Lodging - China & Italy hotels: RevPAR down 75% & 91% for week ending 3/28/20

China: yes, hotels re-opening and RevPAR recovering, but very-very slowly

What's Incremental To Our View

Quick take: Per STR for the week ending March 28th, China hotel RevPAR in local currency was -75.1% y/y. Italy hotel RevPAR in local currency was -91.4% y/y. This compares to the US for the same week down 80.3% y/y.

High level observations from the latest results are that occupancy is improving in China whereas ADR continues to be cut, though with a net effect that RevPAR growth is improving/"less bad".

From observations of what is happening with RevPAR and re-openings in China, we believe it will be a slower and longer recovery in the US than what the more optimistic/bullish management teams and investors expect. While hotel stocks have been crushed, we are holding back on any potential stock upgrades at this time as we believe we will see more attractive entry points at a future date.

• We look closely at how hotels in China are faring as we believe it not unreasonable to think that a similar pattern to what is happening in China is a preview of what might happen in the US, though exact recovery timing and trajectories in the US are still big unknowns. China implemented far more stringent social distancing requirements than the US, and while we do not claim to be medical professionals, it may take longer (how much longer is a question no one can answer with certainty at this time) to begin to see a clear second-derivative turn in US hotel bookings, reopenings, and RevPAR, like we have seen in China.

About our data set:

• China: Currently 706k hotel rooms in the survey, or 26.2% of the total number of rooms in China. Due to hotel closings, these figures are a decrease from the last week of December where 889k rooms were in the survey, or 31.9% of the total number of hotel rooms in China. However, 706k rooms is a sequential improvement from the prior week where 694k rooms were reporting data. We note that the STR data set is primarily branded hotels, which see a larger number of international (meaning fly-to) guests than does the average hotel in China. Implications are that with international inbound flights to China severely curtailed, RevPAR results and hotel reopenings in the STR data set could be weaker than the average hotel in China.
Italy: Currently 10k hotel rooms in the survey, or 2.7% of the total number of rooms in Italy. Due to hotel closings, these figures are a decrease from the last week of December where 80k rooms were in the survey, or 21.6% of the total number of hotel rooms in Italy. **10k rooms is a sequential drop from the prior week where 12k rooms were reporting data.**

RevPAR detail for week ending March 28th vs. trailing 28 days:

China (local currency):  
- RevPAR was -75.1% y/y for the week ending March 28th, an **improvement** from -79.0% for the trailing 28 days.  
- ADR was -38.8% y/y for the week ending March 28th, a **deceleration** vs. -33.4% for the trailing 28 days.  
- Occupancy was -59.3% y/y for the week ending March 28th, an **improvement** vs. -68.5% for the trailing 28 days. *Interestingly, absolute occupancy ex-Hubei Provence was 28.6%, approximately equal to the 29.2% when including this Provence which has been at the epicenter of the pandemic.*

Italy (local currency):  
- RevPAR was -91.4% y/y for the week ending March 28th, an **improvement** from the -97.4% for the trailing 28 days. *Although this is an improvement from the prior week and 28 days, given the low sample size and continued hotel closings, this improvement could be a result of Simpson’s Paradox.*  
- ADR was -36.9% y/y for the week ending March 28th, a **deceleration** from the -28.1% for the trailing 28 days.  
- Occupancy was -86.4% y/y for the week ending March 28th, an **improvement** vs. -84.3% for the trailing 28 days.

Additional thoughts and observations:

Hotel occupancy observations from the latest weekly STR results from China, Italy, and US:  
- **Absolute occupancy levels for hotels that were still open** in China bottomed out at approximately 10% the week of February 8th. This was approximately 21 days after occupancy first started to see rapid deceleration in China. By comparison, peak weekly absolute occupancy in China in early January was 65%. From STR data for the week ending March 28th, absolute occupancy in China was 29.2%.  
- **Italy: Absolute occupancy levels for hotels that were still open** in Italy for the week ending March 28th was 9.7%. So far it has been approximately 35 days after occupancy first started to see rapid deceleration in Italy. By comparison, peak weekly absolute occupancy in the Italy in early mid-February was 63%.  
- **US: Absolute occupancy levels for hotels that were still open** in the US for the week ending March 28th were 22.6%. So far it has been approximately 21 days after occupancy first started to see rapid deceleration in early –mid March in the US. By comparison, peak weekly absolute occupancy in the US in early mid-February was 64%.

Hotel closure observations from the latest weekly STR results from China, Italy, and US:  
For this we look at the week-to-week changes in the sample size of hotel rooms in STR’s data set. While we cannot say with certainty that material decreases in sample size are from hotels closing, we note that hotels that are closed no longer are included in the STR data sent; Ergo this is our best approximation of hotel closures.  
- **China:** Based on the STR sample, peak room count declines troughed at down 35% in mid-February from early January’s levels. Today, room count is down approximately 20.6%.
• **Italy**: Based on the STR sample as of March 28th, room count declines are running at down 87.7% from early January levels. Unlike our observations on China, we cannot say that this downward trajectory has turned a corner or at least stabilized.

• **US**: Based on the STR sample as of March 28th, room count declines are running at down 17.1% from early January levels. Unlike our observations on China, we cannot say that this downward trajectory has turned a corner or at least stabilized.

• While occupancy in China is becoming "less bad", it is likely that some of this improvement is from cuts to ADR. ADR was -38.8% y/y for the week ending March 28th, a **deceleration** vs. -33.4% for the trailing 28 days. **As we discussed on conference call with HotelAVE last month, historically in a downturn occupancy falls first, followed by ADR getting cut, then occupancy begins to recover followed by ADR. We have no reason to believe we will not see a similar pattern with the recovery in the US.**

• Hotel operating profits in China in February were obliterated and we believe this unfortunately portends for similar results with US hotels in March and April. In China, operating profits were -45.1% y/y in January and -216.4% y/y in February.
Exhibit 1: RevPAR for China, Italy, US

RevPAR % Declines

Source: STR, STRH research
Exhibit 2: Occupancy for China, Italy, US

Source: STR, STRH research

Occupancy Declines
(point of occupancy)
Exhibit 3: ADR for China, Italy, US

ADR% Declines

Source: STR, STRH research
Exhibit 4: Room count in survey for China, Italy, US.

Room count % declines in STR data

Source: STR, STRH research
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