



Mar. Lodging RevPAR Monitor: Raising 2018 RevPAR est by 50bps

1Q should finish near high-end of guide; 2Q slightly better than expectations

What's Incremental To Our View

Seeing a small improvement in last-minute bookings

Based on our forward-looking observations in our internal RevPAR data analytics lab combined with conversations with private hotel owners, ITQFTQ (In The Quarter For The Quarter) booking trends for both Transient and Group business improved slightly over the past six weeks. Note that we are talking basis points here still and not percentage points, but this is a shift from the previous several years where ITQFTQ booking trends disappointed. We attribute this trend to traveler optimism around the tax cuts and consumer confidence at the highest levels in nearly twenty years. Based on our observations we are taking RevPAR estimates up modestly. Transient leisure continues to be the stand-out performer of the three major customer segments and this continues to bode well for Vacation Ownership, Regional Gaming, and Cruise companies, though with some weather related caveats for [Regional Gaming](#) and [Cruise](#) companies.

- A challenge over the previous several years in making a RevPAR (and earnings) forecast was that one had to (or should have) assumed initial RevPAR expectations several quarters out would not hold as the ITQFTQ booking pace trend was negative. Over the past several months that trend line has flattened and turned up very slightly. For RevPAR and earnings forecasting this stability makes for what one currently sees on the books for several quarters out likely to hold as arrival dates get closer.

For like reasons we are raising our RevPAR forecasts for full-service branded US hotels (aka the typical HLT [\$78.79, Buy] and MAR [\$135.59, Hold] branded hotel):

- 2018: To +0.5-2.5% from +0-2% previously as a zero growth result seems off the table. That said, at this time there is no indication the year could finish at +3%. Our projection assumes flat to +50bps. of occupancy growth with the remainder from ADR increases.
- 2Q18: Still tracking at +2-4% which we believe is approx. 50-100bps. better than most on the Street are modeling.

Additionally for similar reasons 1Q18 RevPAR growth should come in near the high-end of guidances.

- For 1Q MAR guided 0-2% growth for North America and HLT projected +1-3% globally with the US at the mid-to-lower end of the range. During the quarter we did not see a sudden surge of demand leading to

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What's Inside

An in-depth update to our RevPAR outlook

these companies likely hitting the near the high-ends of their guides, rather we believe companies guided conservatively (likely baked in an expectation for some softness in ITQFTQ bookings, which subsequently did not materialize but rather went slightly the other way) and also did not factor-in continued tailwinds for hurricane-helped (hotel demand) locations such as Houston and Florida.

For the companies and the stocks, stability reduces the risk that one will miss their RevPAR guidance(s), meaning companies should at least hit their earnings targets. Secondly, stability increases the probability that margin improvement plans such as the one PK is undertaking will be achieved.

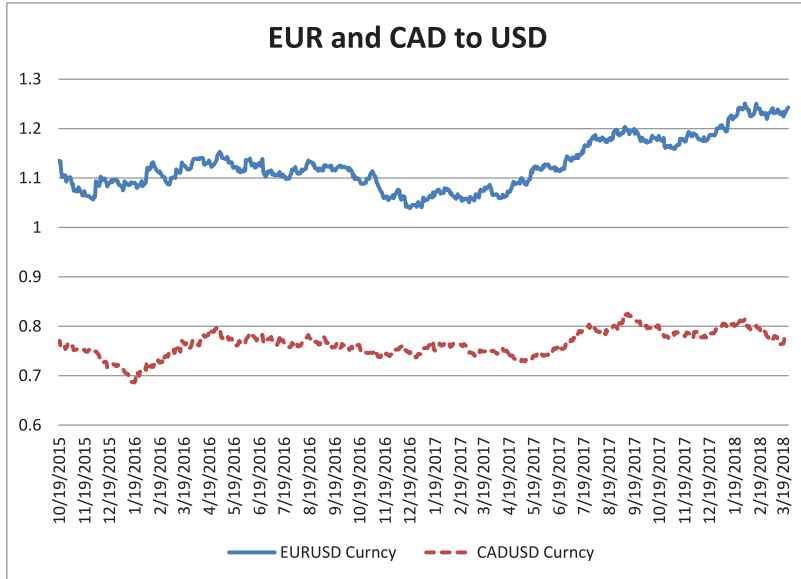
- Our theme for the hotel C-Corps in 2018 continues to be “It’s all good until it isn’t” and over the past six weeks we have not observed in our analysis anything that is overly worrisome or that would suggest the US is heading into a recession in the next twelve months.

