

Lodging

Sept. RevPAR Monitor: Examining 2021 & 2022 Group/convention trends

On corp business travel, nothing much positive to share - not a surprise by now

In what is sure to be an important topic on upcoming 3Q earnings calls, in this report we focus on our “big data” observations for both corporate group meetings and city-wide conventions for 2021 and 2022. Concerning individual corporate business travel, which we also discuss later in this report, visibility continues to be at all-time lows as the booking window is under 10 days vs. the historical average of 30-45 days and we have yet to see anything we can conclusively say is a green shoot. While booking statistics on individual corporate business travel 1-3 months out from today continue to decelerate as arrival dates get closer, these data points are less statistically significant than pre-Covid as the booking window is so short now. Besides US full-service hotels, we also monitor forward airline bookings and hotel closings/reopenings and with these the data was mixed with an improvement in airline bookings but no improvement in hotel reopenings over the past month. The most **positive news** we can share over the past several weeks concerns leisure travel as it finally appears Hawaii will be open for outside visitation after October 15 (USA Today). Companies in our coverage universe with the greatest exposure to Hawaii are PK (~25%), SHO (~15%), and HST (~9%) for the hotel REITS and HGV (~25%) and VAC (~20%) for the timeshare names.

As we previously noted, corporate and group bookings could change on a dime if/when a vaccine is available. The lodging and leisure stocks continue to trade on progress/rumors of a vaccine as well as possible private equity interest are trumping industry fundamentals when it comes to daily/weekly stock performance. For the public companies, we reiterate the companies relatively best positioned here in our coverage universe are the drive-to leisure-centric names: CHH and WH (we prefer WH over CHH due to a more attractive comparable valuation) and for the timeshare companies (BXG, HGV, VAC, WYND).

- Please see our discussion below on where to invest now and on what keeps us up at night regarding our many Sell-rated stocks and negative stance on the overall hotel sector.

US corporate group/meeting booking trends:

- **The good news:** Based on data from Cvent, see exhibit 1 below, we observe 1Q21 and 3Q21 are still showing positive y/y pace for corporate group meetings. We believe the pace is positive primarily due to rescheduled meetings that were to occur in 2020.
- **The bad news:** The y/y pace of bookings continues to decelerate as arrival data get closer and while 1Q21 and 3Q21 y/y paces are still positive, those growth rates are well off of their growth levels from three months

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What's Inside

An analysis of last month's global lodging results and trends.

ago. Based on data from Kalibri Labs we observe a rapid increase in cancellations as arrival dates get closer, see exhibit 2 below. Additionally, 2Q21 and 4Q21 and full-year 2022 continue to slip deeper into the negative with each subsequent month.

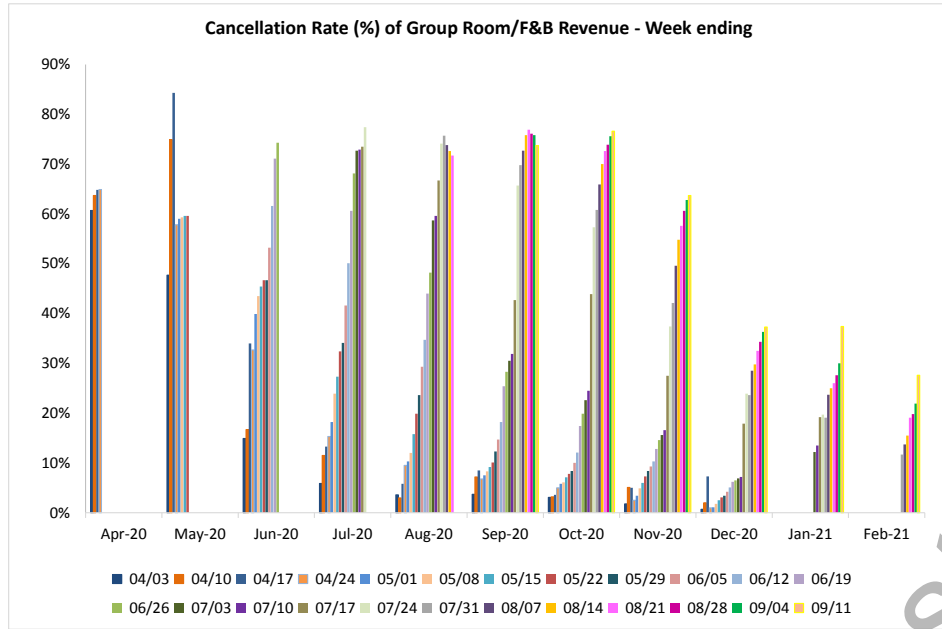
- **Color on room rates:** For corporate group/meetings, room rates for September-December 2020 are down approx. 25% y/y, 1Q21 down approx. 10% y/y, and full-years 2021 and 2022 down approx. 3-4% y/y.
- While a widely distributed vaccine will be a game changer, until that point (our best guess for RevPAR modeling purposes is not until at least 2Q21, we envision large corporations being extremely cautious in sending their employees out to travel, unless it is for essential purposes.
- Along similar lines, we see large group events and meetings being significantly curtailed until a vaccine is widely available and even after that experiencing lower than normal attendance (Event Manager Blog).

