Equity Research Report

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CONSUMER: Lodging

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Reasons for this report

✓ Our analysis of the most recent weekly US lodging results

Lodging: US RevPAR +26.6% y/y last week, another easy Omicron comp. +5.6% vs. 2019. Mediocre corp travel vs 2019

Overall U.S. RevPAR was +26.6% y/y for the week ending 2/4/2023, per STR, down from the prior week's result of +31.9% y/y. Both weeks reflect STR's new reporting methodology (Las Vegas added, discussed below). Last week had a very easy y/y comp due to Omicron and this easy comp will likely continue to be through March. The +5.6% result vs. 2019 reflected weakness in higher-end individual corporate travel (corporate belt tightening). Note that Las Vegas had three concurrent conventions/trade shows last week (Builders' inclusive) which ran in mid-February in 2019, propping up the overall U.S. results both in 2023 and versus 2019.

Strong y/y results reflecting the easy Omicron comp: Luxury and Upper Upscale occupancy were up mid 30s% y/y. We continue to expect easy comps for several more weeks.

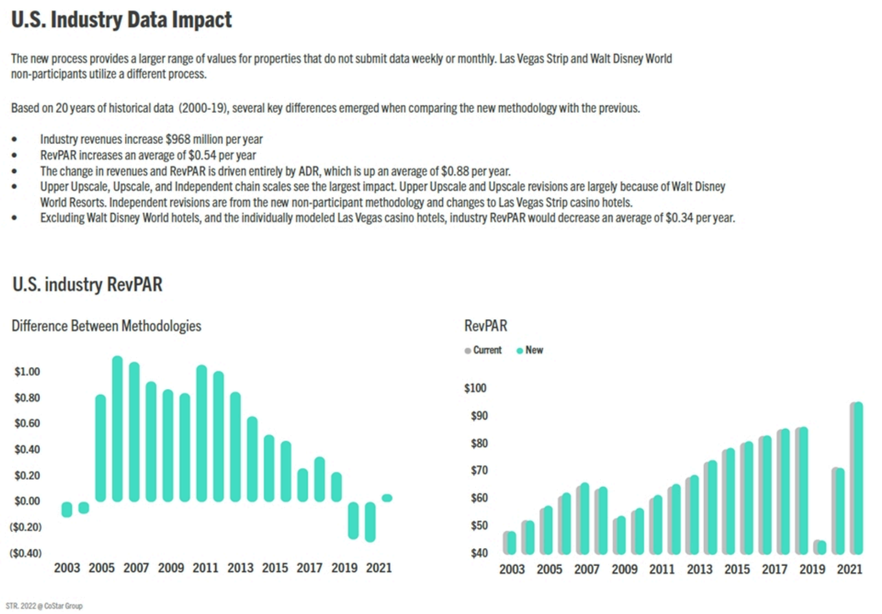
Outsized strength in Vegas lifted the overall mediocre U.S. results vs. 2019 and slow recovery of overall corporate travel (three concurrent conventions in Las Vegas last week). The NAHB International Builders' Show, National Hardware Show, and National Kitchen & Bath Association all took place between January 31st and February 2nd, 2023 (Builders' ran February 19-21, 2019). NAHB was estimated to have nearly 70,000 attendees (per NAHB, the largest attendance in more than ten years) and is an important driver for Vegas results and impactful to macro US and Upper Upscale statistics. A few stats below:

- Las Vegas RevPAR was +76.9% versus 2019 last week. Occupancy was -1.4% and ADR +79.5%, materially stronger than the Top 25 markets of 13.1%.
- Las Vegas Group occupancy was +11.6% versus 2019 whereas all other top markets had negative Group occupancy versus 2019 last week.

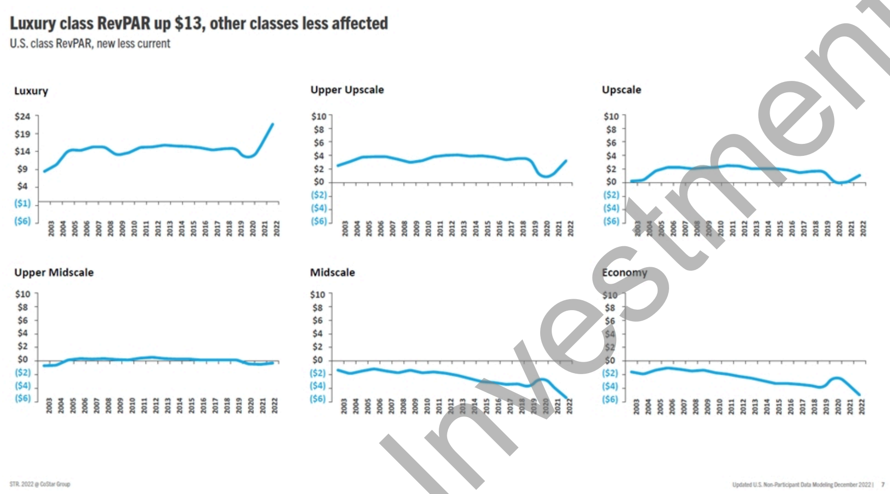
As a reminder of important STR methodology changes: STR has commenced new methodology as of 1/1/23, including Las Vegas being included in the top 25 markets, replacing Norfolk/Virginia Beach. Additionally, STR has revised methodology for non-participating hotels and separately for estimating performance of Las Vegas casinos and Walt Disney World hotels (DIS, Buy, Thornton). Summary impact to U.S. industry RevPAR and classes (including independent hotels) is presented below for reference. There is greater impact to higher-rated chain scales, independents, Top 25 markets, Las Vegas Strip as an STR submarket, and Orlando (both the STR market and the Lake Buena Vista STR submarket). **We will be evaluating the changes to the data over time including implications to weekly RevPAR results and changes y/y and versus 2019.**

SEE PAGE 4 FOR REQUIRED DISCLOSURE INFORMATION

Please see the PDF version of this note for higher-quality graphics.



