CREW NETWORK CREW Network Industry Brief Vol. 3 • Issue 6 • August 2021

The U.S. Hotel Outlook: Seeking a Return to 2019 Levels

By Nina Owen, Partner, Comprehensive Hotel Appraisals, CREW Chicago

After a decade of increasing revenues in the sector, supply and demand in the United States hospitality market were in balance at the end of 2019. Hotel appraisers and advisors tracked increased demand every year since the Great Financial Crisis (GFC) in 2009, with a healthy 2.0% increase in 2019. Hotel room supply increased each year from 2010 to 2019. With a shortage of skilled labor towards the end of the decade, room supply was growing at a moderate pace. U.S. hotels achieved an average occupancy level of 66.2% during 2019, the highest annual level posted since 1987. On a national basis, average daily rate (ADR) reached $131.30 in 2019. Overall, the industry saw a 4.9% annual revenue growth from $36 billion in 1987 to $168 billion in 2019, according to global data provider STR.

As the COVID pandemic spread in 2020, the U.S. hotel industry was severely impacted across the leisure, corporate and group segments. Leisure transient demand declined approximately 25% in 2020.[1] Trends that continue to support increased leisure travel include:

- Increased vaccination participation.
- Working remotely on Fridays and Mondays creates longer weekends for travel.
- Pent-up travel demand due to delayed vacations through the pandemic.
- Increased savings during the pandemic that can be used for future travel.

The factors that may depress travel in this segment include:

- Increased Delta variant cases including breakthrough cases in vaccinated Americans.
- Increased governmental restrictions because of rising COVID cases.
- Less discretionary income due to low labor participation rates and high unemployment.
- More time constraints on families with the return of in-person school.
- Increased competitions from Airbnb, VRBO and other short-term rentals.

By early 2021, transient demand levels were comparable to 2019 in many locations. Market participants expect domestic leisure trips to increase by 20 percent in 2021. By 2023, leisure travel within the U.S. is anticipated to reach or exceed 2019's benchmark.[2]

Corporate demand declined by approximately half in 2020. However, many hoteliers are optimistic about the return of corporate travel after Labor Day. More than 77% of Global Business Travel Association (GBTA) members report their employees are willing to travel for business. More than half expect the number of these trips will return to the pre-pandemic level within a year.[3] Travel for the purpose of selling goods and services will be the first and most durable source of room night demand in this market segment. However, travel for internal collaboration and education or training, previously 25% to 30% of corporate trips, will lag. Employers are likely to require a strong ROI case before investing in non-essential employee travel. McKinsey & Company estimates 20% of workers could end up working from home indefinitely and there be a 20% reduction of corporate trips by 2023.[4]

Group demand dropped dramatically in 2020 and has remained at levels of less than 67% below that of 2019 through 2021. To date, accommodated groups are often postponed weddings and other social events. When corporate groups are scheduled, the attendance suffers, as hybrid options with virtual components are offered. Group demand in fourth quarter 2021 is expected to be down by 23% when compared to the same period in 2019, with recovery to 2019 levels anticipated in 2022 or 2023.[5]

The speed of the recovery varies by location. Smaller rural markets and interstate locations were least affected in 2020. Lower-tier properties tend to dominate these markets which appeal to price sensitive leisure travelers. Coastal areas and metros near popular outdoor or national parks also performed well, including several markets in the Sunbelt and mountain states, attracting guests within an easy drive-to radius eliminating the need for air travel. Urban hotels are more affected than rural hotels because corporate travelers and groups are often hosted in urban locations. Resorts destinations had a decline in demand comparable to urban locations initially, before recovering in during the summer months.

As a result of the following demand and supply characteristics, occupancy on a national basis has increased from a trough of 24.5% in April 2020.[6] For the year-to-date period ending June 30, 2021, occupancy was 53.8%, a 24.1 % increase over the same period in 2020.[7] Room demand is anticipated to reach 2019 levels in 2023. PwC forecasts national occupancy of 61.8% in 2022.[8] Year-to-date average daily rate on a national basis was $111.08, a 1.8% increase over the same period in 2020.[9] PwC forecasts a national average daily rate of $118.49 in 2022. ADR is anticipated to reach historic peak levels in 2025.[10]

In the face of uncertainty in 2020, travelers valued flexible hotel cancellation and refund policies. In 2021, it's all about the experience. Hoteliers are rethinking services to attract guests by upgrading community space amenities, promoting hotel-only amenities such as restaurants, gyms and pools and adding more live events and social activities.[11] Owners and managers who maintain focus on evolving guests needs, while navigating the demanding times ahead, will likely survive, and possibly thrive.

(1) Marcus & Millichap, *The Outlook Hospitality*, Midyear 2021.
(2) Marcus & Millichap, Midyear 2021.
(3) "GBTA: Companies Make Summer Plans to Resume Domestic Business Travel", *Hotel Business*, July 19, 2021.
(4) Jenna Benefield, Vik Krishnan, Esteban Ramirez and Matthew R. Straus, "The Comeback of Corporate Travel: How Should Companies be Planning", July 7, 2021.
(5) Kalibri Labs, *Total U.S.* – In Review, April 2021.
(6) Marcus & Millichap, Midyear 2021.
(7) CoStar, August 11, 2021.
(8) PwC, *Hospitality Directions US*, May 2021.
(9) CoStar, August 11, 2021.
(10) PwC, May 2021.
(11) Lynn Pollack, "Hotels 'On a Path' to Pre-Pandemic Occupancy Levels", *Hotel Business*, June18, 2021.