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Follow local lodging supply trends to create accurate 2019 budget

by Robert Mandelbaum | Oct 30, 2018 12:05pm

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As U.S. hotel owners and operators wrap up the preparation of their marketing plans and budget for 2019, it is important for them to understand their local hotel market conditions. It is easy to be enthusiastically mesmerized by the positive outlook for the nationwide lodging market. However, it is very evident that changes to the local lodging supply are going to significantly impact the performance of U.S. hotels in 2019.

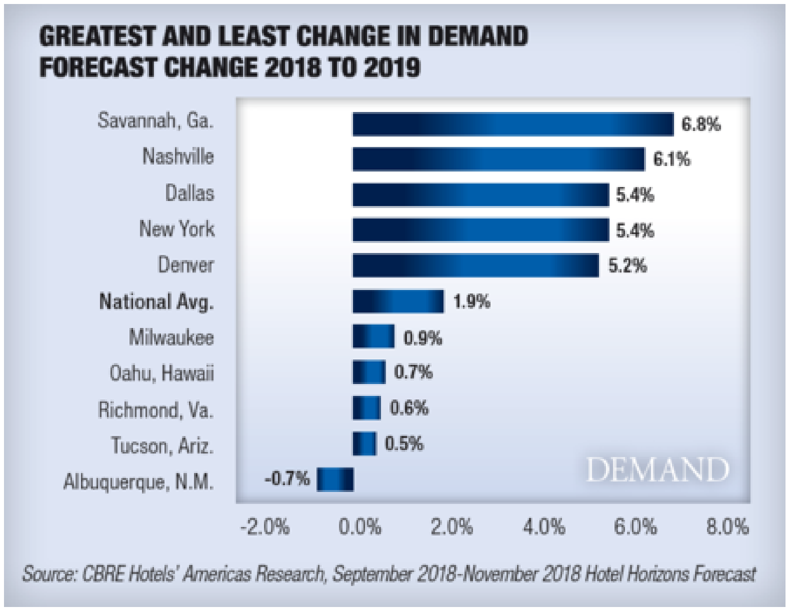
According to CBRE Hotels' Americas Research's September 2018 Hotel Horizons forecast report, growth in the nation's lodging supply will peak at 2 percent in 2018 and then stabilize at the long-run average of 1.9 percent for the next two years. On a broad national basis, lodging supply increases have been surpassed by demand growth for the past eight years, and this trend is forecast to continue through 2019. However, when you look at the projected 2019 performance of the 60 major U.S. markets in our Hotel Horizons universe, you can clearly see the impact of new lodging supply at the local level.

The following paragraphs highlight the high and lows of performance forecast for 2019 in the 60 Hotel Horizons markets.

Supply and Demand

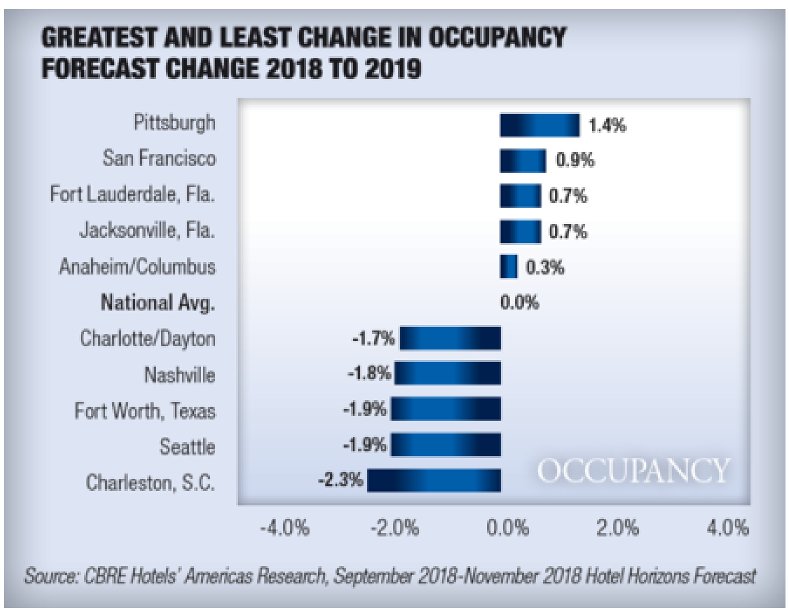
For 2019, CBRE is forecasting a very slight (0.02 percent) increase in the nation's occupancy level. Conversely, occupancy is forecast to decline in 47 of the 60 Horizons markets covered by CBRE. A primary difference among markets gaining occupancy and those losing it: anticipated levels of new supply. The 47 markets forecast to register declines in occupancy in 2019 will see an average 3.8 percent gain in supply from new rooms. The 13 anticipated to gain occupancy will see only 2.5 percent supply growth.

