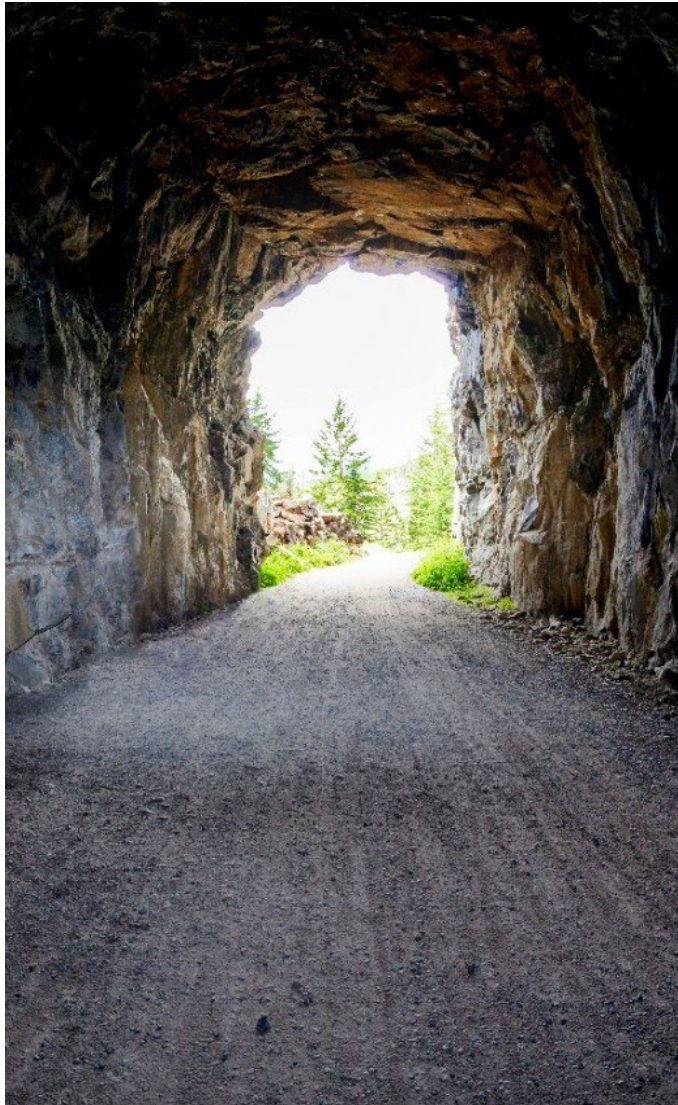


# Hospitality Directions US

## Our updated lodging outlook

May 2021

### Accelerated vaccination deployment driving earlier recovery for the US lodging industry



The US lodging industry continues to regain strength with early signs of an accelerated recovery emerging since our last publication. In our November edition, we assumed the significance and frequency of recent COVID-19 case spikes would likely increase the length and severity of the pandemic. Beginning in mid December, the US passed a milestone when the FDA announced emergency use authorization for three COVID-19 vaccines which has greatly helped mitigate the spread of the virus. The implementation of three vaccines, earlier than previously expected, has positively impacted the recovery timeline. We currently expect annual occupancy for US hotels this year to likely increase to 57.2%, and average daily room rates to increase 8.0%, with resultant RevPAR up 40.1% from last year. RevPAR is expected to finish 2021 at approximately 74% of pre-pandemic levels.

Despite increasing vaccinations (35 % of the US population was fully vaccinated as of May 11, 2021) and consumer optimism, lodging's recovery is expected to remain uneven. Destinations reliant on leisure demand are expected to experience increasingly strong performance through the summer; however, as we approach Labor Day and companies' back-to-office plans evolve, some markets are expected to fall off of summer highs. Destinations historically reliant on individual business, group and international demand may continue experiencing near-term weakness as companies evaluate travel policies, and countries assess cross-border travel risk.

In 2022, we forecast the vast majority of temporarily-closed hotels will likely have reopened and demand growth will continue to improve as the economy strengthens. Occupancy and ADR experience continued growth, resulting in a year-over-year RevPAR rebound of 15.2% - - or approximately 85% of pre-pandemic levels.

Challenges to the above outlook continue to include effectiveness of the national vaccination campaign; severity of virus mutations and corresponding vaccination efficacy against those mutations; and the speed at which the economy recovers.

