National Trends

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

The paragraphs that follow discuss historical and current industry supply and demand, occupancy, average daily rate (ADR) and revenue per available room (RevPAR). The principal sources for the following discussion on national lodging industry trends and the U.S. economy include: STR, the Bureau of Economic Analysis, and the Federal Reserve Bank of Philadelphia.

Historical Industry Trends & Future Outlook

The U.S. economy expanded 2.3% in 2017, an increase in pace from 2016 which increased 1.5%. While Q3 of 2017 reached a 3.2% high point for the year, Q4 growth tapered to a seasonally adjusted annualized rate of 2.6% due to a downturn in private inventory investments and a steep rise in imports.

GDP expanded 2.3% in 2017 led by increases in personal consumption expenditures, non-residential fixed investment, and exports. The Q4 Survey of Professional Forecasters shows GDP growth in 2017 to maintain a steady pace of 2.2%, and GDP for 2018 to increase its growth pace to 2.5%.

The year 2017 illustrated continued steady growth of the lodging industry. Despite concerns of occupancy slippage due to increasing supply growth, demand levels continued to maintain pace with supply. Concerns of overbuilding appear tempered as new construction starts are beginning to slide. With record occupancy levels across the country, room rates are continuing to grow, but only at inflationary levels.

The hospitality industry is expected to remain steady for 2018 as new supply continues to be absorbed by the strong marketplace.

With the implementation of new travel and immigration policies in the U.S., international visitation reportedly declined in 2017. Nevertheless, air travel throughout the country continues at a record level with several major airports expanding and air carriers adding routes to accommodate the travel demand.

Disposable income continues to rise as well, indicating that the population has financial means to spend more on leisure activities.

The recent tax reform act is anticipated to have a positive impact on business investment, via both employee compensation and company expansions. This all bodes well for future demand growth for hotels and resorts.
Room Supply and Demand

In 2017, STR recorded the highest levels ever across all six key hotel industry performance metrics of occupancy, average daily rate (ADR), revenue per available room (RevPAR), available rooms, occupied rooms, and room revenue.

Despite a continued rise in new supply, demand growth outpaced the opening of new hotel rooms, resulting in a 0.9% improvement to occupancy. Annual supply growth increased from 1.6% in 2016 to 1.8% in 2017. While this is the highest supply increase since 2010, 1.8% annual growth is in-line with the long-term average. Supply is expected to continue to accelerate through 2018 with year-over-year growth estimated at 2.0%. However, with new hotel construction showing sign of a slowdown, supply growth is expected to taper in 2019 to approximately 1.9%.

Demand growth in the hotel industry decreased from 1.7% in 2016 to 2.7% in 2017. While overall occupancy levels remained high in 2017, travel has been affected by the strength of the U.S. dollar as well as the more stringent international travel and immigration policies instituted by the government. STR projects demand growth to slow slightly in 2017 to 2.3%.

Nevertheless, demand is expected to outpace supply once again as the market attains another record occupancy level. The following graph illustrates the differences between supply and demand growth in the lodging industry as a whole over the past 10 years.

As illustrated in the graph, demand growth rates have overshadowed supply growth since the back-end of the financial crisis in 2009, reaching a high of 7.2% in 2010 to a low of 1.7% in 2016. Demand grew 2.7% in 2017. STR projects demand growth to slow in 2018 to 2.3% with supply increasing 2.0%.

Lodging Industry Supply and Demand Growth

Source: STR
Occupancy
As a result of room night demand surpassing new room supply between the post-recession years of 2010 and 2015, the national occupancy rate increased significantly, ending 2015 at the highest level since 1995.

After remaining somewhat stagnant due to uncertainty in 2016, occupancy once again exhibited a solid increase in 2017 driven by the reinvigorated demand base. As seen in the chart below, occupancy levels stabilized after posting seven consecutive years of year over year growth in industry supply.

National Occupancy Rates

ADR and RevPAR
The two major historical revenue performance indicators are average daily rate (ADR) and revenue per available room (RevPAR).

In recession year 2009, ADR and RevPAR decreased 8.6% and 16.6%, respectively, and in 2010 ADR remained flat while RevPAR experienced an occupancy-driven increase of 5.4%. From 2011 through 2014, RevPAR increases remained occupancy driven while 2015 saw RevPAR become ADR driven across all chain scales from midscale to luxury hotels.

