Lodging

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What's Inside

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

Lodging - May/June RevPAR Monitor: Still "hope & see" for corporate business travel's return

A summer leisure bubble again? Seems likely

What's Incremental To Our View

In this report we discuss:

- **Latest observations on forward-looking booking trends for US hotels and anecdotal learnings from industry contacts, including detail on the three main customer segments:**
  - **Business**
  - **Group/convention**
  - **Leisure**
- **Stocks/picks**

Based upon our analysis of millions of future reservations for US hotels from multiple "big data" sources and from conversations with hotel owner/ manager contacts and executives at very large travel agencies, corporate business travel continues to be in a "hope & see" mode. The consensus "hope" amongst our contacts is that corporate business travel will begin to pick-up after Labor Day, whereas in the forward booking data neither us nor them have yet to "see" any material evidence of an acceleration other than the continued trend-line of a very gradual and elongated recovery. *We highlight this observation as many lodging stocks are pricing-in a large second-half RevPAR recovery driven by the resumption of business travel, especially corporate business travel, and to a lesser degree group business.* For the hotel stocks since February, we have observed some investors selling some of their relative winners and the market has started to (finally) become more focused on the lack/delayed recovery of business travel, hence our focus on the pace of recovery in this report.

- **To be clear, we are not saying a sudden resumption of corporate business travel post-Labor Day may not happen, rather to date corporate bookings remain very sluggish/depressed for all future arrival periods.** That said, as the booking window remains very short, currently around 10 days vs. closer to 30 days pre-pandemic, we probably will not know if in fact a post-Labor Day recovery is beginning to take shape until we start to get forward booking data in August. *Ergo, we remain in a "hope & see" mode for the resumption of corporate business travel.*
- **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.** Urban big-box hotels will have challenges with ADR and ancillary revenues such as food & beverage until corporate, group, and international demand bounce back. **See below for further discussion on our "big data" observations on business and group travel.**

On the other hand, and this should not be a surprise to anyone who has tried to book a hotel room at a resort area for this summer, summer leisure travel to resort areas could possibly be one of the strongest on record; this we clearly see in the advance booking data. Additionally, for the average urban hotel we have seen improvements in leisure bookings as compared to earlier in the year though summer travel is unfortunately far more less likely to move the needle as much at the larger urban convention hotels (Forbes).

Because of the very strong trend for summer, not so dissimilar to last summer where leisure travel created a temporary uplift (or made RevPAR "less bad" than in April-May) that ended once summer vacations ended, we would not be surprised to see such a deceleration or at least a moderation (in the 2-year growth rate) after August happen again this year.

- **While still strong and elevated vs. 2019 levels, the torrid pace of improvement in leisure bookings that began in late February did level-off over the past month.** One relevant statistic, as noted by executives at Duetto (a hotel data insight company), is "The U.S. pace (of leisure bookings) remains off-the-charts from Memorial Day to Labor day with new booking up 81% (in April) compared to (March's) 150% month-over-month increase." **See below for further discussion on our "big data" observations on leisure travel.**

Based on our observations, we continue to be most bullish on leisure travel and less so on business and group. Through February, the market rewarded nearly every hotel and leisure stock, regardless of their customer mix (see exhibit 17 for customer mixes) and/or if they announced further delays in reopening/restarting. As noted previously, in the hotel stocks since February, we have observed some investors selling some of their relative winners and the market has started to (finally) become more focused on the lack/delayed recovery of business travel. On the other hand, and for the most part, the leisure-centric timeshare names (BVH, HGV, TNL, VAC) and CHH and WH have continued to outperform.

