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Lodging REITs

4Q21 Hotel P&L Analyzer: 4Q21 hotel margins near 4Q19 levels, revenues & profits at ~70-75%

Margins a bright spot for hotel owners

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What's Inside

An analysis of recent hotel labor cost trends, one of the critical components impacting hotel EBITDA margins

What's Incremental To Our View

We now have expanded revenue and expense "big data" on over 2,000 U.S. hotels (data source: HotStats). Our analysis suggests tight operational controls and above 2019 leisure ADR led to 4Q21 GOP margins of 34.0%, nearly at 4Q19 levels.

4Q21: -140 bps of 2-year GOP margin growth on -24.5% Total RevPAR (Rooms RevPAR + outside-of-the-room spend).

4Q21 Profit Results

The relatively good news for lodging stock investors is at least for 4Q21 we find full-service hotel operators and owners in aggregate were able to keep hotel cost growth largely in-line with the recovery of revenues. Given such challenging demand fundamentals and past cycles' precedence on a labored margin recovery, hotel margins could be much worse today. That said, how many of these hotels are achieving the margin results is a more complicated story given tight operating standards and in some cases intentionally low occupancy — not sustainable practices over the long term. Even in 4Q we saw some concerning indications of labor cost growth that may be at least a temporary headwind to margins in 2022 as staffing rebuilds with greater demand.

Our analysis is driven from our deep-dive review of aggregated P&L data (source: HotStats) and discussions with private hotel owners and asset managers.

Among the over 2,000 hotels in the HotStats data set, 4Q21 total revenues and gross operating profits (GOP) were 25% and 29% below 4Q19 respectively, both largely in-line with the 2-year occupancy decline. Our impression is that hoteliers have continued to hold margins largely steady for several months in part through reduced staffing levels in hourly roles including housekeeping and food and beverage. Additionally, wage inflation and staffing shortages continue to impact the roles of hotel managers who are in some cases still involved in some hourly work responsibilities.

- **Hotel margin outperformers: resorts and rooms-focused hotels in warm-weather markets with strong high-rated leisure demand.** With resort ADRs significantly above 2019 levels at many properties with commensurately higher out-of-room spend (food and beverage for example), we assume some leisure properties are seeing margin expansion versus 2019 even net of higher operating costs.

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- **Underperforming on margins — urban gateway market convention-oriented hotels.** Quite simply, with group demand down in some cases over 50%, labor operations are not efficient.
- **Impact to Lodging C-corps:** We assume incentive management fees from resorts will be more apparent in 4Q results, but many urban properties will not have much if any IMF contribution. Margins for owned hotels (ex-resorts and warm weather leisure markets) are likely to remain challenged.
- **Impact to Lodging REITS:** The read-through to 4Q Lodging REIT earnings is encouraging, although we are not prepared to assume REITS will beat consensus estimates. We add that lowered consensus estimates ahead of earnings may in some cases result in EBITDA beats. Regardless, many investors are looking past 4Q21 results given limited materiality for out-year valuation.

Aggregated U.S. Hotel Operating Performance:
4Q21 vs. Prior Years

	4Q21	4Q20	*y/y % change*	4Q19	*2-yr % change*
Occupancy	54.7%	26.8%	*104.1%*	72.8%	*-24.9%*
ADR	$217	$142	*53.2%*	$212	*2.4%*
RevPAR	**$119**	**$38**	***213.2%***	**$154**	***-23.1%***
Total RevPAR	**$182**	**$56**	***226.4%***	**$241**	***-24.5%***
Room Margin	72.6%	62.1%	*16.9%*	72.7%	*-0.1%*
F&B Margin	24.5%	-18.8%	*-230.3%*	29.0%	*-15.5%*
Operating Department Margin	61.0%	50.1%	*21.8%*	60.0%	*1.7%*
GOP Margin	**34.0%**	**4.8%**	***608.3%***	**35.4%**	***-4.0%***
GOP Per Available Room	**$61**	**$3**	***2176.0%***	**$85**	***-28.7%***
Total Hotel Payroll (% of Total Revenue)	35.4%	48.5%	*-27.0%*	35.2%	*0.6%*
Total Hotel Payroll (Per Available Room)	$64	$27	*138.3%*	$85	*-25.0%*
Total Hotel Payroll (Per Occupied Room)	$116	$100	*16.0%*	$116	*-0.7%*

Note: HotStats sample is somewhat skewed to U.S. full-service hotels although individual hotel results vary widely today by hotel location and customer base.

Source: Truist Securities Research; HotStats

Important to the above data: our HotStats data set is geared to institutionally owned hotels that are somewhat skewed to higher-rated hotels, a relatively better proxy for the Lodging REITS and incentive management fee contributing U.S. hotels. We do not have detailed profit data on lower-rated and select-service hotels that may have fully recovered demand and in suburban/small market locations where labor shortages are more pressing. We add the obvious caveat that especially in today's environment, comparisons between HotStats data and individual hotels or REIT portfolios may not be aligned. That said, we view HotStats data in aggregate as an excellent indication to the financial strength of institutional quality higher-rated U.S. hotels.

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