Hospitality trends 2017
Observations from the annual Washington, DC, Hospitality Sector Roundtable
**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 or Brian Tress at 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%.¹ The Federal Open Market Committee estimates a median GDP growth of 2.2% and 2.1% for 2017 and 2018, respectively.² 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.³

According to survey respondents, the greatest macrothreat to the economy is uncertainty. Based on the one-page tax proposal, which, if passed, could significantly impact government (16%). In April 2017, the White House released a table-2017-06-14.¹

⁴ February 2017 - Mark A. Weinberger, Global Chairman and CEO of EY, Forbes, February 2017

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%).

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.

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:

1 US
2 China
3 Singapore
4 Brazil
5 Mexico

³ “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?”

Note: Some totals may not add due to rounding.
**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.

![Graph showing the view on the current availability of debt financing]

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.

**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. 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.

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.


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**Source:** EY

**Note:** Some totals may not add due to rounding.
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.7

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.7

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%).

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