Lodging: US RevPAR -73.6% Y/Y Last Week; Clean comp, slightly "less bad" RevPAR trends continue

C. Patrick Scholes
212-319-3915
patrick.scholes@suntrust.com

Gregory J. Miller
212-303-4198
gregory.j.miller@suntrust.com

Kevin Robinson
617-345-6544
kevin.robinson@suntrust.com

What's Inside

Weekly STR results and analysis

What's Incremental To Our View

Overall U.S. RevPAR was -73.6% Y/Y for the week ending 5/16/2020, per STR, stronger than the prior week's result of -74.4%. (2-year stacked RevPAR was -71.4% vs -73.7% in the prior week). Independent hotels (about 1/3rd of the data set) were -69.5% y/y. Economy (-36.3%) was the relatively strongest chain scale for branded hotels; Luxury was the weakest at -89.7%. Upscale (-78.2%) underperformed the industry average; Upper Midscale (-69.8%) outperformed. Within Upper Upscale & Luxury class hotels, Group (-93.6% vs. -92.8% prior week) was softer than Transient (-86.3% vs. -88.4% prior week).

Conclusion from last week's results: RevPAR y/y percent growth has been sequentially rising over the last several weeks (slightly less negative) but that is slight comfort given the profit loss that continues to impact our entire lodging coverage. Regardless if RevPAR percentage growth continues to rise into the negative 50s/60s, the cumulative revenue/profit damage remains given: low national occupancy, fear or inability to travel (for all major customer segments), virus testing limitations and rising positive virus cases in some areas, varied state and local lockdown policies, limited international inbound travel, and for now high unemployment. **As we have said before, the first hit to the industry is the demand shock, the second hit is macroeconomic.**

- We remind investors: 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.
- **We anticipate Memorial Day weekend to experience a leisure demand driven lift in occupancy. At the same time, we expect more hotels to open for this demand.** We encourage investors to ignore holiday spikes in demand in the same way we do not view holiday shifts (and major one-time y/y changes to RevPAR) as greatly material.
- **We strongly encourage investors to ignore click-bait industry news pieces over the next week that suggest resurgent hotel demand from Memorial Day weekend. For the majority of US hotels ex-Economy and true transient-only leisure destinations such as properties franchised by CHH and WH, the main way hotel demand/RevPAR/profits rebound is from corporate demand.** Unfortunately, corporate demand remains limited for the near-term and for fly-to destinations for the foreseeable future.

Please see our note on China & Italy later today for our additional analysis on last week's U.S. and international trends. **We advise investors that the very slow occupancy recovery in China is an indicator of what we assume will also be a slow occupancy recovery in the United States.**

Compared to last week (ended 5/9), sequential RevPAR trends were slightly above last week's results.

- Headline RevPAR was -73.6% vs. the running 28 day average of -75.6%. By comparison per STR, the worst month of RevPAR since 1987 **pre-virus** was ~ -24% (Sept 2001).
- RevPAR for the weeks ended March 14th/21st/28th/April 4th/11th/18th/25th/May 2nd/9th, 2020 were -32.5/-69.5/-80.3/-81.6/-83.6/-79.4/-78.4/-76.8/-74.4% respectively.
- **Occupancy:** absolute occupancy of 32.4% is sequentially **better** than the prior week of 30.1%. Occupancy y/y change of -54.1% is sequentially **better** the prior week of -55.9%.
- **ADR:** ADR y/y change of -42.4% is sequentially **similar to** the prior week of -42.1%. (We do not consider sequential changes in absolute ADR material.)
- **Occupancy vs. ADR trends:** In the past several weeks we noted that occupancy y/y percentage declines were greater than ADR declines but that the two figures were narrowing. We view this will continue to be the case as leisure demand rises in some reopening areas of the country while ADR will remain significantly down as many higher-rated hotels remain closed and full-service corporate and group demand remains well below normal. We continue to assume a slow demand recovery for fly-to destinations (negative to Lodging REITS and higher-rated C-corp brands).
    - It is conceivable that fewer open hotels has contributed to the modest sequential weekly improvement in RevPAR trends.
- **Open/closed hotels:** Both conversations with our private hotel owner contacts and STR data suggest signs of hotels reopening. We assume hotels that have the potential for summer leisure demand will in particular consider reopening as early as this week given Memorial Day weekend (USA Today / Naples Daily News). **Per STR 12% of the hotel supply is closed (vs. 12% in the prior week.)** Approximately 312 hotels were added to the STR daily sample over the course of last week (out of a total property count of 29,904 starting with last Sunday 5/10). In our note last week, we noticed the sample property count rising materially for the first time since the virus demand shock (172 hotels added, starting count of 29,626 hotels on Sunday 5/3), albeit very modestly.

Last week's RevPAR details:

- **Economy was the relatively strongest chain scale:** Upscale and Upper Midscale underperformed by 4,190 bps and 3,350 bps, respectively: Luxury RevPAR (-89.7%), Upper Upscale (-89.8%), Upscale (-78.2%), Upper Midscale (-69.8%), Midscale (-55.4%), and Economy (-36.3%). Independent hotels (-69.5%) outperformed the headline U.S. RevPAR.
- **Within Upper Upscale & Luxury class hotels, Group underperformed Transient:** Transient segment (individual business and leisure travelers) RevPAR was -86.3% (vs. -88.4% last week) and Group segment RevPAR was -93.6% (vs. -92.8% last week).
    - Absolute Group occupancy remains near zero and does not seem to be improving: 3.3% last week vs. 3.5% for the running 28 days.
- **Los Angeles was the relatively strongest market of the top five markets:** Boston (-90.9%), Chicago (-85.9%), Los Angeles (-73.6%), NYC (-80.5%), and Washington, D.C. (-87.0%).
- **Other relevant markets:**
    - **San Francisco:** RevPAR was -87.7% vs. -87.8% last week.
    - **Florida market RevPAR:**
        - **Miami:** (-83.7% vs. -86.5% last week);
        - **Orlando:** (-84.6% vs. -90.3% last week). We expect Orlando results to remain especially challenged given the major theme parks are closed and group demand is essentially zero.

From observations of what is happening with RevPAR and re-openings in China, we suspect we may see 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 potential stock upgrades at this time as we suspect we may see more attractive entry points at a future date.

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