



Lodging — U.S. RevPAR +0.4% Y/Y Last Week; Clean comp with lackluster results

Philly comp hurt slightly -- more so next week. Indpts & Midscale outperformed

What's Incremental To Our View

Overall U.S. RevPAR was +0.4% y/y for the week ending 07/22/17, per STR, down from the prior week's result of +1.6%. (2-year stacked RevPAR was +3.5% vs. +3.8% in the prior week.) Midscale (+0.7%) was the "strongest" chain scale; Independent hotels (+1.7%) outperformed the industry average. Within Upper Upscale & Luxury class hotels, Group (-5.4% vs. -0.6% prior week) was softer than Transient (+1.6% vs. +1.8% prior week). While this was a clean comp week, there were some y/y headwinds due to the DNC and RNC (more so next week in Philly).

This was a generally clean comp week (ex-the RNC Cleveland and DNC Philadelphia y/y comps which we believe had modestly negative impacts on the national aggregate RevPAR). Excluding those one-time events, last week's headline results presented the continuation of the low RevPAR growth environment.

- **Regarding last year's political conventions:** Cleveland is not a top-25 market but they likely a very tough comp last week. Due to the market size, Cleveland is less significant when aggregated nationally. For Philadelphia, group was -35% last week y/y. We expect a larger headwind to Philly in next week's data.

We estimate that full-service branded domestic hotels (the typical Hilton [HLT, \$63.08, Buy], Hyatt [H, \$55.24, Hold], or Marriott [\$103.06, Hold] US hotel) to finish at approximately flat to +1% in July (down slightly from our estimate of approximately +1% last week). Please note that reported monthly results include hotels that are not in the weekly data set.

Color on last week's RevPAR results:

- **Midscale was the strongest chain scale but the overall results were mediocre at best:** Luxury RevPAR (+0.3%), Upper Upscale (-1.3%), Upscale (-1.3%), Upper Midscale (+0.0%), Midscale (+0.7%), and Economy (+0.3%). Independent hotels (+1.7%) outperformed headline U.S. RevPAR.
- **Within Upper Upscale & Luxury class hotels, Group was softer than Transient:** Transient segment (individual business and leisure travelers) RevPAR was +1.6% (vs. +1.8% last week) and Group segment RevPAR was -5.4% (vs. -0.6% last week).
- **DC (+2.9%) led the top 5 markets:** Boston (+2.2%); Chicago (-13.6%); LA (+0.3%); NYC (-1.8%).

SEE PAGE 7 FOR REQUIRED DISCLOSURE INFORMATION

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What's Inside

Weekly STR results and analysis

- **Other relevant markets:**

- **San Francisco was up:** RevPAR was +9.0% vs. +0.0% last week. We anticipate weak y/y results in San Francisco for 3Q due to the renovations at the Moscone Center.
- **Miami (FX, Zika, new supply) was down:** RevPAR was -4.9% vs. +2.6% last week.
- **Texas results were up:** Dallas RevPAR was +4.5% (vs. -7.9% last week). Houston RevPAR was +0.3% (vs. -3.0% last week).

The lodging and leisure stocks: As we have written in our last several reports, while the RevPAR trends are uninspiring, the good news is companies are likely not going to miss their (uninspiring and intentionally conservative) guided ranges. If nothing else, that has at least prevented the stocks from giving back most of their November and December gains, along with the continued hope (but fading by the day) that President Trump will eventually Make RevPAR Great Again.

There are several relative bright spots that we believe will continue to prevent hotel stock prices from significantly contracting:

1. **Other sectors considered "uninvestable".** Buy-side accounts tell us other sectors which historically were in their investment universe have become "uninvestable" due to threats from Amazon and the like. While we see Airbnb as a threat to the hotel industry, the threat is nowhere near the magnitude of say Uber vs. yellow cabs. A frequent comment we hear from investors when we discuss lackluster hotel fundamentals and expensive lodging stocks, most notably MAR, is "Our other investment choices look far less attractive so we're sticking with our investments in lodging for now."
2. **Hotel REIT dividends are attractive and should be sustainable over the next year.** We believe unwillingness to have to go against a 6%+ dividend yield has kept investors from being overly negative (aka shorting) the hotel REITS.

