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SPECIAL REPORT

New Year. Similar Stories. Fresh Hope.

2023 WAS SO LAST YEAR. HERE'S HOW 2024
COULD SHAPE UP, ACCORDING TO THE PEOPLE
WHO SHOULD KNOW.

By DAVID EISEN

Thomas Jefferson, to many, was several things: a Founding Father, the primary author of the Declaration of Independence, a U.S. president. He helped birth a nation. He was an unmistakable and eternal optimist, possessing an innate capacity for optimism. It's no wonder he is credited with saying: "I like the dreams

of the future better than the history of the past."

The hospitality industry could use some Jeffersonian positivity as it pushes ahead into a new year, one likely to be filled with both challenge and opportunity, excitement and fear. One thing is certain, there is no shortage of trends and storylines to propel it through the next 12 months.

"How it started, how it's going" has become a popular meme for showing the passage of time. If the hotel industry 2023 was pasted up on Instagram with the tagline, how it started might look a lot like how it's going. To borrow from French: *comme ci, comme ça*. Translation: not very good, not very bad. Though capital markets

have not made it easy on the transactions market at all, hotel operational performance has been undeterred, as demand for travel — particularly leisure — has blossomed, with corporate and group travel making a strong comeback, as well. Paired with lower supply, hotels are in a strong cash-flow position as the calendar turns. However, should a recession

come to bear, all bets are off the table. Meanwhile, a legacy laggard on embracing new technology, it may be forced to with the day-by-day growth in artificial intelligence.

It's not all bad. It's not all good. Where is it going from here? HOTELS turned to a cross section of the hospitality industry to garner their take on how things potentially could shake out in 2024—the good, the bad and maybe even the ugly (*le bon, le mauvais, le laid*).

Jefferson wasn't the only one with the ability to drop a good aphorism. It, too, has been said to celebrate endings, for they precede new beginnings. For the hospitality industry, this couldn't ring truer as it rings in the start to a new year. Here's what they said.

HOTELS: What will people be talking about as we move into 2024 and why?

Ryan Rivett, co-founder and CEO, My Place Hotels:

Capital market fluctuations and complexities and the potential implications of AI will likely maintain a significant portion of the stage in 2024. With pre-pandemic debt maturities looming for every level of capital participant, capital and operating costs continue to also rise. AI will continue to be discussed heavily because we don't really understand the growth and opportunities of it. As a rule, the relationship between hospitality and technology is like the relationship between a good bellman and a large hotel while



Ryan Rivett

the elevator is broken: he'll get the luggage there eventually, but it's going to take some time.

Chris Hemmeter, managing director, Thayer Ventures: The AI story will continue to dominate headlines and water-cooler conversations. Much of the optimism will be focused on cost reduction promises but the narrative will continue to shift toward revenue drivers, including mass personalization and microtargeting.

Warren Marr, managing director, hospitality & leisure, PwC: Interest rates continue to be a top-of-mind concern for the industry. Until rates come down in a meaningful way, two things will be difficult to achieve. First, hotel owners with



Chris Hemmeter

looming debt maturities will find it difficult to refinance at levels they can cover. Second, buyers will continue to stay on the sidelines until bid/ask spreads narrow. Against this is a lot of uncertainty around the return of the individual business traveler. The question of whether their return will increase is centered around the pace of return to office, which has currently stalled out as employee work and commuting preferences stand firm.

Greg Juceam, president and CEO, Extended Stay America: The impact of hotel markets from interest rates will continue to drive headlines and conversations. Higher interest rates restrict deal flow by making acquisition projects harder to pencil. More importantly, they impair cash flow, which is necessary for capital repairs and operational reinvestment into the business. On a brighter note, even as household finances are under duress from recent inflationary headwinds, the hotel industry continues to benefit from consumers' desires to travel and meet, the evolution of hybrid work and burgeoning government infrastructure spending.