Source: STR/CoStar



Source: STR/CoStar

Major RevPAR statistics presented below:

- Luxury RevPAR: +35.3% y/y and +3.1% versus 2019;
- Upper Upscale RevPAR: +49.8% y/y and -6.5% versus 2019;
- Upscale RevPAR: +27.9% y/y and -4.1% versus 2019;
- Upper Midscale RevPAR: +17.2% y/y and +4.1% versus 2019;
- Midscale RevPAR: +6.8% y/y and +10.2% versus 2019;
- Economy RevPAR: +2.0% y/y and +11.8% versus 2019;
- Independent hotels (~ 1/3rd of the data set) RevPAR: +25.2% y/y and +18.2% versus 2019; and
- Within Upper Upscale & Luxury class hotels:
  - Group: +87.6% y/y vs. +100.1% prior week; versus 2019: -5.0% vs -4.6% prior week.
  - Transient: +25.7% y/y vs. +32.0% prior week; versus 2019: +8.7% vs +17.5% prior week.
- Las Vegas RevPAR: +86.7% y/y and +76.9% versus 2019.
  - **As a caveat, we note that many large Strip casino hotel operators do not participate in STR's survey.**

Last week's RevPAR details and sequential trends (all comparable information on new STR methodology):

- Headline RevPAR was +26.6% y/y vs. the running 28-day average of +29.5% y/y.
- **Occupancy:** Absolute occupancy was 55.3% vs. 55.2% for the running 28-day average.
- **Absolute Group occupancy:** 20.0% last week vs. 19.6% for the running 28 days.

January estimates:

Due to the recent inclusion of Las Vegas in STR's data set, it is possible that January actuals may be off from our estimates. We will monitor January final results versus the January MTD figures below when the former data set is released later this month.

For the month of January, we estimate that full-service branded domestic hotels (the typical Hilton [HLT, Hold], Hyatt [H, Buy], or Marriott [MAR, Hold] hotel) will finish approximately +40-45% y/y for Luxury, +52-57% y/y for Upper Upscale, and +27-31% y/y for Upscale full-service. We estimate that the overall industry will finish approximately +25-29% y/y. Please note that reported monthly results include hotels that are not in the weekly data set.

- **On a 2019 basis, we estimate January RevPAR +9-11% for the overall industry.**
- **By chain scale:**
  - Luxury: +7-9%
  - Upper Upscale: down 2% to flat
  - Upscale: +2-4%

We see a mixed bag for demand/pricing/supply trends for the lodging companies at the moment. Similar to the past year in lodging (and many other) stocks, we see "macro over micro" at the moment. We see the main driver/wildcard coming from the economic impact from interest rates and inflation (and perhaps more importantly investor sentiment around these). While the risks from COVID are not zero (e.g. China reopening impact to the worldwide economy and outbound Chinese travel), we believe COVID issues are now secondary to macroeconomic considerations for most investors and for public company executives. We see **Hyatt** as the relative outperformer in our lodging coverage universe for a host of reasons, including continued Caribbean/leisure outperformance and upcoming accretive asset sales. Leisure travel demand and pricing continues to show significant strength going into 2023, a positive read-through for all-inclusive resorts (Buy-rated **PLYA, H**) and Vacation Ownership (Buy-rated **BVH, HGV, TNL, VAC**), and Wellness (**OSW**, Buy, Miller). While we have three Buy-rated Lodging REITS, (**PK, RLJ, RHP**), we have a neutral to cautious view on our broader Lodging REIT sector coverage, with Hold-rated **DRH, HST, PEB,** and **SHO,** a view driven by potential downside pressures on revenues and particularly on operating profit margins.

Companies Mentioned in This Note

Bluegreen Vacations Holding Corporation (BVH, $32.58, Buy, C. Patrick Scholes)
The Walt Disney Company (DIS, $111.63, Buy, Matthew Thornton)
DiamondRock Hospitality Company (DRH, $9.63, Hold, C. Patrick Scholes)
Hyatt Hotels Corporation (H, $113.38, Buy, C. Patrick Scholes)
Hilton Grand Vacations Inc. (HGV, $48.27, Buy, C. Patrick Scholes)
Hilton Worldwide Holdings Inc. (HLT, $148.19, Hold, C. Patrick Scholes)
Host Hotels & Resorts, Inc. (HST, $18.71, Hold, C. Patrick Scholes)
Marriott International, Inc. (MAR, $175.42, Hold, C. Patrick Scholes)
OneSpaWorld Holdings Limited (OSW, $11.01, Buy, Gregory Miller)
Pebblebrook Hotel Trust (PEB, $16.37, Hold, Gregory Miller)
Park Hotels & Resorts Inc. (PK, $14.51, Buy, C. Patrick Scholes)
Playa Hotels & Resorts N.V. (PLYA, $7.69, Buy, C. Patrick Scholes)
Ryman Hospitality Properties, Inc. (RHP, $93.86, Buy, C. Patrick Scholes)
RLJ Lodging Trust (RLJ, $12.43, Buy, Gregory Miller)
Sunstone Hotel Investors, Inc. (SHO, $10.85, Hold, C. Patrick Scholes)
Travel + Leisure Co. (TNL, $43.37, Buy, C. Patrick Scholes)
Marriott Vacations Worldwide Corporation (VAC, $162.03, Buy, C. Patrick Scholes)

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