Global | 2022

Research

Hotels Global Asset Management Report

Global lodging has turned a corner in 2022

Executive summary

The global lodging industry has turned a corner in 2022, with operating performance improving significantly over 2020 and moving closer to pre-pandemic levels. Each region's recovery profile has varied and has been influenced by the severity of COVID-19 travel restrictions, with the Americas, Middle East and Europe leading the way. Countries like the UK and the US reached peak RevPAR levels over the summer months since the pandemic started, as the desire to travel and indulge in experiences drove lodging demand to new heights. As of YTD September 2022, US RevPAR was up 6.4% over the same period in 2019. Prognosticators expect full year 2022 US RevPAR to exceed 2019 levels by 7.7%. In the UK, UAE and Qatar, RevPAR is up 2% to 18% compared to YTD September 2019. Asia Pacific's performance continues to be held b ack by remaining COVID-19 travel restrictions. Nevertheless, Hong Kong. Macau and Japan announced easing border restrictions starting in October.

As we move to the end of the year, concerns over a recession in the US, the ongoing Ukraine/Russia war, economic and political volatility in Europe, geopolitical tensions between the US and China, coupled with uncertainty surrounding lodging demand's full recovery create a complex operating environment for hotels at all levels. Owners and operators will need to embrace a defensive approach to asset management, remaining razor focused on their operating structures as they continue to navigate the challenges of running a hotel during such unprecedented times. As such, the role that hotel asset managers play continues to be critical, with hotel owners requiring strategic management of their hotel portfolios.

As we navigate the 2023 budget season with a focus on optimizing profitability and mitigating operational risks, there are four recommendations we urge hotel owners to consider:

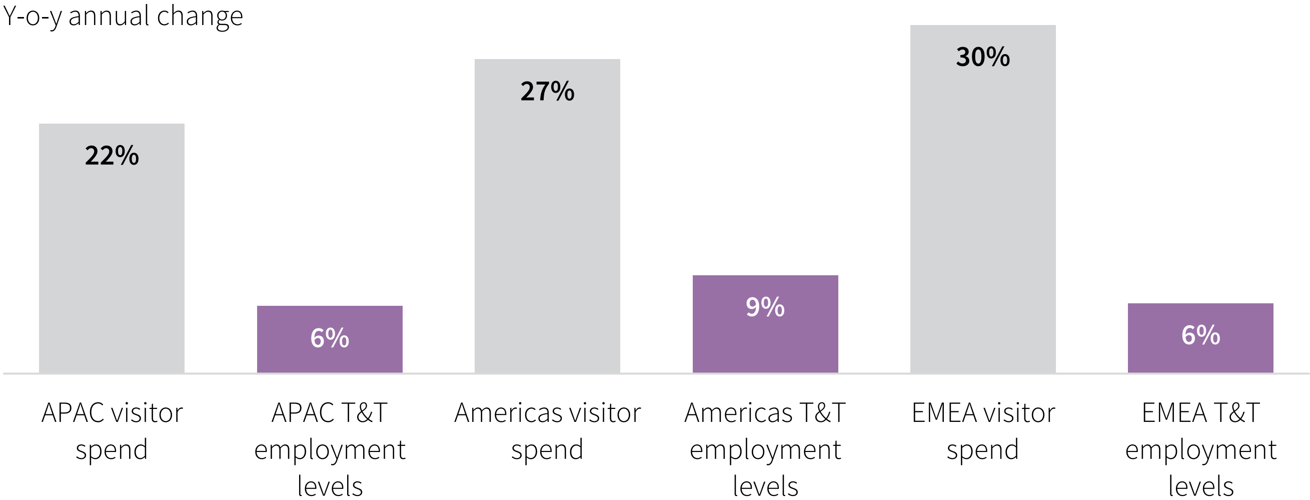
1. **Transform labor strategy to attract and retain top talent**
2. **Push rates judiciously and keep disciplined cost management solutions employed during the pandemic**
3. **Understand the evolving nature of lodging demand and intentionally drive ancillary revenue to optimize profit**
4. **Capital expenditures should aim to protect market share and enhance property value**

1. Transform labor strategy to attract and retain top talent

It's no surprise that attracting and retaining talent across the hotels and hospitality industry has been disconcerting and remains top of mind for owners and operators. With lodging demand and visitation levels across most regions roaring back, travel and tourism employment levels have not kept up. At year-end 2021, visitation levels across each region grew at three to five times the rate at which employment levels grew.

