



Jan RevPAR Monitor: Seeing ADR uptick but Occ give-back. Near-in softness too.

Net-net reducing our 2019 RevPAR forecast by 50bps. and 1Q19 by 100bps.

Based on forward-looking observations in our RevPAR data analytics lab combined with conversations with private hotel owners over the past eight weeks, the most interesting trend we have observed is what appears to be the hotel companies pushing ADR growth more than had been done for most of 2018. However, along with the ADR push is an occupancy give-back and more. As discussed later in this report, a conundrum this cycle has been the relatively weak ADR growth despite record occupancy levels; *what we seem to be seeing now is "pricing increases without pricing power"*. Additionally, looking across the spectrum of hotel demand and pricing for the various customer segments (mid-week business, weekend leisure, group/convention), we would not classify forward-looking trends of late as overly encouraging and have seen some softness in In-The-Quarter-For-The-Quarter ("ITQFTQ") RevPAR trends. While difficult to determine exact causation for these ITQFTQ trends, we have to believe the government shutdown is at least part of it as is the y/y lapping of last year's tax cuts (a stimulus that was one-time in nature).

- Over the past eight weeks in our data from OTAs we observe US full-service hotels pushing pricing closer to +3.5pts y/y whereas the number of reservations (same-store) made at those prices are tracking down 1-2pts y/y. By comparison, 2018 US full service ADR grew approx. 2.5pts. whereas occupancy was flat y/y.
- **Net-net, because of this trend and some softness in ITQFTQ demand trends we are lowering our 2019 RevPAR forecast for US full-service hotels (AKA the typical Hilton (HLT, Buy) or Marriott (MAR, Hold) branded hotel) by 50 bps. to +0.5-2.5% from +1-3% previously and reducing our 1Q19 projection to +0.5-2.5% from +1.5-3.5% prior.** That said, for reasons described below, we believe the RevPAR composition shift has a negligible impact on earnings.
- **Lastly, we are introducing a 2Q19 forecast of +0.5-2.5%.** Please see discussion below on expectations by month.

What does it all mean for the lodging stocks? As we have always said, having to cut headline RevPAR forecasts is never a catalyst for the lodging stocks and unfortunately we continue to believe this to be the case.

- **The stocks: We continue to prefer cruise stocks over lodging stocks at the moment. Specifically within cruise lines we prefer NCLH followed by RCL.** Within hotels we continue to favor C-Corps over hotel REITS (we favored hotel REITS for the first half of last year). **In an environment of low RevPAR growth combined with gradually increasing wages/margin pressures, returns for hotel owners is a major headwind to EBITDA growth.** Hotel stocks, but especially hotel REIT stocks, typically work best when there is a spark to RevPAR growth and at this moment we are not seeing such sparks like we did at this time one year ago.

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What's Inside

An in-depth update to our RevPAR outlook

- **More attractive valuations: The relative good news.** Unlike where we were a year ago with peak valuations for C-Corps, following a year of earnings growth for most companies combined with material cuts to share prices, valuations are now in the bottom half of historical ranges which we believe better reflects political and macroeconomic uncertainty than it did a year ago.

- **Please see additional discussion at the end of this report on more specifics for the C-Corp, Hotel REIT, and Vacation Ownership sectors.**

Group/convention trend observations: 2019 is a soft year for nearly every major market except for San Francisco and Las Vegas. The good news is 2020 improves. However 2021 again decelerates and city-wide RevPAR will be further diluted by two more years of compounded 2-3% supply between now and then. **Looking in our crystal ball, signs point to 2021 shaping up to be a year close to zero RevPAR growth for US full-service hotels.**

- Interestingly the convention markets in 2019 that are dogs, namely Chicago and DC, turnaround 180 degrees in 2020, whereas San Francisco is actually tracking at negative y/y growth for 2020 due to the difficult 2019 comp (and we have to wonder if/when [the San Francisco homeless problem will impact demand](#)).

We are trimming our 1Q19 forecast for US full-service hotels to +0.5-2.5% from +1.5-3.5% and are cutting our +1-3% overall forecast for 2019 to +0.5-2.5%. Given lower supply growth in the Luxury and Economy segments in 2019, these two hotel classes should come in towards the high-end of our 2019 range whereas supply-impacted Upscale and Midscale hotels will likely come in towards the lower-end of the range for the year.

- **We do not believe the hotel C-Corps will cut RevPAR guidances just yet as it is still early in the year and there is still time to hope for an improvement (in the old days, we called this “extend & pretend”).** We continue to believe the high-end of HLT’s +2-4% global guidance is most at risk to be cut this year (not a positive catalyst for the stock when/if it happens but recall the stock traded down materially when they [reported 3Q18 results last October](#) partly on the belief that their guide was too aggressive; ergo some of this cut has already been priced into the stock.)

Earnings ramifications of gaining a point of ADR but losing 1-2 points of occupancy: We believe the potential impact from top-line results where hotels lose 1-2 points of occupancy but gain a point of ADR nets to no material change to profitability. This is mostly because ADR flows 80-90% to the bottom line for many hotels. By comparison, due to the fixed/variable cost structures of hotels, driven in part by partially fixed labor costs, modest changes to occupancy are far less impactful to profitability. Hotel managers may be willing to cut staffing and various other operating costs if occupancy declines materially, but a slight reduction to occupancy is unlikely to result in material expense changes. Note, especially for the Lodging REITS, many hotels are still running generally very high occupancies – for example, an efficiently run hotel going from 85% to 83% occupancy with a slight ADR gain would likely see no major changes to operating expenses.

