

Projections for a Strong Summer Travel Season Bode Well for Hotel Performance

Room demand approaching record high. Despite headwinds like widespread inflation, increased borrowing costs and a slow recovery of business travel, the U.S. hospitality industry has remained resilient. The number of rooms booked during the trailing 12-month period ending in April rose within 2 percent of the all-time high set in February 2022. Robust demand for hotels is driving growth in ADR and RevPAR nationwide, with both measurements reaching new record highs of \$152.67 and \$96.69, respectively, during this span. Although occupancy remains below the previous peak, slowing supply growth should benefit performance in existing hotels and provide some breathing room to improve this figure, especially during the summer travel season.

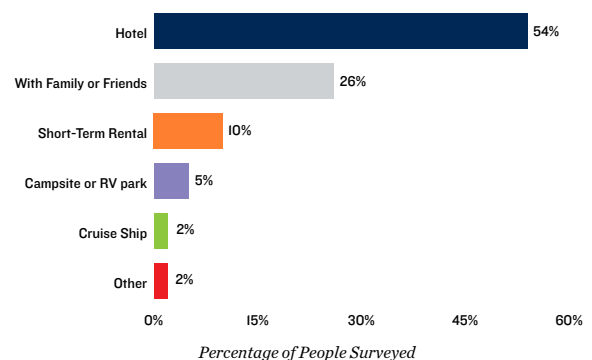
Summer air travel expected to reach unprecedented levels. Unemployment in the U.S. was at 3.4 percent in April, the lowest rate in more than 23 years. The strong labor market is instilling confidence in people to take more trips, even amid economic uncertainty and widespread inflation. In fact, an estimated 42.1 million Americans traveled 50 miles or more from their homes during Memorial Day weekend, a 7 percent increase from last year. This momentum is expected to continue through Labor Day, as projections indicate air passenger volumes during the summer of 2023 will surpass pre-pandemic levels. Hotels in popular domestic tourist destinations — such as Las Vegas, Orlando, Miami, Nashville, Austin, Tampa and San Diego — are poised to benefit from the influx of summer travelers in the coming months.

Return of foreign travel speeds up recovery in gateway metros. Forecasts suggest nearly 63 million international travelers will visit the U.S. in 2023, a 21 percent increase from last year. Much of this momentum will stem from the easing of travel restrictions in Asia, particularly in China and Japan. Hotels in gateway metros that experienced a sharp decline in room demand during the pandemic, such as New York City, Los Angeles, Washington, D.C., Seattle and San Francisco, will likely observe a boost in performance, as these markets historically attract a large number of foreign visitors.

Cost-cutting measures benefit certain segments. Although airline traffic is expected to reach a record level this summer, many travelers will engage in cost-saving strategies due to high inflation. In a recent survey, roughly 26 percent of vacationers stated they plan to drive rather than fly to their destination. Hotels near interstates could benefit from this trend, as individuals or families opting for longer trips by car will likely seek additional lodging options on the way to their desired location. Popular drive-in destinations like Sedona, Napa Valley, Charleston, Savannah and the Smoky Mountains are expected to observe an uptick in room demand too, as some tourists look to lower their costs by selecting less expensive destinations. Also, some travelers may trade down their lodging choices, aiding performance in economy and midscale hotels nationwide.

Some headwinds remain. There are a few obstacles that could present challenges during the summer travel season. Accommodation employment in the U.S. was still 252,000 positions below the pre-pandemic peak in April. Staffing shortages could potentially cap occupancy and reduce the level of service guests receive in certain properties. The expected influx of air passenger volumes will also create headwinds. Delays that plagued the aviation industry in 2022 will likely continue this summer, and the FAA has already requested airlines reduce flights in New York City and Washington, D.C.

Leisure Travelers Prefer to Stay in Hotels



Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; American Automobile Association; Transportation Security Administration; International Trade Administration; Bank Rate; Morning Consult



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