




Hospitality Directions US




Our updated lodging outlook

Compelling economic fundamentals, combined with an increase in commercial transient demand, suggests continued momentum into 2019

Our outlook for 2018 anticipates:

Continued supply growth of 2.0% ; <i>the long-term average</i>	<i>Record occupancy of</i> 66.3%
	
 <i>Average daily rate growth continues to drive RevPAR increase of</i>	3.0%

Our outlook for 2019 anticipates:

Continued supply growth of 1.9%	<i>Demand growth decelerates to</i> 1.9%
	
 <i>Moderate increase in average daily rate, combined with stable occupancy levels, results in RevPAR growth of</i>	2.8%

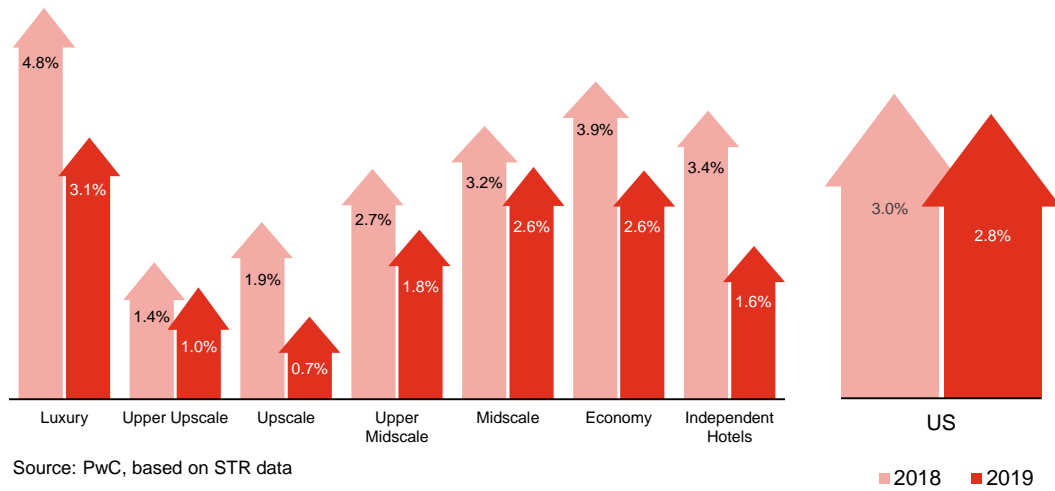
Following a better than expected first quarter, lodging metrics continue to remain positive. First quarter results yielded stronger than expected increases in demand for many hotel companies, as well as slightly stronger rate growth, driven primarily by an increase in commercial transient travelers. Year-over-year for the first quarter, RevPAR increased across the transient segment nationally, led by rate growth. Group RevPAR was down marginally due to a decrease in occupancy, compared to the first quarter of 2017.

As hotels continue to feel the pressure from rising wages, insurance costs and other expenses, the components of RevPAR growth become more important. With occupancy levels at record levels, an expected uptick in commercial transient demand midweek should bode well for stronger increases in room rates. As a result, for 2018, our forecast anticipates an ADR-driven RevPAR growth of 3.0 percent, potentially providing hotel operators with better flow-through to off-set increasing costs.

Looking ahead to 2019, there is an expectation of gradual strengthening in rate growth as we move through the year. The impact of the Tax Cuts and Jobs Act is expected to drive more commercial transient demand to hotels, at higher prices than those paid by the midweek leisure customer.

Potentially counteracting anticipated positive impacts coming from the Tax Cuts and Jobs Act is the low unemployment rate (less than 4 percent), current immigration policies, and resultant rising wages both in the lodging sector and the broader economy. These factors could put a strain on economic expansion, potentially shifting the focus of hotel operators to downside risk protection, if there's a resultant downward shift in commercial transient travel.

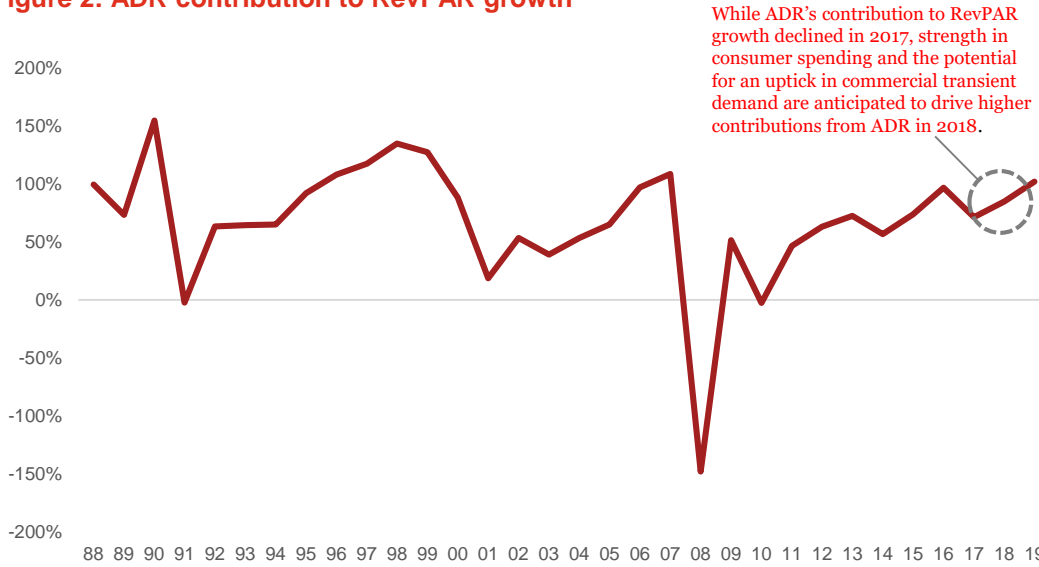
Figure 1: RevPAR growth, US and chain scales



Hospitality Directions Outlook Tables

For detailed outlook tables covering the US and each of the chain scales, please access the [Hospitality Directions Outlook Tables](#) available online.

