

RETURN OF TRAVEL

AMERICAN HOTEL & LODGING ASSOCIATION
2022 MIDYEAR STATE OF THE HOTEL INDUSTRY REPORT



EXECUTIVE SUMMARY

Midway through 2022, the hotel industry continues to make strides toward recovery:

FINDINGS AT A GLANCE

1. Hotel occupancy is expected to average 63.4% for 2022, approaching pre-pandemic levels
2. Nominal hotel room revenue is expected to surpass 2019 levels by the end of 2022
3. By the end of the year, hotels are expected to employ 1.97 million people—84% of their pre-pandemic workforce
4. Hotels are projected to generate \$43.8 billion in state and local tax revenues this year, up 6.6% from 2019 levels
5. Business and leisure travel continue to blur: 47% of business travelers have extended a business trip for leisure purposes in the past year, and 82% are interested in doing so in the future

2022 KEY PROJECTIONS



63.4%
projected average
hotel occupancy



\$188 billion
projected room
revenue



1.97 million
hotel jobs



\$43.8 billion
projected state and
local tax revenue

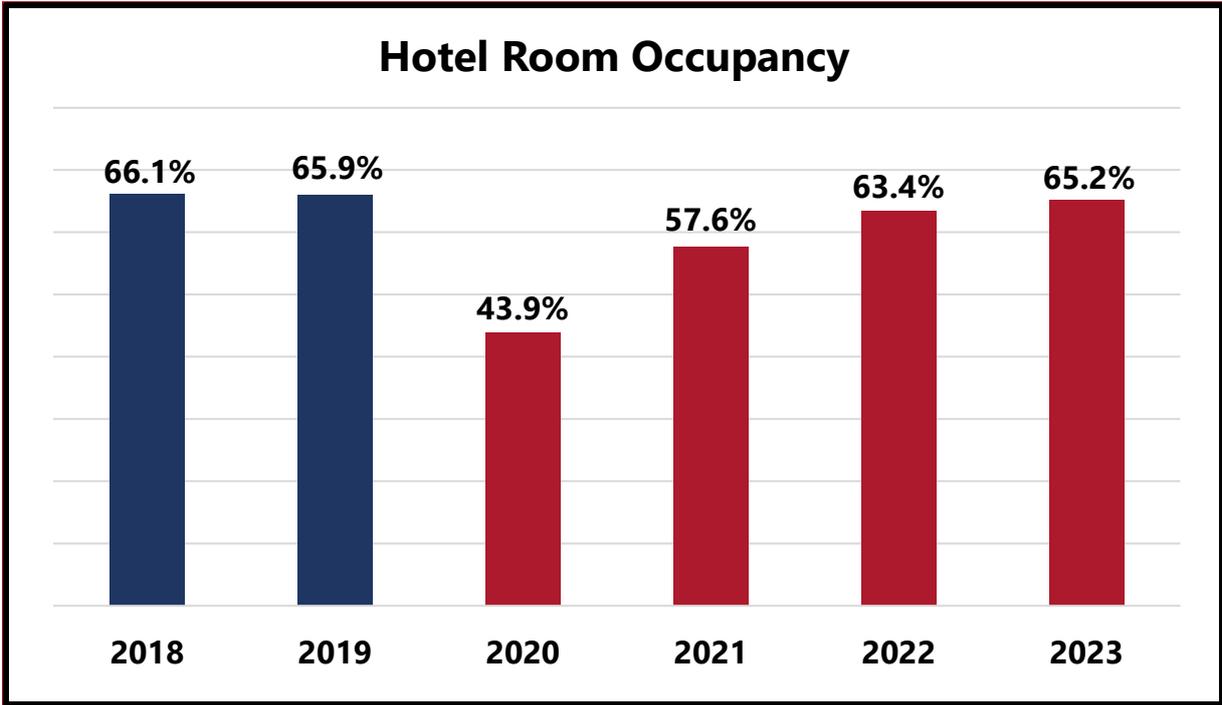
HOTEL OCCUPANCY

In 2019, the nation’s nearly 56,000 hotels experienced an average annual hotel occupancy of 66%, selling 1.3 billion rooms.¹ The onset of the COVID-19 pandemic brought hotel occupancy to a historic low of 24.5% in April 2020.² Annual occupancy in the United States fell to roughly 44% in 2020.³

Hotel occupancy is expected to average 63.4% in 2022, approaching pre-pandemic levels.

