Equity Research

December 1, 2022

**CONSUMER: Lodging**
**REAL ESTATE INVESTMENT TRUSTS: Lodging REITs**

**C. Patrick Scholes**
212-319-3915
Patrick.Scholes@truist.com

**Gregory J. Miller**
212-303-4198
Gregory.J.Miller@truist.com

12 Page Document

## Reasons for this report

Latest observations on forward-looking booking and pricing trends for US hotels and anecdotal learnings from industry contacts, including detail on the three main customer segments:

- Individual Business
- Group/convention
- Leisure

# Nov/Dec Lodging RevPAR Monitor: Some modest pressure on corporate transient segment, though leisure steady.

**In this report we discuss:**

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

**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 have observed some modest pressure on corporate bookings and pricing power over the past 45 days.** *As discussed in further detail, we believe the greatest degree of pressure is coming from additional weakness in the tech sector (albeit also likely due to overall general corporate belt-tightening), a sector that was already a significant laggard for the hotel industry recovery, as market-specific weakness is most evident in the greater San Francisco area.*

- **Group demand and pricing** remains "relatively solid", albeit with bookings very short-term in nature. Not too surprisingly, growth rates for group RevPAR 2023 will be significantly lower than for 2022 due to more difficult comps and from some pent-up demand having been "released" in 2022.
- Forward-looking domestic **leisure RevPAR** trends continue to be resilient, almost entirely driven by ADR at this point as new competitive supply from short-term rentals, and the re-opening of international markets such as Europe, the Caribbean, and Canada combined with favorable FX for American travelers, and the return of cruising as a value-priced vacation alternative are putting some pressure on domestic hotel occupancy. Readers should be aware that the timing of Christmas and New Year's Day falling on a Sunday this holiday season versus on a Saturday last holiday season is pushing some school vacations into January, with the net-effect being RevPAR growth, especially occupancy, for the back half of December vs. 2021 looks weak while the beginning of January vs. 2022 is tracking exceptionally strong given the easy y/y comp.
- **All of these observations are analyzed and discussed in further detail in this report.**

**Bottom line:** While there were "pluses & minuses" in our latest data checks and industry conversations, overall we continue to summarize our view on the lodging sector at the moment as one of "relative optimism," *though more so for the global C-Corps and less so for the hotel REITS*, a view markedly more favorable than the bear case of "relative pessimism".

- **Of the lodging stocks our favorite name is Hyatt (H, Buy) which we see in the "sweet spot" of both the group recovery and strength in international markets, most notably the Caribbean.** Hyatt generates approx. 30% of earnings from the group segment and 30% from its Caribbean-centric Apple Leisure Group business. To this we add the evolving story of going "asset-lite", an EV/EBITDA valuation multiple approx. 300-350 bps. below that of HLT (Hold) and MAR (Hold), and a comparatively better balance sheet. **For the hotel REITS, our favorite name is RHP (Buy).** At 75% of its business coming from groups/conventions, RHP has the greatest exposure to this customer segment and has no hotels located in the especially tech-heavy San Francisco area. On the other hand, we would be remiss if we did not note that hotel



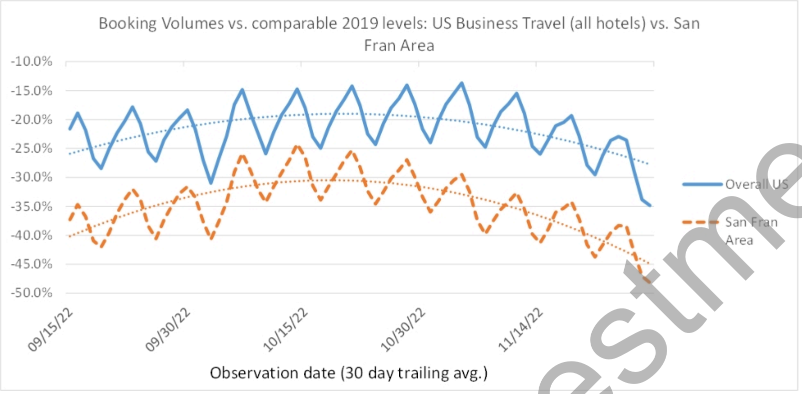
SEE PAGE 10 FOR REQUIRED DISCLOSURE INFORMATION

REITS with exposure to the San Francisco metro area (and likely the Napa/Sonoma/Wine Country as well) will likely see continued pressure from the technology sector. We estimate EBITDA exposure for our REIT coverage: DRH (Hold) ~5% (only 1% in San Francisco city), HST (Hold) ~10%, SHO (Hold) ~10%, RLJ (Buy) ~12% (4% in San Francisco City), PEB (Hold) ~14%, and PK (Buy) ~15%. Within the Wine Country area, DRH has one hotel (The Lodge at Sonoma, ~3% EBITDA), PK has one hotel (DoubleTree Sonoma Wine Country, ~1% EBITDA), and SHO has two hotels (Montage and Four Seasons, ~9% EBITDA).

