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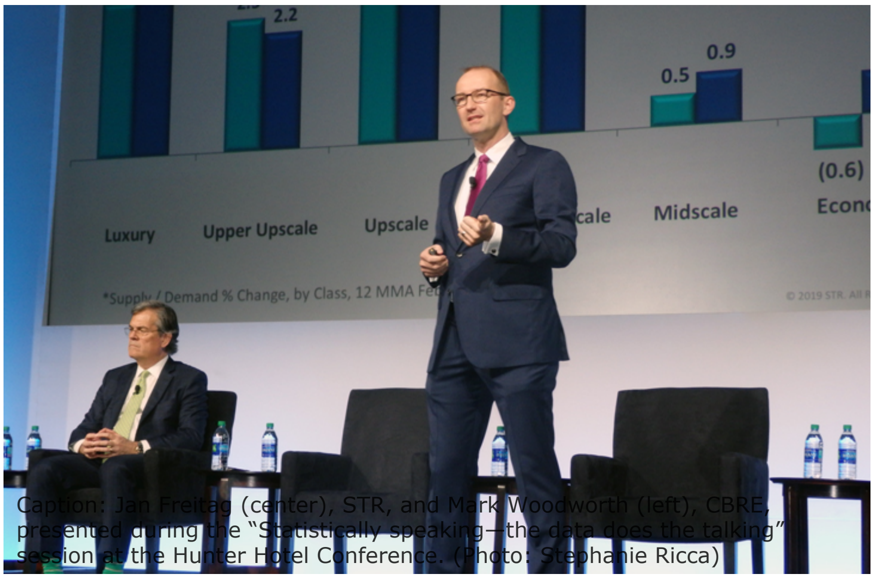
5 things affecting the US hotel industry

27 MARCH 2019 7:13 AM

Data analysts at the recent Hunter Hotel Conference hit on issues affecting hotels and where the industry is headed.



Caption: Jan Freitag (center), STR, and Mark Woodworth (left), CBRE, presented during the "Statistically speaking—the data does the talking" session at the Hunter Hotel Conference. (Photo: Stephanie Ricca)

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ATLANTA—The U.S. hotel industry continues to grow at a slow and steady pace, but there are several factors that could affect this period of growth.

Analysts from STR (https://str.com/), Hotel News Now's parent company, CBRE and Tourism Economics gave their takes on the state of the industry at the recent Hunter Hotel Conference during the "Statistically speaking—the data does the talking" session.

Here are five takeaways from the session.

1. Labor continues to be worrisome for the industry

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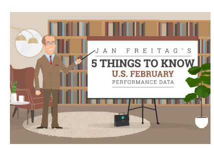

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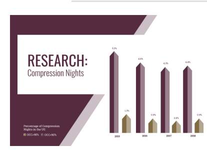

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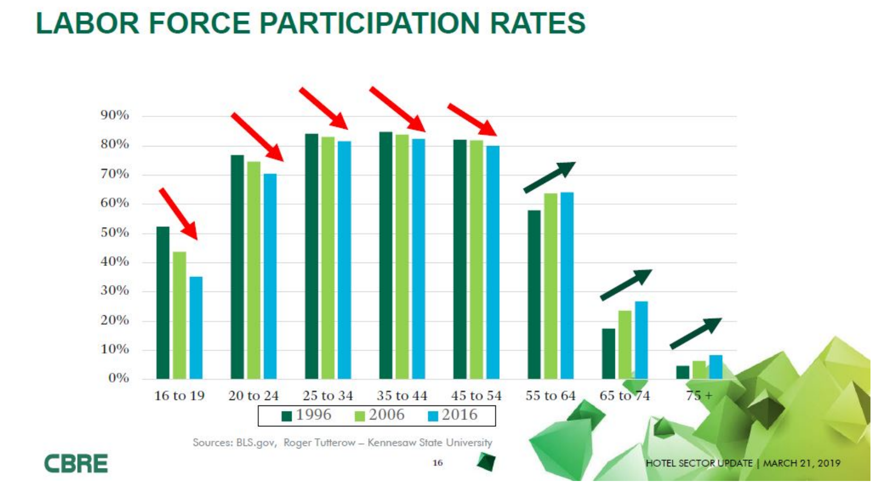

Information from the U.S. Bureau of Labor Statistics shows that there are more than one million job openings in accommodations and food service.

Jan Freitag, SVP of lodging insights at STR, said this is an issue because hotels are competing with others—such as restaurants—to hire the same people, which is going to increase wages.

