Lodging

REIT restack: 4 for '24 = Buy Ryman and Host, lowering Apple and Pebblebrook

Rating Change

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Equity
United States
Lodging

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Lodging REIT ratings restack: 4 names for 2024

We are revisiting our Lodging REIT coverage and adjusting ratings as we enter 2024. Lodging REITs performed well in 2023, rising +15% vs. +9% for the RMZ, +24% for the S&P 500, though underperforming Lodging C-Corps (+31%). The entire outperformance came in 4Q (+19%), boosted by rate cut optimism and falling Treasury yields (-15%). The rally makes sense cyclically but was in spite of a -12% cut to EBITDA estimates through 2023, largely driven by cuts to margins due to inflation. Rising stocks and falling estimates means valuations are back in-line with the long-term average, presenting less attractive risk-rewards, especially as cycle fundamentals are in the mid or late stages.

RHP: The gold standard in Group; maintain Buy

We revisit Ryman Hospitality (RHP) and raise our PO to $125 (2025E EBITDA and avg multiple of 14.5x). RHP remains the best in class Lodging REIT driven by idiosyncratic organic growth across unique and concentrated group hotels. Shares outperformed in 2023 (+35% vs. +15% for REITs) but we see growth continuing driven by 1) group outperformance, 2) negligible large scale group supply/construction, 3) expansion at the Rockies and optimization of Hill Country, 4) M&A potential with an advantaged cost of capital. Our updated EBITDA bridge gives us $720-750M of EBITDA potential by 2025.

HST: Raising to Buy on valuation and growth potential

We double upgrade Host Hotels & Resorts (ticker HST, $14.1B market cap) to Buy from Underperform. We have been underweight Host for years, but HST has 1) steadily improved capital allocation under current management, 2) markets and geographic exposures should be favorable with overexposure to group/urban and more cost levers in full-service than select service, 4) reopening of 2 Naples properties and compelling valuation relative to the sector overall.

APLE: Lower to Neutral; selecting full service over select

We lower Apple Hospitality (ticker APLE) to Neutral from Buy. Apple (ticker APLE, $3.9B) remains the best of breed select service Lodging REIT name, the first to exit its cash burn position during COVID. APLE is also less levered, leaving room for further growth through acquisitions. We are however concerned by lower RevPAR growth risk, coupled with higher margin pressures given fewer cost offsets in select service. Our call is less idiosyncratic to Apple but puts us net underweight across select service (APLE, RLJ, INN). Our PO goes to $18 from $19 based on a long term multiple (12x) on 2025E EBITDA.

PEB: Lower to U/P as geographies weigh on returns

We lower Pebblebrook (ticker PEB, $1.9B market cap) to Underperform from Neutral. Pebblebrook's heavy West Coast and business transient exposure was an asset in the early to mid 2010's but has turned into a challenge post-COVID among union, labor and social issues. We see risks from 1) continued overexposure to more challenged markets with less operating flexibility, and 2) don't see pressures abating, while they miss out on group and Northeast urban rebounds. La Playa reopening and some leisure green shoots are positives, but PEB still faces an elongated recovery for equity holders given leverage.

Exhibit 1: Summary of ratings and price objective changes

We raise HST to Buy, lower PEB to Underperform and lower APLE to Neutral

	Rating		PO	
Ticker	**Old**	**New**	**Old**	**New**
HST	U/P	Buy	$18	$23
PEB	Neutral	U/P	$13.50	$13.50
APLE	Buy	Neutral	$19	$18
RHP	Buy	Buy	$100	$125

Source: BofA Global Research

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Exhibit 2: Summary of estimate changes

We tweak our estimates to reflect Ryman's ROI capex investments (see Exhibit 11)

	2024		2025	
Ticker	**Old**	**New**	**Old**	**New**
RHP	$703	$706	$714	$729

Source: BofA Global Research estimates

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Refer to important disclosures on page 14 to 18. Analyst Certification on page 13. Price Objective Basis/Risk on page 12.
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Restacking Lodging REIT ratings for 2024

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The rally makes sense cyclically but was in spite of a -12% cut to EBITDA estimates through 2023, largely driven by lower margins due to inflation. Rising stocks and falling estimates means valuations are back in-line with long-term average, presenting less attractive risk-rewards, especially as cycle fundamentals are in the mid or late stages.

- **Estimate Revisions.** Lodging REITs on average saw EBITDA estimates decline 12% in 2024, and RHP was the only company with positive revisions due to the Hill Country acquisition and strong group RevPAR growth.
- **Valuations vs. History.** Lodging REIT valuations are back to in-line with LT averages at 11.9x EV/EBITDA vs. their LT average of 11.9x. HST is the cheapest at 10.1x while RHP is the most expensive at 13.9x.
- **Valuation vs. Real Estate.** Lodging REIT cap rates are 580bps above the 10-year currently, in-line with the long-term average of 577bps. Meanwhile, spreads to the 10-Year Treasury are -73bps below for all other asset classes of real estate, driven by manufactured housing (-211bps), industrial (-199bps), healthcare (-156bps) and self-storage (-84bps).

Exhibit 3: Lodging REIT Industry Bull/Bear 2024 Outlook

Broader sector bull/bear debates around macro, demand, supply and the M&A landscape

Topic	Bull Case	Bear Case
Macro	BofA Lodging Macro Activity Tracker (LMAT) improving "Soft landing" more likely and interest rates have peaked Multiple Fed rate cuts likely is good for commercial real estate	Macro demand indicators remain anemic in absolute terms Still mixed signals across BofA proprietary indicators Lodging not a big cap interest rate beneficiary vs. other real estate
Demand	Occupancy still 200bps below pre-COVID esp. midweek Group RevPAR tailwinds from multi-year resets and low supply Corporate trans still recovering but modest tailwinds Leisure normalization a risk, but already normalized in many mkts	Rates are +20% above pre-COVID and up more on weekends (+27-30%) Leisure normalization still a risk in certain markets Structural factors in business demand; esp large corporate China/West Coast inbound structurally impaired
Supply	Low industry supply of just 1% half of LT average New construction subdued due to rates and inflation Even lower urban and group supply is a tailwind for Full Service	Conversions and soft brands could dilute owners Brand pipelines still healthy should inflation/rates cool
M&A	Public equity currency could trump private equity HT buyout shows private equity still interested in asset class Lack of public mkt interest could create willing sellers	Current volumes heavily impacted by high interest rates Levered balance sheets provide less room for M&A Lackluster REIT to REIT M&A track record
Valuation & Risk / Reward	Stocks should trade at a premium to history if cycle improves Revisions in '23 are unlikely to repeat without a recession +23% upside to group on midcycle numbers	Multiples should trade below LT average -12% neg. revisions in '23; margin risk in '24 if inflation doesn't subside -17% downside risk to group on midcycle numbers

Source: BofA Global Research

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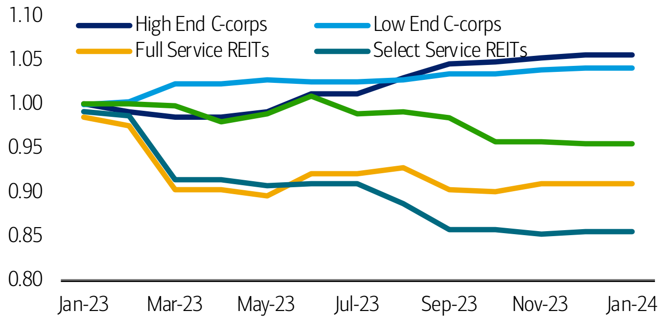
Exhibit 4: EBITDA Estimate Revisions in 2023 by subsector