Not For Investment Purposes

Weekly RevPAR Summary

	YoY % change in RevPAR												
	U.S.	Luxury	Upscale	Upscale	Midscale	Midscale	Economy	Inde- pendent	New York	Boston	LA	Chicago	DC
5/20/2017	1.5%	0.4%	-1.5%	-0.8%	1.7%	3.4%	5.1%	2.8%	-6.7%	9.4%	4.2%	0.0%	9.9%
5/27/2017	3.1%	3.3%	3.2%	1.2%	1.6%	2.3%	2.9%	4.0%	4.3%	19.1%	6.0%	-2.9%	4.4%
6/3/2017	0.4%	3.0%	-1.0%	-0.7%	-0.1%	0.9%	1.6%	0.4%	0.3%	-5.5%	9.1%	0.1%	-1.9%
6/10/2017	0.7%	2.3%	0.3%	0.3%	0.6%	1.0%	1.2%	-0.3%	0.0%	6.5%	-1.3%	1.5%	4.1%
6/17/2017	1.4%	-0.2%	0.1%	1.1%	0.6%	1.5%	2.2%	1.9%	-3.6%	-7.2%	9.2%	-0.6%	-2.6%
6/24/2017	-0.1%	-2.4%	-0.5%	-1.2%	-0.3%	0.2%	1.1%	-0.1%	-8.7%	-2.1%	5.4%	2.1%	-10.8%
7/1/2017	6.8%	11.4%	8.0%	5.9%	5.9%	4.9%	3.4%	6.4%	6.0%	16.9%	10.3%	22.9%	21.3%
7/8/2017	-2.0%	3.4%	-5.6%	-6.2%	-5.7%	-1.9%	-0.2%	2.2%	-4.4%	-7.1%	-2.8%	1.5%	-7.6%
7/15/2017	1.6%	1.8%	1.7%	0.5%	0.8%	1.7%	1.6%	1.6%	-1.8%	5.7%	1.8%	-7.7%	11.9%
7/22/2017	0.4%	0.3%	-1.3%	-1.3%	0.0%	0.7%	0.3%	1.7%	-1.8%	2.2%	0.3%	-13.6%	2.9%

Generally clean comp (some y/y
DNC/RNC headwinds)

Midscale, Economy, and Luxury led the
industry

DC and Boston led the Top 5 markets

1Q15	8.0%	6.3%	6.0%	7.0%	8.5%	8.8%	9.2%	8.9%	-4.3%	13.8%	7.7%	11.4%	6.3%
2Q15	6.5%	5.5%	5.4%	5.9%	6.3%	6.6%	6.7%	7.1%	-1.8%	7.1%	7.4%	11.0%	11.7%
3Q15	5.9%	4.4%	4.0%	5.7%	5.7%	6.4%	6.1%	6.8%	0.6%	7.1%	11.1%	5.1%	0.3%
4Q15	4.8%	2.7%	3.8%	4.2%	4.9%	3.7%	4.4%	5.9%	-2.0%	5.3%	8.3%	1.4%	2.1%
1Q16	2.7%	1.6%	1.9%	2.2%	2.0%	0.0%	1.8%	4.0%	-1.2%	-3.0%	16.6%	-4.8%	3.1%
2Q16	3.5%	0.8%	2.9%	3.1%	3.2%	3.2%	3.0%	4.2%	-4.5%	1.5%	11.1%	-1.0%	3.5%
3Q16	3.3%	1.5%	2.5%	2.0%	1.8%	2.5%	3.0%	5.1%	-2.5%	-0.5%	9.3%	1.2%	5.5%
4Q16	3.2%	1.9%	0.6%	1.2%	2.2%	3.9%	4.4%	5.1%	0.9%	-1.6%	6.9%	3.3%	8.0%
1Q17	3.4%	2.1%	3.0%	1.0%	2.4%	3.5%	2.6%	5.2%	-1.3%	-1.1%	-2.5%	1.5%	16.1%
2Q17	2.7%	2.3%	0.6%	0.6%	1.2%	2.4%	3.7%	5.1%	0.2%	4.4%	3.6%	0.8%	0.8%

