ask spread. Generally, sellers expressed willingness to consider a 10 to 15 percent discount to pre-COVID pricing while buyers have been interested in transacting at a 20 to 40 percent reduction to pre-COVID values.

Although dramatically lower than 2019, during the last three quarters of 2020 the number of trades and total dollar volume dramatically increased while sales price per room decreased by roughly 4 percent.

LWHA Major U.S. Hotel Sales Survey					
	Q2 2020	Q3 2020	% Chg	Q4 2020	% Chg
Transactions > $10M	6	12	100%	32	167%
Total Transaction $	$246M	$829M	237%	$2.3B	177%
Hotel Keys	1,459	2,705	85%	7,700	185%
Avg. Sale Price Per Key	$169,000	$307,000	82%	$295,000	-4%

For the year 2020, the LWHA Major U.S. Hotel Sales Survey included 80 single asset sale transactions over $10 million, none of which are part of a portfolio.

LWHA 2020 Major U.S. Hotel Sales Survey			
	2019	2020	% Chg
Transactions >$10M	164	80	-51%
Total Transaction $	$17.7B	$5.3B	-70%
Hotel Keys	48,800	19,500	-60%
Avg. Sale Price Per Key	$364,000	$273,000	-25%

2020 major hotel sale transactions totaled $5.3 billion and included approximately 19,500 hotel rooms with an average sale price per room of $273,000. By comparison, 2019 saw 164 transactions totaling roughly $17.7 billion including 48,800 hotel rooms with an average sale price per room of $364,000. Comparing 2020 with 2019, the number of trades decreased by just over 50 percent while total dollar volume declined roughly 70 percent and sales price per room decreased by roughly 25 percent.

During the Q2 and Q3 2020, a half dozen U.S. hotel sale transactions produced market-based evidence of pandemic-induced value erosion.

- The Buccini/Pollin Group (BPG) acquired the 622 room Renaissance Baltimore Harborplace Hotel in Baltimore, MD for $80 million or $129,000 per unit. In January 2020, BPG signed a contract to purchase the hotel for $100 million. During March 2020 when the COVID-19 crisis hit the U.S. in earnest, the seller, Sunstone Hotel Investors Inc., agreed to lower its clearing price resulting in a 20 percent decline.
- BentallGreenOak (BGO), Flank Management LP (Flank), and Geolo Capital (Geolo) announced in June the acquisition of the Hutton Hotel in Nashville, Tenn., in an all-cash $70 million or $280,000 per room purchase price. The seller, Watermark Lodging Trust

(formerly known as Carey Watermark Investors Inc.), reportedly acquired the property in 2013 for $73.6 million and The Wall Street Journal recently published that, "The 250-room hotel was valued between $90 million to $100 million before the COVID-19 outbreak, according to people familiar with the matter." The most recent trade indicates a decrease in value of more than 20 percent.

- Magna Hospitality Group purchased the 310 key Embassy Suites by Hilton New York Manhattan Times Square in New York, NY for a reported purchase price of $115.1 million or roughly $371,000 per unit. The seller, Ashford Hospitality Trust Inc. (AHT), acquired the property in early 2019 for $195 million, representing a 41% erosion of value during their 18-month hold.
- A joint venture comprised of Highgate and Rockpoint Group, sold to MCR the 168-room Royalton New York hotel for a reported $40.8 million or $243,000 per unit. During the past decade, the property has sold twice, representing a decline in pricing on each occasion. The current seller had acquired the asset for $55 million in 2017 from FelCor Lodging Trust Inc., and who in turn had paid $88 million for the property in 2011. Although due to a variety of reasons the Royalton New York hotel was financially challenged prior to the pandemic, the most recent sale represents a more than 25 percent decrease in value.
- Mansueto Properties, an entity created to hold the real estate holdings of Joe Mansueto, Founder and Executive Chairman of Morningstar, acquired from Walton Street Capital the 215-key Waldorf Astoria Chicago for $54 million or $251,000 per unit. During September 2019, a seller-sponsored debt fund foreclosed on a defaulted $90 million loan encumbering the property which previously sold in 2015 for approximately $112 million or more than 50 percent lower than the most recent trade.
- In April 2020, Xenia Hotels & Resorts terminated a proposed $100.5 million sale of the 492-key Renaissance Austin Hotel. During November 2020, the Axton Group acquired the property for $70 million which represents a 30 percent deterioration of value within a seven-month period.

