

# U.S. Hotels State of the Union

CBRE Hotels Research

January 31, 2022



## Key takeaways

- GDP continues to set new records and CBRE forecasts most markets will return to full employment by mid-2022. [4-11]
- Despite the Omicron variant, December RevPAR surpassed 2019 levels and we saw strong improvement across geographies, asset type and chain scale. [17-23]
- Recent travel trend data and leading indicators – TSA throughput, Google searches show softening demand in 1Q for both business and leisure travel. [25-26]
- Office vacancy and remote work are headwinds to a near-term recovery in business travel. [33-34]
- International travel restrictions eased in November triggering a large up-tick in inbound international travel. We expect NY, San Francisco, Los Angeles, and Miami to be key beneficiaries in 2022. [35-37]
- Increases in construction costs and labor challenges are translating into slower supply growth. [45-47]
- Short-term rental market share has normalized as hotels have reopened. Large units in southern and drive-to destinations are driving revenue growth. [38-42]
- Wage pressures and labor shortages show no signs of abating, for now. [52]
- Hotel delinquency and special servicing rates have declined steadily as fundamentals have improved. Sales volumes have also recovered nicely. [57-59]

# 1

## The Economy



## The question is when, not if, RevPAR will recover



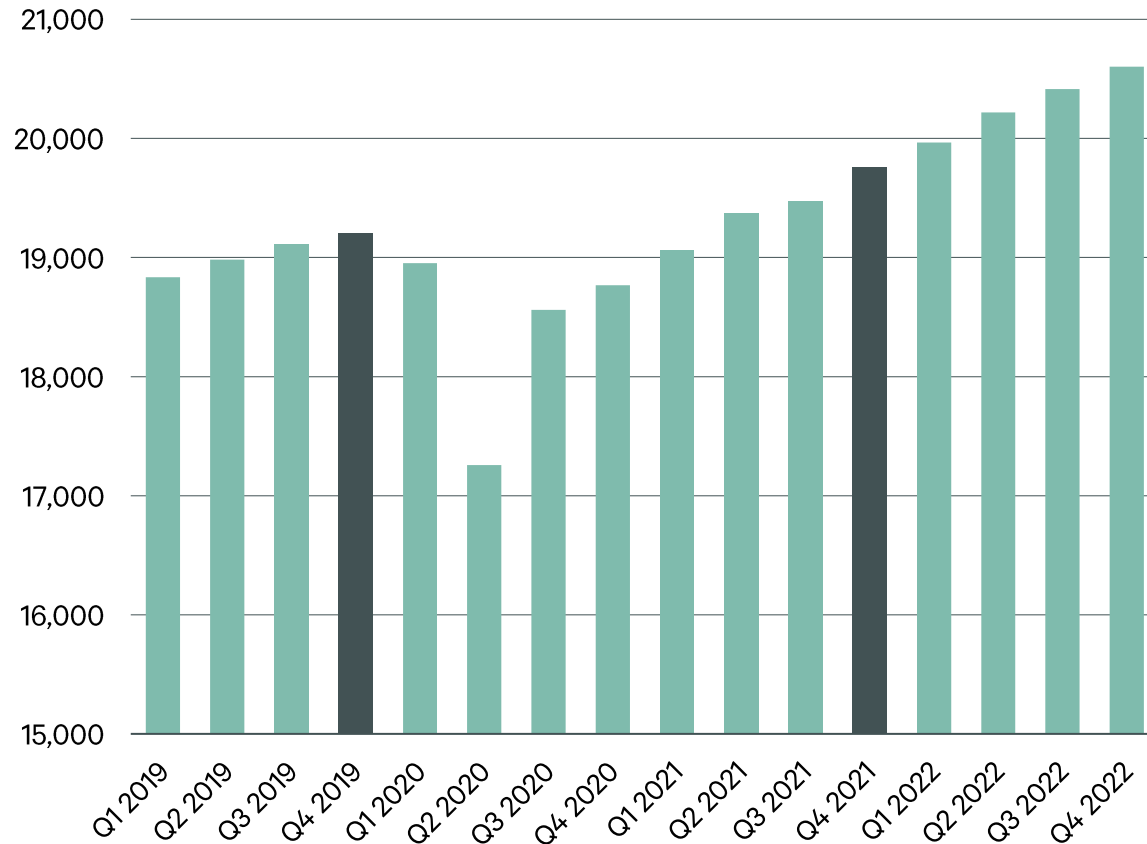
Source: CBRE Hotels Research, CBRE EA, BLS, Kalibri Labs

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# The question is when, not if, RevPAR will recover

## GDP has surpassed pre-pandemic levels

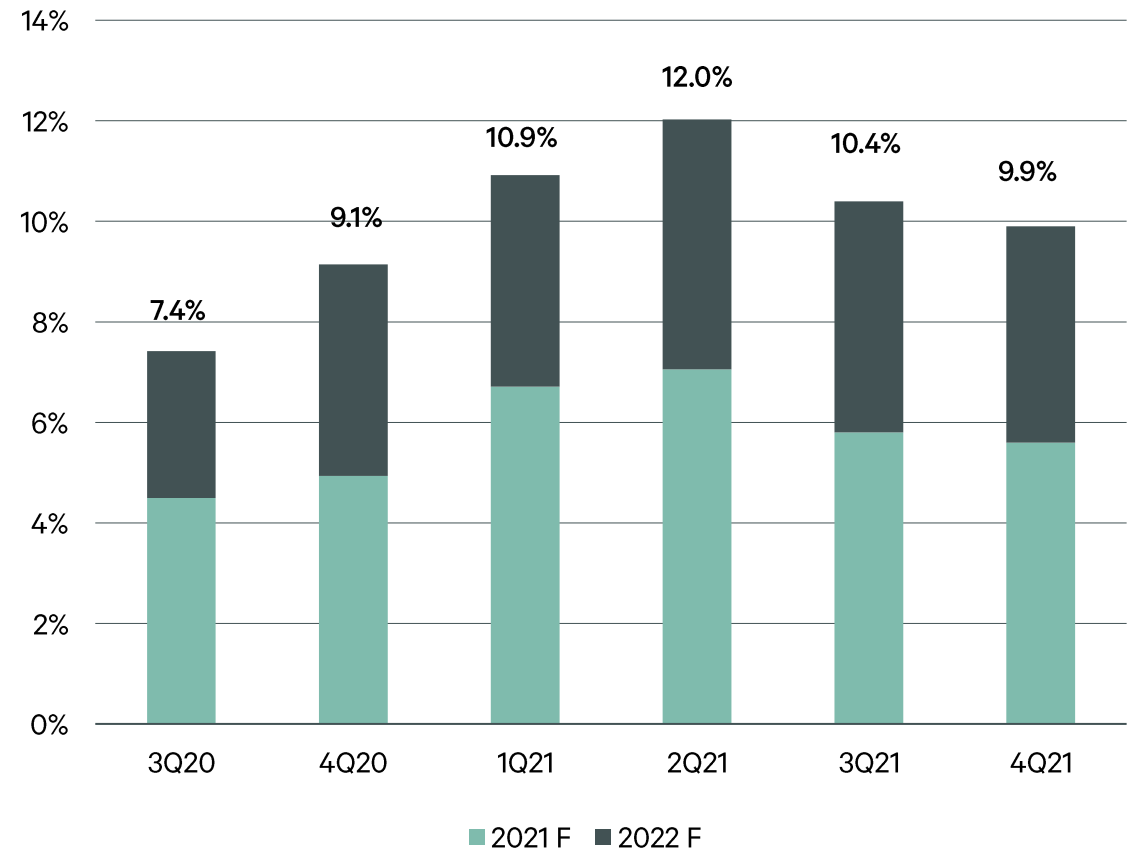
Real GDP  
Thousands



Source: CBRE Hotels Research, CBRE EA, BLS

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## Cumulative 2021 and 2022 GDP growth



# 2022 GDP forecasts have moderated



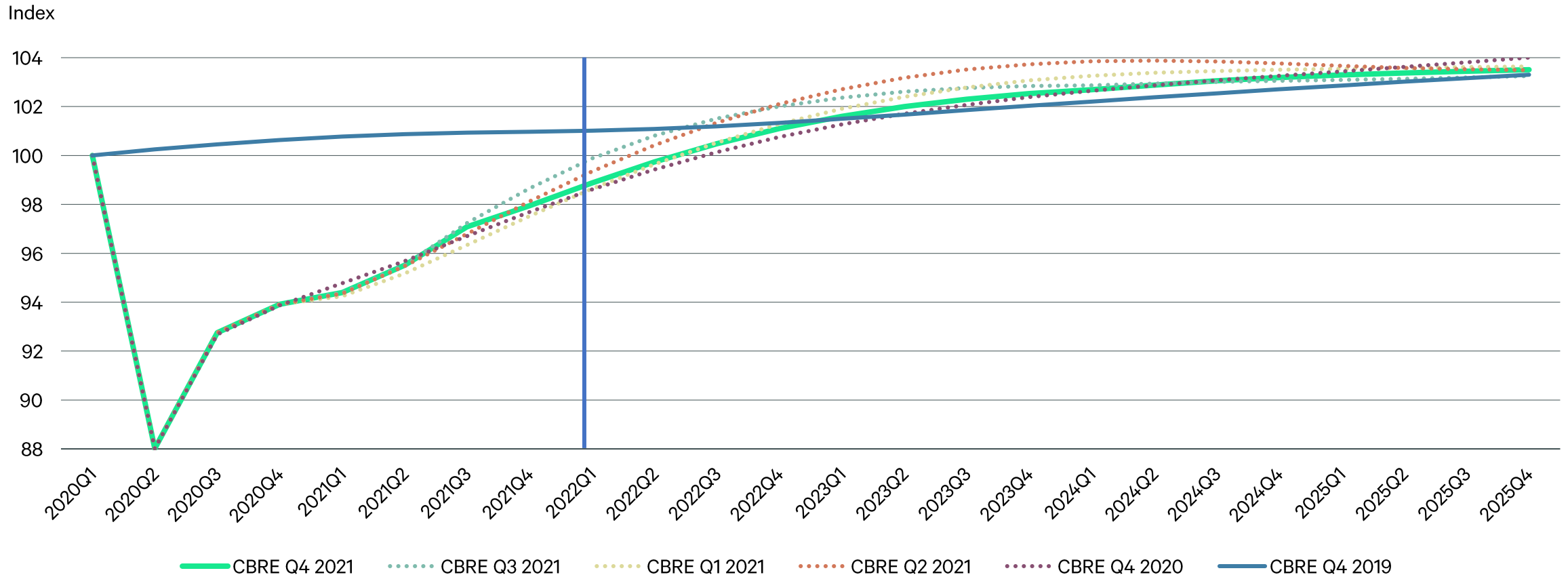
Source: CBRE Hotels Research, CBRE EA, Wall Street Journal.

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# CBRE revised employment forecast calls for full recovery by Q2 2022

## Employment Index



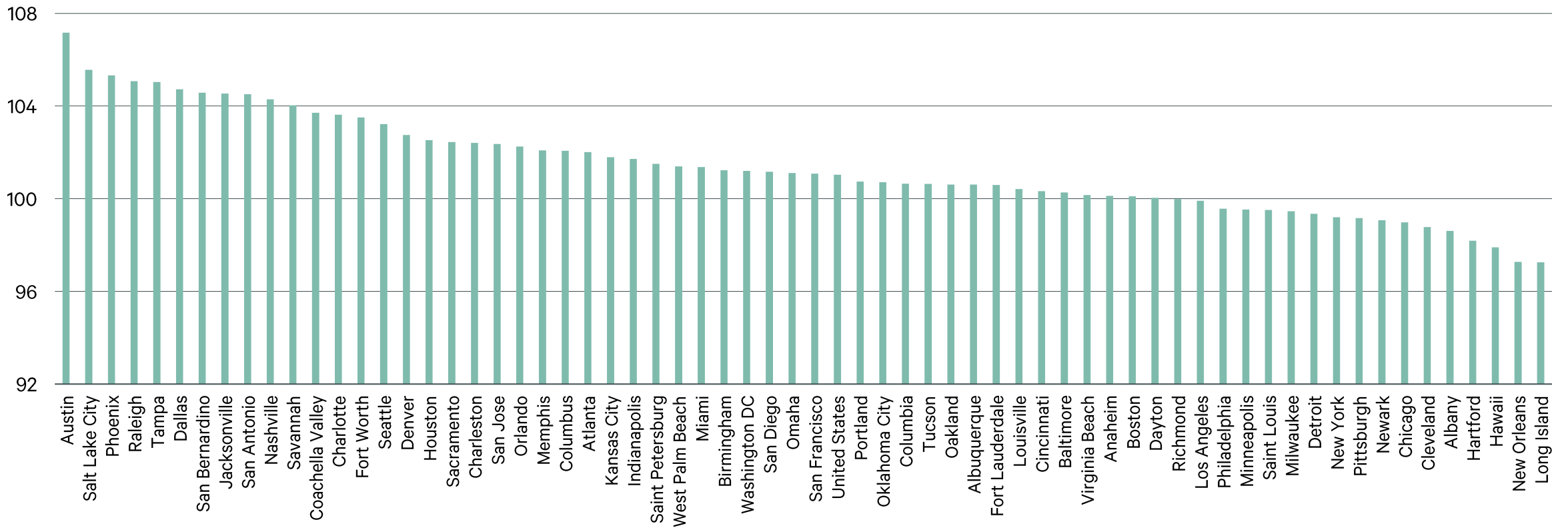
Source: CBRE Hotels Research, CBRE EA, BLS.

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# Majority of markets will return to 2019 employment levels by 2022

## 2022 Employment Forecast Indexed to 2019 Levels

Indexed To 2019 Levels



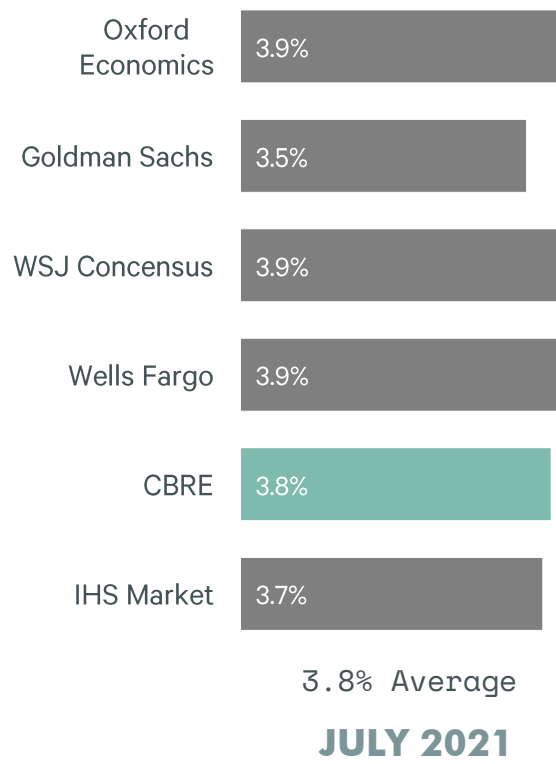
Source: CBRE Hotels Research, CBRE EA, BLS

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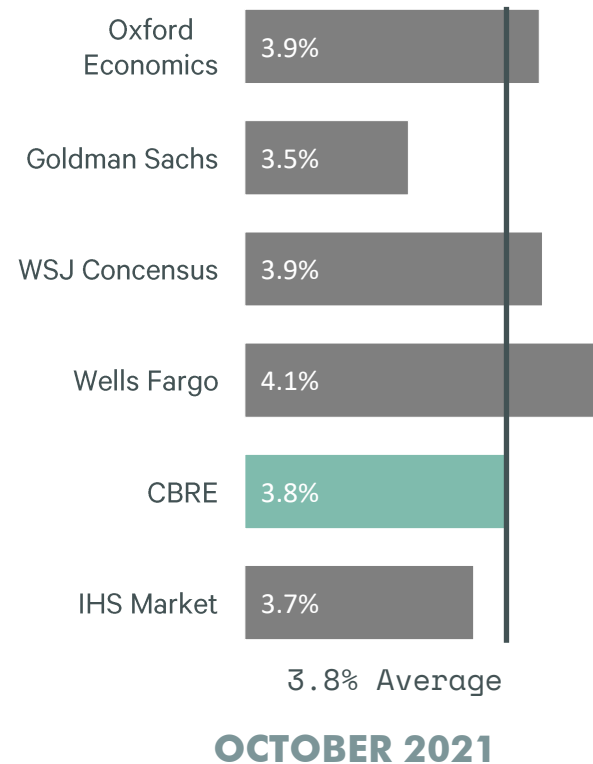


# 2022 Unemployment outlook continues to improve

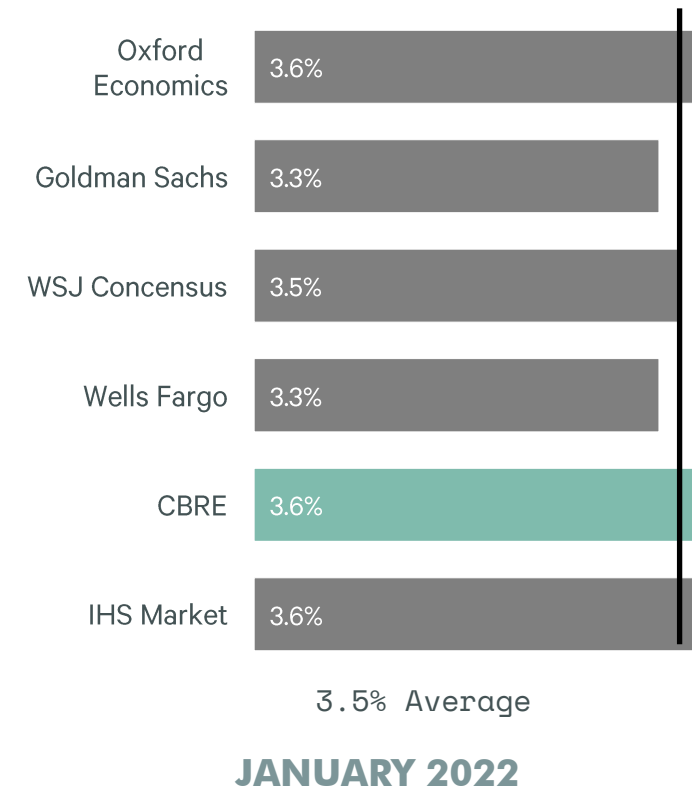
2022 Unemployment Rate Forecast



2022 Unemployment Rate Forecast



2022 Unemployment Rate Forecast

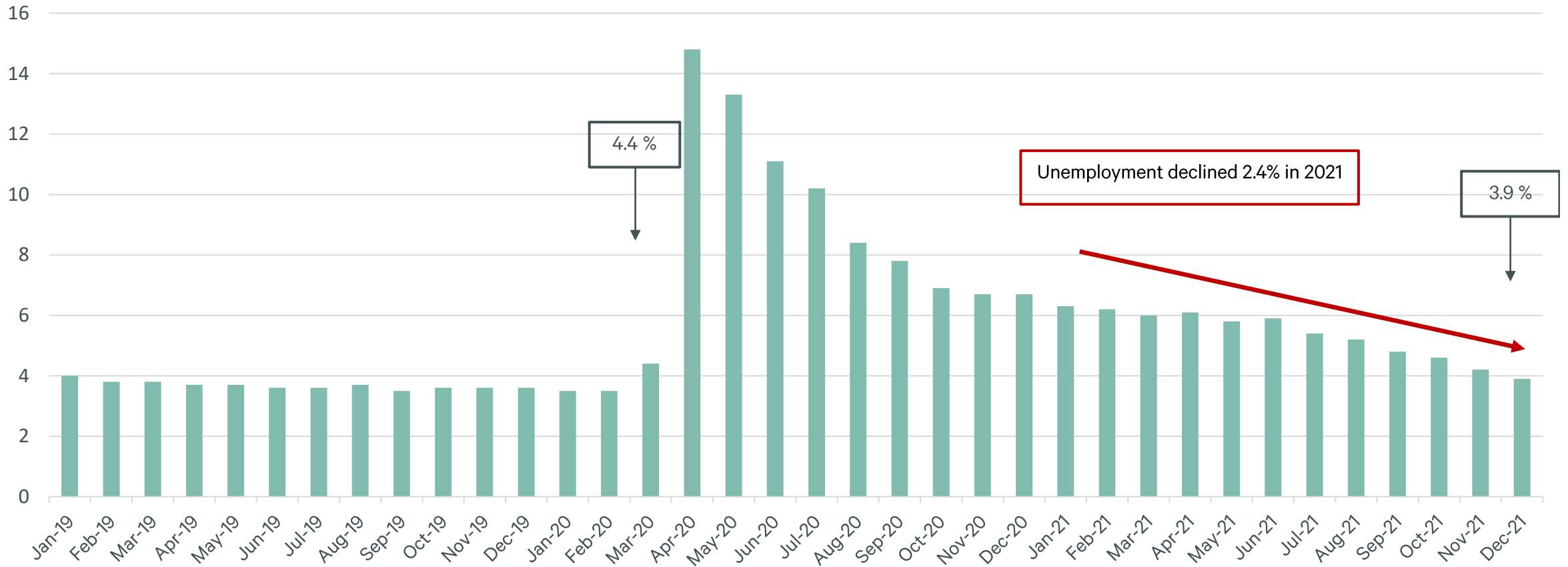


Source: CBRE Hotels Research, CBRE EA, Wall Street Journal.

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## 2022 Unemployment beat CBRE's 4.3% forecast, 2022 forecast is 3.6%

Unemployment Rate

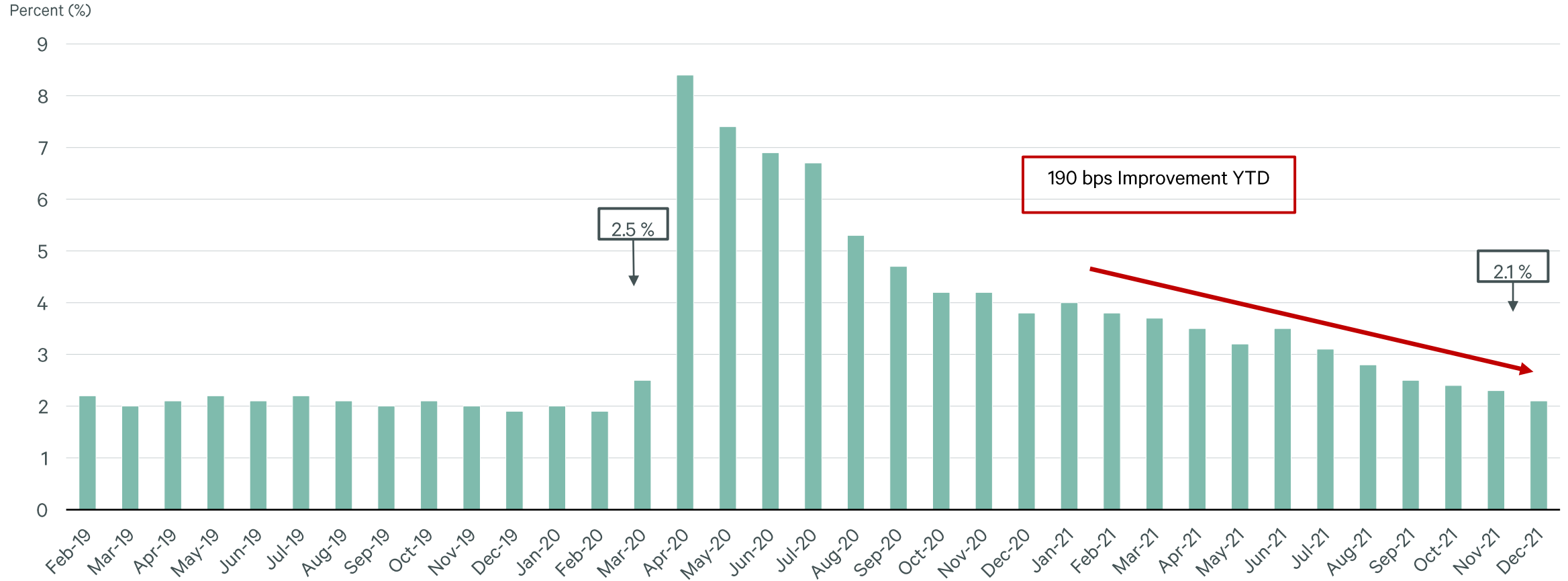


Source: CBRE Hotels Research, CBRE EA, BLS

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# College educated employment has fully recovered

Unemployment Rate – Bachelor's Degree and Higher, 25 Yrs. & Over



Source: CBRE Hotels Research, CBRE EA, BLS

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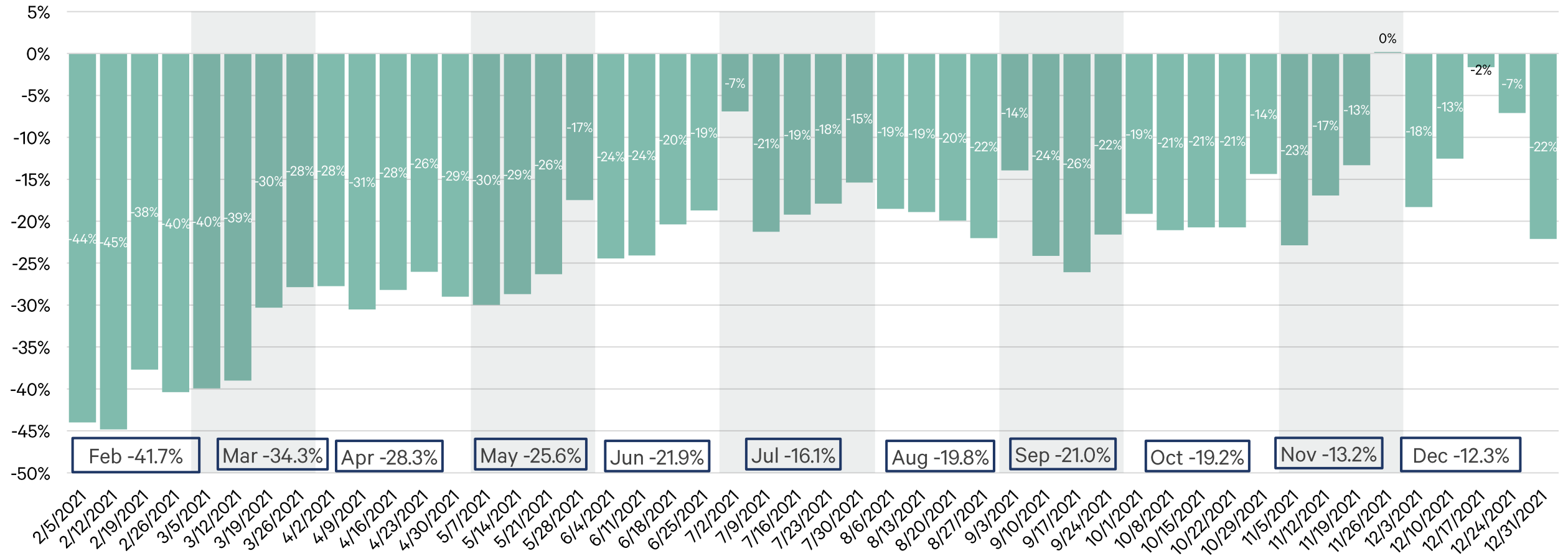
# 2