- **Diving a bit deeper in the P&L detail:** there are some profitability considerations if you lose a transient guest versus a group guest. A group guest may contribute more to other hotel revenue departments (food and beverage, catering, etc.) than a transient guest (excluding some resort properties). Similarly, profitability can be impacted by how a customer books their stay (direct bookings being less expensive than many OTAs).

- However, we still believe the math of 1-2 points of occupancy loss and 1 point of ADR gain nets generally to no material changes to profitability. **We continue to believe the bigger impact to hotel profitability will not come from modest changes to the top-line but the less controllable macro factors driving labor cost growth.**

The conundrum on ADR growth we have seen for the past several years: We believe an emerging theme on the mind of investors as of late (and was discussed with Lodging C-corp executives at our November Summit) is the disparity between near-peak U.S. occupancy levels and hoteliers’ inability to significantly push room rates. Increasingly advanced revenue management technology combined with sheer demand-supply factors would suggest hoteliers’ have greater abilities to push room rates at peak occupancy periods. At an annualized ~66% occupancy, the U.S. hotel industry is 400 bps above the long run average with many hotels running at far higher levels throughout the year. However, room rate (ADR) growth has remained slight in the low-mid single digits. While Lodging executives have pointed to various factors that may be contributing to this disparity, no one has been able to fully explain the rationale. [We believe researchers at CBRE Hotels’ Americas Research](#) have come as close as anyone to an answer – they can explain ~60% of the rationale from two fronts:

1. "Sharing economy discounts": Flexible supply can limit extraordinary rate increases during high demand periods that in the past boosted average rates. (Ex: Super Bowl)
2. "Extraordinary and localized supply growth": High rate of supply change in city markets or important hotel submarkets impacting management opportunities to increase rate while preserving high occupancy.

Looking at our most recent forward-looking demand and pricing observations:

1Q19

- **January:** Started off soft [due to the shift of New Years one day later in the week this year](#). We see the month tracking at the lower-end or modestly below our previous expectation of +1.5-3%. Last minute RevPAR trends have been soft.
- **February:** February continues to look like the strongest month of the quarter, and should finish in the range of +2.5-4.5%. We believe the strength is possibly due to Valentine's day shifting to a Thursday from a Wednesday last year and from [an easy Nor'easter comp the last week of the month](#).
- **March:** We see this month tracking towards the mid-point of our 0.5-2.5% 1Q19 expectation. We originally assumed March would benefit from the timing of Easter, to Sunday, April 21 from Sunday, April 1 last year as well as easy Nor' Easter comps. However, we are now less convinced this is the case and believe the shift will be somewhat neutral to March and April. Specifically:
 - Week ending 3/23/19: **Difficult** group comp;
 - Week ending 3/30/19: **Easy** group comp;
 - Week ending 4/6/19: **Easy** group comp; and
 - Week ending 4/13/18: **Difficult** group comp.

2Q19

- **April:** Like March (above), we see Easter as a neutral and the month also around +0.5-2.5%
- **May:** Looks to be the strongest month of the quarter, with RevPAR possibly over +3%.
- **June:** Will be hurt by July 4th moving to a Thursday this year from a Wednesday last year. Recall last year the last week of June [benefited from July 4th moving to a Wednesday from a Tuesday](#) whereas the July 4th week in 2018 [was hurt by this shift](#).

Quarterly Tracking

	1Q19	2Q19	2019E
	Overall	Overall	Overall forecast
Dec-18	+0.5-2.5%	+0.5-2.5%	+0.5-2.5%
Oct-18	+1.5-3.5%		+1-3%
Aug-18			+1-3%
Jul-18			+1-3%

Source: STRH Research

International results and expectations:

Internationally for December, according to STR, local currency RevPAR in Europe was +7.2% y/y, higher than the strong +6.7% in the prior month. **4Q18 averaged +8.1% in local currency, slightly higher than the "mid-single digit" guidances MAR and HLT issued/implied. Importantly, outperformance in Europe in 4Q should partly offset what will likely be modest RevPAR misses domestically for the C-Corps.** Hurt by 708 bps of FX headwinds last month (vs. 594 bps in November), results in Europe in US\$ of +0.1% y/y compare to +0.7% in the prior month.

- Asia-Pacific RevPAR growth in USD was -3.9%; Northeastern Asia was negative (-3.3%) for the fourth straight month. We believe some local currency results were much stronger.

4Q estimated regional actuals vs. 2018 C-corp expectations:

- **Europe:** Hilton (HLT, Buy) guided for European RevPAR growth in 2018 (in constant currency) to be in the mid-single digits for 2018 and Marriott (MAR, Hold) projected (in constant currency) mid-single digits growth for 4Q.
 - Our projection for 4Q European RevPAR growth in local currency is +7-9% (our prior estimate was +5-7%). In US\$, our projection for 4Q European RevPAR growth is +1-3% (our prior estimate was "low single digit positive"). We note that MAR and HLT's European exposures are overexposed to select European markets and countries and thus it is likely that MAR and HLT's European performance will naturally differ from our European aggregated results.
- **Asia-Pacific:** HLT is guiding 2018 RevPAR up high-single digits with China of ~ +11% and MAR is guiding up at a mid-single digit rate for 4Q.
 - Our projection for 4Q Asia-Pacific RevPAR growth in local currency is +5-7% (unchanged from our prior estimate) and -2% to -4% in US\$ (our prior estimate was slightly negative % in US\$). Note: STR results reported in US\$ are being deflated by FX headwinds.

