

The State of the U.S. Hotel Market

August 2023



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Main Themes

○ **Forecast: RevPAR growth in a recession**

○ **Luxury ADR growth muted**

○ **Corporate transient demand is still a wild card**

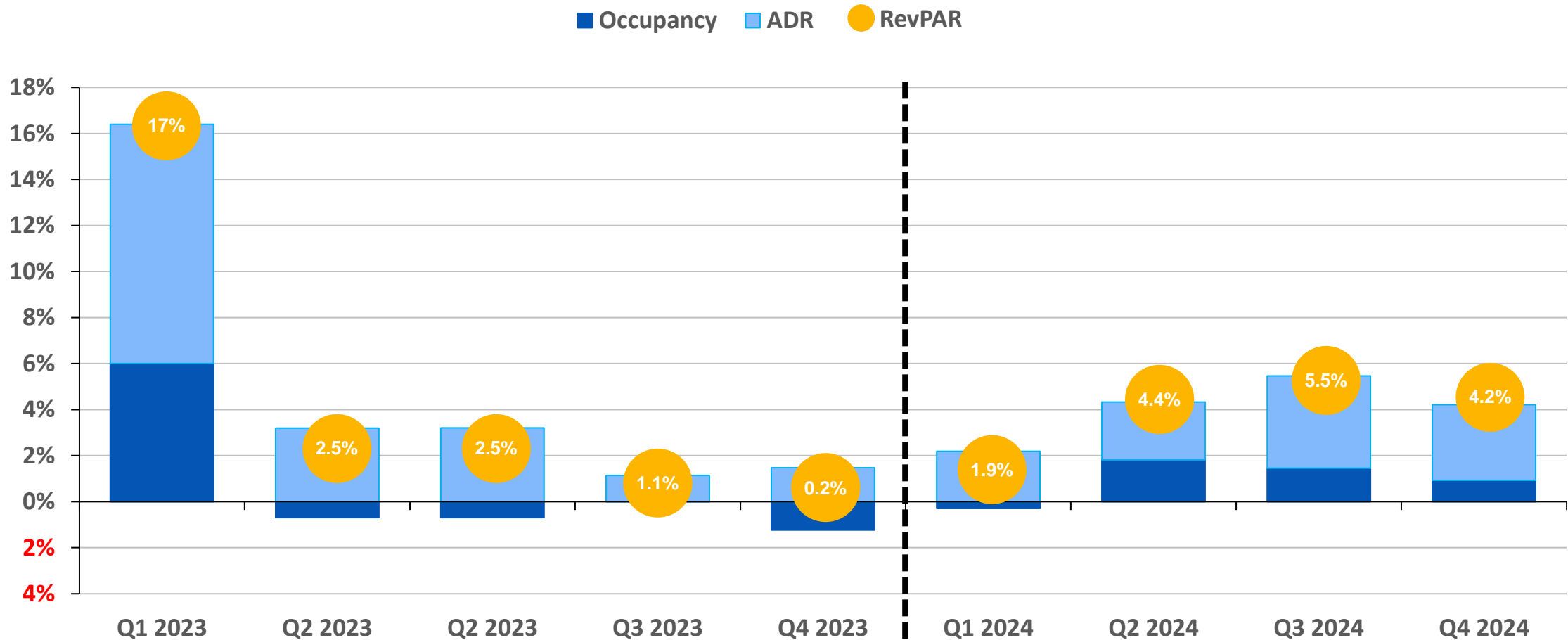
○ **Group demand healthy**

○ **Pipeline activity muted**

○ **Transaction activity muted**

2023/24 Recession Takes a Mild Toll

Total U.S. Forecast by Quarter, Year-Over-Year Change



2023 US Chain Scale Forecast: Upper Up Revives

Total U.S. KPIs, Year-Over-Year Change

	Luxury	Upper Upscale	Upscale		Total US
Occupancy	+5.5%	+6.0%	+2.9%		+0.8%
ADR	-1.0%	+2.8%	+4.3%		+3.6%
RevPAR	+4.5%	+9.0%	+7.3%		+4.5%

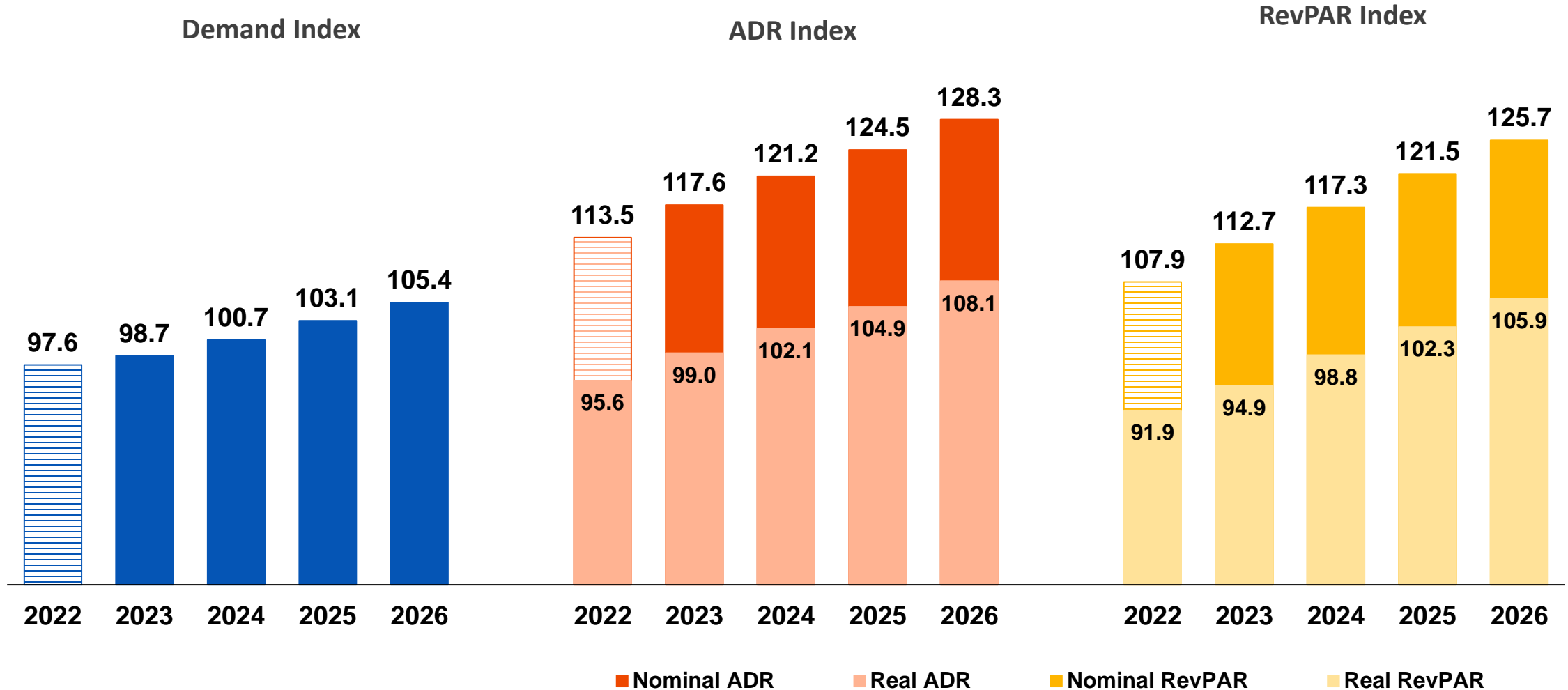
2024 US Chain Scale Forecast: Sluggish Rate Growth

Total U.S. KPIs, Year-Over-Year Change

	Luxury	Upper Upscale	Upscale		Total US
Occupancy	+4.6%	+2.7%	+0.8%		+1.0%
ADR	+2.2%	+3.8%	+3.8%		+3.0%
RevPAR	+6.9%	+6.6%	+4.6%		+4.1%

Indices Recovering to 2019 levels

U.S. KPIs, indexed to 2019



“Soft Landing” Narratives Are A Feature of Recessions

ANNUAL ECONOMIC HEALTH CHECK



Typical street scene in Santa Ana, El Salvador. (Photo: iStock)

IMF COUNTRY FOCUS

IMF Survey: Soft Landing Ahead for U.S. Economy

IMF Survey online

August 6, 2007

- United States should return to potential growth rate near 3 percent by mid-2008

Fed leaves key rate unchanged

TORONTO STAR

The U.S. Federal Reserve has left a key interest rate unchanged as the economy signalled it's on track for a soft landing in which growth slows enough to restrain inflation.

Wednesday, May 9, 2007 | 1 min to read

claim. If fluctuation in the value of your principal disturbs you, even though you don't plan to withdraw it, that's a good indica-

tion. It's a good idea to do a study, and a clear definition of what you want your money to accomplish for you.

In 1987, the court applied the same standard to an anti-fraud section of the federal Securities Exchange Act of 1934.

A recent Securities and Exchange Commission study of NYSE cases found that arbitration is indeed cheaper and quicker than

U.S. economy seems headed for a soft landing

tract money that might have gone into bonds.

The soft-landing thesis has joined many adherents. Brokers are calling old customers with new tips. Market letter writers are talking about 3,000 points on the Dow Jones industrial average. Business Week magazine declares "A Soft Landing Will Send the Market Soaring." Stocks are exciting once again.

What may be missing from the scenario, however, is the most essential of all the ingredients that make up market prices, and that is profits.

An economic cooling might

indeed be accompanied by lower borrowing rates, but won't it mean lower profits, too? Historically, and logically, that's been the case. And if profits decline, what will hold prices up?

While some investors might dwell to their advantage on that question, others are wondering why we should expect the Federal Reserve to guide the 77-month-old economic expansion to a gentle, kind, soft landing.

That sort of denouement is so wished for, of course, but wishing won't make it come. For decades, economic soft landings have been a dream but hardly an accomplish-

ment. The economy reacts in ways that cannot be forecast.

It was popular in the 1960s, for example, to talk about fine tuning. Those who directed fiscal policy would join with monetary officials to make the economy dance to a sweet melody in which every note would be perfect.

That notion didn't even last the decade. Before the '60s were done the idea of fine-tuning had been trashed.

Because the economy was manageable, President Lyndon Johnson had reasoned, we can make it produce not just butter but guns too. But the record-high inflation and interest rates that followed represented a crash for the fine-tuning idea.

1989

The New York Times Company

NEW YORK, MONDAY, SEPTEMBER 3, 1973

ECONOMISTS SEE A 'SOFT LANDING' WHEN BOOM ENDS

U.S. Aides Predict That Rate of 'Real' Growth Will Dip Over Next Year to 4%

By EDWIN L. DALE Jr.
Special to The New York Times
WASHINGTON, Sept. 2 — Although Government economists



U.S. Aides Predict That Rate of 'Real' Growth Will Dip Over Next Year to 4%

Soft landing economy seen

LOS ANGELES — The economist who coined the phrase "soft landing" believes the U.S. economy will be able to achieve one that is, the Federal Reserve can bring inflation down without jerking on the money and credit brakes and causing a recession.

However, an economist-journalist who also coins economic terms occasionally disagrees: he feels that the Fed has been coining money excessively all too long — and will have to slam on the brakes at some point, tossing the economy into a recession which could last throughout 1979.