## Current Trends



## Occupancy levels stable, in low teens

### 2021 Occupancy change from 2019

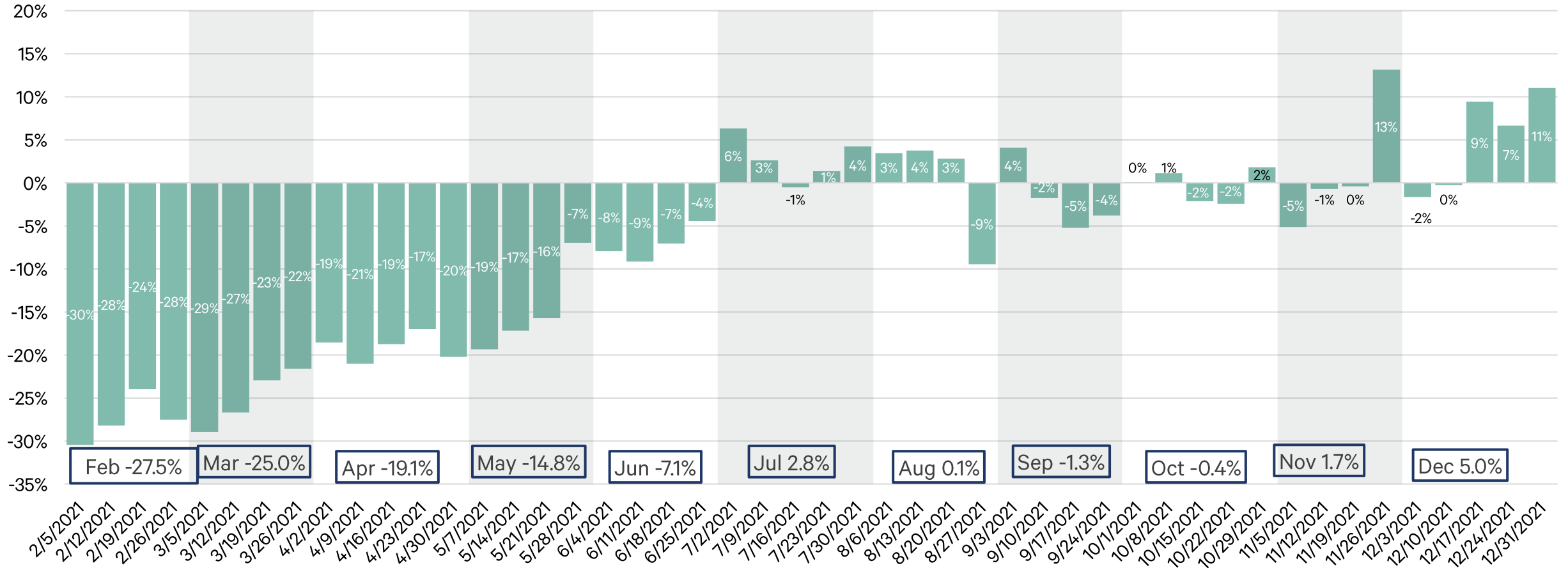


Source: CBRE Hotels Research, Kalibri Labs, Weekly Sample, not scaled to full U.S. Hotel Industry Representation

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## ADR was above 2019 in 4Q

### 2021 ADR change from 2019

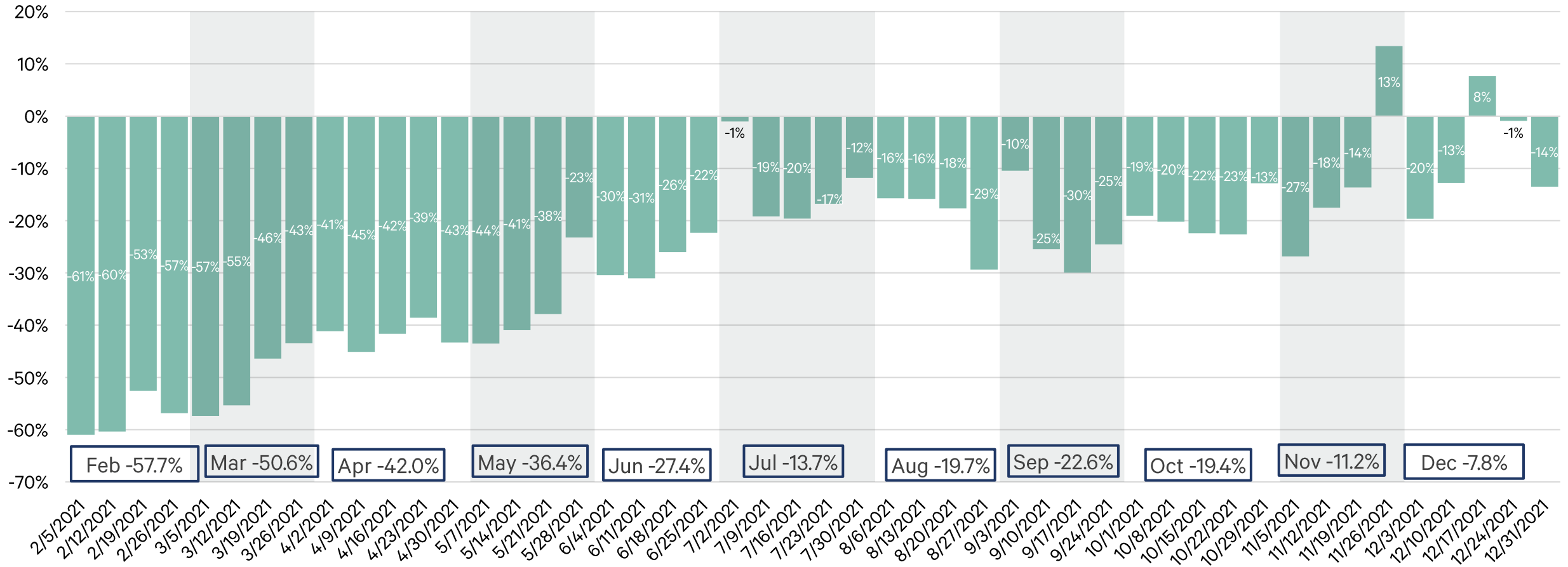


Source: CBRE Hotels Research, Kalibri Labs, Weekly Sample, not scaled to full U.S. Hotel Industry Representation

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## RevPAR continued to improve in 4Q

### 2021 RevPAR change from 2019



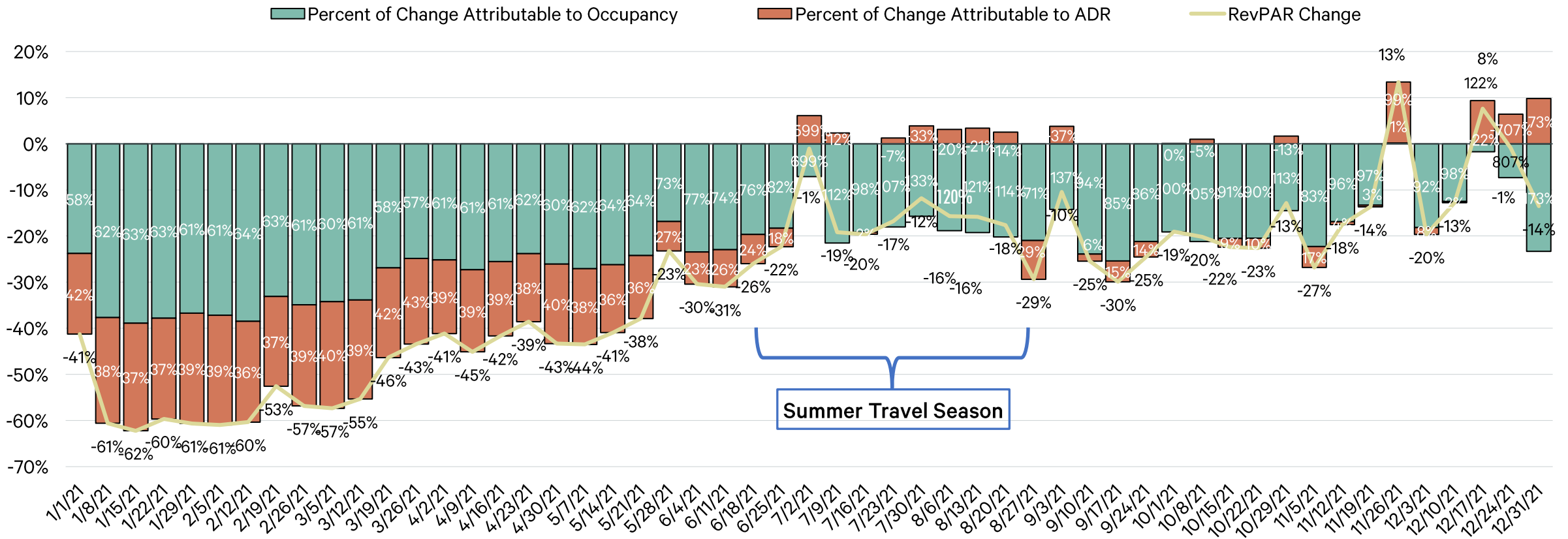
Source: CBRE Hotels Research, Kalibri Labs, Weekly Sample, not scaled to full U.S. Hotel Industry Representation

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# Breaking down 2021 RevPAR decline

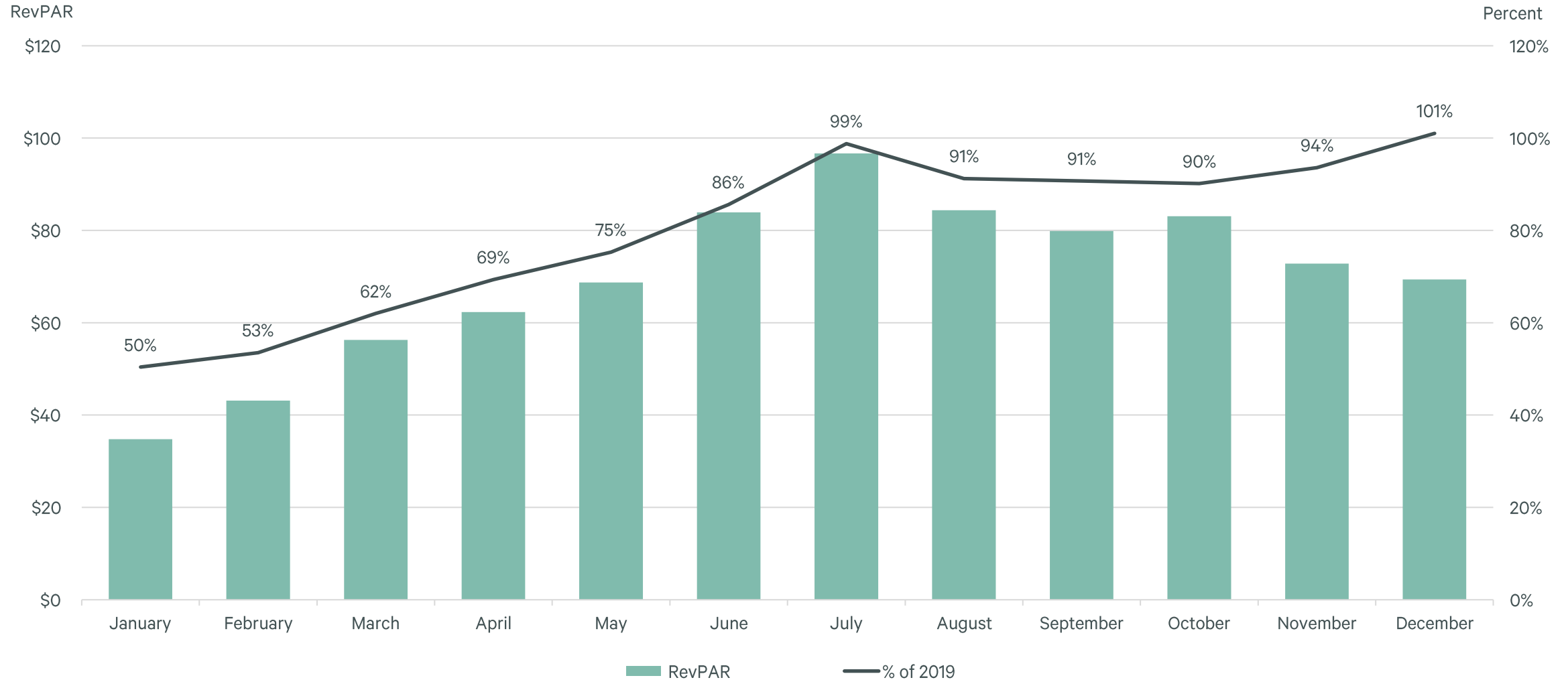
Relative to 2019 the bulk of the short fall is from Occupancy



Source: CBRE Hotels Research, Kalibri Labs, Weekly Sample, not scaled to full U.S. Hotel Industry Representation

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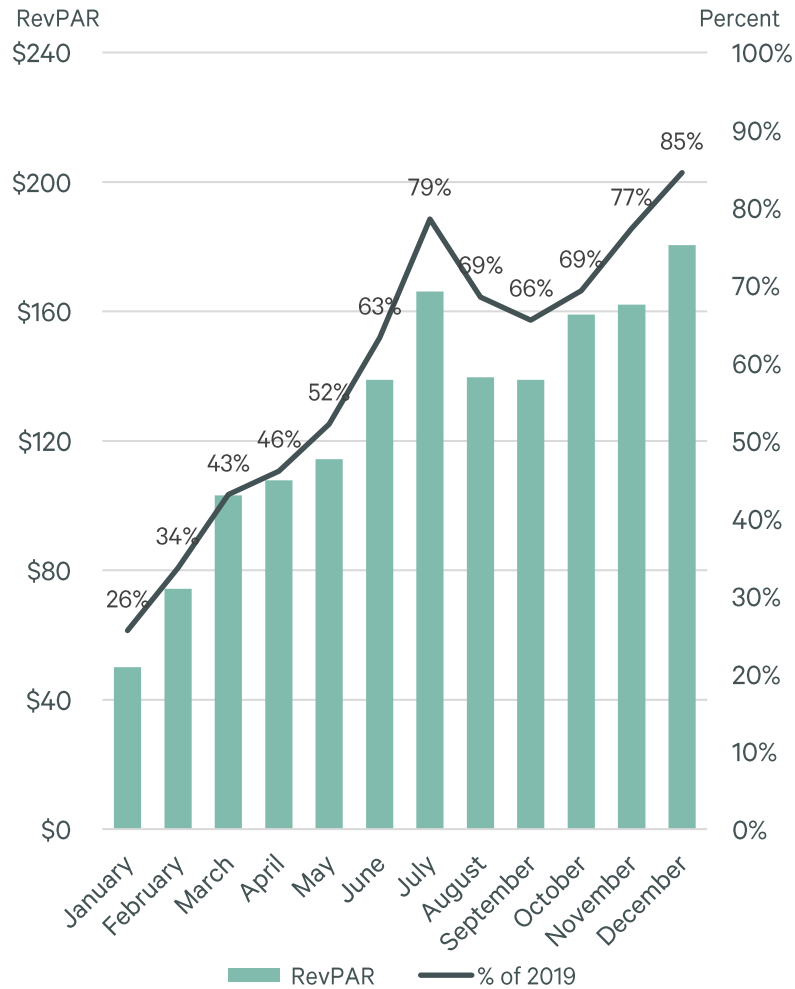
# December RevPAR beat 2019 levels



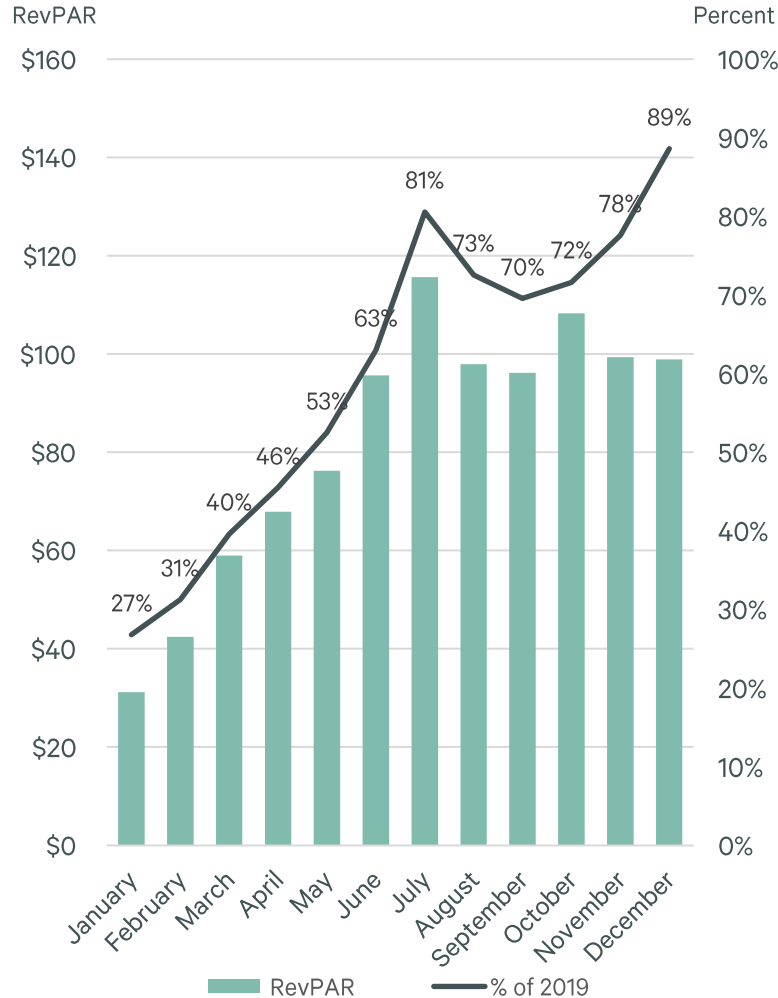
Source: CBRE Hotels Research, Kalibri Labs

# Monthly RevPAR for upper priced hotels by chain scale

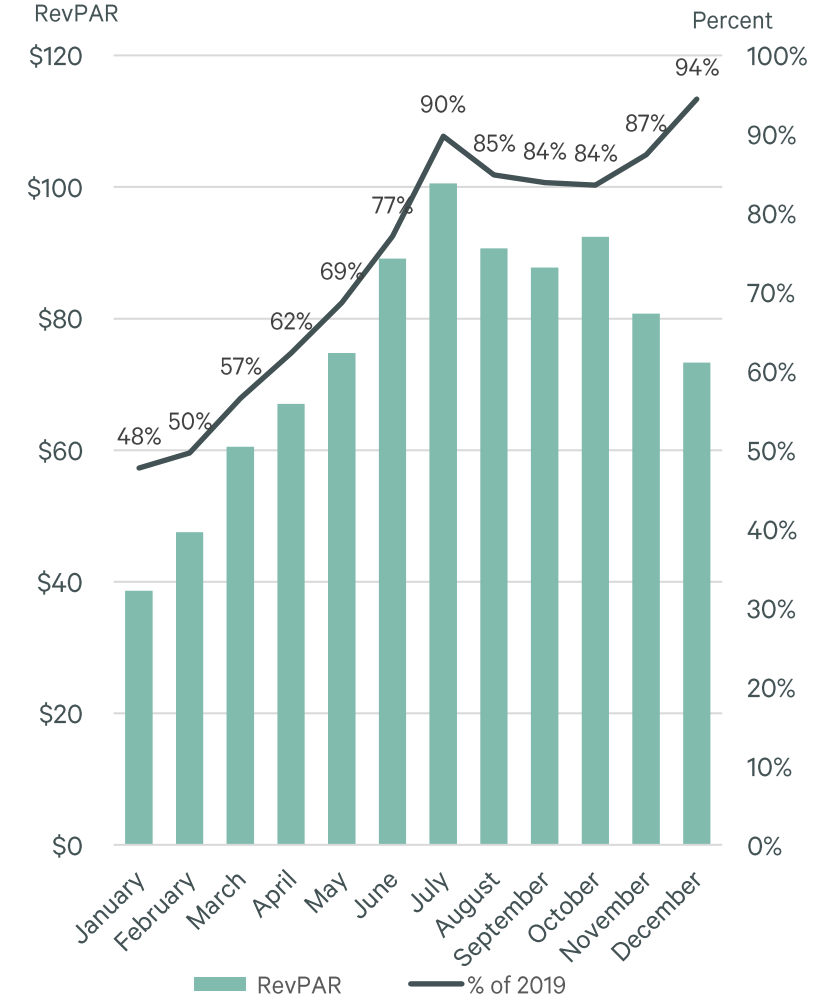
## Luxury



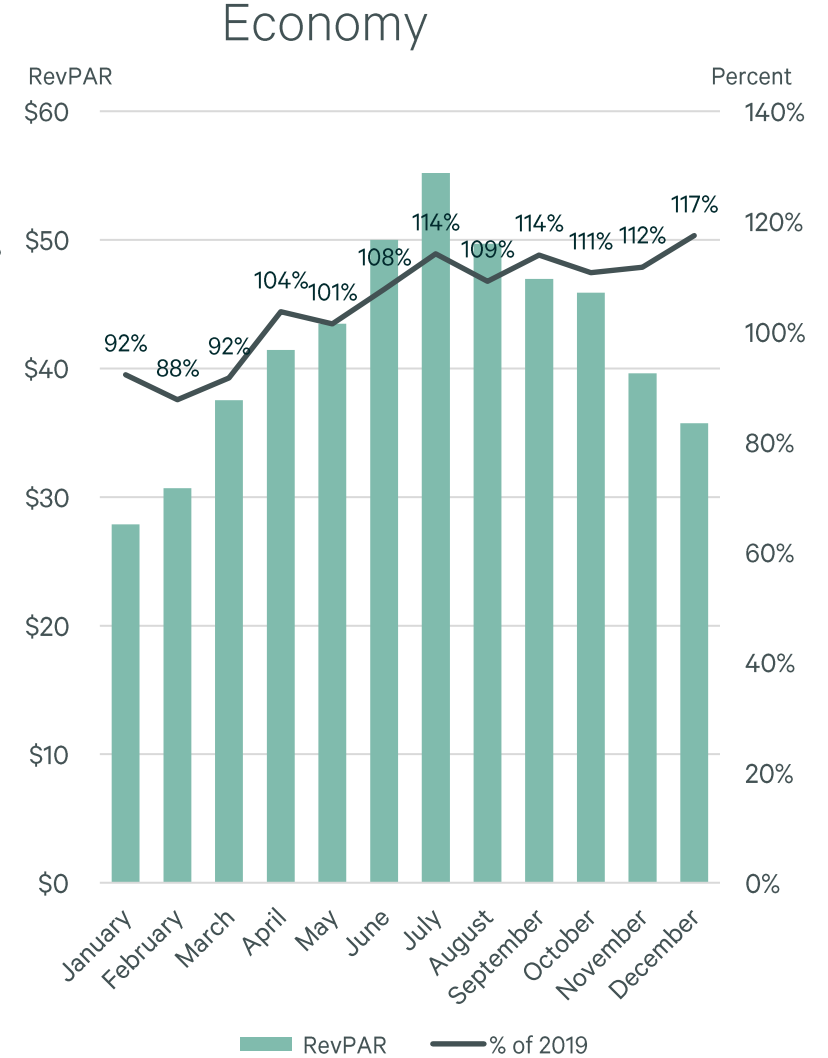
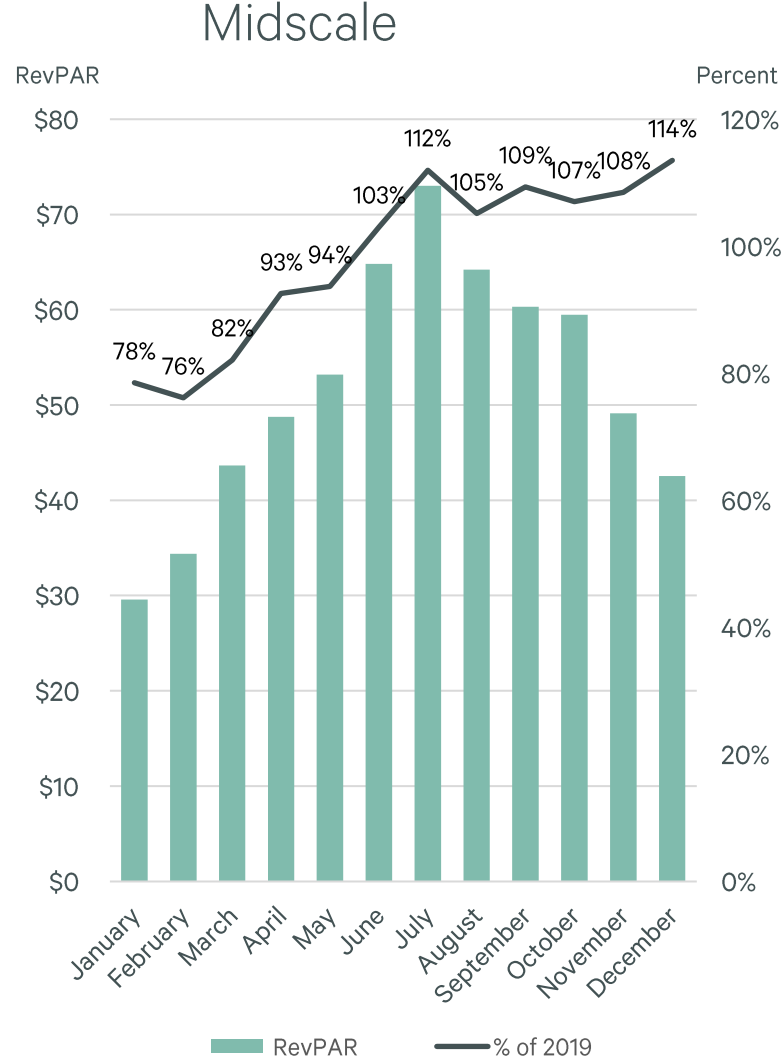
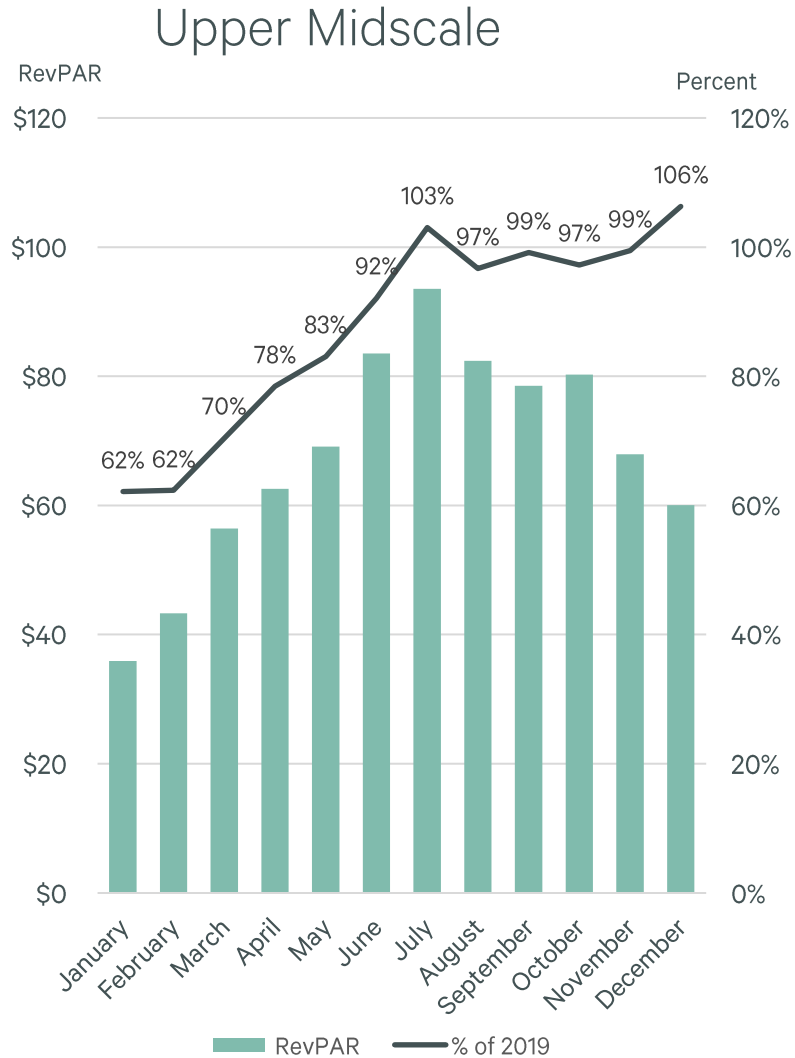
## Upper Upscale



