Lodging

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What's Inside

Weekly STR results and analysis

Lodging: US RevPAR -47.2% Y/Y Last Week; Valentine's Day hearts RevPAR a tad

Slightly better w/w though consistent with the range we have seen since July.

What's Incremental To Our View

Overall U.S. RevPAR was -47.2% Y/Y for the week ending 2/13/2021, per STR, stronger than the prior week's result of -50.6%. (2-year stacked RevPAR was -46.4% vs. -50.8% in the prior week). Independent hotels (~ 1/3rd of the data set) were -38.5% y/y. Economy (-14.3%) was the relatively strongest chain scale for branded hotels; Upper Upscale was the weakest at -67.4%. Upscale (-52.1%) underperformed the industry average; Upper Midscale (-40.0%) outperformed. Within Upper Upscale & Luxury class hotels, Group (-83.8% vs. -85.4% prior week) was softer than Transient (-49.9% vs. -58.2% prior week).

We view the slight calendar shift of Valentine's Day to Sunday night y/y from Friday a possible slight help to RevPAR comparisons. Complicating factors last week include winter weather (usually a help to hotels, though not entirely clear to us last week) and Super Bowl shifting one week later this year. Tampa RevPAR y/y was +106.5% on Sunday.

Compared to the prior week (ended 02/06/21), sequential RevPAR trends were stronger vs. last week's results.

- Headline RevPAR was -47.2% vs. the running 28 day average of -49.5%.
- **Occupancy**: absolute occupancy of 45.1% was sequentially **stronger** than the prior week of 40.9%. Occupancy y/y change of -29.0% was sequentially **stronger** than the prior week of -30.5%.
- **ADR:** ADR y/y change of -25.7% was sequentially stronger than the prior week of -29.0%. (We do not consider sequential changes in absolute ADR material.) "Location" RevPAR Y/Y change was sequentially mixed vs. the prior week. We still do not see a material corporate demand rebound: Urban (-63.8% vs. -68.1% in the prior week), Suburban (-44.5% vs. -45.8%), Interstate (-22.2% vs. -19.2%), and Resort (-49.2% vs. -60.4%).
    - **Absolute occupancies were stronger vs. the prior week:** Urban: 38.3% vs. 33.1% in the prior week, Suburban: 48.6% vs. 44.9%, Interstate: 43.9% vs. 41.8%, and Resort: 43.9% vs. 35.7%.
- **Open/closed hotels:** Per STR 2.2% of the hotel supply is closed (vs. 2.1% last week).

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- 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 2,570 bps, respectively: Luxury RevPAR (-61.2%), Upper Upscale (-67.4%), Upscale (-52.1%), Upper Midscale (-40.0%), Midscale (-28.4%), and Economy (-14.3%). Independent hotels (-38.5%) were stronger than the headline U.S. RevPAR.
- **Within Upper Upscale & Luxury class hotels, Group underperformed Transient:** Transient segment (individual business and leisure travelers) RevPAR was -49.9% (vs. -58.2% last week) and Group segment RevPAR was -83.8% (vs. -85.4% last week).
  - Absolute Group occupancy remains very light despite the sequential improvement last week: 5.5% last week vs. 5.3% for the running 28 days.
- **New York City and Washington DC were the relatively strongest markets of the top five markets:** Boston (-64.5%), Chicago (-64.6%), Los Angeles (-62.1%), NYC (-62.0%), and Washington, D.C. (-62.0%).
- **Other relevant markets:**
  - **San Francisco:** RevPAR was -78.8% vs. -82.7% last week.
  - **Florida market RevPAR:**
    - **Miami:** (-42.5% vs. -59.7% last week).
    - **Orlando:** (-68.8% vs. -76.4% last week).

As far as stocks, we reiterate the companies relatively best positioned here in our coverage universe are the drive-to leisure-centric C-Corps CHH and WH and the timeshare companies, BXG, HGV, VAC, and TNL (formerly WYND). WH, BXG, HGV, VAC, and TNL are the only names we believe we can still get material upside based on our 2023 estimates**.**

- While a widely distributed vaccine will be a game changer, until that point our best guess for the return of the business traveler for RevPAR modeling purposes is not until at least 3Q21 (three months ago we said 2Q21). Until that time, we continue to envision large corporations being extremely cautious in sending their employees out to travel, unless it is for essential purposes. Along similar lines, we see large group events and meetings being significantly curtailed until a vaccine is widely available and even after that experiencing lower than normal attendance for at least the first year perhaps partly driven by lower T&E budgets, ROI on webinars, meeting planner reticence to book, etc.

While the broader economy may have a U-shaped recovery, we believe hotel operating performance will take substantially longer to recover and be much choppier and vary by segmentation and geography. Additionally, we believe work from home will have a short-to-medium impact on hotel demand, though the longer-term impact is still unknown. While some travel industry leaders, news reporters, and businesspeople have predicted that 35-50% of business travel will be permanently lost our view is that it will be far less than 35-50% though it will not be zero either (Hospitality Net).

- Good news for the hotel REITS is that unlike the 2008-2009 downturn where many issued significant dilutive equity, that has not been the case (so far) this downturn. We believe such equity issuance was a major reason why most hotel REITS were never able to get back to their pre-2008 prices. However we do not see such a headwind today -- with the potential for some permanent incremental costs savings (+100-300bps) being the consensus range by some Lodging REITS, most hotel REITS have the potential to eventually get back to or possibly exceed their pre-Covid prices.

(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, $7.41, Buy, C. Patrick Scholes)
Choice Hotels International, Inc. (CHH, $109.22, Hold, C. Patrick Scholes)
DiamondRock Hospitality Company (DRH, $9.47, Sell, C. Patrick Scholes)
Hyatt Hotels Corporation (H, $78.68, Sell, C. Patrick Scholes)
Hilton Grand Vacations Inc. (HGV, $36.14, Buy, C. Patrick Scholes)
Hilton Worldwide Holdings Inc. (HLT, $113.61, Hold, C. Patrick Scholes)
Host Hotels & Resorts, Inc. (HST, $15.61, Sell, C. Patrick Scholes)
Marriott International, Inc. (MAR, $130.40, Hold, C. Patrick Scholes)
Vail Resorts, Inc. (MTN, $300.51, Hold, C. Patrick Scholes)
Pebblebrook Hotel Trust (PEB, $22.37, Hold, Gregory Miller)
Park Hotels & Resorts Inc. (PK, $20.68, Sell, C. Patrick Scholes)
Playa Hotels & Resorts N.V. (PLYA, $6.87, Hold, C. Patrick Scholes)
Ryman Hospitality Properties, Inc. (RHP, $73.65, Sell, C. Patrick Scholes)
RLJ Lodging Trust (RLJ, $14.77, Hold, Gregory Miller)
Sunstone Hotel Investors, Inc. (SHO, $12.13, Sell, C. Patrick Scholes)
Travel + Leisure Co. (TNL, $51.75, Buy, C. Patrick Scholes)
Marriott Vacations Worldwide Corporation (VAC, $143.69, Buy, C. Patrick Scholes)
Wyndham Hotels & Resorts, Inc. (WH, $60.70, Buy, C. Patrick Scholes)

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