LODGING | THOUGHTS INTO THE PRINT(S)

TOP LINE GUIDE DOWNS?

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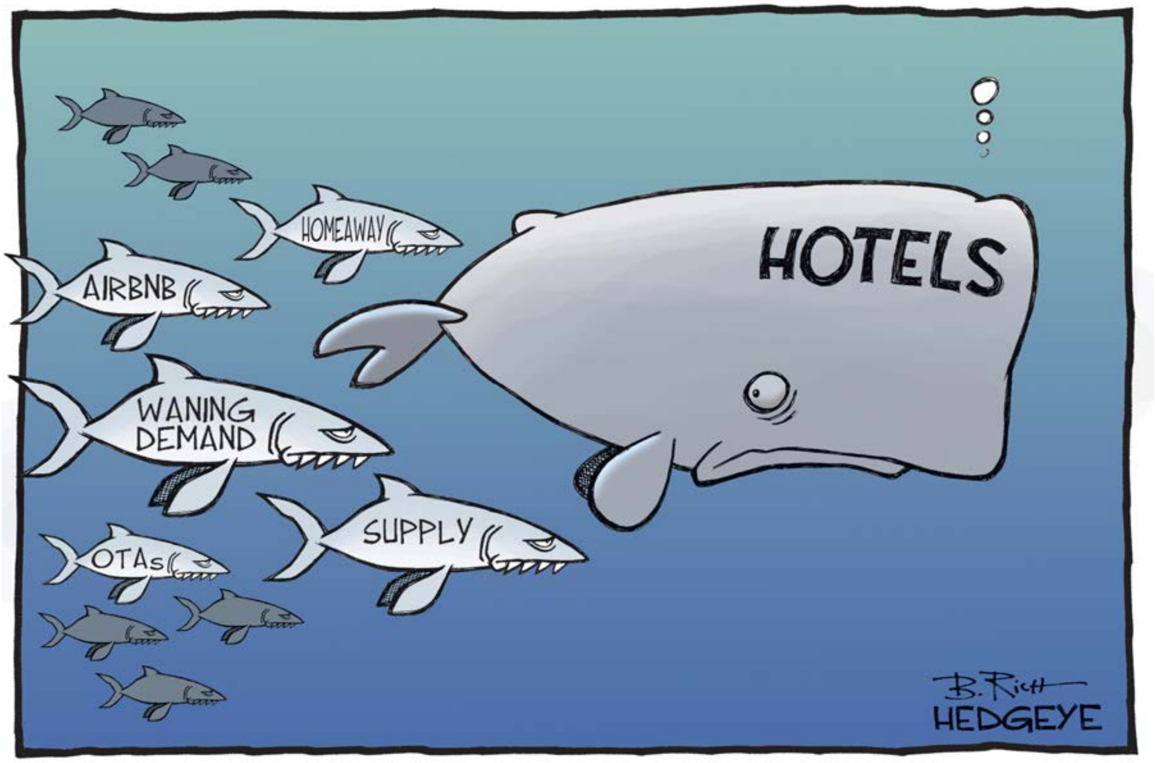

