



SAN DIEGO | HOTELS

Trends And Disruptors Facing The Hospitality Industry

OCTOBER 18, 2017 | BY CARRIE ROSSENFELD

While the hotel outlook for 2018 remains positive, the future depends largely on the economy over the next 15 months, and the hotel industry would be the first to feel the results of a downturn, Trigild's Kevin Berry tells GlobeSt.com.



Berry: "The home-sharing sites have had minimal effect on our tourist-market hotels—there has been enough demand for all."

While the **hotel** outlook for 2018 remains positive, the future depends largely on the **economy** over the next 15 months, and the hotel industry would be the first to feel the results of a downturn, **Trigild's** VP of hotel operations **Kevin Berry** tells GlobeSt.com. Berry, who has more than 25 years of hotel-industry experience, has managed the operations of more than 150 hotels during his tenure at Trigild, overseeing all management, budgeting, employee training and operations.

Berry will share his insight into the hotel industry at the **Trigild Lender Conference** here, running from today through Friday. We spoke with him about some of the trends and disruptors facing the **hospitality** industry today.

GlobeSt.com: What do you foresee for the hotel industry going into 2018?

Berry: While the hotel industry has already seen eight straight years of increasing occupancies, the outlook for 2018 remains positive. Most forecasters are predicting a modest growth in average daily rate with a flat or very little decline in occupancy for 2018. Occupancy and ADRs will remain somewhat flat, partially due to supply coming on line over the next months. Destination markets are forecasted to experience the highest increase in ADR with an incremental increase in occupancy. Most of the new supply will be available the first quarter of the year.

As always is the case in the hotel industry, much of this depends on the way the economy goes over the next 15 months. If the economy sees a downturn next year, history tells us that the hotel industry will be the first to feel the results—as in 2007 and 2008.

GlobeSt.com: What potential impact do external events such as natural disasters have on the hospitality industry?

Berry: Natural disasters can either have a devastating short-term effect or, conversely, create very high demand for hotels in or near the disaster. If the hotel weathered the occurrence with little to no damage, typically we see that the occupancy for the property will experience a surge in occupancy over the following six to 10 months. Typically, this increase will be from local residents who have been displaced from their homes, **construction** workers and government employees. Looking at previous disasters, there are often extended periods of occupancy growth for the hotels that emerge unscathed from the incident; this is triggered by the potential slowing of new supply due to increased construction costs and damaged existing hotels that have closed to rebuild and repair. Because of the high demand and lower number of available hotel rooms, rates also increase, building a stronger **RevPAR**.

We recently spoke with a lender who held the loan on a Louisiana hotel when **Hurricane Katrina** hit the area. In the months leading up to the event, the debtor had stopped making monthly debt-service payment. The hotel was one of the older properties in the market, and new supply had come on line over the previous two years. Just shortly before the hurricane, the debtor had opted to turn the hotel keys over to the lender and walk away. Since this hotel was built on ground higher than most in the area, it was one of a very few that made it successfully through the terrible storm. After the hurricane had passed, this hotel's occupancy increased dramatically. With the significant increase in revenues due to a higher ADR and occupancy, the debtor was now able to make the debt service and pay back fees that were due.

If the hotel is in a leisure-oriented market, there is a lower chance for extended occupancy growth beyond the first year following the disaster. This is due to the loss of tourism in the area because of the devastation.

Because so many variables come into play with any natural disaster, it is difficult to forecast what the effect will be on each individual hotel.

GlobeSt.com: What have you noticed about the mounting competition from home-sharing sites such as Airbnb?

Berry: While there are varying views about the effects of **Airbnb**, **VBRO** and other vacation rental sites, it certainly appears that they are here to stay. Airbnb in particular has seen exceptionally strong revenue growth since beginning in 2008. The top-tier hotels believe that these sites don't affect their business, while many of the **economy** or budget brands maintain they have a strong effect on their bottom line and even blame them for the downfall of some hotels. As Airbnb begins setting its sights on the corporate traveler, it could further disrupt the hotel industry, just as services like **Uber** have impacted the taxi industry.

GlobeSt.com: How are hotels coping with the competition?

Berry: Some markets have fought back by using the local governments and imploring that short-term rentals be subject to the same regulations as hotels, with sales tax, occupancy taxes, ADA regulations and health-department regulations. Most markets have not had much success with these challenges, so short-term rentals have been able to operate smoothly.

With an eye on the competition from home-sharing sites, many hotel brands are shunning the "cookie-cutter" approach and have begun designing new properties to be more intimate, with a residential feel—showing off the local community and featuring more shared/communal spaces, such as a lobby bar or library. Even though the guest may be at a hotel, they feel the experience of being in a unique home-like environment—as opposed to staying in a hotel room in California that looks exactly like the room they stayed in Kansas City.

GlobeSt.com: What are your predictions for the future of the hospitality sector?

Berry: While there is now—and most likely will always be—a section of guests that feels the most comfortable staying at locations that have enduring reputations and consistent standards for cleanliness, service and certain expected amenities, the portion of travelers looking for a more unique **residential** ambiance is growing and appears to be here to stay. This is the primary reason we will be seeing more and more residential and hostel-type hotels in the future.

From our perspective, we are seeing most of the short-term rentals in the leisure market—versus corporate or transient travel. The home-sharing sites have had minimal effect on our tourist-market hotels—there has been enough demand for all.