Our revised outlook for 2021 anticipates

Demand recovery, lead by the leisure traveler, continues to accelerate resulting in **occupancy** of

**57.2%**

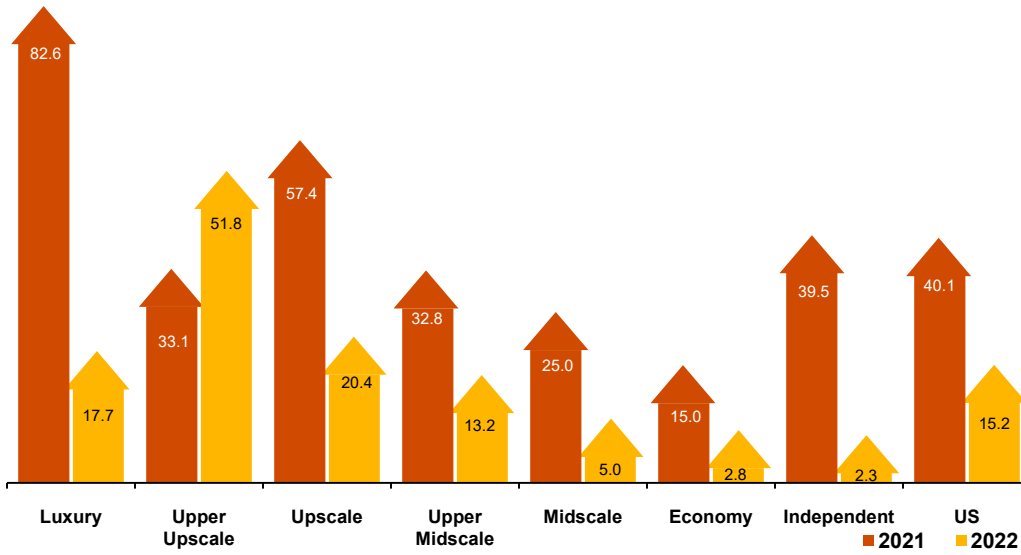
**Average daily rate** begins to strengthen over the summer months - up

