Intelligent Investment

2023 Global Hotels Outlook

REPORT

Sector-Specific Tailwinds Should Offset Broader Economic Challenges

CBRE RESEARCH
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Executive Summary

RevPAR has recovered in most regions and should continue to grow in 2023, bolstered by pent-up demand, the return of travelers from Asia and a normalization of group travel trends.

In the U.S., sector-specific demand drivers will help offset broader consumer and business headwinds caused by the decelerating global economy.

CBRE expects continued growth in the Caribbean all-inclusive segment given increasing flexible work patterns and group travel demand. In addition, 2023 may be a tipping point in the balance of power between globally recognized hotel brands, tour operators and wholesalers, as chains continue to leverage their loyalty programs and marketing prowess.

In Europe, CBRE predicts that average daily rate (ADR) growth will help offset the supply chain and labor shortages that together with inflation are raising costs for the industry.

In Asia-Pacific, CBRE expects the recent lifting of travel restrictions and the return of travelers from mainland China will boost the region’s hotel performance in 2023 and lead to a full recovery in RevPAR by 2024.

Overview

Widespread normalization of global travel patterns should return hotel market fundamentals to pre-pandemic levels in 2023. Hotel RevPAR improved in all three global regions in 2022. RevPAR in the Americas hit 108% of pre-pandemic 2019 levels and Europe was nearly on par at 97%, while Asia-Pacific (APAC) lagged at 68%. The recent easing of travel restrictions in China and Japan, along with a resurgent Chinese economy, should return APAC region RevPAR to pre-pandemic levels this year.

Seasonality and the relative performance of different asset types and locations are unlikely to fully return to pre-pandemic patterns as increased work location flexibility, net-migration shifts and geopolitical, foreign exchange and economic differences may make post-pandemic trends somewhat sticky.

Persistently high inflation is driving the increase in average daily rates (ADR), moderating margin gains and slowing supply growth to below-average levels.

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2023 U.S. Outlook

Hotel fundamentals in the U.S. are improving, as record-low unemployment, modest consumer debt, wage increases and remote work have bolstered both lodging demand and rates.

National RevPAR reached a record high in 2022 and based on the sample of hotels in CBRE's monthly Trends® in the Hotel Industry database, property level gross operating profit likely also set new highs, up 62% year-over-year and 4.8% vs. 2019.

Bookings through brand websites or apps as a percent of total hotel bookings reached all-time highs in Q4 2022. Group bookings reached 99.4% and global distribution system (GDS) bookings 92.3% of Q4 2019 levels despite office attendance down by half, according to Kastle Systems.

Total airline passengers in Q1 2023 exceeded 2019 levels despite nearly 16.4 million or 41% fewer inbound international travelers. Easing travel restrictions in China and Japan are expected to bring back affluent long-haul travelers to the U.S. and set up a record summer travel season this year.

Another potential catalyst for a strong summer travel season is a weaker U.S. dollar and a 29% increase in average airfares that may prompt more domestic rather than international travel by Americans.