**Corporate (individual) business travel segment observations:**

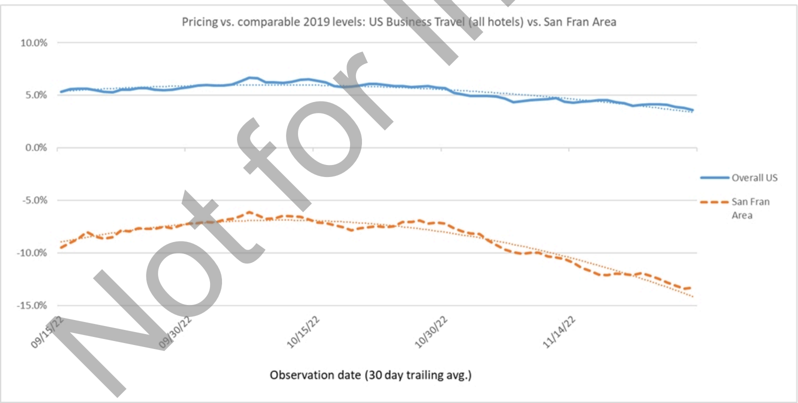
**We observe booking volumes down approx. 27% over the past 45 days vs. comparable 2019 levels whereas they were down approx. 20% during the late summer and early fall (source: Tripbam).** Digging into the data, we observe outsized weakness in the greater San Francisco area as booking volumes were down approx. 45% vs. comparable 2019 levels whereas they were down 30% during the late summer and early fall (see exhibit 1 below). Even more evident of challenges the greater San Francisco area is facing is outsized weakness in pricing power. For the overall US, pricing growth has held relatively stable, though no longer accelerating, at approx. +5% vs. comparable 2019 levels over the past 45 days whereas for the greater San Francisco area pricing power for new bookings has fallen from approx. -7% to -13% over that time (see exhibit 2 below). **While not possible to precisely determine exact causation in the "big data", we are the belief that the greatest degree of weakness is coming from the technology sector due to corporate layoffs and belt-tightening from which the greater San Francisco area has outsized exposure.** Additionally, we believe that general corporate belt tightening is also a factor. We estimate that historically (pre-Covid) for the overall US, the technology segment customer represented approx. 10% of business for full-service hotels. Anecdotally, executives at large corporate travel agencies are seeing some 4Q travel freezes and companies are more careful with spend for 1H23, especially in the technology sector. These executives also observed some weakness in the retail (clothing) corporate customer, which has to do with uncertainty around consumer spend around the holiday season.

Exhibit 1:




Source: Tripbam, Truist Securities Research

Exhibit 2:




Source: Tripbam, Truist Securities Research

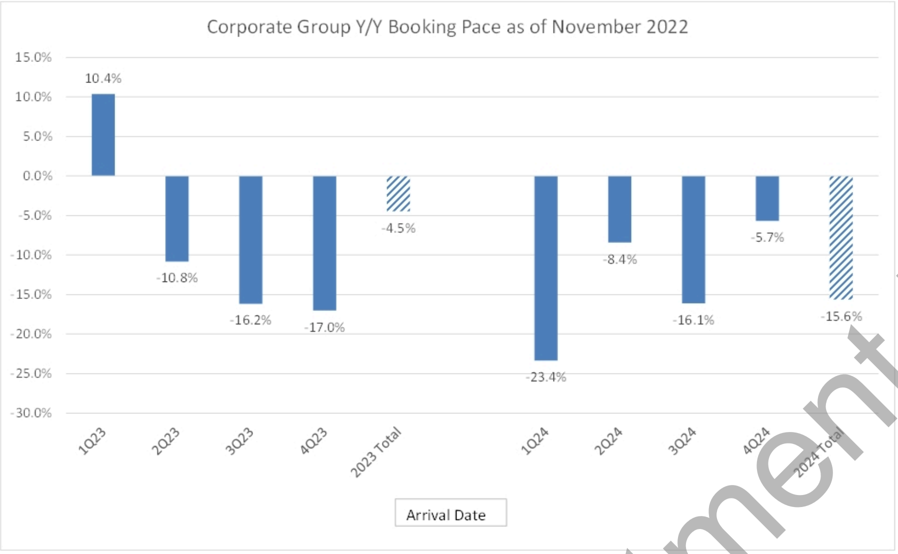
- **Regarding corporate rate negotiations for 2023:** Rates for 2023 are expected to be up mid-to-high single-digits. Hotels will not be rolling-over 2022 rates to 2023 like they did for 2021 to 2022 and hotels will charge rack rate if a corporate rate did not get negotiated.
  - **We are particularly attentive to large corporate pricing as a read-through to small-medium size businesses (SMEs).** Effectively, if large corporate rates are pushed up, there is greater opportunity in our opinion for SME rates to be pushed higher as well. This impact is not just for transient but also small/midsized corporate groups including SMEs.

