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SOURCING TRANSIENT HOTELS FOR 2024

Presents Opportunities and Uncertainties for Buyers

As the 2024 hotel RFP season gets underway, corporate travel buyers are grappling with a number of internal and external uncertainties. Many are rightsizing their programs, a process that is reshaping their partnerships with hotel suppliers, and considering new hotel pricing structures.

Challenges abound. Internally, recent historical data on volume and key markets is not a reliable guide. Employee travel patterns are still shifting, making it difficult to determine the hotel categories and number of properties needed in which markets, and whether dynamic, static or hybrid pricing will produce optimal availability and cost-savings benefits. Tight travel budgets remain the rule, and for many, new corporate requirements for supplier selection based on social and environmental issues are significant factors shaping the 2024 hotel sourcing mix.

Externally, hotel pricing has been on a wild ride in recent months. The accommodation industry is still emerging from the pandemic, and ADR forecasts for 2024 are uncertain in the current volatile economic climate. Hotel demand is increasing and outpacing additional supply from new construction. Travel manager often must compete to secure space as events and leisure pickup.

Despite the challenges, just under 70% of industry professionals registered for a recent webinar, [Transient Lodging in 2024: Insider Tips for Savvy Buyers](),

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sponsored by Cvent, started, or plan to start, the hotel RFP process by December. That includes some buyers (13%) who got an early jump on the RFP season and more than half (56%) who said they will start the hotel RFP process between September and December. For some, this will be the first RFP process they've engaged in since 2019.

For the 2024 RFP season, the buyer outlook is far from sunny. According to data from the Global Business Travel Association, a majority of buyers (77%) believe the current negotiation environment favors suppliers in general. More than half (55%) reported difficulty securing favorable hotel rates in 2023, and 56% said hotels are one of the top two supplier categories where they believe that securing favorable terms for 2024 will be most challenging.

THE INDUSTRY BEGINS TO 'NORMALIZE'

Buyers are engaged in setting 2024 sourcing strategy and submitting RFPs in what experts, including STR president Amanda Hite, described in a recent report from STR and Tourism Economics as "a period of normalization" in hotel pricing and occupancy trends.

The extraordinary demand growth in the first quarter of 2023 began decelerating in April as leisure travel began normalizing, said Emmy Hise, senior director of hospitality analytics with CoStar. Noting that year-over-year leisure travel volume at hotels declined through July, a slight increase in total demand has continued in 2023 based on growth in conference/convention, corporate, and international travel.

"There's still a runway for these three segments to take off, so even though leisure might be slowing we're seeing these other segments starting to show some growth," she said.

While occupancy rates have not yet hit pre-pandemic levels, remaining negative or flat in many U.S markets, Hise said all other key industry performance indicators are at historic peak levels, including room supply, average daily rate (ADR), revenue per available room (RevPAR) and room revenue.

GLOBAL, NORTH AMERICA HOTEL RATE FORECASTS

	2022	2023	2024
Global Average Daily Rates	$161	$168	$174
North America Average Daily Rates	$174	$181	$187

Source: *2024 Global Business Travel Forecast, GBTA-CWT, released August 2024*

U.S. HOTEL KEY PERFORMANCE INDICATORS

Metric	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast
Occupancy	+8.9	+0.8%	+1.0%	+0.8%
ADR	+20.0%	+3.6%	+3.0%	+2.7%
RevPAR	+30.6%	+4.5%	+4.1%	+3.5%
RevPAR compared with 2019 Actual	-9.1%	-5.1%	-1.2%	+2.3%

Source: *Tourism Economics and STR, August 2023 Revised*

DOUBLE-DIGIT ADR GROWTH DOWNSHIFTS

Following 23 months of consecutive double-digit ADR growth through the first quarter of 2023 as hotels continued to recover from steep pandemic-related rate reductions, Hise said the market saw four consecutive months of single-digit ADR increases April through July. "While rate growth is still positive, it's definitely decelerating year over year," she said.

In fact, STR and Tourism Economics in early August lowered growth expectations for 2023 and 2024. The duo lowered expected 2023 year-over-year growth in revenue per available room by 0.5 percentage points and occupancy by 0.6 percentage points, both as pared with its June forecast. The companies project 2023 RevPAR of $97.56, up 4.5 percent year over year, and ADR of $154.62, up 3.6 percent, in the latest outlook.

During the webinar, Hise noted that ADRs have now exceeded 2019 levels in almost every one of the top 40 U.S. markets with the exception of San Francisco and San Jose, cities with a heavy technology focus where employees have been the slowest to return to office and city center business activity has had a slow recovery.

"Even though the hotels have had significant rate increases, and we realize that puts a lot of pressure on all the buyers, it has not kept up with inflation, so it's not real ADR growth," cautioned Tammy Routh, senior vice president of global sales for Marriott International. Owners are still recovering from extended periods when their hotels were closed or running very low occupancies, she said, and they are also dealing with rising labor costs and a tight labor market.

Noting that Marriott has yet to issue more formal guidance on rate expectations for 2024, Routh said the chain's forecast is for mid to high single-digit increases, "but it varies by market. We are still trying to figure out our 2024 pricing strategy," she said. "What will come into play here is the importance of partnering with all of our customers and travel buyers, because we're all trying to figure out this new normalization."

Another factor at play is that rate and occupancy normalization is occurring against an ongoing slowdown in the new hotel supply pipeline in the U.S.

