TRINITY

Hospitality real estate:
An operating platform backed by real assets

Why hotels behave differently, and how active management can compound returns

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Hotels occupy a distinct place within real estate. While they share the fundamental characteristics of other property types, their performance is shaped by the dynamics of an operating business as much as the underlying real asset.

Like other forms of real estate, hotels provide current income, potential for asset appreciation and meaningful portfolio diversification. What sets them apart is the range of operational and strategic levers available to experienced owners. Daily pricing, revenue management, capital investment and operating discipline can influence performance in ways that passive ownership of traditional real estate generally cannot.

Hospitality also gives investors direct exposure to what we believe is one of the most durable secular growth themes in the global economy: travel. Travel demand has experienced periodic disruptions, but has consistently recovered to exceed prior peaks, and continues to capture a growing share of consumer spending. This trend is particularly pronounced in the upper-upscale and luxury segments, where favorable demographics, rising global wealth and continued preference for premium experiences continue to support long-term demand. Hotels positioned to serve that demand are well placed to benefit.

We believe the current environment for hospitality investing is attractive for three reasons:

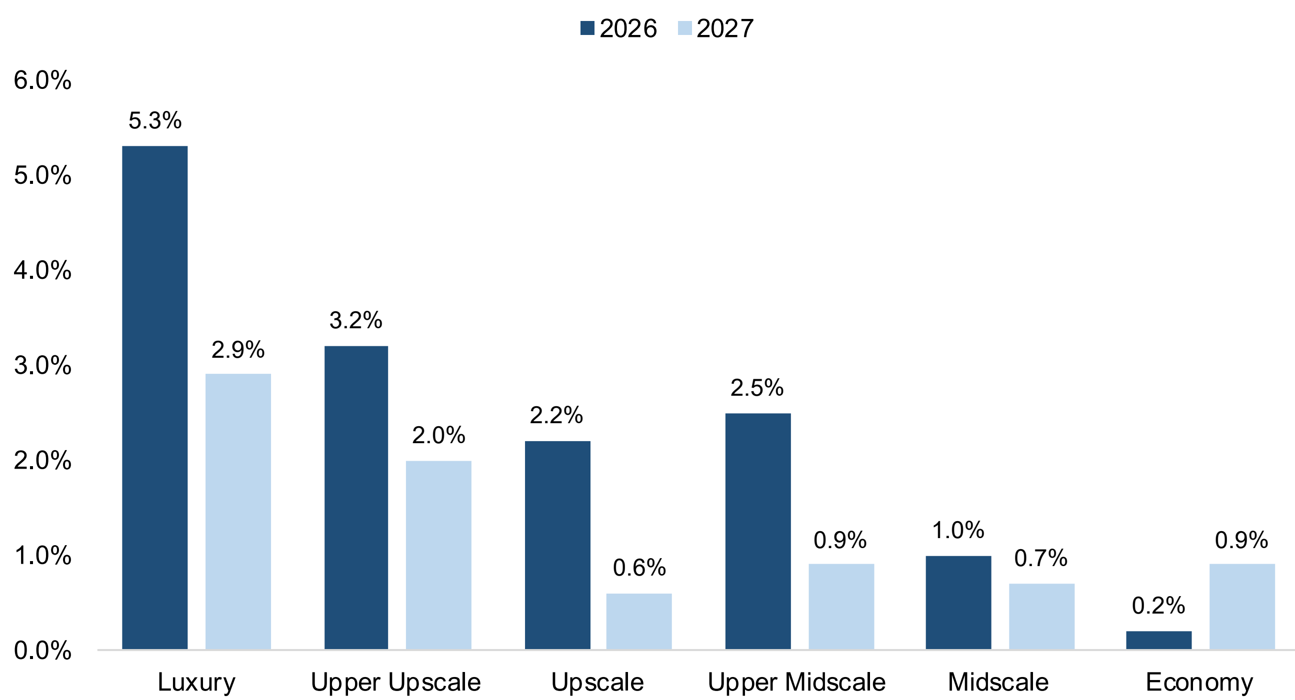
- Secular trends are driving travel demand, particularly in the upper-tiered chain scales (Upper-Upscale – Luxury)
- New supply is growing at a slower pace than demand
- Dislocation and stressed capital structures are creating compelling acquisition opportunities for experienced operators

The sections that follow examine why hotels behave differently from other real estate asset classes, how active ownership and strategic capital deployment can create value throughout the investment lifecycle, and why the current market environment may favor experienced hospitality investors.