**Group (corporate) segment observations:**

**For group bookings, we continue to see a very narrow booking window with the good news being that last-minute (in-the-quarter-for-the-quarter and Q+1) booking volumes are strong.** However, the negative is that as we look out more than two quarters for corporate group business, what is currently on the books is well below comparable levels for 2022 at the same time in 2021 (see exhibit 3, below). Implications are that corporations are apprehensive to book too far in advance, some of the pent-up demand has already happened in 2022 and y/y growth rates will be more challenged going forward, and if cancellations do occur there is not a significantly strong base of bookings from which to collect cancellation fees.

- **2023 group rates:** Up around 7% y/y with greater strength in larger cities and resorts and less pricing growth for second and third-tier less-popular locations.

Exhibit 3:

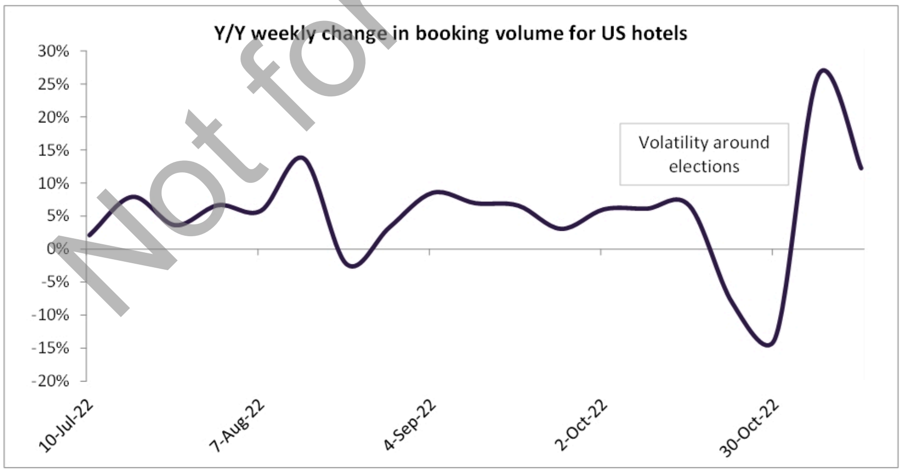



Source: Cvent, Truist Securities Research

**Leisure segment observations:**

**We observe that demand levels have been consistent since last summer, though no longer accelerating, and pricing growth remains strong.** Regarding demand and occupancy, new competitive supply from short-term rentals and the re-opening of international markets such as Europe, the Caribbean, and Canada combined with favorable FX for American travelers, are applying some pressure. First, we look at data from Sojern, a company that collects hotel booking data from thousands of travel brands, to gauge the relative steadiness of leisure bookings:

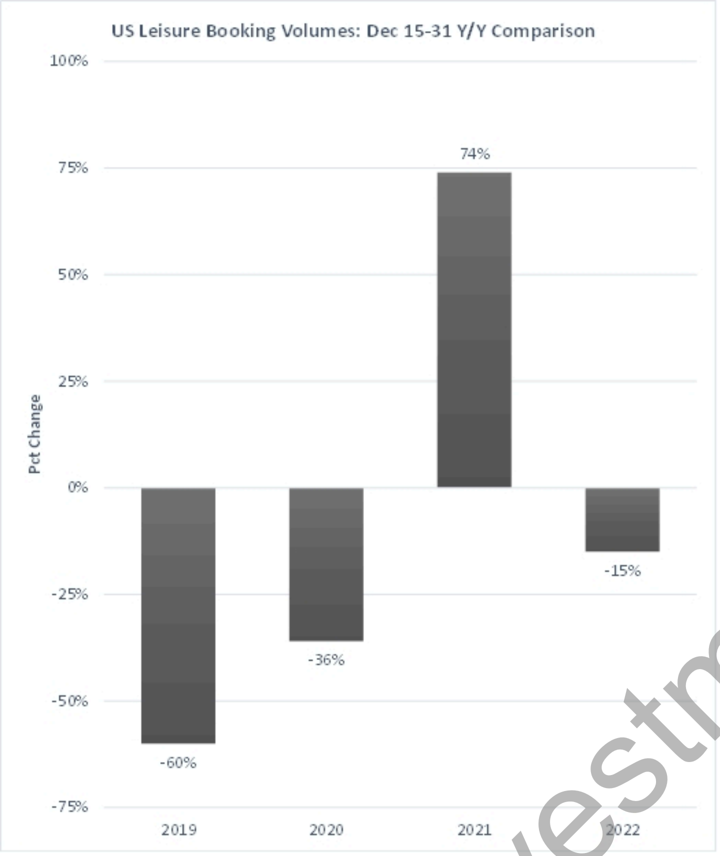
Exhibit 4:




Source: Sojern, Truist Securities Research

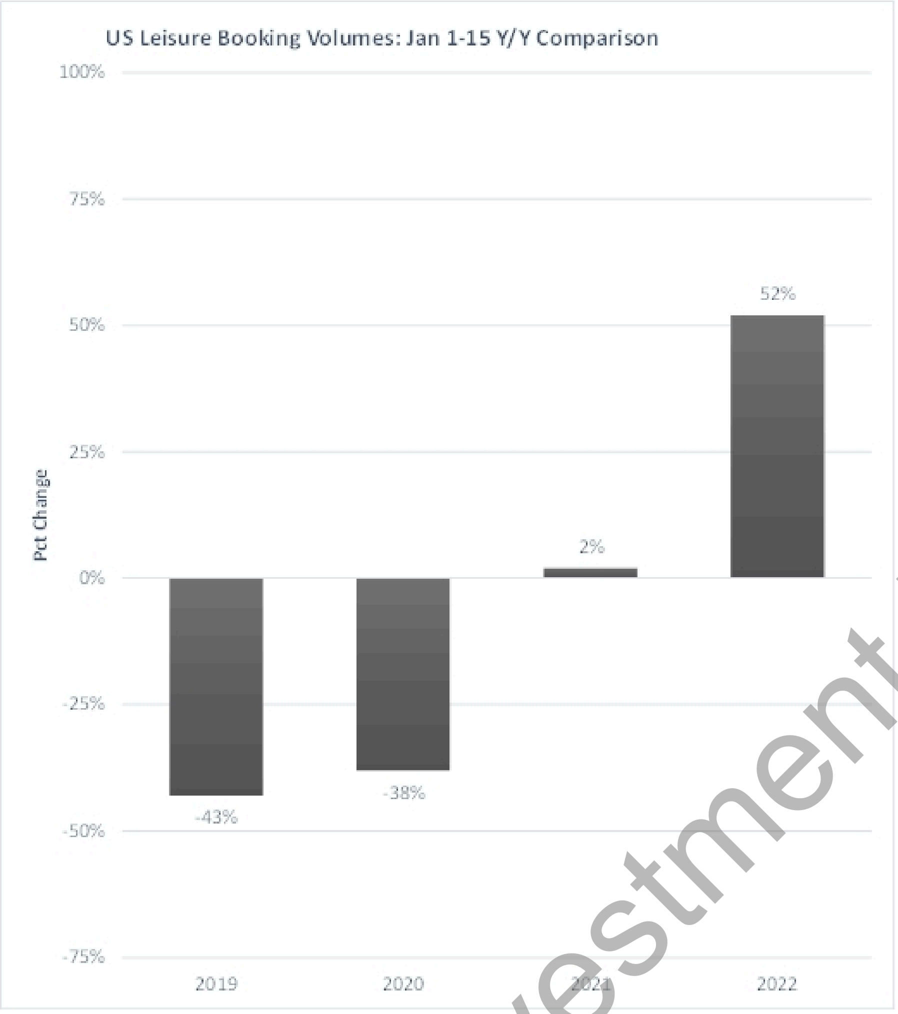
Specifically looking at booking volumes for the upcoming year-end holiday, we observe that the timing of Christmas and New Year's Day falling on a Sunday this holiday season versus on a Saturday last holiday season is pushing some school vacations into January. The net-effect is RevPAR growth, especially occupancy, for the back half of December vs. 2021, looks weak while the beginning of January vs. 2022 is tracking exceptionally strong (data source: Adara, a company that monitors 180M global hotel reservations and with which we recently held a webinar):

