



## May Lodging RevPAR Monitor: More ADR improvements, notably with corp. business

Raising our RevPAR ests again. 2Q looking like another RevPAR beat quarter.

Based on forward-looking observations in our internal RevPAR data analytics lab combined with conversations with private hotel owners, we observed another month of improvements in forward RevPAR trends with ADR growth for reservations booked over the past six weeks ticking up again. This ADR lift was most evident in the corporate business customer and evident to a lesser degree in leisure travel, both of which only have about a 45-90 day visibility at most. Group booking and pricing trends were more mixed, with 2018 showing a slight improvement while 2019 ticked down slightly (we would not read too much into the later as one month does not make a trend). NYC continues to be the surprise upside market. As described below we are subsequently raising our RevPAR estimates.

**Overall for the stocks, the continuation of these trends signal continued opportunity to grind higher and favor hotel owners (REITS) over the managers/franchisors as the hotel owners have the greatest sensitivity to changes in RevPAR.** The rule of thumb for earnings sensitivity to a 1 point change in RevPAR is a 5 point change in EBIT for an owned hotel versus a 1 point change in EBIT for a hotel franchisor (a hotel manager falls somewhere between, depending on the degree of incentive management fees in the contract).

**Based on our latest RevPAR intelligence, we are subsequently raising our RevPAR forecasts for US full-service branded hotels (aka the typical HLT [\$82.03, Buy] and MAR [\$137.87, Hold] branded hotel).** We see the strongest growth rates in the luxury segment as [the wealth effect](#) is at play here ([we also see this in the cruise lines](#)). Within the lodging and leisure universe, PEB (\$40.98, NR), LHO (\$34.00, Hold), and NCLH (\$53.67, Buy) have the greatest exposure to luxury travelers. Imbedded in the following forecasts are approx. 50 bps. of growth from occupancy with the rest from ADR:

- **Full-year 2018: Our forecast of +1-3% increases to +2-4%.** This is a notable improvement from our +0-2% forecast back in January and reflects the gradual improvements we have observed in forward RevPAR expectations each subsequent month.
  - By comparison, HLT for their US hotels guided to the “Lower half of 2-4% guidance range” and MAR guided to +2-3% for their North American hotels in 2018. *Based on our latest RevPAR intelligence, the lower end should be easily beatable and coming in at or slightly above the high end of the ranges is not out of the question. Subsequently we can envision companies taking up the ranges by 50 bps. in July/August. Please see table at the back of the report for complete listing of RevPAR guidances.*
- **2Q18: RevPAR forecast of +2-4% goes to +2.5-4.5%.**

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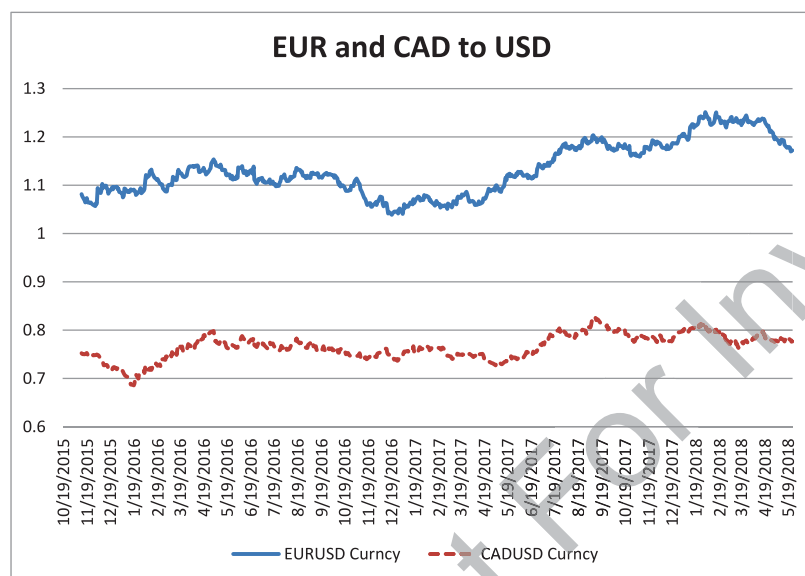
### What's Inside

An in-depth update to our RevPAR outlook

- By comparison, HLT for their US hotels did not give specific 2Q guidance but provided a systemwide outlook of +3-4%. *Based on our RevPAR intelligence and European and Asian results in April (described below) it seems likely HLT will at least come-in at the high-end of their range if not above.*
- For MAR, they guided to +3-4% for their North American hotels in 2Q. *Based on our latest RevPAR intelligence, the lower end should be achievable and coming in at or slightly above the high end of the ranges is not out of the question.*
- **3Q18: RevPAR forecast of +1.5-3.5% increases to +2.5-4.5%.** Needless to say summer leisure travel looks promising though some second and third tier markets will have a very difficult y/y solar eclipse comp in August. *Per AAA, while gas prices were up \$0.33 y/y in April this increase is not expected to dampen traveler demand (and as evidenced by our increased forecast we are not seeing it either).* No company has provided a 3Q RevPAR guidance yet.