Exhibit 1: Year-over-year pace of corporate group meetings

	US Composite													
Pace as of	2Q20A	3Q20E	4Q20E	YE 20	1Q21E	2Q21E	3Q21E	4Q21E	YE 21	1Q22E	2Q22E	3Q22E	4Q22E	YE 22
Mar-20	118.1%	80.2%	94.0%	89.9%	139.3%	87.5%	117.5%	84.8%	108.4%	104.0%	82.7%	92.5%	102.7%	94.5%
Apr-20	102.6%	89.8%	94.9%	89.3%	98.3%	87.1%	108.7%	87.5%	107.7%	96.6%	86.4%	93.1%	102.3%	93.7%
May-20	61.4%	77.5%	94.7%	89.4%	139.2%	88.5%	117.0%	83.3%	108.5%	106.1%	85.9%	90.5%	92.9%	93.9%
Jun-20	30.9%	80.0%	93.4%	80.1%	142.1%	89.5%	115.7%	84.4%	109.3%	102.2%	84.7%	94.3%	95.9%	94.1%
Jul-20		62.5%	86.8%	71.4%	129.9%	84.2%	110.6%	75.0%	100.5%	99.3%	79.0%	90.5%	94.0%	88.7%
Aug-20		45.8%	80.9%	64.2%	114.4%	82.0%	105.7%	73.9%	95.3%	91.5%	75.2%	87.9%	90.8%	85.7%
Sep-20		43.3%	77.5%	60.9%	106.6%	79.7%	101.3%	73.3%	91.7%	83.1%	73.3%	81.3%	87.6%	81.2%

Source: Truist Securities Research, Cvent

Exhibit 2

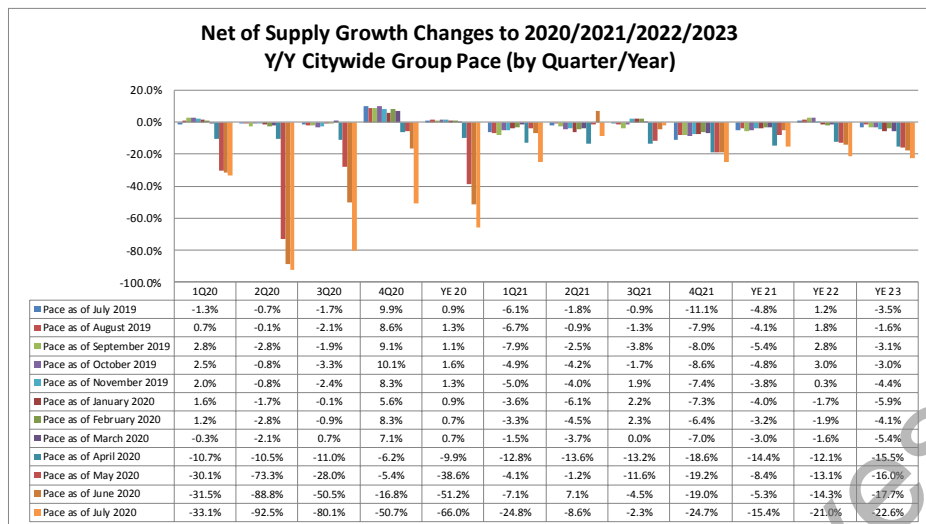


Source: Truist Securities Research, Kalibri Labs

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Specifically on city-wide conventions, while 2020 is a well-known washout, we continue to hear from large group travel managers that 2021 city-wide conventions are beginning to be pushed out until 2022 and beyond. Statistically based on data from TAP/Knowland, we see a continued deceleration in hotel room bookings/blocks for city-wide conventions:

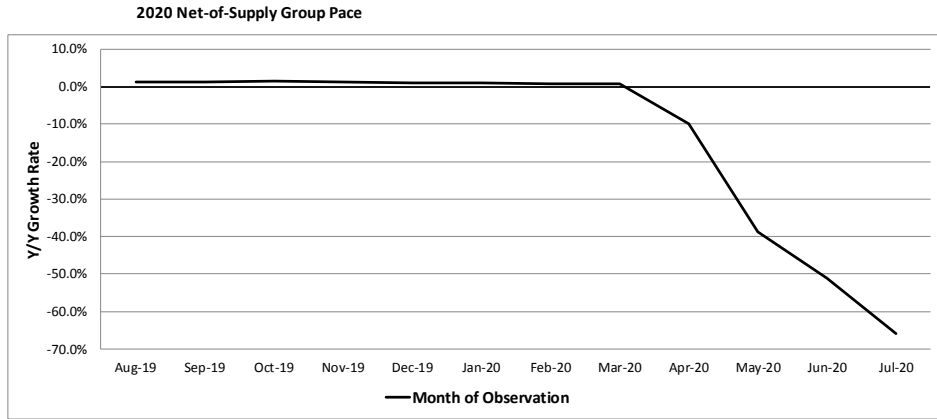
Exhibit 3



Source: Truist Securities Research, TAP
 Note: Some market data not updated post-COVID-19.

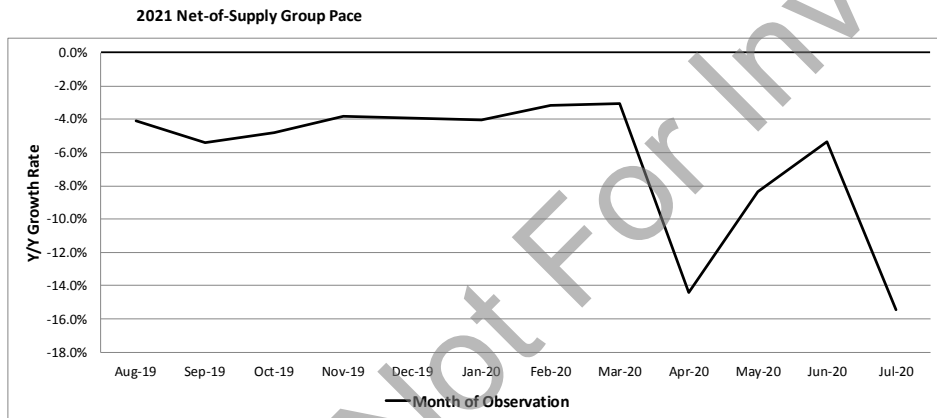
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Exhibit 4



Source: Truist Securities Research, TAP
 Note: Some market data not updated post-COVID-19.

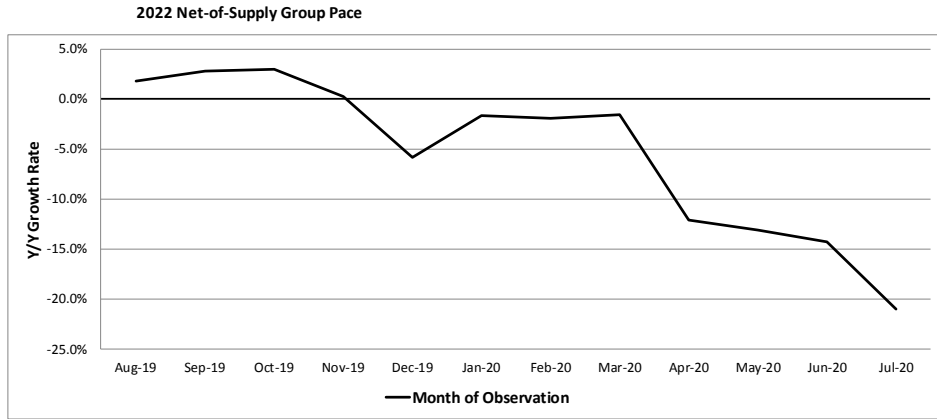
Exhibit 5



Source: Truist Securities Research, TAP
 Note: Some market data not updated post-COVID-19.

