



China & Italy hotels: RevPAR down 71% & 97% y/y for week ending 4/18/20

China: Again no improvement in Occ; “green shoots” stopped growing for now

What's Incremental To Our View

Quick take: Per STR for the week ending April 18th, China hotel RevPAR in local currency was -70.7% y/y. Italy hotel RevPAR in local currency was -97.1% y/y. This compares to the US for the same week down 79.4% y/y. Please note there are many hotels that suspended operations/closed and they are not included in the comparisons. Implications are that the headline statistics overstate the actual performance of the overall industry.

High level observations from the latest results are that China absolute occupancy has been stuck at approx. 30% for the past three weeks. If improvement in occupancy levels in China was seen as the industry’s “green shoot”, this observation is not encouraging. See exhibit 2.

From observations of what is happening with RevPAR and re-openings in China, we believe it will be a slower and longer recovery in the US than what the more optimistic/bullish management teams and investors expect. While hotel stocks have been crushed, we are holding back on any stock upgrades at this time as we believe we will see more attractive entry points at a future date.

- **We look closely at how hotels in China are faring as we believe it not unreasonable to think 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.** 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.

About our data set:

- **China:** Currently 626k hotel rooms in the survey, or 22.9% 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 31.8% of the total number of hotel rooms in China. **626k rooms is a sequential deceleration from the prior week where 736k rooms were reporting data.** We note that the STR data set is primarily branded hotels, which see a larger number of international (meaning fly-to) guests than does the average

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What's Inside

China and Italy data and analysis as of week ending 4/18

hotel in China. Implications are that with international inbound flights to China severely curtailed, RevPAR results and hotel reopenings in the STR data set could be weaker than the average hotel in China.

- **Italy:** Currently 8k hotel rooms in the survey, or 2.1% of the total number of rooms in Italy. Due to hotel closings, these figures are a decrease from the last week of December where 80k rooms were in the survey, or 21.6% of the total number of hotel rooms in Italy. **8k rooms is a slight (and not statistically significant) increase from the prior week where 7k rooms were reporting data.**

RevPAR detail for week ending April 18th vs. trailing 28 days:

China (local currency):

- RevPAR was -70.7% y/y for the week ending April 18th, **a slight improvement** from -72.4% for the trailing 28 days.
- ADR was -28.7% y/y for the week ending April 18th, **an improvement** vs. -35.3% for the trailing 28 days.
- Occupancy was -59.0% y/y for the week ending April 18th, **a deceleration** vs. -57.2% for the trailing 28 days.

Italy (local currency):

- RevPAR was -97.1% y/y for the week ending April 18th, **essentially unchanged** from the -97.0% for the trailing 28 days.
- ADR was -55.2% y/y for the week ending April 18th, **a deceleration** from the -54.4% for the trailing 28 days.
- Occupancy was -93.6% y/y for the week ending April 18th, **essentially unchanged** vs. -93.5% for the trailing 28 days.

Additional thoughts and observations:

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

- **China: Absolute occupancy in China was 31.7%.** 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 or 7 weeks ahead of when this happened in the US. By comparison, peak weekly absolute occupancy in China in early January was 65%.
- **Italy: Absolute occupancy levels for hotels that were still open in Italy for the week ending April 18th was 4.7%.** So far it has been approx. 56 days after occupancy first started to see rapid deceleration in Italy. 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 April 18th was 23.4%.** So far it has been approx. 42 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:

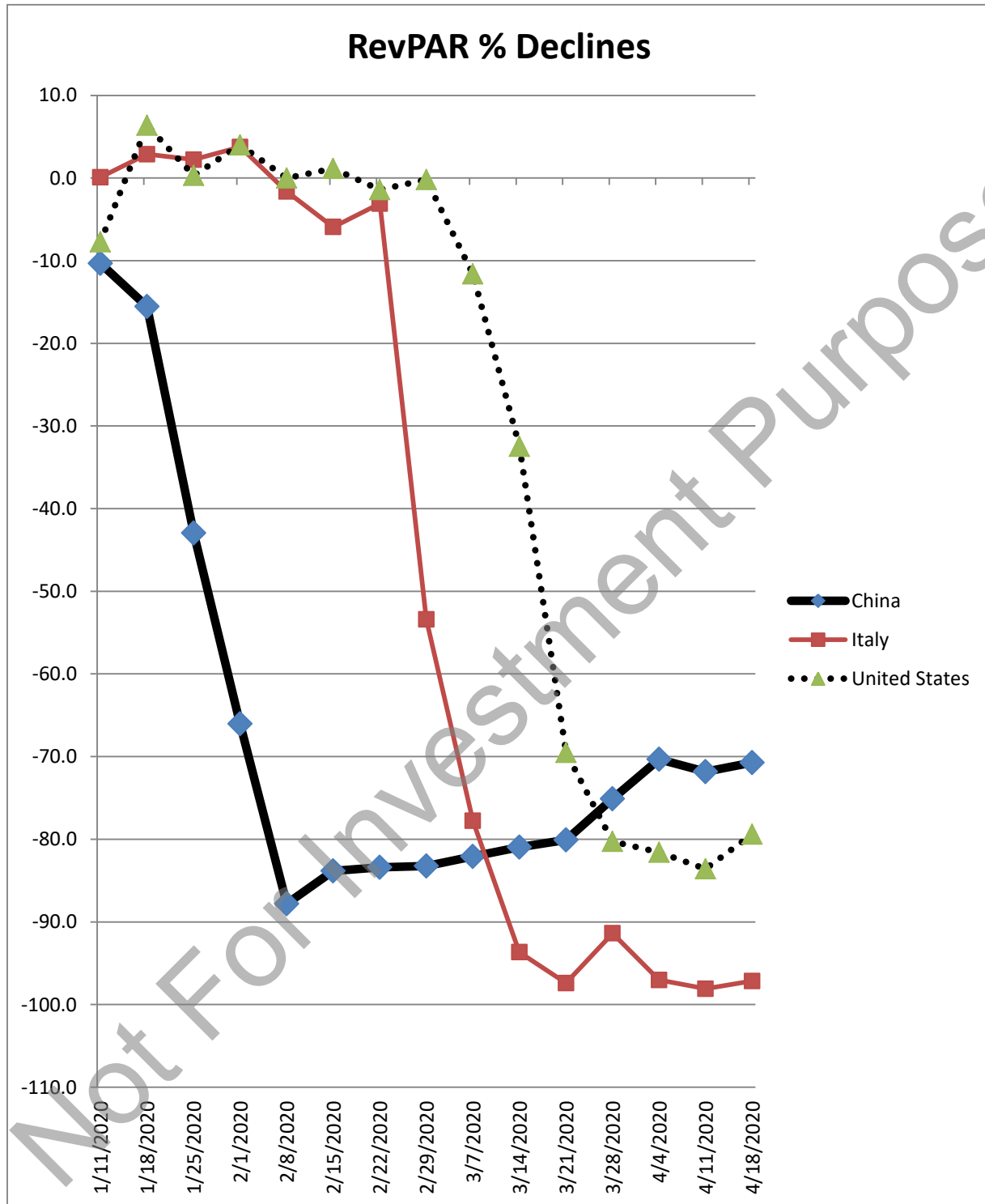
For this we look at the week-to-week changes in the sample size of hotel rooms in STR's data set. While we cannot say with certainty that material decreases in sample size are from hotels closing, we note that hotels that are closed no longer are included in the STR data sent; Ergo this is our best approximation 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. 30%.
- **Italy:** Based on the STR sample as of April 18th, room count declines are running at down 90% from early January levels.

- **US:** Based on the STR sample as of April 18th, room count declines are running at down 22% from early January levels.
- While occupancy in China is has been stagnant over the past three weeks, there has been some of this improvement in the rate of decline of ADR. ADR was -28.7% y/y for the week ending April 18th, **better than** the -35.3% for the trailing 28 days. **As we discussed on conference call with HotelAVE last month, 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.