Demand began rebounding in 2021, with occupancy averaging nearly 58% for the year, and it has continued trending upward throughout 2022. Occupancy is expected to average 63.4% for the full year of 2022.⁴

Although the national occupancy average is expected to be within 2.5 percentage points of 2019 levels, it varies greatly by state and market. For example, the District of Columbia is projected to be at 62% occupancy, compared to 76% in 2019, while Maine is projected to be at 66.8%, compared to 60.5% in 2019. Much of this variance is due to a large increase in 2022 in the share of leisure travel that makes up total hotel business. This is expected to even out significantly in 2023.



Source: Oxford Economics + STR, 2022 © CoStar Realty Information, Inc.

HOTEL ROOM REVENUE

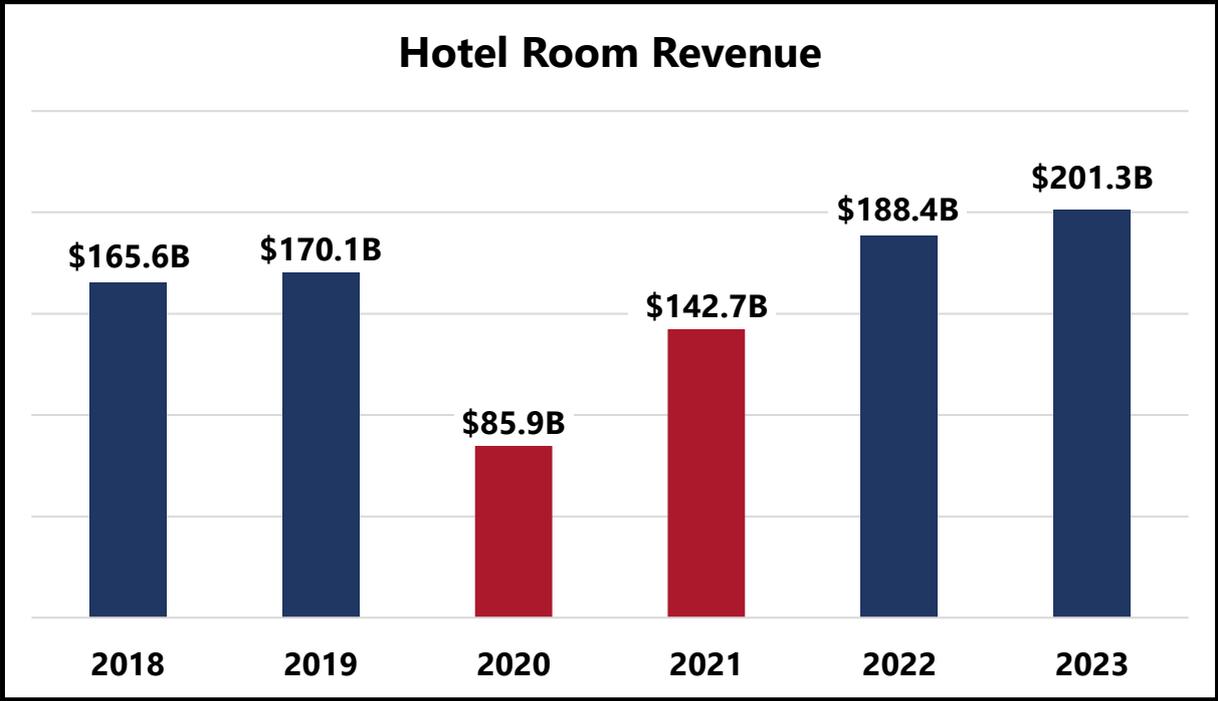
Prior to the pandemic, the hotel industry’s 5.4 million guest rooms generated more than \$170 billion annually in room revenue. In addition, hotels generated an estimated \$48 billion annually in ancillary revenue—that is, revenue generated from meetings, events, and food & beverage—according to Kalibri Labs.

