

CoStar Money: Hotel Cycle Turns Down; Fed Sees Risks in Prices; REITs Raise \$90 Billion; and More

Our Weekly Rundown of News About Financing, Investing in and Owning Real Estate



Don't panic. Hotel outlook isn't pretty but it is realistic. (Getty Images)

After Nine Up Years, Hotel Industry Stands at the Beginning of a Downturn

But don't panic. U.S. hotel industry revenue per available room, or RevPAR, dropped 1.2% year over year in October, marking the second straight month of decline. Importantly, this is the technical definition of a downturn.

The lodging sector performance in October is an indicator of the slow-growth environment that operators face, according to an analysis prepared by Jan Freitag, senior vice president of lodging insights at STR, a CoStar Group company that collects and analyzes hotel data and provides other services.

RevPAR has now declined two months in a row — three months in the past year, and four months in the prior 13 months.

Occupancy declined 0.8% in October. Occupancy has now declined in five of the past nine months.

Of more concern is that the average daily rate (ADR) also declined 0.5%, after a string of months of growth. This decline marks the first time that U.S. ADR was down since March 2010, which is when the current upturn started, Freitag said.

The October numbers raise this question. Is the upcycle really over?

"Yes, it is," Freitag writes in his analysis. "Two consecutive months of RevPAR decline are proof.

"But," he adds, "the other reality is this: annualized RevPAR will likely not decline at all in this cycle. So maybe, if you judge by year-end results, this cycle is not over at all."

STR's new 2020 RevPAR growth forecast isn't pretty, but it's realistic and forecasts 0.5% growth, Freitag noted.

"We will see plenty more months of mild RevPAR declines balanced by months with tepid RevPAR gains," Freitag said. "That is the future we face, and the reality we already live in."

The takeaway: Heed Douglas Adams' warning in "The Hitchhiker's Guide to the Galaxy": "Don't Panic," inscribed in large friendly letters on its cover.

"Arguably the last few years were easy, and there is likely a whole crop of revenue managers out there who came of age after 2009, without any knowledge of a downturn and flat, or declining, RevPAR," Freitag wrote. "But, as I said before, the expected GDP growth will drive demand, and we will continue to sell more rooms than ever, year after year after year. To coin a phrase: The upturn is dead; long live the upturn."