May RevPAR Monitor - It's all about self-help. RevPAR at +0-1% won't do favors

Not seeing indications of 2H RevPAR lift; if there's one it's in bps not %pts

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What's Inside

An analysis of last month's global lodging results and our forecasts for the months and quarters ahead

Based on forward-looking observations in our RevPAR data analytics lab combined with conversations with private hotel owners over the past eight weeks, *the good news*, unlike our observations of gradual deceleration earlier this year, is we did not see any material deceleration in forward trends. After a weak April, forward bookings picked up slightly over the past four weeks which we believe was a bit of a catch-up post the Easter holiday. *The bad news* is those forward observations only indicate +0-1% RevPAR growth for the rest of the year. What this means is that barring any "self-help" gains in market share (more on that topic below), investors should not expect RevPAR to be a source of outperformance come earnings. **We are maintaining our 2Q19 and full-year 2019 RevPAR forecasts for full-service domestic branded hotels of 0-2% and introducing a 3Q19 projection of -1% to +1%.**

For the rest of the year we continue to see pricing up 2-3% y/y with occupancy down y/y by a similar range. We see transient-business RevPAR closer to -1% (more supply in urban hotels), and transient-leisure and group/convention hovering around +1-2.5%.

Longer-term, city-wide group/convention business gets a little better in 2020 from 2019 but most of the uptick is diluted by new hotel supply for same-store hotels. Weak 2021 city-wide trends look concerning at the moment, especially on a same-store (hotel) basis due to two more years of +3% compounded new supply, and these trends are a **"flashing red light"** to us. In our opinion, for smaller corporate meetings, 2020 modestly decelerates from 2019's levels whereas the 2021 deceleration is not as severe as that observed for the city-wide conventions.

Although several upper-upscale focused hotel companies telegraphed a second-half RevPAR lift at 1Q19 earnings, we believe any lift will only be measured in basis points and not percentage points and because of this we advise investors to keep expectations tempered. The only "lifts" we observe are with some March & April group business pushed into May as we are past the difficult and extended y/y Easter comparison and secondly the difficult hurricane comps in Houston burn-off in August, the latter a modest benefit mostly for the mid-scale and economy brands (Choice (CHH, Hold) and Wyndham (WH, Buy)).

- **With Easter falling so late this year, Spring Break vacations were spread out over two months and this hurt business travel (business travelers are the bread & butter customer for the major hotel brands) in March and April.** As expected, May is seeing a bit of a catch-up as some business was shifted into this month from March and April. That said, June will likely be a soft month due to July 4th moving to a Thursday this year from a Wednesday last year, as last year a lot of business travel got moved to the last week of June as these travelers took the whole first week of July off due to the holiday falling on a Wednesday.

- **Houston:** Through the end of April, RevPAR in Houston was down 8.5% y/y and results should sequentially get "less bad" from here.

It's all about self-help in this anemic +0-1% RevPAR growth environment, be it market share gains or cost containments. We believe there are a few common approaches that provide the best opportunities for improvement:

1. **Market share gains.** As we discuss in a separate note today several Lodging C-corps showed impressive market share gains in 1Q19. We believe there have been successful ways to gain share through a variety of techniques including: new brand development, new hotel prototypes, new market entrance (especially being the first international lodging brand to an emerging market), M&A, etc. When Lodging C-corps exhibit market share gains, this can not only positively impact base franchise and management fees but also incentive management fees (incrementality matters) and help attract new franchisees.
2. **Margin improvement plans.** For both the C-corps and the REITS (but especially the REITS given flattish to negative EBITDA margin growth guided by many REITS for 2019), margin growth is a big emphasis. On the revenue front, the efforts are partly driven from pushing non-rooms revenue spend (especially F&B and ancillary fees). Some full-service group-oriented hotels are pushing in-house group demand especially given weaker 2019 citywide demand in select markets (Boston, Chicago, and DC, for example). On the expense side, hotels have maintained active cost containment efforts, inclusive of shared staffing roles, the use of technology, and environmental/utility improvements. For the C-corps, there are a variety of efforts underway, especially related to book direct efforts and enacting more stringent contracts on online travel agencies (OTAs).
3. **Share repurchases and special dividends.** We have seen significant share repurchase activity by many of the Lodging C-corps. While many REITS have been less active on buybacks, some REITS have expressed support of buybacks particularly if there is a large valuation gap between an internal NAV and a future stock price. For the REITS, it would not surprise us to see continued usage of special dividends in the event that the bid-ask spread for potential acquisitions remains too large to overcome (although that may be changing, see #5).
4. **M&A.** For both the C-corps and REITS, consolidation remains a hot topic for investors. However, investors have remained reticent to support potentially overpriced acquisitions especially at this stage in the lodging cycle. The C-corps can have somewhat more supportable tack-on acquisitions if synergies are significant (La Quinta for Wyndham, for example). We view REIT consolidation as likely limited in the near-term mostly due to the lack of willing sellers and there are few recent mergers that made as much sense to us as the LHO-Pebblebrook (PEB, Hold, Miller) combination last year, where we find there are deep synergies. That said, we could envision some further private equity interest in the REITS; any combination of private equity buyouts and/or M&A could lift REIT stock prices, even if temporary.
5. **Single-asset acquisitions and dispositions (for the REITS more often dispositions right now).** We sense the balance of our REIT coverage remain net sellers. However, commentary from Sunstone (SHO, Hold) this quarter, consistent to our research for the PEB initiation, suggests to us that cap rates may be rising for select assets. While dispositions can help lower leverage levels in a late-cycle environment (part of the fundamental strategy today for PEB and RLJ (RLJ, Hold)), we could see some REITS as more active buyers especially to support dividend payout ratios if EBITDA margins compress more significantly in a late-lodging cycle environment. Fortunately, we find that many REITS within our coverage have strong balance sheets today and we sense that strategy is likely to hold for at least the next few years given current lodging cycle fundamentals.