Nominal hotel room revenue is expected to surpass 2019 levels in 2022.

In 2020, hotel room revenue fell by nearly 50% across the United States to just \$85.9 billion, then rebounded to \$142.7 billion in 2021. This means that over those two years, hotels lost a collective \$111.6 billion in room revenue alone. Room revenue is projected to reach nearly \$188.4 billion this year, or 11% above 2019 levels.⁵

Although nominal room revenue is projected to beat pre-pandemic figures this year, when adjusted for inflation, STR projects real RevPAR will not surpass 2019 levels until 2025.⁶

In July 2022, Knowland revised its forecast for U.S. meetings and events upward, projecting that 72.1% of meetings and events would return in 2022, up from 58.3% projected as recently as April.⁷ Knowland further projected that at the current pace of growth, the volume of meetings and events will reach 106.3% of 2019 levels in 2023 and 115.7% in 2024.⁸



Source: Oxford Economics + STR, 2022 © CoStar Realty Information, Inc.

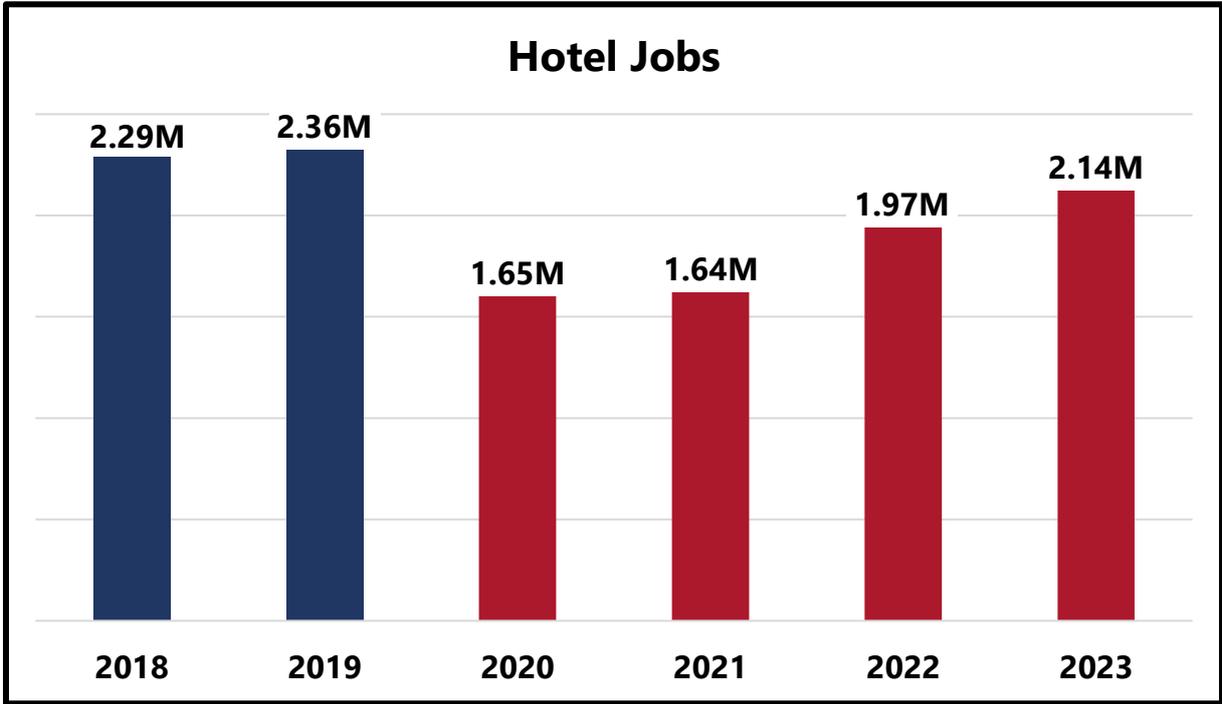
HOTEL WORKFORCE

In 2019, U.S. hotels directly employed more than 2.3 million people.⁹ As a result of pandemic-related travel drops, hotels finished 2021 at about 70% of their 2019 employment levels. The industry is expected to grow by nearly 330,000 people in 2022, ending the year with 1.97 million employees.¹⁰

By the end of 2022, hotels are expected to employ 1.97 million people—84% of their pre-pandemic workforce.

Although this marks significant growth, it still represents a deficit of nearly 400,000 jobs, or 16%, compared to pre-pandemic levels. The hotel industry is not expected to reach 2019 employment levels until at least 2024.¹¹ These projections are less optimistic than our January 2022 forecast, reflecting the continued headwinds in the labor market. According to a May 2022 AHLA Front Desk Feedback survey, 97% of hotels indicated they are experiencing a staffing shortage, 49% severely so.¹²

Hotels are aggressively working to fill vacancies and offering a host of incentives for potential hires, including higher wages, greater flexibility with hours, and expanded benefits. In the last 3 months, survey respondents indicated they had hired an additional 23 new employees per property but were also trying to fill an additional 12 positions. Ninety-seven percent (97%) of respondents said they have been unable to fill open positions.¹³