C-corps revisions were positive while REITs revisions were negative



Source: BofA Global Research estimates, Visible Alpha

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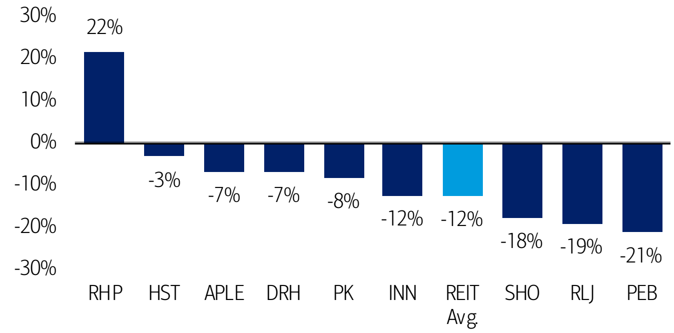
Exhibit 5: EBITDA Estimate Revisions in 2023 by company

REIT earnings revisions were -12% in 2023; RHP was the lone positive



Source: BofA Global Research estimates, Visible Alpha

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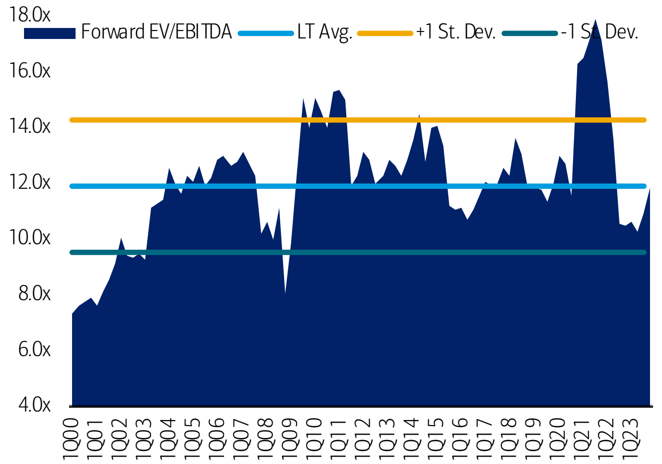
Exhibit 6: Lodging REIT Historical Forward EV/EBITDA Valuation

Lodging REITs are currently trading at 11.8x 2024E EV/EBITDA, in-line with their 11.9x LT average.



Source: BofA Global Research estimates, Bloomberg

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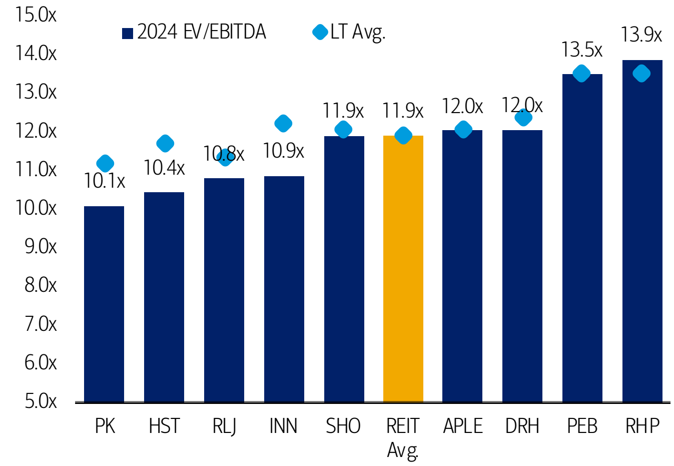
Exhibit 7: Lodging REIT 2024E EV/EBITDA by Company

There is still a fairly wide difference across Lodging REIT valuations, with PK and HST the least expensive while PEB and RHP are the most expensive.



Source: BofA Global Research estimates, Bloomberg

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Exhibit 8: Historical Valuation by Gaming, Lodging & Leisure sub-sector

Lodging REITs are currently trading right in-line with their long-term average valuation of 11.9x but slightly below the 2010-2019 cycle of 12.7x. With higher interest rates we think the long-term average makes sense to use.

Subsector	EV/EBITDA 2024	Long-Term Average	Last Cycle Average	2024 Difference	Cumulative Distribution	Theoretical (1) LT Avg.	2024 Difference	Cumulative Distribution
All Gaming	10.2x	10.3x	10.7x	-5%	66%	10.6x	-4%	64%
Macau	10.2x	13.9x	13.4x	-24%	98%	12.0x	-15%	89%
Las Vegas	7.2x	10.2x	10.6x	-32%	100%	8.0x	-10%	74%
Regionals	8.2x	8.9x	8.8x	-7%	69%	7.9x	3%	41%
Gaming REITs	15.5x	14.7x	14.7x	5%	23%	14.7x	5%	23%
All Lodging	12.1x	12.0x	12.4x	-2%	57%	12.4x	-2%	57%
Lodging C-Corp* (EBITDA)	14.1x	13.1x	13.7x	3%	44%	14.4x	-3%	57%
Lodging C-Corp* (P/E)	21.4x	21.1x	21.6x	-1%	53%	21.6x	-1%	53%
Lodging REITs	12.0x	11.9x	12.7x	-5%	64%	11.9x	1%	49%
Timeshare	7.2x	7.5x	7.5x	-4%	58%	7.5x	-4%	50%

Source: BofA Global Research estimates, Bloomberg

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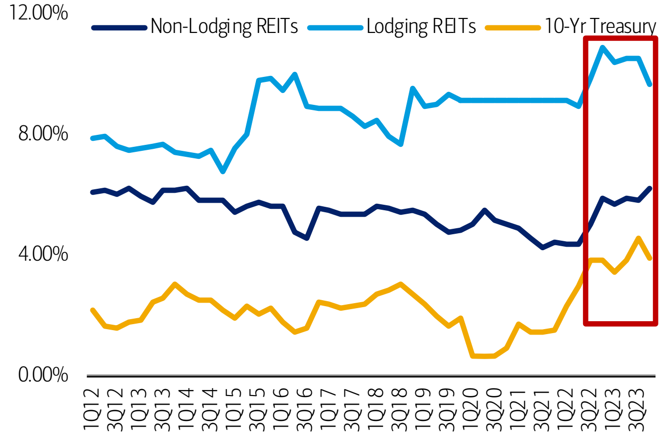
Exhibit 9: Lodging REIT vs. Non-Lodging REIT cap rates

Lodging REITs saw cap rate compression from elevated levels in 2023 while other sub-sectors of real estate saw cap rates rise



Source: BofA Global Research estimates, Bloomberg

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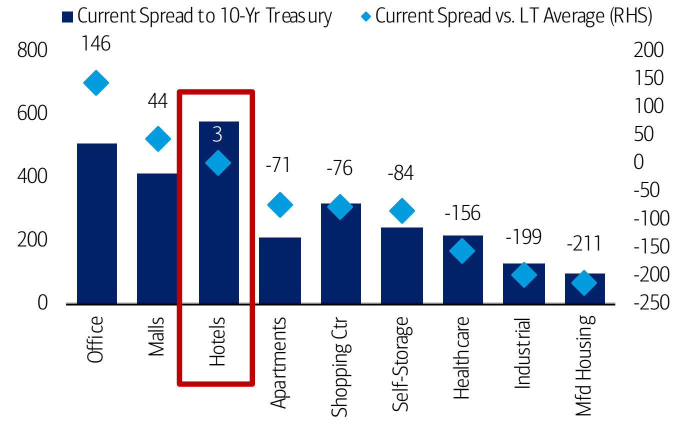
Exhibit 10: REITs cap rate spreads vs. 10-Year Treasury