U.S. hotel developers are showing their affection for secondary markets in the Southeast. In 2019 the Savannah, Ga., lodging market is forecast to experience the greatest percentage increase in new hotel rooms (8.5 percent). Charleston, S.C., will see its lodging inventory grow 6.7 percent. Both of these cities are benefiting from strong ports and industrial growth.



Elsewhere in the South, Nashville (8.1 percent) and Fort Worth, Texas, (6.8 percent) also will see significant gains in supply during 2019. Hotel development activity in these markets is dominated by select-service projects ranging from 80 to 150 rooms.

Fortunately for hoteliers in Savannah and Nashville, a lot of the new supply will be filled by new demand. These two markets are projected to enjoy demand growth in excess of 6 percent in 2019. On the other hand, the Albuquerque, N.M., market will see the least growth in supply, but suffer a 0.7 percent decline in demand.

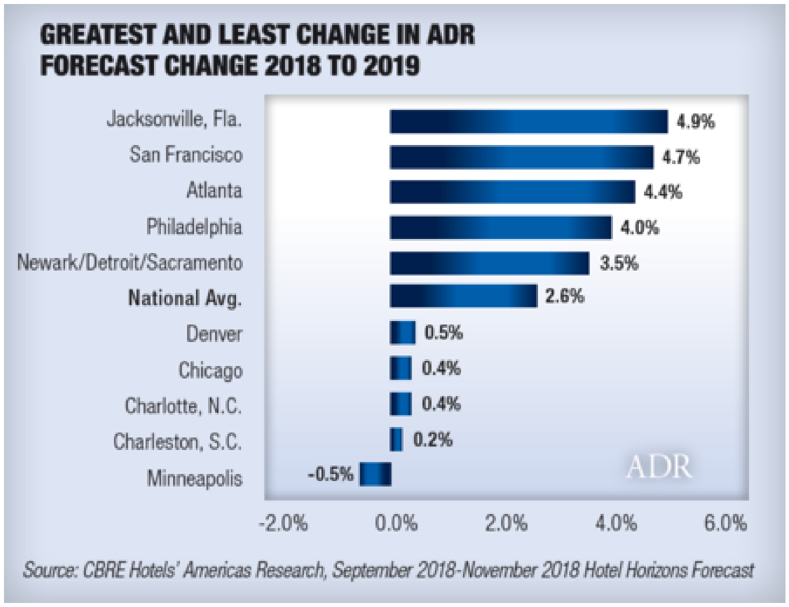


Occupancy and ADR

The Pittsburgh hotel market is forecast to enjoy the greatest increase (1.4 percent) in occupancy from 2018 to 2019. However, it should be noted that the resulting 63.6 percent occupancy level still will be below the projected national average of 66.1 percent.

On the other hand, the San Francisco market is forecast to achieve the third highest occupancy rate (83.6 percent) in the country during 2019. This represents a 0.9 percent increase from 2018, the second highest annual occupancy growth rate.

As noted before, local supply changes will impact lodging performance in 2019. Accordingly, it is not surprising that the markets forecast to suffer the three greatest losses in occupancy (Seattle, Charleston and Fort Worth) also are projected to see some of the greatest gains in supply.



Not only does the change in supply affect the outlook for local market occupancy levels, but it impacts hoteliers' pricing power as well. For 2019, the 47 markets forecast to experience a decline in occupancy are projected to achieve an increase in average daily rate of 2.1 percent. Conversely, the ADR gain is expected to be larger—2.5 percent—for the 13 markets forecast to see occupancy increases next year.

ADRs are forecast to increase 4 percent or more in Jacksonville, Fla.; San Francisco; Atlanta; and Philadelphia during 2019. After enjoying an estimated 6.4 percent bump in ADR mostly attributable to the 2018 Super Bowl, the Minneapolis market is projected to suffer a 0.5 percent decline in 2019. CBRE Hotels' Americas Research wishes U.S. hoteliers the best of success for the remainder of 2018, and on into 2019.

Robert Mandelbaum is director of research information services for CBRE Hotels' Americas Research. He is located in the firm's Atlanta office. To learn more about the Hotel Horizons forecast reports for 60 markets in the United States, please visit pip.cbrehotels.com, or call (855) 223-1200.

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