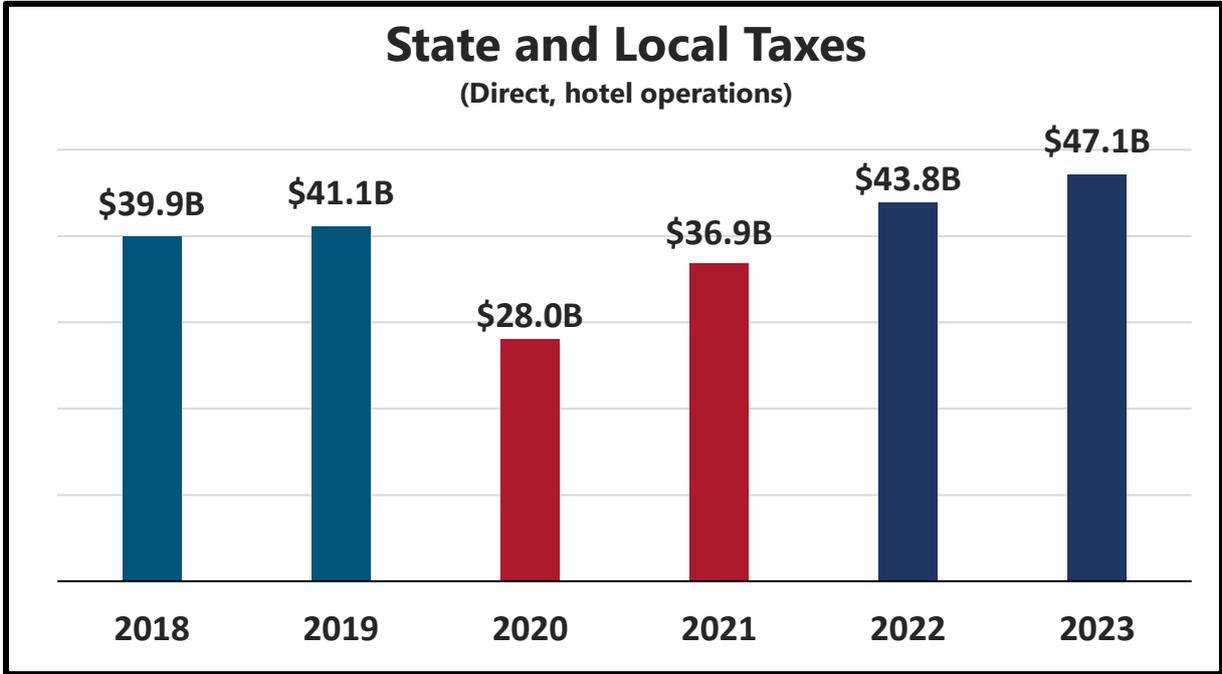
Source: Oxford Economics

STATE AND LOCAL TAXES

Hotels are integral contributors to communities across the country and generate tens of billions of dollars in tax revenue at the state and local levels. In 2019, direct state and local tax revenue from U.S. hotels, including hotel-specific occupancy taxes, sales taxes, property taxes and others, exceeded \$41 billion.¹⁴

Hotels are projected to generate \$43.8 billion in state and local tax revenues in 2022— a 6.6% increase from pre-pandemic levels.

Because of the pandemic and corresponding decline in travel, states and localities lost more than \$17 billion in unrealized tax revenues from hotels in 2020-21.¹⁵ With travel demand surging in 2022, tax revenues are expected to rebound to \$43.8 billion, or 6.6% higher than 2019 levels.¹⁶



Source: Oxford Economics + STR, 2022 © CoStar Realty Information, Inc.

NEW TRAVEL TRENDS

The pandemic ushered in a profound shift in consumers' attitudes and behaviors related to travel, with the rise of both bleisure travel—where business and leisure travel are combined—and digital nomads, who have the flexibility to work from anywhere and travel while they work.

In a May 2022 Morning Consult survey commissioned by AHLA, 47% of business travelers said they have extended a business trip by a day or two for leisure purposes in the past year.¹⁷

What's more, 79% of business travelers have incorporated leisure into a business trip in some way:

- 49% have researched options for things to do on their own in or near a business travel destination, separate from business dealings
- 40% have visited family or friends who live near a destination they are visiting for business
- 20% have had a family member accompany them on a business trip¹⁸

Among those who currently work remotely at least some of the time, 32% describe themselves as digital nomads, and 52% would be interested in being digital nomads.¹⁹

With 82% of business travelers indicating they are interested in bleisure travel,²⁰ the lines between business and leisure travel will continue to blur—and hotels will continue to adapt their operations to meet the evolving needs and expectations of their guests.

The lines between business and leisure travel continue to blur, with high interest in bleisure and digital nomad opportunities.

In the past year, 47% of business travelers have extended a business trip for leisure purposes—and 82% are interested in doing so in the future.

