



May Hotel P&L Analyzer: GOP margins -40bps. on Total RevPAR of +3.8%

Weak result on this level of Total RevPAR growth

What's Incremental To Our View

Based on observations from ~1,000 higher-rated U.S. hotels (data source: HotStats) in our hotel data analytics lab: May: 40 bps of GOP margin loss on approximately +3.8% Total RevPAR (Total RevPAR includes Rooms RevPAR plus outside-of-the-room spend). For 2Q, we thought that May results would be critical for hotel REITS to hit EBITDA guidances -- led by corporate travel catch-up following the extended Spring Break. While rooms RevPAR in May at +2.3% for our hotel set improved from April's -1.7%, the decrease in margins in May was disappointing and increases our cautiousness on hotel REITS hitting or beating consensus expectations.

We forecast 2Q EBITDA margin loss for US full-service hotels of -25 bps to -100 bps (our prior estimate was flat to -75 bps). While hotel REITS remain highly profitable, helped by low interest rates and relatively low levels of debt, we do not anticipate margin gains in 2Q. *If it were not for the proactiveness of management teams, margins could be far worse in this low RevPAR growth / labor cost headwind environment.* **For now, we are maintaining our 2019 EBITDA margin forecast of flat to -50 bps.**

While May RevPAR growth came in as expected, we were surprised at the EBITDA margin loss. Looking forward, June will be a tough y/y comp (Total RevPAR of +4.7% in June 2018) due to the timing of July 4th being a Thursday this year from a Wednesday last year (the end of June last year saw a RevPAR bump from July 4th falling on a Wednesday).

- Please note that there are anomalies for specific REITS due to portfolio changes and property renovations, weather impact, etc. thus we focus on the aggregate numbers. **Hotels owned by the REITS orient more heavily to Upper Upscale versus Luxury, thus our expectations for margin growth for REITS reflects that differential.** We expect REITS with a greater proportion of Luxury hotels (ex-idiosyncratic factors as aforementioned) to have a greater opportunity for slight margin expansion (or lower margin declines) in 2Q19 given the positive leisure influence of the April holidays.

Our 2019 margin forecast holds at flat to -50 bps. Per the HotStats data, YTD GOP margin growth is flat and we do not anticipate the back half of the year to be an easier comp for most higher-rated hotels *and we certainly do not see a second half acceleration in our RevPAR data analytics lab.* The one major exception here are hotels that were materially negatively impacted by labor disruptions (strikes) in 2H18.

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What's Inside

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

May results color: While there were some modest shifts in the May calendar y/y (one more weekend day and one less weekday), the bigger issue as it relates to margins was the large variance between RevPAR and GOP margin growth. Margins were -40 bps given Rooms RevPAR of +2.3% and ADR growth of +2.0%. Given the continued strong trend of faster growth in out-of-room spend (food and beverage, ancillary fees, etc.), Total RevPAR growth was +3.8% (150 bps better than Rooms RevPAR). The variance between Total RevPAR and GOP margin growth was a somewhat more significant than expected 420 bps. By comparison, the spread between these two metrics averaged ~ 240 bps over the past year and why we were a bit surprised about the May margin loss.

The headwind of labor shortages impacting hotel construction/renovations (near-term (+) Lodging REITS and (-) Lodging C-corps) and filling open hourly positions at hotels (-) REITS remains a major industry issue. At the NYU International Hospitality Investment Conference in early June, this topic was top of mind for lodging executives. We did not hear a lot of solutions to this continued headwind (we think the "solutions" are not the ones desirable for hotel owners -- higher unemployment for example likely means there are bigger macroeconomic problems at play).

- That being said: automation is not going to replace hotel workers en masse (at least not in the foreseeable future -- we also discussed this topic in last month's note relating to "robot layoffs" at a Japanese hotel). However, Loews Hotels (L, NR) CEO Jonathan Tisch noted at NYU that the use of automation could allow for better guest engagement as some tasks are assigned to machines.

Monthly Profitability Metrics

May profitability: Moderate RevPAR growth but modestly negative margins.

