

Lodging

Lodging - Mar/Apr RevPAR Monitor: Leisure recovery light shining bright!

Corporate and group bookings still a dim flickering bulb.

What's Incremental To Our View

In this report we discuss:

- Latest observations on forward-looking booking trends for US hotels including detail on:
 - Leisure
 - Business
 - Group/convention
- Expectations for trajectory of RevPAR growth in 2Q21 and 3Q21
- Our best positioned stocks/picks

Based upon millions of future reservations for US hotels from multiple “big data” sources and from conversations with private industry contacts, we have clearly seen strong green shoots in hotel bookings over the past 6 weeks for leisure-centric markets. On the other hand, the best we can say for business travel is that booking trends have picked up only very modestly as compared to November-December, though that may be more a statement on how bad bookings were in November-December as opposed to solid green shoots like we see in leisure travel. For group business, similar to our observations on individual business travel, bookings picked up in January-February from November-December levels but the overall trajectory of improvement has stalled/plateaued since mid-February with group bookings for leisure-centric markets showing improvement for 2021 since mid-February whereas the traditional urban business markets are showing slight deceleration. Where there are new group bookings, we observe a pronounced shift to lower-rated customer segments.

Based on our observations, we continue to be most bullish on leisure travel and less so on business and group. That said the market continues to reward nearly every hotel and leisure stock, regardless of their customer mix (see exhibit 13 at the end of this report for customer mixes) and/or if they announce further delays in reopening/restarting; the “reopening trade” has lifted all boats for the moment as it appears that it is not about valuation on 2021, 2022, or even 2023 estimates in some cases, it is about sentiment and momentum pushing stocks higher on the reopen.

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What's Inside

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

While 4Q20 RevPAR growth for many hotel companies looked much like 3Q20's and 1Q21's looks much like 4Q20's, we believe 2Q20's (on a comparable 2-year run rate) should pick-up vs. 1Q20's with the degree of improvement being highly correlated with one's hotel exposure to leisure/resort markets. For 2Q21 and 3Q21, we expect individual hotel results to be very choppy as they will vary by customer segmentation and geography. In previous demand shocks, demand bounced back over time but with a slower and prolonged rebound in business transient, especially corporate business, and group/convention and we see this cycle as no different. We think urban big-box hotels will have challenges with ADR and ancillary revenues such as food & beverage until corporate, group, and international demand bounce back.

As far as stocks, we reiterate our view that the companies relatively best positioned here in our coverage universe are the leisure-centric C-Corps CHH (Hold) and WH (Buy) (of the two we prefer WH on valuation) and the timeshare companies, BXG (Buy), HGV (Buy), VAC (Buy), and TNL (Buy). Within the hotel REIT space, PEB (Miller, Hold) and DRH (Sell) have the largest exposures to leisure customers. As previously noted, please see Exhibit 13 for a breakout of demand segmentation by company.

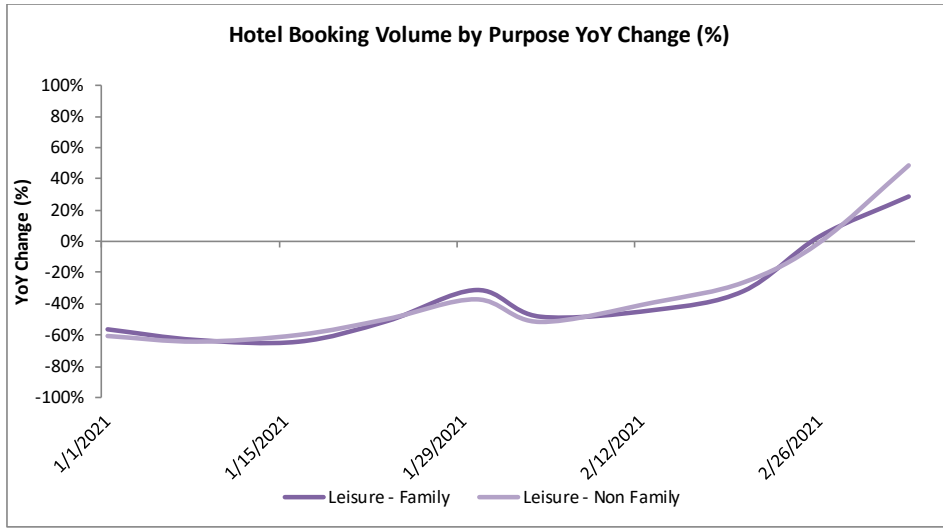
- While a widely distributed vaccine should be a game changer, until that point our best guess for the return of the business traveler for RevPAR modeling purposes is not until at least 3Q21 (four months ago we said 2Q21). Until that time, we continue to envision large corporations being extremely cautious 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.

