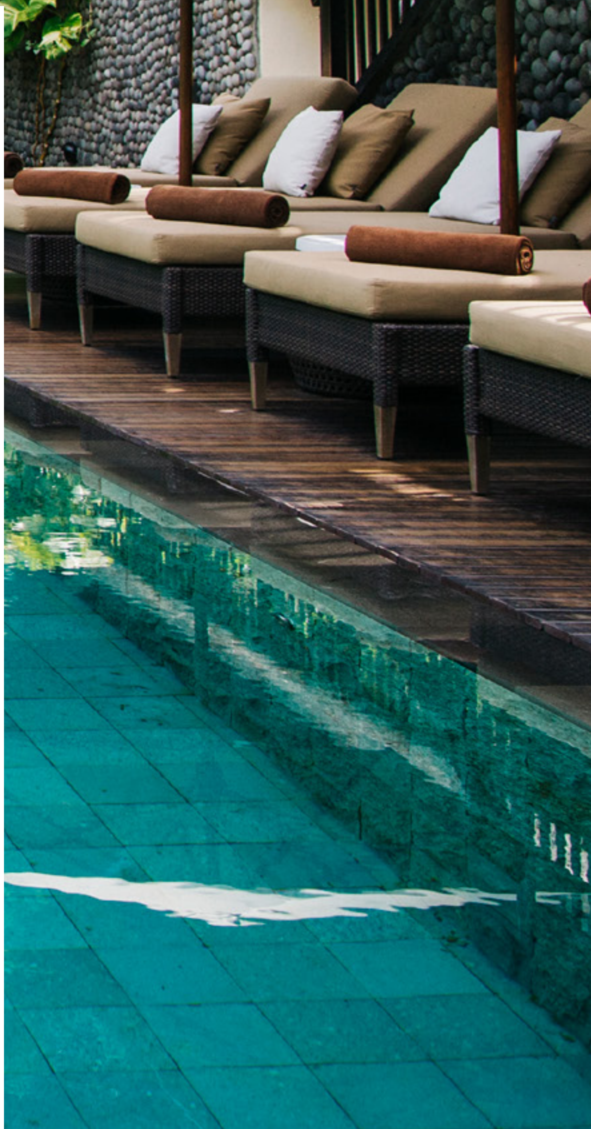

September 2023

Hotels & Hospitality

# Hotel Operators' Sentiment

**Navigating the recovery in 2024**

JLL SEE A BRIGHTER WAY

Hotel Operators' Sentiment Asia Pacific 2023-2024

# Contents



# Introduction

In January 2023, China's announcement to relax border and travel restrictions marked the end of a prolonged three-year pandemic era. The Asia Pacific region is now fully open to international travel, and the improving air connectivity has generated a surge in demand from various parts of the region. The ongoing travel momentum, which gained traction in the latter half of 2022, has resulted in a notable improvement in hotel performance. Average Daily Rates (ADR) have reached record levels, and occupancy rates continue to rise steadily.

Despite the robust demand, the recovery has encountered challenges such as manpower shortage and rising costs which has reduced inventory in some markets. The tourism sector in the region also faces headwinds such as economic pressures, geopolitical tensions, and the high cost of air travel.

Caught in the middle of the disconnect between a strong tourism recovery and macro-environmental headwinds, hotels in Asia Pacific are navigating this uncertainty. With volatility likely to remain for the year ahead, what is the overall sentiment among hotel operators as we look forward to 2024?

JLL's inaugural Hotel Operators' Sentiment Survey (HOSS) Asia Pacific aims to gather sentiment on hotel operations for the year ahead, at a time when owners and operators are getting ready for the 2024 budget season in September. Our survey was conducted in July 2023 and over 360 hotel operators across Asia Pacific participated. The majority of the respondents are located in urban destinations and most of the participating hotels are affiliated to international chains. JLL's HOSS Asia Pacific complements JLL's Global Hotel Investors' Sentiment Survey (HISS), planned at a latter month of the year, which focuses on the hotel investors' sentiment.