Industry Metric	May 2019 y/y	YTD		May 2019	YTD	FY2018	2018 y/y	FY2017
Occupancy	30	-70	bps	79.9%	77.4%	77.7%	30 bps	77.4%
ADR	2.0%	1.8%	%	\$232	\$236	\$225	2.5%	\$220
RevPAR	2.3%	0.8%	%	\$186	\$182	\$175	2.8%	\$170
Total Revenue PAR	3.8%	2.4%	%	\$316	\$310	\$289	3.3%	\$280
Total Dept. Profit % Total Rev.	-40	10	bps	60.9%	60.8%	60.0%	10 bps	59.9%
Total Hotel Labor Costs % Total R	20	20	bps	34.9%	35.0%	35.5%	20 bps	35.3%
Total GOP PAR	2.7%	2.3%	%	\$125	\$121	\$108	4.1%	\$104
Total GOP % of Total Rev.	-40	0	bps	39.5%	39.0%	37.4%	20 bps	37.2%

Source: STRH Research, HotStats

All dollar figures are in USD. 2017 figures have been revised as of December 2018 to account for the updated sample set.

April profitability: Flattish RevPAR and moderately negative margins.

Industry Metric	Apr 2019 y/y	YTD		Apr 2019	YTD	FY2018	2018 y/y	FY2017
Occupancy	-70	-100	bps	81.6%	76.7%	77.7%	30 bps	77.4%
ADR	-0.8%	1.7%	%	\$238	\$236	\$225	2.5%	\$220
RevPAR	-1.7%	0.4%	%	\$194	\$181	\$175	2.8%	\$170
Total Revenue PAR	-0.4%	2.0%	%	\$324	\$309	\$289	3.3%	\$280
Total Dept. Profit % Total Rev.	-40	20	bps	62.3%	60.8%	60.0%	10 bps	59.9%
Total Hotel Labor Costs % Total Rev.	100	20	bps	33.2%	35.0%	35.5%	20 bps	35.3%
Total GOP PAR	-3.0%	2.2%	%	\$132	\$120	\$108	4.1%	\$104
Total GOP % of Total Rev.	-110	0	bps	40.9%	38.8%	37.4%	20 bps	37.2%

Source: STRH Research, HotStats

All dollar figures are in USD. 2017 figures have been revised as of December 2018 to account for the updated sample set.

March profitability: Slightly negative RevPAR growth although y/y margins were modestly positive.

- **1Q:** Operating Department margins were ~ + 40 bps and GOP margins were ~ +50 bps.

Industry Metric	Mar 2019 y/y	YTD		Mar 2019	YTD	FY2018	2018 y/y	FY2017
Occupancy	-160	-110	bps	81.1%	75.1%	77.7%	30 bps	77.4%
ADR	1.3%	2.7%	%	\$245	\$236	\$225	2.5%	\$220
RevPAR	-0.8%	1.2%	%	\$198	\$177	\$175	2.8%	\$170
Total Revenue PAR	2.3%	2.9%	%	\$333	\$304	\$289	3.3%	\$280
Total Dept. Profit % Total Rev.	20	40	bps	63.0%	60.2%	60.0%	10 bps	59.9%
Total Hotel Labor Costs % Total Rev.	-30	-20	bps	32.5%	35.6%	35.5%	20 bps	35.3%
Total GOP PAR	3.2%	4.3%	%	\$142	\$116	\$108	4.1%	\$104
Total GOP % of Total Rev.	40	50	bps	42.7%	38.1%	37.4%	20 bps	37.2%

Source: STRH Research, HotStats

All dollar figures are in USD. 2017 figures have been revised as of December 2018 to account for the updated sample set.

February profitability: Decent RevPAR growth resulted in modest y/y margins.

Industry Metric	Feb 2019 y/y	YTD		Feb 2019	YTD	FY2018	2018 y/y	FY2017
Occupancy	-40	-70	bps	76.0%	72.0%	77.7%	30 bps	77.4%
ADR	4.4%	3.6%	%	\$235	\$231	\$225	2.5%	\$220
RevPAR	3.9%	2.5%	%	\$179	\$166	\$175	2.8%	\$170
Total Revenue PAR	3.6%	3.2%	%	\$308	\$288	\$289	3.3%	\$280
Total Dept. Profit % Total Rev.	100	60	bps	60.6%	58.5%	60.0%	10 bps	59.9%
Total Hotel Labor Costs % Total Rev.	-40	-10	bps	35.3%	37.5%	35.5%	20 bps	35.3%
Total GOP PAR	7.1%	5.0%	%	\$118	\$102	\$108	4.1%	\$104
Total GOP % of Total Rev.	120	60	bps	38.4%	35.2%	37.4%	20 bps	37.2%

