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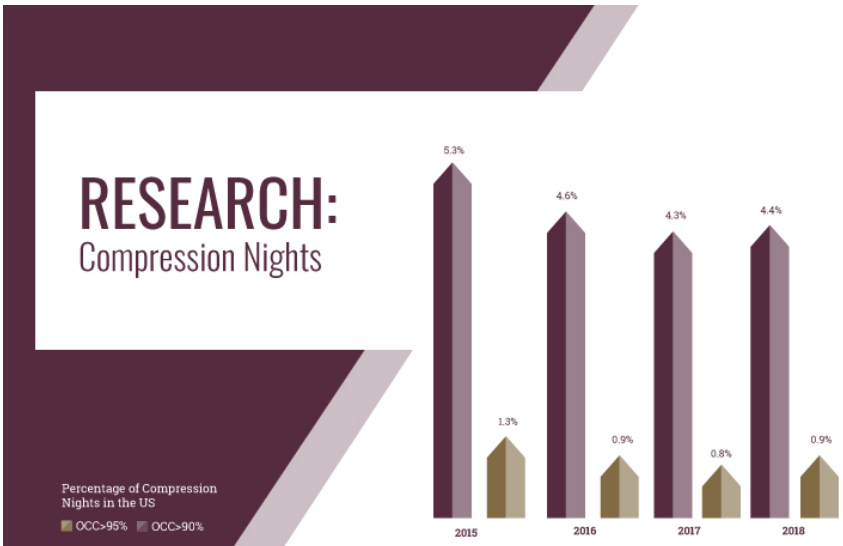
3 trends in hotel compression nights and what they mean

28 MARCH 2019 8:27 AM

As the number of compression nights continues to decrease overall in the U.S., will pricing power be a concern in 2019?



(Illustration: Rachel Daub)

By Tingting Duan (/Author/292645/Tingting-Duan) and Allison Montgomery (/Author/235751/Allison-Montgomery)

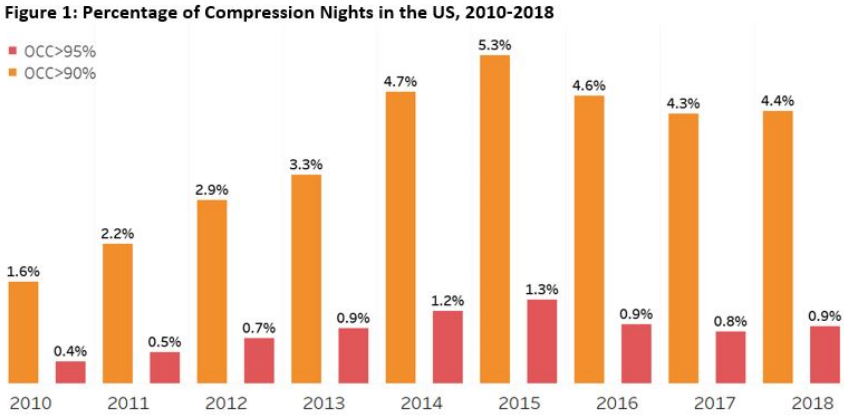
HENDERSONVILLE, Tennessee—Compression nights have long served as opportunities for hoteliers to achieve peak pricing performance. But as the number of compression nights continues to decrease, operators need to be mindful of how best to leverage them.

Here are three things about compression nights, the high-demand periods in which occupancy exceeds 90% or 95%, every hotelier needs to know.

1. Compression nights are becoming more rare

Compression nights increased quickly after 2010, a year which was relatively stabilized following the declines from the Great Recession. After 2015, however, compression nights become rarer. With that said, it is worth noting that there was slight growth in compression nights in 2018, because the 2018 U.S. hotel room supply number was higher than ever.

Figure 1: Percentage of Compression Nights in the US, 2010-2018



Note. Full year values for 2010–2018 for 165 U.S. markets combined.
Source: STR

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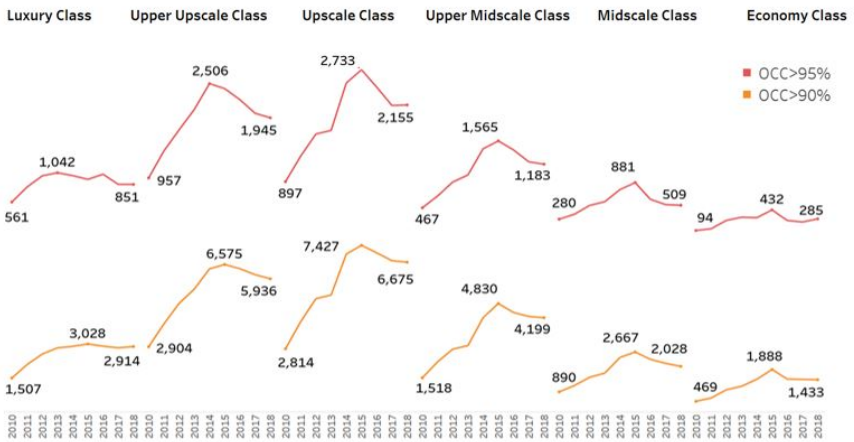
The same trend is true for all six hotels classes: Compression nights increased rapidly from 2010 to 2015 and have decreased ever since. This trend was particularly pronounced in the upper-upscale and upscale classes. The rapid demand growth for those two classes contributed the compression night counts between 2010 and 2015.