Exhibit 5:




Source: Adara, Truist Securities Research

Exhibit 6:



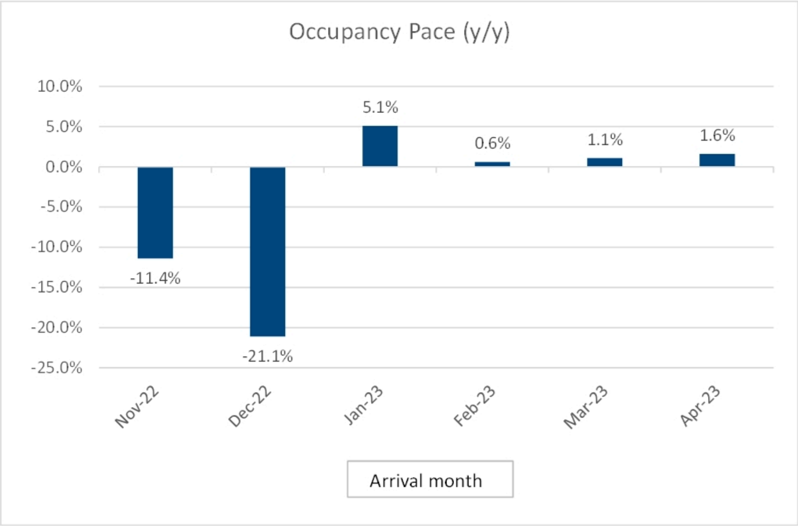

Source: Adara, Truist Securities Research

**Additionally, to further gauge the strength/weakness of higher-end US leisure travel we also look at future occupancy, rate, and RevPAR pace for hotels at US ski resorts (source: DestiMetrics).**

Our observations on forward occupancy for hotels at US ski resorts:

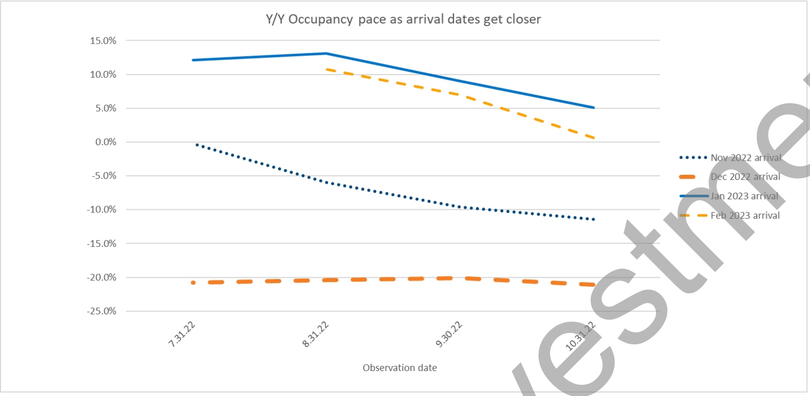
- When we look at how y/y forward occupancy is pacing, the previously noted holiday shift is highly evident in the December and January paces and for the rest of the winter season occupancy is up approx. 1% y/y (see exhibit 7)
  - However, while January through April are pacing up y/y, we observe that the pace of occupancy growth decelerates as arrival dates get closer. For example, while occupancy for February 2023 is currently tracking +0.6% y/y vs. the same time in 2021 for February 2022, +0.6% is a deceleration from our observation in August where it was tracking +11% and in September where it was tracking +7% (see exhibit 8). *Assuming this trajectory continues, we believe y/y occupancy for January-April will finish down y/y for hotels at US ski resorts (which we also see as a good read-through for upper-end US resorts in general).*

Exhibit 7:




Source: DestiMetrics, Truist Securities Research

Exhibit 8:

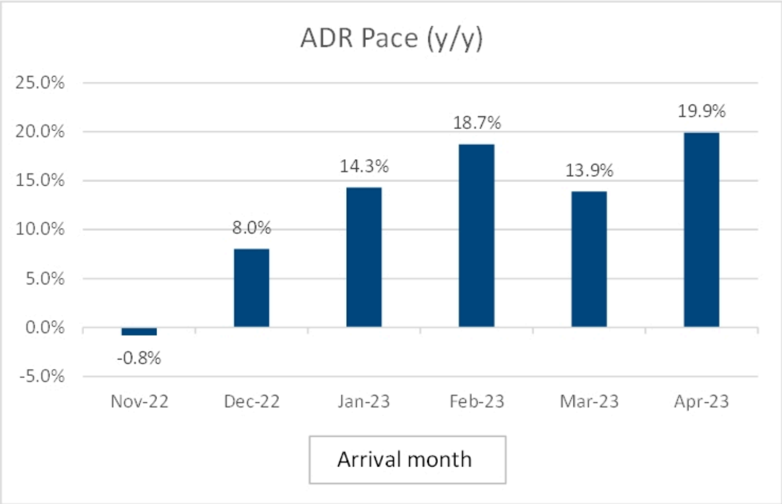



Source: DestiMetrics, Truist Securities Research

Our observations on forward ADR for hotels at US ski resorts:

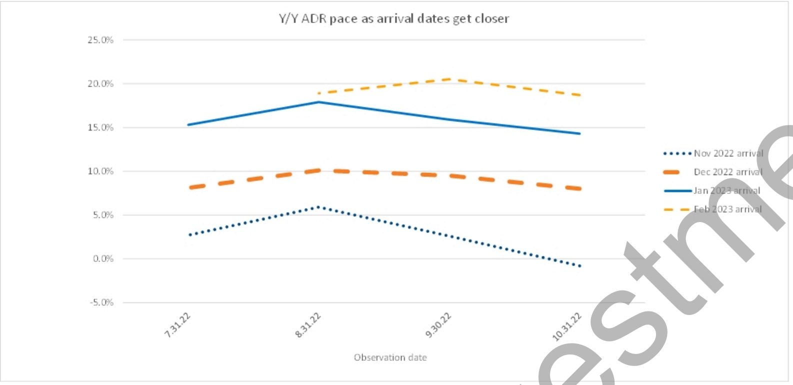
- We see extremely strong pricing. Unlike the occupancy deceleration as arrival dates approach, pricing deceleration, while modest, is far less pronounced.

Exhibit 9:




Source: DestiMetrics, Truist Securities Research

Exhibit 10:

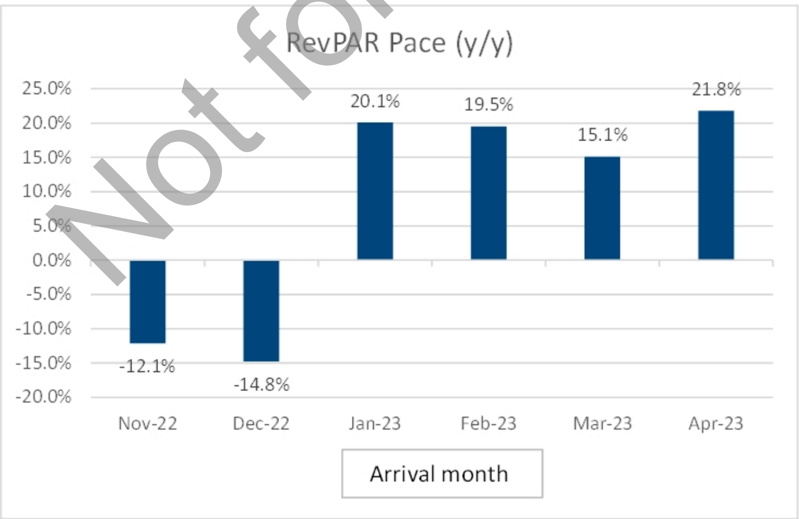



Source: DestiMetrics, Truist Securities Research

Putting the above occupancy and ADR observations together, our observations on how forward RevPAR at US ski resorts is tracking:

- Because of the holiday shift the picture is mixed to start the season, but the later winter months look very strong, again driven by ADR:

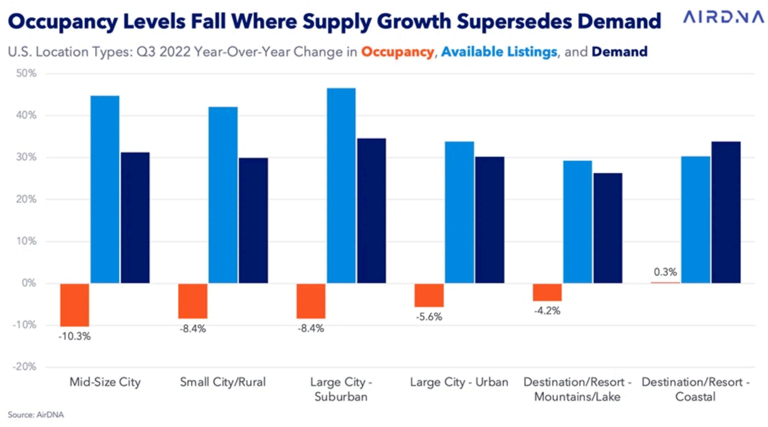
Exhibit 11:




Source: DestiMetrics, Truist Securities Research

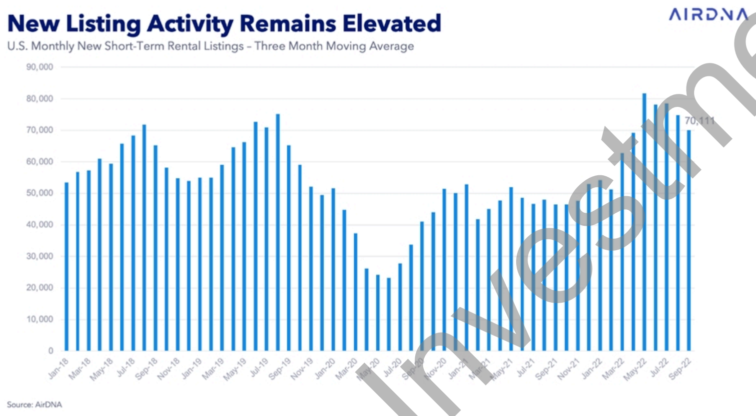
**Lastly, we believe one of the pressures on hotel occupancy for the leisure segment is coming from substantial new supply from Airbnb (Khan, Hold) and other short term rentals.** To quantify this we look at data from AirDNA. For the overall US in 3Q22, Airbnb supply was up approx. 40% from 3Q19 and up approx. 30% y/y from 3Q21. Please join us this Friday, December 2nd for a webinar with Airdna to discuss their latest observations on short term rental trends.

Exhibit 12:




Source: AirDNA

Exhibit 13:




Source: AirDNA

Exhibit 14:

**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 | 20% | 50% | 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 |
|---|---|---|---|
| BVH | 0% | 100% | 0% |
| HGV | 0% | 100% | 0% |
| TNL | 0% | 100% | 0% |
| VAC | 0% | 100% | 0% |

Source: Company reports, Truist Securities Research

## Companies Mentioned in This Note

**Airbnb, Inc.** (ABNB, $102.14, Hold, Naved Khan)
**Choice Hotels International, Inc.** (CHH, $123.22, Hold, C. Patrick Scholes)
**DiamondRock Hospitality Company** (DRH, $9.41, Hold, C. Patrick Scholes)
**Hyatt Hotels Corporation** (H, $100.32, Buy, C. Patrick Scholes)
**Hilton Worldwide Holdings Inc.** (HLT, $142.62, Hold, C. Patrick Scholes)
**Host Hotels & Resorts, Inc.** (HST, $18.94, Hold, C. Patrick Scholes)
**Marriott International, Inc.** (MAR, $165.35, Hold, C. Patrick Scholes)
**Pebblebrook Hotel Trust** (PEB, $16.65, Hold, Gregory Miller)
**Park Hotels & Resorts Inc.** (PK, $12.83, Buy, C. Patrick Scholes)
**Ryman Hospitality Properties, Inc.** (RHP, $91.53, Buy, C. Patrick Scholes)
**RLJ Lodging Trust** (RLJ, $12.12, Buy, Gregory Miller)
**Sunstone Hotel Investors, Inc.** (SHO, $10.99, Hold, C. Patrick Scholes)
**Wyndham Hotels & Resorts, Inc.** (WH, $73.32, Buy, C. Patrick Scholes)

## Analyst Certification

I, C. Patrick Scholes , hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

I, Gregory J. Miller , hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

## Required Disclosures

Analyst compensation is based upon stock price performance, quality of analysis, communication skills, and the overall revenue and profitability of the firm, including investment banking revenue.

As a matter of policy and practice, the firm prohibits the offering of favorable research, a specific research rating or a specific target price as consideration or inducement for the receipt of business or compensation. In addition, associated persons preparing research reports are prohibited from owning securities in the subject companies.

Charts indicating changes in ratings can be found in recent notes and/or reports at our website or by contacting Truist Securities. Please see our disclosures page for more complete information at https://truist.bluematrix.com/sellside/Disclosures.action

## Truist Securities Ratings System for Equity Securities

**Dissemination of Research**

Truist Securities, Inc. ("Truist Securities") seeks to make all reasonable efforts to provide research reports simultaneously to all eligible clients. Reports are available as published in the restricted access area of our website to all eligible clients who have requested a password. Institutional investors, corporates, and members of the Press may also receive our research via third party vendors including: Thomson Reuters, Bloomberg, FactSet, and S&P Capital IQ. Additional distribution may be done by sales personnel via email, fax, or other electronic means, or regular mail.

