

US Hotels Could Shut Off Government Rates in Response to Small Per Diem Increase

More Profitable Demand Segments Would Take Priority

By [Bryan Wroten](#)

Hotel News Now

August 26, 2022 | 8:23 AM

The U.S. General Services Administration's increase in lodging per diems for 2023 received a relatively lukewarm reception from hoteliers, who say many hotels may end up abandoning negotiated rates for government employees in favor of higher-paying demand segments.

The increase from \$96 to \$98 for the continental United States per diem rates is good news after two years of rates staying flat because of the COVID-19 pandemic, but hoteliers found it difficult to get excited about what amounted to roughly a 2% increase.

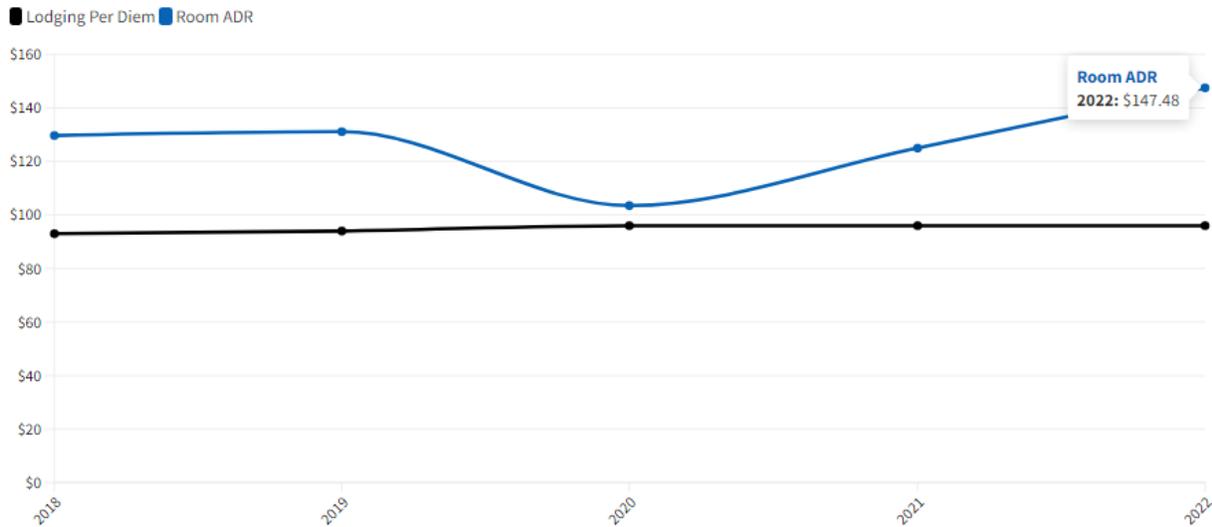
A review of U.S. hotel monthly average daily rates from Oct. 1, 2021, through the end of July 2022 shows that rates grew from \$135.04 to \$159.16, a 17.8% increase. Broken down by chain scale, rates increased from \$70.54 to \$79.74 at economy hotels and from \$95.07 to \$110.23 at midscale hotels. Upper-midscale hotels reported ADR increased from \$120.55 to \$137.42 while upscale rates grew from \$141.12 to \$163.79.

The lodging per diem rate increase is a mixed bag, said Jennifer Driscoll, vice president of revenue management at McNeill Hotel Company. It's good that the rate increased after two years without increases, she said, but the \$2 increase in nightly rates isn't proportional to the needs of hotels.

Labor costs have grown past 25%, and inflation has compounded over the past few years to 16%.

"A 2% increase is very hard, based on what we're going through right now, and we don't expect any of that to change into the next year," she said.

US Yearly Average Daily Rates Compared to GSA Lodging Per Diem Rates



Source: STR, General Services Administration, © 2022 CoStar Realty Information, Inc.