A third economist thinks

agrees. The Fed has fumbled again, said Franklin: "Once again, the Fed has been too loose too long. It hasn't tightened at all yet."

"There has been a fantastic explosion in consumer credit and a fantastic explosion in housing credit. The federal deficit is the largest it has ever been for this time in the cycle. Nobody is getting turned down for credit."

"And no boom financed by credit can continue indefinitely. When G. William Miller (Fed chairman) real-

izes that the basic rate of inflation today is not seven percent but is closer to nine percent, he'll have to take a hard line, restrictive policy," he said.

The sudden turn to very tight money will strangle the economy, "derailing the capital goods boom until 1980." Franklin can foresee three quarters or more of negative growth next year: "It is possible that we could be in a recession on Jan. 1 which would continue right through to Dec. 31," he said.

The move by the Fed to

continue feeding our housing market by tightening banks and thrifts to issue saving rates competitive Treasury bills has tortured the economy, bringing events from tak natural course, he said.

Raymond Jallow of California Bank in Los Angeles has not made forecast yet, but he continues to feel that rates will peak with three months and will moderate in the half of this year.

FINANCIAL TIMES Fed sees soft landing for economy

Krishna Guha in Washington FEBRUARY 14 2007

The Fed chairman said he was following closely signs of distress in the high-risk mortgage market but said: "I do not think at this point it has implications for the aggregate economy."

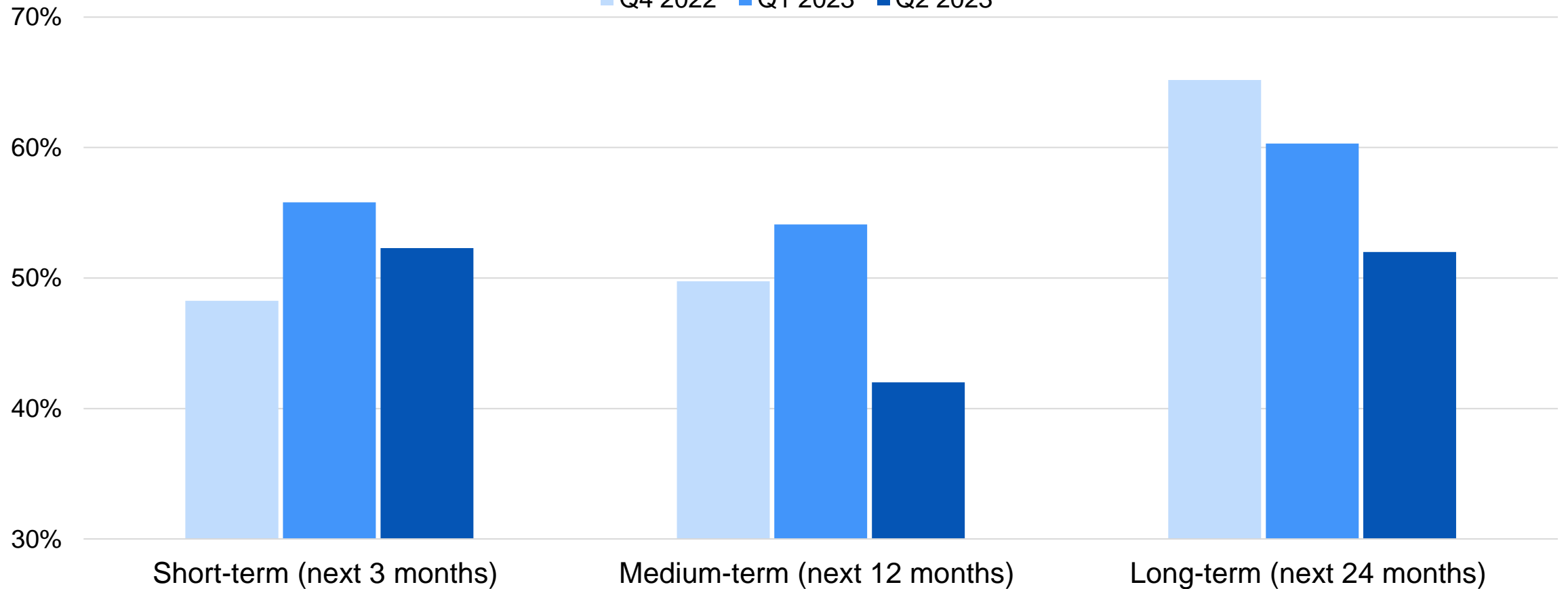
Source: Forbes



Hotel Operator Long-Term Confidence Is Slipping Steadily

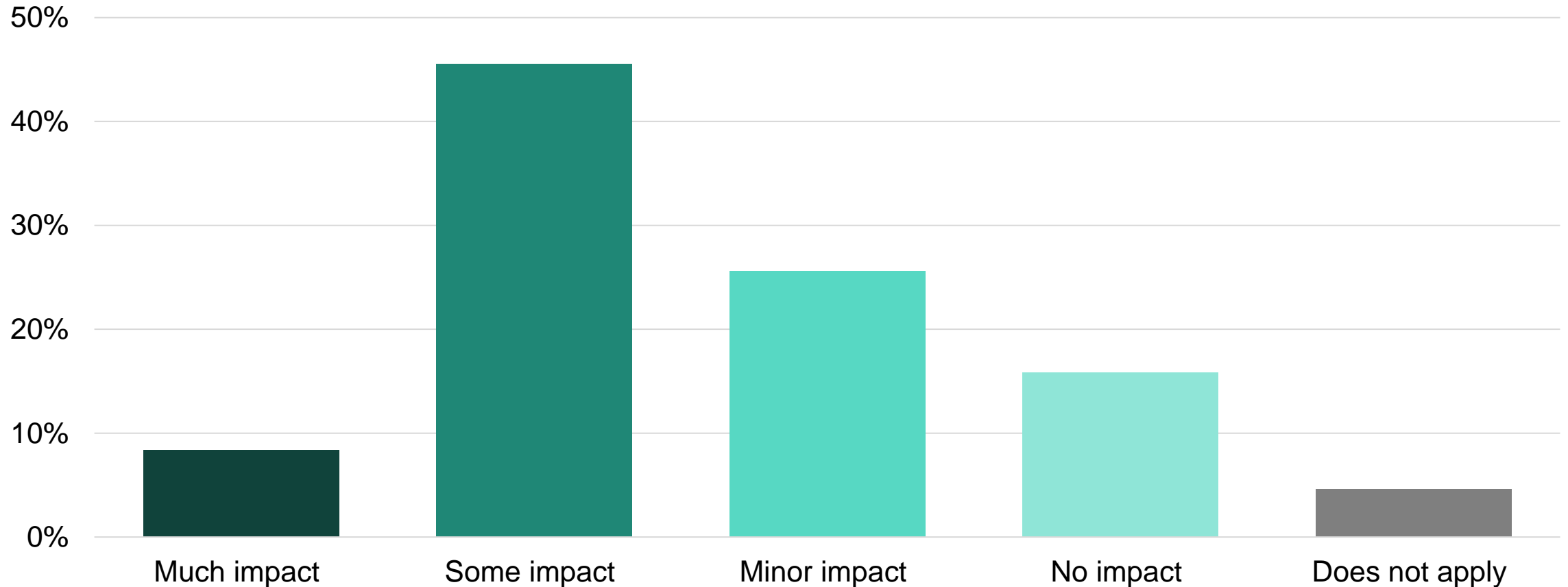
Ratings of "8" or above

■ Q4 2022 ■ Q1 2023 ■ Q2 2023



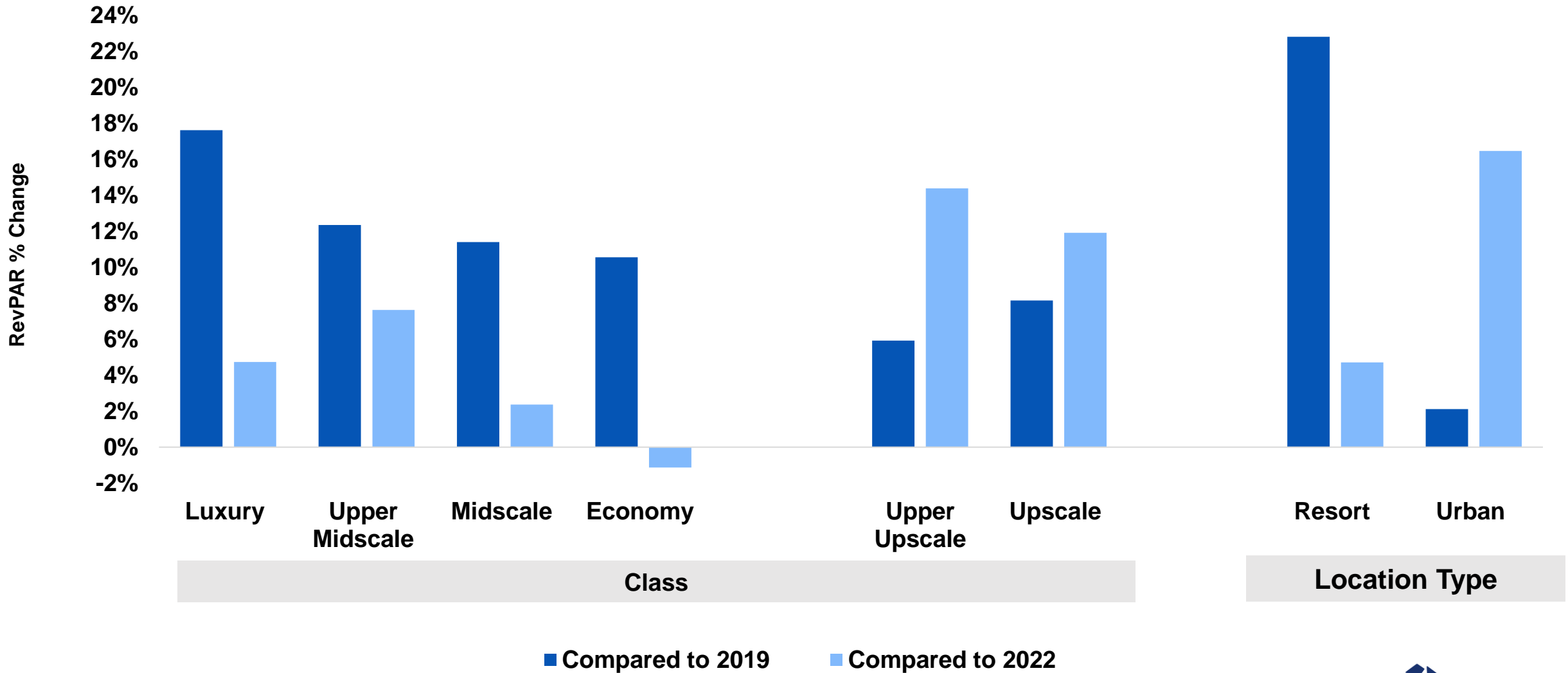
Q: How would you rate your overall business confidence in the short, medium and long term (1 to 10)?

Hotel Operators Are Prepping for Recession in Their Budget Plans



Q: How much impact, if any, has a potential recession had on your 2024 budget planning?

