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Research

Freitag’s 5: Seeing through noise in the October data

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Factoring out wild shifts due to the holiday calendar and natural disasters, some omens are visible in October 2017 total U.S. hotel performance.

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HENDERSONVILLE, Tennessee—What goes down, must come up. The Jewish holiday change that negatively affected group demand last month reversed in October.

1. US RevPAR increased 4.1%

That marks the 92nd straight month of continuous revenue-per-available-room growth for those of you keeping score at home. Occupancy increased 1.6%, the second-highest growth this year. March was higher because of—you guessed it—a calendar shift. October’s 2.5% ADR growth ties for the second-highest monthly rate growth this year.

The hurricane impact in Florida and Texas still drove up U.S. RevPAR results, as expected, to the tune of 180 basis points.

US October RevPAR: Two states helped mask mediocre results

Total U.S.	+4.1%
Florida	+12.7%
Texas	+17.2%
Total U.S. excluding Florida and Texas	+2.3%

2. Record room demand

The October 2017 room demand—111 million rooms sold—was the highest room demand for the month ever and was the first time that October room demand exceeded 110 million. Like September 2017, the hurricane-related demand surge helped the U.S. results:

Area	Monthly Demand % Change
U.S.	+3.6%
Texas & Florida	+12.1%
U.S. excl. Texas & Florida	+1.9%

Supply growth clocked in at 1.9% and continues to creep up, as expected, which basically means that supply and demand were in equilibrium, taking out the hurricane impact. In other words, occupancy declines are in our future; it’s just that you won’t see them in the national numbers because of the noise in the data. But trust me, they are coming. For supply growth, we will probably hit our forecast of 1.9% growth for the year.

3. Impact on forecast

Based on the Q3 data, we adjusted our RevPAR forecast slightly.

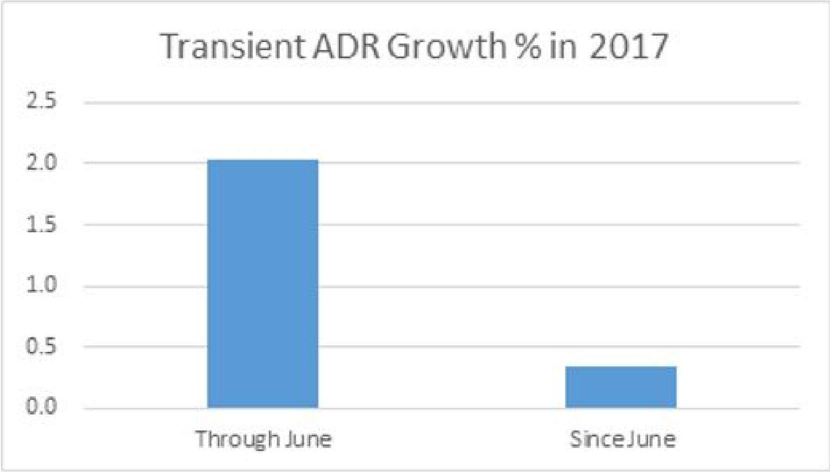
Outlook		
	2017 Forecast	2018 Forecast
Supply	+1.9%	+2.0%
Demand	+2.4%	+1.9%
Occupancy	+0.5%	-0.2%
ADR	+2.1%	+2.4%
RevPAR	+2.5%	+2.2%

Source: STR/Tourism Economics

As before, it is likely that 2018 will register the first full-year occupancy decline since the recovery started. Obviously, there will be plenty of individual months where that is true prior to year-end 2018. We expect ADR growth to be healthy given that GDP growth should increase based on favorable tax legislation.

4. Transient ADR growth slows

Segmentation ADR growth was rather tepid in October, as we have come to expect. Transient ADR grew 1.2%, below the already quite dismal YTD average of 1.3% growth. Charted another way, for the first six months, growth was OK (+2.0%), but since then it has really slowed (+0.3%).



5. Construction down

The number of rooms in construction decreased year-over-year for the first time since late 2011. Yes, this is only one data point, but the slowing growth of in-construction rooms this year has pointed towards this: an eventual decline. And here we are.

What does this mean for the industry? Well, keep in mind that this is just one data point, not a full-blown trend yet, but it could signal a soft landing that industry players had hoped for.

I find this table is still enlightening:

% Change	In Construction	Final Planning	Planning	Total
From last month	-2.8%	-0.6%	3.0%	-0.2%
From same month last year	-0.1%	14.7%	1.0%	5.4%

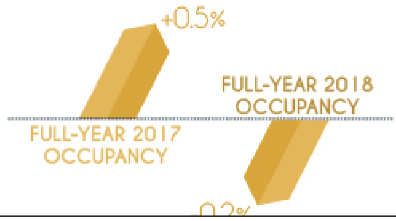
So, the construction count is decreasing year over year and month over month. Planning numbers are flat with last year. And this is probably an indicator that the pipeline will not explode anytime soon, so this might indicate smooth sailing through 2020.

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.

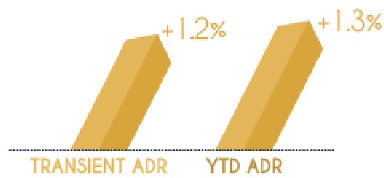
For the most part, the U.S. hotel industry performed as expected in October, as negative impacts from holiday shifts reversed and hurricane-related demand boosted total U.S. figures.

RevPAR increases for 92nd straight month – RevPAR increased by 4.1% during October, as the **second-highest occupancy growth (+1.6%) of 2017** boosted room revenue during the month.

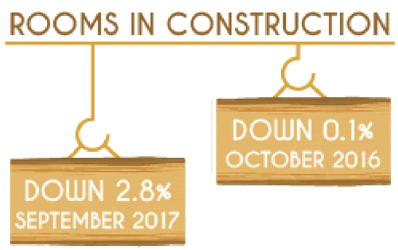
111 million rooms sold – Roomnights sold surpassed 110 million for the first time for an October, helped in large part by hurricane-related demand.



Occupancy on downward trend – Based on third-quarter results, full-year 2018 occupancy is expected to be **down 0.2%**, which is the **first full-year decline since the recovery started**.



Transient ADR grows by 1.2% – That's below the **dismal year-to-date average** of 1.3% ADR growth.



Rooms in construction down 2.8% from September – More significantly, the number of rooms in construction is **down 0.1% from October 2016**, which marks the first year-over-year decline since late 2011.

illustrations: annamarie hudson
Source: STR, Inc.

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