Hyatt, InterContinental, and Marriott have the greatest exposure to Europe and Asia. From Europe, MAR generates approximately 15% of EBITDA, IHG (NR) 15%, WH (Buy) 15%, and H (Hold) and HLT 10% each. Of these companies, H and MAR have the greatest exposure to Asia (~10-20% of EBITDA). Each of the other companies generates 5% to 10% of EBITDA from the Asia-Pacific region.

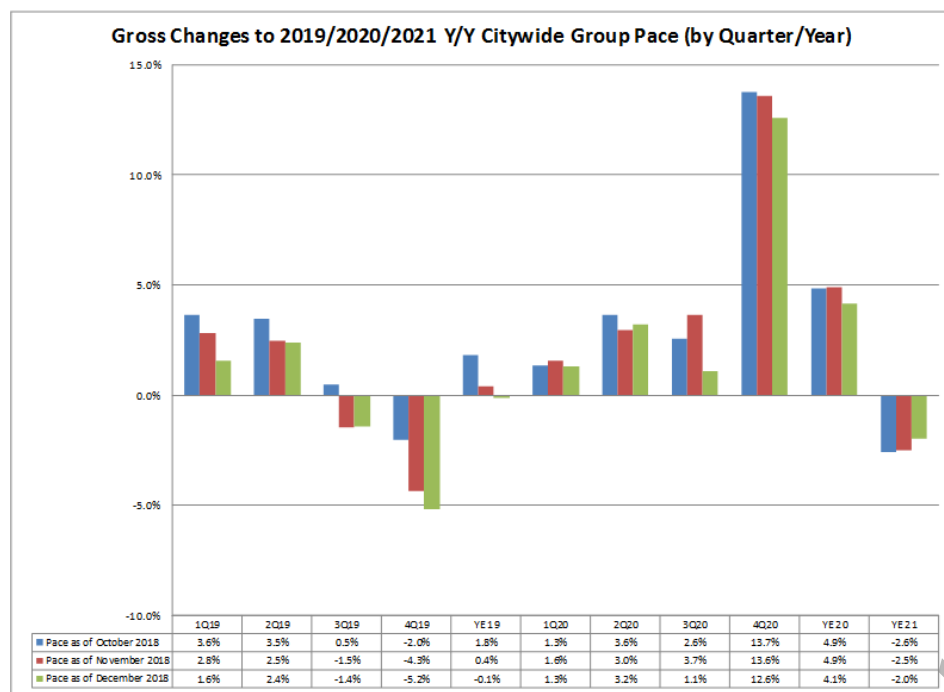
Thoughts on international markets in 2019:

Europe: Over the past year, Eurozone growth was hurt by slower export growth and political instability. As we enter 2019, the Brexit saga and the Italian budget impasse remain. On the positive side, Europe, a large trading partner of China, should benefit from stabilization in China's economy. Monetary policy remains accommodative, and fiscal stimulus is expected in key European countries. Still, until some of the political uncertainties are resolved, growth is likely to remain underwhelming.

China: We expect the world's second largest economy, to maintain growth just above 6%. While trade tensions cloud the outlook, growth should be aided by fiscal stimulus measures starting in early 2019, targeting specific industries. For instance, an income tax cut for low-wage workers will take effect in January 2019 along with other tax cuts worth about 1% of GDP. Local-level governments have also been instructed to accelerate infrastructure spending. Furthermore, the People's Bank of China (PBOC) continues to loosen monetary policy, and it has much more room to cut, if needed. Finally, the currency weakness should help exports.

Examining the forward-looking group/convention trends: On the surface, we would describe headline forward looking trends for 2019 and especially for 2020 as "not that bad." However, over the next several years urban hotels will see approx. 2-3% new supply growth annually and those headline "gross demand" growth rates will be diluted on a "same-store" basis by this new supply. *If you're a city convention bureau, you're probably happy about the 2020 pace of demand, however if you're a hotel owner in that city you are less enthusiastic because of the new hotels opening up around the block from you that will take some of that demand.*

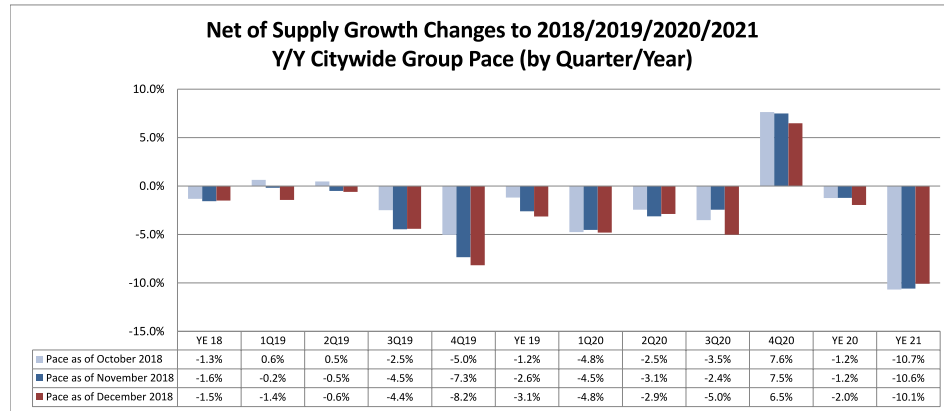
- As we look out into 2021, while it is difficult to prove causation, we would not be surprised if [trade war fears](#) are making companies somewhat more hesitant in making longer term group meeting and convention commitments.



