

# PSERS – BHPFE, LLC. Portfolio



Commonwealth of  
Pennsylvania State  
Employees' Retirement  
System

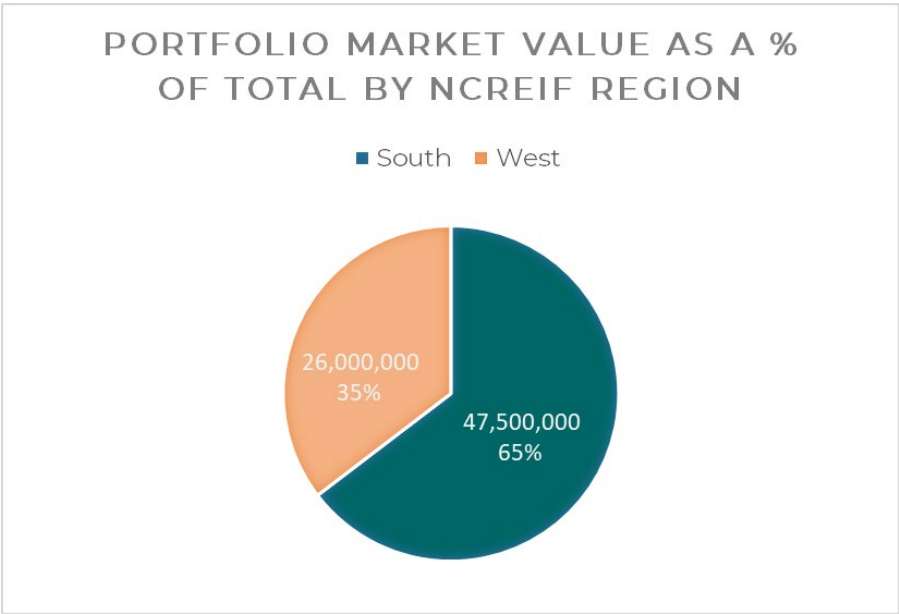
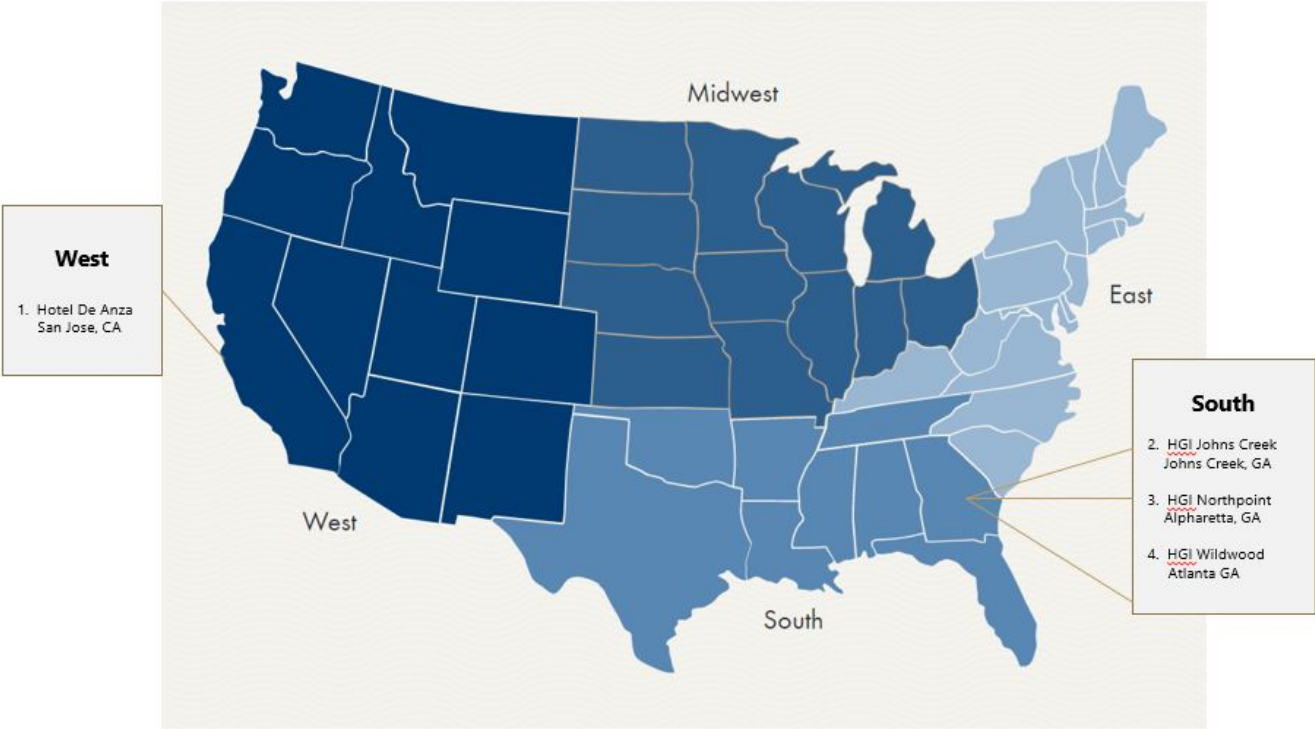
Third Quarter 2021 Report

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I. PORTFOLIO MAP BY NCREIF REGION



Note: Portfolio data is based on the fair value of investments as of September 30, 2021.

## II. EXECUTIVE SUMMARY

### 2.1 Market Overview

#### US Economy and Property Market Overview

Real gross domestic product ("GDP") for the third quarter of 2021 is estimated to have grown to 2.0%, down from 6.7% growth in Q2, implying that the rate of economic recovery has slowed.<sup>1</sup> Simultaneously, The Conference Board forecasted 2021 Annual Real GDP to grow 5.7%.<sup>2</sup> While GDP growth has decelerated, positive GDP momentum continued in Q3 because of sustained stimulus spending through the end of August.

The US unemployment rate declined from 5.9% as of June 30, 2021 to 4.8% at the end of September, 2021.<sup>3</sup> After its spike in April 2020 of 14.7%, the unemployment rate has steadily declined. Employment in leisure and hospitality industries (including restaurants and hotels) grew by 74k employees in September alone, however overall employment in this sector is still down 9.4% relative to its pre-pandemic levels. Studies estimate that 15-20% of the hospitality workforce has left the industry permanently, as people found better wages, benefits, and work schedules.<sup>4</sup> This is creating a labor shortage in the industry will put additional pressure on hotel wages.

The National Council of Real Estate Investment Fiduciaries (NCREIF) has released third quarter 2021 results for the NCREIF Property Index (NPI). The NPI reflects investment performance for commercial properties totaling \$785 billion of market value across all real estate asset classes. The total return for Q3 2021 was 5.23%, which is a 164-basis point increase relative to the prior quarter. This is an unleveraged composite total return for private commercial real estate properties held for investment purposes only. According to NCREIF, hotel assets performed the second worst of any asset class in Q3 (ahead of retail), with an average return of 1.83%. Although hotel assets performed poorly relative to other asset classes, this was the second quarter that saw positive hotel returns since Q1 of 2020, indicating sustained, positive value growth. Geographically, hotel assets in the Midwest region performed the best at a 4.24% return while hotel assets in the East performed the worst with a 0.64% return.<sup>5</sup>

NAREIT data, on the other hand, reflects a positive story, as analysts anticipate a robust recovery since the highly liquid equity markets can adjust their "market" pricing much more quickly. Total returns YTD for lodging REITs was 14.72% as of 9/30. It should be noted, however that returns in September specifically were only 1.27%, indicative of deceleration in REIT values. For reference, YTD returns for public lodging REITs was 18% at the end of Q1.<sup>6</sup>

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<sup>1</sup> Bureau of Labor Statistics, News Release, "Gross Domestic Product, Third Quarter 2021 (Advance Estimate)", 10/28/2021

<sup>2</sup> The Conference Board, "Economic Forecast for the US Economy", 10/13/2021

<sup>3</sup> Bureau of Labor Statistics, "The Employment Situation – September 2021", 10/8/2021

<sup>4</sup> Hotel Business, "Labor Woes: The Future of the hospitality workforce", 7/15/2021

<sup>5</sup> NCREIF Property Index, "Quarterly Returns", 11/9/2021, <https://www.ncreif.org/data-products/property/>

<sup>6</sup> NAREIT Lodging REIT Index & FTSE, 9/30/21, <https://www.reit.com/what-reit/reit-sectors/lodgingresorts-reits>

## 2.2 Lodging Overview – Market / Industry Fundamentals

**2021 Q3 Performance:** US lodging performance in Q3 showed improvement relative to previous quarters. The increase in vaccinations across the U.S. and lifting of state mask mandates increased leisure demand as people started to travel. Corporate travel policies and group gathering sizes (impacting both group and convention segments), showed improvement in Q3. As shown below, Q3 RevPAR growth was led by the top 25 MSA's on a percentage basis. According to CBRE, RevPAR as a percentage of 2019 is stronger in resort interstate and small towns, whereas urban and suburban areas are farther behind.<sup>7</sup> Industry RevPAR in Q3 2021 increased 23% over Q2 2021 and 70% over Q3 2020.

| 2021 Q3 Topline Performance (% Chg vs. 2020) |           |                |               |
|--|-----------|----------------|---------------|
| Metric                                       | Entire US | Top 25 Markets | Other Markets |
| Occupancy                                    | 34.9%     | 50.2%          | 29.6%         |
| ADR  | 36.2%     | 48.7%          | 31.2%         |
| RevPAR                                       | 83.8%     | 123.4%         | 70.1%         |

**2021 Forecast:** Industry prognosticators are forecasting 2021 RevPAR to grow anywhere from 41%-63% relative to 2020. This gap is due to the timing of projections of and several of the forecasts being stale.

