Lodging - US RevPAR +4.6% Y/Y Last Week

Not a bad result considering tough y/y hurricane comp; Dallas -16% Houston -19%

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What's Inside

Weekly STR results and analysis

What's Incremental To Our View

Overall U.S. RevPAR was +4.6% Y/Y for the week ending 9/1/2018, per STR, better than the prior week's result of +1.8%. Independent hotels (about 1/3rd of the data set) were +5.7% y/y. Upscale (+4.5%) was the strongest chain scale for branded hotels followed by Economy (+4.2%); Midscale (+2.7%) and Luxury (+2.7%) were the weakest with Upper Upscale (+3.8%) and Upper Midscale (+3.6%) underperformed the overall US hotel industry average. Within Upper Upscale & Luxury class hotels, Group (+5.7% vs. +9.9% prior week) was stronger than Transient (+3.2% vs. +0.7% prior week).

RevPAR details:

- **Independents were the strongest chain scale.** Luxury and Midscale both underperformed by 190 bps: Luxury RevPAR (+2.7%), Upper Upscale (+3.8%), Upscale (+4.5%), Upper Midscale (+3.6%), Midscale (2.7%), and Economy (+4.2%) all underperformed. Independent hotels (+5.7%) outperformed headline U.S. RevPAR.
- **Within Upper Upscale & Luxury class hotels, Group was stronger than Transient:** Transient segment (individual business and leisure travelers) RevPAR was +3.2% (vs. +0.7% last week) and Group segment RevPAR was +5.7% (vs. +9.9% last week).
- **Boston (+7.2%) was the strongest of the top five markets:** Boston (+7.2%), Chicago (+3.4%), LA (+1.9%), NYC (+2.4%), and DC (+6.0%).
- **Other relevant markets:**
    - **San Francisco continues to be weaker than we would expect:** RevPAR was -4.7% vs. +0.9% last week. We anticipate y/y comps will be relatively easy in 3Q as the Moscone Convention Center's North and South halls were closed from April to August 2017.
    - **Texas results were very weak (Houston was impacted towards the end of the week by the y/y Hurricane Harvey comp):**Dallas RevPAR was -16.2% (vs. -2.8% last week). Houston RevPAR was -19.2% (vs. +8.8% last week). Note that FEMA ended financial assistance for some Texans in Houston hotels on July 1st.
    - **Hurricane-impacted markets in FL were mixed:** Miami (-2.4% vs. +6.4% last week); Orlando (+12.1% vs. +6.0% last week).
    - **Oahu results were somewhat weaker comparatively last week. We continue to believe that there is insufficient evidence (so far) to suggest a major demand shift from the volcano**

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eruption on the Big Island. Oahu was +2.0% vs. +1.0% running 28 days. Comparatively, U.S. Resort RevPAR was +3.5% last week vs. +4.9% running 28 days. As we previously noted, we believe some of the Big Island hotel demand that chooses to stay on another island may be more likely to stay on Maui or Kauai due to the comparable destination appeal and less likely to stay in/near Waikiki (where the majority of Oahu hotel supply is based). **Please note that the comparison of Oahu to U.S. Resorts will be noisier in future weeks due in some respects to the impact of Hurricane Irma (Orlando in particular has numerous resorts that received displaced Floridians and tourists).**

- We believe a bigger test for the Big Island is forthcoming as potential Hawaii travelers determine whether to stay on the Big Island or adjust their travels elsewhere. Many vacationers plan a Hawaii vacation well in advance and it is possible we have yet to see in the data a more measurable impact from potential travelers who decided after the volcano news to avoid staying on the Big Island.
- On a positive note, Norwegian Cruise Line (NCLH, Buy) resumed calls to the Big Island in mid-June. Additionally, some tour operators appear to be adjusting itineraries in light of the volcano disruption, which could alleviate some travelers concerns about staying on the island.
- In part due to the general strength of the Oahu market (particularly in terms of occupancy), it is difficult for us to determine the measurability of impact from demand that is choosing to stay on Oahu from the Big Island. STR noted similarly in an article on HotelNewsNow published on June 18th. That being said, we do not have granular data on the Maui and Kauai markets where we believe the greatest demand shift (on a relative basis) is most likely to occur.

The stocks: We continue to favor C-Corps over hotel REITS (we favored hotel REITS for the first half of this year). In an environment of low RevPAR growth combined with gradually increasing wages/margin pressures, returns for hotel owners is a major headwind to EBITDA growth. Hotel stocks, but especially hotel REIT stocks, typically work best when there is a spark to RevPAR growth and at this moment we are not seeing such sparks like we did earlier in the year. **We are more favorable on other sectors at the moment, namely cruise lines.**

- For the C-Corps, HLT and Playa Hotels (PLYA, $9.89, Buy) are among our favorites and for the hotel REITS, given its opportunities for self-help margin improvement, we prefer buy-rated Park (PK, $33.84, Buy). For the rest of the hotel REITS, following the first half outperformance, we struggle to derive any material upside to the stocks even when running pro-forma targets with 5% higher EBITDA and giving valuation multiple expansion.
- The (relatively) good news for the hotel REITS is that historically 10 (or less) years into an economic cycle these were stocks that crashed & burned. At this juncture in our RevPAR intelligence there is nothing to suggest a late cycle “crash & burn” scenario is on the horizon over the next year. Additionally for the hotel REITs, we do not see dividend cuts on the horizon and for 2019 many are heavily exposed to what will be the strongest market in the country, San Francisco.

Companies Mentioned in This Note

Bluegreen Vacations Corporation (BXG, $17.81, Hold, C. Patrick Scholes)
Choice Hotels International, Inc. (CHH, $77.90, Hold, C. Patrick Scholes)
Chesapeake Lodging Trust (CHSP, $33.29, Hold, C. Patrick Scholes)
DiamondRock Hospitality Company (DRH, $11.80, Hold, C. Patrick Scholes)
Hyatt Hotels Corporation (H, $75.88, Hold, C. Patrick Scholes)
Hilton Grand Vacations Inc. (HGV, $32.67, Buy, C. Patrick Scholes)
Hilton Worldwide Holdings Inc. (HLT, $75.72, Buy, C. Patrick Scholes)
Host Hotels & Resorts, Inc. (HST, $21.24, Hold, C. Patrick Scholes)
ILG, Inc. (ILG, $34.13, Buy, C. Patrick Scholes)
LaSalle Hotel Properties (LHO, $35.02, Hold, C. Patrick Scholes)
Marriott International, Inc. (MAR, $125.01, Hold, C. Patrick Scholes)
Norwegian Cruise Line Holdings Ltd. (NCLH, $52.98, Buy, C. Patrick Scholes)
Park Hotels & Resorts Inc. (PK, $33.64, Buy, C. Patrick Scholes)
Playa Hotels & Resorts N.V. (PLYA, $10.00, Buy, C. Patrick Scholes)
Ryman Hospitality Properties, Inc. (RHP, $87.49, Hold, C. Patrick Scholes)
RLJ Lodging Trust (RLJ, $22.16, Hold, C. Patrick Scholes)
Sunstone Hotel Investors, Inc. (SHO, $16.69, Hold, C. Patrick Scholes)
Marriott Vacations Worldwide Corporation (VAC, $118.31, Buy, C. Patrick Scholes)
Wyndham Hotels & Resorts, Inc. (WH, $55.35, Buy, C. Patrick Scholes)
Wyndham Destinations, Inc. (WYND, $42.73, Buy, C. Patrick Scholes)

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