Source: STRH Research, TAP

However, when we add approx. 2-3% of annual urban hotel supply over the next several years, the same-store projection looks encouraging:

- **2019:** Our net-of-supply group pace for 2019 is -3.1% (Approx. 100-150 bps. lower ex-San Francisco). To this we add approx. 3 percentage points of rate growth to come up with a projection that same-store Group RevPAR is tracking at approx. +0-1% y/y for 2019 at the moment. We note that 2019 will show massive gains in SF due to the completion of the Moscone Center renovations.
- **2020:** Our net-of-supply group pace for 2020 is -2.0%. To this we add approx. 3 percentage points of rate growth to come up with a projection that same-store Group RevPAR is tracking at approx. +1% y/y for 2020 at the moment, with approx. 20% of final group reservations on the books.
- **2021:** Our net-of-supply group pace for 2020 is -10.1%. To this we add approx. 3 percentage points of rate growth to come up with a projection that same-store Group RevPAR is tracking at approx. -7% y/y for 2021 at the moment, with approx. -10% of final group reservations on the books. Needless to say this is not a very encouraging number but there is still plenty of time for it to improve.



Source: STRH Research, TAP

Segmentation By Company			
	Transient Corporate	Transient Leisure	Group
REITS			
CHSP	45%	20%	35%
DRH	45%	20%	35%
HST	45%	15%	40%
PK	45%	20%	35%
RHP	5%	15%	80%
RLJ	55%	25%	20%
SHO	45%	20%	35%
PEB (not covered)	60%	20%	20%
C-corps			
	Transient Corporate	Transient Leisure	Group
CHH	45%	45%	10%
H	40%	20%	40%
HLT	50%	20%	30%
MAR	45%	20%	35%
WH	45%	45%	10%

Source: STRH Research, company filings

Major Markets:

Not surprisingly, due to completed renovation of the convention center, San Francisco will be the outstanding market over the next year although it is showing negative growth for 2020.

- We observe **Houston** getting “less bad” as the year progresses as the difficult y/y comps end in August.
- **Washington DC** was very weak before the government shut down and is shaping up to be even weaker now.

Ranking the big six major US markets for 2019. Group/meeting bookings are the best way to think about market outperformance/ underperformance for time periods more than 90 days out. A healthy (or weak) convention calendar really drives city performance (with the notable exception of NYC as that is mostly a transient market). Based on initial group/convention bookings, we lump the top six markets into three buckets:

2019:

1. Well above average: SF

2. Average: NYC

3. Below average: Boston, Los Angeles

4. Well below average: Chicago, Washington DC

Additional color on the big six:**Boston:**

1Q19: Average

2Q19: Average

2019: Below average

Est exposure to Boston market								
	CHSP	DRH	HST	PEB	PK	RHP	RLJ	SHO
Boston	17%	15%	6%	15%	2%	0%	4%	14%
Rank	1	2	5	2	7	8	6	4
Note: Est. exposures include surrounding areas								
Source: STRH Research, Company data								

Chicago:

1Q19: Well below average

2Q19: Below average

2019: Well below average

	Group/convention outlook for Chicago										
Pace as of	1Q19E	2Q19E	3Q19E	4Q19E	YE 19	1Q20E	2Q20E	3Q20E	4Q20E	YE 20	YE 21
Dec-18	-30.0%	-10.0%	-5.1%	-18.3%	-14.8%	24.7%	21.8%	-6.9%	-0.1%	9.5%	10.7%
Nov-18	-31.1%	-9.2%	-5.6%	-18.3%	-14.8%	27.7%	20.0%	2.4%	2.8%	12.3%	11.2%
Oct-18	-32.4%	-7.9%	-7.7%	-18.2%	-15.0%	19.3%	27.3%	-1.0%	2.7%	13.1%	6.8%

Source: STRH Research, TAP

Est exposure to Chicago market								
	CHSP	DRH	HST	PEB	PK	RHP	RLJ	SHO
Chicago	9%	11%	4%	4%	6%	0%	4%	7%
Rank	2	1	5	5	4	8	5	3
Note: Est. exposures include surrounding areas								
Source: STRH Research, Company data								

Los Angeles:

1Q19: Below average

2Q19: Above average

2019: Below average

Group/convention outlook for Los Angeles											
Pace as of	1Q19E	2Q19E	3Q19E	4Q19E	YE 19	1Q20E	2Q20E	3Q20E	4Q20E	YE 20	YE 21
Dec-18	-12.3%	8.3%	-16.8%	20.4%	-2.3%	-8.6%	19.8%	48.7%	17.9%	17.6%	-23.6%
Nov-18	-15.4%	6.8%	-19.3%	21.0%	-4.2%	-6.8%	10.6%	50.3%	20.0%	16.1%	-26.1%
Oct-18	-27.6%	-1.3%	-31.3%	7.6%	-15.5%	-21.1%	9.6%	48.4%	-0.9%	6.9%	-21.4%

Source: STRH Research, TAP

Est exposure to LA market								
	CHSP	DRH	HST	PEB	PK	RHP	RLJ	SHO
LA	8%	1%	6%	13%	0%	0%	5%	8%
Rank	2	6	4	1	7	7	5	2
Note: Est. exposures include surrounding areas								
Source: STRH Research, Company data								

NYC: Following +3.4% RevPAR growth in 2018 we believe RevPAR growth will be closer to flat in 2019. In 2018 [NYC was helped by new regulations on short-term rentals](#) (Airbnb) which took some of the new “shadow supply” pressure away. In 2019 NYC will not have that same tailwind like it did in 2018.

