



September Lodging RevPAR Monitor – Bumping Up 4Q RevPAR Ests due to Hurricane

But expect pressure on 2H18 & 1H19 due to tough comps

In this month's report we focus on parsing out the nearer-term hurricane-driven strength and the longer-term gradually decelerating RevPAR trends. For the nearer-term, we are taking up our 4Q17 RevPAR forecast for US full-service branded hotels to 2-4% from 1-3% due to the hotel demand stimulus from recent hurricanes. There is no change to our 3Q17 and full-year 2017 and 2018 forecasts.

Separating out the rest of the country from the areas receiving the hurricane demand lift, we continue to see themes consistent with our previous forward-looking observations of: 1) Stable but uninspiring corporate demand trends (no post-election spark to demand); 2) Decelerating Group/convention demand (noticeably weak over the past month); and 3) Leisure remaining the relatively strongest of the three customer segments. **Subsequently we remain more favorable on the leisure denominated sectors in our coverage universe, namely Vacation Ownership, Regional Gaming, and Cruise Lines.** Our forward-looking observations are based on our deep analysis of our aggregated "Big Data" and "Alternative Data" in our internal RevPAR data lab combined with conversations with our network of private hotel owners. We continue to reiterate that (when excluding the hurricane impacted areas) *we have yet to see an inflection point to indicate that the lack of a downward trend in forward bookings indicates the bottom of the cycle and subsequently we forecast 2018's growth to be slightly lower than 2017's.*

Taking our 4Q17 RevPAR forecast up to +2-4% from +1-3%. Weather events such as hurricanes that result in extended housing displacement and recovery/infrastructure spending have historically been a positive for hotel demand in the greater impacted areas for the year after the event. Additionally, while our headline forecast is for US full-service branded hotels (aka the typical Hilton or Marriott hotel), we expect growth rates for limited service hotels could be at least an additional 100-200 bps. higher. Within our coverage universe, CHH and IHG will likely be the biggest short-term beneficiaries, followed by WYN (note that WYN's hotel division only represents approx. 20% of the company's earnings).

- **However, we caution that this is one-time demand and not sustainable demand.** As can be observed in the following chart, while the impacted regions in previous weather events saw massive upticks in demand for the next four quarters, as this demand was not sustainable it negatively impacted the following year's growth rates. This was most noticeable in 1Q06 and 1Q07 post-Katrina, where the headline RevPAR growth rate for CHH and MAR dropped by 800 and 500 bps, respectively, from the comparable quarter in the previous year.

C. Patrick Scholes
212-319-3915
patrick.scholes@suntrust.com

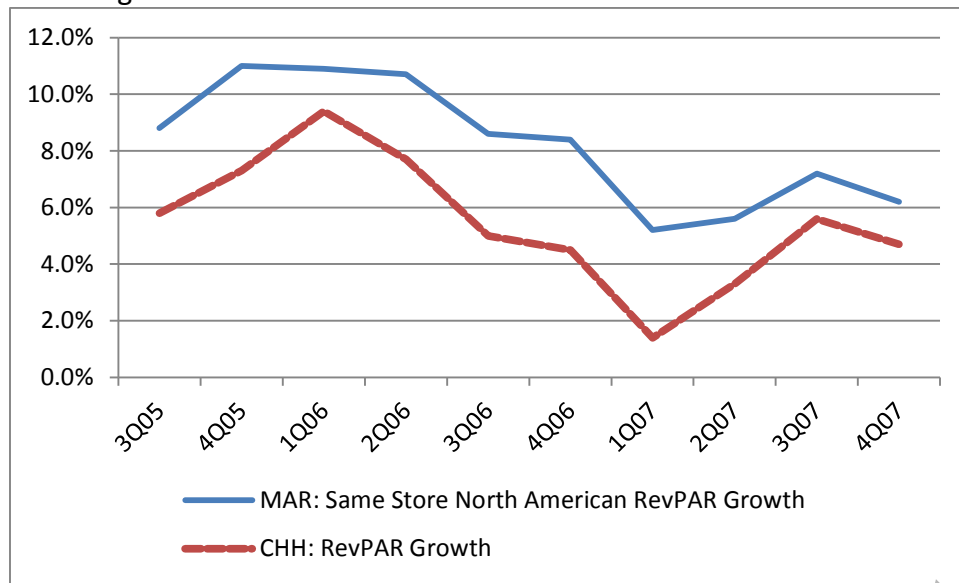
Bradford Dalinka
212-303-4190
bradford.dalinka@suntrust.com

Gregory J. Miller
212-303-4198
gregory.j.miller@suntrust.com

What's Inside

An in-depth update to our RevPAR outlook

RevPAR growth results for CHH and MAR around Katrina



Source: STRH research, Company results

Our 3Q17 estimate range is unchanged at -1% to +1% and while September will receive a bump-up from hurricane demand, the quarter had been tracking towards the lower-end of the range before the weather events; ergo the unchanged range.

We are introducing a 1Q18 RevPAR forecast for US full-service branded hotels of -1% to +1%, which is being helped by approx. 100 bps. from post-hurricane demand. 1Q18 will experience a very difficult y/y comp in January in Washington, DC. Additionally, 1Q18 will be negatively impacted by the timing of the Easter shift, as Easter falls on April 1 in 2018 vs. April 16 in 2017 (the last week of March 2018 will have deeply negative results for Group/convention business as Good Friday falls that week). While March will be hurt by the shift, April will benefit.

Our 2018 projection of -0.5% to +1.5% is unchanged as the first half of 2018 will likely get a 100 bps tailwind (making for a tough comp in 1H2019) from hurricane demand while the back half of the year will likely receive a 100 bps headwind.

Quarterly Tracking

	3Q17	4Q17	2017	1Q18	2018
	Overall	Overall	Overall forecast	Overall	Overall forecast
Aug-17	-1% to +1% Low-end	+2-4%	+0-2%	-1% to +1%	-0.5% to +1.5%
Jul-17	-1% to +1%	+1-3%	+0-2%		-0.5% to +1.5%
Jun-17	-1% to +1%	+1-3%	+0-2%		-0.5% to +1.5%
May-17	-1% to +1%	+1-3%	+0-2%		
Apr-17	-0.5% to +1.5%		+0-2%		
Mar-17	+0-2%		+0-2%		
Feb-17	+0-2%		+0-2%		
Jan-17	+0-2%		+0-2%		
Dec-16			+0-2%		
Nov-16			+0-2%		
Oct-16			+0-2%		
Sep-16			+0-2%		
Aug-16			+1-3%		
Jul-16			+1-3%		
Jun-16			+1-3%		

Source: STRH Research

Monthly color for US full-service hotel RevPAR. [For even more granularity, please also see our Fall Calendar Shift RevPAR Roadmap report.](#)

