



Lodging: China hotels a roadmap for US hotels? Our observations and thoughts.

China seeing a gradual positive turn in bookings, occupancy, and reopenings.

We have received an increasing number of questions from investors about any possible read-through to US hotel RevPAR and hotel reopenings from how the hotel industry is faring in China. We believe it is not unreasonable to believe that a similar pattern to what is happening in China is a preview of what might happen in the US, though exact recovery timing and trajectories in the US are still big unknowns.

Let's start with some good news: Based on forward booking data coming out of China through March 12th (source: [Shiji Distribution Systems](#)), the second derivative of room nights booked in China began to show an improvement on or around February 17th. Please see exhibit 1 of this report (please note we cannot verify the accuracy of their data though we have no reason to believe it is not accurate). Other observations:

- In China, deceleration in new hotel bookings lasted approx. 30 days, from January 19th to February 17th.
- Likely not coincidentally, active virus cases in China peaked at the same time as the second derivative of new hotel bookings turning upwards. [As it relates to the US \(or specifically to New York State\)](#), we note that on Tuesday, Governor Cuomo spoke about the apex in cases (we are uncertain if this is new cases or active cases) possibly peaking in 14-21 days in New York State.
- Occupancy in China has turned a corner as have hotel reopenings. Per STR, occupancy was -68.9% y/y for the week ending March 21st, an **improvement** vs. -74.1% for the trailing 28 days. Regarding reopenings, there are currently 694k hotel rooms in STR's survey, or 25.9% of the total number of rooms in China. Due to hotel closings, these figures are a decrease from the last week of December where 889k rooms were in the survey, or 31.9% of the total number of hotel rooms in China. **However, 694k rooms is a sequential improvement from the prior week where 646k rooms were reporting data.** See exhibits at end of report.

The bad news:

- Even with room nights booked showing a positive second derivative improvement in China, bookings are still down approx. 75% vs. the same time last year as of March 12th. Down 75% is a second derivative improvement from the mid-February bottom of down approx. 90%. *To put these figures into historical perspective, in the depths of the Great Financial Crises in the US in February 2009, forward bookings for US hotels were down approx. 35% y/y vs. the same time in 2008.* Based on our big-data sources for US hotels, the most recent comparable figure for the US is down approx. 90% vs. the same time last year with no indication yet it is turning an upwards corner. **Similar to our observations of a clear and sustained**

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Weekly STR results and analysis

positive second derivative turn in hotel bookings in the US beginning in April 2009, we would view such a turn as a strong signal that it is time to get back into the hotel stocks.

- China implemented far more stringent social distancing requirements than the US, and while we do not claim to be medical professionals, it may take longer (how much longer is a question no one can answer with certainty at this time) to begin to see a clear second-derivative turn in US hotel bookings, reopenings, and RevPAR, like we have seen in China.
- While occupancy in China is becoming “less bad”, it is likely that some of this improvement is from cuts to ADR. ADR was -36.0% y/y for the week ending March 21st, a **deceleration** vs. -29.3% for the trailing 28 days. **As we discussed on conference call with HotelAVE last week, historically in a downturn occupancy falls first, followed by ADR getting cut, then occupancy begins to recover followed by ADR. We have no reason to believe we will not see a similar pattern with the recovery in the US.**
- Hotel operating profits in China in February were obliterated and we believe this unfortunately portends for similar results with US hotels in March and April. In China, operating profits were -45.1% /y in January and -216.4% y/y in February.

Exhibit 1



Hotel occupancy observations from the latest weekly STR results from China, Italy, and US:

Absolute occupancy levels for hotels *that were still open* in China bottomed out at approx. 10% the week of February 8th. This was approx. 21 days after occupancy first started to see rapid deceleration in China. By comparison, peak weekly absolute occupancy in China in early January was 65%. From STR data for the week ending March 21st, absolute occupancy in China was 22.7%.

By comparison for the US and Italy (neither location having seen a clear bottom in occupancy levels yet):

- **Italy: Absolute occupancy levels for hotels *that were still open* in Italy for the week ending March 21st were 2.7%.** So far it has been approx. 28 days after occupancy first started to see rapid deceleration in the US. By comparison, peak weekly absolute occupancy in the Italy in early mid-February was 63%.
- **US: Absolute occupancy levels for hotels *that were still open* in the US for the week ending March 21st were 30.3%.** So far it has been approx. 14 days after occupancy first started to see rapid deceleration in early –mid March in the US. By comparison, peak weekly absolute occupancy in the US in early mid-February was 64%.

