# Hospitality Directions US

## Our updated lodging outlook

May 2022

### Strength in average daily rate now expected to drive 2022 RevPAR above 2019 levels

Despite an initial pull back in the recovery timeline caused by a surge in infections from a new omicron variant of the COVID-19 virus in December and January, continued improvement in top line metrics for US hotels is expected for the remainder of this year and next.  While leisure travel continued to drive much of lodging's demand in Q1, individual business travel and group business has started to emerge as we head into the warmer months. Strong leisure business is expected to cause demand compression over the summer, driving room rates and resultant RevPAR levels to new highs.  If tensions ease in Ukraine, and immunity levels continue to increase domestically, a stronger Q4 driven by a resurgence in business transient and group demand is expected.  We expect annual occupancy for US hotels this year to improve slightly from our November 2021 outlook, increasing to 63.1 percent.  As in our last outlook, the big story remains room rates.  Average daily room rates surpassed comparable 2019 levels in every month of Q3 and Q4 last year, and in February, March and April this year (January missed by $0.28).   RevPAR in March and April exceeded comparable 2019 levels, and this is expected to continue through the forecast period. We now expect average daily room rates to increase 16.9 percent for the year, with resultant RevPAR up 28.1 percent - - approximately 106 percent of pre-pandemic levels, on a nominal dollar basis.

With slowing vaccinations rates (66 percent of the US population was fully vaccinated as of May 17, 2022, according to the Mayo Clinic) and new variants continuing to infect, coupled with volatility in the financial markets and geopolitical stress resulting from Russia's invasion of Ukraine, lodging's recovery could still be bumpy this year.

In 2023, we expect demand growth from individual business travelers and groups to more than offset a potential softening in leisure demand (as international leisure travel continues to recover and people who took vacations domestically over the past two years, venture abroad). Growth in both occupancy and ADR is expected, with a year-over-year rebound in RevPAR of 6.6 percent - - approximately 114 percent of pre-pandemic levels.

Challenges to this outlook include the ongoing conflict in Ukraine, potential impact of the Fed's increases in interest rates on the US economy, and any new variants of the virus.

**Our revised outlook for 2022 anticipates**

Continued demand recovery, as the individual business traveler and groups slowly return, resulting in **occupancy** of

**63.1%**

**Average daily rate** continues to strengthen as all segments of demand see growth accelerate - up

**16.9%**

As a result, **RevPAR** experiences strong growth - up

**28.1%**

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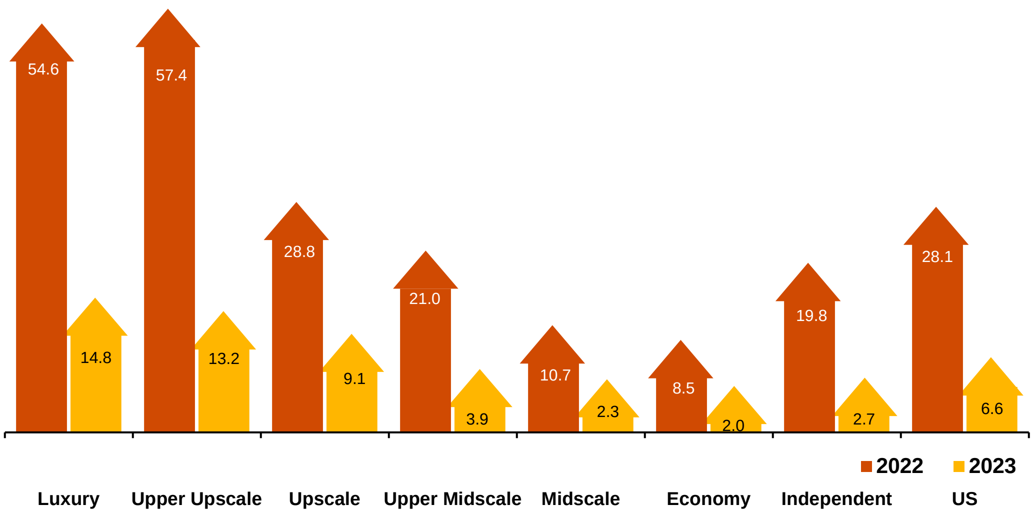
## Figure 1: RevPAR percent change, US and chain scales