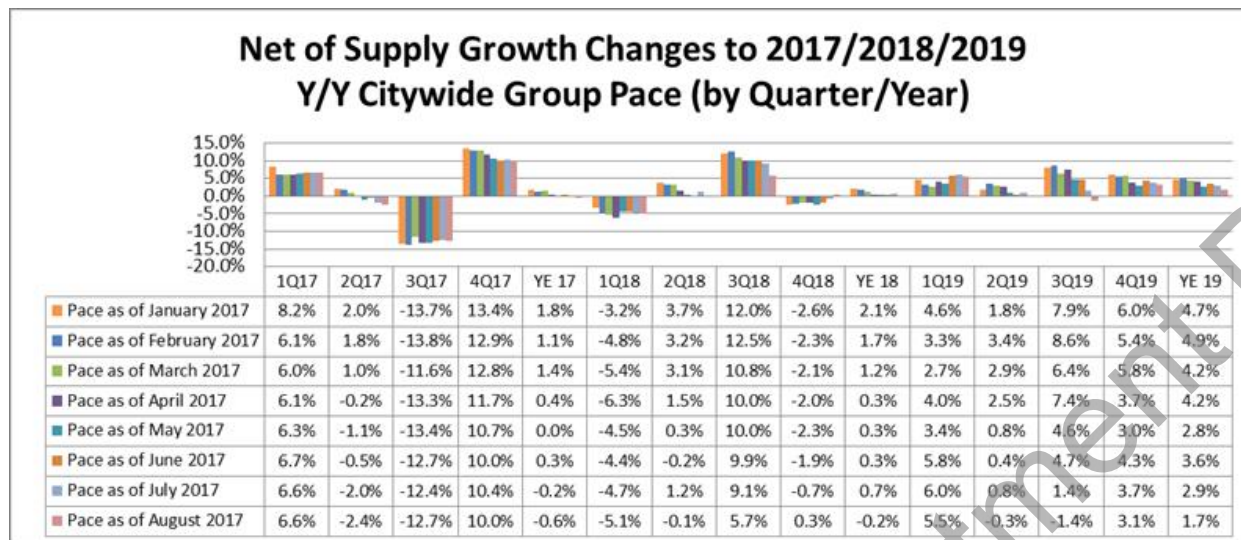
3Q17:

- **July:** For US full-service hotels, the month finished at approx. -0.5% y/y RevPAR growth. Luxury hotels outperformed Upper Upscale due to the July 4th calendar shift.
- **August:** For US full-service hotels, the month ended up at approx. +1%. The month received a positive bump from the eclipse on the 21st although the impact was more measurable for limited-service hotels, rural and interstate locations, and non-top-25 markets (a few exceptions such as Nashville and St. Louis were near the heart of the eclipse zone). Hurricane Harvey had a positive impact on the Gulf Coast and Texas (some hotels will likely be full for months with displaced residents and relief workers, other hotels will likely be closed for months).
- **September:** Prior to the hurricanes, September was easily tracking to be a negative RevPAR month for US full-service branded hotels. Even with the hurricanes the month will likely finish around -3% y/y. Outside of the hurricanes, Group business will be hurt by the shift in the timing of the Jewish Holidays. Rosh Hashanah was Sunday, Oct 2nd last year and shifts to Wednesday, Sept 20th this year. This shift will kill a lot of business and group travel this week. Secondly, Yom Kippur was Wednesday, October 12th last year and shifts to Friday, Sept 29th this year which will hurt business and group travel on the 28th-29th. Both of the above now benefit October.

4Q17:

- **October:** Group business will be helped by the shift in the timing of Yom Kippur and overall business will be aided by hurricane demand. October will be one of the stronger months of the year and should come-in at or above the high-end of our +2-4% 4Q range.
- **November:** Similar to November 2016, November 2017 is surprisingly strong for Group business and could come in at the mid-to-high-end of the +2-4% 4Q range. We note Group RevPAR results were flat the week of Election Day last year which could make for an easier comp for that week. However in the following week Group was +17.8%.

- **December:** Should be the weakest month of the quarter and is tracking towards the low-end of our +2-4% 4Q range. We suspect this is from Christmas falling on a Monday this year vs. a Sunday last year. To see the impact of this shift we look back to 2006, the last time Christmas fell on a Monday. For the week RevPAR was -7% with Sunday-Monday averaging -15% y/y (and keep in mind 2006 was a much better year for RevPAR growth than is 2017).



Source: STRH Research, TAP. Figures are net of new supply.

On the good news front, international RevPAR growth continues to be positive and FX for US\$ vs. European currencies is now a tailwind. While we admittedly have far less visibility into the future in Europe and Asia than we do for the US, July and August RevPAR growth in constant currency for Europe of +9.6% and +4.3%, respectively and July and August RevPAR growth in US\$ of +12.1% and 10.4% were very strong. The bad news is this strength is only a benefit to the C-Corps, most notably for HLT and MAR. The weakening of the euro appears to have subsided in the last few months, although relative to the last few years, Europe is still relatively affordable for foreign visitors. Similar to 2Q results, if there is upside for MAR and HLT in 3Q, we believe it will come mostly from international results.

- **East Asia by and large still presents a considerable long-term growth story for the C-Corps.** While we are seeing supply maturation in some of the primary emerging markets (a good sign for rate integrity, in our view), there are growth opportunities in many other markets. July RevPAR in Asia-Pacific was +4.4% in US\$ and for August came in at +5.6%.

Examining the three customer segments:

Leisure travel: In the near term hurricane demand is giving a lift to this segment (we acknowledge, and hope not to appear insensitive, that while hurricane demand is certainly not “leisure travel” in the traditional sense, for customer segmentation it falls in the leisure category). Additionally, **underlying relative strength is coming from 2016 US household income growth of 3.2%**, which translates into moderate growth in the forward-looking hotel demand and pricing trends.

- Our latest pricing and demand observations from our RevPAR data lab show RevPAR growth for Fall leisure travel tracking approx. +3-4% for US full service hotels (approx. 100-200 bps. higher for limited service properties as hurricane demand falls under this segment), a 100 bps increase from our prior expectation. That said, summer months have the greatest proportion of leisure business and those months are now in the rear view mirror. During the summer months, leisure travel represents approx. 40% of hotel business for most C-Corps and hotel REITS vs. 25-30% in other seasons.
- Our analysis of multiple data sources including e-forecasting and OTAs indicates fall and winter occupancy growth is lagging (slightly negative) while revenue is being driven upwards by increases in hotel rates.

Individual business travel RevPAR expectations (visibility is about 60 days) continue to hover around zero to slightly negative growth (primary data source: corporate travel agencies and OTAs) with no major changes over the past month. The good news is that corporate travel demand is growing; the bad news is that the same-store growth rate is being completely offset by new room supply. We believe the growth on the demand side is due to 2Q17 S&P earnings growth of approx. 10.4% and 3Q17 growth of approx. 7.4% (projection). Individual business travel represents approximately 45% of business for the typical C-Corp and upper-upscale centric REIT.