Figure 2: ADR contribution to RevPAR growth



Solid economic growth, with higher inflation; mixed expectations from tax reform

The impact of the Tax Cuts and Jobs Act on the lodging industry remains unclear. However, economists at IHS-Markit anticipate an 80 basis point incremental increase in GDP in 2018-2019 as a result of the Act.

Consumer fundamentals continue to grow, encouraged by lower personal tax rates, rising home prices, and rising disposable income. IHS-Markit economists estimated real disposable income grew at 4.3 percent in 2017, and is expected to continue in a positive direction. Our lodging commentary highlights a potential increase in corporate transient demand and is reflective of a broader trend in the overall economy.

Business investment fundamentals remain on a positive trajectory, with both the Tax Cuts and Jobs Acts and the Bipartisan Budget Act stimulating business confidence. Non-residential fixed investment, a key indicator of business investment spending, is anticipated to grow 5.8 and 6.3 percent, respectively, in 2018 and 2019.

Overall, economists at IHS-Markit anticipate GDP will grow at a rate of 3 percent or higher for the remainder of 2018. Q1 2018 growth of 1.7 percent was driven by the government tax cuts and increased consumer spending. HIS Markit's forecast for 2019 if for GDP growth of 2.7 percent, measured on a fourth-quarter-over-fourth quarter basis.

Table 1: US outlook (released May 21, 2018)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Demand growth	0.7%	-2.5%	-6.2%	7.3%	4.6%	2.7%	1.9%	4.0%	2.5%	1.6%	2.7%	2.4%	1.9%
Supply growth	1.2%	2.4%	2.8%	1.7%	0.4%	0.3%	0.5%	0.6%	1.0%	1.5%	1.8%	2.0%	1.9%
Room starts, % change	4.9%	-9.2%	-63.7%	-39.1%	57.9%	26.1%	26.6%	35.4%	13.9%	15.0%	-4.3%	6.0%	12.4%
Occupancy	62.8%	59.8%	54.6%	57.6%	60.0%	61.4%	62.3%	64.4%	65.4%	65.4%	66.0%	66.3%	66.2%
% change	-0.5%	-4.8%	-8.8%	5.6%	4.2%	2.4%	1.4%	3.4%	1.5%	0.1%	0.8%	0.4%	-0.1%
Average daily rate	\$104.31	\$107.37	\$98.16	\$98.02	\$101.75	\$106.04	\$110.03	\$115.15	\$120.33	\$123.94	\$126.54	\$129.81	\$133.46
% change	6.6%	2.9%	-8.6%	-0.1%	3.8%	4.2%	3.8%	4.7%	4.5%	3.0%	2.1%	2.6%	2.8%
RevPAR	\$65.54	\$64.24	\$53.55	\$56.45	\$61.05	\$65.13	\$68.51	\$74.12	\$78.64	\$81.08	\$83.46	\$86.00	\$88.37
% change	6.1%	-2.0%	-16.6%	5.4%	8.2%	6.7%	5.2%	8.2%	6.1%	3.1%	2.9%	3.0%	2.8%
GDP, % change Q4/Q4	1.9%	-2.8%	-0.2%	2.7%	1.7%	1.3%	2.7%	2.7%	2.0%	1.8%	2.6%	2.7%	2.7%
Inflation, % change	2.5%	3.1%	-0.1%	1.7%	2.5%	1.9%	1.3%	1.5%	0.3%	1.2%	1.7%	1.8%	1.8%

Source: STR; Bureau of Economic Analysis; IHS-Markit (forecast released April 2018); MHC Construction Analysis System; PwC

Table 2: Chain scale outlook, percentage change from prior year

Chain scale	2018					2019				
	Demand	Supply	Occupancy	ADR	RevPAR	Demand	Supply	Occupancy	ADR	RevPAR
Luxury	3.0	2.0	1.0	3.8	4.8	0.2	1.0	(0.8)	4.0	3.1
Upper upscale	2.3	2.2	0.1	1.4	1.4	1.5	2.1	(0.5)	1.6	1.0
Upscale	4.5	4.3	0.2	1.7	1.9	4.5	5.9	(1.4)	2.1	0.7
Upper midscale	4.7	4.0	0.7	2.0	2.7	3.2	3.7	(0.5)	2.3	1.8
Midscale	1.3	1.0	0.3	2.8	3.2	1.2	1.1	0.1	2.5	2.6
Economy	0.5	0.1	0.4	3.5	3.9	0.2	0.1	0.1	2.5	2.6
Independent hotels	1.0	0.8	0.2	3.2	3.4	0.9	0.7	0.2	1.3	1.6
US total	2.4	2.0	0.4	2.6	3.0	1.9	1.9	(0.1)	2.8	2.8

Source: PwC, based on STR data

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Definitions and information requests

Abbreviated terms include average daily rate (“ADR”), revenue per available rooms (“RevPAR”), and real gross domestic product (“GDP”). Growth rates are percentage change in annual averages, except GDP growth, which is expressed on a fourth-quarter-over-fourth-quarter basis. The personal consumption expenditure price index is used to measure inflation, including the conversion of RevPAR to constant dollars, which is reported as real RevPAR.

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