Equity Research Report

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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

March Lodging RevPAR Roadmap: Various degrees of demand decel; bifurcation a key theme. Lowering RevPAR estimates.

In this report we discuss:

- **Latest observations on forward-looking booking and pricing trends for U.S. hotel RevPAR and anecdotal learnings from industry contacts, including detail on the three main customer segments and color on the D.C., NYC, Orlando, and S.F. markets.**

- **Lowering our RevPAR growth forecasts:**
  - **Full-year 2025: *lowering* to Flat to +2%, down from +1-3% previously for U.S. mid and upper-end hotels, a range below consensus of approx. +2.5%. See limited service at ~200 bps. below this range, possibly more.**
    - **2Q25: *lowering* to Flat to +2%, down from +1-3% previously for U.S. mid and upper-end hotels, a range below consensus of approx. +2%. See limited service at ~200 bps. below this range, possibly more.**
    - **3Q25: introducing our forecast of -2% to +1% for U.S. mid and upper-end hotels, a range below consensus of approx. +2.5%. See limited service at ~200 bps. below this range, possibly more.**
- **Implications for companies/stocks.**
  - **We lowered our estimates and price targets to reflect reduced expectations for RevPAR growth. Our price targets:** Airbnb (ABNB, Hold) to $112 from $123, Choice Hotels (CHH, Hold) to $144 from $136, DiamondRock Hospitality (DRH, Hold) unchanged at $10 as even the low-end of 2025 guide was above our pre-earnings forecast, Hyatt Hotels (H, Buy) to $156 from $163, Hilton (HLT, Hold) to $251 from $258, Host Hotels (HST, Hold) to $17 from $20, Marriott (MAR, Hold) to $300 from $308, Park Hotels (PK, Buy) to $16 from $18, Ryman Hospitality (RHP, Buy) to $127 from $133, RLJ Lodging Trust (RLJ, Hold) to $10 from $11, Sunstone Hotel Investors (SHO, Hold) to $11 from $12, and Wyndham Hotels (WH, Buy) to $119 from $122.

Based upon our analysis of millions of future reservations for U.S. hotels from multiple "big data" sources and from conversations with hotel owner/manager contacts and executives at very large travel agencies, beginning in mid-February we have observed a weakening in demand fundamentals. Specifically, we have observed a modest slowdown in the pace of new room reservations, this impacting expected hotel occupancy. While this softness was initially most evident in Midscale and Economy hotels, we have more recently begun to see some softness in higher-end hotel reservations as well. **Notably, there is a sizable bifurcation in demand trends, with the mid and lower-end materially underperforming the upper-end.**

Based on our observations, for our lodging coverage we are lowering RevPAR expectations and earnings estimates closer to the lower-end of guided ranges from generally the midpoint/modestly above the midpoint of guided ranges previously. As discussed further in this report, companies we see having the greatest degree of RevPAR pressure, those being Midscale and Economy hotel centric CHH and WH, have the least earnings sensitivity to RevPAR declines given their (nearly) pure franchise models. While 1Q results look roughly in-line with expectations for the lodging sector, at upcoming 1Q earnings we believe it possible we will see full-year RevPAR growth guide cuts by perhaps 50-100 bps. or companies noting RevPAR trends are tracking towards the lower-ends of previously guided ranges. So far within the greater lodging-leisure-travel public company universe only the airlines and to a lesser degree Viking Cruise Lines (VIK, Hold) have noted a recent slowdown in demand; *we do not believe these companies operate in a vacuum and many of the issues impacting them, which we discuss in this report, are also impacting hotels.*

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What exactly is giving us concern? Beginning in mid-February we began to observe a modest deceleration of the volume of new hotel reservations for the transient (individual business + leisure + government) customer and most notably for midscale and economy hotels. That said, we did not observe any sudden "shock," rather a gradual deceleration in expected future occupancy. *At the time of this report we have not observed that the modest y/y deceleration has begun to level-off and subsequently expected occupancy keeps slipping slightly each successive week.* The impact of this decline in expected occupancy *so far* is that our expectations for 2Q and 3Q occupancy have fallen by approx. 100-200 bps. **We acknowledge it certainly possible that due to accelerated economic anxieties that travelers are waiting to make travel reservations until closer to their expected travel dates and in which cases occupancy would see last-minute uplift for these upcoming quarters; that said as April travel dates approach we have not observed any last-minute acceleration, only continued gradual deceleration.** Other observations:

- No material change *yet* in the room rates on these reservations, which are up low-singe digits y/y for the transient customer and closer to up mid-single digits for the group/convention segment, only on expected occupancy. Our observations for unchanged pricing in light of softening demand are similar to what we have also recently observed and discussed for the cruise industry. *While hotels remain disciplined so far on not panicking and cutting price, unfortunately history tells us that hotels almost always end up cutting rates in order to spur demand during times of economic weakness.*
- No material changes with the Group/convention pace or pricing on room reservations, just the transient customer so far.
- While the slowdown was initially observed at midscale and economy properties, over the past two weeks we have started to see some modest deceleration at higher-end properties as well.

The stocks: Are our observations fully-priced in? Should the deceleration in demand suddenly begin to level-off and begin to lessen, we believe they are priced-in. **However, as noted above we have yet to see such leveling-off and/or lessening, *so it is impossible to say that these decelerating trends are fully priced-in.*** While we would like to use the pull-back in stocks, notably with high quality names like HLT and MAR which we have Hold ratings on primarily due to peak valuations (until recently), we are holding off at this time. Additionally, should demand slippage continue, such a "risk-on" environment would suggest an atmosphere where peak-valuation multiples for companies like HLT and MAR need to come down to reflect the risks associated with what we see as a new era of government-inflicted uncertainty. What might us make us more constructive:

- **An improvement in booking pace/clear inflection point and subsequently having more confidence that softness was only temporary and not the start of a possible multi-month pull-back in demand (a "period of transition?", "demand hiccup?," "self-inflicted recession?" *call it what you want*).** Maybe booking pace turns around from here over the next month, maybe it stays soft or even decelerates; we will wait for additional "big data" points before considering stepping in.
- **We would prefer to "buy on the news" should/if the companies publicly discuss weakness on their earnings calls or possibly before.** That said, should companies take down guidances, it is certainly possibly this may not be the final decrease; as a rule of thumb the best time to buy is "on the final guidance cut" (admittedly far easier said than done).
- **Lastly, what also makes us hesitant to become more constructive just yet is that we strongly suspect that when people receive their 401k statements next month and see the quarterly losses, this will not be an upwards catalyst for one to book a leisure trip (likely the opposite), implying an additional headwind next month to the recent soft pace of bookings.**

To be clear, not <u>everything</u> is "bad news" and there are some relative bright spots:

- 1Q25 RevPAR should come in right around the midpoint of guided ranges, so we are not expecting any material 1Q misses; that said we believe investors care much about where the puck is going, not where it has been.
- While bookings/occupancy look weak for 2Q25 and 3Q25, companies remain disciplined (for now) on price/ADR as we have not seen any material change in this KPI.
- Group/convention RevPAR for the rest of the year continues to "hold in there" (for now) and we are not seeing any significant deceleration for this business segment like we are for the transient customer.
- The upper-end continues to perform materially better than the mid-to-lower end segments.
- 4Q25 group RevPAR growth looks exceptionally strong (for now), though we see strength driven by several calendar shift/event reasons, namely a Jewish holiday shift tailwind in October, the very easy election week comp in November, and Christmas and New Years days shifting to a Friday from a Thursday.
- The companies we see having the most RevPAR pressure, those being Midscale and Economy hotel centric CHH and WH, have the least earnings sensitivity to RevPAR declines.

