What To Expect and What Can Go Wrong for Hoteliers in 2024

Challenges Abound, But American Mindset Remains "Travel Is a Birthright"

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U.S. hotel occupancy has been flat for the past 90 days, but average daily rate has already surpassed 2019 levels.

New hotel supply is muted due to high-interest rates and high construction costs, which has provided some tailwinds. We expect revenue per available room to be up 5% in 2024, driven by stable leisure travel, stronger business, group and international travel, and the continuation of the American mindset that "travel is a birthright."

Capitalization rates will likely increase somewhat in 2024 as there will be many loans and property improvement plans coming due, increasing some pressure on owners with those loans that are at 4% to 5% now. Interest rates are at 7% to 8%.

Wage increases are 20% above 2019, and average rates, albeit up from 2019 by double digits, cannot keep pace. Additionally, insurance and energy costs are up markedly. Consumers have dollars to spend, but in some markets, it's likely that short-term rentals will continue stealing some market share from hotels. Also expect U.S. citizens to fly off to Europe through most of 2024.

Questions include: How high will oil prices get? Will there be layoffs and unemployment?

Delinquency on loans has picked up and trillions of dollars of debt will mature by 2025. That said, there is private equity ready to jump in. Household debt is high and not sustainable, but the job market should keep it up through what will likely be a soft landing, not a recession.

We expect a modest pullback in spending through the second quarter of 2024 and then a strong rebound in the third and fourth quarters. Inflation should calm down to 2.6% in 2024, according to **Bernard Baumohl of the Economic Outlook Group.**

What Can Go Wrong?

What might go wrong with hotel revenue growth? To summarize from **Baumohl's** Lodging Conference presentation, the Federal Reserve moves rates up, the economy stumbles, a banking crisis arises, and financial stress is put on our entire industry. The 2024 U.S. presidential campaign could create social unrest and/or violence and new COVID-19 strains might spread quickly and dodge immune systems. Additionally, there are foreign risks, the Russia-Ukraine war could expand, China may push harder to annex Taiwan, and a catastrophic cyber warfare event is possible according to 93% of cybersecurity experts.

The bottom line is that the hotel industry still faces headwinds. Accommodation employment remains 250,000 positions below the pre-pandemic level as of June. Attracting new workers can be costly, and the reduced headcounts have led to strong wage growth for leisure and hospitality workers, which has ultimately affected the bottom line. Operating expenses have also increased due to inflation in other areas, including food, energy and insurance costs.

The hospitality industry is undergoing tremendous innovation driven by artificial intelligence. Hotels are expanding their offerings, particularly in the luxury space as the lines between work, life and play have blurred and the world's population continues to grow. These include private-membership clubs, yachts and branded residences. Hotels have also embraced technology to streamline workflow and enhance the guest experience, leveraging digital platforms and a range of innovative solutions including virtual tours, self-service kiosks, predictive analytics and AI-powered chatbots.

Renovation and construction costs are up significantly. Lead times on furniture, fixtures and equipment are within 10% of pre-pandemic levels, so the supply chain has become less congested, with items that might have taken 12 weeks pre-pandemic now taking 14 weeks, a major improvement from a year ago. But pricing has stabilized at around 15% higher than pre-pandemic levels, so renovation costs are still significantly higher compared to 2019. The cost of labor and construction materials also have skyrocketed.

CoStar's Jan Freitag stated: "In terms of normalization … the way I think about it is that the outperforming markets are normalizing back to growth rates that are normal because they were overindexed — and underperforming markets are also coming back to normal because their growth rates are not going to be that bad forever." Every market will experience different dynamics.

To a great fourth quarter that leads to an even better 2024!

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