



**Horwath HTL**

*Hotel, Tourism and Leisure*

MARKET REPORT

**USA:**  
Hotel Market  
Trends & Analysis

APRIL 2020

## Hotel Market Trends & Analysis

The following analysis will examine hotel supply and demand trends as well as factors that influence the hotel investment market.

### National Economic Trends and Future Outlook

The paragraphs which follow discuss historical U.S. economic trends and the future U.S. economic outlook.

The principal resources used for this discussion include Barron's, CBRE Econometric Advisors, CoStar News, Federal Open Market Committee of the Federal Reserve System, Federal Reserve Bank of Philadelphia, Federal Reserve Bank of St. Louis, Haver Analytics, JPMorgan, Kiplinger, Los Angeles Times, Mumford Company, Survey of Professional Forecasters, The New York Times, The Washington Post, Trading Economics, U.S. Bureau of Economic Analysis (BEA) and USA Today.

In 2019, the U.S. economy advanced a modest 2.3 percent, the least since 2016 and -20.7 percent lower than 2018's GDP growth rate of 2.9 percent, a rate which was attributable in significant measure to such stimulus measures as the \$1.5 trillion Tax Cuts and Jobs Act of 2017 and increases in federal, state and local government spending, all of which was enhanced by strong job and wage growth, record low unemployment and brisk consumer spending.

Despite a weak global economy and the trade war with China, the U.S. economy performed better in 2019 than most analysts had predicted—Q3 and Q4 each posted modest GDP growth rates of 2.1 percent as consumer spending, which slowed after six months of brisk growth, remained the economy's main driver and the trade deficit narrowed to help offset persistently sluggish business investment and stockpiling.

While the deceleration in real GDP in 2019, compared to 2.9 percent in 2018, reflected the aforementioned slowdowns in business investment and personal consumption expenditures (PCEs), the impact was lessened by a moderate decrease in imports and by further increases in federal, state and local government spending.

As 2019 drew to a close, the U.S. economic outlook was for GDP growth to decrease further, from an expected 2.3 percent in 2019 to 1.9 percent in 2020 – a then-projected -17.4 percent deceleration in the rate of GDP growth, with professional forecasters noting the following:

- the U.S. economy remained in record-setting territory through December 2019, its 126th month of expansion;
- though the pace of real GDP growth had slowed, it remained consistent with the economy's potential rate of growth, which most economists estimate to be between 1.75% and 2.0%, though 2.0% to 3.0% is considered to be ideal for the U.S.;
- of concern throughout 2019, especially Q2 through Q4, was the sluggish pace of business capital expenditures as weak business fixed investment often is a signal that firms see impediments to profitably deploying scarce resources:
  - domestic manufacturers are important providers of capital goods to firms; as such, slow business fixed investment leads to fewer orders and reduced activity at the nation's factories—weak capital spending has important ramifications for the whole economy;
- on a macroeconomic level, 2019 closed with two main impediments facing manufacturing firms, nonmanufacturing firms and farmers:
  - (1) increased tariffs and (2) slower global growth:
    - tariffs and slower global growth have increased costs, decreased profit margins and reduced sales to overseas markets (exports);
- throughout 2019, the U.S. consumer remained the economy's strongest pillar, a fact most attributable to good labor-market conditions such as the lowest unemployment rate in 50 years and wage gains broadly consistent with the underlying pace of labor productivity growth; and
- consumption spending also was boosted significantly by continued solid gains in household wealth—driven by double-digit gains in equity prices and steady increases in house prices.

## Historical Lodging Industry Trends and Future Outlook

The history of the lodging industry is characterized by periods of rapid expansion and development, followed by periods of adjustment and recovery.

The paragraphs which follow discuss historical and current industry supply and demand, occupancy rates, average daily rates (ADRs), and revenues per available room (RevPARs).

The principal resources used for the following discussion on national lodging industry trends include: Business Travel News (BTN), CBRE Econometric Advisors, CoStar News, Hotel Business, Hotel News Now (HNN), Mumford Company, STR/a CoStar Group company, STR's U.S. Hotel Industry Performance (as presented January 30, 2020), Tourism Economics/an Oxford Economics company.