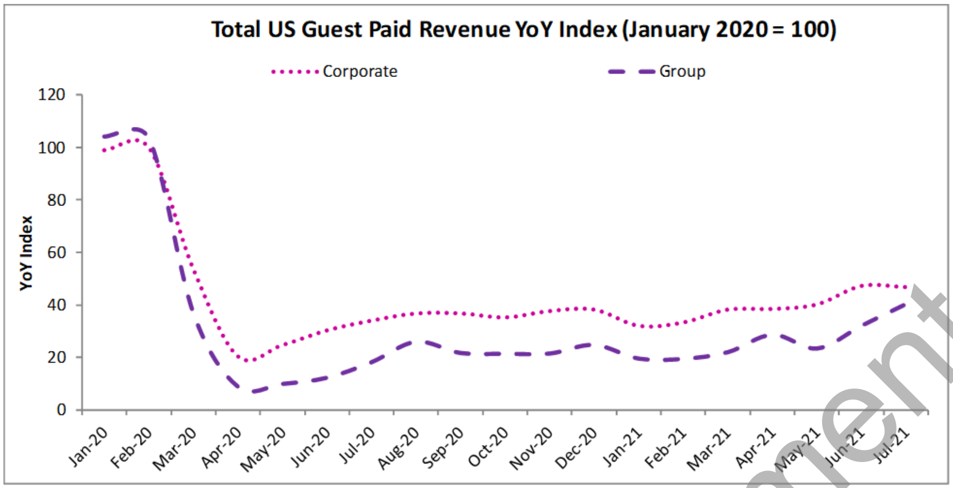
- **We reiterate the companies relatively best positioned here in our coverage universe are the leisure-centric C-Corps CHH (Buy) and WH (Buy) (of the two we prefer WH on valuation) and the timeshare companies, BVH (Not covered), HGV (Buy), VAC (Buy), and TNL (Buy).** Within the hotel REIT space, PEB (Miller, Hold) and DRH (Hold) have the largest exposures to leisure customers. We also have a Buy on RLJ (Miller) as we anticipate RLJ's exposure to price-accommodating business travel (salespeople, account managers, smaller private employers, drive-to/regional demand, etc.), will recover more quickly than the higher-rated travel of our other covered REITS. We also view RLJ benefitting from company-specific factors including the initial Wyndham conversions to higher EBITDA generating assets. With differentiation to our other covered REITS that focus more on higher-rated travel and heavily in gateway markets, RLJ is the only REIT we cover that has material select-service hotel exposure. 2Q intraquarter operating results for several non-covered select-service REITS (company presentations online) suggest a faster revenue recovery for some of these portfolios. As noted above, please see Exhibit 17 for a breakout of demand segmentation by company.

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

Individual business (business transient) observations:

In the statistical data, the pace of corporate bookings remains lethargic for all future arrival periods though the trend line continues to show a very gradual improvement. We highlight forward-looking data from Kalibri Labs:

Exhibit 1



Source: Truist Securities Research, Kalibri Labs

Anecdotally on expectations for corporate meetings, we highlight key points from our conversations with executives at very large corporate travel agencies regarding the underlying currents around business travel:

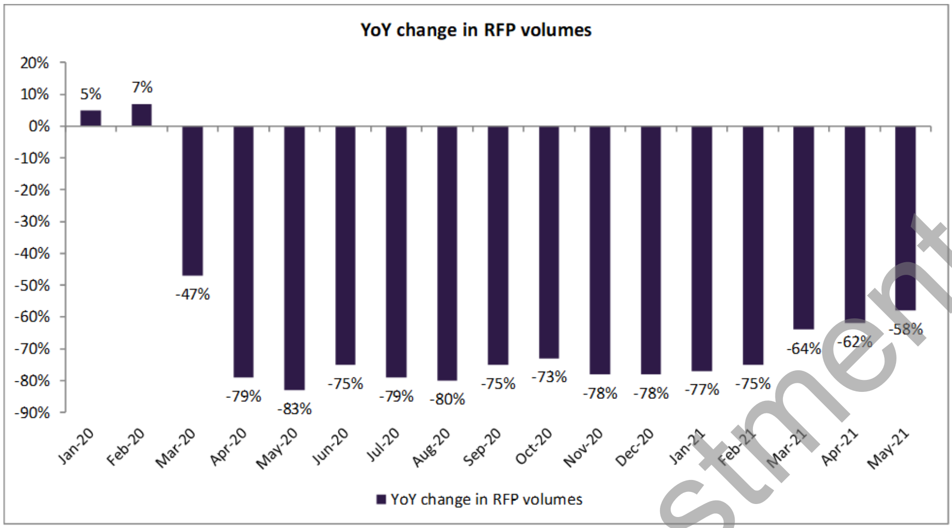
- **The reopening of offices has not yet led to the reopening of travel as many offices are starting to open back up but corporate HR and legal departments are still reluctant to give a bright green light and open the floodgates for travel.** Non-essential travel is still fairly rare at this point and is not being approved as quickly as corporate travel agencies expected just three months ago.
- **Corporate ADRs: a slight decline in room rates, but not massive declines.** While rates are definitely coming down, many hotels are still trying to hold rates. That said, some hotels giving up on rate integrity in order to increase occupancy has begun to create a slippery slope to maintain room rates.
- **Travel agency executives have highlighted that a lack of consistency in health/documentation is a weak link in getting travel restarted.** While we expect this issue to eventually be resolved, it remains to be seen if it can be done before the important post-Labor Day business travel period.
- **Expectations are that work from home (WFH) could have a short-to-medium impact on hotel demand while the longer impact remains uncertain.**

Group observations:

Group business is slowly beginning to climb out of a deep hole but still remains depressed vs. 2019 levels, most notably for the traditional colder weather markets like Chicago, NYC, and San Francisco. In our analysis of corporate group/meeting trends we look at data from Cvent (Cvent sources approx. 30% of the corporate meetings in the US), amongst other sources, we make three high-level observations:

- The pace of new RFPs (Requests For (meeting) Proposals, which is one of the earliest steps in planning a group meeting), continue to get "less bad" with each subsequent month. Assuming the group meeting/event goes ahead, it takes on average anywhere from six months to two years from the time of the proposal for the meeting/event to occur.