Spreads to the 10-Year Treasury are in-line with LT averages for Lodging REITs but -73bps below for all other asset classes of real estate, largely driven by manufactured housing, industrial, healthcare and self-storage



Source: BofA Global Research estimates, Bloomberg

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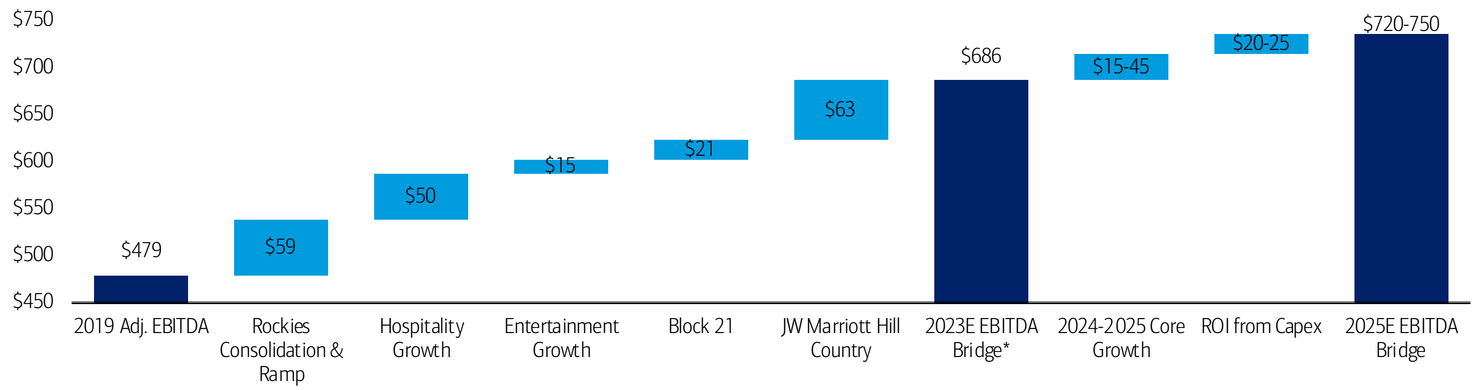
RHP: The gold standard in Group; maintain Buy

We are revisiting Ryman Hospitality (ticker RHP, $7.1B market cap) and raise our PO to $125 (2025E EBITDA on an avg multiple of 14.5x). RHP remains the best in class Lodging REIT driven by idiosyncratic organic growth across its unique and concentrated group hotel portfolio. Shares outperformed in 2023 (+35% vs. +15% for REITs) but we see growth continuing driven by 1) outperformance in the group segment, 2) negligible large scale group supply/construction, 3) expansion at the Rockies and optimization of Hill Country, 4) M&A potential with an advantaged cost of capital. Our updated EBITDA bridge gives us $720-750M of EBITDA potential by 2025. We raise our 2025 EBITDA estimates to $730M from $714M to reflect partial returns on deployed ROI capex.

Exhibit 11: Ryman Hospitality 2019-2025E EBITDA bridge

We think RHP can lay out the path to $720-750M of EBITDA through 2025 with a conservative +1-3% growth environment and only 20-25M of the $150-200M of EBITDA potential from $1B of deployed ROI capex



Note: 2023E Bridge includes a full year of JW Marriott Hill Country, actual estimates only reflect a stub year given mid-2023 acquisition. 2024-2025 core growth assumed at +1-3%. ROI assumes $1B spent over 5 years beginning in 2024 with an initial return of 10-13%. Adj. EBITDA backs out non-controlling interest.

Source: BofA Global Research estimates, company documents, Bloomberg

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Exhibit 12: Ryman estimated 2025 targets/KPIs

We think RHP lays out mid-single digit CAGR targets at their Jan analyst day

	Low	Base	Upside	Upside+
2023 EBITDA PF	$686	$686	$686	$686
Core Growth	-1%	1%	3%	5%
Core EBITDA	$672	$700	$728	$756
Capex Investment	$200	$200	$200	$200
ROI	8%	10%	13%	15%
EBITDA	$15	$20	$25	$30
Total EBITDA	**$687**	**$720**	**$753**	**$786**
2025 CAGR	*2%*	*5%*	*7%*	*9%*
Releveraging				
Beg. Net Debt	$2,685	$2,685	$2,685	$2,685
Plus Capex	$200	$200	$200	$200
Less: Excess Cash	$306	$312	$318	$325
End Net Debt	$2,579	$2,573	$2,567	$2,560
End Leverage	3.8x	3.6x	3.4x	3.3x
Target	4.0x	4.0x	4.0x	4.0x
Releverage	$170	$306	$444	$585
Target Multiple	12.5x	13.0x	13.5x	13.5x
Incr. EBITDA Growth for M&A	$14	$24	$33	$43
Total Adj. EBITDA potential	$701	$743	$786	$830
CAGR	3%	6%	9%	12%

Source: BofA Global Research estimates

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Exhibit 13: Ryman estimated 2028 targets/KPIs

By 2028 with deployed ROI capex, RHP could achieve $900-1,000M of EBITDA and mid- to high-single digit CAGRs

	Low	Base	Upside	Upside+
2023 EBITDA PF	$686	$686	$686	$686
Core Growth	-1%	1%	3%	5%
Core EBITDA	$652	$721	$795	$876
Capex Investment	$1,000	$1,000	$1,000	$1,000
ROI	10%	15%	20%	20%
EBITDA	$100	$150	$200	$200
Total EBITDA	**$752**	**$871**	**$995**	**$1,076**
2028 CAGR	*3%*	*6%*	*9%*	*10%*
Releveraging				
Beg. Net Debt	$2,685	$2,685	$2,685	$2,685
Plus Capex	$1,000	$1,000	$1,000	$1,000
Less: Excess Cash	$753	$791	$833	$878
End Net Debt	$2,932	$2,894	$2,852	$2,807
End Leverage	3.9x	3.3x	2.9x	2.6x
Target leverage	4.0x	4.0x	4.0x	4.0x
Releverage	$77	$590	$1,129	$1,495
Target Multiple	12.5x	13.0x	13.5x	13.5x
Incr. EBITDA Growth for M&A	$6	$45	$84	$111
Total Adj. EBITDA potential	$759	$916	$1,079	$1,186
CAGR	3%	7%	10%	13%

Source: BofA Global Research estimates

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HST: Upgrading to Buy on valuation and growth potential

We are double upgrade Host Hotels & Resorts (ticker HST, $14.1B market cap) to Buy from Underperform. We have been underweight Host for years, but HST has 1) steadily improved capital allocation under current management, 2) markets and geographic exposures should be favorable with overexposure to group/urban and more cost levers in full-service than select service, 3) has meaningful EBITDA growth potential (+20%) relative to peers for M&A through releveraging, allowing it to be offensive, 4) has 2 properties in Naples that should help support Y/Y EBITDA growth and 5) has compelling valuation relative to the sector overall. Our new PO of $23 is based on 12x our 2025E EBITDA of $1.63B.