Maintaining our 2Q19 and full-year 2019 RevPAR forecast for full-service domestic branded hotels of +0-2% and introducing a 3Q19 projection of -1% to +1%.

- By comparison during 1Q19 earnings calls:
  - **Hilton (HLT, Buy):** forecasted 2019 US RevPAR growth consistent with their system-wide guidance range (+1-3%). Through the first half of May based on STR results, we calculate their 2019 US RevPAR growth is tracking approx. +1.7% YTD.
  - **Hyatt (H, Hold):** forecasted 1-3% global RevPAR growth (US not broken out). Through the first half of May based on STR results, we calculate their 2019 US RevPAR growth is tracking approx. +1.2% YTD.
  - **Marriott (MAR, Hold):** 2019 North America RevPAR growth expectation remains at +1-3%. Through the first half of May based on STR results, we calculate their US RevPAR growth is tracking approx. +0.9% YTD.

Quarterly Tracking

	2Q19	*3Q19*	*2019E*
	Overall	Overall	Overall forecast
Mar-19	+0-2%	-1% to +1%	+0-2%
Feb-19	+0-2%		+0-2%
Dec-18	+0.5-2.5%		+0.5-2.5%
Oct-18			+1-3%
Aug-18			+1-3%
Jul-18			+1-3%

Source: STRH Research

We again ask: Do the +1-3% RevPAR forecasts for Hilton, Hyatt, and Marriott need to come down? In March we wrote, "*Our answer is probably not just yet as the bottom half of the range is still achievable. That said, we attach a much higher probability that the high-ends will need to come down come July/August earnings as we see a slim-to-none chance at this moment these companies will hit or exceed the high-end of their guided ranges.*" Interestingly RevPAR guides were kept unchanged at 1Q19 earnings and we remain of the view that the high-ends will need to come down by at least 50bps. come July/August earnings.

- **Secondly and perhaps more importantly, will anyone really care that much if RevPAR forecasts come down 50bps?** In this era of self-help, we do not believe such reductions will cause much of a dent to share prices, though on the other hand will not be upwards catalysts either. **Far more damaging to share prices for C-Corps would be companies cutting net unit growth guidances and sharp reductions in share repurchases, the latter being driven by management teams believing/telegraphing their stocks are overvalued as opposed to saving cash for an acquisition.** *We do not believe either of these are likely in the near-term.*

What does it all mean for the lodging stocks? *We remain a bit surprised that most lodging stocks have been doing as well as they have this year, which we attribute to several factors:*

- **A) REITS:** Attractive balance sheets for many (www.reit.com), fairly well-covered dividends with attractive yields, aggressive and proactive property-level cost cutting measures, and valuations towards the lower-end of historical ranges; **B) C-Corps:** An oversold condition going into 2019; record y/y net unit growth percentages that should be at similar growth percentages next year or possibly 20-30 bps. higher than this year's growth levels; asset-lite characteristics and net debt/EBITDAs that are within target ranges, which subsequently allow for aggressive share repurchases, and valuations that are slightly above the mid-points of historical ranges. Additionally, helping both is an economy that does not appear to be falling into recession in the next twelve months (Wall Street Journal).