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CALL TO ACTION

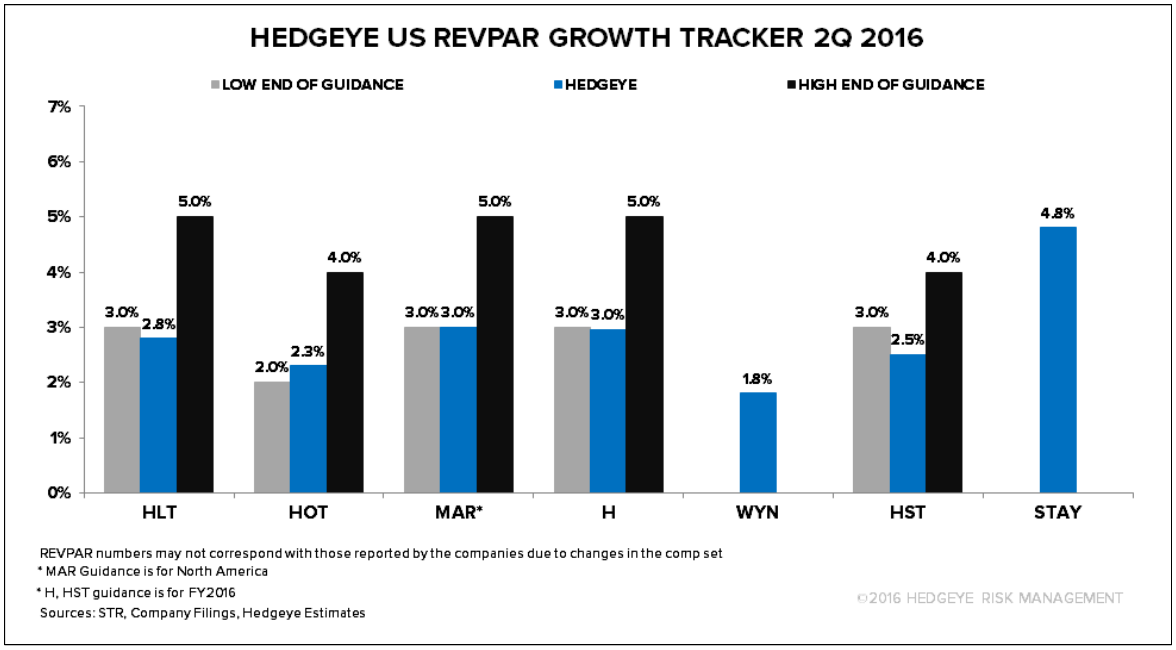
Lodging companies (C-Corps) are set to report earnings this week, starting with HOT on Tuesday (press release only). We think this earnings season will illustrate a decelerating trend. Post-Brexit, hotel stocks have come roaring back, and in our opinion the move is well overdone and largely a function of sector rotation and negative sentiment washout. However, our company RevPAR trackers suggest that most of the hoteliers/REITs will post 2Q RevPAR around the low end of their guidance range and likely lower full year RevPAR expectations. The operators will probably escape with intact 2Q EBITDA and full year EBITDA guidance. However, we think the hotel REITs may be forced to cut EBITDA guidance as well. Stay tuned to management commentary regarding the battle shaping up between the brands and the OTAs – a price war that likely weighs heaviest on the REITs.

RevPAR TRACKERS – 2Q SHOULD BE CLOSE

RevPAR growth continues to slow on a trending basis, but 2Q should see a sequential improvement vs. 1Q due to the Easter shift headwind. Neverthless, due to a slower than expected May and a weak June in the US coupled with a softer overall international segment, we expect the operators to come in at the low end of projected guidance. We anticipate that HLT and MAR, come in at or just below guidance. See our charts and corresponding analysis below. HST will likely be a 2Q laggard.