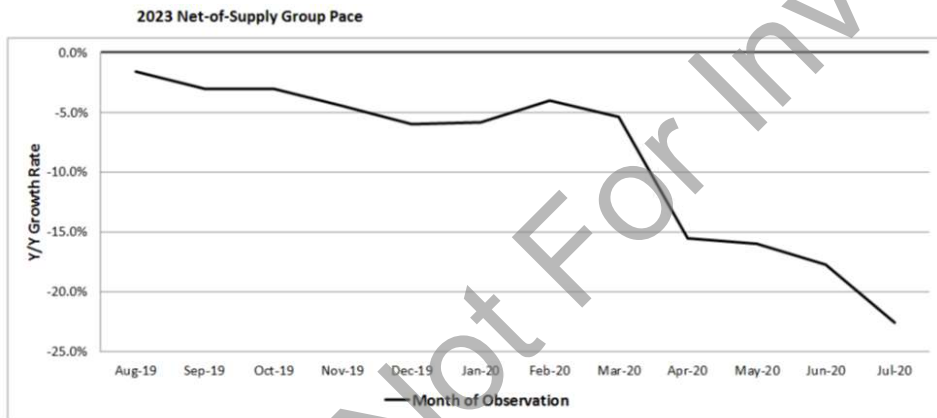
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Exhibit 6



Source: Truist Securities Research, TAP
 Note: Some market data not updated post-COVID-19.

Exhibit 7



Source: Truist Securities Research, TAP
 Note: Some market data not updated post-COVID-19.

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Historically group/convention business has been the slowest to recover after a downturn and we see this downturn as no different from previous ones in that regard. There will be a natural time lag in the recovery of group meetings and conventions even after a vaccine is widely distributed. It will take more time for group demand (20-40% mix for most of our coverage) to recover than for individual travel demand (transient business and transient corporate). The “why” is quite straightforward: group events require logistics for planning and scheduling events that a vacationer or individual business traveler generally does not have to consider. With the exception of smaller drive-to events and some social groups, larger corporate-focused events necessitate reserving meeting and event space, allowing attendees enough time to book travel at a reasonable cost, and determining a date that will lead to most invitees showing up. **We estimate that for larger events (over 500 attendees), a 6-12 month lead time from a well-distributed vaccine is likely sufficient with citywide conventions and exhibitions (thousands of attendees) sometimes requiring more than a year to reschedule.** Notably, for many conventions, the issue is not just getting attendees to show up – there are logistics related to the labor of setting up events and in many cases physically heavy products and display booths to be placed in the meeting facility.

- **For most larger events in the U.S., weather and the school year are important factors for scheduling events. Due to the school year, generally peak group months are March to May and September to mid-November, excluding holidays.** On the weather front, certainly not all cities are 12-month destinations. Cities prone to blizzards/winter flight delays host fewer events in the winter. Cities prone to hurricanes and humid summers host fewer events in the summer/early fall. While fair-weather cities can host events year-round (think San Diego, where most REITS in our coverage have material exposure), most major cities are seasonal for destination appeal. **Both the school year and weather truncates the group calendar in normal times and we do not see this theme changing post-vaccine.**

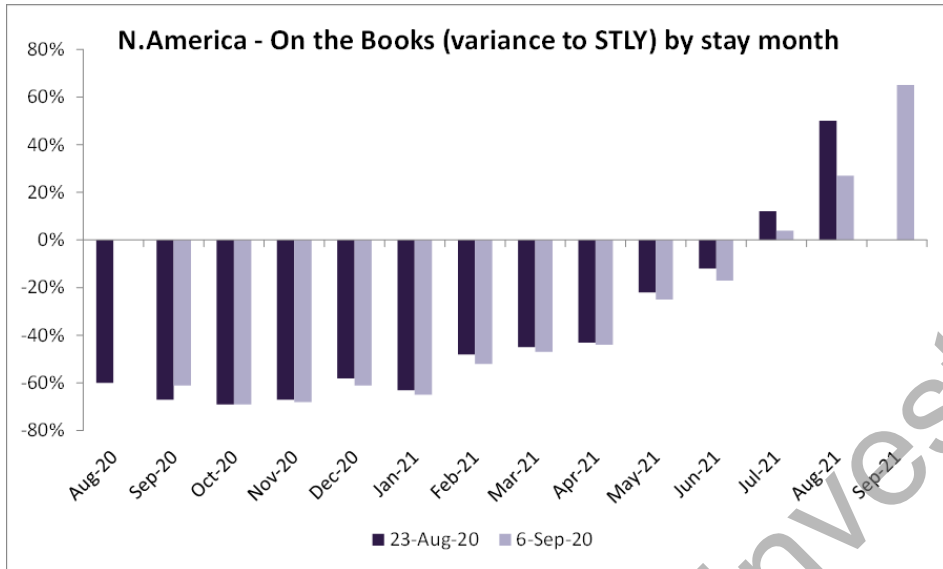
Some of our private industry contacts have suggested that when planning group events in 2021 and beyond, new COVID-related factors are coming to importance. Transportation logistics matter: are there enough nonstop or one-stop flights? Are some hotels near a convention center at risk of closing? Is local transportation at risk of shortened service? Are restaurants and attractions in destinations staying open? In many respects, the “destination appeal” of cities is especially top of mind for meeting planners today – with criteria that goes well beyond the pre-virus norm of “is this city/hotel/meeting space going to meet the needs and interest of our attendees”.

