

# Hospitality trends 2017

Observations from the annual  
Washington, DC, Hospitality Sector  
Roundtable



Building a better  
working world



A photograph of the U.S. Capitol dome in Washington, D.C., taken from a low angle. The dome is illuminated from within, and the sky is a dramatic mix of orange, yellow, and purple, suggesting a sunset or sunrise. The building's classical architecture, including columns and arches, is visible in the foreground and midground.

# About this report

- ▶ EY surveyed hospitality sector leaders in the Washington, DC, metro area on 28 June 2017 and invited these individuals to a roundtable to discuss the survey results and industry trends.
- ▶ Our survey and discussions focused on the economy, transactions, capital markets, brands, technology, millennials and the industry's focus on trends affecting the broader US hotel market. The results of the survey are represented in the charts on the following pages.
- ▶ All respondent and participant names are confidential, and their responses were used only in combination with others to maintain their anonymity.

EY would like to thank the individuals who took the time to complete the survey and attended EY's Washington, DC, Hospitality Sector Roundtable.

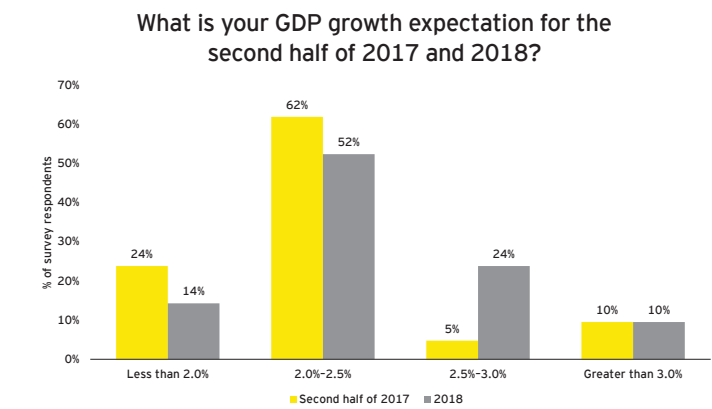
If you have questions about this survey or the Washington, DC, Hospitality Sector Roundtable, please contact Michael Fishbin at [michael.fishbin@ey.com](mailto:michael.fishbin@ey.com) or Brian Tress at [brian.tress@ey.com](mailto:brian.tress@ey.com).





# The economy

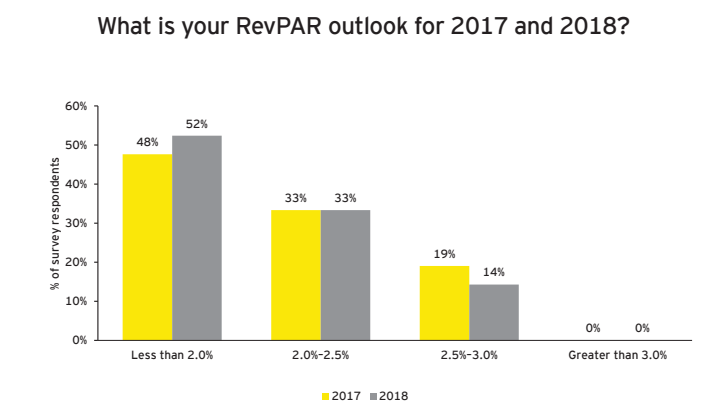
The US economy experienced gross domestic product (GDP) growth of 2.6% (advanced estimate) for the second quarter of 2017, an increase from 1.2% growth achieved in the first quarter of 2017, and an increase from 2016 growth of 1.6%.<sup>1</sup> The Federal Open Market Committee estimates a median GDP growth of 2.2% and 2.1% for 2017 and 2018, respectively.<sup>2</sup> Based on the survey responses, the outlook was relatively aligned with the aforementioned forecasts, with 62% and 52% of respondents anticipating growth between 2.0% and 2.5% for the second half of 2017 and 2018, respectively.<sup>3</sup>



Source: EY  
Note: Some totals may not add due to rounding.

According to survey respondents, the greatest macrothreat to the lodging industry is overbuilding (58%) followed by international-instability (21%) and the uncertainty surrounding the US federal government (16%). In April 2017, the White House released a one-page tax proposal, which, if passed, could significantly impact all US businesses; however, the advancement and implementation of the administration's proposed tax reform is uncertain. Based on the survey responses, more than half of respondents (62%) expect no major tax reform to be enacted in 2017 or 2018. Additionally, results were relatively split evenly (approximately 48% “yes,” 43% “no” and 10% “unsure”) between those viewing tax reform as having a significant role in executing business objectives.