	YoY % change in ADR												
	U.S.	Luxury	Upper Upscale	Upscale	Upper Midscale	Midscale	Economy	Inde- pendent	New York	Boston	LA	Chicago	DC
5/20/2017	1.5%	1.4%	1.0%	1.1%	1.9%	2.6%	3.0%	2.0%	-5.0%	7.7%	2.3%	1.1%	8.2%
5/27/2017	2.5%	3.1%	2.2%	2.2%	1.7%	2.0%	2.2%	2.9%	0.3%	12.1%	4.0%	-0.4%	6.0%
6/3/2017	1.4%	1.8%	1.3%	0.9%	0.8%	1.6%	2.1%	1.3%	-2.8%	-2.3%	6.1%	3.8%	-0.4%
6/10/2017	1.5%	1.4%	1.1%	1.7%	1.5%	1.8%	1.7%	0.8%	-1.6%	4.3%	1.7%	1.8%	3.6%
6/17/2017	1.7%	-0.8%	0.7%	1.8%	1.6%	2.0%	2.0%	1.9%	-4.6%	-3.4%	5.7%	0.2%	-0.7%
6/24/2017	1.1%	0.8%	0.6%	0.8%	1.1%	1.3%	1.6%	1.2%	-7.2%	0.4%	5.5%	1.6%	-5.8%
7/1/2017	2.8%	5.4%	2.6%	2.6%	1.9%	1.3%	1.6%	2.2%	2.5%	9.4%	7.3%	10.6%	10.9%
7/8/2017	1.1%	3.1%	-1.7%	-1.4%	-0.2%	1.3%	3.0%	2.7%	-7.0%	-0.9%	1.9%	1.5%	-4.6%
7/15/2017	1.7%	1.7%	1.7%	1.1%	1.3%	1.5%	1.6%	1.8%	-2.6%	5.4%	4.4%	-5.5%	9.7%
7/22/2017	0.5%	0.8%	-0.5%	-0.6%	0.3%	0.9%	0.6%	1.5%	-2.4%	4.0%	1.8%	-7.4%	2.7%

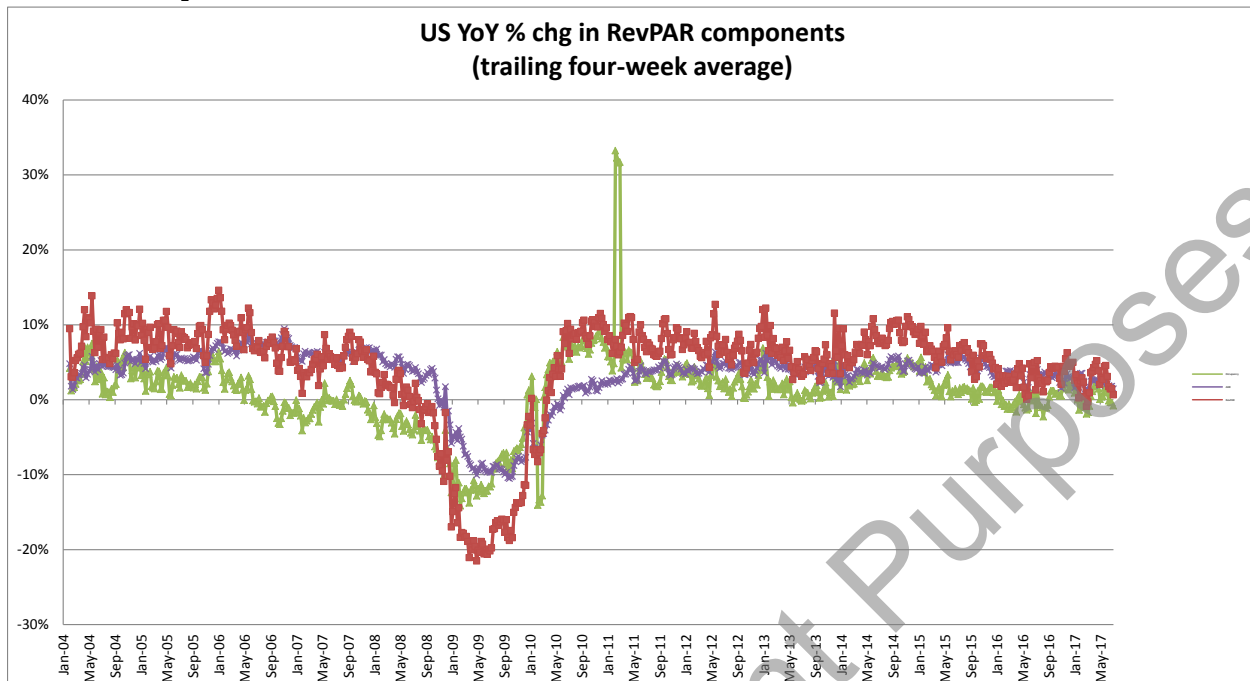
1Q15	4.7%	5.8%	4.7%	5.2%	4.7%	4.7%	5.5%	4.7%	-4.1%	7.3%	6.5%	7.1%	1.7%
2Q15	4.8%	4.9%	4.8%	5.3%	4.6%	4.3%	5.4%	4.6%	-1.5%	6.8%	7.1%	9.2%	7.9%
3Q15	4.5%	3.7%	3.6%	5.2%	4.4%	4.6%	5.0%	4.6%	0.3%	7.4%	9.6%	5.3%	-0.1%
4Q15	3.6%	2.3%	3.0%	3.9%	3.5%	3.0%	4.2%	3.8%	-2.3%	3.9%	6.1%	2.3%	1.0%
1Q16	3.2%	1.9%	2.7%	3.2%	2.6%	1.7%	3.3%	3.7%	-3.1%	1.4%	11.3%	-1.9%	1.1%
2Q16	2.9%	1.5%	2.2%	2.9%	2.8%	2.7%	3.4%	3.0%	-3.1%	3.3%	9.4%	0.3%	2.1%
3Q16	3.4%	1.5%	2.5%	2.7%	2.4%	3.1%	3.6%	4.4%	-2.7%	2.3%	7.5%	1.9%	3.5%
4Q16	2.6%	2.1%	1.4%	2.2%	2.0%	2.2%	3.2%	3.8%	-1.2%	1.3%	5.8%	3.9%	4.1%
1Q17	2.5%	2.3%	2.4%	1.3%	1.6%	1.8%	2.4%	3.5%	-2.2%	0.0%	-0.2%	1.7%	13.6%
2Q17	2.2%	2.2%	1.2%	1.7%	1.5%	2.1%	2.3%	3.5%	-1.5%	4.1%	2.8%	1.5%	2.0%

