VESTA HOSPITALITY

THE INVESTOR REPORT

Summer 2019

VESTA CELEBRATES A GREAT YEAR AT ANNUAL LEADERSHIP CONFERENCE IN PHOENIX

A Message From

Rick Takach

Chairman & CEO of

Vesta Hospitality

In April, we held our highly successful annual Vesta Leadership Conference, where we celebrated successes of the past year and recognized top performers. A highlight of the event was the Keynote Speaker Mark Allen, who shared life lessons on his journey past adversity to eventually become a six-time winner of the Ironman Triathlon Championship, which is held on the Big Island of Hawaii. Another key focus of the event was to discuss ways in which, as an organization, we can enhance the value proposition for our supplier partners.

In recent company news, Vesta has added several management contracts to our operational portfolio and will continue to accept quality assignments from ownership groups. This strategy permits us to generate additional operating revenues by leveraging our excellent property management systems and capabilities. It also provides opportunities for team members to progress in their careers at the property level, which will aid in staff retention.

With respect to transactions, we recently sold the Comfort Suites in Redmond, Oregon and we are working on completing the purchase of the Cannery Pier Hotel & Spa in Astoria, Oregon as an acquisition for our Vesta Hospitality Fund II. We continue to raise money for the Vesta Hospitality Fund II for opportunistic buys such as the one mentioned; and for the Vesta OZ Fund I LLC (OZ Fund I), which is for the development and construction of the AC Hotel by Marriott at the Port of Vancouver. We also have some exciting news on the AC Hotel which we share elsewhere in this newsletter.

Overall, the hospitality industry continues to perform well, which provides opportunities for investors, while allowing us to offer meaningful jobs and career opportunities for workers across America.

This edition of our newsletter also includes a Q&A with Matt Behrens, manager with the CBRE Hotels Seattle office. In it, Matt explains some aspects of the marketing of hospitality properties and the appeal of investing in the hospitality sector of commercial real estate.

As always, thank you for your interest in Vesta.

Rick

Rick Takach
Chairman & CEO
Vesta Hospitality

July 2019 Market Outlook

The hospitality industry continues steady, even if we may be past the extended period where - quarter after quarter - we witnessed strong gains in RevPAR (Revenue Per Available Room). In some markets, occupancies declined in the 2nd quarter this year with increases in ADR not completely able to compensate. However, RevPAR growth projections for the rest of the year remain on the order of 1.9 percent to 2.1 percent, with the business community, in particular, expressing caution in their spending for items like travel.

RUNNING 12 MONTHS THROUGH JUNE 2019

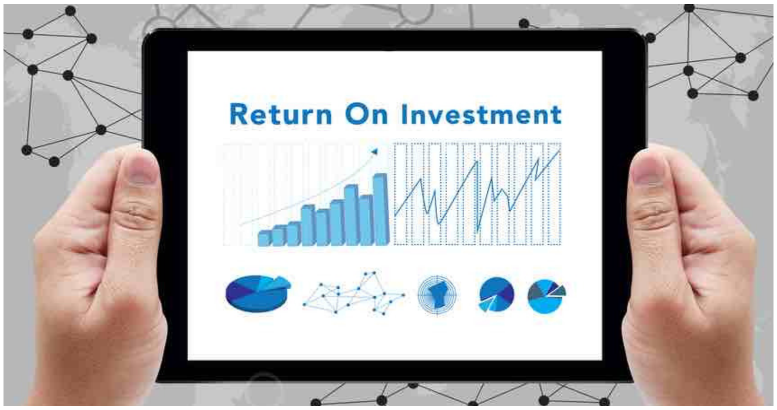
SUPPLY	⬆	**Up 2.0%**	**DEMAND**	⬆	**Up 2.0%**
OCCUPANCY	⬆	**Up 0.0%**	**ADR**	⬆	**Up 1.6%**
RevPAR	⬆	**Up 1.7 %**			

Source: STR

That doesn't mean that there can't still be strong spurts in activity. For example, STR, a world-wide hospitality analytics company, recently reported that US hotel RevPAR was up by 5.2 percent the week ended July 6, with rates and occupancy each up 2.6 percent. "The July 4 shift to Thursday resulted in a surging RevPAR at week's end, obviously driven by the leisure segment," STR noted, explaining how RevPAR for July 4 itself was up almost 20 percent year over year.

