

## Lodging

Nov/Dec RevPAR Monitor: No good news w/ bookings & pricing, only w/ vaccine

2021 ests still high but vaccine enthusiasm has trumped similar warnings & cuts

**Typically when we write that our forward-looking observations on hotel bookings and pricing do not support consensus estimates for the upcoming year, one would expect some degree of weakness in stock performance.** However over the past eight months with lodging stocks, while large cuts have been and continue to be made to 2H20, 2021, and 2022 consensus projections, the only thing that has really mattered for the stocks has been anticipation of progress on a vaccine and more recently confirmed progress on developing the vaccine (see exhibit 1 below). That said, our RevPAR intelligence shows that estimates continue to look too high for 2021 (after being sliced for the past six months, 4Q20 looks reasonable to us), but clearly the market is looking far beyond 2021 or even 2022 for earnings and also applying peak multiples on 2022 numbers and elevated multiples on 2023 projections when valuing lodging/leisure stocks.

Historically, these stocks have been valued on one-year and at most two-year forward earnings, including during the 2008-2009 Great Financial Crisis. *Needless to say we are in uncharted territory on how these stocks are being valued and investors have thrown out the traditional playbook for the moment. Rather the market is discounting a perfect scenario that has not happened yet and investors really do not care at the moment about how long a full-fledged comeback in the lodging-leisure space might take as they are focused on momentum around vaccination news.*

Based on millions of future hotels' reservations for US full-service hotels, our "big data" forward-looking booking and pricing observations can be summed up as:

- **2021 occupancy on the books is down approx. 75% vs. the same time last year for 2020.**
  - **January 2021:** Occupancy on the books at approx. 5 percentage points. Compares to the same time last year at approx. 18%.
  - **February 2021:** Occupancy on the books for February at approx. 6 percentage points. Compares to the same time last year at approx. 17%.
- **Group cancellations continue to accelerate as arrival dates get closer.** Any new group bookings are very short-term in nature with most under 30 attendees and pricing down approx. 30% y/y. For 2021 and beyond new group bookings, we are seeing pricing down 15-20% from pre-pandemic levels.