## Upscale

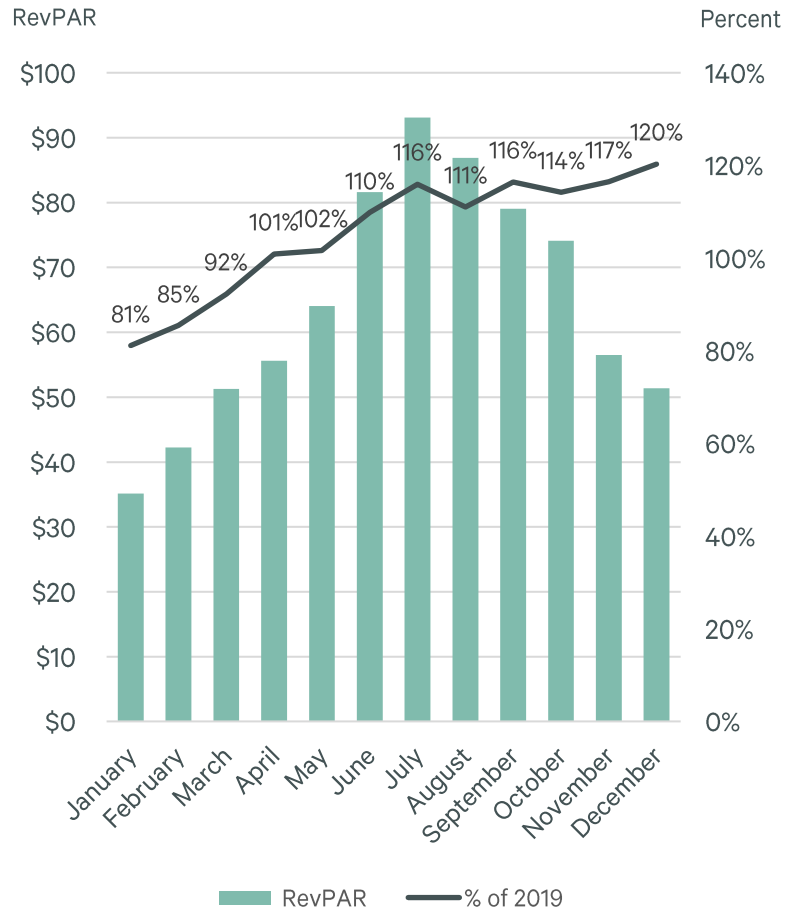


# Monthly RevPAR for lower priced hotels by chain scale

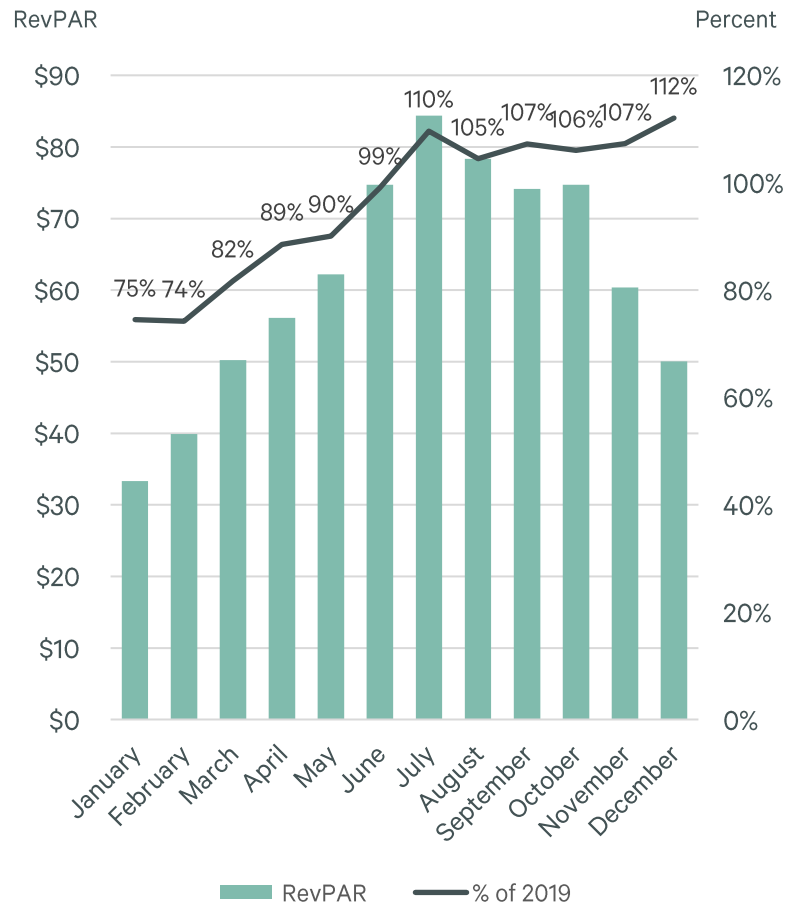


# Monthly RevPAR by location

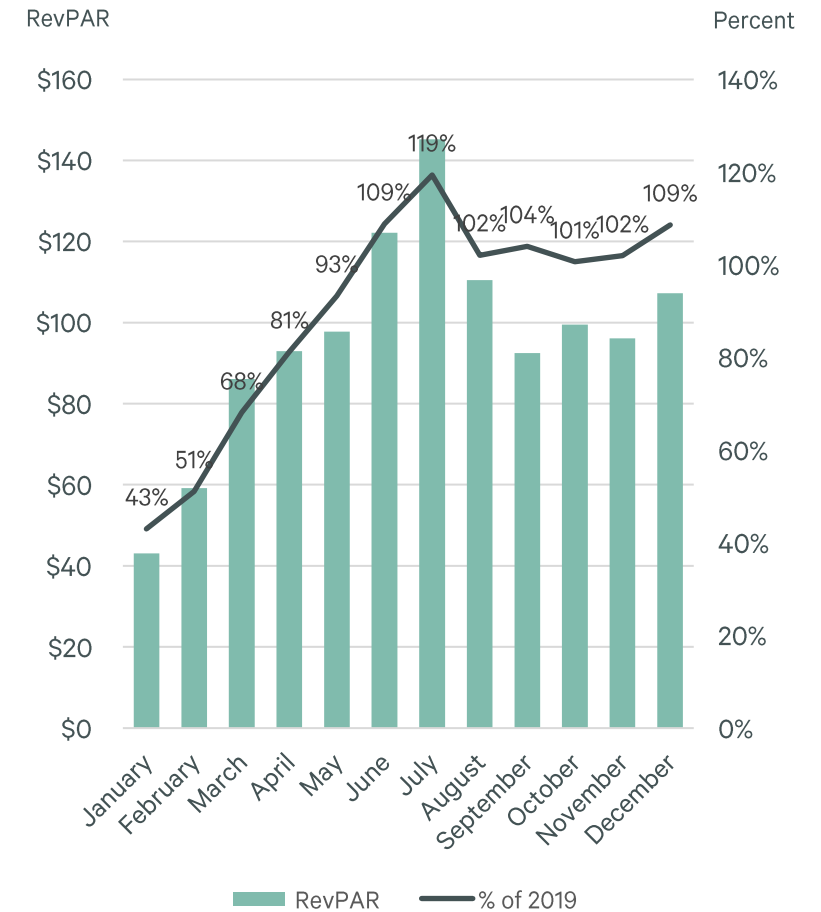
## Interstate



## Small Town



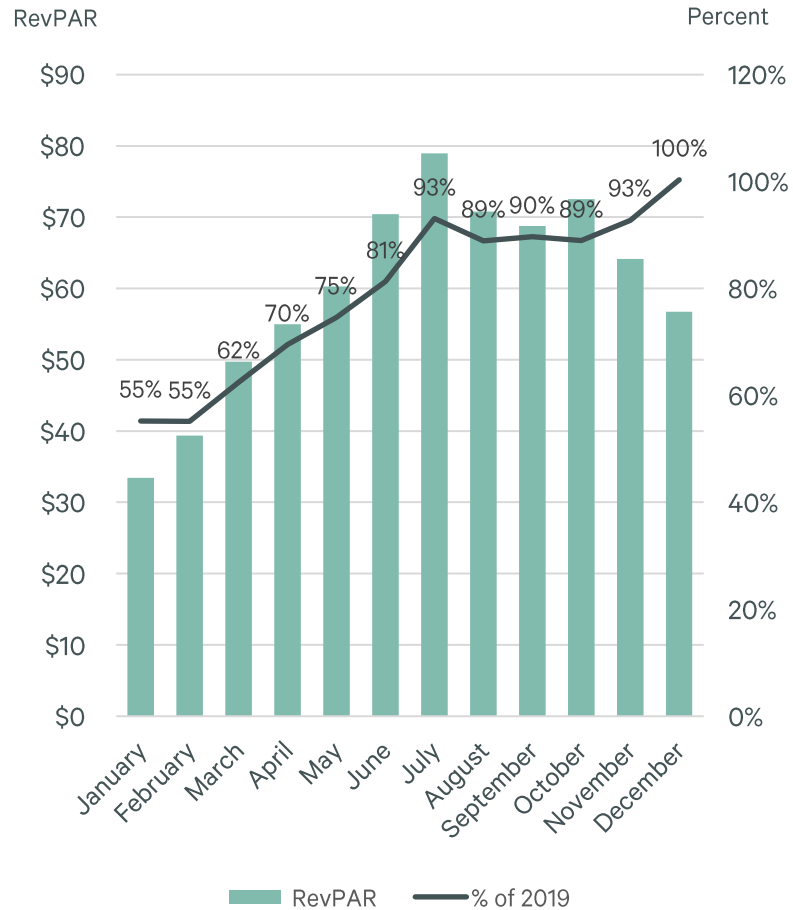
## Resort



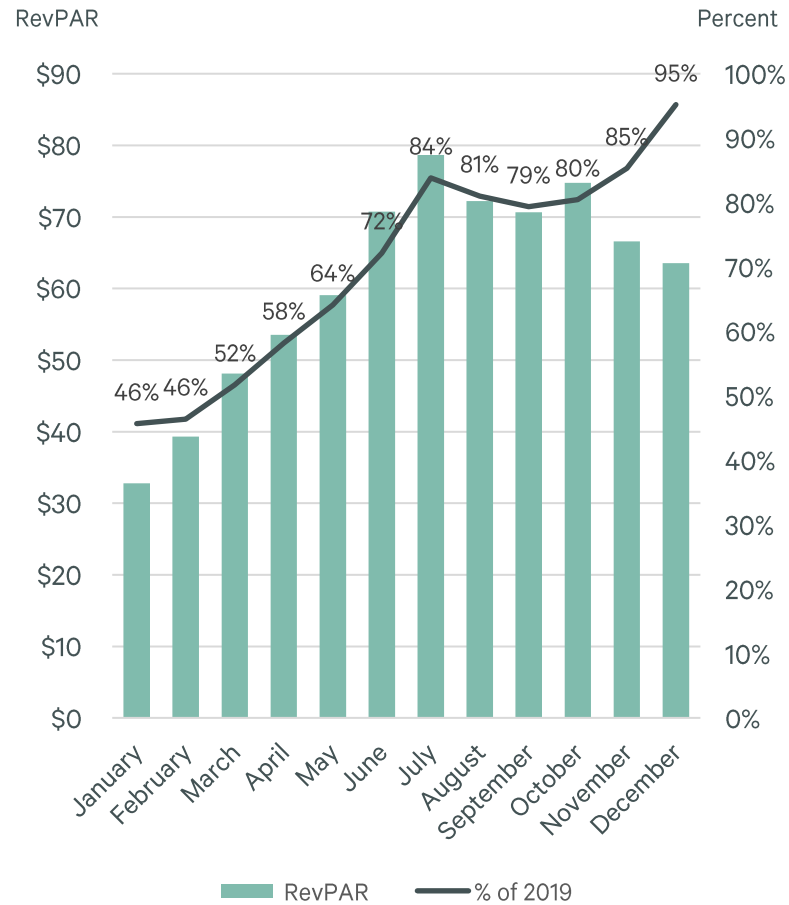
Source: CBRE Hotels Research, Kalibri Labs

# Monthly RevPAR by location

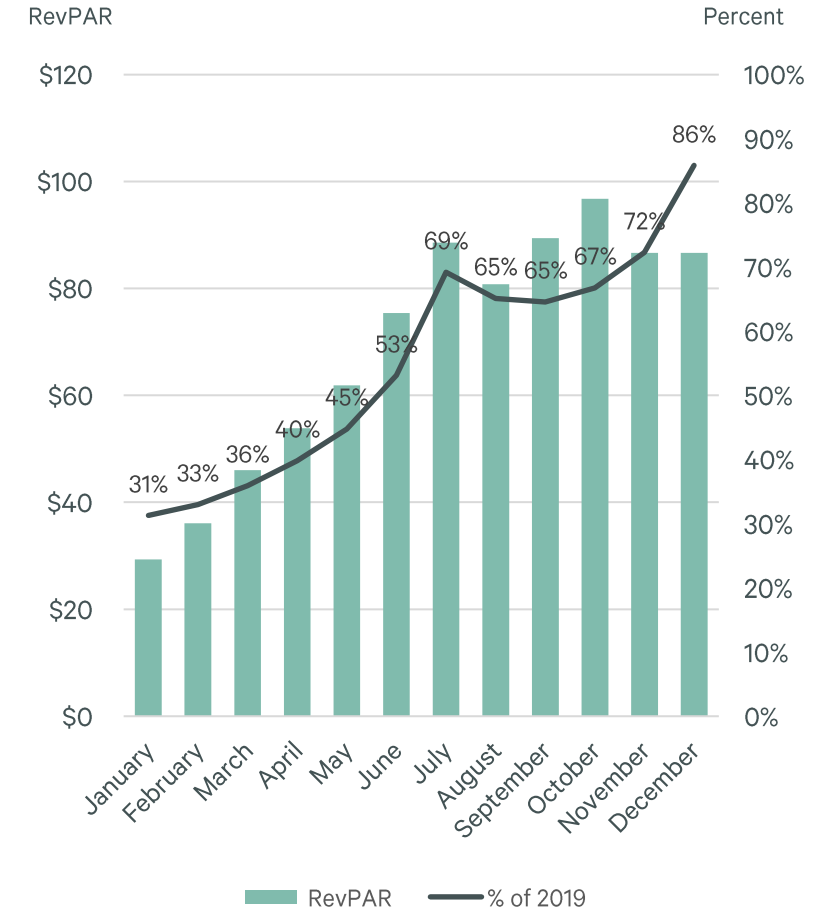
## Suburban



## Airport



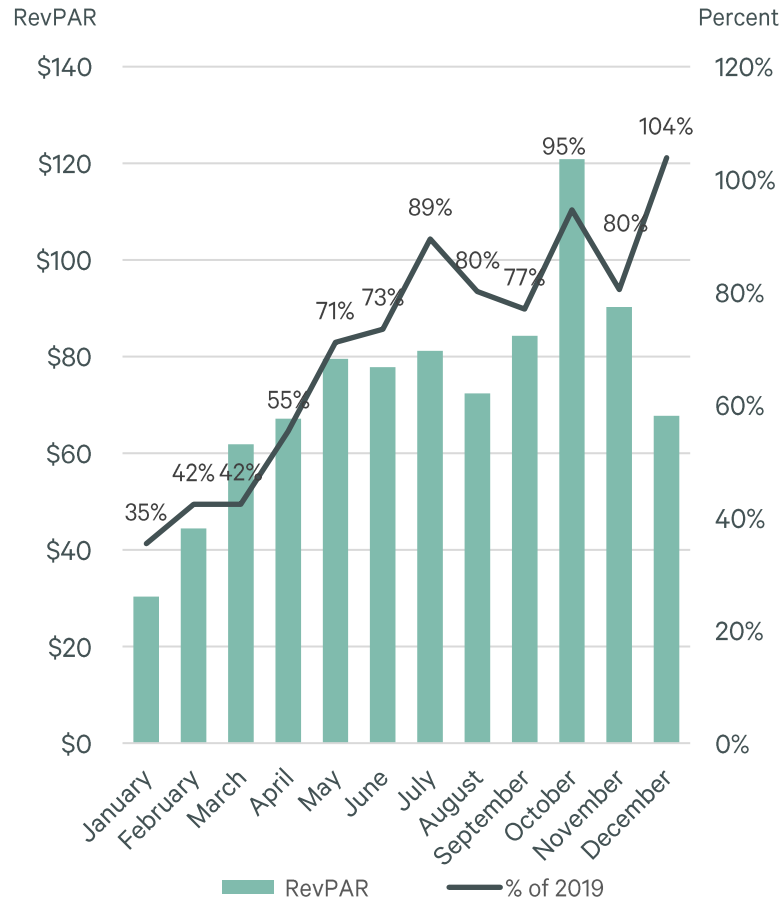
## Urban



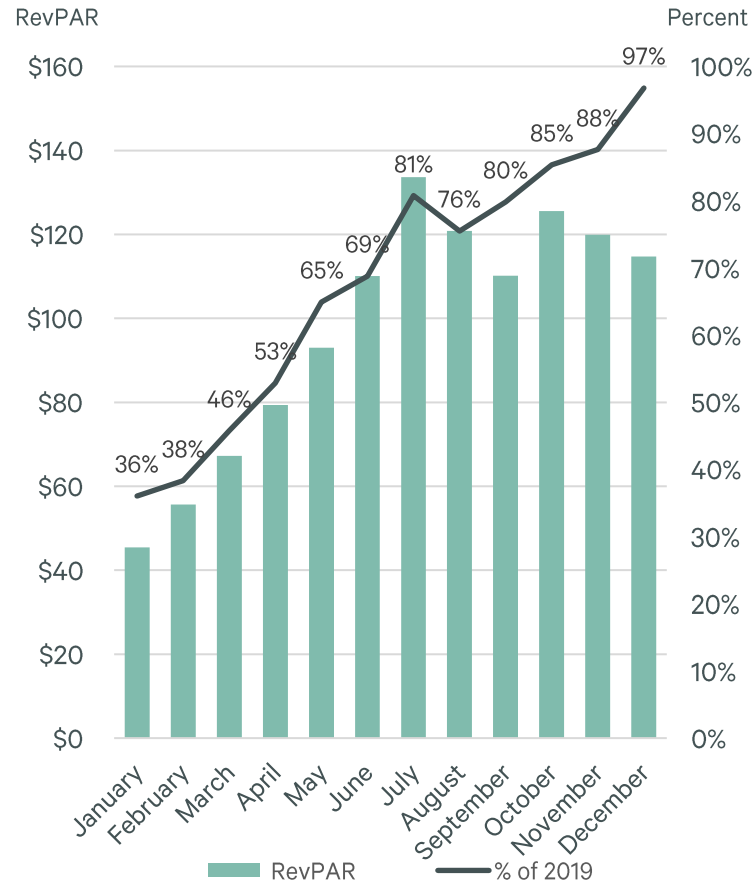
Source: CBRE Hotels Research, Kalibri Labs

# Monthly RevPAR by Southern U.S. markets

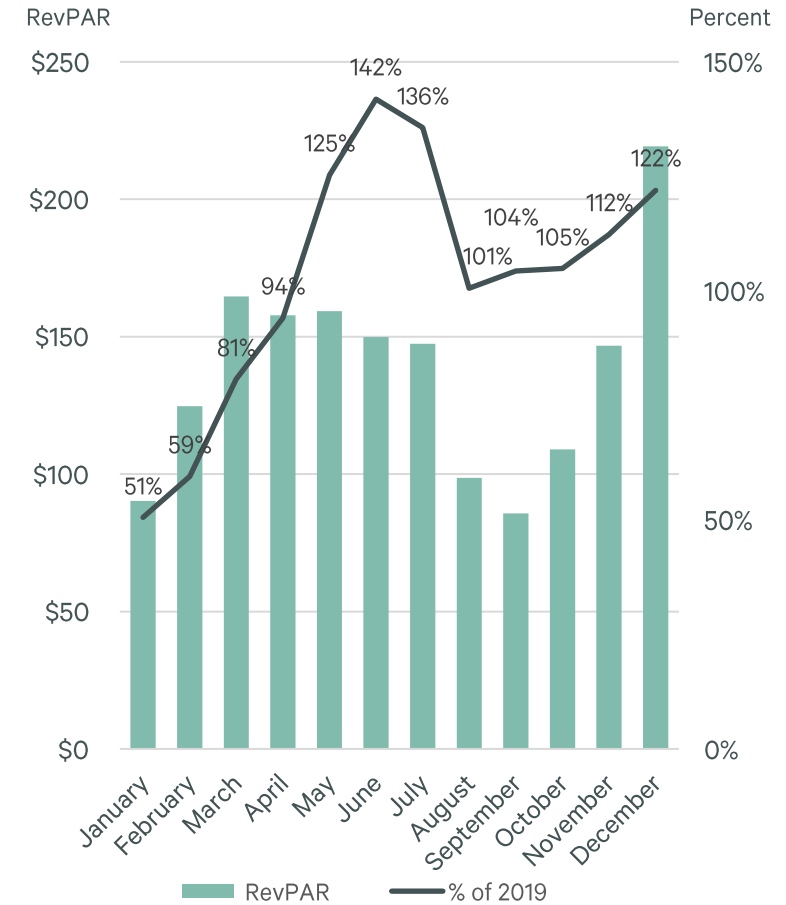
## Austin



## Los Angeles



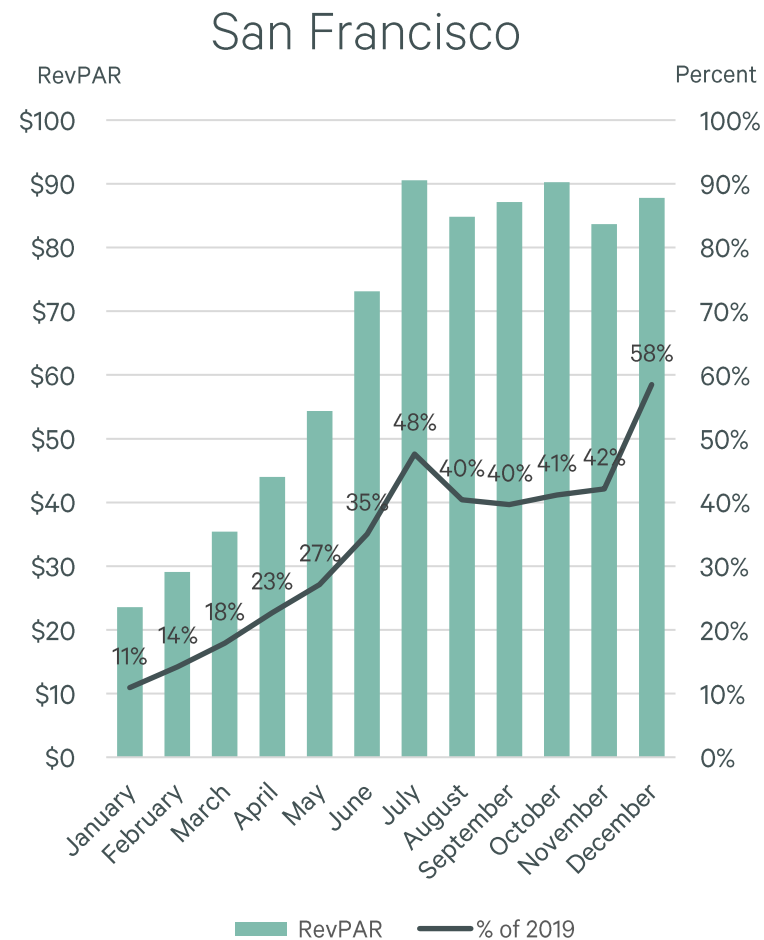
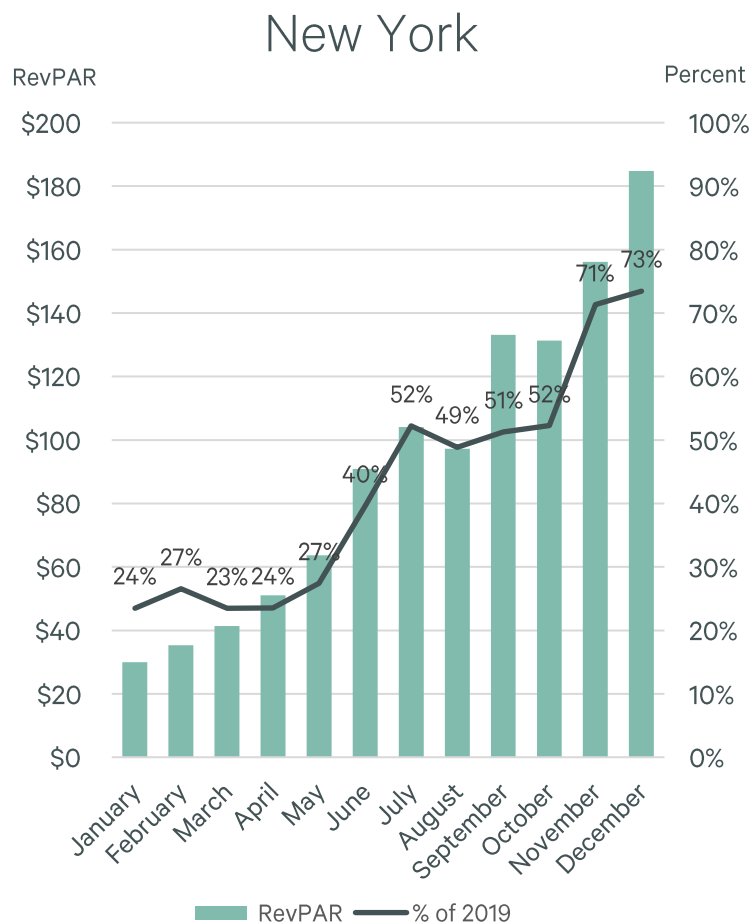
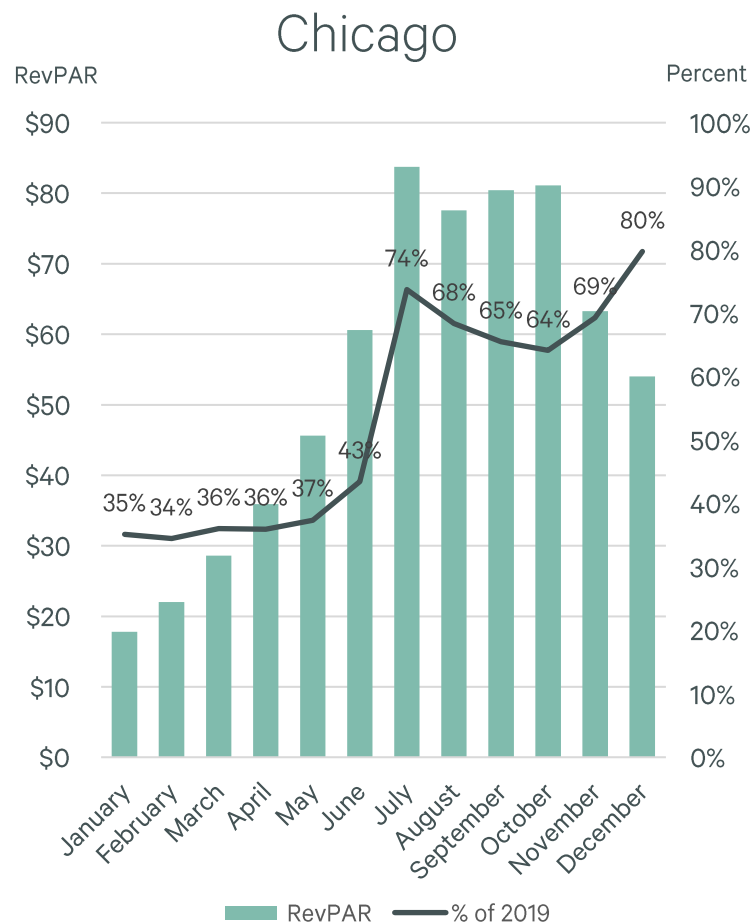
## Miami