Since 2010, the U.S. hotel industry has registered 10 consecutive years of RevPAR growth (2010-2019, inclusive). However, 2019's year-over-year growth rate of 0.9 percent was the lowest since the recovery from the Great Recession of 2008-2009 and well below the historical average growth of 3.2 percent.

As components of RevPAR, two key metrics—occupancy and average daily rate—served as harbingers of an impending industry-wide slowdown as year-over-year occupancy remained flat at 66.1% and ADR increased only 1.0 percent, considerably below the 2.28 percent rate of inflation.

**The foregoing growth data notwithstanding, the industry set several records in 2019:**

- **ADR** – \$131.21 is the highest ADR ever benchmarked by STR
- **RevPAR** – \$86.76 is the highest RevPAR ever benchmarked by STR
- **Supply** – 1.9 billion room nights available is the highest ever reported by STR
- **Demand** – 1.3 billion room nights sold is the highest ever reported by STR

Room supply and demand each increased 2.0 percent in 2019. When supply and demand grow in such equilibrium, ADR becomes the sole driver of RevPAR gains. As quarter-over-quarter Real ADR (ADR% minus CPI%) was negative for the six quarters ended Q4 2019, year-end ADR growth lagged the rate of inflation by 56% [0.01/ 0.228 – 1]. Put simply, hotel revenue growth did not keep pace with rising wage and other operating costs.

Year-over-year room supply growth rates increased steadily from 0.5 percent in 2011 to a high of 2.0 percent in 2018 and again in 2019. While such supply growth nationally remained manageable throughout 2019, an uneven amount of new inventory came online in the limited-service sectors and in certain major markets, giving rise to concerns about crowding out in gateway and other urban markets.

**In 2020, the growth rates for room supply, demand and pricing power are expected to decelerate, but with room supply and demand no longer in equilibrium:**

- **Room supply** is expected to grow 1.9% vs 2.0% the year prior.
- **Demand** is expected to grow 1.6% vs 2.0% the year prior.
- **ADR** is expected to grow 0.3% vs 0.9% the year prior.
- **RevPAR** is expected to grow 0.0% vs 0.9% the year prior.

Annually from 2010 through 2019, new supply was absorbed either handily or apace with increases in newly generated demand. While these key industry performance metrics moved in equilibrium in 2019, the outlook for 2020 is less sanguine. The deceleration in demand growth is expected to exceed the deceleration in supply growth by 16%, which in turn will have a further deleterious effect on pricing power.

ADR growth, which significantly lagged the rate of inflation in 2019, is expected to increase by only 0.3 percent in 2020, a rate of growth which will lag the Fed's 1.9 percent inflation rate forecast by minus 84 percent—again ensuring that hotel revenue growth will not keep pace with rising operating costs.

### Room Supply and Demand

As illustrated in the graph below, demand growth outpaced supply growth from the back end of the financial crisis in 2010 through 2018. In 2019, supply and demand grew in equilibrium at 2.0 percent. Though still ahead of supply growth, year-over-year demand growth began decelerating in 2018—from 2.7 percent in 2017 to 2.5 percent in 2018 to 2.0 percent in 2019. As seen below, STR expects both performance metrics to slow further. At 1.6 percent and 1.9 percent, respectively, demand growth is projected to decelerate more than supply growth, resulting in the first negative supply-demand disequilibrium since the Great Recession years of 2008 and 2009.

