

## Lodging

Lodging Sept/Oct RevPAR Monitor: Hopes for significant business/group bounce yet to be answered

Good news is ADR is holding, leisure strength continues --- especially for Dec

### 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/favorite names

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, we think the optimistic “hope” for a significant bounce-back in business travel post-Labor day is mostly failing to come to fruition.

Additionally, [as we also discussed last week](#), large group/convention business is seeing weak attendance and/or cancellations for 4Q, which we fear may carry-over into 1Q22, though smaller corporate meetings, while soft, are holding in there somewhat better than large groups/conventions. *Those negatives aside, as it pertains to the stocks we do not believe investors were as optimistic as some management teams or analysts who may have parroted management teams. Ergo, we do not see a post-Labor Day RevPAR pullback (vs. 2019's levels) as a major downward catalyst to the stocks (though certainly not a positive catalyst either).*

**The Good News** for hotel demand trends include: **1)** room rates for all customer segments staying surprisingly resilient (so far at least), **2)** continued leisure strength post-Labor Day, albeit with the expected seasonal slow-down, with very strong bookings for year-end vacation travel, and **3)** while still significantly off of 2019 levels, the recent announcement of the easing in international in-bound travel restrictions caused a pronounced acceleration of new bookings, the majority of which are for leisure travel. *We discuss all of the above positive and negative observations in detail in this report.*

As regular readers of our research might surmise based on the above observations, we remain most positive on the more leisure-centric names in our hotel coverage and concurrent with this report we are also assuming coverage on Bluegreen Vacations Holding Corporation with a Buy rating and \$41 price target, now under the symbol BVH. We reiterate our view that

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What's Inside

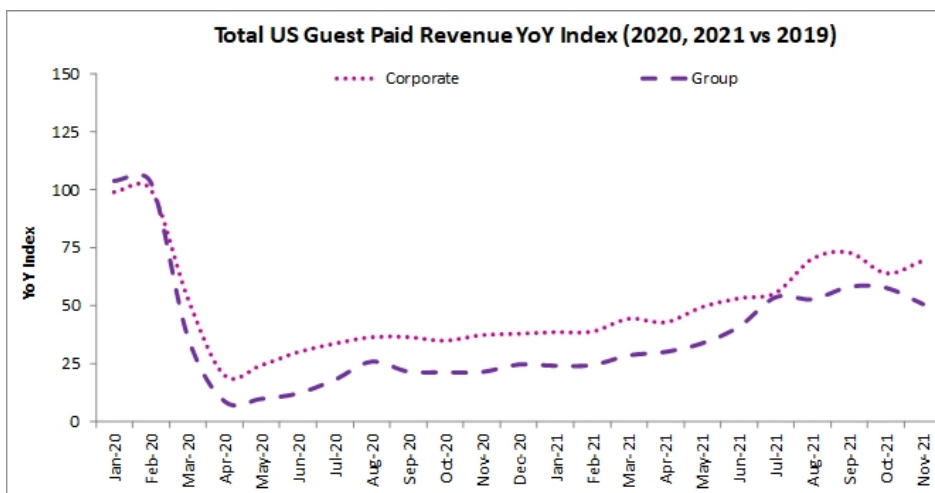
the companies relatively best positioned here in our coverage universe are the leisure-centric C-Corps **CHH (Hold)** and **WH (Buy)** (of the two we prefer WH on valuation) and the **Vacation Ownership companies, BVH (BVH, Buy), HGV (BUY), VAC (BUY)**. Within the hotel REIT space, PEB (Miller, Hold) and DRH (Hold) have the largest exposures to leisure customers. We also have a **Buy on RLJ (Miller)** due to its self-help factors and as we anticipate RLJ's exposure to price-accommodating business travel especially in select-service (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.

