Global data shows hot and cold spots

October 8 2013

There are plenty of good things going on in the worldwide hotel industry, but they won't last forever, said presenters at ISHC's annual conference.

Highlights

- During the last 25 years, room revenues at U.S. hotels have grown 203.1%.
- Room demand in Europe surpassed demand in the U.S. in August for the first time since October 2010.
- Indonesia, Malaysia and Thailand have been hot spots in Asia during 2013.

By Jeff Higley
Editorial Director
jeff@hotelnewsnow.com

PANAMA CITY—Hotel data shows mostly positive news with some pockets of pessimism, based on recent performance metrics.

Randy Smith, CEO and founder of STR, parent company of Hotel News Now, and Elizabeth Winkle, managing director of STR Global, sister company of HNN, took attendees of the 2013 International Society of Hospitality Consultants annual conference around the world in 80 minutes on Saturday. The final verdict from the "Set your compass—global performance update" discussion remains in flux, but in general, optimism was the rule of the day.

The United States

"This is clearly the picture of a healthy industry," Smith said. "Overall, the U.S. hotel industry is doing about as well as it can be at this point."

Smith compared current data points with where they stood 25 years ago, the time of ISHC's inception. Key performance points include: a 46.6% increase in the number of hotels; a 55.5% rise in the number of guestrooms; a 46.9% jump in the number of rooms sold; and a 203.1% leap in room revenues.

Smith also described the importance of using seasonally adjusted data because all data from the U.S. government, including the unemployment rate, is presented that way.

Smith's data showed 45 consecutive months of demand growth for the U.S. hotel industry, a trend he said will end sooner than later. During the rebound from bottom of the recession in 2009, demand growth has achieved a compounded annual growth rate of 4.3%, which far outpaces the 10-year CAGR of 1.3%, he said.

"Between now and end of this year room demand will shrink some, but that doesn't mean the party's over," Smith said, projecting that in 15 to 18 months, supply growth will outpace demand growth for the first time since July 2010.

Smith said the chain-scale segments tell a good overall story, but there are some concerns.

"We've got growth across the board but it's not as even as we would like to see," he said. "The rebound has been pretty much at the upper end of the industry. When you have major segments

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with occupancy in the mid 50s you've got some issues."

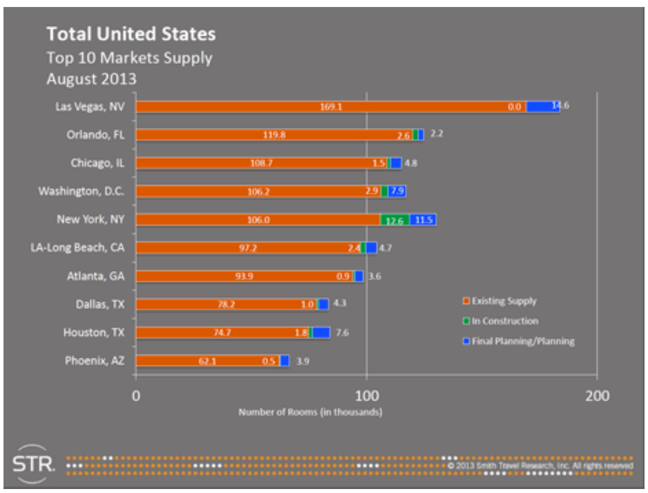
Year-to-date real occupancy rates through August for the midscale and economy segments stood at 57.5% and 56.5%, respectively.

Smith called the current status of group business "about as weak as it's ever been." He said shorter meetings, fewer attendees and not as much spending from attendees have added up to problems for group-oriented hotels.

"We're starting to get a little more concerned that this might be a fundamental shift in the overall industry," Smith said, pointing to data that showed 4.9 million fewer group rooms were sold than during the peak in 2007, on a 12-month moving average basis through August. "Our industry is starting to rethink the group business and how we approach it."