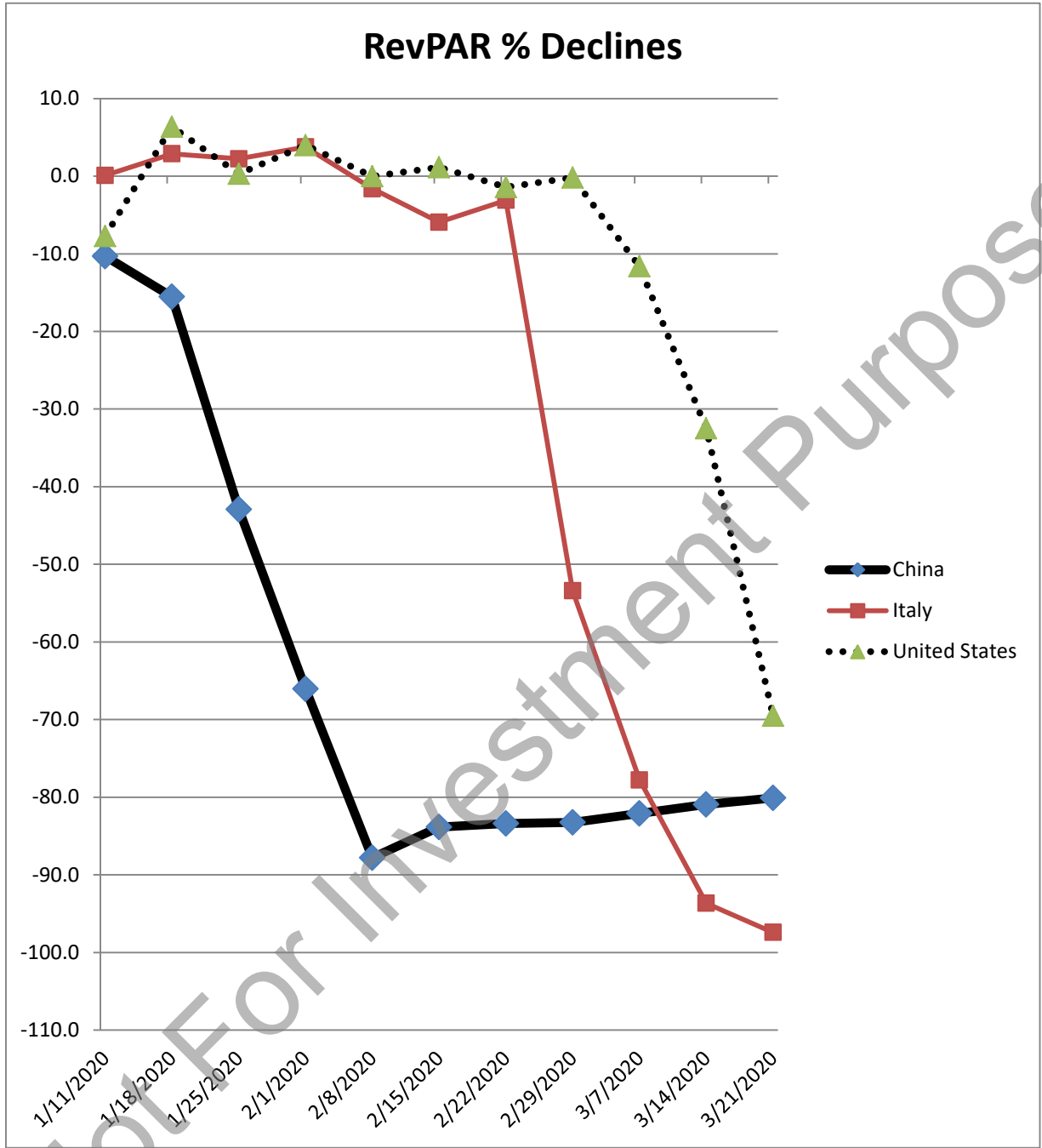
Hotel closure observations from the latest weekly STR results from China, Italy, and US:

For this we look at the week-to-week changes in the sample size of hotel rooms in STR's data set. While we cannot say with certainty that material decreases in sample size are from hotels closing, we note that hotels that are closed no longer are included in the STR data set; Ergo this is our best approximation of hotel closures.