Picking the stocks/sectors: We continue to prefer cruise stocks over most lodging stocks at the moment. Specifically within cruise lines. Our favorite is Norwegian (NCLH, Buy) followed by Royal Caribbean (RCL, Buy). Within hotels we continue to favor C-Corps over hotel REITS (we favored hotel REITS for the first half of last year) and **within C-Corps WH is our new favorite**, partly due to its underperformance this year vs. our previous favorite, Hilton. 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.

Looking at our most recent forward-looking demand and pricing observations for full-service US branded hotels:

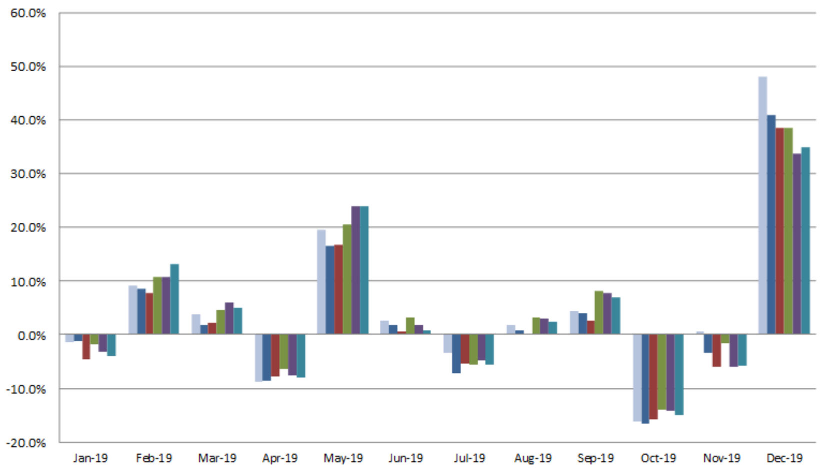
2Q19

- **April:** The month finished approx. flat y/y for the major upper-upscale brands. Economy at +2.6% was an outperformer.
- **May:** May benefits from some catch-up after the extended Spring break season in March and April. We project the month will finish at approximately +1.5-2.5%.
- **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. We see June around flat-ish.

3Q19:

- **July:** Disappointing given the easy y/y July 4th comp (shifts to a Thursday from a Wednesday) and is tracking around flat y/y.
- **August:** Tracking around flat to -1%. We suspect this month is hurt by the extra week in September this year before Labor Day weekend.
- **September:** Is helped this year by the shift in timing of the Jewish Holidays. Rosh Hashanah moves from September 9-11 (Sunday-Tuesday) in 2018 to September 29 –October 1 (Sunday-Tuesday) this year. Even more impactful is Yom Kippur moving from September 18–19 (Tuesday-Wednesday) in 2018 to October 8-9 (Tuesday-Wednesday) this year which is a clear RevPAR benefit to September but a hit to October. That said, even with this shift, trends are far from spectacular as we observe this month tracking +0-2% at the moment.

Gross Changes to 2019 Y/Y Citywide Group Pace (by month)



	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
Pace as of October 2018	-1.5%	9.1%	3.8%	-8.7%	19.5%	2.5%	-3.3%	1.8%	4.3%	-16.1%	0.6%	48.1%
Pace as of November 2018	-1.1%	8.6%	1.8%	-8.5%	16.6%	1.8%	-7.1%	0.8%	4.0%	-16.5%	-3.5%	40.8%
Pace as of December 2018	-4.5%	7.7%	2.2%	-7.8%	16.7%	0.7%	-5.4%	0.2%	2.6%	-15.7%	-5.9%	38.5%
Pace as of January 2019	-1.8%	10.8%	4.7%	-6.4%	20.6%	3.1%	-5.5%	3.3%	8.3%	-14.0%	-1.6%	38.5%
Pace as of February 2019	-3.2%	10.7%	6.1%	-7.7%	23.9%	1.8%	-4.8%	3.0%	7.7%	-14.2%	-6.0%	33.6%
Pace as of March 2019	-3.9%	13.2%	5.0%	-8.0%	24.0%	0.8%	-5.6%	2.4%	7.0%	-14.9%	-5.8%	34.8%

Source: STRH Research, TAP

<u>International results and expectations: 2Q19 Europe tracking in-line with but Asia-Pacific below</u>

According to STR, local currency RevPAR in Europe was +4.9% y/y in April. Hurt by 995 bps of FX headwinds last month (vs. 979 bps in January), Europe in US$ was -5.0% y/y.

