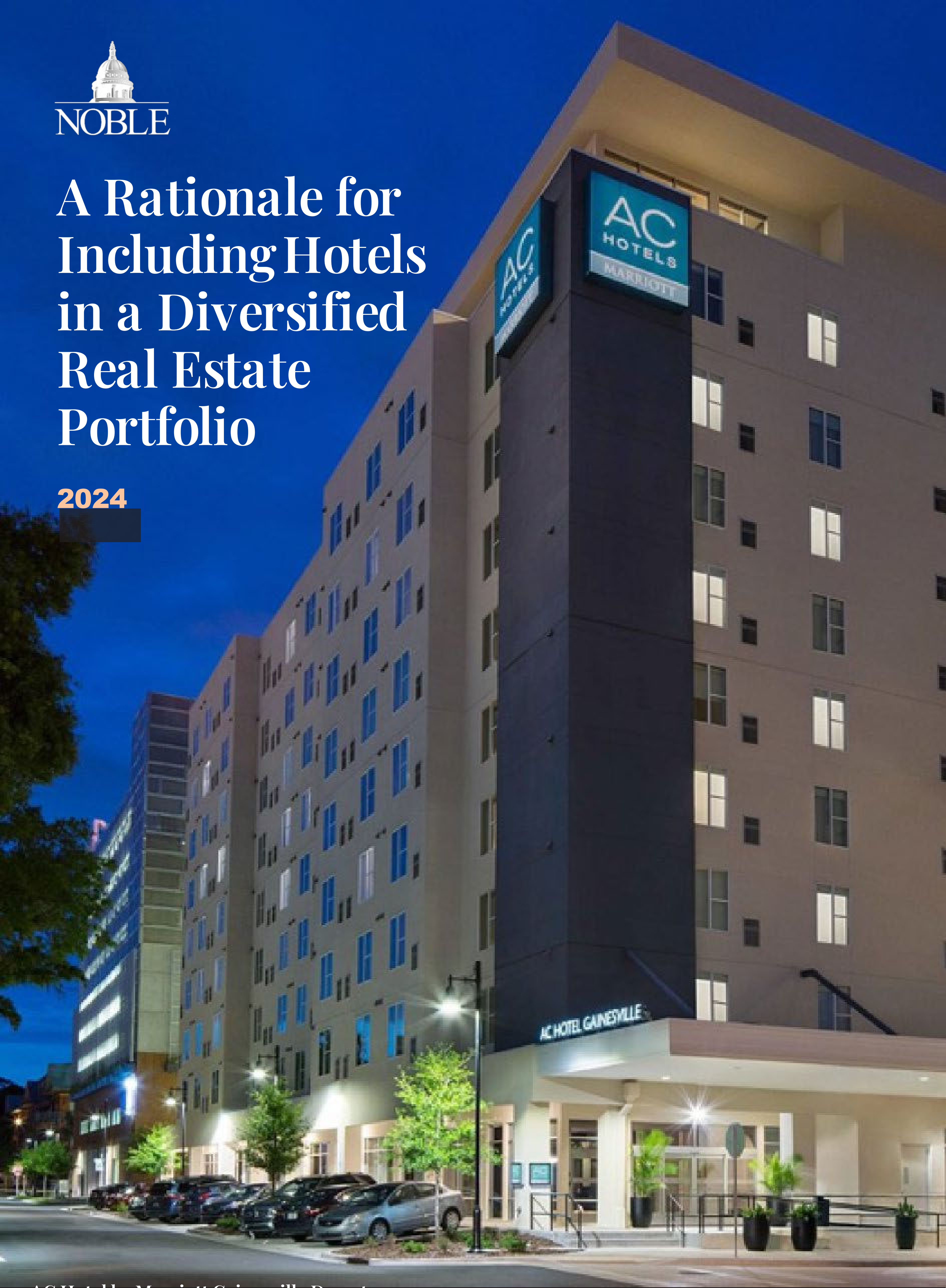
NOBLE

A Rationale for Including Hotels in a Diversified Real Estate Portfolio

2024



AC Hotel by Marriott Gainesville Downtown

Table of Contents

I. Executive Summary

Investing in hotels allows investors to benefit from traditional real estate attributes such as current income, asset appreciation, and portfolio diversification. Hotels also have additional levers to generate alpha, including superior asset and operations management. Further, investing in hotels provides investors with the opportunity to capitalize on the continued growth of travel, which will be positively influenced by demographic trends, particularly due to the depth and breadth of the Baby Boomer and Millennial generations, business travel recovery, and advancements in technology and innovation.

Today's entry point for investing in hotels is attractive and creates significant potential to generate outsized returns due to:

- Portfolio Diversification: More Durable Current Income and Resiliency Through Economic Cycles
- Strong Secular Demand Trends: Demographics, Return of Business Travel & Group Demand, Technology & Innovation
- Sustained Limited New Supply
- Discounts to Replacement Costs: as High as 50%
- Accretive Leverage: Cap Rates of 8-9% and Debt Costs of 7-8%
- Stressed Capital Structures

II. Hotel Landscape

Hotels are generally categorized by amenity/service level or positioning on the Smith Travel Research (STR) chain scales.

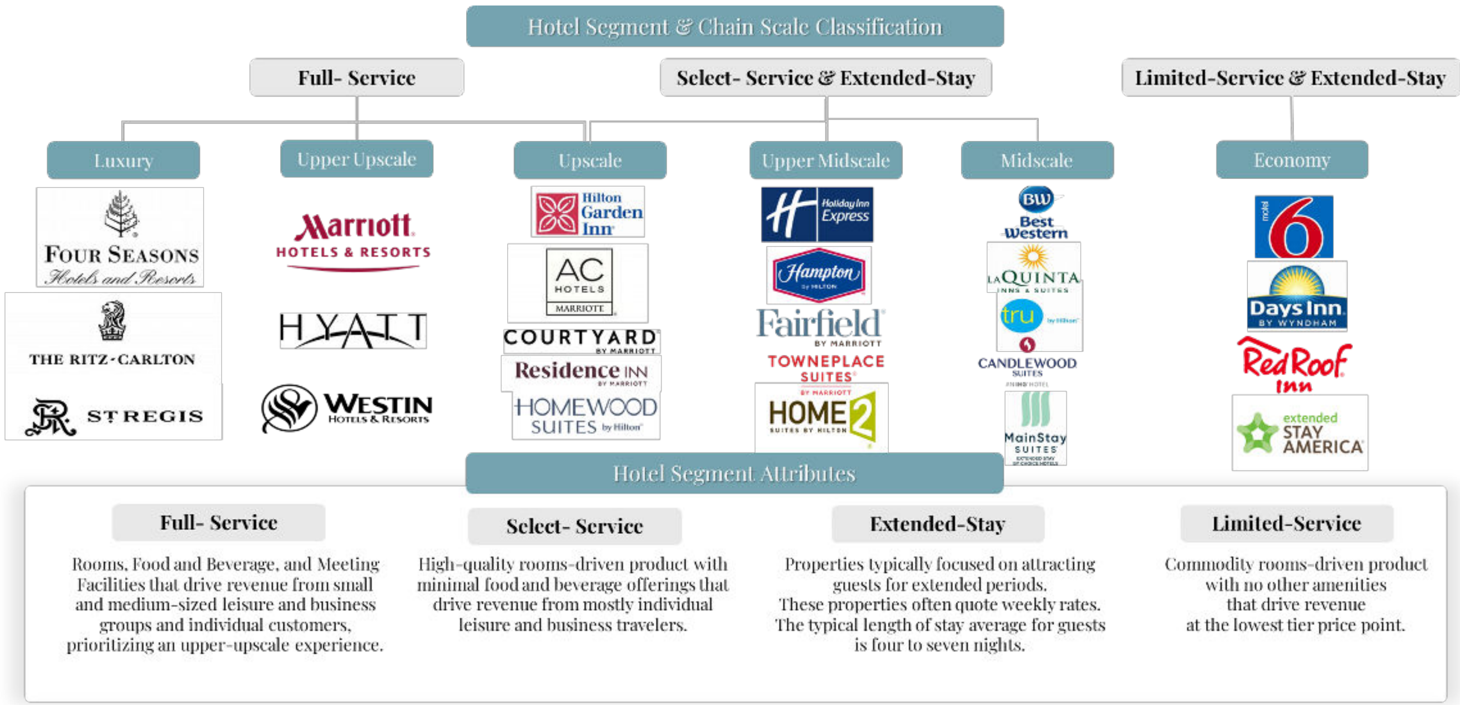
Categorizations by amenity/service level include:

- Full-Service
- Select-Service
- Extended-Stay
- Limited-Service

The STR chain scale divides hotels into six tiers based primarily on the hotel's average daily room rate. The six categories are as follows (See Exhibit 1 on page 18 for more detail about chain scale economics):

- Luxury
- Upper Upscale
- Upscale
- Upper Midscale
- Midscale
- Economy

Below is a diagram showing the above categories, with examples of well-known brands. Definitions are in the Glossary of Terms.



It is important to note that the terms Select-Service and Limited-Service are often used interchangeably. Extended-Stay hotels can fall into multiple chain scale classifications, including:

- Upscale, Upper Midscale, and Midscale
- Economy

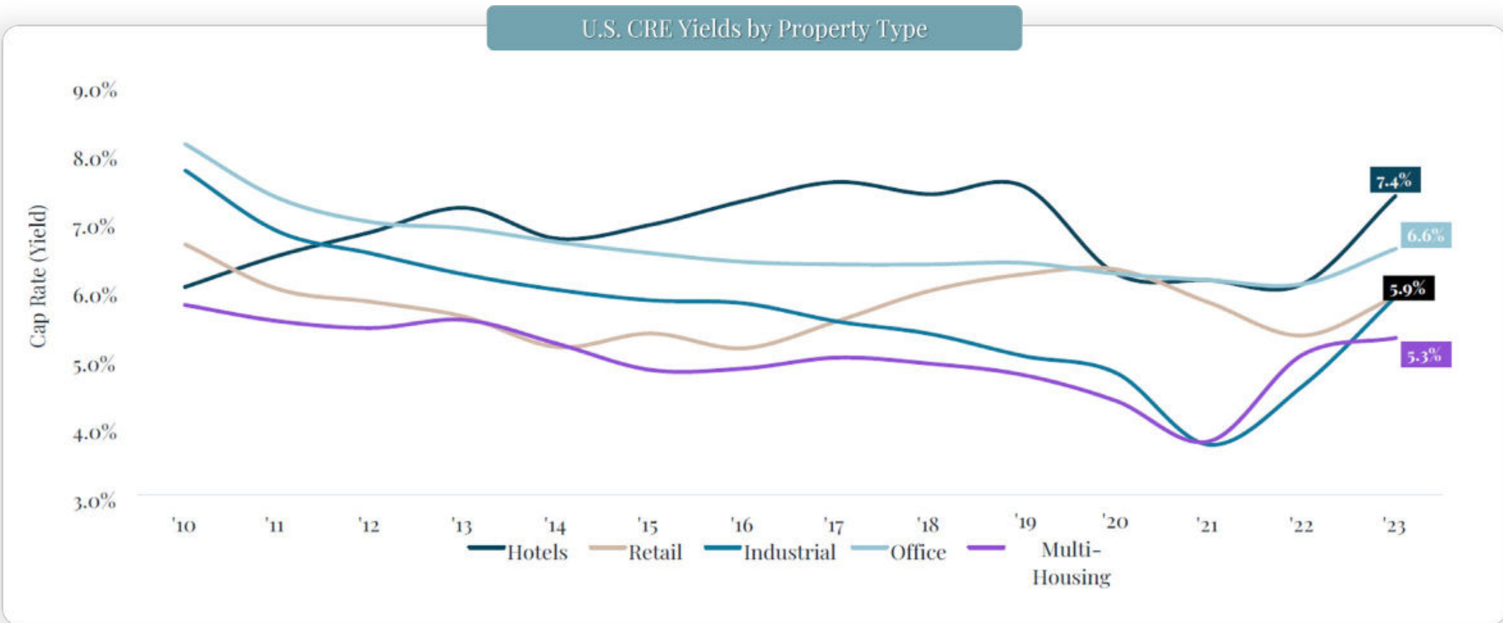
*Glossary of Terms on page 19

III. Why Invest in Hotels Now?

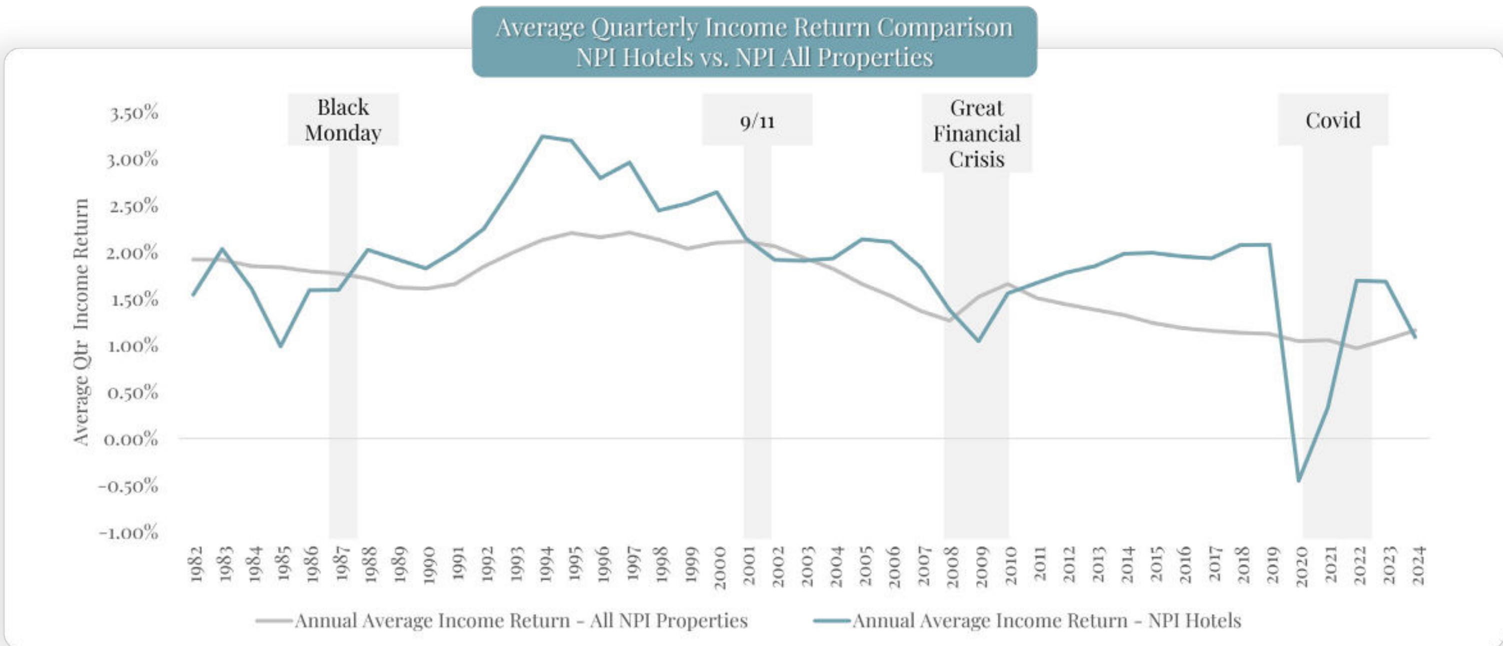
Alternative real estate sectors, outside of the traditional sectors of office, industrial, retail and multifamily, are increasingly attracting institutional investors due to the opportunity to benefit from megatrends like demographic changes, long-term behavioral shifts, and advancements in technology and innovation. Today, most institutional investors are focused on evaluating investment opportunities across the same top three traditional property sectors (apartments, industrial and office). However, alternative sectors can provide a key avenue to differentiate a real estate portfolio. Institutional investors understand that high levels of operational expertise have the potential to generate alpha. This trend is especially applicable to hotels, an established alternative real estate sector that relies on proven sector specialists to drive value via the implementation of operating strategies for revenue management and expense controls.

Durable Current Income

Capitalization rates for hotels have performed meaningfully higher than other sectors for over a decade, reflecting the income potential and the ability to generate outsized total returns through operational levers. Despite the less predictable nature of re-pricing "rent" daily, current income from hotels has consistently performed well relative to other commercial real estate asset classes, with rapid recoveries observed following black swan disruptions.



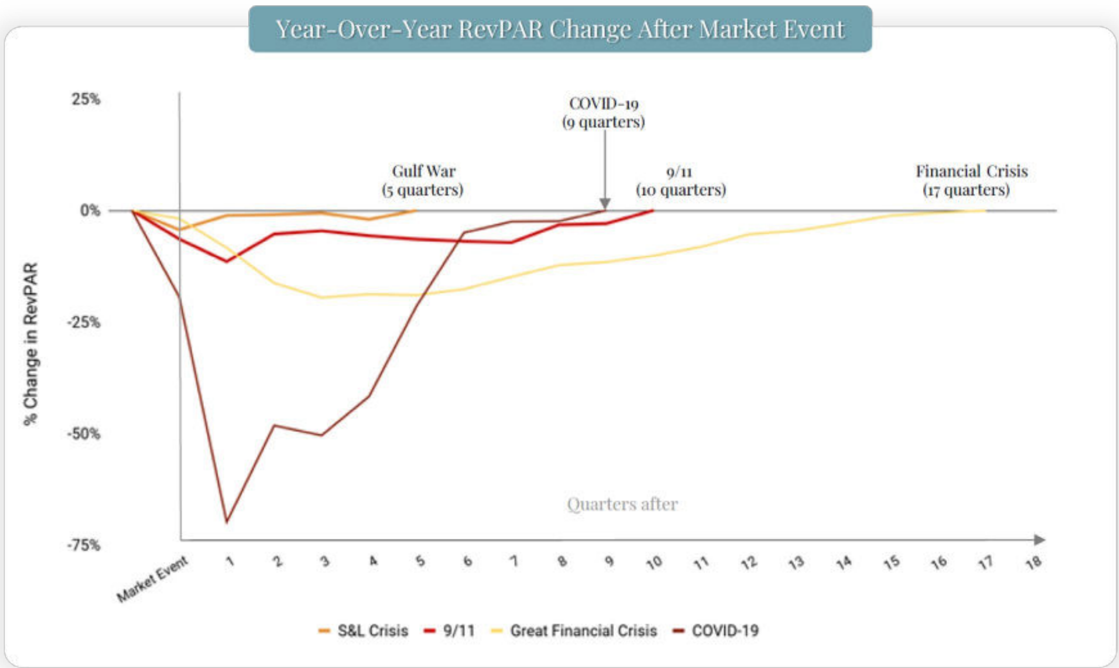
Source: JLL Research, RCA
Note(s): Includes single-asset transactions only for the property types listed. Data is in aggregate and may not be reflective of all deals in all markets. Data as of December 31, 2023.



Source: NCREIF
Note: Data as of March 31, 2024.

Resiliency Through Economic Cycles

Hotels have demonstrated their resiliency across various macroeconomic shocks. However, manager selection is a critical consideration for institutional investors allocating to the sector, given the need to create durable (lower-leveraged) capital structures that weather periods of dislocation. Thoughtful investment managers will construct portfolio exposure in markets with high population growth and demand drivers that are counter-cyclical to the general business cycle, like healthcare, defense, and infrastructure spending, etc. Lastly, an ownership mentality at the underlying properties has distinguished sector specialists from generalist allocators, where deep property-level expertise facilitates their ability to implement business plans to drive performance, provide for contingencies, while maintaining flexibility in operating models to navigate demand disruptions.



Source: PwC
Note: Data as of May 31, 2024.

Despite the substantial RevPAR decline during the peak of the health pandemic, it took less time for hotels to recover than during the Global Financial Crisis "GFC" and relative to other heavily impacted property types. Since the second quarter of 2022, the rapid rise in interest rates has impacted all commercial real estate (CRE) sectors.

However, hotels have been among the top-performing property types post-pandemic, declining the least of all CRE sectors since the recent peak.

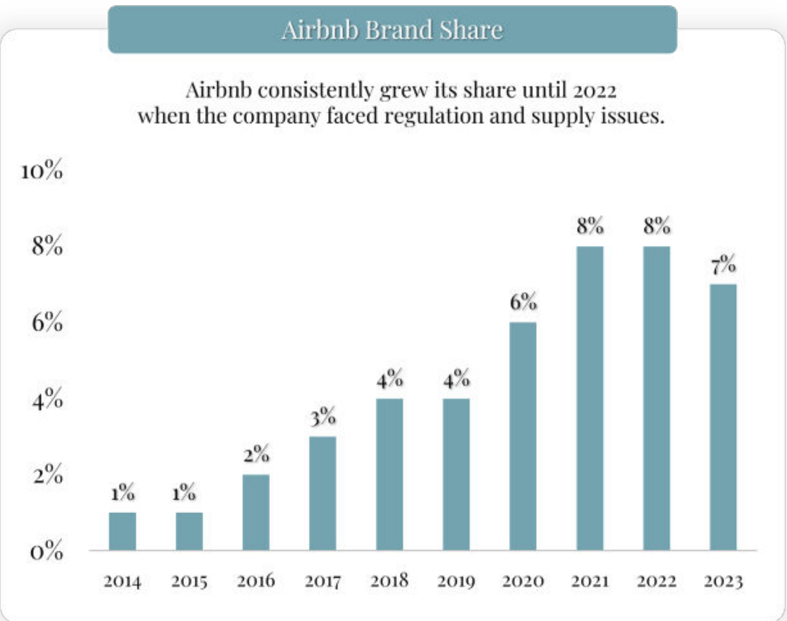
Green Street CPPI®: Sector-Level Indexes

		Change in Commercial Property Values		
	Index Value	Past Month	Past 12 Months	Recent Peak
All Property	123.6	0.7%	-5%	-20%
Core Sector	123.6	1.2%	-5%	-23%
Apartment	147.9	4.9%	-2%	-22%
Industrial	210.0	0.0%	-10%	-17%
Mall	84.3	0.0%	5%	-14%
Office	71.2	0.0%	-9%	-37%
Strip Retail	111.0	0.0%	-2%	-16%
Data Center	107.0	0.0%	-5%	-17%
Health Care	120.6	0.0%	-9%	-20%
Lodging	106.4	0.0%	-3%	-6%
Manufactured Home Park	269.4	0.0%	-5%	-17%
Net Lease	94.3	0.0%	-3%	-19%
Self-Storage	242.4	0.0%	-13%	-23%

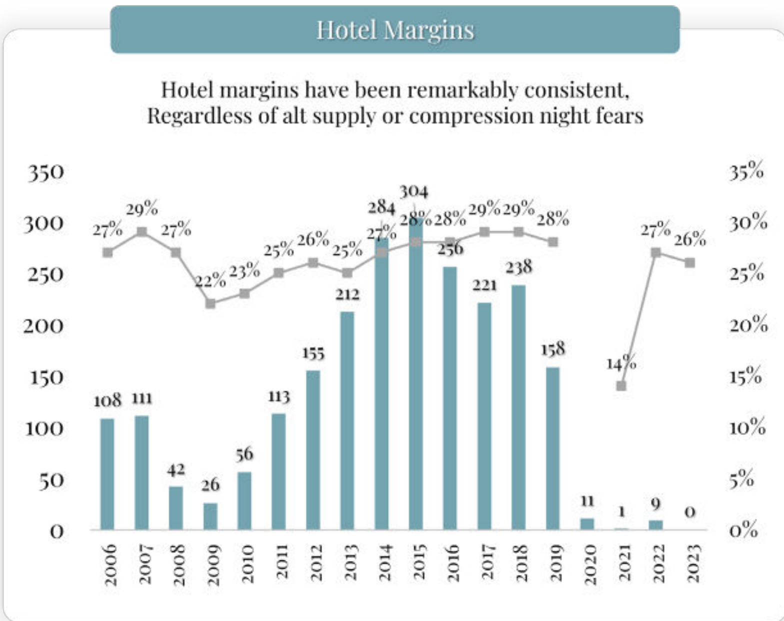
Source: Green Street
Note: Data as of July 5, 2024. Recent peak indicates pricing before recent Fed rate hiking cycle beginning in Q2 2022.

