

# USA Hospitality Market Report

January 2024



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# 1. Executive Summary

As we navigate through a post-pandemic world, the hospitality industry stands at a crossroads of opportunity and adaptation. Our Market Report offers a panoramic view of this new landscape, capturing the pulse of recovery, investment shifts, and trends that are defining the future of hotels and travel. In this executive summary, we've distilled key insights that not only reflect the resilience of the sector but also signal the strategic directions that can propel growth and innovation.



## Key Takeaways

- The hotel industry is experiencing a notable recovery post-pandemic, with demands and Revenue Per Available Room (RevPAR) expected to surpass pre-pandemic levels. A particular surge in wellness travel and business travel has been observed, alongside an increase in meeting and event budgets.
- Weekly occupancy rates have shown resilience, with an incremental rise in Average Daily Rate (ADR) contributing to a slight increase in RevPAR, despite a slight decline in occupancy compared to the previous year.
- Investment focus has pivoted towards acquisitions instead of building new hotels, with select-service and extended-stay hotels drawing significant interest due to their robust RevPAR recovery and operational efficiencies.
- Wyndham stands as the preeminent brand in the US hotel landscape, while Texas remains the epicenter for number of hotels.
- Investor sentiment is cautious amidst escalating interest rates and inflation, heightening the risk of loan defaults and pricing challenges, particularly for smaller lenders.
- The strategic interplay of location selection, operational efficiency, and brand alignment continues to be pivotal in driving hotel performance and investor returns.



## 2. Hotel Industry Outlook

### 2.1. Demand and RevPAR to exceed pre-pandemic levels

The GDP growth over the last decade is translated to both international and domestic travel spending, and the economy regained momentum to fuel travel demand after the pandemic.

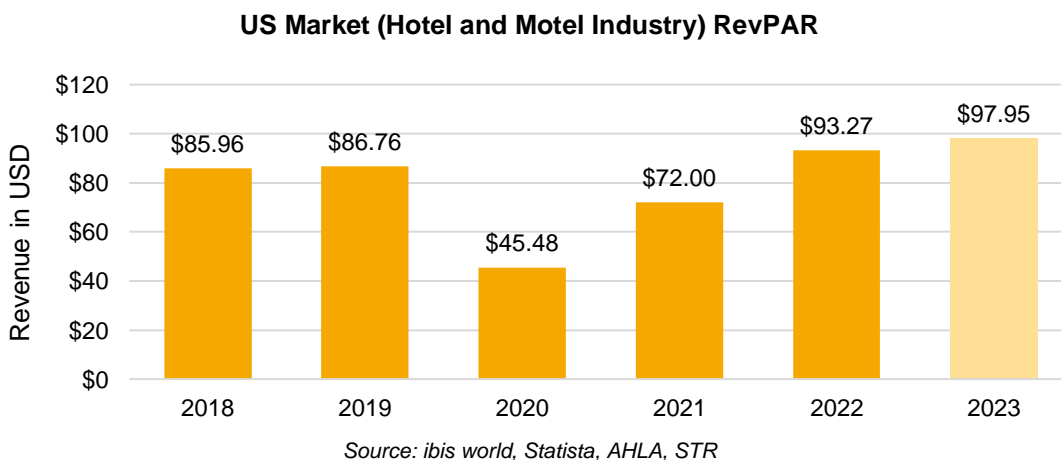
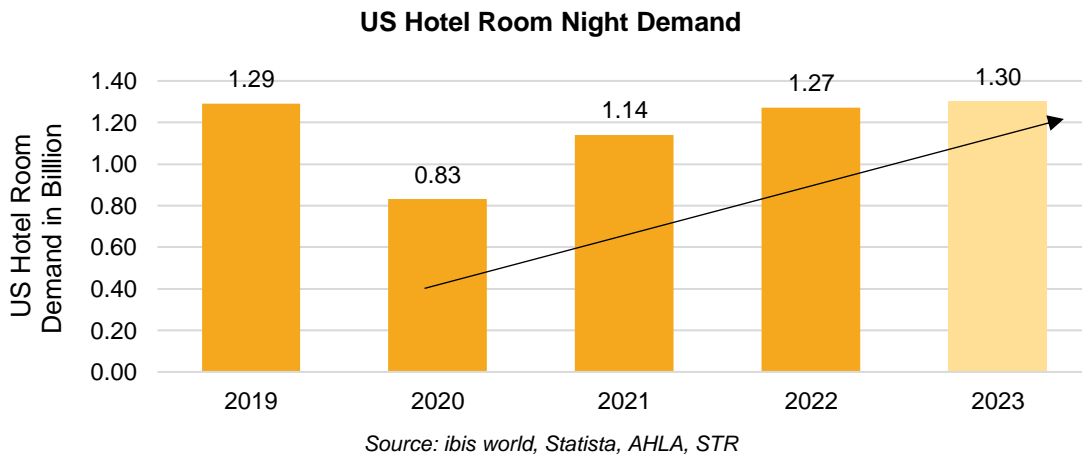
1. Wellness travel surged after the pandemic
2. Faster recovery in business travels than expected
3. Meeting and event budgets increase

#### Steady Room Night Demand

Steady growth after the pandemic which is forecasted to exceed the 2019 level in 2023, translating to 63.5% in Occupancy.