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### What's Inside

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

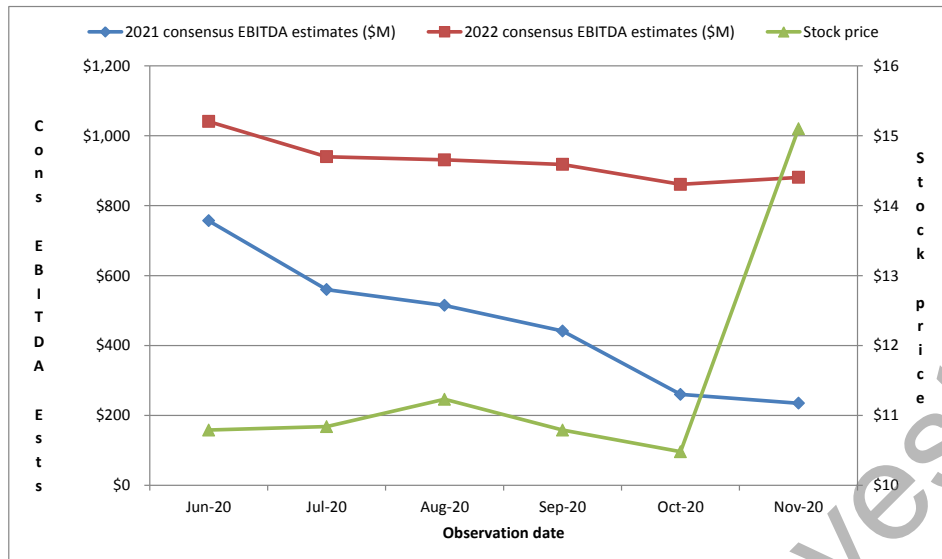
- **In November, overall booking volume pace slipped slightly vs. October's pace.** We attribute this due to the election and surge in Covid cases partly offset by leisure bookings as the holidays get closer.
- **Visibility is at historical lows.** 70% of overall bookings are being made within 7 days with approx. 75% of that coming within 48 hours of arrival.
  - People do not want to go through the hassle of cancelling and realize there is for the most part plenty of availability at hotels and on airplanes if they should decide to book at the last minute.
- **Loyalty/guest reward members as a percentage of bookings have dropped 5 percentage points since this spring.** We believe this deceleration is due to a greater mix of leisure customers, these customers being less likely to be loyal to one brand than are frequent business travelers. *Normally this would be a large negative for the C-Corps/brands, but we are in unusual times so we believe few investors really care at the moment.*
- **As we noted previously from hotel management meetings over the past three weeks, unfortunately, there is a growing belief that corporate business will not return by any material degree in 1H21 and that larger groups will not be returning to the end of 2021 at the earliest.** When we spoke with the same management teams in June, the sentiment was that corporate business would start to come back by late 2020 and early 2021; that no longer looks like the case. September 2021 for the most part is the earliest date when hotels have penciled-in when groups might start to come back and the belief is that city-wide conventions will take years to get back to peak levels.
  - Additionally 2021 corporate travel budgets are in question. If the delay in business and group travel comes to fruition, we believe 2021 consensus estimates will need to be lowered again. While we have heard that 2021 negotiated corporate room rates are holding roughly flat y/y in 2021, we are concerned that bookable room rates via OTAs may be lower than the corporate rates and there will be business travelers who go around their corporate rates and book the cheaper OTA rate.
  - *That said, given the vaccine news-driven rally in the hotel REIT stocks this month, some investors are looking past these negatives and taking the (very) long view on the eventual vaccine-driven recovery.*

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**About the lodging stocks:**

**Not “normal” times for investing in lodging-leisure stocks.** “Normally” major consensus cuts to one and two-year forward earnings would lead to some degree of weakness in a stock but enthusiasm around a vaccine has thrown that investment playbook out the window. Take HST for example:

Exhibit 1 HST



Source: Truist Securities research, FactSet

**As far as stocks**, we reiterate the companies relatively best positioned here in our coverage universe are the drive-to leisure-centric C-Corps CHH and WH and the timeshare companies, BXG, HGV, VAC, and WYND.

- While a widely distributed vaccine will be a game changer, until that point our best guess for the return of the business traveler for RevPAR modeling purposes is not until at least 3Q21 (two months ago we said 2Q21). Until that time, we continue to 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 for at least the first year perhaps partly driven by lower T&E budgets, ROI on webinars, meeting planner reticence to book, etc.

**How do we think about the trajectory of the eventual demand recovery?**

As we have we surmised in the past, we believe that the customer sectors to return to global travel, in this order will continue to be:

1. **Drive-to leisure.** Companies with high exposure: Timeshare (BXG, HGV, WYND, VAC), midscale and economy hotels (CHH, WH), and ski resorts (MTN).
2. **Fly-to leisure.** Companies with high exposure: Timeshare (HGV, VAC), Playa Hotels & Resorts (PLYA), and ski resorts (MTN). We believe Hawaii will be a top y/y growth market in 2021 assuming the governor does not shut visitation down again. Companies with high exposure to Hawaii are Timeshare with HGV at approx. 25% and VAC at approx. 20%, and for the hotel REITS PK at approx. 25%, SHO at approx. 15%, and HST at approx. 9%. We also note PEB will be a large beneficiary from the return of fly-to leisure business as leisure accounts for approx. 40% of their business.
3. **Drive-to business.** Companies with high exposure: All of the hotel REITS and C-corps.
4. **Small (under 30 persons) meetings.** Companies with high exposure: All of the hotel REITS and H, HLT, and MAR. Additionally, while a much smaller component of their business model, small meetings could also take place in the 300-500 square foot meeting rooms at midscale hotels franchised by CHH and WH.
5. **Fly-to business.** Companies with high exposure: All of the hotel REITS and H, HLT, and MAR.
6. **Mid-sized meetings (20-500 persons) meetings.** Companies with high exposure: HST, PK, and RHP.
7. **Large conferences/conventions.** We believe this type of business could be impaired for some time. In our coverage, RHP has the largest exposure.

