Hospitality

OUTLOOK

The hospitality industry appears to be moving into its next phase of recovery. Thanks largely in part to the 2021 summertime surge in travel, the initial recovery was stronger than expected. This put wind in the sails of the hospitality sector and provided the optimism that a full recovery would come earlier than 2024, as most analysts had believed entering 2021. According to STR, a leading data source for the hotel industry, the revenue per available room (RevPAR) for the U.S. hospitality sector hit an all-time high of $99.62 in July of 2019. It bottomed out in April 2020 at $17.93. Yet only 15 months later, U.S. RevPAR set a new all-time monthly high of $99.71 in July 2021, which was more than double July 2020's RevPAR of $47.84.

Washington Marriott Capitol Hill
Washington D.C.
Sponsored by The Buccini/Pollin Group, Inc.

Our experience through the pandemic has taught us that pent-up demand for hospitality does exist, especially for leisure-oriented hotels. We wouldn't be surprised to see a similar phenomenon for corporate business-driven hotels once the country's convention industry is once again operating at full capacity. The American Hotel and Lodging Association reported that business travelers made up 52.5% of room revenue in 2019, and that percentage is expected to recover at around 43.6% in 2022.

The Hotel at Avalon
Alpharetta, GA
Sponsored by Crescent Real Estate

OPPORTUNITY

Overall, 2022 appears to be the year to lean into a broad hotel sector recovery. While in 2020, our team saw asset pricing discounted as much as 20%* relative to 2019 trades, this spread mostly evaporated throughout 2021. While discounted pricing for hospitality assets in comparison to 2019 values is still possible, it's much more likely to be unique situations at the individual property level.

With the prospect of full recovery next year, we suspect 2022 will likely be the final year to acquire hospitality assets at attractive pricing before the market enters an expansionary phase. Due to the lack of uniformity of stress imposed on various asset types and geographies, specific markets and property types are bouncing back brilliantly–particularly drivable beach markets or winter sports playgrounds–while others have lagged in their recoveries. See which hospitality markets we are the most excited about in our 2022 Best Places to Invest report.

While continued uncertainty around business travel may lengthen the recovery time for urban-located hotels, we still see opportunity provided the going-in basis is attractive, and the deal is adequately capitalized to see it through to 2023. Remote work has given many people the flexibility to extend vacations and work from their destination. As business travel is recovering, the blending of remote work into leisure travel or, as STR calls it, "work-cation," will provide opportunity in upcoming years.

*Based on CrowdStreet data as of March 3, 2022