THERE'S MORE TO THE NEW SUPPLY STORY

While two of the *"The Three I's"*, inflation and interest rates, affect various industries and real estate asset classes across the country, the third, inventory, is very specific to individual hospitality markets and submarkets.

By John Plasencia
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TOO MUCH SUPPLY? IT DEPENDS.

Obviously, the amount of new rooms coming online varies by city. But new supply also affects different markets in different ways. It's easy to get caught up in supply numbers since they can be quantified in a straightforward manner, but let's not forget that demand for rooms is also a key component of the age-old supply/demand relationship. While future hotel demand is harder to project, it might justify the new supply that is coming into many markets. For example, New York and Nashville are the two markets with the highest percentage of new product coming online at the moment, but it's safe to say the new supply threat is much more concerning in New York, which has not yet recovered from COVID, than it is in Nashville, where hotel performance has exceeded 2019 levels. New supply is not always a bad or unnecessary thing, no matter how much we may be programmed to believe it.

New supply is not inherently a bad or unnecessary thing, no matter how much we may be programmed to believe it.

Markets such as Nashville, Phoenix, Atlanta, Miami, Dallas, and Tampa, have experienced more new supply than Seattle, Chicago, San Francisco, Minneapolis, Boston, and Philadelphia. However, new supply is much more justifiable in the former group than the latter when considering demand trends in each market. These factors can include population migration, corporate relocations, tourist visitation, multifamily and office development and occupancy, and existing hotel market performance. CONTINUED...

THE TEXAS EXAMPLE

Take Texas, for example, where our firm has been very active, with offices in Dallas and Houston and over 100 hotels sold in-state. Over the years we have repeatedly heard how new supply is a constant threat due to low barriers to entry and the abundance of land when it comes to building in many parts of the state. While these criticisms may be based in fact, they ignore the incredible demand growth Texas has experienced, justifying new hotel rooms. In Texas, hotel supply increased by 26.6% from year-end 2010 to May 2022. Over that same period, demand has increased by 41.2%, and the post-pandemic recovery is still ongoing in many parts of the state. So, yes, new supply is a constant in Texas, but so is new demand, to an even higher degree!

Austin has emerged as a major center for business, tech, government, and culture; the populations and economies of the Dallas-Fort Worth and Houston metroplexes continue to boom; San Antonio remains a military, convention, and tourist hub; smaller cities, university towns, and drive-to destinations like Amarillo, Waco, Lubbock, College Station, Corpus Christi, the Big Bend region, and the Hill Country are flourishing. All of these elements have led to demand outpacing supply in a big way in recent years across the state and offer a well-founded hope that incoming new supply will also be absorbed. The same dynamic is playing out in many markets across the country, proving that new supply data should not be viewed in a vacuum.

STR Top 25 Inventory & Construction Pipeline

Market	Existing Inventory	Under Construction	% of Existing Inventory
New York	128,446	14,780	11.5%
Nashville	55,571	4,380	7.9%
Phoenix	69,586	4,718	6.8%
Detroit	46,906	2,837	6.0%
Atlanta	109,836	5,749	5.2%
Miami	64,771	3,291	5.1%
Dallas	97,633	4,889	5.0%
Los Angeles	114,387	4,063	3.6%
Denver	58,427	2,022	3.5%
Washington	114,091	3,798	3.3%
Tampa	52,821	1,448	2.7%
Seattle	49,939	1,330	2.7%
Chicago	122,174	3,029	2.5%
San Francisco	55,297	1,304	2.4%
Minneapolis	48,103	1,121	2.3%
Orange County	60,436	1,322	2.2%
Boston	63,341	1,371	2.2%
Houston	98,967	1,954	2.0%
Orlando	137,247	2,270	1.7%
Philadelphia	52,351	828	1.6%
Norfolk	38,159	506	1.3%
Saint Louis	42,173	533	1.3%
Oahu Island	30,639	370	1.2%
New Orleans	42,852	295	0.7%
San Diego	64,870	145	0.2%
Total (Top 25)	**1,819,023**	**68,353**	**3.8%**
Total (N'tl)	**5,617,857**	**156,325**	**2.8%**

Source: STR

Read more ...