	YoY % change in Occupancy												
	U.S.	Luxury	Upper Upscale	Upscale	Upper Midscale	Midscale	Economy	Inde- pendent	New York	Boston	LA	Chicago	DC
5/20/2017	0.0%	-1.0%	-2.5%	-1.9%	-0.2%	0.8%	2.0%	0.8%	-1.8%	1.6%	1.8%	-1.0%	1.6%
5/27/2017	0.5%	0.1%	1.0%	-1.0%	-0.1%	0.3%	0.7%	1.1%	4.0%	6.2%	2.0%	-2.5%	-1.5%
6/3/2017	-1.0%	1.2%	-2.2%	-1.6%	-0.9%	-0.7%	-0.5%	-0.9%	3.2%	-3.3%	2.8%	-3.5%	-1.5%
6/10/2017	-0.8%	0.9%	-0.8%	-1.4%	-0.9%	-0.8%	-0.4%	-1.1%	1.6%	2.1%	-3.0%	-0.4%	0.5%
6/17/2017	-0.3%	0.6%	-0.6%	-0.7%	-1.0%	-0.5%	0.1%	0.0%	1.0%	-3.9%	3.3%	-0.8%	-1.9%
6/24/2017	-1.2%	-3.2%	-1.1%	-2.0%	-1.4%	-1.0%	-0.5%	-1.3%	-1.6%	-2.5%	-0.1%	0.4%	-5.3%
7/1/2017	3.8%	5.7%	5.2%	3.3%	3.9%	3.5%	1.7%	4.1%	3.5%	6.9%	2.9%	11.1%	9.4%
7/8/2017	-3.0%	0.3%	-4.0%	-4.9%	-5.5%	-3.2%	-3.2%	-0.5%	2.8%	-6.3%	-4.6%	0.0%	-3.2%
7/15/2017	-0.1%	0.1%	0.0%	-0.6%	-0.5%	0.2%	0.0%	-0.2%	0.7%	0.3%	-2.6%	-2.3%	2.0%
7/22/2017	-0.2%	-0.5%	-0.8%	-0.6%	-0.3%	-0.2%	-0.3%	0.2%	0.7%	-1.7%	-1.5%	-6.7%	0.2%