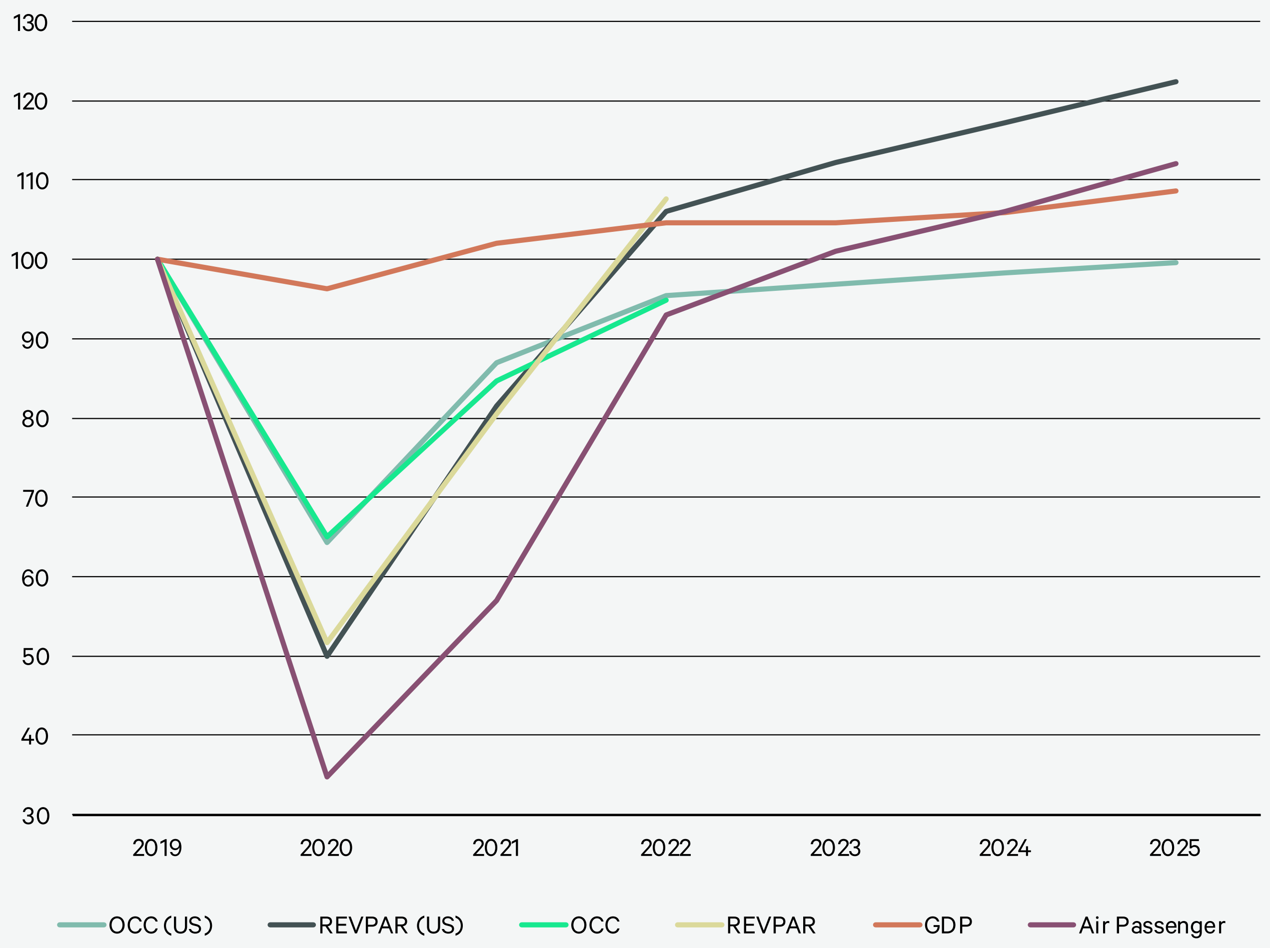
Hotel loan delinquencies and special servicing show no signs of increasing so far this year; however, recent bank failures pose a risk. With delinquencies running at 4.4% and special servicing at 6.7%, record cash flows should help offset higher interest rates.

Valuations of hotel C-corporations and REITs—historically very active in hotel acquisitions, sales and M&A activity—have improved. C-corporations continue to generate and return record levels of cash flow to shareholders, which can be reallocated as opportunities arise. However, recent turmoil in the banking sector could cause a tighter lending environment.

CBRE forecasts that hotels will have the strongest top-line growth (5.8%) and the lowest cap rate expansion of all core property types this year. This, coupled with strong gross operating profit growth and healthy consumer demand, will make hotels an asset class of choice for investors.

From a fundamental standpoint, there still is a lot of upside potential for trophy assets, boutique hotels in prime or supply-constrained destinations, drive-to leisure markets, group markets with strong leisure appeal, select service brands associated with globally recognized franchisors and newer or remodeled CBD hotels.

FIGURE 1: Americas Region Hotel Performance & Key Macroeconomic Indicators Forecast as a % of 2019



Source: Kalibri Labs, CBRE Hotels Research, Smith Travel Research, Oxford Economics, International Air Transport Association.
Note: forecasts as of February 16, 2023.

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2023 Caribbean Outlook

The Caribbean hotel market showed strong recovery in 2022, partly from the halo effect of a nearly 20% increase in U.S. ADR from 2019 levels.

One silver lining of the COVID pandemic is that it exposed the region to new tourists. The Dominican Republic, for example, had record visitation in 2022, while Cancun posted a near-record high. Demand was led by U.S. and Canadian tourists, who immediately sought out Caribbean beach destinations after an easing of travel restrictions.

Many regional hotels are reporting longer stays and increased demand for group meetings, leading to strong growth potential for all-inclusive resort properties. These trends should result in consistent demand patterns and record occupancy rates for this segment in 2023.