Source: CBRE Hotels Research, Kalibri Labs



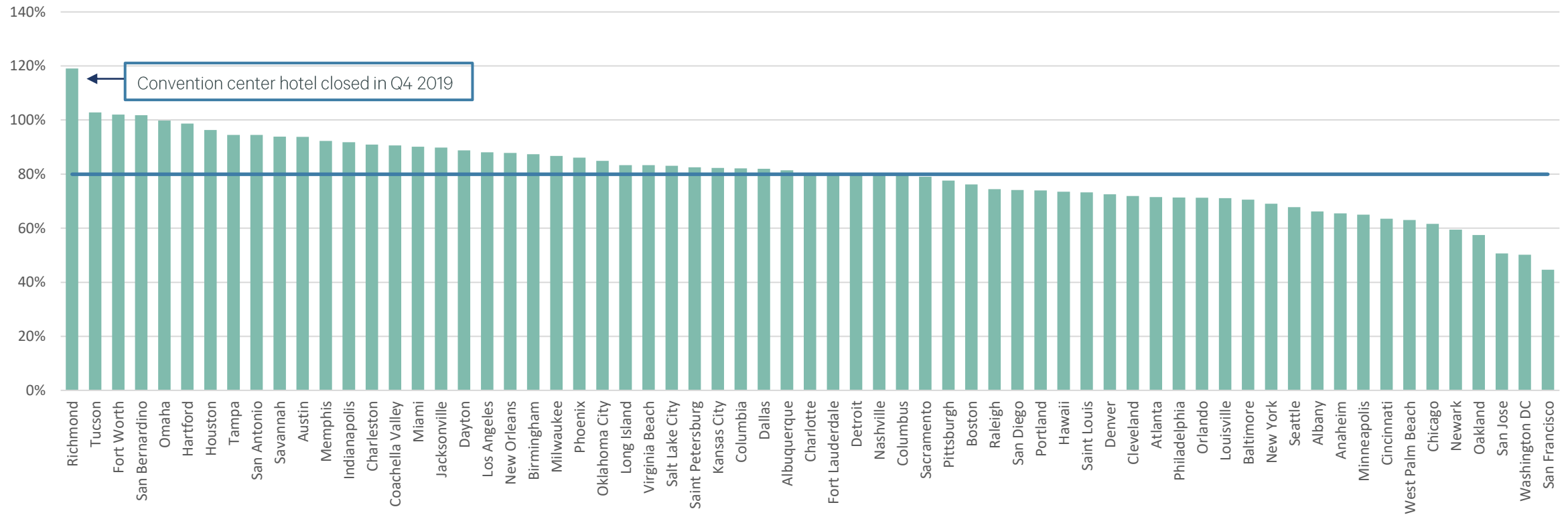
# Monthly RevPAR by Northern U.S. markets



Source: CBRE Hotels Research, Kalibri Labs

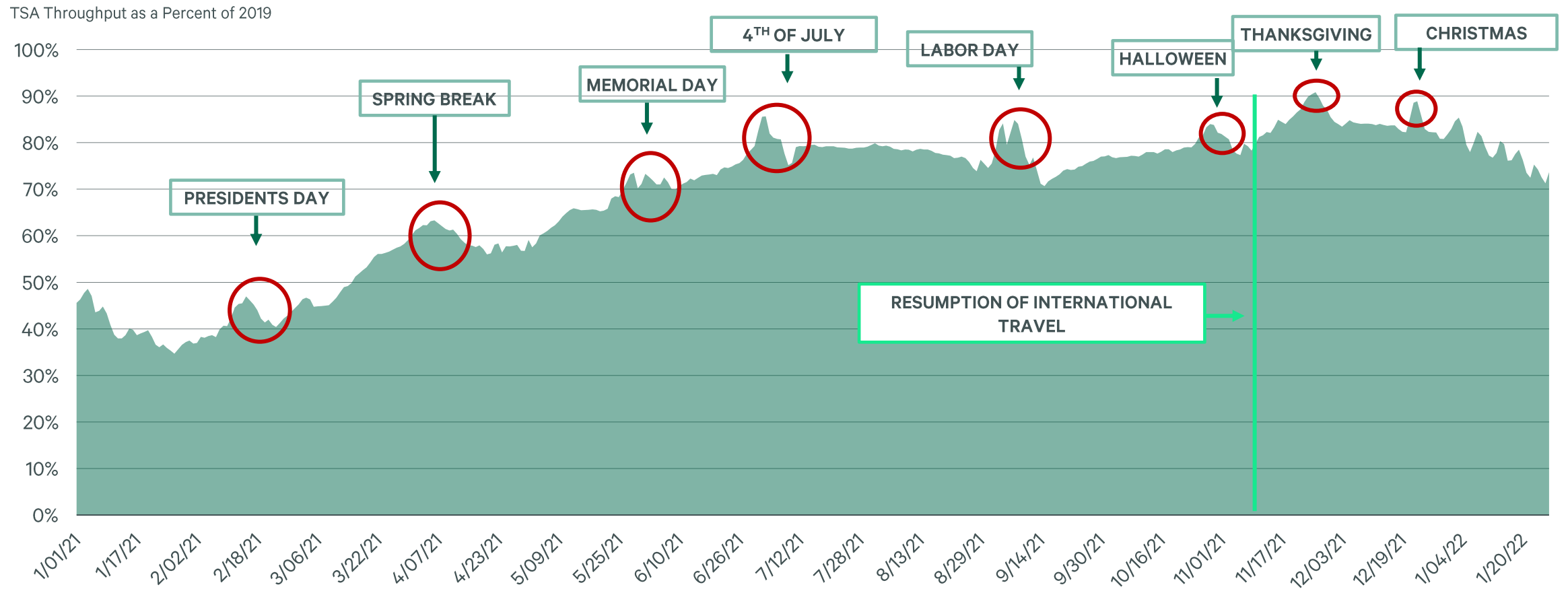
# Large business convention markets still 40% to 60% from Q4 2019 levels

Q4 2021 group demand as a percent of Q4 2019



Source: CBRE Hotels Research, Kalibri Labs,

## TSA throughput has softened in January

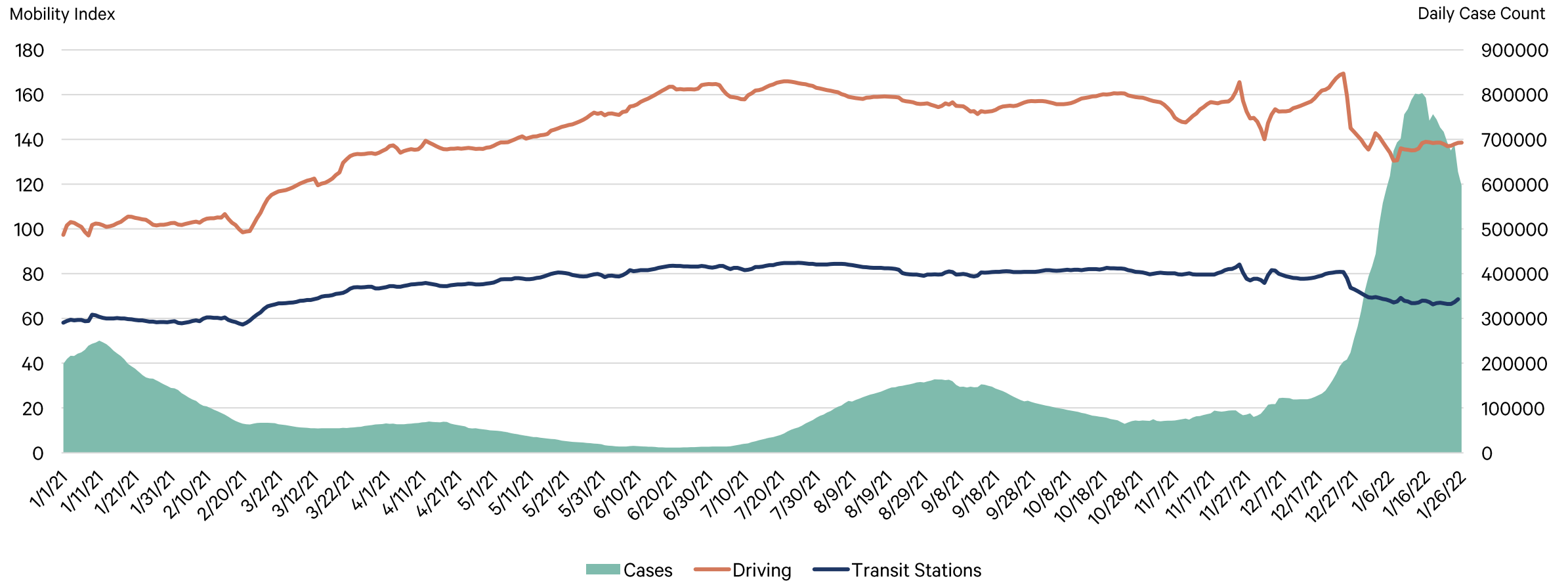


Source: CBRE Hotels Research, TSA

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# Omicron and the holidays negatively impacted public transit and driving

## Mobility vs. Case Count



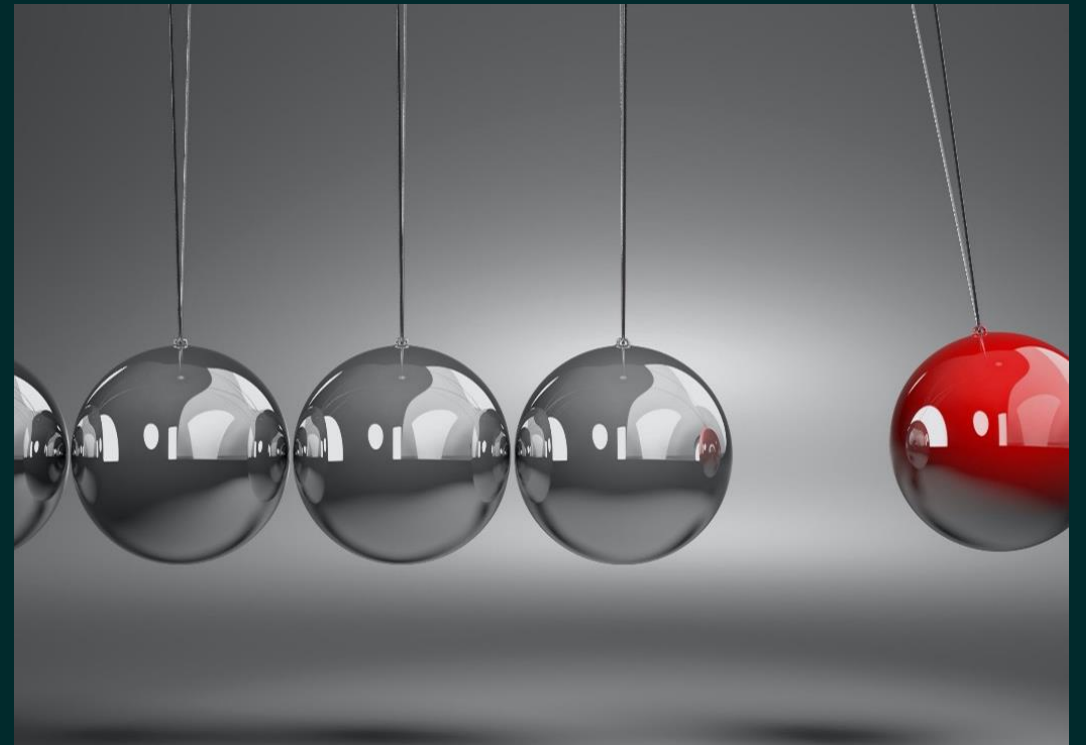
**Source:** CBRE Hotels Research, COVID Tracking Project, Oxford University, Apple Mobility, Google Mobility Index

\*US Daily Cases, 7-day moving average, weighted by population

\*\*"Transit Stations" Includes public transport hubs such as subway, bus, and train stations.

# 3

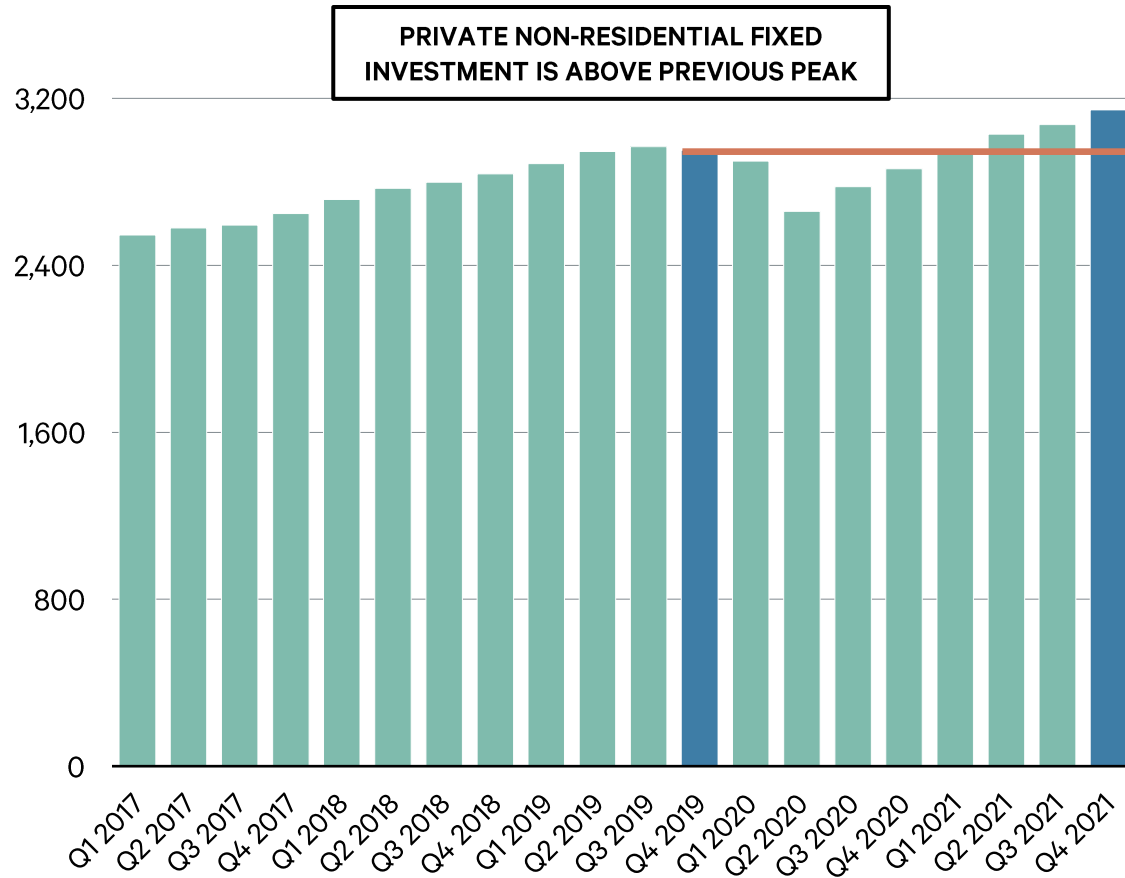
## Leading Indicators



## Record fixed investment, but more recent trends suggest waning confidence

### Private Nonresidential Fixed Investment

Billions of Dollars

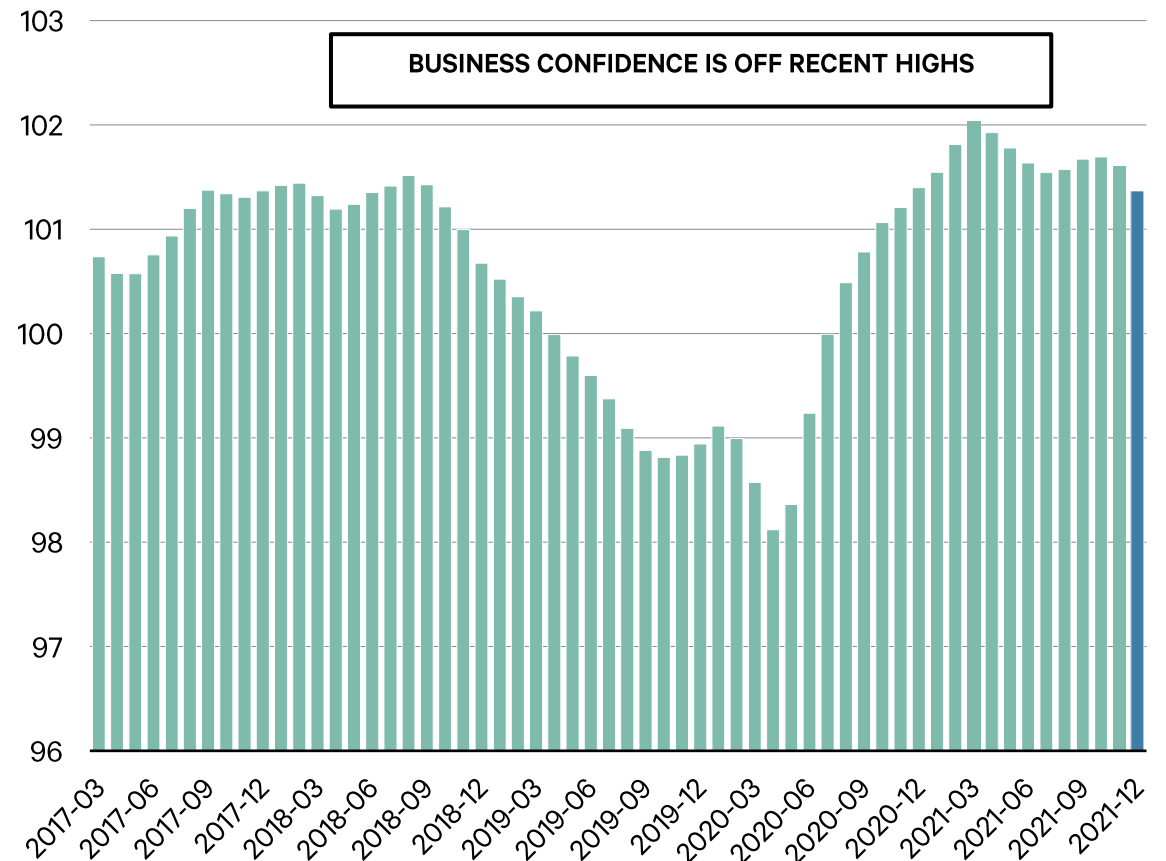


Source: CBRE Hotels Research, CBRE EA, BLS, OECD

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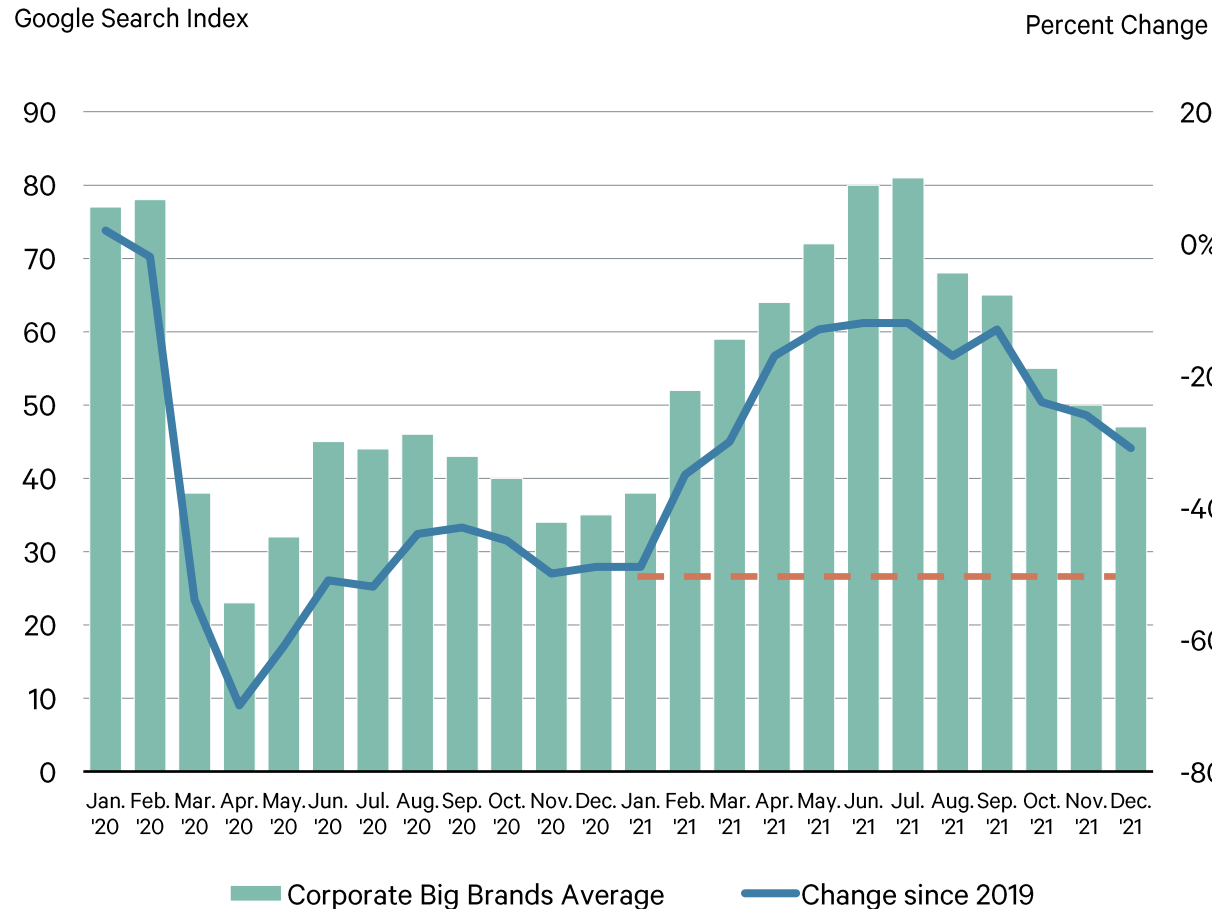
### Business Confidence Index