One of the major reasons for this phenomenon is that many former hospitality workers left the industry after the pandemic for industries perceived to be less volatile. A survey released in October 2022 by the American Hotel Lodging Association, reported that 87% of hotels indicated they were experiencing a staffing shortage. The tight labor market has pushed the cost of labor up excessively. In fact, our asset management team shared that payroll costs today have increased between 6% to 11% year-over-year in Europe, 20% in Brazil, where unionized labor and inflation have further exacerbated the cost of labor, and between 15% and 20% in Singapore.

2021 change in visitor spend and travel & tourism employment levels
Y-o-y annual change



Source: JLL Research, WTTC

Given the current operating environment, there are no easy or quick solutions to the industry's workforce issues but there are a few initiatives that owners and operators can implement to help improve their hotels' labor strategy.

Be open to hiring talent without a hotels & hospitality background

While it is true that the pre-pandemic hospitality workforce has shrunk, people are more open than ever to switching jobs and even transitioning to a new industry. When hiring, owners and operators should be open to interviewing candidates with atypical backgrounds and experiences, where appropriate, and evaluate for a set of skills that can help an individual succeed in a specific role. An applicant that can demonstrate strong problem-solving skills, critical thinking, high emotional intelligence, and a knack for relationship building, presents significant potential and could end up being a great fit. Pairing this recruiting strategy with a well-thought out and intentional training program will help push new hires past their respective learning curves and create an opportunity for hotel owners and operators to usher in a new era of hotel and hospitality personnel with a transformed perspective.

Invest in automation software or technology that improves efficiency of back-of-house tasks

It'd be wise to invest in automation software that can be leveraged for anything ranging from HR processes, to accounting, and in-room dining requests. Different technological platforms can be used across the HR department to expedite the screening process early in the recruiting process and help control for biases. Personality tests can be leveraged for an initial screening of important skills that suggest whether an individual will succeed in the role they've applied for. Automation software can also be used beyond the check-in and check-out process to satisfy in-room orders via a mobile device, streamline administrative tasks, manage housekeeping schedules, and improve internal communications. These changes can help reduce current employee workload and create additional capacity to ultimately empower employees to focus on the most impactful and high-touch guest interactions, which typically result in higher employee service levels and a better guest experience.

Implement creative pay or work structures to attract and retain employees

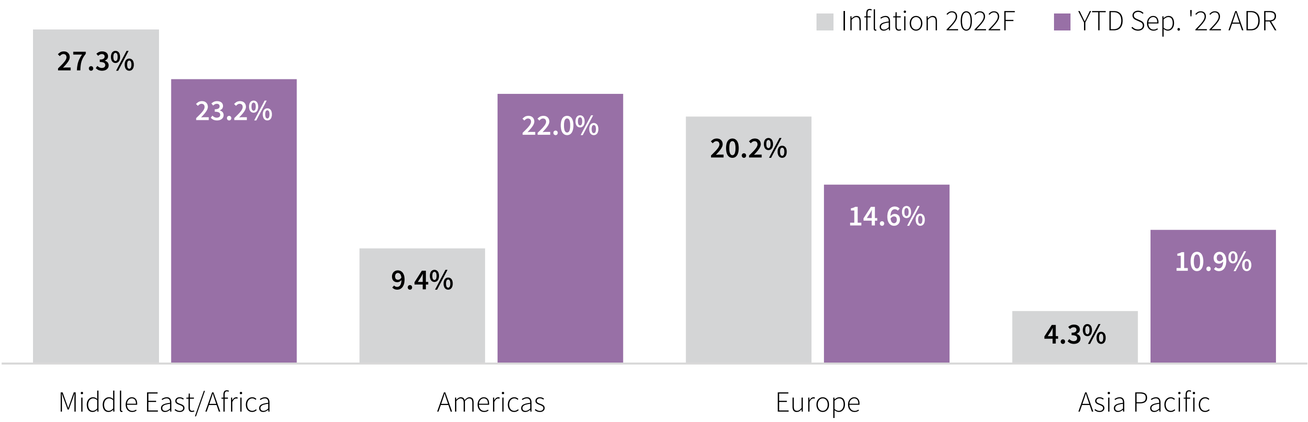
Following the onset of COVID-19, working arrangements have become more flexible for many professionals. Due to the in-person nature and manual labor required in hotel operations, it can be challenging to offer these same benefits to hotel staff. However, implementing daily pay solutions by partnering up with a capable technology platform will allow owners and operators to empower employees by giving them access to their pay as they earn in. Moreover, owners and operators could implement different work structures to allow for a shift from six to five or five to four days a week. Collectively, these creative solutions can help the lodging industry attract and retain new talent to better compete with the gig economy.