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Exhibit 1: Earnings sensitivity to 1 pt. change in RevPAR

Company	Earnings sensitivity	As % of 2025 EBITDA (cons)
WH	$4.5M	0.6%
CHH	$5M	0.8%
HLT	$30M	0.8%
H	$10-$18M	0.9-1.6%
MAR	$50-$60M	0.9-1.1%

Source: Company reports, FactSet, Truist Securities research

Exhibit 2: Consensus expectations for RevPAR growth vs. Guidances

Consensus C-Corp RevPAR estimates				1Q25 Guide		FY2025 Guide		Geography
C-corps	2Q25	3Q25	FY25	Low	High	Low	High	
CHH Systemwide Worldwide	1.4%	1.8%	1.4%	-	-	1.0%	2.0%	U.S.
H Managed & Franchised U.S.	2.2%	2.9%	2.7%					
H M&F Worldwide	2.9%	3.5%	3.2%	-	-	2.0%	4.0%	Global
HLT Systemwide U.S.	2.0%	2.4%	2.4%					
HLT Systemwide Worldwide	2.2%	2.6%	2.6%	2.5%	3.5%	2.0%	3.0%	Global
MAR Systemwide North America	2.1%	2.4%	2.4%					
MAR Systemwide Worldwide	3.0%	3.1%	3.2%	3.0%	4.0%	2.0%	4.0%	Global
WH U.S. (current $)	2.0%	2.3%	2.1%					
WH Global (current %))	1.7%	1.8%	1.6%	-	-	0.5%	1.5%	Global

Consensus REIT RevPAR estimates				1Q25 Guide		FY2025 Guide		Geography
REITS	2Q25	3Q25	FY25	Low	High	Low	High	
DRH	1.9%	2.9%	2.3%		-	1.0%	3.0%	U.S.
HST	1.6%	2.4%	2.1%		-	0.5%	2.5%	Global
PEB	2.2%	2.0%	2.6%	0.0%	2.0%	1.0%	3.0%	U.S.
PK	1.9%	2.5%	1.9%	-	-	0.0%	3.0%	U.S.
RHP (Same-Store)	3.0%	-1.6%	2.8%	-	-	2.3%	4.8%	U.S.
RLJ	1.8%	2.3%	2.2%	-	-	1.0%	3.0%	U.S.
SHO	7.9%	11.0%	7.9%	-	-	3.0%	6.0%	U.S.

Source: Company reports, ConsensusMetrix, Truist Securities, HotelAVE.

What is likely driving the recent weakness in demand? Our view is that just as the current administration's flip-flopping on issues such as tariffs has created uncertainty in the financial markets combined with sizable government job cuts, we believe so too has it created uncertainty around bookings/spending for leisure, especially for the mid-end and below traveler and (unsurprisingly) for government/ government-related travel. In addition to policy uncertainty and government job cuts, other issues likely impacting the propensity to travel include:

- **Drop in consumer confidence ;**
- **Continued inflationary pressure on households budgets;**
- **Slowdown in private job growth.**;
- **Pull-pack in travel by Canadians to the U.S.**Any pullback is not insignificant as the U.S. Travel Association notes Canada is the top source of international visitors to the U.S. While the pull-back in Canadian travel to the U.S. has started to see significant media attention, the next shoe to drop may be the pull-back in European travelers to the U.S.

While demand/occupancy expectations for the rest of the year have weakened by some amount for every customer segment, hotel class, and major market in our "big data," there are various degrees of deceleration. We start with the most severe to the less impacted:

- **Washington D.C. hotel market.** We have observed deceleration in all major markets but D.C. is the outlier. We observe the greatest degree of deceleration for D.C. coming from the transient customer, which is a combination of leisure, business, and most importantly

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for D.C. government/government-related demand. That said, group/convention business, while softening, is still holding in relatively better than transient. **Regarding company impact, most impacted by outsized weakness are the hotel REITS. Additionally, we estimate that MAR has approx. 2% exposure to the greater D.C. market:**

Exhibit 3: Washington D.C. Metro Exposure as a % of EBITDA Contribution

DRH	HST	PEB	PK	RHP	RLJ	SHO
2%	8%	3%	3%	14%	7%	8%

EBITDA contribution represents Truist Securities estimates based on public company disclosure of room/EBITDA mix.

