TRUIST

Truist Securities

Lodging REITs

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What's Inside

An analysis of recent hotel labor cost trends, one of the critical components impacting hotel EBITDA margins

Hotel P&L Analyzer: Feb. GOP margins -2,220 bps y/y on -73.6% Total RevPAR.

Cost trends in right direction; top-line staying ugly for full-service hotels

What's Incremental To Our View

Based on "big data" observations from higher-rated U.S. hotels (data source: HotStats): February: -2,220 bps of y/y GOP margin "growth" on -73.6% Total RevPAR (Rooms RevPAR + outside-of-the-room spend). January results were -3,280 bps on -77.7% Total RevPAR.

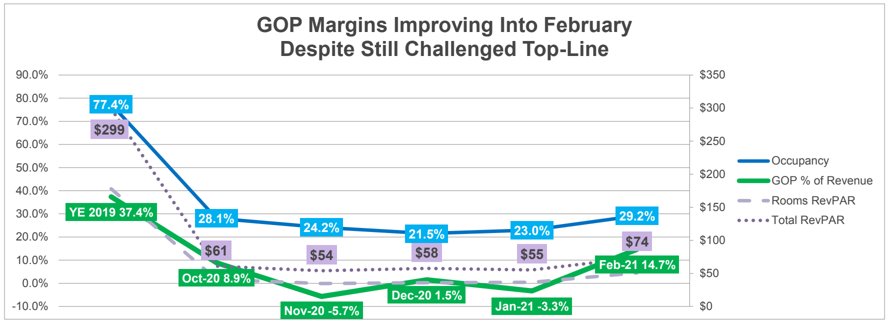
In this month's note we highlight:

- January and February profit results for U.S. hotels
- What is driving the improved performance (not necessarily an ideal recovery picture)

The best news to come out of the February HotStats results is headline GOP margin in absolute terms indicates higher-rated hotels are about as "profitable" as they have been since the start of the pandemic. While we caution investors to not read too much into month/month changes as the HotStats data set hotels are still running sub 30% occupancy, the good news is that trends are progressing in the right direction and will likely continue to do so into March (another excellent luxury leisure month). Items that add some noise to the headline results: ramping occupancy leads to more impressive bottom-line growth before hourly staff rehires, pent-up leisure strength continues (especially luxury), and the reclosure of some hotels reduces some competition.

Below we highlight absolute occupancy, Rooms and Total RevPAR, and GOP % of Total Revenues to indicate trends in recent months. Note that we add data markers for Total Revenues in purple below given the HotStats data set is more oriented to higher-rated hotels whose profitability and operating models incorporate considerable "outside of the room" spending (F&B, catering/conventions, retail, recreation, parking, etc.).

SEE PAGE 5 FOR REQUIRED DISCLOSURE INFORMATION



Notes: Comp sets may differ from month to month. We evaluate headline results for high-level comparisons.
Some properties have reopened over the course of recent months (including competitive properties), which may impact above.
Resort/leisure-oriented hotels may have an overweight influence on 2020/2021 results.

Source: HotStats, Truist Securities Research

Part of the improvement in February profitability is driven by ADR improvement, not surprising given January is a colder month for many markets not to mention fewer Americans had received vaccine shots (a spur to pent-up leisure travel). Detailed statistics are presented further in this note.

However, we caution that as higher-rated demand is still primarily leisure and at 30% occupancy, we believe investors should take a critical evaluation of how profitability can be this relatively positive on low demand. Taking the higher performing resorts out of the equation, we focus on a few dynamics that are not necessarily long-term sustainable:

- Continued light staffing where property managers are holding hourly positions
- Accepting of essentially any demand even if not traditionally core to the hotel (lower-rated leisure, crew, etc.)
- Extreme conservatism on non-essential spending and hiring

Some of our investors and private hotel contacts have suggested to us that the stimulus money to lower- and middle-income Americans is positively impacting leisure demand to markets in colder and non-leisure markets, albeit not without some heartburn. An interesting phenomenon may be occurring as some private hoteliers have noted their exurban and suburban hotels, even at full-service price points, are accepting of demand that they would not normally take otherwise. Examples include traveling youth sports teams and weekend partiers that go to nightclubs in the core of the city but due to budget limitations can only afford to stay in the deep suburbs and exurbs. Both of these groups are known to cause greater wear-and-tear to rooms and can be highly disruptive to the traditional higher-rated weekend guest – impacting operating costs, guest satisfaction scores, F&B expenses, and costs for rooms upkeep. These hotels are also less likely to charge for parking or daily amenity fees. The hotels that are most likely to benefit from this demand are generally C-corps as most REIT full-service hotels are in the urban core/central business districts of markets. There are suburban exceptions for most of the REITS in our coverage (we can elaborate one-on-one) but these suburban hotels are generally lower RevPAR and less EBITDA impactful in normal times. We add that some select-service hotels are also likely benefitting from this demand although we would not be surprised if suburban full-service hotels are lowering room rates in order to capture these customers.