**8.0%**

As a result, **RevPAR** experiences strong growth beginning in Q2 - up

**40.1%**

**Figure 1: RevPAR percent change, US and chain scales**

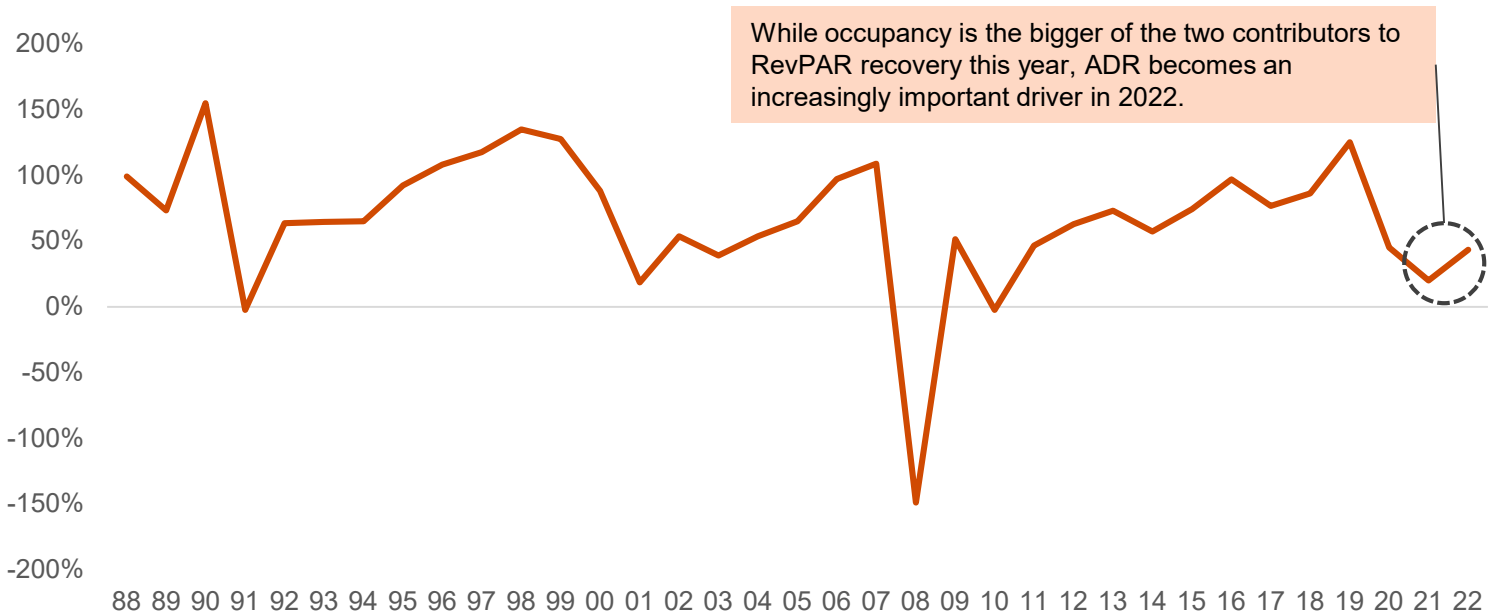


**Hospitality Directions Outlook Tables**

For detailed outlook tables covering the US and each of the chain scales, please access the [Hospitality Directions Outlook Tables](#) available online.

Source: PwC, based on STR data

**Figure 2: ADR contribution to change in RevPAR**



Source: PwC, based on STR data

## Signs of recovery emerge driven by increased vaccinations

Accelerated vaccination campaigns, additional federal fiscal support, and long-term monetary policy strategy are resulting in an improved outlook for the US economy. IHS Markit estimates that GDP increased at a 5.3% annual rate in the first quarter and expects an annualized increase of 6.2% this year and 4.3% in 2022. They anticipate strong consumer spending after a year of saving, ongoing relaxation of state-mandated COVID-19 containment measures, increasing numbers of vaccinated individuals, and supportive monetary policies.

As hotel owners began to gain confidence that the rollout of vaccines has started to tamp down the virus, April unemployment for the hotel sector improved to 13.8% (from 19.9% in March), compared to the US overall rate increasing slightly to 6.1% (from 6.0% the prior month).

Source: IHS Markit (forecast released April 2021); PwC

IHS Markit expects the unemployment rate to decline to 4.3% by the end of 2021 and 3.6% next year, as the market adds back previously shed jobs, even as the labor participation rate increases.

The declining unemployment rate, coupled with the recently distributed third round of federal stimulus checks, advanced a large spike in PCE which is now estimated at 9.2% in the first quarter.

The US economy is showing early signs of mounting a recovery with GDP growth through the end of 2022 driven by increased personal consumption as more of the population is vaccinated and COVID-19 containment measures are relaxed. Without herd immunity, virus mutations and premature easing of health & safety restrictions can continue to threaten consumer confidence and the fragile recovery.

### Table 1: US outlook (May 24, 2020)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Demand growth	2.4%	2.1%	4.0%	2.4%	1.2%	2.5%	2.3%	1.7%	-35.9%	34.6%	9.1%
Supply growth	0.0%	0.7%	0.5%	0.8%	1.0%	1.9%	1.8%	1.8%	-4.1%	3.7%	0.9%
Room starts, % change	26.1%	26.6%	35.4%	14.7%	14.7%	-4.1%	7.6%	-8.1%	-49.7%	5.1%	38.9%
Occupancy	61.4%	62.2%	64.3%	65.3%	65.4%	65.8%	66.1%	66.0%	44.1%	57.2%	61.8%
% change	2.4%	1.3%	3.4%	1.5%	0.1%	0.7%	0.4%	-0.2%	-33.2%	29.8%	8.1%
Average daily rate	\$105.53	\$109.54	\$114.69	\$119.92	\$123.60	\$126.42	\$129.58	\$130.87	\$103.00	\$111.12	\$118.49
% change	4.2%	3.8%	4.7%	4.6%	3.1%	2.3%	2.5%	1.0%	-21.3%	8.0%	6.6%
RevPAR	\$64.76	\$68.12	\$73.74	\$78.29	\$80.79	\$83.17	\$85.61	\$86.32	\$45.38	\$63.57	\$73.25
% change	6.7%	5.2%	8.2%	6.2%	3.2%	3.0%	2.9%	0.8%	-47.4%	40.1%	15.2%
GDP, % change Q4/Q4	1.5%	2.6%	2.9%	2.2%	2.1%	2.7%	2.5%	2.3%	-2.4%	6.6%	2.7%
Inflation, % change	1.9%	1.3%	1.5%	0.2%	1.0%	1.8%	2.1%	1.5%	1.2%	1.8%	1.9%