Source: Truist Securities, Company reports

- **Government business and government-related business (outside of D.C.).** For the U.S. hotel industry, approx. 5-10% of guests are government employees, though this statistic includes all levels of government, not just federal. We see federal closer to 3%. These government employees are more likely to stay in Economy and Midscale hotels, such as ones with a Choice Hotels (CHH, Hold) or Wyndham Hotels (WH, Buy) brand, than they are in higher-end ones and as noted previously we have observed weakness in demand especially for these types of hotels which we believe is partly from pull-back in government and government-related travel. Notably, the $1 limit on government credit cards makes it extremely difficult for affected government employees to travel. Additionally, it is not difficult to envision the reduction in federal spending rippling through other areas of the economy (~98% of Booz Allen Hamilton's revenues come from government-related work (Source: WSJ), for example).
- **Mid and lower-end leisure travel.** Spring and summer occupancy for this customer segment looks very soft. As noted above, CHH and WH have the greatest exposure to this customer given their hotels are primarily in the Economy and Midscale segments:

Exhibit 4: Comparison of RevPAR and ADRs for public companies

	2024 RevPAR	2024 ADR
Hotel C-Corps		
WH	$43	N/A
CHH	$55	$97
HLT (Systemwide Worlwide RevPAR)	$115	$159
MAR (Systemwide Worldwide RevPAR)	$128	$184
H (Total Comparable Owned and Leased)	$221	$302
Hotel REITS		
RLJ	$145	$199
RHP (Same-Store)	$174	$252
PK	$187	$252
DRH	$205	$283
PEB	$212	$299
HST	$216	$307
SHO	$214	$311
ABNB (ADR per booking, includes multi-rooms)	N/A	$166

Source: Company reports

- **Higher-end leisure.** Until recently, was holding in there but over the past two weeks we have seen some softening in demand. As the WSJ noted, "Slumping Stocks Threaten a Pillar of the Economy: Spending by the Wealthy" and we suspect recent weakness in luxury hotel room bookings is related to this threat.
  - **The upper-end consumer has become a more and more important driver of the economy.** Notably as recently discussed in the WSJ, the U.S. economy depends more than ever on the rich as the highest-earning 10% of Americans have increased their spending far beyond inflation. Today, the top 10% of earners account for approx. 50% of all spending and Moody's Analytics estimates that thirty years ago they accounted for a little more than a third. The top 10% of earnings – households making about $250K a year or more are spending heavily on luxury goods and services including vacations, buoyed by big gains (over the past several years) in stocks, real estate, and other assets. Between September 2023 and September 2024, the highest earners increased their spending by 12% whereas spending by working-class and middle-class households *dropped* over the same period.

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- **Corporate business.** We have not seen any noticeable deceleration so far as this has been a consumer and government/government-related business slowdown. We suspect that the previously noted possible causes of the slowdown have not yet had any material financial impact on most corporations. *A fear we have is that as consumer and government/government-related slows, this could create a negative feedback loop on corporate profits which would result in the deceleration of corporate spend (*and related to this concern is that lower hotel occupancy is not a positive for employment (less rooms occupied = less need for employees) for an industry, Leisure and Hospitality, that employs approx. 17M persons).
- **Group/convention.** Have not seen any noticeable deceleration outside of Washington D.C. The most important customer for this segment of hotel business is the corporate customer and as noted above we have not seen any noticeable deceleration in this customer.

Other top markets in focus:

- **NYC.** A top performing market as 2Q-3Q RevPAR growth is tracking up low-double digits y/y. As noted previously, weakness in in-bound international travel could put outsized pressure on this tourism-heavy market.

Exhibit 5: NYC Metro Exposure as a % of EBITDA Contribution

DRH	HST	PEB	PK	RHP	RLJ	SHO
8%	8%	0%	8%	0%	5%	0%

EBITDA contribution represents Truist Securities estimates based on public company disclosure of room/EBITDA mix.

Source: Truist Securities, Company reports

- **Orlando:** Tracking above average at +MSD RevPAR growth for the rest of the year with a very easy hurricane comp in October. The opening of Universal Epic Universe is a tailwind to demand this year.

Exhibit 6: Orlando Metro Exposure as a % of EBITDA Contribution

DRH	HST	PEB	PK	RHP	RLJ	SHO
0%	8%	0%	15%	14%	1%	7%

EBITDA contribution represents Truist Securities estimates based on public company disclosure of room/EBITDA mix.

Source: Truist Securities, Company reports

- **San Francisco:** Volatile by quarter with a very strong 2Q, weak 3Q, and strong 4Q. San Francisco's strength, albeit with still very easy comps vs. pre-Covid, is primarily group-driven.