Index

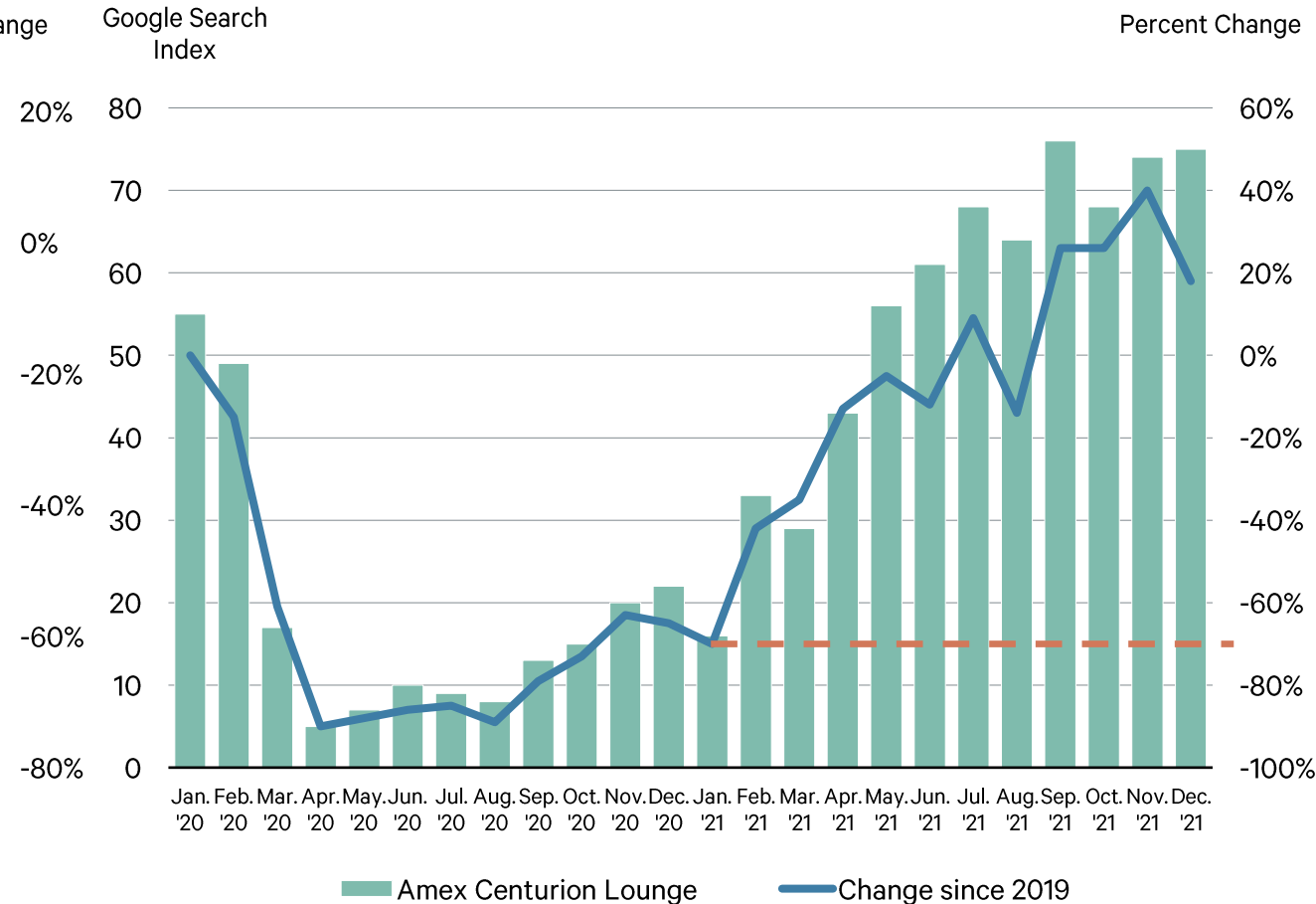


# Search trends for future business travel softened in 4Q

## Corporate Brands Average



## Amex Centurion Lounge



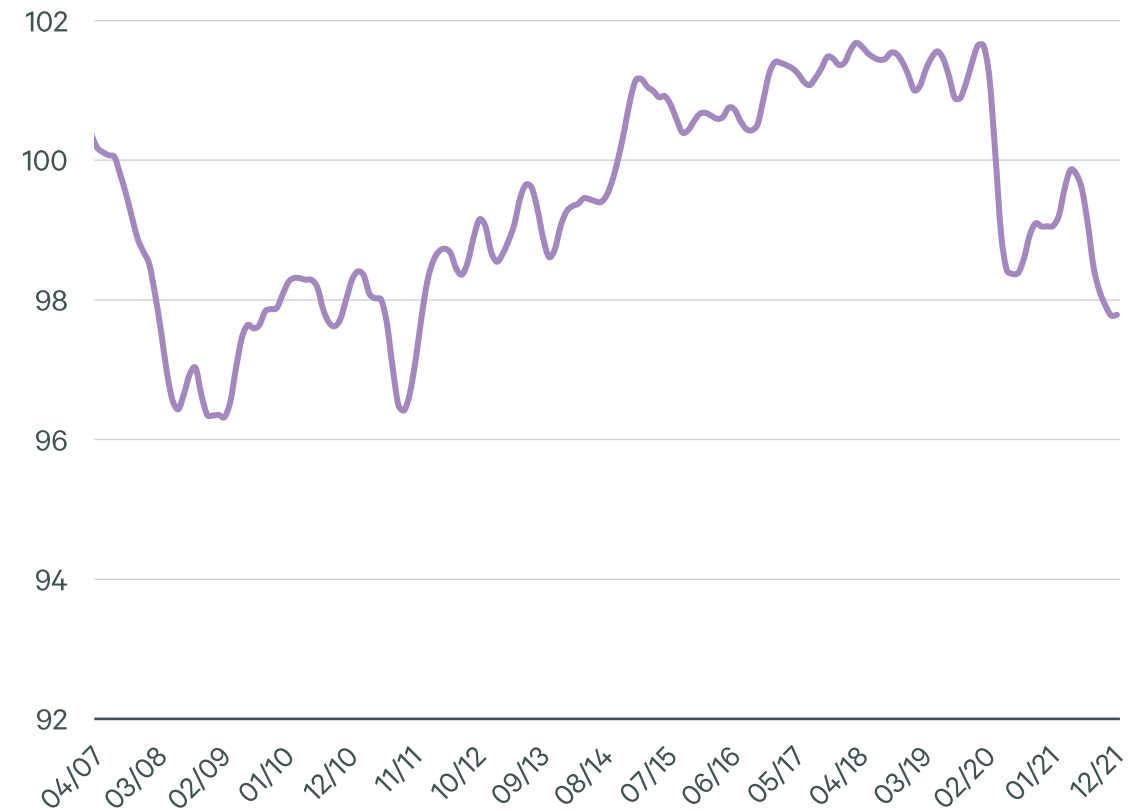


## Consumer confidence is below the pandemic low

### Household Checkable Deposits



### Consumer Confidence Index



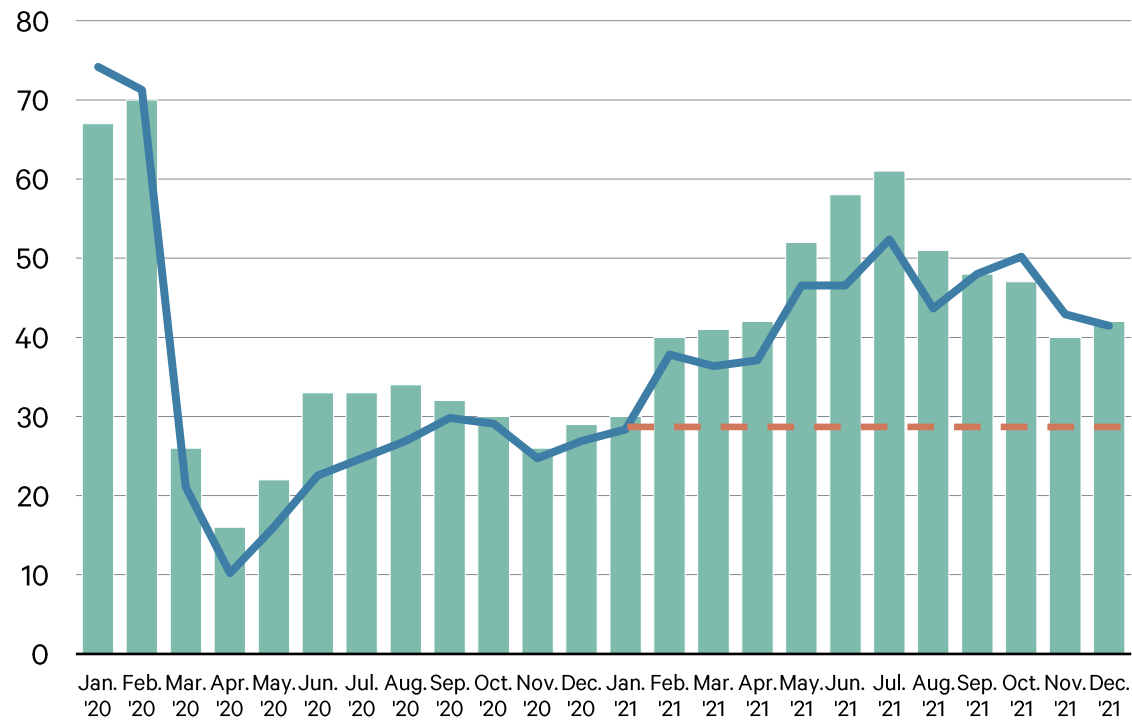
Source: CBRE Hotels Research, BLS, OECD

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# Search trends for future leisure travel soften in 4Q

## Brand Loyalty Programs

Google Search Index

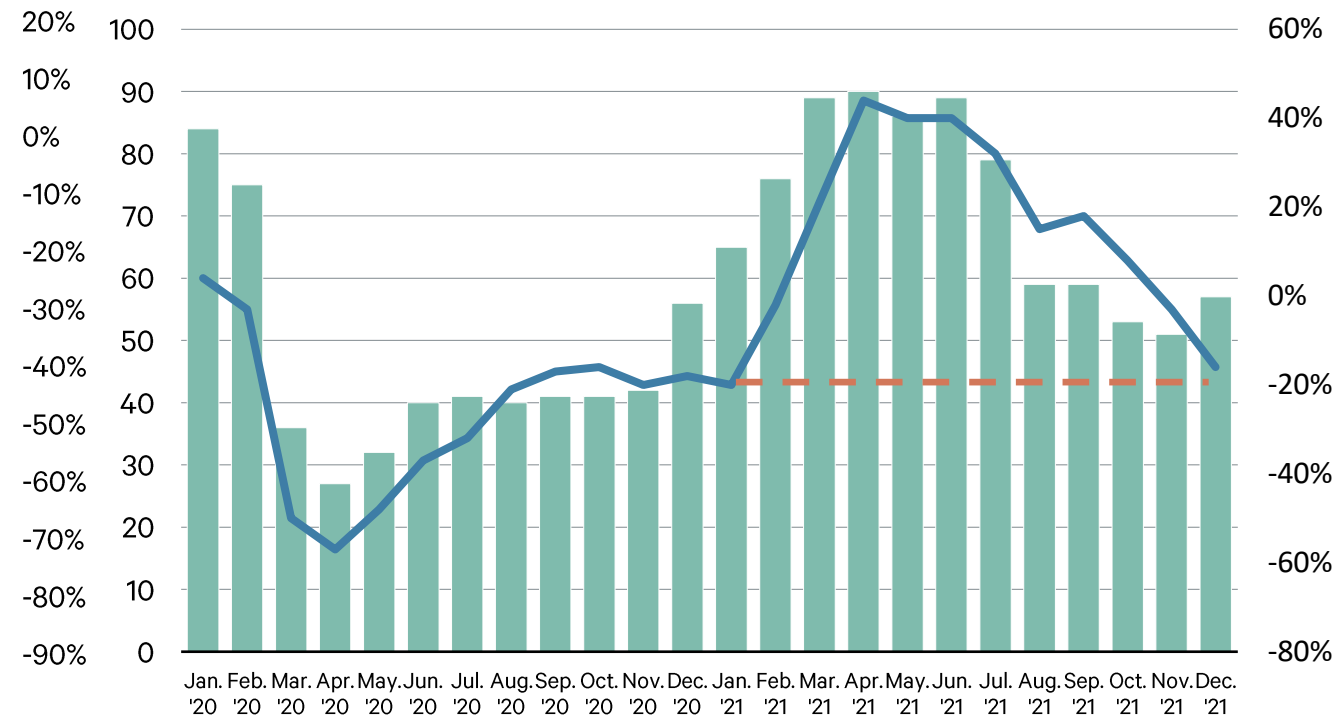


Big Brand Loyalty Programs

Change since 2019

## All Inclusive Resorts

Percent ChangeGoogle Search Index



All Inclusive Resorts

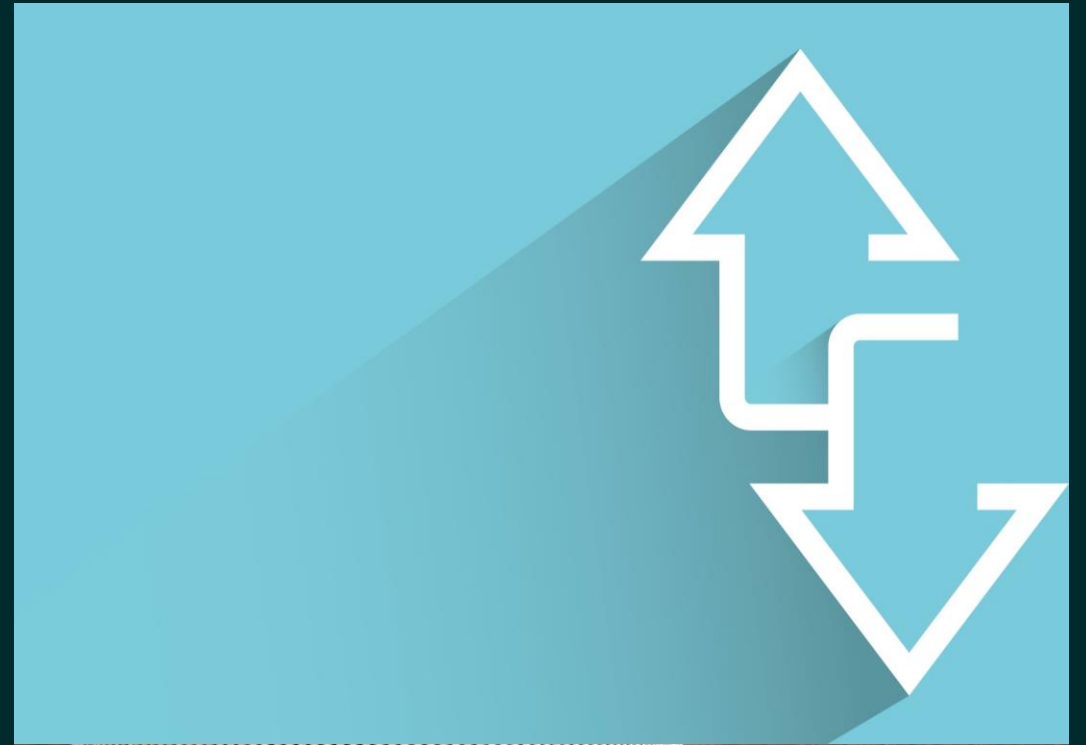
Change since 2019

**Source:** CBRE Hotels Research, Google Trends. Key words: Bonvoy, Hilton Honors, World of Hyatt, IHG Rewards, All-inclusive Resort.

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# 4

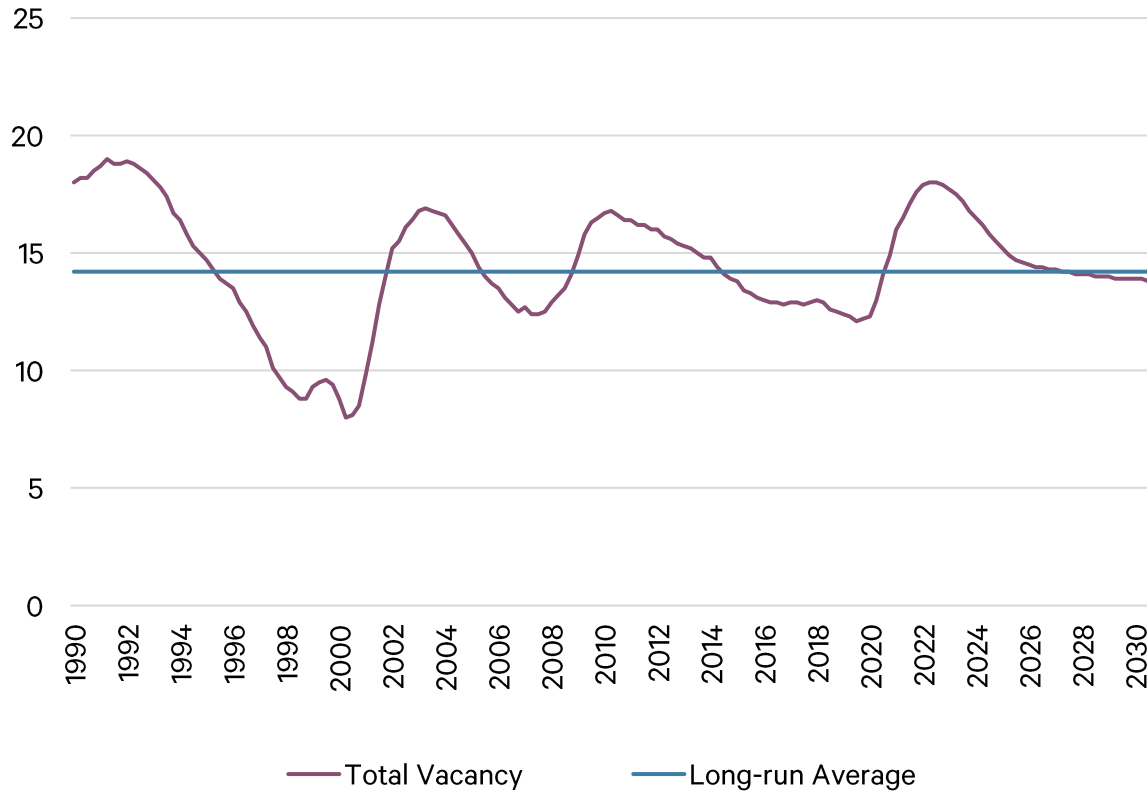
Potential  
Headwinds



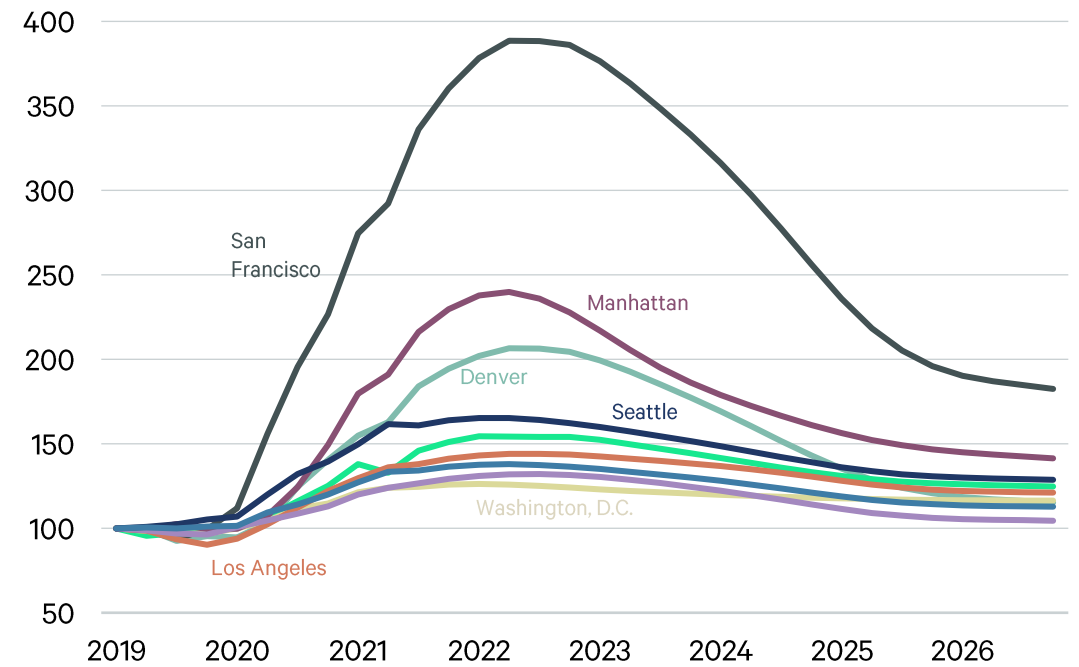
## Office vacancy will remain elevated through 2026

### Office Vacancy

Vacancy (%)



Vacancy rate index, 2019 Q1 = 100

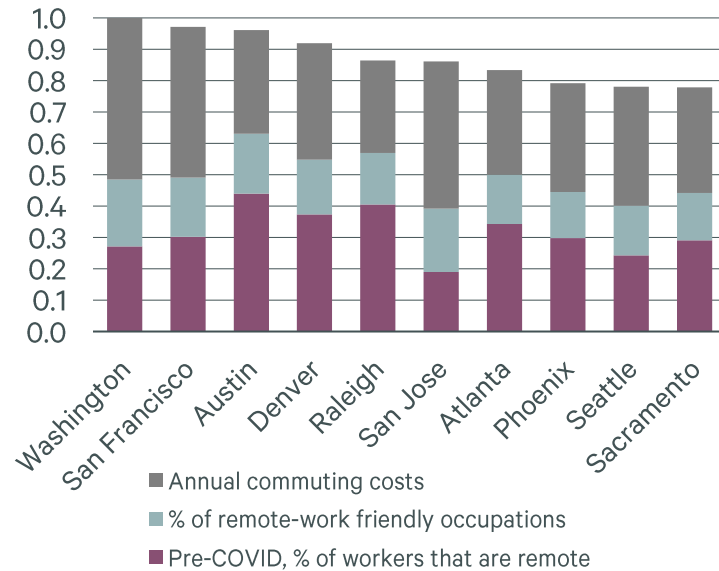


Source: CBRE Hotels Research, CBRE EA

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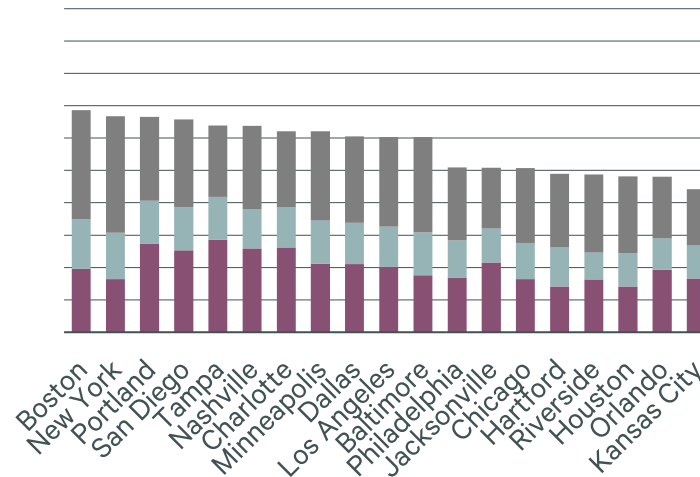
# Potential impact from remote work by market

## Greatest Prevalence of Virtual Work



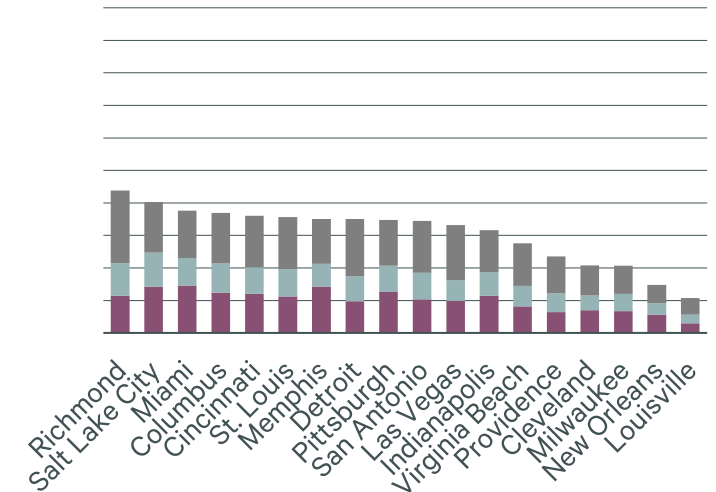
- Tech markets are poised to see more virtual work.
- Markets with high in-migration historically saw many newcomers work virtually.
- Many high-performing office markets have a legacy of virtual work.

## Moderate Prevalence of Virtual Work



- Markets with sizable creative and transactional sectors, such as New York and Los Angeles, will need relatively more office/meeting space.
- Medium-sized Sunbelt cities with shorter commute times offer easier access to the office.

## Less Opportunity for Virtual Work

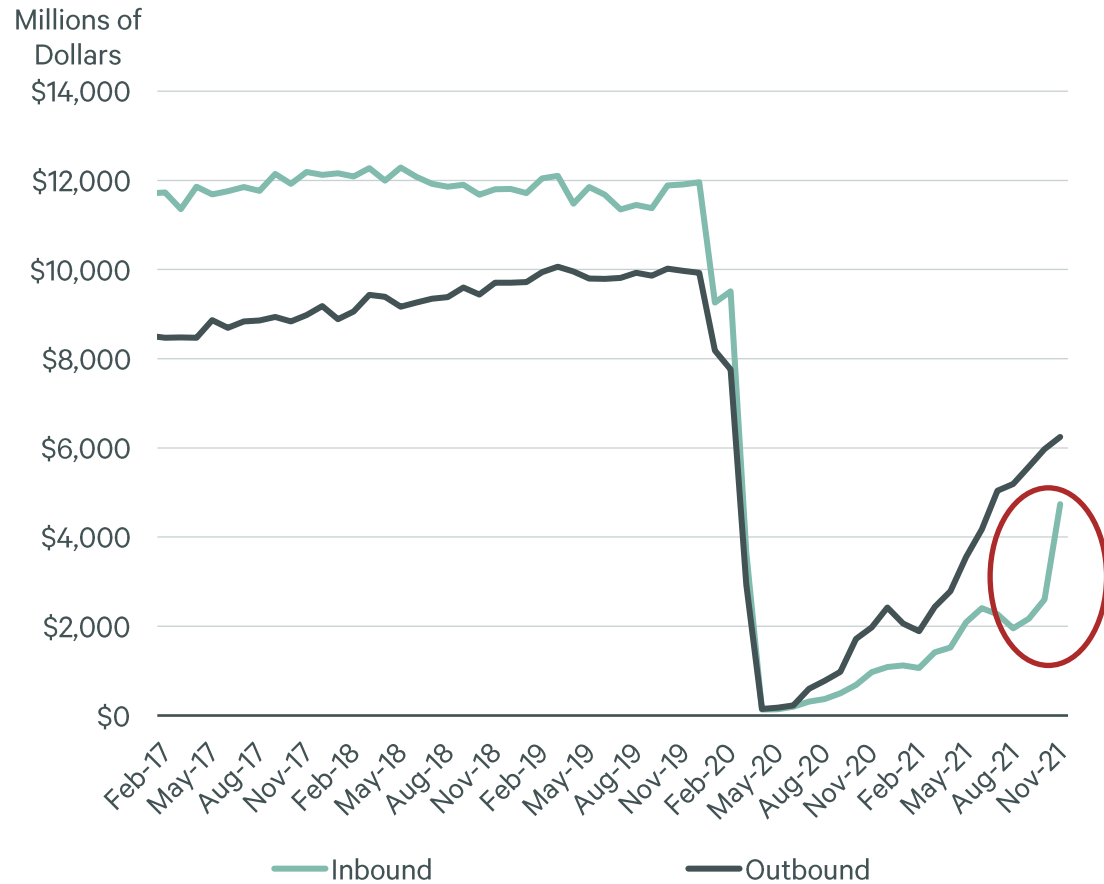


- High-tech sectors are less prevalent in the Midwest, limiting the propensity for virtual work.
- More manageable commute times encourage office use.

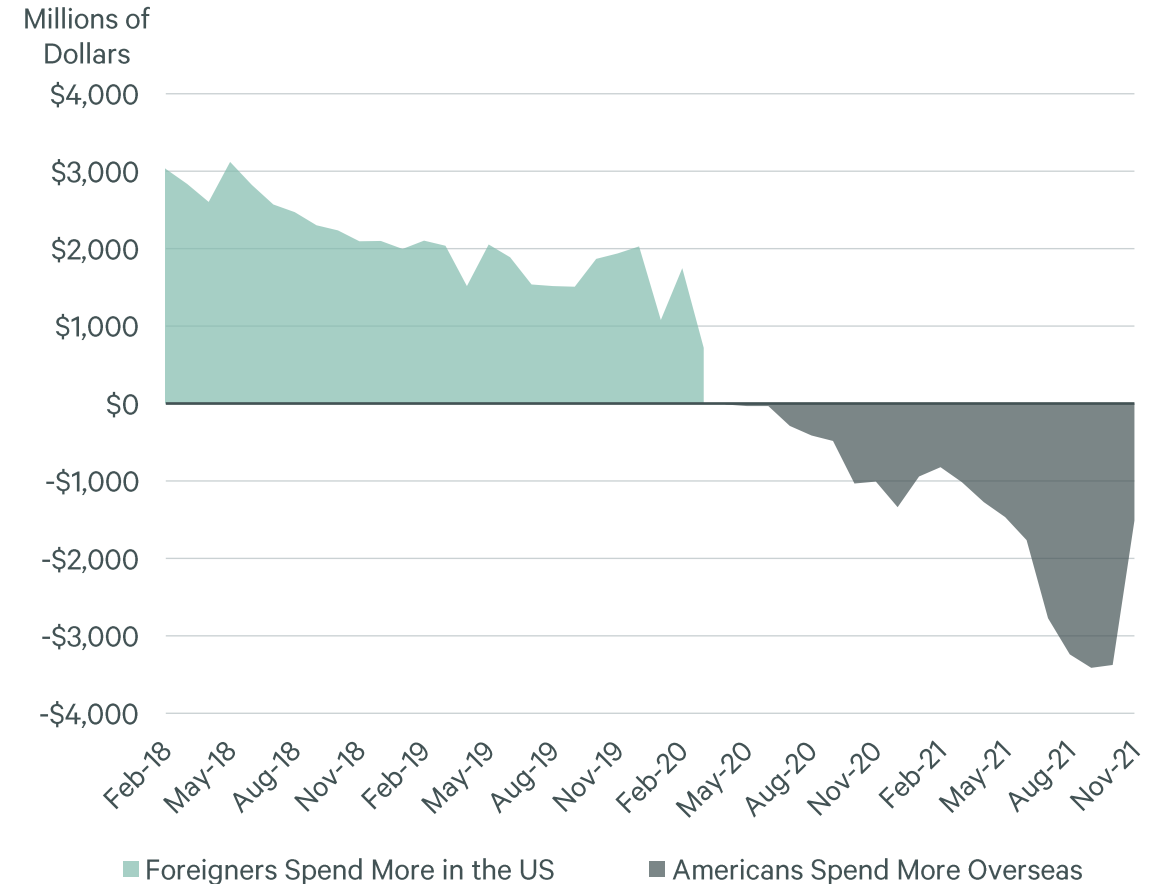
**Source:** CBRE EA, U.S. Census, University of Chicago, Clever.