Exhibit 14: Host Hotels & Resorts Bull/Bear Summary

We view Host's risk/reward as favorable with one of the lowest valuation multiples across the group and a portfolio

Topic	Bull Case	Bear Case
RevPAR and Demand	Overweight group (32%), corporate (33%) and urban (~50-55%) demand growth which should outperform Corporate and group demand recovery should drive outsized growth in 2024, with definite group room nights on the books for 2024 up +15% from 2Q23 to 3Q23 International Inbound travel is still -88% below 2019 levels as of September 2023	Leisure (~32%) is over earning, with the Florida Gulf Coast accounting for 7% portfolio exposure and Orlando another 9% The remaining ~10-12% points of international inbound travel recovery could take longer to fully recover; particularly in Host's West Coast markets.
Geographies and Markets	New York, San Diego, DC and New Orleans (nearly 30% market exposure) demand should be healthy in 2024 driven by corporate and group demand Citywide convention calendar is favorable; total group revenue pace is up +13% vs. the same time in 2022 with lengthening booking windows	Orlando and South Florida 16%, Hawaii (10%) could take longer to recover following the wildfires in 2023, Japanese travelers to Hawaii could continue to lag San Francisco continues to be challenged, with the convention calendar down Y/Y in 2024 over 2023 (2H24 driven)
EBITDA, margins and costs	Ritz Carlton Naples and Hyatt Regency Coconut Point re-ramp should add $80M of EBITDA Comparable hotel EBITDA margins are up +20-60bps in 2023E from 2019 from operating model changes ~$1.5B in ROI capex between 2019-2023E incl. the Marriott Transformational capital program, driving RevPAR index +9pts; Hyatt Transformational Capital Program ($550-600M) with $40M op. guarantees is targeting similar returns	Naples EBITDA will be offset by reduced business interruption insurance proceeds in 2024 from 2023 In an environment where RevPAR is up +2-4% and costs are up +4-6%, same store margins growth is less likely achievable, further pressured by normalizing resort rates and margins
Valuation & Risk / Reward	One of lowest valuation REITs and still -18% below LT avg. Midcycle to near-peak cycle multiple = 12.8x EV/EBITDA on peak 2025E EBITDA of $1,634M Implied value per share = $25.50 (+30% upside potential)	Midcycle to near-trough multiple = 10.5x EV/EBITDA on normalized/recessionary EBITDA of $1,395M Implied value per share = $17.00 (-14% downside potential)

Source: BofA Global Research estimates, Bloomberg

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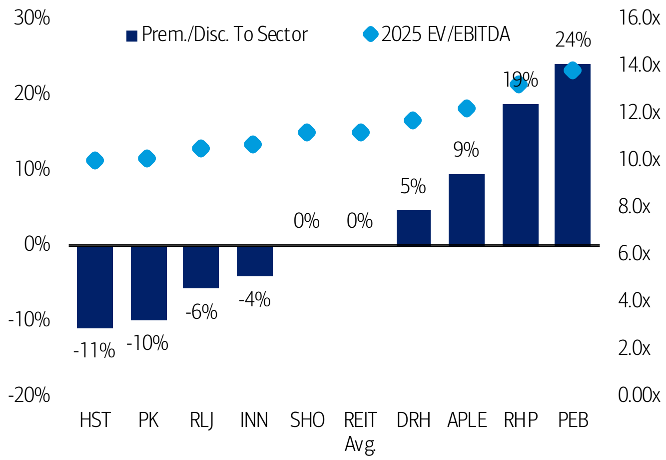
Exhibit 15: Lodging REIT 2025E Relative Valuation
HST is currently trading the cheapest to the entire sector, despite solid execution and its low leverage bal. sheet



Source: BofA Global Research estimates, Bloomberg

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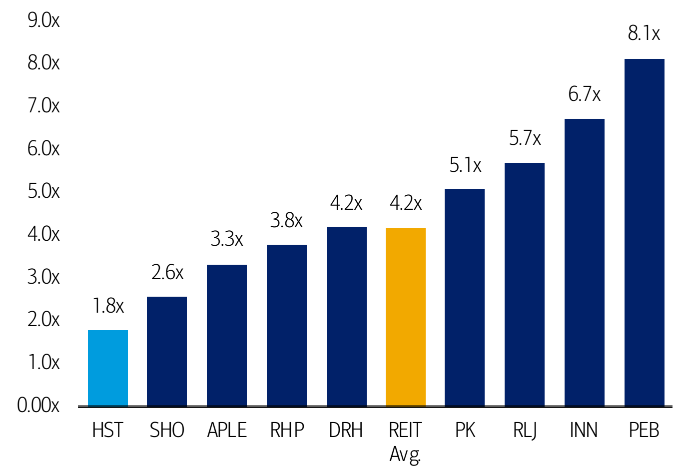
Exhibit 16: Lodging REIT 2025E Net Leverage (Debt + Pref. to EBITDA)
HST has the lowest leverage of any publicly traded Lodging REIT



Source: BofA Global Research estimates, Bloomberg

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Exhibit 17: Host Hotels re-leveraging capacity
By taking leverage up to the sector average of 4x, HST could buy over $300M of incremental EBITDA at normal valuations; this would add +20% growth and should allow HST to be an aggressive acquiror if the cycle stabilizes

2025E HST Leverage	1.8x
Sector Average Leverage	4.2x
Releveraging Potential	2.4x
2025E EBITDA	$1,634
M&A Capacity	3,926
Acquisition Multiple	12.0x
EBITDA Purchased	327
% Growth on Existing	20%

Source: BofA Global Research estimates

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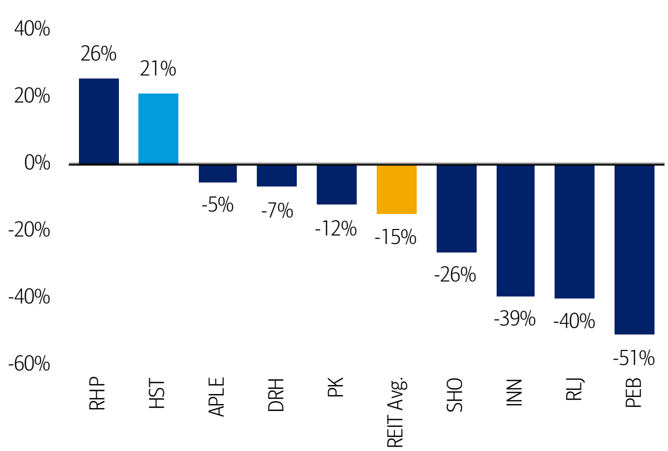
Exhibit 18: HST AFFO/Share Growth 2015 to 2023
HST is one of only two Lodging REITs (along with RHP) to have grown AFFO per share since the middle of last cycle; this is due to well-timed M&A before COVID and strong cost control before and after



Source: BofA Global Research estimates, company documents

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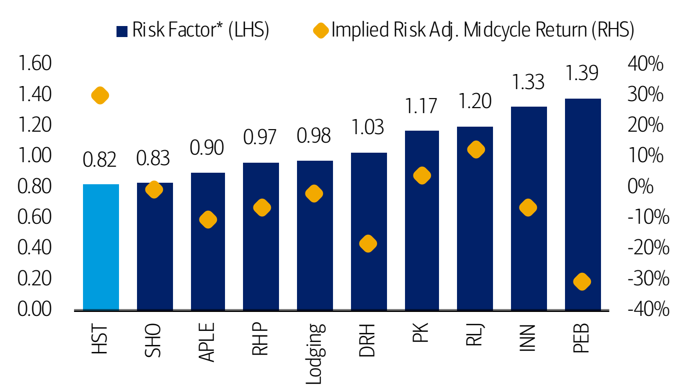
Exhibit 19: Lodging REIT relative risk and Midcycle Returns
HST has the lowest risk* (financial leverage, equity beta and equity risk premium) of all the Lodging REITs and the highest risk-adjusted midcycle return potential



Source: BofA Global Research estimates, Bloomberg

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APLE: Lower to Neutral; selecting full service over select

We lower Apple Hospitality (ticker APLE) to Neutral from Buy. Apple (ticker APLE, $3.9B) remains the best of breed select service Lodging REIT name, the first to exit its cash burn position during COVID. APLE is also less levered, leaving room for further growth through acquisitions which we estimate could amount to $500M of buying power at normalized valuations.

