Equity Research Report

May 30, 2024

CONSUMER: Lodging

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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

May/June Lodging RevPAR Monitor: Group strong; Summer Leisure mediocre. 3Q consensus RevPAR looks too optimistic.

In this report we discuss:

- **Latest observations on forward-looking booking and pricing trends for mid and higher-end U.S. hotels and anecdotal learnings from industry contacts, including detail on the three main customer segments.**
- **Implications for companies/stocks**

Based upon our analysis of millions of future reservations for mid and higher-end U.S. hotels from multiple "big data" sources and from conversations with hotel owner/manager contacts and executives at very large travel agencies, similar to what we noted in our March report, the three major demand segments continue to trend in distinct directions with the greatest degree of RevPAR growth for the rest of the year driven by the Group segment. Summer Leisure demand and pricing trends continue to look *relatively* mediocre, this following the past years' difficult comparisons against 2021-2022's "revenge travel" surge and Americans heading abroad in 2023. We expect Summer 2024 to be another year of affluent Americans taking advantage of a strong dollar to travel abroad. We remain conservative on RevPAR performance in high-rated U.S. resort destinations where we continue to see ADR discounting close to the date of arrival as hoteliers and vacation rental owners try to induce occupancy due to soft bookings; **net-net we anticipate low-single digit RevPAR growth for U.S. Leisure this summer.** For price-sensitive Leisure travel, inflation concerns are factoring into vacation decisions (though somewhat offset by easier y/y comparisons and Americans' continued desires for travel experiences) and where we see "value plays" as appealing alternatives, such as cruising, all-inclusive resorts, and Vacation Ownership. Within individual business travel, we are seeing flattish y/y demand with corporate room rate growth strong at up mid-to-high single digits. **All of these observations are described in greater granularity further on in this report.**

The hotel stocks (summary): While we look generally favorably on the hotel C-Corp sub-sector given their multiple drivers of earnings growth, we see shares of WH (Buy) as the stand-out value name in the Group. While we are generally lethargic-to-unfavorable on the hotel REIT sector and as discussed further **see 3Q 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.

Lowering our 2024 RevPAR forecast for U.S. mid and higher-end hotels by 50 bps. As 1Q24 actualized somewhat soft in part from weak near-in bookings and we have not seen any material acceleration in most forward-looking trends since we last published our forecast in March, we are lowering our overall 2024 RevPAR growth forecast to +2-4% y/y from the prior +2.5-4.5%. Our 2Q24 RevPAR forecast of +2-4% is unchanged. **We are introducing a 3Q24 RevPAR forecast of +1-3% (possibly +0-2%). Specifically by customer segment**, we see **Group** finishing at or above the high-end of the above ranges (San Francisco market excluded), **Individual Business** (corporate stronger than small and mid-sized businesses) at least at the mid-points, and **Leisure** towards the low-ends of the ranges. *The quarter-over-quarter deceleration is due primarily from 2Q24 benefiting from the Easter shift and 3Q24 the most Leisure-heavy quarter of the year as Leisure is currently the weakest of the three main customer segments.*

- **Our 2Q24 RevPAR forecast is unchanged at +2-4%.** May is the last major convention month of the quarter and Group is likely to finish very strong, up mid-to-high single digits y/y. May will benefit from Groups that shifted out of April due to Easter and Passover holidays. Conversely, June leans more Leisure and where

SEE PAGE 9 FOR REQUIRED DISCLOSURE INFORMATION

overall trends are less encouraging. June is likely to finish as the weakest overall month in the quarter and we forecast roughly flattish overall RevPAR y/y. June Transient RevPAR pacing has already decelerated to slightly negative y/y from +2-4% in the last two months which we attribute in part to Leisure properties lowering room rates to induce demand close to the date of arrival (see further in this note for graphical historical evidence of this trend).

- **We introduce our 3Q24 RevPAR forecast of +1-3% (possibly +0-2%) with the quarter split between weaker RevPAR for domestic Leisure and stronger RevPAR for Group.** September will benefit from the timing of the Jewish High Holidays; this calendar shift timing is a headwind for October (4Q24) demand.