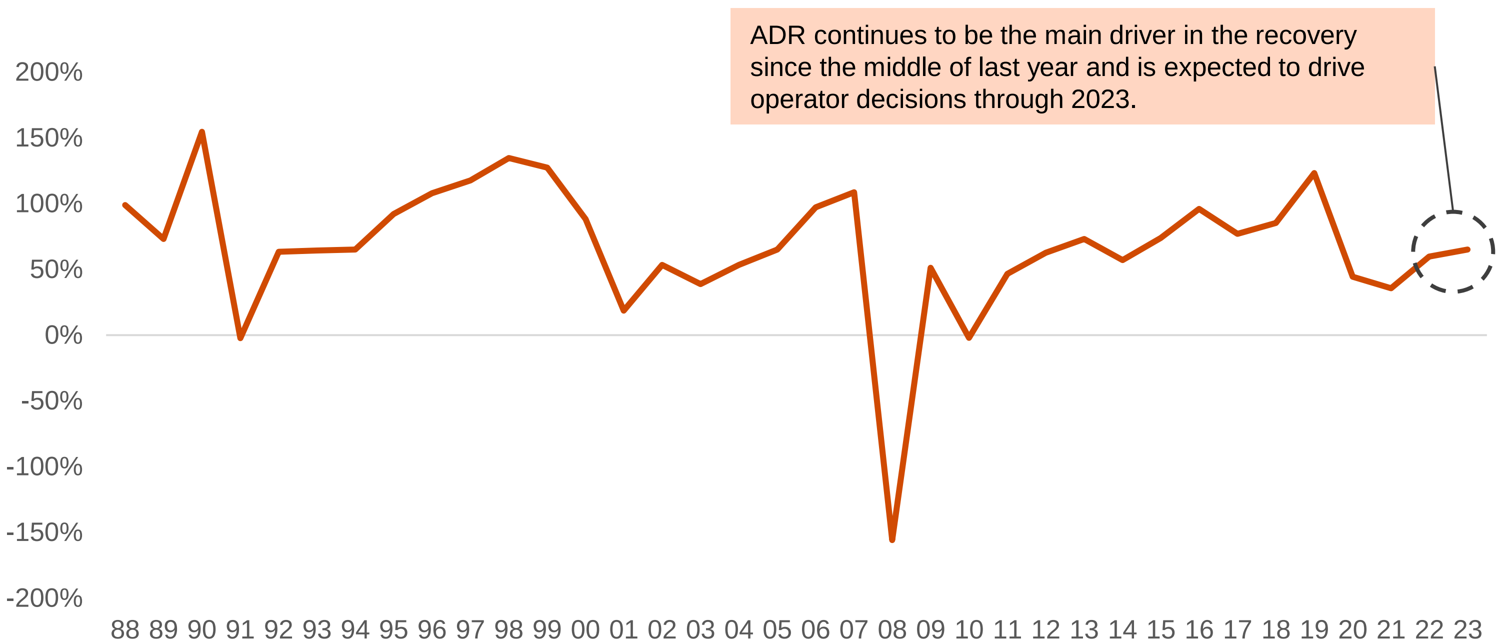



Source: PwC, based on STR data

***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 change in RevPAR




Source: PwC, based on STR data

## Interest rates, supply chain, and Ukraine conflict challenge US economy

The Fed's increases in interest rates, continued supply chain disruptions with additional COVID-related shutdowns of China's manufacturing, labor shortages, and global uncertainty surrounding Russia's invasion of Ukraine are resulting in a worsening short-term outlook for the US economy. IHS Markit estimates that GDP contracted 1.4% in the first quarter of 2022 and expects an annualized increase of 2.4% both this year and next. According to IHS Markit, this expectation is largely attributed to the unexpectedly sharp Q1 2022 contraction in GDP and the weakening of demand entering the second quarter suggested by recent data.

April unemployment for the hotel sector increased to 5.2% (from 4.0% in March), compared to the US overall rate remaining unchanged at 3.6% (3.6% in March).

Source: IHS Markit (forecast released May 2022); Bureau of Labor Statistics (May 6, 2022); PwC

IHS Markit expects the unemployment rate to average 3.6% this year and 4.0% next year, as certain sectors, like hotels and airlines, try hard to add back previously shed jobs.

Over the last month, financial conditions have tightened sharply. Treasury term yields have risen, as have the spreads to corporate bond yields and mortgage rates. The dollar has appreciated on a trade-weighted basis to the highest level in two years. Equity prices have slumped to their lowest level in a year, and measures of financial volatility have increased.