What does the current environment look like for hospitality?

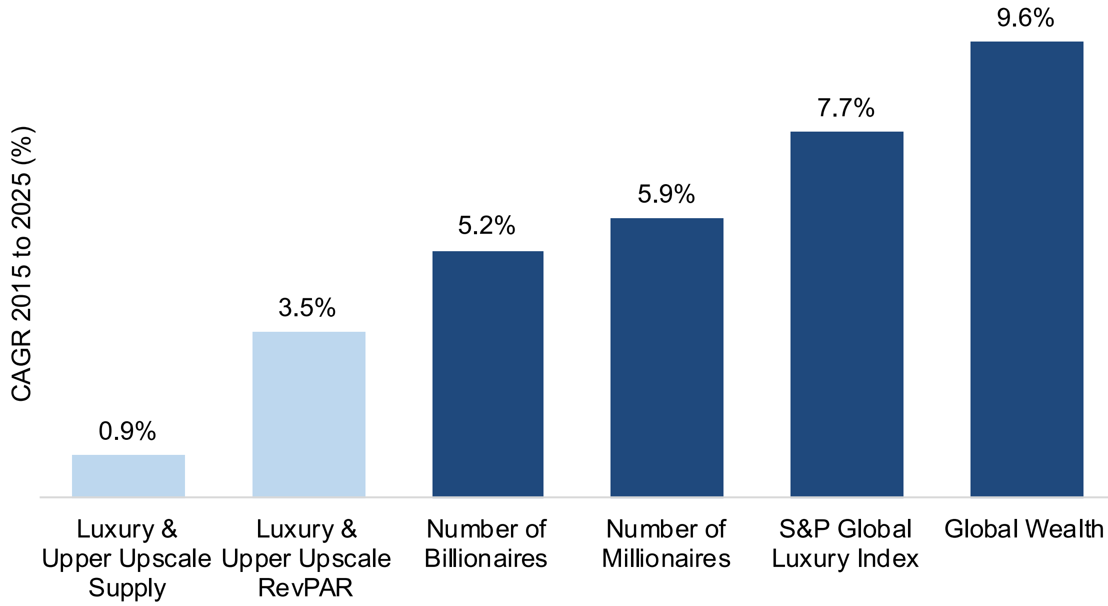
Secular trends are driving travel demand, especially in the upper-tiered chain scales (Upper-Upscale – Luxury). The top 10% of Americans now generate more than half of all consumer spending, and consumer spending on experiences continues to outpace goods and services broadly. Both leisure and business travel have demonstrated resilience, supporting occupancy and rate performance across quality tiers. Over the next few years, STR is projecting growing demand and average daily rates (ADR), with the growth primarily concentrated in the upper-tiered chain scales.

2026 & 2027 U.S. Hotel Forecast by Chain Scale (RevPAR YoY)