Discussion and observations on the three main customer segments: Leisure, Individual Business, and Group/Convention:

Leisure: Although we have all been hearing about likely pent-up demand from consumers for some time, after slicing and dicing the forward-looking data, over the past several weeks we have seen a sharp and sudden acceleration in leisure bookings. This observation is consistent with our previous beliefs about how the travel recovery might play out. While we receive data from multiple forward-looking sources with each showing different percentage changes, the themes are very consistent direction-wise. Drilling down on specific markets, we have observed spikes in booking volumes in the traditional leisure markets of Florida and Hawaii over the past six weeks.

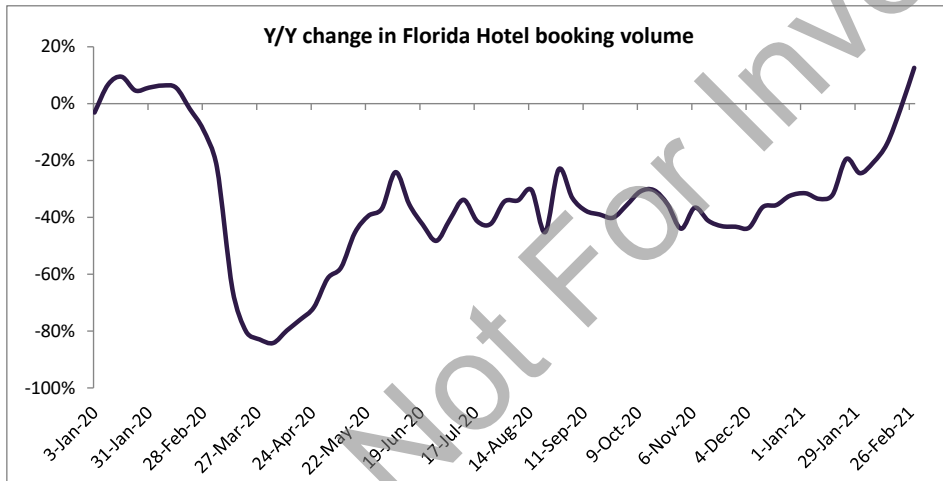
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Exhibit 1:



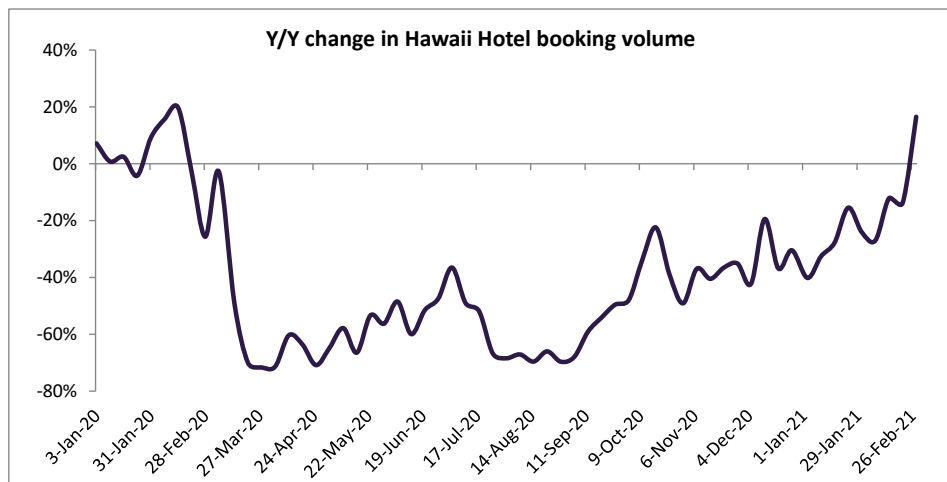
Source: Truist Securities, ADARA

Exhibit 2:



Source: Truist Securities, Duetto

Exhibit 3

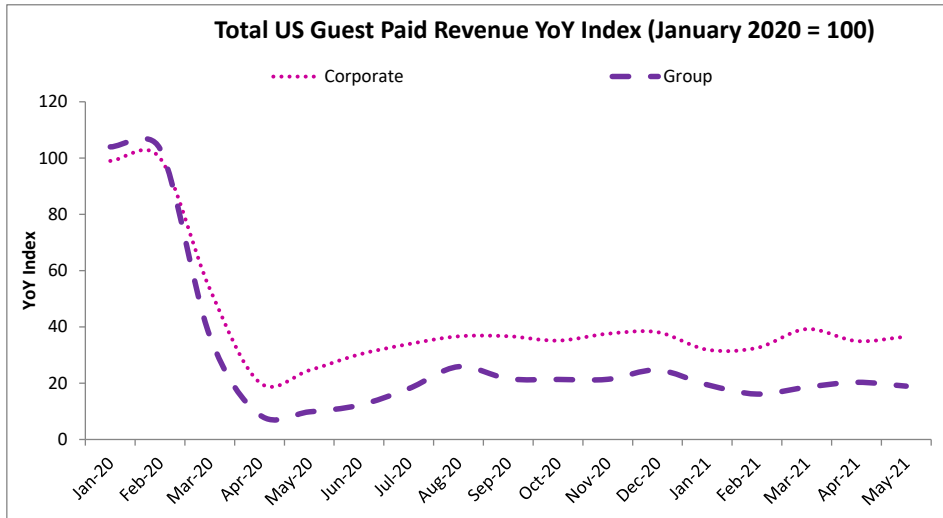


Source: Truist Securities, Duetto

Business: On the other hand, as one of the largest (perhaps the largest) corporate travel agencies told us last week, “corporate travel remains very sluggish” and the hope is that it will begin to pick-up mid-year. While statements and comments of “green shoots” from some management teams on 4Q earnings calls received outsized media attention and in our view parroting in some sell-side research notes, when pressed on earnings calls as to detail, some management teams noted that the majority of “green shoots” were coming from leisure-centric markets. Statistically in our “big data”, we observe the markets that have historically been considered more corporate business in nature, such as New York (international tourism is also a big drag right now) and Illinois (Chicago) having only seen a very modest improvement in bookings through mid-February from November-December levels.