Local currency RevPAR in Asia Pacific was -3.1% y/y in April. In local currency, China (incl. Hong Kong/Macau) was -6.9% y/y.

2Q19 estimated regional actuals vs. 2019 C-corp expectations:

- **Europe:** Hilton (HLT, Buy) guided for European RevPAR growth in 2019 (in constant currency) to be "at the higher end of [HLT's] system-wide range (+1-3%), given strong trends in Turkey and continued growth in Continental Europe, modestly offset by uncertainty in the UK" and Marriott (MAR, Hold) projected (in constant currency) mid-single digits growth for both 2Q and 2019. **We note that the Russian World Cup will be a difficult y/y comp for Europe this summer.**
    - Our projection for 2Q European RevPAR growth in local currency is +4-6%. In US$, our projection for 2Q European RevPAR growth is mid-single digits negative. 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 2019 RevPAR up +3-5% with "an expected reacceleration throughout the year, driven by good group and event-driven business in Japan and an overall pickup in China" and MAR is guiding up mid-single digits for both 2Q ("fewer headwinds from South Korea and Hainan Island") and 2019.

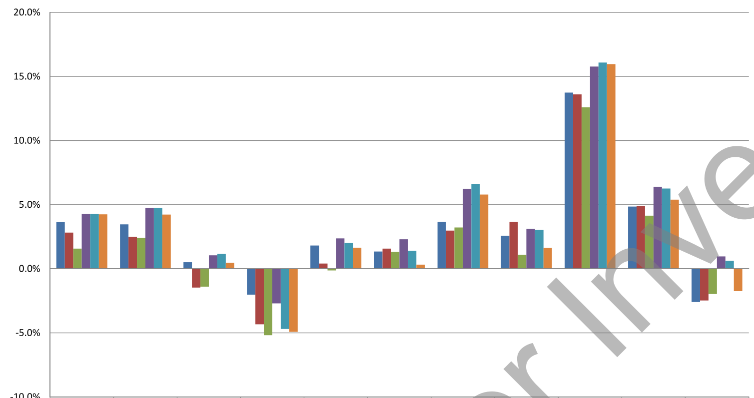
MAR noted that future RevPAR performance in the region "will depend somewhat on the economic impact of ongoing U.S./China trade negotiations, particularly in markets that rely on manufacturing."

- Our projection for 2Q Asia-Pacific RevPAR growth in local currency is flattish. We note that due to various brand contributions in the STR sample we believe there could be some disparity between the aggregated results and the 2Q results from some global franchisors.

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.

<u>Examining the forward-looking group/convention trends:</u> 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. 3% new supply growth annually and those headline "gross demand" growth rates will be diluted on a "same-store" basis by this new supply. *We surmise that if you're a city convention bureau or hotel brand (C-corp), 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.*

Gross Changes to 2019/2020/2021 Y/Y Citywide Group Pace (by Quarter/Year)

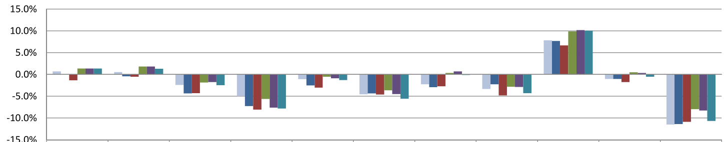


	1Q19	2Q19	3Q19	4Q19	YE 19	1Q20	2Q20	3Q20	4Q20	YE 20	YE 21
Pace as of October 2018	3.6%	3.5%	0.5%	-2.0%	1.8%	1.3%	3.6%	2.6%	13.7%	4.9%	-2.6%
Pace as of November 2018	2.8%	2.5%	-1.5%	-4.3%	0.4%	1.6%	3.0%	3.7%	13.6%	4.9%	-2.5%
Pace as of December 2018	1.6%	2.4%	-1.4%	-5.2%	-0.1%	1.3%	3.2%	1.1%	12.6%	4.1%	-2.0%
Pace as of January 2019	4.3%	4.7%	1.0%	-2.7%	2.4%	2.3%	6.2%	3.1%	15.8%	6.4%	1.0%
Pace as of February 2019	4.3%	4.7%	1.2%	-4.7%	2.0%	1.4%	6.6%	3.0%	16.1%	6.3%	0.6%
Pace as of March 2019	4.2%	4.2%	0.4%	-4.9%	1.6%	0.3%	5.8%	1.6%	16.0%	5.4%	-1.8%

