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Data Navigator

White Paper:

Lodging Industry-Specific Data





There are several important lodging metrics to that are unavailable on standard cash flow, balance sheet or income statements.

When considering investing in lodging companies, it is important to note that there are several metrics specific to the industry that don't appear on standard income statements or balance sheets.

An important figure such as Revenue per Available Room (RevPar), which investors consider primary to understanding hotel profitability, is only found by wading through financials or press releases. RevPar and other specific hotel calculations are not obvious or readily available, yet they may have a profound effect on screening hotel companies or including them in one's quantitative model.

To make these items readily available for modeling, Compustat is now providing an industry-specific lodging data set. It includes companies from the GICS[®] sub-industries of Hotels, Resorts & Cruise Lines (25301020) and Specialized REITs (40402070). The data set is composed of five key items that are valuable in analysis and consistently found in most lodging companies' 10-Ks, 10-Qs and press releases. All five items are available on a quarterly (2002 forward) and annual (1999 forward) basis. This paper will walk through each of the items, describing their significance and how they can be used in analysis. A complete listing of the data is available at the end of this paper.

A Brief Overview of the Lodging Industry

The hotel industry is a multi-billion dollar industry whose major players are mostly large public companies. The largest by rooms in the U.S. is franchisor Wyndham Corp., the parent of brands Days Inn, Howard Johnson, Knights Inn, Ramada, Travelodge and Super 8. Other large companies include Marriot International Inc., Starwood Hotels & Resorts Worldwide, Choice Hotels International Inc., and Hospitality Properties Trust.

There are three primary paths to growth in the lodging industry: raising profits at existing hotels, opening new hotels, or making acquisitions. These three paths are all capital-intensive; the millions required to build or buy new properties is likely to be borrowed. Hotel ownership can be structured in a variety of forms including corporations, partnerships, and real estate investment trusts (REITs).¹ Outside of direct ownership, companies can franchise hotels, or manage other hotels as a service business. Standard & Poor's estimates that roughly 70% of lodging properties are a part of a chain brand. Advantages of a chain brand include the use of a well-known name and being linked to customers through a central reservation system.



Overseas expansion has provided new avenues for growth in an overcrowded U.S. hotel industry.

Among recent trends in the lodging industry is a move towards overseas development; U.S.-based hotel companies are quickly developing properties in the Asia-Pacific region, particularly China. Overseas expansion has provided new avenues for growth in an over-crowded and competitive U.S. hotel market. Other recent trends include a potential slowdown in M&A activity in response to the credit crisis, and a move to increase brand loyalty through a number of means: upgrading rooms, niche brands, new social networking-based websites, and increasing responsibility toward the environment.

The lodging industry is closely related to the casino, or gaming, industry. Many casinos are hotels, and there are several common characteristics to both industries such as a significant dependence on tourism and leisure travel. For more information on gaming industry data that Compustat provides, see the *Data Navigator Whitepaper: Gaming Industry-Specific Data*.

¹ A REIT is a tax designation that reduces or eliminates corporate income taxes. REITs are required to distribute 90% of their income, which is then taxable, to investors. A REIT may be publicly or privately held.

Room Revenue

In terms of quantitative data, one of the most important considerations when analyzing lodging companies is room revenue. Full-service hotels generally take in well over half of their revenue from room charges (remaining revenues are typically generated from food and beverages). Limited-service hotels take in over ninety percent of revenues from room charges. Because of this distinction in how revenues are generated, investors consider three room revenue figures as primary measures of hotel company health: **Room Occupancy Rate (LGROR)**, **Average Daily Rate (LGADR)**, and **Revenue per Available Room (LGREVPAR)**.

Room Occupancy Rate (LGROR) is simply the percentage of hotel room occupancy over a period. Given the high fixed costs for running a hotel, the higher the occupancy, the more profitable lodging companies tend to be. In recent years the industry as a whole has boosted occupancy levels to the mid-sixty percent range. Occupancy can be looked at over time and in relation to peer averages to determine how well hotel companies are drawing in guests, their sole source of revenue.