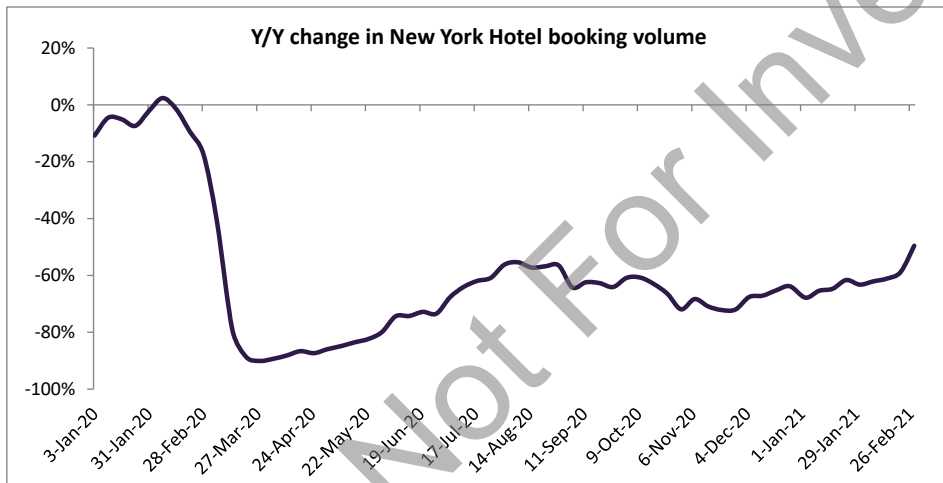
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Exhibit 4



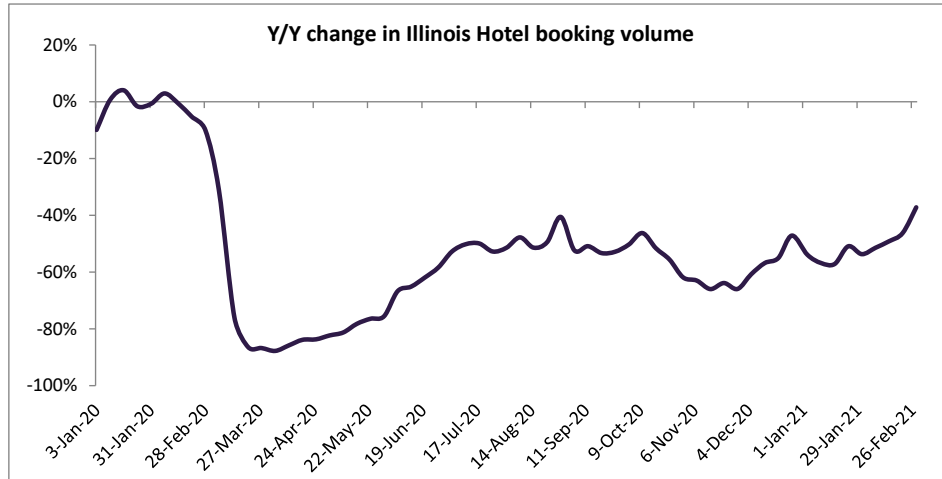
Source: Truist Securities, Kalibri Labs

Exhibit 5



Source: Truist Securities, Duetto

Exhibit 6

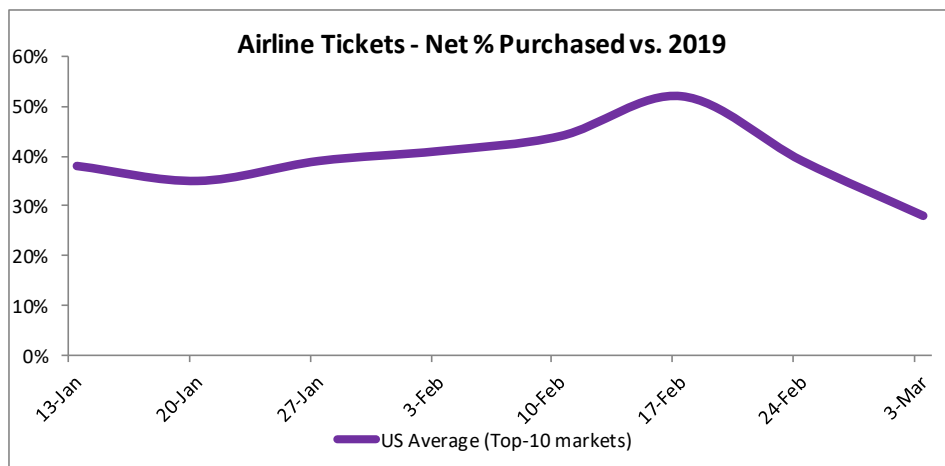


Source: Truist Securities, Duetto

In addition to future hotel bookings, we also look at the pace of y/y US airline bookings for the top-12 US markets (business and group-centric cities with the exception of Orlando and Miami) to see if there are any signs of life for business travel. Based on data from Kalibri Labs which tracks airline ticket purchases (net of cancellations) vs. 2019's levels, while there was an uptick in purchases in February, the booking pace has slipped since then.

