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EAGLE HOSPITALITY TRUST

Comprising:

EAGLE HOSPITALITY REAL ESTATE INVESTMENT TRUST
(a real estate investment trust constituted on 11 April 2019 under the laws of the Republic of Singapore)
managed by
Eagle Hospitality REIT Management Pte. Ltd.

EAGLE HOSPITALITY BUSINESS TRUST
(a business trust constituted on 11 April 2019 under the laws of the Republic of Singapore)
managed by
Eagle Hospitality Business Trust Management Pte. Ltd.

Response to Queries

Eagle Hospitality REIT Management Pte. Ltd., as manager (the "**REIT Manager**") of Eagle Hospitality Real Estate Investment Trust ("**EH-REIT**"), and Eagle Hospitality Business Trust Management Pte. Ltd., as trustee-manager (the "**Trustee-Manager**", collectively with the REIT Manager, the "**Managers**") of Eagle Hospitality Business Trust ("**EH-BT**") wish to announce their response to certain queries in respect of the circular issued by the Managers and DBS Trustee Limited, as trustee of EH-REIT, dated 8 December 2020 (the "**Circular**") in relation to the Proposed Change of Managers and Related Matters and the Termination Proposal (each as defined in the Circular), as requested by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") on 16 December 2020.

Unless otherwise defined, all capitalised terms used and not defined herein shall have the same meanings as given to them in the Circular. A copy of the Circular is available on SGXNET and EHT's website at https://eagleht.com.

The following information is in response to certain queries raised in respect of the Circular.

(1) Reference is made to Appendix F, page 8 of the Circular about "Depressed Hotel Values". It was stated in the Valuation Summary prepared by the Independent Valuer that "Recent reports by CBRE and HVS indicate that the anticipated average decline in values across the US is expected to range between 15.1% and 28.1% for select and full service hotels when compared to 2019. Upon stabilisation, this gap is expected to narrow to between 10.1% and 22.3%." Why had EHT's portfolio value declined by 38.1%, when "average decline in values across the US is expected to range between 15.1% and 28.1%" only?

DBS Bank Ltd. was the sole financial adviser and issue manager for the initial public offering of Eagle Hospitality Trust.

Response:

According to the Independent Valuer, the anticipated range of between 15.1% and 28.1% in respect of the decline in values across the United States is not meant to be all encapsulating but a general view provided by surveys conducted by industry experts at that time. It was therefore a generic view of the anticipated changes in value given the known facts at that time.

The outlook remains highly uncertain and it is clear in some markets the outlook may improve and equally in others, deteriorate. Overall, it is clear that all markets had deteriorated since the surveys were conducted in April 2020. As such, the actual range of change in values is currently very fluid and will vary from market to market, and therefore the actual change will be unknown for some time. The Independent Valuer had noted that since HVS's article in April 2020, the outlook had significantly worsened by 31 August 2020, with many hotels remaining closed to date and a long recovery forecasted, with many owners having to bear immediate losses, thereby further depressing value. In its valuation reports in respect of each of the Properties and the Valuation Summary (as set out in Appendix F to the Circular), the Independent Valuer notes that where there have been transactions recorded, prices for hotels that were agreed pre-COVID and closed post-COVID were 14% to 43% lower. Further, as mentioned in the Circular and the Valuation Summary (as set out in Appendix F to the Circular), the Independent Valuer remarked that, on a weighted average basis, the decrease by 38.1% (on an "as is" basis) and 23.8% (on a stabilised basis) respectively from the valuations of the Properties as at 31 December 2018 remains well within the expected range cited by other industry experts.

As the risk of distress continues to remain high, the Independent Valuer considers investors, despite lower risk-free rates, have demanded additional risk premiums to reflect the near-term soft outlook, increased costs profile (due to higher standards required for cleaning, etc.) and recovery timeline for the industry. As a result, whilst the valuations have been mainly impacted by a decline in earnings, in addition, the terminal capitalisation rate (7.50% - 14.0%) and discount rate (8.5% - 11.25%) used for the valuation of the Properties as at 31 August 2020 were higher and in a wider range than the terminal capitalisation rate (6.00% - 7.00%) and discount rate (8.00% - 9.00%) applied for the valuation of the Properties as at 31 December 2018 previously done by the Independent Valuer prior to the IPO. This is especially prominent for the Queen Mary where there is a degree of higher risks given such Property's high exposure to mass events and groups business, which is expected to take longer to recover. Other markets that are dependent on mass travel and events such as Denver (where the Holiday Inn Denver East – Stapleton, Renaissance Denver Stapleton and Sheraton Denver Tech Center Properties are located) and Orlando (where the Holiday Inn Resort Orlando Suites – Waterpark is located), have similarly witnessed an increase in risk premium being demanded by investors.

On the subsequent query relating to the decline in valuation, please refer further to the response to Query (2) below which provides for a further explanation of the differences in valuation at the time of IPO and the current valuation.

(2) Please elaborate on the specific quantitative difference used in assumptions that were applied to the valuation at IPO and the current valuation to explain why the value of the hotels has decreased by (40%) from IPO and justify whether the valuation was exaggerated at IPO.