#### Lodging Industry Supply and Demand Growth

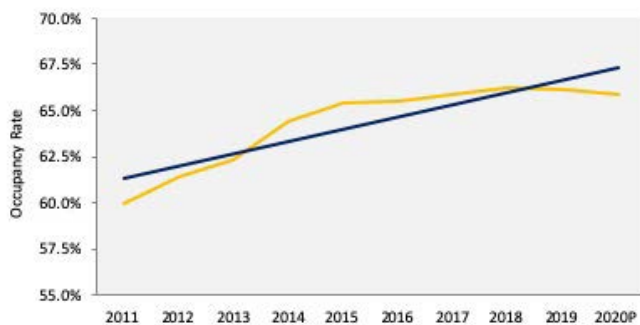


Source: STR

### Occupancy

As illustrated above, year-over-year room night demand growth surpassed room night supply growth for the eight years ending 2018 and in 2019 the two were in equilibrium. As seen in the chart below, occupancy levels peaked in 2018 at a best-ever 66.2% before declining moderately to 66.1% in 2019.

#### National Occupancy Rates



Source: STR

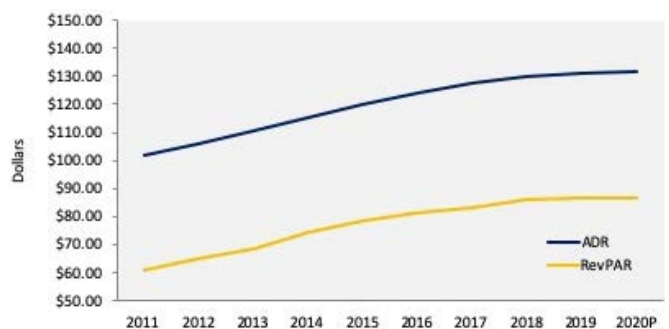
Consistent with its projected disequilibrium in supply and demand growth, for 2020 STR has forecast a -0.3 percent occupancy rate decrease from 2019, resulting in a national occupancy rate forecast of 65.9%.

### ADR and RevPAR

Two important hotel performance indicators are average daily rate (ADR) and revenue per available room (RevPAR). For the nine years ending in 2019, national ADR increased at a compound annual growth rate of 3.2 percent, from \$101.93 in 2011 to \$131.21 in 2019. During this same period, national RevPAR increased at a compound annual growth rate of 4.5 percent, from \$61.04 in 2011 to \$86.76 in 2019. From 2011 through 2015, RevPAR growth was both occupancy-driven and ADR-driven. From 2016 through 2019, RevPAR growth has been overwhelmingly ADR-driven.

Though RevPAR increased annually from 2011 through 2019, inclusive, in 2019 it grew at a year-over-year rate of less than 2.5 percent for the first time in nine years. As seen below, the similarities in the growth trajectories for ADR and RevPAR, especially since 2016, suggest that the industry has been at or near equilibrium. In fact, for 2019 STR reported the national ADR and RevPAR of \$131.21 and \$86.73, respectively, grew at an identical rate of 0.9 percent—in other words, equilibrium. The following table illustrates the trend for each since 2011.

#### National ADR and RevPAR



Source: STR

\$131.21 in 2019 and RevPAR to remain virtually unchanged at 0.0 percent, or \$86.73. Viewed in tandem, STR's projected ADR increase of +0.3 percent will be offset by STR's projected occupancy decrease of -0.3 percent, with the result being a flattened 0.0 percent RevPAR growth forecast in 2020.



The following supplement will examine the influence which the COVID-19 pandemic is expected to have on the U.S. economy and U.S. lodging industry.

## Supplement

### The COVID-19 Pandemic and its Expected Impact on the U.S. Economy

The paragraphs which follow discuss the revised outlook for the COVID-influenced U.S. economy. The principal resources used for this discussion include Business Insider, CBRE, Deloitte, Financial World, JPMorgan, Reuters, Trading Economics and UCLA Andersen. The Q1 2020 COVID-19 pandemic in the U.S. has forced economists to revise earlier forecasts and take into account both short- and long-term ways in which it will affect the economy. Just as the ultimate public health impact and economic consequences of this pandemic remain unknown, these revised forecasts too are subject to change. The COVID-19 pandemic is an external shock, a term used by economists to describe random events—e.g., wars, earthquakes, hurricanes, diseases—that disturb the economy. As such, it has upended the trajectory of the economy and is expected to result in a deep (-40% GDP contraction) but short-lived recession.