Source: Tourism Economics, STR/CoStar, June 2026

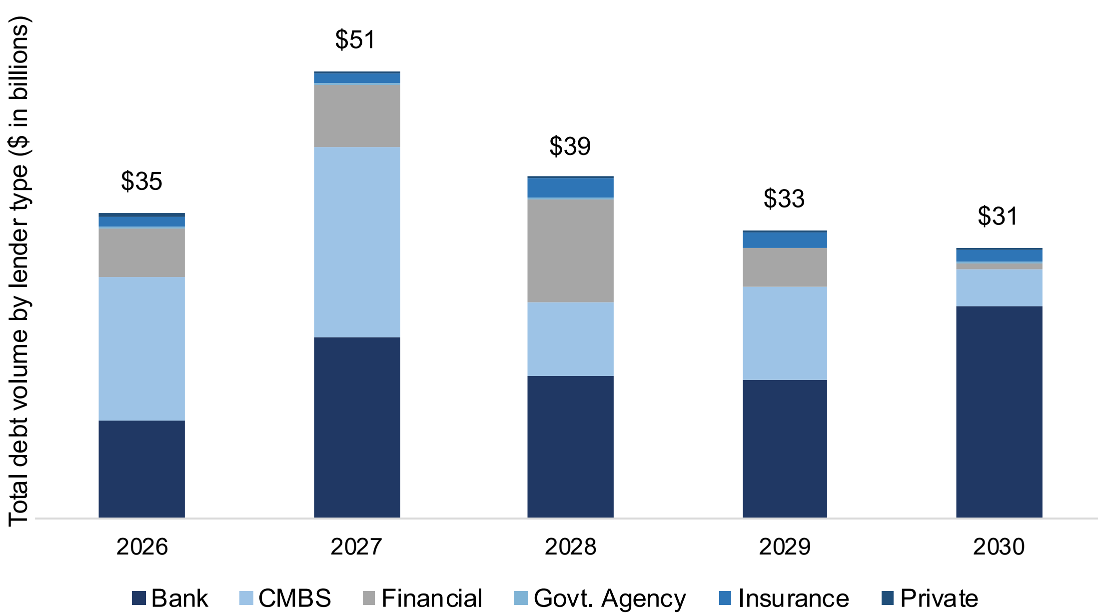
New supply is growing at a slower pace than demand. The supply-demand imbalance in luxury hospitality is particularly compelling at the Luxury and Upper Upscale tier. Global wealth and the high-net-worth population have grown significantly faster than Luxury and Upper Upscale hotel supply over the past decade, with RevPAR growth outpacing new supply additions by a wide margin. The result is a structural gap between the pool of potential luxury travelers and the inventory available to accommodate them.



Notes: Luxury & Upper Upscale supply pertains to all countries globally for which continuous annual data set is available from 2009-2025.
Source: JLL Research, CoStar, UBS Global Wealth Report, public filings, June 2026

Dislocation creates opportunity. Assets that have deferred capital investment, brand and/or management misalignment, or have broken capital stacks are available at basis levels that reflect those impairments. For operators who can identify and correct the underlying issues, the entry point can be compelling. As debt maturities approach, owners face pressure to transact, creating potential for greater deal activity.

U.S. Hotel Debt Maturities 2026 – 2030



Note: Based on independent reports of properties and portfolios of $2.5 million and greater. Loan maturities include all lender types. Data updated March 2026 and believed to be accurate but not guaranteed. Source: JLL Research, RCA, JLL U.S. Hotel Investment Trends, March 2026.

What makes a hotel different from other real estate?

Hotel real estate combines the physical ownership of a real asset with the cash flow dynamics of an operating business. While office, multifamily, and industrial assets generate income based on leases signed months or years in advance, a hotel resets its revenue base every day. We believe that this creates a fundamentally different investment profile, with meaningfully higher return potential for skilled operators. There are several ways this distinction plays out in practice:

- **Revenue resets daily.** Operators must earn their occupancy and rate every night, which means performance reflects execution as much as market conditions.
- **Multiple revenue streams operate simultaneously.** Rooms are the core, but hotels also generate income from food and beverage, events and meetings, parking, spa, and ancillary guest spending. Each stream can be independently managed and optimized.
- **Operators have real flexibility.** Unlike a landlord waiting for a lease to roll, hotel managers can respond to changing conditions immediately, adjusting pricing, staffing, programming, and channel mix in real time.
- **Management quality is directly reflected in results.** A well-run hotel outperforms a comparable property with weaker management in ways that are measurable and durable.

