

CONSUMER: Lodging

C. Patrick Scholes

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

Gregory J. Miller

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

Barry Jonas

212-590-0998
Barry.Jonas@truist.com

Samuel Durno

212-303-4183
Samuel.Durno@truist.com

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Reasons for this report

- ✓ Our analysis of the most recent weekly US lodging results

Lodging: U.S. RevPAR +4.2% y/y last week; Continued hurricane-related impact in Florida and Houston

Overall U.S. RevPAR was +4.2% y/y for the week ending 10/19/2024, per STR/CoStar, above the prior week's result of +3.8% y/y and above the trailing 10-week average of +1.5%.

We *previously highlighted* that hurricane-related displacement could result in incremental demand to Midscale and Economy hotels and that has proven to be the case in Florida (and continues in Houston). FEMA is offering lodging reimbursement for those impacted by Hurricanes Helene and Milton, as has been the case with past storms. This demand aids current RevPAR results but results in a difficult comp next year. Tampa RevPAR y/y was +33.2% last week; Houston was +21.6%.

Other takeaways from the weekly results:

- Due to the hurricanes, Midscale and Economy RevPAR last week were well above recent trends: Midscale RevPAR of +4.9% y/y compares to the running 28 day RevPAR of +3.5%. Economy RevPAR of +3.8% last week compares to the running 28 day of +2.2%. Outside of hurricane impact and holiday shifts, we would expect Economy RevPAR to be closer to flattish today. We do not view last week's Midscale and Economy results as a read-through for 4Q results and anticipate some degree of a drop-off over the course of the quarter. However, we cannot easily estimate the degree of deceleration.
- Group was soft last week; we assume the holiday shifts of Columbus Day and Yom Kippur were the primary drivers.
- Luxury was strong last week with +10%-plus RevPAR growth y/y from Wednesday to Saturday and for the full week +11.1% y/y. Outside of perhaps some holiday-related impact, we do not have any clear answers to explain the performance. However, a few Top 25 markets that had relative RevPAR outperformance in Luxury/Upper Upscale are also larger luxury markets in general (Miami and NYC as examples). Miami RevPAR was +35.5% last week; NYC was +16.7%.

Major RevPAR statistics presented below:

- Luxury RevPAR: +11.1% y/y
- Upper Upscale RevPAR: +2.8% y/y
- Upscale RevPAR: +3.7% y/y
- Upper Midscale RevPAR: +4.0% y/y
- Midscale RevPAR: +4.9% y/y
- Economy RevPAR: +3.8% y/y
- Independent hotels (~ 1/3rd of the data set) RevPAR: +1.5% y/y; and
- Within Upper Upscale & Luxury class hotels:
 - Group: -0.6% y/y vs. -1.5% prior week;
 - Transient: +6.1% y/y vs. +3.4% prior week;
- Las Vegas RevPAR: -19.5% y/y
 - **As a caveat, we note that many large Strip casino hotel operators do not participate in STR's survey.**

Last week's RevPAR details and sequential trends (all comparable information on new STR methodology):

