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# Resort Hotels and Recession

HOTEL CURRENTS™

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## Key Takeaways

- The financial performance of all hotels has been the worst during recession periods.

- CBRE's Annual Trends® data show that resort properties are not resilient to recessions but have consistently recorded the poorest performance during prior economic downturns.

- Financial performance during years subsequent to officially designated recessions, such as 2003, 2004, 2011, were also quite weak. This suggests that National Bureau of Economic Recession (NBER) recession periods may not be the best indicators of hotel industry downturn durations.


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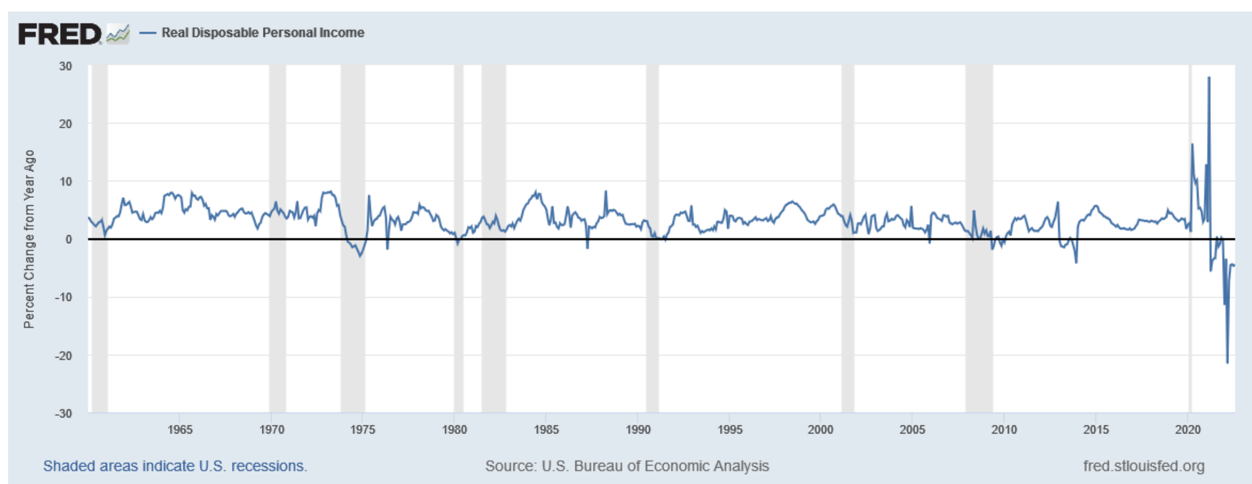
While economists and financial experts debate whether the U.S. economy is experiencing a recession or will enter one in 2023, Chairman Jerome Powell repeatedly stated that Federal Reserve policy rate increases will continue until restoration of price stability. These actions may instigate or deepen a recession and already are contributing to slowdowns in residential and commercial real estate activity. Hotel financial performance proved to be vulnerable during the past two economic downturns, attributable to the absence of lease protection against demand destruction. A 2020 CBRE Hotels Research study concluded that "U.S. hotels experienced the greatest declines in revenues and profits during the two most recent recessions; multiple properties experienced RevPAR declines in excess of 30 percent."

Leisure travel strength and business travel weakness remain the hotel demand story lines in the U.S. during the late COVID pandemic period. The unprecedented number of leisure trips may continue throughout the economic downturn thus reversing a history of declines in hotel performance during recessions. For this to happen, the following conditions need to be present:

1. *Leisure travelers must keep their jobs.* With the current unemployment rate at 3.5% and approximately 10 million job openings the prospects for travelers to maintain employment through a typical recession are quite good.
2. *Leisure travelers must have ample disposable real incomes.* Figure 1 shows the unusual path of disposable income over the past two years. A reversal of recent percentage declines in disposal incomes appears unlikely until wage growth exceeds inflation, and that condition seems a distant reality. Credit card and other consumer debt keep rising, another indicator of lower levels of future discretionary spending.

