

HVS Key Takeaways: The Southern Lodging Summit 2016

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Hotel experts from across the industry converged last week in Memphis, Tennessee, for the Memphis Hotel and Lodging Association's annual Southern Lodging Summit. Memphis, the birthplace of Holiday Inn and a hub for Hilton Worldwide's corporate operations, has a rich heritage in hospitality, and many of today's top hotel executives trace their professional lineage back to the city.

The annual summit is therefore something of a homecoming for hoteliers working for various brands, ownership groups, and management companies across the South. Their discussions and presentations at the conference culminated in an expression of cautious optimism, with high demand and occupancy levels fueling growth, but with pressure coming from average rate stagnation and the looming costs of labor for many hotels.



The Key Mover of Hotel Performance: Average Daily Rate

Nearly all of the Southern Lodging Summit's speakers and delegates agreed that the operational environment has cooled over the last twelve months. This should come as no surprise, as the red-hot RevPAR growth of the past few years was destined eventually to cool. The conference's congregation comprised some of the region's most experienced hoteliers, and none could pinpoint a specific factor responsible for the slowdown of RevPAR growth. The softening was, however, generally attributed to a lack of robust increases in average daily rate, which hoteliers have found difficult to accomplish, even amidst record demand levels.

Going forward, delegates agreed that growth in hotel supply and demand are likely to remain close to equilibrium in most markets over the next two years, with occupancy declining only minimally, if at all, from the current record levels. Continued revenue growth will therefore be heavily dependent on hoteliers' ability to command higher rates. As such, for most southern hotel markets, and for the nation as a whole, a period of relatively low growth is anticipated over the next few years.

That average rates have not grown significantly, despite peak levels of occupancy and demand, is somewhat of a mystery, as most industry watchers had predicted stronger appreciation by this point in the cycle. Most hoteliers believe that rate growth is being constrained by increased rate transparency across booking channels, which has provided stronger leverage for an increasing volume of comparison shoppers.



Competition, Wages, and New Legislation

Summary

The 2016 Southern Lodging Summit drew a crowd of hoteliers and industry experts to Memphis. While delegates shared optimism about the prospects for growth, the conference shed light on some looming operational challenges facing the region's hotels.

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Beyond the headline RevPAR trends, Southern Lodging Summit attendees were keeping a close eye on the rising impact of “sharing-economy” lodging companies like Airbnb, as well as rising wages and changing labor regulations. Perspectives on Airbnb ranged from the indifferent to the apocalyptic. However, all participants agreed on the need for increased regulation of Airbnb and similar lodging providers in order to establish adequate safeguards for guests and to eliminate unfair tax and compliance advantages.

In contrast to the call for increasing regulation on Airbnb, many hotel operators decried the ongoing rise in labor regulation, particularly minimum wage legislation and new rules governing overtime for salaried employees. Changing regulations in both of these areas have the potential to significantly inflate hotel labor costs, which comprise the majority of a typical hotel’s operating expenses. It follows that these regulatory changes could substantially affect hotel investment returns, and therefore valuations, if they result in reduced hotel profitability.



Even with slow average rate growth and rising labor costs creating challenges for revenue management, hoteliers at the Southern Lodging Summit retained a positive outlook for the region’s hotel industry. Everyone recognized that hotel companies and many independent properties have been reaping the rewards of multiple years of unprecedented growth in lodging demand and occupancy. In addition, while most hoteliers expect a return to more modest, normalized growth, no one anticipates a sharp reversal of fortunes.

About **Daniel P. McCoy, MAI**



As the HVS Practice Leader for the Midwest, Dan McCoy, MAI, oversees the firm's seven offices in this region. A Senior Managing Director at HVS, Dan is a recognized thought-leader, collaborative advisor, and invaluable resource for the Midwest’s lodging industry. He combines a deep understanding of regional hotel markets with strong analytical thinking to provide a wide variety of clients with up-to-date hospitality intelligence and tailor-made solutions. Dan is a Designated Member of the Appraisal Institute (MAI) and a certified general appraiser. Contact Dan at +1 (970) 215-0620 or [\[email protected\]](#).