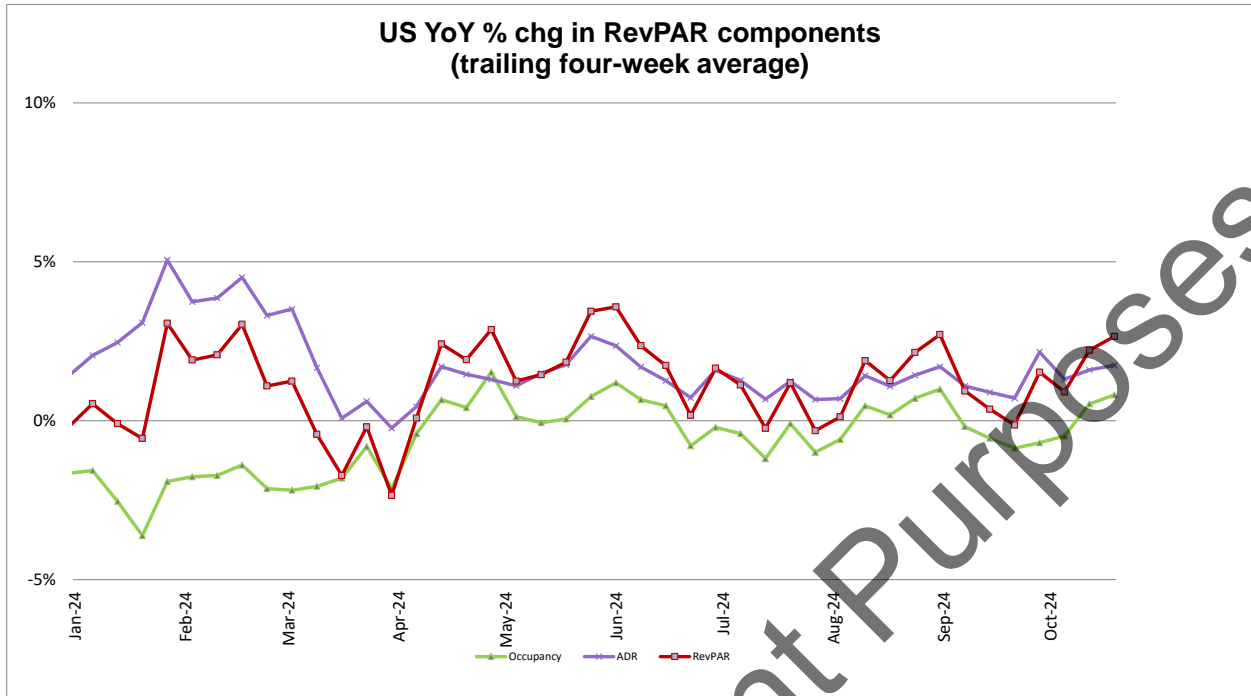
- **Headline RevPAR** was +4.2% y/y vs. the running 28-day average of +2.6% y/y.
- **Occupancy:** Absolute occupancy was 70.1% vs. 68.6% for the running 28-day average.
- **Absolute Group occupancy:** 26.1% last week vs. 24.5% for the running 28 days.

The Lodging stocks:

- **Bottom line for the hotel companies/stocks:** We do not see RevPAR growth itself as a catalyst for the lodging sector though results for most of the C-Corps should reaffirm the compounding earnings drivers of modest RevPAR growth + [mid-single digit net rooms growth](#) (a very high margin business) + share repurchases combined with margin growth. Any outsized earnings growth for the C-Corps and any earnings growth for the hotel REITS (Ryman Hospitality Properties (RHP, Buy)) excluded) will need to come from other sources such as net rooms growth (C-Corps) and share repurchases. We look generally favorably on the hotel C-Corp sub-sector given their multiple drivers of earnings growth, and **we see shares of Wyndham Hotels (WH, Buy) as the stand-out value name in the group** though acknowledge it may be at least several more quarters before we see a shift to positive Economy segment RevPAR growth.
- Hotel REITS, with the notable exception of RHP, will, in our view, continue to be challenged by cost increases slightly higher than revenue growth. Hotel REITS could have opportunity for earnings growth if they were to sell assets, which for the most part are valued higher on a stand-alone basis than as a part of the REIT (parts greater than the sum), and subsequently repurchase shares – though we do not envision this happening. Rather for the hotel REITS, we continue to see the primary opportunity for stock upside driven by investor sentiment around [interest rate cuts happening sooner than expected](#) (Source: Skift). While we are generally lethargic-to-unfavorable on the hotel REIT sector and as discussed further **see 2H24 and 2025 consensus RevPAR growth expectations around 50-100 bps too high, we are positive** on Ryman Hospitality (RHP) given its heavy exposure to Group (~70% of RHP's Hospitality segment EBITDA) and differentiated and [proven business model](#). Additionally, recent news around [expansion at the Rockies property](#) (Source: Denver Business Journal) and what we see as a high ROIC investment initially sound encouraging.