*Glossary of Terms on page 19

Short-term rentals, such as Airbnb, have not significantly impacted hotel demand. While they have benefitted from the outperformance of leisure demand in recent years, they have not gained significant traction among business travelers. According to Morgan Stanley, short-term rentals have not materially impacted compression nights for hotels (occupancy > 95%) or owner margins. Further, a number of jurisdictions are implementing regulatory changes that will negatively impact the supply/availability of short-term rentals.



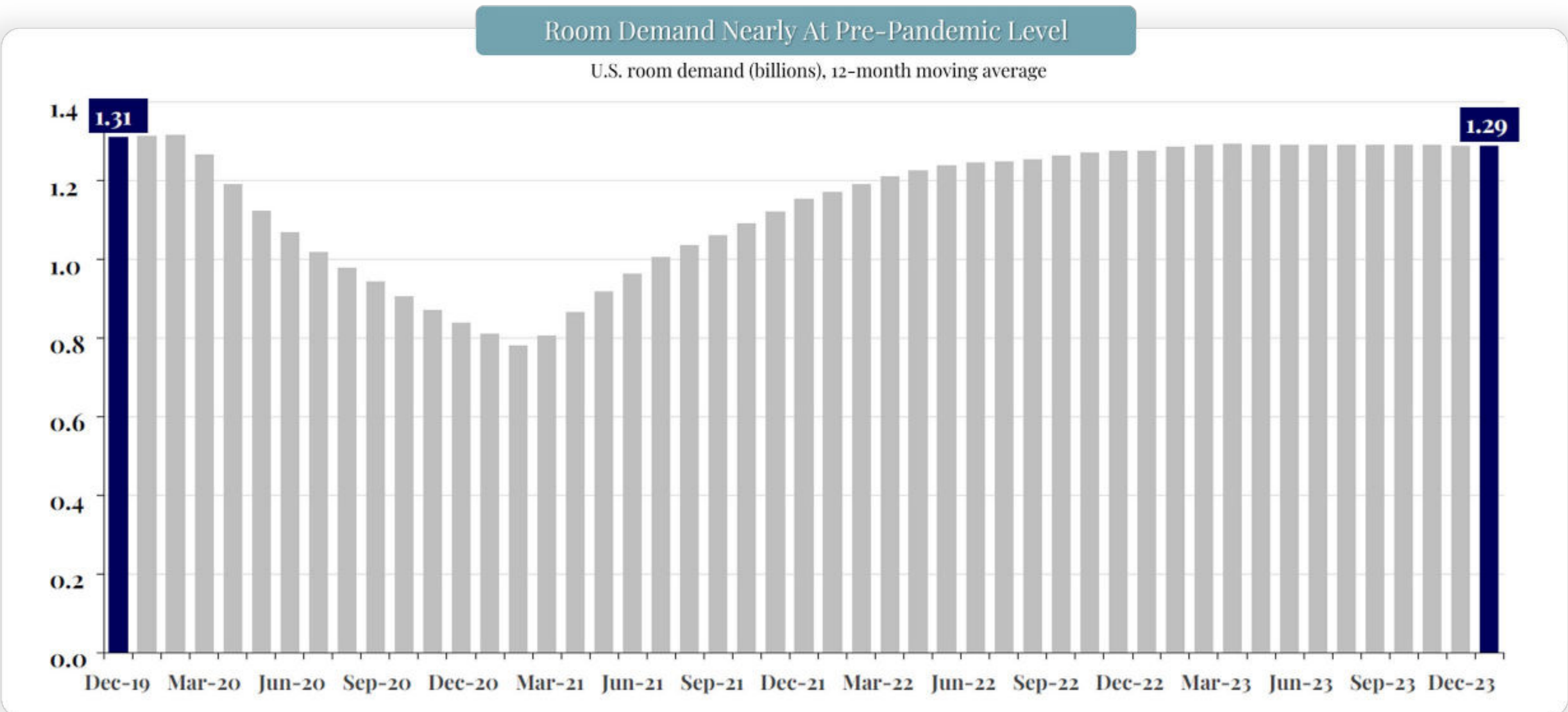
Source: Morgan Stanley
Note: Data as of April 30, 2024.



Source: Morgan Stanley
Note: Data as of April 30, 2024.

Demand Has Recovered and Is Expected to Grow

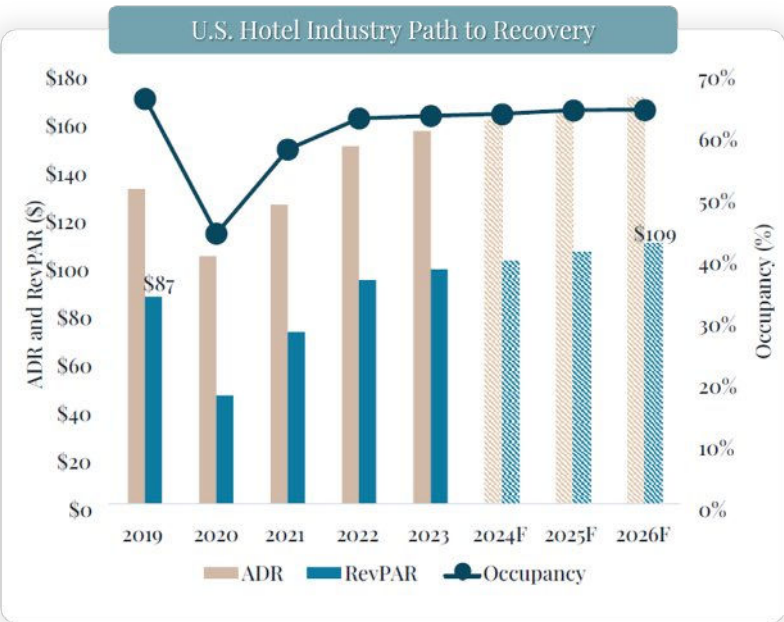
The key drivers of hotel demand are business transient, leisure transient, and groups. U.S. room demand has nearly recovered to pre-pandemic levels, and there is a positive outlook for long-term demand growth.



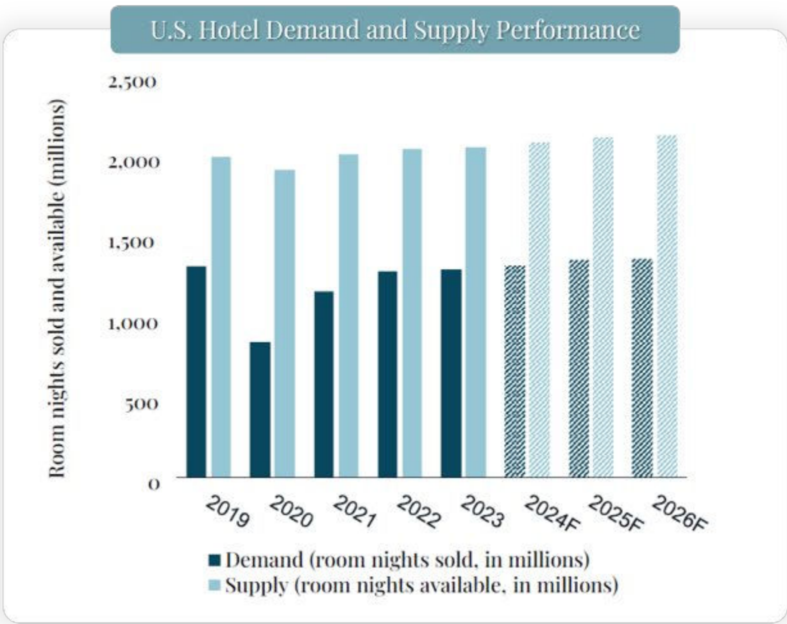
Source: STR
Note: Data as of December 31, 2023.

*Glossary of Terms on page 19

Over the next several years, JLL is projecting growing demand and average room rates (ADR), while the growth in supply remains muted. Much of this growth is expected to be sustained due to the long-term secular trends discussed below.



Source: JLL Research, STR/CoStar
Note: Forecast as of March 31, 2024.



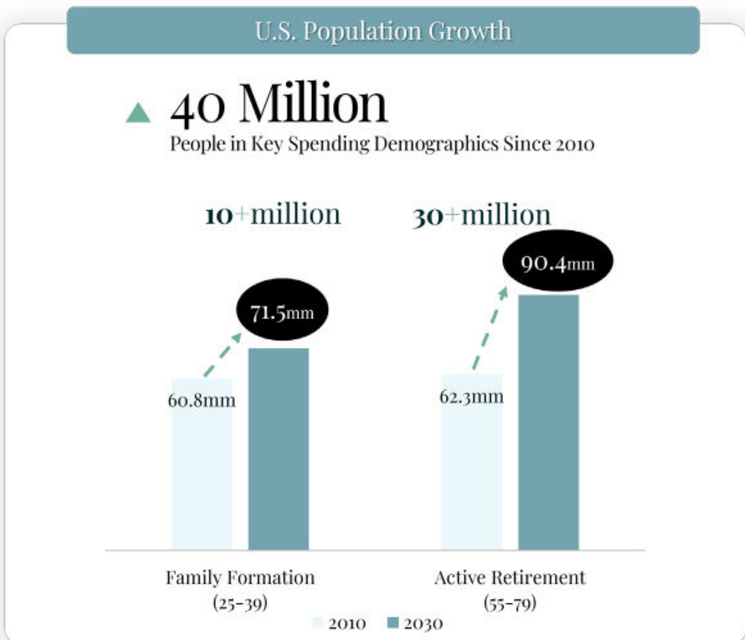
Source: JLL Research, STR/CoStar
Note: Forecast as of March 31, 2024.

Secular Demand Trends

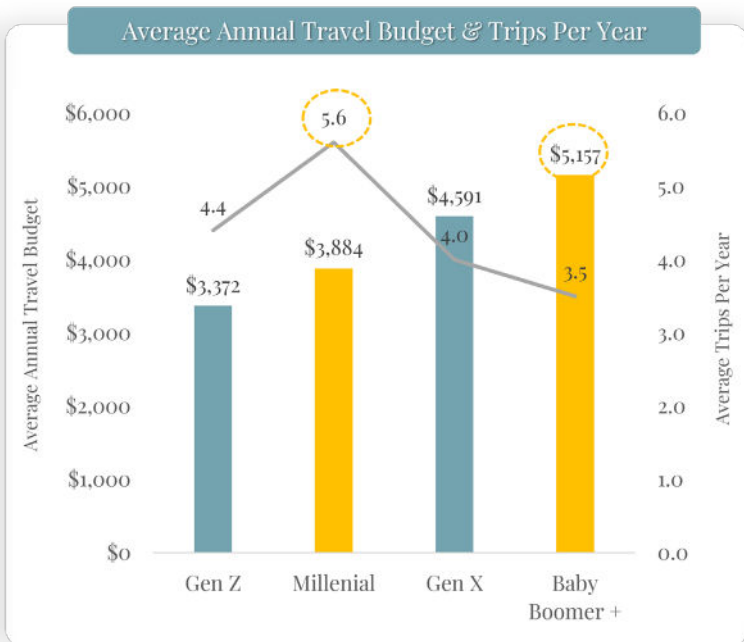
Changes in demographic shifts, where and how people work, and ongoing advancements in innovation and technology are influencing the resurgence of business and leisure travel.

