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 +13.5% y/y last week, easiest Omicron comps fading. +12.9% vs. 2019, helped by holiday shift.

Overall U.S. RevPAR was +13.5% y/y for the week ending 2/18/2023, per STR, down from the prior week's result of +18.9% y/y. Versus 2019, RevPAR was up +12.9%.

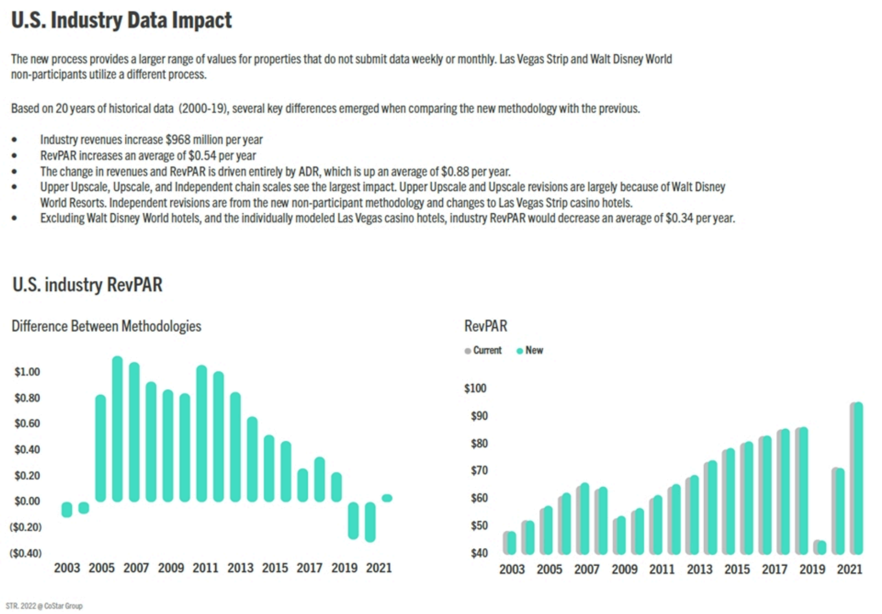
As we get further into the quarter, we are beginning to see the easiest of the y/y Omicron comps fade (RevPAR +13.5% last week vs. +20-30% weekly for most of 2023 so far). Because of the Omicron comp, we still continue to see upper chain scales significantly outperforming the lower-end (early to mid-week Upper Upscale RevPAR up ~+35% and Luxury and Upscale up ~+25% y/y).

Analyzing last week's performance vs. 2019, we believe the timing of the Super Bowl last week and President's Day week in the comparable week in 2019 helped last week's results. Super Bowl timing shift vs. 2019 (2/3/19 vs. 2/12/23) resulted in Phoenix RevPAR on Sunday up +232.7%. Additionally, the comparable week in 2019 contained the President's Day/week holiday whereas last week did not, helping end of the week results as Friday and Saturday RevPAR was up +38% and +55% respectively vs. comparable days in 2019.

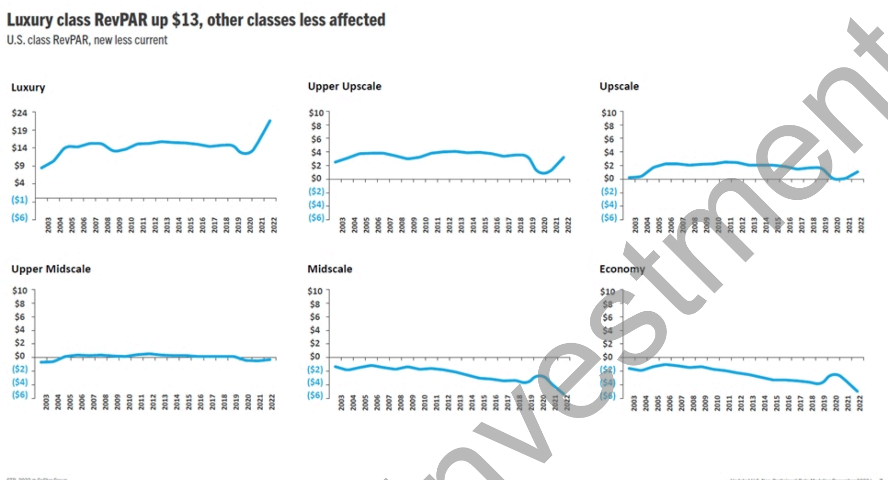
Las Vegas RevPAR: +31.1% y/y and +3.5% versus 2019. Las Vegas ADR vs. 2019 was down last week compared to strong prior week and running 28 day growth (+15.1% vs. +50% and +45%), likely due to the NAHB International Builders Show shifting earlier in the month. Occupancy was also down ~3% last week compared to the running 28 days, slightly dampening aggregate national numbers given Vegas' outsized impact as the largest U.S. lodging market.

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.**

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: +10.1% y/y and +15.0% versus 2019;
- Upper Upscale RevPAR: +24.1% y/y and +3.5% versus 2019;
- Upscale RevPAR: +16.6% y/y and +6.4% versus 2019;
- Upper Midscale RevPAR: +11.4% y/y and +13.4% versus 2019;
- Midscale RevPAR: +4.2% y/y and +16.8% versus 2019;
- Economy RevPAR: +1.4% y/y and +16.3% versus 2019;
- Independent hotels (~ 1/3rd of the data set) RevPAR: +10.2% y/y and +17.1% versus 2019; and
- Within Upper Upscale & Luxury class hotels:
  - Group: +44.8% y/y vs. +55.5% prior week; versus 2019: -3.9% vs +8.3% prior week.
  - Transient: +8.9% y/y vs. +14.4% prior week; versus 2019: +17.0% vs +0.4% prior week.
- Las Vegas RevPAR: +31.1% y/y and +3.5% 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 +13.5% y/y vs. the running 28-day average of +21.8% y/y.
- **Occupancy:** Absolute occupancy was 60.8% vs. 57.6% for the running 28-day average.
- **Absolute Group occupancy:** 19% last week vs. 20.3% 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 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 in 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, $31.91, Buy, C. Patrick Scholes)
The Walt Disney Company (DIS, $101.68, Buy, Matthew Thornton)
DiamondRock Hospitality Company (DRH, $8.79, Hold, C. Patrick Scholes)
Hyatt Hotels Corporation (H, $112.66, Buy, C. Patrick Scholes)
Hilton Grand Vacations Inc. (HGV, $46.59, Buy, C. Patrick Scholes)
Hilton Worldwide Holdings Inc. (HLT, $143.91, Hold, C. Patrick Scholes)
Host Hotels & Resorts, Inc. (HST, $17.08, Hold, C. Patrick Scholes)
OneSpaWorld Holdings Limited (OSW, $10.67, Buy, Gregory Miller)
Pebblebrook Hotel Trust (PEB, $14.51, Hold, Gregory Miller)
Park Hotels & Resorts Inc. (PK, $13.72, Buy, C. Patrick Scholes)
Playa Hotels & Resorts N.V. (PLYA, $7.97, Buy, C. Patrick Scholes)
Ryman Hospitality Properties, Inc. (RHP, $88.66, Buy, C. Patrick Scholes)
RLJ Lodging Trust (RLJ, $11.30, Buy, Gregory Miller)
Sunstone Hotel Investors, Inc. (SHO, $10.50, Hold, C. Patrick Scholes)
Travel + Leisure Co. (TNL, $41.03, Buy, C. Patrick Scholes)
Marriott Vacations Worldwide Corporation (VAC, $154.62, Buy, C. Patrick Scholes)

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