Holiday Season Performance Lifts Hotel Operators' Expectations

High Occupancy, Pricing Power Show Continued Strength of Leisure Travel Demand

Hotel occupancy at the Hampton Inn Uptown Charlotte in North Carolina for the week between Christmas and New Year's was 51% with average daily rate of $147. On New Year's Eve, occupancy was 79% with average daily rate of $209.
(CoStar)

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Hotel operators and management firms got an unexpected gift this past holiday season from U.S. leisure travelers who booked more rooms at higher rates than they did at this time of year before the pandemic.

"We're loving the leisure traveler these days, because that's what is really driving it," said Mark Hemmer, president of Vancouver, Washington-based hotel management firm Vesta Hospitality, about the performance of his company's 17 hotels across 15 U.S. states.

Over the Christmas and New Year's holidays, Vesta's hotels sold nearly twice as many rooms as they did the previous year at an average daily rate that was between 25% and 75% higher, he said.

Compared to pre-pandemic 2019 performance, it was "a much more modest improvement," Hemmer said, with occupancy for the company's portfolio up 5 to 10 percentage points and ADR at a 10% to 30% premium.

On average, U.S. hotels set a record for Christmas Day occupancy, according to data from STR, CoStar's hospitality analytics firm.

"Hotels reported their highest Christmas occupancy since 2015 in 2021, but it was the day of the week — Saturday — that helped the historically weak-occupancy holiday claim that crown," senior STR analyst Kelsey Fenerty said, qualifying that "Saturdays are typically the highest-occupancy day of the week, and Christmas Day is usually one of the lowest-occupancy days of the year."

Rates are a different — and better — story for U.S. hotels over the holidays, particularly New Year's, Fenerty said.

For New Year's Eve and the week ending Jan. 1, 2022, "ADR was the star of the show," she said. "U.S. hotels reported their highest weekly ADR ever [$157.91], a 20.7% increase over the same week in 2019."

Much of that increase in rates can be attributed to the renewed pricing strength of higher-end hotels in resort destinations, she said.

"Upper-upscale hotels, which have struggled the most over the course of the pandemic due to their reliance on group demand, stood out this week with ADR nearly 25% over 2019 levels, suggesting that pricing power for transient demand is very strong," she said.

For hotel operators, success "always means comparing to what you thought would happen," Hemmer said. "Let's face it, during the whole COVID thing, going back the last two years, you don't know what to expect. You've got to be light on your feet these days, knowing you're not always in control. That said, we found performance around both holidays to be exceptional."

Though there's still much uncertainty around the pandemic and the recovery of the hotel industry, he said the strong holiday performance put the year ahead in a somewhat brighter light.

"When we were doing our 2022 budgets, back in the September-October time period, the big question was: 'Is leisure travel going to continue at the same pace?'" he said. "We hedged our bets a little bit. We thought demand would still be strong, but maybe rate wouldn't be as robust. We're thrilled with what we saw in December. Having said that, none of us knows what's going to happen. We are paying attention, and our teams are paying attention. If anything changes, we're just trying to put ourselves in a good position by hotel and by market to respond."

Business, Group Demand

Questions that remain for 2022 include how business and group travel will rebound from the pandemic.

Jason LaBarge, senior vice president at Birmingham, Alabama-based hotel management company HP Hotels, said that while smaller groups — particularly social, military, educational, religious and fraternal, also known as SMERF groups — are booking at pre-pandemic levels, corporate bookings are "probably still running 15% to 20% behind pre-pandemic levels" for his company's portfolio of more than 40 hotels across 17 states.

"The markets that have been most challenged are urban markets. From a corporate perspective, that's not bounced back as much as we'd like. In the third and fourth quarter, some major special events, sporting events and small conferences started to come back," LaBarge said.

"That's going to continue to improve," he said, adding that in markets such as Charlotte, North Carolina, the corporate-travel segment is focused more regionally.

"Wells Fargo, in particular, still expects 50,000 travelers in the Charlotte market in 2022," he added.