Comparing our RevPAR projections to consensus, RevPAR estimates for 2H24, particularly for 3Q24, look too optimistic, in our view, especially for the lodging REITS (see Exhibit 1 below). For the C-corps, we view somewhat softer RevPAR from the U.S. as relatively less problematic as fee generation is largely revenue driven (excluding incentive management fees and owned/leased hotels) and where international markets are likely to outperform the U.S. For the REITS, lower than expected RevPAR results is a greater hit to EBITDA margins due to operating leverage. We discussed concerns around margins and possible REIT guidance cuts at greater length in last month's Hotel P&L Analyzer note.

Exhibit 1:

Consensus RevPAR estimates for Remainder of 2024

	2Q24	3Q24	4Q24	FY24
C-corps				
CHH Domestic	0.3%	0.9%	2.1%	-0.6%
H	*not including for now due to new reporting*			
HLT	2.8%	2.8%	2.8%	2.4%
MAR	4.3%	3.9%	4.0%	3.8%
WH	2.2%	3.2%	3.8%	2.0%
REITS				
DRH	2.4%	4.5%	4.6%	2.8%
HST	2.2%	4.2%	4.7%	2.4%
PEB	3.1%	4.0%	2.6%	3.2%
PK	5.1%	4.6%	3.1%	5.2%
RHP	7.8%	5.8%	4.8%	3.8%
RLJ	2.7%	5.3%	5.2%	3.6%
SHO	1.1%	6.4%	8.1%	3.5%

Source: Consensus Metrix

Examining forward-looking booking and pricing trends for the three main customer segments

Group business: Group continues to be the driving force of 2Q24-4Q24 RevPAR growth. That said, such outsized strength is partly fueled by an elongated booking window and we continue to observe soft near-in Group bookings. Subsequently, final RevPAR results remain somewhat challenging to precisely forecast given the sizable near-in deceleration, albeit off of a lofty initial base.

- **We observe in our data intelligence that Group revenue pace for 2Q24 is currently tracking approx. +3-5% y/y with approx. 40% of this from occupancy and 60% from ADR.** For the second half of 2024, we observe Group revenue pace continuing to track very strong for now. For 3Q24, we observe Group revenue pace tracking approx. +4-6% y/y with the growth mostly driven by ADR. However, as has been the case in recent quarters, we anticipate a deceleration in bookings as arrival dates get closer.
- **Looking further out to 4Q24 and 1Q25:**
  - **4Q24:** November Group RevPAR is tracking weak (already -2% to -4% and on a decline from flattish just a month ago) but very strong for December (currently +13-15%). We attribute November's weakness as partly driven by election timing and perhaps on the margin Halloween falling on a Thursday this year compared to Tuesday in 2023. December's relative pace strength may reflect the timing of Christmas this year. While December is a low business travel month, possible upside on 4Q24 guidance may come in part from Group demand in December pre-Christmas.
  - **1Q25:** Group RevPAR starts off very weak in January possibly from some extended school vacations knocking-out Group travel in early January (New Years day falls on a Wednesday in 2025 and a holiday on Wednesday always puts pressure on business travel). From there trends improve significantly with a modestly strong February and a much better March although we view Easter timing as a contributing factor that helps March 2025 and hurts April 2025 (the opposite of 2024).

By comparison, the various Group paces provided by companies at 1Q24 earnings:

Exhibit 2:

	Group Demand & Rate vs. Comparable Period							
	Q2 2024	Full Year 2024			Full Year 2025			Geographic Guidance
	Revenue	RN Pace	ADR	Revenue	RN Pace	ADR	Revenue	
Braemar	+7%	-	-	+3%	-	-	-	U.S.
Pebblebrook	-	+8.5%	-	+10.2%	-	-	-	U.S.
DiamondRock	+5%	+30%	-	-	-	-	-	U.S.
Host	-	+4%	+1%	+5%	-	-	-	Global
Ryman	-	-	-	+15%	-	-	-	U.S.
Sunstone	-	-	-	+9%	-	-	-	U.S.
Hilton	-	-	-	+13%	-	-	+13%	Global
Hyatt	-	+7%	-	-	+11% - 12%	-	-	U.S.
Park	-	+6%	-	+11%	-	-	-	U.S.
Marriott	-	+5%	+4%	+9%	+7%	+5%	+13%	U.S.
Note: Percentages are provided by the public companies or inferred from transcripts by hotelAVE								