Hotel Operators' Sentiment Asia Pacific 2023-2024

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# Speed of the recovery

*Occupancy catching up on ADR with sustain travel demand*

A strong demand resurgence following the pandemic has seen hotels in Asia Pacific yield room rates at record-levels since the reopening despite reduced airlift and tourist arrivals. The monthly Average Daily Rates (ADR) in the region have shown a steady recovery, with the luxury segment experiencing the strongest growth. ADR have even surpassed pre-pandemic levels by over 20% in markets such as Bali, Phuket, and Singapore. This surge has primarily been driven by the return of leisure tourists to these destinations, who continue to represent the majority of demand in Asia Pacific in the first half of 2023.

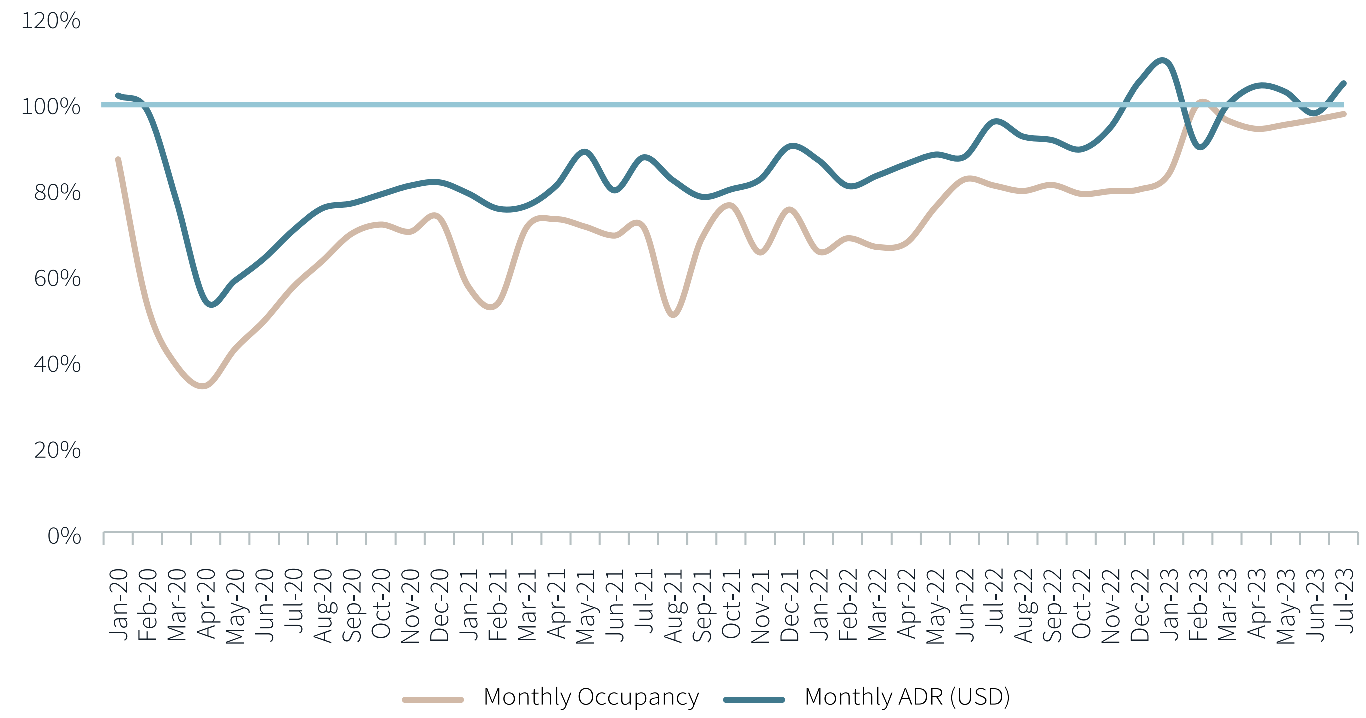
While corporate travel initially returned strongly, its recovery was set back due to reduced corporate spending in light of recessionary pressures. There has however been a steady increase in group bookings, from both leisure and business/MICE, as the region hosts a growing number of major sporting and business events.