**What is driving the improvements?** We attribute the small but consistent improvement in forward trends to transient traveler and corporate optimism around the tax cuts and consumer confidence near highest levels in nearly twenty years. As noted previously the wealth effect is a strong tailwind to luxury hotels at the moment. This all translates to increased spend on travel. Additionally FX, which had been a headwind for inbound travel is now becoming a tailwind. We believe FX has been especially beneficial to NYC hotels this year (see NYC discussion below).

- The 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.



Source: STRH Research, Bloomberg

Looking at our most recent forward-looking demand and pricing observations:
**2Q18**

- **April:** Group business benefited from the Easter shift. Per STR, we estimate the typical MAR and HLT hotel finished at approx. +5% y/y, which was slightly above the overall US at +4.2% y/y.
- **May:** Looks to be a clean comp month, tracking at the mid-point of the 2Q18 +2.5-4.5% range.
- **June:** Also looks to be a clean comp month, also currently tracking at the midpoint of the range.

**3Q18**

- **July:** July 4th shifts to a Wednesday this year from a Tuesday last year. We believe this will knock out a little business travel for the week. We see the month tracking at the mid-point of our +2.5-4.5% 3Q RevPAR forecast.
- **August:** August is the month with the greatest degree of transient leisure business. For the top 25 markets the trends look very strong, tracking above the high-end of the range. That said, once we look outside of the top 25 markets, RevPAR growth will be more challenged due to a very tough solar eclipse comp.
- **September:** Both Jewish holidays fall in September this year with Rosh Hashanah beginning on Sunday, September 9th and Yom Kippur beginning on Tuesday September 18th. The timing of these holidays is not so dissimilar to 2017 where Rosh Hashanah began on Wednesday, September 20th and Yom Kippur started on Friday, September 29th. Subsequently, we do not see September or October of this year being materially impacted by holiday shifts. September is tracking near the mid-point of our 3Q forecast. Beginning in September y/y hurricane comps become very difficult for Houston and to a lesser degree Miami and Orlando.

**Quarterly Tracking**

	<b>2Q18E</b>	<b>3Q18E</b>	<b>2018E</b>
	<b>Overall</b>	<b>Overall</b>	<b>Overall forecast</b>
Apr-18	+2.5-4.5%	+2.5-4.5%	+2-4%
Mar-18	+2-4%	+1.5-3.5%	+1-3%
Feb-18	+2-4%		+0.5-2.5%
Jan-18	+2-4%		+0-2%
Dec-17	+1.5-3.5%		+0-2%
Nov-17			-0.5% to +1.5%
Oct-17			-0.5% to +1.5%
Sep-17			-0.5% to +1.5%
Aug-17			-0.5% to +1.5%
Jul-17			-0.5% to +1.5%
Jun-17			-0.5% to +1.5%

On the good news front, international RevPAR growth continues to be very strong though this is only a benefit to C-Corps and not hotel REITS. According to STR, local currency April RevPAR in Europe was +6.3% y/y in April, essentially in-line with +6.4% in the prior month. Helped by 681 bps of FX tailwind last month, results in Europe in US\$ of +13.1% y/y compare to +17.6% in the prior month.

- Hilton guided for European RevPAR growth in 2018 (in constant currency) to be up in the mid-single digits for 2018 and Marriott projected (in constant currency) mid-single digits growth for 2Q and FY 2018.
  - Our projection for 2Q European RevPAR growth in local currency is +5-7%.
- Asia-Pacific RevPAR growth in April was strong for the sixth straight month with RevPAR +9.8% in US\$ y/y. This compares to the +11.9% reported in March. Within Asia, Northeastern Asia, which includes China, Japan and Korea, was +13.3%. Australia/Oceania was +5.8%, Central & South Asia was -3.5%, and Southeastern Asia was +7.9%.
- HLT is guiding 2018 RevPAR up high-single digits with China +10-11% and MAR is guiding up at a high-single digit rate for both 2Q and FY 2018. Our projection for 2Q Asia-Pacific RevPAR growth in USD is +8-10%. Note: STR results reported in USD are being inflated by FX tailwinds.