Through August, the average room rate for transient business was $176, while the average room rate for group business was $155.

Smith also pointed to a construction pipeline that will provide some subtle shifts in the order of the top markets, based on the number of hotel rooms. With 12,600 rooms under construction, New York is poised to become the second-largest hotel market in the U.S. behind Las Vegas. Orlando, Florida, will drop to third, while Washington, D.C., will remain fourth and Chicago will fall one spot to fifth.



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Smith said he is optimistic about the future of the hotel industry, but he is wary of things outside of its control.

"The big issue is the unexpected event. That's the one thing you can't plan for … but it's going to happen," he said.

On the global front
Meanwhile, Winkle said there are major challenges for hotels around the globe, most of them in relation to economics and geo-political activity.

Winkle pointed to data that showed hotel demand in the BRIC countries—Brazil, Russia, India and China—reached peak by growing 19.7% in October 2010. Meanwhile, the G7 countries' peak came in February 2011 when demand increased 7.4%. As of July 2013, the demand growth rates were 2% and 2.5%, respectively.

Demand growth in the U.S. and Europe tends to grow in tandem during stable times but becomes skewed when major events occur, Winkle said. Demand growth in the U.S. has slightly outpaced Europe since October 2010. However, in August, Europe's demand

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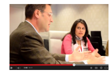
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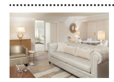
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growth (2.6%) outperformed that of the U.S. (2.4%) for the first time since October 2010.

European demand is predominantly a result of pan-European travel, according to the STR Global data.

"In the last eight or nine months we've seen demand pick up and are now at 2.6% on a rolling 12 (month) basis, while (average daily rate) is up 1.7%," Winkle said. "We're selling more rooms to more people at a lower rate. Travelers in Europe are very cost conscious.

"You now have exceptional demand. The question is whether (the industry) can capitalize on that demand," she continued.

Winkle said there were 99 million roomnights sold in Europe during August, the most since STR, STR Global's parent company, began tracking data.

Winkle said one of the issues for Europe is the euro has stymied the hotel industry's ability to grow ADR because of the lack of favorable exchange rates. Year-to-August ADR growth for the eurozone—those countries that use the euro—was 1.6%, while for non-eurozone countries, the growth rate was 3.9%.

Copenhagen, Denmark; Dublin; and Lisbon, Portugal have experienced growth in occupancy and rate (in local currency). Each of those cities experienced growth of at least 3% in both categories.

Meanwhile, the Asia/Pacific region has run into some speed bumps: Year-to-date through August occupancy was down 0.7%; rate decreased by 2.6%; and RevPAR declined 3.2%.

However, there are pockets of outstanding performance, including Indonesia, Malaysia and Thailand, Winkle said.

"Phuket (Thailand), Kuala Lumpur (Malaysia), Jakarta (Indonesia) and Bangkok have experienced RevPAR growth over last year (in U.S. dollars)," Winkle said.

Winkle said there are many opportunities for hotel developers in Africa, as evidenced by the limited supply there. Fourteen countries on the continent have no branded hotel supply, while six others have one African brand represented.

"The hotels that do exist in these markets are benefitting from the laws of supply and demand," Winkle said.

There continues to be supply growth around the world, Winkle said. Countries with the most new properties opened during the past five years were: Untied States, China, United Kingdom, India, United Arab Emirates, Germany, Indonesia, Canada, Thailand and Mexico.

The top markets for new opens during the past five years include east China (excluding Hangzhou), south central China regional, western China, Shanghai, Beijing, Dubai, northeast China, New York, Indonesia (excluding Bali) and greater London.

Brands with the most new rooms opened outside of the United States during the past five years were: JinJiang Inns, Home Inn, Super 8, Ibis, Sheraton, Crowne Plaza, Holiday Inn, Holiday Inn Express, Radisson Blu and Ramada.

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the chart is pretty interesting. i've never seen it before. good data to think about.

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