Hospitality Industry Outlook for 2020

Description

As we approach the year’s end, this is a good time to consolidate plans for next year. For the hospitality industry, the Lodging Conference kicks that process off.

I recently attended the 25th annual Lodging Conference, where hotel owners and executives meet to strategize and learn about development, finance, management and operations. I returned with beneficial information to share as you plan for 2020.

Economic Outlook

The conference began with an economic and geopolitical outlook presented by Bernard Baumohl, Chief Global Economist of The Economic Outlook Group. He addressed the worries many of us have: Is a recession near? Are we at the peak of the business cycle?

Bernard noted the following as common causes of past recessions.

- High interest rates that shut down borrowing and spending
- Major geopolitical eruption that causes oil prices to spike
- Acts of human foolishness (bad decisions leading to economic disaster)

Considering these causes, what could bring about a downturn in our current economy? Bernard felt that, if the trade war with China continued, the world economy would be in danger of shutting down as global exports shrink, and countries devalue currencies. He also felt that the Fed’s lowering of interest rates would not offset the effects of the trade war. Consumers and businesses may scale back on spending due to uncertainty of the impact the 2020 presidential election will have on trade, tax and spending policies. Overall, he predicted the risk of recession at 35%.

2020 U.S. Hotel Forecast

Vail Ross, Senior VP, Global Business Development and Marketing, of STR provided a U.S. outlook for 2020. The following table shows the percentage change over the prior year in the following metrics:

<table>
<thead>
<tr>
<th>Metric</th>
<th>Percentage Change</th>
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<tbody>
<tr>
<td>Revenue per Available Room (RevPAR) growth at 2019</td>
<td>-3% to 1%</td>
</tr>
<tr>
<td>Revenue per Available Room (RevPAR) growth forecast for 2020</td>
<td>1% to 3%</td>
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In Seattle, STR forecasts the 2019 year-end Revenue per Available Room (RevPAR) growth at -3% to 1%, while the 2020 year-end RevPAR growth forecast is estimated to be 1% to 3%. The significant factor influencing the RevPAR decline in the Seattle area in 2019 is the 6.6% supply growth that has occurred.
Threats on the Horizon

Vail also noted the following possible threats on the horizon:

- Slower profitability growth – owners are finding it harder to push up room rates. Expenses, particularly in labor costs, are rising at greater rates than RevPAR.
- Week growth in Average Daily Rates (ADR) – as additional room supply comes into the market, the ability to increase room rates becomes a challenge.
- Low unemployment – with fewer people available, owners are forced to increase wages and benefits to attract and retain talent.
- Overall economy – uncertainty in the market causes consumers to reduce their spending. This can affect the hospitality industry as the industry relies heavily on discretionary spending.

How Should You Prepare?

The overall message from many presenters at the conference was that we are headed for a slowdown, not a downturn. Knowing there are threats on the horizon, how should owners and finance leaders ensure their companies can survive a downturn in the economy?

- Cost control – as room rates remain flat and expenses continue to rise, protecting margins will be a challenge.
  - Working with the leadership team and department heads to review costs and identify cost-control measures should be prioritized.
  - Managing costs and reviewing them on a regular basis can also improve the hotel’s long-term financial health. Are there fixed costs that can be evaluated for savings that will improve your profit margin?
- Stress tests – developing financial plans that include adverse hypothetical scenarios will assist in identifying areas at risk during a downturn.
  - What if room rates do not increase at the rate predicted? What if occupancy rates drop substantially? How will this affect your financial plans?
  - Consider how these adverse scenarios may affect your debt covenant requirements.
  - Proactively plan for the “what-if” scenarios by developing a contingency plan that will address a slowdown in the economy. Having a plan in place will reduce your response time and possibly lessen the impact on the bottom line.
- Improve efficiencies – as hotels are required to do more with less, improving efficiencies will be necessary in order to operate profitably.
  - Identify where technology advancements can be incorporated to improve productivity. Are there areas in your operations that can be automated? Are you using your current systems to their full potential?
  - We are now seeing many hotel brands incorporating keyless room entry, robots to delivering towels and cleaning bathrooms and adding Alexa in rooms to order room service or answer frequently asked questions. Technology will not necessarily replace employees but will assist them in working more efficiently; allowing them to focus on providing a superior customer experience.
A recession may not be in the immediate horizon, but a slowdown in the economy is likely. Companies should have a well-prepared plan in place so that they are better equipped and can respond quickly when the market starts to slow. What will you include in your plan to help mitigate the risks from a downturn?

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