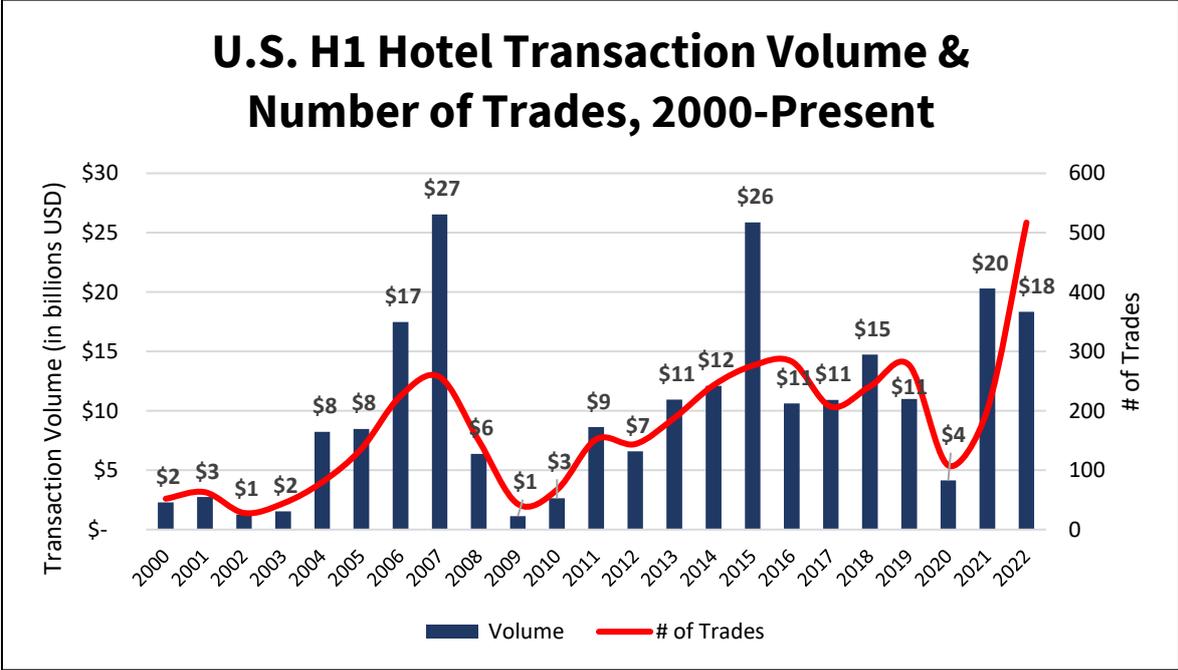
HOTEL INVESTMENT PIPELINE

Fueled by the removal of nearly all COVID-related restrictions and the reopening of tourist markets, particularly in urban areas, and the resulting improvement in hotels’ fundamental performance, the first half of 2022 (H1 2022) saw more hotel transactions than ever before.

The first half of 2022 saw more hotel investment transactions than ever before, with U.S. hotel investment volume reaching \$18.3 billion.

According to an analysis by AHLA Silver Partner JLL, a global commercial real estate services company, U.S. hotel investment volume reached \$18.3 billion in the first half of 2022, its fourth highest H1 in history and exceeding 2019 levels by 66.7%.²¹

Recent economic volatility, stemming from rising inflation, higher interest rates, and geopolitical uncertainty, is likely to decelerate activity in the short term. However, the industry’s continued recovery and position as a superior inflation hedge should result in continued long-term investment.



Source: JLL Research. Data includes all H1 transactions \$5M+, excluding casinos. 2022 data is as of 6/17/22

Other hotel industry investment trends to watch, according to JLL:

- Single hotel transactions drove 69% of H1 2022 volume, an increase of 26 percentage points compared to 2021. By contrast, portfolio transactions are expected to drive volume in the second half of the year as investors look to stabilize cash flow and defray costs amidst economic volatility and rising cost of debt.
- Private equity has accounted for an average of 45% of H1 hotel acquisitions over the past five years. While private equity remains the largest acquirer of hotel assets in 2022, real estate investment trust (REIT) activity is expected to accelerate in the second half of the year.
- Foreign investment has been limited over the past 24 months due to COVID-related travel restrictions and the inability of investors to physically visit target assets. The next 12-18 months should also see an increase in foreign capital investment, particularly from Europe, now that most international borders are fully reopened, and pre-departure testing requirements have generally been removed.
- Buoyed by a resurgence in group and corporate demand, city/urban markets saw the most transactions in H1 2022, accounting for 34% of total transaction volume—an increase of 6 percentage points year-over-year, though still 8 points below 2019 levels. The three markets that have been most liquid so far in 2022 are New York City, Washington D.C., and Austin.
- Pricing for urban hotels is still an average of 20% below 2015-2019 levels, offering a potential opportunity for investors. The reopening of tourist attractions, reemergence of convention business, and the coming increase in international travel are all expected to drive improved fundamental performance for these hotels. With resorts and drive-to leisure destinations continuing to price at significant premiums due to outsized demand, some investors are expected to refocus on urban markets.
- Despite the strength in hotel fundamentals, the debt markets have been volatile. When combined with historic inflation, this volatility has resulted in short-term uncertainty, which could suppress transaction activity until the markets normalize. Some investors believe that the quick rise in debt costs will be the catalyst for an increase in distress sales, as lenders and owners of challenged assets decide to sell.

