

December 2023 Client Letter

As economists continue to move toward the view that a near-term recession has been averted (less than half of those surveyed in October by the Wall Street Journal expect a recession within twelve months, the lowest level since June 2022), they continue to grapple with conflicting data points. As is the case in any soft landing, positive macro-economic data points like 3Q-2023 GDP growth of 5.2% and positive October inflation data are often counter-balanced by negative economic data points like the ISM index remaining below 50 and October payrolls surprising to the downside. This leaves the broader economy in a situation of lackluster growth moving forward while averting a recession. It also will create economic concern as negative data points materialize, limiting corporate investment and consumer spending. In fact, business and consumer confidence levels are currently muted.

Additionally, U.S. and global economic expansions could be derailed by a possible U.S. government shutdown in early 2024, as well as an array of geopolitical risks such as the conflicts in the Middle East and Ukraine and enhanced tensions relative to China and Taiwan. Although our baseline premise assumes no near-term U.S. recession, Moody's Analytics outlook for economic growth is rather muted, with 4Q-2023 Real GDP increasing just 0.8% and both 2024 and 2025 increasing at just 1.7%.

Lack of confidence in the underlying national economy is likely to limit growth in hotel demand, especially across the corporate and group segments. In fact, following a 7.7% annualized increase in business investment in 2Q-2023, business investment declined by a 0.1% annualized rate in 3Q-2023.

While pockets of soft comparisons remain, the national lodging industry in general has moved past the period of pandemic-induced soft comparisons. As a result, 3Q-2023 RevPAR increased just 1.7%, with occupancy declining year-over-year for the second straight quarter, as improving corporate and group demand trends have not offset waning domestic leisure demand.

Moving forward, industry growth will be fueled by the corporate and group segments and offset by waning leisure demand. The corporate recovery will be somewhat dependent on return-to-office trends, which we expect to continue to gradually progress. Furthermore, group trends remain solid, helping generate a base level of demand that will further support pricing power. Nationally, we estimate that the convention center booking pace is up 3%

on a year-over-year basis in 2024, following the 18% increase in 2023.

Peering into 2024, there is little doubt that slowing economic growth will limit RevPAR growth. However, if 2022 was the year of the leisure segment recovery and 2023 has been the year of the group segment recovery, we expect 2024 to be the year when the corporate transient segment outperforms.

While we do not expect a full recovery of office utilization to 2019 levels, a continued increase in return-to-office mandates will spur corporate transient travel.

Our economic forecast from Moody's Analytics incorporates the following key national assumptions:

- The Fed will pause rate increases until reductions begin in mid-2024.
- Inflation will continue to moderate.
- U.S. GDP will increase 0.8% in 4Q-2023 and 1.7% in 2024.
- We assume a 2-week government shutdown in 1Q-2024.

With that backdrop, RevPAR growth will modestly improve in 4Q-2023, and then gradually slow through 2024. Overall, we expect U.S. RevPAR to be up 5.5% this year, followed by 3.6% in 2024. Should any of the above core macroeconomic assumptions meaningfully change, it could have a substantial impact on our U.S. lodging industry forecast.

We continue to expect there to be U.S. lodging markets that materially outperform as well as those that underperform national averages. Generally, we expect markets with outsized exposure to corporate transient demand and international inbound arrivals will be the outperformers, while markets with the greatest exposure to domestic leisure demand and those underperforming from a group pace perspective will be the laggards.

Furthermore, we anticipate hotel capitalization rates to stabilize, financing costs to moderate and transaction volumes to rebound. Expense pressures will become a substantial factor in identifying markets that are winners and those that are losers. While rising labor cost pressures are easing, wage and expense growth and their strain on margin growth materially shapes our views on markets that are best and worst for investment today.

Transparency surrounding forecasting is critical to the lodging industry. We believe the best business decisions are based on the highest quality data and information available at the time of making such conclusion(s). We take that approach with our forecasts, using the best and most relevant available information to provide the most likely outcomes.

LARC's industry-leading market intelligence is available to assist all industry participants navigate the current environment and position themselves for success. Please [contact us](#) directly to learn more about our services and products or if there is any other way we may be able to better serve you.