#### RevPAR Resilience

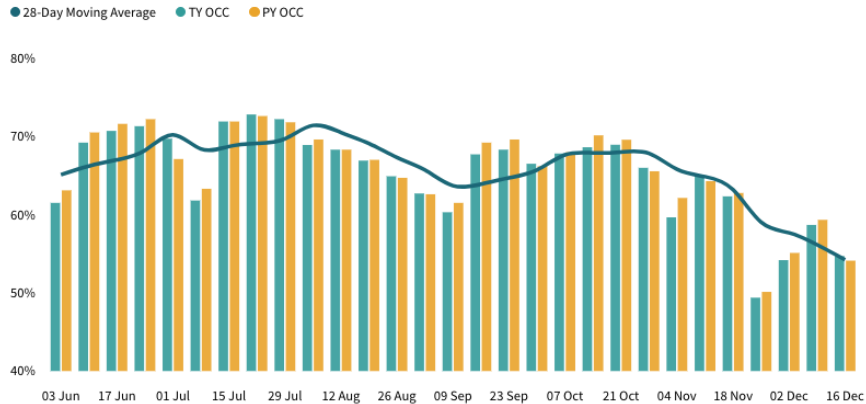
Resilient Recovery of RevPAR to \$93.27 by 2022, surpassing pre-pandemic levels. The growth will be sustained in 2023, reaching \$97.95. For 2024, the RevPAR is forecasted to grow by 3% from 2023.





## 2.2. US Recent Market Insights

### Weekday and Weekend Occupancy Trails Year-Over-Year Figures



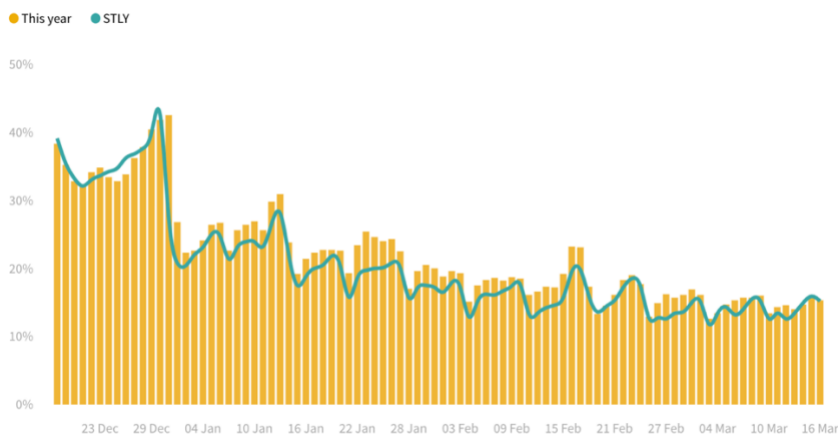
For the week from Jun 3 – Dec 16, 2023  
Source: STR

### Week of Dec 10-16

Entering the month of December, Occupancy was slowing down and recorded at 54.7% for the week. The Top 25 markets still drove a growth in RevPAR for 10.9%, mainly contributed by the strong ADR growth at 6.8%. San Francisco had the strongest YoY growth among these 25 markets, reaching a RevPAR of \$157.14 by a 60.3% increase from 2022.

Group demand had a notable growth of 8.8% from the same time last year. San Francisco benefited from the group demand growth, along with San Diego and Atlanta.

### Occupancy OTB of Top Markets



For the week from Dec 18, 2023 – Mar 16, 2024  
Source: STR

### New Year's Eve and Q1 2024

Q1 Occupancy OTB in top US markets is higher than same time last year, indicating an optimistic start for 2024. For the week from Dec 31 – Jan 6, the US market was observed to have a positive RevPAR growth of 6.4%, while compared to last year, the New Year's Eve was softer as the day shift from Saturday to Sunday in 2023.

## 2.3. US Market Profitability

### Increasing Labor Costs Especially in F&B Department

The growth in labor costs slowed down in October compared to 2023 H1, while it still obtained a YTD growth of 14%, stronger than GOPPAR YTD growth at 11%. Across departments, F&B had the highest YTD growth on a POR basis. For 2024, the labor costs percentage is expected to decrease slightly, leading to a small benefit to the GOP margin.

Only half of the Top 25 markets recorded a GOPPAR growth when compared to the October 2022 data. New York City contributed the strongest growth of around 60% lift in GOPPAR.

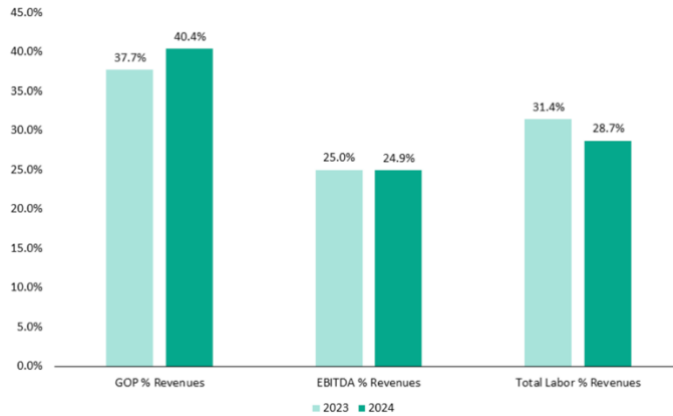
**\$240.74**  
TrevPAR (+4.0%)

