Five Key Takeaways

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ALIS Conference
The Americas Lodging Investment Summit

HVS

Presentations and conversations at the 2015 ALIS conference touched on everything from new brands and supply to how falling oil prices, a rising dollar, and stability in the capital markets are affecting prospects for U.S. hotels.

The Coming Horizons for U.S. Hotels

The U.S. hotel industry stands on solid ground as we enter 2015, and this year's Americas Lodging Investment Summit (ALIS) engendered confidence that the strong performance should carry on well into next year. Beyond that, however, questions remain, and nearly everyone in attendance was concerned with how long this performance, which has been supported by a variety of factors, will last. Fortunately, several key signs suggest the positive trend is poised to continue well past the near term.

A presentation by John Silvia, PhD, Managing Director and Chief Economist at Wells Fargo, touched on the current industry cycle and revealed that there is no sign of a recession on the horizon, with GDP expected to grow by 2.5% over the next two years. Furthermore, trends of prior cycles indicate that RevPAR growth typically peaks mid-cycle, and such a peak, per Dr. Silvia's analysis, is something we've yet to see in the current cycle. This insight comes as very encouraging news for the industry, and the sentiment echoed throughout the conference.

Markets in Flux as Supply Expands and Oil Prices Shrinks

Many discussions among hotel developers and brand representatives at ALIS homed in on what will be the next "hot" market, which is notoriously difficult to predict. Markets such as Austin and Nashville, which in prior years had held enormous interest among developers and investors, have experienced a staggering introduction of new supply, provoking questions as to how many more hotels those markets can handle.

Vast regions of Montana, North Dakota, Wyoming, Texas, and other states had experienced huge levels of business and hotel development due to the energy industry's boom earlier this decade; but in these energy-driven hotel markets, the recent decline in oil prices has dampened enthusiasm. Nevertheless, most groups that have debt in those markets expect that the sub-$50-per-barrel pricing will not last long term. Moreover, most had underwritten their deals with some type of assumption that oil and gas prices would decline and lead to general stabilization. This foresight has proven to be a wise move as hotel owners and developers hunker down until demand for oil and gas rebounds.

Another uncertainty concerned whether the strength of the U.S. dollar, which as of mid-January had risen to its highest level in twelve years, would discourage foreign travel. To offset the potentially negative effects of the dollar's rise, the U.S. government is implementing policies that allow visitors from overseas to easily travel in and out of the country by offering visa waivers for most nations, including China.

Coming to Terms with the OTAs

Another fiercely discussed topic at ALIS dealt with online travel agencies or OTAs, which have come to pose quite a threat to both brands and owners. OTAs are oriented to serve the consumer, and travelers are not about to abandon their discounts or convenience anytime soon. Logic dictates, therefore, that hoteliers acknowledge OTAs as one of many competitive booking channels and take advantage of them in ways that make sense, in terms of everything from profitability to promotion at a hotel.

Since so many consumers book hotel rooms through online travel services, hotel brands also need to work with OTAs strategically to avoid a skyrocketing of reservation fees. From the owner's perspective, brands need to be wary of the creeping reservation fees, and need to be incentivized from the net income level rather than from revenue.

New Brands

New hotel brands launched or featured at ALIS included Radisson Red, Moxy Hotels by Marriott, Hyatt Centric, and Canopy by Hilton. The Radisson Red and Moxy brands are specifically geared toward the growing "millennial" workforce. Canopy by Hilton and Hyatt Centric, flexible full-service offerings in the upscale lifestyle segment, are expected to compete with AC by Marriott, Kimpton, and other lifestyle brands. The psychographics encompassing the values, interests, and lifestyle choices of travelers are becoming much more important than consumer demographics, and the new brands are embracing these characteristics.

Hotel Financing and the Trajectory of the Current Cycle

Known as the "financial gurus" panel, the Industry Real Estate Financing Advisory Council (IREFAC) discussion covered issues related to hotel financing, brands, and development. Panelists also gave an evaluation of the current cycle, which all agreed is unlike any the industry has been through before. The industry has shot with a powerful tailwind out of the recession, but this growth was solely based on the fall in demand, not a glut of supply, during the downturn, and has been fueled by low interest rates.

All of the IREFAC panelists felt that capital markets would continue to be strong for the next two years. Investors are ravenous for urban select-service properties, in particular; however, the return of group business is reigniting investment in full-service hotels as well. Fixed-rate lending is expected to be better in 2015 than it was last year and presents a highly attractive option for investors looking to hold assets; fixed-rate lending is also anticipated to fund major PIP requirements by the brand. Some expressed concern about the amount of funding required by some brands for a PIP prompted by brand initiatives and/or the length of time passed since a property's last completed renovation.

Lenders at other sessions stated that while some 80% LTV deals were underway in late 2014, the peak leverage now appears to be 75%, with lower leverage for new construction. Good sponsorship and location factor into the decision-making for the lender, but the nature of the hotel project itself is also important. In this respect, the proliferation of lifestyle brands has created some blurred lines for hotel brand positioning and customer segmentation.

Conclusion

Occurring as it does in January, ALIS provides a mount for hoteliers' perspectives into the past and the coming year. This was certainly true at the conference in 2015, with the industry on such firm standing even while questions loom about the long-term prospects for hotel performance, financing, and development. The lack of new supply in many markets, coupled with generally stable economic conditions, has been a boon for hoteliers, while the launch of new brands, issues stemming from falling oil and gas prices, and the inevitable entrance of new supply created an atmosphere of uncertainty that prompted many questions and much discussion about how the hotel industry will perform through the close of this decade. Nevertheless, the clear optimism among attendees, bred by several years of strong economic and hotel demand growth, enters unabated into the outlook for the next two years.

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