Lindsey Ueberroth, CEO, Preferred Hotels & Resorts: People have moved on from the post-pandemic 'revenge travel' phase, having made a point of traveling to their favorite places and reconnecting with friends and family, regardless of price or crowds. Travelers are now

focused on ultra-experiential and adventure travel or 'deep-immersion travel.' They are looking for something beyond the norm and also something off the beaten path in locations that allow them to avoid the crowds and experience a location in a meaningful way—think photography, wellness (beyond the spa), philanthropy focused. Imagine far-flung destinations,



Lindsey Ueberroth

such as Uganda/Rwanda, India, Bhutan, Malaysia, as well as secondary and tertiary markets, such as Puglia and Dolomites in Italy.

Eric Danziger, CEO, Resolute Road

Hospitality: The continued expansion of new brands, along with the attempted mergers between other large companies. It is very difficult to understand who benefits from the proliferation of so many new brands—the owner is strained with capital investments to keep up and the customer can be confused. The other main topic will be overall consumer health. Will this 'soft landing' we've been hearing about for the last year come to fruition or will there be harsher consequences for our industry from the overall



Greg Juceam

driving revenues and managing expenses. Additionally, hotels with the best guest value proposition in the competitive set (i.e., strong location, asset quality and/or service excellence relative to price) will generate higher social-review scores and will have a better chance to gain market share; conversely, hotels with weaker guest value propositions that benefitted from the rising tide during the upcycle often get exposed in this part of the cycle.

Gary Gray, CIO, 24/7

Hotels: On the investment side, investors will be trying to solve for the dislocation in the capital stack. Many owners with fixed-rate loans coming due will face a debt market offering loans at more than twice their current rate,



Gary Gray

while loan proceeds will be significantly diminished by lower LTVs and lender required reserves. Brand required capital improvement projects will add further complications. Investors will likely be sifting through a lot of deals to find the few opportunities that are encumbered with strong brands in growing markets that have strong sponsorship. Meanwhile, much of capital providers' focus has shifted to pursue preferred equity investments or mezzanine debt to secure equity-like returns and hedge some of the risk.

Lindsey Ueberroth, Preferred Hotels & Resorts:

Talent and labor will continue to be one of the biggest challenges for the hotel industry, especially in boom markets where competition is strong with new product coming into the market. With ADR holding strong, the traveler expects nothing short of perfection and, in the luxury segment, hyper-personalized service. It is extremely hard to find that talent and we are seeing retention being an issue, as well. I believe we need to come together as an industry to raise more awareness around how the hospitality industry is an incredibly reputable profession and engage universities and hospitality schools to elevate their education opportunities and assist us in the recruiting process.

levels and labor costs are increasing at above inflationary growth levels, which can result in margin erosion. The hotel industry can prepare for this by being proactive in developing enhanced efficiencies in operations, such as food and beverage, housekeeping and self check-in. Implementing this without compromising the guest experience will be a challenge, but if it can be achieved, will benefit the bottom line.

Ryan Rivett, My Place

Hotels: Workforce stability. The SWOT matrix on this subject is a little heavy on the W and T from the perspective of both sides of the paycheck. Regulatory, economic and social factors continue to add new weaknesses and threats for businesses, while chaotically invading the



Warren Marr

relationship dynamic and the integrity of communication between businesses and their most valuable stakeholders, employees. Value and validity of increased pay, abstract benefits and flexible schedules, aside, the definition of a "good job" is more ambiguous than ever, and for an industry that relies so heavily on the consistency

and dedication of people, I believe that the objective to make a career in hospitality is increasingly lost on our workforce. Hoteliers must shift their focus from filling shifts to creating careers, leaning into the most dedicated employees and allocating time to career-focused leadership development.

Chris Hemmeyer, Thayer

Ventures: Managing changing channel dynamics and associated costs will become more and more complicated as the major OTAs continue to roll out their AI tools and techniques. Operators will be challenged to find their footing and will likely come to realize that competing in the emerging AI world depends on getting their data house in order first. Those who tackle their data problems most effectively will have a competitive advantage.

HOTELS: *What does the hotel industry do poorly that if it did better would result in a better experience for guests and higher returns for owners? Conversely, what is the hotel industry great at?*

Danny Hughes, EVP and president, Americas, Hilton: While the last few years have resulted in strong performance under extraordinary conditions, customer feedback consistently shows that our guests want the hotel industry to get back to the basics of hospitality. Ultimately, this means that guests expect the fundamentals of hospitality to be delivered exceptionally