Dec. Lodging RevPAR Monitor - Evidence-based research shows stability in Group

Dipping our toe back into hotel REITS with an upgrade of PK

C. Patrick Scholes
212-319-3915
patrick.scholes@suntrust.com

Bradford Dalinka
212-303-4190
bradford.dalinka@suntrust.com

Gregory J. Miller
212-303-4198
gregory.j.miller@suntrust.com

Jeffrey Stantial
212-590-0993
jeffrey.stantial@suntrust.com

What's Inside

An in-depth update to our RevPAR outlook

Based on our forward-looking observations in our internal RevPAR data analytics lab combined with conversations with private hotel owners, the most noticeable forward looking trend over the past month was a second consecutive month of stability and slight improvement in Group booking demand (note we are only talking basis points here, not percentage points) without a material offset to pricing. This was observed in both last minute demand for December 2017 as well as for 2018 (especially 2Q and 3Q) and 2019 (improvement for all quarters) and follows two years where every month we had to slightly ratchet down Group RevPAR expectations. *Stability in Group demand is not a complete surprise as Group trends typically lag corporate demand trends by 12-18 months and it was 14 months ago when corporate business began to stabilize (albeit at flat to +1% RevPAR growth).* Factors contributing to this observation on Group also include slightly higher expectations for GDP in 2018 and small business optimism at its highest level in November since 1983. **Lastly, we are upgrading shares of PK to Buy from Hold; this is our first Buy rated hotel REIT since early 2015.**

Besides the recent stability in Group demand, other high-level forward-looking RevPAR trends we continue to observe: 1) Stable but lethargic corporate demand trends (no post-election spark to overall demand though a temporary uptick in hurricane impacted areas due to government/contractor demand); and most importantly 2) Leisure remaining the relatively strongest of the three customer segments. Full employment, household income growth, and continued low gas prices, all of which are reflected in high consumer confidence, benefit this customer base. We believe customer wallet share has moved to experiences and travel away from retail.

- **Subsequently we remain more favorable on the leisure denominated sectors in our coverage universe, namely Vacation Ownership, Regional Gaming, and Cruise Lines.** Admittedly, with the exception of cruise lines, these sectors are trading at or near all-time high valuation multiples, so one is paying a premium for this growth.

We reiterate that companies such as HLT and MAR should hit the high-end of their 4Q RevPAR guidances and possibly exceed them (assuming no shifts in market share/RevPAR index --- always an unknown variable). This also bodes well for the hotel REITS though admittedly REITS have idiosyncratic issues which create more RevPAR volatility vs. expectations (for example, will underperformance in the Kimpton brand continue to disproportionally hurt LHO?)

- While we have not seen a sudden surge in 4Q (or for any quarter) bookings over the past six weeks outside of hurricane-impacted markets, we believe these companies simply set guidances conservatively for 4Q and last minute booking trends have not disappointed like they had done for the better part of 2015-2017.

SEE PAGE 17 FOR REQUIRED DISCLOSURE INFORMATION

Additionally we do not believe companies forecasted continued hurricane-driven strength in Houston, Miami, and Orlando for November and December and these markets have continued to show excessive strength.

- 4Q RevPAR guidances for these companies are +2-3% for MAR in North America and +1-3% for HLT systemwide whereas our published expectation based on our data observations since August has been +2-4% (closer to the high-end now) for US full-service branded hotels.
- After posting approx. +4.0% in October, +2.7% in November, and +3% for the first sixteen days of December, the math says that these companies only need to do only approx. -2% to hit the +2% low-end and +3% for the rest of December to hit the +3% high-end for the quarter. (Note that due to holiday and weekend/ weekday shifts in December, the month faces a big headwind when calculating final monthly results).
- *Investors know it is all about "expectations" and we believe these companies set expectations that are achievable and likely beatable.*

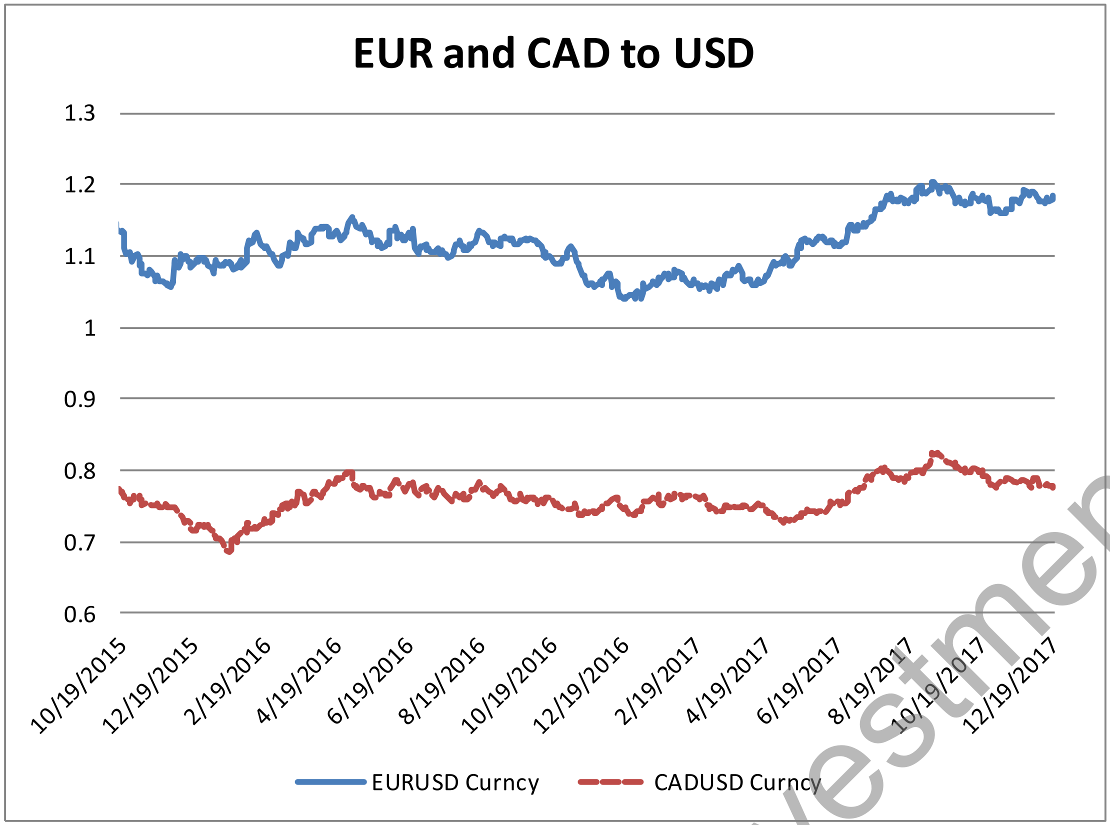
Given the stability in Group business, the other "good news" (relative to expectations) continues to be we believe full-year 2018 RevPAR guidances for these companies (HLT and MAR are the only ones who have quantified 2018 RevPAR growth expectations) look realistic and achievable. *To be clear* we are not saying they should be beatable like we are saying for 4Q17, rather all our RevPAR forward bookings intelligence indicate the ranges are achievable, *even more so in light of recent trends in Group stability*. For 2018 MAR has guided RevPAR of +0-2% in North America and HLT has guided +1-3% (global) systemwide. Our 2018 estimate for branded US full-service hotels (the typical MAR and HLT hotel) continues to be -0.5 to +1.5%, a figure that has remained unchanged since we first introduced it this June.