As far as the stocks, based on our last several months of RevPAR data analytics observations, we are less cautious on the hotel REITS than we were at the same time last year, though to be clear not overly bullish. Of the hotel REITS, PK is our favorite (see January’s upgrade for detail). Given recent forward-looking demand and pricing trends, we continue to have higher confidence that numbers will not need to be cut in 2018 and that dividends will be paid (though we’re not expecting dividend raises of any size this year). **LHO is the exception here as they saw a demand shock due to renovations and issues with their Kimpton hotels.** We see the major issue/challenge for the hotel owners in 2018 as cost containment. In an environment of property-level operating costs of 2.5%+ vs. flat to 2% RevPAR growth, this does not bode well for margin expansion for hotel owners (outside of PK, which has some unique self-help drivers). A second strike against the hotel REITS at this moment is that the growth in RevPAR is primarily driven by the leisure segment as opposed to the corporate segment (discussed further in this report), the latter being the bread and butter customer for the hotel REITS. Positives for the REITS this year include:

- **At this level of RevPAR growth dividends are not stretched and barring a negative demand shock we do not attach a high level of risk they will be cut over the next year.** Most hotel REITS dividends are at an attractive 4-6% yield.
- The bounce-back in San Francisco beginning in 2Q18 and accelerating through 2018. In this cycle, San Francisco has supplanted NYC as the most important market for the hotel REITS. Please see city-specific discussion below for additional detail and company impact.
- **The recent depreciation in the US\$ vs. the Euro and CAD\$ should be a benefit** especially for the hotel REITS as they are congregated in **major gateway markets** that are popular for **international visitation**.

Assuming this trend continues, we would expect to see it to be a small tailwind to RevPAR growth beginning in the second quarter (there is a six month lag as to when changes in FX begin to help/hurt visitation due to the lengthy booking window of international leisure travel).

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Source: STRH Research, Bloomberg

Looking at what could derail the lodging C-Corp stock party, the tough y/y comp in 4Q18 due to hurricane demand is a concern, but 4Q18 weakness seems to be isolated to Houston and is not showing up in our Florida checks. In 4Q17 Houston was +41% y/y while Miami was +16%, Orlando was 14% and Tampa was +10%. Houston is clearly tracking negative for 4Q18-1Q19 while major Florida cities are flat to up low single digits; not bad for Florida in our opinion considering the difficult y/y comp and we believe this attests to the strength in leisure travel. *We note it is still March and 4Q18-1Q19 tracking is not something we believe investors will dwell on until we get closer to 4Q18 and have better transient demand visibility.*

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Looking at our most recent forward-looking demand and pricing observations:
1Q18

- **January:** We estimate that full-service branded domestic hotels (the typical Hilton, Hyatt [H, \$77.03, Hold], or Marriott finished at approx. +1.5%. We estimate that the overall US industry finished +2.9% driven in part by strength in the leisure-heavy Economy chain scale.
- **February:** We estimate that full-service branded domestic hotels finished at approx. +1.75%. We estimate that the overall US industry finished +3.5% driven by strength in the Luxury, Economy, and Independent chain scales.
- **March:** Will be hurt by the timing of Easter but not to the degree it impacted March/April last year. Last year Easter fell on April 16 while this year it falls on April 1. **The RevPAR impact will be that the last week of March 2018 will see a drop-off in group and transient business whereas April 2018 will have an easy comp. We see the month tracking towards +2.0%.**

2Q18

- **April:** This month will see some benefit from the Easter shift. We see this month currently tracking at or above the high-end of our 2Q18 forecast of +2-4%.
- **May:** Looks to be a clean comp month, tracking at the low-to-mid-point of the 2Q18 range.
- **June:** Also looks to be a clean comp month, tracking at the midpoint of the range.

Quarterly Tracking

| | 1Q18E | 2Q18E | 2018E |
|--------|----------------|----------------|-------------------------|
| | Overall | Overall | Overall forecast |
| Feb-18 | +0-2% | +2-4% | +0.5-2.5% |
| Jan-18 | +0-2% | +2-4% | +0-2% |
| Dec-17 | +0-2% | +1.5-3.5% | +0-2% |
| Nov-17 | -1% to +1% | | -0.5% to +1.5% |
| Oct-17 | -1% to +1% | | -0.5% to +1.5% |
| Sep-17 | -1% to +1% | | -0.5% to +1.5% |
| Aug-17 | -1% to +1% | | -0.5% to +1.5% |
| Jul-17 | | | -0.5% to +1.5% |
| Jun-17 | | | -0.5% to +1.5% |

