Hotel News Now

Earnings Recaps

Business transient, group demand remain weak

12 NOVEMBER 2020 9:19 AM

Hotel brand and REIT executives spoke on Q3 earnings calls about how they've captured business transient and group demand and shared their outlooks for the segments for the rest of 2020 and the start of 2021.

By Dan Kubacki
dkubacki@hotelnewsnow.com
@HNN_Dan

REPORT FROM THE U.S.—Leisure bookings provided a bit of a cushion for public hotel companies over the summer, but the fourth-quarter corporate transient business and group demand are unlikely to be remotely close to an average year.

Executives from the major public hotel companies shared the highlights of where they've found business transient and group demand as well as their outlook on the segments going forward.

Chris Nassetta*, president and CEO, Hilton
"We saw leisure trends slow post-summer, offset by a modest uptick in business transient into the fall. … We've seen a pickup (in business travel) in the third quarter and into the fourth quarter. It's not the traditional customer that we would typically be housing, but business travel is picking up."

…

"In the third quarter, we did about 10% group, which is probably about half of what we've normally done. The groups are different. They're more related to the crisis—sports teams, things like that. But the big return of group, I think, doesn't really occur until … next spring, when we're shifting into a different gear

Copyright © 2008-2020 CoStar Realty Information, Inc.

in terms of the health crisis and vaccines."

…

"We've had great success (in terms of corporate rate negotiations). Everybody knows it's a really difficult time. We're now through the majority of those negotiations, and in the majority of cases, our customers have agreed to keep the 2020 rate structure."

…

"We are booking (group) business in the year for the year, and not in significant amounts. It's for unique types of group meetings—smaller corporate meetings happening in lieu of people being in the office, sports-related groups, and groups related to recovery efforts and crisis-related efforts. … Our objective is to try and rebook everything that is getting canceled this year and we've done a very good job of doing that. While we're booking and rebooking significant business into next year, I would say very little of it is into Q1. Some of it is into Q2 and the bulk is into Q3 and Q4. I think everybody is sort of on hold for the winter season."

Geoff Ballotti, president and CEO, Wyndham Hotels & Resorts
"Our everyday business traveler is a steady and reliable segment of business travel that has been far less disrupted by the pandemic. As the backbone of America's workforce, our everyday business travelers have continued to travel and seek a safe and comfortable stay after a workday on the road. Two-thirds of our business bookings come from the infrastructure industries, including construction crews, utility workers and engineers. While this travel demand declined 49% in the second quarter, we have experienced a strong rebound in the third quarter with this business down only 24%, a 25-point improvement sequentially.

"The vast majority of the remaining one-third of business bookings at our hotels come from logistics industries, including manufacturing, trucking, rail and warehouse workers. We have seen similar rebounds in this segment with bookings improving from being down 40% in the second quarter to down 26% in the third quarter, a 14-point improvement sequentially.

"As a lodging leader for these everyday business travelers, we are not relying on air travel, international in-bounder large convention-based corporate travel, which is one reason why our business is uniquely positioned to continue to outperform. La Quinta was a beneficiary of the improving trends in our business and leisure travel demand. It was once again our strongest-performing brand, growing its RevPAR index against its direct competitive set by over 700 basis points."

Bruce Haase, president and CEO, Extended Stay America
"The real opportunity for us is not necessarily to pick up a lot more transient business because that's not really what we want to do. We will pick up some of that, but I think the opportunity going forward will be to shift out from that personal business to medium-term extended stay, sort of extended-stay business that's in the seven- to 29-night (stay length), which we really suffered greatly in this pandemic. The IT consulting work that we had, the pre-opening work for restaurants and retail establishments that we had, I mean all of that sort of, whitish, grayish collar extended-stay business really got hit. Government business, we go in that category, as well, a lot of that travel really got hit during the pandemic. So, the opportunity is not to really replace that low-rated personal-stay business with a transient business, which is disrupted to our business model. But as those other corporate segments, weekly corporate segments come back to transition into that."

Leslie Hale, president and CEO, RLJ Lodging Trust
"We were also encouraged to see initial signs of demand in business transient from industries such as defense, technology, insurance and health care, among others, and also in small groups such as pop-up weddings, training sessions and sports teams. While both corporate transient and group remain anemic, the increased demand from these segments contributed to the lift in occupancies throughout the quarter."

Arne Sorenson, president and CEO, Marriott International
"Well, I think there are three things, and obviously the most urgent and most impactful will be what happens with COVID-19. Clearly travel has plummeted because of the risks associated with it and the way those have impacted either through formal restrictions or informal restrictions—think about airline capacity, international travel, all of those sorts of things—that impact has been very profound. We will have, I think, a meaningful step up in group and business transient travel the moment that COVID-19 risk recedes from the threatening horizon, if you will.