#### Individual business (business transient) observations:

**Hopes for a solid post-Labor day rebound in business & group/convention demand go mostly unheeded.** While many hotel executives were very optimistic for a material rebound in these important business segments post-Labor Day (Skift), based on industry experts and our forward bookings intelligence, we think 4Q21 will still be significantly off from 4Q19's levels. **In the statistical data, the pace of corporate bookings remains lethargic for October and November arrivals though the trend line does continue to show a very gradual pace of improvement.** *We think the latter point does "mathematically" support the various statements from industry executives of "month-over-month" improvement.*

First, we highlight forward-looking data from **Kalibri Labs**:

#### Exhibit 1

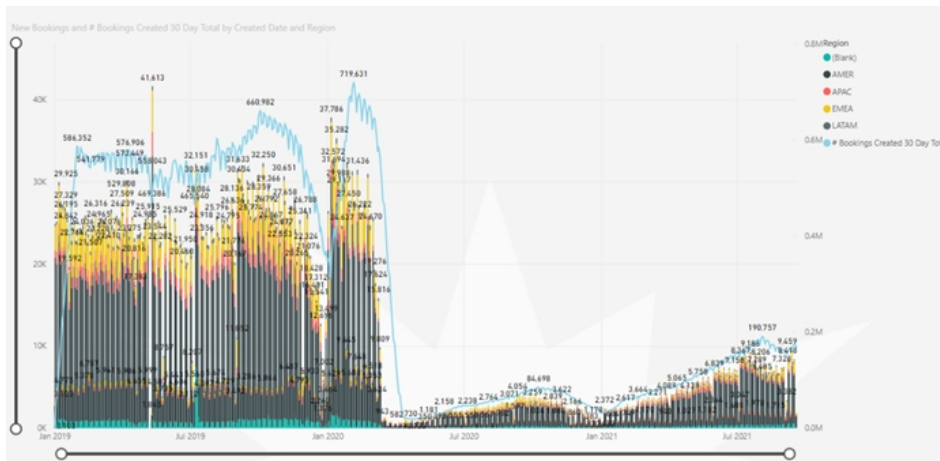


Source: Truist Securities, Kalibri Labs

**Second, we highlight key points from our recent investor call with TRIPBAM.** TRIPBAM has forward-looking business travel booking & pricing data from over 20 million hotel bookings representing over \$10B in spend and is solely focused on individual/business transient travel. From the forward booking data:

- TRIPBAM's view is business travel demand is on pace to be only approx. 50% of 2019's levels by the end of this year and at the current trajectory will only be 80% of 2019's levels by the end of next year. Below, we can see just how far off business travel bookings are from pre-Covid levels:

Exhibit 2: New bookings and # of bookings created 30 day total by created date and region



Source: TRIPBAM, Truist Securities

**The good news** regarding the corporate segment of hotel demand is that corporate room rates, per TRIPBAM, are at 90% of early 2020 levels and said room rates could be at 2019 levels by the end of this year if the trajectory of improvement continues.

- That said, we are still not wholly convinced that room rates will hold into the fall especially as liquidity for some hotel owners remains challenged. However, if we assume room rates largely do not undergo significant room rate integrity loss, [as has been the case in every major lodging downturn we evaluated since 1930](#), the hotel industry will have effectively dodged a major potential hit to the length of RevPAR and EBITDA recovery.

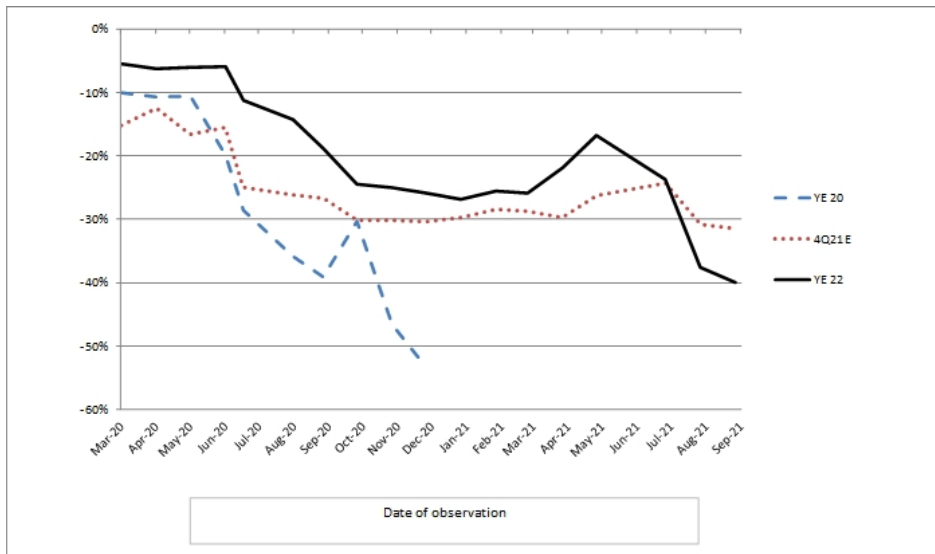
**Anecdotally on expectations for business travel, we highlight key points from our conversations with executives at very large corporate travel agencies regarding the underlying currents around business travel:**