Looking ahead to 2024, hotel operators' sentiment remains strongly positive in general, with occupancy and ADR expected to increase, resulting in a positive outlook for the total revenue.

Occupancy is expected to continue rising for 77% of hotels in Asia Pacific in 2024, mostly in the upper upscale and the luxury segments. On the other side, economy hotels are the least positive as they are strongly reliant on tourist groups which often originate from markets such as Mainland China and are more impacted by the higher cost of travel.

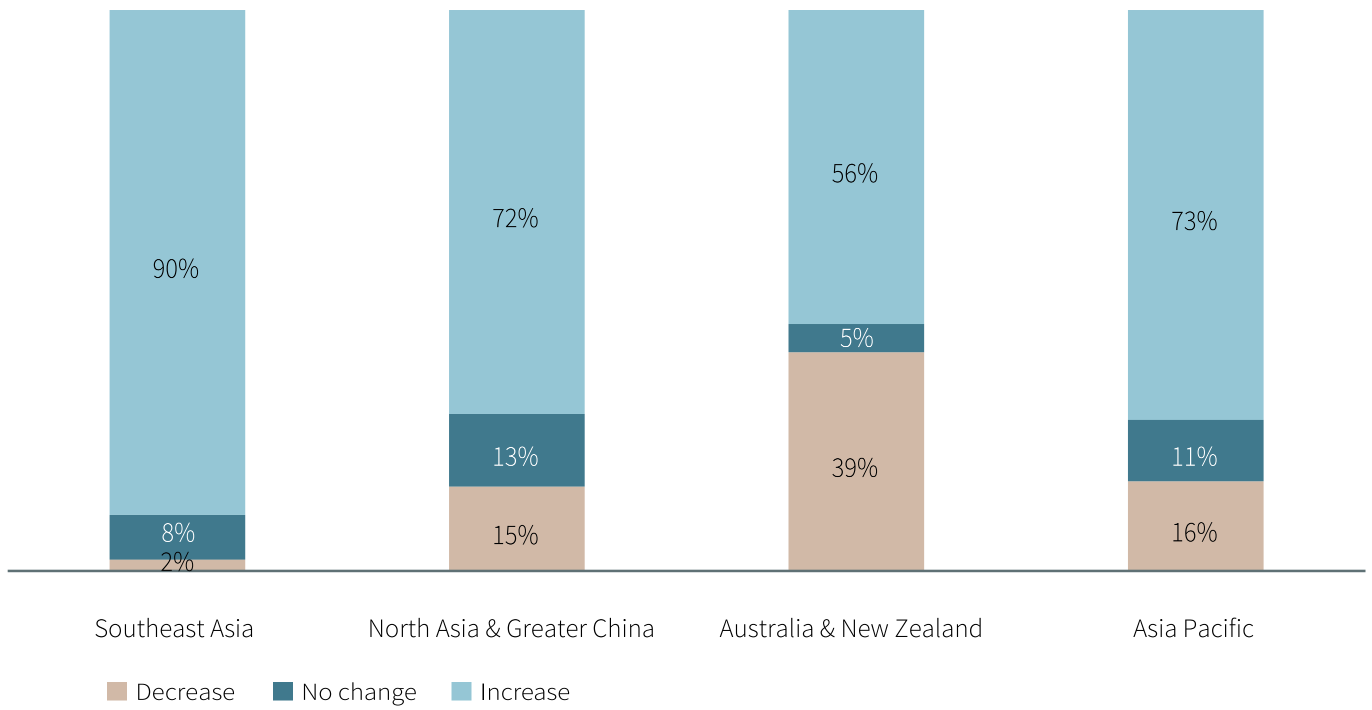
In terms of ADR, 73% of hotels in the Asia Pacific region expect ADR to rise. Among the subregions, Southeast Asia exhibits the most optimistic outlook, primarily attributed to strong tourist arrival growth momentum in most countries. This strong demand has contributed to a positive sentiment regarding ADR growth in Southeast Asia.