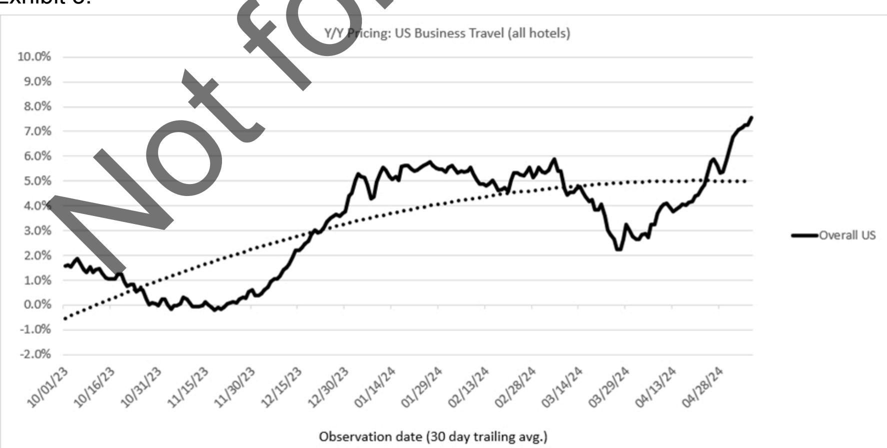
Source: hotelAVE, Truist Securities Research

- **The timing of the Rosh Hashanah and Yom Kippur holidays will be influential in the performance of 3Q24 versus 4Q24. The timing of the holidays helps September and hurts October.** Rosh Hashanah commences on Wednesday evening October 2nd, resulting in what we anticipate will be soft Group demand for the workweek starting on Monday, September 30th. However, given the timing of the holiday, September Group demand should only be marginally impacted. In 2023, both Rosh Hashanah and Yom Kippur occurred in September.
- **We continue to be observant to any softness in Group bookings for the weeks surrounding holidays.** Historically and pre-COVID, when Group was light due to a holiday such as Easter, Group demand would recover in the immediate weeks before and after the holiday week and generally make up the difference from lost demand during the holiday week. As discussed by Pebblebrook (PEB, Hold, Miller) and some other hotel owners around 1Q24 earnings, there may be a continuing post-COVID trend of Group demand being soft in the weeks surrounding holidays and where that group demand may now be simply lost. The best rationale we have heard from hotel owners is that hybrid/remote work may be contributing to changing travel behaviors around holiday weeks.

While headline Group pace remains very encouraging, the nature of the booking patterns continues to evolve. In pre-pandemic years and once again today, Groups are booking further out than was the case in 2022 and 2023. In 2022 and 2023, some of the Group strength was driven by near-in bookings often noted as “in-the-year-for-the-year” (ITYFTY) or “in-the-quarter-for-the-quarter” (ITQFTQ). However, with COVID health concerns at bay, a competitive environment for securing space at desirable venues, and still relatively attractive Upper Upscale ADRs (more on that below), meeting planners are once again booking further out ahead of the date of an event with confidence that demand will actualize without much cancellation or attrition. As a result, the strong headline pace figures are countered by fewer near-in Group bookings as some of the ITYFTY/ITQFTQ bookings have already been made further out in advance.