Normalization: Pandemic Era Winners Record Slower Growth Rates

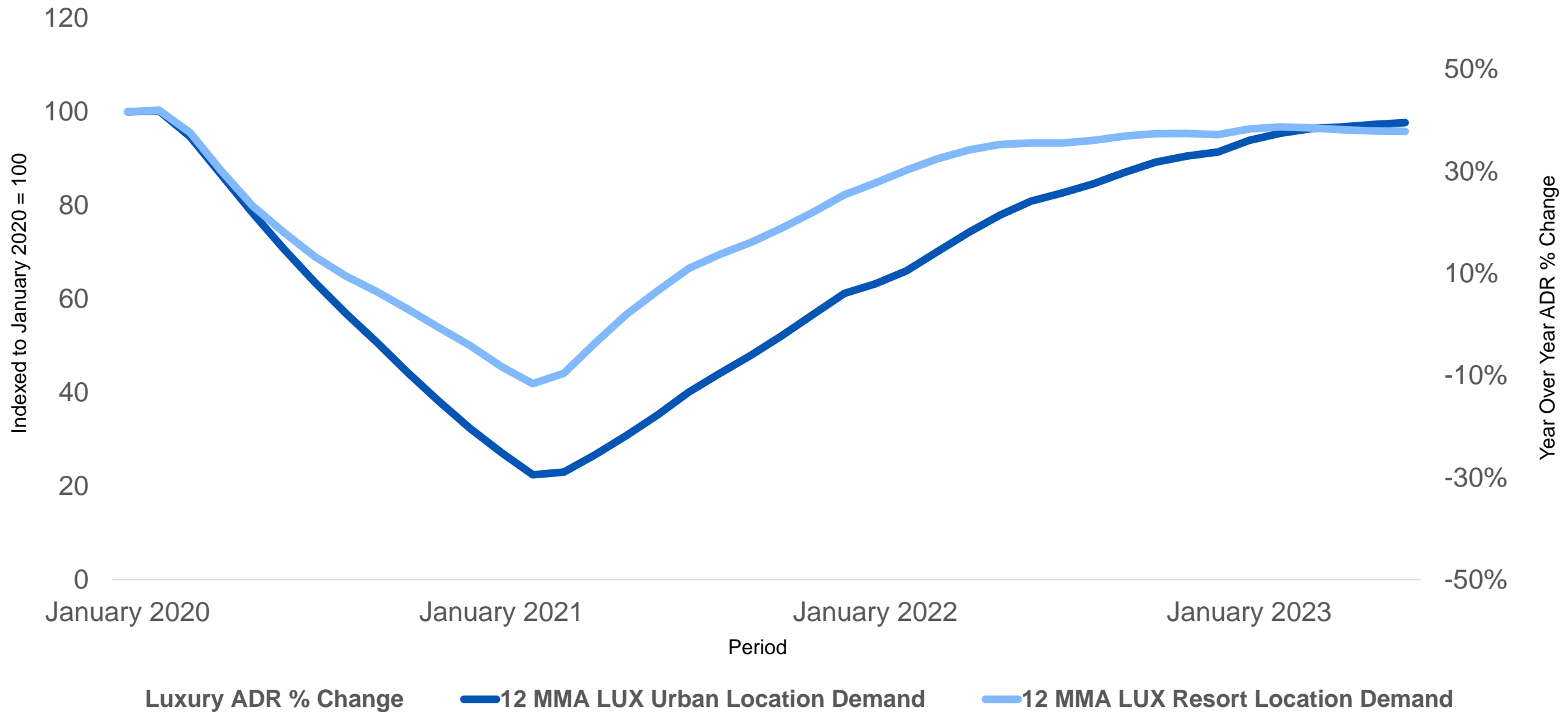


It's Not Discounting, It's Mix Shift!

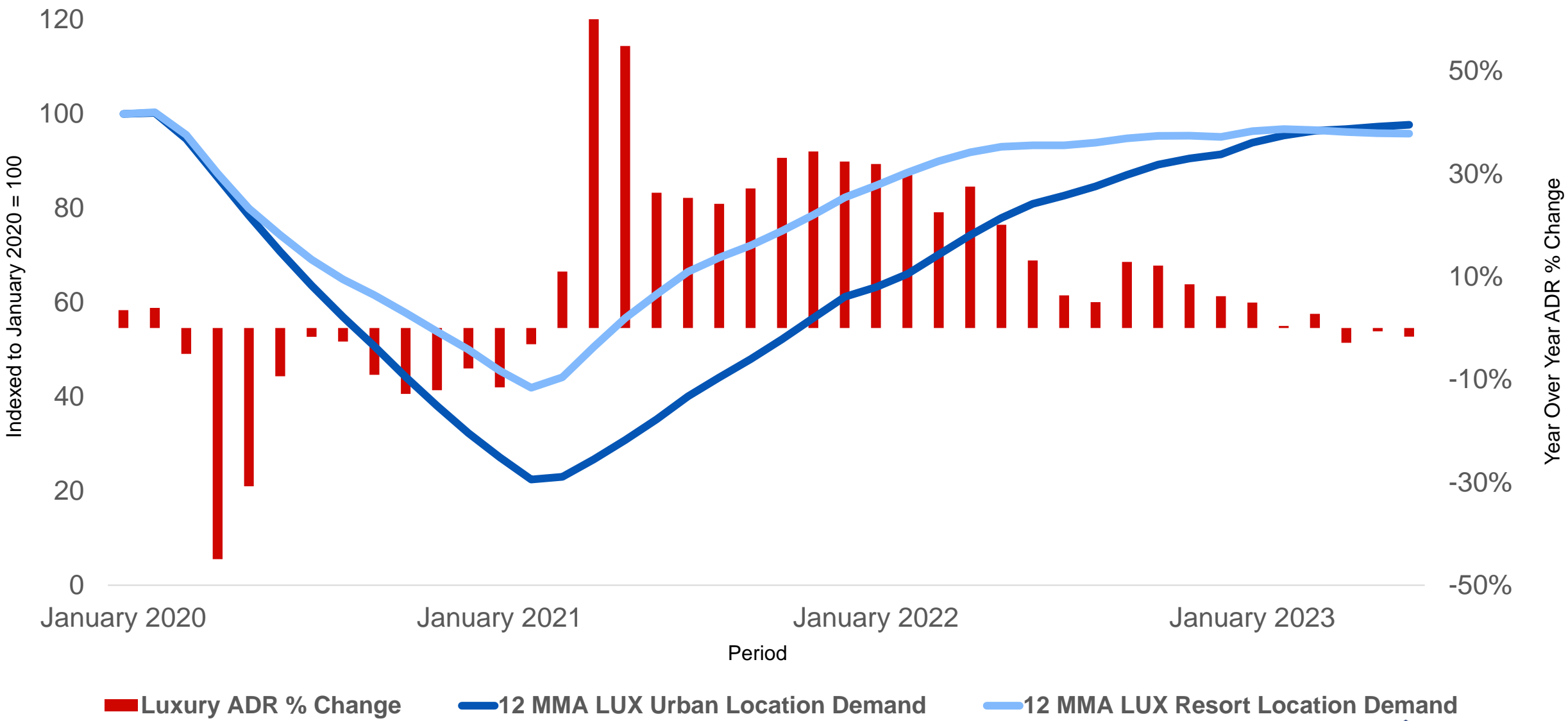
“The other thing I would say is that on luxury in the U.S., we actually saw a strengthening in the metropolitan areas, <...> And they, in general, have a little bit lower RevPAR than some of the resorts. So, some of this is a bit of a **mix shift**.”