Moreover, slowing RevPAR growth and continuing pressure on labor costs in select markets is being counterbalanced by improvements in room costs for sales and the operational discipline being displayed by astute operators. In particular, the emphasis on brand loyalty programs and the campaign to encourage consumers to make reservations through brand or property web sites, as opposed to OTAs (Online Travel Agencies), seems to be working. One sign of the times: Marriott's new contract with Expedia, which is expected to provide revenue management advantages for individual property owners.

With respect to the transaction marketplace, the volume of completed deals for the first half of this year was significantly reduced from the prior year. Seller's expectations remain overly ambitious in our view, and we have yet to see the increases in cap rates that usually signal the end of a hospitality cycle. Vesta will continue to look for realistic value-add buying opportunities, supported by strong operational discipline, excellent management systems and well-trained and motivated team members.



GET THOSE SHOVELS READY

As the lead project for the Port of Vancouver, Washington's urban mixed-use Waterfront Development, Vesta's AC Hotel by Marriott is taking shape. This boutique hotel with a European flair will feature about 150 rooms, meeting space and great views of the Columbia River and Mt. Hood.

We are proud to announce that the groundbreaking will take place this August, with completion expected in 2021.

If you would like to attend this important event on Vesta's home turf, please contact Elson Strahan, Vesta Hospitality's Vice President of Investor Relations at (360) 798-1869 or via email at estrahan@vestahospitality.com.

VESTA HOSPITALITY IN THE NEWS

- An article in the April 21 issue of Hotel Business that explored how market dynamics affect how hoteliers decide which markets are right for them featured Rick Takach's insights and observations.
- Rick Takach was also quoted in a recent Hotel News Now article that looked at what's happening in the independent hotel space. In it he uses the Riverhouse on the Deschutes and how some of the investments made in that property have provided great returns.
- Vesta's COO Mark Hemmer was quoted a source in a recent Hotel Management magazine article on how hotels address their security issues.

VESTA LEADERSHIP CONFERENCE HIGHLIGHTS

The 2019 Vesta Leadership Conference was a great time to celebrate successes, share experiences and focus on the year ahead. Attendees enjoyed hearing about the amazing life journey of our Keynote Speaker Mark Allen, six-time winner of the Ironman Triathlon Championship.

VESTA INVESTMENT FUNDS UPDATE

Vesta continues to accept new investors and additional investments for its Vesta Hospitality Fund II; and its Vesta OZ Fund I LLC (OZ Fund I) for the development and construction of the AC Hotel by Marriott at the Port of Vancouver, which is within a federal Opportunity Zone.

Fund II expects to close on the Cannery Pier Hotel & Spa in Astoria, Oregon to add to the other three hotels in the Fund. This is a luxury boutique hotel built in 2005, sitting on a reinforced pier 600 feet into the Columbia River, offering spectacular views of a working river that carries more than 2,000 cargo ships from the Pacific Ocean. This acquisition will be a great addition to the Fund, which provides an 8% preferred return and a targeted annualized IRR of 15-18%, including appreciation.

The Vesta OZ Fund I LLC is intended as a Qualified Opportunity Fund, as those terms are defined in Section 1400Z- 2 of the Tax Cuts and Jobs Act. The tax advantages of Opportunity Zones include: Potentially defer the payment of any tax on a gain invested in this project until Dec 31, 2026; Potentially reduce the basis on the deferred tax by up to 15%; and Potentially pay zero tax on additional gains earned from the original gains invested in OZ Fund I.

This article is not intended as a formal offering or promise of return on investment. To learn more about the Vesta OZ Fund I LLC and the Vesta Hospitality Fund II LLC, please contact Elson Strahan, Vesta Hospitality's Vice President of Investor Relations at (360) 798-1869 or via email at estrahan@vestahospitality.com.

Executive Q&A with MATT BEHRENS

MANAGER, CAPITAL MARKETS
CBRE HOTELS

What is your role with CBRE Hotels? What do you enjoy about working in commercial real estate investment and in the hospitality sector specifically?