- **China:** Based on the STR sample, peak room count declines troughed at down 35% in mid-February from early January's levels. Today, room count is down approx. 22%.
- **Italy:** Based on the STR sample as of March 21st, room count declines are running at down 85% from early January levels. Unlike our observations on China, we cannot say that this downward trajectory has turned a corner or at least stabilized.
- **US:** Based on the STR sample as of March 21st, room count declines are running at down 8% from early January levels. Unlike our observations on China, we cannot say that this downward trajectory has turned a corner or at least stabilized.

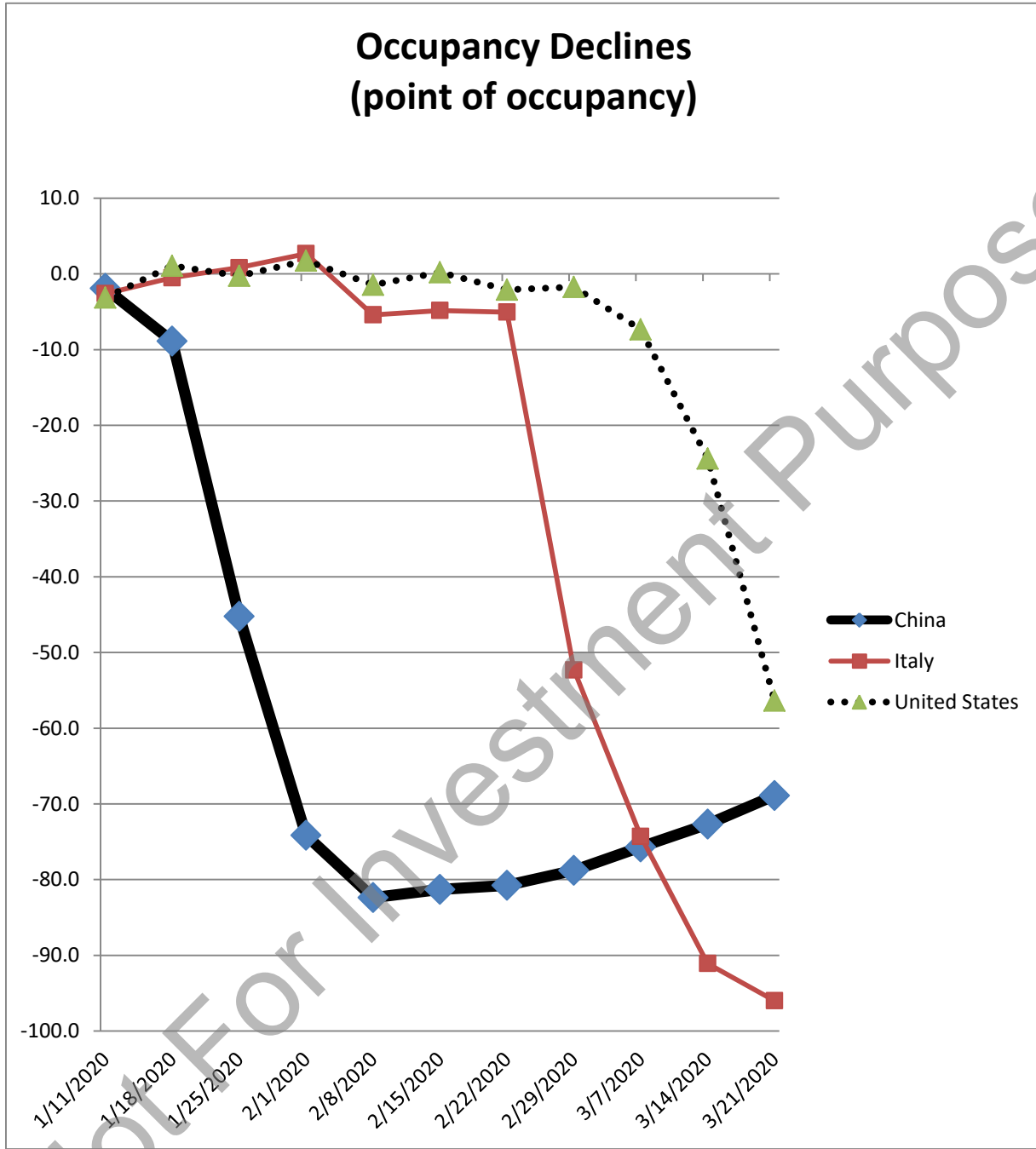
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Exhibit 2: RevPAR for China, Italy, US