Leeny Oberg, CFO and EVP, Development
Q2 Earnings Call, Marriott International

As Demand For Urban Luxury Hotels Grows, Luxury ADR Deteriorates



As Demand For Urban Luxury Hotels Grows, Luxury ADR Deteriorates



Source: CoStar, August 2023

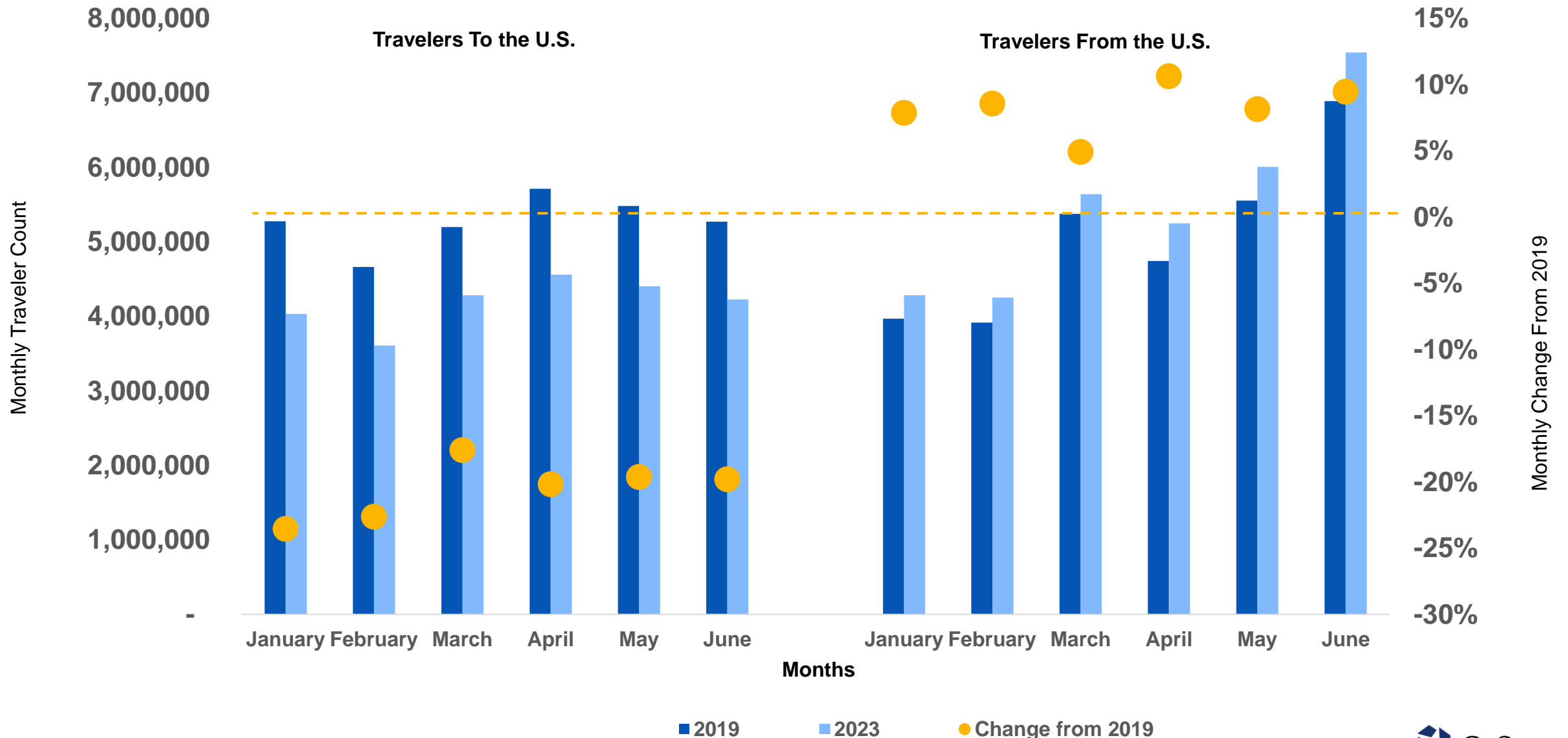




Tell Me More
A HOSPITALITY DATA PODCAST

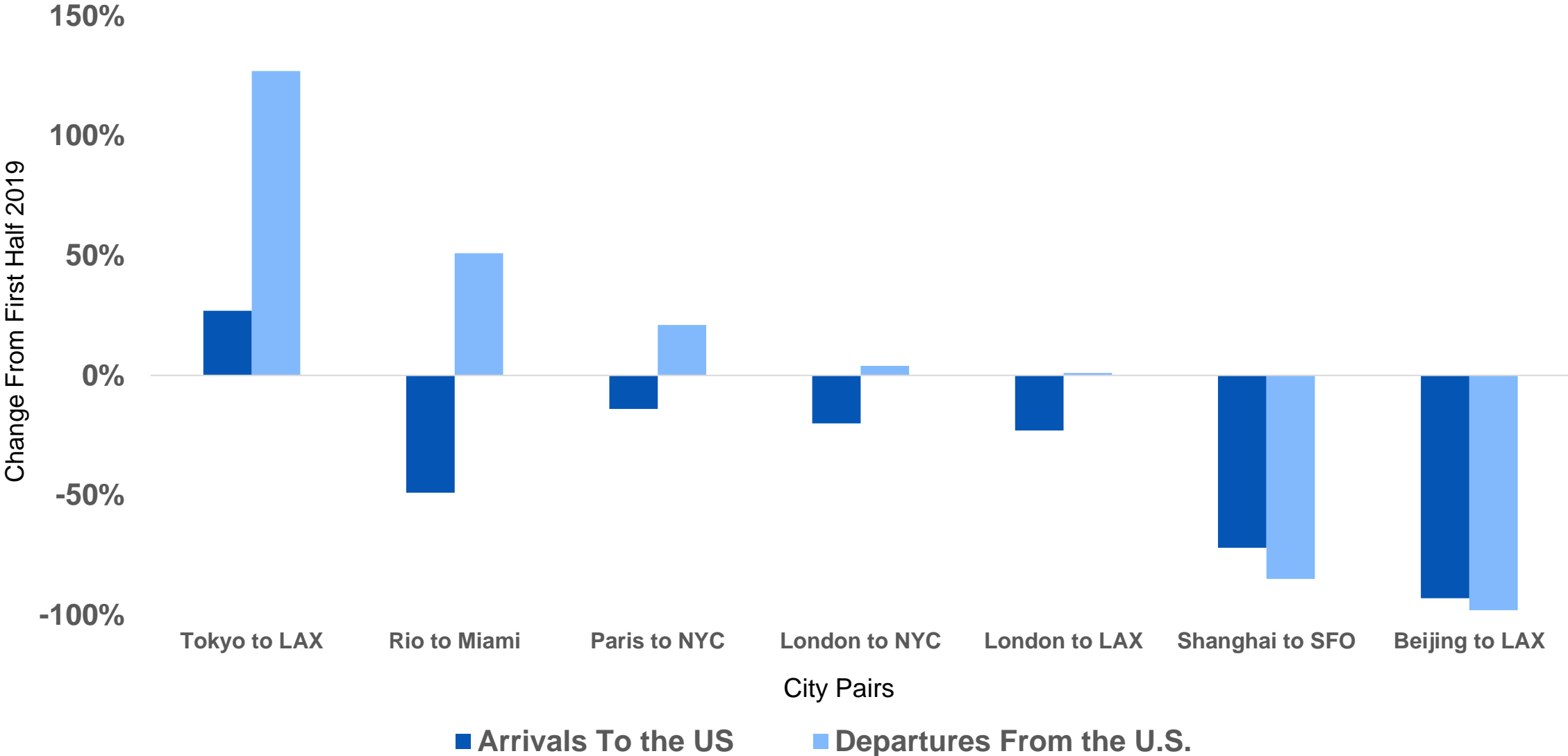


American Travelers Are Taking Their Dollars Abroad



Source: Commerce Department, July 2023

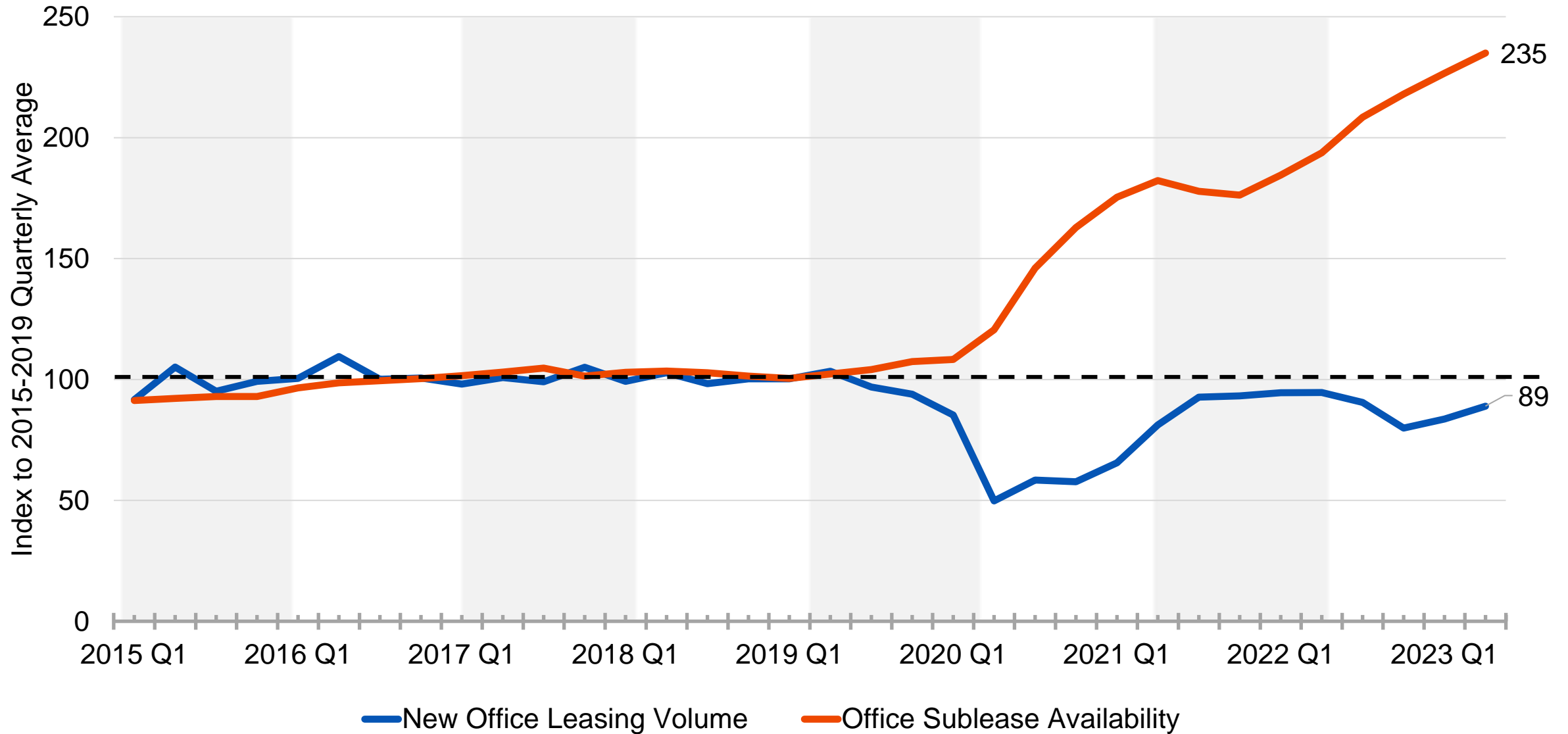
City Pair Data Not Surprising: More U.S. Outbound Traffic



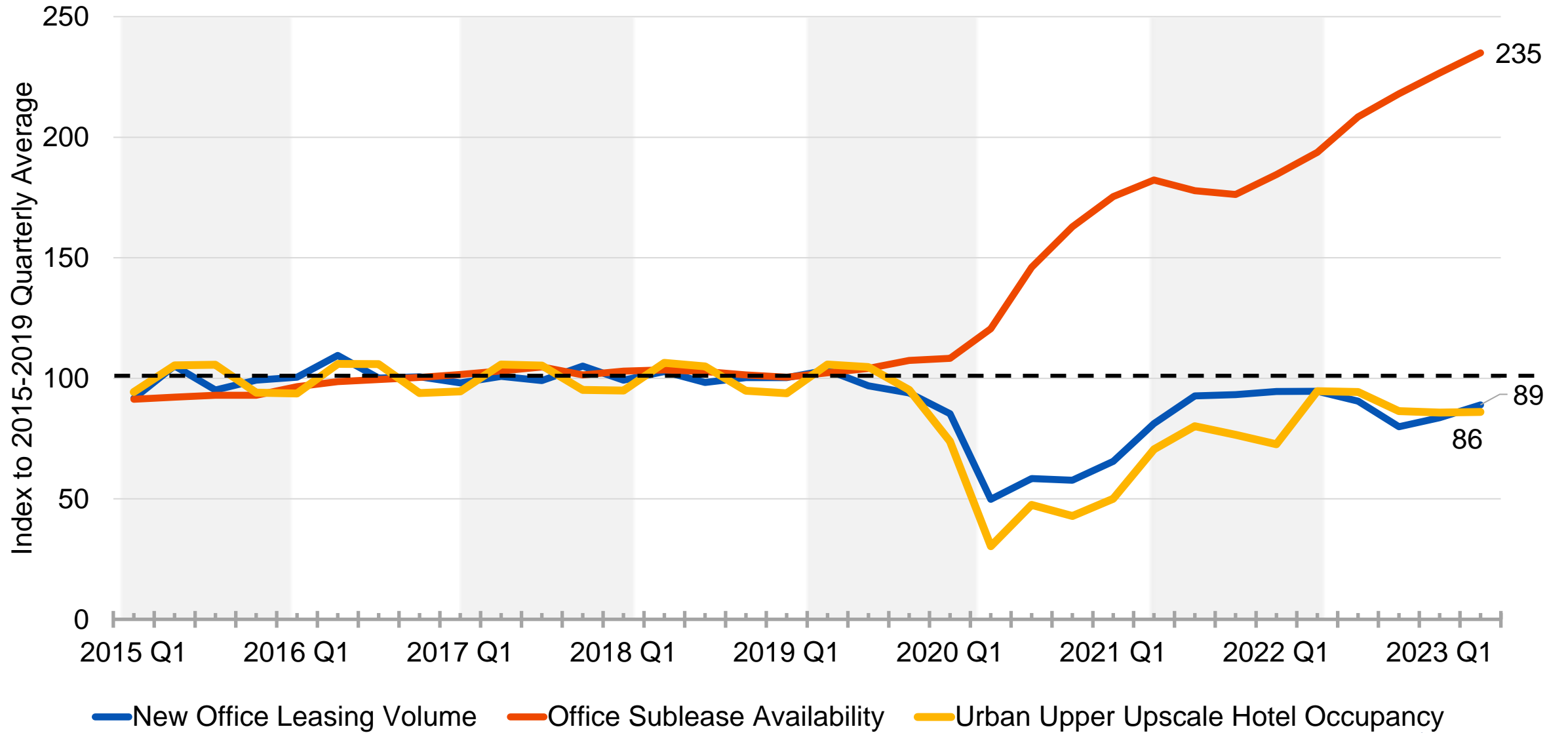
Source: i-92/APIS, Commerce Department, July 2023