**Predictions for the return of group/convention business:**

- **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.**

## Exhibit 2

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%

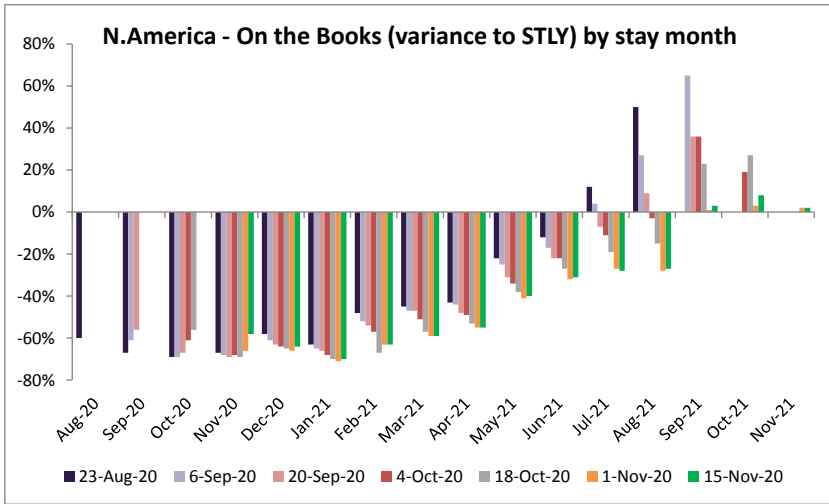
\*For simplicity, transient corporate includes contract/crew (generally 5% or less of total demand for most companies). Contract/crew is generally very low-rated business.

Source: Truist Securities Research, company filings

### **Examining forward-looking booking trends:**

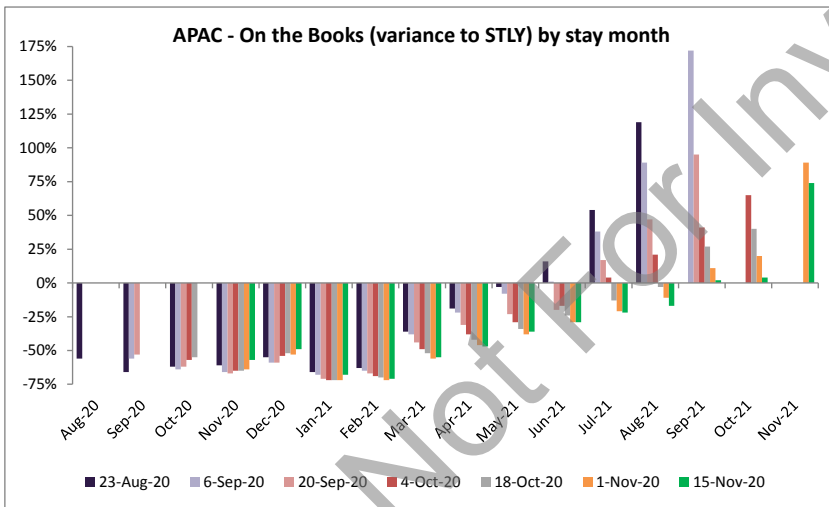
**Overall North America, Asia-Pacific, and Europe-Middle East-Africa hotel booking trends:** The dearth of new transient business and group bookings (aka booking pace) as arrival dates get closer continues to push down occupancy on the books for future months/quarters vs. the same time last year. We 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 3