- Bookings were coming in for September-December travel, but the Delta surge forced some companies to put a hard stop on all travel unless it is absolutely necessary.
- Office reopenings being pushed-back negatively impacts propensity to travel for business.
- [Easing restrictions on in-bound international travel](#) (CNN) will help, but it will take time; "Need to crawl before you can walk."
- Many business travel-centric hotels are booking around 75% of available hotel rooms as the hotels do not have the resources/staffing to support any higher occupancy.
- Some corporations are inquiring if vaccinations are required for the employees of their preferred hotels.
- Some corporations are hesitant to send their employees to locations where hospital bed availability has been stretched due to Covid cases. Companies are concerned about taking on the liability if an employee needs to go to the hospital while on a business trip and there is no space available.

### Group observations:

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. Over the past two-three months we have observed a softening (RFP volumes fell 10-15% vs. 2019's comparable levels over the past month) of hotel night bookings associated with corporate groups for stays in 4Q21 and in 2022 as cancellations increased.

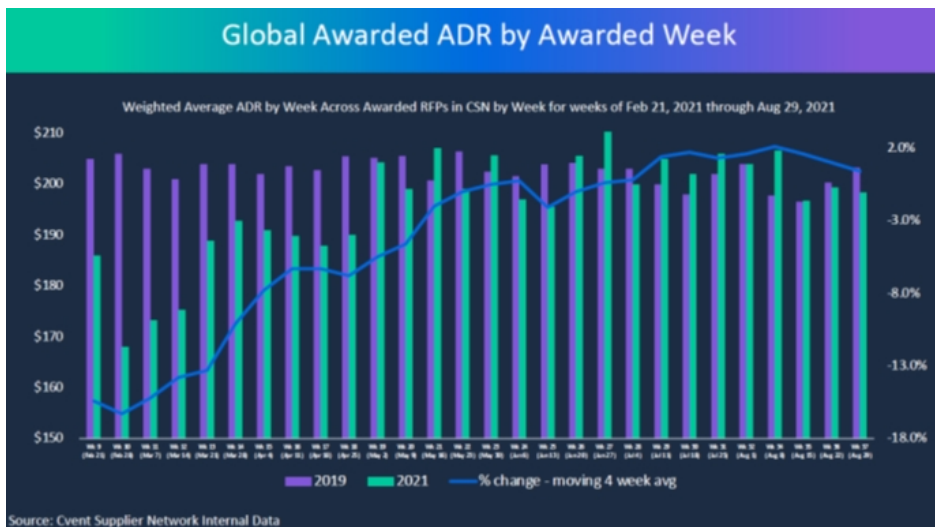
Exhibit 3: Forward group booking pace as compared to 2019's levels.



Source: Truist Securities, Cvent

**The Good News** for corporate group business is that room rates remain (surprisingly) resilient as rates on group bookings over the past several months have been on-par with 2019's rates. This is a large improvement from the down mid-teens seen earlier in the year:

Exhibit 4: Global awarded (confirmed &amp; booked) ADR for corporate group meetings



Source: Cvent

Regarding large conventions and trade shows, **as we discussed in a research report last week**, some major 2H21 corporate and consumer events with thousands of attendees are canceling and/or shifting to virtual nationwide and this includes states with less restrictive health requirements. There are several event examples that refute some recent public company commentary that events are maintaining in-person with under 30 days before an event. Examples include the [National Rifle Association](#) in Houston and the food service trade show [NAFEM](#) in Orlando, both which **canceled** with 2-3 weeks notice (Source: Foodservice Equipment Reports). We are not that surprised to see this trend; even as of mid-August, [a Northstar survey of over 800 meeting planners noted one-third had rescheduled, moved, or canceled](#)

an event over the prior six weeks and another 18% were making plans. For the conventions that have been held, we are hearing from meeting planners and event executives of attendance ranges at 25-50% vs. pre-pandemic levels.

• **Convention and visitors bureaus (CVBs) are reporting very light citywide expectations.**

- **San Francisco citywide conventions are estimated to be less than 50K room nights in 2021** vs. 1.2M in 2019 with **six events** confirmed this year versus 35 events for 2022 and 28 for 2023 (Source: San Francisco Business Times). The normally robust Dreamforce event for the fall may have had just a few hundred live attendees, per our private hotel and event industry contacts and social media from the event.
- **Los Angeles has three citywide events scheduled all in 4Q21** vs. ~26 annually from 2017 to 2019 (Source: CoStar).

