Three Key Takeaways

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North America Hotel Investment Conference 2014

HVS

Hotel stakeholders shared a diversity of insights into U.S. hotel industry trends ranging from innovative brands to today's tech-savvy travelers. Overall, hotel performance is high, buoying optimism among hoteliers as the industry heads into 2015.

The 2014 North America Hotel Investment Conference (NATHIC), held November 19 through 21 in Chicago, brought together a strong showing of hotel owners, investors, brokers, consultants, franchisors, brand representatives, and students from Michigan State University, New York University, and DePaul University. Top U.S. hospitality executives served on panel discussions that addressed an array of topics related to hotel ownership, development, and management, as well as the recent proliferation of new hotel brands and the catalyzing impact of Millennials or "Generation C" on the industry. A sense of optimism echoed throughout the conference, supported by reports of continued hotel performance improvements in markets nationwide. Read on for some of highlights from NATHIC 2014.

New Brands

Established brands are plentiful in the current pipeline of new hotel supply, while new brands and brand concepts continue to emerge and gain traction. Many industry insiders—including keynote speaker Jack DeBoer, who originally conceived the Residence Inn, Summerfield Suites, Candlewood Suites, and Value Place lines of hotels and, most recently, the WaterWalk Apartments—believe that the limited availability of established brands brings about the creation of new ones. Some speakers, however, emphasized the connection between new brands and the focus on Millennials (the generation of people born in the 1980s or 1990s), particularly as these travelers tend to be aligned with brand concepts such as health and wellness and lifestyle hotels.

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The "soft brand" concept, currently represented by Marriott's Autograph Collection and the Curio – A Collection by Hilton, among others, will soon include a new competitor. Michael Palmeri, Senior Vice President of Acquisition and Development for Loews Hotels & Resorts, announced the company will be rolling out a new soft brand in the first quarter of 2015. These "soft brands" or collections of hotels offer travelers looking for cultural experiences in unique destinations the security of basic brand standards; they also offer owners the benefits of brand affiliation, especially distribution and reservation channels. Other supply trends noted at NATHIC included the growth of ground-up developments versus conversions and the increasing development of urban extended-stay properties.

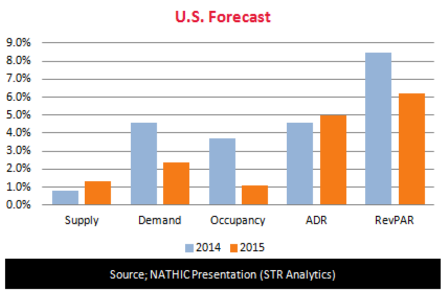
Although new brands, independent hotels, lifestyle concepts, and soft-branded hotels tend to target customers from specific segments, the number of emerging brands and concepts was on the minds of many attendees. During the panel on extended-stay hotels, Diane Mayer, Vice President & Global Brand Manager with Marriott International, stated that "as [the number of] brands proliferate, they get harder and harder to differentiate." Hence, while many new brands are emerging in the market, the lack of brand recognition can hinder their acceptance by customers, especially as, from the perspective of guests, discernible differences or advantages among the newer concepts are less evident when compared with those among existing brands.

Millennials and the Content Generation

The shear size, youth, and technological savvy of the Millennial generation makes it a key target demographic in today's hospitality market. Many NATHIC attendees and speakers recognized that no one brand is likely to corner the market on Millennials, which are composed of a great many physiographic segments. Still, even if brands targeting Millennials capture only a small, like-minded portion of the approximately 80 million members of the generation, this still presents a very substantial potential customer base.

Millennials represent a sort of paradox when it comes to what they want in a hotel. They have high expectations when it comes to lodging, but look for sleekness and simplicity in the experience as well. Millennials also favor innovative design at every price point, and they're tech-savvy yet value driven. The term Generation C (or the "Content Generation") was also used to capture the physiographic of customers at all ages who create and share content through YouTube, blogs, and other online avenues; the members of Generation C, which may extend even more widely than the Millennial generation, hone in intensely on hotel options that allow them to access and share content during their stay. No matter the term, the importance of offering exactly what the customer wants, without all the extras they don't want to pay for, is key.

Higher Spends, Longer Stays, and Limited New Supply Boost Optimism



Hotel performance so far into 2014 has exceeded expectations and will likely end on a high note, with all segments anticipated to exceed RevPAR levels in 2007 (the pre-recession peak) and 2013. Overall, occupancy for 2014 is projected to reach 64.6% and to surpass 65% in 2015; STR Analytics noted occupancy hasn't been so high since the 1990s. Average rates in 2015 are expected to experience all-time highs as well.

Increased consumer confidence, longer stays with higher spending per stay, and limited new supply have all contributed to increasing occupancy and strong average rate. As the Great Recession becomes a thing of the past, consumers are willing to pay a premium for additional amenities and convenience. There was also discussion of the linkage between these trends and the aforementioned tendencies among Millennials and Generation C. Many spoke to how today's consumers are extending their travel periods, most notably through an added Thursday or Sunday night to create an extended weekend. These longer traveling periods are becoming more prevalent in today's hotel industry, and it was also recognized that many customers are willing to spend more on each day of their trip.

Lodging Econometrics reported that the U.S. hotel industry entered the expansion phase of the lodging real estate cycle in 2014. However, supply growth is expected to be approximately 1.3% and 1.6% in 2014 and 2015, respectively, which is notably below the 20-year average of roughly 2.0%. Conversely, the exit of hotel rooms is also below the industry average, according to Lodging Econometrics. Year-to-date through October of 2014, approximately 19,500 rooms have left the supply report, with approximately 4,000 of those located in Atlantic City. The industry average of hotel rooms leaving the system is approximately 35,000 per year.

Outlook

NATHIC 2014 made it clear that the optimistic outlook for the next several years, especially 2015, is well deserved. The potential impact of new legislature, such as the Living Wage Law, along with the influx of new brands, is important to consider going forward. Overall, however, the fulcrum of the hospitality industry is on the upswing.

For more information, contact the authors McKenna Luke at (303) 704-2636 or mluke@hvs.com, or Meghan Bean at (734)-649-7221 or mbean@hvs.com.

Published by HVS Dallas | 2601 Sagebrush Drive, Suite 101, Flower Mound, TX 75028 & HVS Chicago | 205 West Randolph Street. Suite 1650, Chicago, IL 60606