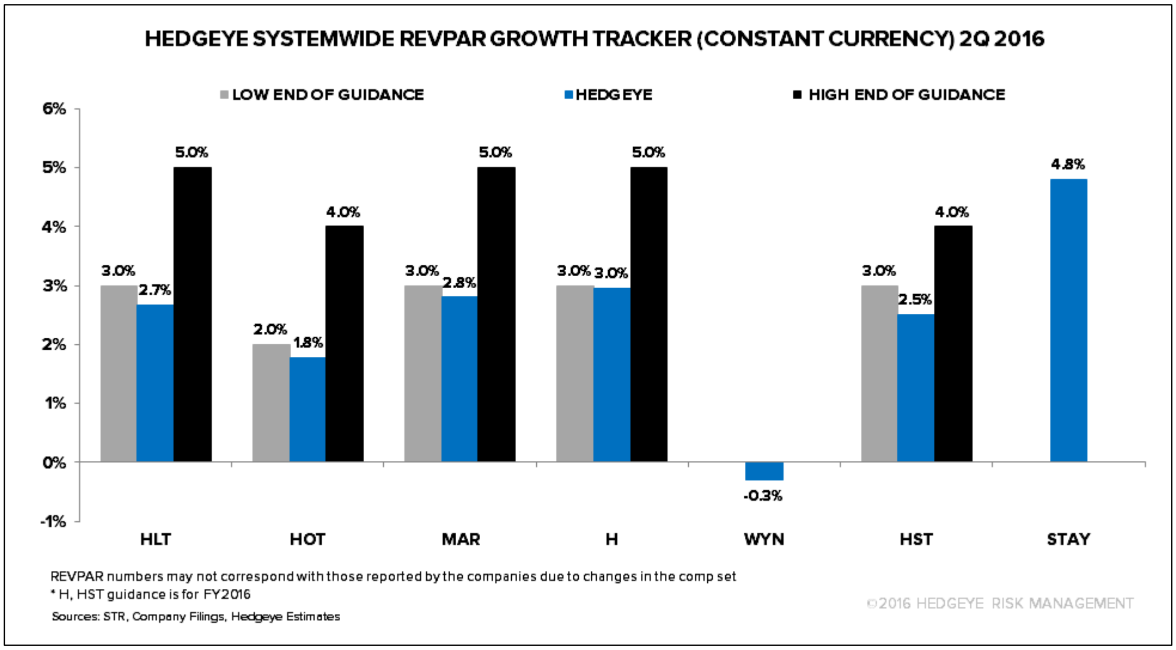
U.S. CALL-OUTS

ADR growth posted a mere 2.9% gain in 2Q despite record occupancy levels (up 0.6% YoY). Weak demand led to poor performance out of the oil patch states, while NYC and Florida suffered due to supply increases. Performance in those markets was partially offset by another strong Q on the West Coast. Our proprietary tracker indicates that it will be close for HLT and MAR.



INTERNATIONAL CALL-OUTS

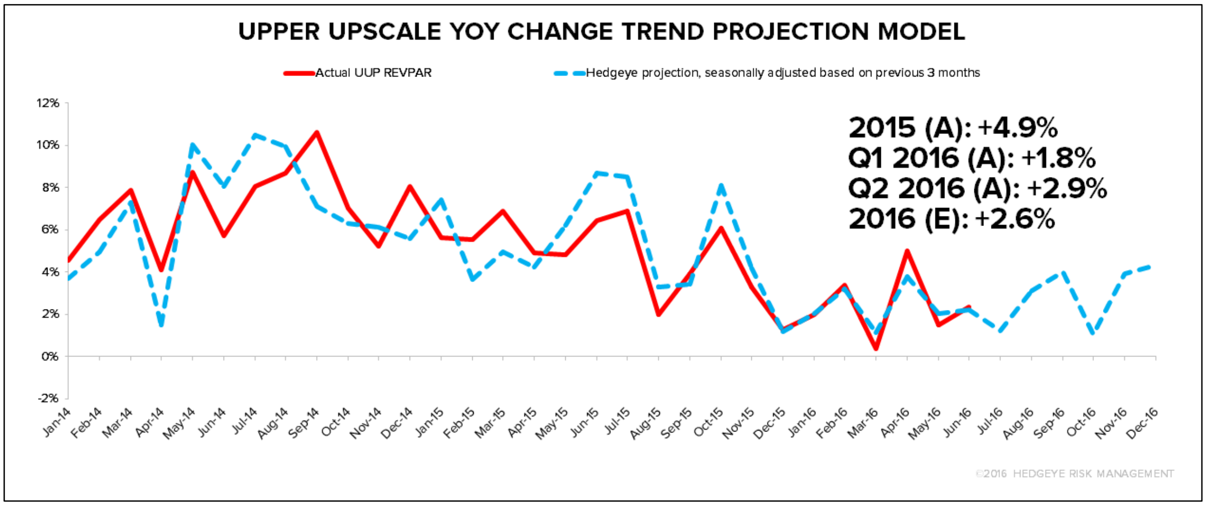
The rest of the world was a mixed bag in 2Q. The Euro area continues to be hit hard with softness out of the UK, France, and Italy, despite solid RevPAR in Germany and Spain. Given geopolitical risks, prolonged weakness out of Turkey and the UAE comes as no surprise and has forced us to bring international estimates lower. In Asia, South Korea bucked its recent negative trend in June. China continues to muddle along, with some strength in big cities followed by Japan, which gave up some of its YTD strength as RevPAR slowed to an 18mth low. Operators will likely see limited lift from countries like Thailand and Australia. The Americas ex US underperformed the rest of the world, and won't materially aid results.