Demographic Trends

The fastest growing demographic groups in the U.S., Millennials (+10 million) and Baby Boomers (+30 million), will together increase by more than 40 million people through 2030, which is projected to have a meaningfully positive impact on the travel industry, including the demand for hotels. Baby Boomers with more disposable income and available time due to established careers or retirement, tend to favor premium experiences. Millennials often tend to prioritize immersive experiences such as food tours and cultural events. Survey polls suggest that spending from both groups is expected to lead to a higher percentage of discretionary income allocated to travel, resulting in greater demand for hotels.



Source: Oxford Economics\
Note: Data as of January 31, 2024



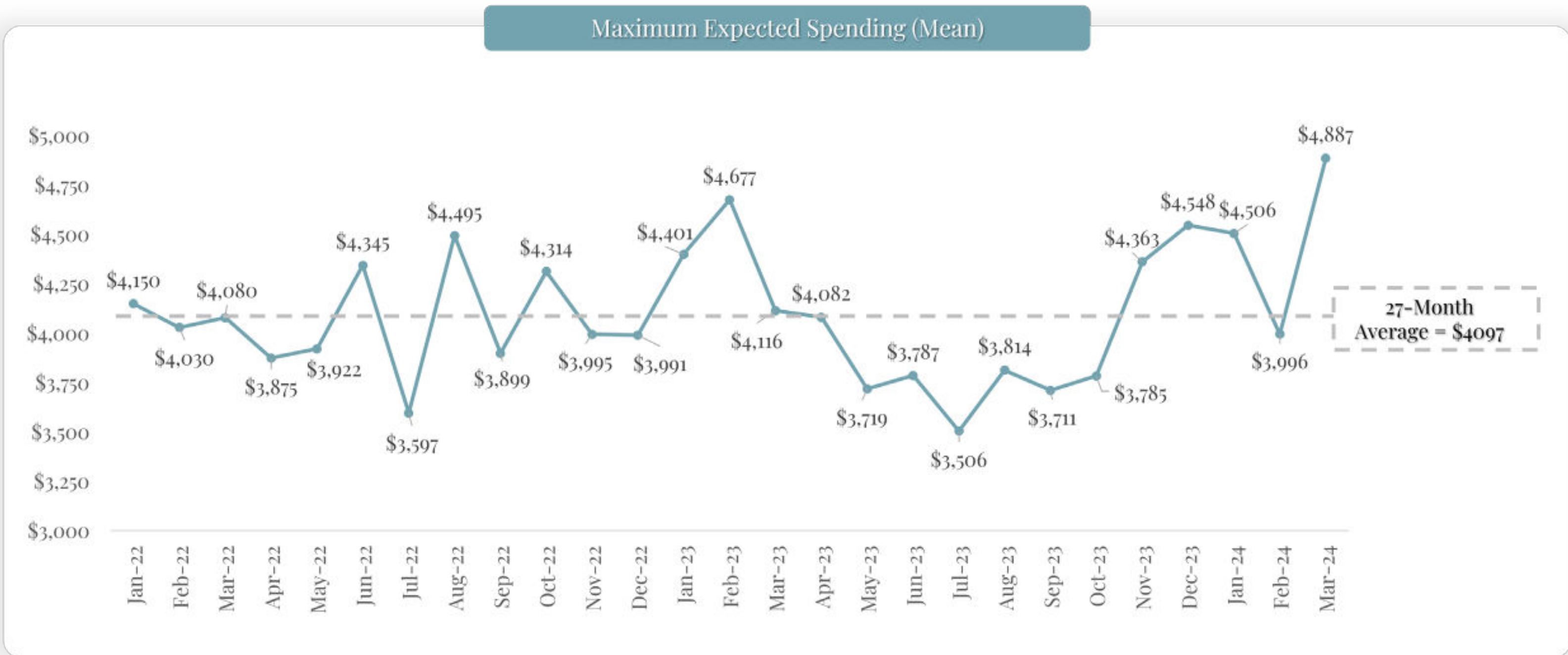
Source: CBRE Research, Morgan Stanley Research, Kastle Systems, U.S. Bureau Statistics, TripActions, STR
Note: Data as of March 31, 2024.

While the Baby Boomers spend more on travel, the Millennials travel most frequently. Millennials average 5.6 trips per year, which is higher compared to 4.4 trips for Gen Z, 4.0 trips for Gen X, and 3.5 trips for Baby Boomers. These two demographics drive significant leisure, or "transient," hotel demand.

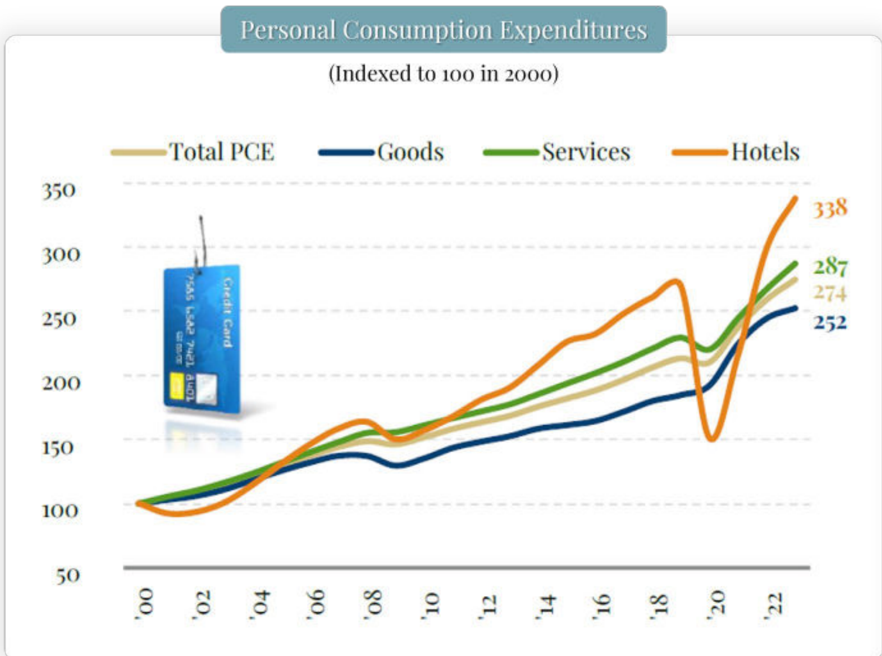
*Glossary of Terms on page 19

Return of Business Travel & Group Demand

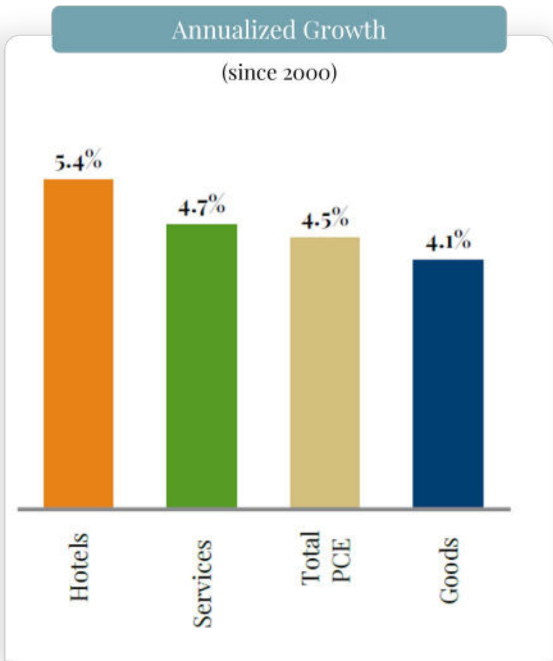
Behavioral shifts in how we live, and work are materially impacting the share of wallet spent on travel. The flexibility of remote work is continuing to enable individuals to seamlessly integrate work and leisure, resulting in trends referred to as "workcations" and "bleisure." By combining work with a leisure trip or adding leisure to a business trip, individuals are able to extend their travel, which is driving strong increases in consumer spending on travel, creating incremental demand for hotels.



Source: Future Partners
Note: Data as of December 31, 2023.



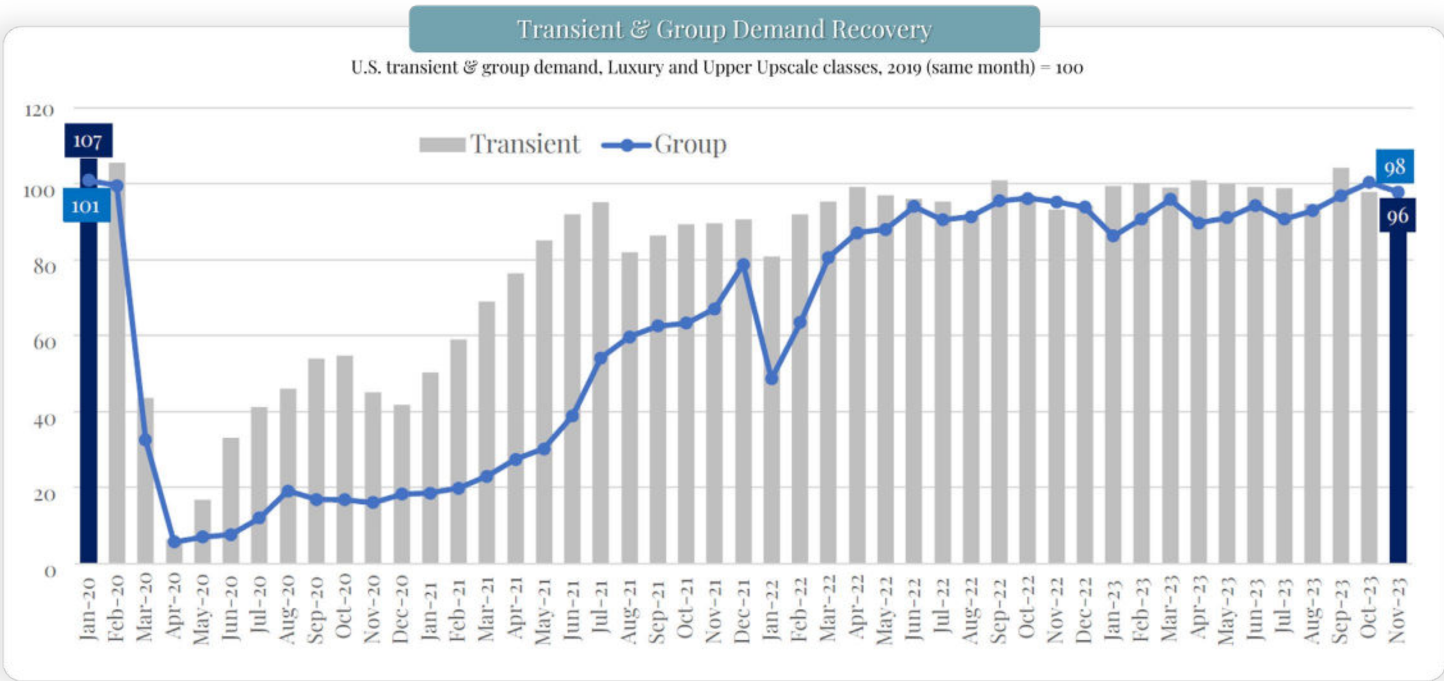
Source: Green Street, FRED
Note: Data as of June 17, 2024.