## Table 1: US outlook (May 23, 2022)

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Demand growth | 2.1% | 4.0% | 2.4% | 1.1% | 2.5% | 2.2% | 1.6% | -36.2% | 38.0% | 12.1% | 3.0% |
| Supply growth | 0.8% | 0.6% | 0.9% | 1.0% | 1.9% | 1.8% | 1.8% | -4.2% | 5.3% | 2.2% | 0.7% |
| Room starts, % change | 26.6% | 35.4% | 14.7% | 14.5% | -4.6% | 5.6% | -6.3% | -53.3% | -8.5% | 38.7% | 21.7% |
| Occupancy | 62.2% | 64.3% | 65.3% | 65.4% | 65.8% | 66.1% | 65.9% | 43.9% | 57.6% | 63.1% | 64.5% |
| % change | 1.3% | 3.4% | 1.5% | 0.1% | 0.7% | 0.4% | -0.2% | -33.4% | 31.1% | 9.7% | 2.2% |
| Average daily rate | $109.59 | $114.75 | $119.98 | $123.66 | $126.46 | $129.64 | $131.07 | $103.38 | $124.83 | $145.87 | $152.19 |
| % change | 3.8% | 4.7% | 4.6% | 3.1% | 2.3% | 2.5% | 1.1% | -21.1% | 20.7% | 16.9% | 4.3% |
| RevPAR | $68.16 | $73.78 | $78.33 | $80.82 | $83.20 | $85.65 | $86.42 | $45.41 | $71.86 | $92.08 | $98.20 |
| % change | 5.2% | 8.2% | 6.2% | 3.2% | 2.9% | 2.9% | 0.9% | -47.5% | 58.3% | 28.1% | 6.6% |
| GDP, % change Q4/Q4 | 2.5% | 2.6% | 1.9% | 2.0% | 2.7% | 2.3% | 2.6% | -2.3% | 5.5% | 1.3% | 2.4% |
| Inflation, % change | 1.4% | 1.5% | 0.2% | 1.0% | 1.8% | 2.1% | 1.5% | 1.2% | 3.9% | 5.4% | 2.5% |

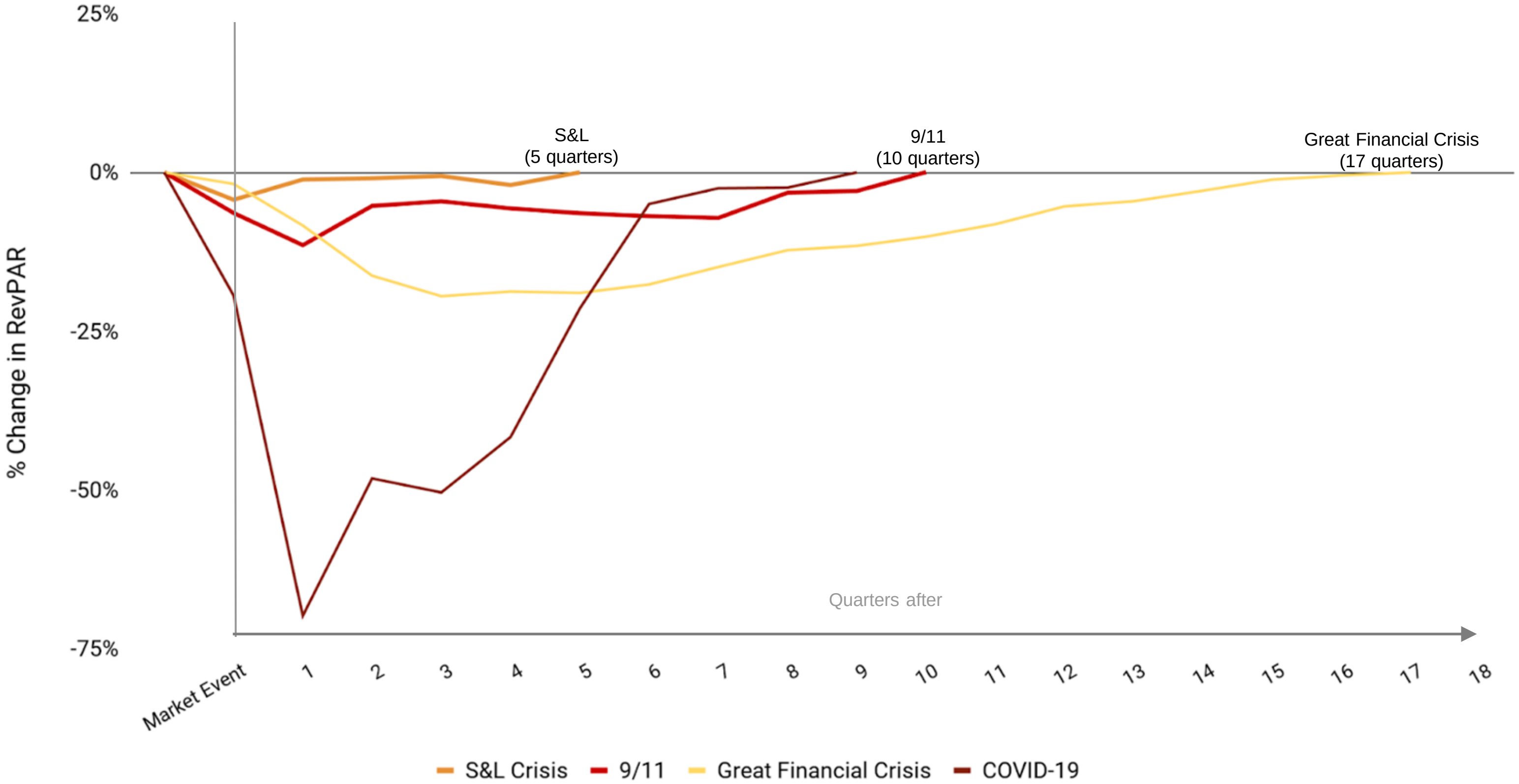
Source: STR; Bureau of Economic Analysis; IHS-Markit (forecast released May 2022); MHC Construction Analysis System; PwC