- A major headwind to same store RevPAR growth in NYC remains several years of compounded 4-6% new supply growth. Per Lodging Econometrics, city-wide new room supply grew 5.1% in 2016, 4.9% in 2017, and is projected expected to grow 6.8% in 2018, 6.0% in 2019, and 3.5% in 2020. Even if some of these expected new hotels never open, it is difficult to envision that NYC will not have continued pressure from above-average supply over the next several years. **We believe RevPAR growth in NYC will be flattish in 2019.**

Est exposure to NYC market								
	CHSP	DRH	HST	PEB	PK	RHP	RLJ	SHO
NYC	5%	10%	9%	2%	7%	0%	5%	4%
Rank	4	1	2	7	3	8	4	6
Note: Est. exposures include surrounding areas								
Source: STRH Research, Company data								

San Francisco: 1Q18 was the last quarter of Moscone-driven weakness. Specifically, March 2018 was the month where SF turned the corner.
1Q19: Well above average (**likely the best quarter of 2019 for any major city**)

2Q19: Well above average

2019: Well above average

Group/convention outlook for San Francisco											
Pace as of	1Q19E	2Q19E	3Q19E	4Q19E	YE19	1Q20E	2Q20E	3Q20E	4Q20E	YE20	YE21
Dec-18	85.9%	50.1%	8.4%	75.7%	52.6%	-29.8%	32.0%	-15.4%	-10.1%	-9.0%	-9.5%
Nov-18	86.9%	52.6%	8.2%	75.9%	53.5%	-30.5%	36.5%	-15.1%	-10.2%	-8.4%	-2.7%
Oct-18	90.4%	57.9%	14.7%	76.0%	58.0%	-28.0%	37.9%	-15.1%	-10.1%	-7.2%	-2.5%

Source: STRH Research, TAP

Est exposure to SF market								
	CHSP	DRH	HST	PEB	PK	RHP	RLJ	SHO
San Francisco	23%	1%	10%	20%	12%	0%	11%	8%
Rank	1	7	5	2	3	8	4	6
Note: Est. exposures include surrounding areas								
Source: STRH Research, Company data								

Washington DC: Government per diems for 2019 hotel rooms is only up 1% y/y. Obviously [the government shutdown is not helping tourism and business activity](#). Government business is typically 5-10% of hotel business in the US, but much higher in Washington DC.

1Q19: Below average due to weak transient visitation

2Q19: Well below average

2019: Well below average

Group/convention outlook for Washington, D.C.											
Pace as of	1Q19E	2Q19E	3Q19E	4Q19E	YE 19	1Q20E	2Q20E	3Q20E	4Q20E	YE 20	YE 21
Dec-18	20.6%	-28.7%	4.5%	3.0%	-5.7%	-25.8%	-0.8%	43.5%	56.4%	12.1%	-11.2%
Nov-18	16.1%	-32.4%	10.7%	1.1%	-7.8%	-23.8%	-0.3%	49.3%	59.2%	14.6%	-6.8%
Oct-18	19.5%	-31.7%	12.6%	2.6%	-6.3%	-22.4%	0.2%	53.1%	59.9%	16.1%	-6.3%

Source: STRH Research, TAP

Est exposure to DC market								
	CHSP	DRH	HST	PEB	PK	RHP	RLJ	SHO
DC	3%	5%	10%	12%	3%	21%	5%	13%
Rank	7	5	4	3	7	1	5	2
Note: Est. exposures include surrounding areas								
Source: STRH Research, Company data								

Current expectations for Top 25 Market new supply:

Supply By Top 25 Markets (Sorted by Pipeline Rooms Growth as % of Census) As of 3Q18						
	Census Rank	YE 2016 Growth Rate	YE 2017 Growth Rate	2018F Growth Rate	2019F Growth Rate	2020F Growth Rate
Nashville	22	3.7%	4.3%	7.1%	7.3%	5.0%
New York City	4	5.1%	4.9%	4.7%	7.5%	4.6%
Seattle	19	2.3%	4.4%	4.6%	5.8%	4.7%
Los Angeles	6	1.0%	4.2%	2.1%	2.3%	4.0%
Denver	16	2.6%	5.6%	2.8%	7.0%	3.9%
Dallas	8	3.2%	5.8%	3.6%	3.7%	5.1%
Miami	14	4.2%	3.4%	3.4%	3.0%	2.4%
Detroit	21	2.4%	3.1%	3.1%	3.7%	5.7%
Houston	9	6.8%	4.0%	3.9%	3.5%	3.0%
Boston	12	4.3%	3.1%	4.0%	4.8%	1.6%
Philadelphia	17	1.5%	3.2%	2.2%	3.4%	1.5%
San Diego	11	1.7%	1.3%	2.2%	2.7%	0.7%
Atlanta	7	1.4%	1.7%	2.9%	1.7%	3.1%
Phoenix	10	1.6%	2.8%	1.3%	1.9%	4.7%
Minneapolis	24	6.0%	1.8%	4.3%	3.0%	3.6%
Orlando	2	1.8%	0.8%	1.7%	1.7%	2.2%
Tampa	18	1.5%	4.0%	2.4%	1.8%	2.6%
San Francisco	15	0.1%	1.8%	2.0%	0.9%	1.0%
Anaheim	13	3.3%	2.0%	1.2%	1.4%	4.2%
Washington, D.C.	5	2.0%	2.0%	1.9%	1.0%	1.9%
Saint Louis	28	1.3%	2.1%	2.0%	2.0%	1.7%
San Antonio	20	1.9%	1.4%	2.1%	1.9%	2.7%
Chicago	3	2.5%	2.3%	2.2%	0.9%	1.6%
Norfolk	27	0.0%	1.2%	0.0%	1.2%	0.8%
Oahu Island	36	1.3%	0.6%	0.0%	0.6%	0.0%
Total Top 25 Markets		2.6%	2.9%	2.7%	2.9%	3.0%