Sincerely,



Ryan Meliker
President & Co-founder
Lodging Analytics Research & Consulting

U.S. Lodging Industry and Market Outlook – December 2023

LARC's Industry Outlook

Currently, Lodging Analytics Research & Consulting (LARC) expects U.S. RevPAR to increase by 5.5% to \$98.51 in 2023, resulting in an annual RevPAR that is 14% above 2019 levels. LARC anticipates ADR to rise by 4.4% this year to \$155.88, or 19% above 2019 levels, while occupancy will increase 1.0% to 63.2%. For 2024, LARC expects RevPAR to increase 3.6%, driven by a 2.8% increase in ADR and a 0.8% increase in occupancy.

LARC forecasts 2023 U.S. Hotel EBITDA to grow 5% and Hotel Values to increase 3%. For 2024, LARC expects U.S. Hotel EBITDA to increase 1% and hotel values to increase 6% as the outlook for cap rates trend downward.

December 2023 U.S. Hotel Industry Forecast Summary

	2023 Growth	2022-2025 CAGR	2022-2027 CAGR
Economic Supply	0.5%	1.0%	1.0%
Demand	1.5%	0.8%	0.9%
Occupancy	1.0%	-0.1%	-0.2%
ADR	4.4%	2.7%	2.3%
RevPAR	5.5%	2.5%	2.1%
Hotel EBITDA	4.5%	-0.2%	-0.1%
Hotel Values	3.5%	3.4%	2.7%

Source: Lodging Analytics Research & Consulting

LARC's U.S. RevPAR model has an R-squared of 98.7% with a standard error of 2.9%, back-tested to 2000. LARC's U.S. Cap Rate model has an R-squared of 98.5% with a standard error of 25 bps, back-tested to 2005.

2023 U.S. Hotel Industry Forecast: December 2023 Edition vs. September 2023 Edition

	12/2023 YoY Growth	9/2023 YoY Growth	Outlook Change
Economic Supply	0.5%	0.8%	-0.3%
Demand	1.5%	2.4%	-0.9%
Occupancy	1.0%	1.6%	-0.6%
ADR	4.4%	4.4%	0.0%
RevPAR	5.5%	6.0%	-0.6%
Hotel EBITDA	4.5%	4.0%	0.5%
Hotel Values	3.5%	7.6%	-4.2%

Source: Lodging Analytics Research & Consulting

The above table illustrates a summary of LARC's current U.S. Hotel Industry Outlook in contrast to last quarter's outlook. Ultimately, our 2023 view for supply and demand both moderated, driving our occupancy forecast slightly lower. Our outlook for ADR is unchanged, which combined with our reduced occupancy growth outlook, drives a modest 0.6% decrease to our 2023 RevPAR outlook.

However, as the reduction was entirely fueled by occupancy, our Hotel EBITDA levels increased slightly. Negative revisions to our Hotel EBITDA forecast beyond 2023, along with revisions to the outlook for base rates led our hotel value outlook slightly lower for 2023.

Market Outlooks

Listed below are the best and worst performing markets based on our forecasts. Similar to LARC's U.S. forecast, our market level forecasts are structured on multi-variable regression models with a high level of historical accuracy.

Additional detail on our market outlooks can be found in LARC's Market Intelligence Reports. Please [contact us](#) if you are interested in purchasing any of LARC's offerings.

2023 (relative to 2019)

Top Markets for RevPAR Growth:

Kauai, Palm Springs, Portland (ME), Florida Keys & Las Vegas

Bottom Markets for RevPAR Growth:

San Jose, San Francisco, Portland (OR), Minneapolis & Philadelphia

2023 (year-over-year)

Top Markets for RevPAR Growth:

Washington, D.C., New York City, Las Vegas, Kansas City & Boston

Bottom Markets for RevPAR Growth:

Florida Keys, Santa Barbara, Miami, New Orleans & Maui

2024 (year-over-year)

Top Markets for RevPAR Growth:

San Jose, Seattle, San Francisco, Maui & Minneapolis

Bottom Markets for RevPAR Growth:

Florida Keys, St. Petersburg, Ann Arbor, San Antonio & Kauai

2019 - 2027 Outlook

Top Markets for RevPAR Growth:

Kauai, Maui, Las Vegas, Sedona, and Palm Beach

Bottom Markets for RevPAR Growth:

San Francisco, San Jose, Cincinnati, Columbus & Minneapolis

Top Markets for Value Change:

Phoenix, Tampa, Las Vegas, Nashville & Anaheim

Bottom Markets for Value Change:

San Francisco, Minneapolis, St. Louis, San Jose & Portland (OR)

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