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

| | 2022 | | | | | 2023 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Chain scale** | **Demand** | **Supply** | **Occupancy** | **ADR** | **RevPAR** | **Demand** | **Supply** | **Occupancy** | **ADR** | **RevPAR** |
| Luxury | 45.0 | 5.1 | 38.0 | 12.0 | 54.6 | 10.6 | 0.6 | 10.0 | 4.4 | 14.8 |
| Upper upscale | 35.4 | 5.0 | 29.0 | 22.0 | 57.4 | 8.1 | 0.1 | 8.0 | 4.8 | 13.2 |
| Upscale | 17.1 | 4.6 | 12.0 | 15.0 | 28.8 | 4.9 | 0.2 | 4.6 | 4.3 | 9.1 |
| Upper midscale | 12.9 | 3.5 | 9.0 | 11.0 | 21.0 | 3.0 | 2.9 | 0.1 | 3.8 | 3.9 |
| Midscale | 2.9 | 0.4 | 2.5 | 8.0 | 10.7 | 0.9 | 0.7 | 0.2 | 2.1 | 2.3 |
| Economy | (0.5) | (1.5) | 1.0 | 7.4 | 8.5 | (0.8) | (0.6) | (0.2) | 2.2 | 2.0 |
| Independent hotels | 7.2 | 0.9 | 6.2 | 12.8 | 19.8 | 1.0 | 0.2 | 0.8 | 1.9 | 2.7 |
| **US total** | **12.1** | **2.2** | **9.7** | **16.9** | **28.1** | **3.0** | **0.7** | **2.2** | **4.3** | **6.6** |

Source: PwC, based on STR data

## Figure 3: Year-over-year RevPAR change after market event




| | S&L Crisis | 9/11 | Great Financial Crisis |
|---|---|---|---|
| **Market Event / Month** | S&L Crisis / Gulf War (Aug.1990) | Terrorist Attacks (Sep. 2001) | Lehman Bankruptcy (Sep. 2008) |
| **Economic Conditions** | ●Decelerating GDP growth<br>●Recession<br>●Peaking savings and loan crisis | ●Bursting of dot-com bubble<br>●Decelerating GDP growth<br>●Recession | ●Decelerating GDP growth<br>●Recession<br>●Historically low CRE risk premium<br>●Ubiquity of CMBS |
| **Prior Lodging Industry Conditions** | ●Flat RevPAR prior to onset of the crisis<br>●"Non-economic" hotel development<br>●Significant lodging oversupply | ● RevPAR declines prior to the terrorist attacks<br>● Above-average quarterly supply growth | ● RevPAR declines prior to the onset of the financial crisis<br>●Frothy valuations<br>●Above-average quarterly supply growth<br>●Previously decelerating performance |
| **Recovery & Key Impact** | ● Five quarters to recover to pre-market event RevPAR levels<br>● Emergence of REITs, fundamentally changing the lodging landscape | ● 10 quarters to recover to pre-market event RevPAR levels<br>● Subsequent US intervention in Iraq significantly prolonged the recovery | ● 17 quarters to recover to pre-market event RevPAR levels<br>● Lenders amended and extended loans instead of foreclosing<br>●Accelerated pace of sector consolidation |

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To have a discussion about Hospitality Directions US, please contact:

**Scott D. Berman**
Principal and US Industry Leader, Hospitality & Leisure
scott.berman@pwc.com

**Warren Marr**
Managing Director, Hospitality & Leisure
warren.marr@pwc.com

**Abhishek Jain**
Director, Hospitality & Leisure
a.jain@pwc.com

Address all inquiries to: us_contact_hospitality@pwc.com

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**Definitions**

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.

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For more information about this publication, please contact Maridel Gutierrez at maridel.gonzalezgutierrez@pwc.com or email us at us_contact_hospitality@pwc.com.

PwC's National Economics & Statistics (NES) group carries out the statistical analysis and forecast modeling for Hospitality Directions US. A center of excellence, the NES group provides economic and statistical modeling and consulting for corporations, trade associations, coalitions, law firms, nonprofits, and government agencies. For more information, please contact Qiang Ma at qiang.ma@pwc.com, or visit www.pwc.com/us/nes.