All-inclusive resorts, formerly a niche category, have accounted for more than 75% of new hotel construction in the region since 2015. Global hotel companies like Hyatt, Hilton, Marriott and IHG have taken note and are pursuing diverse strategies from signing new distribution agreements and introducing new brands to making selective acquisitions or purchasing regional brands. As a result, 2023 should see increased competition between tour operators/ wholesalers, which historically have dominated distribution, and the more traditional, international hotel chains that bring their multi-million frequent guest programs and marketing prowess.

Regardless of the outcome, the presence of these major hotel groups is bringing the necessary and perhaps long-overdue credibility in the eyes of institutional investors, which in turn should bring the segment added liquidity in terms of sale transactions and additional investment capital.

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2023 European Outlook

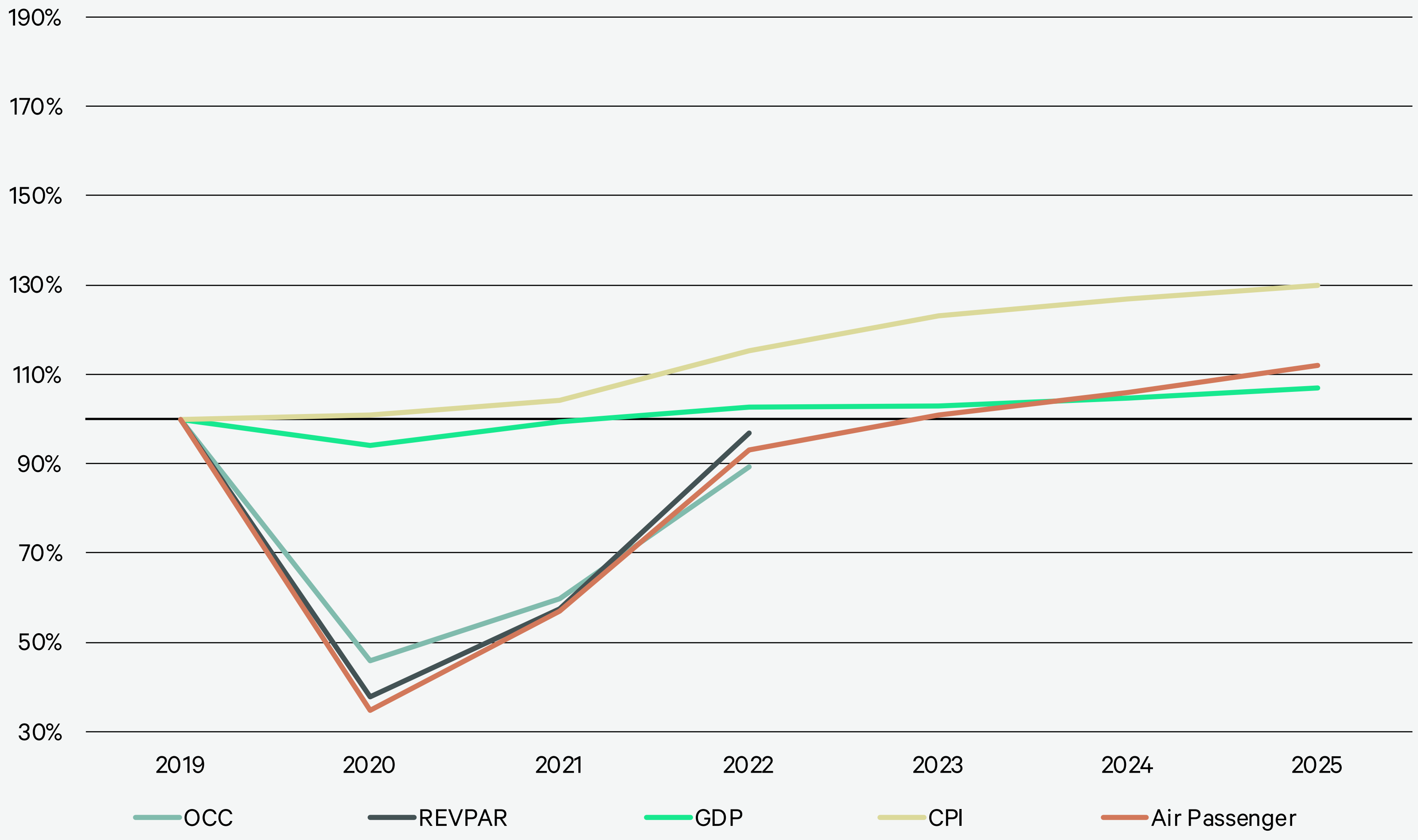
Average RevPAR of European hotels last year increased to just under 3% of the pre-pandemic average in 2019, largely driven by strong ADR growth, especially in the luxury segment.