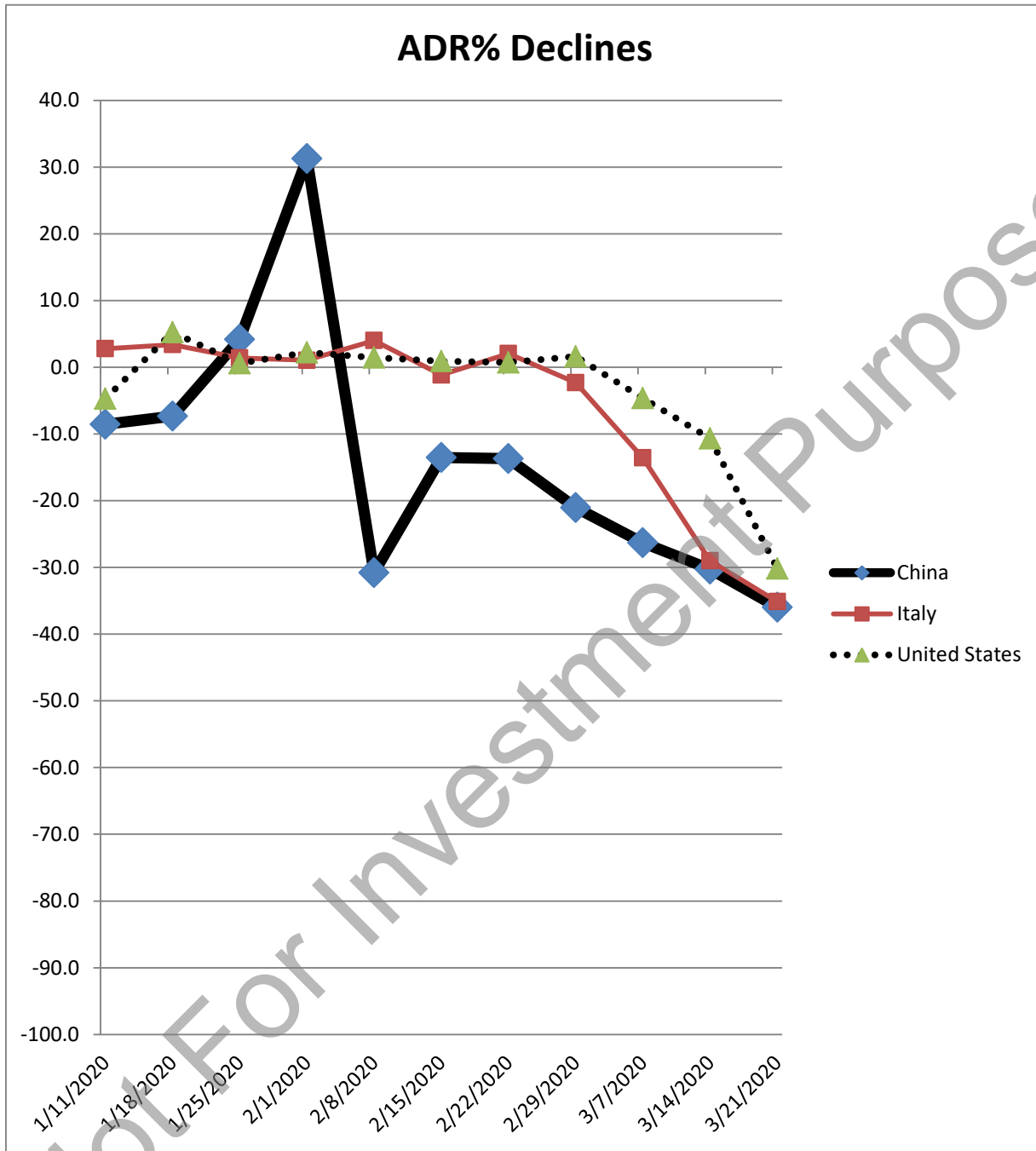
Source: STR, STRH research

Exhibit 3: Occupancy for China, Italy, US



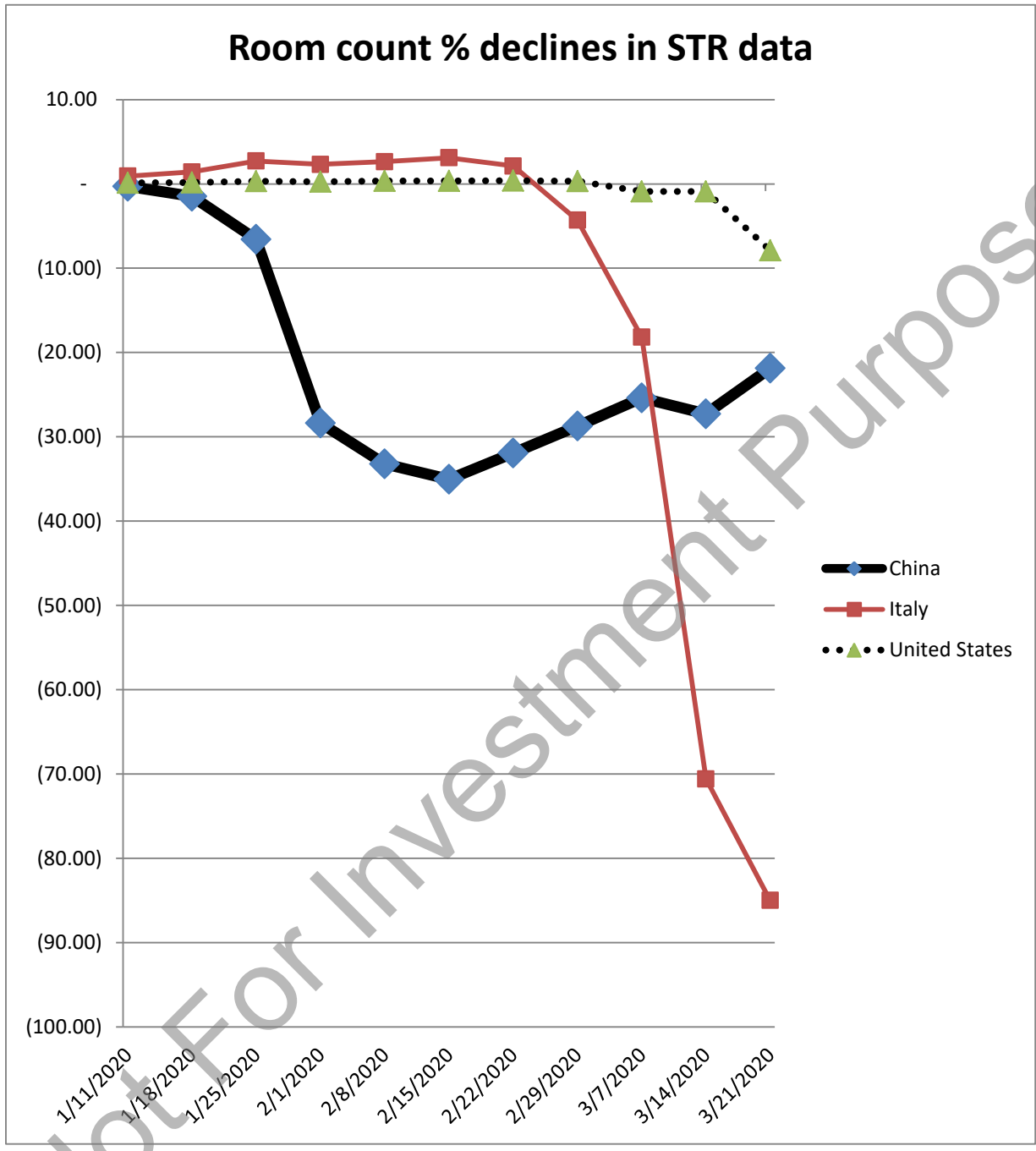
Source: STR, STRH research

Exhibit 4: ADR for China, Italy, US



Source: STR, STRH research

Exhibit 5: Room count in survey for China, Italy, US



Source: STR, STRH research

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