Lodging - China & Italy hotels: RevPAR down 70% & 97% y/y for week ending 4/4/20

China: Results “less bad”/far from encouraging; no “V shaped” recovery so far.

What's Incremental To Our View

Quick take: Per STR for the week ending April 4th, China hotel RevPAR in local currency was -70.3% y/y. Italy hotel RevPAR in local currency was -97.0% y/y. This compares to the US for the same week down 81.6% y/y.

High level observations from the latest results are that occupancy is improving in China whereas ADR cuts are similar to the prior week, 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 716k hotel rooms in the survey, or 26.5% 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, 716k rooms is a sequential improvement from the prior week where 706k 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 8k hotel rooms in the survey, or 2.3% 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. **8k rooms is a sequential drop from the prior week where 10k rooms were reporting data.**

**RevPAR detail for week ending April 4th vs. trailing 28 days:**

**China (local currency):**
- RevPAR was -70.3% y/y for the week ending April 4th, an improvement from -76.8% for the trailing 28 days.
- ADR was -38.3% y/y for the week ending April 4th, a deceleration vs. – 36.0% for the trailing 28 days.
- Occupancy was -52.0% y/y for the week ending April 4th, an improvement vs. -63.8% for the trailing 28 days.

**Italy (local currency):**
- RevPAR was -97.0% y/y for the week ending April 4th, a deceleration from the -95.2% for the trailing 28 days.
- ADR was -53.2% y/y for the week ending April 4th, a deceleration from the -38.4% for the trailing 28 days.
- Occupancy was -93.6% y/y for the week ending April 4th, a deceleration vs. -92.2% for the trailing 28 days.

**Additional thoughts and observations:**

**Hotel occupancy observations from the latest weekly STR results from China, Italy, and US:**

- **China:** Absolute occupancy in China was 30.2%. Absolute occupancy levels for hotels that were still open in China bottomed out at approx. 10% the week of February 8th. This was approx. 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%.
- **Italy:** Absolute occupancy levels for hotels that were still open in Italy for the week ending April 4th was 4.6%. So far it has been approx. 42 days after occupancy first started to see rapid deceleration in Italy. By comparison, peak weekly absolute occupancy in Italy in early mid-February was 63%.
- **US:** Absolute occupancy levels for hotels that were still open in the US for the week ending April 4th was 21.6%. So far it has been approx. 28 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, 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 approx. 19.5%.
- **Italy:** Based on the STR sample as of April 4th, room count declines are running at down 90% 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 April 4th, room count declines are running at down 20.1% 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 -38.3% y/y for the week ending April 4th, consistent with the -38.8% 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 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

Occupancy Declines
(point of occupancy)

Source: STR, STRH research
Exhibit 3: ADR for China, Italy, US

Source: STR, STRH research
Exhibit 4: Room count in survey for China, Italy, US. Room count for US for most recent week not yet available.

Room count % declines in STR data

Source: STR, STRH research
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