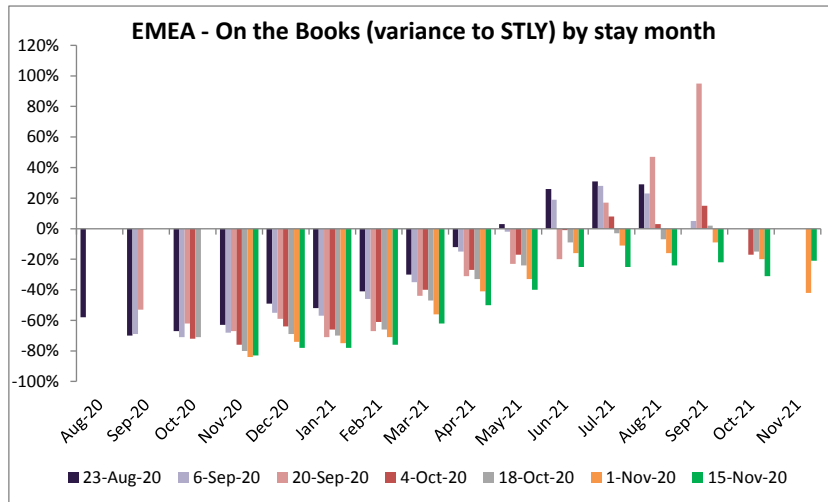
Source: Truist Securities research, Duetto

Exhibit 4



Source: Truist Securities research, Duetto

## Exhibit 5



Source: Truist Securities research, Duetto

**“Big data” observations on US corporate group/meeting booking trends:**

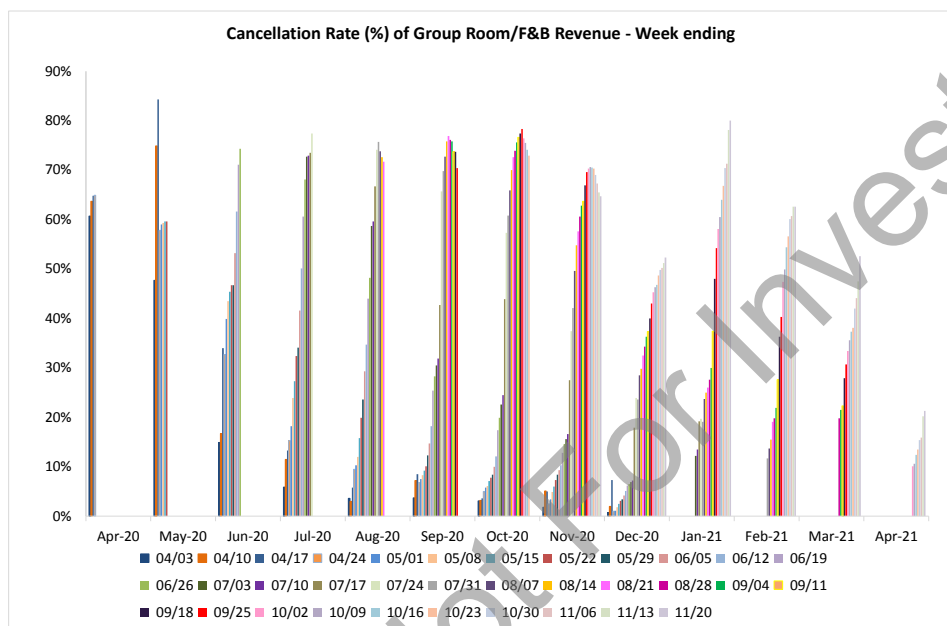
- Based on data from Cvent (Cvent sources approx. 30% of the corporate meetings in the US), the y/y pace of bookings continues to decelerate as arrival dates get closer and while two months ago 1Q21 and 3Q21 y/y paces were still positive, they are now starting to go deeply negative. Based on data from [Kalibri Labs](#) we observe a rapid increase in cancellations as arrival dates get closer, see exhibit 6 below. Additionally, 2Q21 and 4Q21 and full-years 2022 and 2023 continue to slip deeper into the negative with each subsequent month. That said, once there is more definitive visibility on when the typical (non-high risk) person will be able to be vaccinated, we would expect a resurgence in group bookings.
  - **Color on corporate group/meeting room rates.**
    - **The rest of 2020:** Looking at meetings booked in November for meetings in November and December, we observe “big discounts.” – ADR down around 30%.
    - **For 2021 and beyond:** Room rates for new bookings made over the past month are down approx. 15-20% vs. the same time last year. By comparison, future Group bookings made during the summer months were down approx. 10% y/y, ergo we are seeing a deceleration over the past four months.

