Hotel interactive

A Cautionary Tale

Lodging Conference Kicks Off With Concerns About Economy For 2019 And Beyond

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Conference founder and producer Harry Javer kicked off this year's Lodging Conference yesterday by posing the question, "How much longer will the good times continue?" Unfortunately, while the answers from industry analysts varied to some degree, the overall takeaway is that both the U.S. economy, in addition to overall hotel growth, are expected to slowdown moving into 2019 and beyond.

Taking place at the Arizona Biltmore for the final time, the conference keynote was delivered by **Bernard Baumohl, chief global economist, The Economic Outlook Group, LLC,** who provided a somewhat sobering look at the economy.

"The last couple of years I have been quite optimistic in my forecast, but I'm afraid this year I have to present a slightly different picture, one of a bit more caution," he said, while stressing that it's not by any means a "gloom and doom scenario."

Baumohl elaborated on his outlook. "We do see some clouds converging over the course of the next two years and that does suggest that we're going to have a material slowdown in economic activity, beginning in the second half of 2019 and extending into 2020," he stated

Baumohl did emphasize that these forward-looking projections are not a reflection of current conditions. "Let's be clear, certainly the economy is doing exceptionally well now," he said.

To that point, **Baumohl** further noted that his company is forecasting GDP growth of 3 percent for this year for the U.S., which is the strongest it's been in a decade and he pointed out consumer confidence remains strong. "The economy is going to keep on humming for rest of this year and could do well for first quarter of 2019," he said.

However, **Baumohl** later added, "does this [economic] expansion still have legs? Yes, but those legs are tiring."

As an example, the company is forecasting 2.2 percent GDP growth for the U.S. in 2019 and 1.4 percent in 2020. **Baumohl** cited the leading factors that could impact the U.S. economy going forward are the upcoming mid-term elections; an expected rise in interest rates; U.S. tariffs as a result of the global trade war; and geopolitical risks.

"There's a lots of headwinds that we're going to be facing. We're 10 years into this expansion and it does get bit more treacherous at this point," he concluded.

Meanwhile, Ali Hoyt, senior director, consulting & analytics, STR, noted that the company's forecast for the national U.S. lodging industry is for "more of the same." She noted that modest RevPAR growth is expected to continue for the rest of this year and into 2019.

Hoyt noted that limited new supply, at least nationally, will lead to some positive results in 2019. "RevPAR growth next year of 2.6 percent will continue to be driven by mostly rate growth with occupancy maintaining those peak levels," she said.

Hoyt added, "On the rate side, 2017 represented what we would call fairly modest rate growth and on par with the long-term historical average of rate growth in the U.S. hotel industry…In 2018 we are seeing monthly rate growth is outpacing 2017 levels by one-half of one percent."

Hoyt further touted the fundamentals. "Demand across the U.S. is still growing in about 80 percent of U.S. markets. The top 25 markets account for a lot of that new demand growth, with demand increasing 3.5 percent in those top 25 markets."

According to STR's latest forecast, supply will be up 2.0 percent in 2018 and 1.9 percent in 2019. Meanwhile, RevPAR growth is expected to be 3.2 percent and 2.6 percent, respectively, during the same period. Occupancy is expected to gain 0.6 percent and 0.2 percent, while ADR is forecast to grow 2.6 percent and 2.4 percent, respectively.

JP Ford, SVP and director of global business development, Lodging Econometrics, addressed the concern of growing supply in the market.

Ford noted that the number of projects in the U.S. hotel pipeline is up 7 percent year-over-year while the number of rooms is up 6 percent over 2017. "I would characterize this as solid, steady, disciplined growth," he said.

Nevertheless, the supply numbers do begin to pick up slightly moving forward. Ford noted that last year saw a 2.3 percent increase in new supply, while the increase should come in at 2.4 percent for 2018 and 2019 before jumping to 2.6 percent in 2020.

Assessing the transactions market, Ford pointed out that the number of transactions has been declining since the beginning of 2016. He further added based on year-to-date totals through 2018 "it's highly unlikely that the total number of transactions will reach 2017 totals."

He explained the lack of deals.
"Because so many owners are holding on to their assets, reinvesting where appropriate and choosing to sell at another point in the future. Good idea? We'll see, but many owners seem focused on capturing the remaining upside left in this real estate cycle," said Ford.

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