Approximately 48% of survey respondents anticipate revenue per available room (RevPAR) growth to be less than 2.0% in 2017, with 52% of respondents anticipating sub-2.0% RevPAR growth in 2018. This is a more subdued expectation than Smith Travel Research's recent estimates of 2.5% RevPAR growth in 2017 and 2.3% in 2018. The average growth in RevPAR over the past 15 years (2002-2016) was 3.4%; however, during the past three years (2014-2016), RevPAR growth has averaged 5.8% per annum, with 2016 growth of 3.2%.<sup>4</sup>



Source: EY  
Note: Some totals may not add due to rounding.

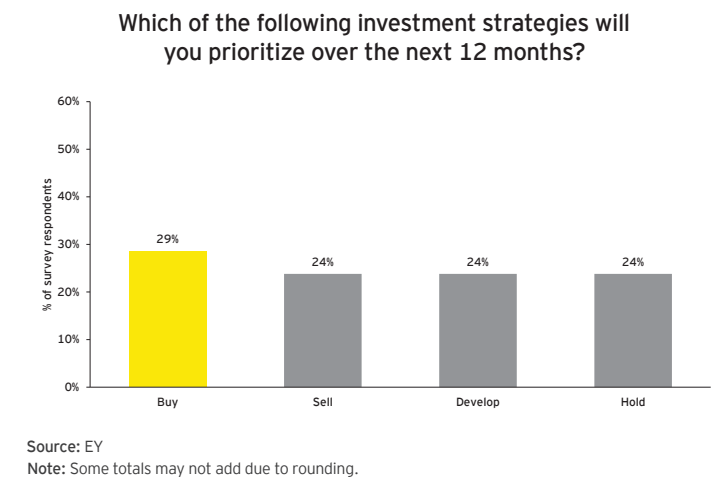
**“Throughout the legislative and political battles ahead, we cannot afford to lose sight of the primary goal - getting competitive business tax rates and putting in place a modern international tax system that will attract global capital and add US jobs, this year.”**

- Mark A. Weinberger, Global Chairman and CEO of EY, *Forbes*, February 2017

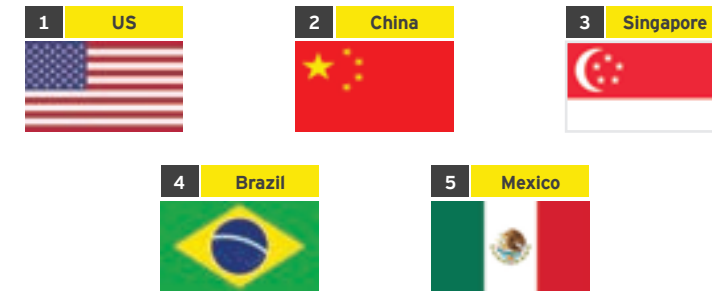
<sup>1</sup> <https://bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>.  
<sup>2</sup> <https://www.statista.com/statistics/188165/annual-gdp-growth-of-the-united-states-since-1990/>.  
<sup>3</sup> <https://www.scribd.com/document/352103025/2017-06-14-FOMC-Economic-Project-Table-2017-06-14>.  
<sup>4</sup> <https://www.scribd.com/document/352103025/2017-06-14-FOMC-Economic-Project-Table-2017-06-14>.

# Transactions

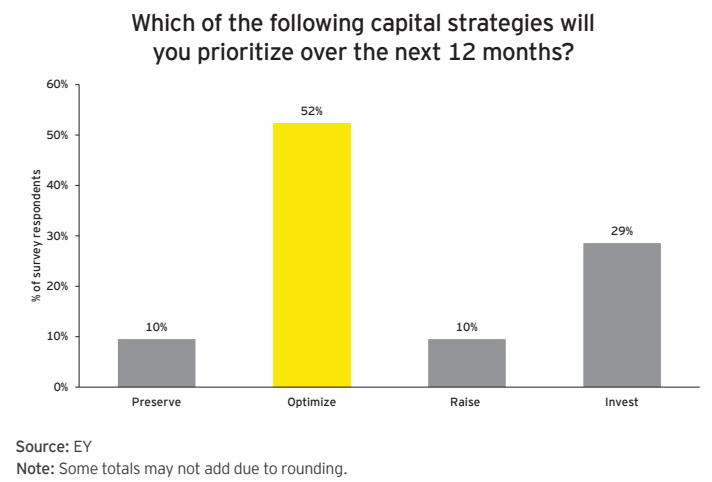
Survey respondents were relatively split evenly across their investment strategies over the next 12 months, with 29% stating they plan to buy, 24% stating they plan to sell, 24% plan to develop and 24% plan to hold. Moreover, over the next 12 months, survey respondents anticipate international capital to remain the most active purchaser in the hotel sector (45%) followed by private equity (25%) and REITs (25%).



