Global Lodging Trends Have Unique Regional Flairs

By Randell A. Smith

This series of articles has historically focused on the U.S. lodging market. To say the travel industry is becoming more global is merely stating the obvious. What is truly astounding is the extent to which the global lodging industry moves in tandem with the overall travel industry.

There is no doubt that anytime we talk about the lodging industry, we are actually talking about a street corner business. For any one property, trends can vary widely between local and regional competitors and have little similarity with overall travel trends. In looking at a variety of markets within the United States, we also see a variety of trends, with some markets expanding while others are shrinking. It becomes even more apparent when looking at the global lodging industry.

Entire markets, countries, and regions of the world tend to operate with no apparent similarity between each other. Therefore, the entire concept of “global lodging trends” is somewhat misleading because there is an incredible range in performance between properties, whether they are located next door or on the other side of Earth from one another. However, there is valuable information to be obtained by looking at the aggregate performance of the industry in various regions of the world.

Several years ago, STR brought together The Bench and Deloitte’s Hotel Benchmark division to create STR Global. Since that time, we have worked diligently to build a representative sample of participating properties in most of the major global markets we cover. While sufficient, our sample outside the United States still falls well below the coverage we maintain inside the United States. At this time, we collect data from more than twelve thousand properties representing approximately two million rooms outside of North America. This sample is more than sufficient to validate reliable results, but we are still unable to stratify the sample according to the industry’s composition as thoroughly as we would like. Therefore, when comparing U.S. data with the data compiled from around the world, please keep in mind that while the results were not compiled exactly the same, they are still highly accurate and reliable. The most important point is that we now have a consistent global sample dating several years that enables us to track trends in the key industry performance measures.

Please keep these caveats in mind as I attempt to provide an overview of the global lodging industry. While I will mention a few specific markets, in general, my comments pertain to Europe, the Middle East/Africa, and Asia/Pacific. Starting with global supply growth, it appears the U.S. lodging industry is something of an anomaly. Since 2005, the U.S. room supply growth rates have changed dramatically, with room supply changes ranging from a decline of 0.1 percent to an increase of 3 percent from year-earlier levels for a compound annual growth rate of 2 percent. In sharp contrast, room supply in Europe ranged from a low of 1.1 percent to a high of 1.2 percent, which clearly demonstrates the continent’s incredibly consistent supply growth. In the Asia/Pacific region, room supply growth ranged from a low of 2.8 percent to a high of 3.8 percent. In the Middle East and Africa, room supply growth has been particularly robust growing around 2 percent per year in 2006 and 2007 and gradually increasing to a 5.1-percent growth rate by mid-2010. Clearly the U.S. lodging market experiences volatility in supply change that is virtually unheard of elsewhere around the world.

Room demand figures clearly indicate that it is indeed a global economy. As shown in the accompanying chart, while changes in room demand did vary around the world, it was mostly a timing issue. Starting in 2006, room demand growth has remained fairly consistent in Europe and in the Asia/Pacific region; it declined gradually in the United States; and it grew rapidly in the Middle East/Africa region after a sharp decline in 2006. However, by mid-2008 room demand was drifting downward around the world. By the fall of 2008, room demand actually began to decline in the United States, Europe, and the Asia/Pacific regions only to be followed about six months later with declines in the Middle East/Africa region. While hotels in the Asia/Pacific region bottomed out first, within a few months demand was beginning to improve around the world. Properties in the Asia/Pacific region continued to report very strong demand growth throughout 2010, reaching a peak of 13 percent year over the year in October. Since that time, room demand growth has either stabilized (Europe and the United States) or declined sharply.

There are several issues in various parts of the world that will continue to hamper short-term demand growth. In Europe, the impact of the global recession continues to be...
felt with several countries reaching dire financial conditions. In Asia/Pacific, the fallout from the earthquake and tsunami will affect Japanese travel throughout 2011 and will dampen any rebound in travel. In the Middle East/Africa region, the ongoing political uprisings have thrown several countries into complete turmoil, and travel in that region will continue to be curtailed. Occupancies in this region of the world, while volatile, hovered around the 70 percent level until 2009 when the global recession pulled them into the low 60s. For February and March 2011, Middle East/Africa occupancies fell even further to 55 percent.

In contrast to the declining occupancies, room rates (in U.S. dollars) in the Middle East/Africa region have increased dramatically. During the past six years, room rates in this region have increased at a compound annual growth rate of 8.4 percent. This is truly stunning when you compare it with the zero compound annual growth rate in room demand during the same period. In January 2005, room rates in the Middle East/Africa region were about US$10 over the U.S. market. By March 2011, this differential had increased to more than US$60. So while demand grew by 1.2 percent in the United States during this time period, room rates gained only 2.2 percent annually.

Room rates in the Asia/Pacific region have been incredibly volatile, reaching a peak in mid-2008 with the Olympics in Beijing, followed by a breathtaking collapse in rates with the onset of the global recession. Subsequently, room rates have increased more than US$30 since spring 2009. In Europe, room rates also fell in 2008 and bottomed out in the fall of 2010. Since then, room rates in Europe have climbed steadily and consistently.

The outlook for the global lodging industry continues to be a function of the overall economic growth and prosperity of the individual countries. But taken in aggregate, lodging demand is closely related to the size and spending power of the middle class. As the middle class continues to grow and increase its mobility in countries such as China, India, and Brazil, the global prospect for travel will continue to grow. The extent to which the middle class suffers with higher fuel costs, travel restrictions, government debt, and unemployment, travel will begin to lag overall economic growth.

Bio
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