Source: Lodging Econometrics, STRH Research

Notes: The largest market in the U.S., Las Vegas, is not included in this chart due to its casino orientation. 2018-2019 are forecasts.

RevPAR Guidance (4Q18 and FY 18)			
	4Q18	FY 18	Notes
C-Corps			
CHH	+1-3%	+1-2%	Domestic RevPAR
H		+3.25-3.75%	Comparable systemwide
HLT	+2.0-3.0%	+3.0-3.5%	Systemwide
		+2.0-2.5%	US
		Mid-single digits (+)	Americas ex-US
		Mid-single digits (+)	Europe
		Low-single digits (+)	Middle East/Africa
		High single digits (+) with China around +11%	Asia Pacific
MAR	Roughly +2%	Roughly +3%	Worldwide
	Roughly +1%	Roughly +2%	North America
	+5-6%	Roughly +6%	Outside North America
	Mid-single digit (+)		Asia Pacific
	Mid-single digit (+)		Caribbean & Latin America
	Mid-single digit (+)		Europe
	Low-single digit (-)		Middle East/Africa
PLYA	None provided	None provided	
WH		Approx. +3%	Ex-La Quinta and sale of Knights Inn
		+7-8%	Total portfolio
REITS			
CHSP	+2-4%	+3.9-4.4%	
DRH		+1.0-1.5%	
HST		+1.9-2.1%	
PK		+2.4-2.9%	
RHP		+2.5-4.0%	Hospitality RevPAR
RLJ		-1.25% to -0.5%	
SHO	+3-5%	+2-3%	

Source: Company reports and conference calls

Additional discussion on C-Corps, hotel REITS, and Vacation Ownership names going into 2019:

For the C-Corps domestically, we believe Wyndham hotels will have the relatively strongest RevPAR growth rates due to heavy exposure to the economy segment, where new supply is minimal. On the other hand we see HLT as the relative RevPAR underperformer domestically due to high new supply growth rates in the Upscale and Upper Midscale segments. *Conversely*, for new room growth Wyndham (WH, Buy) will be the laggard and Hilton and Hyatt will be the outperformers. Net-net profitability-wise for a C-Corp it is better to have an additional point of rooms growth than an additional point of RevPAR growth due to the very high margin nature of adding size to the system.

- **For 2019 HLT is our favorite name in our lodging universe, with the one caveat being the high-end of their +2-4% global RevPAR guidance will likely come down slightly in the April or July earnings report.** See below for additional color on why we favor C-Corps over the hotel REITS at the moment.
- **For the hotel REITS in 2019 we expect Chesapeake (CHSP, Hold) and Pebblebrook (PEB, Not Rated), due to San Francisco exposure, to be the RevPAR and margin growth leaders, followed by Ryman (RHP, Hold) given limited new completion in their mega-convention hotel category.** At the other end we believe DiamondRock (DRH, Hold) will be the RevPAR and margin growth laggard due to its minimal exposure to San Francisco. As we look further out into 2020, San Francisco looks to be an outperforming market but nowhere near the degree it will be in 2019. However, 2019's laggards of Boston, Chicago, and Washington DC look to have better convention calendars in 2020 than in 2019.
- **Lastly, one surprise we are forecasting for 2019 RevPAR growth is an acceleration in ADRs as hotels push pricing.** However, such pushes will result in an equal or slightly greater drop in occupancy.

C-Corps: Even in this low growth RevPAR environment, profits are set to increase and companies have ample cash flow and balance sheet capacity to continue share repurchases. It is for these reasons that we continue to favor the hotel C-Corps over the hotel REITS. Within the C-Corps HLT remains our favorite. The primary driver of earnings for C-Corps will not be RevPAR growth but rather global unit/footprint growth. For Hilton and Marriott we estimate 6.5% and 5.7% net rooms growth in 2019, with the rule of thumb being approx. 1.5x unit growth = EBITDA growth.