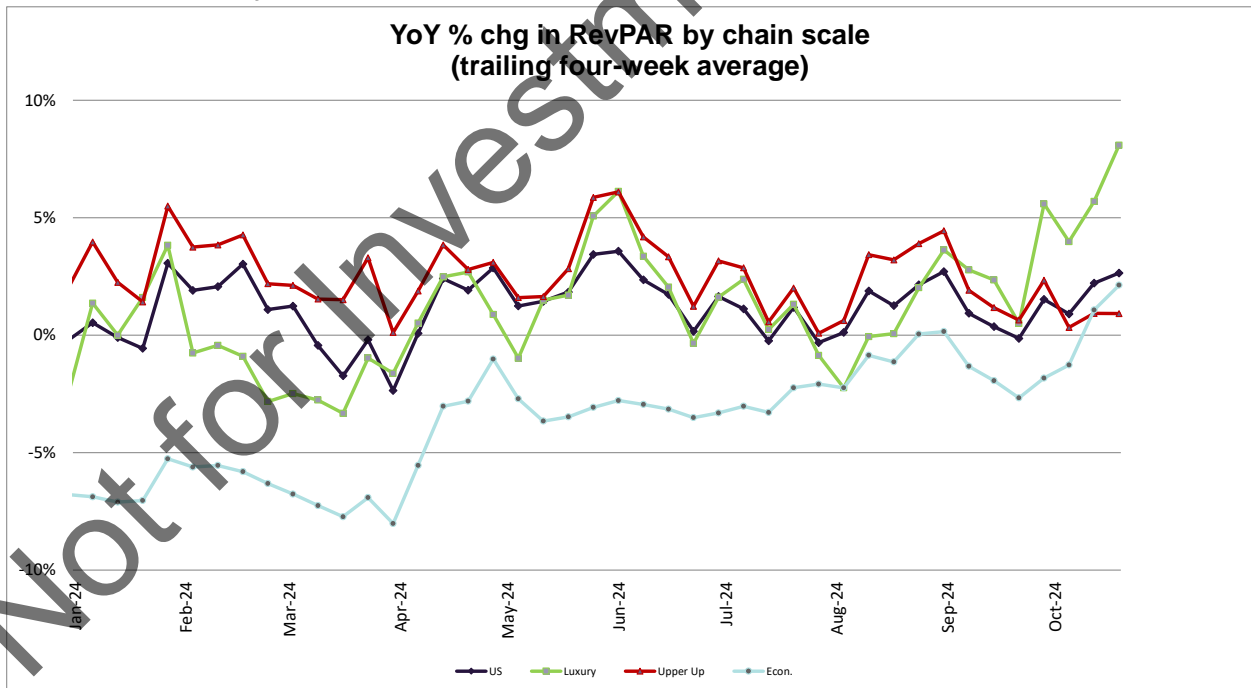
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RevPAR Component Trends



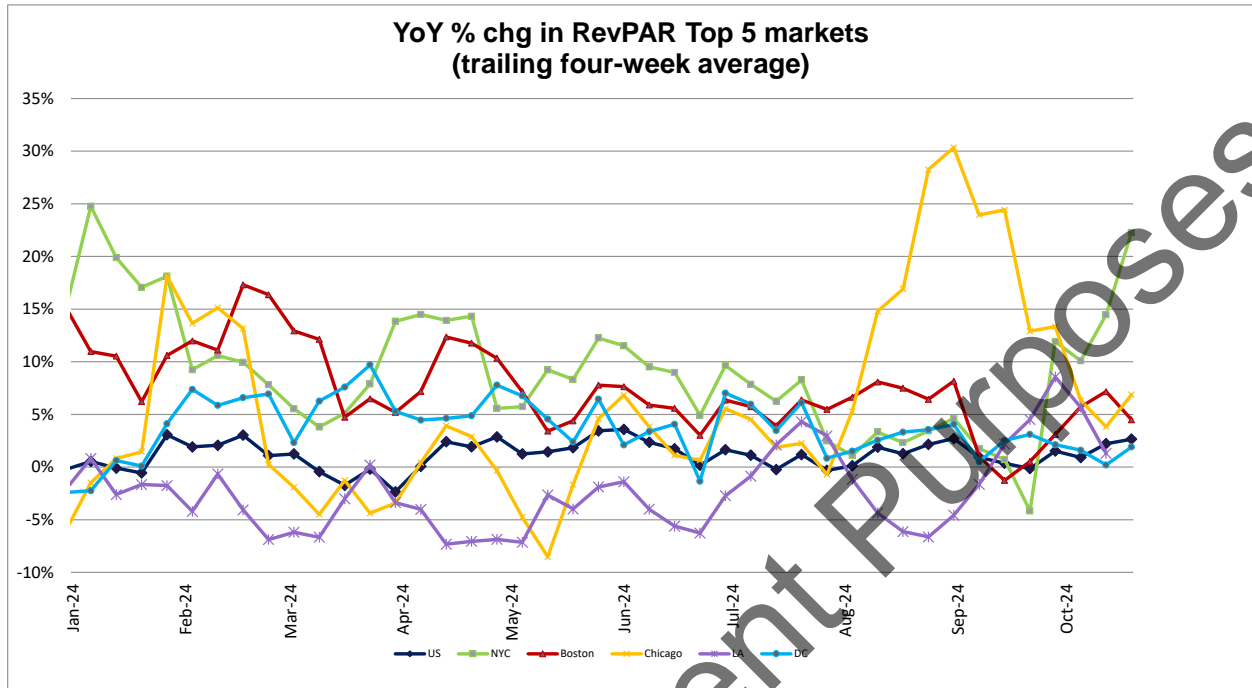
Source: STR data, Truist Securities research

