

Hotel REITs optimistic going into 2021, after most challenging year in history

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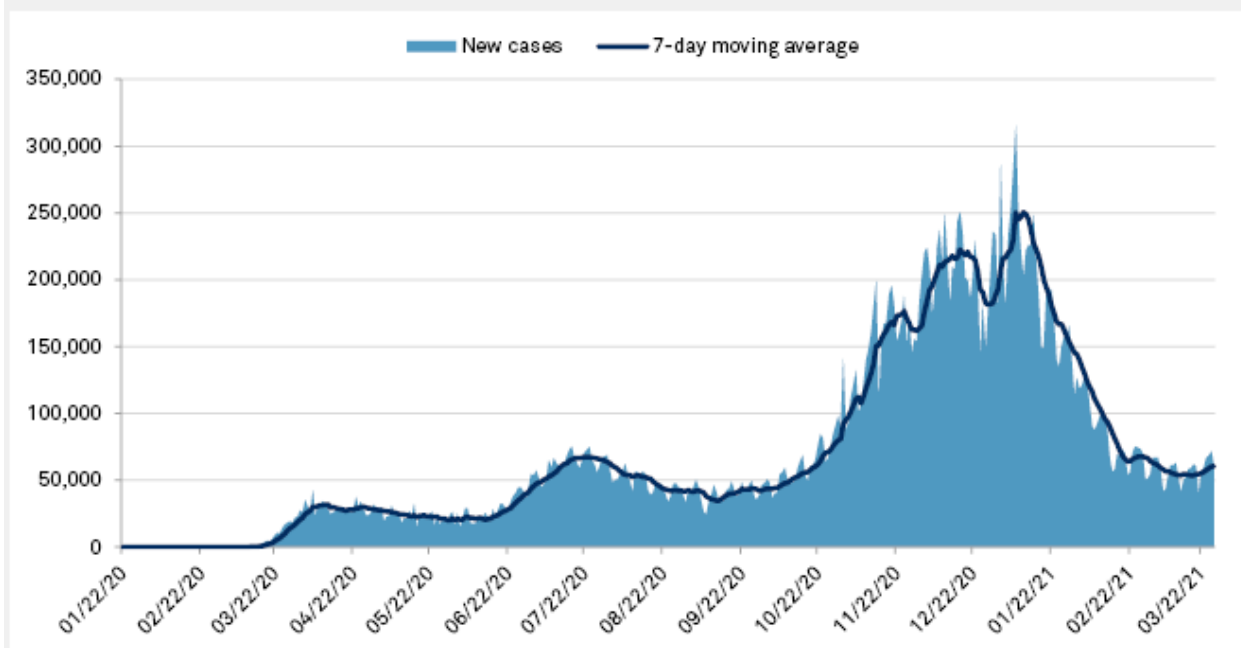
By [Chris Hudgins](#)
Market Intelligence

2020 proved to be arguably the most challenging year in history for hotel real estate investment trusts, as the coronavirus pandemic brought leisure travel to a near standstill.

Hotel REITs first began to feel the impact of the pandemic near the end of the first quarter last year, as the number of new COVID-19 cases in the U.S. began to ramp up in late March. Many states also passed mandates to close nonessential businesses and directed residents to stay at home and avoid travel in an effort to slow the spread of the virus.

Number of COVID-19 cases in the United States reported to Centers for Disease Control and Prevention