- **As it relates to the C-Corps, this stability in RevPAR expectations bodes well that they will hit their room growth targets in 2018;** New unit growth should be the primary engine of earnings growth in 2018 for the C-Corps.
- **We repeat: It's all good until it isn't.** While most C-corps trade at expensive multiples by historical standards (not the case for the hotel REITS as the gap between hotel REITS and C-Corps is as wide as it has ever been), we note that historically asset-lite C-Corp multiples can get "whacky" (See Four Seasons and Choice Hotels in the prior cycle, for example) and can stay expensive up to the point where a management team delivers unexpected bad news (then look out below!); **Based on our data intelligence and industry conversations we are not expecting such unexpected bad news (the "all good until it isn't" part) in February/March earnings releases as it relates to 4Q results and forward expectations.**

Not bullish on hotel REITS in general, but we have higher confidence that numbers will not need to be cut in 2018 and that dividends will be paid. Our major concern with the hotel REITS at this juncture is that RevPAR growth of -0.5% to 1.5% (staying slightly below HLT's and MAR's 2018 forecasts as some of 4Q17's outperformance will be given back in 4Q18 due to difficult hurricane comps) in an environment of property-level operating costs of 2.5%+ does not bode well for margin expansion for hotel owners (outside of PK, which has some unique self-help drivers). A second strike against the hotel REITS at this moment is that the growth in RevPAR is primarily driven by the leisure segment as opposed to the corporate segment (discussed further in this report), the latter being the bread and butter customer for the hotel REITS.

However, there is some good news for hotel REITS:

- At this level of RevPAR growth dividends are not stretched and barring a negative demand shock we do not attach a high level of risk they will be cut over the next year. Most hotel REITS dividends are at an attractive (in our view) 4-6% yield.
- Secondly, the recent depreciation in the US$ vs. the Euro and CAD$ should be a benefit especially for the hotel REITS as they are congregated in major gateway markets that are popular for international visitation. *Assuming* this trend continues, we would expect to see it to be a small tailwind to RevPAR growth beginning in the first half of next year (there is a six month lag as to when changes in FX begin to help/hurt visitation due to the lengthy booking window of international leisure travel).
- Lastly, following a number of sell-side downgrades over the past two months, sentiment and expectations for the hotel REITS are low. Historically, this helps set the foundation for *eventual* outperformance.



Source: Bloomberg

Our 1Q18 RevPAR forecast for US full-service branded hotels of -1% to +1% is unchanged. We see this quarter being helped by approx. 100 bps. from post-hurricane demand. 1Q18 will experience a very difficult y/y comp in January in Washington DC. Additionally, 1Q18 will be negatively impacted by the timing of the Easter shift, as Easter falls on April 1 in 2018 vs. April 16 in 2017 (the last week of March 2018 will have deeply negative results for Group/convention business as Good Friday falls that week). While March will be hurt by the shift, April will benefit.
Our 2018 full-year projection of -0.5% to +1.5% is also unchanged as the first half of 2018 will likely get a 100 bps tailwind (making for a tough comp in 1H19) from hurricane demand while the back half of the year will likely receive a 100 bps headwind.

Quarterly Tracking

	4Q17E	2017E	1Q18E	2018E
	Overall	Overall forecast	Overall	Overall forecast
Nov-17	+2-4% High-end	+0-2%	-1% to +1%	-0.5% to +1.5%
Oct-17	+2-4% High-end	+0-2%	-1% to +1%	-0.5% to +1.5%
Sep-17	+2-4% High-end	+0-2%	-1% to +1%	-0.5% to +1.5%
Aug-17	+2-4%	+0-2%	-1% to +1%	-0.5% to +1.5%
Jul-17	+1-3%	+0-2%		-0.5% to +1.5%
Jun-17	+1-3%	+0-2%		-0.5% to +1.5%
May-17	+1-3%	+0-2%		
Apr-17		+0-2%		
Mar-17		+0-2%		
Feb-17		+0-2%		
Jan-17		+0-2%		
Dec-16		+0-2%		
Nov-16		+0-2%		
Oct-16		+0-2%		
Sep-16		+0-2%		
Aug-16		+1-3%		
Jul-16		+1-3%		
Jun-16		+1-3%		

Source: STRH Research

4Q17:

- **October:** Group business was helped by the shift in the timing of Yom Kippur and overall business will be aided by hurricane demand. October was one of the stronger months of the year and we estimate the month came in at approx. +4.5% for HLT's and MAR's domestic RevPAR.
- **November:** Similar to November 2016, November 2017 was surprisingly strong (+3%) for Group business and came in at approx. +2.5-3% for US full-service branded hotels.
- **December:** Has seen some last minute pick-up in demand, most noticeably on the Group side. Should be the weakest month of the quarter mainly due shifts in weekend/week days and timing of holidays, and is tracking towards the middle to lower end of our +2-4% 4Q range. Christmas is falling on a Monday this year vs. a Sunday last year. To see the impact of this shift we look back to 2006, the last time Christmas fell on a Monday. For the week RevPAR was -7% with Sunday-Monday averaging -15% y/y (and keep in mind 2006 was a much better year for RevPAR growth than is 2017). This shift essentially removes school breaks for the week before Christmas and pushes some of them into January.

1Q18:

- **January:** The first week of the month will get a lift from New Year's Eve moving from a Saturday night to a Sunday night (see above). The last time this happened was in 2006 and US RevPAR was +7% for the first week of January 2007, with luxury hotel RevPAR up significantly. However the rest of the month will have a very difficult y/y comp due to last year's Inauguration and Women's march in Washington, DC. RevPAR in DC last year in January was +51% y/y. All-in we see the month tracking at the higher-end of our 1Q18 range of -1% to +1%.
- **February:** Looks to be a clean comp month. That said early indications are for a fairly soft month, tracking towards the mid-point of our -1% to +1% range for overall 1Q18.
- **March:** This month will be hurt by the timing of Easter this year. Last year Easter fell on April 16 while this year it falls on April 1. The RevPAR impact will be that the last week of March 2018 will see a material drop-off in group and transient business whereas April 2018 will have a very easy comp. We see the month tracking towards the lower end of our 1Q18 -1% to +1% range, **but considering the tough Easter comp it certainly could be worse.**

Net of Supply Growth Changes to 2018/2019
Y/Y Citywide Group Pace (by Quarter/Year)

