Lodging

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What's Inside

Weekly STR results and analysis

Lodging: US RevPAR -50.3% Y/Y Last Week; Slippage from prior week w/tough y/y holiday comp

Luxury/Upper Upscale still tracking ~ -80% midweek, not far off from April/May

What's Incremental To Our View

Overall U.S. RevPAR was -50.3% Y/Y for the week ending 10/17/2020, per STR, softer than the prior week's result of -47.5%. (2-year stacked RevPAR was -51.0% vs. -50.0% in the prior week). Independent hotels (~ 1/3rd of the data set) were -41.8% y/y. Economy (-17.8%) was the relatively strongest chain scale for branded hotels; Upper Upscale was the weakest at -72.7%. Upscale (-55.6%) underperformed the industry average; Upper Midscale (-39.8%) outperformed. Within Upper Upscale & Luxury class hotels, Group (-88.0% vs. -83.1% prior week) was softer than Transient (-55.4% vs. -55.7% prior week).

Last week's results reflected a continuation of weak business travel fundamentals (if there are slight improvements as of late, as noted by our private hotel owner contacts...the trends are "slight") and the impact of a y/y holiday shift/comp.

- We view most impactful to the w/w sequential RevPAR headline slippage is the holiday shift of Yom Kippur, which was midweek in the 2019 prior week (vs. a September 2020 holiday). For the y/y comparison against the week ending 10/17/20, we view stronger business travel on a post-holiday week in 2019 made an even tougher comp vs. last week's results. That said, the sequential changes are relatively modest as we do not see much corporate travel in general right now. The slippage vs. the prior week is just a "higher degree of bad".
- The slippage was primarily in the full-service segments which makes sense given the holiday travel impact to group and secondarily transient corporate demand.
- As a continuation to the patterns we have seen for many weeks since Labor Day, Luxury and Upper Upscale are still tracking down approximately 80% in the midweek, which is not far off from the levels of April and May. These indicators suggest no material lift as of late in corporate travel.
- Additionally, we note that sequential occupancy change vs. the prior week was basically flat. For RevPAR to decline, the impact is rate driven -- and **we are increasingly focused on whether or not we are starting to see more intentional rate discounting.** Occupancy y/y growth was +100 bps in last week's results vs. the running 28 days. ADR fell by 90 bps in the same comparison.

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Compared to the prior week (ended 10/10), sequential RevPAR trends were sequentially softer vs. last week's results.

- Headline RevPAR was -50.3% vs. the running 28 day average of -49.4%.
- RevPAR for the weeks ended March 14 through October 10, 2020 were -32.5/-69.5/-80.3/-81.6/-83.6/-79.4/-78.4/-76.8/-74.4/-73.6/-69.9/-62.1/-65.0/-62.6/-60.3/-56.5/-44.8/-54.6/-56.0/-54.8/ -51.1/-49.4/-46.1/-46.1/-44.5/-32.8/-48.1/-51.6/-51.7/-48.1/-47.5%, respectively.
- **Occupancy:** absolute occupancy of 50.1% was sequentially **similar to** the prior week of 50.0%. Occupancy y/y change of -30.7% is sequentially **softer** than the prior week of -29.2%.
- **ADR**: ADR y/y change of -28.3% was sequentially **softer** than the prior week of -25.9%. (We do not consider sequential changes in absolute ADR material.)
- **"Location" RevPAR Y/Y change sequentially softer (ex-Interstate) vs. the prior week. We still do not see a material corporate demand rebound:** Urban (-73.9% vs. -70.5% in the prior week), Suburban (-45.4% vs. -44.1%), Interstate (-21.9% vs. -22.5%), and Resort (-47.7% vs. -45.5%).
    - **Absolute occupancies generally in-line to stronger vs. the prior week:** Urban: 39.3% vs. 38.9% in the prior week, Suburban: 52.4 vs. 52.4%, Interstate: 54.5% vs. 54.6%, and Resort: 45.4% vs. 44.2%.
- **Open/closed hotels:** Per STR 3.5% of the hotel supply is closed (vs. 3.6% in the prior week.).
- Please note there are many hotels that suspended operations/closed and they are not included in the comparisons. Implications are that the headline statistics likely overstate the actual performance of the overall industry.