## Recovery rate vs. 2019 - Asia Pacific




Source: STR, JLL

## Expectations in ADR growth between 2023 and 2024 by subregion




Q. What is your expectation for your ADR in 2024 compared to 2023?
Source: JLL's Hotel Operators' Sentiment Survey 2023

Consequently, a majority of respondents are optimistic about total revenue reaching or exceeding pre-pandemic levels in 2024. In the luxury segment, there is an expectation of continued growth, with occupancy rates improving and (ADR) remaining high.

However, the economy segment faces challenges, particularly due to its reliance on leisure groups. The recent expansion of group tours destinations from China from August 2023, including Australia, South Korea, and Japan, is expected to bring positive prospects for economy hotels in the next six to twelve months. This is a positive development, yet Chinese outbound is likely to return back gradually due to local economic pressure and air lift recovery.

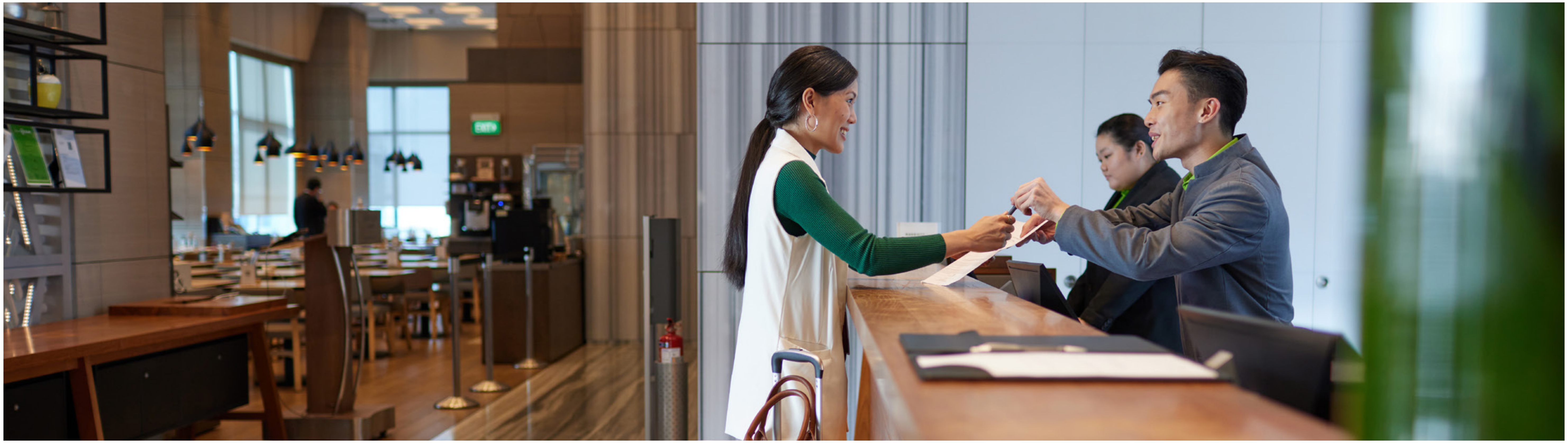
Sentiment regarding Gross Operating Profit (GOP) results in 2024 is positive. Some 60% of respondents expect GOP to reach or exceed pre-pandemic levels by 2024, which compares to 66% expecting a full revenue recovery.

This difference highlights the highest cost base which hotels have been experiencing and which has not been fully offset by higher revenue performance.