LaBarge credited the success of his company's hotels over the holidays — when occupancy was up as much as 86% over 2020 and as much as 20% over 2019, and rates exceeded both of the previous two years significantly — with "focusing on where the business was coming from."

"As corporate business fell down, we looked to business from construction and social groups, and some of the sports groups that are still traveling," he said.

To start 2021, HP Hotels' portfolio was performing about 40% to 50% down from pre-pandemic levels, he said.

"Through the year, the gap closed, and through the third quarter and beginning of the fourth quarter, we were running 15% behind [2019]," LaBarge said. "We expected to finish the year out there. To see those two holidays really exceed that expectation was fantastic. It was not expected, but I'm also not overly surprised, based on the demand and talking with co-workers, friends and family in different markets."

Hemmer said corporate travel has "bounced back a little" in some of the markets where his company has hotels, but "for the most part, the business traveler is just not there to love."

"It's just nowhere near the levels we need it at, or near 2019," he said. "We have a few group hotels, and it's really been hit or miss. We were ready to bounce back in the fourth quarter [of 2021], excited to have business on the books, but then we had a resurgence of COVID again and started fielding cancellations and postponements. We can book it all day long, it doesn't mean it's going to show up. It's kind of maddening, and forces us to change our focus. If you have the group booked, you better keep booking others as well, because you can't trust it."

The company is trying to discourage groups from canceling, but with the calendar filling up for 2022, flexibility to reschedule this year is running out.

"What we want them to do is simply postpone and get it rescheduled," he said.

Fortunately, group bookings for 2022 dates are numerous, Hemmer said.

"At our biggest group convention hotel, there are a couple of gaps in the calendar, but we're 90% full for the year," he said. "We're not going to take anything else new, but as we try to reschedule, we've been very successful moving to those dates we still have available. Groups have been very flexible and good to work with us. But it's going to be tougher going forward because we simply don't have options."

LaBarge said HP's hotels have also had success with rescheduling groups that have called to cancel due to concerns over rising COVID-19 cases.

"We have had in the early portion of January several small social groups cancel due to the COVID variant, but honestly as many as we had cancel, we had replacements book as well; and groups have not canceled long-term. We've moved most to the following months — February and March," he said.

"The way the fourth quarter shaped up was very encouraging," he added. "We expect growth to continue, demand to increase, and to build on the momentum we had in 2021."

HP previously budgeted for performance in 2022 to be down 10% from 2019. Now, LaBarge said he expects that performance in the second quarter will be within 5% of pre-pandemic numbers, "and by the third quarter to be back to where 2019 was."

More Holiday Cheer

Cory Chambers, senior vice president of Atlanta, Georgia-based Hospitality Ventures Management Group, said via email that the company's portfolio of more than 50 hotels also "exceeded forecasted and budgeted expectations on the whole" over the holidays, led by hotels in warm-weather destinations and some city markets, while those in suburban and tertiary markets lagged expectations.

"Revenue growth was balanced between occupancy and ADR, which was a positive trend in that occupancy has been lagging pre- and post-holidays," he said.

Despite the strong holiday performance, Chambers said the company expects the recovery in the first quarter "to slow down a bit based on light business transient and group demand trends as a result of the current state of the pandemic." He added that HVMG has fielded group cancellations in the first quarter after that segment was starting to show strong signs of recovery.

Jennifer Driscoll, vice president of revenue management at Germantown, Tennessee-based McNeill Hotel Company, which has 27 hotels in its U.S. portfolio, said by email that the company anticipated a stronger holiday season and "began planning for the extra demand immediately after Labor Day."

"Looking back to 2019 and 2020, not only did we beat those years in occupancy for Christmas, but we beat it considerably in ADR, too. For the McNeill portfolio, our occupancy was up by 24% compared to 2019, and our ADR was up nearly 20%. For New Year's Eve, while we were relatively flat in occupancy compared to last year, we were up significantly in ADR over 2019 and 2020. The shift to both holidays being on the weekend also helped with overall performance," she said.

She added that the company continues to be optimistic about 2022 performance and is closely watching segment and market trends, particularly "demand from the individual business traveler, small meetings … and leisure."