Our call is less idiosyncratic to Apple and we continue to think highly of this management team's execution and capital allocation decisions. We are however concerned by 1) the risk of lower RevPAR growth going forward given their earlier recovery, 2) coupled with higher margin pressures given fewer cost offsets in select service and a highly efficient portfolio.

As a result we are now net underweight across select service (APLE, RLJ, INN). Our PO goes to $18 from $19 based on a long-term multiple (12x) on 2025E EBITDA.

Exhibit 25: Apple Hospitality Bull/Bear Summary

APLE's risk/reward is more balanced at this stage of the cycle, as such we move to a Neutral rating

Topic	Bull Case	Bear Case
RevPAR and Demand	APLE was first to exit out of a cash burn position from the pandemic and is one of the earliest portfolios to recover Suburban and secondary/tertiary skew results in a low dependence on international inbound travel to drive demand	Group is expected to be the driver of domestic RevPAR growth in 2024, where select service portfolios are relatively underweight APLE's select service portfolio has less out of room spend opportunity to drive revenues beyond RevPAR than full-service peers
Geographies and Markets	Portfolio is very well diversified; no single market makes up more than 6% and is present in 87 different markets across the country APLE's supply landscape is more favorable than pre-COVID - nearly 50% of APLE's hotels do not have any exposure to new projects within a 5-mile radius today	Suburban select service markets (48% exposure) are more recovered than other hotel types, leaving less room for outsized RevPAR growth Recent brand launches have been more focused on select service, could ultimately drive new competitive supply in APLE's markets
EBITDA, margins and costs	At 37% on a TTM basis, APLE's Hotel EBITDA margins are the highest among all Lodging REIT peers, with best in class AFFO conversion from EBITDA above 75% Has been a net acquirer since the onset of the pandemic given its strong liquidity and balance sheet, with another ~$500M of buying power based on releveraging potential	In an environment where RevPAR is up +2-4% and costs are up +4-6%, same store margins growth is less likely achievable There are fewer cost offsets to inflation late in the cycle given APLE's highly efficient operating structure
Valuation & Risk / Reward	Midcycle to near-peak cycle multiple = 13.0x EV/EBITDA on peak re-levered 2025E EBITDA of $486M Implied value per share = $21.00 (+24% upside potential)	Midcycle to near-trough multiple = 11.5x EV/EBITDA on normalized/recessionary EBITDA of $384M Implied value per share = $12.00 (-28% downside potential)

Source: BofA Global Research estimates, Bloomberg

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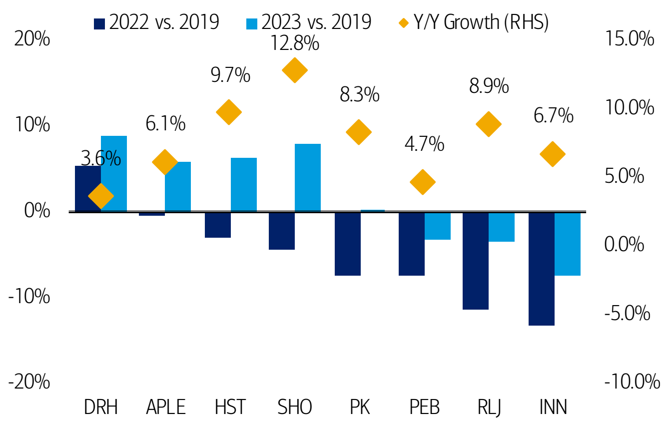
Exhibit 21: RevPAR by company

APLE was one of the first to recover on RevPAR, but trails peers on Y/Y growth basis as a result



Source: BofA Global Research estimates, company documents

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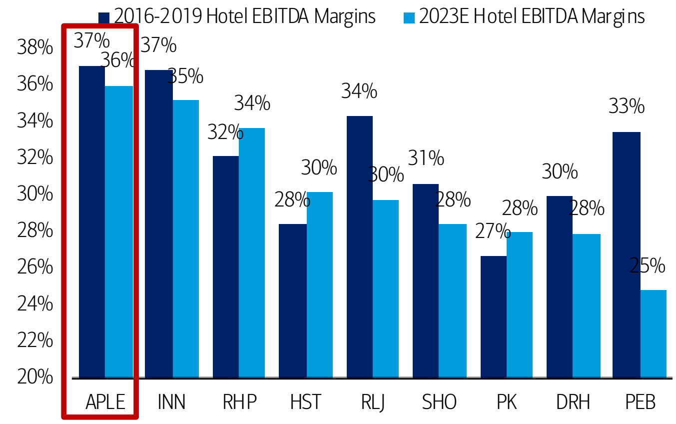
Exhibit 22: Hotel EBITDA margins by company

APLE's margins are the highest among all Lodging REITs, but offer fewer cost offsets to inflation late in the cycle given the high efficiency operations



Source: BofA Global Research estimates, company documents

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Exhibit 28: Apple Hospitality re-leveraging capacity

By taking leverage up to ~5x, APLE could buy ~$50M of incremental EBITDA at normal valuations; this would add ~10% growth and should allow APLE to continue being a net acquiror

	All Lodging REITs	Average	Select Service Peers
2025E APLE Leverage	3.5x	3.5x	3.5x
Sector Average Leverage	4.2x	5.4x	6.6x
Releveraging Potential	0.7x	1.9x	3.1x
2025E EBITDA	$439	$439	$439
M&A Capacity	$296	$830	$1,363
Acquisition Multiple	12.0x	12.0x	12.0x
EBITDA Purchased	$25	$69	$114
% Growth on Existing	6%	16%	26%

Source: BofA Global Research estimates, company documents

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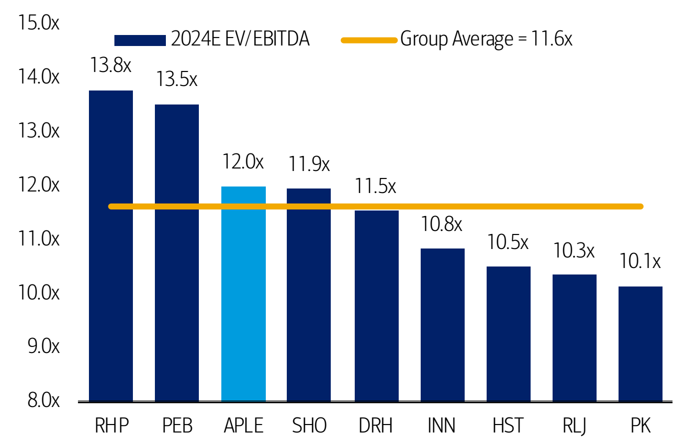
Exhibit 24: 2024 EV/EBITDA by company

APLE trades above select service peers INN and RLJ and above the broader group average which we think is warranted given the strength of APLE's position and management's execution



Source: BofA Global Research estimates, company documents, Bloomberg

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PEB: Lower to U/P as geographies weigh on returns

We lower Pebblebrook Hotels (ticker PEB, $1.9B market cap) to Underperform from Neutral. Strategically, PEB's heavy West Coast and business transient exposure was an asset in the early to mid-2010's but has turned into a challenge post-COVID (see Ex. 18).