RevPAR Trends by Chain Scale



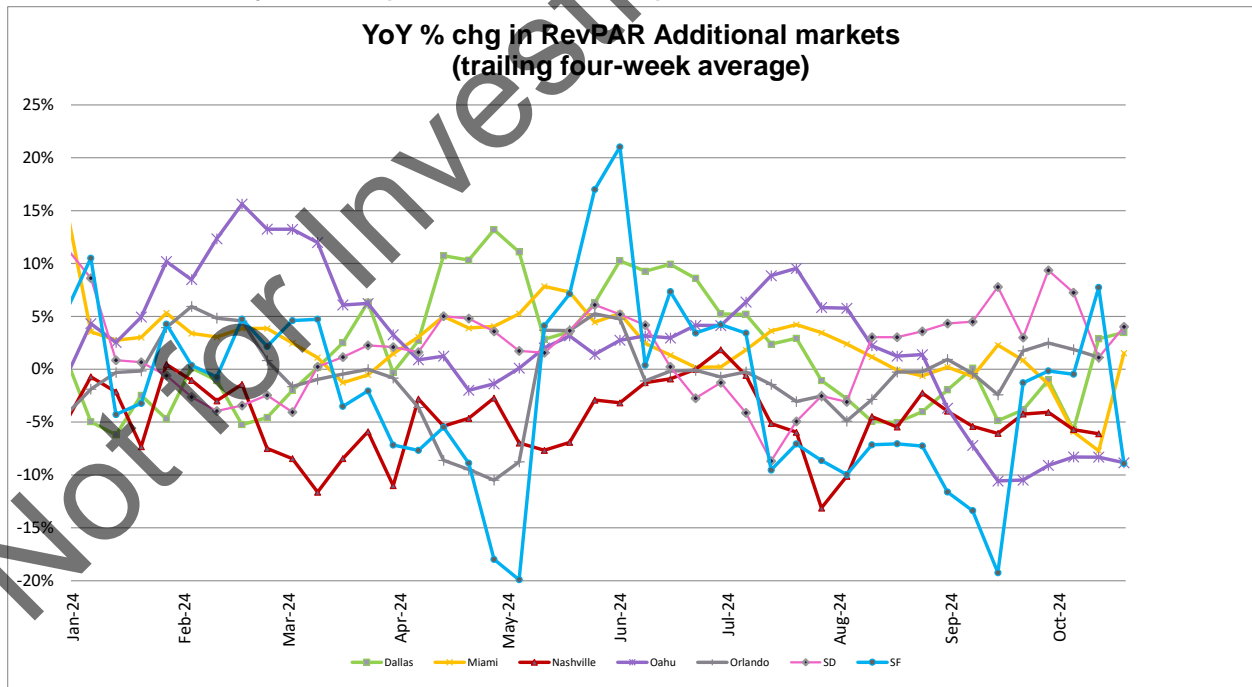
Source: STR data, Truist Securities research

RevPAR Trends by Market (Top 5 markets)



Source: STR data, Truist Securities research

RevPAR Trends by Market (Additional markets)



Source: STR data, Truist Securities research

RHP: Valuation and Risks

Our price target of \$130 for RHP is derived by applying a 13.0x target EV/EBITDA multiple to our estimate for 2025 lodging EBITDA and a 16.0x multiple to our Opry/attractions estimate. We view the multiple assignments as appropriate for the quality and unique nature of the portfolios (slight premium to REIT peer average of ~12.0-12.5x on Hospitality).

Risks to our rating and price target include: Group demand returns slower than expected. Property-specific risks given a small portfolio.