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Overall North America, Asia-Pacific, and Europe-Middle East-Africa hotel booking trends:

The dearth of new transient business and group bookings (aka booking pace) as arrival dates get closer continues to push down occupancy on the books for future months/quarters vs. the same time last year. We observe this in data from approx. 3,000 hotels in the US and Canada collected by Duetto. We see similar trends, though with different degrees of volatility, in booking pace for hotels in Asia-Pacific and Europe-Middle East-Africa:

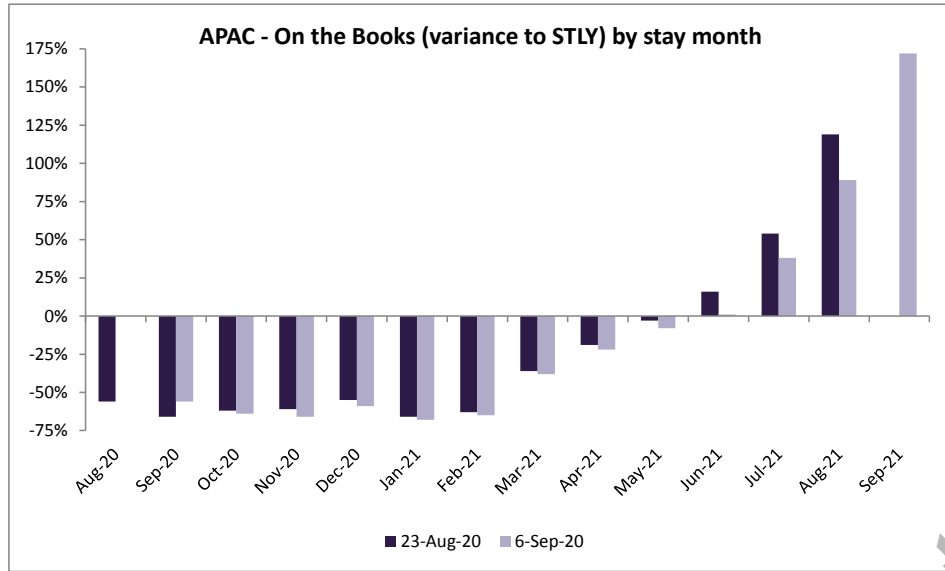
Exhibit 8



Source: Truist Securities Research, Duetto

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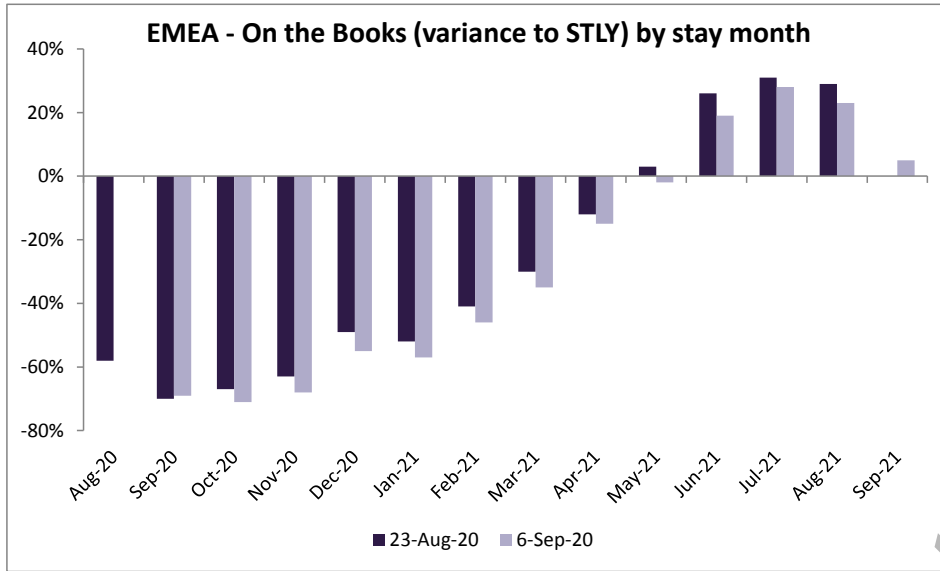
Exhibit 9