According to EY's Hospitality Capital Confidence Barometer - 16th Edition (April 2017), a periodic survey of senior executives of large companies around the world, the top five hospitality investment destinations in which respondents intend to pursue acquisitions are as follows:



Survey respondents were asked which capital strategy they will prioritize over the next 12 months. A majority (52%) stated they will focus on optimizing invested capital, followed by investing additional capital (29%), preserving capital (10%) and raising capital (10%). With concerns surrounding new supply, increased financing costs and softening RevPAR growth, market participants commented that maximizing individual asset performance remains a priority.



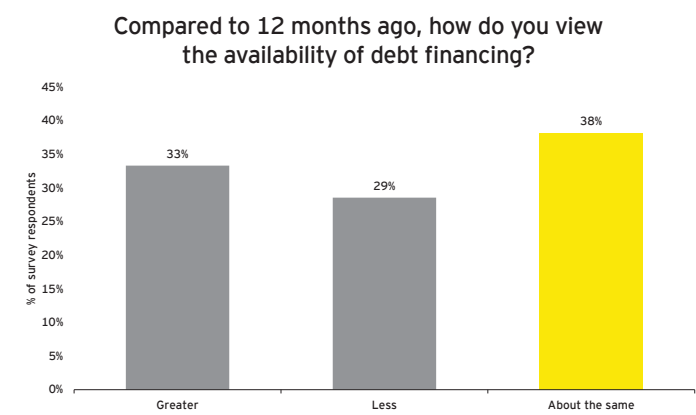
**“Nationalism and isolationism are on the rise in the West. Terrorism continues to wear on the global psyche. Interest rates are edging up, while property values remain high. China is trying to staunch the outbound flow of capital. Is it a bad time for buying and selling hotels?”**

- *Hotels' Investment Outlook*, June 2017



# Capital markets

The view on the current availability of debt financing remains relatively unchanged from last year, with 38% of survey respondents viewing the availability of debt financing to be about the same as last year and 33% viewing the availability of debt being greater than 12 months ago.

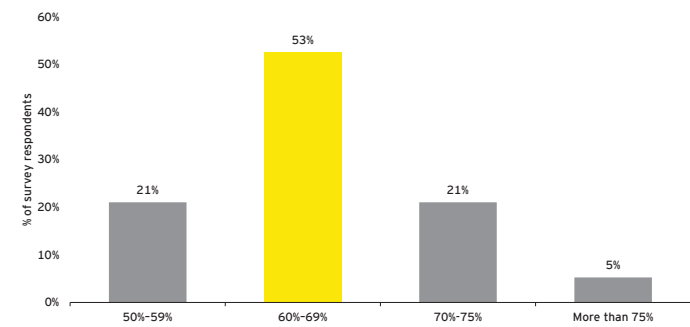


Source: EY  
Note: Some totals may not add due to rounding.

According to EY’s Hospitality Capital Confidence Barometer - 16th Edition (April 2017), capital markets remain open and supportive of companies’ growth strategies, and the majority of respondents had a stable or optimistic outlook on current capital market dynamics. On a global level, 100% of respondents viewed corporate earnings as improving or remaining stable in the near term, while 86% viewed credit availability as improving or remaining stable, 92% viewed the short-term outlook for the capital markets as improving or remaining stable and 60% viewed the equity valuations/stock market outlook as improving or remaining stable.



For those acquiring hotels over the next 12 months, which of the following most closely represents the expected loan-to-value (LTV) for stabilized assets?



Source: EY  
Note: Some totals may not add due to rounding.