We see continued pressure from 1) overexposure to more challenged markets incl. San Fran, LA, Portland, Chicago, 2) less exposure to in-house group which is likely the most visible/best growth driver in '24, 3) risk of over-earning across resorts and ADRs broadly which have outperformed, offsetting some expected gains in occupancy, 4) focus on asset sales/deleveraging, vs. growth/releveraging given extended balance sheet.

La Playa reopening, $300M on renovation projects, and some leisure green shoots are positives, but PEB still faces an elongated, occupancy based recovery from here. We maintain our $13.50 PO based 13x our 2025E EBITDA of $345M.

Exhibit 20: Pebblebrook Hotel Trust Bull/Bear Summary

Pebblebrook's risk/reward skews negative as it faces a tough operational environment and an elongated recovery, particularly in its west coast

Topic	Bull Case	Bear Case
RevPAR and Demand	Group (30%), corporate (25%) and the top 5 urban CBDs (~50-55%) should drive better than industry average RevPAR	Resorts, which are over-earning, are 46% of EBITDA, 41% of NAV and 25% of rooms
	International Inbound travel is still -88% below 2019 levels as of September 2023	The remaining ~10-12% points of international inbound travel recovery could take longer to fully recover; particularly in Pebblebrook's West Coast markets.
Geographies and Markets	Favorable group markets in 2024 include Chicago, San Diego, DC (~20% market exposure)	Overweight 1) in hard to operate West Coast markets including San Francisco, Santa Monica and Portland and 2) in resorts that could be over-earning
	PEB's urban market supply growth for the next 3 years of +0.7% is below the pre-pandemic average of +1.5% per year	San Francisco continues to be challenged, with the convention calendar down Y/Y in 2024 over 2023 (2H24 driven)
EBITDA, margins and costs	Margins are -10 percentage pts below prior cycle peak levels; PEB's portfolio of independent hotels has historically outperformed peers on margin	In an environment where RevPAR is up +2-4% and costs are up +4-6%, same store margins growth is less likely achievable
	PEB has a successful track record with redevelopment projects and identified an incremental $295M of ROI projects which should generate +10% cash on cash returns	PEB's margins were best-in-class among full service REITs pre-pandemic and are now trailing all peers, and a longer recovery especially on the West Coast could prolong this dynamic
Valuation & Risk / Reward	Midcycle to near-peak cycle multiple = 14.0x EV/EBITDA on peak/fully recovered 2025E EBITDA of $400M Implied value per share = $22.50 (+44% upside potential)	Midcycle to near-trough multiple = 12.0x EV/EBITDA on normalized/recessionary EBITDA of $300M Implied value per share = $6.00 (-61% downside potential)

Source: BofA Global Research estimates, Bloomberg

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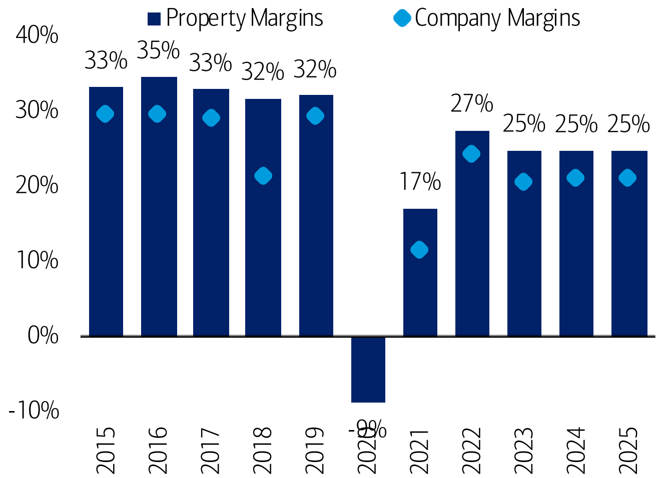
Exhibit 26: PEB Property and Company EBITDA Margins

PEB's margins have contracted from a peak of 35% to only an estimated 25% in 2023. San Fran exposure, reno and La Playa disruption are partial factors but so too are over-reliance on BT and other market challenges



Source: BofA Global Research estimates, company documents

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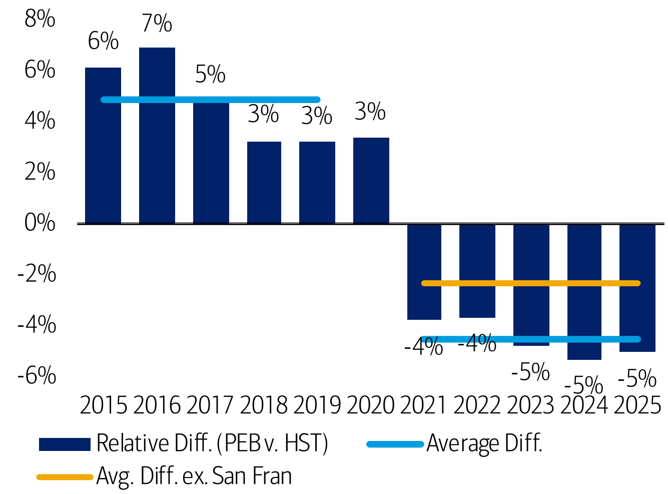
Exhibit 27: PEB vs. HST EBITDA Margin Difference Over Time

Pre-COVID, PEB had best in-class margins that were 500bps (5pp) above HST; since COVID due to market exposures and less business transient, PEB's margins are 500bps below HST and would still be 200bps below even ex. SF



Source: BofA Global Research estimates, company documents

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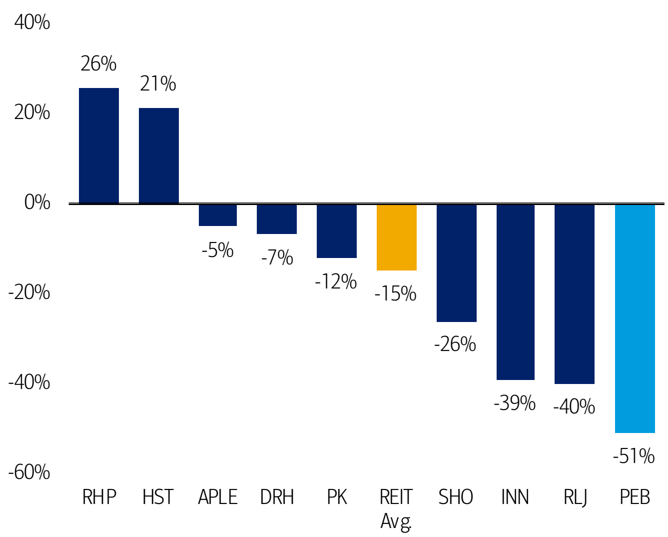
Exhibit 28: PEB AFFO/Share Growth 2015-2023

PEB has the most challenged AFFO/share growth across Lodging REITs since the middle of last cycle, due in part to the timing of the Lasalle acquisition, and San Fran and challenging West Coast market exposures