2. Push rates judiciously and keep disciplined cost management solutions employed during the pandemic

Unlike other downturns, the global lodging industry preserved some level of rate integrity during the worst of the pandemic. As such, when demand recovered quicker than expected, many hotel operators were in a position to push rates beyond levels observed in 2019. As of YTD September 2022, all regions, with the exception of Asia Pacific, posted rates above those achieved during the same period in 2019. Demand in Asia Pacific has been restricted to the domestic market, making it more challenging to increase rates.

In the midst of the industry's recovery, inflationary concerns across most parts of the world threaten the boost in profitability many hotels would stand to see from higher ADRs. Continuing to increase rates is a simple solution for hotels to implement when operating in an inflationary environment but charging higher rates bears a greater responsibility to offer the highest level of service and product. Given the labor issues the industry is facing, owners and operators will have to delicately balance their leaner staffing models with the ability to provide a memorable experience worth the rates being charged.

Inflationary growth 2022F vs. YTD Sep. '22 ADR y-o-y changes
Y-o-y annual change



Source: JLL Research, STR, Oxford Economics

Another way for hotel owners and operators to offset some of the inflationary pressure is to forensically analyze operational expenses and identify potential saving opportunities. Some strategies that can be implemented to better manage expenses and operate more efficiently include:

Energy & Water

Outsource energy audits and examine lighting, HVAC, insulation and refrigeration systems to identify areas where energy consumption can be reduced. Conduct similar process for water usage.

- Transition to energy efficient light bulbs (compact florescent or LED)
- Train staff to turn off lights, TVs, heating and cooling in empty rooms
- Use timers in bathroom heat lamps
- Install occupancy sensors for lighting
- According to the US Department of Energy, clogged HVAC filters can increase energy consumption by 15%. Maintaining systems will minimize energy consumption, extend equipment life, and reduce the possibility of a breakdown.

Labor

- Optimize labor scheduling to forecast high and low periods of staffing
- Cross train associates

Food & Beverage

- With F&B cost of sales up 30% in some parts of the world, review menus and focus on dishes that can be made with locally sourced items to reduce reliance on imported goods/ingredients
- Review event management system to examine menu requirements for each day and prepare prep sheets for cooks so that they avoid over-preparing
- Scrutinize end-of-meal plates to determine appropriate portions to serve and avoid waste

Sales & Marketing

- Leverage sales & marketing CRM to streamline steps associated with event booking and F&B coordination as a way to create more capacity for S&M associates
- Identify partnerships that enhance hotel's connection to the community and draws in local demand

Guests

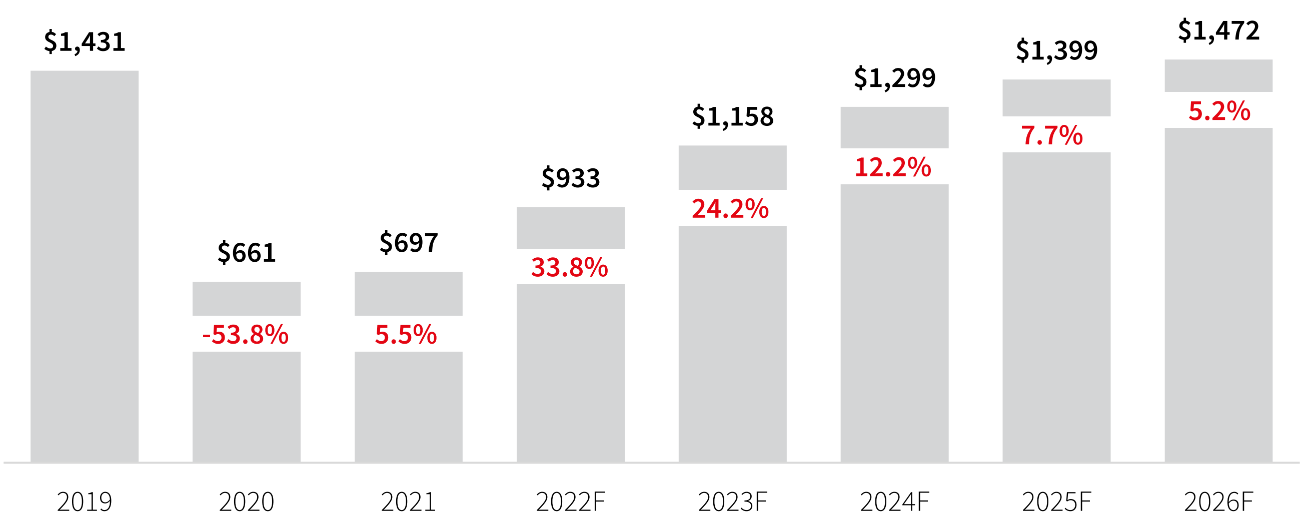
- Have guest opt-in to daily housekeeping