Source: STRH Research, HotStats

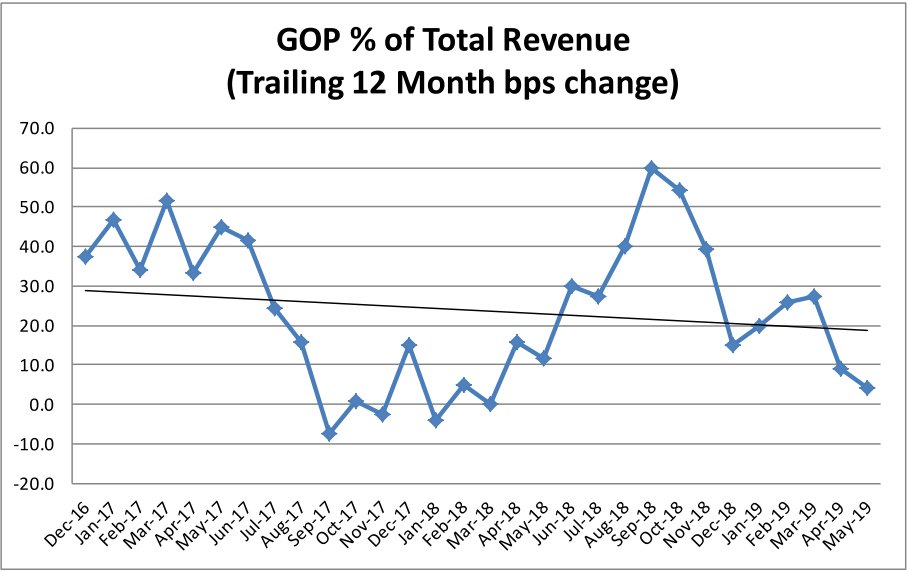
All dollar figures are in USD. 2017 figures have been revised as of December 2018 to account for the updated sample set.

January profitability: Limited RevPAR growth resulted in flat y/y margins.

Industry Metric	Jan 2019 y/y		Jan 2019	FY2018	2018 y/y	FY2017
Occupancy	-110	bps	68.3%	77.7%	30 bps	77.4%
ADR	2.6%	%	\$226	\$225	2.5%	\$220
RevPAR	1.0%	%	\$154	\$175	2.8%	\$170
Total Revenue PAR	2.8%	%	\$271	\$289	3.3%	\$280
Total Dept. Profit % Total Rev.	20	bps	56.4%	60.0%	10 bps	59.9%
Total Hotel Labor Costs % Total Rev.	20	bps	39.7%	35.5%	20 bps	35.3%
Total GOP PAR	2.7%	%	\$87	\$108	4.1%	\$104
Total GOP % of Total Rev.	0	bps	32.0%	37.4%	20 bps	37.2%

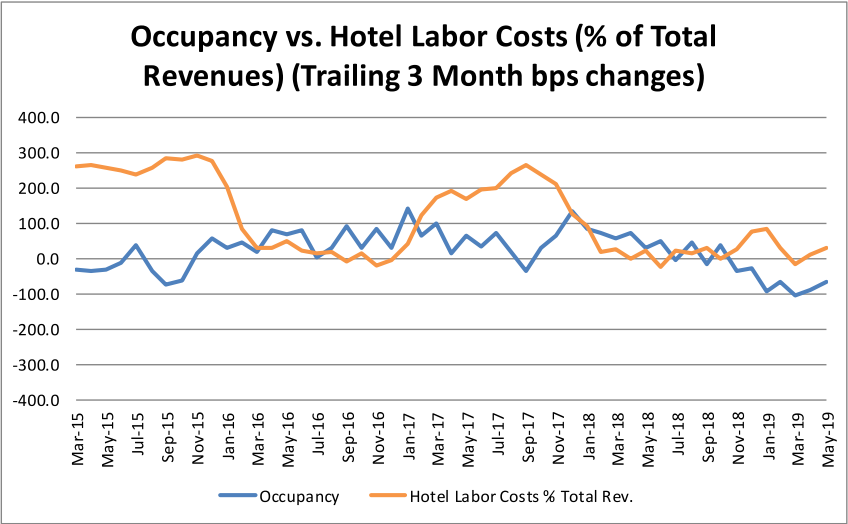
Source: STRH Research, HotStats

All dollar figures are in USD. 2017 figures have been revised as of December 2018 to account for the updated sample set.