	1Q18	2Q18	3Q18	4Q18	YE 18	1Q19	2Q19	3Q19	4Q19	YE 19
Pace as of January 2017	-3.2%	3.7%	12.0%	-2.6%	2.1%	4.6%	1.8%	7.9%	6.0%	4.7%
Pace as of February 2017	-4.8%	3.2%	12.5%	-2.3%	1.7%	3.3%	3.4%	8.6%	5.4%	4.9%
Pace as of March 2017	-5.4%	3.1%	10.8%	-2.1%	1.2%	2.7%	2.9%	6.4%	5.8%	4.2%
Pace as of April 2017	-6.3%	1.5%	10.0%	-2.0%	0.3%	4.0%	2.5%	7.4%	3.7%	4.2%
Pace as of May 2017	-4.5%	0.3%	10.0%	-2.3%	0.3%	3.4%	0.8%	4.6%	3.0%	2.8%
Pace as of June 2017	-4.4%	-0.2%	9.9%	-1.9%	0.3%	5.8%	0.4%	4.7%	4.3%	3.6%
Pace as of July 2017	-4.7%	1.2%	9.1%	-0.7%	0.7%	6.0%	0.8%	1.4%	3.7%	2.9%
Pace as of August 2017	-5.1%	-0.1%	5.7%	0.3%	-0.2%	5.5%	-0.3%	-1.4%	3.1%	1.7%
Pace as of September 2017	-5.8%	-0.2%	6.9%	-1.2%	-0.6%	2.6%	-1.0%	-2.9%	3.6%	0.5%
Pace as of October 2017	-4.7%	-0.6%	8.3%	-1.3%	-0.1%	2.2%	-1.9%	-1.9%	0.4%	-0.3%
Pace as of November 2017	-4.8%	-0.1%	9.7%	-1.3%	0.3%	2.6%	-1.0%	-1.5%	2.1%	0.5%

Source: STRH Research, TAP. Figures are net of new supply.

On the good news front, international RevPAR growth continues to be positive. While we admittedly have far less visibility into the future in Europe and Asia than we do for the US, October RevPAR growth in constant currency for Europe of +6.9% and growth in US$ of +11.9% were very strong as were November RevPAR growth in constant currency for Europe of +6.7% and growth in US$ of +15.7% . The bad news is this strength is only a benefit to the C-Corps, most notably for HLT and MAR. The weakening of the euro appears to have subsided in the last few months, although relative to the last few years, Europe is still relatively affordable for foreign visitors.

- **East Asia by and large still presents a considerable long-term growth story for the C-Corps.** While we are seeing supply maturation in some of the primary emerging markets (a good sign for rate integrity in our view), there are growth opportunities in many other markets. October RevPAR in Asia-Pacific came in at +2.7% and in November it was +10.5%.

<u>Examining the three customer segments:</u>

Leisure travel: In the near term hurricane demand is giving a lift to this segment (we acknowledge, and hope not to appear insensitive, that while hurricane demand is certainly not "leisure travel" in the traditional sense, for customer segmentation some of it falls in the leisure category). Additionally, underlying relative strength is coming from 2016 US household income growth of 3.2% and continued low gas prices, which translates into moderate growth in the forward-looking hotel demand and pricing trends.

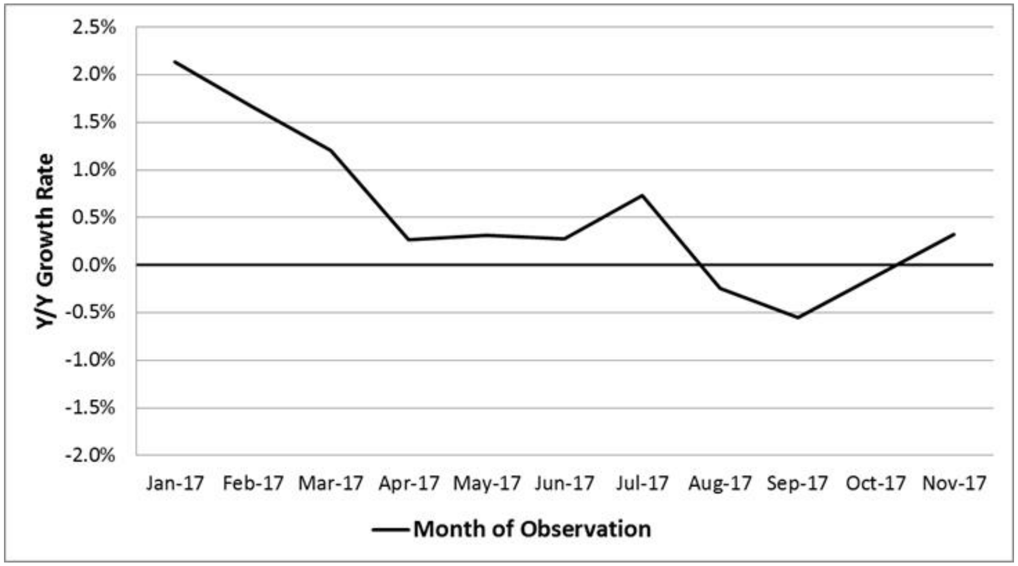
- Our latest pricing and demand observations from our RevPAR data lab show RevPAR growth for late Fall and Winter leisure travel tracking approx. +3-4% for US full service hotels (approx. 100-200 bps. higher for limited service properties as hurricane demand falls under this segment).
- Our analysis of multiple data sources including e-forecasting and OTAs indicates that the strength is being driven by hurricane related occupancy. Outside of hurricane-impacted areas, US resorts are seeing low-single digit increases in rate with flat to slightly decreasing occupancy.

Individual business travel RevPAR expectations (visibility is about 60 days) have picked up slightly in the over the past two months. *However, before investors get too excited, we believe much of this "strength" (we are still talking basis points here, not percentage points) is from government and contractor related business in hurricane-impacted areas.* Prior to the hurricanes, forward expectations for this segment hovered around zero to slightly negative growth (primary data source: corporate travel agencies and OTAs) with no major changes over the past month. **Due to the aforementioned hurricane related demand, the RevPAR expectation for the next several months for this business segment is now in the positive low-single digits.**

Forward-looking Group/convention demand expectations bucked the downward trend line over past five weeks (primary data source: TAP).

- **2018: ticked up for the second month in a row over the past month.** Headline group demand is now pacing approx. +0.3% vs. the prior observation of -0.1% (net of new supply). To this we add approx. 1.5 percentage points of rate growth to come up with a projection that same-store Group RevPAR is tracking at approx. +1.0-2.0% for 2018 at the moment (our prior expectation is was +0.5-1.5%).