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Exhibit 7

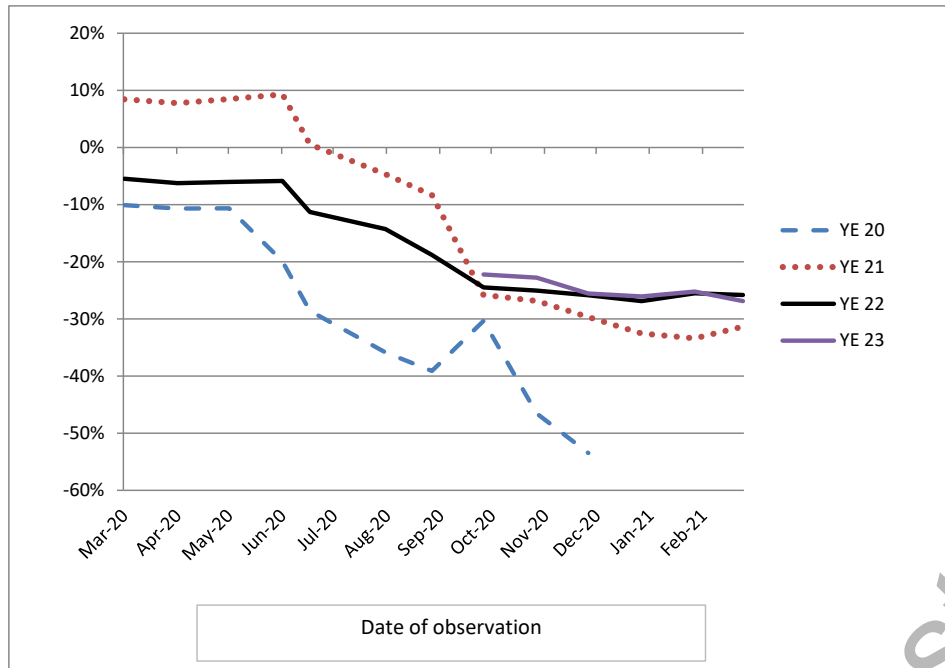


Source: Truist Securities, Kalibri Labs

Group meetings: Based on data from Cvent (Cvent sources approx. 30% of the corporate meetings in the US), group booking paces for 2021-2023 have remained lethargic and fairly stagnant over the past five months (see exhibit 8). That said, beginning in mid-February we have observed a pick-up in pace for 2021 meetings in some warm weather leisure-centric markets (see exhibit 9), most notably Las Vegas, Miami, San Diego, and Tampa Bay. The more traditional group markets, notably Chicago, New York City, and San Francisco did not show a similar uptick or decelerated slightly since mid-February for 2021 meetings. Several anecdotal comments from large corporate travel agencies that stood out to us in our conversations concerning meeting booking pace included:

- Hotels are being much flexible with 2022 cancellation policies as hotels are eager to get the business back on the books.
- Companies are breaking large meetings into regional/smaller meetings to where people can drive.