**“The positive shift in economic outlook and improving stability in capital markets should reassure executives that they do not need to rush into fundraising or refinancing.”**

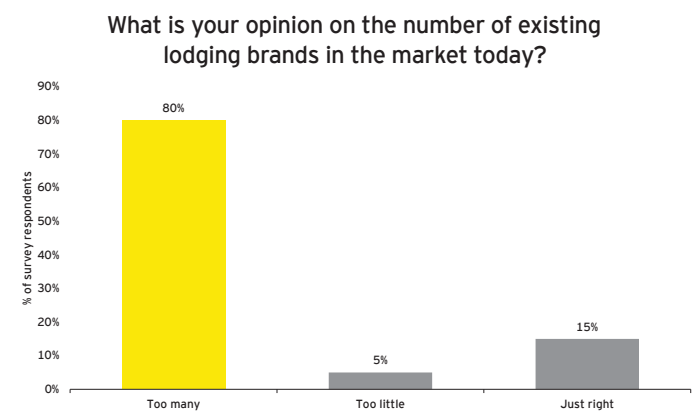
- EY’s Hospitality Global Capital Confidence Barometer (April 2017), 16th Edition

# Brands

The primary customer focus in the hospitality industry is the millennial and Gen X generations, as discussed during the roundtable. According to research performed by The Center for Generational Kinetics, a consulting firm focusing on issues of millennial consumers, millennials are anticipated to outpace baby boomers in hotel spending by 2017, with expectations that millennials will dominate the purchases in the travel industry by 2020.<sup>5</sup> As brands compete for revenue from this generation of travelers, it is important to consider development details that millennials value: customized experiences, digital convenience and attention to design.<sup>6</sup>

Additionally, roundtable participants noted that the Gen Z generation (those under the age of 18) have never experienced life without connectivity. As such, when planning for the future, market participants believe that connectivity will play an even greater role in a hotel experience than it does with millennials. In addition to connectivity, the Gen Z generation is also anticipated to be more accepting of smaller spaces, supporting the current trends of urbanization, smaller and smarter living spaces, and micro-hotels.

As hoteliers look to remain competitive, there has been a significant shift in focus directed toward lifestyle brands, including soft brands. However, nearly 80% of respondents believe that there are too many brands in the market today. This sentiment may be due the fear that consumers and investors alike will become confused by the proliferation of brands, increased competition within previously protected markets, increased costs, loss of market share and the desire to compete at multiple price points.



Source: EY  
Note: Some totals may not add due to rounding.

<sup>5</sup> Ed Watkins, “How millennials will change travel by 2020,” *Hotel News Now* website, [www.hotelnewsnow.com/Articles/24758/How-millennials-will-change-travel-by-2020](http://www.hotelnewsnow.com/Articles/24758/How-millennials-will-change-travel-by-2020), accessed 6 December 2016.

<sup>6</sup> Daisy Carrington, “Hotel brands no longer sell rooms. They sell experiences,” *CNN Business Traveller* website, <http://www.cnn.com/2016/06/17/hotels/hotels-selling-experiences/>, accessed 9 December 2016.

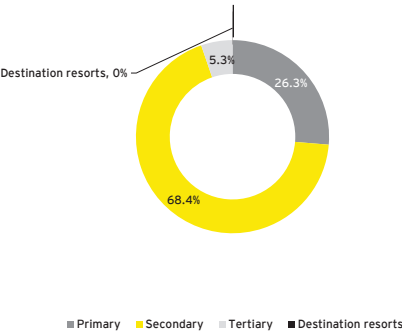




# Industry focus

In terms of US market focus over the next 12 months, survey respondents indicated that secondary markets (68%) were most attractive, followed by primary markets (26%) and tertiary markets (5%). No survey respondents selected destination resorts as an attractive market for development. Market participants express that although the hospitality industry is a macroindustry, each market is unique, increasing the importance of proper due-diligence and feasibility when exploring opportunities.<sup>7</sup>

Which US markets are most attractive for development over the next 12 months?



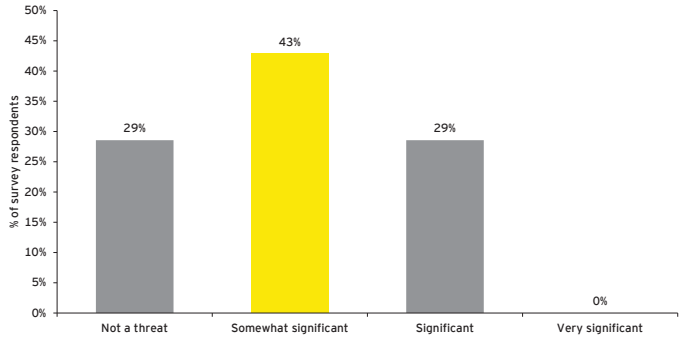
Source: EY  
Note: Some totals may not add due to rounding.

