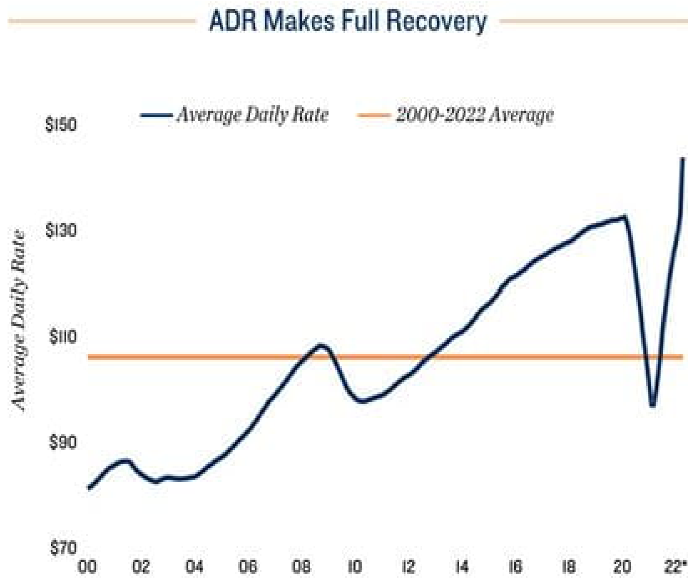
Hospitality

June 2022

Hoteliers Rise From Pandemic Difficulties and Positioned for Growth

Room rates take lead in hospitality recovery. National occupancy is up nearly 2,000 basis points from pandemic lows to a trailing 12-month average of 60.6 percent in April. Average daily rates have made more gains, up about 3 percent from the previous all-time high. One factor contributing to the rapid ADR lift is insufficient availability of labor. While well advanced from May 2020, total accommodation employment is still about 20 percent below pre-pandemic levels. Unable to service all rooms and pressured by rising wages, many hoteliers have increased rates to offset the differential as demand outpaces capacity and increasing costs impact the bottom line. Moving forward though, a boost in U.S. visa allotments could help alleviate some hiring challenges as more workers return to or enter the U.S.



Elevated travel on the horizon. As of June, nearly all mandates to wear masks indoors or on public transit have been rescinded, a sign that health concerns are beginning to subside. This is welcome news for hoteliers as the lifting of restrictions will likely increase the rate of business and leisure travel, as well as convention bookings. Additionally, the U.S. Travel Association estimates foreign arrivals in the U.S. will surpass last year's total by 31 million people, providing a significant boost to room demand in large gateway markets that typically benefit from international tourist spending.

Nation's largest hotel markets make gains. After bearing the brunt of the pandemic impact, hotels in major markets have made significant progress. Average annual occupancy for the top 25 markets has risen nearly 1,500 basis points over the past year ending in April, while ADR improved by 48 percent during this span. Properties in markets with warmer weather and outdoor amenities, such as Los Angeles and Miami, have fared better, while hotels in gateway metros like Seattle, New

York City and San Francisco have recorded slower gains, due to lost business bookings. Looking ahead, the easing of travel restrictions is expected to provide a push to both foreign and domestic visitation this summer, which will likely accelerate the recovery in these markets moving forward.

Smaller metros fully recover. Occupancy and revenue metrics in tertiary markets containing regionally drivable leisure destinations, like Virginia Beach, Savannah and South Padre, surpassed pre-pandemic levels and are positioned to perform well in 2022. Hotels in these locales should benefit from added leisure travel in the coming months, as households prepare for what should be the least disrupted summer season since 2019. Furthermore, hotels in these markets often offer more competitive room rates relative to larger metros, appealing to cost-conscious business and leisure travelers.

Returning travel brings investors back to hotels. Short booking periods provide hotel owners the flexibility to adjust daily rates rapidly, offering strong potential for inflation resistance relative to other investment options. Rising occupancies and daily rates across the U.S. point to sustainable upward momentum in the sector moving forward. Additionally, elevated construction costs are curbing new development and limiting competition, which bodes well for property performance in existing hotels in the near- to mid-term.

60.6%

Average Annual Occupancy as of April 2022

65.6%

Average Occupancy Rate: 2015-2019

** Forecast; Average Daily Rate is measured on a trailing 12-month average*
Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; U.S. Travel Association