HOTEL OPERATING COSTS

According to AHLA Platinum Partner Avendra, continued high prices in several areas are expected to affect hotel operations in 2022 and beyond:

- Corn and soybeans are key drivers in the food and beverage space, and continued high prices are affecting products ranging from meat and eggs to dairy
- High energy costs are also having a significant impact throughout the industry, increasing production and transportation costs
- Hotel wages, which have increased nearly 18% from 2019 to April 2022,²² are now expected to stabilize²³

Rising prices for commodities, energy and wages continue to affect hotel operating costs.

Inflation is expected to slow but will remain at historically high levels (5-10%), and prices for many items will remain well above historic levels in 2023. In addition to commodities, energy, and wages, other factors that will affect operating costs in 2022-23 include ongoing international conflicts, drought conditions and weather, and policies and regulations.²⁴

REFERENCES

AHLA's 2022 Midyear State of the Hotel Industry findings were produced using exclusive analysis from Oxford Economics and data from STR, 2022 © CoStar Realty Information, Inc.; survey research conducted by Morning Consult for AHLA; survey research of hoteliers conducted by AHLA; and analyses from AHLA partners Avendra and JLL.

AHLA Front Desk Feedback Methodology: The survey was conducted among more than 500 hoteliers from May 16-24, 2022.

Morning Consult Survey Methodology: The survey, which was conducted by Morning Consult on behalf of AHLA, was fielded May 18-22, 2022, among a national sample of 2,210 adults. The interviews were conducted online, and the data were weighted to approximate a target sample of adults based on age, gender, educational attainment, race, and region. Results have a margin of error of plus or minus 2.0 percentage points.

¹ "Economic Impact of the US Hotel Industry," Oxford Economics, June 2022.

² "STR: U.S. Hotel Performance for April 2020," STR, 4/21/20.

³ "Economic Impact of the US Hotel Industry," Oxford Economics, June 2022.

⁴ "Economic Impact of the US Hotel Industry," Oxford Economics, June 2022.

⁵ "Economic Impact of the US Hotel Industry," Oxford Economics, June 2022.

⁶ STR, TE upgrade forecast to full U.S. RevPAR recovery in 2022. Accessed July 11, 2022 from <https://str.com/press-release/str-te-upgrade-forecast-full-us-revpar-recovery-2022>

⁷ Knowland Meetings Recovery Forecast, July 20, 2022. Accessed July 20, 2022 from <https://www.knowland.com/resources/meetings-recovery-forecast/>

⁸ Knowland Meetings Recovery Forecast, July 20, 2022. Accessed July 20, 2022 from <https://www.knowland.com/resources/meetings-recovery-forecast/>

⁹ Economic Impact of the US Hotel Industry," Oxford Economics, June 2022.

¹⁰ Economic Impact of the US Hotel Industry," Oxford Economics, June 2022.

¹¹ Economic Impact of the US Hotel Industry," Oxford Economics, June 2022.

¹² AHLA Front Desk Feedback survey, May 2022.

¹³ AHLA Front Desk Feedback survey, May 2022.

¹⁴ "Economic Impact of the US Hotel Industry," Oxford Economics, January 2021.

¹⁵ Economic Impact of the US Hotel Industry," Oxford Economics, June 2022.

¹⁶ Economic Impact of the US Hotel Industry," Oxford Economics, June 2022.

¹⁷ Morning Consult survey for AHLA, May 2022.

¹⁸ Morning Consult survey for AHLA, May 2022.

¹⁹ Morning Consult survey for AHLA, May 2022.

²⁰ Morning Consult survey for AHLA, May 2022.

²¹ H1 2022 Hotel Investment Trends, JLL Research, June 2022.

²² U.S. Bureau of Labor Statistics, Accommodation NAICS 721, Earnings and Hours of All Employees, as of April 2022. Accessed July 12, 2022 from <https://www.bls.gov/iaq/tgs/iaq721.htm>

²³ Avendra Cost Outlook Update, July 2022.

²⁴ Avendra Cost Outlook Update, July 2022.