Average Daily Rate (LGADR), also termed ADR or average room rate, is the average rate charged for rooms sold over the period. It is calculated by dividing total room revenues by the number of room-days (one room rented for one day) sold. The higher the average daily rate hotels are able to garner, the better, and investors look for the percentage change to be positive across periods.

Average daily rate does not take into account the expense of *all* rooms a hotel maintains, which is why **Revenue per Available Room (LGREVPAR)** is the more closely regarded figure by investors. **Revenue per Available Room (LGREVPAR)**, or *RevPAR*, is calculated by multiplying the average daily rate by the occupancy rate, giving the average rate for all rooms a hotel maintains, sold and unsold. If a hotel's average daily rate is \$100



**RevPAR =
ADR x Occupancy**
*The calculation is
the most closely
regarded figure by
investors.*

and its occupancy rate is 60%, then its RevPAR will be \$60. Investors examine the percentage increase in RevPAR from prior-year periods, and whether the current RevPAR will bring profit in comparison to costs. Hotels attempt to boost RevPAR by refurbishing rooms, expanding existing properties, new advertising, or re-branding their name. Based on expected occupancy and demand, a hotel also adjusts room rates to maximize RevPAR. RevPAR does not include revenue sources such as food, beverages, and casino winnings—analysts may consider looking into these sources on 10-Ks and 10-Qs if it is determined that they contribute a significant portion to total hotel revenue.

For each of the aforementioned room revenue figures—**Occupancy Rate (LGROR)**, **Average Daily Rate (LGADR)**, and **Revenue per Available Room (LGREVPAR)**—it is important to note that Compustat ideally collects same-hotel (comparable) figures. Most companies report these three figures on a same-hotel basis, meaning they exclude hotels newly-opened within the last year. If the same-hotel figure is not available, Compustat collects the given total figure, which includes all hotels.



Occupancy, ADR and RevPAR are typically reported on a same-hotel basis.

Company size

In addition to growing by increasing room revenue at existing hotels, the other avenue for growth is to expand by acquisitions and new properties. Growth by expansion adds revenue and, by realizing economies of scale, gives larger hotel companies a competitive advantage over smaller companies. Their substantial operating budgets also provide purchasing power for things like marketing and room upgrades.

Compustat provides two figures concerning company size: **Hotel/Motel Rooms (LGROOMS)** and **Hotel/Motel Properties (LGPROP)**. Investors can use these as a general indicator of size and to determine how actively the company is expanding through acquisitions or new properties. Jumps in revenue or large cash outlays may be explained by such expansion. Generally,



Hotel rooms and properties figures can be looked at to determine expansion and general company size.

expansion through new rooms and properties is favorable, though growth presents its own set of challenges. The industry as a whole can expand too rapidly if the number of rooms available outpaces demand. A detailed analysis may look at figures for regional room supply and demand (available from companies such as Smith Travel Research Inc.) to determine how favorable lodging expansion is relative to demand.

Case Study

Let's take a look at some of the lodging data from Compustat. The following represents a screening of eight of the highest market cap companies found in both the Hotels, Resorts & Cruise Lines (25301020) and Specialized REITs (40402070) GICS sub-industries. As an important note, the companies have been screened to make sure that they actually have lodging operations based on the RX footnote.² The data is taken from the second calendar quarters of 2007 and 2008.