A remarkable Q3 2020 trade was Blackstone's sale of the 299-key Residence Inn by Marriott Arlington Pentagon City in Arlington, VA. Acorn Development LLC, a subsidiary of Amazon, acquired the asset for $148.5 million or nearly $500,000 per unit and the 24-year-old high-rise hotel is currently being demolished to incorporate the 1.5-acre site into the HQ2 PenPlace Development. In mid-2019, Blackstone purchased the property for $99.1 million from Host Hotels & Resorts, Inc. (HST). The latest transaction represents an approximate 50% profit within one year for Blackstone. What is intriguing about the most current sale is that Amazon's HQ2 plans were widely known when HST sold the asset to Blackstone for nearly $50 million less only one year ago.

Although the near-term travel market appears bleak, the hotel investment market has seen a surge of interest from a broad array of sophisticated institutional and high-net-worth sponsors who are familiar with the sector and know how to assess risk(s) associated with capitalizing lodging assets. Pre-COVID hotel investor returns generally reached new lows as asset prices were relatively high. Today, with mounting operational losses, especially for larger, full-service assets, and the continued requirement to service debt(s), pressure is intensifying on owners to capitulate to realistic property values, which will ultimately enhance returns on lodging investments for buyers in the market today.

Numerous institutional investment firms have raised significant amounts of leverageable capital in anticipation of a coming wave of distressed commercial properties including hotels that will come to market in 2021 and 2022. Given the amount of available dry capital, the most compelling opportunities will be "bid up" and although numerous transactions will be spurred on by distress, many will not necessarily reflect distressed pricing. Long-term opportunistic investors that bet big, at the right basis, and early in the cycle will likely reap tremendous financial rewards, particularly contrarian sponsors who acquire large urban corporate and group meeting/convention hotels at fractions of their replacement cost.

History has proven that early-cycle contrarian, well-capitalized, value-oriented investors with proven long-term track records over multiple prior cycles, invariably acquire lodging sector loans, assets, and operating companies at an attractive basis that ultimately realize outsized returns on investment. The fact is that over a long-term basis, commercial real estate and particularly hotels, offer superior risk-adjusted yields compared with other investment classes focused on value-add opportunities.

The uncertain macroeconomic environment presented by the pandemic will surely present opportunities to acquire assets from motivated sellers facing near-term pressures. Additional price discovery clarity will emerge in 2021 and 2022 as an increasing volume of market-based U.S. hotel sale transactions comes to fruition. Hotels located in urban markets, particularly group and meeting/convention-oriented properties, have been most negatively impacted and will likely take the longest period to recover. Buyers during 2021 will include open-ended commercial real estate funds, highly leveraged financial institutions, public REITs, and private developers. While the post-COVID-19 environment may meaningfully reduce demand for commercial real estate including hotels, past downturns no matter how painful, have always been followed by recoveries during which new highs were achieved for both rental rates as well as property valuations.

Daniel H. Lesser is President & CEO of LW Hospitality Advisors, a leading hospitality valuation and advisory services firm. He brings more than 30 years of expertise in a wide range of hospitality operational, investment counseling, valuation, advisory, and transactional services. He provides services to corporate, institutional, and individual clients as well as public agencies on all facets of hospitality real estate including litigation support and expert testimony, site evaluation, highest and best use analysis, appraisals for mortgage, acquisition, and portfolio management, workout strategies, operational analysis, property tax assessment appeal evaluations, economic impact studies, deal structuring, and fairness opinions. He earned a Bachelor of Science degree in Hotel Administration from Cornell University, and also attended the Ecole hôtelière de Lausanne, Switzerland and Baruch College – City University of New York. Mr. Lesser holds the following professional designations: MAI (Member of the Appraisal Institute), FRICS (Fellow of The Royal Institution of Chartered Surveyors), CRE (Counselor of Real Estate), and CHA (Certified Hotel Administrator).