I am a Manager for CBRE Hotels and am responsible for hospitality investment advisory services in the Northwest region of the United States. Our CBRE Hotels team in Seattle is active and licensed in five states and has participated in a number of hospitality and land related dispositions.

I love the hospitality industry and grew up working in the hospitality space. At the age of 12 I started as a caddy at a golf course and worked my way into a position in the pro shop. I have held various hotel operational roles with Four Seasons and Fairmont Hotels & Resorts and enjoy the fact that our business is based on relationships and creating experiences for our guests. I take this same approach with our customers in the hotel investment space.

What advice to you give newcomers to investing in hospitality, especially with respect to the dynamics of this investment class and relative risks and rewards? Why should someone invest in hospitality?

Hotel investment provides a great business opportunity for investors to acquire real estate with a dynamic operating business. Investors have the option to hire a high quality third party management company such as Vesta and be more passive or be hands on and implement their own business plan.

You recently worked with Vesta on the highly successful sale of its Comfort Suites property in Redmond, Oregon. What were some of the key aspects of this transaction?

Central Oregon has been an exciting growth market and the asset was being operated very effectively by Vesta. The asset garnered interest from various institutional groups and regional owners and ultimately traded to a sophisticated regional owner with their own management company that owns two other properties in Bend.

Overall, what do you like about working with Vesta as a hospitality investor and operator?

It has been great to work with Vesta - a proven management, development and investment group. I had the privilege to attend Vesta's Hospitality Leadership Conference back in 2014 and had the opportunity to spend time with a number of the principals at that event and was impressed by their experience and ability to build terrific teams at the property level and recognize their employees efforts.

Could you give us a brief snapshot of the current hospitality investment space? How are transaction volumes and investment yields trending?

Supply has really been the story in the investment space in the Pacific Northwest. Absorption is being closely tracked by investors in key markets where we are seeing RevPAR flattening and in some cases decline in certain markets. For example, in the Seattle CBD (total of 16,634 rooms), we witnessed a RevPAR decline of 7.8% for the first quarter of 2019 vs. 2018 as a significant number of hotels opened, including a 1,260 room Hyatt Regency (according to our CBRE Hotels Hotel Horizon Report for June – August 2019 Edition).

CBRE forecast cap rates to likely remain stable through 2019; some markets may start to see a slight increase during the year, while many others continue to enjoy historically low levels. Cap rates upward movement in the coming years may caution investors, but the sheer volume of debt and equity capital available for real estate transactions could mitigate the impact.

Any special issues to pay close attention to over the remainder of this year and into the start of 2020?

Supply will continue to be closely monitored and the impact is now being felt by owners and operators. According to our most recent CBRE Hotels Hotel Horizon forecast for the Greater Portland area we anticipate flat RevPAR growth for the next few years. I think it will take some time for demand to catch up to supply in a number of markets.

When you are marketing a property, generally how many people do you target in your marketing campaign? How many ask for additional information by signing a CA? Then, how many bids do you typically get?

In a typical open marketing process we expose the investment opportunity to between four to eight thousand hotel investors, management companies and related parties (in the form of email teasers, phone conversations and in person meetings). We usually receive over 100 executed CA's and set up six to 12 tours. We generally see offers from about half of the groups that have toured and have spent a significant amount of time underwriting the asset and market. This varies based on a number of factors but would hold true for an average deal up to $15M.

Are there ever situations when you take a property out to market and it does not sell? What would be a scenario where this did happen?

This would most frequently occur in a market where RevPAR is starting to decelerate or decline and a high percentage of investors are overly cautious in their underwriting. We have seen this caused by new hotel supply being absorbed by the market or a large hotel demand generator reducing their travel budget.

Timing in hotel transactions is critical, as once the markets start to turn it becomes very difficult to sell into a decelerating market. No one likes to sell when things are going well, but everyone should have an exit strategy to recoup and recycle capital. We always suggest selling when the property is performing well for optimum pricing. Otherwise selling at a discount to the top of the market or not being able to sell at all are the likely outcomes.