| US Topline Forecast Comparison   |          |          |          |          |          |          |          |  |
|--|----------|----------|----------|----------|----------|----------|----------|--|
|  | 2019     | 2020     | 2021F    |          |          |          |          |  |
|  | STR      | STR      | CBRE     | STR      | PwC      | HVS      | hAVE     |  |
| Occupancy  | 66.10%   | 41.70%   | 54.00%   | 57.10%   | 57.20%   | 55.00%   | 55.10%   |  |
| % Change   | 0.00%    | -36.90%  | 29.40%   | 36.80%   | 37.10%   | 31.80%   | 32.10%   |  |
| Index to 2019  | 100.00%  | 63.10%   | 81.70%   | 86.40%   | 86.50%   | 83.20%   | 83.40%   |  |
| ADR  | \$131.15 | \$103.21 | \$112.85 | \$123.00 | \$111.12 | \$114.00 | \$119.95 |  |
| % Change   | 1.00%    | -21.30%  | 9.30%    | 19.20%   | 7.70%    | 10.50%   | 16.20%   |  |
| Index to 2019  | 100.00%  | 78.70%   | 86.00%   | 93.80%   | 84.70%   | 86.90%   | 91.50%   |  |
| RevPAR   | \$86.71  | \$43.07  | \$60.91  | \$70.23  | \$63.57  | \$62.70  | \$66.11  |  |
| % Change   | 0.90%    | -50.30%  | 41.40%   | 63.10%   | 47.60%   | 45.60%   | 53.50%   |  |
| Index to 2019  | 100.00%  | 49.70%   | 70.20%   | 81.00%   | 73.30%   | 72.30%   | 76.20%   |  |
| Sources: hotelAVE as of 9/20/21; CBRE as of 9/13/21; STR as of 11/08/21; PwC as of 5/24/21; HVS as of 8/21 |          |          |          |          |          |          |          |  |

**Supply Growth:** Lodging Econometrics reported in the first three quarters of 2021, 665 new hotels with 85,306 rooms open. For all of 2021, the supply growth is forecasted at 2.0% and the same is expected for 2022. This that U.S. supply growth is forecasted to be 2.0% in 2021 and is expected to remain the same into 2022.<sup>8</sup> This is above the long-term average of 1.7% from 1995 through 2019.

<sup>7</sup> CBRE, "Hotel Recovery Continues in Q3", 11/10/2021

<sup>8</sup> Lodging Econometrics, "At the end of Q3 2021, Dallas tops the US Hotel Construction Pipeline", 10/27/2021

**Transaction Volume:** There were 88 single asset transactions over \$10M in Q3 of 2021, totaling \$4.8B (excluding the Cosmopolitan Las Vegas) per the LWHA Major U.S. Hotel Sales Survey. This represents an increase relative to Q2 of nearly 46% (60 transactions in Q2). During the quarter, average sale price was \$261k per key, with roughly 18,500 rooms sold. After several quarters of limited sales volume, the flood gates opened in Q3 2021.<sup>9</sup>

**Capital Markets:** Hotel lending accelerated in the third quarter with the volume of hotel transactions. Bank and insurance companies are coming back to the market as well as some select CMBS issuance. While there is some variation in pricing, larger loans are securing more favorable terms than smaller loans. In addition, there is also a preference for the recovered markets over the lagging markets. Lenders are looking at stabilized 2019 performance for loan to value evaluation and willing to provide additional proceeds to cover short term operating shortfalls.

**Hotel Values:** Hotel asset values have increased after two quarters of reasonable transaction volumes. According to Real Capital Analytics, full-service hotel values approximate \$220k/ key compared to approximately \$235k at the end of 2019. Limited service has recovered fully to approximately \$90k/ key. The recovery for limited service is due to low cap rates of 8.6%.<sup>10</sup>

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<sup>9</sup> *Globe Street, "Major Hotel Sales Transactions in the Third Quarter", 10/13/2021*

<sup>10</sup> *HVS, "NYU Outlook for the US Hotel Industry", 11/8/2021*

## 2.3 Portfolio Performance

The Portfolio has achieved an Internal Rate of Return (“IRR”) of +1.1% (before fees) and -0.1% (after fees) since inception through September 30<sup>th</sup>, 2021. The market value for each of the properties was reviewed and adjusted as of 9/30/2021. On a comparative basis, the NAREIT index for Lodging/ Resorts has declined by -10.5% over the same period.<sup>11</sup>

| Summary Before Fee-Leveraged as of September 30, 2021 |                 |                 |                |                 |                 |  |                 |
|---|-----------------|-----------------|----------------|-----------------|-----------------|--|-----------------|
| Hotel   | Aloft Hotel     | HGI Johns Creek | HGI Northpoint | Hotel De Anza   | HGI Wildwood    |  | Fund Total      |
| IRR   | 17.7%           | -22.5%          | 7.6%           | 2.9%            | 3.0%            |  | 1.1%            |
| 7/1/2018  | \$ (17,292,427) | \$ (7,164,718)  | \$ (2,011,212) | \$ (22,296,193) | \$ (10,245,576) |  | \$ (59,010,127) |
| 12/31/2018  | \$ -            | \$ 380,000      | \$ -           | \$ -            | \$ 430,000      |  | \$ -            |
| 1/28/2019   | \$ 500,000      | \$ -            | \$ 490,411     | \$ 270,000      | \$ -            |  | \$ -            |
| 4/30/2019   | \$ 200,000      | \$ 490,000      | \$ 175,000     | \$ 430,000      | \$ 363,750      |  | \$ 2,000,000    |
| 6/5/2019  | \$ 250,000      | \$ -            | \$ 175,000     | \$ 250,000      | \$ 300,000      |  | \$ -            |
| 7/1/2019  | \$ 17,685,912   | \$ -            | \$ -           | \$ -            | \$ -            |  | \$ -            |
| 7/2/2019  | \$ -            | \$ -            | \$ -           | \$ -            | \$ -            |  | \$ 14,850,000   |
| 7/8/2019  | \$ -            | \$ 235,000      | \$ 100,000     | \$ -            | \$ -            |  | \$ -            |
| 9/6/2019  | \$ -            | \$ 100,000      | \$ 75,000      | \$ 200,000      | \$ 250,000      |  | \$ 2,341,396    |
| 10/22/2019  | \$ -            | \$ 50,000       | \$ 75,000      | \$ -            | \$ 95,000       |  | \$ -            |
| 2/5/2020  | \$ 1,405,000    | \$ 15,000       | \$ 15,000      | \$ 245,000      | \$ -            |  | \$ -            |
| 2/6/2020  | \$ -            | \$ -            | \$ -           | \$ -            | \$ -            |  | \$ 1,000,000    |
| 2/28/2020   | \$ -            | \$ -            | \$ -           | \$ (200,000)    | \$ -            |  | \$ -            |
| 3/16/2020   | \$ (237,700)    | \$ (243,000)    | \$ (245,000)   | \$ (245,000)    | \$ (244,800)    |  | \$ -            |
| 4/15/2020   | \$ -            | \$ -            | \$ -           | \$ (220,000)    | \$ -            |  | \$ -            |
| 4/29/2020   | \$ 150,000      | \$ -            | \$ -           | \$ (150,000)    | \$ -            |  | \$ -            |
| 6/18/2020   | \$ 120,000      | \$ -            | \$ -           | \$ -            | \$ -            |  | \$ -            |
| 7/21/2020   | \$ -            | \$ -            | \$ -           | \$ -            | \$ 100,000      |  | \$ -            |
| 8/7/2020  | \$ -            | \$ (50,000)     | \$ (50,000)    | \$ -            | \$ -            |  | \$ -            |
| 8/21/2020   | \$ -            | \$ 100,000      | \$ -           | \$ -            | \$ -            |  | \$ -            |
| 10/15/2020  | \$ -            | \$ (150,000)    | \$ (125,000)   | \$ (150,000)    | \$ (50,000)     |  | \$ -            |
| 11/24/2020  | \$ -            | \$ -            | \$ (50,000)    | \$ (400,000)    | \$ -            |  | \$ -            |
| 12/29/2020  | \$ -            | \$ (45,000)     | \$ (50,000)    | \$ (210,000)    | \$ -            |  | \$ -            |
| 1/20/2021   | \$ -            | \$ -            | \$ -           | \$ -            | \$ -            |  | \$ (2,500,000)  |
| 2/4/2021  | \$ -            | \$ -            | \$ -           | \$ (170,000)    | \$ -            |  | \$ -            |
| 2/18/2021   | \$ -            | \$ -            | \$ (30,000)    | \$ -            | \$ -            |  | \$ -            |
| 3/8/2021  | \$ -            | \$ -            | \$ -           | \$ (100,000)    | \$ -            |  | \$ -            |
| 3/18/2021   | \$ -            | \$ (337,000)    | \$ (392,000)   | \$ (260,000)    | \$ (350,000)    |  | \$ -            |
| 4/1/2021  | \$ 10,886       | \$ -            | \$ -           | \$ (150,000)    | \$ -            |  | \$ -            |
| 5/11/2021   | \$ -            | \$ -            | \$ -           | \$ (170,000)    | \$ -            |  | \$ -            |
| 5/25/2021   | \$ -            | \$ 259,695      | \$ 282,912     | \$ -            | \$ 314,131      |  | \$ -            |
| 6/8/2021  | \$ -            | \$ -            | \$ -           | \$ (150,000)    | \$ -            |  | \$ -            |
| 7/28/2021   | \$ -            | \$ -            | \$ -           | \$ (100,000)    | \$ -            |  | \$ -            |
| 8/16/2021   | \$ -            | \$ -            | \$ -           | \$ (80,000)     | \$ -            |  | \$ -            |
| 9/3/2021  | \$ -            | \$ -            | \$ -           | \$ -            | \$ -            |  | \$ (500,000)    |
| 9/30/2021   | \$ 521,102      | \$ 2,783,778    | \$ 1,946,438   | \$ 25,841,820   | \$ 9,966,801    |  | \$ 43,431,625   |

