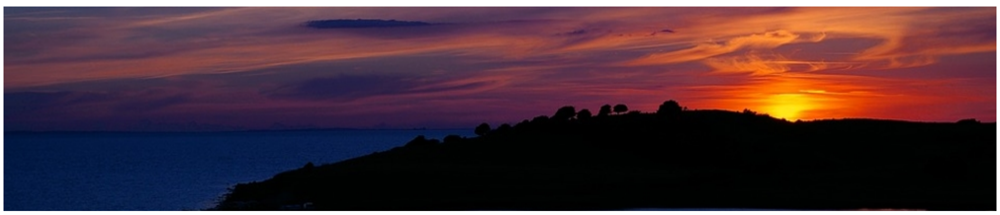
HVS

# 2019 United States Hotel Industry Outlook

*December 20, 2018* / *By Rod Clough*

We live in interesting times. Each day, we cannot be sure which way the stock market will swing, with its volatile nature and seemingly knee-jerk reactions to the trade and policy headline of the day. If the stock market serves as a leading indicator of times to come, the economy in 2019 is likely to slow in comparison to the one to which we've become accustomed. Despite this trajectory, other factors still signal that the hotel industry isn't likely falling off a cliff anytime soon.



According to Goldman Sachs, business owners still expect to increase investments into their businesses by 4% in 2019. This will likely prompt continued hiring, and we should see largely positive gains in national employment overall, at least through the first two quarters of 2019. Hiring, while likely to be on the upward trajectory for much of 2019, is anticipated to continue to cool off, not posting the levels of job gains realized during much of 2018. While the Fed sees "full employment" at a 4.5% unemployment rate, our current trajectory may take us as low as 3.0%, which is good for the hotel market in 2019. The latest *Wall Street Journal* economists survey reflected GDP growth slowing by 0.7 of a point in 2019, but ultimately remaining above 2.0%. Therefore, despite the current stock market volatility and expected hiring and GDP wane, demand related to hiring, training, and relocation should remain steady through much of the year.

Larger corporations may start to brace themselves for a downturn, however minor, that they perceive may occur in the 2020–2022 timeframe. Accordingly, these entities may curtail (not eliminate) travel and event spending this year in order to bolster their balance sheets. This may start to take a greater effect in the latter half of the year, when hiring activity may pull back the most. Once you layer in the continued flow of new supply, hotel occupancy on a national level will start to trend slightly downward after a long upward trajectory for so many years. Most of my consultant team expects a slight tick down in occupancy in 2019.

> **National hotel occupancy, which will likely land between 66.2% and 66.4% by year-end 2018, is anticipated to drop to between 65.5% and 66.0% in 2019 (about a half-point decline), per the majority of HVS consultants surveyed.**
>
> **Average rate, which is likely to reach roughly $130 in 2018, is anticipated to move to approximately $133 by year-end 2019, reflecting an increase of 2.3%. Most HVS consultants expect ADR to increase between 2.0% and 2.5%.**

The home-buying spree experienced in many markets leading up to 2018 is in a cooling-off phase. Rising interest rates, heady loan approval requirements, and high home prices have certainly applied the brakes to this part of the economy, which is likely allowing the Fed to sleep a little more soundly these days. If families haven't depleted their savings on a down payment for a recent home purchase or to keep up with a newly high mortgage payment, maybe they can still opt for a healthy family travel and vacation budget for 2019? We can

## Summary

We live in interesting times. Each day, we cannot be sure which way the stock market will swing, with its volatile nature and seemingly knee-jerk reactions to the trade and policy headline of the day.

Comments

## FILED UNDER CATEGORIES

Economic Trends and Cycles

North America | United States

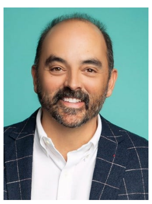
only hope.

Even though the Fed recently pulled back on such firm language that it will raise rates throughout 2019, it is hard to imagine that it won't continue to raise rates with unemployment at such lows, especially if inflationary pressures move well beyond the 2.0% sweet spot. The next increases are likely to occur in March and June, according to economists surveyed by the *Wall Street Journal* in December. This may keep some new construction in the hotel market at bay, which would ultimately strengthen the industry's occupancy/ADR balance. As long as equity yield requirements remain realistic, we are expecting a healthy flow of refinancing activity in 2019 despite modestly higher interest rates.

Our **Brokerage** division sees this as an opportune time to sell off one or two (or more) hotels within a portfolio that may ultimately help a hotel owner to shore up its balance sheet and prepare for the years beyond 2019. What better time to do it than now, when P&L statements are likely to show a healthy view of performance. Make sure to call on us if you are interested in a BOV from this capable team.

Finally, it's important to remember that each submarket across the U.S. is different, and national trends and expectations may not fit perfectly into a localized view. Always be sure contact one of our market experts to get the latest boots-on-the-ground view; nothing beats intimate knowledge of a hotel market, and no one can provide that better than HVS. If you aren't sure who to call, **call or email me**, and I will connect you with the best expert to help you.


### About Rod Clough



As President of HVS Americas, Rod oversees strategy execution for HVS throughout its 40 Americas locations. Rod's tenure with HVS spans over 25 years, during which time he has played an important role in growing the company from a few locations across the Americas to 40. In a typical year, Rod's group consults on over 2,500 existing or proposed hotels and resorts, and in 2021, he oversaw the 568-hotel Extended Stay America appraisal portfolio. In 2003, Rod founded the firm's sister appraisal division, U.S. Hotel Appraisals, which completes roughly 1,000 hotel appraisals annually. Rod is a founding owner/partner of HVS Mexico-Latin America, and he re-launched the firm's U.S. Brokerage and Capital Markets division in 2018. Rod is a Designated Member of the Appraisal Institute (MAI) and a licensed real estate broker. Furthermore, Rod is proudly Latino and gay, and his firm is welcoming of all races and colors, sexual orientations, ages, genders, and gender identities. Once associates join HVS, they tend to stay due to the extraordinary culture Rod has inspired, a culture defined by the ideals of balance, connectivity, efficiency, collaboration, honesty, integrity, kindness, and excellence, among others. Rod resides in northern Colorado where he and his husband Jeff are raising their daughter, Rory.