Source: STRH Research, TAP

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

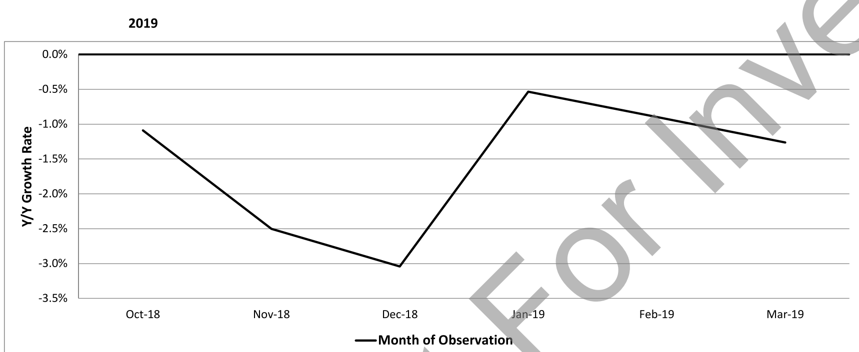
Net of Supply Growth Changes to 2019/2020/2021
Y/Y Citywide Group Pace (by Quarter/Year)



	1Q19	2Q19	3Q19	4Q19	YE 19	1Q20	2Q20	3Q20	4Q20	YE 20	YE 21
Pace as of October 2018	0.7%	0.6%	-2.4%	-4.9%	-1.1%	-4.6%	-2.3%	-3.3%	7.8%	-1.0%	-11.5%
Pace as of November 2018	-0.1%	-0.4%	-4.4%	-7.2%	-2.5%	-4.3%	-2.9%	-2.2%	7.7%	-1.0%	-11.4%
Pace as of December 2018	-1.3%	-0.5%	-4.3%	-8.1%	-3.0%	-4.6%	-2.7%	-4.8%	6.7%	-1.8%	-10.9%
Pace as of January 2019	1.4%	1.8%	-1.9%	-5.6%	-0.5%	-3.6%	0.3%	-2.8%	9.9%	0.5%	-7.9%
Pace as of February 2019	1.4%	1.8%	-1.7%	-7.6%	-0.9%	-4.5%	0.7%	-2.9%	10.2%	0.4%	-8.3%
Pace as of March 2019	1.3%	1.3%	-2.5%	-7.8%	-1.3%	-5.6%	-0.1%	-4.3%	10.1%	-0.5%	-10.7%

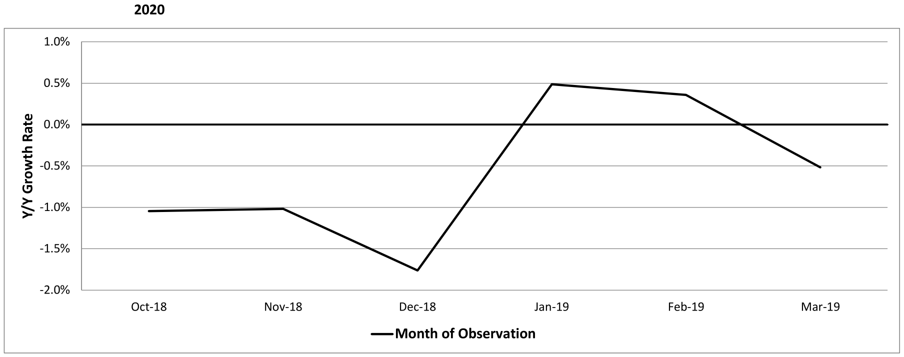
Source: STRH Research, TAP

- **2019:** Our net-of-supply group pace for 2019 is -1.3% (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. +2% 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.



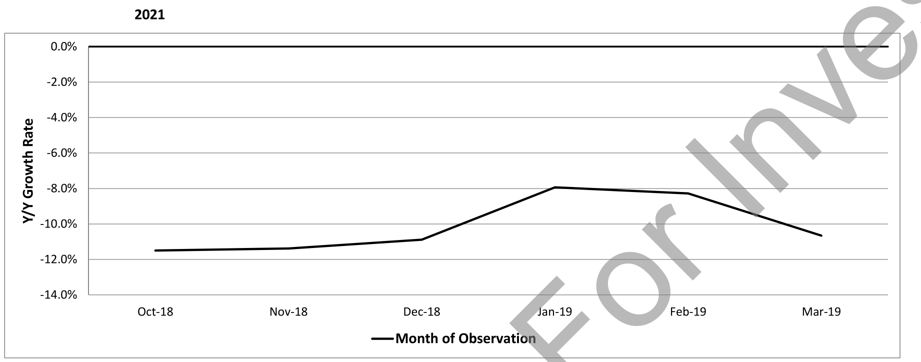
Source: STRH Research, TAP

- **2020:** Our net-of-supply group pace for 2020 is -0.5%. To this we add approx. 2.5 percentage points of rate growth to come up with a projection that same-store Group RevPAR is tracking at approx. +2.0% y/y for 2020 at the moment, with approx. 30% of final group reservations on the books.