## Expectations in Total Revenue growth between 2024 and 2019

| Recovery rate to 2019 level | Economy | Midscale | Upscale | Upper Upscale | Luxury | Average |
|---|---|---|---|---|---|---|
| More than 100% | 33% | 65% | 57% | 72% | 73% | 66% |
| 90% to 100% | 26% | 10% | 22% | 16% | 16% | 17% |
| 80% to 90% | 5% | 17% | 13% | 7% | 8% | 10% |
| 70% to 80% | 21% | 3% | 3% | 3% | 2% | 4% |
| Less than 70% | 11% | 5% | 4% | 2% | 1% | 3% |

Q What is your expected Total Revenue for 2024 compared to 2019?
Source: JLL's Hotel Operators' Sentiment Survey 2023



# Easing cost pressures

## *Tackling labour challenges*

During the pandemic the hotel sector shed a lot of jobs and it has struggled to attract people back into the industry in every country in Asia Pacific. This issue is not unique to any specific region, as evidenced by a survey conducted by the American Hotel & Lodging Association in January 2023, which revealed that 79% of U.S. hotels are facing staffing shortages, with 22% indicating severe shortages[1].

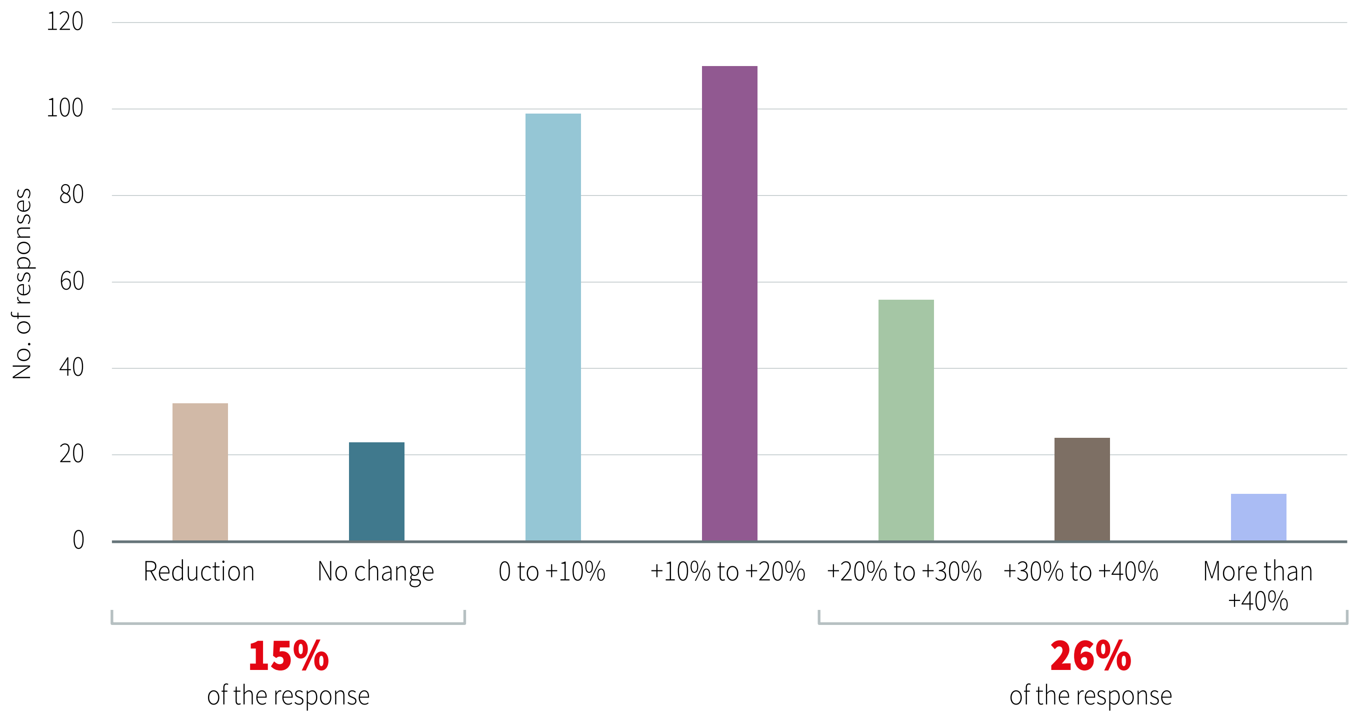
The labour shortage in the region has led to increasing associated costs since 2022, and by 2024, labour costs are expected to have increased by 10% to 20% over 2019.

