Hospitality trends
Observations from EY’s Greater Los Angeles Hospitality Sector Roundtable
About this report

- EY surveyed hospitality sector leaders in the Greater Los Angeles metro area on 11 October 2017 and invited these market leaders to a roundtable to discuss the survey results and industry trends.
- Our survey and discussion focused on the economy, key transactions, capital markets, brands, technology, shift in customer segments and 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 respondents and participants’ 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 attend EY’s Greater Los Angeles Hospitality Sector Roundtable.

If you have questions about this survey or the Greater Los Angeles Hospitality Sector Roundtable, please contact Michael Fishbin at michael.fishbin@ey.com or Troy Jones at troy.jones@ey.com.
Macroeconomic trends

The US lodging industry has experienced six consecutive years of growth from 2010 to 2016, with an average annual RevPAR growth of 6% according to Smith Travel Research. The majority of the survey respondents were largely optimistic about the growth in the US hospitality industry, “with approximately 59% of the survey respondents anticipating continued growth for one to two more years compared to 14% of respondents believe we are currently at the peak of the cycle and another 14% who believe we are past the peak of the cycle.

Approximately 32% of survey respondents anticipate RevPAR growth to be less than 2% in 2018 41% of respondents anticipate RevPAR growth between 2% and 3% and 18% of respondents anticipate RevPAR growth greater than 3%. The respondents’ outlook was slightly more optimistic than the recent projections by CBRE Hotel Horizons Forecast, which estimated 3% RevPAR growth in 2018. The average growth in RevPAR over the past 14 years (2002–2016) was 3% however, during the past two years (2014–2016), RevPAR growth averaged 6% per annum, with 2016 growth of 3%.

According to survey respondents, the greatest macroeconomic threats to the lodging industry currently are international instability and overbuilding (45% each). Survey respondents expressed concerns that international instability — heightened by the rise of nationalism, terrorism activities and international disputes — could disrupt international tourism and capital sources in the near term. Another macroeconomic threat to the lodging industry was overbuilding; the concern over overbuilding is particularly true in Downtown Los Angeles, where room supply near the Los Angeles Convention Center is anticipated to increase by approximately 45% in the near term according to EY’s Downtown Los Angeles on the Rise Report (Fall 2017). Other concerns expressed by the respondents included the impact of the minimum wage increase in California and the uncertainty surrounding the US federal government, primarily the impact of the ongoing tax reform.

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Macroeconomic trends

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Capital markets

The optimistic outlook on RevPAR growth is also reflected in the capital markets. According to EY’s Hospitality Capital Confidence Barometer – 17th Edition (October 2017), capital markets remain open and supportive of companies’ growth strategies, and the majority of respondents had an optimistic outlook on the current capital market. Over the next 12 months, survey respondents anticipate international capital to remain the most active purchaser in the hotel sector (41%) followed by private equity (27%), REITs (9%) and owners/operators (9%). While international capital is anticipated to be the leading buyers of hotel assets in the US, survey respondents expressed concern over the restriction of capital flow from China, the largest source of international capital. The respondents noted that the number of large deals greater than $1 billion has decreased, and while Chinese investors are still pursuing opportunities in the US, the deals are smaller and the capital is coming from offshore (i.e., Hong Kong, instead of mainland China).

According to EY’s Hospitality Capital Confidence Barometer – 17th Edition (October 2017), capital markets remain open and supportive of companies’ growth strategies, and the majority of respondents had an optimistic outlook on the current capital market. On a global level, 99% of respondents anticipate corporate earnings to improve or remain stable in the near term; on the other hand, 86% of respondents expressed confidence in credit availability, 95% expressed confidence in short-term outlook for the capital markets and 94% expressed confidence in the equity valuations/stock market outlook.

Survey respondents leaned toward aggressive capital strategies over the next 12 months.

Supply and brand trends

The US hospitality market has been undergoing significant supply increase in recent months. As of October 2017, national lodging supply has increased 2% year over year, the largest year-over-year supply growth since Q2 2010. According to the 3Q 2017 Hotel Horizon publication, the supply growth is anticipated to continue at 2% in 2018 and 2% in 2019. The majority of respondents (73%) stated that the impact of the new hotel supply in the US is somewhat significant or significant, and 14% of the respondents stated that the impact would be very significant.

As hoteliers look to remain competitive, there has been a significant shift in focus directed toward lifestyle brands, including soft brands. Approximately 45% of the respondents selected lifestyle brands as the most desirable lodging product to invest in 2018, followed by select-service brands with 36%.

Many respondents also expressed concern over the proliferation of brands in the market today. This sentiment may be due to the fear that consumers and investors alike will become confused by the multitude of brands, increased competition within previously protected markets, increased costs, loss of market share and competition at multiple price points.

Who do you expect to play the greatest role in acquiring hotels in the next 12 months?

Which of the following capital strategies will you prioritize in 2018?

Which lodging product is most ripe for investment in 2018?

How do you view the impact of new hotel supply in the US in 2018?

Survey respondents leaned toward aggressive capital strategies over the next 12 months.
Customer focus

Currently, the primary customer focus in the hospitality industry is the Millennial and Gen X generations, as discussed during the roundtable. Approximately 45% of the respondents selected the Millennials as the customer segment of most importance, compared to 41% for Gen X. 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. 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.

While none of the respondents selected Gen Z (those under the age of 18) as their primary customer segment, the respondents acknowledged the increasing importance of catering to Gen Z guests, especially given their emphasis on technology and 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.

The expectation is that Millennials will dominate the purchases in the travel industry in 2020.

Customer focus

Based on the survey, respondents were asked for the most important contributing factor to guest satisfaction: service, value, product, consistency, experience/authenticity or other. Of those surveyed, 45% of respondents believe experience/authenticity to be most important, followed by service (32%), value (18%), and product (5%). The heavy emphasis on experience/authenticity may further support the shift of customer segment from Gen X to Millennials and Gen Z, who typically value experience over product.

In response to the increasing impact of Millennials and shifting preference of the changing customer segment, strategies to attract the target customer segment are also changing. Approximately 45% of the respondents selected design elements as the most important factor in attracting the target customer segment, followed by social experiences and perceived value.

Survey respondents emphasized the importance of design as the differentiator, as customers expect design to go beyond functionality and offer experience and discovery.
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