Corporate Transient (individual) business: In general, we continue to view booking volumes as flattish y/y. However, we observe forward pricing (booking lead-time for this customer averages about three weeks) now tracking up in the mid-to-high-single-digits y/y and at the strongest levels so far this year. We attribute this improvement led by 2024 corporate negotiated room rate growth and the similar growth of 2024 government per diems. We attribute the latest pickup in forward pricing to a number of factors, including: 1) lapping the pricing volatility over the Easter/Passover period, 2) higher room rate pricing for last-minute business travel into the busier international inbound summer travel season, and 3) higher room rate pricing concurrent with strong Group/convention demand where hoteliers have greater opportunities to push room rates in the workweek. We continue to hear of no major pushback to corporate travel costs or changes to company travel budgets.

Exhibit 3:

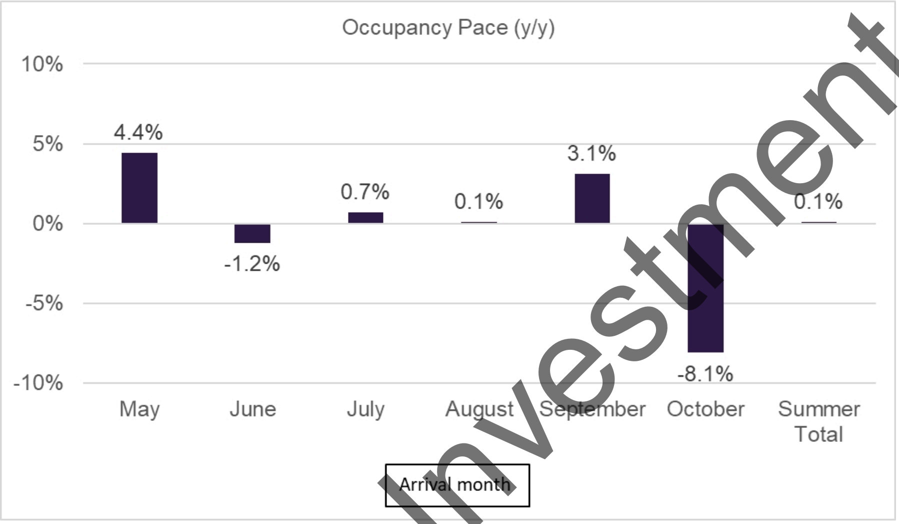


Source: TRIPBAM, Truist Securities

Leisure: Summer Leisure booking trends look relatively mediocre. To gauge strength/weakness in domestic Leisure travel we look at data from Inntopia/DestiMetrics, Airdna, and Key Data.

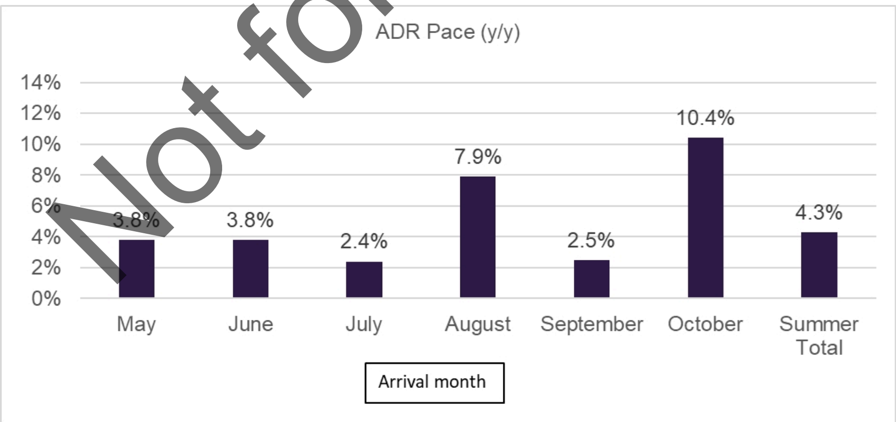
- **We start with full-service resorts. Based on data from resort analytics company Inntopia/DestiMetrics which looks at forward bookings and pricing at hotels at western U.S. ski resorts, revenue pace for the summer is tracking up low-single digits for the peak summer travel months of June and July. RevPAR growth here is primarily driven by ADR.**
  - RevPAR pace is stronger for May and August which we attribute partly to the holiday timing of Memorial Day (the 27th this year versus the 29th last year resulting in more of the holiday demand falling in the month of May) and Labor Day (September 2nd this year versus September 4th last year).
  - As for Independence Day which is the biggest holiday weekend for the summer, as the holiday shifts to a Thursday this year from a Tuesday last year, we assume a more positive impact to holiday travel this year as Thursday can "start" a long weekend whereas Tuesday is behaviorally treated as more in the heart of the workweek. Inntopia noted in their latest data that the individual days of occupancy from June 30th to July 2nd are currently down 5.7% on average and for July 3rd to July 5th up 4% on average. All that said, RevPAR pace for July is still similar to June at around +3% y/y.
  - We continue to expect a deceleration in RevPAR trends for the late summer months closer to the date of arrival as discussed more at length further in this note.
  - **From the above data observations, we are somewhat cautious on U.S. resort RevPAR performance, in part from consumers that are price-sensitive and as there are attractive value-play vacation alternatives globally.** There is little incentive for U.S. resorts to lower room rates much in a still challenged labor market and with cost headwinds from a variety of sources including property insurance.