**Hyatt, InterContinental, and Marriott have the greatest exposure to Europe and Asia.** From Europe, MAR generates approximately 15% of EBITDA, IHG (\$65.46, NR) 15%, H (\$80.96, Hold) and HLT 10% each, and WH (\$58.25, Not rated) 5%. Of these companies, H and MAR have the greatest exposure to Asia (~10-20% of EBITDA). Each of the other companies generates 5% to 10% of EBITDA from the Asia-Pacific region.

Not For Investment Purposes

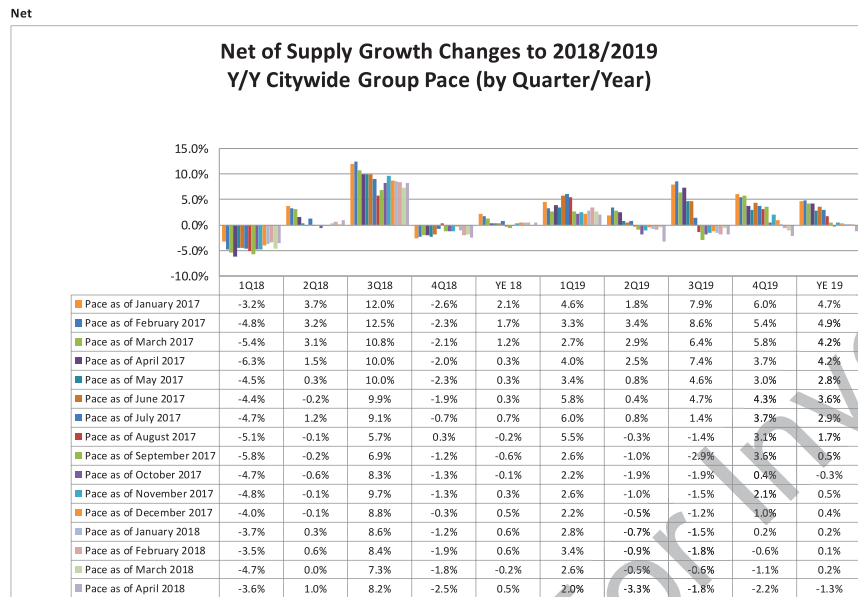
## Examining the three customer segments:

### Leisure travel:

- Our latest pricing and demand observations from our RevPAR data lab show RevPAR growth for Spring and Summer leisure travel tracking approx. +4-5% for US full service hotels. Early indications point to a strong summer (last week of August excluded for some second and third tier markets that benefited from the solar eclipse last year).

**Individual business traveler RevPAR expectations (visibility is about 60 days) picked up slightly over the past six weeks.** We expect this segment up 1.5-2.5% for the year.

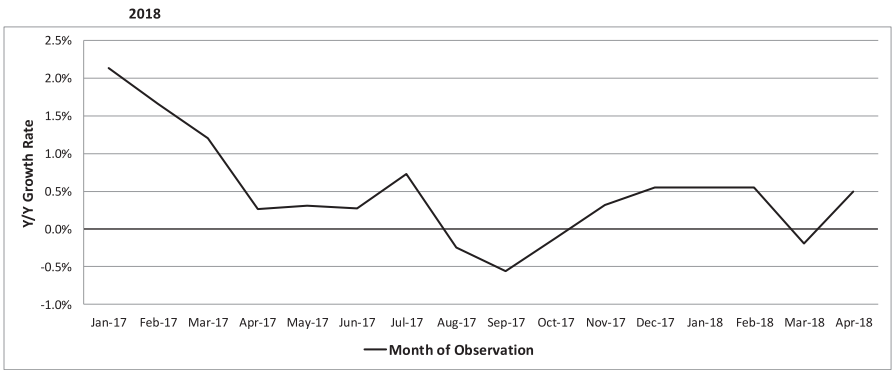
**Forward-looking Group/convention demand expectations were mixed over the past six weeks (primary data source: TAP) with demand improving slightly for 2018 but decelerating slightly for 2019.** Again, one month does not make a trend:



Source: STRH Research, TAP

- **2018:** Headline group demand is pacing approx. +0.5%. To this we add approx. 2.0 percentage points of rate growth to come up with a projection that same-store Group RevPAR is tracking at approx. +2-2.5% for 2018.

