

## Lodging

### Lodging RevPAR Monitor Special Edition: Delta Variant's Impact on Demand

Applying pressure on the recovery, but only a modest impact so far. However...

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, the Delta variant has put modest pressure on the growth trajectory of hotel bookings and subsequently the speed of the RevPAR recovery as the rate of improvement has leveled-off of late. However, as we begin to shift to the more corporate-heavy post-Labor Day travel season next month, we are of the view that Delta concerns will put more pressure on demand than what we currently see for August leisure travel.

- **The good news** is that so far the variant appears to be only a speed bump in the road to recovery, a far cry from the massive collapse in bookings 18 months ago when Covid first hit. Additionally given Delta concerns and general post-Labor Day uncertainty, we like that some companies (more so the REITS, less so the C-Corps) have given, in our opinion, very conservative basic outlooks for 3Q in light of Delta concerns. For example: DRH's RevPAR in July was up 54% from 2Q, yet the company only expects 3Q revenues to be up 20-25% from 2Q even when factoring-in several hotels that were closed for part of 2Q.
- **The bad news** is that anecdotal evidence suggests that the variant will likely have a larger impact on corporate travel, which will become more evident as leisure travel subsides post-Labor Day. As the booking window for corporate travel is only 15 days at most, there is not yet enough statistical booking data to conclusively say if there is a clear impact on the expected post-Labor Day reemergence in corporate business travel. *That said, the anecdotal view from large corporate travel agencies and "big data" providers can be summed-up as "if a company has already started traveling, they're likely not going back on lock-down. However, if the company has not resumed traveling, they're going to push off the restart until the surge in Covid cases backs down."*

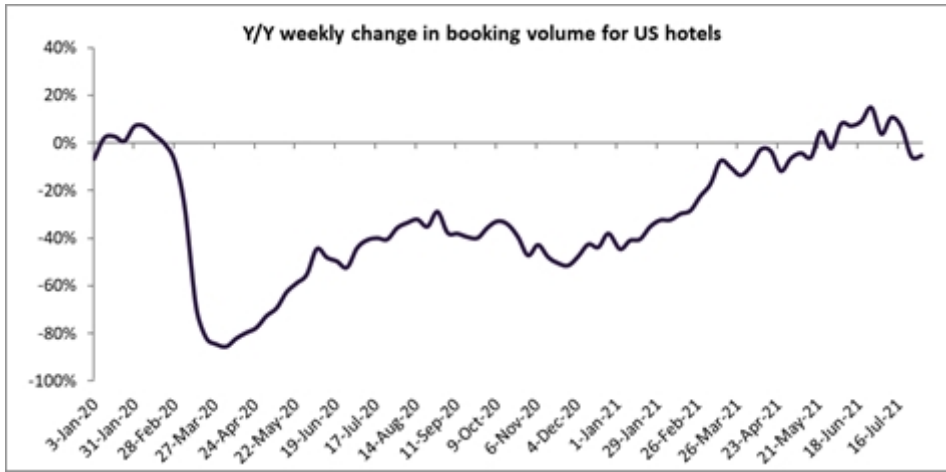
**Delta likely has flat-lined the growth trajectory in this summer's leisure-driven RevPAR recovery for the moment.** Based on forward-looking booking data, we highlight [Sojern](#) and [ADARA](#) amongst others for example, the growth trajectory in leisure demand has leveled off and has seen a small pull-back since June. We note that complicating the interpretation of the forward data is the difficulty in precisely determining how much of the leveling-off is due to seasonality from the end of the peak-summer travel season and how much is due to the variant.

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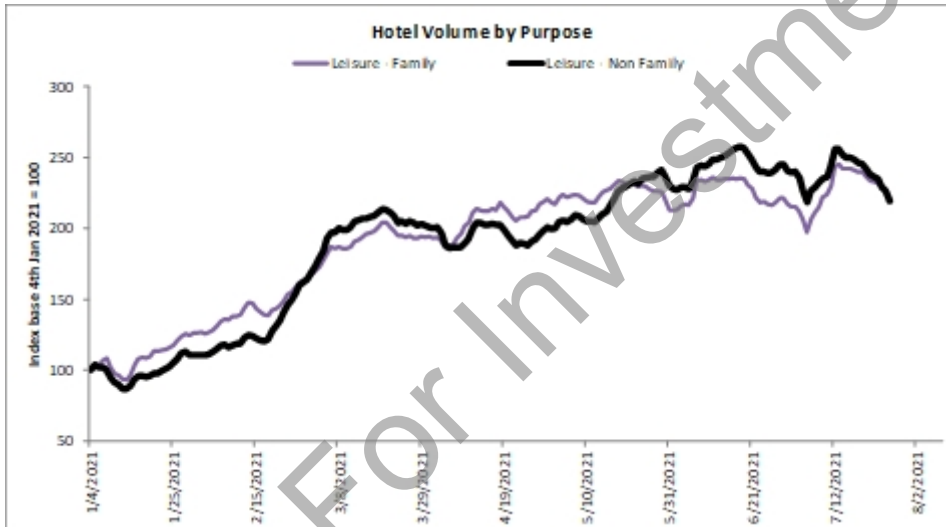
What's Inside