"The wage growth for non-supervisor employees is up 5%. That's a problem because if you drive your top line 2% (or more) and your expenses go up 5% (or more), that's not going to end well for profitability," he said.

Mark Woodworth, senior managing director at CBRE Hotels, said the working age population is shrinking and labor force participation data is "the exact opposite of what you would assume."

"What we're now seeing is that as people age, they are staying in the labor force longer than they had been. The opposite is true with respect to some of the younger age cohorts," he said, adding that people are looking into reasons why that's happening. "Some has to do with younger people staying in school longer and the opioid problem is a real issue that's hurting labor force participation."

2. Less international travel to the U.S.
Adam Sacks, founder and president of Tourism Economics, pointed out that every quarter of 2018 showed a slowdown in international demand to the U.S. when looking at air travel while domestic air passenger growth remained steady.

"That leads us to the conclusion that domestic was truly the wind in the sails of hotel room demand in 2018 as opposed to international visitors coming and spending nights in hotels," he said.

International travel to the U.S. "didn't look like anything we've seen in the last decade," Sacks said.

"That's not hyperbole because the biggest driver of growth of international hotel room demand in the last decade has been Asia," he said, adding that travel from Asia to the U.S. contracted in 2018.

There are a number of reasons behind why less international travelers are coming to the U.S., he said, but the main reason is that the U.S. is "more expensive than it has been over the last five years."

3. Supply expected to outpace demand

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Demand continues to outpace supply growth, which has led to strong occupancy results, Freitag said. But, supply is expected to catch up with demand "on an annualized basis at the end of the year," he said.

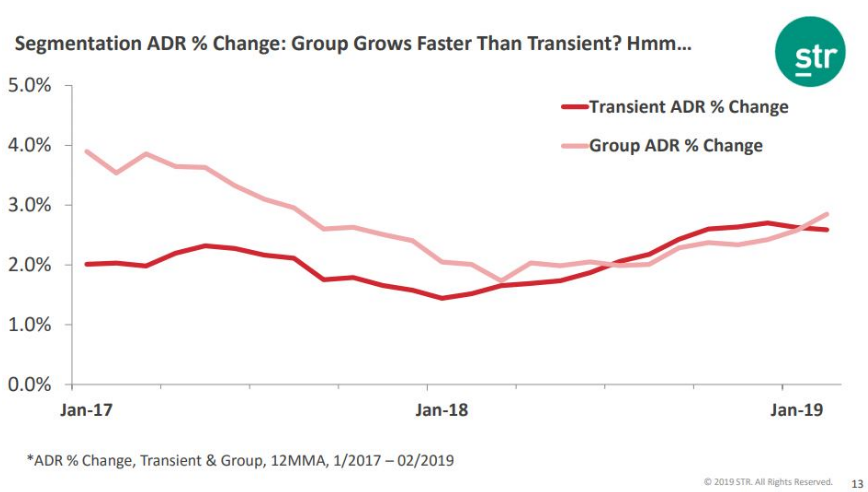
For the majority of the industry, there's still room to grow occupancy. However, for the top 25 markets that will be more challenging because there's so much new supply in those markets, he said.

"The difference there is supply growth is actually outpacing demand growth by 100 basis points in the top 25 markets," he said.

Freitag added that "demand percent change in upscale and upper-midscale is basically two times the national average."

"We're nine years into the cycle and we're growing demand on the upscale side by 4%. Yes, there's a lot of new supply to accommodate that, but it's an amazing, amazing number given how late we are in the cycle," he said.

4. Group vs. transient growth



Group average-daily-rate growth hit around 4.5% in February and lifted the annualized number, Freitag said.

Looking at the upswing in the group ADR percent change, he said that showed revenue managers were bullish about the industry today when making the decision to increase these group room rates a year or so ago.

"Looking at the transient ADR percent change, that growth is a little more tepid. What does that mean? Well, the booking window for transient is a month? Three weeks? Two days? Revenue managers a month ago (were) not feeling as confident about the industry today as they were a year ago," he said. "I think this is really an indicator of psychology more than anything going on in the market."

5. Industry set to break RevPAR growth streak

Some in the industry wonder when the current cycle will end since it's been going strong for a while now. Freitag said it doesn't have to end "unless there's an external shock to the system."

The industry is 108 months into the RevPAR upcycle, with 107 months of positive growth. RevPAR growth for the U.S. hotel industry was negative in September of 2018.