Source: STRH Research

On the good news front, international RevPAR growth continues to be very positive though 2018 is a year of difficult comps. While we admittedly have far less visibility into the future in Europe and Asia than we do for the US, based on STR data January RevPAR growth in constant currency for Europe of +7.2% and growth in US\$ of +20.1% were again extremely strong and compare to the 4Q17 result of +7% and growth in US\$ of approx. +15%. **International strength continued into February with RevPAR growth in constant currency for Europe of +6.6% and growth in US\$ of +18.8%.** The bad news is this strength is only a benefit

to the C-Corps, most notably for HLT and MAR. While HLT and MAR did not provide specific guidances for those region in 1Q, rather just for full year, implications were that international in 1Q would be better than domestic.

- **HLT (in constant currency):**

- Europe in 2018 is expected to be at to slightly above the high-end of the Global +1-3% range.
- Asia-Pacific in 2018: Up mid-single digits and China +6-7%.

- **MAR (in constant currency):**

- Europe in 2018 up mid-single digits.
- Asia-Pacific in 2018: Up mid-single digits.

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. Based on STR data, January RevPAR in Asia-Pacific was +8.8% in US\$, which compares to the 4Q17 RevPAR result of approx. +7% in US\$. Strength continued into February with this region up +13.5% y/y.

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Examining the three customer segments:

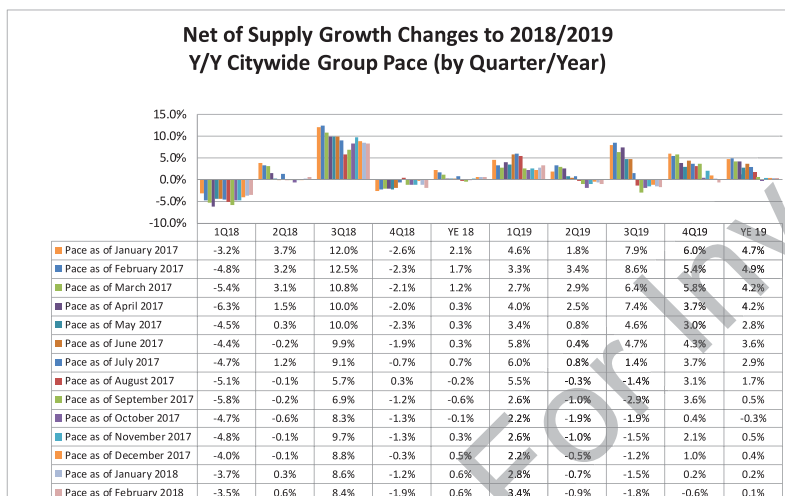
Leisure travel: In the near term hurricane demand is giving a lift to this segment. Additionally, underlying relative strength is coming from [improving wage growth](#) and continued low gas prices, which translates into moderate growth in the forward-looking hotel demand and pricing trends.

- Our latest pricing and demand observations from our RevPAR data lab show RevPAR growth for Spring and Summer leisure travel tracking approx. +3-4% for US full service hotels (approx. 100 bps. higher for limited service properties as hurricane demand falls under this segment). Very early indications point to a strong summer.

Individual business travel RevPAR expectations (visibility is about 60 days) have been steady. RevPAR expectations for this customer segment have held steady in the positive low-single digits with a very small increase in ITQFTQ bookings of late.

- Perhaps suppressing an uptick in corporate RevPAR growth in 2018 was that pricing was locked-in in October-November and the tax cut bill passed in late December. If it had been passed earlier we suspect one would have seen the hotels better able to negotiate from a stronger position. Hilton hinted to this on their earnings call. [Please see our report on corporate rate negotiations for additional detail.](#)

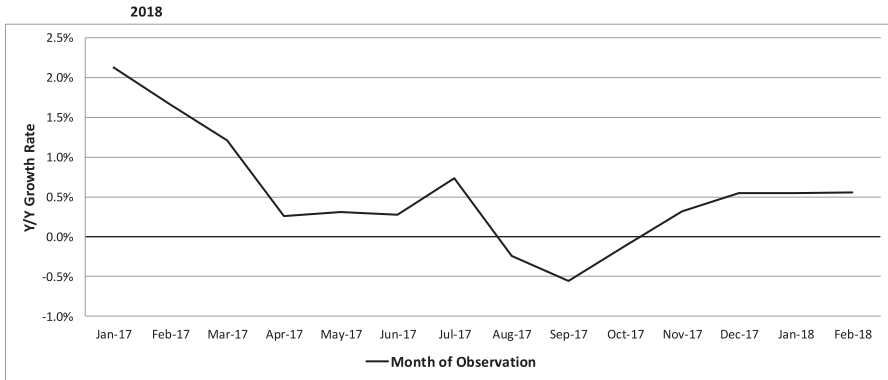
Forward-looking Group/convention demand expectations were stable to up very slightly over the past six weeks (primary data source: TAP) primarily due to the aforementioned ITQFTQ bookings.