Exhibit A



Source: Truist Securities, Sojern

Exhibit B

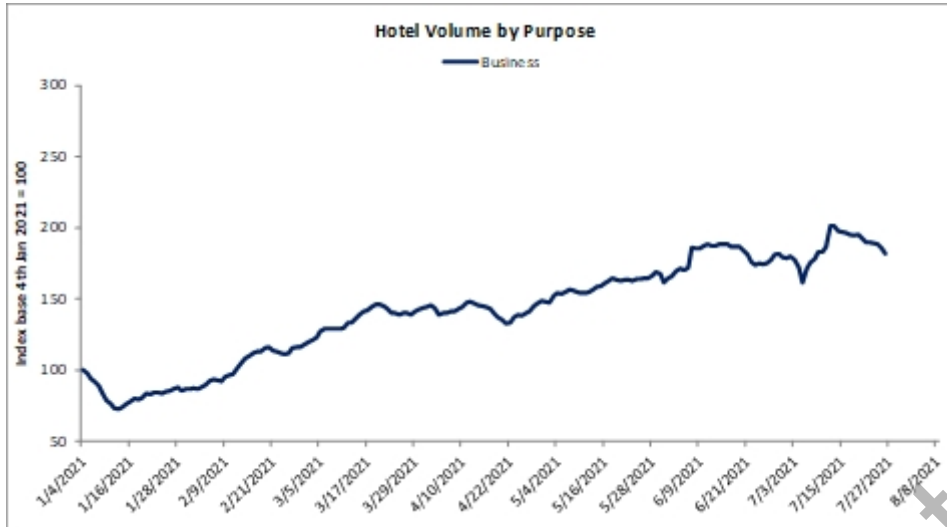


Source: Truist Securities, ADARA

Besides our hotel-specific data, airlines such as Southwest, which skews more towards leisure and non-corporate business, have reported an uptick in cancellations due to the rise of Covid cases (ABC News).

**We believe the variant will likely add additional pressure on the return of corporate business and large group events/conventions post-Labor Day.** Adding pressure on the initially expected strong post-Labor Day resumption of corporate travel are many sizable companies pushing back office reopenings due to renewed Covid concerns, for example. We surmise that if offices reopenings are being delayed, these corporations are also in no rush to send their employees out to travel. As far as the most recent business travel bookings, similar to the previously noted leisure booking trends, we observe a leveling-off to slight downward trend. As noted previously, as the booking window is still only around 15 days, it is still too early to see exactly what the statistical impact may be for post-Labor Day travel, hence our greater reliance on anecdotal evidence at the moment.

## Exhibit C



Source: Truist Securities, ADARA

**Regarding large group events/conferences, in the past several days we have observed quite a few cancellations of events, for example:**

- NY Auto Show and other conventions/conferences/trade shows: [https://www.northstarmetingsgroup.com/News/Industry/Cancelled-Events-Covid-19-Delta-Variant?utm\\_source=eNewsletter&utm\\_medium=Email&utm\\_campaign=eltrMtgNews&oly\\_enc\\_id=0084G6272056F1](https://www.northstarmetingsgroup.com/News/Industry/Cancelled-Events-Covid-19-Delta-Variant?utm_source=eNewsletter&utm_medium=Email&utm_campaign=eltrMtgNews&oly_enc_id=0084G6272056F1)
- Stevie Nicks fall concerts: [Stevie Nicks cancels US dates citing rising Covid-19 cases - CNN](#)
- New Orleans Jazz Fest: <https://www.cbsnews.com/news/new-orleans-jazz-festival-canceled-covid-cases-rising/>
- Adding to this that the hotel industry's own conference ALIS had massive last minute cancellations leading to attendance reportedly ~25-30% of normal and that was a few weeks ago just as the LA County Mask Mandate went into effect. Some conventions seem to be getting attendance well north of 50% vs. 2019, so there are big variations here. Getting actual attendance vs. publicized stats is not easy as meeting organizers are not wanting to highlight actual attendance vs. signups.
- **Lastly, we point to an interesting recent survey of meeting planners regarding the variant's impact on upcoming meetings and events** (Prevue Survey). We found it notable that the meeting planners expect larger meetings to see a greater negative impact than smaller corporate events, which makes sense to us:
  - "When asked what size and/or type of meeting they believe could be affected by worsening COVID infection rates in the near term, large corporate meetings and customer-facing events came out on top at 64%. Close behind at 59% were large association annual meetings, conventions and trade shows, following by smaller corporate events such as board meetings (29%)".