<sup>11</sup> NAREIT US Lodging Index Series, <https://www.reit.com/data-research/reit-indexes/monthly-property-index-values-returns>



| Summary After Fee-Leveraged as of September 30, 2021 |                 |                  |                |                 |                 |  |                 |
|--|-----------------|------------------|----------------|-----------------|-----------------|--|-----------------|
| Hotel  | Aloft Hotel     | HGI Joints Creek | HGI Northpoint | Hotel De Anza   | HGI Wildwood    |  | Fund Total      |
| IRR  | 15.6%           | -24.7%           | 2.8%           | 2.3%            | 2.2%            |  | -0.1%           |
| 7/1/2018   | \$ (17,292,427) | \$ (7,164,718)   | \$ (2,011,212) | \$ (22,296,193) | \$ (10,245,576) |  | \$ (59,010,127) |
| 12/31/2018   | \$ -            | \$ 380,000       | \$ -           | \$ -            | \$ 430,000      |  | \$ -            |
| 1/28/2019  | \$ 500,000      | \$ -             | \$ 490,411     | \$ 270,000      | \$ -            |  | \$ -            |
| 4/30/2019  | \$ 200,000      | \$ 490,000       | \$ 175,000     | \$ 430,000      | \$ 363,750      |  | \$ 2,000,000    |
| 6/5/2019   | \$ 250,000      | \$ -             | \$ 175,000     | \$ 250,000      | \$ 300,000      |  | \$ -            |
| 7/1/2019   | \$ 17,685,912   | \$ -             | \$ -           | \$ -            | \$ -            |  | \$ -            |
| 7/2/2019   | \$ -            | \$ -             | \$ -           | \$ -            | \$ -            |  | \$ 14,850,000   |
| 7/8/2019   | \$ -            | \$ 235,000       | \$ 100,000     | \$ -            | \$ -            |  | \$ -            |
| 9/6/2019   | \$ -            | \$ 100,000       | \$ 75,000      | \$ 200,000      | \$ 250,000      |  | \$ 2,341,396    |
| 10/22/2020   | \$ -            | \$ 50,000        | \$ 75,000      | \$ -            | \$ 95,000       |  | \$ -            |
| 2/5/2020   | \$ 1,405,000    | \$ 15,000        | \$ 15,000      | \$ 245,000      | \$ -            |  | \$ -            |
| 2/6/2020   | \$ -            | \$ -             | \$ -           | \$ -            | \$ -            |  | \$ 1,000,000    |
| 2/28/2020  | \$ -            | \$ -             | \$ -           | \$ (200,000)    | \$ -            |  | \$ -            |
| 3/16/2020  | \$ (237,700)    | \$ (243,000)     | \$ (245,000)   | \$ (245,000)    | \$ (244,800)    |  | \$ -            |
| 4/15/2020  | \$ -            | \$ -             | \$ -           | \$ (220,000)    | \$ -            |  | \$ -            |
| 4/29/2020  | \$ 150,000      | \$ -             | \$ -           | \$ (150,000)    | \$ -            |  | \$ -            |
| 6/18/2020  | \$ 120,000      | \$ -             | \$ -           | \$ -            | \$ -            |  | \$ -            |
| 7/21/2020  | \$ -            | \$ -             | \$ -           | \$ -            | \$ 100,000      |  | \$ -            |
| 8/7/2020   | \$ -            | \$ (50,000)      | \$ (50,000)    | \$ -            | \$ -            |  | \$ -            |
| 8/21/2020  | \$ -            | \$ 100,000       | \$ -           | \$ -            | \$ -            |  | \$ -            |
| 10/15/2020   | \$ -            | \$ (150,000)     | \$ (125,000)   | \$ (150,000)    | \$ (50,000)     |  | \$ -            |
| 11/24/2020   | \$ -            | \$ -             | \$ (50,000)    | \$ (400,000)    | \$ -            |  | \$ -            |
| 12/29/2020   | \$ -            | \$ (45,000)      | \$ (50,000)    | \$ (210,000)    | \$ -            |  | \$ -            |
| 1/20/2021  | \$ -            | \$ -             | \$ -           | \$ -            | \$ -            |  | \$ (2,500,000)  |
| 2/4/2021   | \$ -            | \$ -             | \$ -           | \$ (170,000)    | \$ -            |  | \$ -            |
| 2/18/2021  | \$ -            | \$ -             | \$ (30,000)    | \$ -            | \$ -            |  | \$ -            |
| 3/8/2021   | \$ -            | \$ -             | \$ -           | \$ (100,000)    | \$ -            |  | \$ -            |
| 3/18/2021  | \$ -            | \$ (337,000)     | \$ (392,000)   | \$ (260,000)    | \$ (350,000)    |  | \$ -            |
| 4/1/2021   | \$ 10,886       | \$ -             | \$ -           | \$ (150,000)    | \$ -            |  | \$ -            |
| 5/11/2021  | \$ -            | \$ -             | \$ -           | \$ (170,000)    | \$ -            |  | \$ -            |
| 5/25/2021  | \$ -            | \$ 259,695       | \$ 282,912     | \$ -            | \$ 314,131      |  | \$ -            |
| 6/8/2021   | \$ -            | \$ -             | \$ -           | \$ (150,000)    | \$ -            |  | \$ -            |
| 7/28/2021  | \$ -            | \$ -             | \$ -           | \$ (100,000)    | \$ -            |  | \$ -            |
| 8/16/2021  | \$ -            | \$ -             | \$ -           | \$ (80,000)     | \$ -            |  | \$ -            |
| 9/3/2021   | \$ -            | \$ -             | \$ -           | \$ -            | \$ -            |  | \$ (500,000)    |
| 9/30/2021  | \$ (4,980)      | \$ 2,535,936     | \$ 1,698,702   | \$ 25,382,818   | \$ 9,713,556    |  | \$ 41,697,718   |



## 2.4 Quarter Highlights

As of September 30, 2021, the Portfolio consisted of four properties that had an “As Is” fair market value of \$73.5M. The market value for each of the properties was reviewed and adjusted as of 9/30/2021. Over the last several months, hotel industry fundamentals have improved with more widespread vaccinations, increased travel, and the lifting of travel restrictions. This has provided more visibility to the industry's recovery and resulted in both debt and equity transactions. The transaction activity, conversations with industry experts, and hotel's internal underwriting process were utilized to revalue the properties.

| Property Name   | Location        | Region | Investment Acquisition Date | Number of Rooms | Strategy         | Interest Held | Market Value (\$) | Debt Outstanding (\$) | Net Market Value (\$) |
|-----------------|-----------------|--------|-----------------------------|-----------------|------------------|---------------|-------------------|-----------------------|-----------------------|
| HGI Johns Creek | Johns Creek, GA | South  | March 24, 2016              | 122             | Leveraged Equity | 100%          | \$13,500,000      | \$9,949,952           | \$3,550,048           |
| HGI Northpoint  | Alpharetta, GA  | South  | March 24, 2016              | 125             | Leveraged Equity | 100%          | \$13,500,000      | \$9,949,951           | \$3,550,049           |
| HGI Wildwood    | Atlanta, GA     | South  | March 24, 2016              | 123             | Leveraged Equity | 100%          | \$20,500,000      | \$13,266,601          | \$7,233,399           |
| Hotel De Anza   | San Jose, CA    | West   | September 9, 2014           | 100             | Equity           | 100%          | \$26,000,000      | \$0                   | \$26,000,000          |

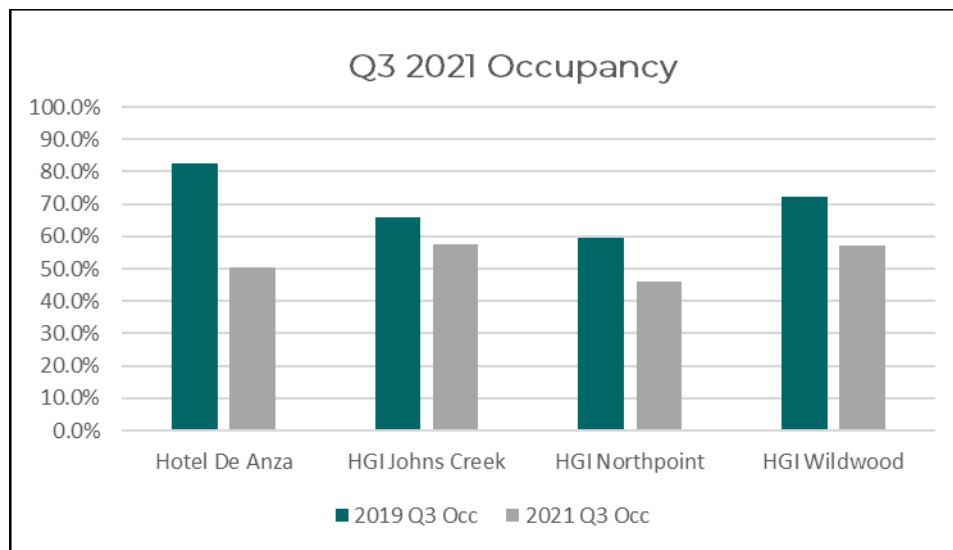
Commonwealth of Pennsylvania Retirement ("SERS") is a single account in an operating cycle.