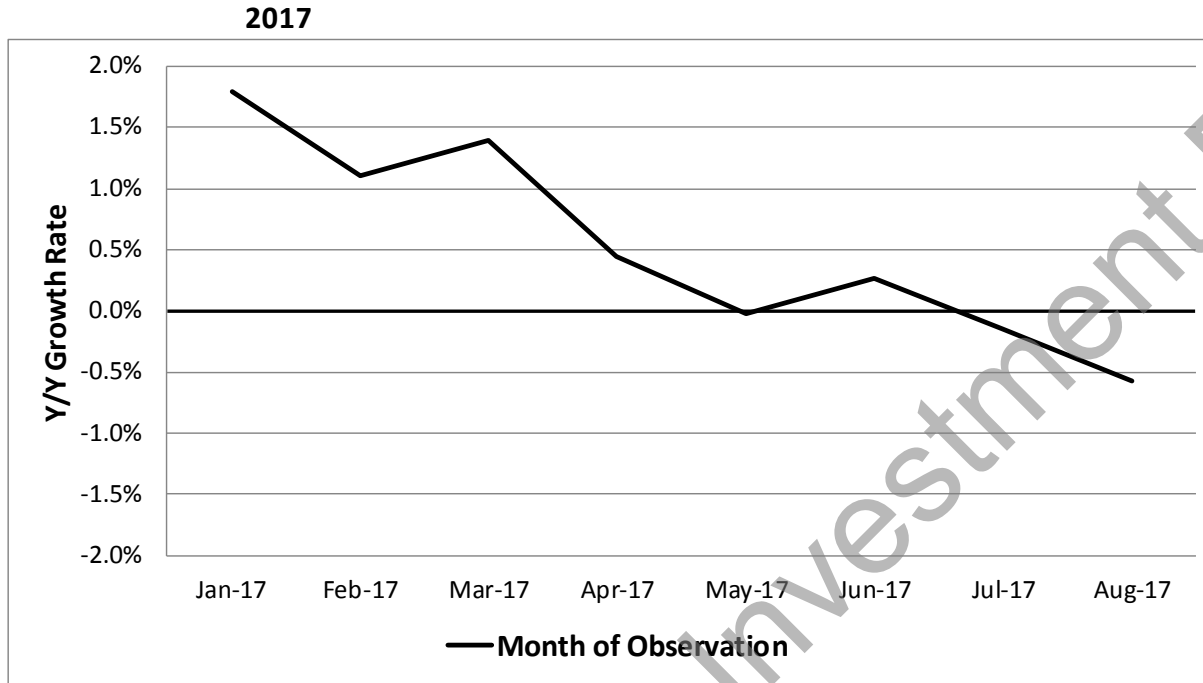
- **That said, given corporate profitability growth why isn't it translating into better RevPAR growth rates for this customer?** We believe it is due to the fact that while the S&P has started to show earnings growth after two years of not having done so, much of this earnings growth is from share repurchases and cost cutting as opposed to revenue growth. By comparison S&P 500 revenue growth for 1Q17-3Q17F was approx. +6.0% vs. +10.6% earnings growth. *Share repurchases certainly do nothing for corporate travel and we know that the easiest cost cuts to make are from travel & entertainment.*

Not For Investment Purposes

Forward-looking Group/convention demand expectations decelerated over the past six weeks (primary data source: TAP).

- 2017: In-the-year-for-the-year group pace fell by 40 basis points.** Headline group demand (“rooms blocked and sold”) is now pacing approximately -0.6% (net of new supply) vs. -0.2% in our previous observation. To our headline pace figure we add approx. 1.5-2.0 percentage points of pricing growth to come up with a 2017 Group RevPAR expectation of approx. +1.0-1.5%. Comparably, Marriott noted on their August earnings call that 2017 group revenue pace for company-operated full-service hotels in North America was approximately +1.0-1.5%, down modestly from +1.7% in the May earnings call.

2017 Group demand pace trend

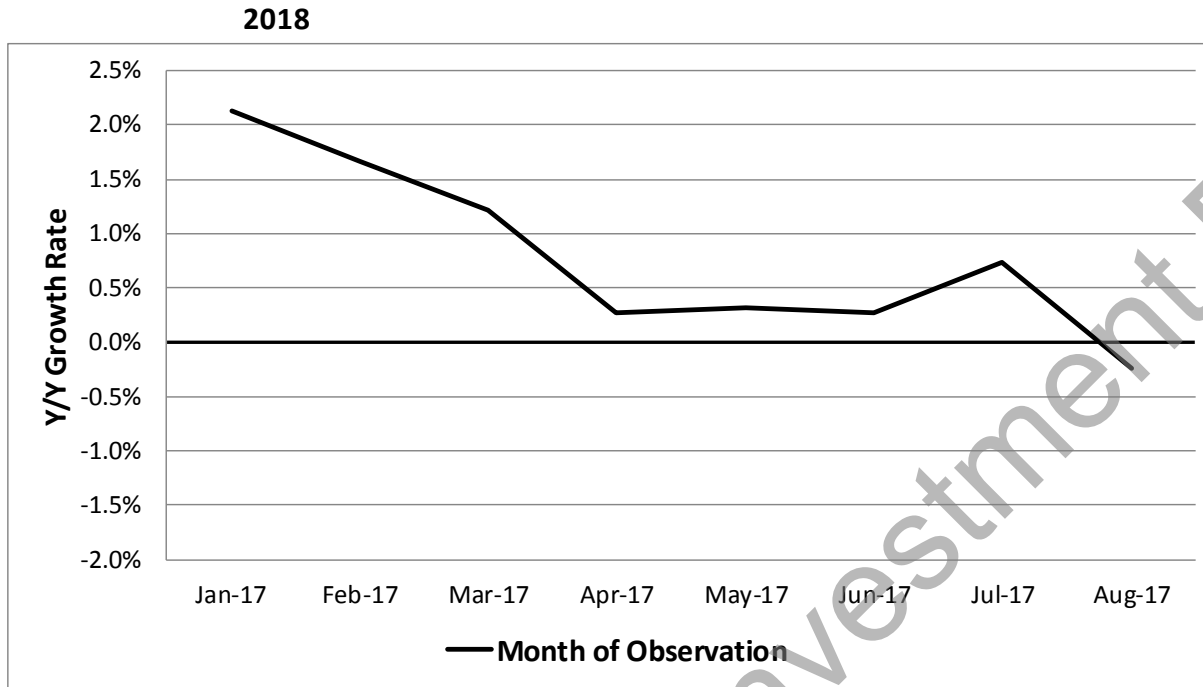


Source: STRH Research, TAP

Not For Investment Purposes

- **2018:** While 2018 expectations *had* been showing some stability in our prior four months of checks, this stability did not hold over the past month. Headline group demand is now pacing approx. -0.2% vs. the prior observation of +0.7% (net of new supply). To this we add approx. 1.0 percentage points of rate growth to come up with a projection that same-store Group RevPAR is tracking at approx. +1% for 2018 at the moment.