Revenue Strategy for Government Rates

With the \$2 increase, \$98 is the standard hotel reimbursement rate for federal travelers during fiscal year 2023 starting Oct. 1, 2022. There are markets in the U.S. where rates will change by different values based on those individual market conditions. The GSA provides a search tool [here](#) to look at specific markets.

The meals and incidentals standard rate remained at \$59 while certain markets allow up to \$79.

The per diem rate did not change for many of the hotels in McNeill Hotel Company's portfolio, Driscoll said. Others, such as its beach hotels, benefited from rate increases.

Because of the generally low per diem rate increase, Driscoll said she believes the government rates will get yielded out more often next year as hotel demand recovers. The government rates will be hotels' lowest rates, for the most part, she said.

"As hoteliers, we have to look to see an optimal return," she said.

Jason LaBarge, senior vice president at HP Hotels, said he also believes the low increase in per diem lodging rates compared to hotel ADR growth could cause hoteliers to shut off the availability of government rates.

“As business continues to return and we’re seeing more and more corporate travel through the second quarter and the third quarter, there’s not going to be as much need for that fill business, especially during the week Monday through Friday,” he said.

HP Hotels is taking a hard look at the need to keep federal and state government rates open and available, especially during peak business, he said.

“More than likely what the government traveler will see is less choices, less opportunities to stay at popular brands, especially during your midweek cycle when business continues to return,” he said.

Aimbridge Hospitality’s hotels served a healthy amount of government travel demand during the pandemic and should continue to bring in a good share of this business even with a minimal increase in lodging per diem rates, said Gary Spencer, senior vice president of corporate sales strategy.

Aimbridge has hotels across the U.S. from the economy segment to luxury, so even if there’s a shift in which hotel types government travelers use, the company will be able to provide them service, he said. As with corporate clients, Aimbridge has been rolling over the same rates for the past two years for government business.

“This will be an interesting [request for proposal] season for the government’s travel planners and for our traditional corporate planners,” he said. “I feel like we’re a little bit more positioned because we have multiple hotels in multiple markets. That allows us to price them appropriately to gain share of that business.”

It’s possible there could be hotels where the government rate is closed due to high demand from leisure and group travelers, he said. In those cases, though, Aimbridge would try to move government business to the company’s other hotels in the same market.

Changing Behavior

Many traveling government employees are brand loyalists, and they're going to look for hotels that will give them their benefits, Driscoll said. With hotel rate increases higher than the per diem increase, she's unsure how government travelers will adjust their hotel preferences.

"Will they trade down? I doubt it, but I think they'll definitely look at their convenience," she said. "If they truly need to be at a location, then will they not? Will they book retail? That's the million-dollar question if they really want to be at that location."

LaBarge said it's possible government travelers may need to shift down a chain scale segment, some going from full-service hotels to smaller select-service brands. As those desired hotels return to their normal 90%-plus occupancies Mondays through Wednesdays in most markets, the government rate may not be available.

That means there may be more government travelers staying at economy and midscale hotels to keep within the per diem rates, he said.

How government travelers alter their hotel preferences would depend on the city, Spencer said. Some hotel markets are still recovering as traditional business travel comes back slower. Some cities that are heavily dependent on groups are doing well some weeks but not all.

"Some of those cities are still going to be able to take a healthy share of government [demand]," he said. "We have other cities in some of our leisure destinations that are much busier, pushing much higher average rates, so it really depends city by city."

As for whether the federal per diem rates would influence corporations setting their own per diems, LaBarge said major companies understand that hotel rates have been increasing this year. Those corporations are expecting rates to grow at least 3% to 6% year over year in most markets.

"Already in our discussions with the brands, that's what the brands are pushing toward, to make sure that they get increases for a lot of national accounts, and we're doing the same at the local level," he said. "They're not expecting a decrease. They're certainly not expecting a 1% to 2% increase."

Corporate clients are also being more selective as well, asking key questions about cleanliness and conditions of the properties, he said.

“They’re going to be more conscious of the type of hotels that they’re going to put their business in, but they’ll be willing to pay the higher rates based on those hotels,” he said.