To read Part I of this series and for additional regional market commentary, click the link below.

The Three I's: Inflation. Inventory. Interest Rates.

LABOR CHALLENGES CONTINUE – IS AN END IN SIGHT?

By Michelle Hayes
Senior Vice President, Asset Management
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While many in the hospitality industry have experienced peak staffing challenges this summer with leisure travel setting records across the nation, there is optimism that after Labor Day some sense of normalcy will return to pre-pandemic hotel operating practices.

Brands have been proactive in listening to owners and operators as they look to the future. Amenity offerings are changing in high labor areas with the scaling back of complimentary breakfasts, managers' receptions and housekeeping services. The overall operating model of a hotel is being reviewed and a zero-base approach is foreseeable. Brands will have a difficult time going back to the way business operated in the past. Even housekeeping for stayovers is not likely to return to pre-pandemic levels with most brands touting an "opt in" approach to having rooms cleaned daily. Digital check-in and other automated services will also assist over time. In the interim, however, staffing issues continue.

Many employees checked out of their hospitality jobs at the start of the pandemic and a sizable percentage of that labor force has not yet returned and perhaps will never come back; this is the new reality. So, what is the lodging industry to do? The first obvious answer is wage increases. That, however, is only a start and a longer-term wage battle is not sustainable. Offering signing bonuses, referral compensation, flexible schedules, and career advancement and educational opportunities are also tools being used today. Other very successful ideas being incorporated are fuel cards, attendance bonuses and day care services. CONTINUED...

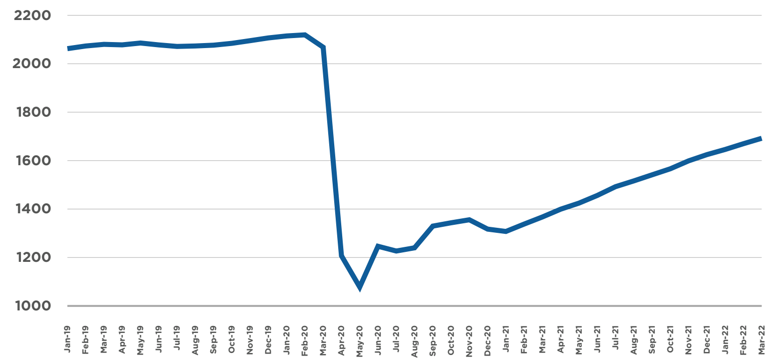
At the end of the day, the hospitality business is first and foremost a people business! And, employees are an integral and critical element of any successful operation.

As important as compensation is, in the hospitality industry terms like "learning culture," "grow from within," "people first," and "empowerment" are in our daily vocabulary. Now more than ever, these terms need to become ingrained in day-to-day operations, from the General Manager to Human Resources Director to middle managers. At the end of the day, the hospitality business is first and foremost a people business! And, employees will always be the most integral and critical element of any successful operation.

So, how does an owner or manager nurture employee loyalty? It certainly does not happen overnight, rather through instilling a culture of caring, recognition, support, and mentoring. Recognizing and getting to know employees individually, understanding their personal goals and how management can improve that individual's wellbeing, is fundamental to the process. Does the GM or other high-level manager know his/her employees and meet every potential employment candidate? Are they hiring strictly for experience or also for the personality, talent, and potential of that individual? What flexibility might employees need? These are some simple questions among the many that should be considered. Unless hotel industry managers take the personal approach, expect the employee revolving door to continue, even if staffing shortages do moderate after Labor Day.