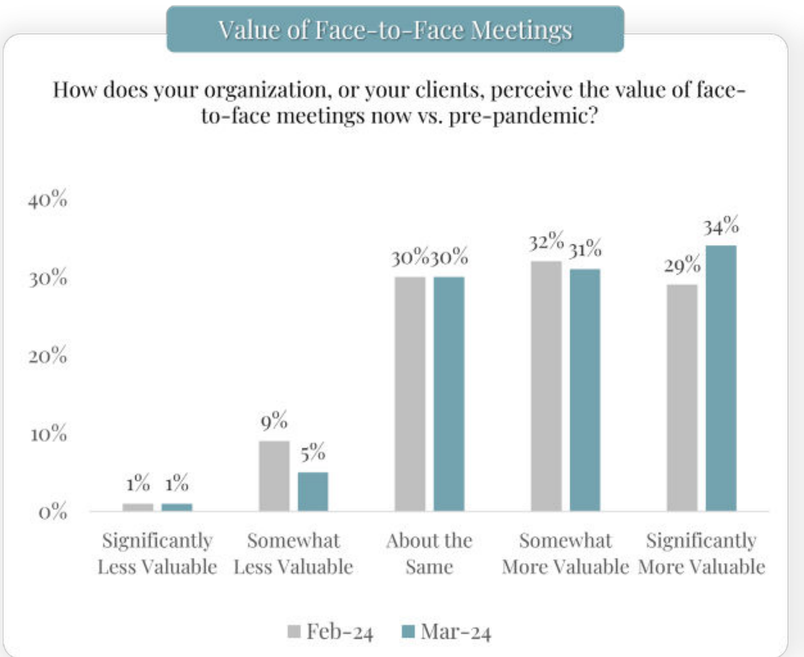
Source: Green Street, FRED
Note: Data as of June 17, 2024.

Small and medium-sized businesses returned to travel early after the pandemic, and now, large companies are following. Business travel demand, now almost fully recovered to pre-pandemic levels, has been driven partly by the necessity for in-person meetings to compensate for remote work. Nearly 60% of fully remote workers now meet their colleagues in person at least once every quarter. As such, companies are seeking opportunities to organize frequent team-building events and offsite meetings, which drives incremental hotel demand that did not exist before the pandemic. Group demand for hotels refers to the booking of accommodations for more than ten rooms at a time for guests such as corporate teams, conference attendees, sports teams, wedding guests, or tour groups.

*Glossary of Terms on page 19



Source: STR
Note: Data as of November 30, 2023.



Source: NorthStar Meetings Group and Cvent (Meetings Industry PULSE survey)
Note: Data as of February 2024 & March 2024.

Technology and Innovation

Technology and innovation contribute to boosting hotel operating margins through revenue management and more streamlined operations. Since labor accounts for nearly half of hotel operating expenses, technological advancements enhance the operating model and are advantageous for maintaining profit margins, especially when labor costs increase. AI-powered solutions are leading to enhanced operating efficiency and customization. These technologies relieve staff from mundane tasks and reduce customer wait times, allowing staff to focus on delivering more personalized and meaningful guest experiences. Technology can also enhance energy efficiency, preventative maintenance, security, and reduce aspects of food & beverage services and housekeeping costs.

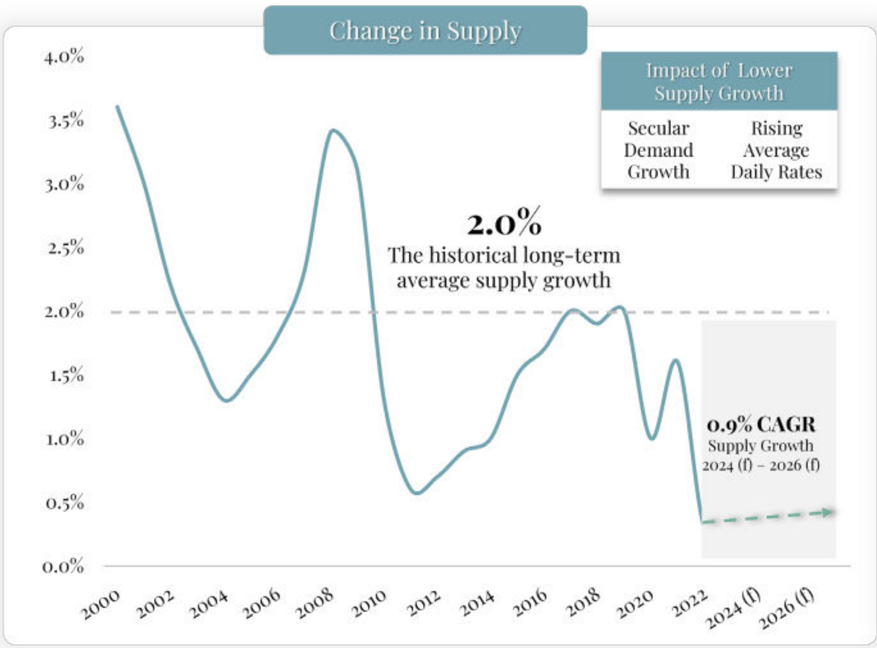
As an example, Oracle Hospitality has introduced Oracle Nor2, an innovative AI-powered merchandising solution which enables hotels to offer targeted promotions through their mobile apps and digital marketing channels, thereby enhancing conversion rates. It also streamlines the process of capitalizing on upselling opportunities before guests arrive, such as offering upgrades in room views, floor levels, food and beverage preferences, parking options, and various other valued products and services.

*Glossary of Terms on page 19

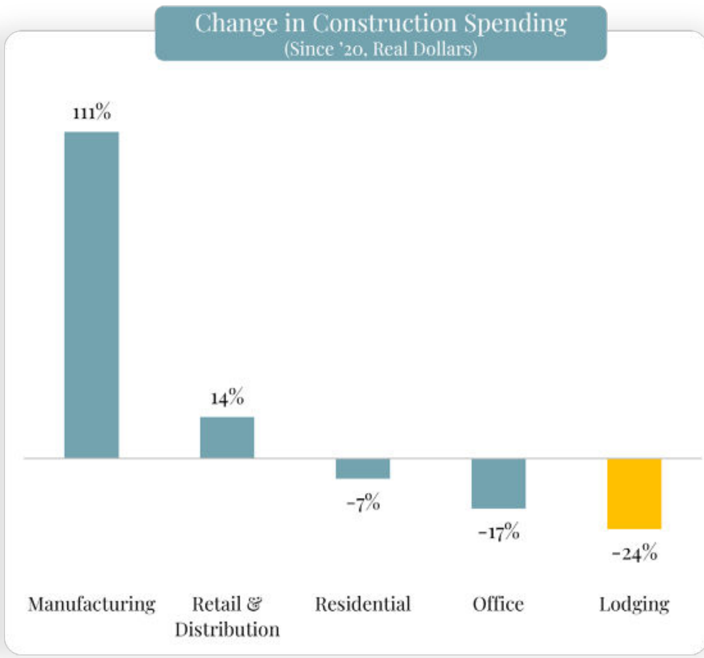
Sustained Muted Supply

Alongside secular demand growth, historically low supply growth is contributing to the favorable market dynamics for hotels.

- The growth of U.S. supply is expected to remain well below historical averages. Capital market constraints and elevated construction costs have disproportionately impacted the number of new-build projects compared to other sectors.
- Since 2022, there has been a pickup in older hotels leaving the supply base—sometimes to be converted into affordable housing. However, it is also typical for U.S. hotels to be removed from their associated brands due to various reasons, including rebranding, management changes, or financial decisions. It is not uncommon for this process to take place a few years after a downturn.
- This supply-demand imbalance will create long-term pricing power for well-located/positioned hotels.



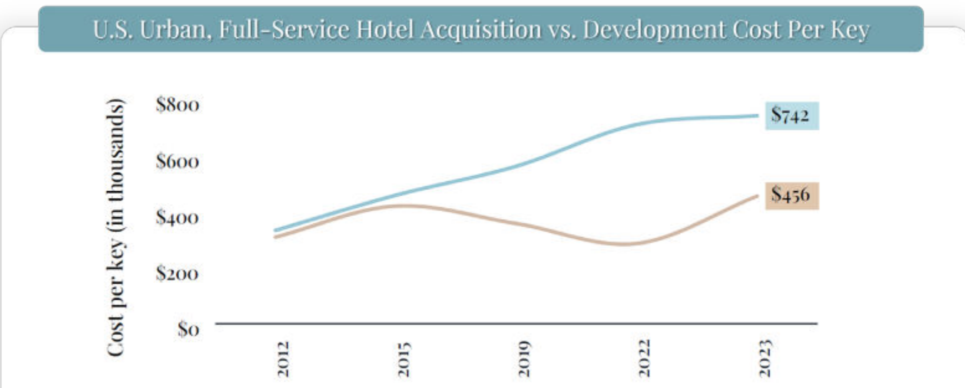
Source: JLL Research, STR
Note: Data as of May 31, 2024



Source: JLL Research, STR
Note: Data as of May 31, 2024

Discounts to Replacement Costs

In the current market, it is possible to acquire high-quality hotel assets at significant discounts to replacement costs. This attractive basis provides a cushion against market volatility and combined with strong demand tailwinds will enhance the long-term value of these investments. For example, according to the 1Q2024 report published by JLL, a surge in development and financing costs for Full-Service hotels has made the acquisition of a Full-Service hotel considerably less expensive than constructing a new one.



Year	2012	2015	2019	2022	2023
Acquisition Cost	$310k	$421k	$358k	$287k	$456k
Development Cost	$333k	$458k	$562k	$710k	$742k
Discount to Replacement Cost	-7%	-8%	-36%	-60%	-40%

Source: JLL Research, RLB Construction Cost Report
Notes: Data as of December 31, 2023 . All transactions data pertains to single-asset, full-service hotel transactions $5M+, excluding casinos that closed exclusively in the largest U.S. urban markets. Full-service is defined using STR criteria. Construction data is based on weighted averages across largest urban U.S. markets for 5-star hotels. Construction costs include land, site improvement, soft costs, FF&E, working capital, and development fees.

Accretive Leverage

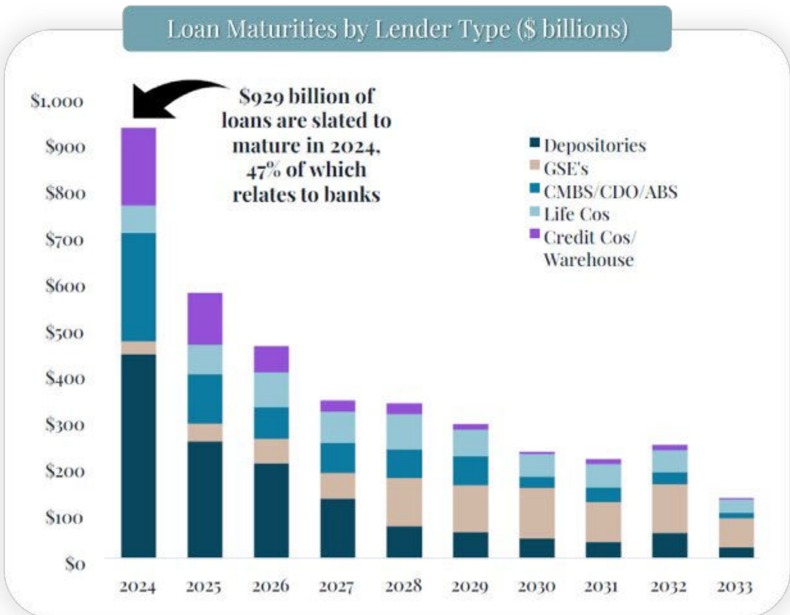
Obtaining positive leverage in today's higher interest rate environment presents challenges for real estate investors acquiring assets in traditional property types. However, hotels provide the opportunity to achieve positive leverage given relatively attractive transaction cap rates of 8-9%. By leveraging lower-cost debt in the range of 7-8%, investors can generate double-digit yields on equity.