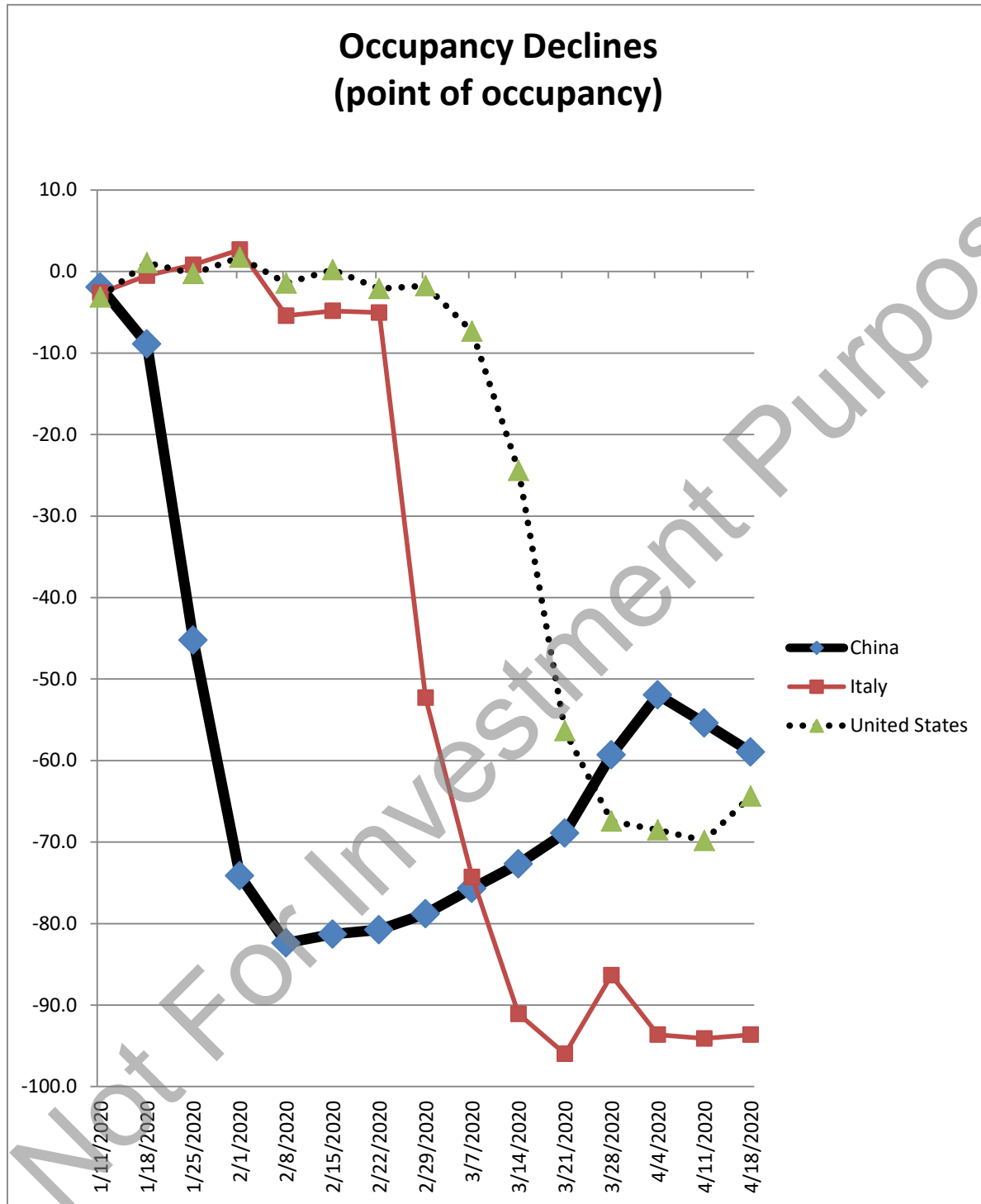
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Exhibit 1: RevPAR for China, Italy, US

