An Excerpt from Cleveland Research (March 17 2020)

Lodging Industry Update

Real Time Insights: RevPAR Outlooks For Mar/2Q Remain In A Free Fall; Closures & Layoffs Accelerating (Cleveland Research)

Key Points

1. **Hotel demand continues to fall**, with anticipated RevPAR declines accelerating in the last few days. What began with Group cancels and corporate travel bans has broadened to more widespread canceling of upcoming leisure/Spring Break trips
2. **March and April RevPAR slipping by the day** amongst revenue managers as more cities look on a path for lock-downs and close restaurants/bars, now cutting into the relatively more durable base leisure demand. Similar to prior RevPAR contractions, we are seeing Urban Lux and Upper Upscale fall by a larger magnitude while Suburban and Interstate (both more levered to drive markets) is holding up relatively better; more and more hotels considering shutting down
3. **Tremendous amount of stress on the hotel system** as it relates to near term cash flow, layoffs, potential for hotel closures, and the implications for relationships between brands, owners, and management companies. Most expect hotel closures, layoffs and point to a need for government assistance for furloughed employees. Lenders are likely to work with owners in the next 3-6 months.
4. **Key focus right now in the industry is ADR** in the midst of occupancy declines, with most attempting to live with lower occupancy and not make same mistakes as last time, which is easier said than done. In the last 2 contractions of following 9/11 and the financial crisis, TTM ADR declines bottomed at down 4% and 10% respectively and took 1-1.5 years to get there. As for the rate recovery, it took 5-6 years on an inflation adjusted basis to get rate back to the prior peak. Rate takes longer than occ to recover.

Conclusion

A week ago, we noted that forecasting RevPAR for us and revenue managers/industry participants was immensely challenging as it is tied to a moving target of virus trajectory and the government's restrictions. Since that time, we have seen the deterioration in demand accelerate as the U.S. now could be headed down the path of China, S. Korea, and Italy as it relates to containment efforts. All three countries saw occupancy in the 10-15% range as a result, which could be the future for the U.S. in heading into 2H March and early April, although it is likely to impact different market types by different magnitudes. Both cruise vacations and Vegas travel has been largely put on hold/shut down for the next month, and hotel industry participants see it as increasingly likely that at least a portion of the hotel industry is headed this way as owners are now more widely considering closures. The speed and depth of the current RevPAR contraction is ahead of both 9/11 and 08/09 and Mar/April RevPAR declines are likely to meaningfully exceed the Sep 2001 decline of 23% and the 15-20% declines seen in the first nine months of 2009. Some in the industry believe 2H Mar and April could be down 50% or more. Stocks appear to be factoring in a significant amount of pressure, with brands down 30% in the last wk and 45% in the last month. REIT's are down 50% in the last wk and 65% in the last month.

Feedback on current pressures

Our work points to more hotels considering going lights off. Ownership groups are unsurprisingly not pleased with cost management efforts up to this point from the brands or 3rd party management, who for the most part have been slow to react over the last couple weeks. Management co's are now in the midst of furloughs/layoffs over the last few days as they scramble to flex down costs as fast as possible. A good number of 3rd party management co's do not keep much working capital on hand and will likely be asking owners for assistance at a difficult time. Also in line with history during demand shocks, owners' complaints and chatter about brand fees and owners priority return hurdles are escalating. New deal activity remains on hold as most in the industry have stopped submitting letters of intent. Debt markets continue to dry up as the vast majority note an inability to get quotes on the CMBS market. Construction delays persist as furniture, fixtures, electronics etc all remain behind schedule. Most in the industry point to the expectation and the need for government assistance to step in and provide liquidity and also expect lenders to work with owners to suspend payments (have done with hurricanes/one of events in the past).