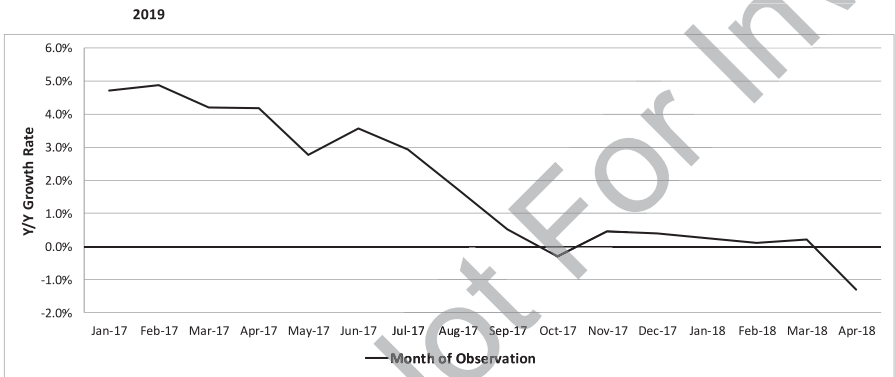
2018 Group demand pace trend



Source: STRH Research, TAP

- **2019:** Our net-of-supply group pace for 2019 is -1.3% at the moment. 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. flat y/y for 2019 at the moment. We note that 2019 will show massive gains in SF due to the completion of the Moscone Center renovations.

2019 Group demand pace trend



Source: STRH Research, TAP

Segmentation By Company			
	Transient Corporate	Transient Leisure	Group
<b>REITS</b>			
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%
	Transient Corporate	Transient Leisure	Group
<b>C-Corps</b>			
CHH	45%	45%	10%
H	40%	20%	40%
HLT	50%	20%	30%
IHG	45%	40%	15%
MAR	45%	20%	35%
WH	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 (easy Zika comps Florida, especially Miami, and seeing demand that would have gone to Key West and hurricane devastated Caribbean islands) in that order. We expected these markets to have outsized RevPAR growth rates through early September 2018, followed by difficult comps, most notably in Houston, though we still see Orlando and Miami to show positive RevPAR growth in 4Q.

**Ranking the big six major US markets for the remainder of 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 on initial group/convention bookings, we lump the top six markets into three buckets:

1. **Strong in 2018:** SF
2. **Average to slightly above average:** NYC, Chicago (good city-wide performance but partly driven by demand at newly opened hotels and less good for same-store results)
3. **Weak:** Boston, DC, LA

**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 the 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:**

2Q: Below average

3Q: Below average

4Q: Below average

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

**Chicago:**

2Q: Below average

3Q: Above average

4Q: Above average

2019 is not looking encouraging.

Group/convention outlook for Chicago								
Pace as of	1Q18E	2Q18E	3Q18E	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E
Apr-18	43.5%	-1.3%	34.7%	27.7%	-27.1%	-9.9%	-12.6%	-19.5%
Mar-18	44.1%	-1.3%	34.1%	28.4%	-25.3%	-9.9%	-12.1%	-21.3%
Feb-18	42.0%	-0.4%	35.0%	27.2%	-23.9%	-9.8%	-12.9%	-21.1%
Jan-18	41.1%	0.8%	35.5%	26.2%	-25.9%	-7.3%	-14.5%	-20.3%
Dec-17	40.0%	1.9%	36.0%	25.2%	-28.0%	-4.5%	-16.2%	-19.5%
Nov-17	38.0%	2.7%	42.3%	22.9%	-27.2%	-4.7%	-17.0%	-19.2%
Sep-17	34.9%	1.6%	36.7%	25.1%	-27.4%	-2.0%	-20.0%	-19.7%
Aug-17	10.4%	2.1%	33.6%	26.7%	7.3%	5.1%	-21.3%	-17.1%
Jul-17	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	10%	12%	4%	7%	0%	6%	0%	4%	7%
Rank	2	1	6	3	8	5	8	6	3
Note: Est. exposures include surrounding areas									
Source: STRH Research, Company data									

**Los Angeles:**

2Q: Below average

3Q: Below average

4Q: Below average

2019 is tracking to be below average.