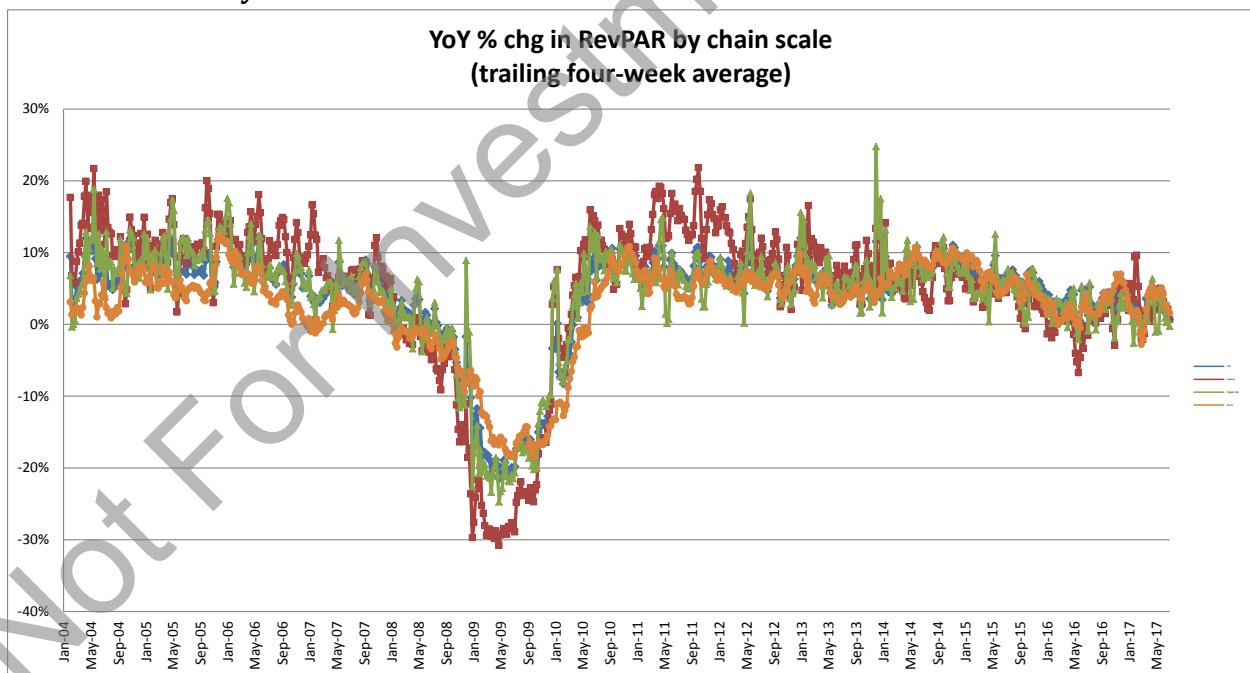
1Q15	3.1%	0.5%	1.3%	1.7%	3.6%	3.9%	3.5%	4.0%	-0.2%	6.1%	1.1%	4.0%	4.6%
2Q15	1.6%	0.6%	0.5%	0.6%	1.7%	2.2%	1.3%	2.3%	-0.3%	0.3%	0.3%	1.7%	3.5%
3Q15	1.4%	0.6%	0.4%	0.5%	1.3%	1.8%	1.0%	2.1%	0.2%	-0.3%	1.3%	-0.1%	0.4%
4Q15	1.2%	0.4%	0.8%	0.2%	1.3%	0.6%	0.2%	2.1%	0.3%	1.4%	2.0%	-0.9%	1.1%
1Q16	-0.5%	-0.3%	-0.8%	-0.9%	-0.6%	-1.7%	-1.5%	0.3%	2.0%	-4.3%	4.7%	-3.0%	2.0%
2Q16	0.6%	-0.7%	0.7%	0.2%	0.4%	0.5%	-0.4%	1.2%	-1.4%	-1.7%	1.5%	-1.4%	1.3%
3Q16	0.0%	0.0%	-0.1%	-0.6%	-0.6%	-0.6%	-0.6%	0.7%	0.3%	-2.8%	1.7%	-0.7%	1.9%
4Q16	0.6%	-0.2%	-0.8%	-1.0%	0.2%	1.7%	1.2%	1.2%	2.2%	-2.8%	1.0%	-0.5%	3.7%
1Q17	0.9%	-0.2%	0.6%	-0.3%	0.7%	1.6%	0.2%	1.6%	1.0%	-1.1%	-2.4%	-0.2%	2.2%
2Q17	0.5%	0.1%	-0.6%	-1.1%	-0.3%	0.4%	1.4%	1.6%	1.7%	0.3%	0.8%	-0.7%	-1.2%

