WATERMARK LODGING TRUST

July 24, 2020

Dear Fellow Shareholder,

I hope that you and your family remain safe and well during these unprecedented and difficult times.

As we have communicated, COVID-19 has caused dramatic declines in hotel demand, resulting in hotel closures and occupancy levels never before experienced by the U.S. lodging industry. Revenue per available room (RevPAR) for the industry is currently forecast to be down 51% in 2020 as compared with 2019. We continue to believe in the resiliency of our high-quality assets, but like the rest of the industry, this crisis has profoundly impacted us. For the first quarter of 2020, our consolidated hotel revenues, less operating expenses, were approximately 60% lower as compared to the same period in the prior year and occupancy fell to 55%. The lodging industry hit devastating lows in April, as reflected in our occupancy at only 4% for the month, and we anticipate our second quarter will reflect further deterioration. Recovery from the impact of COVID-19 will take some time, but we are working hard to preserve shareholder value and continue to make progress.

As a result of the merger of CWI 1 and CWI 2 in April, we were better positioned to address the impacts of the pandemic. We simplified our business and reduced operating expenses by removing the advisory structure and our previous joint ventures between the two REITs and created a combined company with increased scale, operating efficiencies and a more flexible balance sheet. In response to the pandemic, we have taken swift and decisive actions to protect our hotels, our company and our shareholders. We focused on preserving liquidity through significant corporate expense reductions and actively managing our portfolio to reduce operating costs. We temporarily closed 17 of our 32 hotels, 14 of which have reopened as restrictions have been lifted and occupancy slowly increases. Recovery of the industry continues to be dependent on the containment of the virus, and we anticipate significant disruption will continue for some time.

We have sought relief from all of our lenders to defer interest and principal payments and temporarily waive certain cash flow covenants. We have entered into loan modification agreements for 19 of our 32 mortgage loans; however, this remains a work in progress, including addressing upcoming mortgage maturities. Furthermore, we have significantly reduced our 2020 capital investments by canceling or deferring projects to future periods.

Quarterly distributions to shareholders will continue to be suspended for the foreseeable future, and the suspension of our redemption program will remain in place until lifted by our Board of Directors. Requests for special circumstance redemptions may continue to be submitted; however, these requests will be deferred for review by our Board of Directors until after the announcement of our estimated net asset value as of September 30, 2020. Redemptions are subject to the discretion of the Board of Directors and will be evaluated in conjunction with the liquidity position of the Company and available cash. Decisions like these that directly impact our shareholders are not easy ones to make, but we believe they are prudent given the circumstances.

Our liquidity remains our top priority, with $102 million of available cash and approximately $490 million of mortgage debt scheduled to mature over the next 12 months, and we continue to explore various strategies to strengthen our balance sheet. In addition to seeking forbearance from our lenders, we believe that a combination of raising new capital and asset sales, in addition to possible turnover of select hotels to their mortgage lenders, is necessary. We are pursuing all options through the lens of preserving shareholder value and have recently executed two strategic transactions which have strengthened our liquidity.

In June, we closed on the sale of Hutton Hotel in Nashville for $70 million. The sale was executed at a discount to the property's pre-COVID value but provided us with approximately $27 million in net cash proceeds. Due to the strong performance of the asset during our holding period, we recouped our overall investment through a combination of operating cash flow and sale proceeds.

Additionally, in July, we closed on a financing transaction with affiliates of Ascendant Capital Partners and Oaktree Capital Management[1], which provides a commitment of up to $450 million of new capital through primarily a preferred equity investment. The transaction creates additional operational and financial flexibility as we navigate the current economic environment and strengthens our balance sheet. We believe that this transaction demonstrates the quality of our assets and confidence in our portfolio's ability to recover during these unprecedented times.

As the lodging industry recovers, we believe that the composition and demand profile of our high-quality portfolio positions our company for recovery as growth returns.

- The domestic transient leisure segment is returning, and we believe our large resort footprint, comprising 27% of our portfolio—especially those assets in drive-to markets—will be a benefit.

- With hotel owners across the country putting capital investments on hold, the industry will likely fall behind on renovations. Our portfolio—90% of which has undergone renovations within the last five years—is in excellent physical condition and will stand out.

- And finally, our portfolio benefits from strong brand affiliations with more than 90% of our portfolio affiliated with a major brand. We expect the strength of their loyalty programs and consumer confidence in the standards and protocols of these brands will continue to drive demand to our properties.

In closing, like the rest of the travel industry, we have been severely impacted by the pandemic, but we believe that in conjunction with the decisive actions we've taken in response to COVID-19, the quality and composition of our portfolio will benefit us as growth returns. We are working tirelessly on your behalf and will continue to do so until we have achieved the best possible outcome for our shareholders.

With best regards,

Michael G. Medzigian
Chairman and CEO

[1] *For more information regarding the transaction, please see the Form 8-K filed on July 24, 2020, available at www.watermarklodging.com.*