**\$97.45**  
GOPPAR (+3.7%)

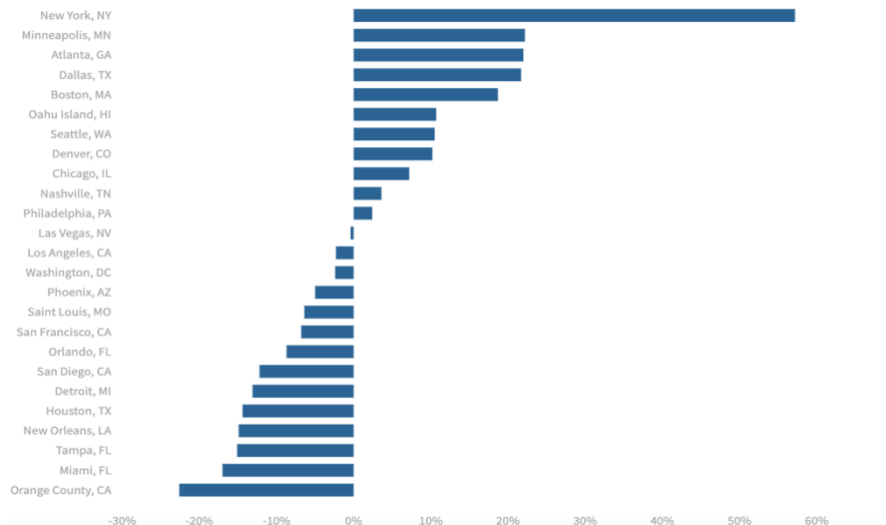
**\$69.60**  
EBITDA PAR (-1.2%)

**\$74.48**  
Labor Costs PAR (+5.9%)

### Profit Growth Projections for 2023 and 2024



### Top 25 US Markets GOPPAR Growth – October 2023, YoY percentage change



Source: STR

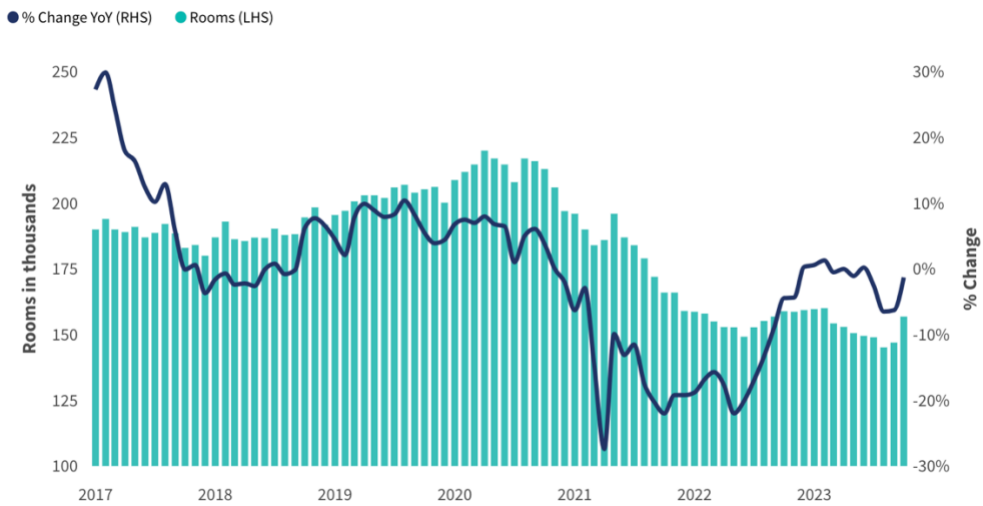
## 2.4. US Hotel Pipelines

### A Decreasing Trend of Rooms Under Construction

The number of rooms under construction increased from September but remained flat from October to November 2023. While the number of rooms under construction decreased from 2022 by 1.1%, pipelines in the final planning and planning phases were observed to have a positive change of 19% and 28%, respectively.

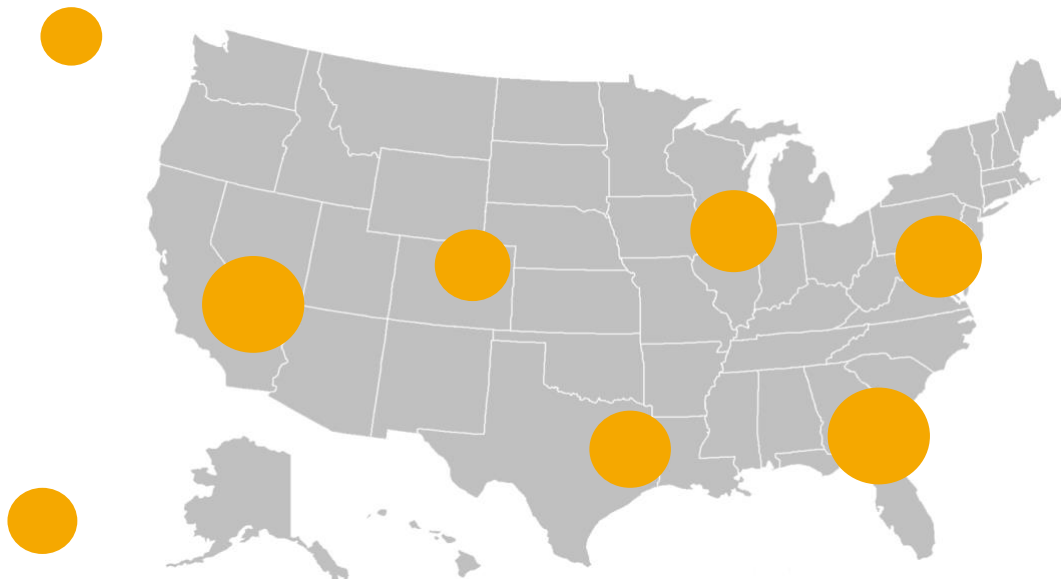
Pipelines are concentrated in the Pacific and Eastern regions. The south-eastern region has 567 developments in progress.