Exhibit 6: Year-over-year pace of corporate group meetings

Pace as of	US Composite			YE 20	1Q21E	2Q21E	3Q21E	4Q21E	YE 21	YE 22	YE 23
	2Q20E	3Q20E	4Q20E								
Nov-20			-43.0%	-41.2%	-31.0%	-28.1%	-11.3%	-30.1%	-26.9%	-25.1%	-22.9%
Oct-20			-30.2%	-30.3%	-29.8%	-26.9%	-9.2%	-30.1%	-25.8%	-24.5%	-22.2%
Sep-20		-56.7%	-22.5%	-39.1%	6.6%	-20.3%	1.3%	-26.7%	-8.3%	-18.8%	
Aug-20		-54.2%	-19.1%	-35.8%	14.4%	-18.0%	5.7%	-26.1%	-4.7%	-14.3%	
Jul-20		-37.5%	-13.2%	-28.6%	29.9%	-15.8%	10.6%	-25.0%	0.5%	-11.3%	
Jun-20	-69.1%	-20.0%	-6.6%	-19.9%	42.1%	-10.5%	15.7%	-15.6%	9.3%	-5.9%	
May-20	-38.6%	-22.5%	-5.3%	-10.6%	39.2%	-11.5%	17.0%	-16.7%	8.5%	-6.1%	
Apr-20	2.6%	-10.2%	-5.1%	-10.7%	-1.7%	-12.9%	8.7%	-12.5%	7.7%	-6.3%	
Mar-20	18.1%	-19.8%	-6.0%	-10.1%	39.3%	-12.5%	17.5%	-15.2%	8.4%	-5.5%	

Source: Truist Securities research, Cvent

Exhibit 7

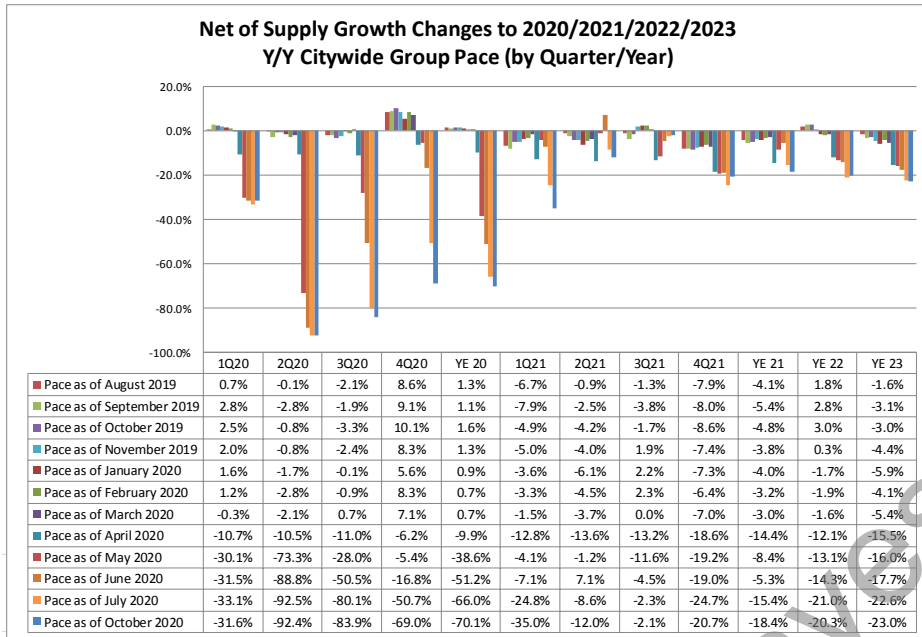


Source: Truist Securities research, Kalibri Labs



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:

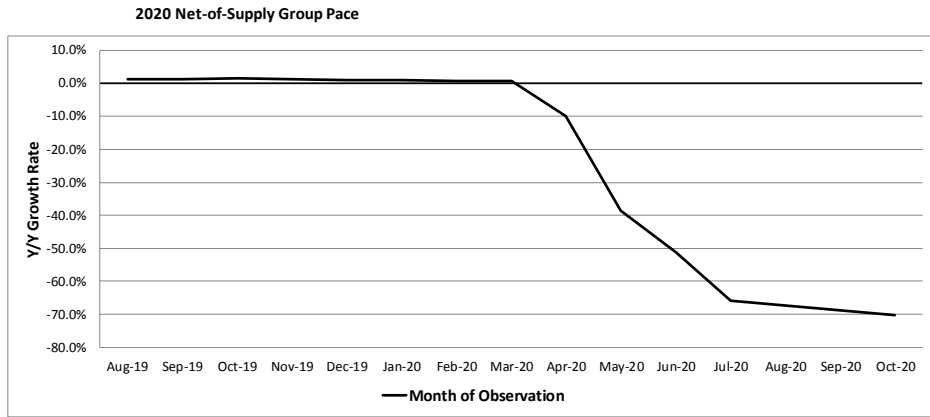
Exhibit 8



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

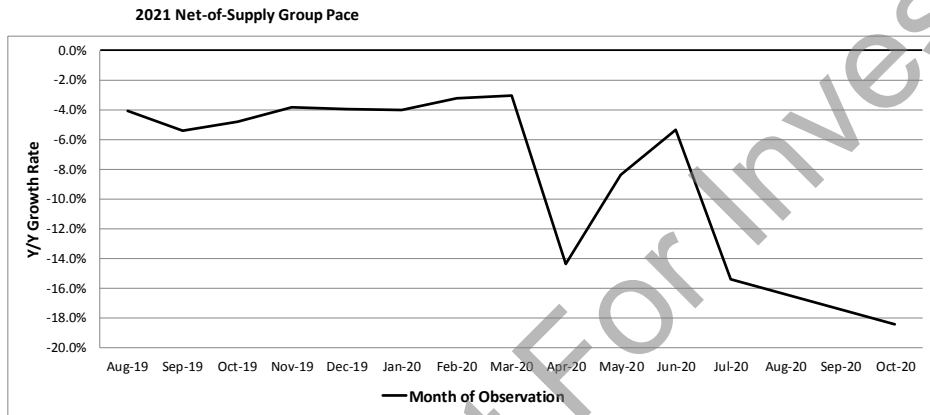
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Exhibit 9