Hotels have operated in an extremely disruptive environment over the past two years and those that have embraced a disciplined cost management strategy are winning the recovery.

3. Understand the evolving nature of lodging demand and intentionally drive ancillary revenue to optimize profit

Over the past two years, leisure demand's resilience has driven the lodging industry's recovery. In 2022, we've seen business travel and group demand return, but both are expected to remain below pre-COVID-19 levels this year and next. Tighter corporate travel budgets, environmentally friendly corporate strategies favoring virtual meetings, and the prevalence of working remotely has influenced the recovery profile of these segments. While many see the aforementioned factors as impediments to global lodging demand's full recovery, particularly with global business travel spend not expected to return to pre-COVID levels until 2026, we argue that the way demand has evolved since the pandemic presents hotel owners and operators opportunities to capitalize on new or additional ancillary revenue, which can directly impact the bottom line.

Global business travel spend (in billions) and y-o-y change



Source: JLL Research, GBTA, Skift

Examples of how hotel owners and operators can drive ancillary revenue opportunities by having a thorough understanding of demand in today's environment, include:

Social group demand – weddings – has returned at a quicker pace than corporate group demand and for many hotels now represents an outsized proportion of overall demand. Operators that recognize this change can identify under-utilized spaces in their hotel to reimagine for the use of wedding ceremonies or receptions.

Corporate groups that are hosting internal meetings or retreats are returning with slightly different needs and expectations relative to pre-COVID. With hybrid working arrangements more commonplace, when teams are coming together, they are looking for thoughtful experiences as a way to have more meaningful in-person interactions with their colleagues. Owners and operators can respond to this trend by offering culinary classes, wine tastings, or group fitness classes on-property for an additional fee.

With the growing trend of working remotely, many hotel spaces can be repurposed for the use of **digital nomads**, who can also make use of once obsolete hotel business centers. Owners and operators could benefit from offering this type of service by charging a daily use fee or from additional F&B revenue as remote workers are likely to take advantage of the convenience of being able to order food or grab-n-go options typically available in a hotel. Pushing F&B revenues is a great alternative to supporting profit margin growth for hotels were pushing rates further is not possible.

Adopt variable pricing model for ancillary services, such as spa treatments, overnight and daily parking, and golf tee times. Variable pricing is used in other industries where consumer acceptance is high, including ridesharing apps (Uber/Lyft). In essence, the pricing of a service is determined by the level of demand. Prices rise as demand rises, with prices dropping as demand drops.