2018 Group demand pace trend

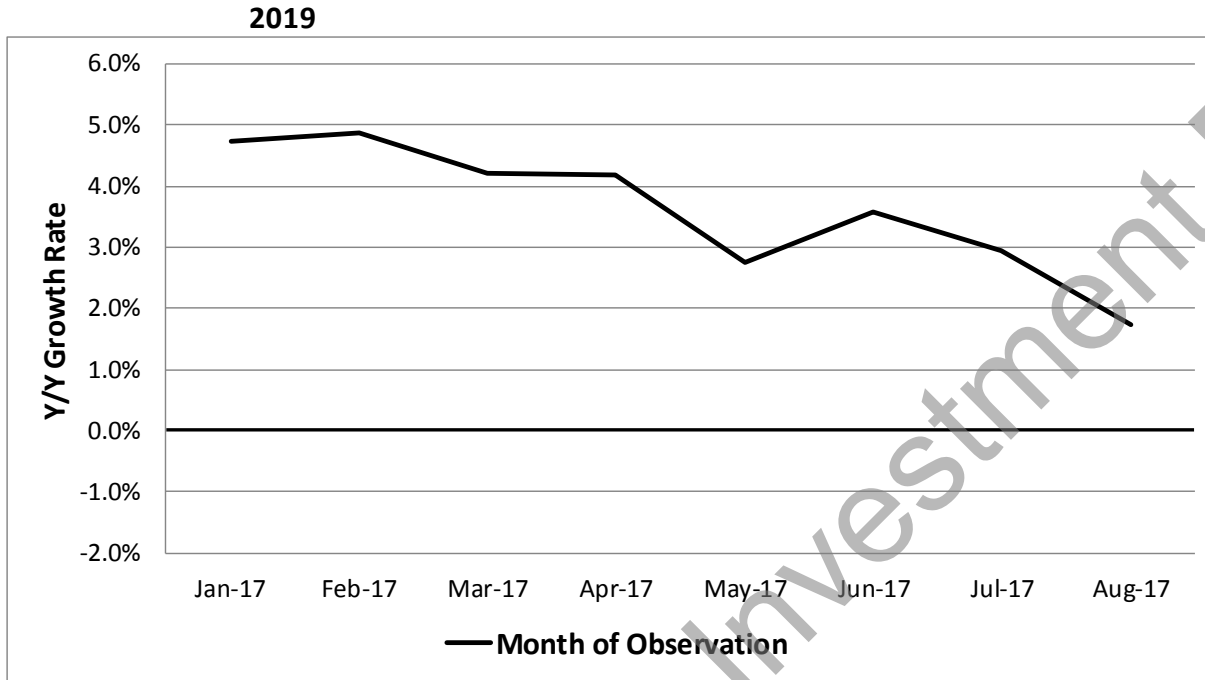


Source: STRH Research, TAP

Not For Investment Purposes

- 2019:** We continue to observe slippage in 2019 pace. Our net-of-supply group pace for 2019 is +1.7 at the moment (but decelerating), aided by a recovery in San Francisco. Due to the highly preliminary pace figures, we are not introducing a RevPAR component at this time.
 - We advise readers that these figures represent a fraction of what will be the aggregated actual bookings (we estimate that the 2019 pace represents about 20-30% of what will actually be booked). The group pace for now mostly reflects citywide and far-in-advance in-house group bookings. The wildcard of course is how actual “paid & stayed” attendance is vs. the initial projection.

2019 Group demand pace trend



Source: STRH Research, TAP

Not For Investment Purposes

Segmentation By Company			
	Transient Corporate	Transient Leisure	Group
REITS			
CHSP	45%	20%	35%
DRH	45%	20%	35%
HST	45%	15%	40%
LHO	55%	20%	25%
PK	45%	20%	35%
RHP	5%	15%	80%
SHO	45%	20%	35%
PEB (not covered)	60%	20%	20%
RLJ (not covered)	55%	25%	20%
C-corps			
CHH	45%	45%	10%
H	40%	20%	40%
HLT	50%	20%	30%
IHG	45%	40%	15%
MAR	45%	20%	35%
WYN	45%	45%	10%

Source: STRH Research

Not For Investment Purposes

Major Markets: A mixed bag

In North America, Canadian cities such as Montreal, Toronto, and Vancouver continue to look relatively strong, though as y/y comps get tougher and FX tailwind subsides, the strength is beginning to wane. Unfortunately, very few REITS (only HST in our coverage) own hotels in Canada.

- **Miami:** Prior to the hurricane the market was turning a corner in the second half of 2017 due to easy y/y Zika comps. Hurricane related demand should only add to that strength for the next several quarters.
- **Houston** is seeing a (temporary) 180 degree turnaround due to post-hurricane demand. We believe Houston will be one of the better performing markets through August 2018. After that the city will face very difficult y/y comparisons and will likely be one of the weakest markets in the country.

Boston: Looks to be very strong in 4Q. The first quarter of 2018 starts out very strong as well but decelerates for the second quarter.

Est exposure to Boston market								
	CHSP	DRH	HST	LHO	PK	RHP	RLJ	SHO
Boston	15%	16%	6%	19%	2%	0%	4%	17%
Rank	4	3	5	1	7	8	6	2
Note: Est. exposures include surrounding areas								
Source: STRH Research, Company data								

Not For Investment Purposes

Chicago: 4Q looks flat-ish for overall RevPAR growth. Chicago looks mediocre for the first half of 2018 followed by a very strong 3Q.

Group/convention outlook for Chicago												
Pace as of	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
Aug-17	22.1%	10.4%	-2.6%	-10.6%	10.4%	2.1%	33.6%	26.7%	7.3%	5.1%	-21.3%	-17.1%
Jul-17	23.1%	10.6%	-14.9%	-2.4%	5.0%	3.0%	61.4%	14.4%	-9.4%	4.9%	-14.7%	-22.1%

Source: STRH Research, TAP

Est exposure to Chicago market									
	CHSP	DRH	HST	LHO	PK	RHP	RLJ	SHO	
Chicago	12%	13%	4%	7%	6%	0%	6%	8%	
Rank	2	1	7	4	6	8	5	3	
Note: Est. exposures include surrounding areas									
Source: STRH Research, Company data									

Not For Investment Purposes

Los Angeles: Due to tough comps, 4Q look to be weak, down low-single digits. For 2018, 1Q looks strong while 2Q looks very weak.

Group/convention outlook for Los Angeles												
Pace as of	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
Aug-17	3.4%	61.1%	-5.8%	3.3%	16.9%	-32.3%	-0.3%	14.9%	-19.8%	13.3%	-19.6%	9.5%
Jul-17	3.4%	70.2%	-14.0%	1.4%	18.8%	-37.3%	16.5%	12.6%	-19.8%	13.3%	-15.5%	11.1%

Source: STRH Research, TAP

Est exposure to LA market								
	CHSP	DRH	HST	LHO	PK	RHP	RLJ	SHO
LA	11%	1%	5%	9%	0%	0%	5%	10%
Rank	1	6	4	3	7	7	5	2
Note: Est. exposures include surrounding areas								
Source: STRH Research, Company data								

Not For Investment Purposes

NYC: Will probably not squeak out a positive RevPAR growth result for 2017. However a negative 1%-ish should be considered a success given the massive amount of supply that has and is coming into the market. Helping NYC are new regulations on short-term rentals (Airbnb) which may take some of the new “shadow supply” pressure away. That said, we believe it will be difficult for NYC to see anything above flat RevPAR growth in 2017 as new hotel supply looms large.

- A major headwind to same store RevPAR growth in NYC is several years of compounded 4-6% new supply growth. Per Lodging Econometrics, city-wide new room supply grew 5.1% in 2016 and is forecasted to grow 5.1% in 2017, 8.3% in 2018, and 4.1% in 2019. Even if some of these expected new hotels never open, it is difficult to envision that NYC will not have continued pressure from above-average supply over the next several years.