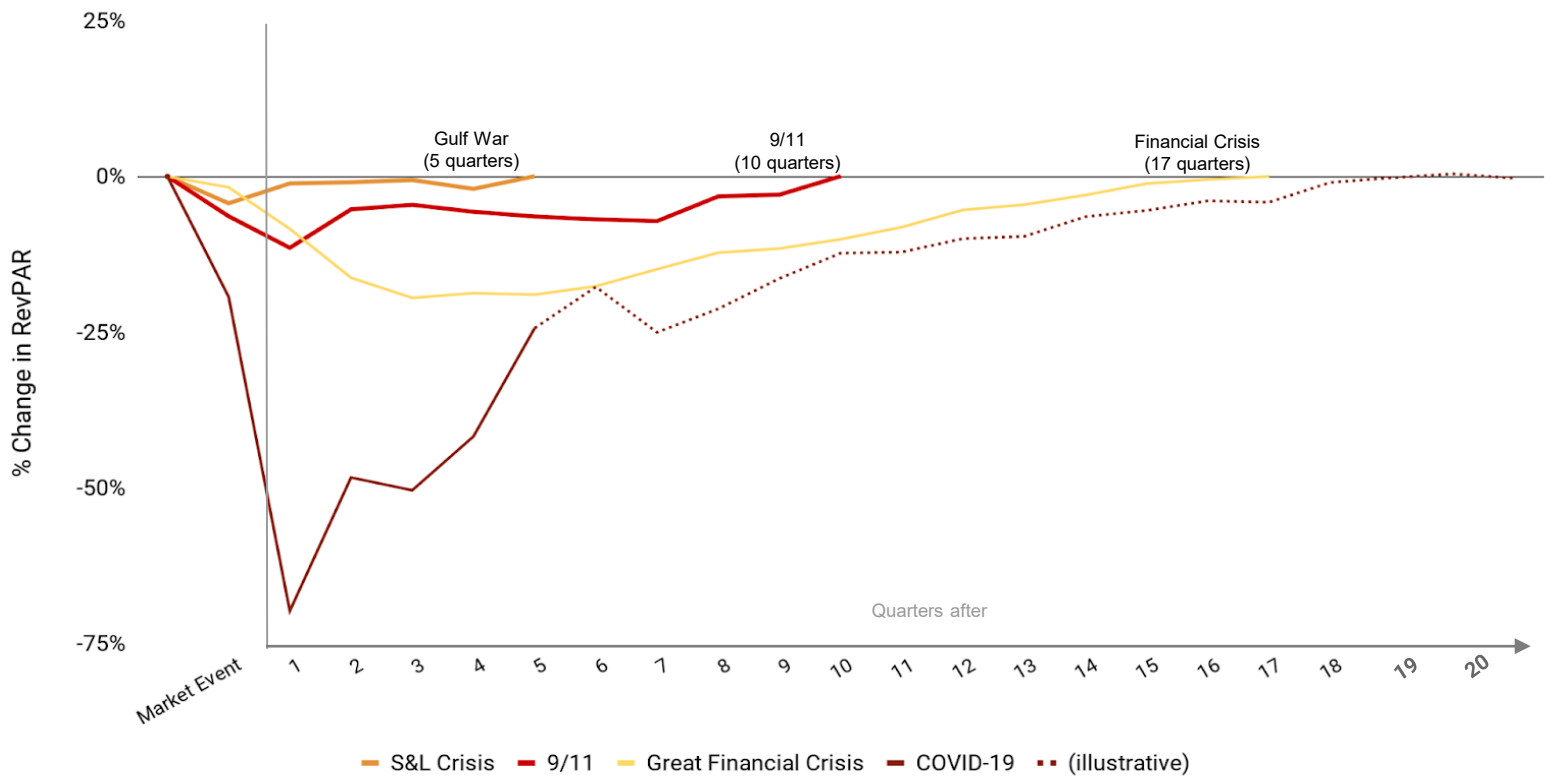
Source: STR; Bureau of Economic Analysis; IHS-Markit (forecast released April 2021); MHC Construction Analysis System; PwC