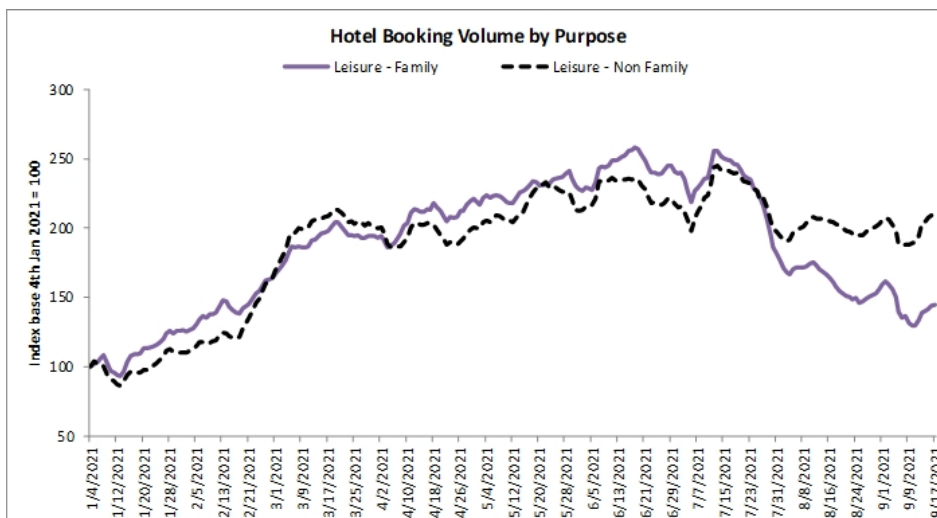
**Anecdotally on expectations for group meetings, we highlight key points from our conversations with executives at very large corporate travel agencies and group meeting planners and consultants regarding the underlying currents around group business:**

- While some corporate meetings are planned, many got pivoted to all virtual.
- 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.
- Lots of undecideds on what to do with meeting several months out.
- For larger meetings, a vaccination requirement could hurt attendance.
- Meeting planners want to have a virtual component, a requirement they expect to see for some time.
- Corporate HR and risk management departments see risk not just at the destination/meeting itself but also from all the “touch points” (airplane, local transportation, hotel, etc.) to get to the meeting/event and back.

**Leisure travel observations:**

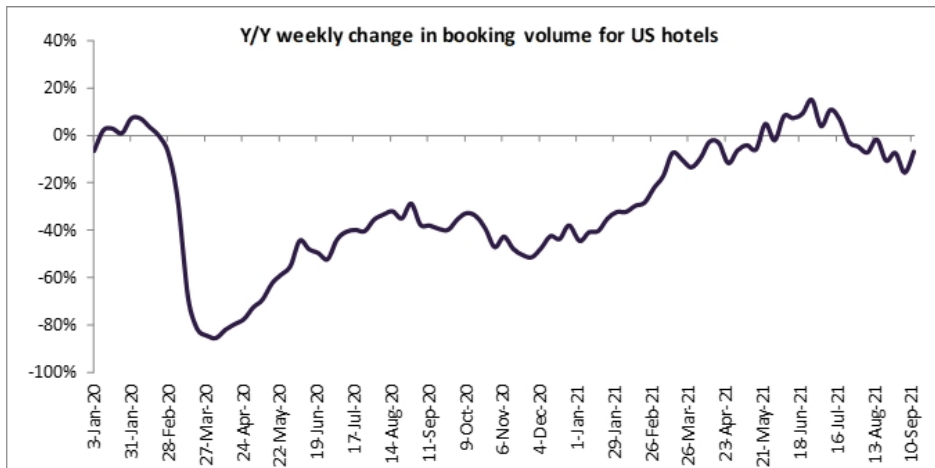
**Although leisure travel is seeing its normal post-summer seasonal slowdown, most notably in family leisure travel, we still observe elevated demand trends vs. what we saw earlier in the year.** While we receive data from multiple forward-looking sources with each showing different percentage changes, the themes are very consistent direction-wise. We highlight forward-looking leisure-centric data from [ADARA](#) and [Sojern](#).

