

Upper-upscale hotels to enjoy group resurgence

Much like its luxury segment sibling, upper-upscale hotels are poised to enjoy strong continued rate growth in 2015, despite only modest expected gains in occupancy. Steady demand levels across all business segments will drive the uptick, boosted by recent spikes in group bookings.

According to sources, a combination of factors ranging from minimal new supply to smarter pricing strategies have upper-upscale hoteliers optimistic about 2015. This year, the focus for many operators will be on driving rate, and demand fundamentals appear strong enough to allow the expected price push.

"I think 2015 is going to see continued group demand, and continued strong transient room rate growth. You take those two things and combine them with supply change that's not astronomical, and a demand change that's in the single digits but very healthy, and I feel that 2015 is going to be a good year," said Joe Khairallah, COO, Marcus Hotels and Resorts. "You're going to see most of the increase not in occupancy, but most of it in ADR. Most companies have finally gotten over the jitters of 2008 and 2009, and have applied some healthier selling strategies and taken away some discounts, shifting those into higher rate segments, so I'm anticipating strong ADR growth, especially on the non-group side."

Smith Travel Research (STR) is currently forecasting occupancy growth of 1% for the upper-upscale segment in 2015, with average daily rate (ADR) growth of 5.1%, for a surge in revenue per available room (RevPAR) of 6.1%. PKF Hospitality Research anticipates slightly lower occupancy gains, at just 0.4% overall for the segment, for a total occupancy of 73.8%. However PKF expects the segment to push rate by 6.7% to \$181.79, resulting in RevPAR gains of 7.2%, to \$134.11.

According to PKF, one factor helping to drive rate in upper-upscale hotels has been the significant re-emergence of group demand in 2014 and beyond. After the recession of 2009 group business was slow to recover in the segment, but now many of these hotels—particularly those with ample convention space—are reaping the benefits once again.

"It is a disproportionate benefit: It's clearly the upper-upscale and, to a lesser degree, upscale hotels," said Mark Woodworth, president, PKF Hospitality Research. "That's typically where

you'll find the full-service properties that have a meaningful amount of in-house meeting space. Certainly the upper-price chain scales are seeing the lion's share of the benefit of the return of the group customer."

Part of that group resurgence, sources said, is linked to the ever-improving employment perspective in the U.S. Operators of upper-upscale hotels said that continued or improved domestic employment levels will be a key indicator going forward for group demand, as well as for business and transient leisure bookings.

"I think what you're seeing is as job growth improves, companies are spending more dollars for training and development, which equates into meetings and conferences," said Mike Conway, president, Winegardner & Hammons, Inc. "Job growth is fueling the group increases for us."

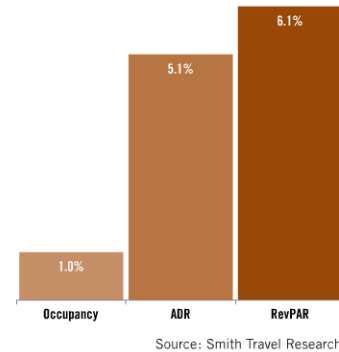
These and other factors are expected to maintain overall demand growth for the segment at levels well above new supply. PKF's forecast of 1.7% upper-upscale supply growth in 2015 won't be enough to usurp demand growth of around 2.1%; other experts agree, but pointed out that there are still some noteworthy new projects in the development pipeline worth keeping an eye on.

"There's a little bit more construction happening in that upper-upscale group," said Bobby Bowers, SVP, STR. "Brands like Marriott, Hilton, Hyatt and Sheraton are all active at the moment."

But new rooms entering the space will hardly dampen the spirits of hoteliers looking ahead to 2015. Besides increasing trends like group business, there's also the sustained influx of international guests helping to offset added inventory. Experts said as the world economy and international relations continue to evolve, domestic hotel demand will perpetually surge, painting a rosy picture for the foreseeable future.

"Although the U.S. dollar has been strengthening, the U.S. is still one of the most economical countries to visit," said Khairallah. "I see a lot of people come here not only to sightsee and visit, but to shop. That business should and cannot be ignored. From Asia, especially China, the demand will be very strong and will continue to get stronger as we relax the visa requirements between the two countries. I see it absolutely continuing to grow."

2015 Year-end Outlook (% change)



2015 National Forecast (% change)