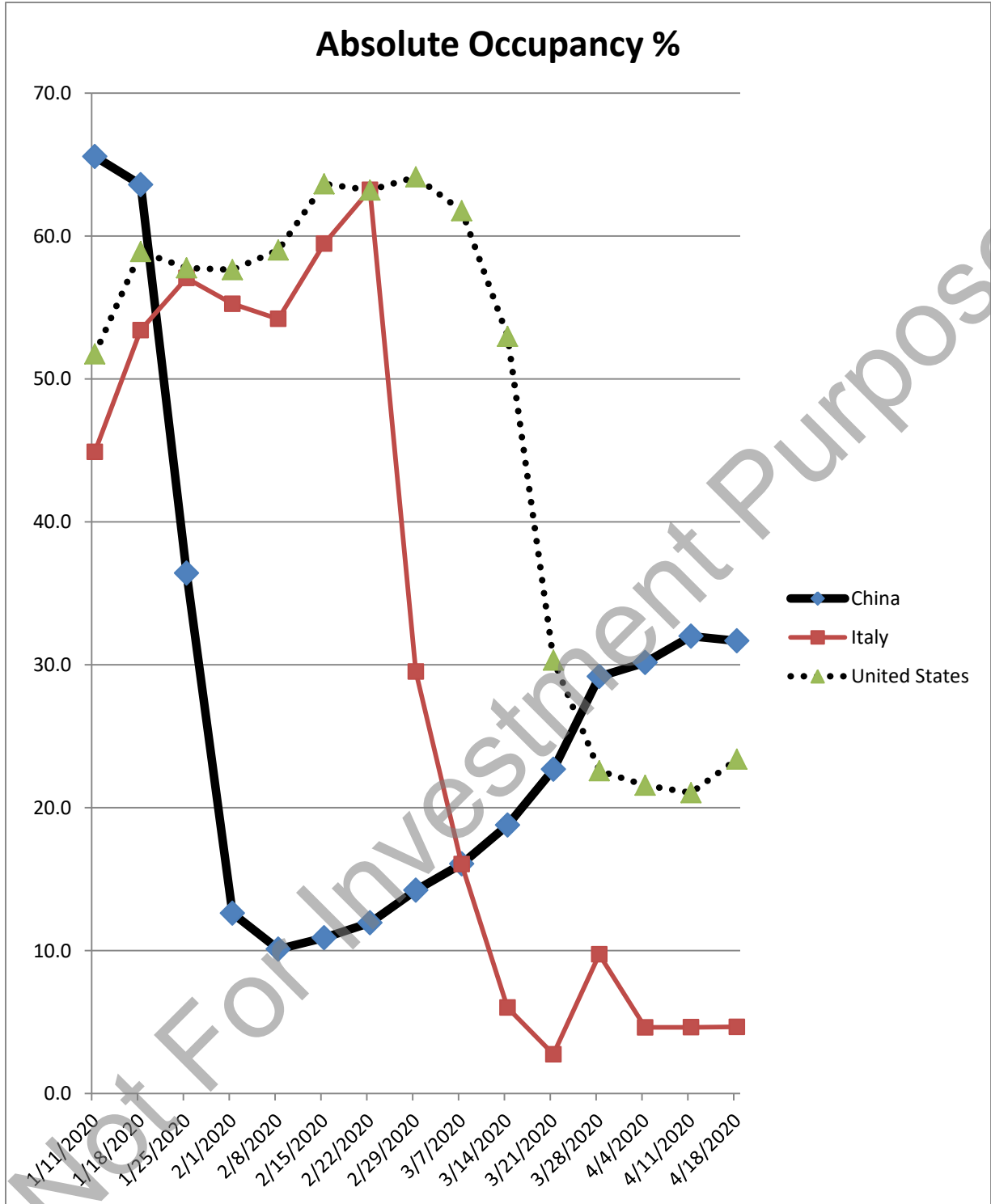


Source: STR, STRH research

Exhibit 2: Occupancy for China, Italy, US

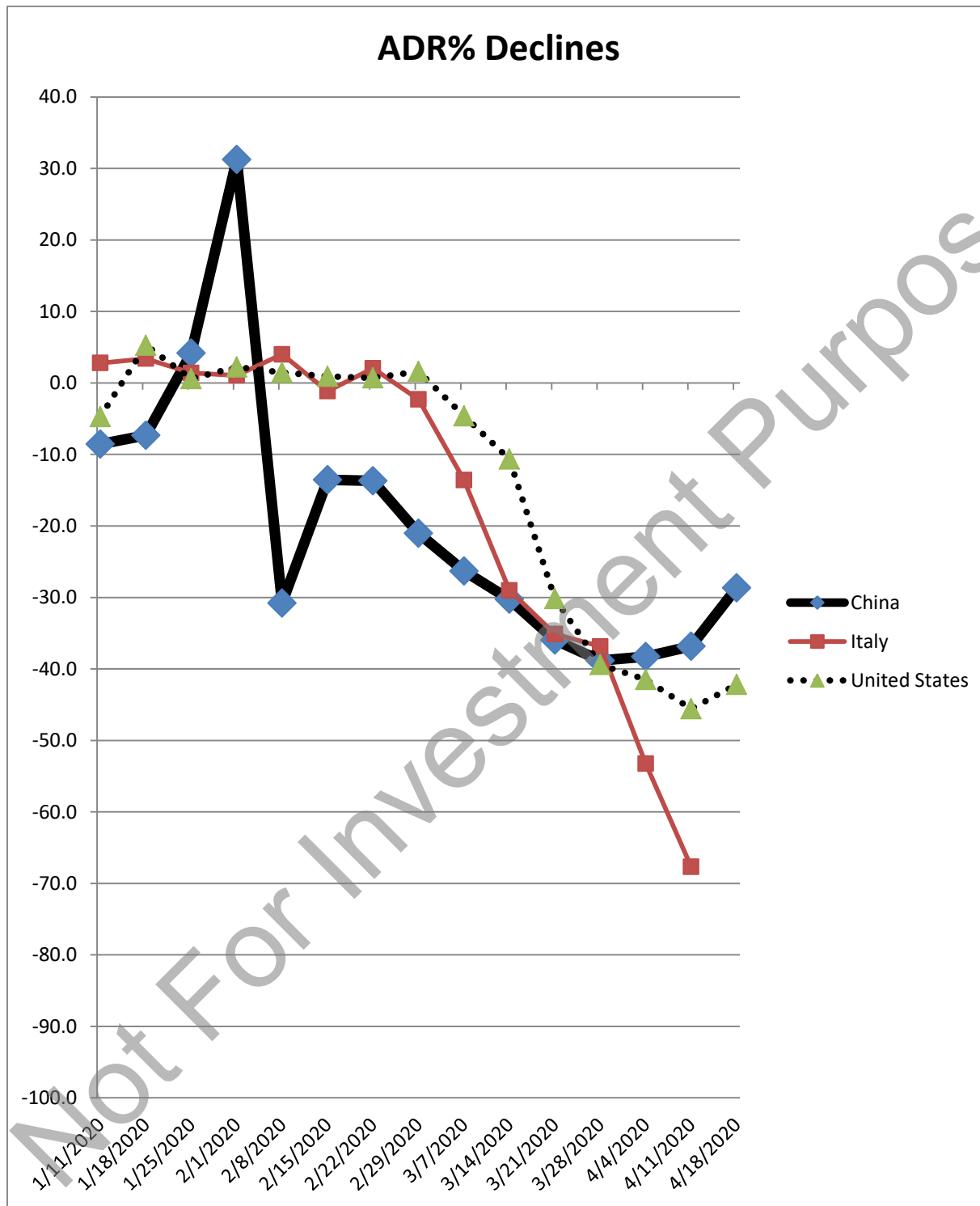


Source: STR, STRH research