For access to third party vendors or our Research website: https://truistresearch.bluematrix.com/client/library.jsp

Please email the Research Department at EquityResearchDepartment@truist.com or contact your Truist Securities sales representative.

**Truist Securities Rating System for Equity Securities**

Truist Securities, Inc. ("Truist Securities") rates individual equities using a three-tiered system. Each stock is rated relative to the broader market (generally the S&P 500) over the next 12-18 months (unless otherwise indicated).

**Buy (B)** – the stock's total return is expected to outperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

**Hold (H)** – the stock's total return is expected to perform in line with the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

**Sell (S)** – the stock's total return is expected to underperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

**Not Rated (NR)** – Truist Securities does not have an investment rating or opinion on the stock

**Coverage Suspended (CS)** – indicates that Truist Securities' rating and/or target price have been temporarily suspended due to applicable regulations and/or Truist Securities Management discretion. The previously published rating and target price should not be relied upon.

Truist Securities analysts have a price target on the stocks that they cover, unless otherwise indicated. The price target represents that analyst's expectation of where the stock will trade in the next 12-18 months (unless otherwise indicated). If an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of Truist Securities Research Management not to assign a target price; likewise certain stocks that trade under $5 may exhibit volatility whereby assigning a price target would be unhelpful to making an investment decision. As such, with Research Management's approval, an analyst may refrain from assigning a target to a sub-$5 stock.

**Legend for Rating and Price Target History Charts:**

B = Buy

H = Hold

S = Sell

D = Drop Coverage

CS = Coverage Suspended

NR = Not Rated

I = Initiate Coverage

T = Transfer Coverage

Truist Securities ratings distribution (as of 12/01/2022):

| **Coverage Universe** | | | **Investment Banking Clients Past 12 Months** | | |
|---|---|---|---|---|---|
| **Rating** | **Count** | **Percent** | **Rating** | **Count** | **Percent** |
| Buy | 515 | 67.59% | Buy | 74 | 14.37% |
| Hold | 243 | 31.89% | Hold | 37 | 15.23% |
| Sell | 4 | 0.52% | Sell | 1 | 25.00% |

## Other Disclosures

Information contained herein has been derived from sources believed to be reliable but is not guaranteed as to accuracy and does not purport to be a complete analysis of the security, company or industry involved. This report is not to be construed as an offer to sell or a solicitation of an offer to buy any security. Truist Securities, Inc. and/or its officers or employees may have positions in any securities, options, rights or warrants. The firm and/or associated persons may sell to or buy from customers on a principal basis. Investors may be prohibited in certain states from purchasing some over the-counter securities mentioned herein. Opinions expressed are subject to change without notice.

Truist Securities, Inc.'s research is provided to and intended for use by Institutional Accounts as defined in FINRA Rule 4512(c). The term "Institutional Account" shall mean the account of: (1) a bank, savings and loan association, insurance company or registered investment company; (2) an investment adviser registered either with the SEC under Section 203 of the Investment Advisers Act or with a state securities commission (or any agency or office performing like functions); or (3) any other person (whether a natural person, corporation, partnership, trust or otherwise) with total assets of at least $50 million.

Truist Securities, Inc. is a registered broker-dealer and a member of FINRA and SIPC. It is a service mark of Truist Financial Corporation. Truist Securities, Inc. is owned by Truist Financial Corporation and affiliated with Truist Investment Services, Inc. Despite this affiliation, securities recommended, offered, sold by, or held at Truist Securities, Inc. or Truist Investment Services, Inc. (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Truist Bank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Truist Bank may have a lending relationship with companies mentioned herein.

Please see our Disclosure Database to search by ticker or company name for the current required disclosures, including valuation and risks. Link: https://truist.bluematrix.com/sellside/Disclosures.action

Please visit the Truist Securities equity research library for current reports and the analyst roster with contact information. Link: https://truistresearch.bluematrix.com/client/library.jsp

Truist Securities, Inc., member FINRA and SIPC. Truist, Truist Securities, and Truist Investment Services are service marks of Truist Financial Corporation.

If you no longer wish to receive this type of communication, please request removal by sending an email to EquityResearchDepartment@truist.com

ADDITIONAL INFORMATION IS AVAILABLE at our website, TruistSecurities.com, or by writing to: Truist Securities, Research Department, 3333 Peachtree Road N.E., Atlanta, GA 30326-1070