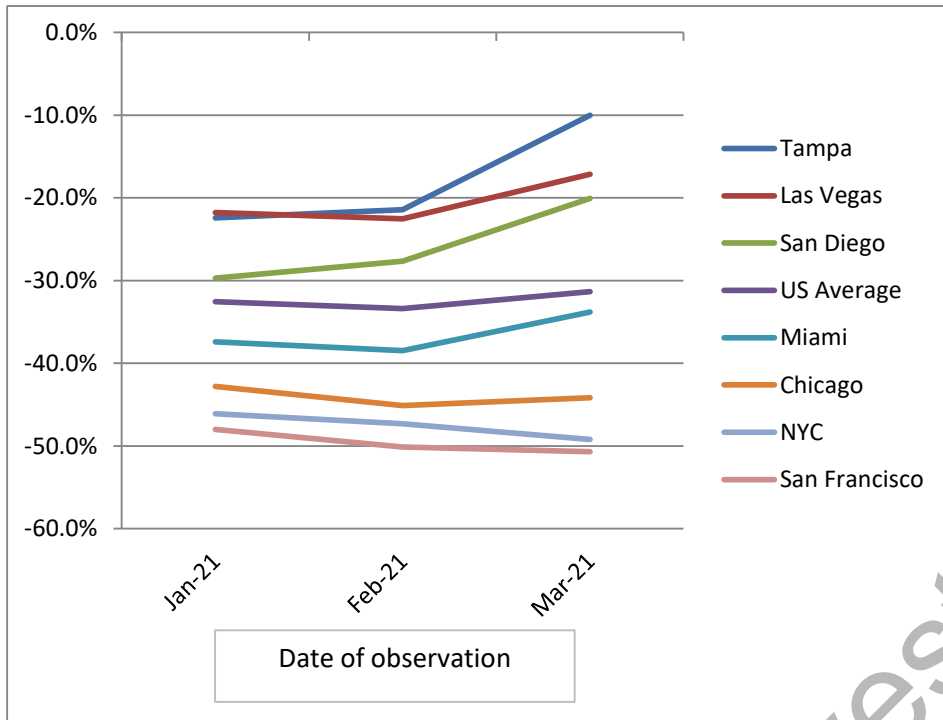
Exhibit 8: Y/Y pace of corporate group meetings



Source: Truist Securities, Cvent

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Exhibit 9: Y/Y pace of corporate group meetings by city

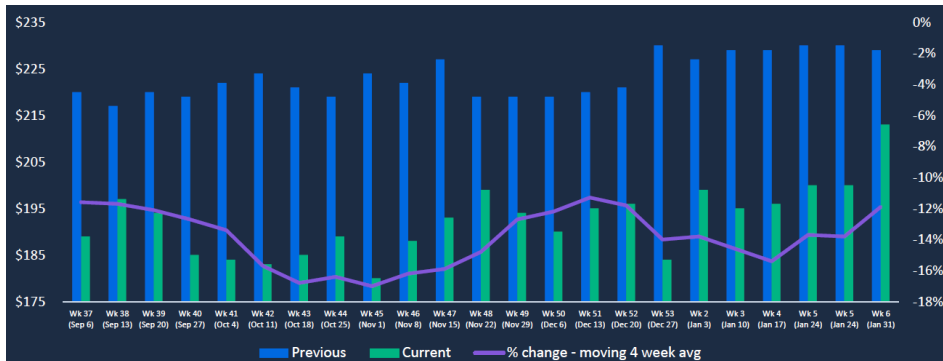


Source: Truist Securities, Cvent

For group meeting room rates, proposed ADRs for future meetings were tracking down approx. 14% y/y in January, which as discussed below may be a function of mix shift to lower-rated groups than outright apples-apples discounting.

