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Forecasts

Industry outlook sunny amid strong supply, demand

07 JUNE 2018 8:27 AM

Stronger-than-expected demand has helped fuel hotel performance across the U.S., according to speakers on the "Statistically speaking" panel at the 2018 NYU International Hospitality Industry Investment Conference.

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NEW YORK—The United States hotel industry continues to set new records, with strong demand growth outpacing supply growth on a national basis.

According to STR data presented during the "Statistically speaking" panel at the 2018 NYU International Hospitality Industry Investment Conference, U.S. hotels have enjoyed 2.9% growth in room demand for the 12-month period ending in April compared to 1.9% supply growth. (STR is Hotel News Now's parent company.)

A 1% increase pushed occupancy to a record 66.1%, while average daily rate increased 2.2% to $128 (another record). These improvements combined to set a record for revenue per available room with a 3.2% increase to $84.

STR President and CEO Amanda Hite said there are reasons for continued optimism even in the face of a prolonged cycle, noting the company continues to see "strong fundamentals."

"We're now at 98 months of consecutive RevPAR gains, and I think that continues for the foreseeable future if there is not (a) black swan event," she said.

Hite said the growth during the current cycle has been "pretty impressive … considering there is much lower inflation now compared to the '90s." Averaged out over the course of the 98-month cycle, monthly RevPAR growth has been 5.9%, or 5.3% if you remove the post-recession rebound of 2010 and 2011.

She said overall the picture is similar to what was seen a year ago.

"The story is much the same as last year," she said.

Steve Rushmore, president and CEO of HVS, echoed that sentiment.

"There isn't a new headline from last year because not much has really changed," he said. "I could take the predictions from last year and the presentation from last year and give it again."

Rushmore said the U.S. still has "the best risk-reward ratio in hotel investments."

"The challenges in less-developed economies are more significant and extreme," he said.

Overall, Rushmore's suggestion to anyone looking to invest in the hotel industry right now, particularly given the fact that the industry is so deep into the current cycle, is to plan on a long-term hold for properties.

"I would invest now with the caveat that you need to be prepared to hold for about eight to 10 years," he said. "There's never been a period of eight to 10 years where we haven't seen an internal rate of return that (doesn't exceed) the market rate."

His firm is projecting that "cap rates increase moderately with the increase in interest rates," and HVS is "not predicting oversupply (or) a significant downturn at this point in the cycle."

Rushmore said while "financial conditions remain positive," it's reasonable to assume the cost of debt will increase over the next "couple years."

Growth across the board
Even zooming in for a segment-by-segment look shows strong supply-demand dynamics. Hite noted that each hotel class—ranging from luxury to economy—saw demand outpace supply. She said that even the upscale and upper-midscale classes, which have the highest concentration of supply growth with 4.5% and 3.8% respectively, saw even stronger demand—5.3% for upscale and 4.9% for upper midscale.

Much of the industry's strong results derive from transient demand, Hite said.

"The leisure demand segment is driving growth rates in ADR," she said.

Pipeline figures
The U.S. saw a year-over-year 2.2% decrease in hotels under construction as of April with 186 properties, but the total number of projects under contract increased 2.7% to 597.

Select-service properties remain the favorites of developers, with 72% of rooms under construction concentrated in upscale, upper midscale, midscale and economy.

The markets experiencing the largest supply growth include Nashville, Tennessee (5,202 rooms, which is 12% of existing supply); New York (12,741 rooms, which is 11% of existing supply); Denver (4,597 rooms, which is 10%); Seattle (3,690 rooms, or 8%); and Dallas (6,508 or 8%).

Updated projections
STR has updated its 2018 forecast numbers, revising up the RevPAR forecast for the full year to 2.9%. The company expects 2.4% RevPAR growth in 2019.

The 2018 forecast includes 2% supply growth, 2.4% demand growth, 0.4% occupancy growth and 2.5% ADR growth. For 2019, STR projects 1.9% supply growth, 2% demand growth, 0.1% occupancy growth and 2.3% ADR growth.