Source: BofA Global Research estimates, company documents

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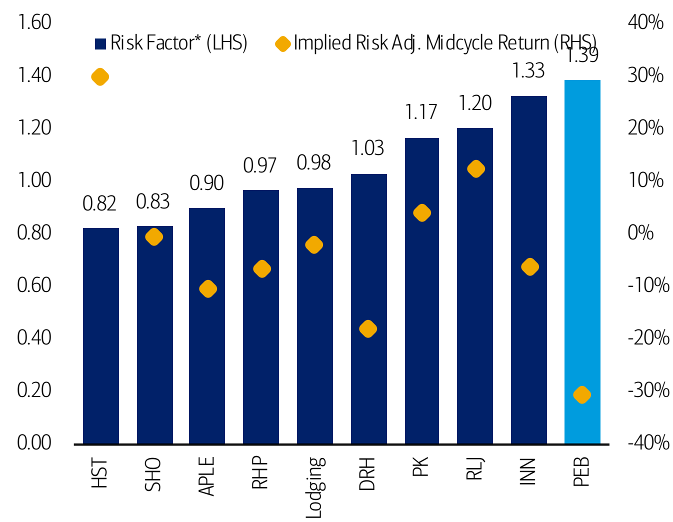
Exhibit 29: Lodging REIT relative risk and Midcycle Returns

PEB has the highest risk* (financial leverage, equity beta and equity risk premium) of all the Lodging REITs and the lowest risk-adjusted midcycle return potential



Source: BofA Global Research estimates, Bloomberg

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Investment Rationale

Apple Hospitality REIT Inc.

We are Neutral rated on Apple Hospitality REIT as we think this best of breed select service REIT is 1) less levered than peers, 2) has more growth potential and 3) has industry-leading margins. We are however concerned by lower RevPAR growth risk, coupled with higher margin pressure given fewer cost offsets in select service.

Host Hotels & Resorts Inc.

We are Buy rated on HST as we believe the current valuation and strong balance sheet are attractive, combined with a better outlook for group and corporate demand, favoring full service portfolios. HST has steadily improved capital allocation under current management and we think there is room for growth based on the balance sheet should M&A activity pick up.

Pebblebrook Hotel Trust

We are Underperform rated on Pebblebrook as we think its heavy West Coast and business transient exposure, which were an asset in the early- to mid-2010s, have turned into a challenge post-COVID among union, labor and social issues. We see risks from continued exposure to challenged markets with less operating flexibility.

Price objective basis & risk

Apple Hospitality REIT Inc. (APLE)

Our $18 PO on APLE is based on approx 12x our 2025E EV/EBITDA, a slight premium to the historical averages of peers. This is supported by APLE's solid balance sheet, higher than peer margins, and better fundamentals in the early stages of the recovery. This is however partly offset by less RevPAR growth as the recovery is now largely behind us, and our favoring of group and full service portfolios over select service.

Downside risks to our PO are 1) a longer recovery than expected, 2) a second peak of the COVID-19 outbreak, 3) rate pressure across the industry from lower than anticipated demand.

Host Hotels & Resorts Inc. (HST)

Our $23 PO is based on approx. 12x our 2025E adjusted EBITDA, a midcycle multiple consistent with the group's multiple range and history. We believe this multiple is warranted given HST's asset quality, best-in-class management team and significant equity market liquidity, which helps differentiate the company from peers.

Risks to the downside are: 1) a weakening in the overall economic environment, leading to lower levels of business travel and depressed leisure spending, 2) higher-than-expected room supply growth, and 3) unforeseen circumstances, such as war or acts of terrorism.

Pebblebrook Hotel Trust (PEB)

Our $13.50 PO is based on approximately 13x our 2025E EBITDA estimate, a premium to Lodging REITs peers that is consistent with historical trends. We believe this is supported PEB's highly flexible portfolio that is largely unencumbered by debt or brands.

Upside risks to our PO are: 1) an accelerating RevPAR environment, driven by better macroeconomic data, 2) greater-than-expected margin expansion, and 3) accretive acquisitions.

Downside risks to our PO are: 1) a longer than expected recovery, 2) structural decline in urban gateway lodging demand, 3) greater than expected inflationary cost pressures, and 4) rate pressure across the industry from lower than anticipated demand.

Ryman Hospitality Properties (RHP)

Our $125 price objective is based on approximately 14.5x multiple on our 2025E EBITDA forecast, in line Ryman's long term midcycle multiple average. We think this multiple is justified by RHP's growth opportunities, relatively attractive valuation and significant group exposure which we expect to perform solidly once a therapeutic/vaccine is available to the general public.

Downside risks: 1) further weakening of macro trends, 2) a resurgence in cases of COVID-19, and 3) threat/acts of terrorism.

Analyst Certification

We, Shaun C. Kelley and Dany Asad, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

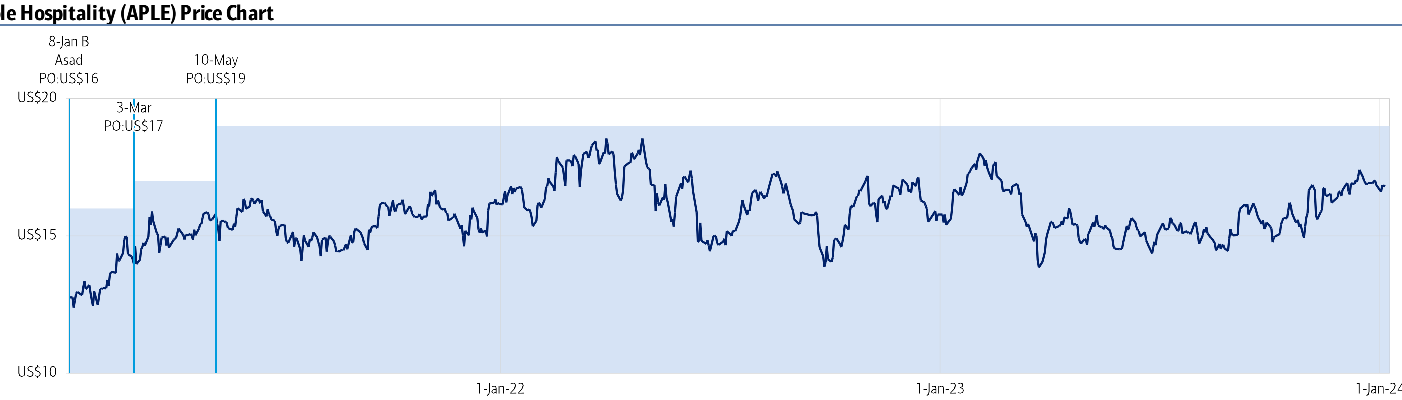
US - Gaming, Lodging and Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Boyd Gaming Corp	BYD	BYD US	Shaun C. Kelley
	Choice Hotels International	CHH	CHH US	Dany Asad
	DraftKings, Inc.	DKNG	DKNG US	Shaun C. Kelley
	Hilton Worldwide	HLT	HLT US	Shaun C. Kelley
	Host Hotels & Resorts Inc.	HST	HST US	Shaun C. Kelley
	Hyatt Hotels	H	H US	Shaun C. Kelley
	Marriott International Inc.	MAR	MAR US	Shaun C. Kelley
	Penn Entertainment	PENN	PENN US	Shaun C. Kelley
	Ryman Hospitality Properties	RHP	RHP US	Shaun C. Kelley
	Soho House & Co Inc	SHCO	SHCO US	Shaun C. Kelley
	Vail Resorts, Inc	MTN	MTN US	Shaun C. Kelley
	VICI Properties	VICI	VICI US	Shaun C. Kelley
	Wyndham Hotels & Resorts, Inc.	WH	WH US	Dany Asad
NEUTRAL				
	Apple Hospitality REIT Inc.	APLE	APLE US	Dany Asad
	Caesars Entertainment Inc	CZR	CZR US	Shaun C. Kelley
	Hilton Grand Vacations Inc	HGV	HGV US	Dany Asad
	Las Vegas Sands	LVS	LVS US	Shaun C. Kelley
	MGM Resorts International	MGM	MGM US	Shaun C. Kelley
	Park Hotels & Resorts Inc.	PK	PK US	Dany Asad
	Wynn Resorts Ltd	WYNN	WYNN US	Shaun C. Kelley
UNDERPERFORM				
	DiamondRock Hospitality	DRH	DRH US	Dany Asad
	Gaming & Leisure Properties, Inc.	GLPI	GLPI US	Shaun C. Kelley
	Marriott Vacations Worldwide	VAC	VAC US	Shaun C. Kelley
	Pebblebrook Hotel Trust	PEB	PEB US	Shaun C. Kelley
	Playa Hotels & Resorts	PLYA	PLYA US	Shaun C. Kelley
	Red Rock Resorts, Inc.	RRR	RRR US	Shaun C. Kelley
	RLJ Lodging Trust	RLJ	RLJ US	Dany Asad
	Sportradar Holding AG	SRAD	SRAD US	Shaun C. Kelley
	Summit Hotel Properties	INN	INN US	Dany Asad
	Sunstone Hotel Investors	SHO	SHO US	Dany Asad
	Travel + Leisure Co	TNL	TNL US	Dany Asad