Group/convention outlook for Los Angeles								
Pace as of	1Q18E	2Q18E	3Q18E	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E
Apr-18	18.0%	-20.2%	-6.3%	3.4%	-27.2%	3.7%	-3.6%	16.3%
Mar-18	19.4%	-21.3%	-9.3%	3.2%	-30.7%	-1.7%	-3.2%	16.2%
Feb-18	20.4%	-22.4%	-8.0%	4.3%	-32.9%	-0.1%	-21.1%	12.1%
Jan-18	18.7%	-25.9%	-6.2%	4.5%	-28.6%	5.8%	-19.2%	12.9%
Dec-17	16.9%	-29.7%	-4.0%	4.8%	-24.0%	11.9%	-17.3%	13.7%
Nov-17	16.8%	-29.7%	-1.1%	6.2%	-25.6%	11.9%	-20.6%	22.2%
Sep-17	13.1%	-32.1%	1.1%	8.1%	-24.0%	13.4%	-18.4%	28.6%
Aug-17	16.9%	-32.3%	-0.3%	14.9%	-19.8%	13.3%	-19.6%	9.5%
Jul-17	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%	6%	9%	16%	0%	0%	5%	9%
Rank	2	7	5	3	1	8	8	6	3
Note: Est. exposures include surrounding areas									
Source: STRH Research, Company data									

**NYC: Following an approx. +6% 1Q, NYC should see a positive RevPAR growth result for 2018.** As 1Q was helped by weather and holiday comps, we do not see the rest of the year as strong as 1Q but still see it slightly positive nonetheless. Besides the previously discussed FX tailwind, helping NYC are new regulations on short-term rentals (Airbnb) which may take some of the new “shadow supply” pressure away.

- A major headwind to same store RevPAR growth in NYC remains several years of compounded 4-6% new supply growth. Per Lodging Econometrics, city-wide new room supply grew 5.1% in 2016, 4.8% in 2017, and is expected to grow 7.3% in 2018, and 5.9% 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	5%	11%	10%	9%	0%	6%	0%	4%	4%
Rank	5	1	2	3	8	4	8	7	6
Note: Est. exposures include surrounding areas									
Source: STRH Research, Company data									

**San Francisco:** 1Q18 will be the last quarter of Moscone-driven weakness. Specifically, March 2018 was the month where SF turned the corner.

2Q: Well above average

3Q: Well above average

4Q: Above average (we are getting mixed reads on this quarter from our various sources, though intuition tells us that 4Q should be strong).

2019 looks to be an extremely good year for the city.

Group/convention outlook for San Francisco								
Pace as of	1Q18E	2Q18E	3Q18E	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E
Apr-18	-18.7%	27.5%	61.7%	-18.1%	97.8%	56.1%	8.7%	79.7%
Mar-18	-19.0%	29.1%	66.1%	-17.6%	106.6%	54.8%	17.2%	80.1%
Feb-18	-18.9%	30.3%	66.7%	-19.6%	109.1%	55.0%	29.2%	82.7%
Jan-18	-21.2%	28.0%	67.6%	-11.7%	108.8%	51.4%	35.9%	63.8%
Dec-17	-23.7%	25.5%	68.5%	-3.7%	108.6%	47.7%	43.3%	48.5%
Nov-17	-25.0%	10.1%	78.0%	-3.9%	113.2%	47.2%	49.8%	48.2%
Sep-17	-21.9%	37.3%	77.6%	2.3%	121.8%	40.9%	49.1%	64.1%
Aug-17	-17.9%	50.7%	69.4%	6.3%	124.1%	42.5%	49.1%	67.5%
Jul-17	-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	22%	1%	7%	15%	25%	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:**

2Q: Average  
3Q: Below average  
4Q: Below average

2019 looks to be a mixed bag for DC.

Group/convention outlook for Washington, D.C.								
Pace as of	1Q18E	2Q18E	3Q18E	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E
Apr-18	-22.5%	20.9%	-29.7%	-31.3%	23.0%	-32.1%	33.6%	-8.1%
Mar-18	-21.3%	26.9%	-27.7%	-18.1%	28.9%	-32.0%	27.4%	-8.1%
Feb-18	-21.0%	24.7%	-24.2%	-18.8%	32.0%	-31.7%	28.7%	-7.9%
Jan-18	-24.2%	27.4%	-32.3%	-19.6%	34.4%	-33.9%	29.3%	-8.7%
Dec-17	-27.7%	30.4%	-41.0%	-20.6%	37.1%	-36.1%	30.0%	-9.6%
Nov-17	-27.2%	31.3%	-40.9%	-20.0%	37.1%	-35.3%	30.5%	-9.6%
Sep-17	-26.5%	29.4%	-45.7%	-17.6%	36.7%	-36.4%	7.0%	-6.0%
Aug-17	-26.4%	29.5%	-50.0%	-18.2%	37.7%	-35.7%	10.1%	-4.7%
Jul-17	-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%	12%	15%	3%	3%	22%	5%	13%
Rank	7	5	4	2	7	7	1	5	3
Note: Est. exposures include surrounding areas									
Source: STRH Research, Company data									