For the quarter-ended September 30, 2021, total portfolio NOI (before FF&E Reserves) ended \$298k above budget.

| Property     | Q3 2021 Actual NOI | Q3 2021 Budget   | Variance (\$)    |
|--------------|--------------------|------------------|------------------|
| De Anza      | \$335,124          | \$92,581         | \$242,543        |
| JC           | \$111,277          | \$82,253         | \$29,024         |
| NP           | \$53,936           | \$71,478         | -\$17,542        |
| WW           | \$248,383          | \$204,660        | \$43,723         |
| <b>Total</b> | <b>\$748,720</b>   | <b>\$450,972</b> | <b>\$297,748</b> |

## 2.5 Occupancy

Individual hotel occupancy performance compared to 2019, as illustrated in the chart below, is highly market driven. The Hilton Garden Inn assets are in locations that are much rely on both leisure and corporate travel, while the Hotel De Anza is in an urban location and heavily reliant on BT demand and group. As a result of this disparity in segmentation of demand, the Hilton Garden Inn's performance relative to 2019 for Q3 is much more robust than Hotel De Anza. The Wildwood property outperforms the other Atlanta properties because of its proximity to Truist Park, home of the Atlanta Braves.



| Hotel       | Hotel De Anza | HGI Johns Creek | HGI Northpoint | HGI Wildwood |
|-------------|---------------|-----------------|----------------|--------------|
| 2019 Q3 Occ | 82.6%         | 66.0%           | 59.7%          | 72.4%        |
| 2021 Q3 Occ | 50.4%         | 57.5%           | 46.2%          | 57.0%        |

## 2.6 Leverage

Current Portfolio leverage is 45% Loan to Value (including the Hotel de Anza, which is an all-equity investment).

| Property Name   | Loan Balance (\$) | Market Value (\$) | Loan to Value | DSCR  | Lender/ Servicer | Rate                        | Maturity  | Extension Options | Prepayment        |
|-----------------|-------------------|-------------------|---------------|-------|------------------|-----------------------------|-----------|-------------------|-------------------|
| HGI Johns Creek | \$9,949,952       | \$13,500,000      | 73.7%         | 0.28  | Truist           | Prime + 1%<br>(4.25% Floor) | 3/23/2023 | None              | Open - No Penalty |
| HGI Northpoint  | \$9,949,951       | \$13,500,000      | 73.7%         | 0.10  | Truist           |                             | 3/23/2023 | None              | Open - No Penalty |
| HGI Wildwood    | \$13,266,601      | \$20,500,000      | 64.7%         | -0.35 | Truist           |                             | 3/23/2023 | None              | Open - No Penalty |
| Hotel De Anza   | \$0               | \$26,000,000      | N/A           | N/A   | N/A              | N/A                         | N/A       | N/A               | N/A               |

Pursuant to GAAP requirements, all property debt is marked to market at quarter end.

Each of the hotels secured PPP Loans pursuant to the CARES Act in 2020. Forgiveness has been granted on the loans of all four of these loans. The loan forgiveness was recorded as Other Non-Operating Income.

In addition, the three HGI hotels received a second round of PPP funding in Q2 2021, totaling \$857k. This amount will be used to fund working capital needs at the hotels relating to payroll, utilities, and other approved costs. Full forgiveness is expected and will be applied for by year end.

## 2.7 Diversification

The Portfolio is not diversified by property type or geographic region as all assets are hotels and the majority are in the Southeast region of the United States, with one asset located in the Western region. As a percentage of fair value, 65% of the estimated fair value of the Portfolio is in the Southeast region, with the remaining 35% located in the Western region.

## 2.8 Investment Activity – Acquisitions and Dispositions

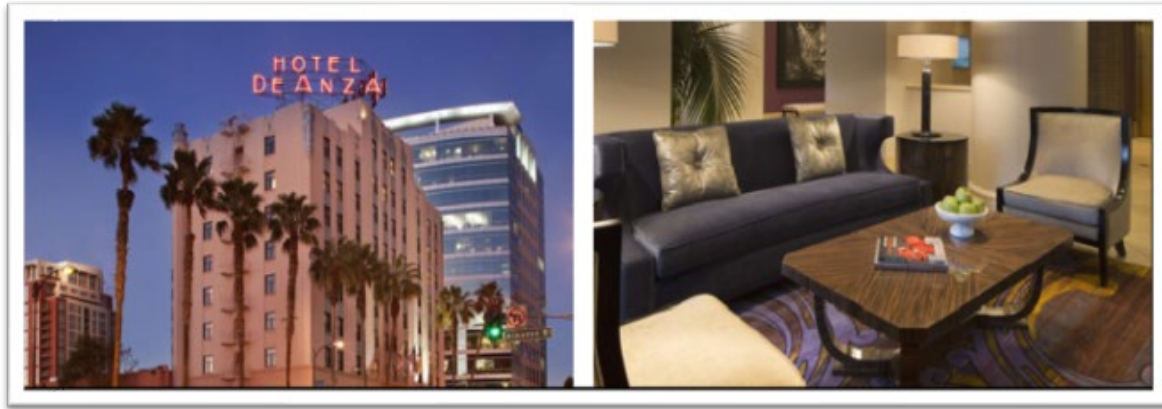
During the quarter, there was no acquisition or disposition activity.

## 2.9 Required Investment Advisor Notices

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### III. PROPERTY PROFILES

#### De Anza Hotel- San Jose, CA

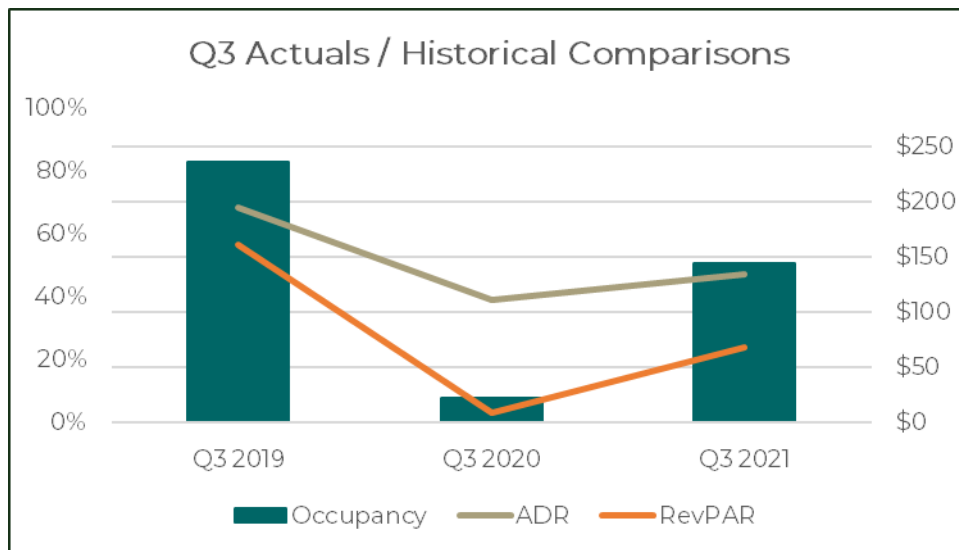


#### Investment Highlights

- In Q3, the asset realized an EBITDA of \$335k (before reserves), which includes PPP forgiveness of \$648k. This is an improvement of \$130k relative to the Q2 EBITDA excluding the PPP forgiveness, reflective of recovering market fundamentals. Occupancy improved 53% over Q2 to a respectable 50% occupancy while ADR increased 14% compared to Q2.
- hAVE continues to work diligently with Hyatt to manage cash flows and closely monitor property spending. All fixed and variable expenses have been significantly reduced while maintaining an aggressive sales approach.
  - Simultaneously, hotelAVE is evaluating other third-party operating partners that can potentially implement an even more efficient model, with negligible impact to topline revenue performance. Any decision as it relates to replacing Hyatt as manager will likely not be made until 2022 once the economic outlook of the market becomes clearer.
- hAVE secured a \$685,254 PPP loan in 2020 and was just granted full forgiveness in Q3 2021. The benefit of this amount is reflected in the Q3 financials.
- hotelAVE has identified multiple potential operating partners who are interested in an engagement for a long-term lease or management agreement to operate the currently vacant F&B space. Activating the F&B space in the asset expected to not only drive incremental rent revenue, but also generate additional room night demand for the asset.

| Performance Market Competitive Index   |                       |                       |            |                      |                      |            |                |                |            |
|--|-----------------------|-----------------------|------------|----------------------|----------------------|------------|----------------|----------------|------------|
| Metric   | Q3 2019<br>Occ. Index | Q3 2021<br>Occ. Index | % Variance | Q3 2019<br>ADR Index | Q3 2021<br>ADR Index | % Variance | Q3 2019<br>RPI | Q3 2021<br>RPI | % Variance |
| Q3 2021  | 108.7%                | 86.3%                 | -20.6%     | 81.6%                | 98.3%                | 20.5%      | 88.7%          | 84.9%          | -4.3%      |
| Note: Comp Set Includes Hyatt Place San Jose Downtown, Westin San Jose, Fairmont San Jose, Hilton San Jose, Marriott San Jose, Four Points by Sheraton San Jose Downtown, AC Hotels by Marriott San Jose Downtown. |                       |                       |            |                      |                      |            |                |                |            |

- The property is working to capitalize on the closure of the 805-room Fairmont hotel and target specific pieces of business that will be displaced because of the closure. While the hotel team was unable to secure a displaced airline crew contract, they are now targeting historic Fairmont BT accounts that are ramping up their business travel. The Fairmont is expected to re-open in Q1 or Q2 2022 as a Signia by Hilton.
- Reduced COVID-19 restrictions including the scale back of mask requirements and limitations on social gathering sizes, drove leisure demand in Q2. Despite improved demand fundamentals, however, the market was unable to drive ADR as anemic BT and group demand levels forced discounting in an effort to shift leisure travel.