Lodging Industry Employment

("Accommodations" – NAICS 721) – National

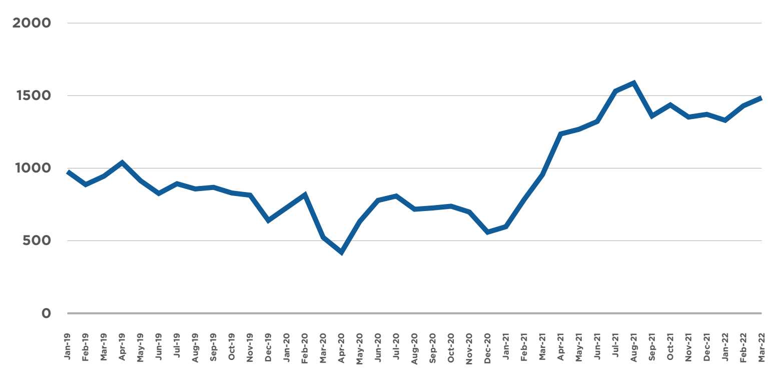


Source: United States Bureau of Labor Statistics

Following a historic decline in 2020, lodging industry employment has meaningfully recovered. However, with a recession looming and many brands, owners and operators having made changes to hotel operations to accommodate leaner teams, it is unclear whether or not the a full recovery to pre-pandemic levels will ever be made.

Lodging Industry Job Openings

("Accommodations & Food Service" – NAICS 721) – National



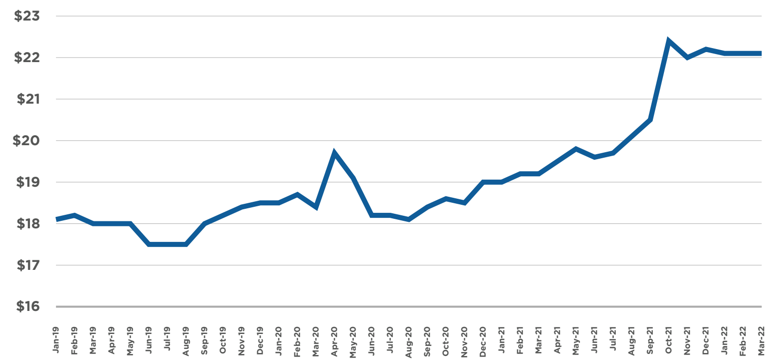
Source: United States Bureau of Labor Statistics

Despite industry employment picking up and workloads appearing to cool off slightly, job openings remain near all-time highs.

Brands must be open to reconsidering, if they haven't already done so, the new way in which the industry must operate. The old operating models must be adjusted, and a zero-based budget approach must be taken.

Given the pressure on a General Manager's time, efforts must be taken to "unload" or "unburden" the GM of excessive paperwork and reporting. GMs must have the time to develop the culture and relationships that will sustain employee satisfaction and, therefore, improve morale and retention!

Lodging Industry Hourly Wages
("Accommodations" – NAICS 721) – National



Source: United States Bureau of Labor Statistics

With inflationary pressure and an extremely tight labor market, industry wages have grown dramatically since the onset of the pandemic.

We have found through the pandemic that a solid, well-trained and energized employee base is vital to any successful operation. It is also critical in creating a level of guest satisfaction that leads to repeat business. Everyone will need to do more with less. That said, operators must adapt and again become true hospitality managers. They must be managers of people first, starting with genuinely getting to know and care for their employees' personal hopes and aspirations.

For more valuable Hospitality Industry news and market analysis from The Plasencia Group, visit us online and opt-in to our communications list at tpghotels.com/company-news

About The Plasencia Group

In 1993, The Plasencia Group was formed to provide hotel and resort owners investment advisory services at a personal level. Twenty-nine years and hundreds of engagements later, we still have the privilege of making our clients successful with the passion, access, and certainty they've come to expect. Our firm offers investment sales, asset management, development and renovation management, debt and equity sourcing, and advisory services to hotel and resort owners throughout North America.

Contact us today if our experienced advisory team can assist you in evaluating your current portfolio and strategizing for the weeks and months ahead. We look forward to the opportunity to serve you.

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