**US Rooms in Construction (in thousands) and % Change from Prior Year, Jan 2017- Oct 2023**



Source: STR

### Hotel Developments by Regions



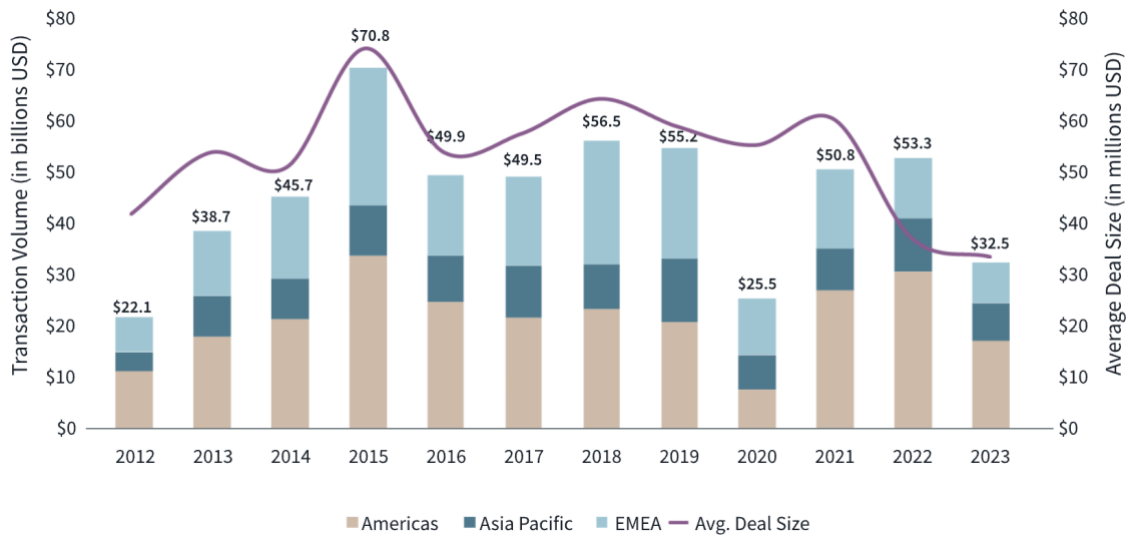
Source: STR, Top Hotel Projects 2024 Jan 10

### 3. Hotel Investment & Capital Market

#### Resilient Hotel Investment Trends Amid Global Challenges

By Regions:	By Chain-scale:
<ul style="list-style-type: none"> <li>Americas is still in the lead of transaction volume.</li> <li>Influenced by geopolitical unrest, EMEA had a decline in transaction volume of 27% in 2022. The hike in interest rate in 2023 gave more uncertainty to the market.</li> </ul>	<ul style="list-style-type: none"> <li>Significantly favoring luxury and select-service sectors.</li> <li>34% investment volume in the <b>select-service sector</b> in 2022. The smaller cheque-size of select-service transactions made the sector more accessible to low-leverage investors.</li> </ul>

#### YTD September Global Hotel Transaction Volume and Avg. Deal Size 2012-2023



Source: JLL

Affected by the high debt costs, there has been a decline in average deal size since 2022, stimulating a greater appetite for select-service hotels.





### 3.1. US Market Trends

#### Select-Service & Extended Stay Hotels represent 53% investment volume in Q3 2023

The Select-Service and Extended-Stay hotel investment volume has surged since 2021 and represents 52.5% of investment volume in Q3 2023. The increase in investments can be explained by the following reasons:

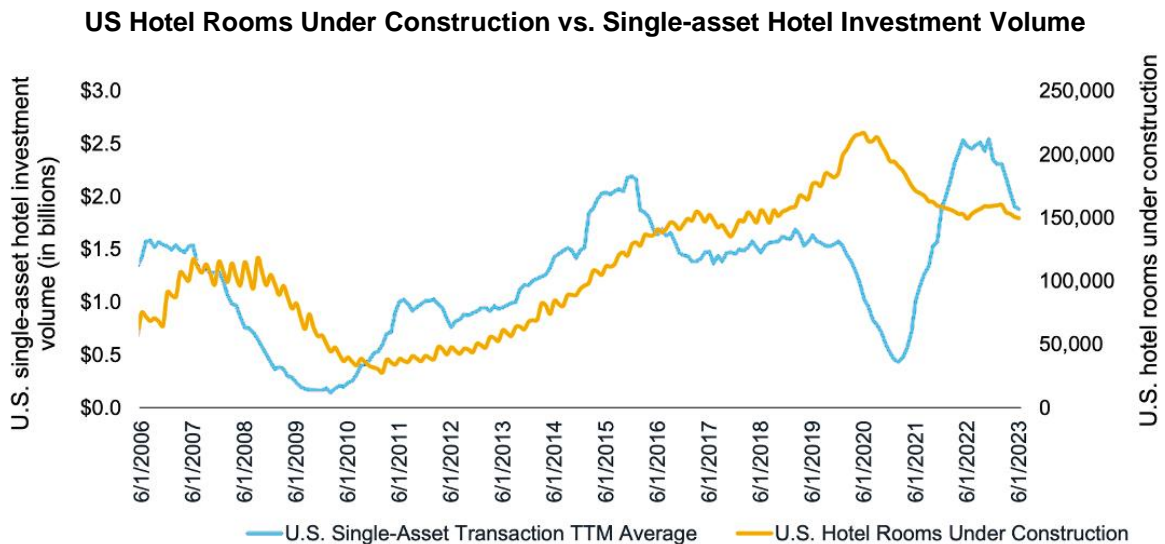
<p><b>1</b> <b>The cost-efficient operation model leads to a stable and attractive yield</b></p>	<p><b>2</b> <b>Attractive for lenders by lower cheque sizes</b></p>	<p><b>3</b> <b>Capitalized on the shift in consumer demands</b></p>
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With an average yield of 8.1%, these hotels outperformed other real estate sectors even in the economic downturn.

The capital market received challenges from regional banking in early 2023. The sector becomes more attractive to lenders for its lower cheque sizes and durable profit margins.

The sector adapts to changing consumer profiles of "Bleisure" travelers, relocation families, and remote workers, with its added amenities.

#### Higher US Market Transaction Volume than Construction



Source(s): JLL Research, STR, US Census Bureau.






Note(s): Includes all single-asset hotel transactions \$5M+ excluding casinos. TTM = trailing twelve months.

#### Investors prefer hotel acquisition than building a new one:

- The rise in interest rate (SOFR) squeezed the returns of building a new hotel
- The challenging financing environment to obtain a construction loan
- Extended construction duration of 1.5 times due to higher costs and labor scarcity

Source: JLL

### 3.2. US Hotel Capital Market Key Figures 2023

 <p><b>\$12.3 Bn</b> -37.6% YoY change YTD Single Asset Sale Transaction Over \$10 million (As of Dec. 20, 2023)</p>	 <p><b>323</b> Transactions totaled 50,219 rooms</p>  <p><b>\$246,000</b> Average sale price per room -2.8% YoY change</p>
 <p><b>8.0%</b> Average Hotel Cap Rate in Q3 2023</p>	 <p><b>8.4%</b> Average Hotel CMBS Loan Interest Rate in Q3 2023</p>

Source: LWHA 2023 Major U.S. Hotel Sales Survey, CoStar, CBRE

### 3.3. Investor Sentiments

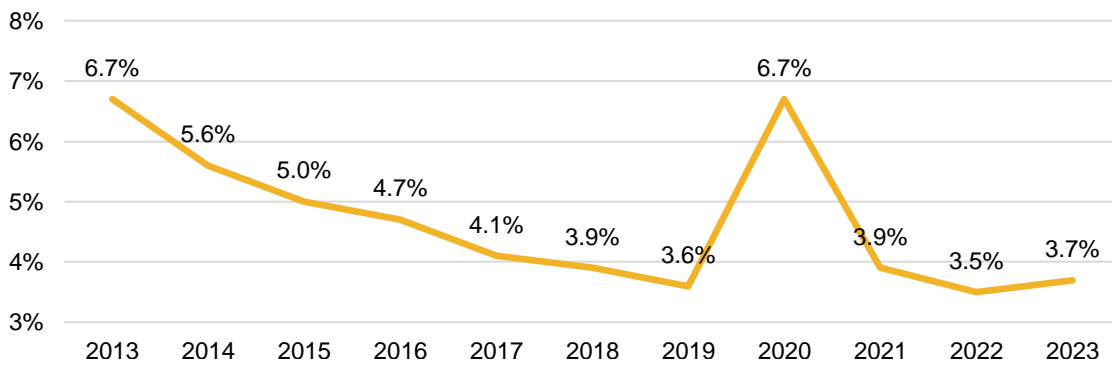
#### Volatile Capital Market in 2023

Rising interest rates and high inflation rate lead to:

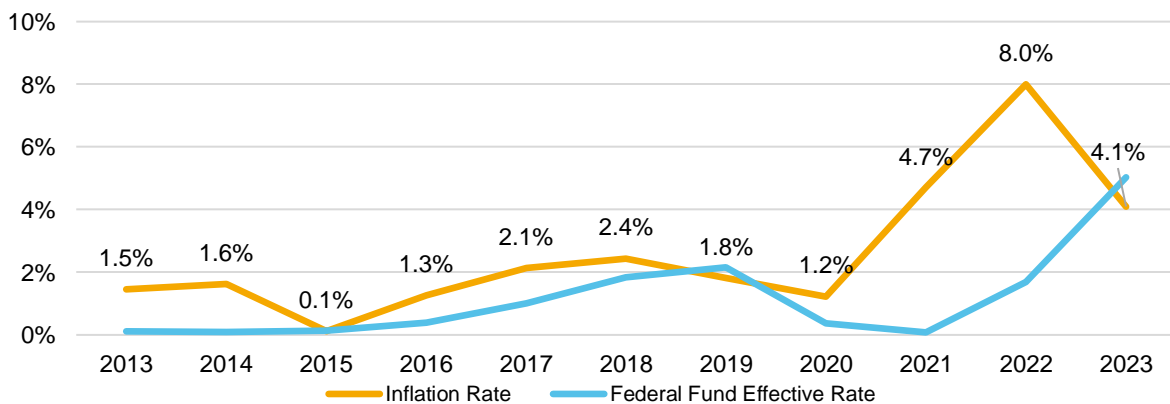
- Difficulty to price risks
- Higher probability of loan defaults
- Failure of small and mid-sized lenders, which account for 80% of commercial real estate lending