REVPAR OUTLOOK – 3Q AND FULL YEAR 2016

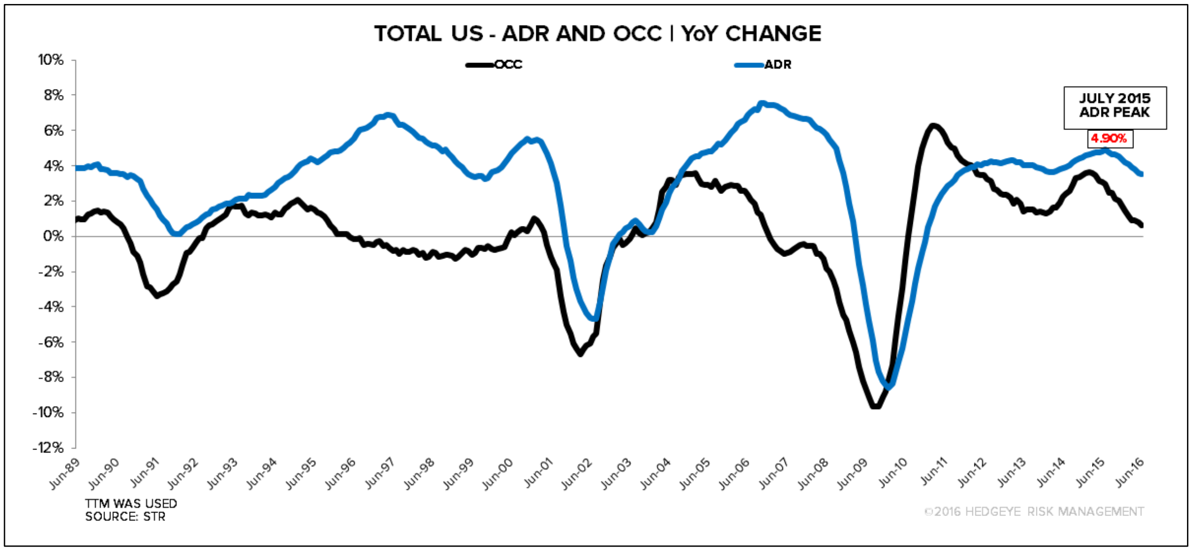
Group business and relative outperformance from the leisure segment could keep concerns of major RevPAR fallout at bay, but slowing overall trends makes us skeptical even of 3% growth this year.

Hedgeye UUP RevPAR tracker is indicating 2.7% RevPAR growth for 2016, **suggesting the top end of MAR and HLT guidance could be cut.** Risk of further guidance cuts could also be realized in 2H16.