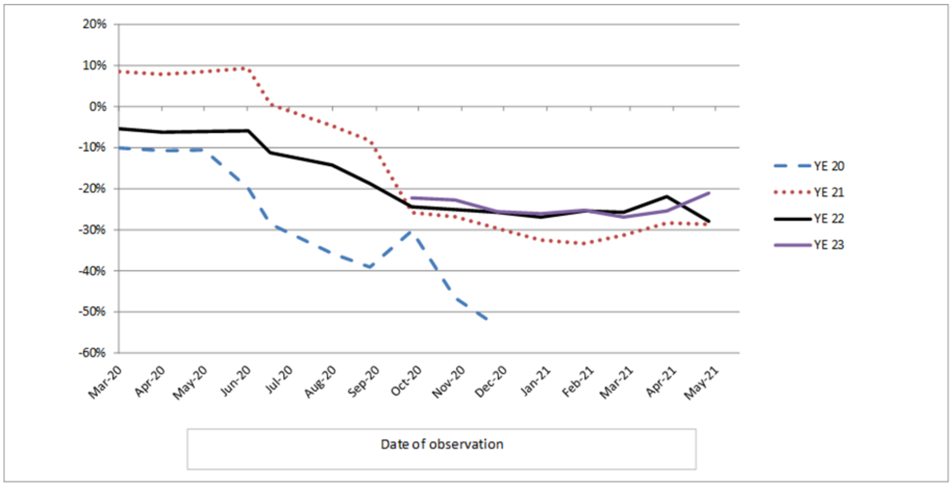
Exhibit 2:



Source: Truist Securities Research, Cvent

- Reflecting corporate group meetings that had originally been planned (in many cases were cancelled and rebooked for a future period) and the lead time, as noted above, for a meeting to go from a RFP to being held, we have started to see hotel reservations associated with group meetings for 2023 turning a corner.