#### De Anza

| Year      | Q3 2019  | Q3 2020  | Q3 2021  |
|-----------|----------|----------|----------|
| Occupancy | 82.6%    | 7.6%     | 50.4%    |
| ADR       | \$194.05 | \$111.38 | \$134.59 |
| RevPAR    | \$160.31 | \$8.51   | \$67.78  |

**De Anza Income Statement**

QTD - July-Sept. 2021

|  | Actuals           | Budget             |
|--|-------------------|--------------------|
|  | AMT               | AMT                |
| AVAILABLE ROOMS  | 9,200             | 9,200              |
| ROOMS SOLD   | 4,633             | 5,959              |
| OCCUPANCY  | 50.4%             | 64.8%              |
| ADR  | \$134.59          | \$163.60           |
| ROOMS REVPAR   | \$67.78           | \$105.97           |
| <b>OPERATING REVENUE</b>                               |                   |                    |
| ROOMS  | \$623,574         | \$974,909          |
| FOOD AND BEVERAGE                                      | \$16,318          | \$68,400           |
| OTHER OPERATED DEPARTMENTS                             | \$49,298          | \$56,962           |
| MISCELLANEOUS INCOME                                   | \$55,890          | \$80,334           |
| <b>TOTAL OPERATING REVENUE</b>                         | <b>\$745,080</b>  | <b>\$1,180,605</b> |
| <b>DEPARTMENTAL PROFIT</b>                             |                   |                    |
| ROOMS  | \$260,613         | \$659,752          |
| FOOD AND BEVERAGE                                      | \$8,539           | \$28,122           |
| OTHER OPERATED DEPARTMENTS                             | \$9,731           | \$14,427           |
| MISCELLANEOUS INCOME                                   | \$55,890          | \$80,334           |
| <b>TOTAL DEPARTMENTAL PROFIT</b>                       | <b>\$334,773</b>  | <b>\$782,635</b>   |
| <b>UNDISTRIBUTED OPERATING EXPENSES</b>                |                   |                    |
| ADMINISTRATIVE AND GENERAL                             | \$168,689         | \$186,318          |
| INFORMATION AND TELECOMMUNICATIONS SYSTEMS             | \$19,137          | \$31,031           |
| SALES AND MARKETING                                    | \$103,585         | \$132,812          |
| PROPERTY OPERATION AND MAINTENANCE                     | \$127,714         | \$103,226          |
| UTILITIES  | \$72,065          | \$69,551           |
| <b>TOTAL UNDISTRIBUTED EXPENSES</b>                    | <b>\$491,190</b>  | <b>\$522,938</b>   |
| <b>GROSS OPERATING PROFIT</b>                          | <b>-\$156,417</b> | <b>\$259,697</b>   |
| <b>MANAGEMENT FEES</b>                                 | <b>\$22,353</b>   | <b>\$35,045</b>    |
| <b>INCOME BEFORE NON-OPERATING INCOME AND EXPENSES</b> | <b>-\$178,770</b> | <b>\$224,652</b>   |
| <b>NON-OPERATING INCOME AND EXPENSES</b>               |                   |                    |
| RENTALS AND LEASES                                     | \$2,480           | \$2,841            |
| PROPERTY AND OTHER TAXES                               | \$86,539          | \$83,405           |
| INSURANCE  | \$38,181          | \$39,825           |
| OTHER EXPENSES   | -\$641,094        | \$6,000            |
| <b>TOTAL NON-OPERATING INCOME AND EXPENSES</b>         | <b>-\$513,894</b> | <b>\$132,071</b>   |
| <b>EBITDA</b>  | <b>\$335,124</b>  | <b>\$92,581</b>    |

## HGI Johns Creek – Johns Creek, GA

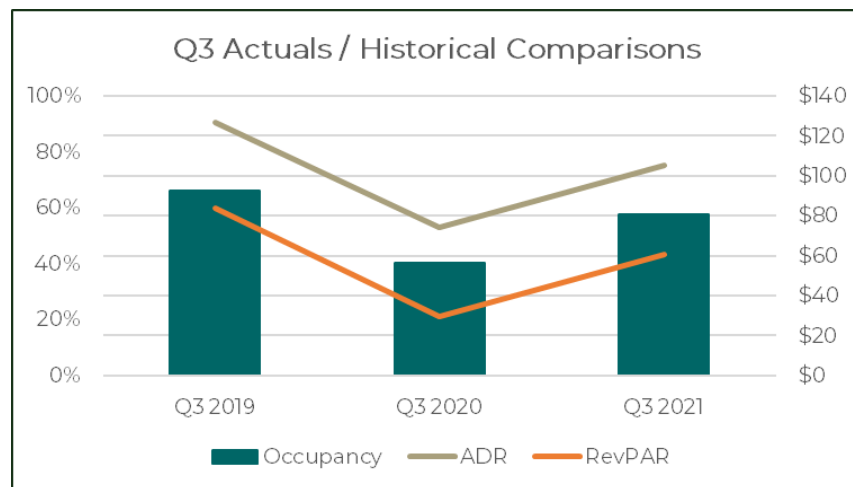


- For Q3 2021, the HGI Johns Creek realized an EBITDA of \$111k, exceeding budget by \$29k. This EBITDA was generated on total revenue of \$713k and represents a flow through of 51%.
- The Hotel secured a second round of PPP financing in Q1 for \$260k. hotelAVE will apply for loan forgiveness in Q4 and anticipates full forgiveness as all funds will be utilized for approved uses.
- For the 3 months period ending September 30<sup>th</sup>, 2021, The Hilton Garden Inn John's Creek finished at a 57.5% Occupancy with an average daily rate of \$105.36 resulting in a RevPAR for Q3 of \$60.55. Revenue exceeded budget for the third quarter by \$56k because of robust occupancy growth, which exceeded budget by 11 percentage points. The leisure segment drove the majority of upside to the budget and was supplemented by strong sports team group production and an accelerated ramp in BT business.
- During Q3, hotelAVE continued to closely monitor staffing levels and productivity metrics to ensure that the hotel ran on a lean staffing model as demand ramps back up in the market.
- Challenges in the labor market have become a persistent obstacle to accommodate the increasing demand levels across the entire region. Stress on the labor pool, despite relatively high unemployment rates, has induced meaningful pressure on employers to improve wages to fill positions
- Capital expenses in 2021 have only been approved on an “emergency” basis to preserve cash and remain compliant with lender liquidity covenants. As performance of the Hotel continues to improve, capital projects that will protect future value and maintain compliance with brand requirements will begin to be evaluated, on an as needed basis.



| Performance Market Competitive Index   |                       |                       |            |                      |                      |            |                |                |            |
|--|-----------------------|-----------------------|------------|----------------------|----------------------|------------|----------------|----------------|------------|
| Metric   | Q3 2019<br>Occ. Index | Q3 2021<br>Occ. Index | % Variance | Q3 2019<br>ADR Index | Q3 2021<br>ADR Index | % Variance | Q3 2019<br>RPI | Q3 2021<br>RPI | % Variance |
| Q3 2021  | 96.6%                 | 106.1%                | 9.8%       | 113.1%               | 98.7%                | -12.7%     | 109.3%         | 104.7%         | -4.2%      |
| Note: Comp Set Includes Courtyard Atlanta Norcross Peachtree Corners, Hyatt Place Atlanta Duluth Johns Creek, Holiday Inn Express & Suites Atlanta Johns Creek, Fairfield Inn & Suites Atlanta Cumming Johns Creek.. |                       |                       |            |                      |                      |            |                |                |            |

- The competitive set saw an overall RevPAR improvement of 106% for the quarter, relative to the same period last year, driven by occupancy growth of 57.6% and ADR growth of 30.7%. Relative to pre-COVID levels, Q3 market RevPAR showing improvement at 75% of 2019 levels compared to 60% in Q2.
- The hotel's RevPAR performance resulted in a 104.7% market share as the competitive set had a RevPAR for the same period of \$57.85.
- The Hotel's RevPAR index declined YoY for the quarter, as the market continues to see a shortfall in BT demand, which historically drove this hotel's ADR and RevPAR index. As a result of the sustained BT deficit in the market, hotelAVE and the property team have had to continue to leverage an occupancy driven, discount strategy to appeal to the highly price sensitive leisure demand in the market.
  - Occupancy penetration for the quarter improved relative to 2019, which indicates a positive trend in performance. As BT demand continues to ramp up in Q3, the Hotel can build more pricing power and increase market share.



| Johns Creek |          |         |          |
|-------------|----------|---------|----------|
| Year        | Q3 2019  | Q3 2020 | Q3 2021  |
| Occupancy   | 66.0%    | 40.0%   | 57.5%    |
| ADR         | \$126.95 | \$74.21 | \$105.36 |
| RevPAR      | \$83.85  | \$29.71 | \$60.55  |

**Hilton Garden Inn Johns Creek Income Statement**

QTD - July-Sept. 2021

|  | Actuals          | Budget           |
|--|------------------|------------------|
|  | AMT              | AMT              |
| AVAILABLE ROOMS  | 11,224           | 11,224           |
| ROOMS SOLD   | 6,451            | 5,265            |
| OCCUPANCY  | 57.5%            | 46.9%            |
| ADR  | \$105.36         | \$109.87         |
| ROOMS REVPAR   | \$60.55          | \$51.54          |
| <b>OPERATING REVENUE</b>                               |                  |                  |
| ROOMS  | \$679,669        | \$578,487        |
| FOOD AND BEVERAGE                                      | \$20,066         | \$65,201         |
| OTHER OPERATED DEPARTMENTS                             | \$7,912          | \$7,950          |
| MISCELLANEOUS INCOME                                   | \$4,934          | \$4,449          |
| <b>TOTAL OPERATING REVENUE</b>                         | <b>\$712,581</b> | <b>\$656,087</b> |
| <b>DEPARTMENTAL PROFIT</b>                             |                  |                  |
| ROOMS  | \$492,059        | \$430,512        |
| FOOD AND BEVERAGE                                      | -\$5,896         | \$2,259          |
| OTHER OPERATED DEPARTMENTS                             | \$3,905          | \$4,035          |
| MISCELLANEOUS INCOME                                   | \$4,934          | \$4,449          |
| <b>TOTAL DEPARTMENTAL PROFIT</b>                       | <b>\$495,002</b> | <b>\$441,255</b> |
| <b>UNDISTRIBUTED OPERATING EXPENSES</b>                |                  |                  |
| ADMINISTRATIVE AND GENERAL                             | \$82,905         | \$80,981         |
| SALES AND MARKETING                                    | \$134,405        | \$125,873        |
| INFORMATION AND TELECOMMUNICATIONS SYSTEMS             | \$17,940         | \$15,969         |
| PROPERTY OPERATION AND MAINTENANCE                     | \$42,492         | \$29,667         |
| UTILITIES  | \$37,835         | \$28,198         |
| <b>TOTAL UNDISTRIBUTED EXPENSES</b>                    | <b>\$315,578</b> | <b>\$280,688</b> |
| <b>GROSS OPERATING PROFIT</b>                          | <b>\$179,424</b> | <b>\$160,567</b> |
| <b>MANAGEMENT FEES</b>                                 | <b>\$18,883</b>  | <b>\$17,387</b>  |
| <b>INCOME BEFORE NON-OPERATING INCOME AND EXPENSES</b> | <b>\$160,541</b> | <b>\$143,180</b> |
| <b>NON-OPERATING INCOME AND EXPENSES</b>               |                  |                  |
| RENTALS AND LEASES                                     | \$642            | \$636            |
| PROPERTY AND OTHER TAXES                               | \$33,341         | \$41,280         |
| INSURANCE  | \$14,222         | \$13,506         |
| OTHER EXPENSES   | \$1,059          | \$5,505          |
| <b>TOTAL NON-OPERATING INCOME AND EXPENSES</b>         | <b>\$49,264</b>  | <b>\$60,927</b>  |
| <b>EBITDA</b>  | <b>\$111,277</b> | <b>\$82,253</b>  |