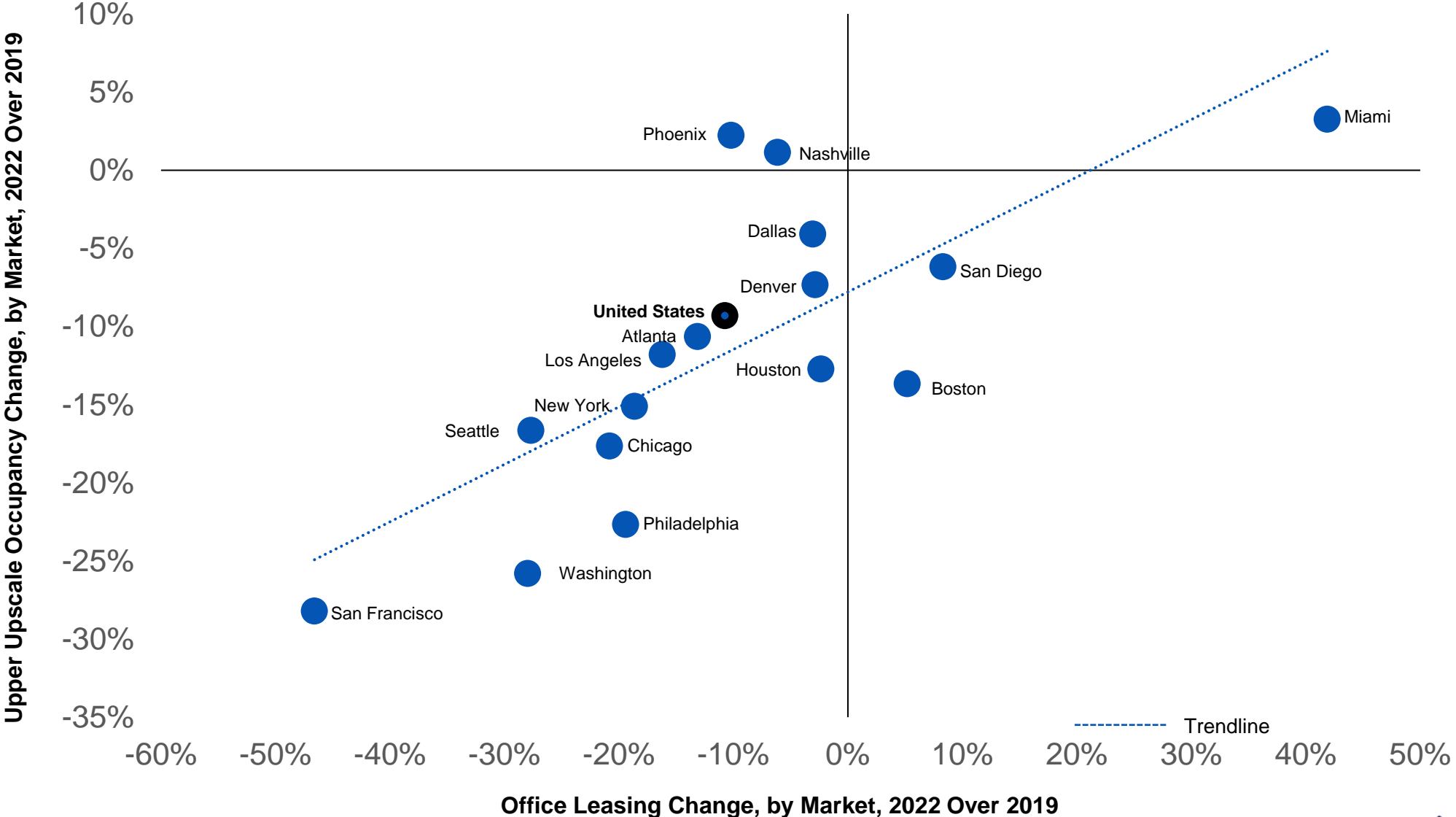
Office Leasing Below Historical Norms. Sublease Inventory Keeps Rising.



Office Leasing Below Historical Norms. Sublease Inventory Keeps Rising. Urban Upper Upscale Hotel Occupancy Recovers Slowly



As Office Leasing Volume Goes, so Does Full-Service Hotel Occupancy

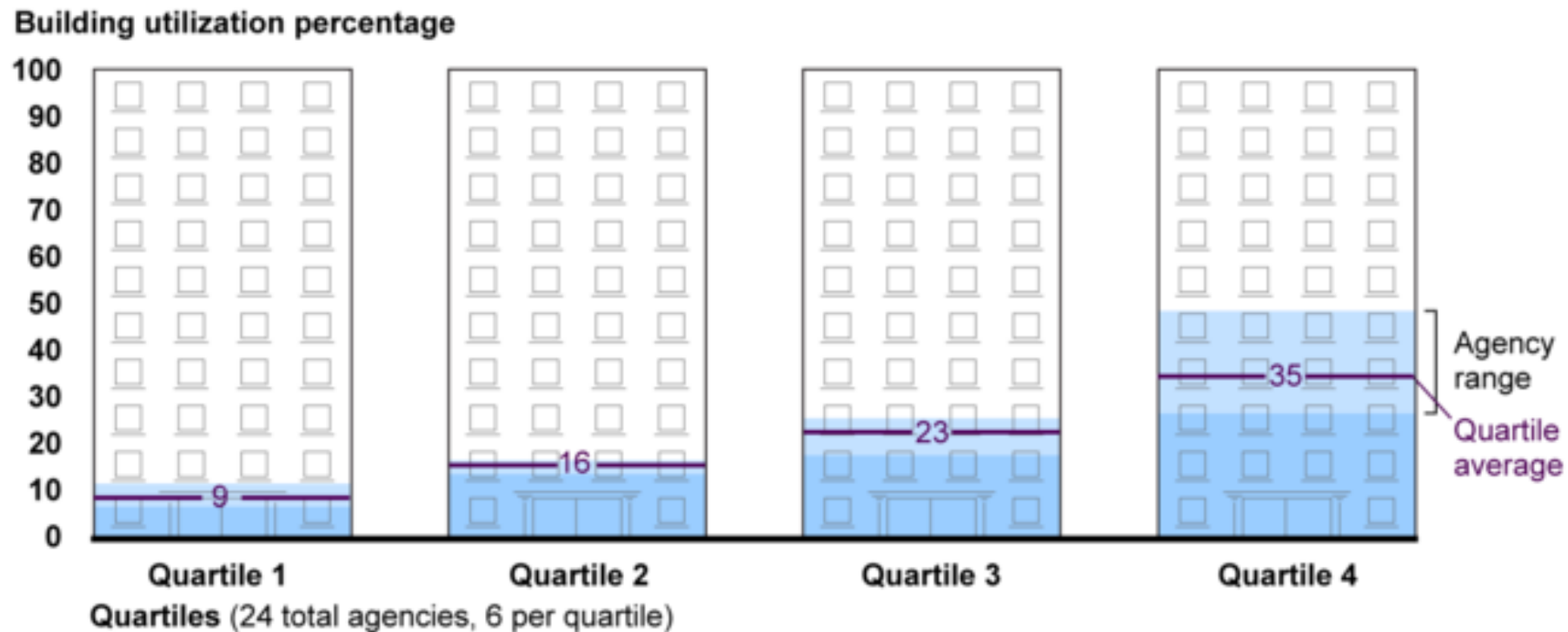


Source: CoStar, May 2023



Your Tax Dollars At Work ...

Quartile Weekly Utilization Estimated Averages of Federal Headquarters Buildings across Three-Week Sample (One week in each of January, February, and March 2023)



Source: GAO analysis of data from 24 federal agencies. | GAO-23-106200

Delta Assumes Corporate Traffic Is What It Is

Glen Hauenstein, President:

Q1 Earnings Call:

Our corporate travellers are telling us they expect that to continue to accelerate...we're counting a stable 85% revenue, **75% of traffic**.

Q2 Earnings Call:

...hopefully, we'll get some upside surprise on the increase in business (*travelers*), **but we're not really counting on anything more** than what we see today.

