Hotel News Now

Research

# A look at total room inventory vs. standard occupancy

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STR's total room inventory methodology gives an additional perspective on occupancy.


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NASHVILLE, Tennessee—The continued closure of hotel rooms has made year-over-year occupancy comparisons more complex as the supply denominator is shifting.

To aid our clients, STR designed and rolled out the additional total room inventory (TRI) methodology, which debuted this month, side by side with the monthly results. The occupancy math is exactly the same; we are just using the number of total rooms in a country/market/submarket versus the lower, standard room count, which omits temporarily closed rooms. This, of course, then depresses the occupancy, because demand is the same, but supply is higher. Just to be clear, because this is "just math," both results are correct and true. (STR is the parent company of Hotel News Now.)

The main question when it comes to using the different methodologies is just who you are and for what purpose you use occupancy.

If you are an operator: You likely find it most insightful to compare yourself to the other properties that are open and you use the standard methodology.

If you are an investment banker or a parent company: You may want to understand the total supply picture in 2020 and then in 2021, so you may choose the TRI methodology.

Both are correct, both give you a sense of where the market stands, just through a different lens.

Here is the math in detail:

| Cell | A | B | C | D | E | F | G |
|---|---|---|---|---|---|---|---|
| EXAMPLE | Standard Supply | TRI Supply | % Difference (B/A-1) | Demand | Standard Occupancy (D/A) | TRI Occupancy (D/B) | % Difference (F/E-1) |
| Jul-19 | 100 | 100 | | 70 | 70% | 70% | |
| Jul-20 | 85 | 105 | -19% | 60 | 71% | 57% | -19% |
| % change | -15% | 5% | | -14% | 1% | -18% | |

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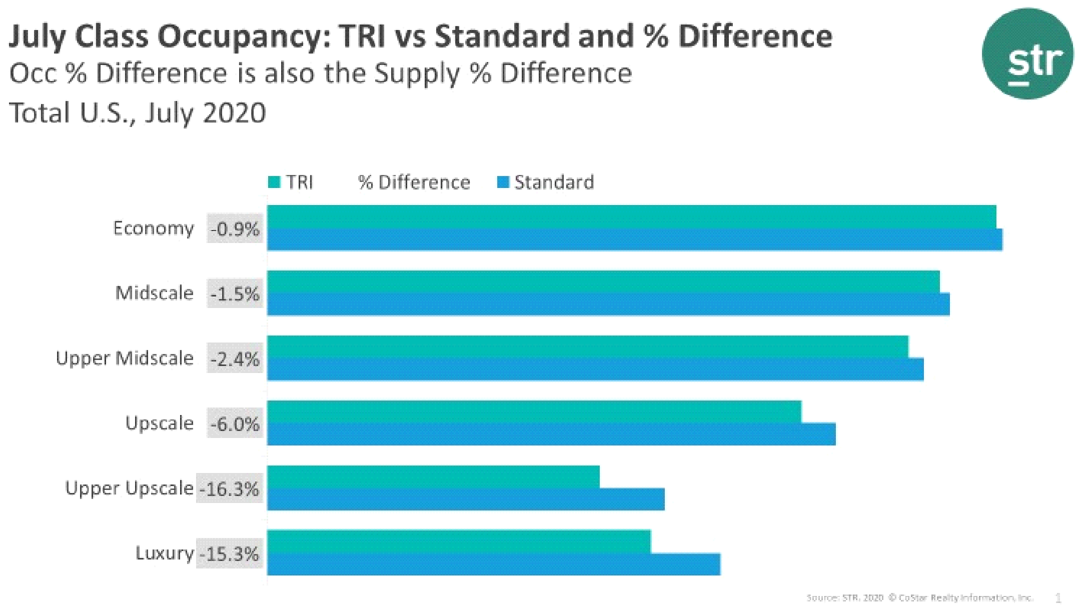
In this example, room supply grew 5% in the last year. When you compute the difference in available room supply, it looks like supply dropped 15%, but this math omits the rooms that were added. To get to a precise supply impact we need to understand all rooms that should be open, compared to the rooms that are actually open. The difference between these numbers is -19%, so the standard supply is 19% lower than the TRI supply.

When computing occupancy and the occupancy difference between standard and TRI occupancy, the math dictates that the percent difference in occupancy has to equal the percent difference in supply. In our example, the standard occupancy is 71%, but when considering all rooms, it drops to 57%, which is 19% lower (and matches the supply difference).

In the U.S. in July the (accounting for closed rooms) standard inventory was -5.2% lower than the TRI.

**TRI and standard occupancy by hotel class**
When applying the same calculations to the class occupancy the following picture emerges:

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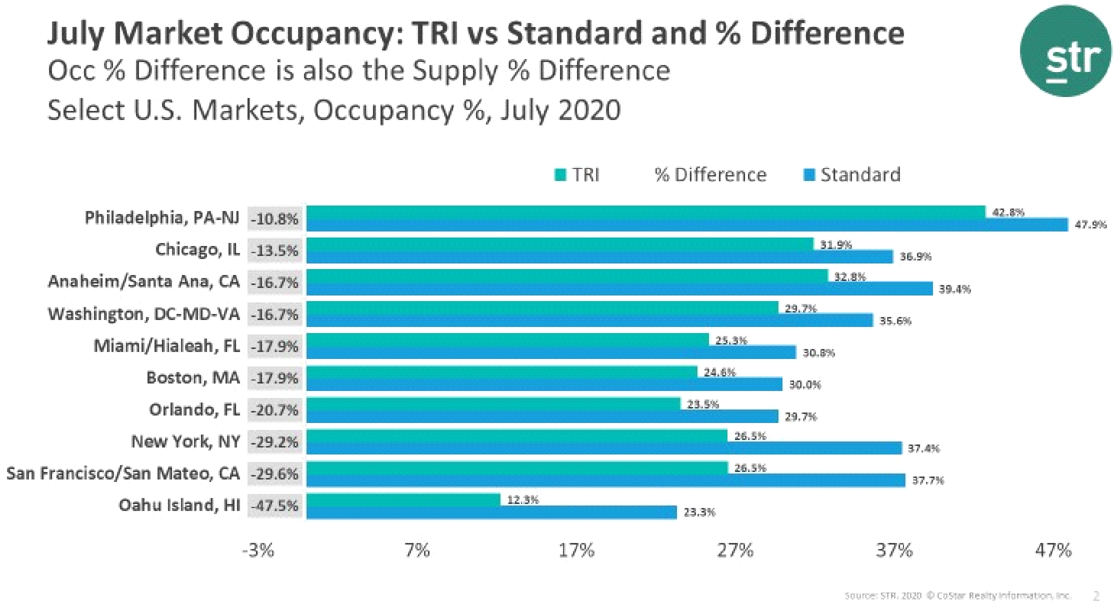
The monthly supply changes show that the temporary closure story is really a "high end" story and that the limited-service hotels are mostly all open again. But on the upper end, where the complete lack of corporate group demand has put many owners in a bind, the temporary room closure rate is well over 10%.

**TRI and standard occupancy for select US markets**
We are often asked how the occupancy in certain markets is affected by temporary closures, so here is a list of ten markets that are part of the U.S. Top 25. We sorted by the largest occupancy difference, which is also equal to the temporary closure rate. Not surprisingly, Oahu hoteliers have felt the brunt of the pandemic and travel restrictions and just under 47% of units in Oahu are currently closed. The closure rate in San Francisco and New York City is roughly the same at just under 30%.

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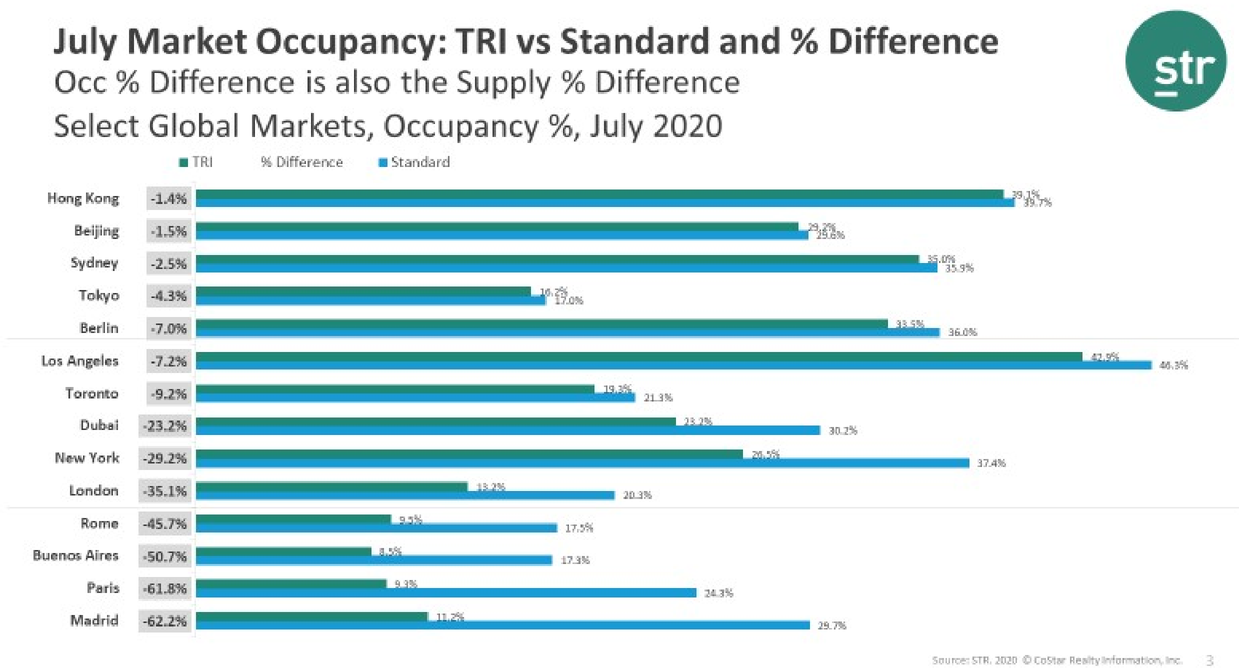
**TRI and standard occupancy for select global markets**

As the pandemic hit, global hotel industry temporary closures swept around the world. Room demand and occupancies have recovered in Asia, and with Europe reopening the closure rates also are declining from the high-90s percentage rate where they stood a few months ago. Nonetheless, a few hard-hit markets are still far from being fully reopened.

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The TRI methodology allows owners, operators and lodging analysts to assess the relative heath of a market of a country by taking into consideration the potential full available inventory. STR will continue to report on TRI and our standard methodology side by side for the foreseeable future. We look forward to a day when the TRI and standard methodology show a 0% difference, implying that all hotels are open again.

Jan Freitag is the SVP of lodging insights at STR.

This article represents an interpretation of data collected by STR, parent company of HNN. Please feel free to comment or contact an editor with any questions or concerns.