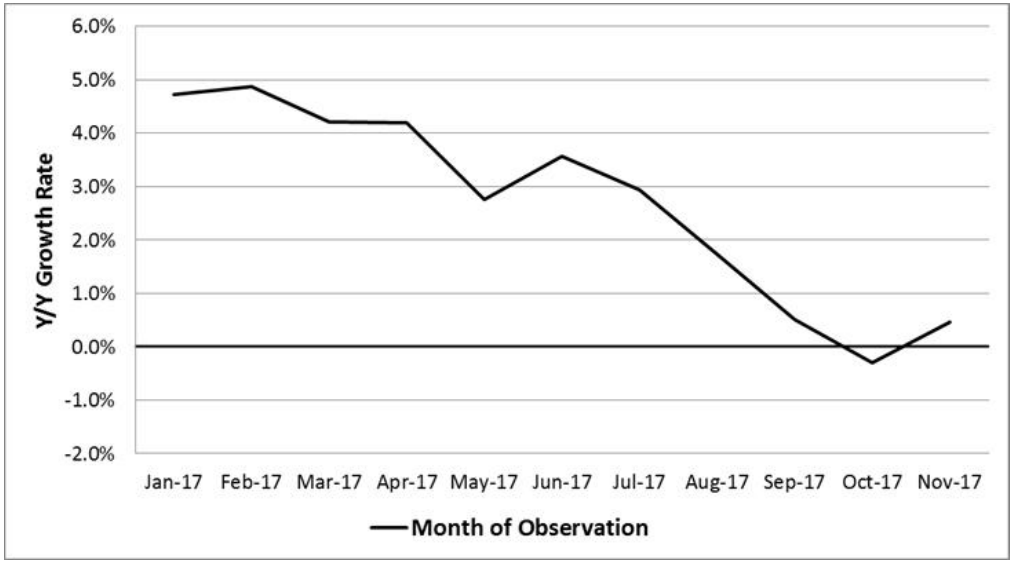
2018 Group demand pace trend



Source: STRH Research, TAP

- **2019: A month of modest improvement.** Our net-of-supply group pace for 2019 is +0.5% at the moment vs. -0.3% in our prior observation. To this we add approx. 1.5 percentage points of rate growth to come up with a projection that same-store Group RevPAR is tracking at approx. +1.0-2.0% for 2019 at the moment (our prior projection was +0.5-1.5%). We note that 2019 will show massive gains in SF due to the completion of the Moscone center.
  - We advise readers that these figures represent a fraction of what will be the aggregated actual bookings (we estimate that the 2019 pace represents about 25-35% of what will actually be booked). The group pace for now mostly reflects citywide and far-in-advance in-house group bookings. The unknown variable of course is how actual "paid & stayed" attendance is vs. the initial projection.

2019 Group demand pace trend



Source: STRH Research, TAP

Segmentation By Company

REITS	Transient Corporate	Transient Leisure	Group
CHSP	45%	20%	35%
DRH	45%	20%	35%
HST	45%	15%	40%
LHO	55%	20%	25%
PK	45%	20%	35%
RHP	5%	15%	80%
RLJ	55%	25%	20%
SHO	45%	20%	35%
PEB (not covered)	60%	20%	20%

C-corps	Transient Corporate	Transient Leisure	Group
CHH	45%	45%	10%
H	40%	20%	40%
HLT	50%	20%	30%
IHG	45%	40%	15%
MAR	45%	20%	35%
WYN	45%	45%	10%

Source: STRH Research

Major Markets:

The markets we observe with strong hurricane driven bump-ups in forward demand are (not surprisingly) Houston, Orlando, and Miami (also easy Zika comps in Miami and some demand that would have gone to Key West and hurricane devastated Caribbean islands) in that order, with the strength almost entirely from increased occupancy and not from rate. We expected these markets to have outsized RevPAR growth rates through early September 2018, followed by difficult comps (thought with positive 2-year growth rates, especially for Houston).

Ranking the big six major US markets for 2018. Group/meeting bookings is the best way to think about market outperformance/underperformance for time periods more than 90 days out. A healthy (or weak) convention calendar really drives city performance (with the notable exception of NYC as that is mostly a transient market). Based initial group/convention bookings, we lump the top six markets into four buckets:

1.. **Strong in 2018:** SF

2.. **Average to slightly above average:** NYC (but see NYC comments above), Chicago (good city-wide performance but partly driven by demand at newly opened hotels and less good for same-store results)

3.. **Weak:** Boston

4.. **Very Weak:** LA, DC

Outside of the big six in North America, Canadian cities such as Montreal, Toronto, and Vancouver continue to look relatively strong, though as y/y comps get tougher and FX tailwind subsides, the strength is beginning to wane. Unfortunately, very few REITS (only HST in our coverage) own hotels in Canada.

Additional color on the big six:

Boston: The first quarter of 2018 starts out soft but improves for the second and third quarters.

Est exposure to Boston market									
	CHSP	**DRH**	**HST**	**LHO**	**PEB**	**PK**	**RHP**	**RLJ**	**SHO**
Boston	15%	16%	6%	19%	8%	2%	0%	4%	17%
Rank	4	3	6	1	5	8	9	7	2
Note: Est. exposures include surrounding areas									
Source: STRH Research, Company data									

Chicago: Chicago looks slightly above average for the first half of 2018 followed by a very strong 3Q. That being said, with a new Marriott Marquis at McCormick, we are surprised the lift is so uneven from 3Q17 onward and that 2019 is a pull back.

Group/convention outlook for Chicago

Pace as of	1Q17A	2Q17A	3Q17E	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E
Nov-17	22.1%	10.3%	-4.2%	-7.3%	38.0%	2.7%	42.3%	22.9%	-27.2%	-4.7%	-17.0%	-19.2%
Sep-17	22.1%	10.4%	-4.4%	-8.2%	34.9%	1.6%	36.7%	25.1%	-27.4%	-2.0%	-20.0%	-19.7%
Aug-17	22.1%	10.4%	-2.6%	-10.6%	10.4%	2.1%	33.6%	26.7%	7.3%	5.1%	-21.3%	-17.1%
Jul-17	23.1%	10.6%	-14.9%	-2.4%	5.0%	3.0%	61.4%	14.4%	-9.4%	4.9%	-14.7%	-22.1%

Source: STRH Research, TAP

Est exposure to Chicago market	CHSP	DRH	HST	LHO	PEB	PK	RHP	RLJ	SHO
Chicago	12%	13%	4%	7%	0%	6%	0%	6%	8%
Rank	2	1	7	4	8	6	8	5	3

Note: Est. exposures include surrounding areas

Source: STRH Research, Company data

Los Angeles: Transient hotel demand has received a lift from the fires, demand which we expect to last for several months. Outside of fire relocation related demand for 2018, 1Q looks strong while 2Q looks very weak.