Jan. 22, 2020-March 27, 2021



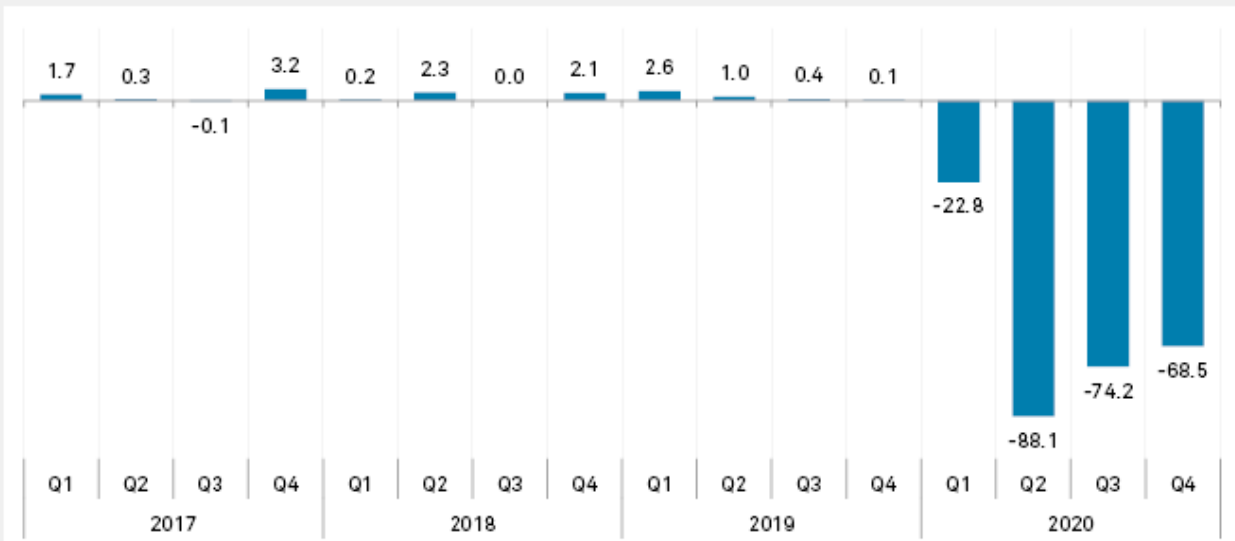
Data compiled March 29, 2021.
Source: Centers for Disease Control and Prevention

As a result, publicly traded hotel REITs logged a median 22.8% year-over-year decline in same-store revenue per available room in the first quarter, with same-store occupancy dropping to 59.5%.

Second-quarter earnings, however, showed the true impact of the pandemic, with hotel REITs reporting an 88.1% drop in same-store RevPAR, on a median basis, along with same-store occupancy rate of only 13.5%.

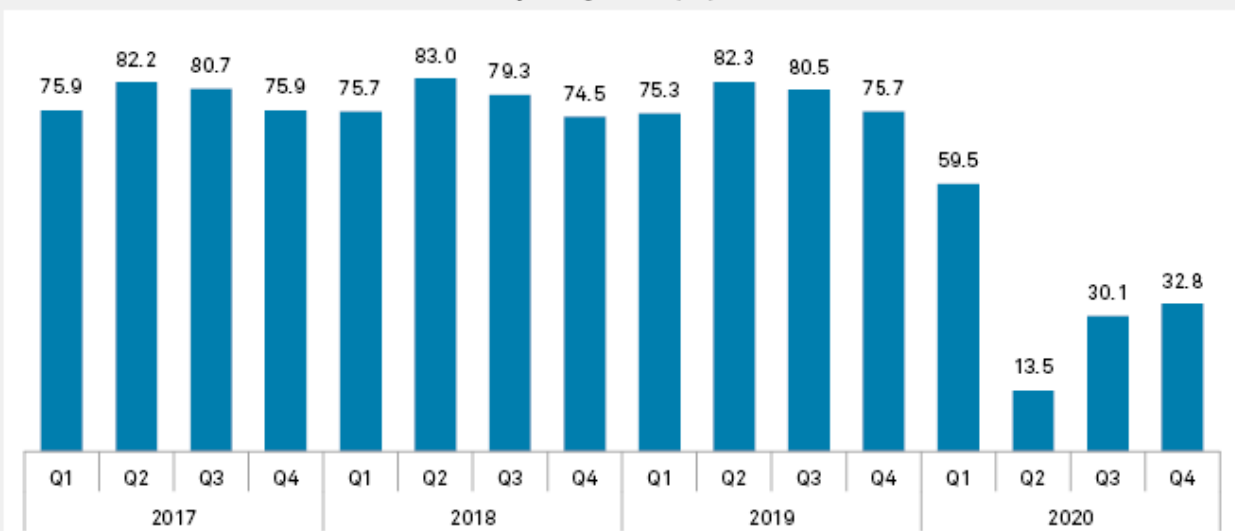
While things got slightly better for hotel REITs in the third and fourth quarters, the metrics still sit far below normalcy.