## HGI Northpoint – Alpharetta, GA



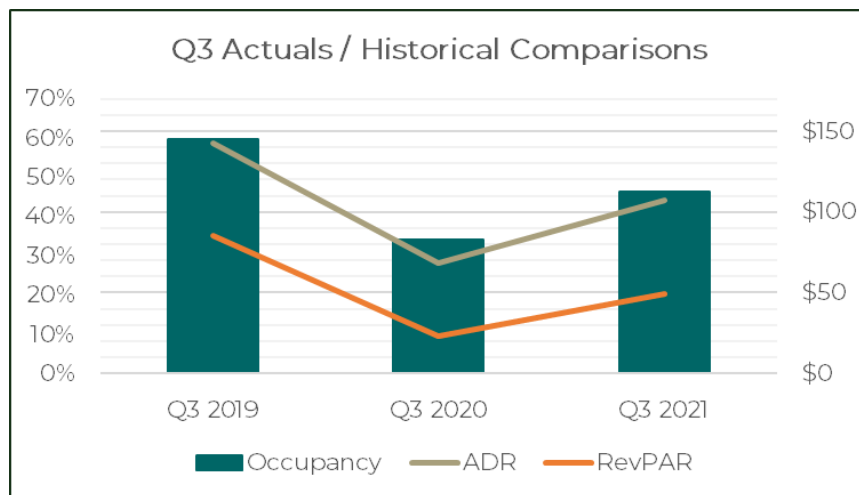
- For Q3 2021, the HGI Northpoint generated an EBITDA of \$54k, exceeding the Q2 EBITDA of \$36 (net of the PPP forgiveness). EBITDA fell short of budget by \$18k on total revenue of \$618k, representing a flex of 62%.
- The Hotel secured a second round of PPP financing worth \$283k. hotelAVE will apply for loan forgiveness in Q4 and anticipates full forgiveness as all funds will be utilized for approved uses.
- For the 3-month period ending September 30<sup>th</sup>, 2021, The Hilton Garden Inn Northpoint finished at a 46.2% Occupancy with an average daily rate of \$107.30 resulting in a RevPAR for Q3 of \$49.56. Third quarter revenue fell short budget by \$46k with RevPAR only \$2 below budget.
- Challenges in the labor market have become a persistent obstacle to accommodate the increasing demand levels across the entire region. Stress on the labor pool, despite relatively high unemployment rates, has induced meaningful pressure on employers to improve wages in order fill necessary positions.
- Capital expenses in 2021 have only been approved on an “emergency” basis to preserve cash and remain compliant with lender liquidity covenants. As performance of the Hotel continues to improve, capital projects that will protect future value and maintain compliance with brand requirements will begin to be evaluated, on an as needed basis.

| Performance Market Competitive Index  |                       |                       |            |                      |                      |            |                |                |            |
|---|-----------------------|-----------------------|------------|----------------------|----------------------|------------|----------------|----------------|------------|
| Metric  | Q3 2019<br>Occ. Index | Q3 2021<br>Occ. Index | % Variance | Q3 2019<br>ADR Index | Q3 2021<br>ADR Index | % Variance | Q3 2019<br>RPI | Q3 2021<br>RPI | % Variance |
| Q3 2021   | 87.7%                 | 83.9%                 | -4.3%      | 128.3%               | 108.9%               | -15.1%     | 112.5%         | 91.4%          | -18.8%     |
| Note: Comp Set Includes Fairfield Inn & Suites Atlanta Alpharetta, Hyatt Place Atlanta Alpharetta Northpoint Mall, Hampton Inn Alpharetta Roswell, La Quinta Inns & Suites Atlanta Alpharetta, Holiday Inn Express Alpharetta Roswell |                       |                       |            |                      |                      |            |                |                |            |

- The competitive set saw YoY RevPAR improvements of 138% for Q3, driven by both occupancy and ADR growths of 69% and 41%, respectively. For reference, RevPAR for the Alpharetta/Atlanta submarket, per STR grew 92% during this same period.
  - It should be noted that while RevPAR growth of 138% appears staggering, Q3 RevPAR for the market was only \$23 in 2020 with many hotels suspending operations for a period of time due to COVID 19 pandemic. RevPAR levels in the market remain very low at \$41, flat to Q2.

The hotel's RevPAR performance resulted in a 91.4% market share as the competitive set had a RevPAR for the same period of \$54.25.

- The Hotel's quarterly RevPAR index declined year over year, as it has been unable to maintain its large rate premium in this extremely price elastic environment. Like the John's Creek asset, HAVE has continued to leverage an occupancy first revenue strategy in an effort to capture the price sensitive demand in the market and maintain occupancy levels sustainable for operation, sacrificing ADR.



| Northpoint |          |         |          |
|------------|----------|---------|----------|
| Year       | Q3 2019  | Q3 2020 | Q3 2021  |
| Occupancy  | 59.7%    | 34.2%   | 46.2%    |
| ADR        | \$142.36 | \$68.03 | \$107.30 |
| RevPAR     | \$84.97  | \$23.30 | \$49.56  |

**Hilton Garden Inn Northpoint Income Statement**

QTD - July-Sept. 2021

|  | Actuals          | Budget           |
|--|------------------|------------------|
|  | AMT              | AMT              |
| AVAILABLE ROOMS  | 11,500           | 11,500           |
| ROOMS SOLD   | 5,312            | 5,465            |
| OCCUPANCY  | 46.2%            | 47.5%            |
| ADR  | \$107.30         | \$108.51         |
| ROOMS REVPAR   | \$49.56          | \$51.57          |
| <b>OPERATING REVENUE</b>                               |                  |                  |
| ROOMS  | \$569,997        | \$593,021        |
| FOOD AND BEVERAGE                                      | \$33,823         | \$58,128         |
| OTHER OPERATED DEPARTMENTS                             | \$10,307         | \$8,730          |
| MISCELLANEOUS INCOME                                   | \$3,457          | \$4,200          |
| <b>TOTAL OPERATING REVENUE</b>                         | <b>\$617,584</b> | <b>\$664,079</b> |
| <b>DEPARTMENTAL PROFIT</b>                             |                  |                  |
| ROOMS  | \$370,454        | \$418,138        |
| FOOD AND BEVERAGE                                      | \$4,686          | -\$174           |
| OTHER OPERATED DEPARTMENTS                             | \$5,963          | \$4,425          |
| MISCELLANEOUS INCOME                                   | \$3,457          | \$4,200          |
| <b>TOTAL DEPARTMENTAL PROFIT</b>                       | <b>\$384,560</b> | <b>\$426,589</b> |
| <b>UNDISTRIBUTED OPERATING EXPENSES</b>                |                  |                  |
| ADMINISTRATIVE AND GENERAL                             | \$80,784         | \$83,193         |
| SALES AND MARKETING                                    | \$111,120        | \$130,211        |
| INFORMATION AND TELECOMMUNICATIONS SYSTEMS             | \$13,361         | \$13,710         |
| PROPERTY OPERATION AND MAINTENANCE                     | \$30,749         | \$28,844         |
| UTILITIES  | \$34,229         | \$33,140         |
| <b>TOTAL UNDISTRIBUTED EXPENSES</b>                    | <b>\$270,244</b> | <b>\$289,098</b> |
| <b>GROSS OPERATING PROFIT</b>                          | <b>\$114,316</b> | <b>\$137,491</b> |
| <b>MANAGEMENT FEES</b>                                 | <b>\$16,367</b>  | <b>\$17,599</b>  |
| <b>INCOME BEFORE NON-OPERATING INCOME AND EXPENSES</b> | <b>\$97,949</b>  | <b>\$119,892</b> |
| <b>NON-OPERATING INCOME AND EXPENSES</b>               |                  |                  |
| RENTALS AND LEASES                                     | \$1,239          | \$1,410          |
| PROPERTY AND OTHER TAXES                               | \$28,463         | \$33,360         |
| INSURANCE  | \$14,311         | \$13,644         |
| <b>TOTAL NON-OPERATING INCOME AND EXPENSES</b>         | <b>\$44,013</b>  | <b>\$48,414</b>  |
| <b>EBITDA</b>  | <b>\$53,936</b>  | <b>\$71,478</b>  |

