

Lodging REITs

Hotel P&L Analyzer: May GOP margins +12,490 bps y/y on +541% Total RevPAR. Spartan operations help.

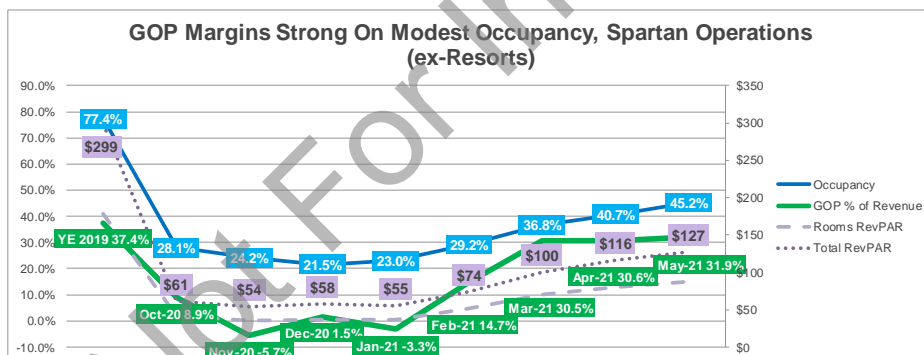
Do you care about the headlines or the fine print? REITs may beat on 2Q, but...

What's Incremental To Our View

Based on “big data” observations from higher-rated U.S. hotels (data source: HotStats): May: +12,490 bps of y/y GOP margin growth on +540.9% Total RevPAR (Rooms RevPAR + outside-of-the-room spend). April: +22,340 bps of y/y GOP margin growth on +752.6% Total RevPAR.

More relevant to us: absolute margins. May GOP margins of 31.9% and April of 30.6% are remarkably strong against a comparison of 37.4% for YE 2019. Subsequently, REIT 2Q earnings beats may be possible. Beneath the headline, we see considerable issues from staffing/rising labor costs/managers exhausted from hourly roles.

While we cannot view the y/y changes as terribly additive, we encourage investors focus on both relatively modest occupancy, ADR trends, and headline margins as important comparisons to 2019. We add that if we stripped out the outperforming resorts from the aggregated results, the remaining hotels would likely present far less impressive results in all categories.



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

May:

- Rooms RevPAR of +539.0% and Total RevPAR of +540.9% compared with GOP margins of +12,490 bps y/y.

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What's Inside

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

- GOP margins as a percentage of total revenue of 31.9% compares to -93.0% in the prior year.

April:

- **Rooms RevPAR of +867.2% and Total RevPAR of +752.6% compared with GOP margins of +22,340 bps y/y.**
 - GOP margins as a percentage of total revenue of 30.6% compares to -192.8% in the prior year.

1Q HotStats results:

- **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.

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