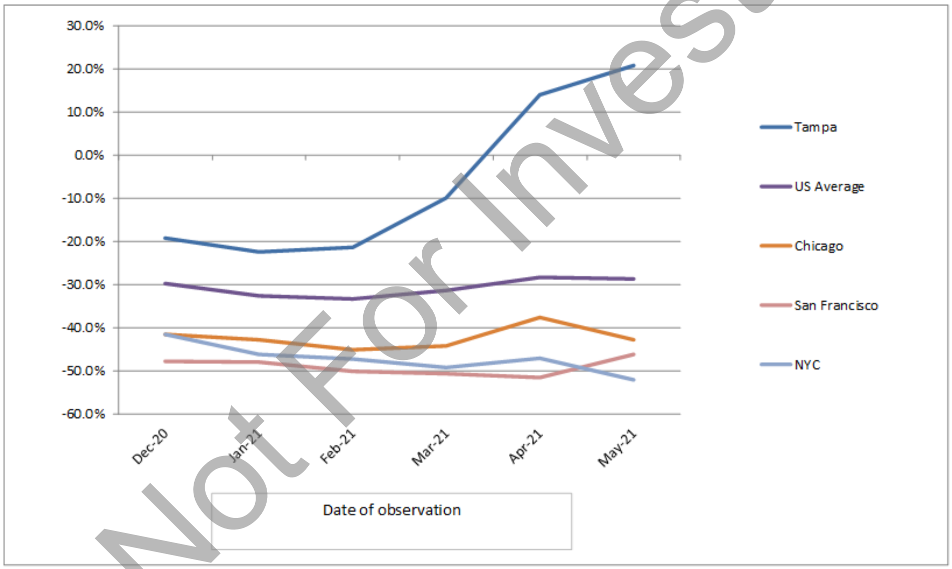
Exhibit 3: Forward group booking pace



Source: Truist Securities Research, Cvent

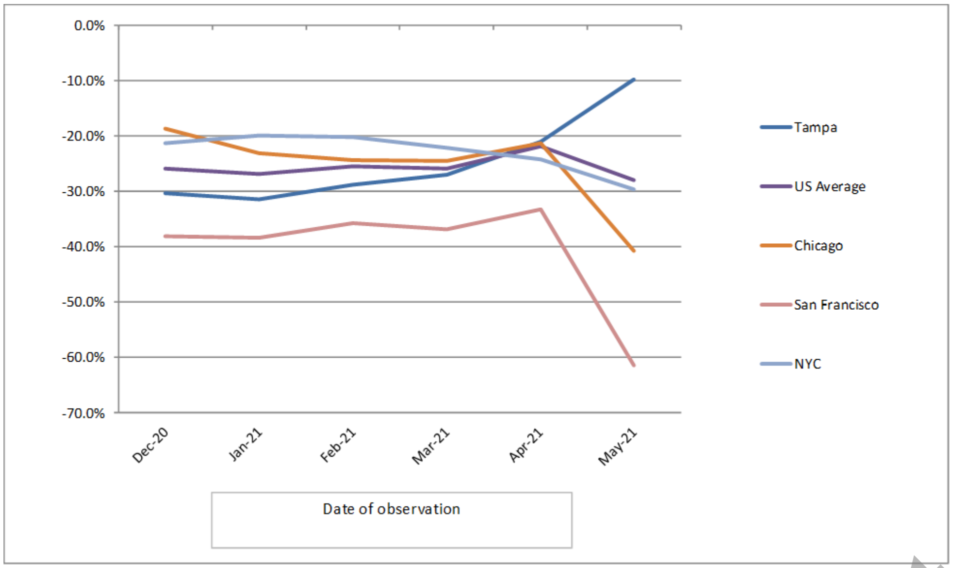
- Not surprisingly, we have observed the greatest degree of acceleration in group room booking pace in warm weather markets. In the below charts for 2021, 2022, and 2023 we highlight the underperformance of the more traditional group markets, notably Chicago, New York City, and San Francisco vs. a warm weather market like Tampa and the US average.

Exhibit 4: 2021 Y/Y pace of corporate group meetings by city



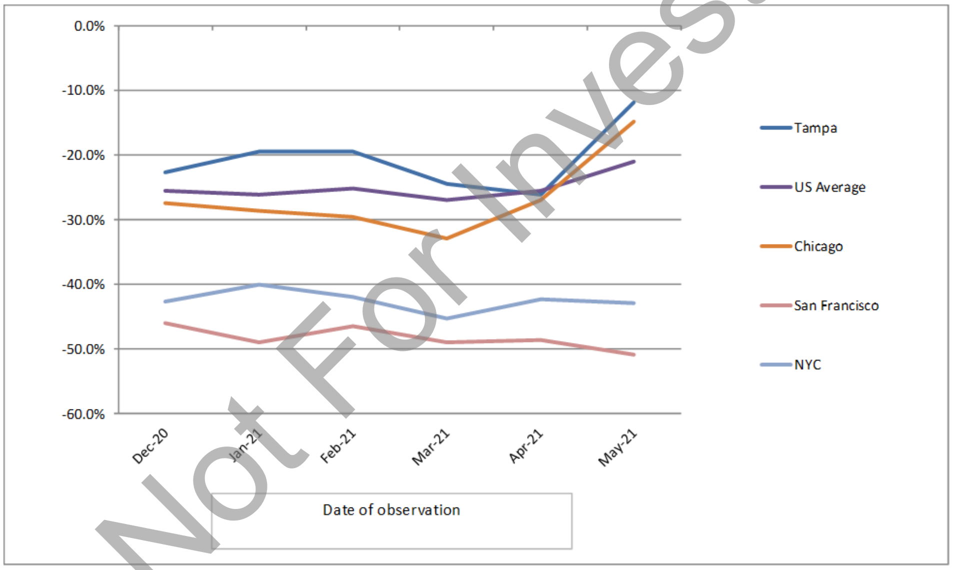
Source: Truist Securities Research, Cvent

Exhibit 5: 2022 Y/Y pace of corporate group meetings by city



Source: Truist Securities Research, Cvent

Exhibit 6: 2023 Y/Y pace of corporate group meetings by city



Source: Truist Securities Research, Cvent

For group meeting room rates, ADRs for future meetings were tracking down approx. 6% y/y in April, an improvement from closer to -15% in January through March, which as discussed below may be a function of mix shift to higher-rated groups in April than during the first three months of the year.