Source: STR data, STRH research

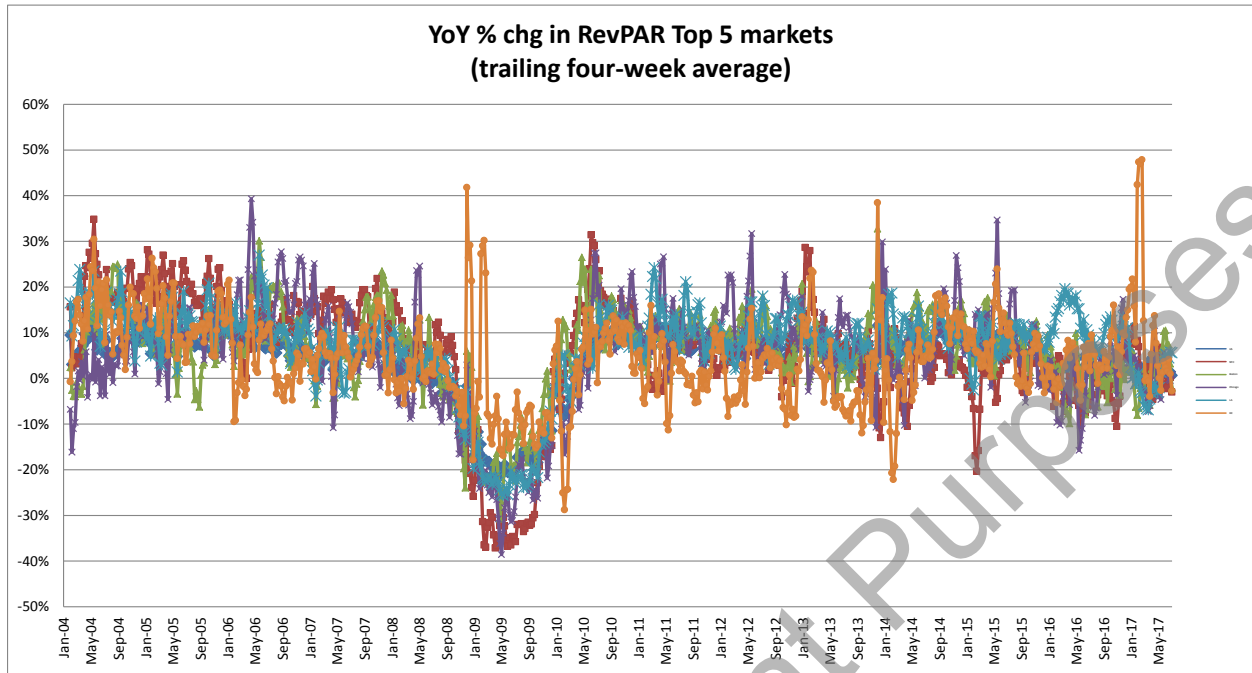
RevPAR Component Trends



RevPAR Trends by Chain Scale



RevPAR Trends by Market



Source: STR data, STRH research

Price Target/Risks Summary

Lodging	TKR	Price 7/25/17	Rating	PT*	% upside down- side	2018E EBITDA (\$M)	Target EV/EBITDA Multiple	Risks
Chesapeake Lodging Trust	CHSP	\$24.81	Hold	\$23	-7%	\$182	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	\$64.35	Hold	\$65	1%	\$318	13.5X	Upside risk: conservative guidance. Downside risk: big catalyst of special dividend already baked into the stock.
DiamondRock Hospitality	DRH	\$11.70	Hold	\$11	-6%	\$253	11.5X	Upside risk: specific markets (esp. NYC) perform better than expected. Downside risk: company unable to locate properties to buy.
FelCor Lodging Trust	FCH	\$7.40	Hold	\$7	-5%	\$217	11.5X	Upside risk: NY hotels outperform and company is able to execute hotel sales at accretive multiples. Downside risk: company unable to execute planned sale of hotels and NYC underperforms.
Host Hotels & Resorts	HST	\$18.44	Hold	\$18	-2%	\$1,406	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	\$55.24	Hold	\$56	1%	\$782	11.7X	Upside risk: Transient and group trends outperform expectations Downside risk: ongoing misexecution and volatility.
Hilton Grand Vacations	HGV	\$36.71	Buy	\$41	12%	\$404	10.9X	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 Downside risk: overhang from remaining big sponsor ownership, slowing pipeline
Hilton	HLT	\$63.08	Buy	\$65	3%	\$1,915	13.4X	Upside risk: further acceleration in returning capital to shareholders. Downside risk: trends continue to worsen in Greater China
InterContinental Hotels	IHG	\$56.76	Hold	\$48	-15%	\$901	12.5X	Downside risk: membership base erosion as churn outstrips new timeshare sales
ILG	ILG	\$26.99	Buy	\$29	7%	\$365	10.8X	Upside risk: ability to increase dividend. Downside risk: heavy D.C. exposure.
Lasalle Hotel Properties	LHO	\$29.92	Hold	\$26	-13%	\$320	12.5X	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 International	MAR	\$103.06	Hold	\$93	-10%	\$3,164	13.3X	Upside risk: Mix shift not an issue for margins, quicker execution/upsized 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
Marriott Vacations	VAC	\$117.03	Hold	\$116	-1%	\$286	10.4X	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.