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Exhibit 10: Global proposed ADR by sent week

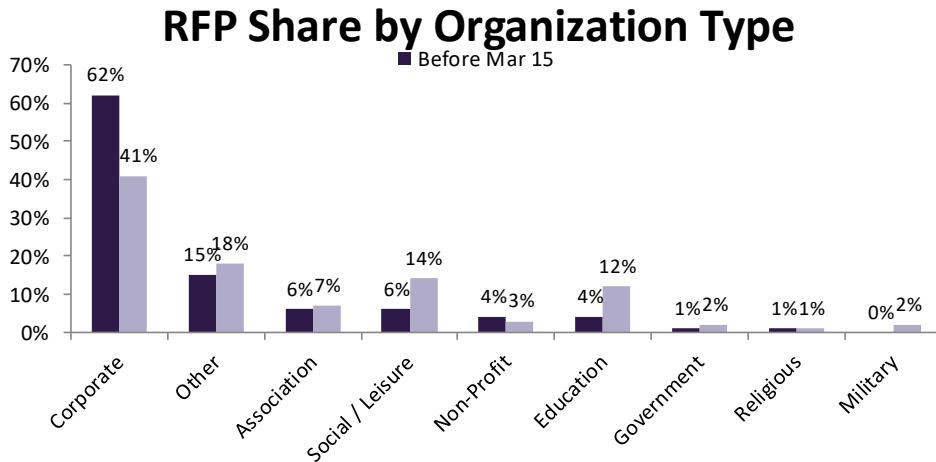


Source: Truist Securities research, Cvent

An additional observation is on the mix of meetings being planned. This year we have seen an uptick in Social/Leisure and Education related meeting proposals and a sharp decline in corporate meeting proposals. *Implications of this shift are that although meetings are being planned and group room nights will be booked, the revenue per participant will be lower than historical averages as Social/Leisure and Education related meetings bring in less revenue per participant than corporate ones.*

- While it is difficult for us to quantify the ADR difference between corporate groups and social and education groups, we would assume corporations are relatively less price-sensitive including spend on higher-quality F&B, audio-visual, etc for motivating/company culture/quality control/hybrid needs/employee turnover considerations. Quite simply, when corporations have limited spend on meetings, both for internal and external audiences, attendees are generally very aware and that could potentially raise questions as to a company's financial "wherewithal". Individuals and education groups that may have more one-time group needs, may not have annual contracts with individual hotels or franchisors, can have smaller events, and can often have lower F&B and A/V spend due to the nature of said events. Importantly, we cannot use an anecdotal luxurious 300 person wedding at a destination resort as reflective of the majority of social groups.

Exhibit 11



Source: Truist Securities, Cvent

Group and convention business will be the Achilles heel for the hotel industry for at least the next three years, in our view. While we believe there is significant pent-up demand for leisure travel which is just waiting for a widely-distributed vaccine in order to be released, we believe Group/convention business for hotels will materially lag the recovery versus leisure. We note that in prior demand shocks, business transient bounced back over time but with a slower rebound in Group/convention, and believe history will repeat itself again.

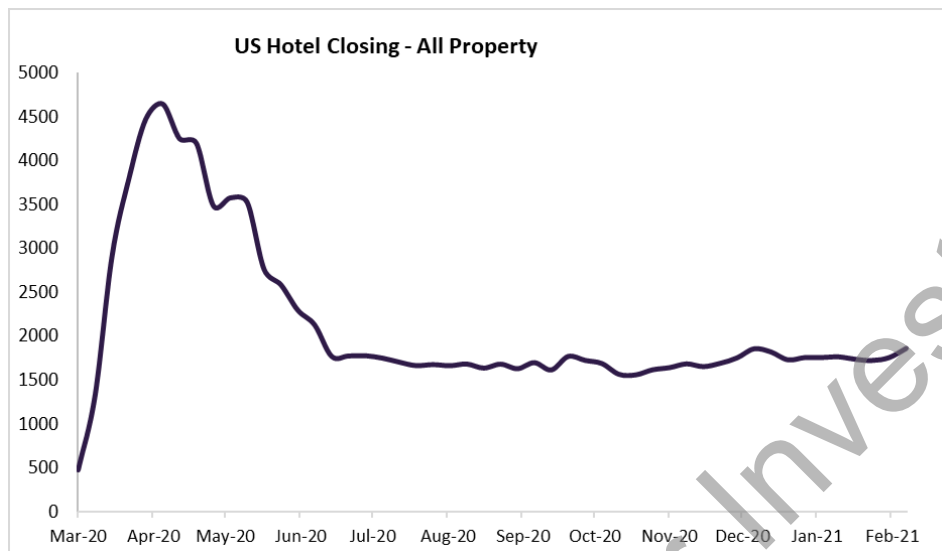
Our predictions for the return of group/convention business:

- **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. Additionally, during conversations with industry members, we have heard that a “travel passport” confirming that a meeting attendee has received the vaccine may be required for some events.
- **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.**

Hotel opening/closing observations: For the most part, hotels that were still closed as of last summer have remained closed. We find that most closed hotels are not surprisingly in major urban locations that cater primarily to corporate, group/convention, and international business such as NYC, San Francisco, and Washington DC. That said, we would anticipate reopenings in these markets in late 1Q21 through 3Q21 which adds supply to markets that may not have a base of convention demand to support normalized occupancies or room rates.

Exhibit 12



Source: Truist Securities Research, Kalibri Labs

Exhibit 13

Segmentation By Company			
Lodging REITS	Transient Corporate*	Transient Leisure	Group
DRH	35%	35%	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%
Experiential Leisure	Transient Corporate	Transient Leisure	Group
MTN	0%	95%	5%
PLYA**	0%	90%	10%
Cruise Lines	Transient Corporate	Transient Leisure	Group
CCL	0%	100%	0%
NCLH	0%	100%	0%
RCL	0%	100%	0%
Vacation Ownership	Transient Corporate	Transient Leisure	Group
BXG	0%	100%	0%
HGV	0%	100%	0%
TNL	0%	100%	0%
VAC	0%	100%	0%

Notes:

*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. Figures are largely pre-pandemic and reflect normalized demand.

**For PLYA, we estimate a normalized portfolio given the material impact of Hyatt Cap Cana

Source: Truist Securities Research, company filings

Companies Mentioned in This Note

Bluegreen Vacations Corporation (BXG, \$9.81, Buy, C. Patrick Scholes)
Choice Hotels International, Inc. (CHH, \$106.81, Hold, C. Patrick Scholes)
DiamondRock Hospitality Company (DRH, \$10.58, Sell, C. Patrick Scholes)
Hyatt Hotels Corporation (H, \$85.52, Sell, C. Patrick Scholes)
Hilton Grand Vacations Inc. (HGV, \$38.22, Buy, C. Patrick Scholes)
Hilton Worldwide Holdings Inc. (HLT, \$122.92, Hold, C. Patrick Scholes)
Host Hotels & Resorts, Inc. (HST, \$17.56, Sell, C. Patrick Scholes)
Marriott International, Inc. (MAR, \$151.50, Hold, C. Patrick Scholes)
Vail Resorts, Inc. (MTN, \$313.49, Hold, C. Patrick Scholes)
Pebblebrook Hotel Trust (PEB, \$24.63, Hold, Gregory Miller)
Park Hotels & Resorts Inc. (PK, \$21.97, Sell, C. Patrick Scholes)
Playa Hotels & Resorts N.V. (PLYA, \$7.51, Hold, C. Patrick Scholes)
Ryman Hospitality Properties, Inc. (RHP, \$78.53, Sell, C. Patrick Scholes)
RLJ Lodging Trust (RLJ, \$16.23, Hold, Gregory Miller)
Sunstone Hotel Investors, Inc. (SHO, \$12.82, Sell, C. Patrick Scholes)
Travel + Leisure Co. (TNL, \$63.06, Buy, C. Patrick Scholes)
Marriott Vacations Worldwide Corporation (VAC, \$173.51, Buy, C. Patrick Scholes)
Wyndham Hotels & Resorts, Inc. (WH, \$68.86, Buy, C. Patrick Scholes)

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