

## Lodging REITs

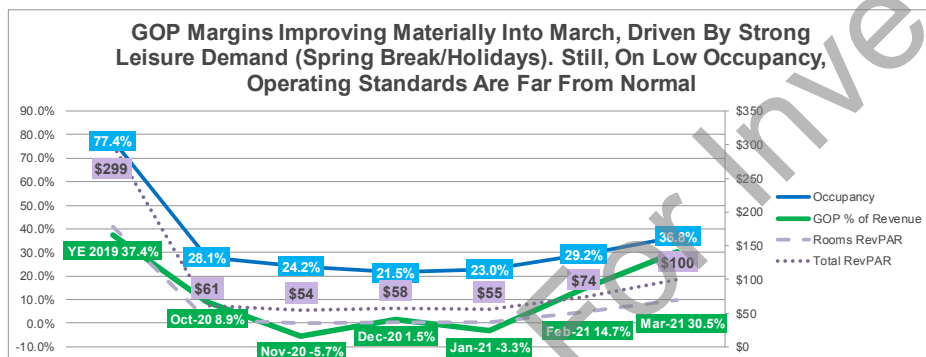
Hotel P&L Analyzer: March GOP margins +4,240 bps y/y on -11.0% Total RevPAR.

1Q21: -790 bps of y/y GOP margin growth on Total RevPAR of -63.8%

### What's Incremental To Our View

Based on “big data” observations from higher-rated U.S. hotels (data source: HotStats): March: +4,240 bps of y/y GOP margin growth on -11.0% Total RevPAR (Rooms RevPAR + outside-of-the-room spend). Comparatively, February was -2,220 bps of y/y GOP margin growth on -73.6% Total RevPAR. 1Q: -790 bps of y/y GOP margin growth on Total RevPAR of -63.8%; absolute GOP margin: +17.1%.

Spring break/holiday leisure demand helped March and 1Q21 results although relatively decent margins on low occupancy are not sustainable, in our view.



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

### Monthly HotStats results:

SEE PAGE 3 FOR REQUIRED DISCLOSURE INFORMATION

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#### What's Inside

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

- **March: Rooms RevPAR of +4.0% and Total RevPAR of -11.0% compared with GOP margins of +4,240 bps y/y.** We add that ADR for March was \$189 vs. \$216 in the prior year. Occupancy was 36.8% vs. 31.0% in the prior year.
  - GOP margins as a percentage of total revenue of 30.5% compares to -11.9% in the prior year.
  - **We note that margins north of 30% on 37% occupancy compare to YE 2019 margins of 37% on 77% occupancy. Clearly there is a major disconnect.** As we have discussed several times in recent months, there is a financial consequence to managers handling hourly tasks -- although we cannot view the current fundamentals as sustainable. Quite frankly, we also view managers in client-facing roles that do not have a background in hotel operations (for example: Directors of Sales and related roles) may be less desirous to clean bathrooms when other industries are hiring for sales tasks today.
- **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:** HotStats estimated its sample had occupancy of 29.9% on \$52 Rooms RevPAR (-59.1% y/y) and \$77 Total RevPAR (-63.8% y/y). GOP margins were -790 bps y/y on absolute margins of 17.1%.

- We anticipate resorts outperformed city hotels by a measurable degree, as supported by March results.
- **Implications for the REITS:** we expect noisy and disparate results given even the more leisure-heavy REITS also have considerable Top 25 market urban exposure.

## Companies Mentioned in This Note

**DiamondRock Hospitality Company** (DRH, \$10.34, Sell, C. Patrick Scholes)

**Host Hotels & Resorts, Inc.** (HST, \$17.95, Sell, C. Patrick Scholes)

**Pebblebrook Hotel Trust** (PEB, \$24.60, Hold, Gregory Miller)

**Park Hotels & Resorts Inc.** (PK, \$22.36, Sell, C. Patrick Scholes)

**Ryman Hospitality Properties, Inc.** (RHP, \$77.35, Sell, C. Patrick Scholes)

**RLJ Lodging Trust** (RLJ, \$15.95, Buy, Gregory Miller)

**Sunstone Hotel Investors, Inc.** (SHO, \$13.04, Sell, C. Patrick Scholes)

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