Group/convention outlook for Los Angeles

Pace as of	1Q17A	2Q17A	3Q17E	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E
Nov-17	3.4%	61.3%	-0.5%	10.7%	16.8%	-29.7%	-1.1%	6.2%	-25.6%	11.9%	-20.6%	22.2%
Sep-17	3.4%	61.2%	-2.1%	3.9%	13.1%	-32.1%	1.1%	8.1%	-24.0%	13.4%	-18.4%	28.6%
Aug-17	3.4%	61.1%	-5.8%	3.3%	16.9%	-32.3%	-0.3%	14.9%	-19.8%	13.3%	-19.6%	9.5%
Jul-17	3.4%	70.2%	-14.0%	1.4%	18.8%	-37.3%	16.5%	12.6%	-19.8%	13.3%	-15.5%	11.1%

Source: STRH Research, TAP

Est exposure to LA market	CHSP	DRH	HST	LHO	PEB	PK	RHP	RLJ	SHO
LA	11%	1%	5%	9%	16%	0%	0%	5%	10%
Rank	2	7	5	4	1	8	8	6	3

Note: Est. exposures include surrounding areas

Source: STRH Research, Company data

NYC: Just might squeak out a positive RevPAR growth result for 2017. However even a negative 1%-ish should be considered a success given the massive amount of supply that has and is coming into the market. Helping NYC are new regulations on short-term rentals (Airbnb) which may take some of the new "shadow supply" pressure away. That said, we believe it will be difficult for NYC to see anything much above flat RevPAR growth in 2017 and for 2018 as new hotel supply looms large.

- A major headwind to same store RevPAR growth in NYC is several years of compounded 4-6% new supply growth. Per Lodging Econometrics, city-wide new room supply grew 5.1% in 2016 and is forecasted to grow 5.1% in 2017, 8.3% in 2018, and 4.1% in 2019. Even if some of these expected new hotels never open, it is difficult to envision that NYC will not have continued pressure from above-average supply over the next several years.

Est exposure to NYC market	CHSP	DRH	HST	LHO	PEB	PK	RHP	RLJ	SHO
NYC	4%	10%	11%	9%	0%	6%	0%	6%	4%
Rank	6	2	1	3	8	4	8	5	7
Note: Est. exposures include surrounding areas									
Source: STRH Research, Company data									

San Francisco: After a year of underperformance, the good news is that 2Q17 likely represented the low-point for RevPAR growth and 2Q18 should be the first quarter of very strong (likely strongest market in the country) RevPAR growth. **Specifically, March 2018 will be the month where SF turns the corner.**

- **That said, 2Q18 pace is coming in weaker than expectations from several months ago.** We are not sure if this is just a blip of a trend but it speaks to what we have heard from the REITS that San Francisco is not as strong as what the Street is thinking. Case in point 2018 pace is now +6.7% vs. +13.8% previously and this is mostly from 2Q18.
  - 2019 is still looking strong: +62.1% vs. +67.0% previously

Group/convention outlook for San Francisco

Pace as of	1Q17A	2Q17A	3Q17E	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E
Nov-17	-9.5%	-36.9%	-20.9%	-1.5%	-25.0%	10.1%	78.0%	-3.9%	113.2%	47.2%	49.8%	48.2%
Sep-17	-16.1%	-44.7%	-21.9%	-2.7%	-21.9%	37.3%	77.6%	2.3%	121.8%	40.9%	49.1%	64.1%
Aug-17	-16.1%	-44.7%	-21.6%	-2.8%	-17.9%	50.7%	69.4%	6.3%	124.1%	42.5%	49.1%	67.5%
Jul-17	-16.1%	-44.7%	-24.7%	-3.4%	-15.2%	51.4%	70.0%	9.0%	126.0%	49.5%	50.5%	66.1%

Source: STRH Research, TAP

Est exposure to SF market	CHSP	DRH	HST	LHO	PEB	PK	RHP	RLJ	SHO
San Francisco	21%	1%	7%	15%	23%	12%	0%	11%	8%
Rank	2	8	7	3	1	4	9	5	6
Note: Est. exposures include surrounding areas									
Source: STRH Research, Company data									

Washington DC: 1Q18 will have an extremely difficult y/y comp followed by a much stronger 2Q. The back half of 2018 has a very weak convention calendar with 3Q18 especially weak.

Group/convention outlook for Washington, D.C.

Pace as of	1Q17A	2Q17A	3Q17E	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E
Nov-17	22.0%	-12.0%	4.8%	2.0%	-27.2%	31.3%	-40.9%	-20.0%	37.1%	-35.3%	30.5%	-9.6%
Sep-17	21.9%	-12.2%	7.2%	4.2%	-26.5%	29.4%	-45.7%	-17.6%	36.7%	-36.4%	7.0%	-6.0%
Aug-17	21.9%	-12.2%	10.4%	3.4%	-26.4%	29.5%	-50.0%	-18.2%	37.7%	-35.7%	10.1%	-4.7%
Jul-17	21.9%	-13.3%	10.9%	4.1%	-26.0%	28.3%	-46.2%	-18.8%	33.7%	-35.4%	9.7%	-4.7%

Source: STRH Research, TAP

Est exposure to DC market									
	CHSP	DRH	HST	LHO	PEB	PK	RHP	RLJ	SHO
DC	3%	5%	10%	16%	4%	3%	23%	4%	13%
Rank	8	5	4	2	7	8	1	6	3
Note: Est. exposures include surrounding areas									
Source: STRH Research, Company data									

SunTrust Robinson Humphrey

Current expectations for Top 25 Market new supply:

Supply By Top 25 Markets (Sorted by Pipeline Rooms Growth as % of Census) As of 3Q17	Census Rank	YE 2015 Growth Rate	YE 2016 Growth Rate	2017F Growth Rate	2018F Growth Rate	2019F Growth Rate
Nashville	24	2.4%	3.7%	3.0%	11.7%	8.0%
Miami	14	3.0%	4.2%	2.8%	4.8%	3.6%
New York City	4	4.8%	5.1%	5.6%	6.8%	4.1%
Seattle	20	3.2%	2.3%	4.1%	6.2%	5.3%
Denver	17	2.9%	2.6%	5.5%	3.7%	10.2%
Dallas	8	1.5%	3.2%	5.5%	4.7%	4.0%
Boston	13	1.7%	4.3%	2.9%	4.8%	1.0%
Houston	9	3.6%	6.8%	3.5%	4.1%	4.8%
Detroit	21	1.3%	2.3%	2.8%	3.8%	4.0%
Los Angeles	6	0.8%	1.0%	3.7%	2.5%	4.0%
Philadelphia	18	0.3%	1.6%	2.7%	3.5%	3.3%
San Diego	11	1.2%	1.7%	1.3%	1.4%	3.8%
Anaheim	12	1.1%	3.3%	1.2%	1.9%	3.5%
San Francisco	15	0.7%	0.1%	2.4%	2.0%	0.8%
Minneapolis	23	2.4%	6.0%	1.9%	3.4%	3.5%
Orlando	2	0.8%	1.8%	0.7%	0.9%	1.5%
Atlanta	7	0.7%	1.4%	1.6%	2.8%	3.6%
Washington, D.C.	5	1.6%	2.0%	1.7%	1.9%	1.5%
Tampa	16	0.7%	1.5%	3.4%	2.8%	1.9%
Phoenix	10	1.4%	1.6%	2.6%	1.3%	3.0%
San Antonio	19	0.8%	1.9%	1.6%	2.7%	1.0%
Chicago	3	2.6%	2.5%	2.3%	1.7%	1.6%
St. Louis	27	0.5%	1.3%	1.5%	2.1%	2.4%
Norfolk	25	0.6%	0.0%	0.8%	0.0%	0.3%
Oahu Island	36	0.5%	1.3%	0.6%	0.0%	0.0%
Total Top 25 Markets		**1.7%**	**2.6%**	**2.7%**	**3.2%**	**3.2%**

Source: Lodging Econometrics, STRH Research

Notes: The largest market in the U.S., Las Vegas, is not included in this chart due to its casino orientation. 2017-2019 are forecasts.