Stressed Capital Structures

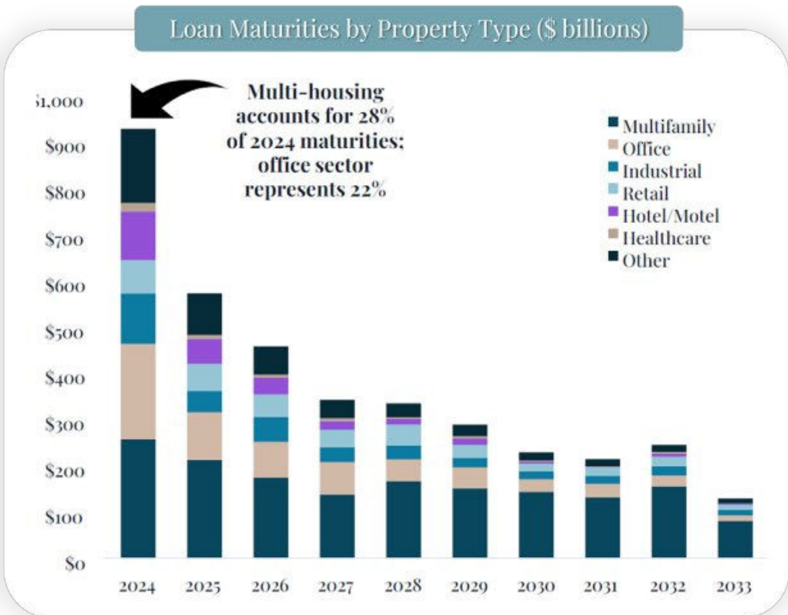
With nearly $150.0 billion of hotel loans maturing by 2025, many owners may decide to sell their hotels before loan maturity, especially if they will need to invest additional equity to obtain a new loan. In many cases, investing additional equity will be required because, in addition to refinancing the existing loan, funds will be needed to renovate the hotel to maintain brand standards, and compete effectively in the market. (Product Improvement Plan, or "PIP", is a detailed plan outlining the upgrades and renovations required for a hotel property to meet certain brand standards, quality benchmarks, or operational requirements.) Further, according to JLL's 1Q24 Market Report, there is "$38.3 billion in hotel securitized debt in delinquency," which will likely create additional financial pressure on hotel owners.

Real Estate Transaction Volumes Expected to Increase

Impending loan maturities coupled with PIP requirements will catalyze distressed borrowers



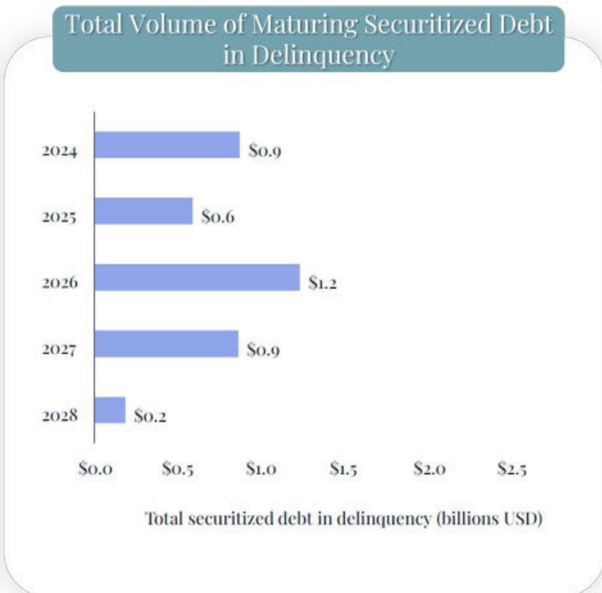
Source: JLL Research, Mortgage Bankers Association
Note: Data pertains to all lender types, is as of December 31, 2023, is released once per year, and does not reflect extensions that have taken place during the year.



Source: JLL Research, Mortgage Bankers Association
Note: Data pertains to all lender types, is as of December 31, 2023, is released once per year, and does not reflect extensions that have taken place during the year.

Maturing and Distressed Loans Likely to Catalyze Hotel Transactions

Source: JLL Research, Trepp
Note: Data as of June 2024 and pertains to the w hole universe of U.S. securitized loans including CMBS, Conduit, SASB, and CRE CLO loans (includes U.S. territories like Puerto Rico and the USVI).

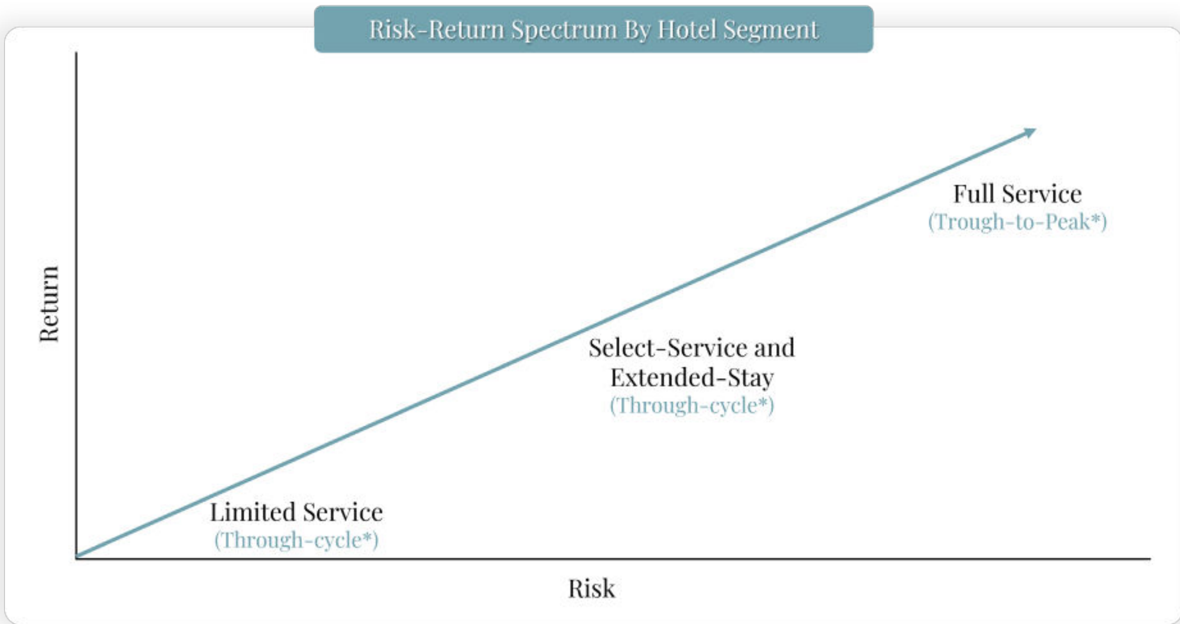


Source: JLL Research, Trepp
Note: Data as of June 2024 and pertains to the w hole universe of U.S. securitized loans including CMBS, Conduit, SASB, and CRE CLO loans (includes U.S. territories like Puerto Rico and the USVI).

*Glossary of Terms on page 19

IV. How to Invest in Hotels?

Benefits of Investing Across Hotel Segments



Source: Noble research
*Represents most attractive entry point for initial investment

Investing across multiple types of hotels allows for diversification and risk management. Attractive entry points vary across hotel segment based on:

1. The current state of the economic cycle.
2. The investment manager's expertise and skillset.

Generally speaking, Select-Service, Extended-Stay, and Limited-Service hotels have demonstrated resiliency despite the investment entry point during a macroeconomic cycle. For the complexity of operations of Full-Service hotels, it is critical to invest alongside experienced specialists to identify the appropriate timing for investment, basis, fundamentals, market selection, hold period, capital structure, and operating expertise. A well-diversified hotel portfolio can help balance risks and opportunities in different market conditions.

The below chart illustrates the general classifications of different types of hotels and how these various options can complement an institutional investor's portfolio construction. It is important to note the following:

Risk-Return Profile	Hotel Attributes	Target Returns
Core	Stabilized assets with the lowest leverage capital structures	6% - 8% net returns
Core-Plus	Stabilized and stabilizing investments with low-leverage capital structures	8% - 9% net returns
Value-Add	Assets requiring minor to medium renovations	9% - 12% net returns
Opportunistic	Ground-up developments or hotels needing extensive renovations	12+% net return

** Various factors, including leverage-to-cost ratios and cost of debt, etc. drive the above return targets.*

Types of Hotel Investments

Institutional investors can access hotel investments through various vehicles and structures, each offering distinct risk-return profiles. There are four primary options for allocating investments in hotels, with each type presenting unique characteristics.

Four Quadrants of Hotel Investing

Private Real Estate Equity	Private Real Estate Debt
Direct Ownership, Separate Accounts, Open-Ended and Closed-Ended Funds	Senior Loans, B-Notes, Mezzanine Debt, Pref Equity
Pros: Highest level of control, benefits from active management	Pros: Interest income, collateral-backed, benefits from active sourcing
Cons: Longer term commitment, illiquidity	Cons: Passive position in capital structure

Public Real Estate Equity	Public Real Estate Debt
Equity REITS Apple Hospitality REIT, Pebblebrook Hotel Trust, etc.	Commercial Mortgage-Backed Securities (CMBS) Mortgage REITs
Pros: Highly liquid, daily pricing	Pros: Highly liquid, collateral-backed
Cons: Correlation with public equities, limited investment options	Cons: Passive position in capital structure

Equity

Accessing hospitality investments in real estate can be approached through various equity-style investments, including direct ownership of hospitality properties, Real Estate Investment Trusts (REITs) focused on the hospitality sector, and private equity funds specializing in hospitality.

1. Direct Equity Ownership of Hospitality Properties
Direct ownership involves purchasing hotel or hospitality assets outright, allowing investors to have complete control over property management and operations. This method is capital-intensive and requires extensive knowledge of the hospitality industry. Selecting the correct market, location within the market, service level, brand, and local partner adds to the investment complexity.

2. Real Estate Investment Trusts (REITs) Focused on Hospitality Sector
REITs provide a way to invest in hospitality properties without the need to own or manage them directly. Publicly traded entities own and operate income-producing real estate and offer liquidity, diversification, and typically regular dividends. Unlike other REITs, hotel REITs invest in extremely short-term leases, most commonly, a single night at a hotel. Hospitality REITs span service levels from Economy (Apple Hospitality REIT and Summit Hotel Properties) to Luxury (Host Hotels*, Park Hotels, and Pebblebrook Hotel Trust). All REITs must distribute 90% of taxable income. Therefore, hotel REITs have a small investable universe of hotels limited to stabilized properties with limited future capital needs.