## November saw an increase in inbound international spending

### International Travel Spending



### INTL. Travel Restrictions Hurting US Hotels



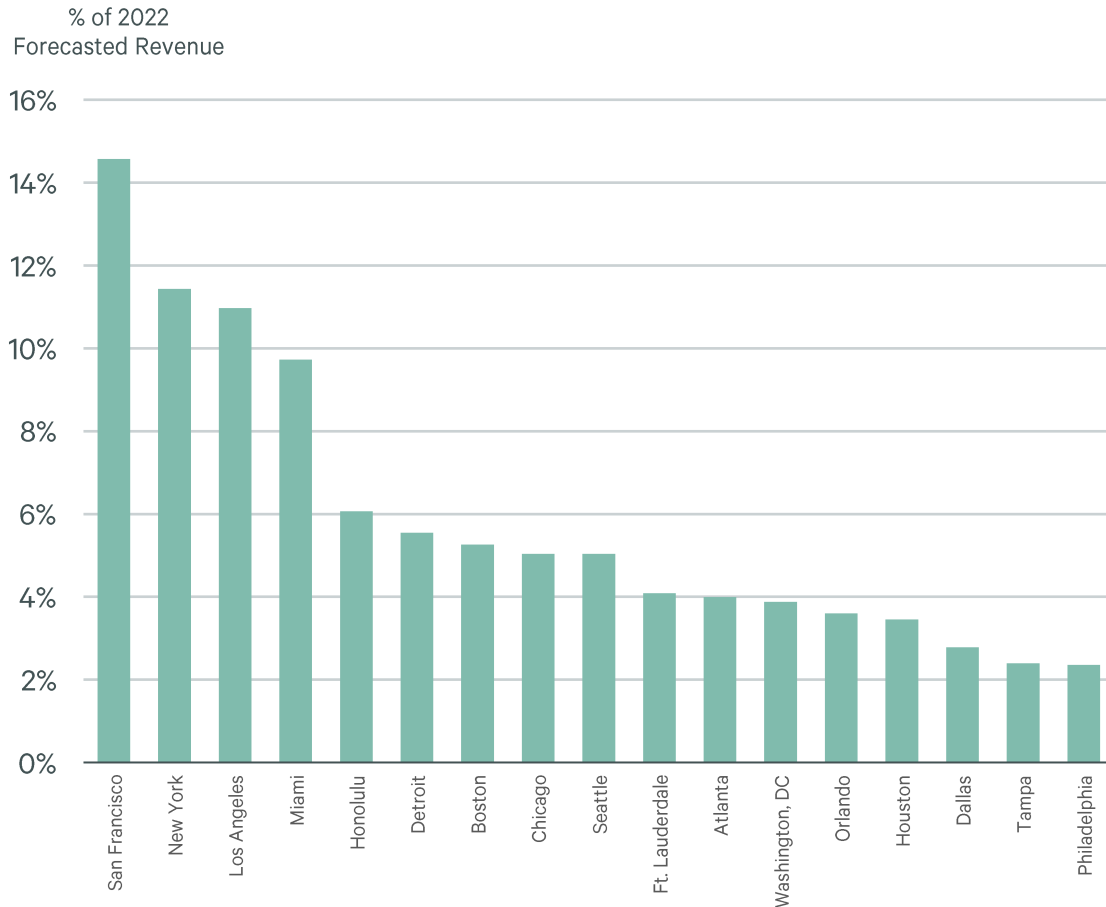
Source: CBRE Hotels Research, , Bureau of Economic Analysis and the National Travel and Tourism Office (NTTO)

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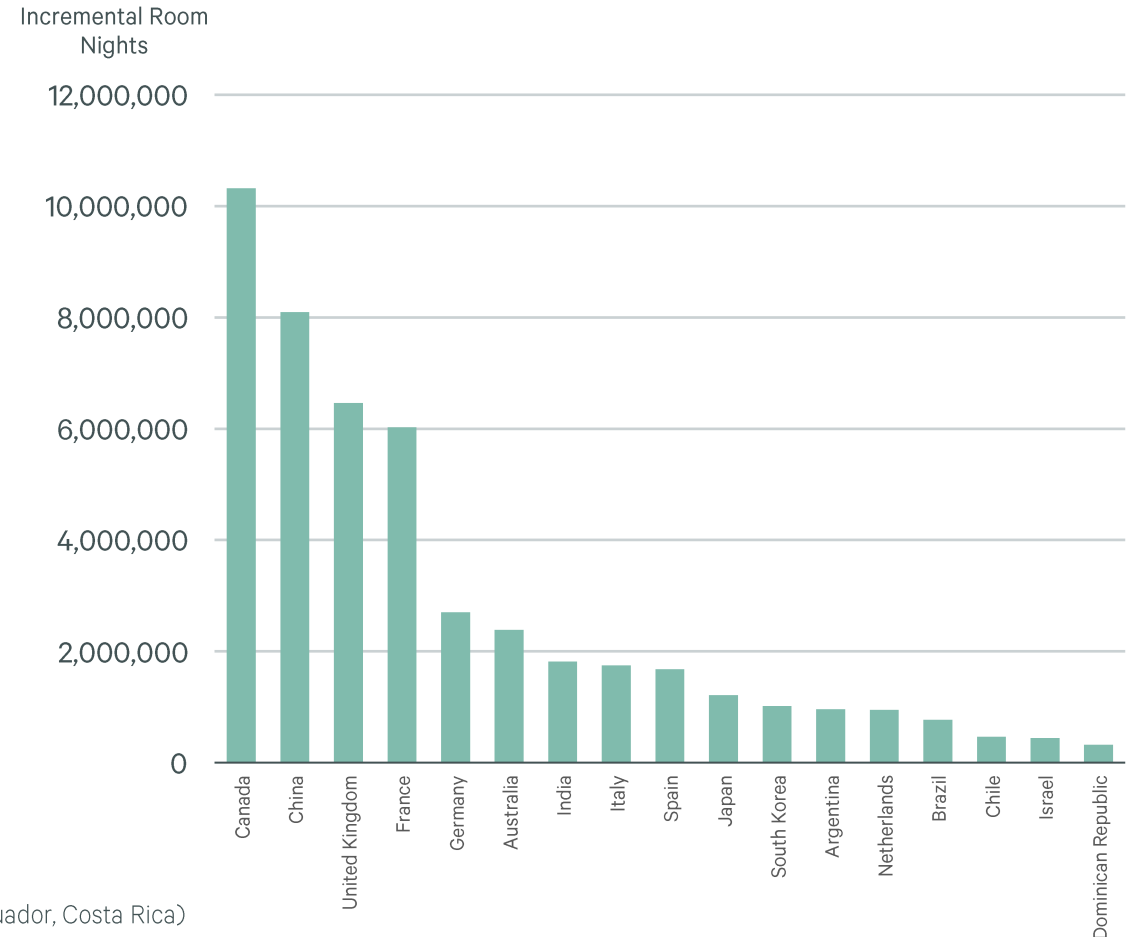
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# International travel recovery forecast

## Revenue Growth From International Visitors



## 2022 Expected Incremental Hotel Guest Room Nights



Source: CBRE Hotels Research, NTT, Deloitte, Hotel Horizons, Brand USA (Excluding Mexico, Colombia, Ecuador, Costa Rica)



## U.S. border entrants by country

Year to Date November 2019

RANK	Country
1	Mexico
2	Canada
3	United Kingdom
4	Japan
5	South Korea
6	Brazil
7	Germany
8	China, PRC (excluding Hong Kong)
9	France
10	India

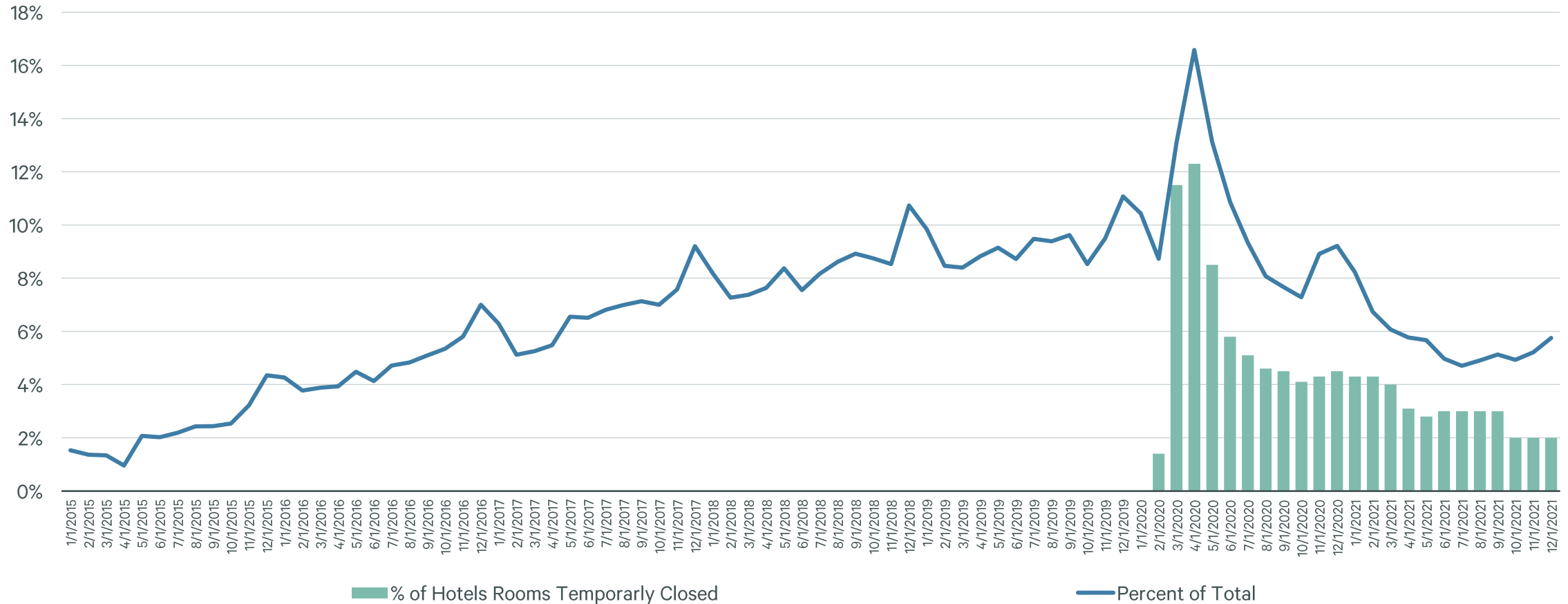
Year to Date November 2021

RANK	Country
1	Mexico
2	Canada
3	United kingdom
4	Colombia
5	India
6	Germany
7	France
8	Brazil
9	Ecuador
10	Spain

Source: CBRE Hotels Research, Bureau of Economic Analysis and the National Travel and Tourism Office (NTTO).

## Short term rental demand share normalizes as hotels reopen

STR demand as a percent of total demand vs. temporarily hotel closures



Source: CBRE Hotels Research, Kalibri Labs, AirDNA

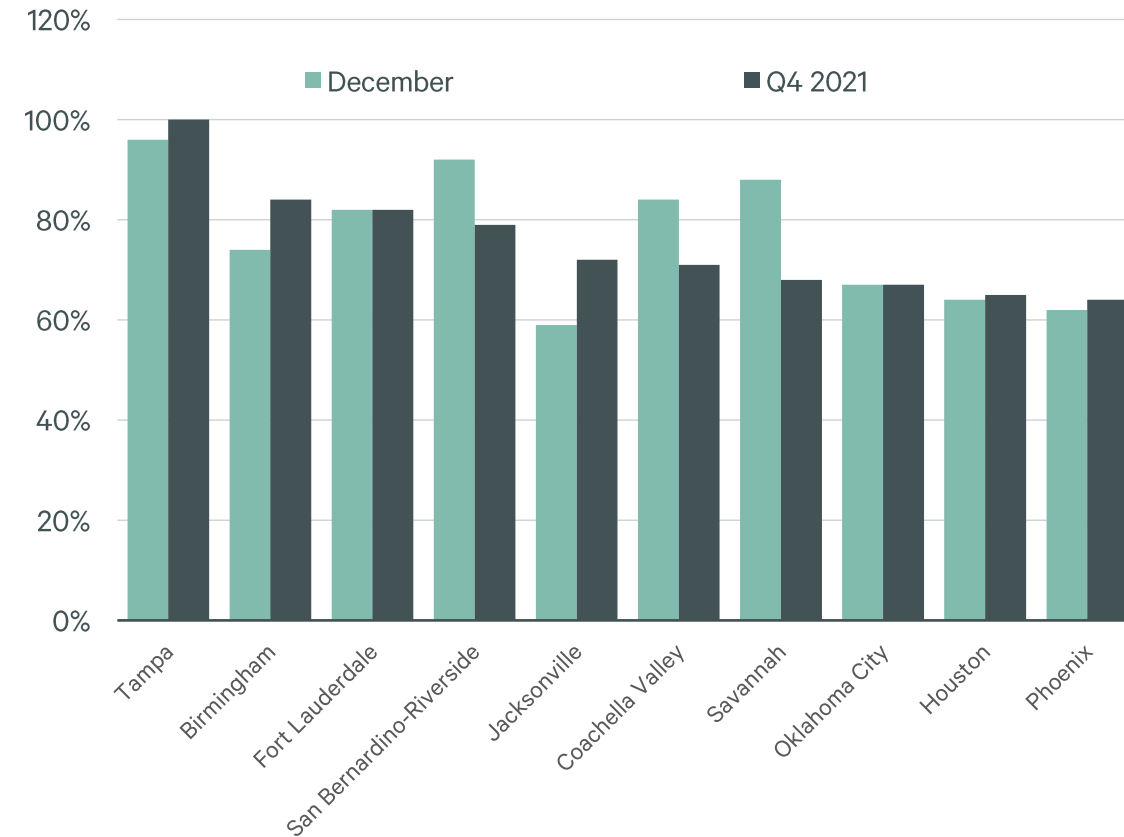
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# Both STRs and Hotels show strength in southern and drive-to leisure destinations

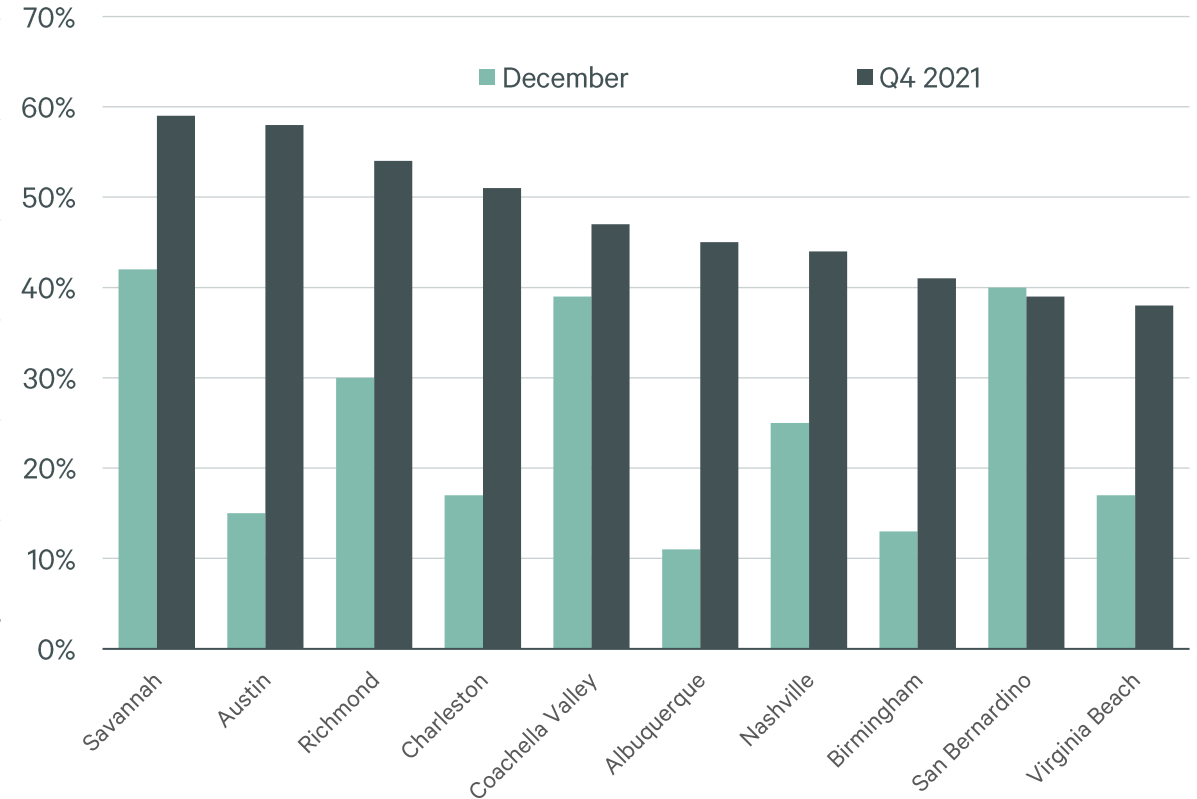
Top 10: Short Term Rental Revenue 2021 vs. 2019

Top 10: Hotel Revenue 2021 vs. 2019

Y-o-Y Change



Y-o-Y Change

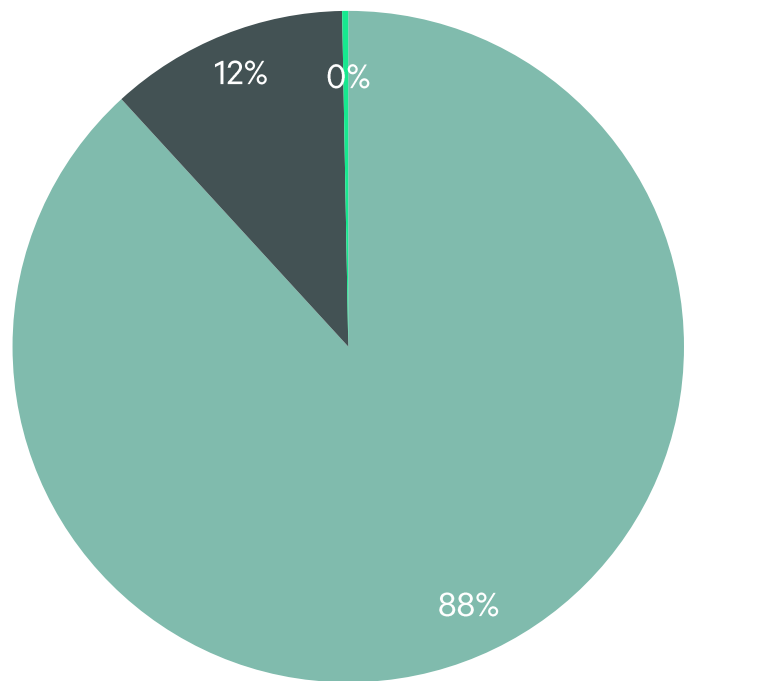


Source: CBRE Hotels Research, Kalibri Labs, AirDNA

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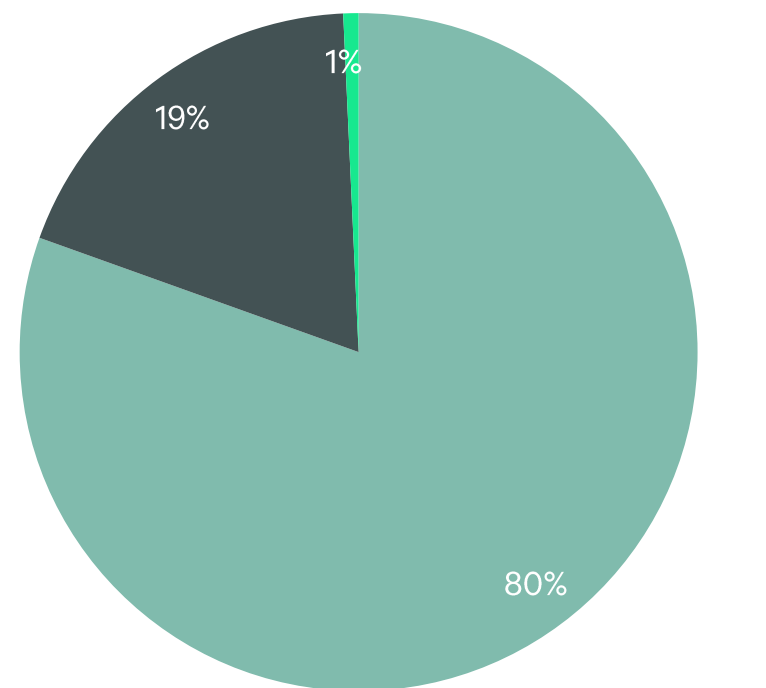
— The composition has changed to larger, more expensive short term rental units

December 2021



■ Entire home/apt ■ Private room ■ Shared room

December 2019

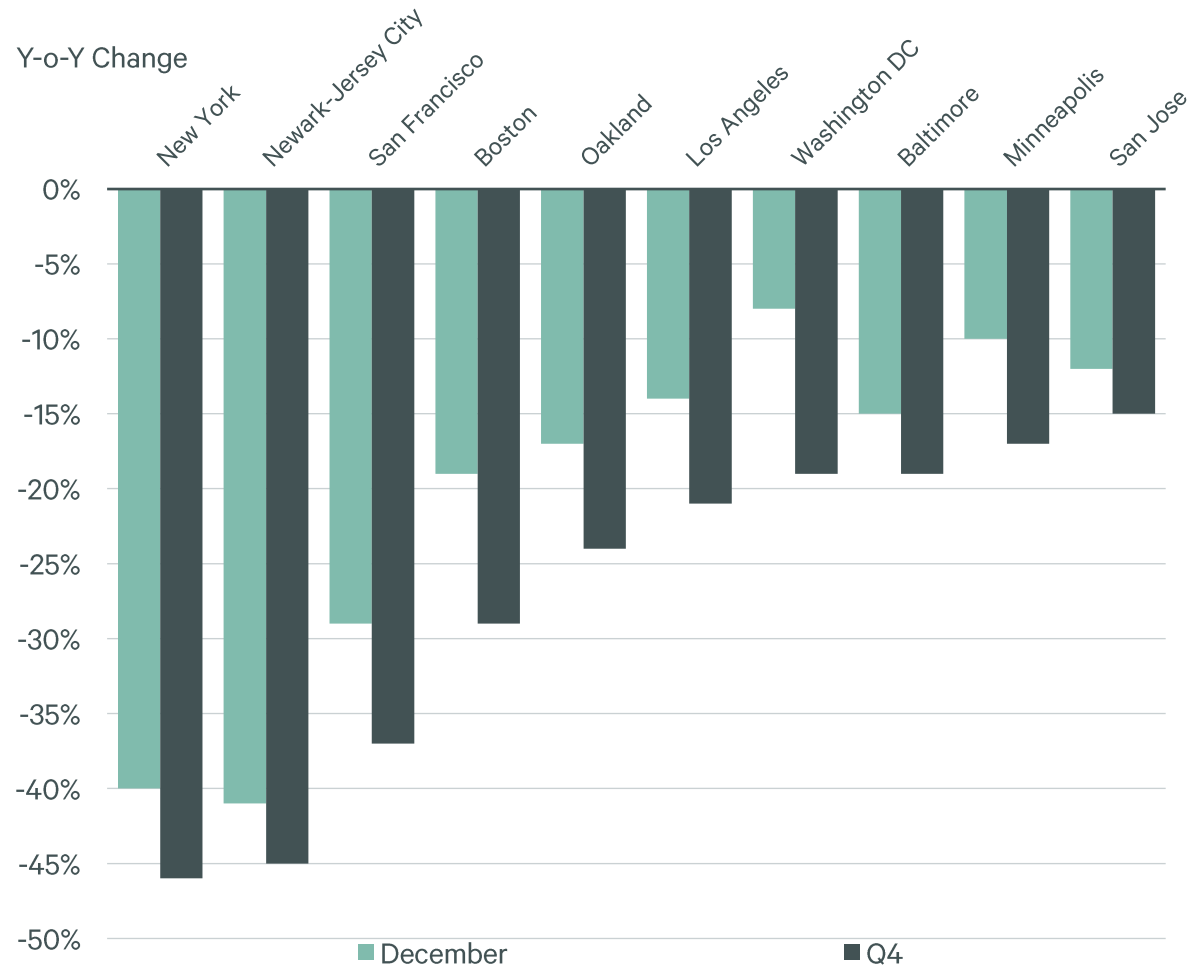


■ Entire home/apt ■ Private room ■ Shared room

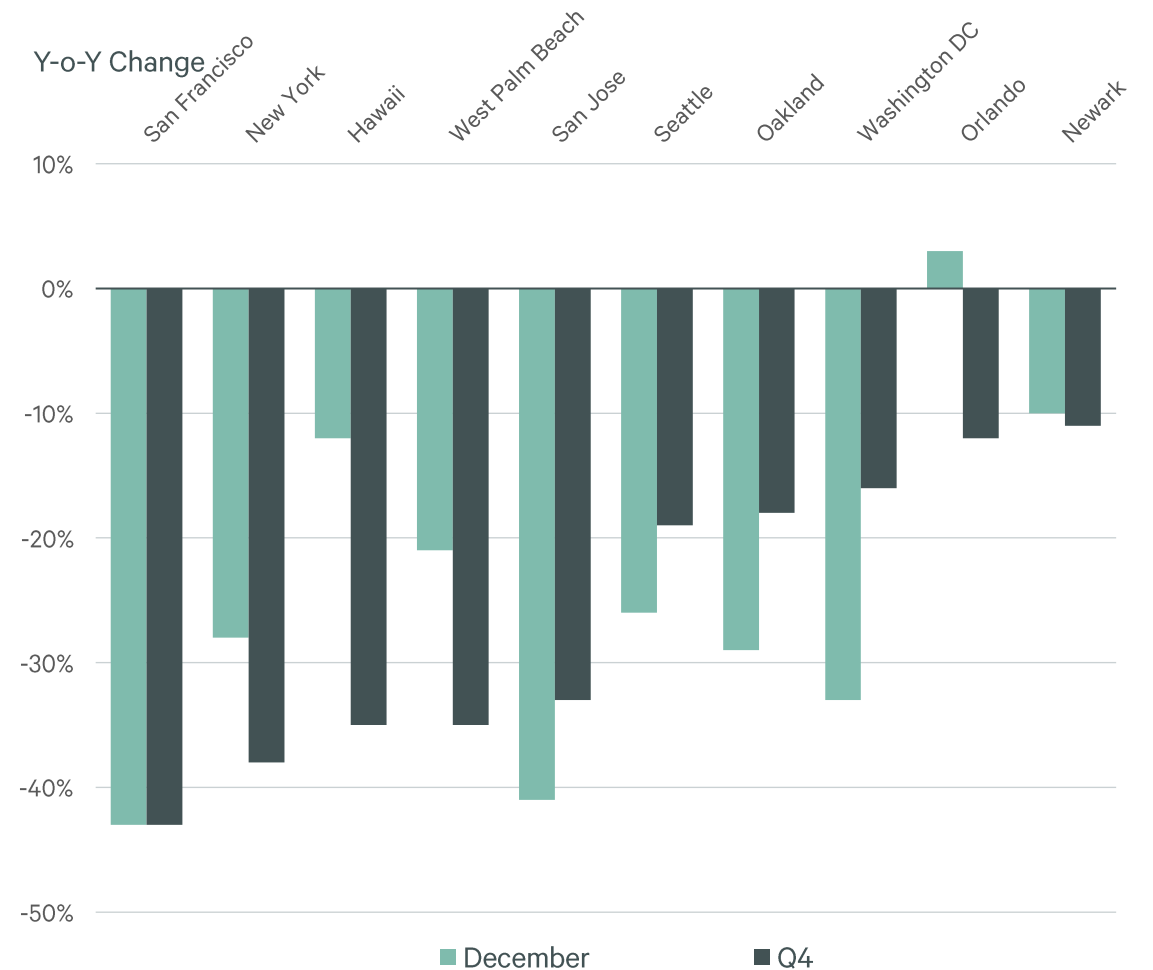
**Source:** CBRE Hotels Research, Kalibri Labs, AirDNA