### Table 2: Chain scale outlook, percentage change from prior year

Chain scale	2021					2022				
	Demand	Supply	Occupancy	ADR	RevPAR	Demand	Supply	Occupancy	ADR	RevPAR
Luxury	115.4	16.5	84.4	(1.0)	82.6	21.3	5.3	15.3	2.1	17.7
Upper upscale	45.0	7.4	34.6	(1.1)	33.1	47.8	2.3	44.4	5.1	51.8
Upscale	53.0	1.1	51.0	4.3	57.4	8.2	0.4	7.8	11.7	20.4
Upper midscale	29.5	1.1	27.7	4.0	32.8	10.3	1.5	8.7	4.1	13.2
Midscale	19.6	1.2	17.9	6.1	25.0	4.7	0.8	3.8	1.1	5.0
Economy	7.2	0.7	6.2	8.3	15.0	2.0	0.2	1.8	1.0	2.8
Independent hotels	42.4	6.3	34.0	4.1	39.5	1.2	0.3	0.8	1.5	2.3
<b>US total</b>	<b>34.6</b>	<b>3.7</b>	<b>29.8</b>	<b>8.0</b>	<b>40.1</b>	<b>9.1</b>	<b>0.9</b>	<b>8.1</b>	<b>6.6</b>	<b>15.2</b>

Source: PwC, based on STR data

### Figure 3: Year-over-year RevPAR change after market event



	S&L Crisis	9/11	Great Financial Crisis
<b>Market Event / Month</b>	S&L Crisis / Gulf War (Aug. 1990)	Terrorist Attacks (Sep. 2001)	Lehman Bankruptcy (Sep. 2008)
<b>Economic Conditions</b>	<ul style="list-style-type: none"> <li>Decelerating GDP growth</li> <li>Recession</li> <li>Peaking savings and loan crisis</li> </ul>	<ul style="list-style-type: none"> <li>Bursting of dot-com bubble</li> <li>Decelerating GDP growth</li> <li>Recession</li> </ul>	<ul style="list-style-type: none"> <li>Decelerating GDP growth</li> <li>Recession</li> <li>Historically low CRE risk premium</li> <li>Ubiquity of CMBS</li> </ul>
<b>Prior Lodging Industry Conditions</b>	<ul style="list-style-type: none"> <li>Flat RevPAR prior to onset of the crisis</li> <li>"Non-economic" hotel development</li> <li>Significant lodging oversupply</li> </ul>	<ul style="list-style-type: none"> <li>RevPAR declines prior to the terrorist attacks</li> <li>Above-average quarterly supply growth</li> </ul>	<ul style="list-style-type: none"> <li>RevPAR declines prior to the onset of the financial crisis</li> <li>Frothy valuations</li> <li>Above-average quarterly supply growth</li> <li>Previously decelerating performance</li> </ul>
<b>Recovery &amp; Key Impact</b>	<ul style="list-style-type: none"> <li>Five quarters to recover to pre-market event RevPAR levels</li> <li>Emergence of REITs, fundamentally changing the lodging landscape</li> </ul>	<ul style="list-style-type: none"> <li>10 quarters to recover to pre-market event RevPAR levels</li> <li>Subsequent US intervention in Iraq significantly prolonged the recovery</li> </ul>	<ul style="list-style-type: none"> <li>17 quarters to recover to pre-market event RevPAR levels</li> <li>Lenders amended and extended loans instead of foreclosing</li> <li>Accelerated pace of sector consolidation</li> </ul>

# Contact us

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## **Definitions**

Abbreviated terms include average daily rate (“ADR”), revenue per available rooms (“RevPAR”), and real gross domestic product (“GDP”). Growth rates are percentage change in annual averages.

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## **Information requests**

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PwC’s National Economics & Statistics (NES) group carries out the statistical analysis and forecast modeling for Hospitality Directions US. A center of excellence, the NES group provides economic and statistical modeling and consulting for corporations, trade associations, coalitions, law firms, nonprofits, and government agencies. For more information, please contact Qiang Ma at [qiang.ma@pwc.com](mailto:qiang.ma@pwc.com), or visit [www.pwc.com/us/nes](http://www.pwc.com/us/nes).