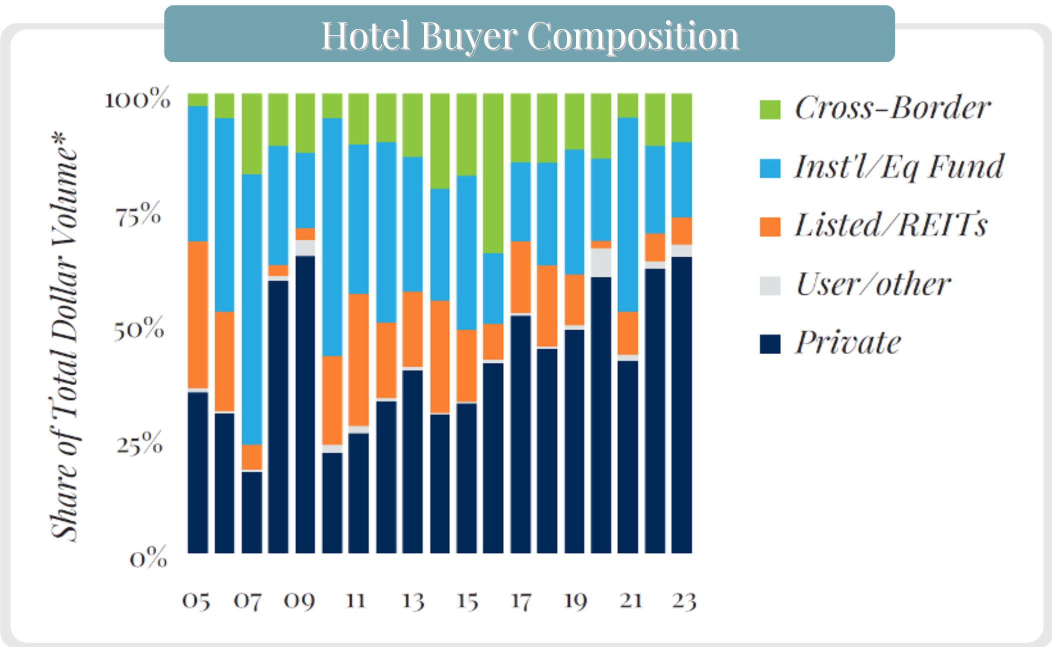
3. Private Equity Funds Specializing in Hospitality (Closed-End and Evergreen)
Private equity funds offer another avenue for investing in hospitality real estate. Private equity funds provide the advantage of choosing an expert investment manager who then selects the asset and/or portfolio and oversees the day-to-day operations and asset management. Unlike REITs, which have minimum distribution requirements (and therefore can only invest in core, stabilized properties), private funds have the ability to invest in value-add and opportunistic risk profiles. Private equity funds have diversified portfolios with numerous underlying properties.

- Closed-end funds have a defined hold period and predetermined exit timing. In Private Equity Real Estate, non-core funds tend to have three-year investment periods and seven-year hold periods for a total of ten years. Closed-end funds are able to take advantage of market dislocations by deploying capital during investment periods where acquisition pricing is below market average.
- Open-end/Evergreen funds do not have a set termination date and are constantly raising and deploying capital. This means that many vintage years will be included in the same vehicle.

1. Morningstar: Investing REITs vs Direct Real Estate
2. NAREIT: REITs and Dividend Income

* Noble Investment Group is affiliated with Host Hotels & Resorts ("Host"), a member of the S&P, through a strategic partnership to cultivate and expand innovative travel and hospitality opportunities within Noble's real estate investment management and fund sponsorship platform.

Historically, private direct equity investment and institutional private equity funds have been the largest buyers of hotels by transaction volume. In recent years, listed REITs and international buyers have been less active in the market compared to previous periods.



Source: Marcus Millichap
Note: Data as of December 31, 2023.
* Includes sales $2.5 million and greater

Debt

1. Direct Mortgage Lending
Private Real Estate debt is secured by the property. Senior loans are secured by the first lien mortgage. These loans are the first to be repaid over any subordinated debt and allow the lender to foreclose on the property in the case of default. Mortgage lending can be fixed or floating. Like direct equity investing, direct lending is capital-intensive and requires extensive knowledge of the hospitality industry.

2. Direct Mezzanine Financing
Mezzanine financing is a type of subordinated debt. The lender receives debt service after the senior loan is repaid but before any equity investors receive payment. For taking a less secured place in the capital structure, mezzanine lenders expect a higher interest rate on their loan.

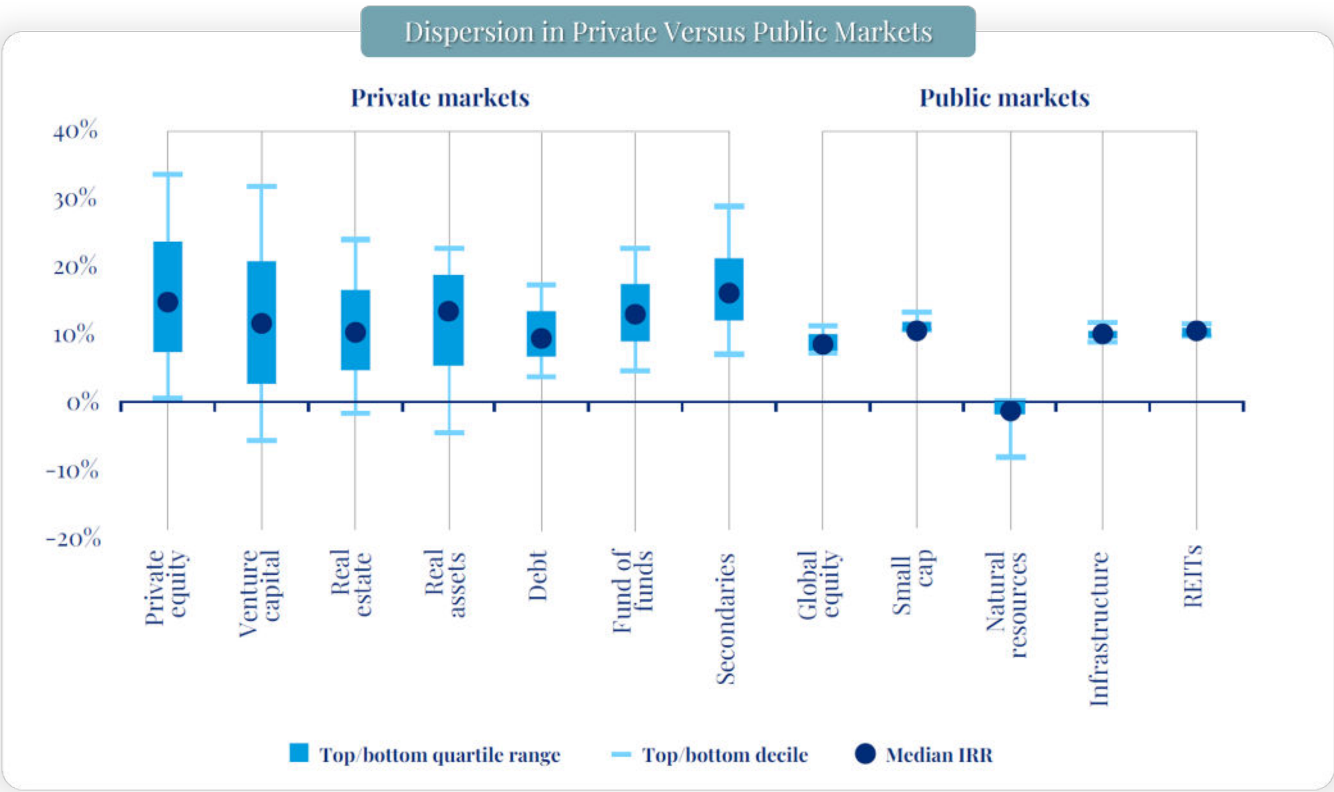
2. Debt Funds
Similar to private equity real estate funds, private debt funds have a diversified portfolio. The debt positions can either be private loans (senior loans or subordinated debt) or public debt (CMBS loan pools or Single Asset Single Borrower)

Historically, most hotel lenders have been regional or national banks. Over recent years, CMBS and non-bank investors have increased lending to hospitality assets.

Manager Selection is Critical Due to Return Dispersion

The wide return dispersion among private investment funds, as seen below, highlights the complexity and importance of the manager selection process. Real estate investments generally outperform public markets, real assets, debt, and fund-of-funds strategies. However, the dispersion in returns is wider for real estate investments compared to these other strategies.

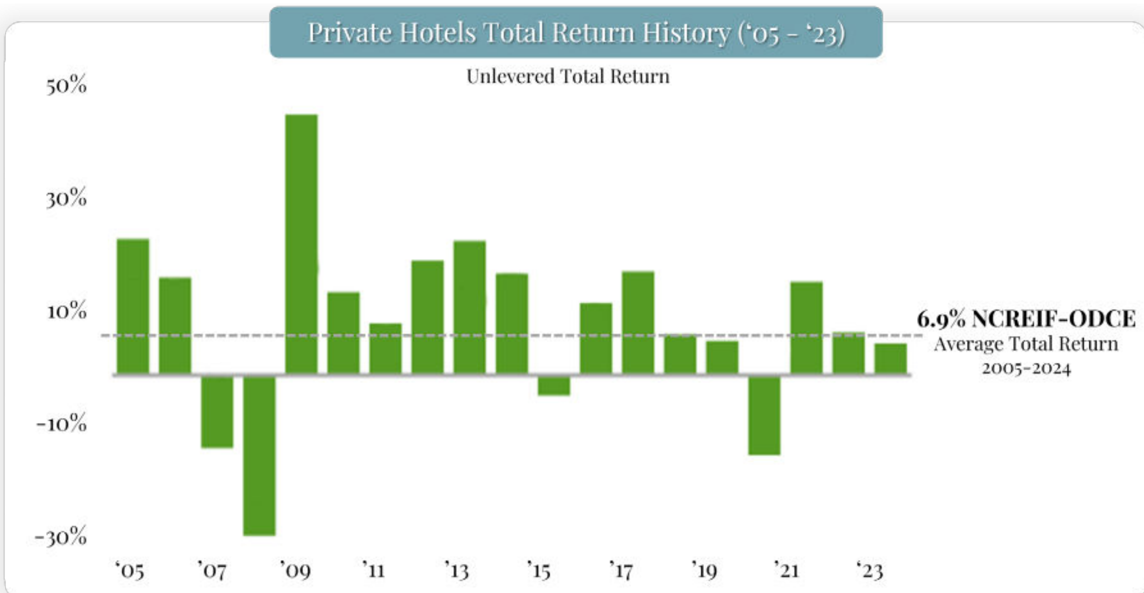
According to Cambridge Associates, "The greater return potential of private investing comes from various factors, including GP/LP (general partner/limited partner) alignment, fund manager skill, and investment focus. A strong alignment of interests among GPs, LPs, and company management is critical to success. GPs bring a "buy to sell" mentality to investments they make, which requires confidence before committing capital that the skill and expertise they bring to the table will result in meaningful returns at exit.



Source: PitchBook and Mercer analysis. Dispersion of returns calculated using a 23-year lookback period except for natural resources (10-year), infrastructure (10-year) and REITs (18-year).
Note: Data as of March 31, 2023.

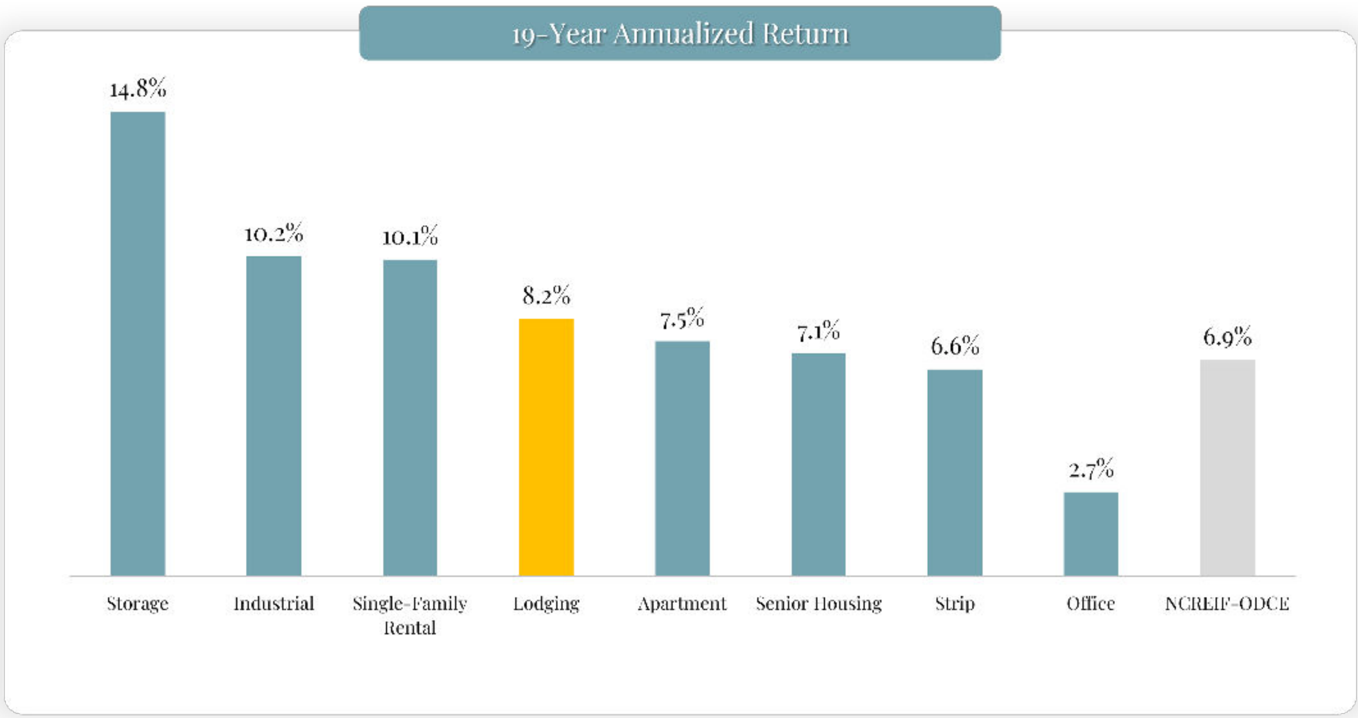
Volatility Mitigated by Entry Point and Hold Period

Investing in hotels typically results in a less predictable income stream compared to other property types. Consequently, investors generally seek a substantial risk premium for hotel investments. Historical data on private hotel investments shows that the timing of investment entry is crucial. Skilled sector specialists can achieve strong risk-adjusted returns, particularly in the aftermath of crises and capital market dislocations.