Source: Truist Securities Research, Duetto

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Exhibit 10



Source: Truist Securities Research, Duetto

Where to invest now in the greater lodging-leisure space? WH and Timeshare though these companies are certainly not without their challenges. The relative good news is that leisure travel, especially drive-to leisure for non-urban markets, has shown some green shoots over the past several months. For the public companies, we reiterate the companies relatively best positioned here in our coverage universe to drive-to leisure are CHH and WH (we prefer WH over CHH due to a more attractive comparable valuation) and for the timeshare companies (BXG, HGV, VAC, WYND). *To be clear, like for the business and group-centric hotels, the next year will likely still be very challenging for these companies.* For example, timeshare sales will likely still be down approx. 60% y/y for the back half of the year but fortunately these companies have other sources of revenue which are faring far better. That said, they are relatively better positioned as to not be in the direct cross-hairs of the industry's greatest areas of pain.

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Exhibit 11

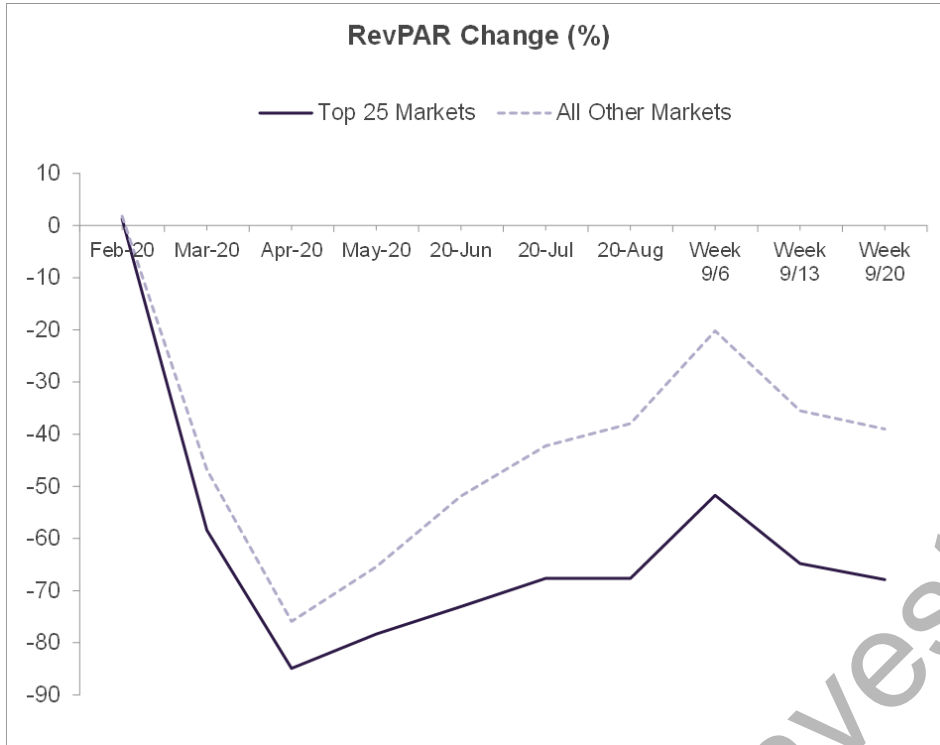
Segmentation By Company			
	Transient Corporate*	Transient Leisure	Group
DRH	45%	25%	30%
HST	40%	25%	35%
PEB	35%	40%	25%
PK	35%	35%	30%
RHP	5%	25%	70%
RLJ	55%	25%	20%
SHO	45%	20%	35%
C-corps			
	Transient Corporate*	Transient Leisure	Group
CHH	45%	45%	10%
H	40%	20%	40%
HLT	50%	20%	30%
MAR	50%	30%	20%
WH	30%	70%	less than 1%

*For simplicity, transient corporate includes contract/crew (generally 5% or less of total demand for most companies). Contract/crew is generally very low-rated business.