An update on how Hurricanes Irma and Maria will impact winter leisure travel:

Over the last few months, we have gained a better sense of how the 2017 hurricane season (specifically Hurricanes Irma and Maria) will impact winter leisure travel. While leisure travel is on the whole a lower rated segment relative to corporate travel, we point out that leisure is a high-rated business for many luxury and upper-upscale hotels and markets in the winter months, where RevPARs can be 200% or more during this season.

Unfortunately for the Caribbean (and the C-corps and REITS that have hotels there), the significant impact from this year's hurricanes has resulted in devastation to many islands' infrastructures and economies that are dependent on tourism. Numerous hotels are expected to be shut down well into 2018 and in some cases into 2019. **We note that many Caribbean markets' peak seasons run from the Christmas/New Year's weeks through the spring months, thus the closure of numerous hotels this winter will significantly depress the entire 2018 profit opportunity for hotels that reopen later in the year. For this reason, we do not find it surprising that hotel owners are delaying reopenings until late 2018/2019** rather than reopen during the 2018 hurricane season and in low season. This strategy furthers the incremental demand tailwind to markets that will receive the unaccommodated demand from hurricane-impacted markets.

We should point out, as have the Caribbean tourism agencies, that much of the region was not impacted by Hurricanes Irma and Maria. However, the news generated from the hurricanes presents a relatively grim picture. **Even many months after the hurricanes, media reports have presented a picture of mixed recovery.** We do not suggest that most travelers are familiar enough with the geography of the Caribbean to distinguish the impacted/non-impacted islands (although there has been a significant marketing push to this effect – examples include Jamaica and Guadeloupe/Martinique).

- While some smaller (and in some cases more upscale-leaning) islands were not impacted by the hurricanes or have had swifter recoveries, many of the more accessible and well-known destinations for North Americans and Europeans were impacted. (We see cruises being less impacted than hotel guests flying to Caribbean resorts as the cruise lines will alter itineraries where applicable.)

Of the major Caribbean hotel destinations, Puerto Rico, the US and British Virgin Islands, and some of the smaller islands in the Leewards (including St. Barths and St. Martin/St. Maarten) were impacted by the storms. There are dozens of resorts in these destinations, including many luxury hotels that will not be open this winter. **Based on macro fundamentals and demand patterns, we assume that vacationers that intended to travel to these destinations will by and large still take a leisure trip, but it will likely be elsewhere.** The Caribbean offers numerous alternatives as discussed below. However, not all the remaining destinations have the advantages that the storm-impacted region has, namely:

- U.S. citizens do not need a passport to go to U.S. islands. These islands have appeal not just for their beaches but are also popular – and relatively safe -- islands to explore. This is an important distinction as the U.S. islands offer adventure and family-friendly attractions as opposed to some Caribbean islands where guests generally stay on-property the entire trip.
    - While Puerto Rico hotels are slowly reopening, infrastructure issues remain. **The power grid on the island remains very challenged with the island reportedly at 64% power generation three months after Hurricane Maria hit.** We expect the existing infrastructure issues throughout Puerto Rico will dissuade some guests from staying on the island, even if many hotels have generators.
    - The United States Virgin Islands (USVI) have numerous hotel closures well into 2018.
    - Without these islands operating at full capacity, American travelers seeking to stay within the U.S. borders may choose to vacation stateside. Also: San Juan is a major hub for regional Caribbean travel. It is less clear how the news from Puerto Rico may impact travel demand from passengers that might normally pass through San Juan to go to other islands.
- Many of the affected islands are relatively proximate to the U.S. mainland. Not all travelers desire to travel longer distances to the southern Caribbean. Further, with the exception of a few popular islands in the southern Caribbean (the Dutch Antilles, Barbados, and a few others), many of the unaffected Caribbean islands in the south are not considered major tourist destinations.

Where will the "unaccommodated Caribbean demand" go? Due to demand and airlift patterns, we believe a few markets will benefit:

- **Florida:** For U.S. travelers without a passport, Florida is an easy and convenient option. We consider many of the hurricane impacted destinations as safe and family friendly (whereas some of the unaffected Caribbean destinations orient to couples and/or have less-than-stellar reputations for safety and security.)
    - **Key West may be a beneficiary, especially in 1Q18.** While parts of the Florida Keys continue to recover, Key West itself is increasingly moving to normalcy. In November investor meetings at NAREIT and at our STRH conference in Boston, the REITS expressed guarded optimism for their hotels,

expecting a ramp up in demand through the winter and spring 2018. For a variety of reasons, we believe Key West has a destination appeal that is a compelling alternative for vacationers that might normally frequent some of the storm-impacted Caribbean islands.

  - We anticipated months ago that the Florida convention and visitor bureaus, including the Keys, would actively promote that Florida "is open" for visitors this winter. This came to fruition in a variety of marketing campaigns that we have seen on TV, in consumer trade magazines, and other media.

- **Other major Caribbean destinations** that will receive demand include: The Bahamas, Jamaica, Dominican Republic, Cayman Islands, Dutch Antilles, and Barbados. (Note: airlift to some of these destinations is relatively limited and/or requires additional travel time from the North America mainland. These downsides may result in travelers choosing Florida or other mainland U.S. destinations.)
- **Mexico and Central America**
- **Ski destinations** (although we suspect that travelers preferring warm weather destinations will not switch en masse to ski destinations)
- **Hawaii and the U.S. Southwest** (due to distance and airlift from the Central and Eastern U.S., we believe that these locations are likely secondary choices for most Caribbean-focused travelers.)
- **Some travelers may choose a cruise in order to stay within the region and/or visit affected islands by day but sleep on the ship at night**.

We also note that weather in the northern U.S. matters – warm weather in the north is not good news for warm weather winter destinations. There was a relatively warm fall in many of the northern states and NOAA is predicting a relatively warm winter in the Northeast (and a normal winter in the Midwest). This is not good news as some travelers are motivated by cold weather at home to make winter trips. **Positively, the late 2017 snowstorms are likely to help spur winter travel demand**.

