2016 – A YEAR IN REVIEW FOR HOTEL INDUSTRY FIRMS

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The year 2016 has been yet another productive year for hotels in the United States. According to the August 2016 Smith Travel Research report, even though the August year-to-date occupancy for these lodging firms decreased 0.2% to 66.9%, relative to 67.0% for the same period in 2015, the August year-to-date average daily rate, grew 3.1% to US$124.18. The year-to-date average daily rate was US$120.45 for the same period in 2015, US$114.77 in 2014, US$110.35 in 2013, US$106.10 in 2012, US$101.70 in 2011, and US$98.06 in 2010. The August year-to-date revenue per available room (RevPAR) of these firms also increased by 2.9% to US$83.10 relative to US$80.74 during the same period in 2015.

Per the latest IBISWorld Industry Report for Hotels & Motels in the United States, the industry revenue has shown “robust” growth during the recent 5-year period. The industry revenue for U.S. hotels and motels is expected to increase to US$169.2 billion in 2016 (yielding US$28.7 billion profits) at an average annual rate of 2.4%, relative to US$165.1 billion in 2015, US$159 billion in 2014, US$150.1 billion in 2013, US$143.7 billion in 2012, US$137.64 billion in 2011, and US$130.9 billion in 2010. Figure 1 summarizes the rising trend of revenues in this industry from 2000 to 2016.

Hotel industry investors, however, seem to be cautious. On an average, hotel industry stocks continue to underperform the market, leading to negative market premiums. Table 1 summarizes the 2016 stock returns of key hotel industry firms from lodging and hotel-motel real estate investment trust sectors.

The JHFM Index for hotel industry stocks continue to yield negative market premiums, suggesting investor skepticism in these stocks on an average. The JHFM Index is a market-capitalization weighted index maintained by JHFM. It is a two-part index measuring the...
performance of hotel stocks trading in the U.S. equity markets. The first part is the JHFM Lodging Index consisting of the 10 largest market-cap firms in the lodging sector. The second part is the JHFM Hotel-Motel REITS Stock Index consisting of the 10 largest hotel-motel REIT firms currently trading in U.S. equity markets.

As shown in Table 1, all three JHFM hotel stock indices continue to underperform the market, and remain a matter of concern for investors with their significantly negative market premiums (−10.63%, overall hotel industry stocks; −9.92% and −12.36%, lodging stocks and hotel-motel REIT stocks respectively). On the one hand, such trend could suggest a faster growth in supply relative to a more stagnating demand for hotel rooms during 2016. On the other, such under-performance of hotel stocks could also be a result of speculative fears from changing politicoeconomic climates in the United States and post-Brexit Europe, contained price growth for hotel rooms as a result of continuously increasing social media/Internet-based distribution channels, and emerging competition from the new yet rapidly growing Airbnb sector. Regardless of such investor skepticism, the continued growth in overall revenues, average daily rate and RevPar for hotel firms during 2016 remains a positive and encouraging trend for the hotel industry.

### REFERENCES


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