Est exposure to NYC market								
	CHSP	DRH	HST	LHO	PK	RHP	RLJ	SHO
NYC	4%	10%	11%	9%	6%	0%	6%	4%
Rank	6	2	1	3	4	8	5	7
Note: Est. exposures include surrounding areas								
Source: STRH Research, Company data								

Not For Investment Purpose

San Francisco: San Francisco, which was one of the best performing markets over the past two years, continues to show deceleration from the strong growth rates of 2015 and 2016. This is due to the renovation of the convention center and harder comps. Overall, the city is tracking around flat in 2H17. The good news is that 2Q17 likely represented the low-point for RevPAR growth and 2Q18 should be the first quarter of very strong (likely strongest market in the country) RevPAR growth. **Specifically, March 2018 will be the month where SF turns the corner.**

Group/convention outlook for San Francisco												
Pace as of	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
Aug-17	-16.1%	-44.7%	-21.6%	-2.8%	-17.9%	50.7%	69.4%	6.3%	124.1%	42.5%	49.1%	67.5%
Jul-17	-16.1%	-44.7%	-24.7%	-3.4%	-15.2%	51.4%	70.0%	9.0%	126.0%	49.5%	50.5%	66.1%

Source: STRH Research, TAP

Est exposure to SF market								
	CHSP	DRH	HST	LHO	PK	RHP	RLJ	SHO
San Francisco	21%	1%	7%	15%	12%	0%	11%	8%
Rank	1	7	6	2	3	8	4	5
Note: Est. exposures include surrounding areas								
Source: STRH Research, Company data								

Not For Investment Purposes

Washington DC: DC looks to be modestly positive in 4Q. 1Q18 will have an extremely difficult y/y comp followed by a much stronger 2Q.

Group/convention outlook for Washington, D.C.												
Pace as of	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
Aug-17	21.9%	-12.2%	10.4%	3.4%	-26.4%	29.5%	-50.0%	-18.2%	37.7%	-35.7%	10.1%	-4.7%
Jul-17	21.9%	-13.3%	10.9%	4.1%	-26.0%	28.3%	-46.2%	-18.8%	33.7%	-35.4%	9.7%	-4.7%

Source: STRH Research, TAP

Est exposure to DC market									
	CHSP	DRH	HST	LHO	PK	RHP	RLJ	SHO	
DC	3%	5%	10%	16%	3%	23%	4%	13%	
Rank	7	5	4	2	7	1	6	3	
Note: Est. exposures include surrounding areas									
Source: STRH Research, Company data									

Not For Investment Purposes

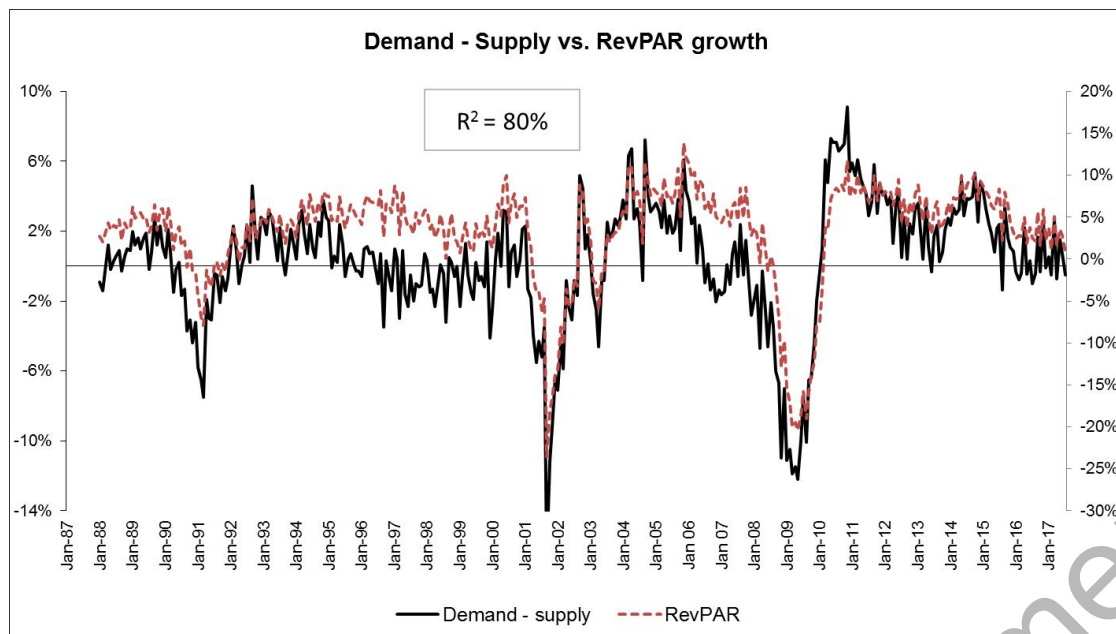
The Big Picture Topic: Why Have Forward Trends Been Unusually Unvolatile?

In summary:

- **Most importantly – there has not been a “shock” to end this lodging cycle. As we discuss below, there has yet to be a lodging cycle in recent decades that has not ended with a political, macroeconomic, or incident-related shock.** It is possible – although it would be very surprising to us – if a new lodging cycle commenced in the next 12-18 months based on current fundamentals. Fundamental trends do not support such an assumption, in our view.
- **Demand-supply fundamentals have remained positive well beyond the norm for recent lodging cycles.** Less pressure from supply growth (and near record high occupancies) keeps rate integrity relatively stable (for now).
- **The menagerie of both positive and negative macroeconomic and geopolitical matters, alongside uncertainty as to if/when significant pro-business legislation will positively impact lodging demand and ADR, has resulted in a “wait-and-see until 2018” attitude for corporate demand.** With few exceptions for REITs with unique situations at play, we see the low RevPAR/moderate supply growth/moderate economic growth environment all contributing to the “relatively” stable hotel REIT stock prices (despite some moderate downward trends as of late).

Unusually unvolatile for late cycle: It is interesting to us that the industry fundamentals that make up the RevPAR equation – demand and supply – are both growing at low rates at this stage in the lodging cycle. This is a different scenario than what typically occurs towards the end of a lodging cycle, where RevPAR growth ends up slowing largely due to significant supply growth with a cycle ending following a demand shock. As we have noted previously, RevPAR has historically crashed & burned at the end of the previous three cycles (1991, 2001, 2008), so a potential “soft landing” is new and uncharted territory; Then again saying “this time is different” inevitably leads to it not being different. But even in absentia of a demand shock, there are unusual differences in this cycle compared to the latter stages of the last three cycles.

As evident in the following chart, every lodging cycle decline since national data was first aggregated has been precipitated by the demand-supply spread shifting negatively. That trend has yet to occur this cycle. Since January 2016, the spread between demand and supply growth has averaged to +0.3% -- meaning that in the last year and a half, demand and supply growth have on average been roughly the same. Such a trend is atypical this late into a lodging cycle.



Source: STR, STRH Research

Supply growth: Less pressure from supply growth has led to the maintenance of the demand-supply equilibrium. Quite unusual for the latter periods of a lodging cycle, where occupancy remains at or near peak levels, is that supply growth has been modest in aggregate (although very high in a few markets).