In many cases, this has been somewhat mitigated by redefining job roles, reducing service standards, and reducing maximum occupancy. Technology adoption has played a role as well, yet the industry has been slow to evolve.

The highest year-on-year increase in labour cost in 2024 is expected in upscale to luxury hotels on average, which is expected given the higher level of service touch points. These are also the segments which have evolved the slowest in terms of operating efficiencies .

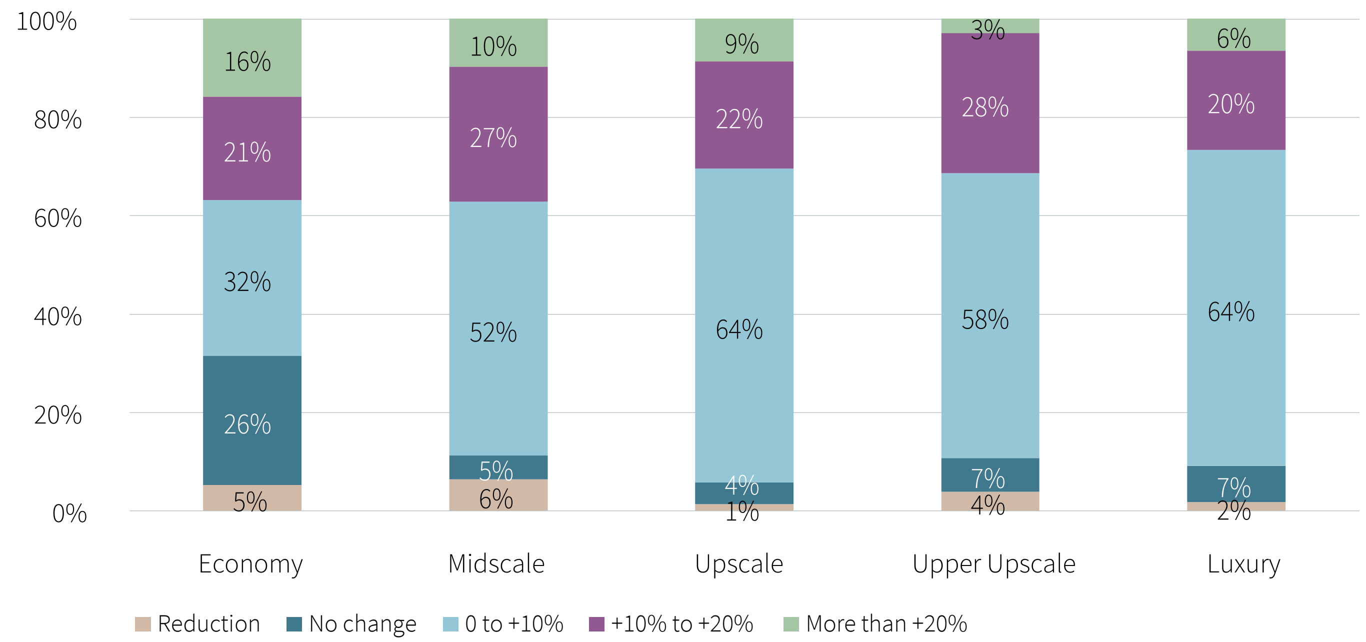
[1] The American Hotel & Lodging Association – 2023 State of the Hotel Industry Report: A New Era For U.S. Hotels, January 2023

### Expectations in labour costs growth in 2024 when compared to 2019




Q. How much would you expect your total labour cost to increase in 2024 when compared to 2019?
Source: JLL's Hotel Operators' Sentiment Survey 2023

### Expectations in labour costs growth between 2023 and 2024 by segment




Q. How much would you expect your total labour cost to increase in 2024 when compared to 2023?
Source: JLL's Hotel Operators' Sentiment Survey 2023

In the midscale to upscale, and even upper upscale segments, there is a need to bridge the technology gap to embrace productivity and unlock new efficiencies. This can be achieved through the implementation of technological advancements, such as mobile check-in applications and kiosks , money handling machines, cleaning robots, and guest request tools. These innovations can enhance operational efficiency and reduce reliance on labour-intensive processes.