"I think once that happens, there are two other things that we're going to have to pay attention to. One is what's the state of the underlying economy, and as we've all watched for years and years and years, demand in our industry does correlate well with the strength of the economy, and my guess is we're going to see an economy which has got some lingering weakness because of small businesses being closed, many probably not able to reopen, relatively higher levels of unemployment around the world, a number of factors that it will take some time for us to work our way through."

James Risoleo, president and CEO, Host Hotels & Resorts
"While our operators are striving to access all potential sources of hotel demand, they remain focused on working with meeting planners to restore confidence in traditional group meetings and events. In October, the Orlando World Center Marriott hosted this year's Connect 2020 Conference with more than 1,000 in-person attendees at our hotel, and 175 virtual attendees at home. … The property was able to complement the in-person events with virtual suppliers and a digital trade show that occurred simultaneously. We believe this hybrid meeting format will augment in-person demand and Marriott plans to host four global hybrid meeting events starting on (9 November) at our Ritz-Carlton, Tysons Corner. While such events help publicize the fact that meetings can take place safely despite the complexities posed by the pandemic, restrictions on large group gatherings remain in place for most states and local jurisdictions, and nearly all conventions in citywides had been canceled through the first quarter of next year.

"We remain optimistic about group business on a medium- to long-term basis due to encouraging group booking patterns. Rebookings as a percentage of cancellations continue to increase, with approximately 16% of group business that was canceled in 2020 now rebooked into (future) years, up from 11.6% in the second quarter. Moreover, group cancellations for 2021 remain concentrated through April, with groups that are scheduled for the second half of next year holding fairly steady.

…

"Finally, our operators achieved a robust sequential increase in 2022 to 2024 group bookings. We booked nearly 100,000 more roomnights for these years in the third quarter than we did in the second quarter, with roomnight activity down only 13% to the same time last year. Importantly, for these out-years, (average daily rate) is only 80 basis points lower than the same time last year, in contrast to the deep discounting that prevailed in the aftermath of 9/11 and the Great Financial Crisis.

Copyright © 2008-2020 CoStar Realty Information, Inc.

“Moving on to business transient, demand remains minimal, but has improved from 11,000 roomnights in July, to 13,000 in August and 14,000 in September. A variety of industries are driving demand, including health care, consulting, technology, and financial and business services with no particular standouts.

“In general, both group and business transient demand is being driven by smaller organizations, rather than by the large corporate accounts. We continue to believe that business travel will recover in line with the broader economic recovery because of the ROI it generates for businesses. For every dollar spent on business travel, there is a $10 return in revenue and a $3 return in profit, according to a 2013 analysis by U.S. Travel and Oxford Economics, which statistically modeled 14 industries over 18 years.”

Jon Bortz, chairman, president and CEO, Pebblebrook Hotel Trust
“The business transient that we’re seeing is really what you would expect. It’s people who own their own businesses, whether small or medium size. It’s folks who aren’t restricted by major corporate restrictions that I think are, to some extent, based upon avoiding liability with their employees. And I think, when we look at the industries, I mean, and it varies by market, but in Boston, we’re seeing a lot of … healthcare, biotech, biomedical. We’re seeing consulting. I think throughout the portfolio, we’re seeing consulting that is … project-based, facilities-based that you have to be on-site. You’re installing a system, as an example. You’re installing servers and cloud systems in markets with the growth in that industry.

“In LA, I mentioned, we’re seeing production return in LA and including production that might have otherwise gone abroad, but the movies and TV production that would otherwise take place in a place like Canada, as an example, is not able to do that right now to the same level as before. So we’re seeing some production that would otherwise have been abroad come back to LA and some other places in the U.S. Also seeing music production in LA return. So, content development is driving business in some markets as well.

“I mean, real estate, good example, folks who -- it is funny, but trying to lead I suppose, but a lot of the (real estate investment trusts) have come back to their offices and many of them are having folks travel. Where we’re generally not seeing it is in your industry, in the financial services industries. We’re not seeing much travel there.

“We’re not seeing much travel in the technology space. I think some of that is the businesses sort of talking their own book, which is doing to encourage work-from-home and use of technologies, online, e-commerce, etc. But the encouraging part is, I’d say is probably running about 10% to 15% of last year’s levels, and that’s pretty consistent with what the airlines have also been seeing.”

John Russell, CEO, RLH Corporation
“On the negative side, we see a very slow pickup on corporate travel, virtually nothing in the group segments. Going into 2021, I think you're going to see the same trends until there's a vaccine or substantial progress on that front. I think – since we're leisurely skewed, and 70% of our income is fixed fees from our franchisees, I think we will continue to have some success in that scope.”

Keith Cline, president and CEO, CorePoint Lodging
“In addition to leisure, we continue to see some recovery in certain segments of corporate travel related to essential businesses such as construction, transportation and project-related businesses.”

**Editor’s note: Hotel News Now is a division of STR, a CoStar Group company. Chris Nassetta serves on CoStar Group’s Board of Directors.*

Copyright © 2008-2020 CoStar Realty Information, Inc.