Compared to prior RevPAR declines

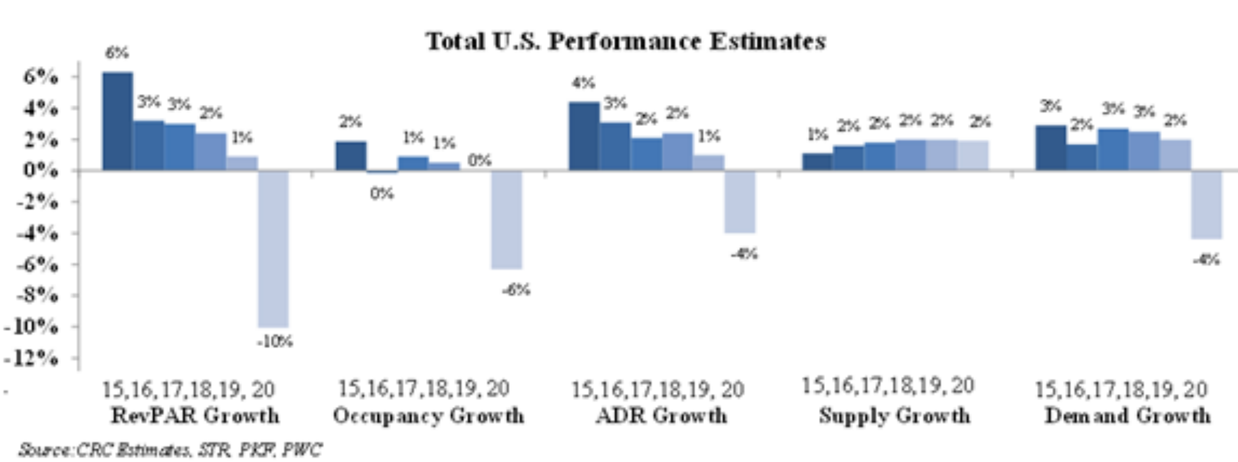
Most expect the immediate shock of the coronavirus to drive steeper monthly declines than seen in prior contractions. Industry participants currently note that the pressure in their business right now is greater than that of both 01/02 or 08/09. Questions abound on duration of the declines but most also expect a quicker snap back relative to prior cycles recovery. We explore more on the cycles below. Every cycle is different, but it is still interesting to see how the industry data responded to prior demand shocks.

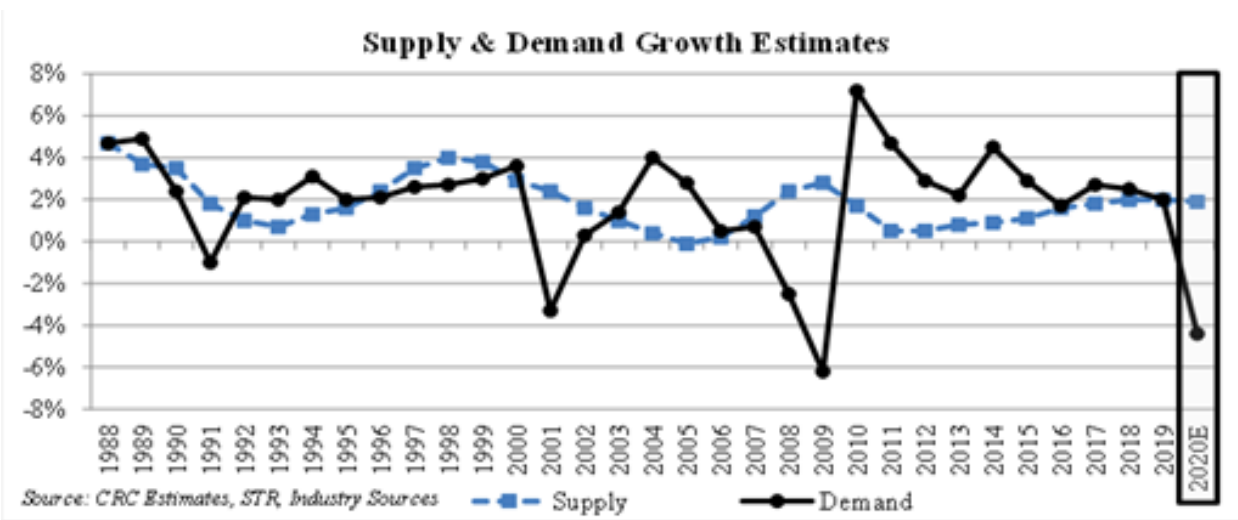
- **1990's cycle ended with the 2001/2002 contraction:** This RevPAR contraction marked the end of the 90's cycle, which saw positive RevPAR 111 out of the previous 112 months (Dec 91-Mar 01). At the time of the Sep 11, 2001 terrorist attacks, U.S. RevPAR had already been negative for the prior five months, but declines steepened significantly to down 23% for the month. The week following the terrorist attack, RevPAR was down just over 40%. The September 01 decline of 23% was the worst month in industry history with a 16pt decline in occupancy and 7pt decline in rate. TTM declines in RevPAR bottomed in June of 02 at down 8% with ADR down about 4%. Luxury and Upper Upscale declines were most severe at down 17% and 16% respectively followed by Independent down 13%. The Other chains held up better at down 6 to 9%. It took ADR 3 years (12 mos decline, 24 mos recovery) to get back to the prior peak pre-9/11 and 5 years when considering inflation.

