Limited-Service Hotels Positioned for Strong Revenue Growth in 2017

Russ Rivard, MAI | January, 2017

Factors ranging from sophisticated analyses of hotel performance, supply, and demand data to general economic indicators support forecasts for U.S. hotel industry growth in the new year. Limited-service hotels may be positioned to reap the most benefits.

Looking back at 2016, a growing economy has continued to buoy the hotel industry, and there are strong indications that the industry should continue to realize growth in 2017. In 2016, growth in business activity for hotels outpaced what would be a typical year for hoteliers. E-forecasting.com, which produces predictive analytics relevant to forecasts for the hotel industry, recently reported that the six-month annualized smoothed growth rate for U.S. hotels was 3.3% in October. The 30-year average is 2.0%; hence, recent growth for U.S. hotels, across a spectrum of measures, has been trending well above the norm.

U.S. Hotel Industry on Track for Continued Growth

Overall, RevPAR continues to grow for U.S. hotels, mostly as a result of rising average rates. Financing for new hotel construction remains relatively difficult to obtain, which has put a clamp on the pipeline for proposed hotels. Meanwhile, demand is on the rise. All of these factors point to a lessening chance of recession for the industry in 2017.

E-forecasting.com uses a measure called the U.S. Hotel Leading Indicator (HIL) to predict the risk of recession in the industry. Put simply, higher figures equate to more risk. According to e-forecasting.com's CEO Maria Sogard, the HIL registered 5.1% in October 2016, down from 7.1% in September; hence, the probability of recession is diminishing.

Moreover, overall economic conditions in the U.S. continue to strengthen. In fact, third-quarter gross domestic product (GDP) growth showed that the economy accelerated to the fastest pace in two years from July through September. Interest rates, despite the Fed's recent December increase of .025%, are still attractive by historical standards. With inflation low, the improving economy should allow for continued increases in hotel performance throughout 2017. Some types of hotels, however, should benefit more, capturing even more business than others.

Positive Impact for Limited-Service Hotels

Limited-service hotels, originally defined as a hotel without restaurant or banquet facilities, tend to offer, as the name implies, a limited set of services and amenities. Over the past decade, however, the services and amenities at limited-service hotels have expanded widely. In today's market, these can include a business center, a fitness room, a market pantry, an indoor and/or outdoor pool and whirlpool, and small meeting rooms. For many of today's business travelers, this range of amenities and services provide everything they need, and at far less of an expense than the more upscale hotels.

The limited-service hotel segment has grown recently due partly to the lower cost of operating a hotel that has less amenities, yet still popular among both leisure and business travelers. The lower costs to operate, of course, increase the bottom-line for hoteliers in a time that increased competition warrants smart business decisions.

Looking Forward

The hotel industry has enjoyed years of improving performance as the U.S. economy has climbed back from the Great Recession late last decade. Of course, hotel industry stakeholders are aware that this growth will diminish at some point due to factors ranging from oversupply to declines in demand.

Current trends and sophisticated predictive analytics, however, point to a continued recovery through at least 2017, offsetting concerns about a recession for the U.S. hotel industry in the near term. The economy continues to roar into healthy territory, as well, further supporting forecasts for growth.

Given the overall strong demand levels and what appears to be a rational introduction of new hotel supply, hoteliers, especially those in the limited-service hotel sector, should benefit from strong revenue growth in the new year.

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