Park Hotels & Resorts	PK	\$26.82	Hold	\$28	4%	\$748	12.0X	Upside risk: recovering group demand better than expected, better margin recovery. Downside risk: booking issues stickier than expected.
Ryman Hospitality Properties	RHP	\$61.59	Hold	\$61	-1%	\$392	12.4X	Upside risk: valuation discount to peers. Downside risk: San Diego, Boston, LA exposure. Insufficient ADR lift from Boston Park Plaza/Marriott Wailea Beach renovations.
Sunstone Hotel Investors	SHO	\$16.20	Hold	\$15	-7%	\$332	12.0X	Downside risk: the timeshare business is especially vulnerable to economic softness.
Wyndham Worldwide Corp	WYN	\$104.42	Buy	\$84	-20%	\$1,502	9.0X	

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

Source: FactSet, STRH research

Companies Mentioned in This Note

Choice Hotels International, Inc. (CHH, \$64.35, Hold, C. Patrick Scholes)
Chesapeake Lodging Trust (CHSP, \$24.81, Hold, C. Patrick Scholes)
DiamondRock Hospitality Company (DRH, \$11.70, Hold, C. Patrick Scholes)
FelCor Lodging Trust Incorporated (FCH, \$7.40, Hold, C. Patrick Scholes)
Hyatt Hotels Corporation (H, \$55.24, Hold, C. Patrick Scholes)
Hilton Grand Vacations Inc. (HGV, \$36.71, Buy, Bradford Dalinka)
Hilton Worldwide Holdings Inc. (HLT, \$63.08, Buy, C. Patrick Scholes)
Host Hotels & Resorts, Inc. (HST, \$18.44, Hold, C. Patrick Scholes)
InterContinental Hotels Group, PLC (IHG, \$56.76, Hold, C. Patrick Scholes)
ILG, Inc. (ILG, \$26.99, Buy, C. Patrick Scholes)
LaSalle Hotel Properties (LHO, \$29.92, Hold, C. Patrick Scholes)
Marriott International, Inc. (MAR, \$103.06, Hold, C. Patrick Scholes)
Park Hotels & Resorts Inc. (PK, \$26.82, Hold, C. Patrick Scholes)
Ryman Hospitality Properties, Inc. (RHP, \$61.59, Hold, C. Patrick Scholes)
Sunstone Hotel Investors (SHO, \$16.20, Hold, C. Patrick Scholes)
Marriott Vacations Worldwide Corp. (VAC, \$117.03, Hold, C. Patrick Scholes)
Wyndham Worldwide Corporation (WYN, \$104.42, Buy, C. Patrick Scholes)
Amazon (AMZN, \$1,050.02, NR)
Uber (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.

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S = Sell

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- NR – NOT RATED, STRH does not provide equity research coverage
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*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

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