Exhibit 5



Source: ADARA, Truist Securities

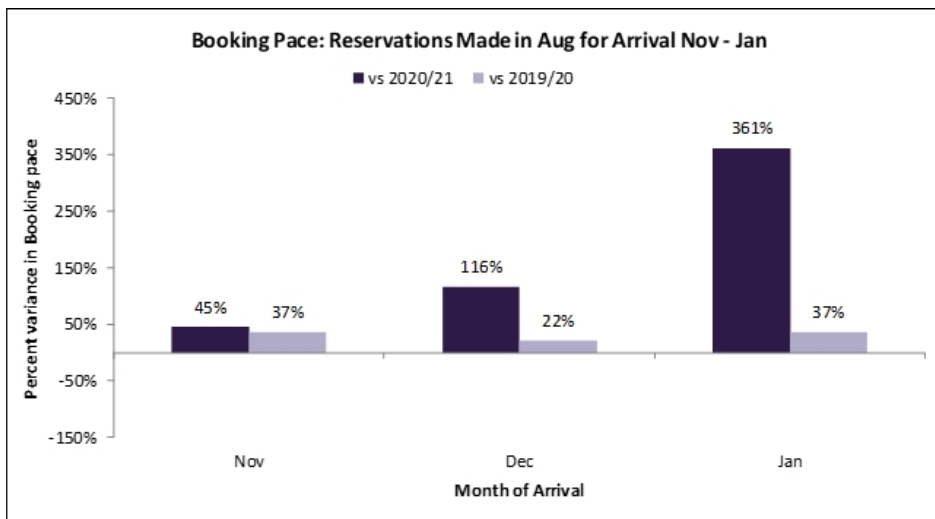
## Exhibit 6



Source: Sojern, Truist Securities

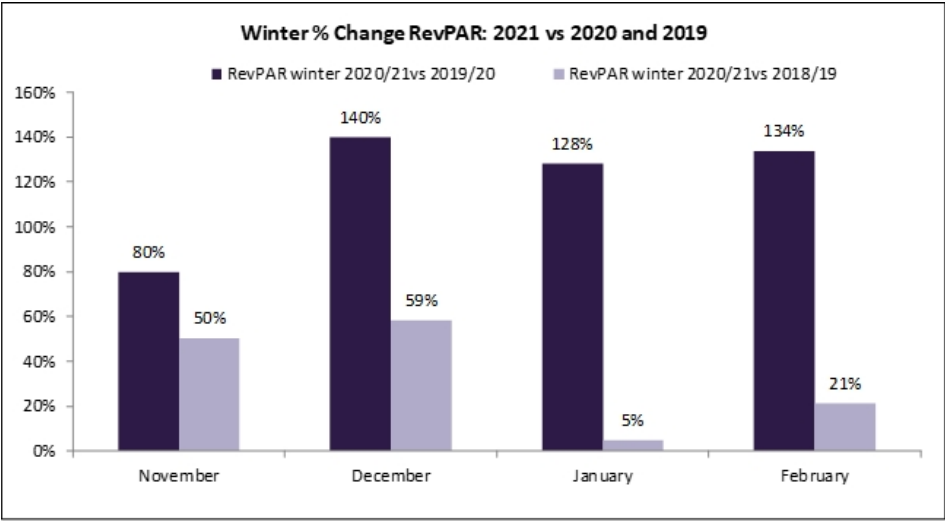
**December holiday bookings very strong.** [Very strong booking volumes so far for year-end holiday travel](#) (Bloomberg) bode well for resort-destination companies like Playa Resorts (PLYA, Hold), Vail Resorts (MTN, Hold), and the aforementioned Vacation Ownership Companies. Within our hotel REIT coverage DRH (DRH, Hold) has the largest leisure-resort exposure which we estimate at approx. 30-40% of pro forma EBITDA. Specifically looking at data from [DestiMetrics](#) on hotel room bookings at US ski resorts for this upcoming winter, initial demand has been exceptionally strong so far:

## Exhibit 7: Booking pace for hotels at US ski resorts



Source: DestiMetrics, Truist Securities

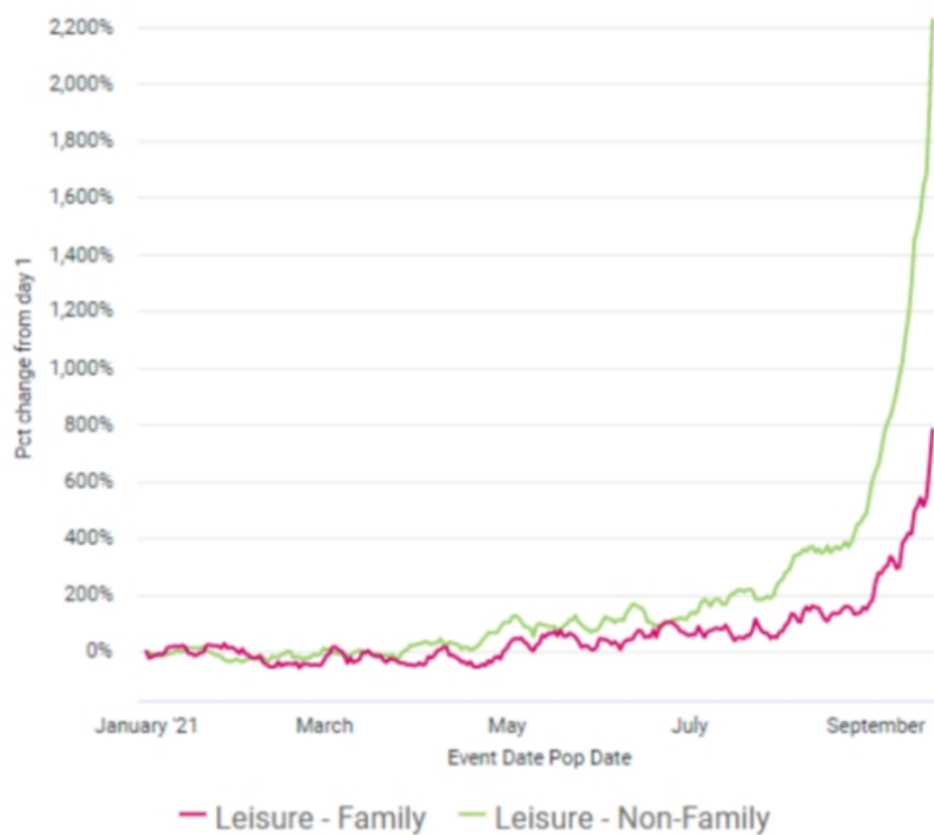
Exhibit 8: RevPAR on the books for US ski resorts



Source: DestiMetrics, Truist Securities

**International in-bound bookings got a significant bump (Airline Weekly) following the recent announcement** (Skift) **of the easing in international in-bound travel restrictions.** Last week, executives at ADARA noted to us that even before the official announcement of the opening of the US borders to tourists, they had have been seeing a dramatic uptick in leisure hotel bookings from European travelers. The increase was particularly pronounced for non-family travelers (singles and couples) where the index jumped almost 4x between September 1st and September 21st. Reflecting pent-up demand, consistently throughout the last 18 months ADARA has seen international travelers book on the speculation of easing of restrictions. *That said, while the percentage growth rates are substantial, the growth is off of an extremely low base as international in-bound is still off 75% relative to 2019.*

Exhibit 9: US Hotel Bookings with EMEA Origin –Leisure Travel: Indexed to January 3, 2021



Source: ADARA, Truist Securities



Exhibit 10: Segmentation by Company

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

**Choice Hotels International, Inc.** (CHH, \$129.45, Hold, C. Patrick Scholes)  
**DiamondRock Hospitality Company** (DRH, \$9.58, Hold, C. Patrick Scholes)  
**Hilton Grand Vacations Inc.** (HGV, \$49.12, Buy, C. Patrick Scholes)  
**Vail Resorts, Inc.** (MTN, \$342.81, Hold, C. Patrick Scholes)  
**Pebblebrook Hotel Trust** (PEB, \$23.31, Hold, Gregory Miller)  
**Playa Hotels & Resorts N.V.** (PLYA, \$8.56, Hold, C. Patrick Scholes)  
**RLJ Lodging Trust** (RLJ, \$14.92, Buy, Gregory Miller)  
**Marriott Vacations Worldwide Corporation** (VAC, \$163.62, Buy, C. Patrick Scholes)  
**Wyndham Hotels & Resorts, Inc.** (WH, \$79.04, Buy, C. Patrick Scholes)  
**Bluegreen Vacations Holding Corporation** (BVH, \$25.79, Buy, C. Patrick Scholes)

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