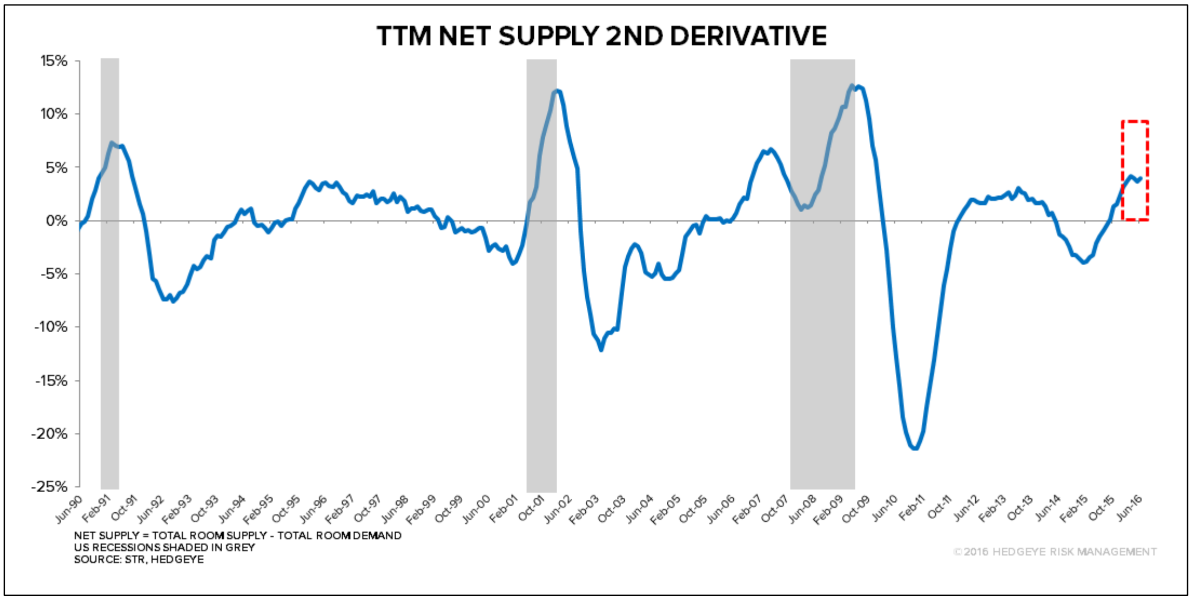


CYCLE UPDATE – TREND LOWER CONTINUES

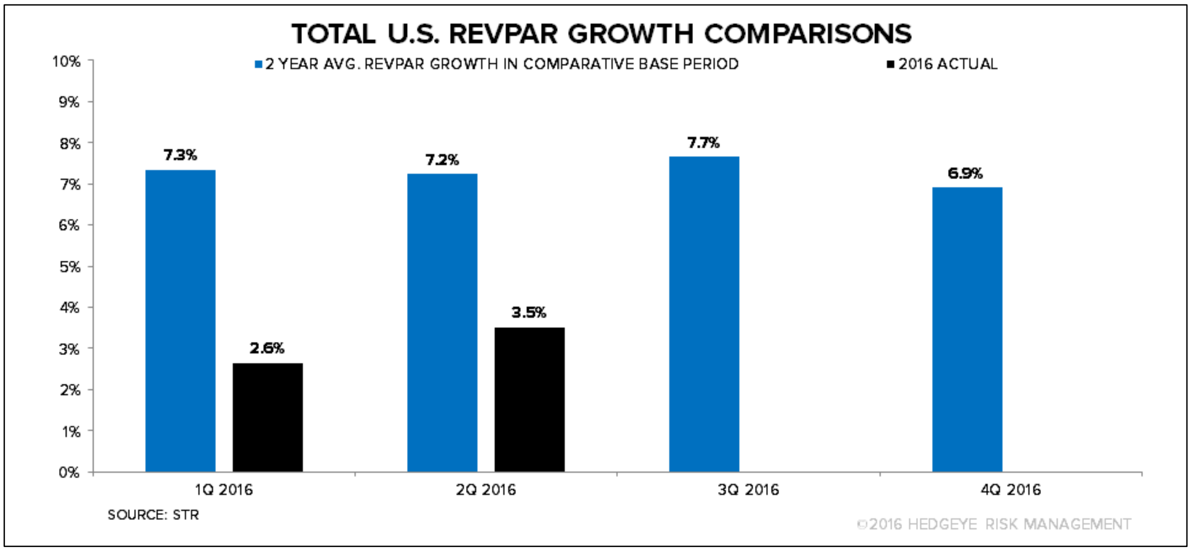
July 2015 marked the peak in ADR growth, not long after the peak in OCC growth. The lower trend should continue at minimum through 2H2016.



Supply remains below historical averages, but the rate of growth in supply is outpacing demand. **Net supply is indicative of the true supply/demand imbalance in the lodging market.** The second derivative of this metric continues to flash a warning sign.



Things do not get easier in the U.S. as 2yr average comps remain elevated. **3Q is the hardest comp for 2016.**



CONCLUSION

Hotel stocks typically underperform at full occupancies even with strong ADR growth. Unfortunately, rate growth seems to missing expectations (Airbnb?) as well. As a result, we think most hotel companies will lower full year RevPAR guidance as part of their 2Q earnings releases/conference calls. While EBITDA guidance may be safe for now for the brand companies, it too is at risk for the hotel REITs, in our opinion. Following the recent surge, we think the hotel stocks are market performers at best as we view RevPAR reacceleration over the next 6-9 months as unlikely. Looking farther out, supply growth is a looming issue which could be magnified in a decelerating demand environment.