## HGI Wildwood – Atlanta, GA

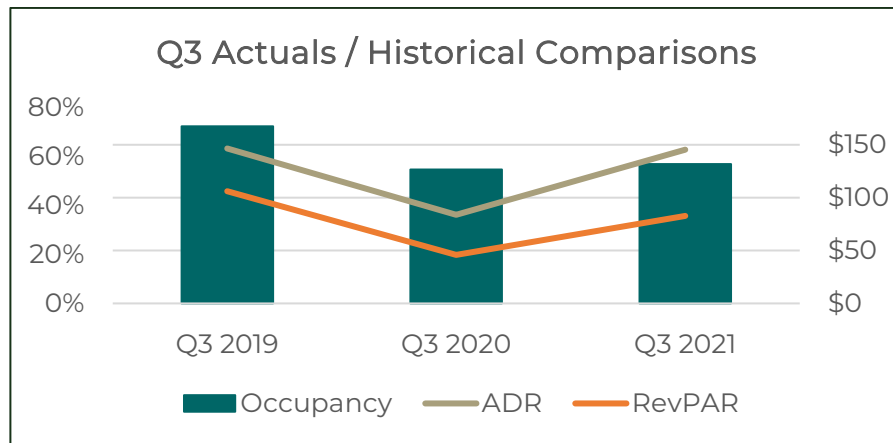


### Investment Highlights

- For Q2, the HGI Wildwood generated an EBITDA of \$248k exceeding Q2 EBITDA of \$192k (net of the PPP forgiveness). EBITDA exceeded budget by \$44k on total revenue of \$990k, representing a flow of 69%.
- The Hotel secured a second round of PPP financing worth \$314k. hotelAVE will apply for loan forgiveness in Q4 and anticipates full forgiveness as all funds will be utilized for approved uses.
- For the 3-month period ending September 30<sup>th</sup>, 2021, The Hilton Garden Inn Wildwood finished at a 57.0% Occupancy with an average daily rate of \$145.32 resulting in a RevPAR for Q3 of \$82.87. Second quarter revenue actualized \$63k over budget, driven by robust ADR growth of \$32. Given the Hotel's proximity to the Atlanta Braves stadium and the high concentration of sports groups in the market, the comp set experienced compression on multiple weekend dates, and was able to drive ADR.
- The Hotel continued to run on a lean staffing model in Q3 but began to increase staffing levels to meet improved demand in the market.
- Challenges in the labor market have become a persistent obstacle to accommodate the increasing demand levels across the entire region. This Hotel has found success in leveraging contract labor partners to meet the fast-rising demand levels.
- Capital expenses in 2021 have only been approved on an "emergency" basis. However, as performance of the Hotel continues to improve, capital projects that will protect future value and maintain compliance with brand requirements will begin to be evaluated, on an as needed basis.

| Performance Market Competitive Index  |                       |                       |            |                      |                      |            |                |                |            |
|---|-----------------------|-----------------------|------------|----------------------|----------------------|------------|----------------|----------------|------------|
| Metric  | Q3 2019<br>Occ. Index | Q3 2021<br>Occ. Index | % Variance | Q3 2019<br>ADR Index | Q3 2021<br>ADR Index | % Variance | Q3 2019<br>RPI | Q3 2021<br>RPI | % Variance |
| Q3 2021   | 98.1%                 | 113.3%                | 15.5%      | 115.6%               | 106.8%               | -7.6%      | 113.4%         | 121.0%         | 6.7%       |
| Note: Comp Set Includes Wyndham Atlanta Galleria, Marriott Atlanta Northwest @ Galleria, Doubletree Atlanta Marietta, Courtyard Atlanta Windy Hill Ballpark, Hyatt Regency Suites Atlanta Northwest, Hampton Inn Suites Atlanta Galleria, Hyatt |                       |                       |            |                      |                      |            |                |                |            |

- Q3 RevPAR in the comp set improved by of 89% for the quarter as the market data reflects a rebound from the primary impact from COVID-19. Occupancy in the comp set grew 39% over 2020 and ADR grew 36%. For reference, RevPAR for the Marietta / Atlanta Galleria submarket, per STR, increased 83% during this same period.
- The hotel's RevPAR performance resulted in a 121% market share as the competitive set had a RevPAR for the same period of \$68.49.
- The Hotel has been able to shift its strategy to far outperform historic occupancy index levels. In previous quarters this shift was able to drive RevPAR index growth YoY. All year, the hotel has yielded a small RPI decline, as the high-ADR BT segment of the market has still not fully ramped, inhibiting the Hotel's ability to drive ADR index midweek.



#### Wildwood

| Year      | Q3 2019  | Q3 2020 | Q3 2021  |
|-----------|----------|---------|----------|
| Occupancy | 72.4%    | 54.8%   | 57.0%    |
| ADR       | \$146.50 | \$83.79 | \$145.32 |
| RevPAR    | \$106.08 | \$45.89 | \$82.87  |



**Hilton Garden Inn Wildwood Income Statement**

QTD - July-Sept. 2021

|  | Actuals          | Budget           |
|--|------------------|------------------|
|  | AMT              | AMT              |
| AVAILABLE ROOMS  | 11,316           | 11,316           |
| ROOMS SOLD   | 6,453            | 7,048            |
| OCCUPANCY  | 57.0%            | 62.3%            |
| ADR  | \$145.32         | \$113.56         |
| ROOMS REVPAR   | \$82.87          | \$70.73          |
| <b>OPERATING REVENUE</b>                               |                  |                  |
| ROOMS  | \$937,771        | \$800,374        |
| FOOD AND BEVERAGE                                      | \$31,647         | \$107,037        |
| OTHER OPERATED DEPARTMENTS                             | \$12,639         | \$8,150          |
| MISCELLANEOUS INCOME                                   | \$8,139          | \$11,300         |
| <b>TOTAL OPERATING REVENUE</b>                         | <b>\$990,196</b> | <b>\$926,861</b> |
| <b>DEPARTMENTAL PROFIT</b>                             |                  |                  |
| ROOMS  | \$693,298        | \$595,645        |
| FOOD AND BEVERAGE                                      | \$6,294          | \$19,435         |
| OTHER OPERATED DEPARTMENTS                             | \$6,284          | \$4,135          |
| MISCELLANEOUS INCOME                                   | \$8,139          | \$11,300         |
| <b>TOTAL DEPARTMENTAL PROFIT</b>                       | <b>\$714,014</b> | <b>\$630,515</b> |
| <b>UNDISTRIBUTED OPERATING EXPENSES</b>                |                  |                  |
| ADMINISTRATIVE AND GENERAL                             | \$82,745         | \$88,576         |
| SALES AND MARKETING                                    | \$188,230        | \$163,898        |
| INFORMATION AND TELECOMMUNICATIONS SYSTEMS             | \$16,280         | \$14,853         |
| PROPERTY OPERATION AND MAINTENANCE                     | \$51,488         | \$27,204         |
| UTILITIES  | \$45,541         | \$41,119         |
| <b>TOTAL UNDISTRIBUTED EXPENSES</b>                    | <b>\$384,284</b> | <b>\$335,650</b> |
| <b>GROSS OPERATING PROFIT</b>                          | <b>\$329,730</b> | <b>\$294,865</b> |
| <b>MANAGEMENT FEES</b>                                 | <b>\$26,242</b>  | <b>\$24,562</b>  |
| <b>INCOME BEFORE NON-OPERATING INCOME AND EXPENSES</b> | <b>\$303,489</b> | <b>\$270,303</b> |
| <b>NON-OPERATING INCOME AND EXPENSES</b>               |                  |                  |
| OTHER INCOME   | -\$120           | -\$120           |
| RENTALS AND LEASES                                     | \$2,088          | \$2,604          |
| PROPERTY AND OTHER TAXES                               | \$38,886         | \$49,533         |
| INSURANCE  | \$14,253         | \$13,626         |
| <b>TOTAL NON-OPERATING INCOME AND EXPENSES</b>         | <b>\$55,106</b>  | <b>\$65,643</b>  |
| <b>EBITDA</b>  | <b>\$248,383</b> | <b>\$204,660</b> |

## IV. ASSET MANAGEMENT FEES

- Asset management fees for the quarter ended September 30, 2021 were \$95,067 and were calculated at the fixed fee plus variable fee adjustments per the investment management agreement.

## V. FINANCIAL STATEMENTS

### Consolidated Income Statement (\$)

As of September 30, 2021

|  | QTD                  | YTD                 |
|--|----------------------|---------------------|
| <b>REVENUES</b>  |                      |                     |
| Revenue from property operations   | \$ 2,993,020         | \$ 6,759,788        |
| Interest and other income  | 72,540               | 150,363             |
| <b>Total Revenues</b>  | <u>3,065,560</u>     | <u>6,910,151</u>    |
| <b>EXPENSES</b>  |                      |                     |
| Property operating expenses  | 2,957,934            | 7,635,079           |
| <b>Net Operating Income (Loss)</b>   | <u>107,626</u>       | <u>(724,928)</u>    |
| <b>NON-OPERATING EXPENSES</b>  |                      |                     |
| Other non-operating  | (15,706)             | (62,002)            |
| Fund level expenses  | (28,106)             | (188,492)           |
| Interest expenses  | (375,427)            | (1,090,964)         |
| <b>Total non-operating expenses</b>  | <u>(419,239)</u>     | <u>(1,341,458)</u>  |
| <b>Net Investment Income (Loss) before net realized and unrealized gain on investments</b> | <u>(311,613)</u>     | <u>(2,066,386)</u>  |
| Net unrealized appreciation (depreciation)   | 10,851,218           | 10,791,355          |
| <b>Net Investment Income (Loss) before fees</b>  | <u>10,539,605</u>    | <u>8,724,969</u>    |
| Asset management fees  | (95,067)             | (294,341)           |
| Gain from debt extinguishment  | 685,254              | 1,291,005           |
| <b>Net Investment Income (Loss)</b>  | <u>\$ 11,129,792</u> | <u>\$ 9,721,633</u> |