Source: STRH Research, TAP

- **2021:** Our net-of-supply group pace for 2020 is -10.7%. To this we add approx. 2 percentage points of rate growth to come up with a projection that same-store Group RevPAR is tracking at approx. -8.5% y/y for 2021 at the moment, with approx. 15% of final group reservations on the books.



Source: STRH Research, TAP

Segmentation By Company

REITS	Transient Corporate	Transient Leisure	Group
CHSP	45%	20%	35%
DRH	45%	20%	35%
HST	45%	15%	40%
PEB	50%	25%	25%
PK	45%	20%	35%
RHP	5%	15%	80%
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	45%	20%	35%
WH	45%	45%	10%

Source: STRH Research, company filings

Major Markets:

Not surprisingly, due to the completed renovation of the convention center, San Francisco will in our view be the outstanding market in 2019 (1Q and 4Q especially strong). *However group business for the city in 2020 is showing negative growth mostly due to the very difficult y/y comp as the pent-up 2019 demand moves on to other cities such as Boston, Chicago, and Washington DC.*

- We observe **Houston** getting "less bad" as the year progresses as the difficult y/y comps end in August.
- **Hawaii** is a soft market in 2019. Besides a weak group/convention calendar, Hawaii has a tough y/y comparison as some leisure travel in 2018 shifted from the Caribbean to Hawaii due to Hurricane damage in the Caribbean in 2017. However, the Caribbean is now back open for business and is likely taking some share back.

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:

Remainder of 2019:

1. **Above average:** San Francisco
2. **Average:** Los Angeles, Washington DC
3. **Below average:** Boston, Chicago, NYC

Additional color on the big six:

Boston:

3Q19: Above average
4Q19: Below average
2020: Above average

Est exposure to Boston market								
	CHSP	DRH	HST	PEB	PK	RHP	RLJ	SHO
Boston	17%	15%	6%	15%	2%	0%	4%	16%
Rank	1	3	5	3	7	8	6	2
Note: Est. exposures include surrounding areas								
Source: STRH Research, Company data								

Chicago:

3Q19: Below average
4Q19: Below average
2020: Above average

Group/convention outlook for Chicago

Pace as of	1Q19E	2Q19E	3Q19E	4Q19E	YE 19	1Q20E	2Q20E	3Q20E	4Q20E	YE 20	YE 21
Mar-19	-22.8%	6.0%	2.1%	-17.8%	-6.8%	31.6%	17.6%	-2.4%	-2.2%	10.1%	10.3%
Feb-19	-23.8%	6.0%	2.1%	-16.4%	-6.6%	33.0%	17.9%	-2.4%	-4.1%	9.7%	9.4%
Jan-19	-25.2%	-2.8%	2.1%	-16.8%	-9.7%	33.4%	19.1%	-3.6%	3.2%	11.7%	8.3%
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	7%	14%	4%	5%	4%	0%	4%	6%
Rank	2	1	5	4	5	8	5	3

Note: Est. exposures include surrounding areas

Source: STRH Research, Company data

Los Angeles:

3Q19: Below average
4Q19: Above average
2020: Above average

Group/convention outlook for Los Angeles

Pace as of	1Q19E	2Q19E	3Q19E	4Q19E	YE 19	1Q20E	2Q20E	3Q20E	4Q20E	YE 20	YE 21
Mar-19	-4.0%	-3.1%	-17.1%	7.7%	-4.6%	-1.2%	21.4%	54.2%	28.4%	23.1%	-21.1%
Feb-19	-4.1%	-3.6%	-16.2%	7.7%	-4.7%	-1.2%	22.4%	52.0%	28.5%	23.0%	-21.1%
Jan-19	-4.9%	0.0%	-17.4%	10.4%	-3.7%	-1.9%	23.4%	50.0%	29.5%	23.0%	-20.1%
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	7%	2%	5%	13%	0%	0%	5%	6%
Rank	2	6	4	1	7	7	5	3