Source: Truist Securities Research, company filings

For CHH and WH, which have very minimal exposure to top-25 markets (these markets are heavily dependent on business travel, group/conventions, and international visitation), they continue to fare far better than companies that have greater exposure to the top-25 markets. We began discussing this trend several months ago and it has only accelerated since that time. We continue to observe the spread between the top-25 market RevPAR and "All Other Markets" continuing to grow per the exhibits below. The limited fly-to higher rated urban demand is a clear indicator of why suburban/resort/small town markets and non-Top 25 large markets are outperforming:

Exhibit 12



RevPAR % Change Y/Y Between Top 25 Markets and All Other Markets

	Feb-20	Mar-20	Apr-20	May-20	20-Jun	20-Jul	20-Aug	Week 9/6	Week 9/13	Week 9/20
Top 25 Markets	1.3	-58.4	-84.9	-78.3	-73.1	-67.7	-67.6	-51.7	-64.8	-67.9
All Other Markets	1.8	-46.8	-75.9	-65.4	-51.9	-42.2	-38.0	-20.2	-35.5	-39.0
Spread	-0.5	-11.6	-9.0	-12.9	-21.2	-25.4	-29.7	-31.5	-29.3	-28.9

Source: Truist Securities Research, STR

We have many sell ratings (DRH, H, HST, PK, RHP, SHO) and only one Buy rating (WH) in the hotel REIT and C-corp space. So what keeps us up at night or where could we be wrong with our negative stance?

- **We see the biggest risks to our negative stock views coming from a vaccine arriving much sooner than anticipated as well as a possible temporary bump in stock prices from another stimulus package and/or direct government support (Hotel Management).** Stock views aside, we personally hope that

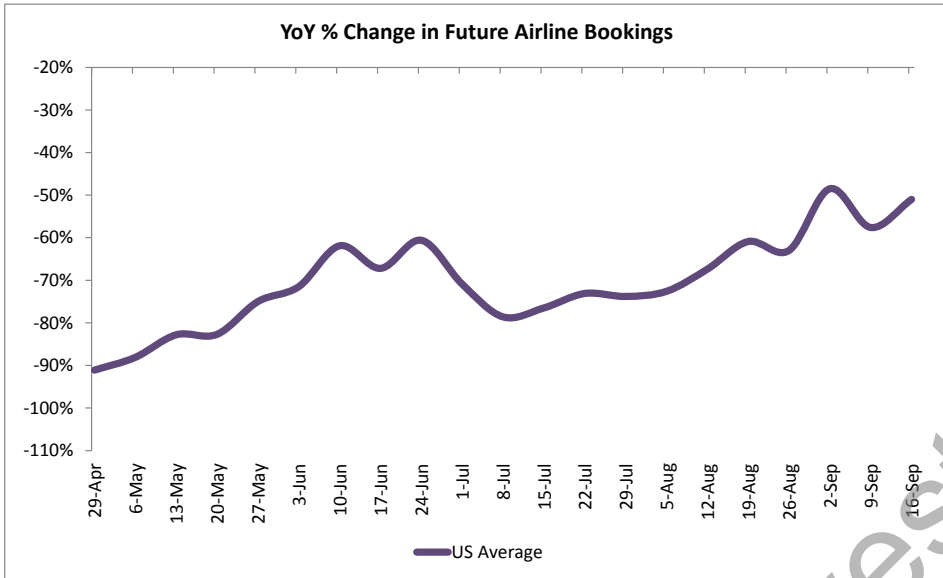
a vaccine will arrive much sooner than expected, although realistically we have limited optimism that one will be made widely available before a year from now. We are unfortunately skeptical about being able to rush a vaccine anywhere near the speed that people are hoping for and some are counting on.

- **Few individual institutional quality hotels for sale today but hotel REITS are for sale and PE could remerge as a buyer of hotel companies.** We continue to hear that private equity is looking for hotel assets, or as our private hotel contacts have said “everyone has a distressed asset fund”, however there are very few individual hotels for sale on the market today of institutional quality. ***That said, and this is a big risk to our Sell rating on many hotel REITS, the stocks/equity of hotel REITS are for sale every Monday-Friday from 9:30am-4pm on the stock exchanges and it is not unreasonable to think that PE could further direct their interest towards the public companies as opposed to individual assets.*** In early August lodging stocks saw a pop from media speculation that Blackstone (BX, Not Covered) may be interested in increasing its stake in HST. On SHO’s earnings call management noted they believe PE sees value in the share prices of hotel REITS as evidenced by purchases in 1Q and noted that there are large PE firms (we point out BX) that are well capitalized and have strong banking relationships.