Hotel REIT median same-store RevPAR YOY growth (%)



Data compiled March 29, 2021.
 RevPAR = revenue-per-available room
 Source: S&P Global Market Intelligence

Hotel REIT median same-store occupancy rate (%)



Data compiled March 29, 2021.
 Source: S&P Global Market Intelligence

[Service Properties Trust](#) was the sole hotel REIT to report a positive operating funds from operations for 2020, \$1.23 per share, braced by the REIT's net lease retail portfolio. The REIT's net lease portfolio logged a 28.7% increase in total revenue in 2020, while its hotel revenue dropped 56.4%.

S&P Global Market Intelligence defines operating FFO as funds from operations adjusted for extraordinary items or other nonrecurring items at the discretion of the company. This is

sometimes referred to as normalized FFO, core FFO or adjusted FFO by the hotel real estate investment trusts.

S&P Global Market Intelligence-calculated recurring EBITDA showed a similar trend, with the vast majority of REITs ending 2020 in the red.

Hotel REIT earnings comparison REIT (ticker)	Market capitalization (\$B)	Operating FFO per share (\$)		Recurring EBITDA (\$M)	
		2020	2019	2020	2019
Host Hotels & Resorts Inc. (HST)	12.13	-0.17	1.78	-296.0	1,515.0
Park Hotels & Resorts Inc. (PK)	5.17	-1.65	2.88	-296.0	716.0
Ryman Hospitality Properties Inc. (RHP)	4.29	-2.71	6.86	-47.7	495.9
Apple Hospitality REIT Inc. (APLE)	3.34	NA	NA	92.0	428.5
Pebblebrook Hotel Trust (PEB)	3.32	-1.46	2.63	-89.1	475.4
Sunstone Hotel Investors Inc. (SHO)	2.75	-0.73	1.12	-107.1	326.4
RLJ Lodging Trust (RLJ)	2.53	-0.98	2.03	-58.7	453.6
Xenia Hotels & Resorts Inc. (XHR)	2.29	-0.82	2.19	-35.5	291.8
DiamondRock Hospitality Co. (DRH)	2.25	-0.42	1.07	-80.6	238.3
Service Properties Trust (SVC)	2.04	1.23	3.78	514.2	849.0
Summit Hotel Properties Inc. (INN)	1.12	-0.37	1.25	8.3	183.1
Chatham Lodging Trust (CLDT)	0.66	-0.40	1.85	4.9	107.8
CorePoint Lodging Inc. (CPLG)	0.54	-0.49	1.57	-11.0	123.0
Hersha Hospitality Trust (HT)	0.43	-1.31	1.94	-36.7	143.3
Ashford Hospitality Trust Inc. (AHT)	0.30	-17.93	12.22	-63.9	389.6
Braemar Hotels & Resorts Inc. (BHR)	0.26	-0.93	1.41	-20.8	75.9
Sotherly Hotels Inc. (SOHO)	0.05	-2.33	1.11	-10.6	39.3
Condor Hospitality Trust Inc. (CDOR)	0.04	-0.46	0.94	-4.7	15.6

Data compiled March 29, 2021.
 FFO = funds from operations; NA = not available
 S&P Global Market Intelligence-collected operating FFO calculated by adjusting funds from operations for extraordinary items or other nonrecurring items at the discretion of the company. This is sometimes referred to as normalized FFO, core FFO or adjusted FFO by the hotel real estate investment trusts.
 Source: S&P Global Market Intelligence

Recovery optimism

Despite the hardships faced in 2020, hotel REITs generally expressed optimism regarding a gradual recovery of the sector on their fourth-quarter earnings calls, noting that vaccinations and decreasing state lockdowns would help bolster the sector.