Source: STRH Research, TAP

- 2018:** Headline group demand is pacing approx. +0.6%. To this we add approx. 1.5 percentage points of rate growth to come up with a projection that same-store Group RevPAR is tracking at approx. +1.5-2.5% for 2018. Note the improvement in the table below of the 1Q18 and 2Q18 which are the ITQFTQ pick-up we noted earlier in this report.

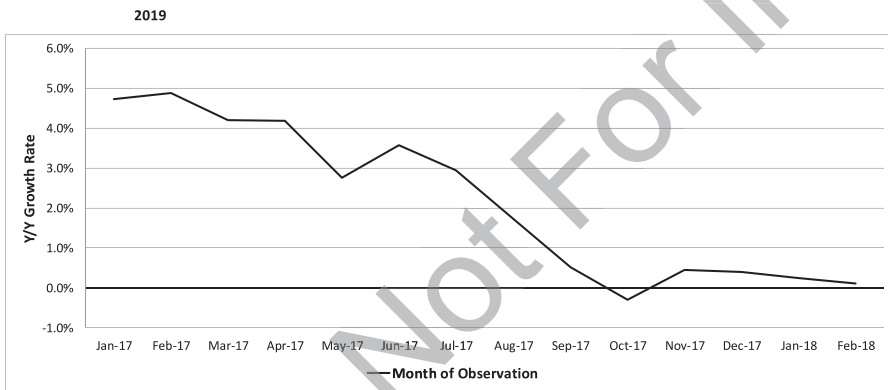
2018 Group demand pace trend



Source: STRH Research, TAP

- 2019:** Our net-of-supply group pace for 2019 is +0.1% at the moment. To this we add approx. 1.5 percentage points of rate growth to come up with a projection that same-store Group RevPAR is tracking at approx. +1.0-2.0% for 2019 at the moment. We note that 2019 will show massive gains in SF due to the completion of the Moscone Center renovations.

2019 Group demand pace trend



Source: STRH Research, TAP

| 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% |
| RLJ | 55% | 25% | 20% |
| SHO | 45% | 20% | 35% |
| PEB (not covered) | 60% | 20% | 20% |
| C-corps | | | |
| | Transient Corporate | Transient Leisure | Group |
| 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

Major Markets:

The markets we observe with strong hurricane driven bump-ups in forward demand are (not surprisingly) Houston, Miami, and Orlando (easy Zika comps Florida, especially Miami, and seeing demand that would have gone to Key West and hurricane devastated Caribbean islands) in that order. We expected these markets to have outsized RevPAR growth rates through early September 2018, followed by difficult comps (though with positive 2-year growth rates, especially for Houston).

Ranking the big six major US markets for 2018. Group/meeting bookings is the best way to think about market outperformance/underperformance for time periods more than 90 days out. A healthy (or weak) convention calendar really drives city performance (with the notable exception of NYC as that is mostly a transient market). Based on initial group/convention bookings, we lump the top six markets into four buckets:

1. **Strong in 2018:** SF
2. **Average to slightly above average:** NYC (but see NYC comments above), Chicago (good city-wide performance but partly driven by demand at newly opened hotels and less good for same-store results)
3. **Weak:** Boston
4. **Very Weak:** LA, DC

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

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Additional color on the big six:

Boston:

2Q: Well below average

3Q: Average

4Q: Above average

| Est exposure to Boston market | | | | | | | | | |
|--|------|-----|-----|-----|-----|----|-----|-----|-----|
| | CHSP | DRH | HST | LHO | PEB | PK | RHP | RLJ | SHO |
| Boston | 16% | 16% | 7% | 19% | 9% | 2% | 0% | 2% | 15% |
| Rank | 2 | 2 | 6 | 1 | 5 | 7 | 9 | 7 | 4 |
| Note: Est. exposures include surrounding areas | | | | | | | | | |
| Source: STRH Research, Company data | | | | | | | | | |

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