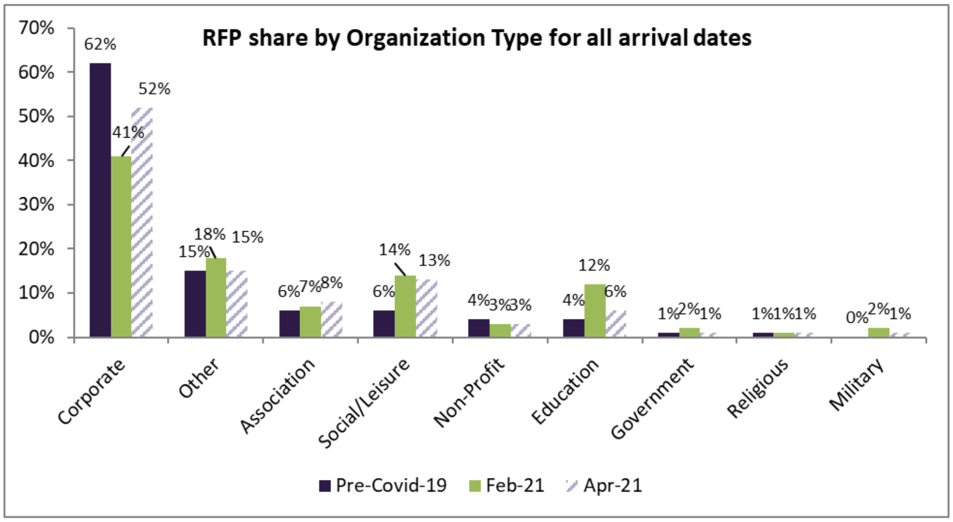
Exhibit 7: Global awarded (confirmed & booked) ADR for corporate group meetings

Source: Truist Securities Research, Cvent

An additional observation is on the mix of meetings being planned. While the mix of corporate meetings (aka "the highest-rated business") being booked is still down significantly from pre-pandemic levels, it has increased over the past month from more depressed levels observed earlier in the year. This year we have seen an uptick in Social/Leisure and Education related meeting proposals and a sharp decline in corporate meeting proposals from pre-Covid levels. *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 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 (that some of our readers may be more likely to attend) as reflective of the majority of social groups.

Exhibit 8



Source: Truist Securities Research, Cvent

Anecdotally on expectations for business travel, we highlight key points from our conversations from executives at very large corporate travel agencies and group meeting planners and consultants regarding the underlying currents around group business:

- New bookings for this year are mostly small/regional meetings with attendees driving-in from the nearby region to attend and the rest attending virtually.
- Starting to see some confidence in 2022-2023 in booking new events though most bookings to this point have been rebookings of cancelled/postponed events.
- Seeing a lot of incentive/top performer trips being booked.
- For downtown urban markets, hotels being very flexible in terms of booking policies as they just want to “get the meeting on the books.”
- On the other hand, for some upper-end resorts, meeting planners are struggling to find available dates because with group business down hotels are resetting their mix of business and have determined that it can be more profitable to host leisure guests thus they have reduced their room allocations for groups. These hotels are not providing much lee-way unless the meeting planners agree to guarantee hefty food and beverage minimum spend that would offset the leisure revenue they realize on weekends.

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 (especially at select-service hotels) 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.

Again, we highlight the various above observations as many lodging stocks are pricing-in a large second-half RevPAR recovery driven by the resumption of business travel, especially corporate business travel, and to a lesser degree group business. For the business & group centric hotel REITS, consensus expectations on average are for a 35% quarter-over-quarter revenue increase in 3Q21 and for a 17% quarter-over-quarter improvement in 4Q21.

Exhibit 9: Consensus expectations for quarterly revenue ($M) and quarter-over-quarter % change

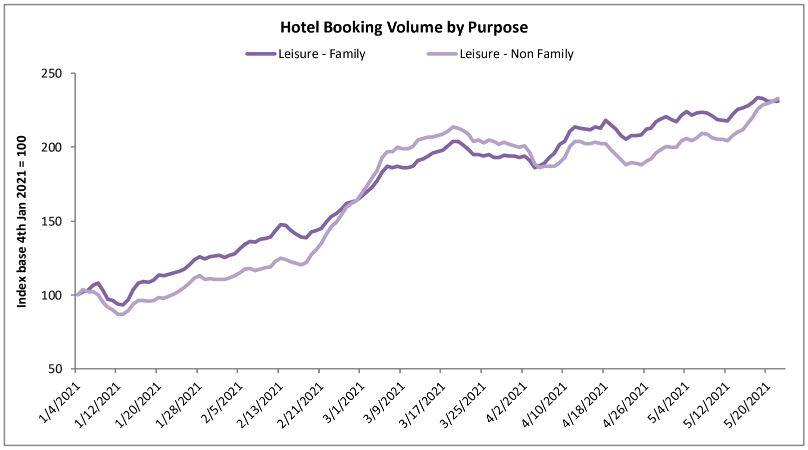
REITS	2Q21	3Q21	Q/Q % change	4Q21	Q/Q % change
DRH	$101.3	$128.7	27.0%	$144.4	12.2%
HST	$527.0	$644.0	22.2%	$781.0	21.3%
PEB	$163.3	$198.5	21.6%	$206.6	4.1%
PK	$258.0	$382.0	48.1%	$449.0	17.5%
RHP	$140.5	$218.2	55.3%	$293.5	34.5%
RLJ	$169.0	$202.7	19.9%	$222.9	10.0%
SHO	$87.4	$129.9	48.6%	$153.7	18.3%
		Avg.:	**34.7%**		**16.8%**