Companies with more flexibility are hiring more quickly

Headcount growth in the last 12 months by no. days required in-office

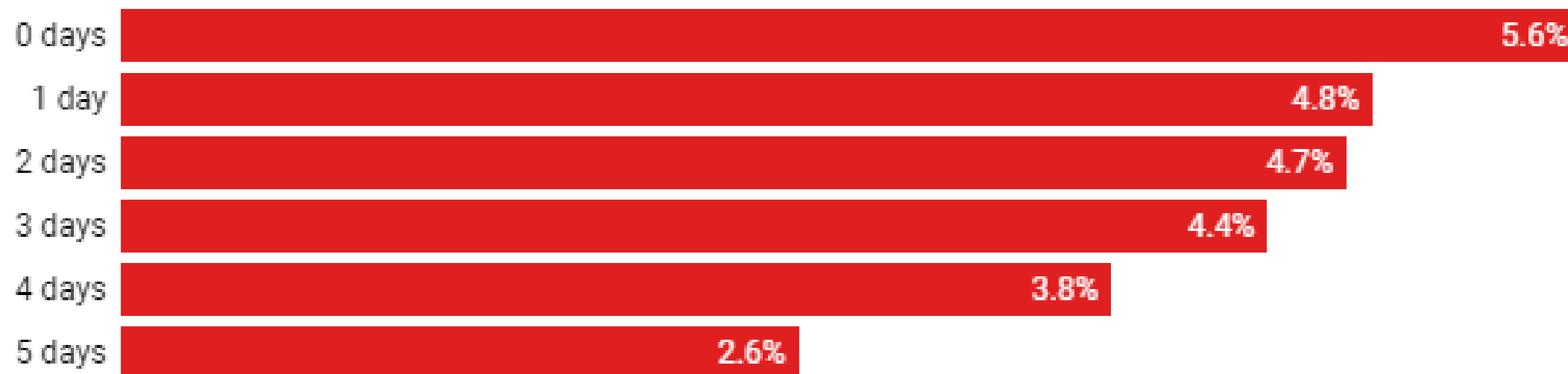


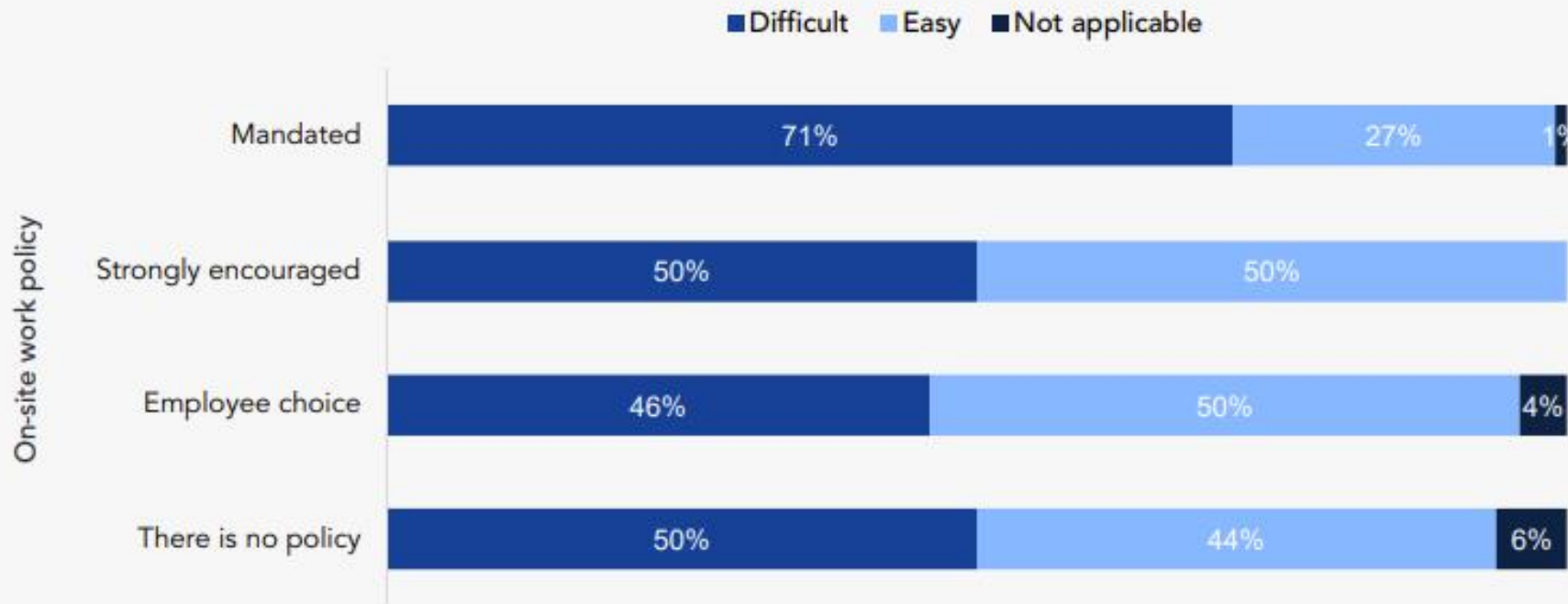
Chart: Alana Semuels • Source: The Flex Report

TIME

Figure 7

Organizations with mandated on-site work policies experience much greater difficulty retaining workers than those giving employees a choice

Q: In general, how difficult is it for your organization to do the following? (Difficulty retaining workers by on-site work policy)

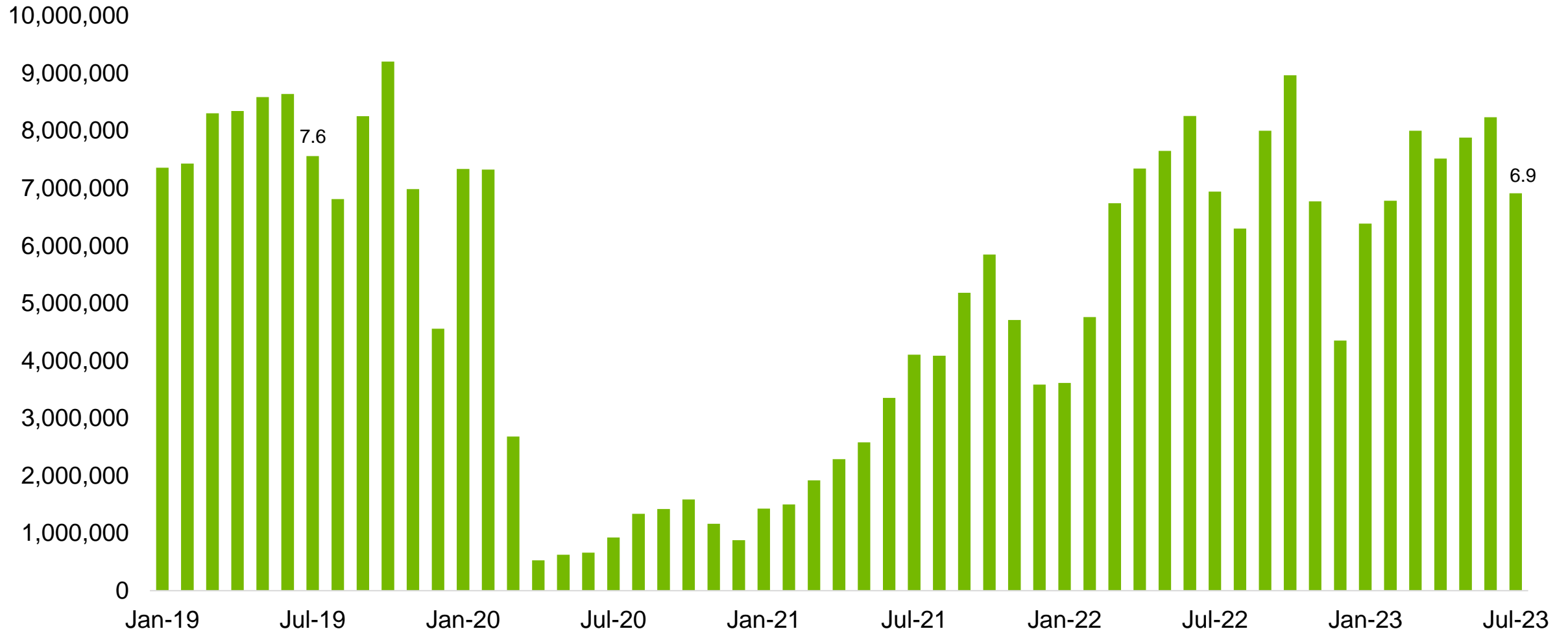


Note: 185 HC leaders responded

Source: *The Reimagined Workplace 2023*, The Conference Board, 2023

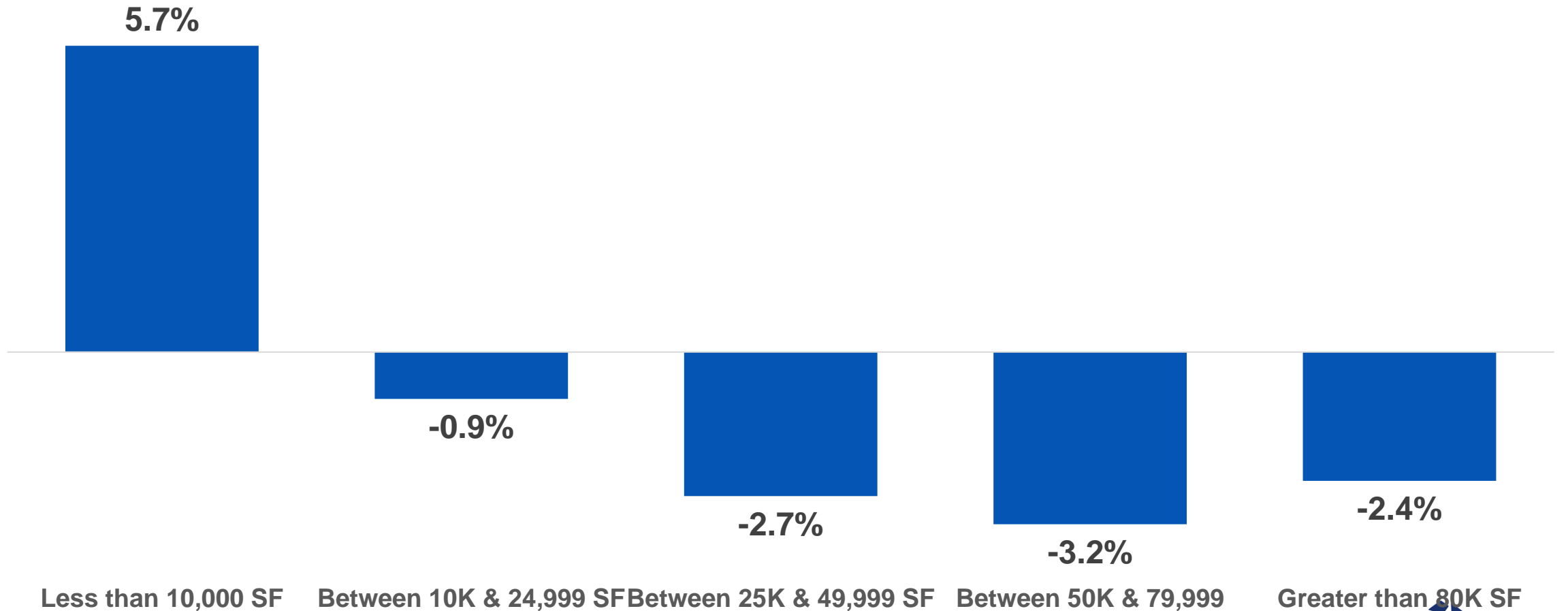
Group Demand Has Been A Success Story

Total U.S., Group demand, Luxury & Upper Upscale, Jan 2019 – July 2023



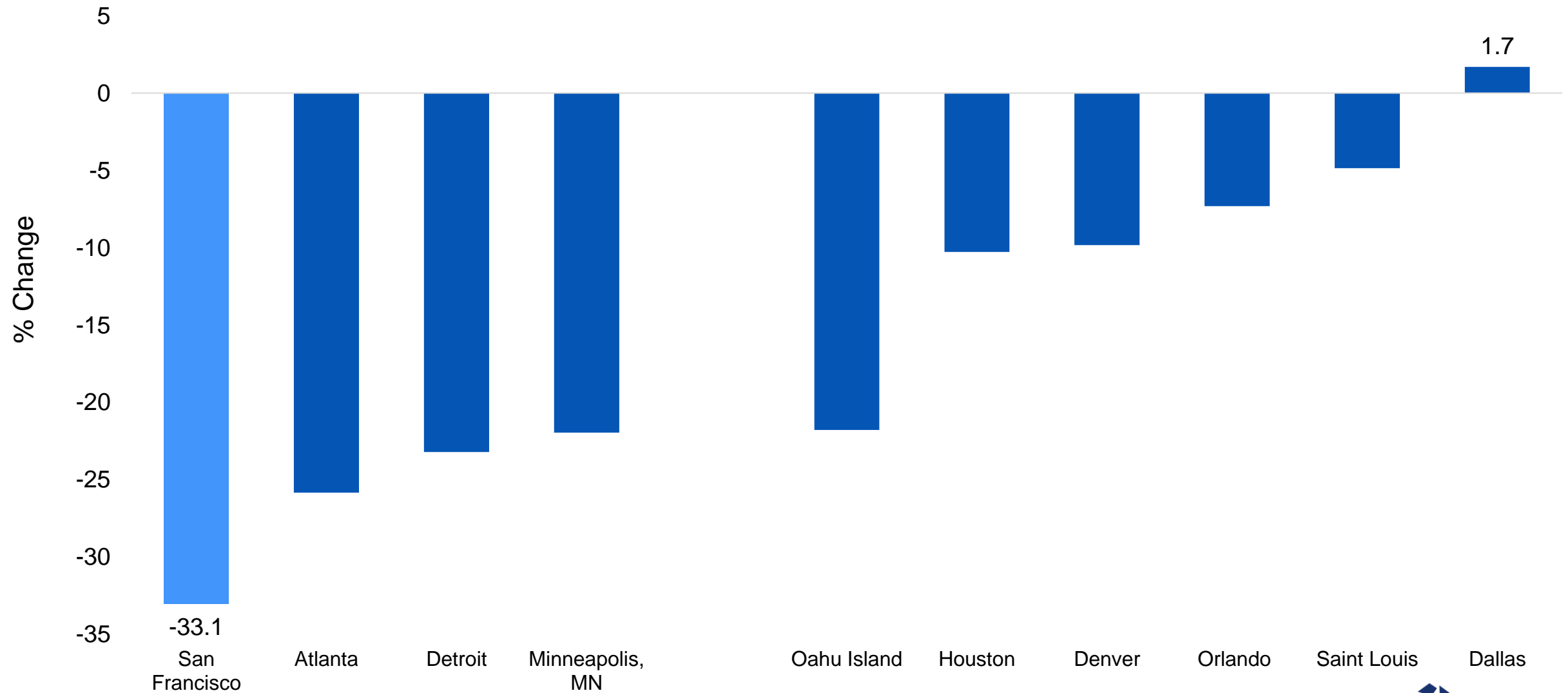
Hotels With Less Meeting Space Show Stronger Growth

