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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 +31.9% y/y last week, easy Omicron comp. +13.0% vs. 2019.

Overall U.S. RevPAR was +31.9% y/y for the week ending 1/28/2023, per STR, up from the prior week's result of +26.2% 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 +13.0% result vs. 2019 was the strongest weekly performance we have seen this year, following three weeks of relatively soft results likely due to weakness in higher-end individual corporate travel.

Group results very telling: Y/y results were especially strong for the Group segment for full-service hotels, +100.1% y/y (Occ +81.1% and ADR +10.4%), due to the very easy Omicron comp (last year at this time, few wanted to be part of any Group event due to Omicron transmission fears). This strong performance for Groups led to the Upper Upscale segment being the strongest chain scale performer last week y/y, up 65.5%. On the other hand, attesting to the Group segment still lagging the transient (individual business + leisure) segment vs. 2019, Group results were still down 4.6% (Occ -12.3% and ADR +8.8%) vs. 2019. The underperformance for Groups vs. 2019 levels led to the Upper Upscale chain scale being the weakest performer last week vs. 2019, only up 3.3%. For the Upper Upscale chain scale, Groups have historically accounted for approx. 40% of room nights.

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

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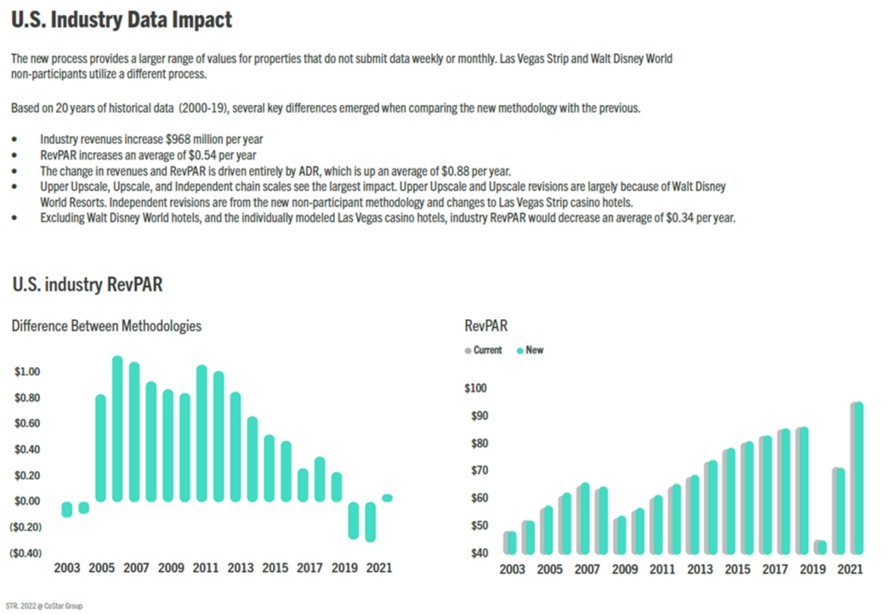
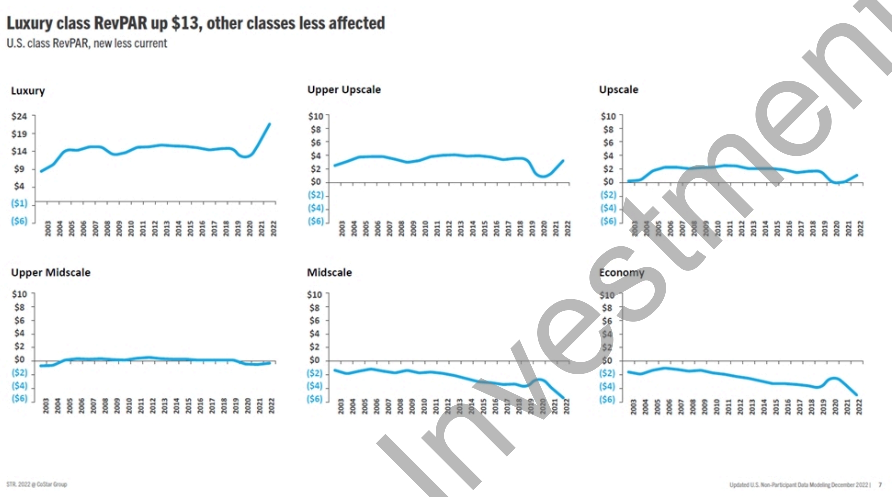


Source: STR/CoStar



Source: STR/CoStar

Major RevPAR statistics presented below:

- Luxury RevPAR: +44.4% y/y and +8.3% versus 2019;
- Upper Upscale RevPAR: +65.5% y/y and +3.3% versus 2019;
- Upscale RevPAR: +36.4% y/y and +8.0% versus 2019;
- Upper Midscale RevPAR: +22.2% y/y and +15.6% versus 2019;
- Midscale RevPAR: +10.2% y/y and +16.0% versus 2019;
- Economy RevPAR: +3.2% y/y and +16.4% versus 2019;
- Independent hotels (~ 1/3rd of the data set) RevPAR: +23.6% y/y and +18.7% versus 2019; and
- Within Upper Upscale & Luxury class hotels:
  - Group: +100.1% y/y vs. +79.4% prior week; versus 2019: -4.6% vs -18.7% prior week.
  - Transient: +32.0% y/y vs. +27.4% prior week; versus 2019: +17.5% vs +9.1% prior week.
- Las Vegas RevPAR: +37.0% y/y and +10.4% 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 +31.9% y/y vs. the running 28-day average of +28.4% y/y.
- **Occupancy:** Absolute occupancy was 56.3% vs. 53.1% for the running 28-day average.
- **Absolute Group occupancy:** 21.4% last week vs. 17.2% for the running 28 days.

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 most) 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), 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**, Miller). While we have three Buy-rated Lodging REITS, (**PK, RLJ, RHP**), we have a neutral to cautious view on the Lodging REIT sector, 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, $32.44, Buy, C. Patrick Scholes)
The Walt Disney Company (DIS, $108.49, Buy, Matthew Thornton)
DiamondRock Hospitality Company (DRH, $9.63, Hold, C. Patrick Scholes)
Hyatt Hotels Corporation (H, $109.12, Buy, C. Patrick Scholes)
Hilton Grand Vacations Inc. (HGV, $47.36, Buy, C. Patrick Scholes)
Host Hotels & Resorts, Inc. (HST, $18.85, Hold, C. Patrick Scholes)
OneSpaWorld Holdings Limited (OSW, $10.51, Buy, Gregory Miller)
Pebblebrook Hotel Trust (PEB, $16.40, Hold, Gregory Miller)
Park Hotels & Resorts Inc. (PK, $14.71, Buy, C. Patrick Scholes)
Playa Hotels & Resorts N.V. (PLYA, $7.58, Buy, C. Patrick Scholes)
Ryman Hospitality Properties, Inc. (RHP, $92.89, Buy, C. Patrick Scholes)
RLJ Lodging Trust (RLJ, $12.57, Buy, Gregory Miller)
Sunstone Hotel Investors, Inc. (SHO, $10.99, Hold, C. Patrick Scholes)
Travel + Leisure Co. (TNL, $42.37, Buy, C. Patrick Scholes)
Marriott Vacations Worldwide Corporation (VAC, $160.04, Buy, C. Patrick Scholes)

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