Last week's RevPAR details:

- **Economy was the relatively strongest chain scale:** Upscale and Upper Midscale underperformed by 3,780 bps and 2,200 bps, respectively: Luxury RevPAR (-72.3%), Upper Upscale (-72.7%), Upscale (-55.6%), Upper Midscale (-39.8%), Midscale (-27.0%), and Economy (-17.8%). Independent hotels (-41.8%) outperformed the headline U.S. RevPAR.
- **Within Upper Upscale & Luxury class hotels, Group underperformed Transient:** Transient segment (individual business and leisure travelers) RevPAR was -55.4% (vs. -55.7% last week) and Group segment RevPAR was -88.0% (vs. -83.1% last week).
    - Absolute Group occupancy remains limited: 5.0% last week vs. 5.1% for the running 28 days.
- **Los Angeles was the relatively strongest market of the top five markets:** Boston (-78.1%), Chicago (-78.5%), Los Angeles (-56.9%), NYC (-82.3%), and Washington, D.C. (-78.1%).
- **Other relevant markets:**
    - **San Francisco**: RevPAR was -78.7% vs. -79.5% last week.
    - **COVID-19 "watch" markets (RevPAR):**
        - **Dallas**: -57.2% vs. -55.7% last week. Absolute occupancy 45.2% vs. 46.8% last week.
        - **Houston**: -48.0% vs. -35.6% last week. Absolute occupancy 48.3 vs. 54.4% last week.
    - **Florida market RevPAR:**
        - **Miami**: (-53.9% vs. -49.4% last week).
        - **Orlando**: (-72.2% vs. -69.0% last week).

The lodging stocks: We expect continued investor disappointment over the next several quarters. The primary driver of our negative stance is our belief in a slower than originally anticipated US RevPAR recovery, with urban business and group-centric hotels unfortunately being in the cross-hairs of the worst of the pain.

- **The good news is that leisure travel, especially drive-to leisure, has shown some green shoots over the past four months.** For the public companies, we reiterate the companies best relatively positioned here in our coverage universe for drive-to leisure are CHH (Hold) and WH (Buy) (we prefer WH over CHH due to a more attractive comparable valuation) and for the timeshare companies (Hold-rated BXG and Buy-rated HGV, VAC, and WYND). To be clear, like for the business and group-centric hotels, we think the next year will still be very challenging for these companies. *That said, in our view, they are relatively better positioned as to not be in the direct cross-hairs of the industry's greatest areas of pain.*

(Our ratings and price targets generally represent our recommendations and forecasts based on a 12 to 18 month outlook. We acknowledge that near term uncertainty and volatility could affect financial inputs to our targets, and the likely multiples the market may pay for those metrics.)

Companies Mentioned in This Note

Bluegreen Vacations Corporation (BXG, $5.41, Hold, C. Patrick Scholes)
Choice Hotels International, Inc. (CHH, $88.76, Hold, C. Patrick Scholes)
DiamondRock Hospitality Company (DRH, $4.96, Sell, C. Patrick Scholes)
Hyatt Hotels Corporation (H, $55.63, Sell, C. Patrick Scholes)
Hilton Grand Vacations Inc. (HGV, $22.30, Buy, C. Patrick Scholes)
Hilton Worldwide Holdings Inc. (HLT, $89.57, Hold, C. Patrick Scholes)
Host Hotels & Resorts, Inc. (HST, $10.78, Sell, C. Patrick Scholes)
Marriott International, Inc. (MAR, $96.09, Hold, C. Patrick Scholes)
Vail Resorts, Inc. (MTN, $229.63, Buy, C. Patrick Scholes)
Pebblebrook Hotel Trust (PEB, $12.52, Hold, Gregory Miller)
Park Hotels & Resorts Inc. (PK, $9.95, Sell, C. Patrick Scholes)
Playa Hotels & Resorts N.V. (PLYA, $3.90, Hold, C. Patrick Scholes)
Ryman Hospitality Properties, Inc. (RHP, $41.15, Sell, C. Patrick Scholes)
RLJ Lodging Trust (RLJ, $8.59, Hold, Gregory Miller)
Sunstone Hotel Investors, Inc. (SHO, $7.74, Sell, C. Patrick Scholes)
Marriott Vacations Worldwide Corporation (VAC, $96.51, Buy, C. Patrick Scholes)
Wyndham Hotels & Resorts, Inc. (WH, $50.59, Buy, C. Patrick Scholes)
Wyndham Destinations, Inc. (WYND, $34.14, Buy, C. Patrick Scholes)

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