**Figure 1: Year-Over-Year Percent Changes in Monthly U.S Real Disposable Personal Income, 1960-Present**




[1]Robert Mandelbaum, U.S. Hotels Changes in RevPAR and Profits During Historical Recessions, CBRE Hotels Research, March 30, 2020.



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Today's leisure travelers have the resources to make trips, however, as Mary Daly, President of the San Francisco Federal Reserve Bank, stated inflation is a 'corrosive disease' that erodes the real purchasing power of people. Having a job in 2023 may not be enough to overcome declining real disposable incomes when it comes to making leisure trips.

Current economic conditions put destination resorts (typically upper-upscale or luxury properties) in the spotlight for hotel investment portfolio rebalancing. If the current economic slowdown ripens into a moderate or deep recession, will destination resorts be swept into a widespread industry performance downdraft, or will high-income consumers carry on with resort travel plans?

These questions are hard to answer. Some guidance may come from examining resort operating performance in absolute and relative terms (i.e., to other hotel property types) during previous recessions. A comparative analysis of how resorts and other hotels operationally performed during both non-recession and recession years from 1978 to present does not support the hypothesis that resort property types are resilient to recessions, but instead show resorts had the poorest performance among poor performing property types during recession years.

## Historical Data and Recessions

CBRE Hotels Research collects and maintains a database of hotel summary income statements, dating to 1978. This database, known as Trends® in the Hotel Industry, includes data for all hotel types. Variables of interest are net operating income (NOI), ADR and occupancy. An essential prerequisite for the data analysis is assignment of the recession and non-recession periods (as determined by the NBER's Business Cycle Dating Committee. The GDP declines during these recessions ranged from approximately 2% to 20%. Note that CBRE economists are forecasting a mild recession early in 2023 with a GDP drop of less than 2%.

Including the year following each recession to account for sluggish recoveries and excluding the two-month recession in 2020 yields the following recession periods:

- 1980 - 1983 (years of two almost consecutive recessions)
- 1990 - 1992
- 2001 - 2002
- 2007 – 2010

All other years from 1978 through 2019 (pandemic year 2020 removed) are within non-recession periods.

[2]Note that resort hotels are alternatively defined as properties located within a 'resort area.' The resort property type relies on a definition focused on the business exclusive of location. .



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## Findings from the Raw Data Analysis

The means and ranges of raw data often are revealing. Figure 2 has three sections describing the Annual Trends® data in current dollars for the entire sample of years, non-recession years and recession years. Not surprisingly, every financial variable across all property types demonstrates weaker performance during recession years versus non-recession years. A non-statistical test of the hypothesis that resorts absorb recession better than other property types involves computing percentage differences for each variable between non-recession and recession years. Zeroing in on NOI yields the following percent declines:

- Resorts -20.48%
- All Hotels -16.82%
- Full Service -17.64%
- Limited Service -11.45%

The negative percentage differences in ADRs between recession and non-recession periods is about the same (i.e., around -10%) yet the net changes in occupancy percent for resorts equals nearly twice that of all hotels, full-service hotels and limited-service hotels.

