

By [Jerod Byrd](#)

The Industry Statistical Update shows key economic metrics that relate to the hotel industry's recent performance and near-term forecast.

Occupancy levels across the U.S. remained generally stable through October 2019, while ADR registered a marginal increase of less than 1%. Research suggests that RevPAR will end 2019 below the 1% mark; this represents a further year-over-year deceleration in RevPAR, which has been the general trend since 2015. The continued entrance of new supply and the slowdown in job growth are the primary factors contributing to the recent trend. Supply is anticipated to continue to increase by nearly 2% in 2020, which will likely outpace demand growth. While RevPAR is projected to remain positive in 2020, the decelerating growth trend is expected to continue and drive fear among hoteliers in the near future.

In terms of economic growth, many analysts are predicting the second half of 2020 to be more challenging given the job growth deceleration, recent yield-curve indicators, and dip in consumer and business confidence. According to the BLS, job growth has averaged 167,000 per month thus far in 2019, compared with an average monthly gain of 223,000 in 2018. According to Bankrate.com, 41% of industry participants anticipate the next recession to occur by late 2020, while 55% expect a recession the following year. Nonetheless, despite an anticipated decline in GDP in the near term, the unemployment levels over the next couple years should remain healthy, as forecast, increasing only slightly above the current national rate of 3.5%.

From a profit perspective, expect a continued downward trend through 2020. While the lending appetite is still healthy for hotels, lenders for new construction are requiring more equity to move a project forward than in recent years. Equity yields and cap rates are anticipated to weaken slightly in the near term, particularly as employment growth continues to slow; however, the recent rate cut by the Fed in October should help buffer some of the negative effects of the imminent slowdown.

U.S. Market Performance & Forecast							
Year	Supply Change	Demand Change	Occupancy	Average Rate	% Change	RevPAR	% Change
2016	1.6%	1.7%	65.5%	\$123.97	3.1%	\$81.19	3.2%
2017	1.8	2.7	65.9	126.77	2.3	83.53	2.9
2018	2.0	2.5	66.2	129.83	2.4	85.96	2.9
Year-to-Date Through October							
2018	—	—	67.9%	\$130.89	—	\$88.79	—
2019	—	—	67.8	132.07	0.9%	89.50	0.8%
STR's Year-End Forecast							
2019	2.0%	1.8%	66.1%	\$131.13	1.0%	\$86.65	0.8%
2020	2.0	1.5	65.8	132.31	0.9	87.08	0.5

Source: STR

Economic Forecasts	
GDP Forecast (WSJ)	
2019	2.17%
2020	1.61
2021	1.85
Unemployment Rate (WSJ)	
Current Level	3.50%
December 2019	3.61
December 2020	3.89
December 2021	4.02
Next Recession? (Bankrate.com) % Chance	
By Next Election (Nov. 2020)	41%
2021	55

Source: Wall Street Journal & Bankrate.com



For more information, contact Jerod at (901) 481-3058, or jbyrd@hvs.com.

Average Hotel Yields (Hotel Sales and Brokers Survey)			
Class	Equity Yield	Discount Rate	Cap Rate
Hotel Sales From Q3 2019			
Full-Service & Luxury	16.4%	10.0%	6.4%
Select-Service & Ext. Stay	18.6	10.8	8.2
Limited-Service	19.5	11.4	8.5
Brokers Survey (Fall 2019)			
Full-Service	NR*	10.7%	7.6%
Luxury & Upper-Upscale	NR	9.6	7.1
Select-Service	NR	11.0	8.0
Limited-Service	NR	11.8	8.5

* Not Reported

Source: Source: HVS (Authored by Rod Clough, MAI)

U.S. Construction Pipeline (By Class)	
Class	% of Existing
Luxury	11.1%
Upper Upscale	4.6
Upscale	7.8
Upper Midscale	5.5
Midscale	3.2
Economy	0.4
Unaffiliated	1.3

Source: STR

Leading Extended-Stay Sales Price/Key: YTD Thru Oct. 2019		
Upscale Extended-Stay	# Sales	Avg. \$ Per Key
Homewood Suites by Hilton	11	\$177,665
Residence Inn by Marriott	41	\$150,382
Hyatt House	3	\$138,763
Staybridge Suites by IHG	3	\$72,519
Midscale Extended-Stay		
# Sales	Avg. \$ Per Key	
Home2 Suites by Hilton	8	\$121,482
TownePlace Suites by Marriott	22	\$97,722

Source: HVS (Authored by Jerod Byrd, MAI)

Current Conventional Lending Environment & Investor Yield Expectations				
Asset Type	Leverage	Interest Rate	Equity Yield	Total Property Yield
Trophy (Top 3%)	65 - 70 %	4.25 - 4.75%	10 - 14%	8.0 - 9.0%
High Quality	65 - 70	4.5 - 5.0	14 - 18	9.0 - 10.5
Strong Limited-Service	65 - 70	4.75 - 5.25	17 - 19	9.0 - 11.0
Average Quality	60 - 65	5.0 - 6.5	18 - 21	10.5 - 12.0
Lower Quality	55 - 60	5.5 - 6.5	19 - 25	12.0+

Source: HVS

Investment Opportunities

HVS Americas re-launched its Brokerage and Advisory division in 2018. HVS Brokerage in the Americas is seeking talented hotel brokers to join our team. Contact [Rod Clough, MAI](#) if you are interested.

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