Industry overview

The Covid-19 pandemic led to hotel occupancy across the globe falling to historic lows in 2020, as lockdowns, travel bans and physical distancing measures were introduced to limit the spread of the virus. The impact on hospitality has been severe, though longer-term, the fundamental desire to travel for business or leisure continues to underpin the industry's growth prospects, illustrated by sustained new hotel openings and signings.

The ~$240 billion hotel industry remains fragmented, with 53% of rooms affiliated with a global or regional chain. Branded hotel penetration is expected to continue to grow. Conversions from independent to branded hotels typically increased following the last downturn as owners sought the benefits of a branded system. Consumer expectations in key areas such as technology, cleanliness and sustainability increased during the pandemic and looking forwards, hotel groups and third-party owners are adapting to meet changing demands while ensuring they optimise returns.

2020 industry performance

There are two key performance metrics: room supply and RevPAR. Room supply reflects how attractive the hotel industry is as an investment from an owner's perspective. RevPAR indicates the value guests ascribe to a given hotel, brand or market, and grows when they stay more often or pay higher rates.

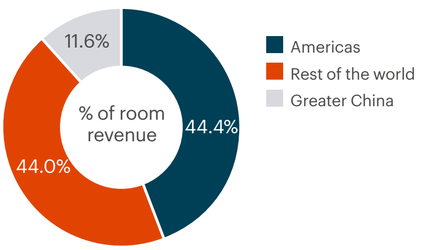
Following a decade of consecutive growth, global industry RevPAR dropped 54% in 2020, largely due to falling occupancy rates. The pandemic's impact led to millions of job losses globally and the temporary closure of thousands of hotels. As has been the case in previous downturns, domestic travel across the midscale segments (midscale and upper midscale) has proved the most resilient, with occupancy at these hotels falling less than the overall industry. Underscoring the sector's positive fundamentals, global rooms supply still grew by 2% in 2020.

The hotel industry is cyclical: long term fluctuations in RevPAR tend to reflect the interplay between industry demand, supply and the macroeconomic environment. At a local level, political, economic and factors such as terrorism, oil market conditions, pandemics and hurricanes can impact demand and supply in the short term.

Overview of global hotel industry

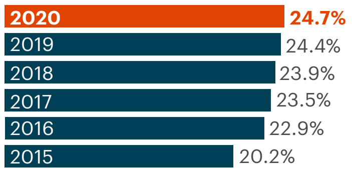
Geography

The US is the largest hotel market, while Greater China continues to grow[a]



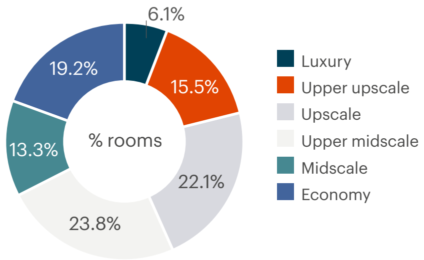
Branded hotels

The top five[c] hotel groups have increased their market share by 5 percentage points[a]



Segment

The branded hotel industry can be categorised by price level[a]



Hotel industry growth drivers: 10-year annual growth rate (2010-20)

Global GDP

+2.3% CAGR[b]

Indicator of economic growth – hotel performance correlates with GDP

Global household disposable income

+1.9% CAGR[b]

Growing consumer spending and leisure travel, supported by cheaper air travel

Global corporate profits

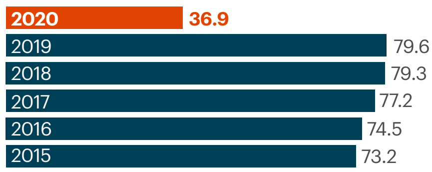
+3.6% CAGR[b]

Good indicator of business travel

Global hotel industry performance

Global industry RevPAR ($)[a]

RevPAR movements are illustrative of lodging demand



Global rooms supply (m rooms)[a]

Supply growth reflects the attractiveness of the hotel industry

Branded hotel business models

There are two principal business models:

- A fee-based, asset-light model
  - Franchised: owned and operated by parties distinct from the brand, who pay fees to the hotel company for use of their brand.
  - Managed: operated by a party distinct from the hotel owner. The owner pays management fees and, if the hotel uses a third-party brand name, fees to that third-party too.
- An owner-operated, asset-heavy model
  - Owned: operated and branded by owner who benefits from all the income.
  - Leased: similar to owned, except the owner-operator does not have outright ownership of the hotel but leases it from the ultimate owner.

Asset-heavy models allow tighter control over operations, while asset-light models enable faster growth with lower capital investment.

[a] Source: Latest STR, Inc [b] Source: Oxford Economics

[c] IHG, Marriott International, Inc., Hilton Worldwide Holdings Inc., Wyndham Hotels & Resorts Inc., Accor S.A.