CBRE predicts another positive year for the European hotel market in 2023, with ADR growth again the leading driver. This should help offset the supply chain and labor shortages that together with inflation are raising costs for the industry. Especially strong performance is expected for Paris, which will host the Rugby World Cup in the fall and the Summer Olympics next year.

Occupancy growth could be muted if a potential recession and the effects of Russia's war with Ukraine lead to less disposable income for consumers. Despite this, CBRE expects that the recent relaxation of travel restrictions in China will boost hotel demand across Europe. An increase in business and meetings travel should offset any potential slowdown in leisure demand.

CBRE expects that costlier debt and an economic slowdown will limit hotel investment activity and lower yields in H1 2023 before a recovery begins to take hold in H2.

FIGURE 2: European Hotel Performance & Key Macroeconomic Indicators Forecast as a % of 2019



Source: Smith Travel Research, Oxford Economics, International Air Transport Association.

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2023 Asia-Pacific Outlook

The outlook for the Asia-Pacific hotel market looks bright in 2023. The release of pent-up travel demand continues as major inbound and outbound tourist hubs (mainland China, Japan and Hong Kong SAR) opened their borders to the rest of the world. Markets like Australia, Korea, India and most of Southeast Asia—open for travel since early 2022—have already seen hotel performance metrics surpass 2019 levels.

With a broader normalization of international travel in the region, the overall Asia-Pacific hotel market should see modest growth in performance in 2023 and a return to pre-pandemic levels in early 2024.

International arrivals in top Asia-Pacific markets rebounded substantially in 2022, totaling 10.4 million in December 2022—more than eight times the monthly average in 2021.

Countries that opened for travel in early 2022, such as Australia, Korea, India and Singapore, gained back approximately half of their pre-pandemic 2019 international inbound traveler levels.

Although international arrivals in Asia-Pacific have rebounded strongly, the United Nations World Tourism Organization reports that they are 56% lower than in 2019, compared with a global decline of only 37%. But with the recent easing of travel restrictions in mainland China, Hong Kong SAR and Japan, CBRE expects a significant rebound in international arrivals to the region this year.

Being the largest source of tourists (around 40% of regional arrivals in 2019), the return of mainland Chinese travelers will provide a significant boost to the Asia-Pacific hotel sector. In 2019, the top five destinations for mainland Chinese tourists in Asia-Pacific were Hong Kong SAR, Thailand, Japan, Korea and Vietnam.

However, several countries remain cautious about recent high levels of COVID infections in mainland China. Coupled with the cost of and limits on air travel, the large-scale return of mainland Chinese tourists may take additional time.

Trip.com reports that overall outbound travel bookings from mainland China during the Lunar New Year period in January grew by 640% year-over-year. Following Japan and Korea's recent moves to tighten entry rules for visitors from this market, more mainland Chinese travelers likely will shift to Southeast Asia, Macau and Hong Kong SAR at least until mid-2023.

Thailand expects at least 5 million mainland Chinese tourist arrivals this year, while Singapore projects mainland Chinese tourist spending to reach SG$2 billion. Arrials in Hong Kong are also expected to pick up strongly once entry rules are further relaxed after the Chinese New Year.

ADRs in Asia-Pacific (excluding Greater China) returned to growth in H2 2022 and exceeded 2019 levels. However, RevPAR in many markets has still not recovered to pre-pandemic levels as occupancy continues to lag.

Leisure travel and, more recently, group and inbound international travel have led the recovery, while transient business travel has remained sluggish. As the industry recovers, hotel owners will be confronted by labor shortages and higher-than-average wage growth.