While at the same time, the unemployment rate is more stable after the pandemic, the hotel room rates are pushed up by inflation, and new hotel supplies are constrained.

**US Unemployment Rate**



**US Inflation Rate & Federal Fund Effective Rate**



Source: FRED

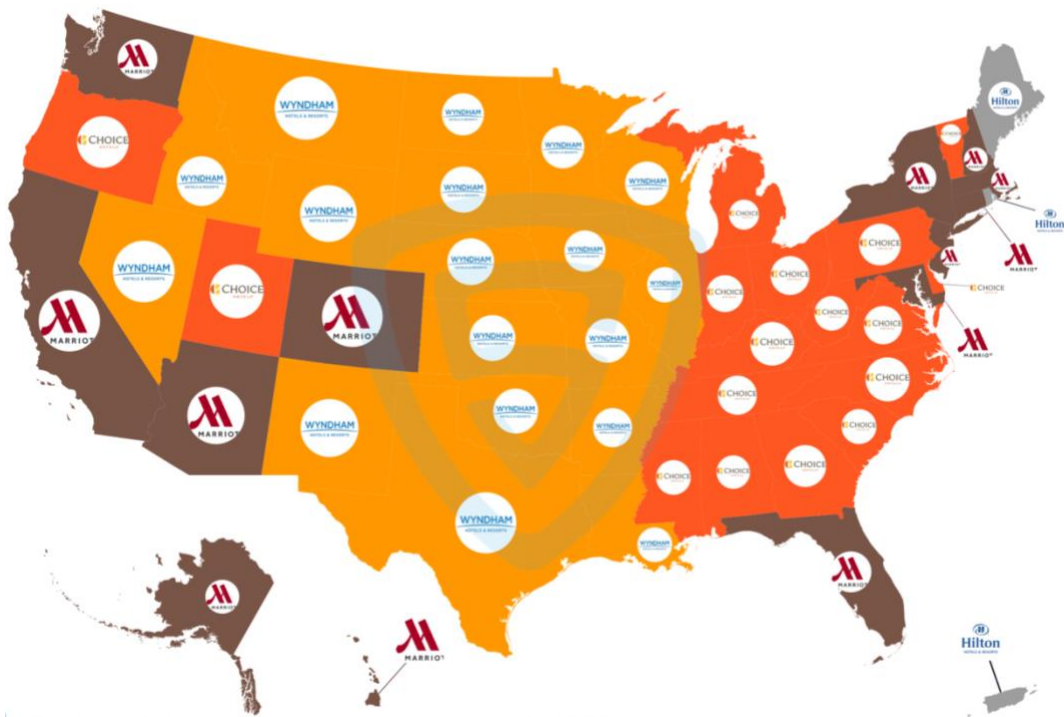
#### Expectations For the Next 12 Months

According to the JLL Global Hotel Investment Sentiment Survey issued in November 2023, while 39% of investors reported their cost of capital has increased by at least 250 bps since the start of 2023, they expect interest rates to either remain flat or decrease in the next 12 months. Investors expect to invest more capital in the next 12 months when the debt costs become stabilized.

### 3.4. Key Takeaways

- | 1   | 2  | 3   | 4  | 5   |
|---|--|---|--|---|
| Stabilizing RevPAR growth after pandemic. | Investors lean towards select service hotels and luxury assets in urban getaway cities and resort markets. | More transactions of small deals in hotel acquisitions with fewer new-built hotels. | Hotel cap rate responds more quickly to rising interest rates than other CRE assets, appealing to investors. | Disturbances in capital markets lead to difficulty in securing loans. |

Hotel Distribution in the U.S.