Note: Est. exposures include surrounding areas

Source: STRH Research, Company data

NYC

3Q19: Below average
4Q19: Below average
2020: Below average

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, 3.4% in 2018, and is projected to grow 8.1% in 2019 and 4.8% 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 down low-single digits 2019.**

Est exposure to NYC market								
	CHSP	DRH	HST	PEB	PK	RHP	RLJ	SHO
NYC	5%	12%	8%	1%	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:

3Q19: Average
4Q19: Above average
2020: Below average

Group/convention outlook for San Francisco

Pace as of	1Q19E	2Q19E	3Q19E	4Q19E	YE19	1Q20E	2Q20E	3Q20E	4Q20E	YE20	YE21
Mar-19	71.2%	51.5%	8.4%	74.1%	49.6%	-29.0%	12.6%	-12.9%	-8.9%	-10.9%	0.4%
Feb-19	71.2%	51.4%	8.4%	74.1%	49.6%	-28.9%	7.3%	-12.9%	-8.9%	-12.0%	0.4%
Jan-19	82.0%	53.9%	7.4%	76.3%	52.6%	-28.4%	23.5%	-13.0%	-8.9%	-9.2%	6.9%
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

San Francisco all along was expected to be the top growth market in 2019 due to the Moscone reopening (a Street and lodging industry consensus view), however we believe the city will finish above initial expectations:

First, what were the expectations for the market in 2019?

- Based on data from Tourism Economics (the same company behind STR's RevPAR forecasts), the San Francisco Travel Association/Convention Bureau was forecasting +5.6% RevPAR growth in 2019.
- Secondly, we look at HVS's San Francisco - San Mateo 2019 forecast which is +7.6%
- Combining the two, we estimate the city-wide expectation was approx. +6-7% with the investor "whisper expectation" for the hotel REITS, which have their hotels for the most part near the Moscone Center, closer to double-digit growth.

Next, looking at actual STR results YTD, the San Francisco MSA was up 10.6% y/y.

- From the STR results YTD from above, this implies the rest of the year needs to do approx. +5% to hit +7% for the year**.** Based on forward looking checks and from conversations with hotel owners, **we believe +5% should be achievable as the rest of the year should at a minimum average mid-to-high single digit RevPAR growth with even higher growth for those hotels closer to the Moscone Center.**

Est exposure to SF market								
	CHSP	DRH	HST	PEB	PK	RHP	RLJ	SHO
San Francisco	27%	4%	10%	19%	13%	0%	11%	10%
Rank	1	7	5	2	3	8	4	5
Note: Est. exposures include surrounding areas								
Source: STRH Research, Company data								

Washington DC:

3Q19: Average
4Q19: Average
2020: Above 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
Mar-19	18.3%	-25.8%	4.9%	-1.8%	-5.3%	-27.2%	2.8%	43.9%	58.5%	12.5%	-10.5%
Feb-19	16.6%	-25.8%	4.9%	-0.7%	-5.5%	-26.0%	2.9%	43.9%	58.5%	13.1%	-10.5%
Jan-19	18.6%	-25.6%	7.6%	3.5%	-3.8%	-25.6%	1.9%	46.7%	56.1%	13.2%	-11.3%
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%	4%	9%	7%	3%	16%	5%	10%
Rank	7	6	3	4	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 1Q19

	Census Rank	YE 2017 Growth Rate	YE 2018 Growth Rate	2019F Growth Rate	2020F Growth Rate
Nashville	21	4.3%	7.2%	6.7%	6.2%
Los Angeles	6	4.2%	1.7%	1.3%	4.9%
New York City	3	4.9%	3.4%	8.1%	4.8%
Detroit	22	3.2%	2.7%	3.7%	4.4%
Dallas	8	5.8%	3.6%	4.0%	4.4%
Miami	14	3.5%	2.6%	3.8%	1.8%
Denver	16	5.6%	5.4%	3.2%	4.6%
Seattle	18	4.4%	7.3%	1.7%	4.9%
Houston	9	4.0%	3.0%	3.9%	3.2%
Boston	12	3.1%	3.8%	4.0%	2.8%
Phoenix	10	2.8%	1.5%	2.1%	2.8%
Orlando	2	0.8%	1.8%	1.7%	2.7%
Philadelphia	19	3.2%	2.2%	1.4%	3.5%
Atlanta	7	1.7%	2.7%	2.1%	2.8%
San Diego	11	1.3%	2.2%	2.5%	0.6%
Minneapolis	23	1.8%	4.2%	2.6%	3.9%
San Francisco	15	1.8%	1.2%	2.9%	1.4%
Tampa	17	4.0%	2.2%	1.5%	2.0%
Anaheim	13	2.0%	1.0%	1.6%	3.1%
Saint Louis	27	2.1%	2.0%	2.0%	1.5%
Washington D.C.	5	2.0%	1.8%	1.1%	1.2%
San Antonio	20	1.4%	2.0%	1.5%	2.0%
Chicago	4	2.3%	2.1%	1.3%	1.3%
Norfolk	28	1.2%	0.0%	1.5%	0.8%
Oahu Island	37	0.6%	0.0%	0.0%	0.6%
Total Top 25 Markets		**2.9%**	**2.6%**	**2.7%**	**2.9%**