Source: Truist Securities Research, FactSet

Leisure transient observations:

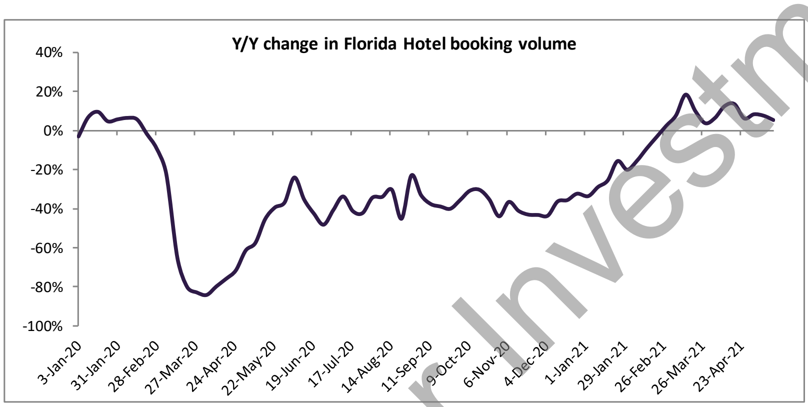
While still strong and elevated vs. 2019 levels, the torrid pace of improvement in leisure bookings that began in late February did level-off over the past month. While we receive data from multiple forward-looking sources with each showing different percentage changes, the themes are very consistent direction-wise. Drilling down on specific markets, we point out trends in Florida and Hawaii as these are considered two of the largest leisure markets in the country. We highlight forward-looking data from ADARA and Sojern:

Exhibit 10:



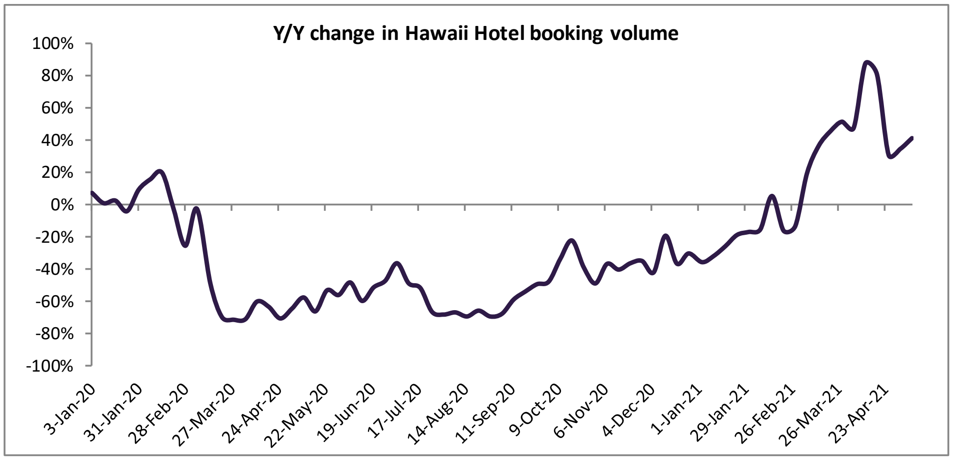
Source: Truist Securities Research, ADARA

Exhibit 11:



Source: Truist Securities Research, Sojern

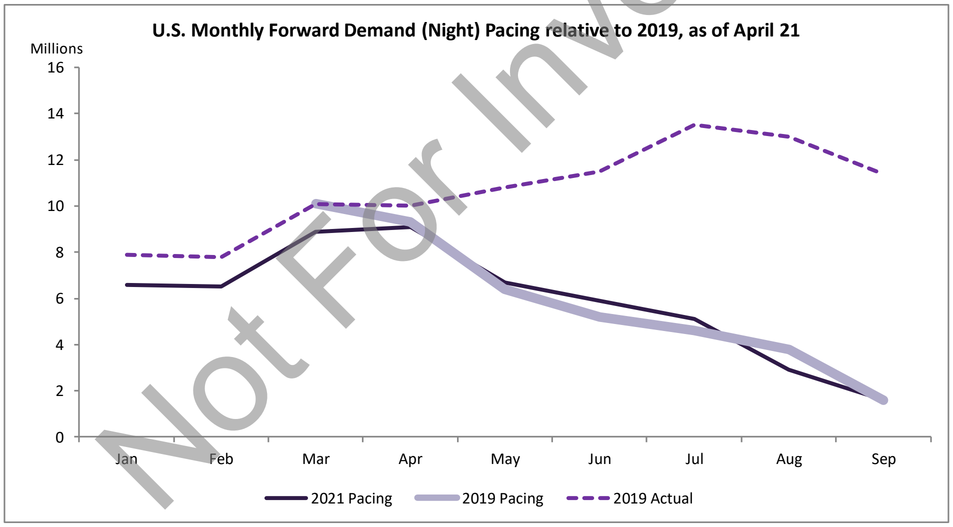
Exhibit 12:



Source: Truist Securities Research, Sojern

Additionally, amongst our many data sources, we also look at forward data on Airbnb (ABNB, Hold, Khan) stays, as collected by Airdna. We note that Airbnb booking data is helpful in gauging the trajectory of the leisure recovery as unlike hotel reservation "big data" (on which we can slice & dice by booking source, number of travelers, and day of the week arrival to approximate what we believe is a business or leisure stay), a reservation for an Airbnb stay is almost entirely for a leisure trip. Based on the Airbnb data we observe that booking demand through July is tracking slightly ahead of 2019's levels:

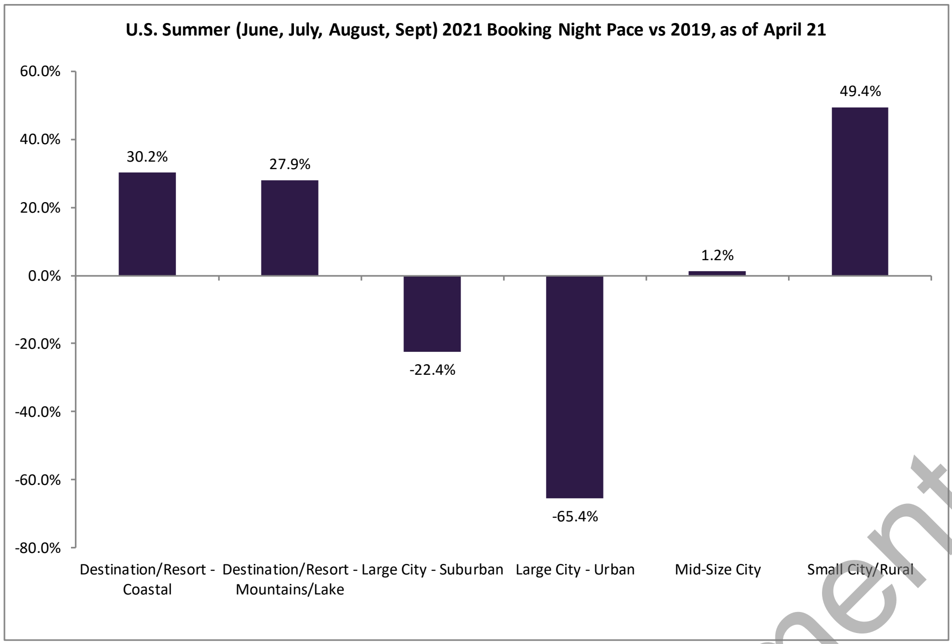
Exhibit 13:



Source: Truist Securities Research, Airdna

Additionally, from the Airdna data we observe that large city suburban and urban areas are lagging destination/resorts and small cities/rural locations for leisure recovery this summer:

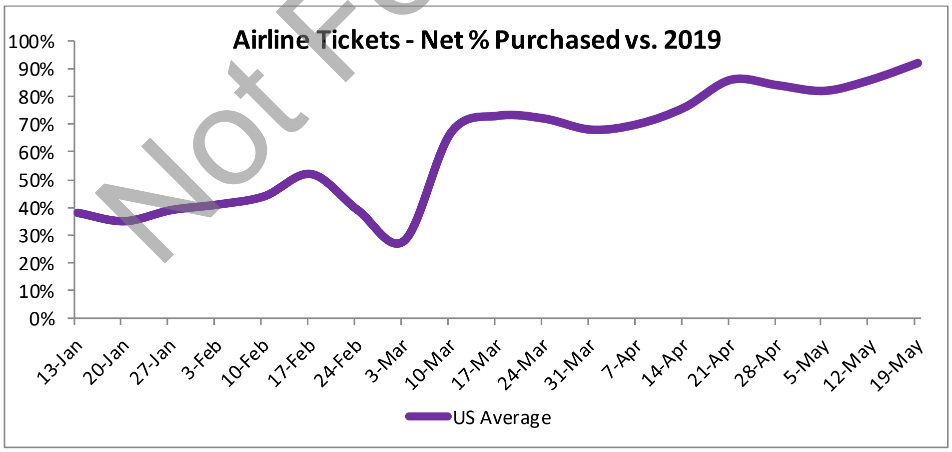
Exhibit 14:



Source: Truist Securities Research, Airdna

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, similar to leisure hotels bookings, there was a large acceleration around spring break though the pace of recovery has moderated since that time:

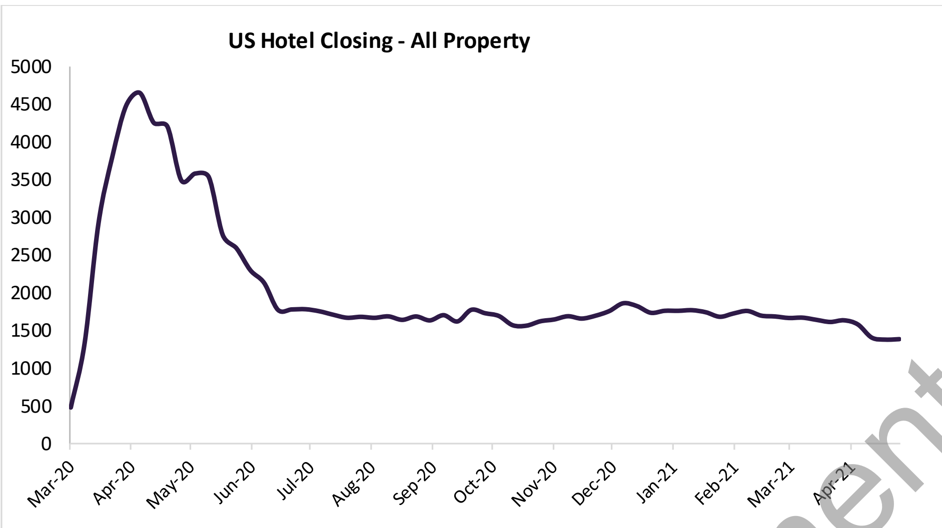
Exhibit 15:



Source: Truist Securities Research, Kalibri Labs

Hotel opening/closing observations: For the most part, hotels that were still closed as of last summer have remained closed though we did observe a spurt of reopening in April. 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. Going forward, we anticipate a continued gradual pace reopenings in these markets, though this supply to markets that may not have a base of convention demand to support normalized occupancies or room rates.

Exhibit 16:



Source: Truist Securities Research, Kalibri Labs

Exhibit 17:

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	35%	30%	35%

C-corps	Transient Corporate*	Transient Leisure	Group
CHH	45%	45%	10%
H	25%	45%	30%
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

Airbnb, Inc. (ABNB, $140.40, Hold, Naved Khan)
Choice Hotels International, Inc. (CHH, $120.91, Hold, C. Patrick Scholes)
DiamondRock Hospitality Company (DRH, $9.68, Sell, C. Patrick Scholes)
Hyatt Hotels Corporation (H, $78.08, Sell, C. Patrick Scholes)
Hilton Grand Vacations Inc. (HGV, $45.73, Buy, C. Patrick Scholes)
Hilton Worldwide Holdings Inc. (HLT, $125.27, Hold, C. Patrick Scholes)
Host Hotels & Resorts, Inc. (HST, $17.17, Sell, C. Patrick Scholes)
Marriott International, Inc. (MAR, $143.58, Hold, C. Patrick Scholes)
Vail Resorts, Inc. (MTN, $326.88, Hold, C. Patrick Scholes)
Pebblebrook Hotel Trust (PEB, $22.35, Hold, Gregory Miller)
Park Hotels & Resorts Inc. (PK, $20.79, Sell, C. Patrick Scholes)
Playa Hotels & Resorts N.V. (PLYA, $7.31, Hold, C. Patrick Scholes)
Ryman Hospitality Properties, Inc. (RHP, $74.91, Sell, C. Patrick Scholes)
RLJ Lodging Trust (RLJ, $15.37, Buy, Gregory Miller)
Sunstone Hotel Investors, Inc. (SHO, $12.56, Sell, C. Patrick Scholes)
Travel + Leisure Co. (TNL, $65.15, Buy, C. Patrick Scholes)
Marriott Vacations Worldwide Corporation (VAC, $172.29, Buy, C. Patrick Scholes)
Wyndham Hotels & Resorts, Inc. (WH, $75.06, Buy, C. Patrick Scholes)
BVH (Not Covered)

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