Implications for the Lodging REITS: Outside of the obvious impact to REITS with Caribbean properties, we expect Florida resorts to benefit the most from the unaccommodated demand. This will benefit the majority of our coverage (RHP less so as their hotels are group focused, although there may be some benefit to Gaylord Palms in Orlando.)

The major C-corps have hotels in the Caribbean; however, EBITDA exposures are relatively modest compared to Asia-Pacific and Europe. For most of the C-corps, we expect that the financial impact will generally be limited as demand shifts to other locations, often within the same franchisor's system.

- We note that WYN owns the Wyndham Grand Rio Mar in Puerto Rico which remains closed for reservations. H has 50% ownership in the Hyatt Place in downtown San Juan (this property has reopened).

SunTrust Robinson Humphrey

Price Target/Risks Summary

Lodging	TKR	Price 12/20/17	Rating	PT*	% upside down-side	2018E EBITDA ($M)	Target EV/EBITDA Multiple	Risks
Chesapeake Lodging Trust	CHSP	$27.68	Hold	$24	-13%	$180	12.0X	Upside risk: improvement in NY and Chicago markets Downside risk: softening of RevPAR trends in Boston or SF. Slowdown in real estate lending.
Choice Hotels	CHH	$77.50	Hold	$71	-8%	$323	14.0X	Upside risk: conservative guidance. Downside risk: big catalyst of special dividend already baked into the stock.
DiamondRock Hospitality	DRH	$11.46	Hold	$11	-4%	$249	11.5X	Upside risk: specific markets (esp. NYC) perform better than expected. Downside risk: company unable to locate properties to buy.
Host Hotels & Resorts	HST	$20.05	Hold	$19	-5%	$1,432	12.5X	Upside risk: the company increases dividends by more than expected; NYC outperforms or is sold down at attractive multiples. Downside risk: Group underperforms. NYC hotels underperform and asset sales do not happen.
Hyatt Hotels	H	$71.60	Hold	$68	-5%	$773	13.0X	Upside risk: Transient and group trends outperform expectations Downside risk: ongoing misexecution and volatility.
Bluegreen Vacations Corporation	BXG	$16.06	Buy	$19	18%	$167	7.9X	Downside risk: 3rd party induced defaults worsen. Middle market customers underperform.
Hilton Grand Vacations	HGV	$41.97	Buy	$45	7%	$413	11.5X	Downside risk: Disruption in a major market (HGV more concentrated than peers), issues with Japanese customer (HGV more exposed than peers), difficulty sourcing additional fee-for-service inventory deals
Hilton	HLT	$78.35	Buy	$77	-2%	$2,070	14.7X	Downside risk: overhang from remaining big sponsor ownership, slowing pipeline
InterContinental Hotels	IHG	$61.81	Hold	$51	-17%	$899	13.5X	Upside risk: further acceleration in returning capital to shareholders. Downside risk: trends continue to worsen in Greater China
ILG	ILG	$27.93	Buy	$30	7%	$372	11.1X	Downside risk: membership base erosion as churn outstrips new timeshare sales
LaSalle Hotel Properties	LHO	$28.69	Hold	$26	-9%	$319	12.5X	Upside risk: ability to increase dividend. Downside risk: heavy D.C. exposure.
Marriott International	MAR	$133.84	Hold	$108	-19%	$3,149	14.8X	Upside Risk: Significant U.S macroeconomic improvement results in large recovery in transient corporate demand (and consequential >400 bps RevPAR improvement). Owned assets sell for premium prices relative to MAR expectations. Downside Risk: 2017 or 2018 is a recession year in the US. Geopolitical and policy risks negatively impact lodging demand.
Marriott Vacations	VAC	$131.58	Hold	$128	-3%	$305	11.1X	Upside risk: Mix shift not an issue for margins, quicker execution/upsize of buyback program; Downside risk: inability to achieve development margin targets, inability to close asset sales or asset sales are done at lesser values than expected
Park Hotels & Resorts	PK	$29.00	Buy	$32	10%	$746	12.5X	Upside risk: The downturn in the lodging cycle is short-lived and positive macroeconomic trends result in increasingly positive RevPAR growth and improved EBITDA. Downside risk: Significant supply growth and macroeconomic challenges/shocks.
RLJ Lodging Trust	RLJ	$22.52	Hold	$22	-2%	$581	11.5X	Upside risk: RevPAR reaccelerates due to macroeconomic improvements, leading to estimate revisions and multiple expansion. Downside risk: Significant supply growth, struggle to source deals/lower leverage, macroeconomic challenges/demand shocks.
Ryman Hospitality Properties	RHP	$69.41	Hold	$60	-14%	$389	12.3X	Upside risk:recovering group demand better than expected, better margin recovery. Downside risk: booking issues stickier than expected.
Sunstone Hotel Investors	SHO	$17.04	Hold	$15	-12%	$340	12.0X	Upside risk: valuation discount to peers. Downside risk: San Diego, Boston, LA exposure. Insufficient ADR lift from Boston Park Plaza/Marriott Wailea Beach renovations.
Wyndham Worldwide Corp	WYN	$112.83	Buy	$112	-1%	$1,485	10.0X	Downside risk: the timeshare business is especially vulnerable to economic softness.

** All of our Lodging price targets (ex-PK) are derived by applying a target EV/EBITDA multiple to our estimate for 2018 EBITDA*

Source: FactSet, STRH research

Companies Mentioned in This Note

Bluegreen Vacations Corp. (BXG, $16.06, Buy, C. Patrick Scholes)
Carnival Corporation (CCL, $67.70, Buy, C. Patrick Scholes)
Choice Hotels International, Inc. (CHH, $77.50, Hold, C. Patrick Scholes)
Chesapeake Lodging Trust (CHSP, $27.68, Hold, C. Patrick Scholes)
DiamondRock Hospitality Company (DRH, $11.46, Hold, C. Patrick Scholes)
Gaming and Leisure Properties, Inc. (GLPI, $36.48, Hold, C. Patrick Scholes)
Hyatt Hotels Corporation (H, $71.60, Hold, C. Patrick Scholes)
Hilton Grand Vacations Inc. (HGV, $41.97, Buy, Bradford Dalinka)
Hilton Worldwide Holdings Inc. (HLT, $78.35, Buy, C. Patrick Scholes)
Host Hotels & Resorts, Inc. (HST, $20.05, Hold, C. Patrick Scholes)
InterContinental Hotels Group, PLC (IHG, $61.81, Hold, C. Patrick Scholes)
ILG, Inc. (ILG, $27.93, Buy, C. Patrick Scholes)
LaSalle Hotel Properties (LHO, $28.69, Hold, C. Patrick Scholes)
Marriott International, Inc. (MAR, $133.84, Hold, C. Patrick Scholes)
MGM Growth Properties LLC (MGP, $28.28, Buy, C. Patrick Scholes)
Norwegian Cruise Line Holdings Ltd. (NCLH, $54.82, Hold, C. Patrick Scholes)
Park Hotels & Resorts Inc. (PK, $29.00, Buy, C. Patrick Scholes)
Royal Caribbean Cruises Ltd. (RCL, $123.48, Buy, C. Patrick Scholes)
Ryman Hospitality Properties, Inc. (RHP, $69.41, Hold, C. Patrick Scholes)
RLJ Lodging Trust (RLJ, $22.52, Hold, C. Patrick Scholes)
Sunstone Hotel Investors (SHO, $17.04, Hold, C. Patrick Scholes)
Marriott Vacations Worldwide Corp. (VAC, $131.58, Hold, C. Patrick Scholes)
Wyndham Worldwide Corporation (WYN, $112.83, Buy, C. Patrick Scholes)
Airbnb (private)
Four Seasons (private)

Analyst Certification

I, C. Patrick Scholes , hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

I, Bradford Dalinka , hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Required Disclosures

Analyst compensation is based upon stock price performance, quality of analysis, communication skills, and the overall revenue and profitability of the firm, including investment banking revenue.