January/February HotStats results:

- **February: Rooms RevPAR of -70.3% and Total RevPAR of -73.6% compared with GOP margins of -2,220 bps y/y.** We add that ADR for February was $174 vs. $227 in the prior year. Occupancy was 29.2% vs. 75.4% in the prior year. For most markets, February 2020 was a fairly normal travel month although there was already slippage in some gateway markets.
    - GOP margins as a percentage of total revenue of 14.7% compares to 36.9% in the prior year.

- **January: Rooms RevPAR of -75.7% and Total RevPAR of -77.7% compare with GOP margins of -3,280 bps y/y.** January ADR, reflective of a colder weather month, was $159 vs. $220 in the prior year. Occupancy was 23.0% vs. 68.3% in the prior year.
  - GOP margins of -3.3% compare to 29.5% in the prior year.

1Q21 profit forecasts: Given the volatile nature of March y/y performance, we are not presenting forecasts for 1Q21 at this time. Our best judgment on projections follow commentary by some of the full-service REITS where the assumption is similar performance in 4Q20 and 1Q21. We would add that 2Q21 is likely to be similar to 1Q21 with perhaps modest improvement in 1Q21 in select markets and some transient corporate/individual business travel returning in 2Q21. A normalized demand segmentation summary of our entire coverage (including non-hotel names) is presented at the end of this note.

We assume for now that given the trajectory of the vaccine distribution, those that are traveling for work are more likely to be in industries or job roles where one's company or role would be highly impacted by the lack of travel. Examples include salespeople, small businesses, and especially private companies without deep financial backing. As we are almost in 2Q21 as is, we are hard-pressed to see major changes transpiring for corporate travel in April as much of the working-age traveler is among the last group to be eligible for vaccination, not to mention the millions of Americans unlikely to want to accept a vaccine. Some more risk-averse citizens may be inclined to wait to return to the office until they have a positive antibody test, much less travel for work in unfamiliar settings without assurances that their business contacts have been vaccinated and have exhibited risk-averse habits.

Segmentation By Company

Lodging REITS	Transient Corporate*	Transient Leisure	Group
DRH	35%	35%	30%
HST	40%	25%	35%
PEB	35%	40%	25%
PK	35%	35%	30%
RHP	5%	25%	70%
RLJ	55%	25%	20%
SHO	45%	20%	35%
C-corps	**Transient Corporate***	**Transient Leisure**	**Group**
CHH	45%	45%	10%
H	40%	20%	40%
HLT	50%	20%	30%
MAR	50%	30%	20%
WH	30%	70%	less than 1%
Experiential Leisure	**Transient Corporate**	**Transient Leisure**	**Group**
MTN	0%	95%	5%
PLYA**	0%	90%	10%
Cruise Lines	**Transient Corporate**	**Transient Leisure**	**Group**
CCL	0%	100%	0%
NCLH	0%	100%	0%
RCL	0%	100%	0%
Vacation Ownership	**Transient Corporate**	**Transient Leisure**	**Group**
BXG	0%	100%	0%
HGV	0%	100%	0%
TNL	0%	100%	0%
VAC	0%	100%	0%

Notes:
*For simplicity, transient corporate includes contract/crew (generally 5% or less of total demand for most companies). Contract/crew is generally very low-rated business. Figures are largely pre-pandemic and reflect normalized demand.
**For PLYA, we estimate a normalized portfolio given the material impact of Hyatt Cap Cana

Source: Truist Securities Research, company filings

Companies Mentioned in This Note

DiamondRock Hospitality Company (DRH, $10.64, Sell, C. Patrick Scholes)
Host Hotels & Resorts, Inc. (HST, $17.19, Sell, C. Patrick Scholes)
Pebblebrook Hotel Trust (PEB, $25.25, Hold, Gregory Miller)
Park Hotels & Resorts Inc. (PK, $21.87, Sell, C. Patrick Scholes)
Ryman Hospitality Properties, Inc. (RHP, $79.00, Sell, C. Patrick Scholes)
RLJ Lodging Trust (RLJ, $15.47, Hold, Gregory Miller)
Sunstone Hotel Investors, Inc. (SHO, $12.73, Sell, C. Patrick Scholes)

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