WH: Valuation and Risks

Our price target of \$103 for WH is based on a 15.0x target EV/EBITDA multiple (in line with portfolio quality/RevPAR relative to peers) of our 2025 EBITDA estimate.

Risks to our rating and price target: Slowdown in development opportunities. Macro demand/pipeline headwinds.

Companies Mentioned in This Note

Ryman Hospitality Properties, Inc. (RHP, \$107.29, Buy, C. Patrick Scholes)

Wyndham Hotels & Resorts, Inc. (WH, \$83.38, Buy, C. Patrick Scholes)

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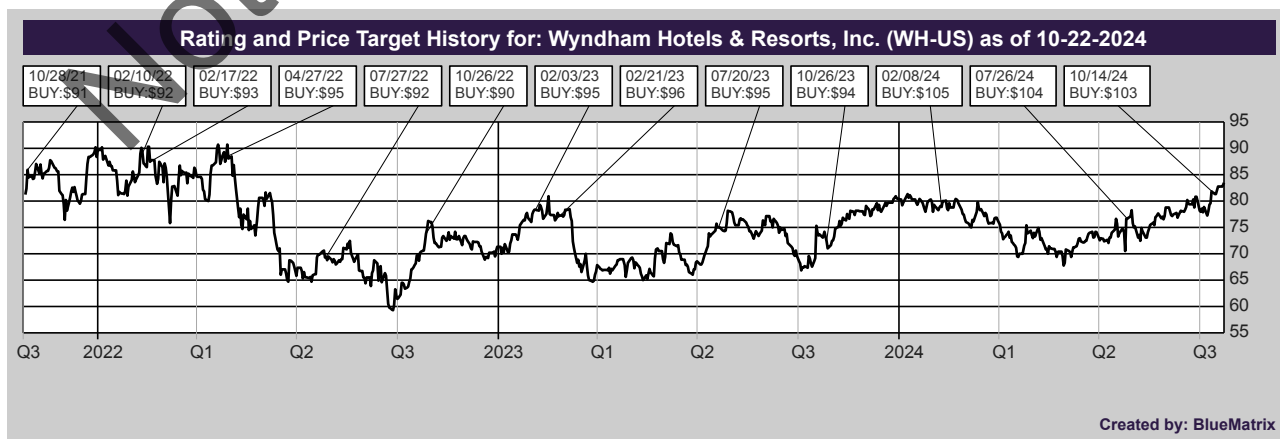
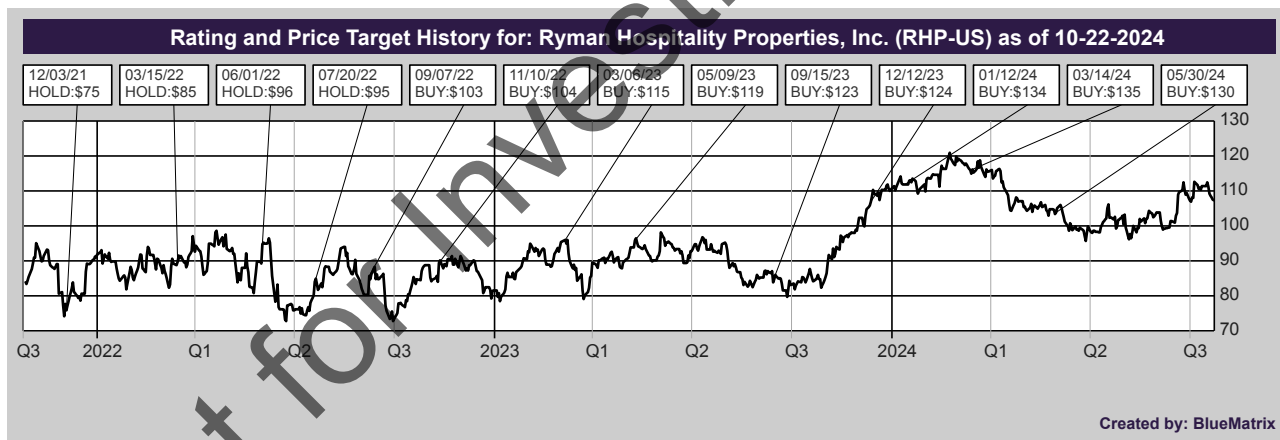
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