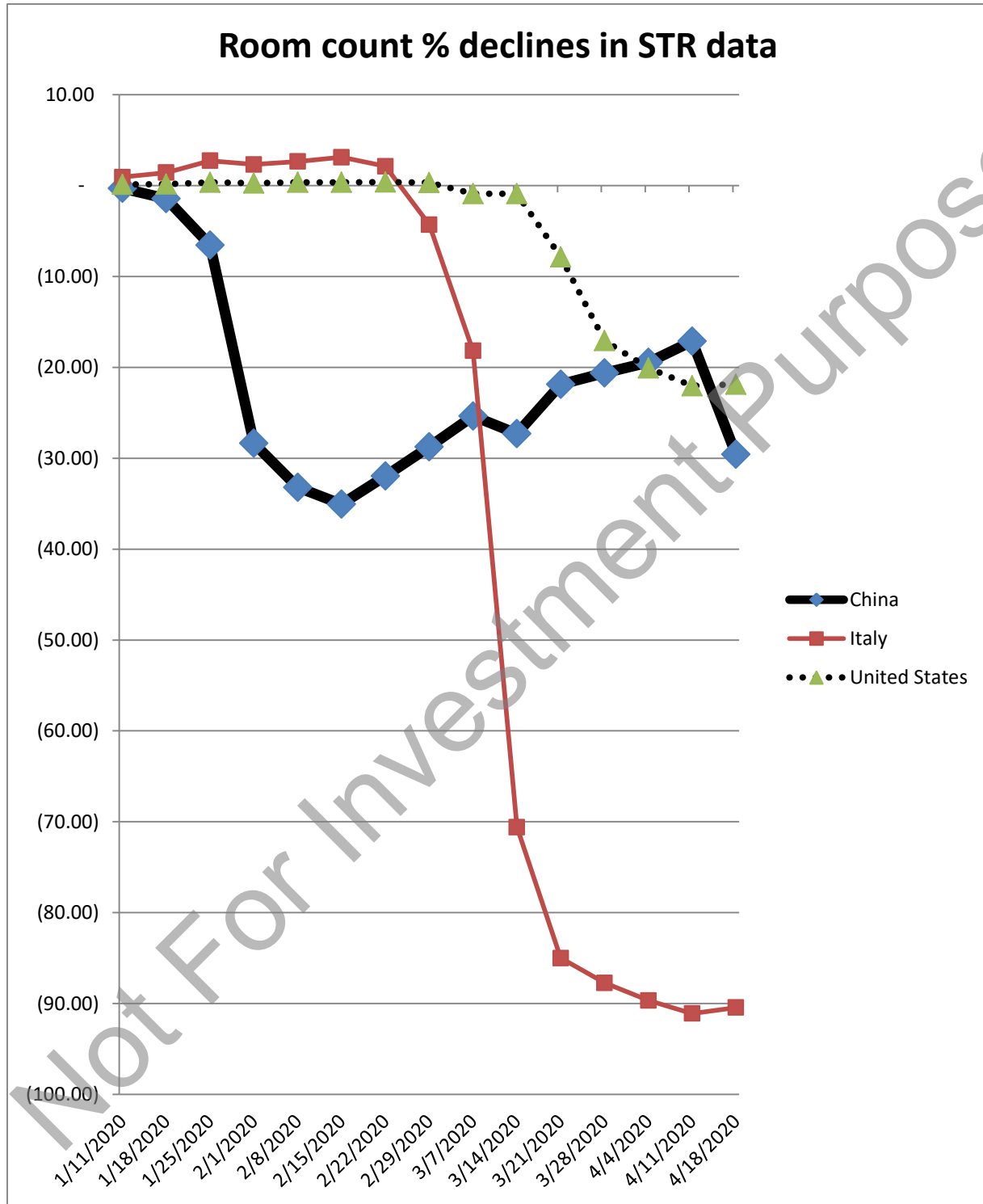
Source: STR, STRH research

Exhibit 3: ADR for China, Italy, US



Source: STR, STRH research

Exhibit 4: Room count in survey for China, Italy, US. Room count for US for most recent week not yet available.



Source: STR, STRH research

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