Additionally, addressing the labour challenges requires a focus on reinvesting in training programs to create more flexibility and clearer career paths within the industry. Currently, there is a significant turnover rate among new graduates, who often leave their positions within 12 to 24 months. By providing comprehensive training and growth opportunities, as well as job flexibility, hotels can incentivise talent retention and nurture a skilled workforce.

Reviewing salary and benefit packages for all employees and re-evaluating the concept of permanent, casual, or contracted flexible work arrangements can also help alleviate the manpower shortage. In addition, offering incentives on a quarterly basis, rather than solely at year-end, can provide a more dynamic and motivating framework for performance evaluation.

By embracing technology, investing in training and career development, and reimagining work arrangements and performance measurement, hotels can proactively tackle the labour shortage and create a more efficient and sustainable workforce.

The WTTC has also suggested a number of initiatives to help ease the manpower challenges in the hospitality industry: facilitate labour mobility, facilitate flexible and remote work, enable decent work and provide competitive employee benefits, develop and support a skilled workforce, promote opportunities within the sector, strengthen coordination and collaboration at all levels, adopt technological and digital solutions[2].

[2] World Travel & Tourism Council – Staff Shortages, August 2022



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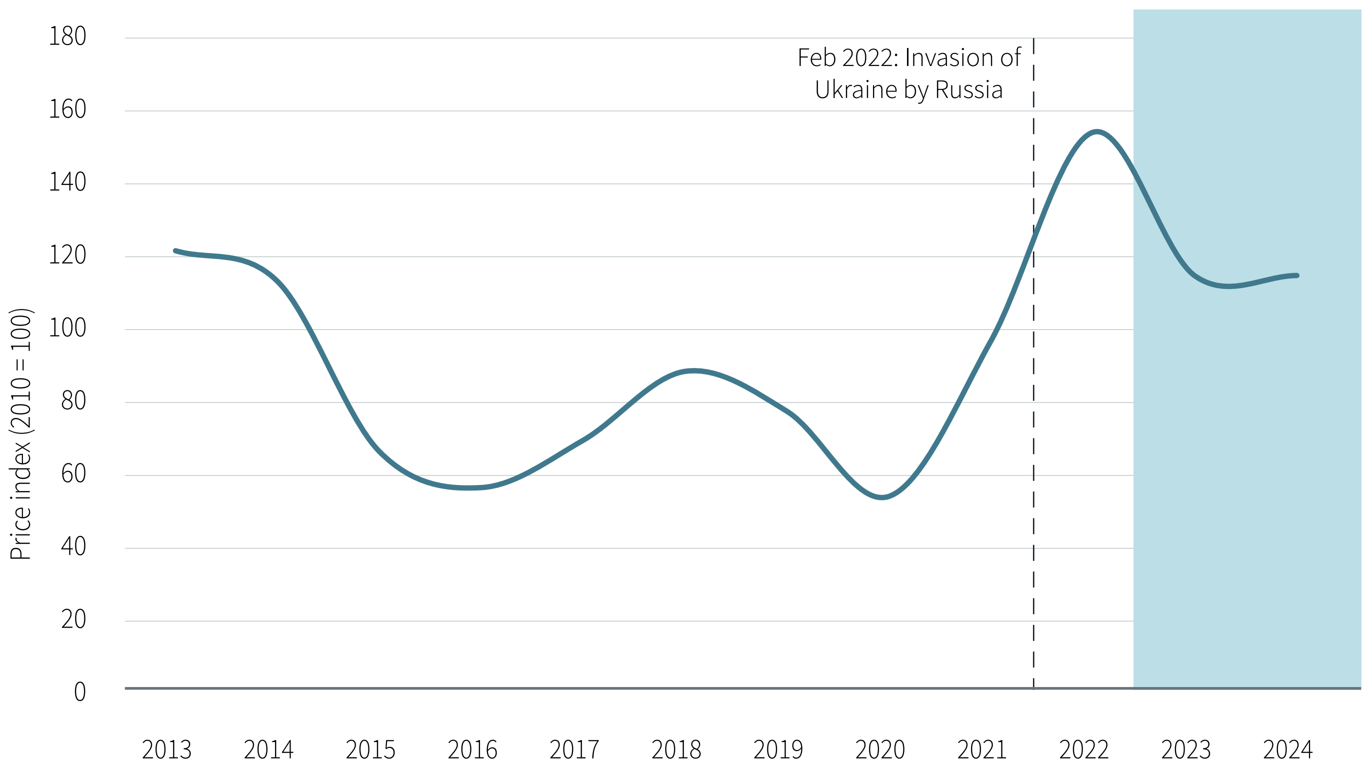
## *Energy cost to stabilise by 2024*