**Figure 2: Descriptive Statistics (in current $)**

| | 1978-2019 (N=42) | | | Non-Recession Yrs. (N=29) | | | Recession Yrs. (N=13) | | |
|---|---|---|---|---|---|---|---|---|---|
| **Variable** | **Mean** | **Min** | **Max** | **Mean** | **Min** | **Max** | **Mean** | **Min** | **Max** |
| **NOI** | | | | | | | | | |
| Resort | **$20,710** | $3,766 | $42,765 | **$21,860** | $3,766 | $42,765 | **$18,145** | $5,866 | $34,259 |
| All Hotels | $11,756 | $2,777 | $22,968 | $12,305 | $2,777 | $22,968 | $10,533 | $4,345 | $18,192 |
| Full-Service | $10,691 | $2,519 | $21,143 | $11,211 | $2,519 | $21,143 | $9,530 | $3,940 | $16,805 |
| Limited-Service | $6,721 | $2,111 | $10,953 | $6,942 | $2,111 | $10,953 | $6,229 | $2,965 | $9,510 |
| **ADR** | | | | | | | | | |
| Resort | **$177.21** | $57.73 | $284.90 | **$182.60** | $57.73 | $284.90 | **$165.18** | $72.29 | $244.82 |
| All Hotels | $110.16 | $34.04 | $178.15 | $113.57 | $34.04 | $178.15 | $102.55 | $44.24 | $157.49 |
| Full-Service | $112.63 | $37.83 | $183.31 | $116.14 | $37.83 | $183.31 | $104.78 | $48.69 | $161.35 |
| Limited-Service | $73.40 | $24.72 | $119.04 | $75.73 | $24.72 | $119.04 | $68.21 | $32.52 | $102.08 |
| **Occupancy** | | | | | | | | | |
| Resort | **66.14%** | 56.58% | 74.36% | **67.19%** | 30.00% | 74.36% | **63.79%** | 56.58% | 70.93% |
| All Hotels | 68.74% | 63.35% | 75.30% | 69.31% | 36.60% | 75.30% | 67.46% | 63.35% | 71.66% |
| Full-Service | 70.05% | 63.24% | 76.28% | 70.58% | 32.50% | 75.23% | 68.87% | 63.24% | 74.52% |
| Limited-Service | 67.83% | 60.40% | 76.70% | 68.23% | 44.30% | 75.86% | 66.93% | 60.40% | 74.01% |

**Notes:** Average room sizes: resorts - 432, all hotels - 198, full-service - 226, limited-service - 119.
**Source:** CBRE Hotels Research, *Annual Trends Reoprts* ® (History)

Figure 2 shows that resorts fare relatively worse than other property types during recessions and thus fail to offer a financial performance sanctuary from economic downturns. The results do not change by sorting the data in different ways.

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## Looking at Yearly Evidence

Another way to examine the relative performance of resorts over the course of the past four-plus decades of business cycle movements involves ranking years by the extent of negative outcomes. If resorts were more resilient to recession, then the worst years of resort performance would be more positive than the worst performing years relative to other property types. Also of interest is how resorts did during the past two recessions, especially the 2007 – 2010 recession period, for example, when higher income consumers fared better than other consumers.

Figure 3 presents rankings of the 10 years with the poorest financial outcomes for each property type and metric. Nominal dollar amounts are adjusted for inflation and Y-o-Y percent changes are calculated using the NOIs and ADRs in real dollars. Occupancy percent changes are yearly first differences. Recession years, especially 2010 and 2002, exhibited the greatest negative NOI and ADR Y-o-Y changes for each property type. About half of the 10 worst performing years, however, were non-recession years. While the 2000 recession was officially over in 2002, hotel performance during 2003 and 2004 was dismal. Occupancy rate declines among all property types have been the greatest during recession years.

### Figure 3: Ten Worst Performing Years, Real Changes, *1978 -2019

| NOI %Δ | Year | Resort | Year | All Hotels | Year | Full -Service | Year | Limited Service |
|---|---|---|---|---|---|---|---|---|
| | R2010 | -41.99 | R2010 | -35.73 | R2010 | -34.50 | R2010 | -33.09 |
| | R2002 | -21.35 | R2002 | -20.09 | R2002 | -19.42 | 2003 | -13.49 |
| | R2009 | -13.64 | 2004 | -12.86 | 2004 | -12.75 | 1988 | -12.23 |
| | 2004 | -13.37 | 2003 | -9.69 | 1986 | -12.44 | R1983 | -10.35 |
| | 2003 | -13.27 | R1992 | -9.51 | 2003 | -11.04 | 1989 | -8.02 |
| | R1992 | -11.37 | R1983 | -8.47 | R1992 | -8.36 | R2002 | -7.81 |
| | 1984 | -9.73 | 1986 | -7.04 | 1989 | -6.84 | 1987 | -7.06 |
| | R1990 | -1.23 | 1984 | -4.18 | R1983 | -6.35 | 2004 | -5.92 |
| | 1989 | -1.13 | R2009 | -3.46 | 1987 | -6.05 | R2000 | -4.31 |
| | R1981 | 0.01 | 1987 | -2.26 | R2009 | -6.01 | R2009 | -4.30 |