- For example, per Lodging Econometrics, supply growth in Upper Upscale was +1.4% in 2007 but grew to +2.9% in 2008 (a +150 bps change). Whereas from 2016 to 2017, supply growth in Upper Upscale is expected to go from +1.5% in 2016 to +1.3% in 2017 (a decline of 20 bps) and increase by 70 bps from 2017 to 2018. **The lack of significant supply growth in Upper Upscale certainly contributes to the lower volatility in our unusually unvolatile forward intelligence over the past several months, as rate integrity has been largely maintained in aggregate.**
- Historically, significant RevPAR growth sustained over a number of years leads to supply growth significantly exceeding demand growth as developers rush to take advantage of unaccommodated demand (and profits). However, lending for new hotel construction has been conservative this cycle. Some banks and other typical hotel lenders revised terms significantly following the aggressively looser terms in the last cycle (where loan-to-values sometimes exceeded 80%). Note that high supply growth in combination with the Great Recession resulted in the worst lodging downturn in decades.
- **In this cycle, we believe the comparably low late-cycle supply growth has played an important factor in RevPAR growth not turning negative (yet) and contributing to the non-volatility in forward demand trends. Concurrently, we are only just getting to the stage in this cycle where supply growth exceeds demand growth – an incredible situation as we are in the eighth year of this lodging cycle.**

While the overall hotel pipeline in this cycle continues to rise, a mitigating factor is that new construction hotels are pushing out their openings into future years. [This topic was discussed on our conference call with Lodging Econometrics](#) and in our question to MAR on the 2Q earnings call.

- The rationale for the delay of openings is largely for two reasons: 1) labor shortages in construction; and 2) the hope/wait-and-see that the Trump administration will Make RevPAR Great Again. Few projects are getting cancelled outright – and rightly so as developers must go through multiple hurdles to get a project

approved for development and financed. However, with a relatively more muted level of supply growth nationwide, existing hotels have a greater opportunity to hold or push room rates (even modestly) in a period of historically high occupancy, leading to the maintenance of rate integrity.

We can also look at the 1990s lodging cycle in comparison to this current cycle as the 1990s had a long economic growth period that continued despite geopolitical turbulence. In the 1990s cycle, occupancy turned positive in January 1992. About 5 ½ years into the cycle (May 1997), the lodging demand-supply spread turned negative (supply exceeding demand). At that point in the cycle, supply growth was 3.4%. In part because of the macroeconomic strength in the U.S., RevPAR remained positive for an extended period of time despite significant supply growth (RevPAR remained positive until April 2001). **As a comparison to the current cycle: supply growth reached 2.0% in April 1996 (52 months into that cycle) – and if we reach 2.0% supply growth this year, we will be 94 months into the current cycle.** Supply growth in this cycle has remained at around 1.9% since January 2017.

Current Expectations for Top 25 Market New Supply:

Supply By Top 25 Markets (Sorted by Pipeline Rooms Growth as % of Census) As of 2Q17						
	Census Rank	YE 2015 Growth Rate	YE 2016 Growth Rate	2017F Growth Rate	2018F Growth Rate	2019F Growth Rate
Nashville	24	2.4%	3.7%	3.5%	10.3%	6.4%
New York City	4	4.8%	5.1%	5.1%	8.3%	4.1%
Seattle	20	3.2%	2.3%	5.0%	6.4%	5.3%
Miami	14	3.0%	4.1%	3.2%	4.9%	4.4%
Denver	18	2.9%	2.6%	6.0%	3.7%	9.0%
Dallas	8	1.5%	3.2%	6.1%	3.7%	4.4%
Houston	9	3.6%	6.8%	3.9%	4.5%	5.4%
Boston	13	1.7%	4.3%	2.5%	4.8%	2.5%
Detroit	21	1.3%	2.3%	3.0%	3.5%	4.5%
Los Angeles	6	0.8%	1.0%	4.1%	2.5%	3.8%
Philadelphia	17	0.3%	1.6%	3.2%	3.9%	2.9%
Minneapolis	23	2.4%	5.9%	1.7%	3.1%	4.6%
San Diego	11	1.2%	1.6%	1.5%	1.8%	2.7%
Atlanta	7	0.7%	1.4%	2.0%	2.6%	3.3%
Washington, D.C.	5	1.6%	2.0%	1.9%	1.8%	1.9%
Anaheim	12	1.1%	3.3%	2.0%	1.4%	3.3%
San Francisco	15	0.7%	0.1%	2.7%	2.1%	1.1%
Tampa	16	0.7%	1.5%	3.4%	2.8%	2.3%
San Antonio	19	0.8%	1.9%	1.6%	1.7%	3.7%
Phoenix	10	1.4%	1.6%	2.1%	3.0%	1.5%
Chicago	3	2.6%	2.5%	1.0%	2.6%	1.8%
Orlando	2	0.8%	1.8%	0.7%	1.0%	1.4%
St. Louis	27	0.5%	1.3%	1.8%	2.1%	2.8%
Oahu Island	36	0.5%	1.3%	0.0%	0.6%	0.0%
Norfolk	25	0.6%	0.0%	0.8%	0.0%	0.3%
Total Top 25 Markets		1.7%	2.6%	2.8%	3.3%	3.3%

Source: Lodging Econometrics

Note: The largest market in the U.S., Las Vegas, is not included in this chart due to its casino orientation.

Demand growth: Remains muted with the “wait-and-see” approach likely to impact 2018 corporate rate negotiations. Alongside hotel developers adopting a “wait-and-see” approach leading to the elongation of hotel pipeline growth, we see a similar trend with business-focused hotel demand. This is impacting both transient corporate (the individual business traveler) and corporate-related group (generally among the highest-rated in-house and citywide group demand in major markets). At this time, there is a very consistent messaging from our coverage: macroeconomic indicators are largely positive but there has not been a translation to significantly improving demand fundamentals.

- Without greater confidence in the future business environment, we do not expect hotels to have much opportunity to aggressively push corporate negotiated rates in 2018. And that will likely parallel with in-house corporate-related group rates. Note that a few 2Q earnings calls presented a more bullish/pollyannaish view – that corporations are optimistic about the economy, which will likely be reflective in 2018 rate negotiations.
- While we will not have a great indication of the results of 2018 corporate rate negotiations for another few months, our forward bookings intelligence on the group front and communications with corporate travel contacts suggest resistance to rate increases in 2018. And without any large spur to demand growth combined with moderately increasing supply growth, we see the equilibrium resulting in the continuation of the deceleration of RevPAR growth to low-single-digit positive.
- As positive here with muted and unvolatile demand is the industry has good visibility into cost controls. However, it is tough to fight the tide of wage growth in a stagnant-to-worsening RevPAR environment. REITs have so far been able to keep margins mostly flat to down slightly in a +1% (or worse) RevPAR environment. However, wage growth is a rising concern ([as was addressed in our recent Lodging Speaker Series](#)).