"With vaccinations ramping up, weekly COVID case numbers decreasing and lockdown starting to ease in many states, we believe the worst of the pandemic is behind us," Service Properties Trust's CEO John Murray noted on the REITs recent earnings call.

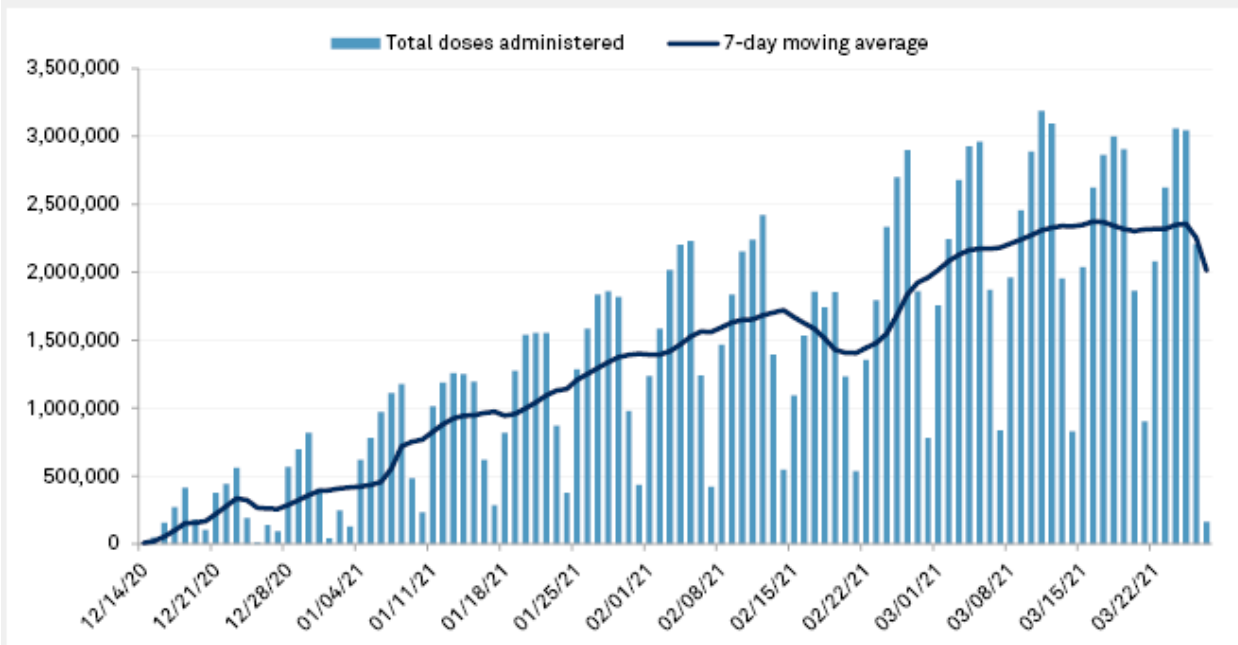
[Apple Hospitality REIT Inc.](#)'s CEO Justin Knight conveyed a similar outlook, however, he noted that recovery will vary from market to market.

"We expect occupancy to continue to improve throughout 2021 with domestic reserve and demand-driving performance early in the year and business demand led initially by local and regional accounts strengthening as the year progresses. The increase in travel will be facilitated

by rollout of vaccines and loosening our travel restrictions and the pace of recovery will vary by market," Knight mentioned.

Total doses of COVID-19 vaccines administered in the US and reported to the Centers for Disease Control and Prevention

Dec. 14, 2020-March 27, 2021



Data compiled March 29, 2021.
Source: Centers for Disease Control and Prevention

Hotel REITs are already starting to see an increase in group booking for events scheduled in the latter half of 2021.