Response:

As mentioned in the Valuation Summary (as set out in Appendix F to the Circular), market fundamentals have significantly changed between 31 December 2018 and 31 August 2020.

In 2018, the Independent Valuer forecasted macroeconomic and industry fundamentals in the United States to remain strong, with strength in consumer spending and potential for an uptick in corporate transient demand anticipated to drive average-daily-rate growth, which would have contributed to an unprecedented track record of continued RevPar growth for nine years.

YTD 2020 vs. YTD 2019 Operating Performance

Total U.S.	Occ		ADR		RevPAR
February	62.2%	$	130.78	$	81.33
March	39.4%	$	110.66	$	43.54
April	24.5%	$	73.23	$	17.93
May	33.1%	$	79.57	$	26.35
June	42.2%	$	92.15	$	38.88
July	47.0%	$	101.76	$	47.84
August	48.6%	$	102.46	$	49.83
YTD Aug 2019	67.5%	$	131.93	$	89.10
YTD Aug 2020	44.4%	$	107.17	$	47.54

Source: STR

Total U.S. % Annual Change	Occ	ADR	RevPAR
February	-	-	-
March	(36.7%)	(15.4%)	(46.5%)
April	(37.8%)	(33.8%)	(58.8%)
May	35.2%	8.7%	47.0%
June	27.4%	15.8%	47.6%
July	11.4%	10.4%	23.1%
August	3.5%	0.7%	4.2%
YTD Aug 2019			
YTD Aug 2020	(34.3%)	(18.8%)	(46.6%)

Source: STR

In 2020, primarily due to COVID-19, the Independent Valuer considers the near-term United States lodging outlook to remain challenging as the pandemic continues to economically impact the United States and lodging sector. According to an industry research company, RevPar for hotels across the United States was US$85.96 at the end of 2018, a 2.9% increase on the previous year. In contrast, RevPar for 2020 is forecasted to finish the year down 57.5% on the 2019 performance at US$49.43. A recovery to pre-COVID levels is expected to take at least three to four years with hotels mostly reliant on fly travel and meetings, incentives, conferences and events (MICE) expected to be some of the last to recover. As such, fundamentally, this trend negatively impacts near term cashflows and overall valuations.

The Independent Valuer stands by the valuation report they prepared at the time of IPO based on the market conditions, the known facts and assumptions made at that time.

(3) Reference is made to Appendix F, page 9 of the Circular about "Depressed Hotel Values". It was stated that "This is especially prominent for the Queen Mary where there is a degree of higher risks given the property's high exposure to mass events and groups business, which is expected to take longer to recover." Please share why the capitalisation rates of the 7 properties below had increased by 2.0% or more? What are the New Managers' plans to reduce the capitalisation rates?

No.	Abbrev.	Property	2020 As Is Cap Rate	2018 Cap Rate	Increased by
6	WSAC	The Westin Sacramento	8.1%	6.0%	+2.1%
9	RDH	Renaissance Denver Stapleton	9.3%	6.5%	+2.8%
10	HIDH	Holiday Inn Denver East – Stapleton	9.3%	7.0%	+2.3%
11	SDTC	Sheraton Denver Tech Center	8.5%	6.5%	+2.0%
13	CPD	Crowne Plaza Danbury	9.3%	6.2%	+3.1%
16	CPDG	Crowne Plaza Dallas Near Galleria-Addison	9.3%	6.8%	+2.5%
17	HHG	Hilton Houston Galleria Area	8.5%	6.5%	+2.0%

Response:

Please refer to the response to Query (1) above for the explanation on the more prominent decrease in the valuation of the Queen Mary. In respect of each of the 7 Properties set out in the table above, according to the Independent Valuer, the capitalisation rates had increased by 2.0% or more as a result of the current market dynamics where, due to the impact of COVID-19 and investors factoring in time to recover, yields being demanded have increased for hotel assets across the United States given the impact of COVID-19.

Moving forward, improvement in the capitalisation rates of the Hotels is expected to be driven primarily from general market improvements and a market recovery in the hospitality sector, assuming that the interest rate environment continues to be low. In the medium to long term, there may also be further improvements in the capitalisation rates if credible and creditworthy third party master lessees are secured for the Hotels.

However, in the near term, improvements to the valuations of the Hotels is expected to be driven by any recovery in the Hotel's net operating income which is achieved through proactive asset management initiatives, as opposed to a compression in the capitalisation rates.

(4) Reference is made to Appendix F, page 10 of the Circular about "Depressed Hotel Values". In the third paragraph, at its second sentence, it was stated that "As such, Colliers expects value to eventually recover to at or near their pre-COVID levels over the medium term underpinned by an improvement in earnings over that period." How did Colliers define "medium term" here?

Response:

According to the Independent Valuer, medium term equates to the next five to seven years.

Issued by:

Eagle Hospitality REIT Management Pte. Ltd.
(Company Registration No.: 201829789W)
as manager of Eagle Hospitality Real Estate Investment Trust

Eagle Hospitality Business Trust Management Pte. Ltd.
(Company Registration No.: 201829816K)
as trustee-manager of Eagle Hospitality Business Trust

22 December 2020

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