U.S. Group Occupancy Change by Property Total Meeting Square Feet
12MMA June 2023 vs. 12MMA June 2017



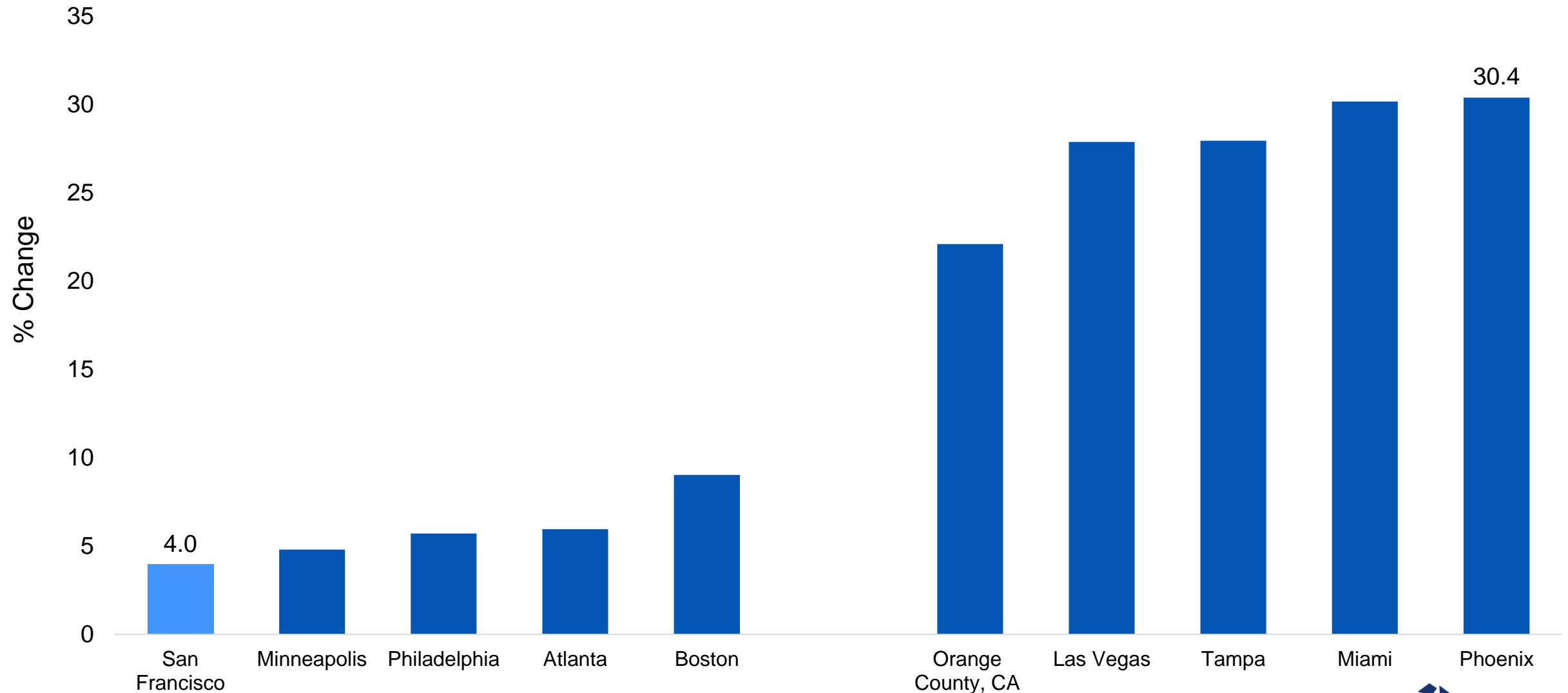
Top 25 Group Occupancy Still (Mostly) Down From 2019

Top 25 markets, Best/Worst Group OCC Change from YTD July 2019



Top 25 Group ADR Soars (Mostly) Compared To 2019

Top 25 markets, Best/Worst Group ADR Change from YTD July 2019



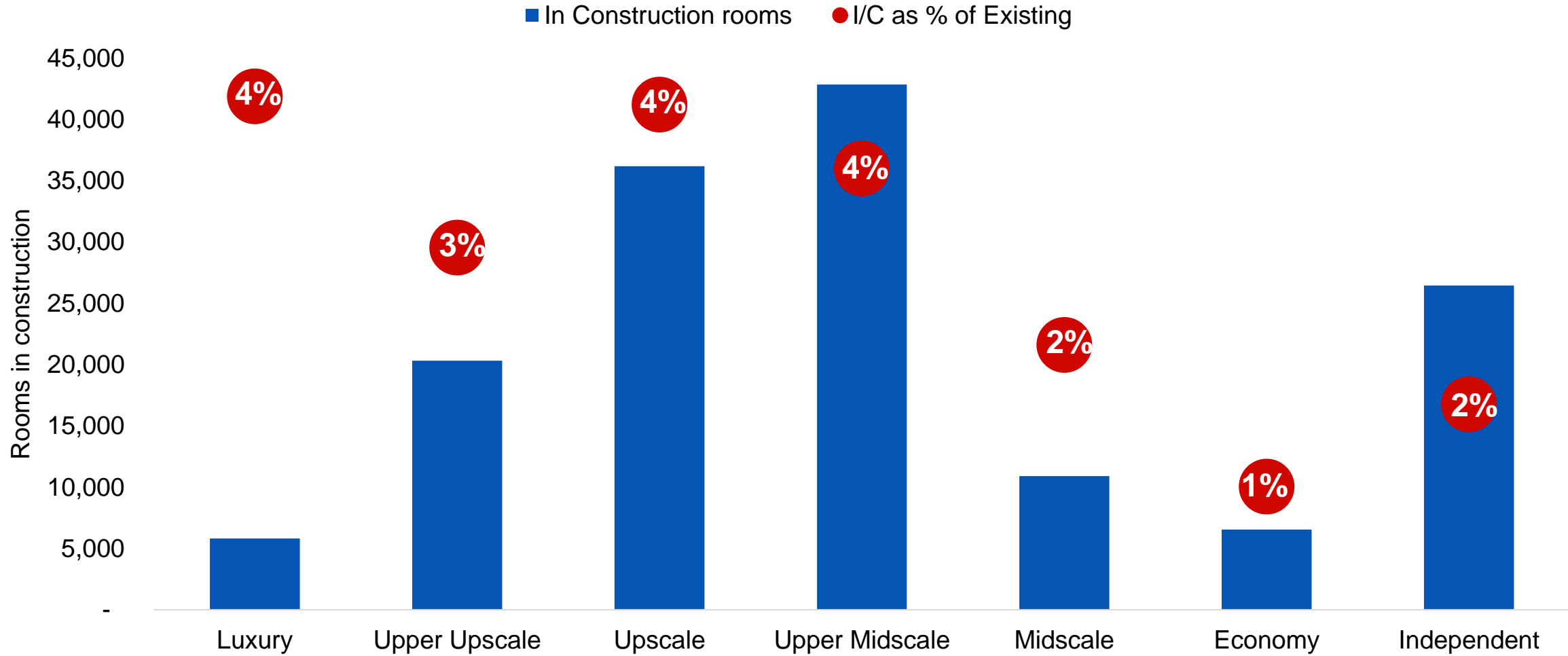
Higher Interest Rates Impact Construction Pipeline

U.S., Pipeline rooms in thousands by phase, July 2022 and 2023

Phase	2023	2022	% Change
In Construction	149	152	-2%
Final Planning	248	177	40%
Planning	239	280	-14%
Under Contract	637	609	5%