## Most challenged markets are urban areas

Bottom 10: Short Term Rental Revenue 2021 vs. 2019



Bottom 10: Hotel Revenue 2021 vs. 2019

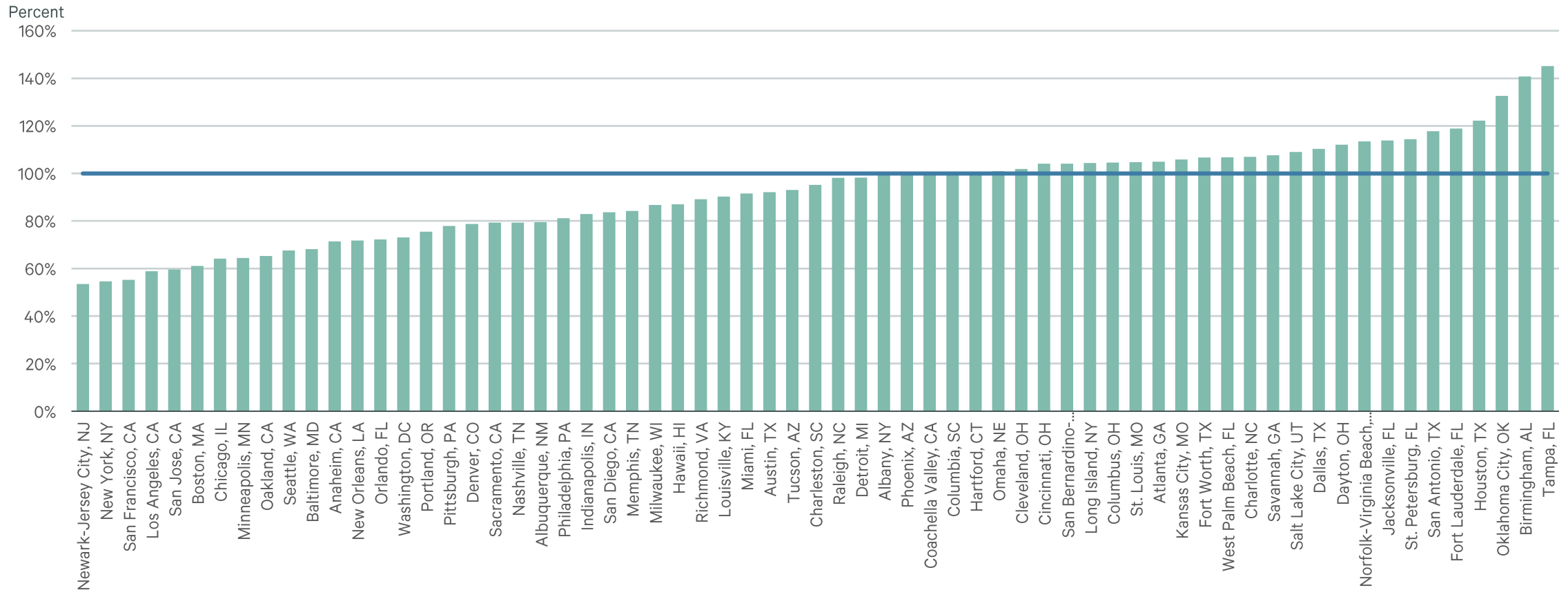


Source: CBRE Hotels Research, Kalibri Labs, AirDNA

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## Short term rental supply only up in select markets, urban markets are down

December 2021 Supply as a percent of 2019



Source: CBRE Hotels Research, Kalibri Labs, AirDNA

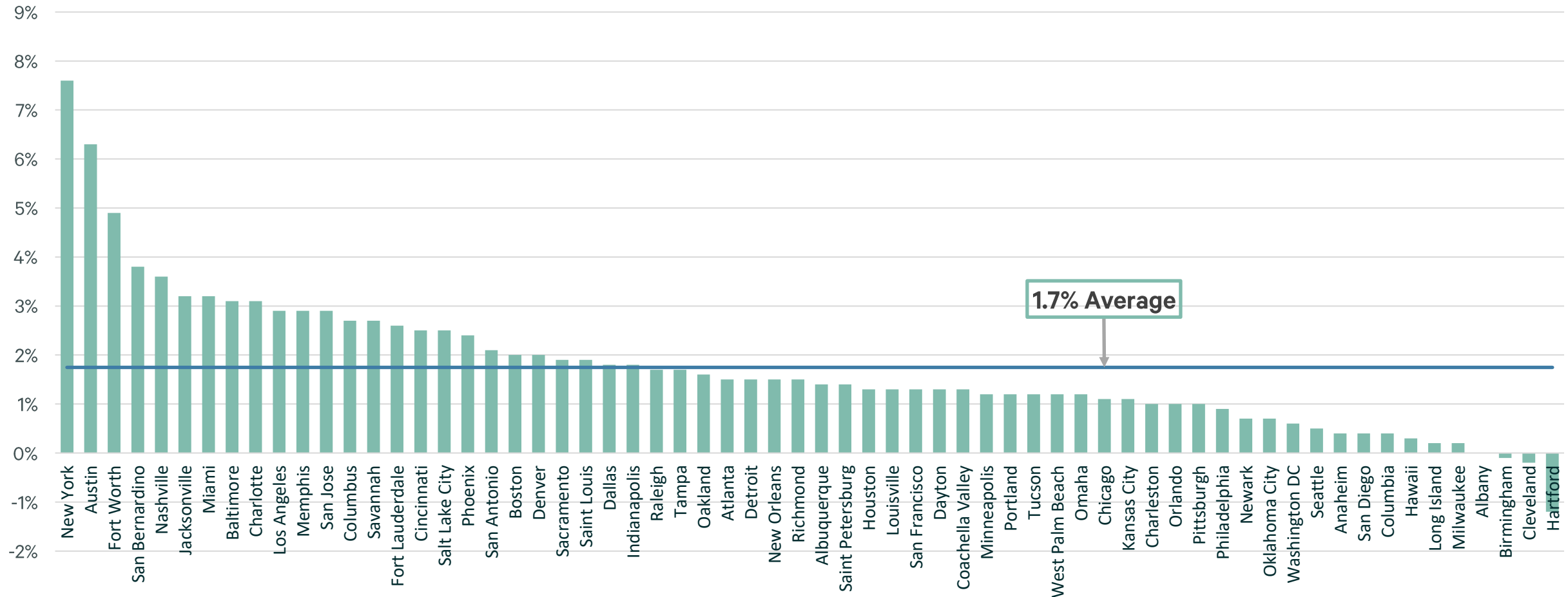
# 5

## Supply



## Top 65 market 2022 supply growth

### 2022 Supply Growth Forecast



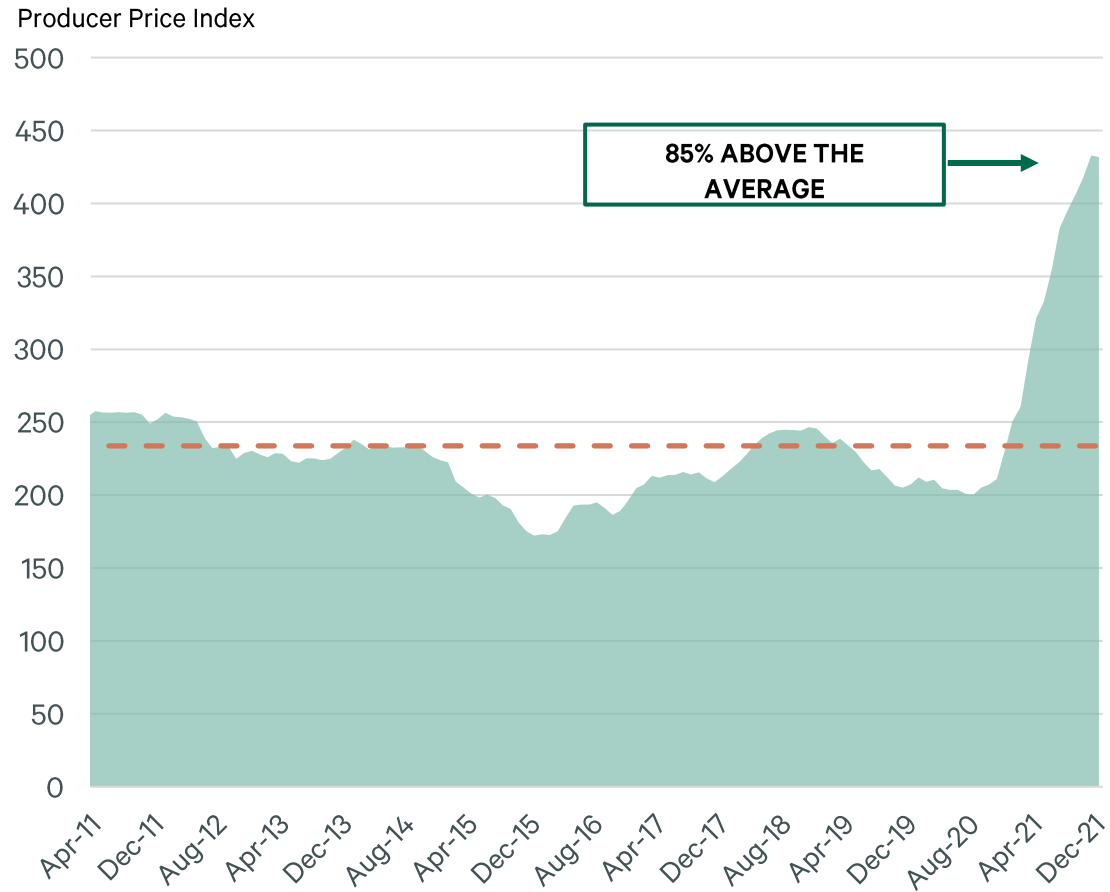
Source: CBRE Hotels Research, Kalibri Labs

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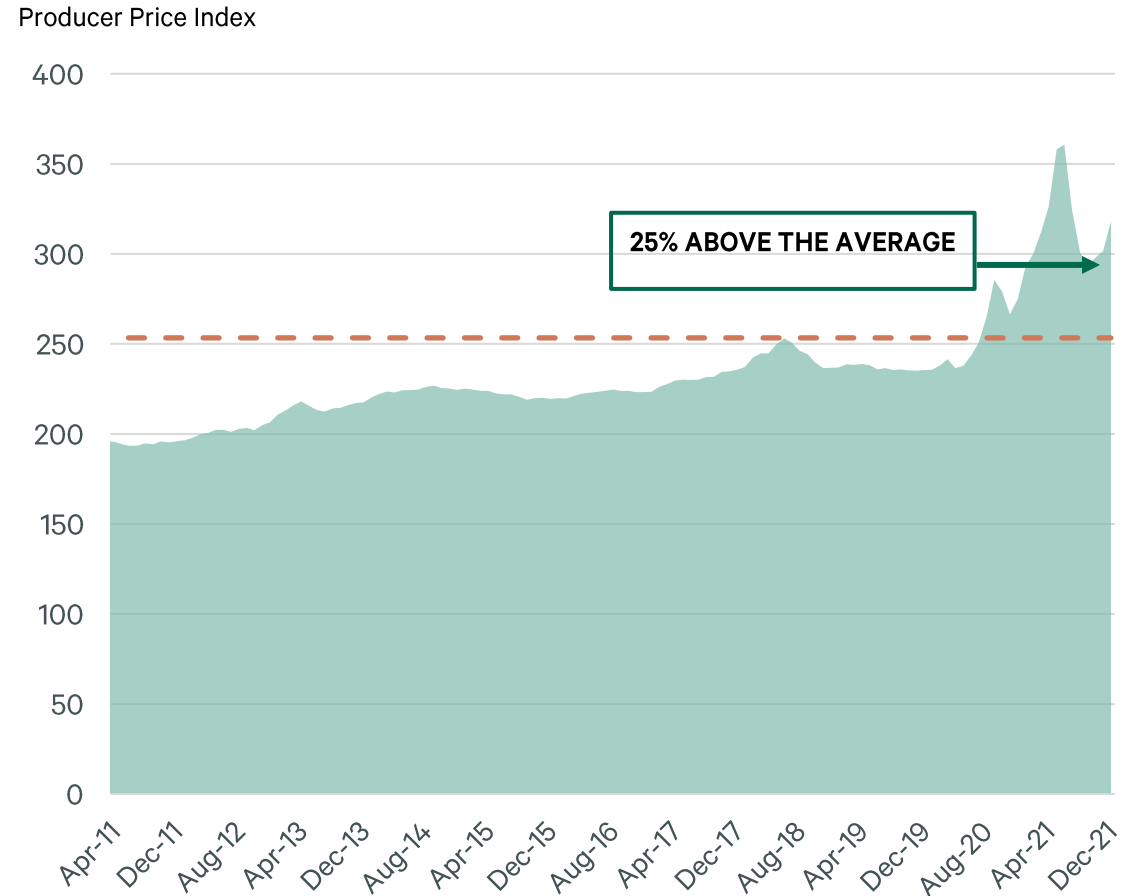


## Construction inputs are still well above their long run averages

### Steel and Iron



### Lumber and Wood products

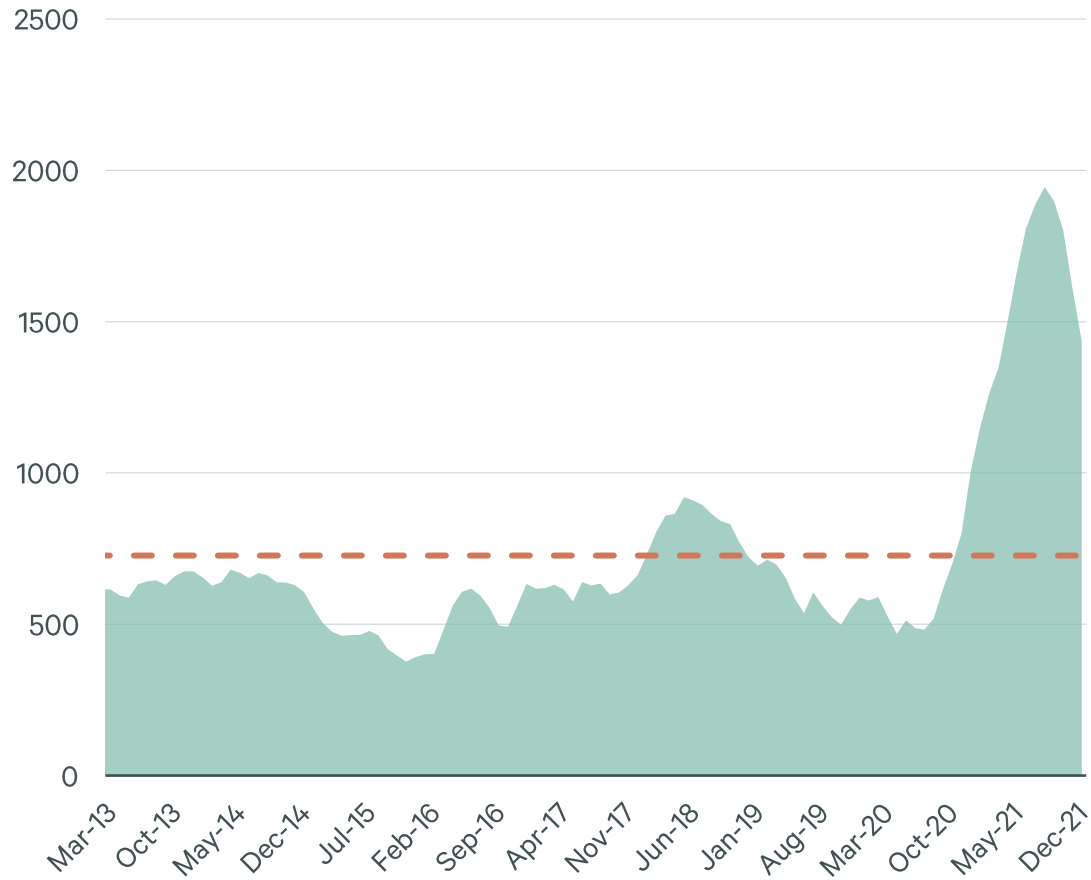


Source: CBRE Hotels Research, BLS

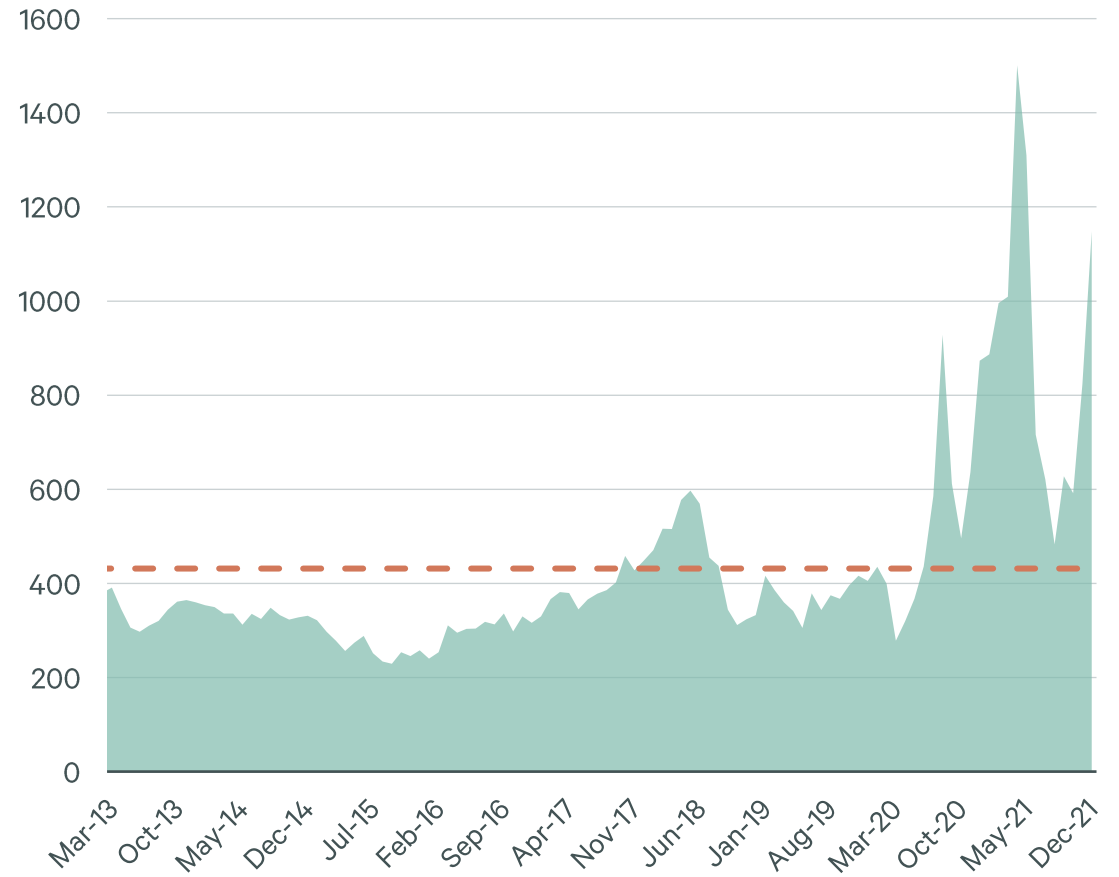
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## Futures indicate headwinds

### Steel Futures



### Lumber Futures



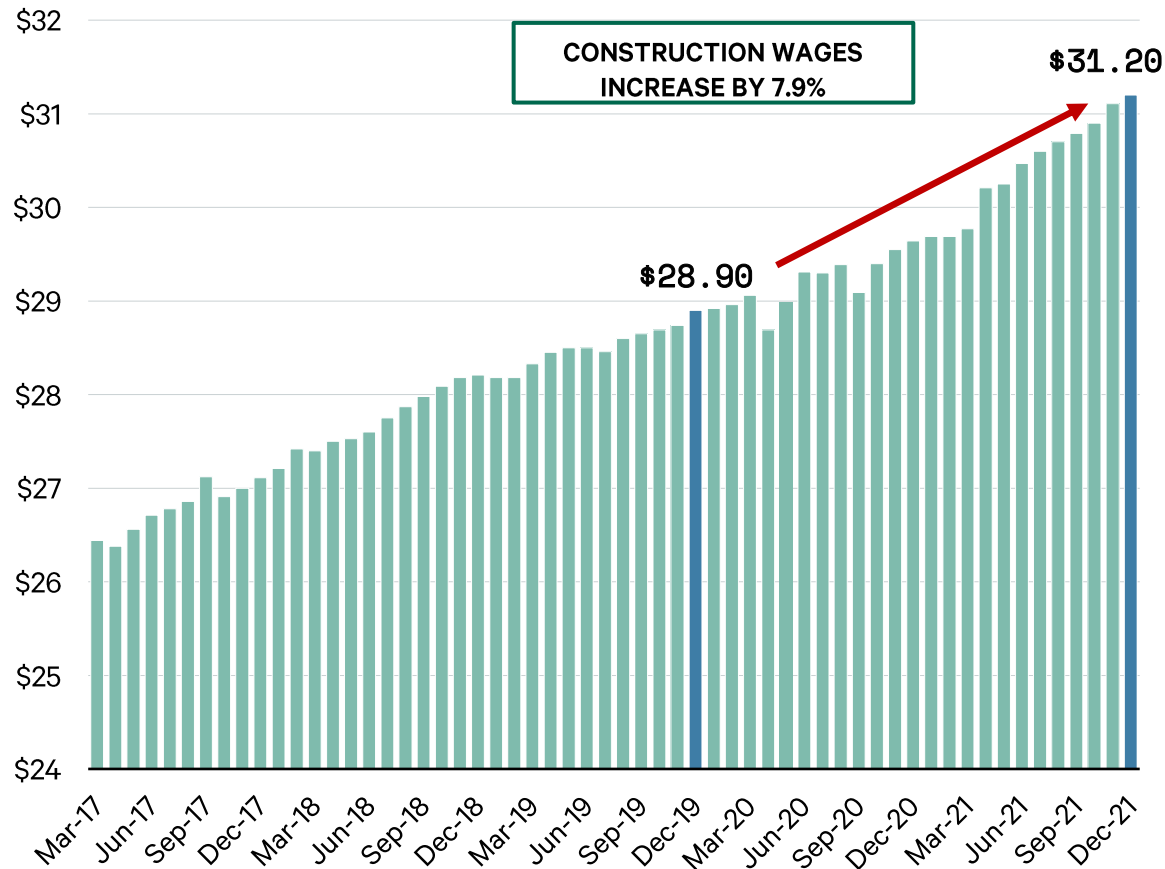
Source: CBRE Hotels Research, CME Group

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# Higher wages and employment headwinds new construction

## Construction Wages

Dollars Per Hour

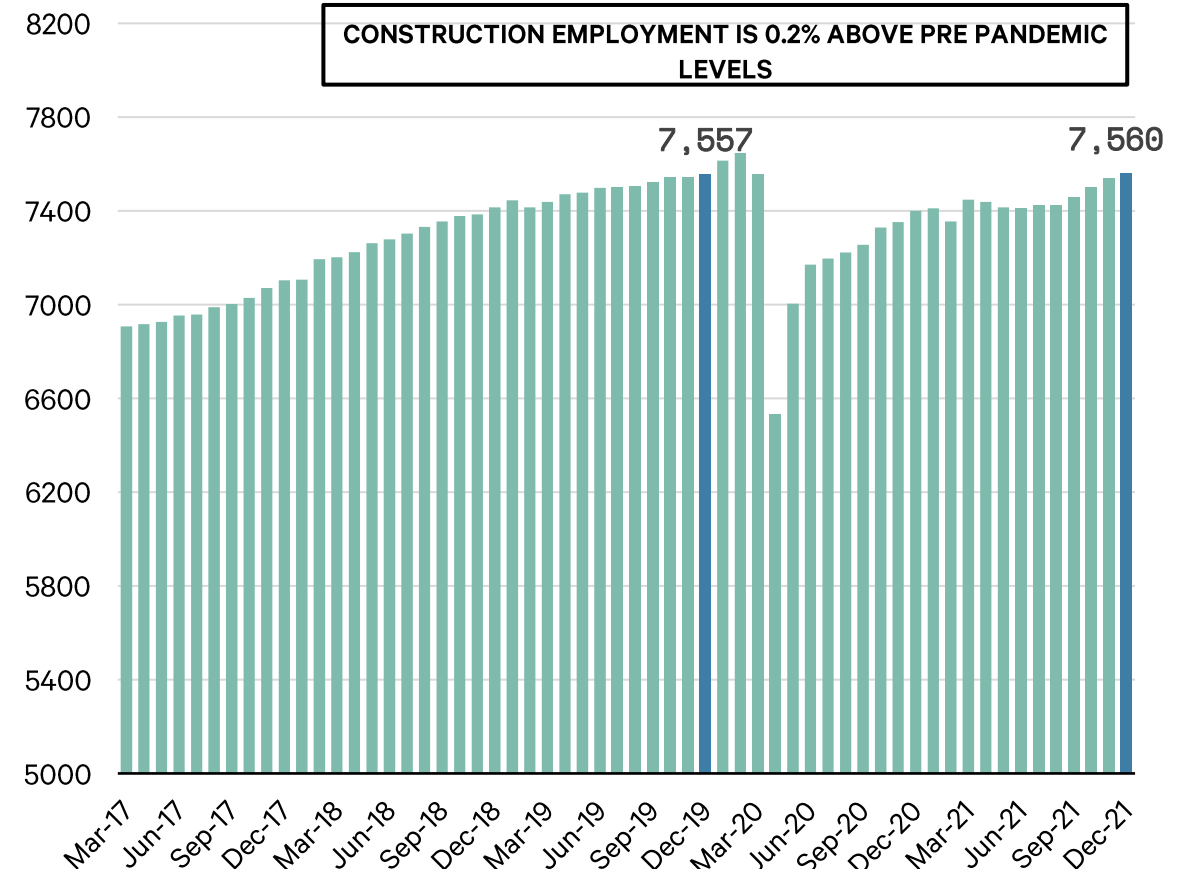


Source: CBRE Hotels Research, CBRE EA, BLS

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## Number of construction employees