		Stock Price 1/11/2019	2019E FCF (\$M)	2019E FCF/share	FCF Yield	2019E net debt/EBITDA	Target Leverage	2019E Additional Debt Capacity at midpoint of target (\$M)	2019E FCF plus additional Debt capacity (\$M)	How much of company could be bought back
Choice Hotels International	CHH	\$74.27	200	\$3.53	4.8%	1.5x	3.0x-4.0x	730	930	22%
Hilton	HLT	\$71.63	1,239	\$4.33	6.0%	3.0x	3.0x-3.5x	570	1,809	9%
Hyatt Hotels Corporation	H	\$67.70	433	\$4.01	5.9%	1.8x	3.0x	960	1,393	19%
Marriott International	MAR	\$107.90	2,703	\$8.16	7.6%	2.9x	3.0x-3.5x	1,300	4,003	11%
Wyndham Hotels & Resorts	WH	\$48.11	424	\$4.18	8.7%	3.1x	3.0x - 4.0x	260	684	14%

Source: STRH Research, company filings

STRH Estimated EBITDA/EPS y/y Growth					
		EBITDA y/y Growth		EPS y/y Growth	
		2018E	2019E	2018E	2019E
Choice Hotels International	CHH	9.8%	7.3%	34.0%	10.3%
Hilton	HLT	6.1%	8.8%	35.9%	18.6%
Hyatt Hotels Corporation	H	-5.2%	3.1%	-7.6%	26.8%
Marriott International*	MAR	10.7%	7.2%	46.7%	0.8%
Wyndham Hotels & Resorts	WH	25.8%	8.9%	22.2%	8.8%
Note: MAR estimates for 2019 do not include any assumptions for merger-related costs, Avendra, or any related tax impact.					
Source: STRH Research					

- **In 2019 international lodging supply growth will become increasingly important to the C-corps:** Due in part to relatively low domestic RevPAR growth (we see no major positive sparks near-term in US lodging demand), we believe investors in the Lodging C-corps will remain focused on the lodging pipeline as key to 2019 and 2020 earnings growth. For the Lodging C-corps in our coverage (ex-Playa (PLYA, Buy), a Caribbean/Latin American focused portfolio), we still see the US as the primary source of new rooms growth for the foreseeable future (currently we see rooms growth for the C-corps as approximately 50-75% in the US and the remainder international). However, due in large part to the mature US lodging market, we continue to expect pipeline mixes will shift increasingly to international markets, especially into Mainland China.

- **China is the dominant international market for new-build hotels** for most of the Lodging C-corps – no other country comes close (other key markets for growth today are Germany, SE Asia, the UK, and Japan but China pipeline growth by rooms is at least 6-10x these other markets). While we believe most hotels under construction will continue to open (and this should satisfy unit growth well into 2020) we believe friction resulting from US-China trade negotiations could weigh on overall/global pipeline growth in the mid-term for hotels not yet under construction or approved for development by the franchisors. Investors should be focused not just on 2019/2020 net unit/rooms growth but also the growth and size of the total development pipelines. We also expect more long-term color at the Hyatt (H, Hold) and MAR investor days in March.

- **For US hotel pipeline development in 2019,** we do not see the C-corps pipeline growth as uniform given company-specific considerations although for all the C-corps we see the greatest new build growth in the select-service chain scales (primarily Upscale to Midscale). Given the RevPAR premium (higher fee generation) in the US market for these brands relative to some international/emerging markets, we still consider US pipeline growth as very important for near-term EBITDA expansion:

- **Choice (CHH, Hold)** continues to push urban growth for Cambria. We continue to see growth opportunities for CHH in particular with Comfort Inn/Suites following the brand's repositioning as well as with the relatively newly acquired WoodSpring Suites. *Secondly, we see CHH as the one company whose net room growth percentage will actually increase in 2019, due to the Comfort Inn refresh program winding down.*
- **H's** opportunities are also driven in part from select-service development given its lower base of existing distribution for Hyatt Place/Hyatt House as well as conversion opportunities from the Two Roads brands (due to the recent acquisition we see this as a 2H19 and later story).
- **HLT's** pipeline growth will likely be bolstered in 2019 by the relatively nascent Tru and Home2Suites brands and likely Motto later in the year. We see Tru as one of the core long-term growth opportunities for HLT in the US given developer interest in new-build midscale hotels under HLT's strong loyalty program (MAR and H have no equivalent products in Midscale and both companies appear to be focused on higher-rated select-service hotel development). HLT's net unit growth (NUG) is relatively straightforward given the current focus on new-build development.
- **MAR's** growth will continue to be driven from its select-service legacy Marriott brands such as Courtyard and Residence Inn in addition to the wider green space from Legacy Starwood brands (in particular Aloft, Element, and over time Sheraton). We still consider MAR's decision to "deflag" (remove from the portfolio) off-strategy Starwood hotels as a long-term positive although there may still be some noise in 2019 in near-term net rooms growth from unit deletions (this issue will likely dissipate over the course of the year as many hotels scheduled to depart the MAR system have already left).
- **WH's** pipeline development is in part a refinement following the focus on deflagging off-strategy hotels. Within the US, we believe investors will be very focused on growth from the relatively recently acquired La Quinta and AmericInn brands. Both brands were regionally focused and thus there are growth opportunities in new markets within the US.
- Even though we see a gradual slow-down in RevPAR growth, we believe Incentive Management Fees (IMFs) will be less volatile than in previous cycles and will continue to grow at a moderate pace.
 - What is important to consider in today's lodging environment is that the increasing diversification of managed hotels – increasingly international and increasingly in regions where profitability hurdles are not commonplace – reduces the dynamic of IMF volatility. For example, in 2007, roughly two-thirds of MAR's managed hotels had an IMF contribution to MAR earnings; in 2009 only ¼ of hotels contributed IMFs. We would not expect such a significant variance to occur today even in a 2008-like RevPAR environment simply due to the change in geographic exposure. While IMF generation was a big topic for investors in the past – and we believe is still relevant today – we expect a low worldwide RevPAR growth environment with mid-single digit rooms growth to combine for moderate incremental IMF growth in 2019.