The implication to the stocks from all these considerations is a continuation of the bifurcation between the Lodging C-Corps and the REITs. We note that manager/franchisor oriented Lodging C-Corps are up ~15% YTD (total return) whereas the REITs are slightly down vs. the S&P 500 index up ~9%. The C-Corps are natural beneficiaries of supply growth. Additionally, we think EBITDA growth for C-Corps is likely still achievable even in a flat RevPAR environment with moderate domestic supply growth ([see MAR's earnings scenarios from their investor day for example](#)). The bigger growth opportunity for the C-Corps in the near-term, both in terms of RevPAR growth and pipeline growth, continues to be from Europe and Asia, in our view. Barring a global shock, we see the increased geographic diversification of the Lodging C-Corps as long-term positive albeit with increased risk befitting a greater mix of properties in emerging economies. The one major exception to this thesis is incentive management fee generation which largely lacks profit hurdle requirements in Asia (a positive theme that we expect to hear more about from the C-Corps – particularly if incentive fees decline in the U.S.).

- We also believe some investors have moved into the C-Corps from other consumer sectors, although we caution new investors to the space that lodging demand can be fickle (one night leases in hotels vs. multi-year leases in traditional commercial real estate).
- The new investor interest in the C-Corps has led to multiple expansion. We raised our EV/EBITDA multiples by ~50 bps for the highest-quality C-Corps post-2Q earnings.

The bifurcation of the Lodging stocks presents a more critical eye towards the hotel REITs. Most of the REITs have basically held their stock prices following the run-up post-election (largely unvolatile stock movement with slight deceleration of late). However, we see more risk to the downside for REITs leading into 2018 than we do for C-Corps. The combination of rising supply growth, wage pressure (an emerging trend), and the lack of sustainable positive corporate demand momentum combine for measurable headwinds. A saving grace for the REITs is we believe there are still opportunities to cut costs. For one, at high occupancy, staffing is full. For most hotels (non-unionized in particular), there will likely be opportunities to reduce staffing if demand falls at a measurable level. Second, while we believe that there is less fat in other operating areas as compared to the last lodging cycle, there is still low-hanging fruit both at the property and corporate level. **We do not hesitate to mention that some REITs were smartly undergoing property-level margin preservation initiatives well before RevPAR declines became actualized. We commend these efforts as simply good strategic leadership.** Nevertheless, we continue to favor C-Corps over the Lodging REITs especially given pressures on owned hotel margins from increasing labor costs.

- Assuming we do not see a rebound in demand in the near term, what are some of the tailwinds we are paying attention to that might lead to stock growth?

- Potential M&A activity/REIT privatization (examples: PK has actively stated its interest in acquisition and RLJ was pursued by Blackstone (BK, \$32.83, NR) recently);
- A few REITs should see tailwinds from major property renovations and repositionings;
- The rebound in San Francisco particularly into 2019 (post the ramp-up of the Moscone Convention Center) should benefit the majority of our coverage; and
- A weakening dollar (and no negative geopolitical shocks) positively impacting international inbound demand.

As we have written in our last several reports, while the RevPAR trends are uninspiring, the good news is we believe companies are likely not going to miss their (uninspiring and intentionally conservative per some company conference calls) guided ranges. If nothing else, that has at least prevented the stocks from giving back most of their November and December gains, along with the continued hope (but fading by the day) that President Trump will eventually Make RevPAR Great Again, in our view. **There are several relative bright spots that we believe will continue to prevent hotel stock prices from significantly contracting:**

1. **Other sectors considered "uninvestable" by investors.** Investors tell us other sectors which historically were in their investment universe have become "uninvestable" due to threats from Amazon (AMZN, \$938.60, Buy, Squali) and the like. While we see Airbnb (private) as a threat to the hotel industry, we think the threat is nowhere near the magnitude of say Uber (private) vs. yellow cabs. A frequent comment we hear from investors when we discuss lackluster hotel fundamentals and expensive lodging stocks, most notably MAR vs. peers, is "Our other investment choices look far less attractive so we're sticking with our investments in lodging for now."
2. **Hotel REIT dividends are attractive and should be sustainable over the next year.** We believe unwillingness to have to go against a 6%+ dividend yield has kept investors from being overly negative (potentially shorting) the hotel REITs.
 - a. **Concerning the hotel REITs, a big outstanding question that will arise in the next few months will be corporate rate negotiations for 2018.** Positively, [consumer confidence remains high](#) alongside [small business confidence](#). However, the Conference Board's [CEO Confidence index fell 7 points in 2Q17](#) from the prior quarter. It is less clear if/how business sentiment will be impacted by the dissolution of some of the President's business councils, [the impending debt-limit deadline](#), and [the possibility of a government shutdown later this year](#). We will start to get a sense of corporate rate negotiations in 3Q earnings commentaries and moreover when we see the REITs at our Boston conference in December.
 - b. **Another emerging trend relates to [increasing labor and benefit costs](#) which is also a headwind to the REITs.**

Price Target/Risks Summary

Lodging	TKR	Price 9/26/17	Rating	PT*	% upside down- side	2018E EBITDA (\$M)	Target EV/EBITDA Multiple	Risks
Chesapeake Lodging Trust	CHSP	\$26.36	Hold	\$23	-13%	\$183	12.0X	Upside risk: improvement in NY and Chicago markets Downside risk: softening of RevPAR trends in Boston or SF. Slowdown in real estate lending.
Choice Hotels	CHH	\$63.25	Hold	\$65	3%	\$321	13.5X	Upside risk: conservative guidance. Downside risk: big catalyst of special dividend already baked into the stock.
DiamondRock Hospitality	DRH	\$10.89	Hold	\$11	1%	\$254	11.5X	Upside risk: specific markets (esp. NYC) perform better than expected. Downside risk: company unable to locate properties to buy.
Host Hotels & Resorts	HST	\$18.50	Hold	\$19	3%	\$1,419	12.5X	Upside risk: the company increases dividends by more than expected; NYC outperforms or is sold down at attractive multiples. Downside risk: Group underperforms. NYC hotels underperform and asset sales do not happen.
Hyatt Hotels	H	\$61.39	Hold	\$61	-1%	\$777	12.2X	Upside risk: Transient and group trends outperform expectations Downside risk: ongoing misexecution and volatility.
Hilton Grand Vacations	HGV	\$38.57	Buy	\$41	6%	\$408	10.9X	Downside risk: Disruption in a major market (HGV more concentrated than peers), issues with Japanese customer (HGV more exposed than peers), difficulty sourcing additional fee-for-service inventory deals
Hilton	HLT	\$69.50	Buy	\$67	-4%	\$1,947	14.0X	Downside risk: overhang from remaining big sponsor ownership, slowing pipeline
InterContinental Hotels	IHG	\$51.59	Hold	\$51	-1%	\$899	13.5X	Upside risk: further acceleration in returning capital to shareholders. Downside risk: trends continue to worsen in Greater China
ILG	ILG	\$26.68	Buy	\$29	9%	\$368	10.8X	Downside risk: membership base erosion as churn outstrips new timeshare sales
Lasalle Hotel Properties	LHO	\$28.87	Hold	\$26	-10%	\$320	12.5X	Upside risk: ability to increase dividend. Downside risk: heavy D.C. exposure.
Marriott International	MAR	\$108.07	Hold	\$96	-11%	\$3,139	13.7X	Upside Risk: Significant U.S macroeconomic improvement results in large recovery in transient corporate demand (and consequential >400 bps RevPAR improvement). Owned assets sell for premium prices relative to MAR expectations. Downside Risk: 2017 or 2018 is a recession year in the US. Geopolitical and policy risks negatively impact lodging demand.
Marriott Vacations	VAC	\$122.58	Hold	\$120	-2%	\$295	10.4X	Upside risk: Mix shift not an issue for margins, quicker execution/upside of buyback program; Downside risk: inability to achieve development margin targets, inability to close asset sales or asset sales are done at lesser values than expected
Park Hotels & Resorts	PK	\$27.67	Hold	\$28	1%	\$741	12.0X	Upside risk: The downturn in the lodging cycle is short-lived and positive macroeconomic trends result in increasingly positive RevPAR growth and improved EBITDA. Downside risk: Significant supply growth and macroeconomic challenges/shocks.
Ryman Hospitality Properties	RHP	\$61.83	Hold	\$59	-5%	\$385	12.3X	Upside risk: recovering group demand better than expected, better margin recovery. Downside risk: booking issues stickier than expected.
Sunstone Hotel Investors	SHO	\$16.02	Hold	\$15	-6%	\$341	12.0X	Upside risk: valuation discount to peers. Downside risk: San Diego, Boston, LA exposure. Insufficient ADR lift from Boston Park Plaza/Marriott Wailea Beach renovations.
Wyndham Worldwide Corp	WYN	\$104.88	Buy	\$112	7%	\$1,509	9.8X	Downside risk: the timeshare business is especially vulnerable to economic softness.