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In addition to future hotel bookings, we also look at the pace of y/y US airline bookings to see if there are any signs of life. Based on data from Kalibri Labs, the trend in airline bookings for future flights had generally been encouraging. That said, bookings still have a deep hole to dig out of.

Exhibit 13



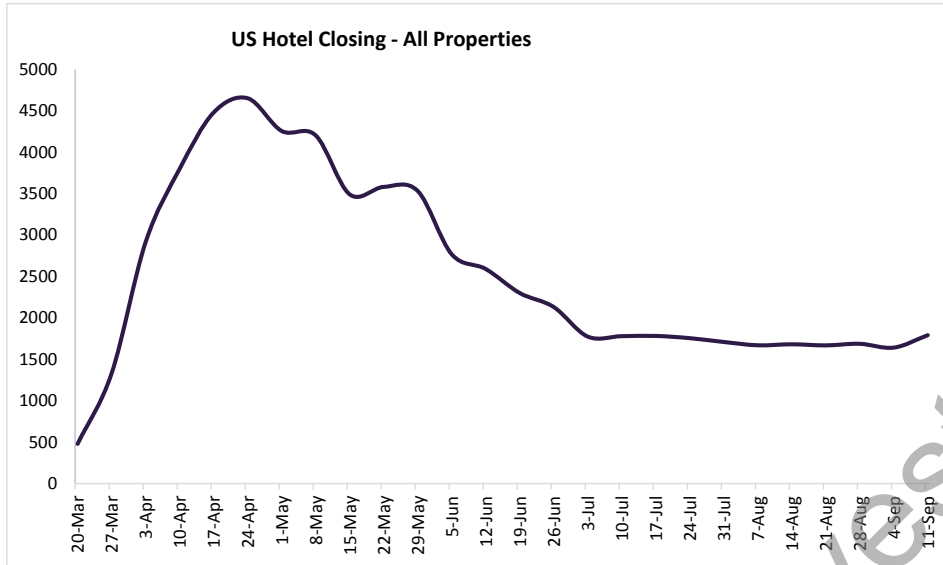
Week ending	29-Apr	6-May	13-May	20-May	27-May	3-Jun	10-Jun	17-Jun	24-Jun	1-Jul	8-Jul	15-Jul	22-Jul	29-Jul	5-Aug	12-Aug	19-Aug	26-Aug	2-Sep	9-Sep	16-Sep
US Average	-91.1%	-88.1%	-82.8%	-82.7%	-75.0%	-71.5%	-61.9%	-67.2%	-60.6%	-70.9%	-78.6%	-76.5%	-73.1%	-73.8%	-72.6%	-67.8%	-60.9%	-63.0%	-48.5%	-57.6%	-51.0%

Source: Truist Securities Research, Kalibri Labs

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Hotel opening/closing observations: The pace of reopenings has stalled over the three months. We believe this is reflective of large urban markets such as NYC that are severely struggling in gaining customer demand, specifically from corporate accounts and international visitors and from closure of Broadway shows.

Exhibit 14



Source: Truist Securities Research, Kalibri Labs

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Companies Mentioned in This Note

Bluegreen Vacations Corporation (BXG, \$4.93, Hold, C. Patrick Scholes)
Choice Hotels International, Inc. (CHH, \$84.82, Hold, C. Patrick Scholes)
DiamondRock Hospitality Company (DRH, \$4.69, Sell, C. Patrick Scholes)
Hyatt Hotels Corporation (H, \$52.47, Sell, C. Patrick Scholes)
Hilton Grand Vacations Inc. (HGV, \$20.53, Buy, C. Patrick Scholes)
Hilton Worldwide Holdings Inc. (HLT, \$83.07, Hold, C. Patrick Scholes)
Pebblebrook Hotel Trust (PEB, \$11.65, Hold, Gregory Miller)
Park Hotels & Resorts Inc. (PK, \$9.21, Sell, C. Patrick Scholes)
Ryman Hospitality Properties, Inc. (RHP, \$35.10, Sell, C. Patrick Scholes)
Sunstone Hotel Investors, Inc. (SHO, \$7.48, Sell, C. Patrick Scholes)
Marriott Vacations Worldwide Corporation (VAC, \$87.94, Buy, C. Patrick Scholes)
Wyndham Hotels & Resorts, Inc. (WH, \$47.08, Buy, C. Patrick Scholes)
Wyndham Destinations, Inc. (WYND, \$30.10, Buy, C. Patrick Scholes)
 Blackstone (BX, Not Covered)

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