The U.S. economic outlook was for GDP growth to remain positive but decelerate from 2.3 percent in 2019 to 1.8 percent in 2020. In Q1 2020, economists twice revised this outlook, first to reflect two quarters of negative GDP growth—a recession, and second to forecast a worsening of the downturn. (See below.)

- Q1 GDP growth estimate dropped from -4% (1st revision) to -10% (2nd revision)
- Q2 GDP growth estimate dropped from -14% (1st revision) to -40% (3rd revision)

Initial jobless claims for the four weeks ended April 11 skyrocketed to 22 million, bringing the total number of unemployed to ±25 million, or ±15% of the U.S. labor force. An additional concern is that the loan-heavy CARES Act will add to the economy's already heavy debt load and create new pressures on the substantial number of companies entering the downturn with weak balance sheets. Even with fresh aid flooding the U.S. economy, companies still must contend with tight liquidity conditions and uncertainty about when regular social and economic activity may resume. The economic effects are broadening from those activities that lack social distance—e.g., travel, theaters, restaurants—to those that lack social distance in production—a much greater problem for the economy.

According to JPMorgan, the CARES Act stimulus is unlikely to prevent reaching a Q2 unemployment rate of 20%, almost six times greater than the 50-year low of 3.5% achieved in February, or to otherwise overcome the economic effects of the COVID shock and its interaction with existing vulnerabilities in the economy—weak capital spending, increased tariffs and slow global growth. As stated above, JPMorgan estimates Q2 will feature a -40% GDP growth and 30 million jobless.

### Recovery forecasts for the U.S. economy:

- **Business Insider:** A coronavirus vaccine could be ready by September 2020, according to a University of Oxford professor of vaccinology who is “80% confident” that the vaccine her team of scientists is developing will work. The team will begin human trials by the last week of April.
- **Comerica:** Following a very hard GDP downdraft in the second quarter at a negative 29 percent annualized rate for real GDP, there will be stabilization and some improvement in the third quarter and then a stronger recovery in late 2020 and early 2021. The pre-crisis high point of real GDP (Q4 2019) was \$19.2 trillion, a level that will not be recovered until Q1 2022.
- **Goldman Sachs:** A deeper trough will give way to a bigger rebound as the virus threat subsides and economic activity resumes. Third-quarter GDP is projected to jump by 19%, compared with the firm's previous estimate of a 12% gain. Still, the economy will shrink -6.2% through the year as the deeper slump warrants a longer recovery.
- **JPMorgan:** Though forecasting a deep decline of negative 40% in real GDP in Q2 2020 and a surge in April's unemployment rate to 20%, the bank expects a second-half recovery if disruptions from the pandemic fade by June, more specifically a 23% Q3 rebound followed by 13% Q4 increase.
- **Morgan Stanley:** For 2020, the bank lowered its real GDP forecasts for Q1 to -3.4% from -2.4% and Q2 to -38% from -30%. The economic recovery will be more drawn out than previously due to a deeper drop into recession and a slower climb out of it. The Q3 real GDP growth estimate of 20.7% implies the third quarter will recover back only 35% of the lost output in the first half of the year. On an annual average basis, real GDP will contract -5.5% in 2020—the steepest since 1946.

## The COVID-19 Pandemic and its Expected Impact on the U.S. Lodging Industry

The principal resources used for the following hotel industry discussion include CBRE Hotels Research, Hotel News Now (HNN) and its parent STR, a CoStar Group Company, and Tourism Economics, an Oxford Economics Company.

Though the hotel industry was already set for a non-growth year, COVID-influenced economic conditions have deteriorated sharply and quickly, especially in the hospitality, travel, tourism and leisure industries.