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. 2019-2020 are forecasts.

RevPAR Guidance (2Q19 and FY 19)

	2Q19	FY 19	*Notes*
C-Corps			
CHH	-1% to +1%	+0-1%	*Domestic RevPAR*
H		+1-3%	*Comparable systemwide*
HLT	+1-2%	+1-3%	*Systemwide*
		+1-3%	*US*
		Higher-end of +1-3% guidance	*Americas ex-US*
		Higher-end of +1-3% guidance	*Europe*
		Down low single digits	*Middle East/Africa*
		+3-5%	*Asia Pacific*
MAR	+1-3%	+1-3%	*Worldwide*
	+1-2%	+1-3%	*North America*
	+2-4%	+2-4%	*Outside North America*
	Mid-single digit (+)	Mid-single digit (+)	*Asia Pacific*
	Low-single digit (+)	Low-single digit (+)	*Caribbean & Latin America*
	Mid-single digit (+)	Mid-single digit (+)	*Europe*
	Decline, albeit less significantly than 1Q	Low-single digit (-)	*Middle East/Africa*
PLYA		Slightly negative to slightly positive	*Comparable systemwide*
WH		+1-3%	*Includes La Quinta after 1 yr of ownership and excludes Knights Inn from 2018 base*
		+5-7%	*Total portfolio*
REITS			
CHSP		+1.5-3.5% (no updated since 4Q earnings due to merger)	
DRH		+0.5-2.5%	
HST		+0-2%	
PEB	+0-2%	+1-3%	*Same-property*
PK		+2.5-4.5%	
RHP		+2-4%	*Same-Store Hospitality RevPAR (ex-Rockies)*
RLJ		+0-2%	
SHO	+0-2%	+0.5-3%	

Source: Company reports and conference calls; STRH Research

Companies Mentioned in This Note

Bluegreen Vacations Corporation (BXG, $8.10, Hold, C. Patrick Scholes)
Choice Hotels International, Inc. (CHH, $82.65, Hold, C. Patrick Scholes)
Chesapeake Lodging Trust (CHSP, $29.10, Hold, C. Patrick Scholes)
DiamondRock Hospitality Company (DRH, $10.23, Hold, C. Patrick Scholes)
Hyatt Hotels Corporation (H, $72.50, Hold, C. Patrick Scholes)
Hilton Grand Vacations Inc. (HGV, $25.11, Buy, C. Patrick Scholes)
Hilton Worldwide Holdings Inc. (HLT, $88.91, Buy, C. Patrick Scholes)
Host Hotels & Resorts, Inc. (HST, $18.58, Hold, C. Patrick Scholes)
Marriott International, Inc. (MAR, $124.42, Hold, C. Patrick Scholes)
Vail Resorts, Inc. (MTN, $214.94, Buy, C. Patrick Scholes)
Pebblebrook Hotel Trust (PEB, $28.46, Hold, Gregory Miller)
Park Hotels & Resorts Inc. (PK, $28.21, Buy, C. Patrick Scholes)
Playa Hotels & Resorts N.V. (PLYA, $8.19, Buy, C. Patrick Scholes)
Ryman Hospitality Properties, Inc. (RHP, $80.39, Hold, C. Patrick Scholes)
RLJ Lodging Trust (RLJ, $17.70, Hold, C. Patrick Scholes)
Sunstone Hotel Investors, Inc. (SHO, $13.58, Hold, C. Patrick Scholes)
Marriott Vacations Worldwide Corporation (VAC, $92.14, Buy, C. Patrick Scholes)
Wyndham Hotels & Resorts, Inc. (WH, $53.45, Buy, C. Patrick Scholes)
Wyndham Destinations, Inc. (WYND, $41.31, Buy, C. Patrick Scholes)
InterContinental Hotels Group (IHG, $65.06, NR)

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