* All of our Lodging price targets are derived by applying a target EV/EBITDA multiple to our estimate for 2018 EBITDA

Source: FactSet, STRH research

Companies Mentioned in This Note

Amazon.com, Inc. (AMZN, \$950.87, Buy, Youssef Squali)
Carnival Corporation (CCL, \$63.68, Buy, C. Patrick Scholes)
Choice Hotels International, Inc. (CHH, \$63.25, Hold, C. Patrick Scholes)
Chesapeake Lodging Trust (CHSP, \$26.36, Hold, C. Patrick Scholes)
DiamondRock Hospitality Company (DRH, \$10.89, Hold, C. Patrick Scholes)
Gaming and Leisure Properties, Inc. (GLPI, \$36.31, Hold, C. Patrick Scholes)
Hyatt Hotels Corporation (H, \$61.39, Hold, C. Patrick Scholes)
Hilton Grand Vacations Inc. (HGV, \$38.57, Buy, Bradford Dalinka)
Hilton Worldwide Holdings Inc. (HLT, \$69.50, Buy, C. Patrick Scholes)
Host Hotels & Resorts, Inc. (HST, \$18.50, Hold, C. Patrick Scholes)
InterContinental Hotels Group, PLC (IHG, \$51.59, Hold, C. Patrick Scholes)
ILG, Inc. (ILG, \$26.68, Buy, C. Patrick Scholes)
LaSalle Hotel Properties (LHO, \$28.87, Hold, C. Patrick Scholes)
Marriott International, Inc. (MAR, \$108.07, Hold, C. Patrick Scholes)
MGM Growth Properties LLC (MGP, \$30.72, Buy, C. Patrick Scholes)
Norwegian Cruise Line Holdings Ltd. (NCLH, \$52.83, Hold, C. Patrick Scholes)
Park Hotels & Resorts Inc. (PK, \$27.67, Hold, C. Patrick Scholes)
Royal Caribbean Cruises Ltd. (RCL, \$115.74, Buy, C. Patrick Scholes)
Ryman Hospitality Properties, Inc. (RHP, \$61.83, Hold, C. Patrick Scholes)
Sunstone Hotel Investors (SHO, \$16.02, Hold, C. Patrick Scholes)
Marriott Vacations Worldwide Corp. (VAC, \$122.58, Hold, C. Patrick Scholes)
Wyndham Worldwide Corporation (WYN, \$104.88, Buy, C. Patrick Scholes)
Airbnb (private)
Blackstone (BK, \$33.20, NR)
RLJ Lodging Trust (RLJ, \$22.17, NR)
Uber (private)

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, Bradford Dalinka, 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 SunTrust Robinson Humphrey. Please see our disclosures page for more complete information at <https://suntrust.bluematrix.com/sellside/Disclosures.action>.

STRH Ratings System for Equity Securities

Dissemination of Research

SunTrust Robinson Humphrey (STRH) 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://suntrustlibrary.bluematrix.com/client/library.jsp>

Please email the Research Department at STRHEquityResearchDepartment@SunTrust.com or contact your STRH sales representative.

The rating system effective as of Oct. 7, 2016:

STRH Rating System for Equity Securities

SunTrust Robinson Humphrey (STRH) 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) – STRH does not have an investment rating or opinion on the stock

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

STRH 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 STRH 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

The prior rating system until Oct. 7, 2016:

3 designations based on total returns* within a 12-month period**

- Buy – total return \geq 15% (10% for low-Beta securities)***
- Reduce – total return \leq negative 10% (5% for low Beta securities)
- Neutral – total return is within the bounds above
- NR – NOT RATED, STRH does not provide equity research coverage
- CS – Coverage Suspended

*Total return (price appreciation + dividends); **Price targets are within a 12-month period, unless otherwise noted; ***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average

SunTrust Robinson Humphrey ratings distribution (as of 09/28/2017):

Coverage Universe			Investment Banking Clients Past 12 Months		
Rating	Count	Percent	Rating	Count	Percent
Buy	420	60.00%	Buy	132	31.43%
Hold/Neutral	276	39.43%	Hold/Neutral	62	22.46%
Sell/Reduce	4	0.57%	Sell/Reduce	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. SunTrust Robinson Humphrey, 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. The information herein is for persons residing in the United States only and is not intended for any person in any other jurisdiction.

SunTrust Robinson Humphrey, 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.

SunTrust Robinson Humphrey, Inc. is a registered broker-dealer and a member of FINRA and SIPC. It is a service mark of SunTrust Banks, Inc. SunTrust Robinson Humphrey, Inc. is owned by SunTrust Banks, Inc. ("SunTrust") and affiliated with SunTrust Investment Services, Inc. Despite this affiliation, securities recommended, offered, sold by, or held at SunTrust Robinson Humphrey, Inc. and at SunTrust 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 SunTrust Bank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. SunTrust 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 risks to the price targets, Link: <https://suntrust.bluematrix.com/sellside/Disclosures.action>

Please visit the STRH equity research library for current reports and the analyst roster with contact information, Link (password protected): [STRH RESEARCH LIBRARY](#)

SunTrust Robinson Humphrey, Inc., member FINRA and SIPC. SunTrust and SunTrust Robinson Humphrey are service marks of SunTrust Banks, Inc.

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

© SunTrust Robinson Humphrey, Inc. 2017 . All rights reserved. Reproduction or quotation in whole or part without permission is forbidden.

ADDITIONAL INFORMATION IS AVAILABLE at our website, www.suntrustrh.com, or by writing to:
SunTrust Robinson Humphrey, Research Department, 3333 Peachtree Road N.E., Atlanta, GA 30326-1070

Not For Investment Purposes