Video: Vail Brown of STR talks about all-time highs in hotel supply growth, occupancies, and other metrics – 2015 Hotel Investment and Finance Opportunities

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Vail Brown, Vice President of STR, discusses all-time highs in the hospitality market for multiple metrics, her predictions for the next few years, and STR's expansion into food and beverage analysis in the following video.

Vail spoke with David Sudeck, a senior partner in the JMBM Global Hospitality Group®, as part of our video interview series on hotel finance and investment opportunities in 2015.

A transcript follows the video below.

David Sudeck: I'm David Sudeck, I'm with Jeffer Mangels Global Hospitality Group. We're here at the 2015 Meet the Money® Conference, which is the 25th Annual Meet the Money® Conference. We're with Vail Brown, Vice President of STR. Welcome.

Vail Brown: Thank you.

David Sudeck: So, tell me about your experience this year at the conference.

Vail Brown: Well it's been a good experience. It's actually a very good time to be in the industry, to be talking about the
data in the industry. At the end of 2014, there were over 97 markets in the United States that reported positive RevPAR growth. And as we’ve moved in 2015, it appears that that momentum and the growth and these all-time records have just continued on. So being able to present to this group and tell everyone that at this point in time all of the major key performance indicators have hit all times highs is a good feeling.

Vail Brown: You’ve been an important fixture and bellwether at the conference, so thank you for that.

Vail Brown: Thank you.

David Sudeck: I can tell you, you gave us such good news that at least one person applauded.

Vail Brown: Yes, I have to say that was a first. We had an applaud in the audience. Which we definitely did not have when we were reporting in 2007 and 2009, when numbers were starting to dwindle down.

David Sudeck: So you said several metrics hit all-time highs in multiple metrics.

Vail Brown: All-time highs. Multiple metrics. So we have had all-time highs from a supply growth, room supplies. We have more rooms available than we ever have before to sell. Good news is we’re selling more rooms than we’ve ever sold before. Occupancies are at an all-time high time on a 12-month moving average basis. We have occupancies at almost 65%, which is quite high for a national average. Average daily rate--all time high, growing at over 3.5%, and then I think probably one of the most robust numbers that was nice to finally report on is that we finally have seen room revenues at an all-time high by this time of year in March--at 9% growth. So, very good.

David Sudeck: And what do you see for our future? Tea leaf reading.

Vail Brown: So tea leaf reading--from a standpoint of what we see in the future, for the next couple of years it's definitely
going to be good. STR is projecting that we will have RevPAR growth this year at 6.4% which is very strong.

David Sudeck: That’s amazing–off of a high year.

Vail Brown: Off of a high year, and also driven primarily by ADR. So that obviously bodes incredibly well from a profitability standpoint. And then in 2016 we’re looking at RevPAR to be about 5.9%. So, right at about 6% RevPAR growth. Again, very strong, driven by ADR. I think the one thing that we just need to be mindful of is that we are starting to see supply growth starting to tick back up—we’re not seeing the amount of hotel rooms close that we’ve seen before on an average basis. So, knowing that we’re on this upswing and knowing that a downturn could happen at any point in time, what does that looks like from all this new supply coming in is just something that we need to be mindful of.

David Sudeck: We at Jeffer Mangels we’re working on a ton of—I would say primarily—select-serve, new construction.

Vail Brown: Yes.

David Sudeck: So a lot of the supply, at least I’m seeing, is not in the luxury- or full-serve market and I don’t know–

Vail Brown: That is correct, we are seeing–there are currently as of March, or through March, we had about a hundred and twenty-six thousand hotel rooms that were in construction. Eighty-four thousand of those are in that upscale, upper mid-scale segment. So that represents around 67% of the total pipeline is in that select service. A lot of what we’re seeing in grown in the top twenty-five markets from a pipeline standpoint, as well as the secondary markets, is in that segment as well. So, that’s not really uncommon. I think the percentage of it is what’s a little bit more impressive than what we’ve seen in the past.

David Sudeck: Got it. Everyone knows STR for competitive set analysis. I mean, every management agreement I do has an STR reference for competitive set. But what’s the general platform of STR? Can you give us an idea of what sort of services you’re offering and how you’re looking to expand on a go-forward?

Vail Brown: So, this year we’re turning 30 and we’ve done an amazing job–

David Sudeck: Happy birthday.