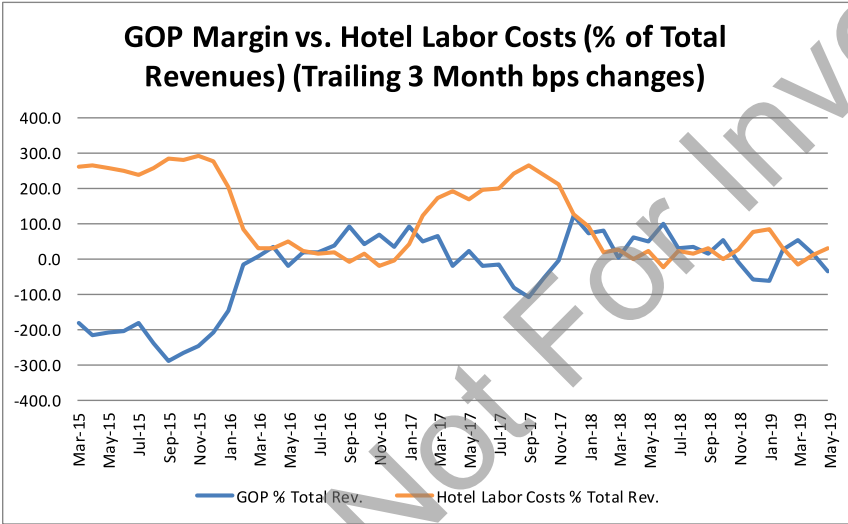


Source: STRH Research, HotStats

- The following charts highlight trends in labor costs vs. occupancy and GOP margins.



Source: STRH Research, HotStats



Source: STRH Research, HotStats

<u>REIT Margin Guidances*</u>				
		<u>2Q Guide</u>	<u>2019 Guide</u>	<u>Margin Guidance Provided</u>
Chesapeake	CHSP	guidance no longer updated due to proposed PK merger		
DiamondRock	DRH	none	none	
Host	HST	none	-25 to +35 bps	Comp Hotel EBITDA margins
Pebblebrook	PEB	-100 to -75 bps	-50 to -40 bps	Same Property EBITDA margins
Park	PK	none	+20-80 bps	Comp Hotel Adjusted EBITDA Margins
Ryman	RHP	none	none	
RLJ	RLJ	none	-100 bps to -20 bps	Pro Forma Hotel EBITDA Margins (Implied guide from 32.8% YE 2018)
Sunstone	SHO	none	-25 to -75 bps	21 Hotel Comp Portfolio Adjusted EBITDAre Margin

*Note: We do not consider EBITDA margin guidances to be comparable across the Lodging REIT space as indicative of the type of margin guidance provided.

Source: Company filings, STRH Research

Companies Mentioned in This Note

Chesapeake Lodging Trust (CHSP, \$27.96, Hold, C. Patrick Scholes)
DiamondRock Hospitality Company (DRH, \$9.98, Hold, C. Patrick Scholes)
Host Hotels & Resorts, Inc. (HST, \$17.82, Hold, C. Patrick Scholes)
Pebblebrook Hotel Trust (PEB, \$27.22, Hold, Gregory Miller)
Park Hotels & Resorts Inc. (PK, \$27.10, Buy, C. Patrick Scholes)
Ryman Hospitality Properties, Inc. (RHP, \$78.43, Hold, C. Patrick Scholes)
RLJ Lodging Trust (RLJ, \$17.41, Hold, C. Patrick Scholes)
Sunstone Hotel Investors, Inc. (SHO, \$13.19, Hold, C. Patrick Scholes)
Loews Corporation (L, \$53.43, NR)

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