Exhibit 4:



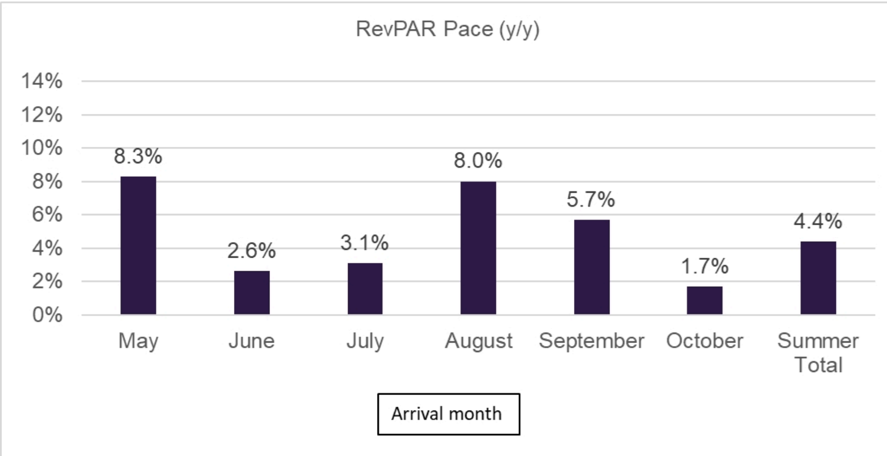
Source: Inntopia, Truist Securities Research

Exhibit 5:



Source: Inntopia, Truist Securities Research

Exhibit 6:



Source: Inntopia, Truist Securities Research

- **Additionally, to gauge strength/weakness in Leisure travel we look at data from Airdna. Forward-looking data on short term rentals from Airdna suggests continued strength in <u>overall</u> bookings/demand this summer with the pace of demand up 10-15% (which includes same-store <u>plus</u> new supply of approx. 8-10% y/y).** Netting out the new supply, same-store demand (occupancy) pace is tracking flat to +5%. There is quite a bit of variance by month. May is now tracking roughly flat whereas the pace was +6-7% net of supply as of the beginning of February. June and July are now tracking flat to up low single digits net of supply growth. August looks stronger for now at +10%.

Exhibit 7:

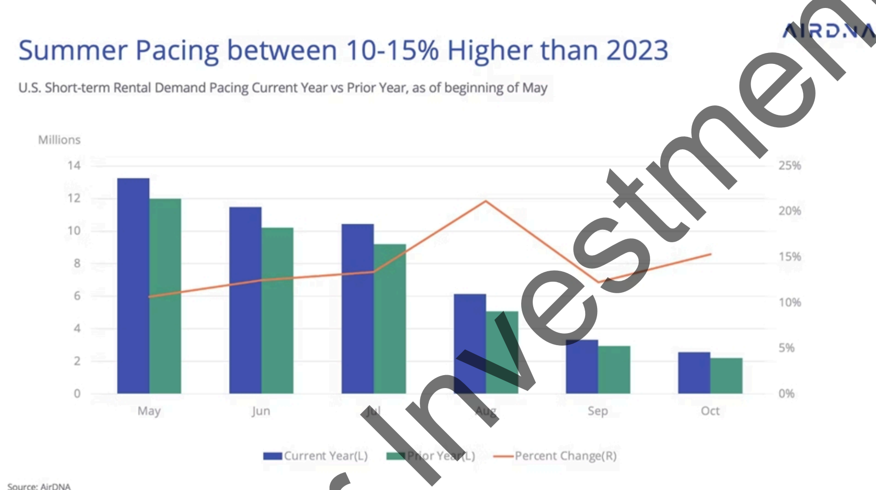
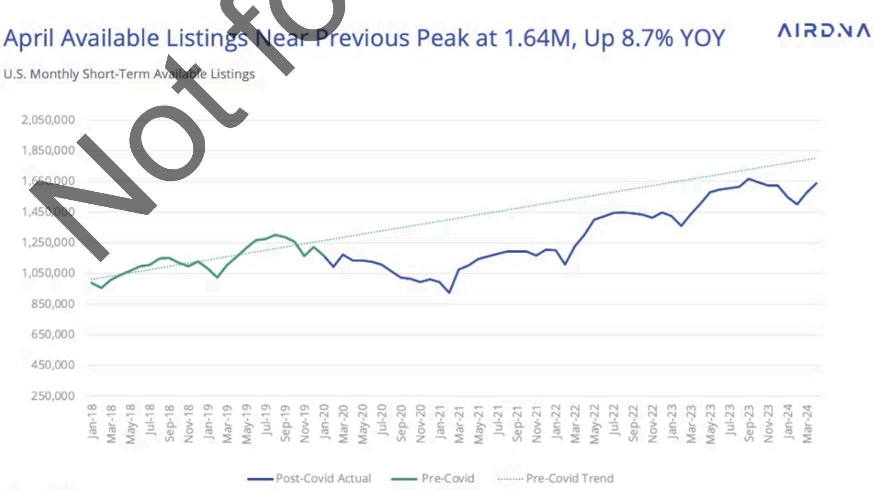


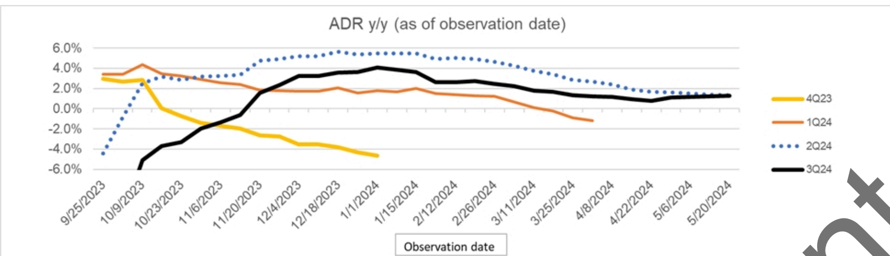
Exhibit 8:



Lastly to gauge how forward Leisure booking and pricing trends are looking, we analyze "big data" from Key Data. Our data set tracks real-time bookings and pricing on over 150,000 rental units at U.S. condos and resorts, and we view Key Data as having about six months of forward visibility. In our review of Key Data, we see:

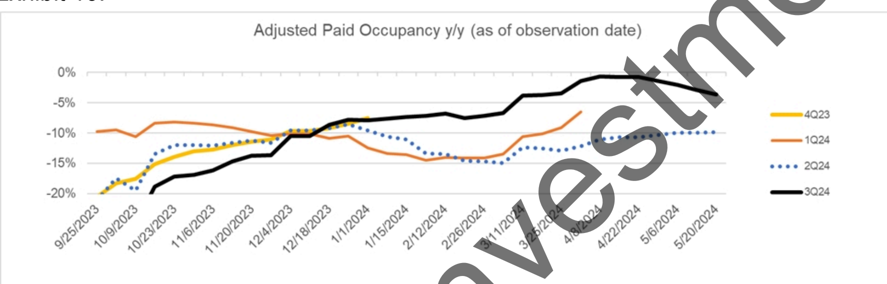
- **ADRs** are up low-single digits y/y for 2Q24-3Q24, this following 4Q23 and 1Q24 where they were down low-to-mid single digits y/y. In both 4Q23 and 1Q24, ADR slipped negative closer to the date of arrival which we interpret as partly related to challenged occupancy levels discussed below and rental owners lowering rates to drive occupancy. While 2Q24's ADR deceleration appears to be somewhat slowing, we would not be surprised to see ADRs in 2Q24 finish flattish-to-down. For 3Q24, while the y/y comp is relatively easy net of supply growth, ADR trends are already not particularly encouraging and we would not be surprised to see ADR for this data set also slip negative y/y closer to the date of arrival.
- **Same-store occupancy on the books** is still tracking negative y/y, generally around -5% to -10% for upcoming quarters, however when we strip-out the 7% y/y supply growth for 2024 in this data set, occupancy for the summer months is still tracking flat-ish y/y. We have seen for a number of recent quarters that occupancy levels improve/pickup by a few hundred bps within a few weeks of the date of arrival which we partially attribute to rates coming down to drive demand as addressed above.
  - At the headline, 3Q24 occupancy is looking "less worse" at the moment with occupancy down about 4% y/y but this quarter's comparison is off of a weak y/y comp (Americans traveling internationally last summer en masse) and with a rapid deceleration in the occupancy trend in the last few weeks. In other words, 3Q24 occupancy pace is looking increasingly less encouraging.

Exhibit 9:



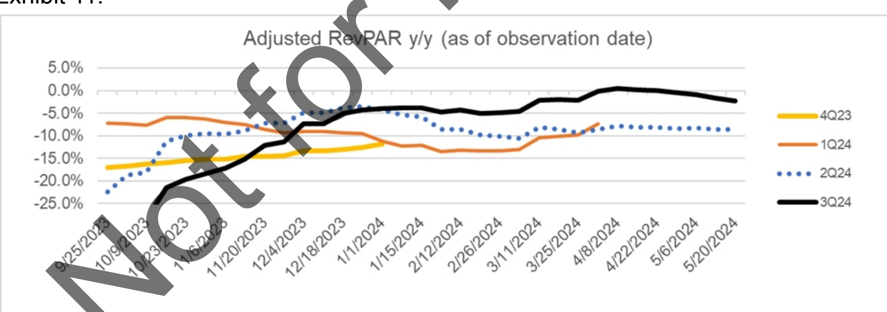
Source: Key Data, Truist Securities Research

Exhibit 10:



Source: Key Data, Truist Securities Research

Exhibit 11:



Source: Key Data, Truist Securities Research

Additional thoughts and analysis on the Leisure customer segment:

While news headlines suggested a near-record Memorial Day travel season (AAA anticipated +4.1% growth y/y) with ~43M Americans traveling more than 50 miles from home, the second strongest year behind 2005 of 44M), as it relates to the public companies we are more bullish on outbound international travel (net neutral to the Lodging C-corps) and more cautious on domestic Leisure travel especially to luxury resorts (net negative to the Lodging REITS). Americans are still taking their summer vacations but high inflation is a factor for about half of Americans' summer travel plans this year per an AHLA/Morning Consult survey. For both middle-income and affluent Americans, we anticipate "value play" destinations/trips in a superior positioning compared to the "champagne spending" travel behavior following the pandemic. Splitting the demographics further, the general strength of the stock market/low unemployment/strong housing values (the "wealth effect") supports continued robust travel spend by upper-income Americans. The storyline is more mixed the further down the income strata. In the AHLA survey noted above, among the most negatively impacted Groups for summer travel due to inflation are in the $50K-$100K annual income bracket. We do not view travel isolated in U.S. consumer spend behavior. A recent CNBC article that discussed 1Q24 earnings takeaways from a variety of staples and discretionary companies noted one takeaway that we view also applies to Leisure travel: "consumers have become more selective about how and where they spend their dollars".