National ADR and RevPAR

According to STR, the 2017 national occupancy rate improved 0.9% to 65.9%, a new record. STR forecasts a modest 0.3% occupancy rate increase to 66.1% in 2018. Occupancy is expected to remain relatively flat in 2019 with a negligible increase of 0.1% to 66.2%.

In 2016, the increase in ADR growth was scaled back 3.1% from the 4.4% growth in 2015 and RevPAR’s yearly growth was half of 2015’s at 3.2%.

Through December 2017, RevPAR for the U.S. has increased for 94 consecutive months. The inflationary growth in ADR and RevPAR has indicated to analysts that the industry is at a very mature level, with supply and demand growth in balance at the current time.

For 2017, STR reported national ADR and RevPAR increases of 2.1% and 3.0% to ±$127 and ±$84, respectively. The following table illustrates this trend.

Str forecasts 2018 ADR to increase 2.4% to ±$130, resulting in a RevPAR increase of 2.7% to ±$86. For 2019, STR estimates ADR to grow 2.3%, reaching ±$133 at a RevPAR of ±$88.
Michael (Mike) Cummings, MAI ISHC 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 prestigious International Society of Hospitality Consultants (ISHC), and actively holds appraisal licenses in over twenty states.

Mike has personally completed more than seven hundred assignments and his team has completed over five thousand assignments. These assignments have included market studies, feasibility studies, impact studies, tax appeals, appraisals, investment analysis, and expert witness and litigation support services.

Product types have included hotels, resorts, golf and country clubs, marinas, restaurants, recreational facilities, health and fitness clubs, convention centers, and special-use and mixed-use real estate developments.

Mike’s area of specialization and experience include:
- Market studies
- Feasibility studies
- Impact Studies
- Appraisals and valuations
- Tax appeals
- Investment analysis
- Expert witness and litigation support

Mike’s consulting clients include lenders, developers, REITs, management companies, investors, owners, attorneys and insurers.

John Fareed is an internationally recognized authority in the field of hospitality. He has spoken on the topic at industry events in Australia, Brazil, Croatia, Egypt, France, Germany, Ireland, Italy, Mexico, United Arab Emirates, United Kingdom, and across the US, Canada and Caribbean.

He has appeared as an expert on national television programs including ABC News, CNN and Fox News Network, in publications such as the New York Times, USA Today and the Wall Street Journal, and has had articles published in numerous trade journals.

John’s area of specialization and experience include:
- Asset management
- Strategic market planning for new openings, repositioning’s and turnarounds
- Brand evaluation and selection
- Sales and marketing audits
- Service conceptualization and implementation
- Destination marketing and planning
- Expert witness and litigation support

Fareed holds two postgraduates including a Master of Science degree from the Dublin Institute of Technology’s School of Hospitality Management and Tourism in Dublin, Ireland—where he is currently pursuing a PhD - as well as professional designations from the prestigious International Society of Hospitality Consultants (ISHC) and the Hospitality Sales and Marketing Association International (HSMAI). HSMAI recognized Fareed as one of the “Top 25 Extraordinary Minds in Sales and Marketing,” and he currently serves as Chairman of the ISHC and as Chairman of the Board of Trustees for HSMAI’s International Foundation.

Fareed’s consulting clients include Fortune 500 companies, national brands, lenders, developers, REITs, management companies, investors, owners, attorneys and insurers.
HORWATH HTL
Horwath HTL is the world’s largest and most experienced hospitality-consulting brand with forty-five offices in thirty-nine countries.

The principals of Horwath HTL/Fareed & Cummings LLC have collectively over 50 years of consulting experience boasting a highly accomplished team of hotel professionals including two members of the prestigious International Society of Hospitality Consultants (ISHC), two Designated Members of the Appraisal Institute (MAI), a Certified Hotel Administrator (CHA), a Certified Hospitality Marketing Executive (CHME) and a Certified Digital Marketer (CHDM).

The team provides a full complement of hotel, resort, golf, and timeshare consulting services to include:

- Market studies
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