Lodging Companies	Occupancy			Average Daily Rate			RevPAR			Rooms		
	Q2 2007	Q2 2008	% Chg	Q2 2007	Q2 2008	% Chg	Q2 2007	Q2 2008	% Chg	Q2 2007	Q2 2008	% Chg
Marriott International Inc.	76.0	74.1	-2.50%	\$143.51	\$151.95	5.88%	\$109.13	\$112.53	3.12%	519,196	532,340	2.53%
Wyndham Worldwide Corp.	56.5	54.6	-3.36%	\$67.86	\$71.20	4.92%	\$38.35	\$38.87	1.36%	541,676	551,457	1.81%
Starwood Hotels & Resorts Worldwide	71.9	71.6	-0.42%	\$172.81	\$189.89	9.88%	\$124.28	\$135.91	9.36%	272,666	277,069	1.61%
Hospitality Properties Trust	75.1	75.1	0.00%	\$105.05	\$110.25	4.95%	\$78.89	\$82.80	4.96%	45,345	42,946	-5.29%
Choice Hotels International Inc.	59.1	57.4	-2.88%	\$70.98	\$73.57	3.65%	\$41.92	\$42.22	0.72%	445,826	463,665	4.00%
Felcor Lodging Trust Inc.	74.2	76.5	3.10%	\$133.35	\$138.22	3.65%	\$98.94	\$105.76	6.89%	24,082	25,007	3.84%
Orient -Express Hotels	63.8	60.0	-5.88%	\$458.00	\$525.00	14.63%	\$315.00	\$306.00	-2.86%	N/A	N/A	N/A
Host Hotels & Resorts Inc.	77.1	76.5	-0.78%	\$202.32	\$207.62	2.62%	\$156.08	\$158.91	1.81%	64,000	64,000	0.00%
Peer Averages	69.2	68.2	-1.59%	\$169.24	\$183.46	6.27%	\$120.32	\$122.88	3.17%			

² Within the two GICS sub-industries, a few companies do not have lodging operations but instead operate timeshares, cruise ships, assisted living homes, healthcare facilities, or other miscellaneous activities. These companies will have an "RX" value in the LGREVPARF (or LGREVPARQF) footnote item that indicates they **do not** have lodging operations.

Looking at the change in second quarter occupancy levels from 2007 to 2008, we can see that most companies suffered from a general decrease in occupancy, the exception being Felcor Lodging which saw an increase of 3.1%. The decreased occupancy can likely be attributed to the slowing economy and loss of discretionary income for leisure travel. The average daily rate for all hotels increased significantly between the two quarters, with the peer average at 6.27%. By increasing ADR, most of the companies were able to see a positive RevPAR increase despite falling occupancy. Starwood Hotels and Felcor Lodging Trust are standouts with increased RevPar of 9.36% and 6.89% respectively.

Regarding the rooms figures, we can determine which companies expanded operations during the same period (rooms figures will not reflect RevPAR, however, since RevPAR is determined by same-stores). Choice Hotels and Felcor Lodging showed the largest increase in rooms in the period, both close to a 4% increase. The increase in rooms may or may not bode well for the future RevPAR of these companies, given the general fall in occupancy levels. Felcor's increase in 925 new rooms, particularly given its recently strong occupancy, is likely positive for their future outlook.

Summary

The industry-specific lodging data set provides a number of items that are valuable for screening and modeling. The data has been selected according to its significance—the items are widely meaningful within the industry, and companies report them in 10Ks, 10Qs, press releases or website data sources. Compustat's data has been further standardized to remove discrepancies in the way companies report items; as a result, the data is immediately comparable across companies and time, and is a reliable indicator of trends in the industry.

We hope that this guide has served as a primer to understanding the lodging industry and how our data might be used in analysis. For in-depth information on analyzing lodging companies, see Standard & Poor's *Industry Survey: Lodging and Gaming*. Industry surveys are available with a subscription to [Standard & Poors Market Insight](#).

Lodging Industry-Specific Data Items

Mnemonic	Data Item Name	Units
Occupancy and Revenues		
LGROR (Q)	Room Occupancy Rate	Percentage
LGADR (Q)	Average Daily Rate (ADR)	Dollars
LGREVPAR (Q)	Revenue per Available Room (RevPAR)	Dollars
Company Size		
LGROOMS (Q)	Hotel/Motel Rooms	Actual
LGPROP (Q)	Hotel/Motel Properties	Actual

(Q) next to mnemonic signifies the item is available quarterly as well as annually.

Compustat Contact Information:

North America
 U .S. and Canada 800.357.0769
 Mexico 01.800.288.2872; then dial 800.523.4534

Europe
 London ++44.(0)20.7176.8580

Asia
 Hong Kong ++852.2352.8030
 Japan ++81.3.4550.8711
 India 000800 4401497

investment_services@standardandpoors.com

<http://www.compustatresources.com>