Source: Green Street, NCREIF, ODCE
Note: Data through December 31, 2023.

Despite the volatility and entry point, investing in hotels over the long term creates a compelling risk-adjusted return relative to other property types. In looking to the future, the muted supply and broadening demand trends discussed earlier in this paper create a unique opportunity for potential outsized risk-adjusted returns above the historical average.



Source: Green Street
Note: Data through December 31, 2024.

A number of sectors have seen outsized returns driven primarily by recent growth trends, some of which may prove unsustainable. These sectors may experience a mix of positive and negative factors affecting long-term growth. Positive influences include strong renewals and a U.S. housing shortage, while negative factors encompass rising financing and operating costs, an economic slowdown affecting demand, and market-specific oversupply, among others. Hotel investments create complementary exposure in a well-diversified real estate portfolio.

V. Conclusion

The hotel sector offers a unique investment opportunity in today's evolving market. Investing in high-quality hotel assets allows institutional investors to create favorable portfolio diversification attributes, acquire properties at historically attractive prices, and leverage strong fundamentals backed by megatrends over the longer term. With the relationships and track record of an experienced hotel sector specialist, there is significant potential to acquire scalable portfolios and achieve durable current income and long-term appreciation and performance.

VI. Appendix

Traditional Real Estate Benchmarks Adapting To Include Alternative Real Estate Sectors

The real estate investment landscape is evolving, and with it, the benchmarks used to measure performance are adapting to reflect new market realities. This shift is driven by the growing importance of alternative real estate sectors and the changing nature of traditional property types.

The National Council of Real Estate Investment Fiduciaries (NCREIF) is accommodating the expansion of these alternative sectors, as seen with the creation of NCREIF NPI-Plus. As defined by NCREIF, the objective of the National Property Index (NPI) is to provide a historical measurement of property-level returns to increase the understanding of and lend credibility to real estate as an institutional investment asset class. Beginning in the first quarter of 2024, NCREIF is transitioning to the NPI-Plus, which incorporates additional property types and new subtypes in addition to those traditionally included. The old NPI, which only included five property types, will now be known as the Classic NPI. During the transition period, the Classic NPI and its products will continue to function as normal. Classic NPI will continue to have only five property types and the traditionally available subtypes.

The property types and subtypes included within the expanded NPI are:

Residential: This includes Apartment, Student, Manufactured Housing, and Single Family subtypes.

Hotel: This includes Full-Service and Limited-Service subtypes.

Industrial: This includes Manufacturing, Flex, Warehouse, Specialized, and Life Science subtypes.

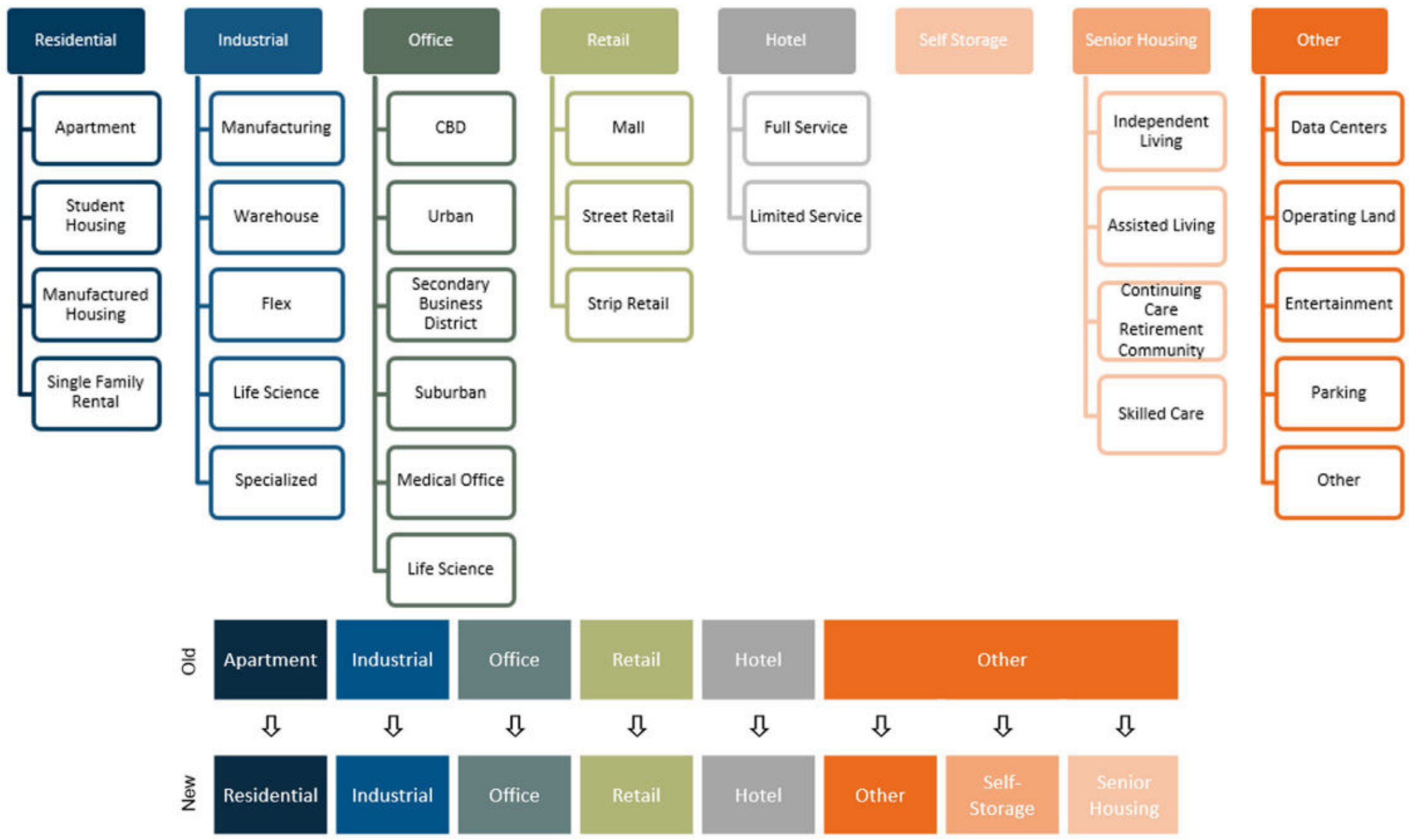
Office: This includes Medical, Life Science, CBD, Urban, Secondary Business District, and Suburban subtypes.

Retail: This includes Street, Strip, and Mall subtypes.

Seniors Housing: This includes Independent Living, Assisted Living, Continuing Care, and Skilled Nursing subtypes.

Self-storage: No subtypes.

Other: This includes Data Center, Operating Land, Entertainment, Parking, and Other subtypes.



Source: Townsend Group: Revised NCREIF Property Type Classifications

The creation of the NCREIF NPI-Plus Index is a significant step toward acknowledging that the alternative property sectors have become a staple of institutional investors' capital allocations. The alternative sectors provide diverse benefits that complement the traditional property sectors in a portfolio. As the NCREIF NPI-Plus Index continues to expand, institutional investors will utilize this data to make informed decisions regarding its allocation of capital to the specialty sectors.

Exhibit 1: Property characteristics and Revenue Profiles Across Service Levels

	Luxury	Upper Upscale	Upscale	Upper Midscale	Midscale	Economy
Service Level	Full	Full	Select	Select	Select	Limited
Average # of Rooms	Ranges	>200	<200	<150	<100	<100
Break-even Occupancy	~45%	~45%	~40%	~40%	~35%	~30%
EBITDA Margin %	~25%	~30%	~30%	~35%	~35%	~40%
Revenue %: Rooms	~65%	~70%	~80%	~85%	~90%	~90%
Revenue %: F&B & Other	~35%	~30%	~20%	~15%	~10%	~10%
Meeting Space (Sq. Ft.)	25-100k	25-100k	1-10k	1-10k	1-10k	1-10k

Source: STR and Green Street
Note: Data as of June 17, 2024.

Glossary of Terms

Luxury: Property that offers the highest level of amenities, facilities, and services. These hotels often feature high-end furnishings, fine-dining restaurants, extensive concierge services, and exclusive amenities. Luxury hotels are typically in the highest price category.

Upper Upscale: Property that offers a high level of service and a broad range of facilities at a lower price than luxury hotels. These hotels typically feature upscale furnishings, multiple dining options, and extensive amenities such as fitness centers, spas, and business services.

Upscale: Property that offers above-average amenities, facilities, and services. These hotels often include dining options, meeting spaces, and recreational facilities. Upscale hotels are priced lower than Upper-Upscale properties.

Upper Midscale: Property that offers moderate amenities and services, typically including limited dining options and some recreational facilities. These hotels provide a higher quality experience than Midscale hotels but do not offer the extensive amenities of Upscale hotels.

Midscale: Property that offers basic amenities and services, typically including limited dining options and minimal recreational facilities. These hotels are designed to provide a comfortable stay at a reasonable price, falling between Economy and Upper Midscale in terms of quality and price.

Economy: Property that offers basic, no-frills accommodations with limited amenities and services. These hotels are typically the most affordable option, focusing on providing essential lodging without additional facilities.

Leisure: Guests who are traveling primarily for vacation, relaxation, or recreational purposes. These guests may be on vacation, visiting attractions, or attending events. Leisure travelers prioritize amenities such as pools, spas, entertainment, and recreational activities.

Business: Guests who are traveling for work-related purposes. These guests may attend meetings, conferences, or conduct business in the area. Business travelers often prioritize amenities such as high-speed internet, business centers, meeting rooms, and convenient access to transportation.

Group: Guests who are traveling as part of a larger organized group. This can include tour groups, wedding parties, sports teams, or corporate groups. Group bookings often require special arrangements for accommodations, meeting spaces, and coordinated activities.

Transient: Guests who are looking for short and sometimes last-minute hotel stays. These guests are often on-the-go and may include both leisure and business travelers. Transient guests prioritize convenience, easy check-in/check-out processes, and proximity to transportation hubs.

Long-term stay: A booking where guests stay in a hotel for an extended duration, usually several weeks to several months. These guests may be relocating, on extended business assignments, or require temporary housing. Long-term guests desire amenities such as kitchenettes, laundry facilities, and weekly rather than daily rates.