> *Because hospitality is an operationally intensive asset class, manager selection is an important factor. Independent academic research supports this view: a 2024 study published in the Journal of Financial Economics analyzed over 26,000 U.S. hotel transactions and found that industry-specialist private equity firms achieved approximately 5 percentage points higher net income margins and approximately 16 percentage points higher capital gains than generalist firms holding comparable assets – with outperformance driven specifically by hotel operating expertise, not general real estate experience.*

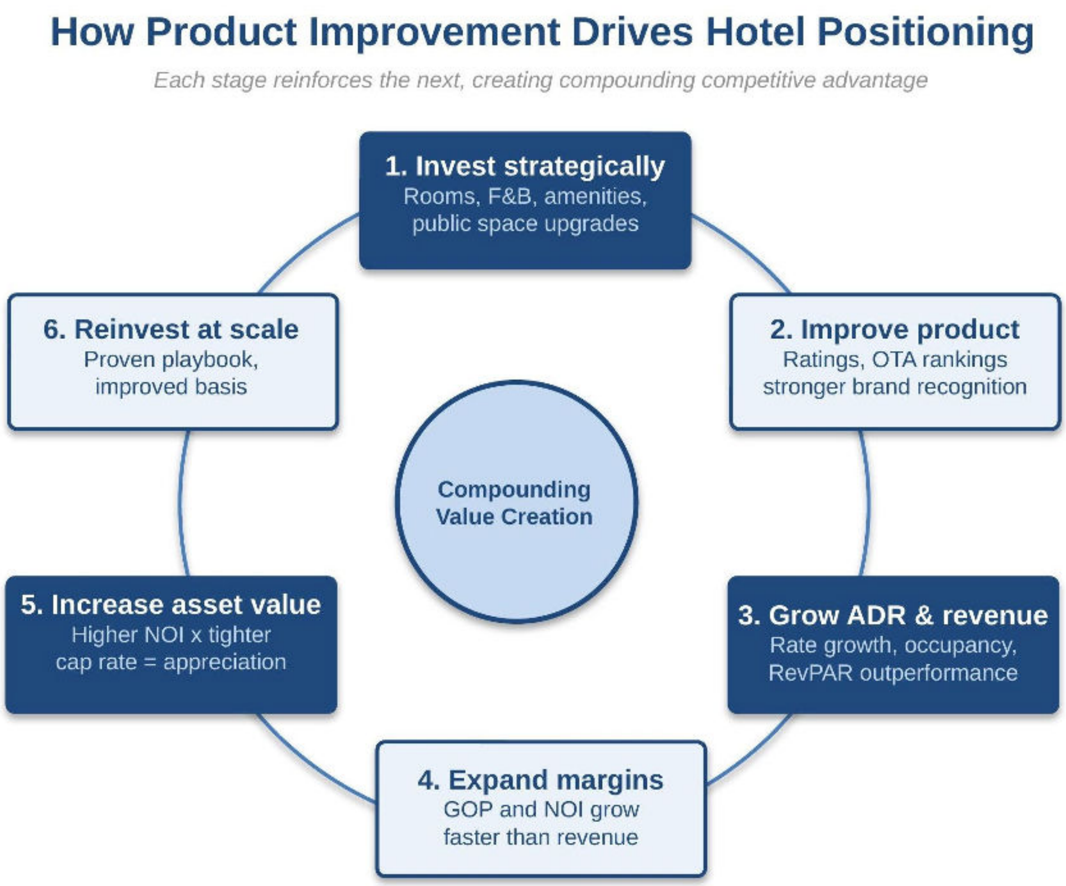
Characteristic	Office	Multifamily	Hospitality
Revenue Reset	10–15 year leases	12-month leases	Daily repricing
Income Drivers	Rent escalations	Market rents	ADR, occupancy, F&B, events
Operational Control	Limited	Moderate	High: management drives outcome
CapEx Impact	Maintain value	Moderate lift	Direct revenue & margin growth
Market Responsiveness	Lagged	Moderate	Immediate, with daily adjustments

How does capital investment create value in hospitality?

