Slow but Steady: Here's How the Hotel Industry Finished Out 2023

After a strong showing in 2022, 2023 was a tougher nut to crack for a hospitality industry that's still dealing with the lingering effects of restricted travel and tighter monetary policy.

The outlook for business travel is still unclear, as many companies tighten their belts and rethink their travel policies amid ongoing economic concerns.

The good news, however, according to the latest figures, is that the situation is far from "doom and gloom."

Lower Occupancy, but RevPAR Revved Up

According to PwC's November 2023 "US Hospitality Directions" report, hotel room occupancy is still trending down. Specifically, the report notes that occupancy levels have "declined in each of the past seven months, relative to comparable 2022 levels." PwC has predicted annual occupancy for US hotels to reach 63% by the end of 2023.

Recent data from STR gives a more detailed picture of the situation as of September, noting that occupancy for the month dropped to 66.2%. That figure is down 0.5% from September 2022, but still slightly higher than occupancy for August 2023.

STR adds, however, that in September RevPAR (revenue per available room) grew by 2.9% to $106.07, bolstered by a 3.5% jump in ADR (average daily rate) relative to 2022. This is "the strongest year-over-year (YoY) growth of the quarter even as occupancy continued to decline modestly."

As a quick refresher, the average daily rate measures how much, on average, a property's rooms earned over a set period of time. That figure can then be multiplied by occupancy to obtain RevPAR.

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Transactions Flagging

The PwC report also highlights that hotel transaction activity has slowed. They note that this is driven largely by a combination of tight monetary policy and a tricky lending environment, combined with high asking prices for hotel assets.

This is in keeping with what we've seen for a lot of other commercial real estate (CRE) asset classes, as large discrepancies in asking prices and available debt keep deals at bay.

Extended Trends

While the above figures don't exactly paint a rosy picture of the hospitality outlook, it's worth noting that there have been some interesting recent developments that are lending strength to the sector.

One of those is the trend towards extended stays, and the mid-scale to economy accommodation options that cater to it.

Extended-stay properties typically attract guests looking for the convenience of hotel accommodations but over a time frame of 30 days or longer. These guests are usually traveling for work and can range from nurses and contractors to digital nomads.

These "midscale, extended stay" offerings are also attractive to developers and investors because they often present a more cost-effective opportunity than traditional hotels.

Quoted in a recent CoStar article, Ian McClure, CEO of Gulf Coast Hotel Development notes that the sector offers a "durable and reliable income stream," with Gulf Coast's own economy and midscale properties showing profit margins of 60-62%, stays of 45-60 nights, and 90-95% occupancy.

Many big players like Hilton Hotels and Marriott are also currently tapping into the trend as a model that may hold a lot of potential for the industry in the long term.

Looking Ahead

The conclusion from PwC's report is that hotel occupancy overall is expected to stay subdued through the end 2023 and into early 2024 as well.

They add: "With occupancy levels expected to be relatively flat in 2024, performance gains are once again expected to come almost entirely from ADR, with an expected year-over-year increase in RevPAR of 2.7 percent – approximately 117 percent of pre-pandemic level."

Whether trends like "extended stay" hospitality will be able to bolster that performance remains to be seen. At the very least, however, these figures show that the hotel industry is still likely to be a stable bet in 2024.