Figure 2: Number of Compression Nights by Hotel Class, 2010-18



Note. Full year values for 2010–2018 for 165 U.S. markets combined; 3 data labels represent minimum, maximum, and most recent value.
Source: STR

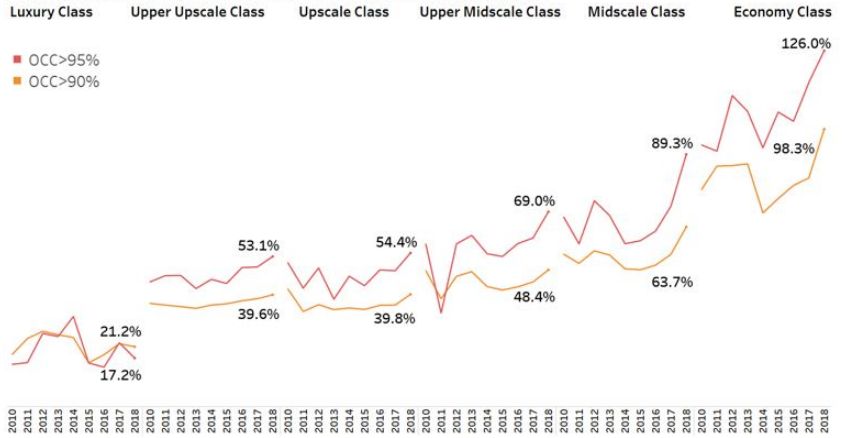
Although the downward trend in compression nights is cause for concern, the U.S. hotel industry on average has seen more nights than ever in which occupancy was greater than 80%. A closer look at supply and demand data reveals that dips in compression nights resulted more from increased supply than any decreases in demand. Hotel demand has grown at a healthy pace for several years now.

Additionally, compression nights don't always equate with profitability. As Joseph Rael, senior director of financial performance at STR (http://www.str.com), has shown, hotels achieve peak profitability (http://www.hotelnewsnow.com/Articles/88558/Research-Maximizing-hotel-profitability-potential) (in terms of gross operating profit percentage) when occupancies are at or slightly above 80%. (STR is the parent company of Hotel News Now.)

2. Pricing premiums are higher than ever

Hotel room rates on compression nights have been increasingly higher in all six U.S. hotel classes since 2010, and are currently the highest ever, despite the fact that the volume of compression nights has declined since 2015. The same is true for ADR premiums, or the percent difference between ADR on compression nights versus non-compression nights.

Figure 3: ADR Premium on Compression Nights by Class, 2010-18



Note. Full year values for 2010–2018 for 165 U.S. markets combined. 2 data labels represent 2018 values.
Source: STR

A close analysis of the data reveals an unusual behavior in the luxury class, in which average daily rate when occupancy exceeded 95% was less than the ADR when occupancy exceeded 90%. This may be influenced by a mix of factors:

1. the target clients of luxury hotels and resorts (which often differ from clients in other hotel classes);
2. the loyalty redemption policies at luxury hotels; and
3. the fact that 90% compression nights occurred in markets that typically have higher average luxury room rates throughout the year than those reaching 95% compression (for example, New York vs. Chicago).

Figure 4: The Premium between ADR on 95% OCC Nights and on 90% OCC Nights

Note. Full year values of 2018 for 165 U.S. markets combined.
Source: STR

In addition, the midscale and economy classes in particular achieved outstanding ADR premiums. There are two possible reasons for this. First, room rates on non-compression nights were lower in midscale and economy classes than in the other classes. Because of smaller baselines, it is relatively easier to yield a higher ADR premium. Second, the strong pricing power during weekends (Fridays and Saturdays) from 2016 to 2018 might have strengthened the ADR premiums. Taken together, both circumstances might have strengthened the ADR premium of midscale and economy classes.

3. Group business is often a driver

Group business is strongly associated with compression nights. At which point can group business trigger compression nights? Although there is no one optimal group occupancy figure for the industry, we can look at group business for similar hotel classes in the top 25 markets using daily data from 2010 to 2018.

In the upper-upscale class, overall occupancy is most likely to reach 90% when group demand accounts for 30% to 40% of total demand. In the luxury class, by contrast, the ideal group occupancy threshold is between 15% and 50%, possibly because luxury hotels host a wider range of individual travelers and, in turn, might rely less on group business or conference travelers. Such a conclusion holds true for every year during 2010 to 2018. In addition, from a rate perspective, we haven't found strong evidence that the total U.S. group occupancy would significantly impact the total U.S. ADR in both classes.

Figure 5: Group Business and Compression Nights in the US by Class, 2010-18

Note. Daily data from January 1, 2010, to December 31, 2018, for hotels with more than 75 rooms in the Top 25 U.S. markets
Source: STR

Conclusion

In sum, as the number of compression nights decreases in the U.S. hotel industry, pricing power has not waned. Factors such as group business and events continue to play important roles in driving compression nights. Moving forward in 2019, hoteliers should closely monitor historically significant periods for compression nights in their local markets as well as the ADR premiums on those nights.

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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.