In hospitality, we believe CapEx can be deployed strategically to expand the revenue base and improve the asset's competitive positioning. This is different from most other real estate asset classes where capital expenditure is largely defensive.

What types of CapEx tend to drive the most impact?

CapEx Initiative	Revenue & Value Impact
Room Renovation	Repositions the core product; can enable ADR premiums above pre-renovation levels and drives occupancy recovery in high-demand segments.
Amenity Upgrades	Expands the addressable guest profile; rooftop bars, fitness centers, and pools generate direct ancillary revenue and improve rate positioning.
F&B Repositioning	Converts a cost center into a revenue driver. A repositioned restaurant or bar concept can generate meaningful new income independent of room occupancy.
Public Space Transformation	Unlocks event and group business, a high-margin revenue stream that is unavailable to assets without competitive meeting and social spaces.



> *One of the more compelling aspects of hospitality investing is that value creation tends to be cyclical rather than linear. We think of this as a compounding model, where operational improvement and capital reinvestment reinforce each other over time.*

How does expense management drive value?

The middle of the P&L is often where operational discipline translates most directly into asset value. Because hotels are valued on a capitalization of net operating income, every dollar of structural cost reduction can translate to 12 to 15 times its value at exit, assuming a 6.5–8.0% exit cap rate and that NOI gains are sustainable through underwriting. That effect makes expense management one of the most reliable value creation levers available to an experienced operator with a deep asset-level focus.[1]

Peer-reviewed research confirms that cost management is the primary differentiator between specialist and generalist hotel operators: a *Journal of Financial Economics* study found that specialist hotel investors achieved statistically significant savings across labor, general and administrative expenses, property taxes, and management fees, suggesting that operational cost discipline is where specialist knowledge compounds most directly into value.[2]

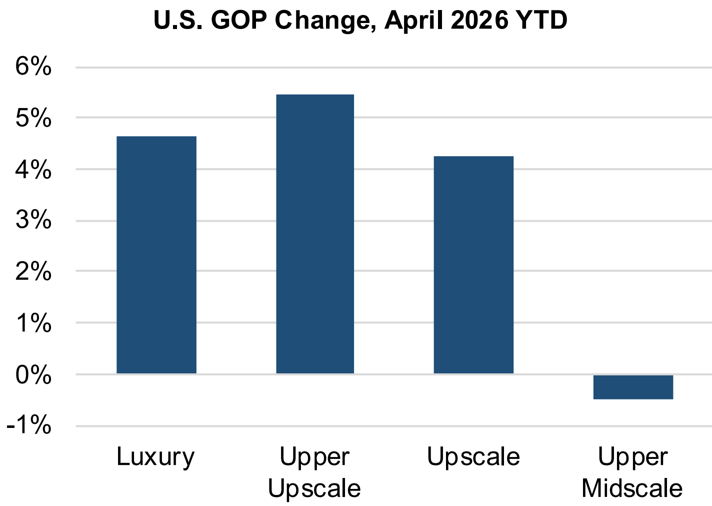
Examples of key expense categories and their impact on value:

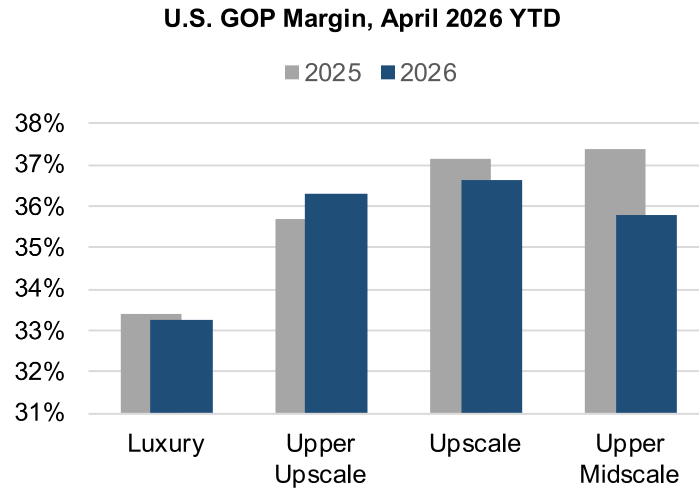
Expense Category	Asset Management Focus
Labor & Staffing	Largest cost line in any hotel P&L. Scheduling optimization, cross-training, outsourcing non-core functions, and productivity benchmarking against comp set can reduce labor without guest experience degradation.
Energy & Utilities	Property-level energy audits, LED and HVAC upgrades, and occupancy-based controls routinely reduce utility costs. These savings are recurring and can improve NOI on an ongoing basis.
Distribution & OTA Costs	Channel mix management (i.e., shifting reservations from high-commission OTA channels to direct) meaningfully reduces cost of revenue. Each point of channel shift improves net RevPAR and flows directly to the bottom line.
Property & Casualty Insurance	Portfolio-level insurance programs, underwriting disciplines, and loss prevention investment reduce per-property premiums.
Management Fees & Brand Costs	Renegotiating management agreements, challenging brand standards, and auditing loyalty and marketing allocations can recover meaningful dollars that are often overlooked or viewed as fixed at the asset level.

[1] This illustration is hypothetical. Actual exit cap rates depend on market conditions and cannot be predicted. Cap rate expansion could materially reduce the value of NOI improvements.

[2] Source: Spaenjers, C. and Steiner, E., “Specialization and Performance in Private Equity: Evidence from the Hotel Industry,” *Journal of Financial Economics*, Vol. 162 (2024). The study analyzed over 26,000 U.S. hotel transactions completed between 2001 and 2019 using data from MSCI and CBRE Hotels. Findings reflect asset-level performance outcomes for comparable properties and do not address fund-level returns to limited partners. Past academic research findings are not indicative of future results and do not reflect Trinity’s specific investment performance.

Recent operating data underscores why segment positioning matters in expense management. April 2026 YTD data from STR and CoStar shows GOP growth of approximately 5% or better at Luxury and Upper Upscale hotels, while Upper Midscale hotels saw modest year-over-year decline. The margin picture is equally telling: Upper Upscale posted meaningful year-over-year GOP margin expansion, while Luxury margins held roughly flat and Upscale and Upper Midscale margins contracted.





Source: STR/CoStar, April 2026 YTD

The divergence reflects a structural advantage of strong group mix and banquet revenue, frequently present in larger, upper-tiered hotels. These demand segments tend to carry higher average spend and allow operators to more efficiently absorb fixed costs, including labor, utilities, and overhead, without sacrificing margin. For a hotel with robust group and banquet business, the same cost management disciplines described above operate on a larger and more stable revenue base, compounding their impact on NOI.

> *At a 7% exit cap rate, $1 of annual NOI improvement equates to $14.29 of incremental asset value, assuming the NOI improvement is sustainable and underwritten by the buyer at the same cap rate. Expense discipline, consistently applied across every line of the P&L, is one of the most durable compounders available to a hospitality operator.*

Key takeaways for investors

- Hotels are operating businesses backed by hard assets, and performance is a function of execution. Occupancy, rate, and margin are each influenced by management decisions, which means a skilled operator can generate returns that exceed broader market performance.
- Strategic CapEx is a growth driver when deployed with discipline. Capital investment can directly expand the revenue base and improve the asset's competitive position.
- Every dollar of structural cost reduction contributes directly to NOI and, at an illustrative 12 to 15 times valuation multiple (assuming a 6.5–8.0% exit cap rate and sustainable NOI gains), can create significant incremental asset value at exit. Single-asset-class focus helps to create the operational depth required to capture value from expense management.
- The ability to operate well and invest capital strategically, when consistently applied across a portfolio, can generate compounding effects.
- The current supply and demand environment is supportive. Constrained new development and durable travel demand favor well-positioned existing assets managed by experienced operators.

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