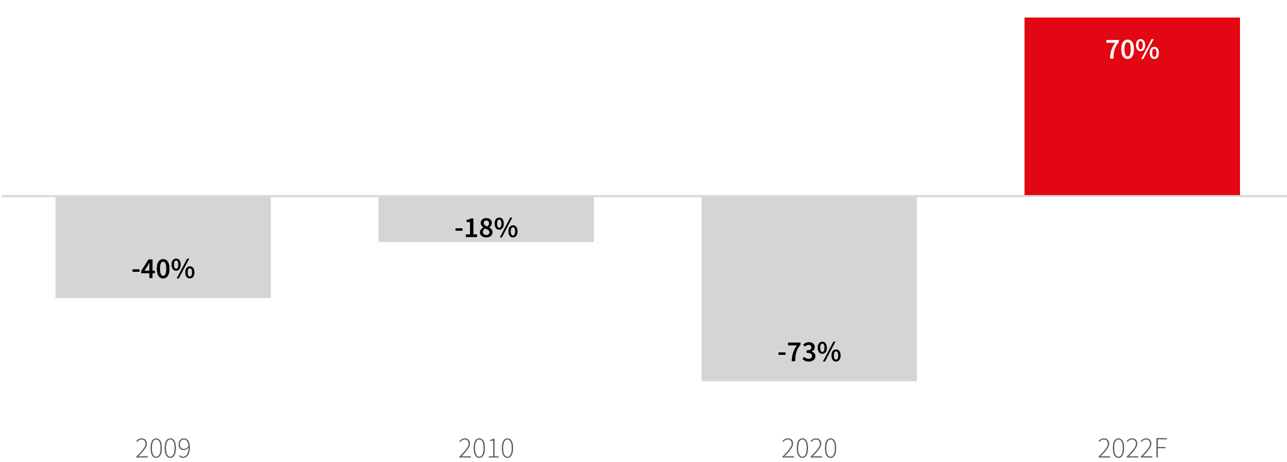
Collectively, these initiatives sharpen an operator's focus on optimizing a hotel's total profitability. As such, when defining success, operators should shift from a focus on RevPAR to a focus on gross operating profit per available room (GOPPAR), which tells a more complete story on the hotel's performance.

4. Capital expenditures should aim to protect market share and enhance property value

In 2022, the lodging industry saw many hotels prioritize deferred maintenance but with brands looking to push property-improvement plans, additional capital expenditures will have to be completed next year. Moreover, with guest expectations at an all-time high coupled with rising ADR, properties need to maintain a fresh look and feel to not only preserve market share but continue expanding it. As evidence, JD Power's most recent North America hotel guest satisfaction survey revealed that the largest drop in satisfaction was in the physical product. In other words, rooms not being renovated. In Europe, there has been a disproportional increase in supply entering the market and newly renovated products, which is putting pressure on capex spending to protect market share. A heightened focus on capex spending is expected in the region in 2023.

Across the US, a rise in capex spending is also anticipated. According to the US Lodging Industry Capital Expenditures Trend Analysis Report by Bjorn Hanson, the US is expected to see hotel capital expenditures increase 70% in 2022, making up most of the decline observed during 2020. While it is encouraging to see the aggressive capital investments being made this year, many hotels are still replenishing the emergency funds drawn from the FF&E reserve over the past two years. As such, many properties are starting to show the physical wear and tear they've had to absorb with little capital investments made. Now more than ever, owners and operators need to be intentional with the capital investments prioritized to drive RevPAR premiums and ensure the value of the physical hotel real estate is being enhanced.

U.S. hotels' change in capital expenditure spending
Percent change in capital expenditure spending



Source: JLL Research, Bjorn Hanson, Ph.D., Clinical Professor at NYU School of Professional Studies Jonathan M. Tisch Center for Hospitality and Tourism

Final thoughts

Rising interest rates, historic inflation, and geopolitical volatility have had a limited negative impact on fundamentals across major markets in Europe and the US. Green shoots in performance across Asia Pacific are expected as COVID-19 travel restrictions loosen in Q4 2022. Moreover, pent-up demand, particularly for business and group travel, is expected to continue fueling performance, albeit the composition of those two demand segments stands to look very different relative to pre-pandemic demand. As such, hotel owners and operators who embrace creative solutions to attracting demand, maintain high service levels, while managing labor issues and high operational expenses, stand to benefit from the industry's ongoing recovery. The last two years have demonstrated the industry's resilience and now that we are on firmer footing, we expect the industry's recovery to continue, even if at a slower pace due to macroeconomic uncertainty.

Contributors:

Andrea Grigg
Global Head of Asset Management
JLL Hotels & Hospitality Group
Andrea.Grigg@am.jll.com

Xander Nijnens
Head of Advisory & Asset Management,
Asia Pacific
JLL Hotels & Hospitality Group
Xander.Nijnens@ap.jll.com

Rastko Djordjevic
Head of Asset Management, EMEA
JLL Hotels & Hospitality Group
Rastko.Djordevic@eu.jll.com

Edouard Schwob
Executive Vice President, Asset Management,
Americas
JLL Hotels & Hospitality Group
Edouard.Schwob@am.jll.com

Geraldine Guichardo
Global Head of Research, Hotels & Director,
Americas Living Research
JLL Hotels & Hospitality Group
Geraldine.Guichardo@am.jll.com

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