- **For affluent Americans, wealthy travelers are still choosing in many respects to travel internationally especially with airfares moderating to *some* premier European destinations amid increased capacity and FX being favorable for Americans to travel internationally.** One clear beneficiary is Japan, a traditionally expensive destination that is moderately more approachable given the Yen's current weakness. **Overall a continuation of affluent Americans traveling abroad as opposed to a major share shift back to the U.S. would be a negative to Lodging REIT domestic resorts especially for those properties that cannot replace lost domestic Leisure demand with Groups or international visitation.** Many drive-to destinations naturally cater to Americans and Canadians due to accessibility, not as much global travelers. Perhaps unsurprisingly, REITS have been bolstering their Group mix given this dynamic. As for Europe, a CoStar article from the Berlin hospitality conference noted hotel experts suggesting U.S. to Europe summer travel will be +10% y/y, a positive surprise for European hoteliers.
  - **A subsegment of the less price-sensitive travel spend is coming from older Americans where there may be less resistance to inflationary pressures.** This affluent discretionary spend may also play a factor in delayed Fed rate cuts (Associated Press). As the Baby Boomers retire with considerable discretionary wallets but where the COVID period took years out of global travel opportunities, we see the fleeting time for Baby Boomer travel in good health post-retirement as another factor in why international outbound travel remains elevated for both lodging and cruises.

- **Price-sensitive American travelers (middle/upper middle-class) are generally still taking their summer trips.** While there may be some middle-income Americans dipping further into savings to pay for discretionary items, our impression is that discretionary spend favors services/experiences such as travel overspend on goods that may be more negatively impacted by consumer spend behavior. Our expectations for this summer are for this travel base to favor value vacations such as cruising, all-inclusives in the Caribbean and Mexico (advantaging H and PLYA in particular), and shorter domestic trips y/y. On the margin, we expect vacation trips to still be longer than pre-2020 levels but shorter than during the past two summers.

International Leisure travel: At a high-level, international Leisure travel appears to be recovering quite well globally including increasingly from the major laggard outbound market of Mainland China, although Asia-Pacific is likely to lag many/most other worldwide regions. A recent Mastercard study suggested off-the-beaten-path destinations have gained appeal – we note that some of these "wallet-friendly" destinations are also less expensive such as Albania and Romania. Travel agents focusing on the luxury travelers (ADRs around $1,500-$1,700 USD per night) noted in a Travel Weekly article that ADRs for their hotels is +2-3% so far this year versus +7% last year and where there may be some plateauing in room rates in high-end Leisure destinations in France, Italy, and Greece. Within the U.S., the U.S. Travel Association noted international inbound travel to the U.S. is expected to reach 98% of 2019 levels this year, up from 84% in 2023. A full recovery is expected in 2025. However, according to the USTA, the inbound recovery is less to West Coast markets.

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

Choice Hotels International, Inc. (CHH, $111.97, Hold, C. Patrick Scholes)
Hyatt Hotels Corporation (H, $147.93, Buy, C. Patrick Scholes)
Hilton Grand Vacations Inc. (HGV, $40.75, Buy, C. Patrick Scholes)
Hilton Worldwide Holdings Inc. (HLT, $196.48, Hold, C. Patrick Scholes)
Marriott International, Inc. (MAR, $234.14, Hold, C. Patrick Scholes)
Ryman Hospitality Properties, Inc. (RHP, $104.67, Buy, C. Patrick Scholes)
Travel + Leisure Co. (TNL, $43.21, Buy, C. Patrick Scholes)
Marriott Vacations Worldwide Corporation (VAC, $91.13, Buy, C. Patrick Scholes)
Wyndham Hotels & Resorts, Inc. (WH, $67.75, Buy, C. Patrick Scholes)
VTrips (private)

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Rating	**Count**	**Percent**	**Rating**	**Count**	**Percent**
Buy	435	63.50%	Buy	64	14.71%
Hold	248	36.20%	Hold	33	13.31%
Sell	2	0.29%	Sell	1	50.00%

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