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

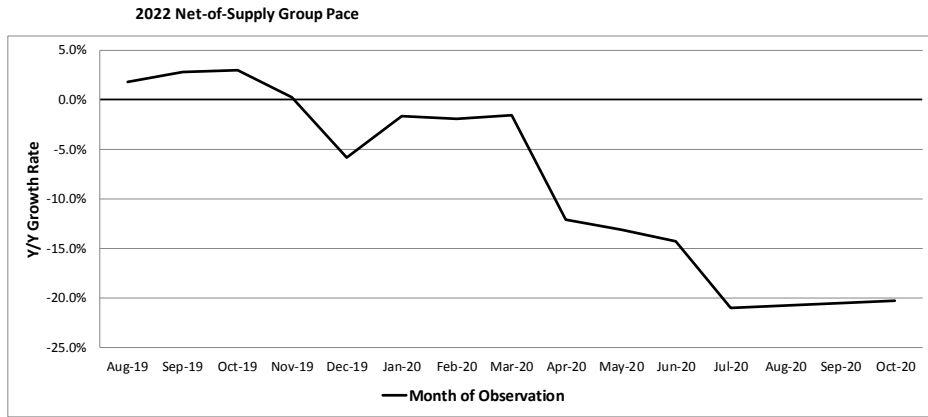
Exhibit 10



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

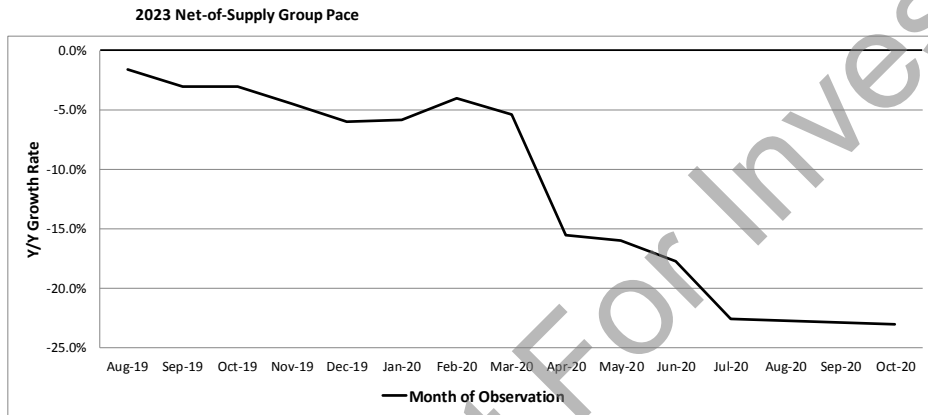
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Exhibit 11



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

Exhibit 12

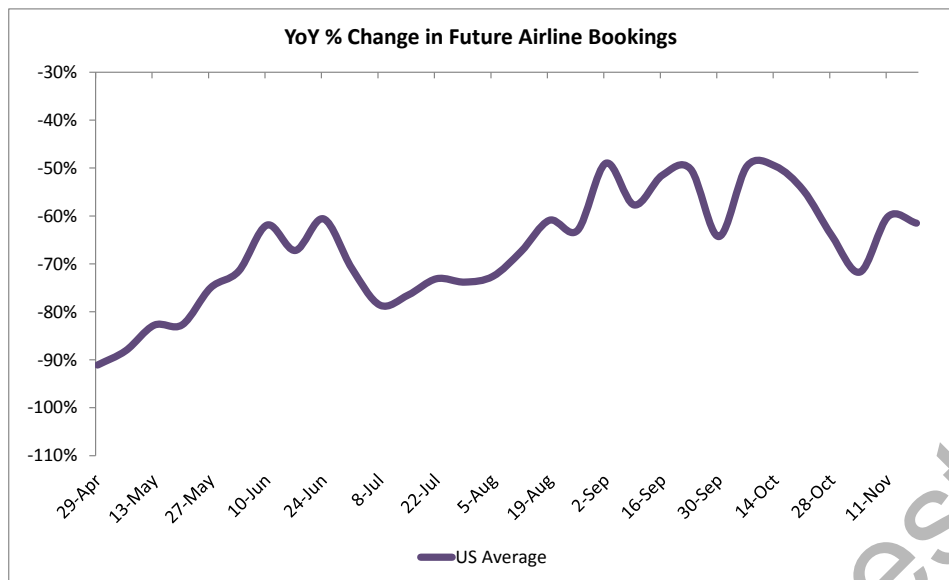


Source: Truist Securities Research, TAP  
 Note: Some market data not updated post-COVID-19.

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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 through mid-October. However, likely due to the rise in Covid cases over the past 6 weeks, the pace has decelerated.