### Comparative Hotel Industry Findings: Pre-crisis 2019 vs COVID-influenced 2020

- Real GDP growth will slow from positive 2.3% in 2019 to negative -5.5%<sup>1</sup> in 2020 – the ideal for the U.S. economy is between 2% and 3% positive
- RevPAR will decline by -50.6% from \$86.76 to \$42.84
- ADR will decline by -13.9% from \$131.21 to \$112.91
- Supply will decline -14.9% from 1.95 billion to 1.66 billion room nights available principally due to COVID-influenced property closures
- Demand will decline by -51.2% from 1.3 billion to 665.6 million room nights sold
- Occupancy rates will decline -42.6% from 66.1% to 37.9%

<sup>1</sup> Source: JPMorgan 9 April 2020 and Goldman Sachs, 10 April 2020

<sup>2</sup> Source: STR and Tourism Economics, 30 March 2020

### Post-COVID Recovery Forecasts for the U.S. Hotel Industry:

- Real GDP growth will be between -3.0% and -5.5% for all of 2020<sup>1</sup>
- RevPAR will improve by ±63% from \$42.84 in 2020 to \$69.86 in 2021<sup>2</sup>
- ADR will improve by 3.7% from \$112.91 in 2020 to \$117.05 in 2021<sup>2</sup>
- Demand will improve by ±82% from 936 million to 1.7 billion room nights sold<sup>2</sup>
- Occupancy will improve by 57.3 percent from 42.6% to 59.7%<sup>2</sup>

<sup>1</sup> Source: Trading Economics 12 April 2020 and JPMorgan 9 April 2020

<sup>2</sup> Source: STR and Tourism Economics, 30 March 2020

Considering COVID-influenced travel has come to a virtual standstill and noting hotel occupancies in China are slowly recovering, STR expects the U.S. hotel industry to regain its footing as the three demand types of leisure, corporate transient and corporate group hit the road again, slowly at first then, as a feeling of safety takes hold, in ever-increasing numbers.

Of the three key demand drivers mentioned, leisure demand is always the first to bounce back from recessions. In this instance, following several weeks of quarantines, social distancing and stay at home orders, STR anticipates this summer the American consumer will again take to the roads and skies, initially to drive-to destinations with beaches, mountains, lakes or other large outdoor components.

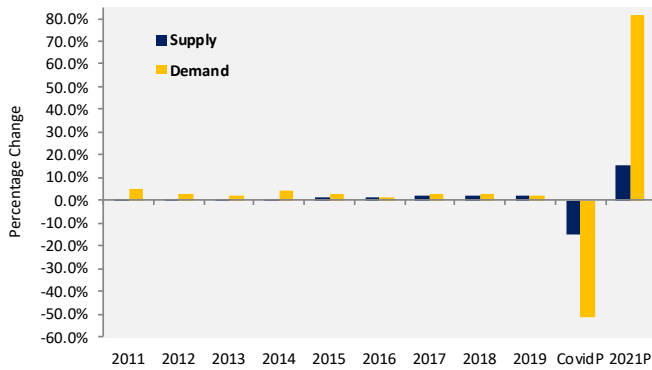
Fueled in part by cheap gas, these destinations will reap a disproportionate amount of the resurgent/pent-up demand. More slowly, hotels in fly-to destinations with these and other amenities will benefit from steep airfare discounts as operators seek to quickly regain market share.

### Room Supply and Demand During and After the COVID-19 Pandemic

As illustrated below, STR projects 2020 COVID-influenced property closures to result in a supply decline of 14.9 percent from 1.94 billion to 1.65 billion room nights available, and 2020 travel- and social-distancing-influenced demand to decline 51.2 percent from 1.28 billion in 2019 to 625.4 million room nights sold.

Also as illustrated below, STR expects a recovery in 2021 due to massive federal aid and the easing of travel and social distancing restrictions. These actions are projected to result in a 15.6 percent increase in supply to 1.9 billion room nights available and an 81.8 percent increase in demand to 1.14 billion room nights sold.