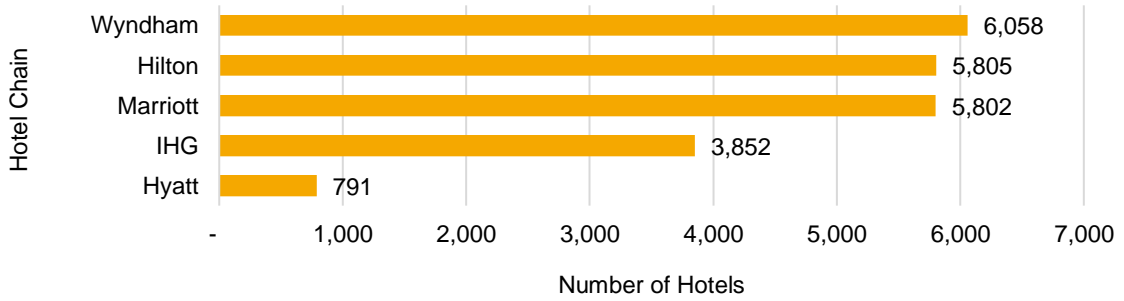
Source: ScrapeHero.com



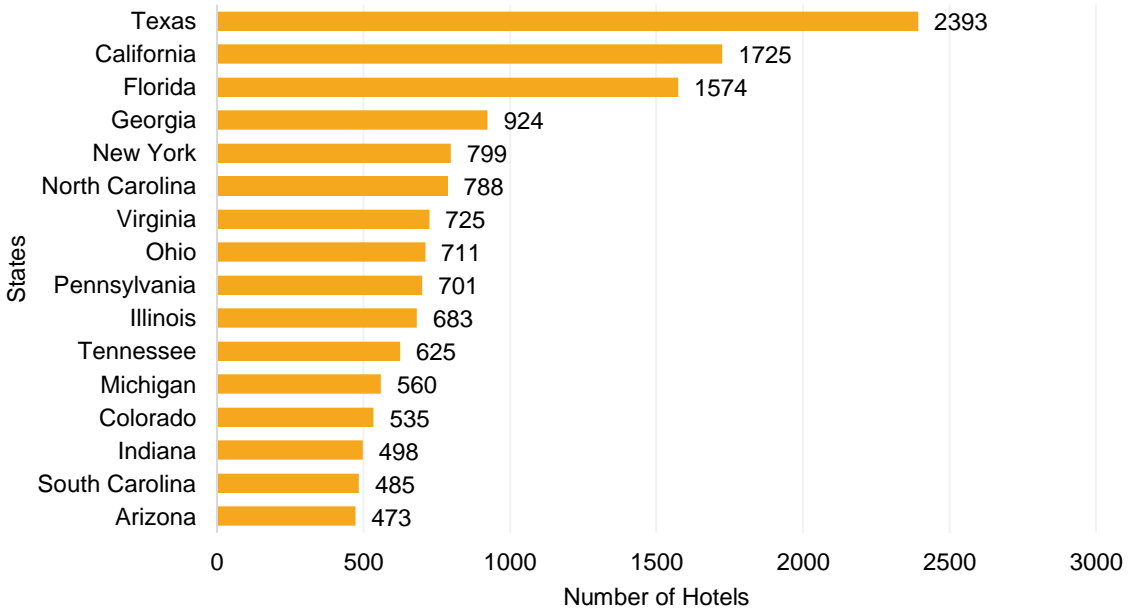
## 4. Key Players in United States

### 4.1. US Brand Presence

Wyndham leads the U.S. hotel brand footprint of the five brands, Texas tops the state hotel count



#### Top States with the Most Hotels



Brand	Top 3 States with Most Hotels			Top 3 Brand (Numbers of Locations) in the US		
<b>Wyndham Hotels</b>	Texas 699	California 375	Florida 314	Super 8 24.2%	Days Inn 22.3%	La Quinta 14.7%
<b>Marriott</b>	Texas 612	California 565	Florida 524	Fairfield Inn 19.2%	Courtyard 19.0%	Residence Inn 15.3%
<b>Hilton</b>	Texas 571	Florida 486	California 442	Hampton 43.5%	Hilton Garden Inn 13.6%	Homewood Suites 9.4%
<b>IHG</b>	Texas 489	Florida 263	California 246	Holiday Inn Express 56.7%	Holiday Inn & Suites 14.5%	Candlewood Suites 7.2%
<b>Hyatt</b>	California 110	Texas 78	Florida 67	Hyatt Place 45.1%	Hyatt House 14.1%	Hyatt Regency 13.6%

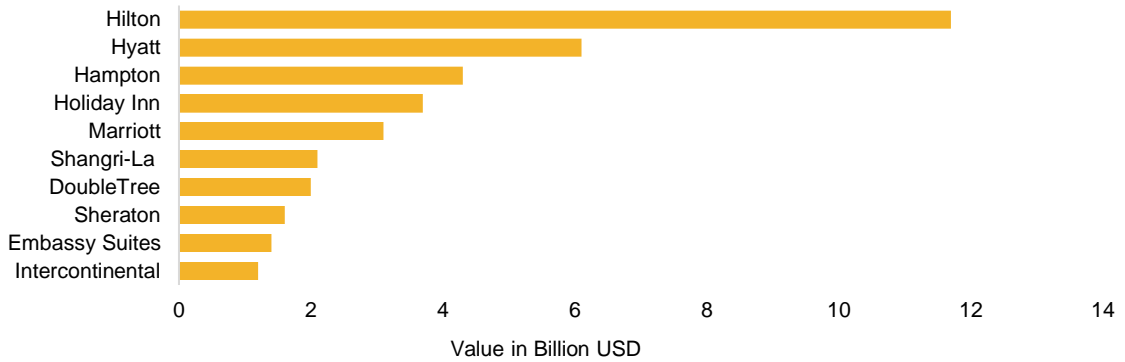
Source: ScrapeHero.com



## 4.2. Most Valuable Brands

Hilton secures the spot for the most valuable brand worldwide at 11.7B

Hotel Brands Worldwide 2023, by Brand Value



The top 3 fastest growing brands in 2023 are Le Meridien, Autograph, and Kimpton, and the top 3 strongest brands in 2023 are Conrad, Autograph, and Le Meridien.