Exhibit 13

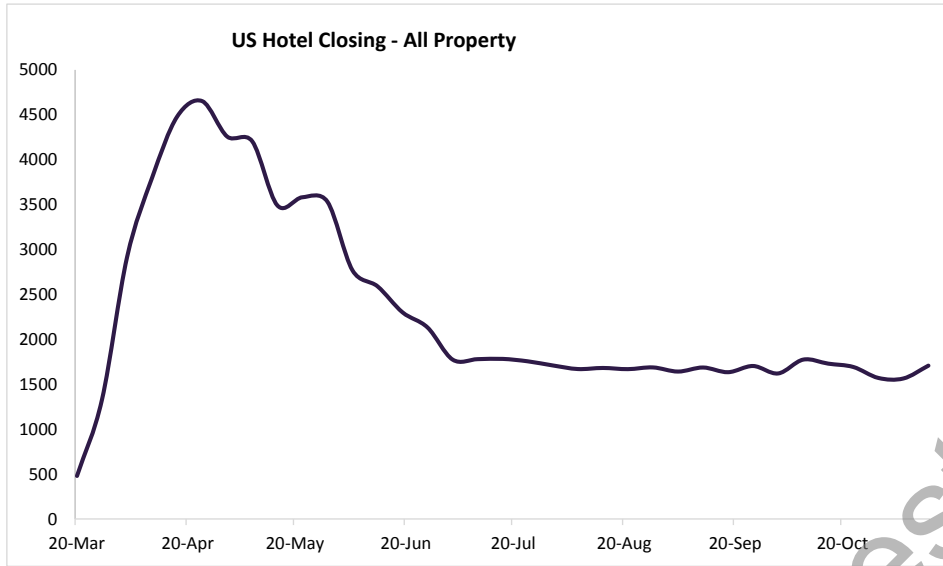


Source: Truist Securities research, Kalibri Labs

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**Hotel opening/closing observations: Following a strong pace of reopenings through early summer, the pace as stalled since that time.** 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, \$6.35, Hold, C. Patrick Scholes)  
**Choice Hotels International, Inc.** (CHH, \$101.28, Hold, C. Patrick Scholes)  
**DiamondRock Hospitality Company** (DRH, \$7.82, Sell, C. Patrick Scholes)  
**Hyatt Hotels Corporation** (H, \$73.18, Sell, C. Patrick Scholes)  
**Hilton Grand Vacations Inc.** (HGV, \$28.13, Buy, C. Patrick Scholes)  
**Hilton Worldwide Holdings Inc.** (HLT, \$104.84, Hold, C. Patrick Scholes)  
**Host Hotels & Resorts, Inc.** (HST, \$14.51, Sell, C. Patrick Scholes)  
**Marriott International, Inc.** (MAR, \$128.52, Hold, C. Patrick Scholes)  
**Vail Resorts, Inc.** (MTN, \$273.34, Buy, C. Patrick Scholes)  
**Pebblebrook Hotel Trust** (PEB, \$18.95, Hold, Gregory Miller)  
**Park Hotels & Resorts Inc.** (PK, \$16.82, Sell, C. Patrick Scholes)  
**Playa Hotels & Resorts N.V.** (PLYA, \$5.19, Hold, C. Patrick Scholes)  
**Ryman Hospitality Properties, Inc.** (RHP, \$64.64, Sell, C. Patrick Scholes)  
**RLJ Lodging Trust** (RLJ, \$12.95, Hold, Gregory Miller)  
**Sunstone Hotel Investors, Inc.** (SHO, \$10.63, Sell, C. Patrick Scholes)  
**Marriott Vacations Worldwide Corporation** (VAC, \$135.86, Buy, C. Patrick Scholes)  
**Wyndham Hotels & Resorts, Inc.** (WH, \$57.42, Buy, C. Patrick Scholes)  
**Wyndham Destinations, Inc.** (WYND, \$43.96, Buy, C. Patrick Scholes)

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