Based on the survey, respondents were asked for the most important contributing factor to guest satisfaction: service, value, product, consistency, experience/authenticity or other. Forty-eight percent of respondents believe service continues to be most important, followed by value (19%) and experience/authenticity (19%).

<sup>7</sup> <https://www.wsj.com/articles/expedia-priceline-home-in-on-airbnbs-turf-1500888600>.

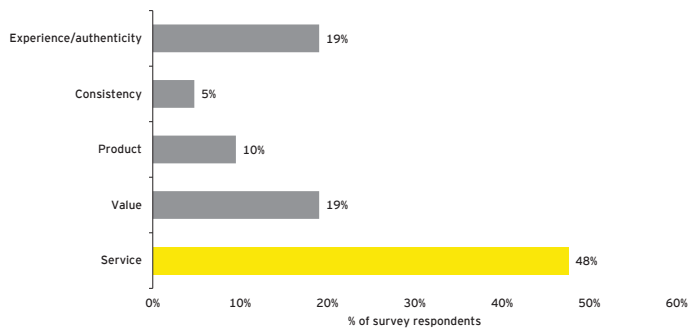
Of those surveyed, 72% viewed the sharing economy as a significant or somewhat significant threat to their properties' performance, likely attributable to the lack of consistent regulation intended to create a level playing field for traditional hoteliers, and the downward pressure on average daily rate and occupancy. According to *The Wall Street Journal*, major online travel agents are increasing their home-rental inventory, with the goal of transforming vacation rentals into a hotel-like commodity, as well as providing travelers a comprehensive list of options for each destination.

Do you view the "sharing economy" as a threat to your properties' performance?



Source: EY  
Note: Some totals may not add due to rounding.

Overall, which is the most important contributing factor to guest satisfaction?



Source: EY  
Note: Some totals may not add due to rounding.





## Ernst & Young LLP participants

**Michael Fishbin**

*Principal  
Global and Americas Hospitality  
and Leisure Leader  
New York, NY  
+1 212 773 4906  
michael.fishbin@ey.com*

**Dante P. D'Egidio**

*Partner  
Assurance Leader (Baltimore, Greater  
Washington and Richmond)  
Tysons, VA  
+1 703 747 1211  
dante.d'egidio@ey.com*

**Michelle L. Montes**

*Partner  
Assurance Services  
Tysons, VA  
+1 703 747 1143  
michelle.montes@ey.com*

**Shirley Edwards**

*Partner  
Assurance Services  
Tysons, VA  
+1 703 747 1272  
shirley.edwards@ey.com*

**James F. Sexton**

*Partner  
Assurance Services  
Tysons, VA  
+1 703 747 1213  
jim.sexton@ey.com*

**Dan Lasik**

*Partner  
Assurance Services  
Tysons, VA  
+1 703 747 1287  
dan.lasik@ey.com*

**Gary Gasper**

*Partner  
Washington Council EY - National Tax  
Washington, DC  
+1 202 467 4302  
gary.gasper@ey.com*

**Brian Tress**

*Executive Director  
Northeast Hospitality and Leisure Leader  
New York, NY  
+1 212 773 8359  
brian.tress@ey.com*

**Bruce P. Kaminsky**

*Associate Director  
Transaction Advisory Services,  
Real Estate and Hospitality  
Philadelphia, PA  
+1 215 448 5143  
bruce.kaminsky@ey.com*

**Mathew Schuster**

*Senior Manager  
Transaction Advisory Services,  
Real Estate and Hospitality  
New York, NY  
+1 212 773 7086  
mathew.schuster@ey.com*

**Lana Miller**

*Senior Analyst  
Transaction Advisory Services,  
Real Estate and Hospitality  
New York, NY  
+1 212 773 3343  
lana.miller@ey.com*

#### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

#### About EY's Global Real Estate, Hospitality & Construction Sector

Today's real estate sector must adopt new approaches to address regulatory requirements and financial risks while meeting the challenges of expanding globally and achieving sustainable growth. EY's Global Real Estate, Hospitality & Construction Sector brings together a worldwide team of professionals to help you succeed – a team with deep technical experience in providing assurance, tax, transaction and advisory services. The Sector team works to anticipate market trends, identify their implications and develop points of view on relevant sector issues. Ultimately, this team enables us to help you meet your goals and compete more effectively.

© 2017 Ernst & Young LLP.

All Rights Reserved.

1708-2372055

EYG no. 05167-171US

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

[ey.com/hospitality](http://ey.com/hospitality)