**Current expectations for Top 25 Market new supply:**

Supply By Top 25 Markets (Sorted by Pipeline Rooms Growth as % of Census) As of 1Q18						
	Census Rank	YE 2015 Growth Rate	YE 2016 Growth Rate	YE 2017 Growth Rate	2018F Growth Rate	2019F Growth Rate
Anaheim	12	1.1%	3.3%	1.9%	1.2%	2.2%
Atlanta	7	0.7%	1.4%	1.7%	2.9%	2.9%
Boston	13	1.7%	4.3%	3.1%	4.7%	3.0%
Chicago	4	2.6%	2.5%	2.2%	1.9%	2.3%
Dallas	8	1.5%	3.2%	5.8%	4.9%	3.8%
Denver	17	2.9%	2.6%	5.6%	3.2%	7.5%
Detroit	21	1.3%	2.3%	3.1%	3.4%	4.7%
Houston	9	3.6%	6.9%	4.0%	4.1%	4.2%
Los Angeles	6	0.8%	1.0%	4.2%	2.0%	3.9%
Miami	14	3.0%	4.2%	3.4%	3.6%	3.8%
Minneapolis	23	2.4%	6.0%	1.8%	4.6%	3.6%
Nashville	24	2.4%	3.7%	4.3%	8.8%	6.0%
New York City	3	4.8%	5.1%	4.8%	7.3%	5.9%
Norfolk	26	0.6%	0.0%	1.2%	0.0%	0.9%
Oahu Island	35	0.5%	1.3%	0.6%	0.0%	0.0%
Orlando	2	0.8%	1.8%	0.8%	1.1%	1.0%
Philadelphia	18	0.3%	1.5%	3.2%	3.4%	3.1%
Phoenix	10	1.4%	1.6%	2.8%	1.4%	2.6%
San Antonio	19	0.8%	1.9%	1.4%	2.3%	2.1%
San Diego	11	1.2%	1.7%	1.3%	2.3%	2.6%
San Francisco	15	0.7%	0.1%	1.8%	2.5%	1.2%
Seattle	20	3.2%	2.3%	4.3%	6.3%	4.9%
St. Louis	27	0.5%	1.3%	2.1%	1.6%	1.6%
Tampa	16	0.7%	1.5%	4.0%	2.3%	2.3%
Washington, D.C.	5	1.6%	2.0%	2.0%	1.7%	1.1%
<b>Total Top 25 Markets</b>		<b>1.7%</b>	<b>2.6%</b>	<b>2.9%</b>	<b>3.1%</b>	<b>3.1%</b>

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. 2018-2019 are forecasts.

## RevPAR guidance by company:

RevPAR Guidance (2Q18 and FY 18)			
	2Q18	FY 18	Notes
<b>C-Corps</b>			
CHH	+2-4%	+1.5-3.5%	Domestic RevPAR ex-WoodSpring
H		+2.0-3.5%	Comparable systemwide
HLT	+3-4%	+2-4%	Systemwide
		Lower half of 2-4% guidance range	US
		Mid-single digits (+)	Americas ex-US
		Mid-single digits (+)	Europe
		Near high end of guidance range	Middle East/Africa
		High single digits (+) with China +10-11%	Asia Pacific
MAR	+3-4%	+3-4%	Worldwide
	+3-4%	+2-3%	North America
	+5-6%	+5-6%	International
	High-single digit (+)	High-single digit (+)	Asia Pacific
	Mid-single digit (+)	Mid-single digit (+)	Caribbean & Latin America
	Mid-single digit (+)	Mid-single digit (+)	Europe
	Mid-single digit (-)	Flat	Middle East/Africa
WYN		+2-3%	Ex-La Quinta and sale of Knights Inn
<b>REITS</b>			
CHSP	+2.5-4.5%	+3-5%	
DRH		+1.5-2.5%	
HST		+1.5-2.5%	
LHO	+0-1.5%; +2.0-3.5% ex-Kimpton/Westin (11 hotels)	-1.0% to -0.5%	
PK		+0.5-2.5%	
RHP		+2-4%	Hospitality RevPAR
RLJ		-0.5% to +1.0%	
SHO	+0.5-2.5%	+0-2.5%	

Source: Company reports and conference calls