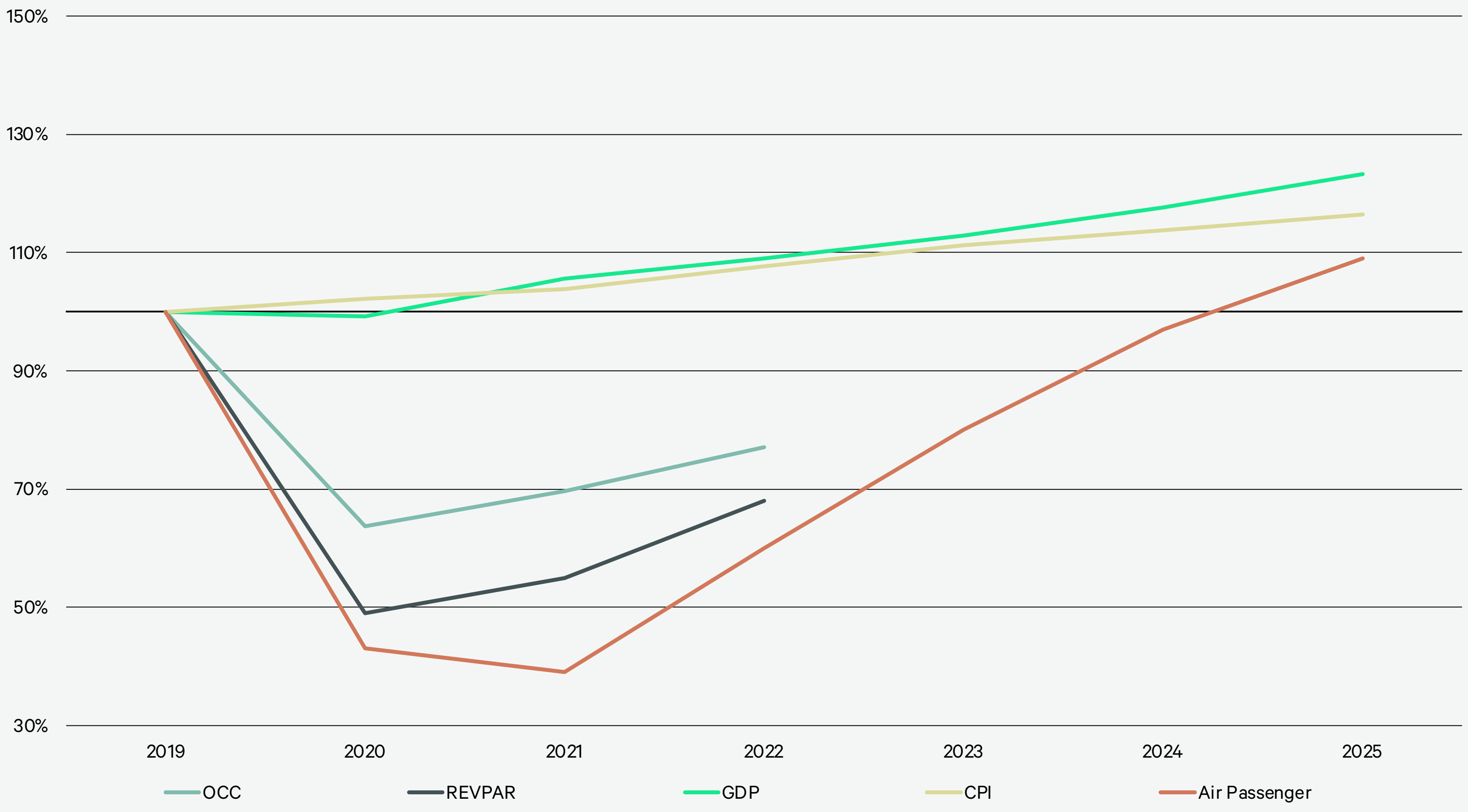
Korea, Australia and Singapore have been the top-performing

markets, with ADR around 20% higher than 2019 levels. Although ADR in Thailand rose 16% over the same period, RevPAR has barely improved.

The recovery in 2023 will be more prominent among the current laggards, including Japan, Hong Kong SAR and mainland China, as cheaper hotel prices in these markets will lure travelers. Taiwan likely will experience a slower recovery as it has not yet reopened to mainland Chinese visitors due to ongoing geopolitical tension.

Forecast growth of the Asia-Pacific hotel market should keep investors interested in the region. Investment volume is expected to remain somewhat stable over the next 12 months, particularly in markets where fundamentals are strong; however, refinance pressure may result in some assets being put up for sale (particularly in Korea and Australia).

FIGURE 3: Asia-Pacific Hotel Performance & Key Macroeconomic Indicators Forecast as a % of 2019



Source: Smith Travel Research, Oxford Economics, International Air Transport Association.

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