Disclosures

Important Disclosures

Apple Hospitality (APLE) Price Chart

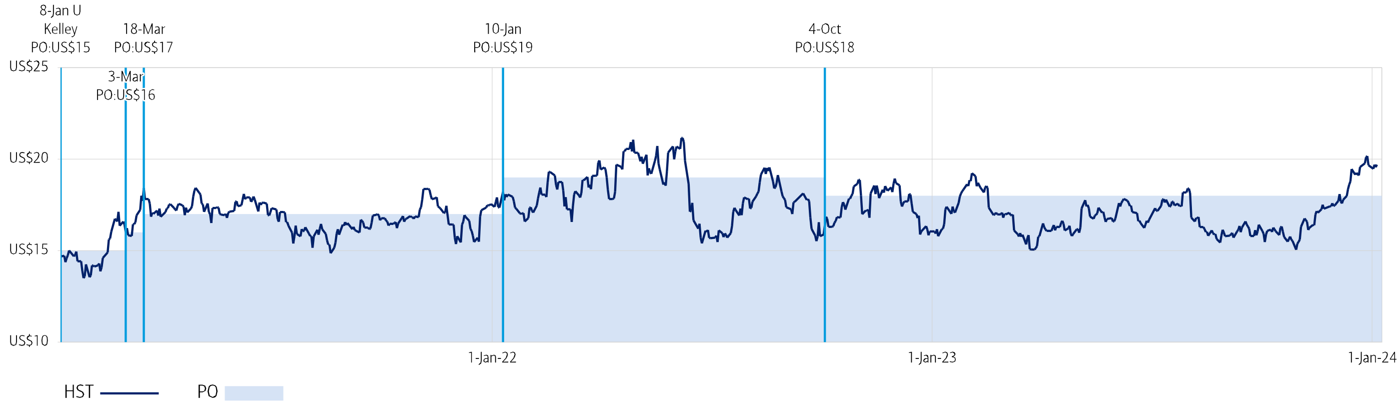


APLE ——— PO

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Host Hotels (HST) Price Chart



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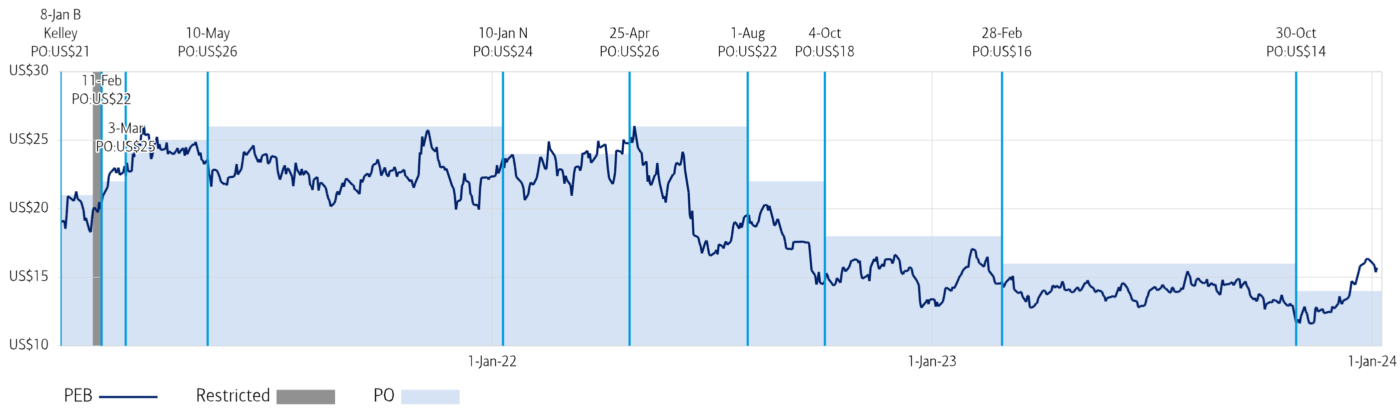
Pebblebrook (PEB) Price Chart



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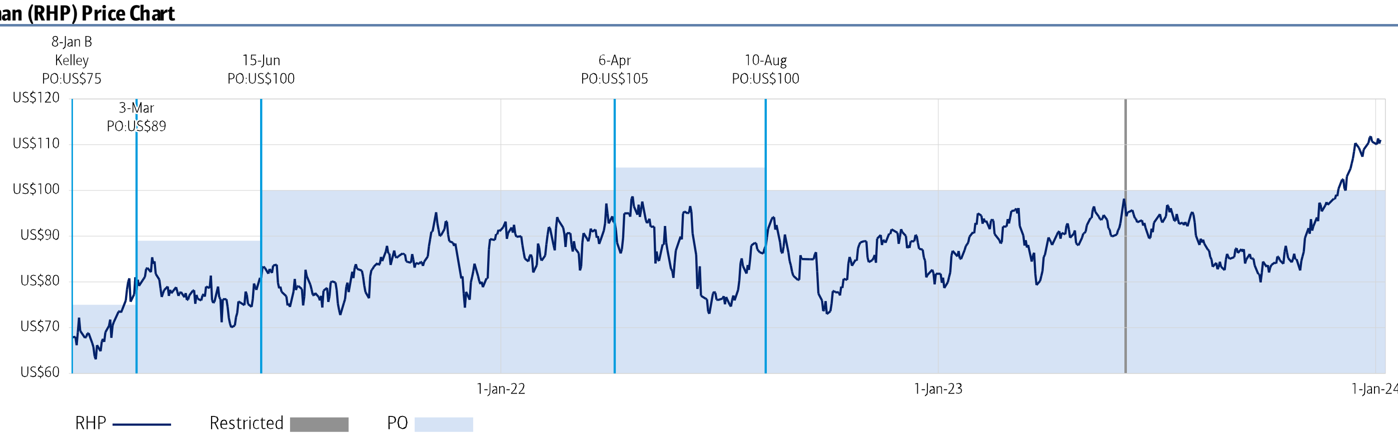
Ryman (RHP) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Leisure - Hotel/Lodging Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	16	61.54%	Buy	12	75.00%
Hold	3	11.54%	Hold	2	66.67%
Sell	7	26.92%	Sell	5	71.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2] Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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