Thousands



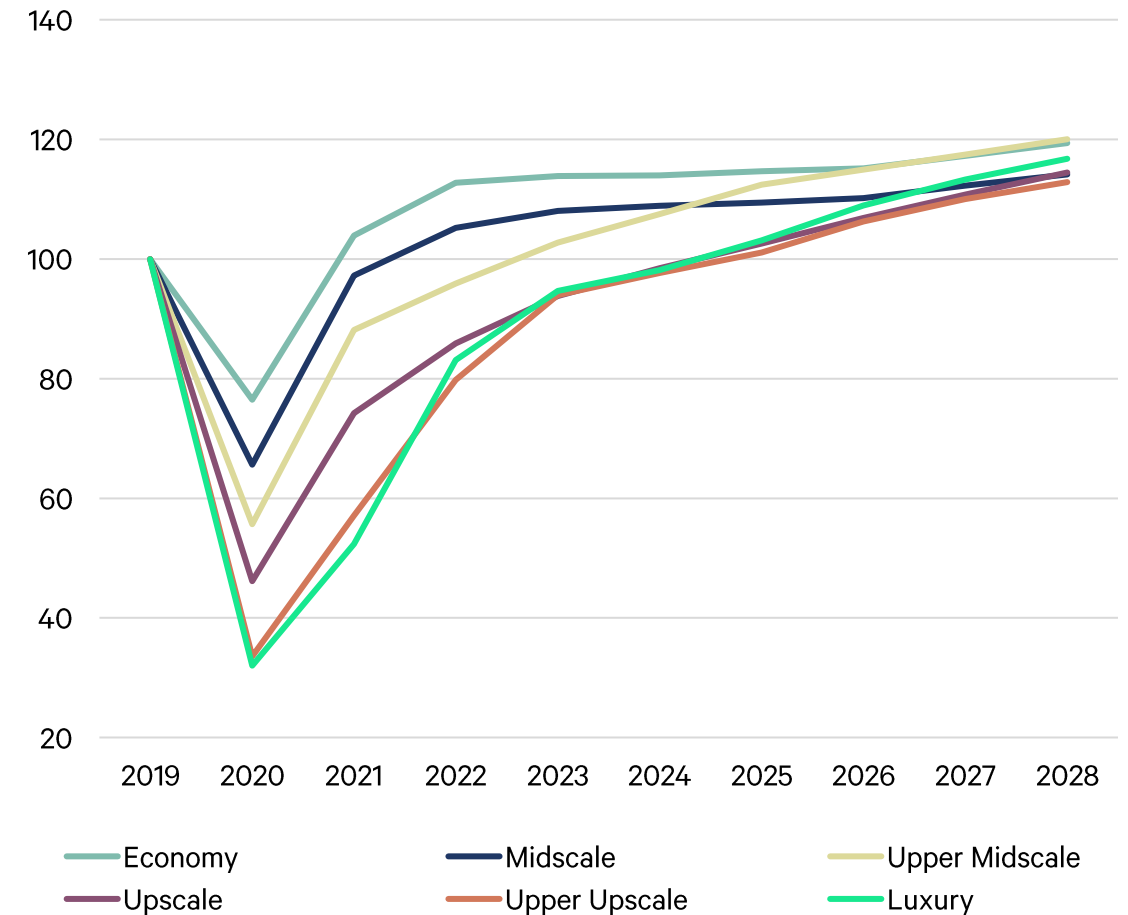
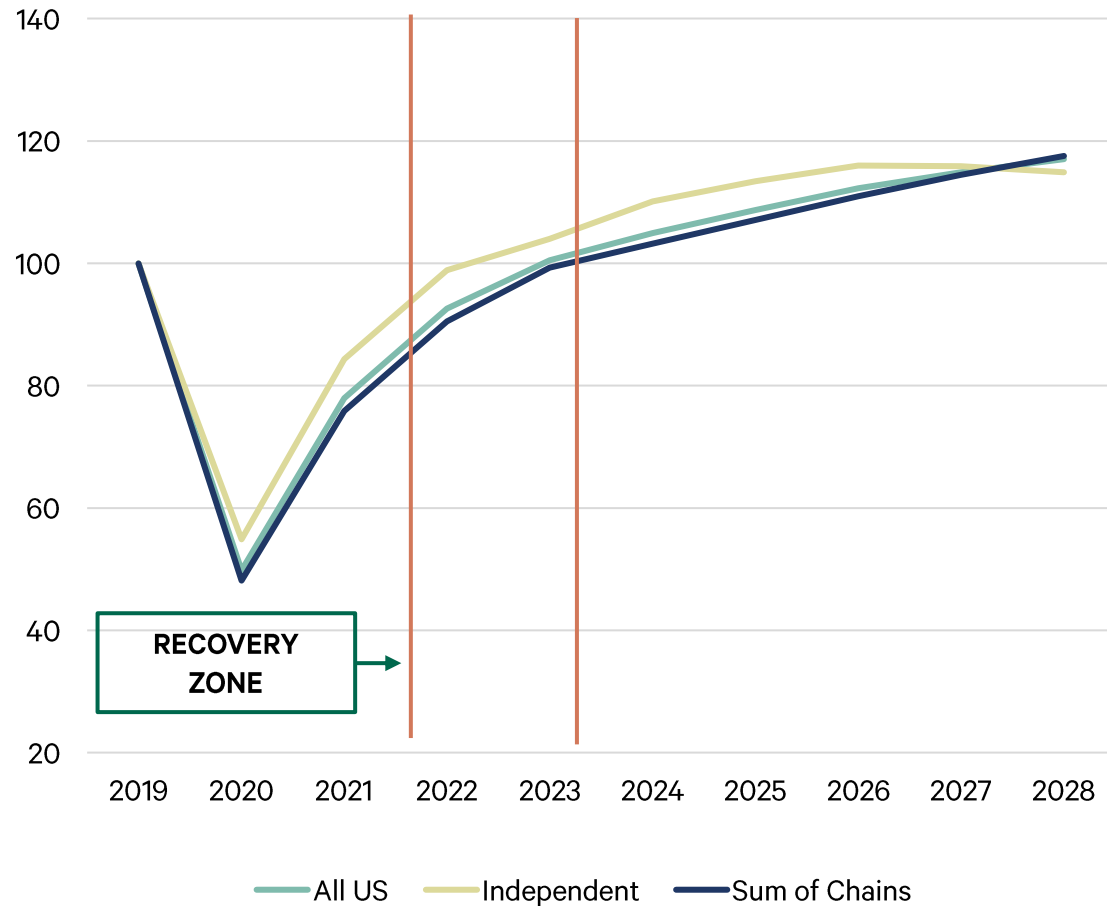
# 6

Current  
Forecast



# CBRE Hotel Horizons® U.S. lodging forecast by chain scale

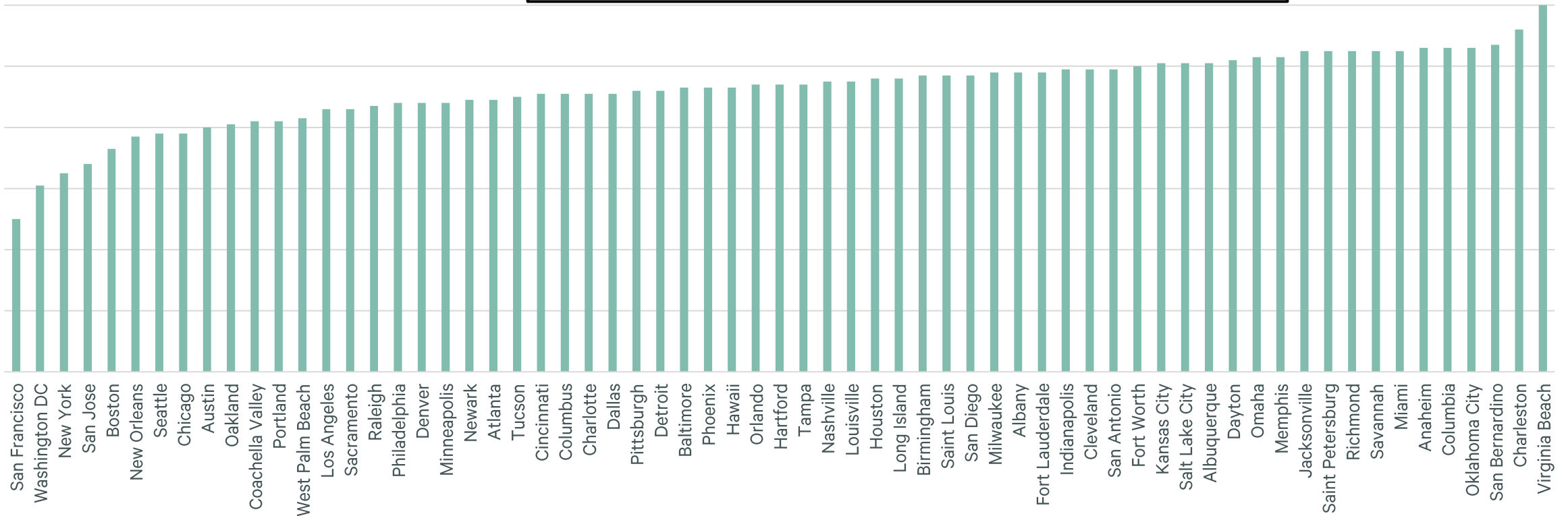
RevPAR indexed to 2019 Levels



# CBRE Hotel Horizons® U.S. lodging forecast by market

2022 RevPAR as a Percent of 2019

21 MARKETS BELOW AND 44 MARKETS ABOVE THE AVERAGE



Source: CBRE Hotels Research, Kalibri Labs

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CBRE Hotels Research | U.S. Hotels State of the Union 50

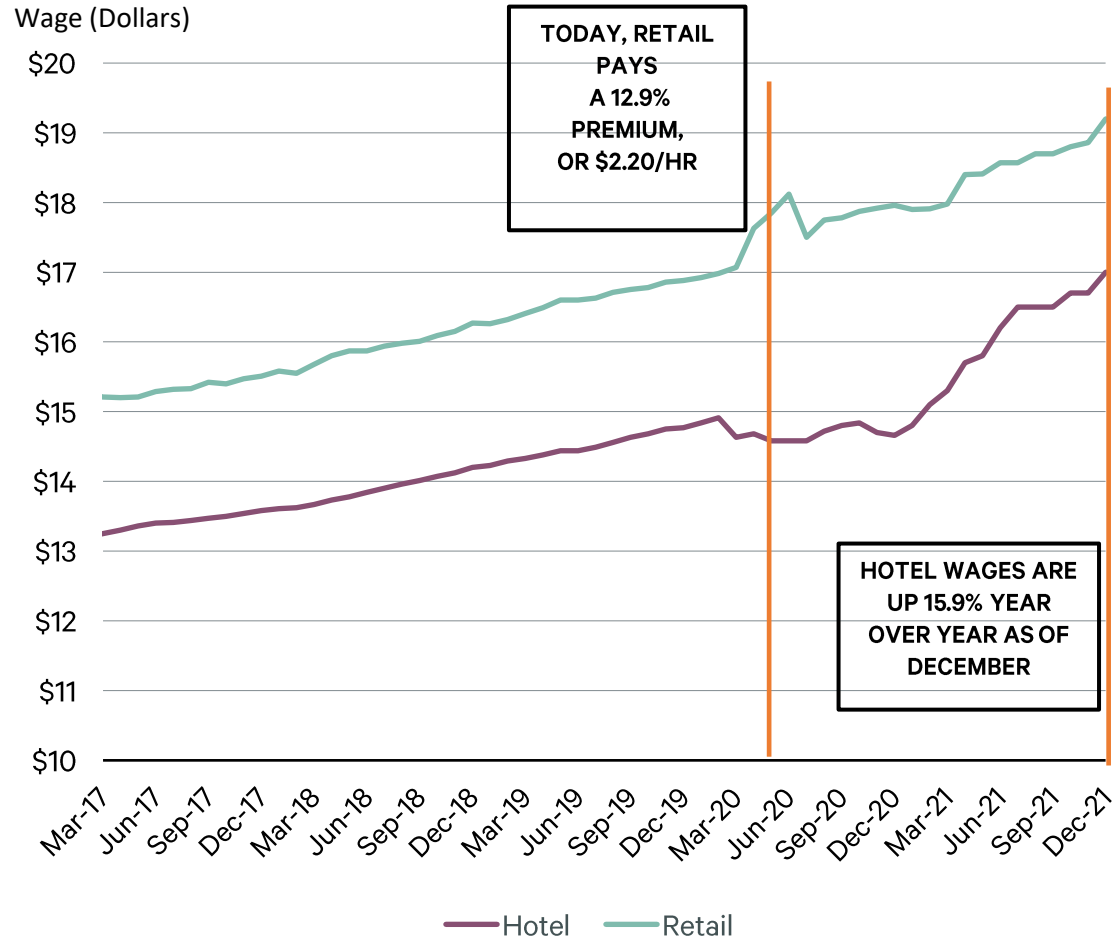
# 7

## Operating Performance



# Hotel operators continue to confront a challenging labor environment

## Wage Pressures a Headwind to Margins



## Job Openings Per Hotel are Still Up





## U.S. hotel total operating revenue – by property type

### YTD November 2021 as a Percent of YTD November 2019 Dollars Per Available Room (%)

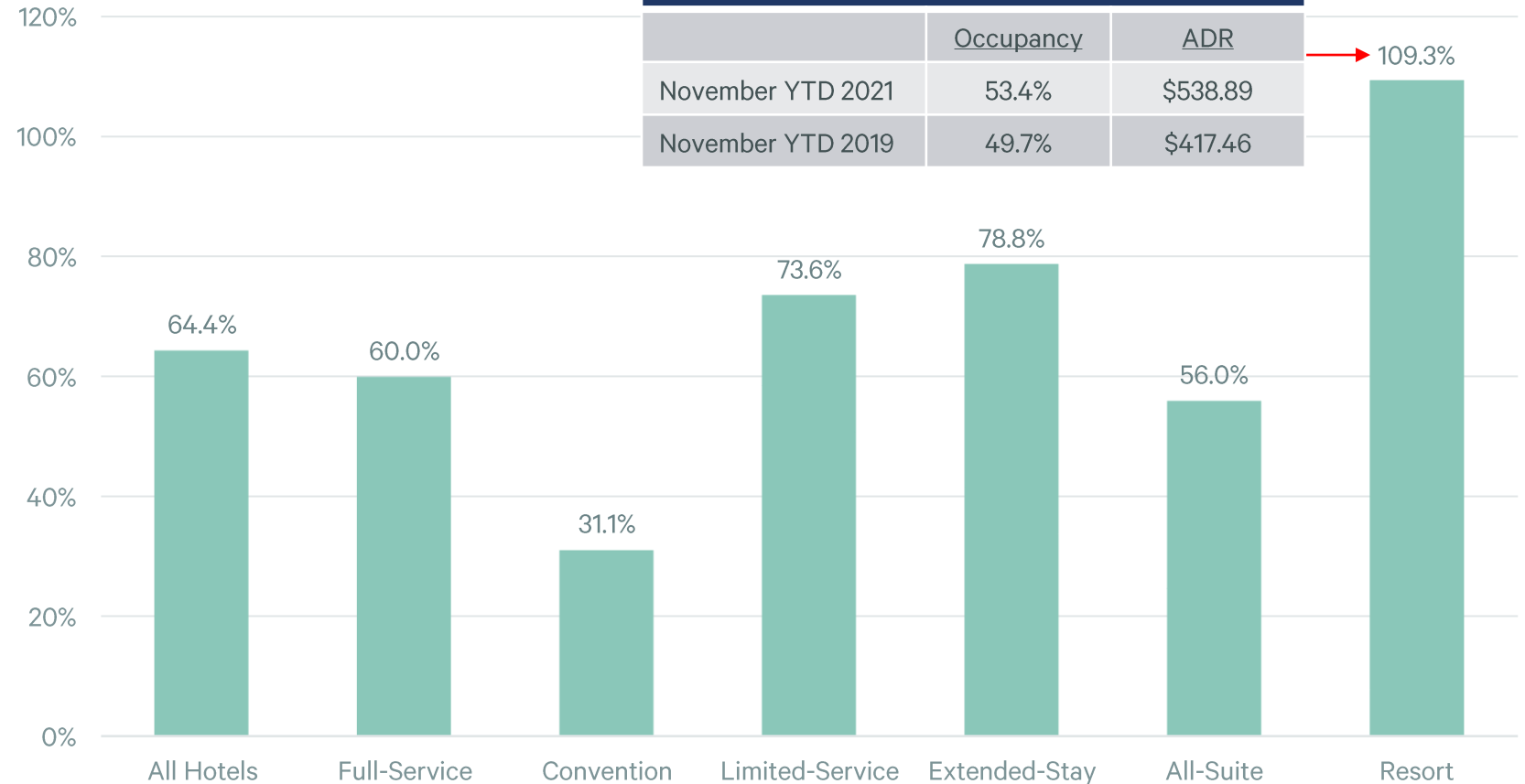


Source: CBRE Hotels Research

# U.S. hotel gross operating profit – by property type

## YTD November 2021 as a Percent of YTD November 2019

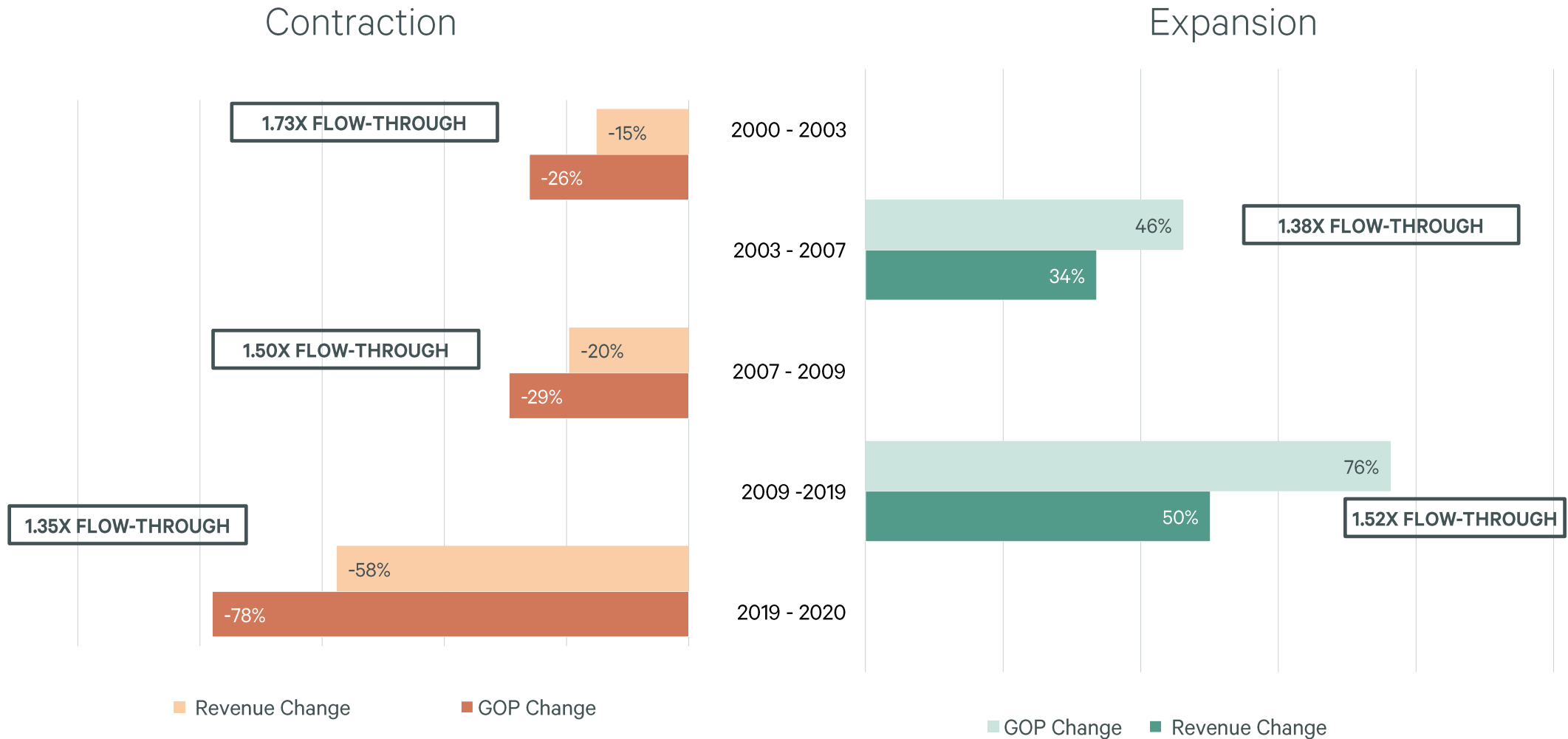
Dollars Per Available Room  
(%)



Change in Market Performance – Resort Hotels		
	Occupancy	ADR
November YTD 2021	53.4%	\$538.89
November YTD 2019	49.7%	\$417.46

Source: CBRE Hotels Research

## Operators have become more efficient with each cycle



Source: CBRE Hotels Research, Trends, Same-Store Sample.

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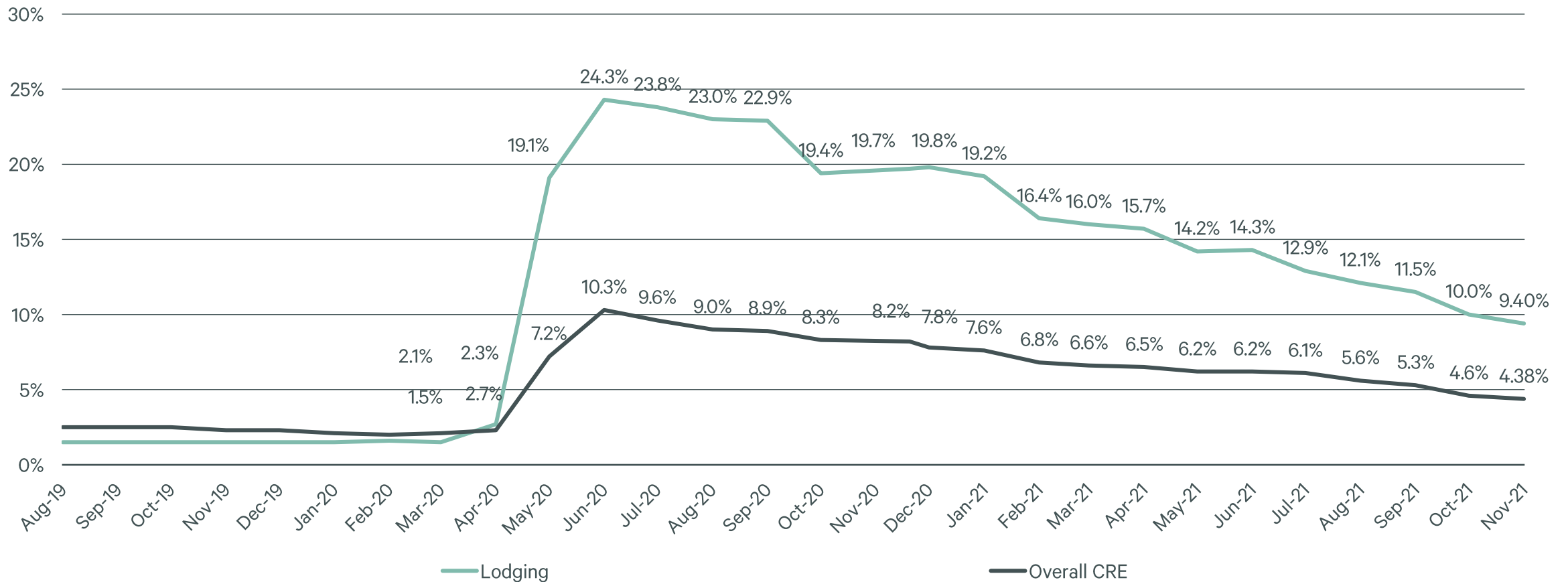
# 8

## Capital Markets



# The delinquency rate has improved as hotels have reopened

The delinquency rate should continue to improve as hotels reopen

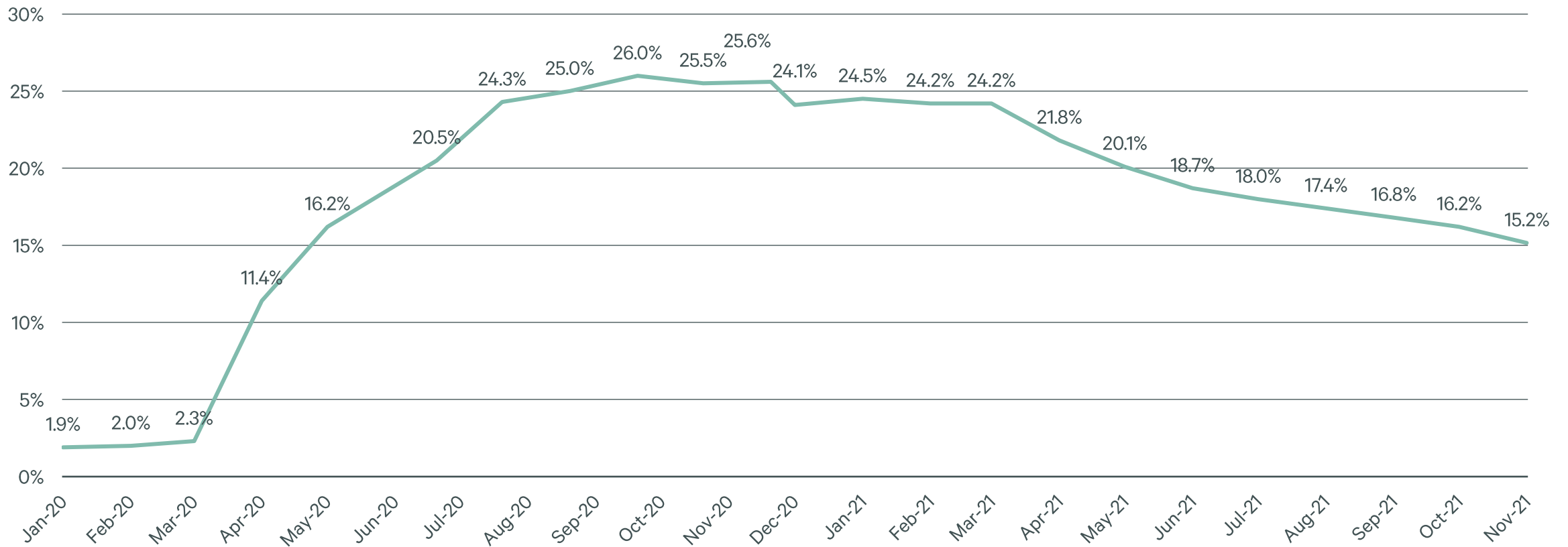


Source: CBRE Hotels Research, CBRE Debt & Structured Finance.

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# Lodging CMBS special servicing

Pre-/Post-COVID - Special Servicing Rate Lodging CMBS



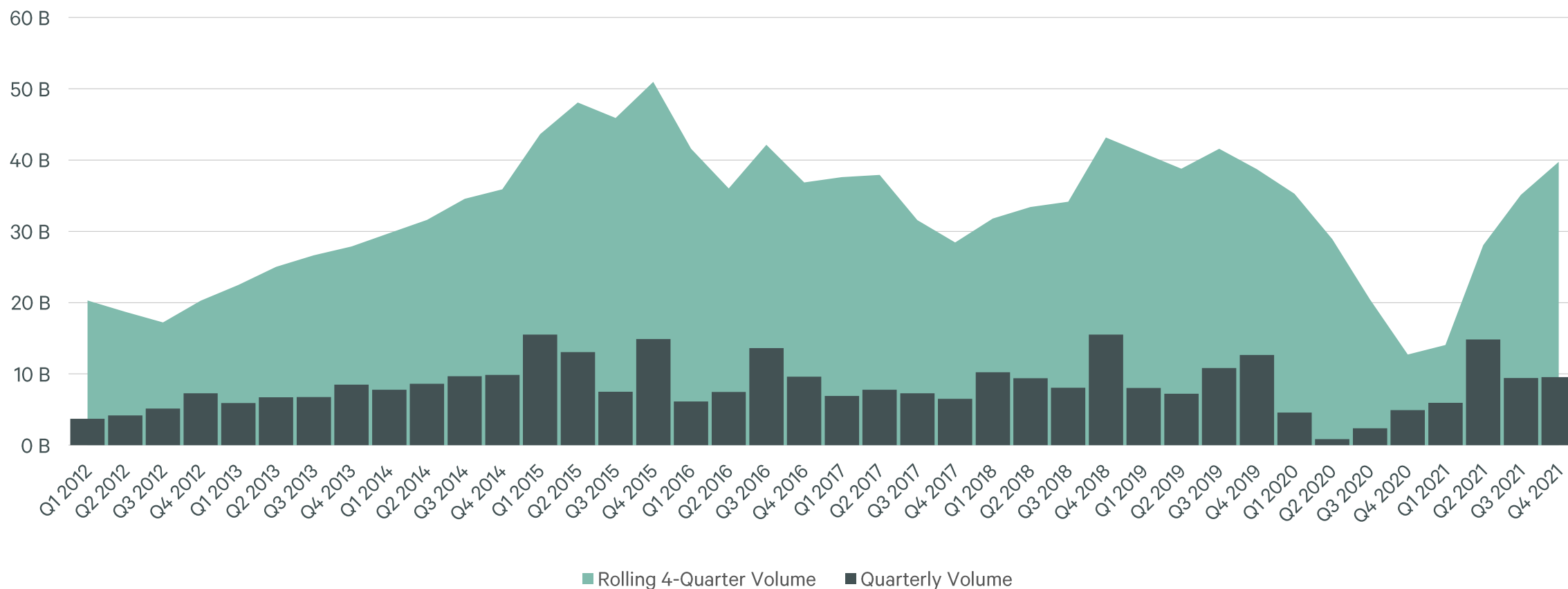
Source: CBRE Hotels Research, CBRE Debt & Structured Finance.

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# Sales Volume Approaching Pre-Pandemic Levels

## Total Hotels Sales Volume

Hotel Transaction Volume



Source: CBRE Hotels Research, RCA

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# Thank You



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