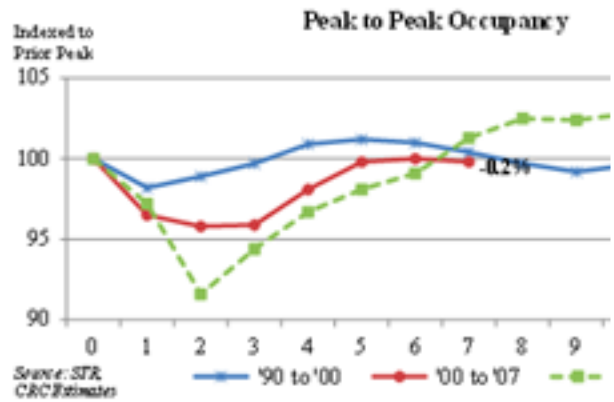
- **Early 2000's cycle ended with the 2008/2009 contraction:** This RevPAR contraction marked the end of the early 2000's cycle, which saw positive RevPAR for 56 consecutive months. At the time Lehman filed for bankruptcy in mid September of 08, TTM U.S. RevPAR was up 2.5. The month of Sep 08 finished down 3%. Declines steepened and averaged down 15-20% through the first 9 months of 09, with some moderation in the level of declines in Oct/Nov 09 to down low-teens, followed by single digit declines Dec 2009 through Feb of 10, finally swinging to positive 4% in March 10. The contraction in 08/09 showed 18 consecutive months of negative RevPAR. TTM RevPAR declines bottomed at down 20% as of Oct 09 with ADR down almost 10%. TTM RevPAR declines were again most severe in Luxury (down 25%) and Upper Upscale & Independent both down 18%. The remaining chains scales were down 15-17%. It took ADR almost 5 years (19 mos decline, 37 months recovery) to get back to the prior peak pre-Lehman and 6 years when considering inflation.

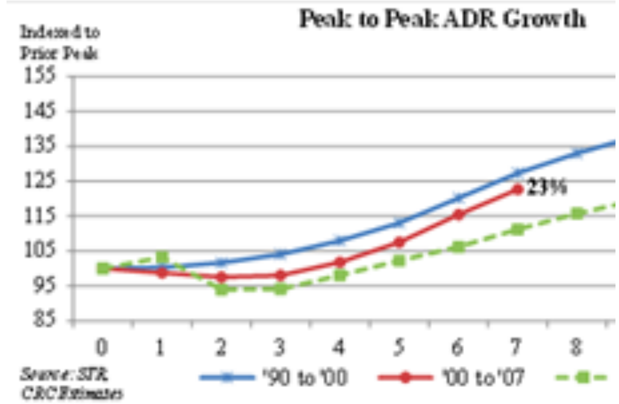
2010-2019 cycle ending with the current coronavirus demand shock: Going into March of 2020, the current upcycle had shown positive RevPAR growth 116 out of the past 120 months. March 2020 declines are anticipated to be severe and should be more driven by occupancy than rate. We have already seen Wk 1 of March down 11.4% with Lux and Upper Up (more meeting space, more levered to Group) down in the mid-teens again underperforming other chain-scales to the downside, which is common during contractions. Looking at the data closer, Urban was down 18%, resort down 12% while Suburban, Interstate, and Small/Metro/Town were down single digits. As for where occupancy could be headed, it is plausible that 2H March/ a good part of April could resemble a China or Italy which is seeing occupancy near 10-15% (U.S. ran 66% in 2019).