"We've been seeing a flatlining around construction activity, remaining at 150,000 to 160,000 rooms under construction for months," said Hise.

Investment advisor firm CBRE expects demand to outpace new supply growth in the hotel sector for the next three years. The company forecasts at 2.5% pace in demand growth during that period and an average new supply growth rate at 1.5%—well below the new hotel supply growth before the Covid-19 pandemic.

Both Hise and CBRE cite rising construction and financing costs, fewer financing options caused by the recent turmoil in the banking industry, general economic uncertainty, and ongoing recovery from the COVID-19 pandemic as key factors dampening new hotel construction.

In its 2024 Global Business Travel Forecast, GBTA and CWT noted, "With fewer properties to compete with, existing hotels can sustain their pricing power for longer, even though average daily rate (ADR) gains are slowing. This means hotels may not feel obliged to extend generous corporate discounts in 2024. Right now, the story is very much focused on average daily rates than occupancies."

BUYERS FACE COMPETITION FOR SPACE

Consumer confidence has remained strong through the summer, and Routh noted that business travel buyers will continue to face competition for space from the leisure traveler for at least the remainder of the year. At the same time, "Meetings and events have exploded. They are at an all-time high for us, so you will be also competing for your business travelers with meetings and events," she said.

Small and midsize businesses, which are recovering from the pandemic more quickly than larger companies, are another source of competition for space for bigger companies. At Marriott, small and midsize business bookings are up 20% to 25% over 2019, while bookings from bigger companies are 20% to 25% below 2019 levels. "If you're a larger company, keep in mind you're going to be competing for availability with smaller businesses," Routh said.

Hoteliers and travel buyers report some increased volume from team meetings. Unknown is how the shift in return-to-office policies might impact hotel demand next year. In July, real estate firm JLL said more than 1.5 million office-based workers in the U.S. were subject to new return-to-office polices and "another 1 million will face mandates that take effect through the end of the year."

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>
> *– Adam Turetsky, global hotel and meetings category strategist, HP Inc.*

2024 SOURCING STRATEGY INCLUDES RIGHTSIZING

Many buyers developing strategies for 2024 supplier sourcing are also rightsizing their programs.

"As we've been emerging from the pandemic, we're taking the opportunity to right size our program to align with our new travel patterns," said Adam Turetsky, global hotel and meetings category strategist, HP Inc. "This has meant we've had to make some tough decisions about which hotels should be part of our new programs, and we've had to take out hotels that have been in our program for many years because of shifting traffic patterns."

Rightsizing the HP travel program has meant taking a close look at company travel patterns and digging into the data to identify trends. "We can't predict the future," he said. "You don't know what's going to happen even a month from now, so we have to use our historical data and take a look at patterns and go off of that."

On the upside, Turetsky said, "This has also resulted in strengthening relationships with many of our hotel partners as we've been able to shift more volume to those hotels and create innovative partnerships."

> **"We love this idea of hybrid pricing, combining a small piece of static pricing and the rest of it being some form of dynamic pricing."**
> *– Tammy Routh, senior vice president of global sales for Marriott International*

As is the case with many other businesses large and small, HP is also responding to new internal mandates to consider climate action, human rights and digital equity in all of its supplier sourcing. "We've introduced new questions into our hotel RFP process specific to these three pillars," he said.

Hybrid pricing moves into the mainstream
Taking a closer look at hotel pricing structures are also on the table for many buyers who are rightsizing their programs.

At HP, "We've evolved as we've emerged from the pandemic, and now there's a fine balance of both static and dynamic rates," Turetsky said. "We try to focus the static rates in our high-volume markets as that's where they make the most sense, and then supplement them with dynamic pricing in some of the smaller markets. For my program, a balance works very well. Another program might be all dynamic, or all static. You need to look at the big picture."

HP's pricing structure with hotel suppliers also includes evergreen contracts and agreements with some hotels that hold year over year increases to a certain amount. "If you can make those types of agreements, it can simplify your RFP process even more," he said.

At Marriott, "We love this idea of hybrid pricing, combining a small piece of static pricing and the rest of it being some form of dynamic pricing," Routh said.

She acknowledged that for many buyers dynamic pricing, "is an unknown, and it's scary. You have to be in it for the long run, because sometimes you win and sometimes you lose on both sides. But we're in it to try to figure out the secret sauce, the right way to do dynamic pricing so we don't have to spend all this time negotiating and still have both sides win. I think we have to come together as an industry to do that."

STREAMLINING PROCESSES

Coming together on hotel pricing for 2024 will require an even stronger reliance on accurate data and metrics as well as new or improved technologies to streamline the hotel RFP process.

"Digital transformation is a major initiative within our organization and we're looking at ways to automate processes and increase efficiencies," Turetsky said. Noting that developing hotel RFPs is currently a primarily manual and extremely time-consuming project, "this is definitely a key opportunity area for us," he said.

Noted Routh, "I just hope that one day we can look back and say, 'Can you believe it used to take us six months and an army of people to negotiate static rates at 500 hotels?' There's just got to be a better way."

Given the many uncertainties facing hotel sourcing strategy for 2024, buyers and suppliers agree that the most certain pathway to success for both is to rely on partnerships and business relationships.

"None of us has a crystal ball. I feel for any travel buyer right now trying to figure out where their spend is going to be, because it is just constantly changing," Routh said. "We understand that on the hotel side, so we are eager to be completely transparent. We will tell you what our metrics are and what demand looks like in different cities and markets and regions. And we need the same from you" she told buyers.