Own

U.S. hotel forecasts continue to look up

by Alicia Hoisington | Aug 27, 2018 7:47pm

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Another quarter gone, another round of forecasts from the industry's analysts. And most of it spells good news for the United States hotel sector. Is there a downturn in sight? It doesn't appear that way when looking at the data projected through the end of this year and into 2019.

What's Leading the Growth

Records continue to be broken, causing the industry's prognosticators to raise their outlooks. And that's just what STR is doing, noting that U.S. hotels are expected to exceed earlier forecasts through 2019.

In 2018, the U.S. hotel industry is projected to report a 0.6-percent increase in occupancy to 66.3 percent, according to STR. Average daily rate is expected to grow 2.6 percent to $129.85, while revenue per available room will increase 3.2

percent $86.09. Data analysts also note that RevPAR has increased at least 3 percent each year for the past eight years.

STR and Tourism Economics forecast that next year the U.S. hotel industry will report a 0.2-percent increase in occupancy to 66.4 percent, a 2.4-percent gain in ADR to $132.97 and a 2.6-percent increase in RevPAR to $88.29.

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“Rarely do we lift our ADR projections during our mid-year revisions, but stronger-than-expected pricing power over the last quarter has led us to lift our rate forecast by 10 basis points,” said Amanda Hite, STR’s president and CEO, adding that inflation has played a role in ADR growth. Additionally, a solid economy and a strong impact from tax cuts are helping to drive growth, as well as low unemployment and rising wages.

Consumer confidence holding steady during the second quarter is a reason for continued performance growth, according to PwC’s newest research. The second quarter resulted in strong hotel demand that outpaced supply increases, and the quarter saw the highest second-quarter gain in ADR since 2016. A year-over-year comparison for the second quarter shows U.S. RevPAR rising 4 percent, led by ADR growth of 2.9 percent.

Looking ahead, PwC expects occupancy to hit 66.4 percent this year and RevPAR to grow 3.3 percent. In 2019, the firm forecasts RevPAR to grow 2.6 percent.

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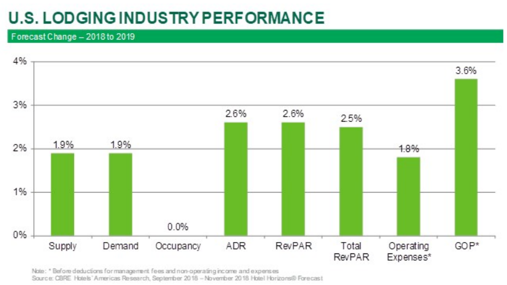
PwC also expects that hoteliers will continue to increase room rates, making ADR an even bigger driver of RevPAR growth. Meanwhile, consumer spending will continue to increase as lower personal tax rates and low unemployment soldier on. Much like STR, PwC anticipates that the industry will benefit from a strong economy, initially from the Tax Cuts and Jobs Act, leading to higher group spend and rising commercial transient demand. However, headwinds could come from trade tensions with China and increasing costs of labor for entry-level jobs due to the low unemployment rate.



The Supply Story

Supply growth has been on everyone's minds of late, and CBRE Hotels' Americas Research forecasts that it will peak at 2-percent growth in 2018 and then stabilize at the long-run growth average of 1.9 percent for the next two years.

R. Mark Woodworth, senior managing director of CBRE Hotels' Americas Research, said that demand growth has exceeded supply increases on a broad, national level for the past eight years. However, when drilling down to the local level, the impact of new supply is evident when looking at projected performance data through 2019.

"Not only does the change in supply affect the outlook for local market occupancy levels, but it impacts hoteliers' pricing power, as well," Woodworth said.

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He said that supply growth often leads to dwindling gains in pricing. For 2019, the 47 U.S. markets expected to see occupancy declines are also projected to increase ADR 2.1 percent. On the flip side, the 13 markets forecast to see occupancy increases will grow ADR 2.5 percent. Combining the anticipated changes in occupancy and ADR, the 2019 forecast for RevPAR growth of the 47 occupancy-declining markets is 1.2 percent, well below the 2.9-percent RevPAR gain expected from the 13 other markets.

Woodworth said that now is the time for owners and operators to truly understand the conditions and economies in their local hotel markets when preparing budgets for next year.

“It is easy to be enthusiastically mesmerized by the positive outlook for the nationwide lodging market. However, don’t be caught off guard by not understanding what is happening in your neighborhood,” he said. “It is very evident that local economic conditions, as well as changes to the local lodging supply, are going to significantly impact the performance of U.S. hotels in 2019.”

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