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Hotels are back...But the challenges of development persist - by Harry Wheeler

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The hospitality market in 2023 is a mixed bag. For the traveler, the experience is amazing. Hotels have reopened and restaurants are bustling, with business back in full force to compensate for the economic downturn due to the pandemic. However, hotel developers face a situation that is less promising, with deals becoming increasingly difficult to pencil. Brokers find the market dry, as debt and equity becomes scarce and inflation continues to rise across the country.

In 2022, there was a surge in leisure and local travel as the world emerged from the grip of the COVID-19 pandemic. Travelers flocked to drivable markets and regional hot spots, resulting in record-breaking rates and hotel occupancy in these areas. However, construction costs have skyrocketed due to inflation, posing challenges to hotel development that are further exacerbated by ongoing labor and material shortages. With that in mind, is the hotel market truly back? How are clients, architects, and designers navigating this landscape, and what are the potentials and risks involved?

Rebranding and Reflagging Hotel Properties

One trend emerging in the hotel market is an increase in hospitality firms that are rebranding or reflagging existing assets. With many properties hitting their rate ceiling due to their brand or age, now is an ideal time for property owners to re-evaluate how their assets are performing. Many are taking this opportunity to renovate and up-brand their properties, working closely with architects and designers to explore options for increasing rates by enhancing brand image and delivering an improved guest experience.

The goal for rebranding and reflagging is to reposition a hotel property in the market, attract a new target audience, and potentially increase revenue potential. This process can involve significant changes to the property's design, amenities, services, and overall guest experience to match the standards and requirements of the new brand. It may include renovating guest rooms, updating public spaces, adding or upgrading facilities, and implementing brand-specific design elements.

However, reflagging also entails potential risks and challenges. The renovation process can be complex and costly, involving substantial investments in design, construction, and brand implementation. There may be strict timelines and guidelines to follow, ensuring a smooth transition. Moreover, successfully implementing this strategy depends on thorough market analysis, understanding the target audience, and optimizing the brand so that it aligns with the property's location and market positioning.

Property Improvement Plans

Brands are also revisiting their approach to their Property Improvement Plans (PIPs), which have been deferred for several years during the pandemic. Set forth by hotel brands for their franchisees or property owners, these plans outline the necessary upgrades, renovations, and improvements that must be made to a hotel property to ensure it meets the brand's standards and maintains brand consistency. With the rebound in leisure travel, the era of waivers and extensions of these PIPs is coming to an end, and brands are increasingly more rigid with their requirements.

Renovations and construction costs remain high, so it's paramount that negotiations in these areas successfully navigate questions of scope. Architects and designers play a crucial role in this process, collaborating with property owners, franchisees, and brand representatives to develop design solutions that align with the brand's standards while incorporating the unique characteristics of the property and seek waivers when appropriate. Proposed design changes must also comply with building codes, regulations, and industry best practices, while also considering cost-effectiveness and operational efficiency.

New Development

New hotel development has hit a standstill due to high interest rates, the cost of capital, and a thin debt market. Financing has become nearly impossible, creating a major hurdle for developers. While construction costs have stabilized somewhat, they have not declined significantly. Now, more than ever as designers we need to prioritize cost-conscious design and explore alternative construction methodologies, engineering solutions, and sustainability practices to reduce upfront costs and enhance operational efficiencies. By optimizing cost efficiency and exploring innovative approaches, architects and designers can help developers navigate the difficult terrain of new development in the current market.

In major markets with complex entitlement and permit processes, such as Boston, Washington, D.C., and Miami, developers remain active, recognizing the potential for future growth. However, the lengthy timeline required to obtain all the necessary permits poses a challenge. Developers are hopeful that the market will soften by the time they complete the permitting process, which could take a year or more. The project team involved in such projects must plan strategically, anticipating market conditions during the development timeline.

So, are Hotels Back?

The hotel market is undoubtedly strong and continues to strengthen. International travel is gradually returning to normal, convention centers are filling up again, and urban hubs are showing signs of recovery. Occupancy rates of hotels confirm the resurgence of travelers. However, the challenges lie in new development, where the market continues to struggle. The development of new supply requires a coordinated effort from the industry as a whole, including architects, designers, financiers, and stakeholders. While the market is ripe for new products, the hurdles of financing, construction costs, and entitlements pose risks and may impact the pace of development.

Based on the current market conditions and observations from the development arena, hotels are indeed "back." However, the challenges in new development must be carefully navigated. Architects and designers, working in tandem with clients, need to employ innovative strategies to optimize costs, create distinctive brand identities, and deliver successful projects. By adapting to evolving market dynamics and addressing potential risks, the hotel industry can usher in the next wave of product infusion, ensuring sustained growth in the years to come.

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