| ADR %Δ | Year | Resort | Year | All Hotels | Year | Full -Service | Year | Limited Service |
|---|---|---|---|---|---|---|---|---|
| | R2010 | -15.16 | R2010 | -14.78 | R2010 | -15.75 | R2010 | -12.74 |
| | 2003 | -6.59 | 2003 | -6.35 | 2003 | -7.18 | 2004 | -5.38 |
| | 2004 | -5.09 | 2004 | -5.80 | R2002 | -5.67 | 2003 | -4.84 |
| | 2011 | -4.09 | R2002 | -5.26 | 2004 | -5.38 | 1989 | -4.19 |
| | R1992 | -3.66 | R1992 | -3.00 | R1992 | -3.18 | 2011 | -3.30 |
| | 1993 | -3.02 | 2011 | -2.91 | 1989 | -3.15 | R2002 | -3.13 |
| | R2002 | -2.54 | 1993 | -1.20 | 2011 | -1.84 | 1987 | -1.83 |
| | 1994 | -2.24 | 1994 | -0.91 | 1993 | -1.36 | 2005 | -1.38 |
| | 1989 | -1.54 | 1989 | -0.84 | 1994 | -1.27 | 1988 | -1.23 |
| | R2009 | -1.41 | R2009 | -0.72 | 1988 | -1.14 | R1990 | -1.07 |

| Occ % Diff | Year | Resort | Year | All Hotels | Year | Full -Service | Year | Limited Service |
|---|---|---|---|---|---|---|---|---|
| | R2010 | -5.95 | R2002 | -5.16 | R2010 | -5.04 | R2010 | -5.04 |
| | R2002 | -5.43 | R2010 | -5.14 | R1981 | -4.22 | R1981 | -4.22 |
| | R2009 | -3.59 | 1986 | -3.01 | R1983 | -2.98 | R1983 | -2.98 |
| | R1992 | -3.43 | R1981 | -2.85 | R1980 | -2.68 | R1980 | -2.68 |
| | R1981 | -2.43 | R1983 | -2.68 | R2002 | -2.47 | R2002 | -2.47 |
| | 1987 | -2.08 | R1982 | -1.88 | 2003 | -2.12 | 2003 | -2.12 |
| | R1982 | -1.63 | R1992 | -1.80 | 1986 | -1.92 | 1986 | -1.92 |
| | R1991 | -1.46 | R2009 | -1.26 | R2008 | -1.68 | R2008 | -1.68 |
| | 1999 | -1.32 | 1999 | -0.99 | 2000 | -1.64 | 2000 | -1.64 |
| | R1980 | -0.93 | 2000 | -0.60 | 1999 | -1.39 | 1999 | -1.39 |

**Notes:** *NOIs and ADRs are YoY percent changes in real dollars, occpancies are annual first differnences.
R indicates recession year.
**Source:** CBRE Hotels Research, *Annual Trends Reoprts* ® (History)

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Consistent with the descriptive data findings, rankings of annual real percent changes in NOIs, ADRs and occupancy percent first differences in Figure 3 provide no comfort that resorts are more recession resistant than other property types. In fact, the rankings of years when hotels suffered the most financial pain indicate, with a couple of exceptions, that resorts were the worst performers. Consistent with the conclusions reached in the 2020 study from CBRE Hotels Research, the largest declines in hotel financial metrics occurred during the past two recessions.

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