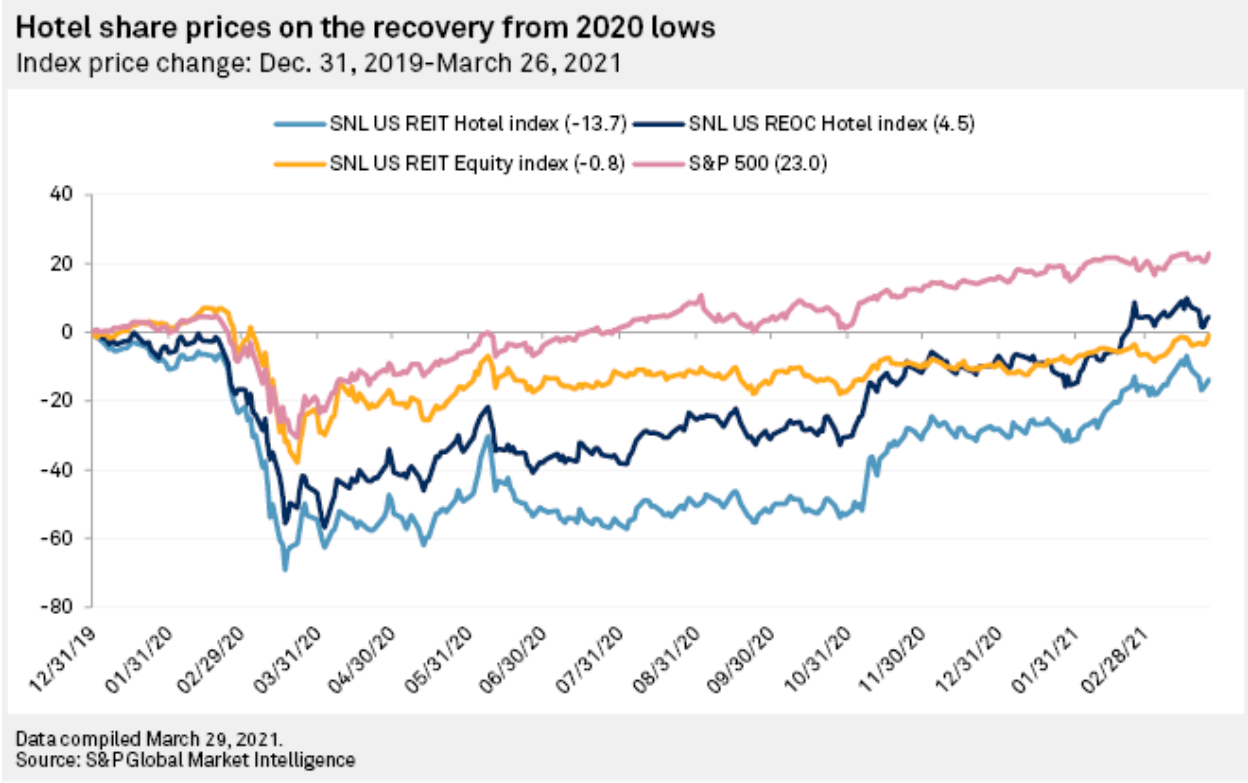
[Host Hotels & Resorts Inc.](#)'s CEO James Risoleo reported 2021 group bookings for the REIT's Marriott-managed hotels were up 32% in January, compared to January 2019, noting that January is typically a slow month for group booking activity.

In total, the REIT had approximately 1.6 million room nights on the books for 2021, with roughly 1 million of those scheduled for the second half of the year, fairly evenly split between the third and fourth quarters. Should the groups materialize, Host Hotels' group business will be at roughly 50% of 2019 levels for the second half.

"While group pace is less meaningful today, as most meeting planners remain on the sidelines, we are encouraged by our total group revenue pace for the latter half of 2021," Risoleo commented.

Service Properties Trust's John Murray highlighted a similar trend, with group bookings at his company's hotels during the final week of January being the highest since March 2020, with the majority coming in the form of smaller group meetings of 11 to 50 people.

Investors seem to hold similar optimism for hotel REITs, with the SNL U.S. REIT Hotel index up 85.0% since Oct. 30, 2020, and only down 13.7% compared to 2019 year-end, as of March 26.



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