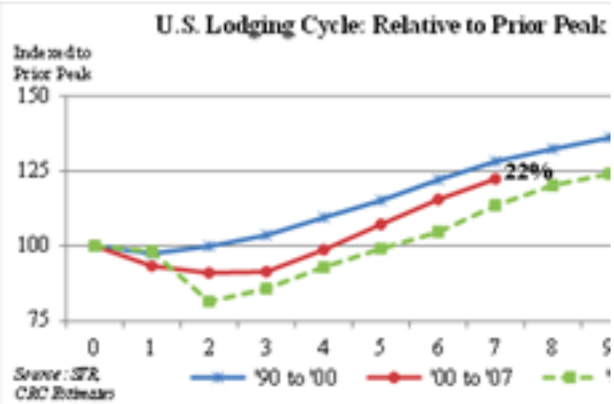
We included updated cycle charts below assuming a 10% decline in U.S. RevPAR, one of our scenarios from last week:

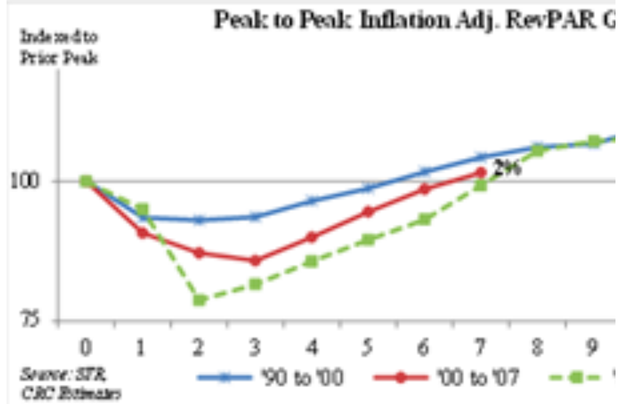




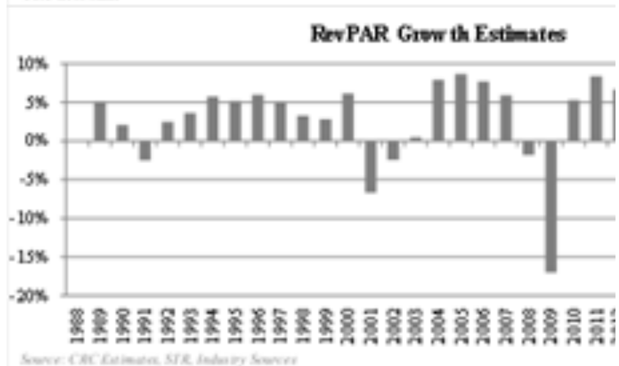

Peak to Peak Occupancy
Indexed to Prior Peak
-0.2%
'90 to '00
'00 to '07
Source: STR, CRC Estimates


Peak to Peak ADR Growth
Indexed to Prior Peak
23%
'90 to '00
'00 to '07
Source: STR, CRC Estimates


U.S. Lodging Cycle: Relative to Prior Peak
Indexed to Prior Peak
22%
'90 to '00
'00 to '07
Source: STR, CRC Estimates


Indexed to Prior Peak
2%
'90 to '00
'00 to '07
Source: STR, CRC Estimates


U.S. Lodging Industry RevPAR
Source: CRC Estimates, STR, Industry Sources


RevPAR Growth Estimates
Source: CRC Estimates, STR, Industry Sources


U.S. Lodging Industry ADR
Source: CRC Estimates, STR, Industry Sources


ADR Growth Estimates
Source: CRC Estimates, STR, Industry Sources

Source: CRC Estimates, STR, Industry Sources

Source: CRC Estimates, STR, Industry Sources