As a matter of policy and practice, the firm prohibits the offering of favorable research, a specific research rating or a specific target price as consideration or inducement for the receipt of business or compensation. In addition, associated persons preparing research reports are prohibited from owning securities in the subject companies.

Charts indicating changes in ratings can be found in recent notes and/or reports at our website or by contacting SunTrust Robinson Humphrey. Please see our disclosures page for more complete information at https://suntrust.bluematrix.com/sellside/Disclosures.action.

STRH Ratings System for Equity Securities

Dissemination of Research

SunTrust Robinson Humphrey (STRH) seeks to make all reasonable efforts to provide research reports simultaneously to all eligible clients. Reports are available as published in the restricted access area of our website to all eligible clients who have requested a password. Institutional investors, corporates, and members of the Press may also receive our research via third party vendors including: Thomson Reuters, Bloomberg, FactSet, and S&P Capital IQ. Additional distribution may be done by sales personnel via email, fax, or other electronic means, or regular mail.

For access to third party vendors or our Research website: https://suntrustlibrary.bluematrix.com/client/library.jsp

Please email the Research Department at STRHEquityResearchDepartment@SunTrust.com or contact your STRH sales representative.

The rating system effective as of Oct. 7, 2016:

STRH Rating System for Equity Securities

SunTrust Robinson Humphrey (STRH) rates individual equities using a three-tiered system. Each stock is rated relative to the broader market (generally the S&P 500) over the next 12-18 months (unless otherwise indicated).

Buy (B) – the stock's total return is expected to outperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Hold (H) – the stock's total return is expected to perform in line with the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Sell (S) – the stock's total return is expected to underperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Not Rated (NR) – STRH does not have an investment rating or opinion on the stock

Coverage Suspended (CS) – indicates that STRH's rating and/or target price have been temporarily suspended due to applicable regulations and/or STRH Management discretion. The previously published rating and target price should not be relied upon

STRH analysts have a price target on the stocks that they cover, unless otherwise indicated. The price target represents that analyst's expectation of where the stock will trade in the next 12-18 months (unless otherwise indicated). If an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of STRH Research Management not to assign a target price; likewise certain stocks that trade under $5 may exhibit volatility whereby assigning a price target would be unhelpful to making an investment decision. As such, with Research Management's approval, an analyst may refrain from assigning a target to a sub-$5 stock.

Legend for Rating and Price Target History Charts:
B = Buy
H = Hold
S = Sell
D = Drop Coverage

CS = Coverage Suspended
NR = Not Rated
I = Initiate Coverage
T = Transfer Coverage

The prior rating system until Oct. 7, 2016:

3 designations based on total returns* within a 12-month period**
· Buy – total return ≥ 15% (10% for low-Beta securities)***
· Reduce – total return ≤ negative 10% (5% for low Beta securities)
· Neutral – total return is within the bounds above
· NR – NOT RATED, STRH does not provide equity research coverage
· CS – Coverage Suspended
*Total return (price appreciation + dividends); **Price targets are within a 12-month period, unless otherwise noted; ***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average

SunTrust Robinson Humphrey ratings distribution (as of 12/21/2017):

Coverage Universe			Investment Banking Clients Past 12 Months		
Rating	**Count**	**Percent**	**Rating**	**Count**	**Percent**
Buy	429	61.37%	Buy	152	35.43%
Hold/Neutral	267	38.20%	Hold/Neutral	65	24.34%
Sell/Reduce	3	0.43%	Sell/Reduce	1	33.33%

Other Disclosures

Information contained herein has been derived from sources believed to be reliable but is not guaranteed as to accuracy and does not purport to be a complete analysis of the security, company or industry involved. This report is not to be construed as an offer to sell or a solicitation of an offer to buy any security. SunTrust Robinson Humphrey, Inc. and/or its officers or employees may have positions in any securities, options, rights or warrants. The firm and/or associated persons may sell to or buy from customers on a principal basis. Investors may be prohibited in certain states from purchasing some over-the-counter securities mentioned herein. Opinions expressed are subject to change without notice. The information herein is for persons residing in the United States only and is not intended for any person in any other jurisdiction.

SunTrust Robinson Humphrey, Inc.'s research is provided to and intended for use by Institutional Accounts as defined in FINRA Rule 4512(c). The term "Institutional Account" shall mean the account of: (1) a bank, savings and loan association, insurance company or registered investment company; (2) an investment adviser registered either with the SEC under Section 203 of the Investment Advisers Act or with a state securities commission (or any agency or office performing like functions); or (3) any other person (whether a natural person, corporation, partnership, trust or otherwise) with total assets of at least $50 million.

SunTrust Robinson Humphrey, Inc. is a registered broker-dealer and a member of FINRA and SIPC. It is a service mark of SunTrust Banks, Inc. SunTrust Robinson Humphrey, Inc. is owned by SunTrust Banks, Inc. ("SunTrust") and affiliated with SunTrust Investment Services, Inc. Despite this affiliation, securities recommended, offered, sold by, or held at SunTrust Robinson Humphrey, Inc. and at SunTrust Investment Services, Inc. (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including SunTrust Bank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. SunTrust Bank may have a lending relationship with companies mentioned herein.

Please see our Disclosure Database to search by ticker or company name for the current required disclosures, Link: https://suntrust.bluematrix.com/sellside/Disclosures.action

Please visit the STRH equity research library for current reports and the analyst roster with contact information, Link (password protected): STRH RESEARCH LIBRARY

SunTrust Robinson Humphrey, Inc., member FINRA and SIPC. SunTrust and SunTrust Robinson Humphrey are service marks of SunTrust Banks, Inc.

If you no longer wish to receive this type of communication, please request removal by sending an email to STRHEquityResearchDepartment@SunTrust.com

ADDITIONAL INFORMATION IS AVAILABLE at our website, **www.suntrustrh.com,** or by writing to:
SunTrust Robinson Humphrey, Research Department, 3333 Peachtree Road N.E., Atlanta, GA 30326-1070