#### Lodging Industry Supply and Demand Growth

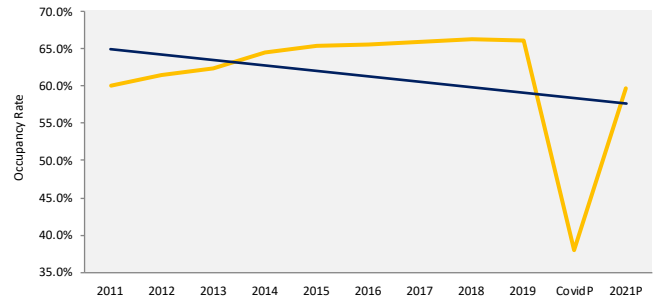


Source: STR

### Occupancy During & After COVID-19 Pandemic

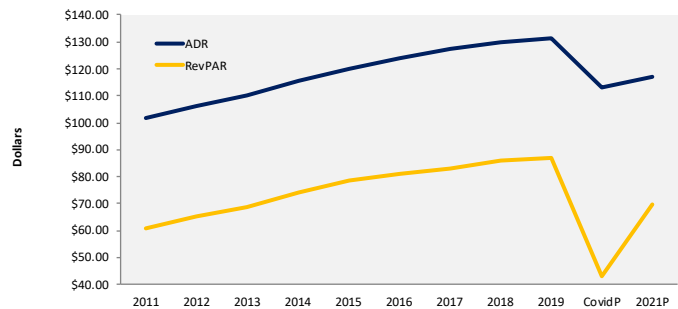
As seen in the chart below, 2020 COVID-influenced occupancy levels are expected to decline 42.6 percent, from 66.1% in 2019 to 37.9% in 2020. Also as seen in the chart below, STR expects a recovery in 2021 and projects a 57.3 percent increase in occupancy rates to 59.7%.

#### National Occupancy Rates



Source: STR

### ADR and RevPAR During and After the COVID-19 Pandemic



Source: STR

As seen above, the growth trajectories for ADR and RevPAR rose almost in tandem from 2016 through 2019.

For the COVID-influenced year 2020, STR projects national ADR and RevPAR to decrease by 13.9% and 50.6%, respectively, or from \$131.21 to \$112.91 ADR and from \$86.76 to \$42.84 RevPAR, respectively.

Also as seen above, STR expects a recovery in 2021 and projects an ADR increase of 3.7% to \$117.05 and an occupancy-driven RevPAR increase of 63.1% to \$69.86.

## Authors



**Mike Cummings MAI ISHC**  
*Managing Director*  
Horwath HTL Norfolk  
mcummings@horwathhtl.com

Michael Cummings, MAI ISHC, is a Managing Director in the USA with offices in Norfolk, New York, Orlando, Miami, Denver and Mexico. He brings over 20 years of professional consulting experience to Horwath HTL.

He holds a Bachelor of Science in Business Administration, with concentrations in Finance and Real Estate from Old Dominion University, is a Designated Member of the Appraisal Institute (MAI), a member of the International Society of Hospitality Consultants (ISHC), and actively holds appraisal licenses in over twenty states.



**Richard Keegan**  
*Senior Associate*  
Horwath HTL Orlando  
jrkeegan@horwathhtl.com

Richard Keegan is a Certified General Appraiser and Senior Associate in the USA, based in Orlando. He brings over 35 years of hotel management, development, consulting and appraisal experience to Horwath HTL. Richard holds a Bachelor of Arts Degree and Master of Business Administration (MBA) Degree from the University of Wisconsin. He is a Practicing Affiliate of the Appraisal Institute.

## Horwath HTL

At Horwath HTL, our focus is one hundred percent on hotel, tourism and leisure consulting. Our services cover every aspect of hotel real estate, tourism and leisure development.

Our clients choose us because we have earned a reputation for impartial advice that will often mean the difference between failure and success. Each project we help is different, so we need all of the experience we have gained over our 100-year history.

We are a global Brand with 47 offices, who have successfully carried out over 30,000 assignments for private and public clients. We are part of Crowe Global, a top 10 accounting and financial services network. We are the number one choice for companies and financial institutions looking to invest and develop in the industry.

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- Hospitality Crisis Management





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