Exhibit 7: San Francisco Metro Exposure as a % of EBITDA Contribution

DRH	HST	PEB	PK	RHP	RLJ	SHO
4%	4%	5%	2%	0%	3%	9%

EBITDA contribution represents Truist Securities estimates based on public company disclosure of room/EBITDA mix.

Source: Truist Securities, Company reports

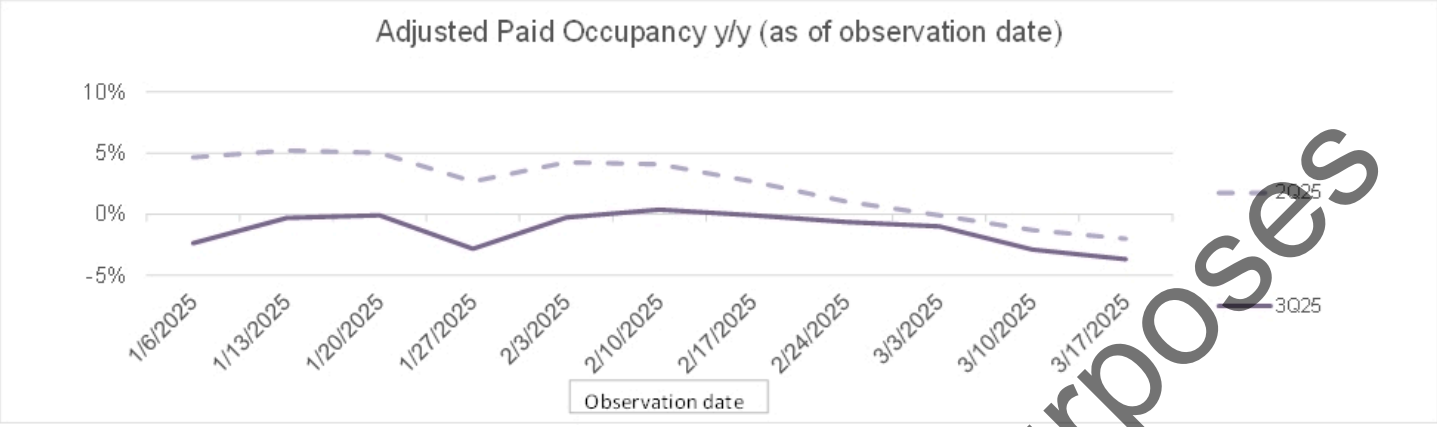
Additional thoughts on the leisure deceleration

- **One way we gauge how forward Leisure booking and pricing trends are looking is by analyzing "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; we view Key Data as having about six months of forward visibility. In our review of Key Data, we see:

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- **Same-store occupancy on the books for 2Q and 3Q has shown deceleration since early-mid February, an observation consistent with what we have seen for hotels and cruises:**

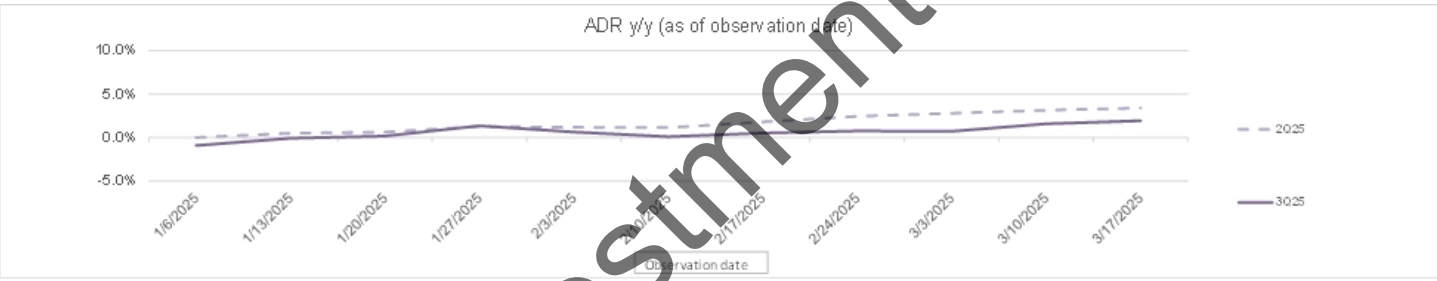
Exhibit 8:



Source: Key Data, Truist Securities Research

- **Same-store ADRs for booked reservations for 2Q and 3Q have been fairly steady, an observation also consistent with what we have seen for hotels and cruises:**

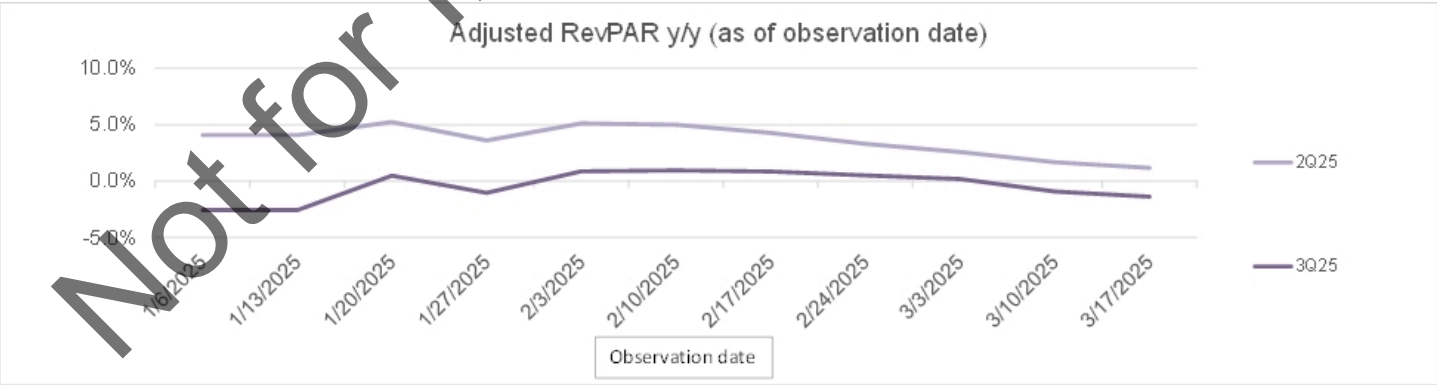
Exhibit 9:



Source: Key Data, Truist Securities Research

- **Combining the above occupancy and ADR trends, expected RevPAR growth for 2Q and 3Q has shown modest deceleration from early-mid February.**

Exhibit 10:



Source: Key Data, Truist Securities Research

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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	40%	40%	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
HGV	0%	100%	0%
TNL	0%	100%	0%
VAC	0%	100%	0%

Source: Company reports, Truist Securities Research

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Companies Mentioned in This Note

Airbnb, Inc. (ABNB, $126.00, Hold, C. Patrick Scholes)
Booking Holdings Inc. (BKNG, $4,589.03, Hold, Gregory Miller)
Choice Hotels International, Inc. (CHH, $131.86, Hold, C. Patrick Scholes)
DiamondRock Hospitality Company (DRH, $8.02, Hold, C. Patrick Scholes)
Hyatt Hotels Corporation (H, $125.70, Buy, C. Patrick Scholes)
Hilton Worldwide Holdings Inc. (HLT, $232.95, Hold, C. Patrick Scholes)
Host Hotels & Resorts, Inc. (HST, $15.12, Hold, C. Patrick Scholes)
Marriott International, Inc. (MAR, $247.62, Hold, C. Patrick Scholes)
Pebblebrook Hotel Trust (PEB, $10.58, Hold, Gregory Miller)
Park Hotels & Resorts Inc. (PK, $11.70, Buy, C. Patrick Scholes)
Playa Hotels & Resorts N.V. (PLYA, $13.31, Hold, C. Patrick Scholes)
Ryman Hospitality Properties, Inc. (RHP, $95.81, Buy, C. Patrick Scholes)
RLJ Lodging Trust (RLJ, $8.96, Hold, Gregory Miller)
Sunstone Hotel Investors, Inc. (SHO, $9.87, Hold, C. Patrick Scholes)
Viking Holdings Ltd (VIK, $39.97, Hold, C. Patrick Scholes)
Wyndham Hotels & Resorts, Inc. (WH, $91.18, Buy, C. Patrick Scholes)

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