## 5. Keys to a Successful Hotel Site

### 5.1. Attributes of a Successful Site

The Key to a Successful Site is Location



#### Favorable Economic and Demographic Data

- Positive Population Growth
- Young Median Age
- Growth in Median Household Income & Property Value
- Decrease in Unemployment Rate & Employment Industries that indicate economic development



#### Proximity to Demand Generators and Future Developments

- Events & Conferences venues,
  - Attractions & Recreations,
  - Office Buildings & Corporate Offices,
  - Medical Centers,
  - Retail,
  - Restaurants & Bars
- Walkability & Distance to Site*



#### Accessibility & Visibility

- Air Connectivity – Domestic & International
- Regional Highway Access
- Road access in front of the hotel (one direction or two ways)
- Landscaping Design
- Obstruction Free View



#### Regulations

- Property taxes
  - Historical Preservation
  - Zoning per county
  - Parking & Traffic
  - Setback & Height
- And more... different in each state & county*



#### Land & Environment

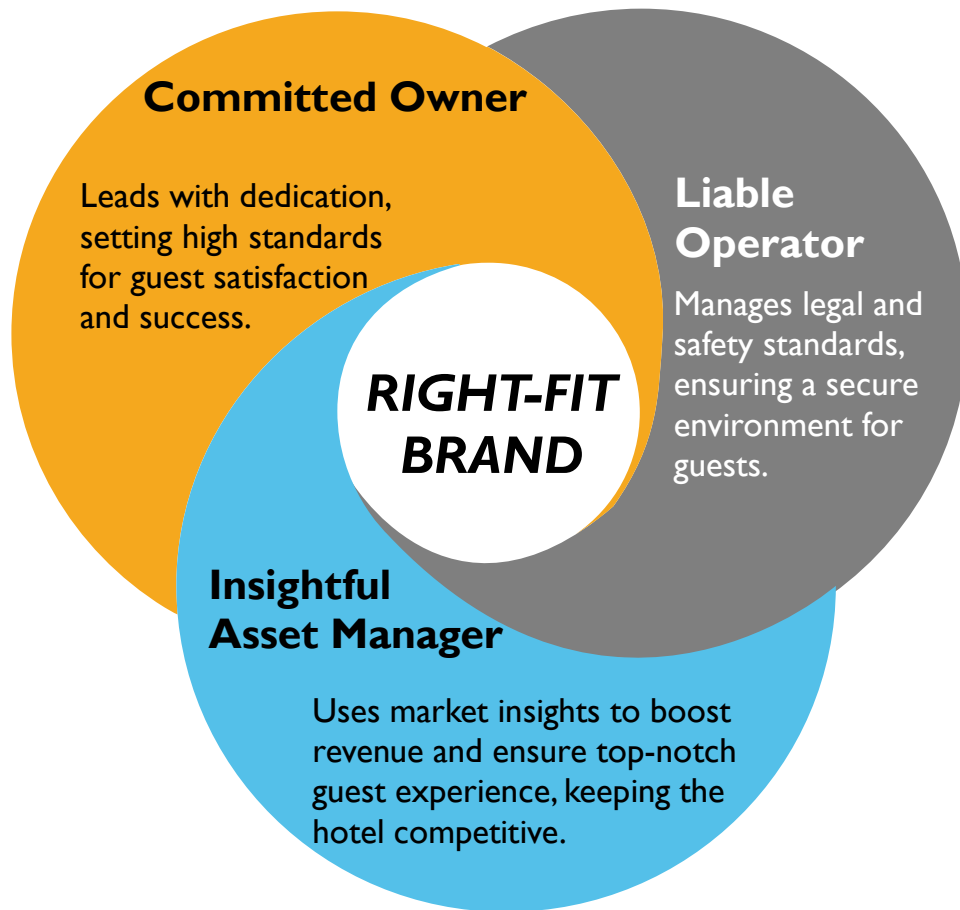
- Land Condition & Usability
- Topography – slope, elevation change
- Time and construction costs
- Soil/flooding
- Land contamination
- Noise pollution & air quality



#### Market Condition

- Positive market growth
- Barrier of entrance
- Potential supplies in the market

## 5.2. Key Factors for Hotels Operating Success



### Right-fit Brand

A Right-fit Brand aligns with its audience, meets market expectations, and maintains a unique reputation, boosting loyalty and satisfaction.

Committed Owner	Liable Operator	Insightful Asset Manager
Leads the hotel with dedication to high standards, exemplifying commitment to guest satisfaction and operational excellence.	Oversees operations for efficiency, promoting a culture that values employees and guests, ensuring streamlined processes and satisfaction.	Analyzes market and financial data to optimize revenue, enhance guest experiences, and ensure hotel competitiveness.

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At Horwath HTL, our focus is one hundred percent on hotel, tourism and leisure consulting. Our services cover every aspect of hotel real estate, tourism and leisure development.

Our clients choose us because we have earned a reputation for impartial advice that will often mean the difference between failure and success. Each project we help is different, so we need all of the experience we have gained over our 100-year history.

We are a global brand with 52 offices in 38 countries, who have successfully carried out over 40,000 assignments for private and public clients. We are part of the Crowe Global network, a top 10 accounting and financial services network. We are the number one choice for companies and financial institutions looking to invest and develop in the industry.

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