Hotel News Now

What the numbers say about current, future hotel trends

06 NOVEMBER 2017

By Danielle Hess

PHOENIX—From performance data to transaction volume and consumer spending trends, analysts at the 2017 Lodging Conference gave their perspectives on factors that will affect the hotel industry over the short and long term.

On an “Industry overview” panel during Day One of The Lodging Conference, Ali Hoyt, senior director of consulting and analytics at STR, Hotel News Now’s parent company, started the conversation by going over “three things we’ve been thinking about at STR as it relates to the hotel industry.”

The first is the fact that demand continues to outpace supply.

“The supply development cycle has been growing at a much slower pace than prior cycles, still sitting below 2% new supply growth on a trailing 12-month basis,” she said.

The second point Hoyt mentioned was the “lack of rate* growth, given we’re at a peak occupancy level.”

“With demand still outpacing new supply, we’re seeing occupancy continue to grow,” she said. “The industry has been north of a 65% occupancy for 28 months and counting. At those record peaks, we would expect rate growth to be higher, taking more advantage of those peak levels to really push rate.”

Hoyt added that rate growth has slowed from 4% to 2% on a trailing 12-month basis over the past 36 months, and that the lack of pricing power in upper-tier hotels is a contributing factor.

”It’s also interesting to note when we looked at September monthly data, that was the first month that transient rates actually declined since the recovery, just in that single month,” she said.

Hoyt added a positive note with her final point: Modest growth in revenue per available room is expected to continue.

“Our forecast for the next three months of data that we have to collect for 2017 is not all that different from what we’ve seen through September,” she said. “The

hurricanes, of course, and other natural disasters across the country are still on our minds, as I'm sure (they are for) many of you in the room.

"We might expect that 2017 (demand number) to actually be a little bit stronger, occupancy to be a little higher, and overall RevPAR to grow. Right now, through September, RevPAR is sitting at 2.6% for the hotel industry."

She added that RevPAR grew 2.4% in September as a result of the hurricanes in Texas and Florida.

"If we took out just those two states, RevPAR was only at 0.7% (growth)," Hoyt said.

Transaction volume

In 2016, transaction volume declined nationally, said Adam Lair, managing director and senior partner at HVS.

"CMBS had dried up, (real estate investment trusts) and institutional capital had moved largely to the sidelines, and at the end of the year, (we were) down 30% in total transaction volume," he said.

This year, CMBS loans and institutional capital is back, Lair said, which has helped stabilize the market a bit.

"But they haven't come back to the degree that we saw in 2014 and 2015, so the (fact) is that we're flat overall, year over year, in 2016," he said.

In the first three quarters of this year, Lair said HVS has seen a 2% decline in price per key and a 1% decline in total volume.

He added that underwriting is conservative, and the industry has a "widening buy-sell gap and foreign capital has declined pretty significantly so far this year, so that's suppressing our transactions (volume) in 2017."

The industry is moving, but at a slower pace

Mark Woodworth, head of hotels research for the Americas region at CBRE, compared the industry to a tortoise.

"We're plodding along faster than a tortoise would be, but still not quite what we're used to," he said.

There are a few economic variables the company looks at when analyzing the hotel industry, one of which is income growth.

"We cover 60 U.S. cities, and if we look at and benchmark what we think's going to happen next year against what we've all become used to the last five years … so comparing what we think's going to happen next year to the recent past, 16 of our 60 cities … are predicted to have higher levels of income growth."

He added he was somewhat surprised that some of the stronger markets are expected to not have as much income growth in 2018.

“Don’t be confused with this and think we don’t think Nashville is going to continue to be a very strong, vibrant market. It is. It’s just simply that the growth rate going forward is going to be slightly less than what we’ve become accustomed to,” he said.

Woodworth said prices are expected to go up modestly in almost all markets, “and in terms of RevPAR, just kind of another OK year as we see it.”

Economic, political and geopolitical hazards

In terms of economic, political and geopolitical worries, **Bernie Baumohl, chief global economist at The Economic Outlook Group,** said there will be “quite a lot of challenges that a lot of us are going to be facing over the course of the next two years.”
Baumohl’s first takeaway for the audience was that his firm expects the economy to grow by 2% to 3% over the next two years.

“Very likely it’s going to edge up more closely to the top half, from 2.5% to 3%, and it’s largely because we’re seeing a buildup of domestic demand here in the U.S. And it’s being supported too by this tailwind, this extra tailwind we’re getting from the economic rebound we’re seeing overseas,” he said. “Together, they will provide … a very good springboard for how the U.S. economy is going to perform over the course of the next two years.”

This economic growth is expected to happen whether or not there’s a U.S. tax cut, **Baumohl** said.

“And finally third, and I think most important (and) really quite intriguing, is that we see the rate of inflation, consumer prices, still being very tame over the course of the next two years, and it’s largely because there’s some fundamental structural changes that have taken place that have altered the dynamics of shaping inflation,” he said.

He added that tame inflation rates are being seen all over the world.

“We’re seeing it in Europe, we’re seeing it in Japan, we’re seeing it in the U.S., and it’s not due to any temporary factors. I think there’s something much more substantial, and as a result of that, we expect interest rates—both short-term and long-term rates—to inch up, but inch up slowly, and ultimately I think it’ll peak out at levels much lower than historical patterns,” he said.