For hotel REITS, outside of CHSP and PEB due to their large San Francisco exposures, we do not envision any material organic same-store earnings growth in 2019, and in fact most consensus EBITDA estimates look too high by 1-2%. However, fundamentals support stable dividend payouts for hotel REITS, with many yielding over 5%. We believe RHP is the most likely candidate for a dividend raise in 2019, albeit a modest one:

Ticker	Current	2019 Base	2019 Scenario	2019 Est. Net Debt/EBITDA	Current PT**	2019 Price Target Based on Scenario Case**	Price Target Downside Based on Scenario Case
	Yield	Case Payout Ratio	Case Payout Ratio				
HST	4.5%	60%	67%	1.4x	\$21	\$18	14%
PK*	7.0%	67%	76%	3.6x	\$34	\$29	15%
DRH	5.2%	66%	76%	3.4x	\$11	\$10	9%
RLJ	8.2%	73%	84%	4.3x	\$21	\$17	19%
CHSP	6.0%	77%	89%	3.6x	\$27	\$23	15%
RHP**	4.5%	77%	92%	4.8x	\$76	\$64	16%
SHO***	4.9%	85%	100%	1.2x	\$15	\$13	13%

Note: Our modeling does not assume companies make acquisitions to replace disposed assets

*Assumes same special dividend payment as prior year (ex-\$0.30 from gains from 2018 hotel sales)

**RHP's PT (and Scenario Case) are 2020

***Assumes same special dividend payment as prior year

- **The bad news for hotel REITS is rising labor costs which will unfortunately likely result in margins flat at very best to more likely down 100bps y/y.** Through November 2018, our analysis of nearly 1,000 P&L statements of high-rated full-service hotels in the U.S. (Luxury and Upper Upscale hotels, both privately and publicly owned) indicates YTD GOP profitability of +20 bps on Rooms RevPAR of +2.5% (source: HotStats). Labor costs remain a headwind to margin growth given that many Lodging REITS currently estimate Rooms RevPAR growth of +2-3% is needed to maintain flat EBITDA margins. In our conversations with both public and private hotel owners, we currently hear that labor costs are growing between 3-4% for most hotels. After attending the REITworld conference in San Francisco and our Summit in November, we believe this viewpoint has not changed (and importantly this range is not expanding higher). With labor costs generally growing faster than revenues (ex-the positive tailwind from a strong expected convention year in San Francisco), we expect margins will be flattish to more likely down 100 bps y/y in 2019.

Vacation Ownership: Following 2017 where stock price appreciation was primarily driven by an M&A bubble and 2018 where that bubble pop, the companies have tremendous potential to repurchase shares. All four public timeshare companies have indicated willingness to repurchase shares.

		Stock Price 1/11/2019	2019E FCF			2019E net debt/EBITDA	Target Leverage	2019E Additional Debt Capacity at midpoint of target (\$M)	2019E FCF plus additional Debt capacity (\$M)	How much of company could be bought back
			FCF (\$M)	FCF/share	Yield					
Bluegreen Vacations	BXG	\$13.81	1	\$0.01	0.1%	-0.2x	NA	NA	NA	NA
Hilton Grand Vacations	HGV	\$29.29	44	\$0.45	1.5%	1.1x	1.5x - 2.0x	290	334	12%
Marriott Vacations Worldwide	VAC	\$76.66	399	\$7.93	10.3%	1.6x	2.0x - 2.4x	400	799	21%
Wyndham Destinations	WYND	\$37.90	513	\$5.14	13.6%	2.6x	2.3x - 3.0x	50	563	15%

Source: STRH Research, company filings

Companies Mentioned in This Note

Choice Hotels International, Inc. (CHH, \$75.42, Hold, C. Patrick Scholes)
Chesapeake Lodging Trust (CHSP, \$27.06, Hold, C. Patrick Scholes)
DiamondRock Hospitality Company (DRH, \$10.06, Hold, C. Patrick Scholes)
Hyatt Hotels Corporation (H, \$68.12, Hold, C. Patrick Scholes)
Hilton Worldwide Holdings Inc. (HLT, \$73.08, Buy, C. Patrick Scholes)
Host Hotels & Resorts, Inc. (HST, \$17.52, Hold, C. Patrick Scholes)
Marriott International, Inc. (MAR, \$109.05, Hold, C. Patrick Scholes)
Park Hotels & Resorts Inc. (PK, \$28.70, Buy, C. Patrick Scholes)
Playa Hotels & Resorts N.V. (PLYA, \$7.75, Buy, C. Patrick Scholes)
Ryman Hospitality Properties, Inc. (RHP, \$76.66, Hold, C. Patrick Scholes)
RLJ Lodging Trust (RLJ, \$18.35, Hold, C. Patrick Scholes)
Sunstone Hotel Investors, Inc. (SHO, \$14.07, Hold, C. Patrick Scholes)
Marriott Vacations Worldwide Corporation (VAC, \$83.77, Buy, C. Patrick Scholes)
Wyndham Hotels & Resorts, Inc. (WH, \$49.98, Buy, C. Patrick Scholes)
Airbnb (Private)
InterContinental Hotels Group (IHG, \$55.66, NR)
Pebblebrook Hotel Trust (PEB, \$35.94, NR)

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