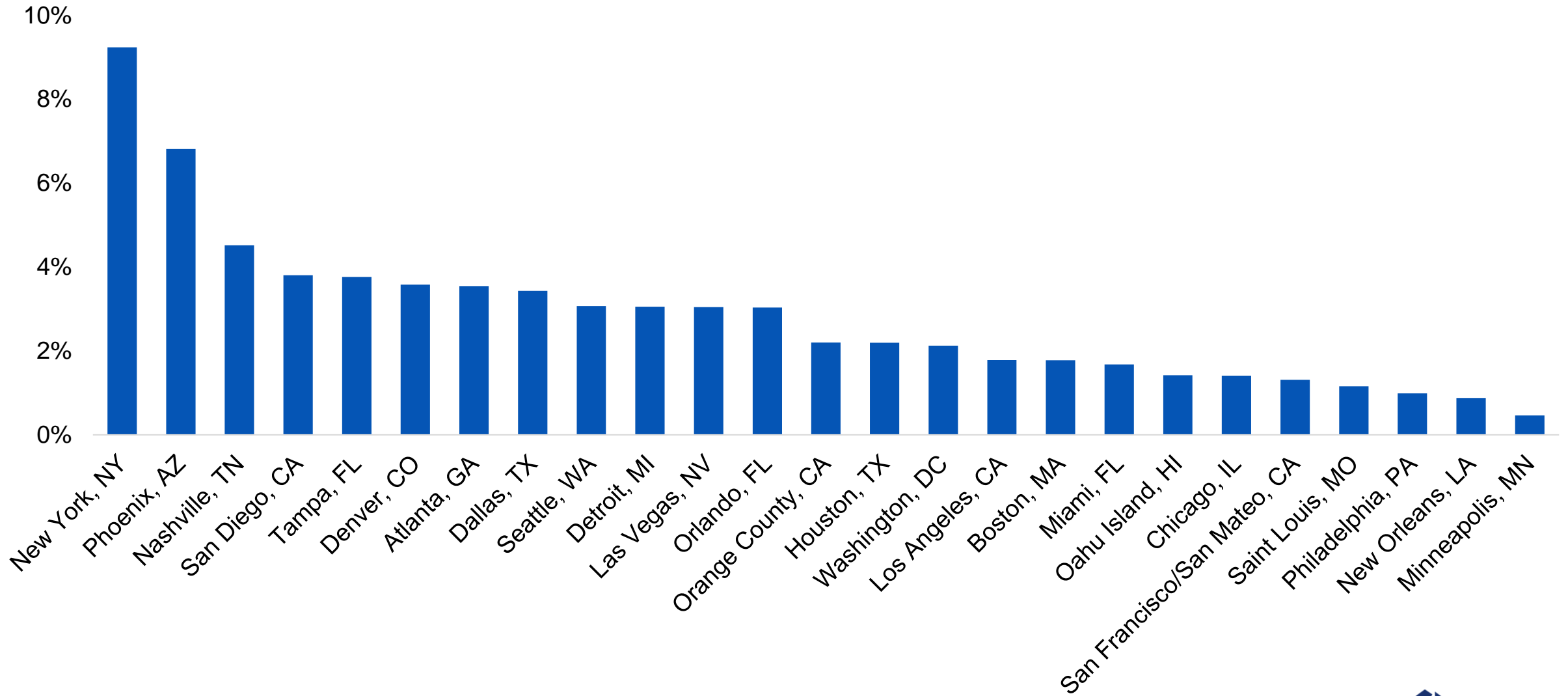
We Are Not Building Ballrooms Anymore

US, rooms in construction by chain scale, July 2023



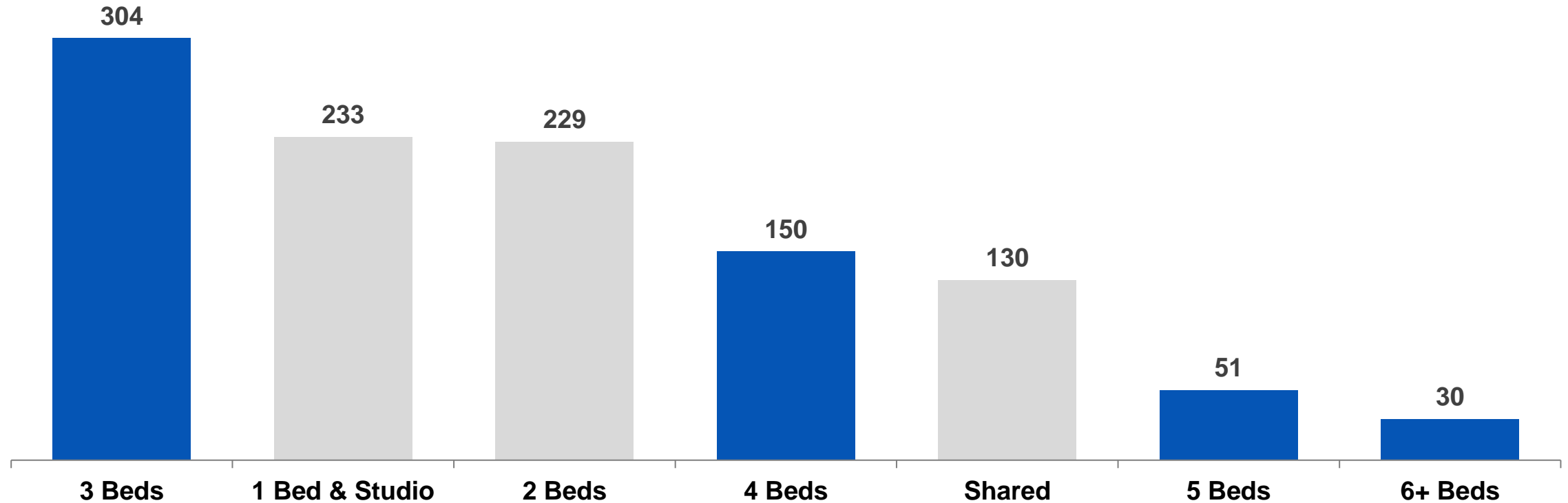
Popular Leisure Destinations Have More Rooms in Development

Top 25 markets, In Construction rooms as percent of existing supply, July 2023



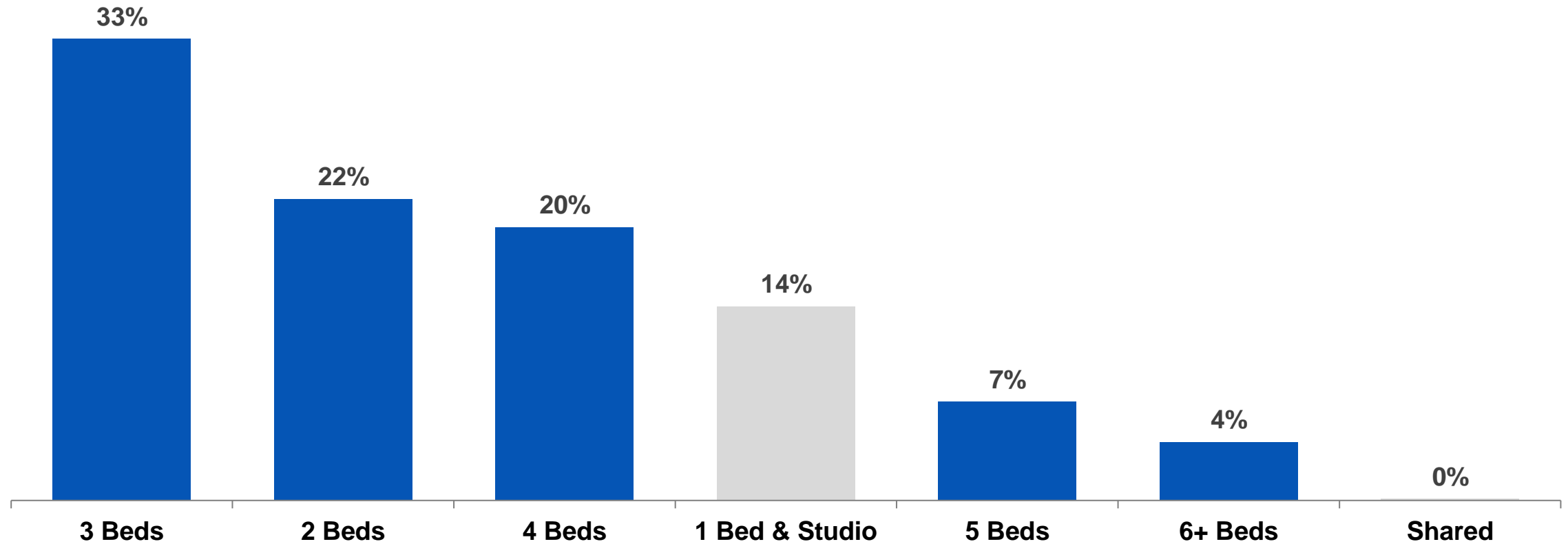
Short Term Rentals: Larger Units Account for Most of the Supply Gains

May 2023 YTD Rental **Supply** Change by Bed Type (in '000s)

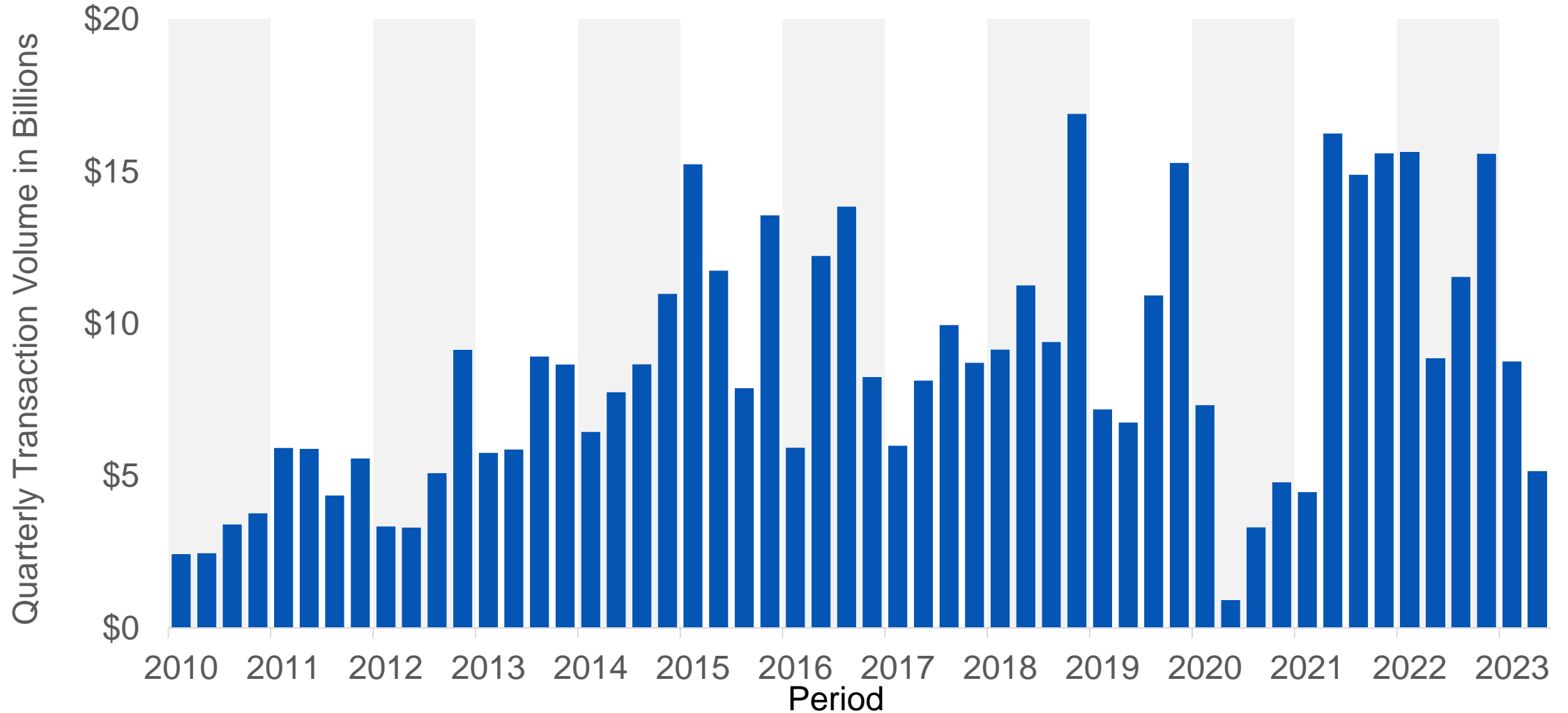


Most of Rental Growth Is in Full Homes, Less So in 1-Bedroom

Percent of Total Rental Demand Change, May 2023 YTD



Second Quarter Hotel Transaction Volume Drops 55% From a Year Ago



Second Quarter 2022 volume excludes MGM sale-leaseback transaction with VICI for \$17.2 billion

Source: CoStar, July 2023

Main Themes

- Forecast still calls for RevPAR growth in a recession
- Luxury ADR growth likely will be muted, but it's "Mix Shift", not "Discounting"
- Corporate transient demand: Who knows!?!?
- Group demand healthy
- In Construction counts will likely slow, Final Planning counts will likely rise
- Transaction volume will be impacted by higher interest rates

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