Vail Brown: Happy birthday, we’re a young 30. And we have definitely put ourselves in a very fortunate position to be really the leader in competitive benchmarking, not only in the United States but globally. So what we’re continuing trying to grow on is continuing to build the sample internationally on the amount of rooms collection that we’re getting—rooms performance data. And then we’re also looking to expand more metrics in the hotel operation, so focusing more on the food and beverage operations. In the room side of things, the hotel owners and the management companies look to the STAR Report to understand the rooms dynamic. We don’t really have that comparable in the F&B. So that’s something that we have recently moved into—is really starting to get competitive benchmarking around the food and beverage operations.

David Sudeck: Is that only food and beverage operations run by the management company of that hotel?
Vail Brown: Of the hotels. Anything that they have the ability to essentially see the P&Ls. Any outlets that are rented out to third parties, it’s a different type of accounting structure—so we won’t see those. But a lot of it focusing on catering F&B, in-room and dining, and then the restaurants that are managed by the properties. It’s exciting as well as continuing to increase our overall P&L collection. We get data in the United States from about 5,400 hotels, so really looking to expand that as well.

David Sudeck: And you’re providing raw data or are you providing an analysis of that data?

Vail Brown: An analysis of that data. With that, turning 30—and we always want to remember what got us where we were, which is the great relationships in the tourism and hospitality industry specifically with hotels, we are looking to try to really expand the expertise of the competitive benchmarking that we’ve brought to the hotel industry to other industries. There’s been a new creation within STR looking at what other industries we could provide benchmarking that are in need of it, and bring that same expertise that we’ve done to the hotel industry.

David Sudeck: Are you expanding office-wise? Internationally as well?

Vail Brown: We actually created our global entity in 2008. So we have an office in London. We also have locations in Singapore, in China, in Dubai, in Brazil—so, continuing to grow. But still, all the data comes into good old Hendersonville, Tennessee, which is a suburb of Nashville. And that’s where all the data collection is received and processed and the output occurs.

David Sudeck: What’s the prediction, you think, for market share in terms of full-service versus select-service? Do you have any sense as to what I was told earlier—effectively that average daily rate is going to increase for select serve as they appeal to millennials? That there won’t necessarily be a competitive advantage for a full-service, restaurant-based hotel. I’m just curious as to whether you’re seeing that trend. Do you have any predictions?

Vail Brown: The predictions that we’re seeing across all the chain scale segments that—we’re still prepared—even on the upper, upper luxury side we’re suspecting that we’ll have RevPAR growth above 6%. And even on the mid-scale at the same. All of that being driven by ADR. I don’t know that we’ve seen that trend yet. There’s still a lot of desire for that full-service, luxury experience. We’ve got occupancies of over 73% to date in that luxury space. I think if anything it’s just that it may be that they’re selling out and there are not any rooms at the inn.

David Sudeck: Do you have any opinion on lifestyle versus big brand? Or lifestyle within big brand?

Vail Brown: I think everything is trying—my personal opinion, and I’m going to preface this, not STR’s—my personal opinion is that we’re all striving to create an experience. Everybody loves a different experience and I think we have different experiences when we’re traveling for business and when we’re traveling for leisure. I think the lifestyle movement has been happening for some time now. With Joie de Vivre and those properties years ago—that was really creating a different experience.

David Sudeck: And look at Kimpton too, obviously—institutional purchase of what was a lifestyle brand.
Vail Brown: Exactly. I think as that experience evolves, and as the demographic evolves, I think the brands and independents are trying to appeal to that and wanting to make sure that they capture those lifestyle experiences that each different generation wants to experience and for different types of travel and whether they’re going on leisure and business. Personally, I think there’s room for everyone. And I think that really, it’s very interesting to see the creativity and how it continues to evolve in this industry.

David Sudeck: That was very diplomatic of you.

Vail Brown: Thank you, I appreciate it. I was a political science major.

David Sudeck: Anything else you want to share with us about your experience? STR, past, future?

Vail Brown: I think that in thinking about the future, if we just kind of all sit back and say, okay, look at how our industry has changed in the past five years—it has changed so much more in the past five years than it did the past fifty years. The technology, the different types of industry, what we would call either disruptors or just distractions—what does the next five years look like? What are those areas of opportunity for our industry to really improve on? Because if we don’t pay attention to those, I think that is where another opportunity will lend itself for someone to come in and take some of our market share.

David Sudeck: Are you tracking any of the disrupters—Airbnb, VRBO, Redweek, etc.?

Vail Brown: Not yet. I think everyone’s trying to get a handle on what that supply looks like. And that is something that STR is interested in understanding. Hopefully, maybe this time next year we’ll have a little more insight—but that’s kind of it right now.

David Sudeck: It’s certainly a hot topic.

Vail Brown: It is a hot topic; absolutely it’s a hot topic.

David Sudeck: Sounds good. Thanks Vail, appreciate it.

Vail Brown: Thank you, I appreciate it.