**As we have noted in prior research, if a September rebound is less pronounced, and if October follows accordingly, we think traditional business travel is unlikely to reaccelerate until well into the late winter/early spring due to normal seasonal work travel trends around the holidays and winter weather (especially Midwest/Northeastern U.S.).** Quite simply, even if pent-up corporate demand is evident, we do not expect abnormally high business travel after Thanksgiving. *As far as business transient bookings, we observe a modest pull-back of late in the "big data", though hardly a collapse like we observed 18 months ago.*

**China: Where we have clearly seen a substantial impact from the Delta variant.** *As we noted last week,* RevPAR results fell off a cliff for the week ending August 7<sup>th</sup>. Per STR, hotel RevPAR in China in local currency was -28.9% y/y vs. +25.4% y/y in the prior week. Last week's RevPAR was up against a -28.2% comparable result in 2020 vs. -29.5% in the

prior week. *On a 2-year run-rate, which we believe is an equally if not more important KPI, RevPAR was down 49.3% vs. down 11.9% in the prior week's 2-year run-rate. Since we published the note last week, we have received some additional color from STR on what is happening in China:*

- In mid-July, mainland China enjoyed mid-week almost 80% occupancy levels, surpassing that of 2019.
- Guangdong province had just about recovered from mid-June outbreak/slump.
- Delta outbreaks starting in heavily populated provinces like Jiangsu and then spreading onwards, created massive shutdowns across the country.
- As a result, occupancy has dropped around the entire nation, affecting all segments and markets – Weekly occupancy dropping from 70% to 40%, in two weeks.
- China deals with this outbreak like other waves, complete shutdown of cities, testing and isolating millions, before rebooting system.
- Since Delta is harder to shut down and spreads faster, STR has so far seen less efficacy from Chinese vaccines against this variant.
- In light of this, and even if for previous outbreaks have seen faster and more V-shaped recoveries, STR now expects a somewhat slower and more U-shaped pickup this time.
- STR remains confident that it will pick up and reach high levels again, as it's proven before, with 1<sup>st</sup> tier cities slightly slower
- Footnote: This also affects Macau (borders open) but not Hong Kong (borders mostly closed).

Not For Investment Purposes

## DRH: Valuation and Risks

Our price target of \$8 for DRH is derived by applying a 12.0x target EV/EBITDA multiple to our estimate for 2023 EBITDA. This is in-line with REIT peers (~11.0x-12.5x) adjusted for portfolio quality.

Risks to our rating and price target: Upside risk: specific markets (particularly post-ROI projects) perform better than expected; better than expected macro lodging industry recovery. Downside risk: lodging recovery takes longer than expected, weaker results from ROI projects than forecasted, poor performance of recently acquired assets.

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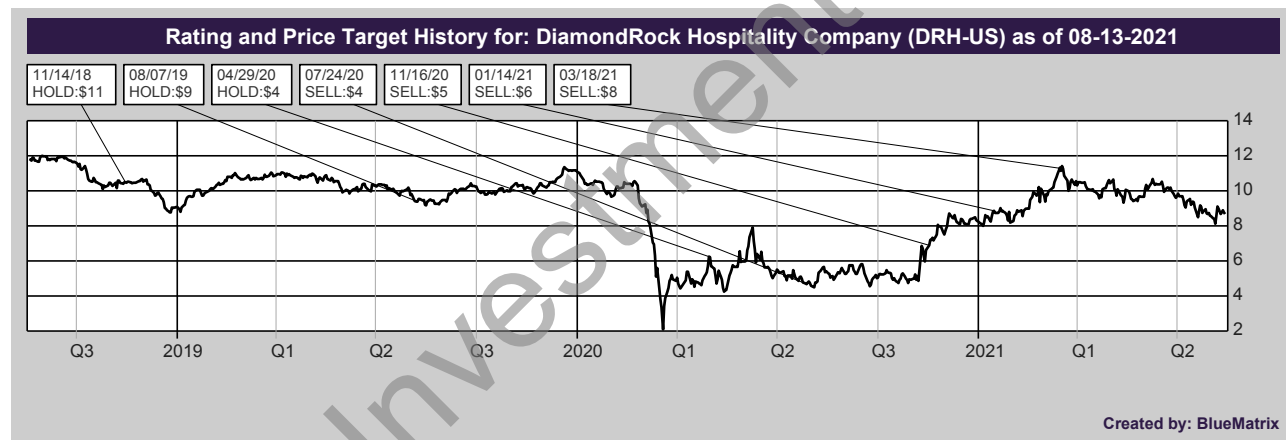
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