**Income Statement by Property (\$)**

For the three months ended September 30, 2021

|  | Charlotte (Aloft) |   | Johns Creek |           | Northpoint |           | San Jose<br>(DeAnza) |           | Wildwood |           |
|--|-------------------|---|-------------|-----------|------------|-----------|----------------------|-----------|----------|-----------|
| REVENUES   |                   |   |             |           |            |           |                      |           |          |           |
| Revenue from property operations                             | \$                | - | \$          | 707,647   | \$         | 614,127   | \$                   | 689,190   | \$       | 982,056   |
| Other income   |                   | - |             | 4,934     |            | 3,457     |                      | 55,890    |          | 8,259     |
| Total Revenues   |                   | - |             | 712,581   |            | 617,584   |                      | 745,080   |          | 990,315   |
| COST OF GOODS SOLD   |                   |   |             |           |            |           |                      |           |          |           |
|  |                   | - |             | 217,579   |            | 233,024   |                      | 410,307   |          | 276,181   |
| Gross Profit (Loss)  |                   | - |             | 495,002   |            | 384,560   |                      | 334,773   |          | 714,134   |
| EXPENSES   |                   |   |             |           |            |           |                      |           |          |           |
| Property operating expenses                                  |                   | - |             | 383,725   |            | 330,624   |                      | 640,743   |          | 465,751   |
| Net Operating Income (Loss), excluding asset management fees |                   | - |             | 111,277   |            | 53,936    |                      | (305,970) |          | 248,383   |
| NON-OPERATING EXPENSES                                       |                   |   |             |           |            |           |                      |           |          |           |
| Interest expense   |                   | - |             | (112,628) |            | (112,628) |                      | -         |          | (150,171) |
| Other  |                   | - |             | (7,237)   |            | (7,237)   |                      | (22,261)  |          | (7,237)   |
| Total non-operating expenses                                 |                   | - |             | (119,865) |            | (119,865) |                      | (22,261)  |          | (157,408) |
| Net Income (Loss) before unrealized appreciation             |                   | - |             | (8,588)   |            | (65,929)  |                      | (328,231) |          | 90,975    |
| Net unrealized appreciation                                  |                   | - |             | 1,197,500 |            | 1,060,514 |                      | 4,998,669 |          | 3,594,535 |
| Net Income (Loss) before fees                                |                   | - |             | 1,188,912 |            | 994,585   |                      | 4,670,438 |          | 3,685,510 |
| Asset management fees  |                   | - |             | (19,669)  |            | (19,669)  |                      | (36,060)  |          | (19,669)  |
| Gain from debt extinguishment                                |                   | - |             | -         |            | -         |                      | 685,254   |          | -         |
| Net Income (Loss)  | \$                | - | \$          | 1,169,243 | \$         | 974,916   | \$                   | 5,319,632 | \$       | 3,665,841 |

**Statement of Cash Flows (\$)**
**As of September 30, 2021**

|   | QTD                  | YTD                 |
|---|----------------------|---------------------|
| <b>Operating Activities</b>   |                      |                     |
| <b>Net Income</b>   | <b>\$ 11,129,792</b> | <b>\$ 9,721,633</b> |
| <b>Adjustments to reconcile Net Income/Loss to Net Cash provided by (used in) Operating Activities:</b> |                      |                     |
| Gain from debt extinguishment   | (685,254)            | (1,291,005)         |
| Unrealized Apprec./Deprec.  | (10,851,218)         | (10,791,355)        |
| Amortization of deferred financing costs  | 15,201               | 65,922              |
| Accounts Receivable   | 30,964               | (43,363)            |
| Prepaid Expenses and Other assets   | 76,155               | 132,069             |
| Accounts Payable and Accrued Liabilities  | (143,390)            | (90,859)            |
| Other Deposits Received   | (13,701)             | 22,609              |
| <b>Net cash provided by (used in) operating activities</b>  | <b>(441,451)</b>     | <b>(2,274,349)</b>  |
| <b>Investing Activities</b>   |                      |                     |
| Additions to real estate investments  | (48,782)             | (108,646)           |
| <b>Net cash provided by (used in) investing activities</b>  | <b>(48,782)</b>      | <b>(108,646)</b>    |
| <b>Financing Activities</b>   |                      |                     |
| Principal payments on mortgage loans  | -                    | (262,256)           |
| Borrowings from note payable  | -                    | 856,738             |
| Deferred financing costs  | -                    | (121,617)           |
| Contributions from LP   | 500,000              | 3,000,000           |
| <b>Net cash provided by (used in) financing activities</b>  | <b>500,000</b>       | <b>3,472,865</b>    |
| <br>Net cash increase for period  | <br>9,767            | <br>1,089,870       |
| Cash at beginning of period   | 3,476,477            | 2,396,374           |
| <b>Cash at end of period</b>  | <b>\$ 3,486,244</b>  | <b>\$ 3,486,244</b> |

## Consolidated Balance Sheet (\$)

As of September 30, 2021

### ASSETS

|                           |           |                   |
|---------------------------|-----------|-------------------|
| Investment in real estate | \$        | 73,500,000        |
| Cash and cash equivalents |           | 2,561,677         |
| Restricted cash           |           | 924,567           |
| Accounts receivable       |           | 120,499           |
| Other Assets              |           | 202,835           |
| <b>Total Assets</b>       | <b>\$</b> | <b>77,309,578</b> |

### LIABILITIES & MEMBER'S EQUITY

#### LIABILITIES

|  |    |                   |
|--|----|-------------------|
| Notes payable, net                       | \$ | 33,932,029        |
| Accounts payable and accrued liabilities |    | 1,679,831         |
| <b>Total Liabilities</b>                 |    | <b>35,611,860</b> |

#### MEMBER'S EQUITY

|                              |  |                   |
|------------------------------|--|-------------------|
| Contributions                |  | 62,010,127        |
| Distributions                |  | (20,191,396)      |
| Current Year Earnings        |  | 9,721,633         |
| Retained earnings            |  | (9,842,646)       |
| <b>Total Member's Equity</b> |  | <b>41,697,718</b> |

|  |           |                   |
|--|-----------|-------------------|
| <b>Total Liabilities and Member's Equity</b> | <b>\$</b> | <b>77,309,578</b> |
|--|-----------|-------------------|

**Balance Sheet by Property (\$)****As of September 30, 2021**

|  | Charlotte (Aloft) |              | Johns Creek |             | Northpoint |             | San Jose (DeAnza) |             | Wildwood |             |
|--|-------------------|--------------|-------------|-------------|------------|-------------|-------------------|-------------|----------|-------------|
| ASSETS                                 |                   |              |             |             |            |             |                   |             |          |             |
| Investment in real estate, at cost     | \$                | -            | \$          | 17,710,931  | \$         | 13,187,179  | \$                | 22,631,897  | \$       | 20,975,717  |
| Unrealized appreciation (depreciation) | \$                | -            | \$          | (4,210,931) | \$         | 312,821     | \$                | 3,368,103   | \$       | (475,717)   |
| Investment in real estate              |                   | -            |             | 13,500,000  |            | 13,500,000  |                   | 26,000,000  |          | 20,500,000  |
| Cash and cash equivalents              |                   | -            |             | 390,240     |            | 244,664     |                   | 125,542     |          | 472,717     |
| Restricted cash                        |                   | -            |             | 311,880     |            | 213,671     |                   | -           |          | 399,016     |
| Accounts receivable                    |                   | -            |             | 14,235      |            | 16,513      |                   | 67,713      |          | 22,038      |
| Other assets                           |                   | -            |             | 27,532      |            | 36,781      |                   | 95,967      |          | 42,555      |
| Total Assets                           | \$                | -            | \$          | 14,243,887  | \$         | 14,011,629  | \$                | 26,289,222  | \$       | 21,436,326  |
| LIABILITIES & MEMBER'S EQUITY          |                   |              |             |             |            |             |                   |             |          |             |
| LIABILITIES                            |                   |              |             |             |            |             |                   |             |          |             |
| Notes payable, net                     | \$                | -            | \$          | 10,182,283  | \$         | 10,205,499  | \$                | -           | \$       | 13,544,247  |
| Accounts payable and accrued expenses  |                   | 4,980        |             | 1,525,668   |            | 2,107,428   |                   | 906,404     |          | (1,821,477) |
| Total Liabilities                      |                   | 4,980        |             | 11,707,951  |            | 12,312,927  |                   | 906,404     |          | 11,722,770  |
| MEMBER'S EQUITY                        |                   |              |             |             |            |             |                   |             |          |             |
| Contributions                          |                   | 18,356,235   |             | 6,862,034   |            | 2,253,022   |                   | 26,986,574  |          | 9,114,459   |
| Distributions                          |                   | (23,622,939) |             | (2,264,574) |            | (2,118,323) |                   | (4,707,700) |          | (2,485,041) |
| Current Year Earnings                  |                   | (1,465)      |             | 1,112,771   |            | 775,005     |                   | 4,129,292   |          | 3,717,020   |
| Retained earnings                      |                   | 5,263,189    |             | (3,174,295) |            | 788,998     |                   | (1,025,348) |          | (632,882)   |
| Total Member's Equity                  |                   | (4,980)      |             | 2,535,936   |            | 1,698,702   |                   | 25,382,818  |          | 9,713,556   |
| Total Liabilities and Member's Equity  | \$                | -            | \$          | 14,243,887  | \$         | 14,011,629  | \$                | 26,289,222  | \$       | 21,436,326  |



**Statement of Change in Separate Account Holder's Equity (\$)****As of September 30, 2021**

|                              | <b>QTD</b>           | <b>YTD</b>           |
|------------------------------|----------------------|----------------------|
| Beginning Net Equity Balance | \$ 30,067,926        | \$ 28,976,085        |
| Capital Received             | 500,000              | 3,000,000            |
| Current Earnings             | <u>11,129,792</u>    | <u>9,721,633</u>     |
| Ending Net Equity Balance    | <u>\$ 41,697,718</u> | <u>\$ 41,697,718</u> |

## VI. DISCLAIMER

Hotel Asset Value Enhancement, Inc. manages a portfolio of hotels owned by BHFPE, LLC for the benefit of Commonwealth of Pennsylvania State Employees' Retirement Association ("SERS") pursuant to a Real Estate Investment Management Agreement dated May 1, 2018.

This report was prepared and circulated to provide information regarding BHFPE, LLC's business performance to the Commonwealth of Pennsylvania State Employees' Retirement Association as of September 30, 2021. As figures in this report are based on unaudited financial statement, certain contents may be subject to modification during the auditing process.

This report contains information, data and predictions about markets and competitive position and is created solely for intended recipients and there is no warranty as to accuracy. We have not independently verified information, data or predictions contained in this report that were taken or derived from industry publications, public documents of our competitors or other external sources. We believe that the information, data, and predictions presented in this report provide fair and adequate estimates and fairly reflect our competitive position within these markets. In addition, our competitors may define our and their markets differently than we do.

The report includes forward looking statements, which, although based on assumptions that we consider reasonable, are subject to risk and uncertainties, which could cause actual results, events, or conditions to differ materially from those expressed or implied herein and it is difficult to ascertain the uncertainties related to the unprecedented global pandemic during which these projections are made. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.