The war in Ukraine, along with other post-COVID challenges, has contributed to a notable increase in global energy prices, including in Asia Pacific. 2022 appears to be the record year since 2013 in terms of energy price index, with stabilisation anticipated in 2023 and 2024.

Across the region, utility costs have increased significantly for hotels and this has been one of the most challenging costs to manage, especially as fixed cost electricity prices under offtake agreements expired and escalated.

### Energy commodity price index worldwide 2013-2024



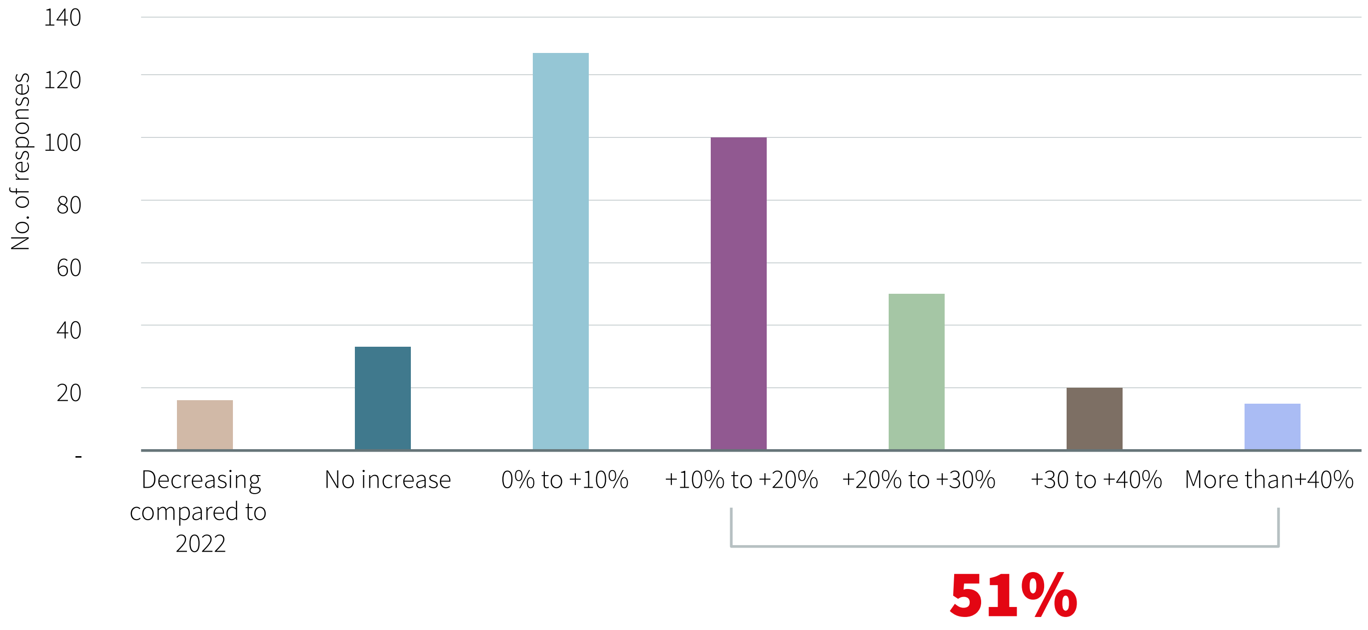

Source: Statista



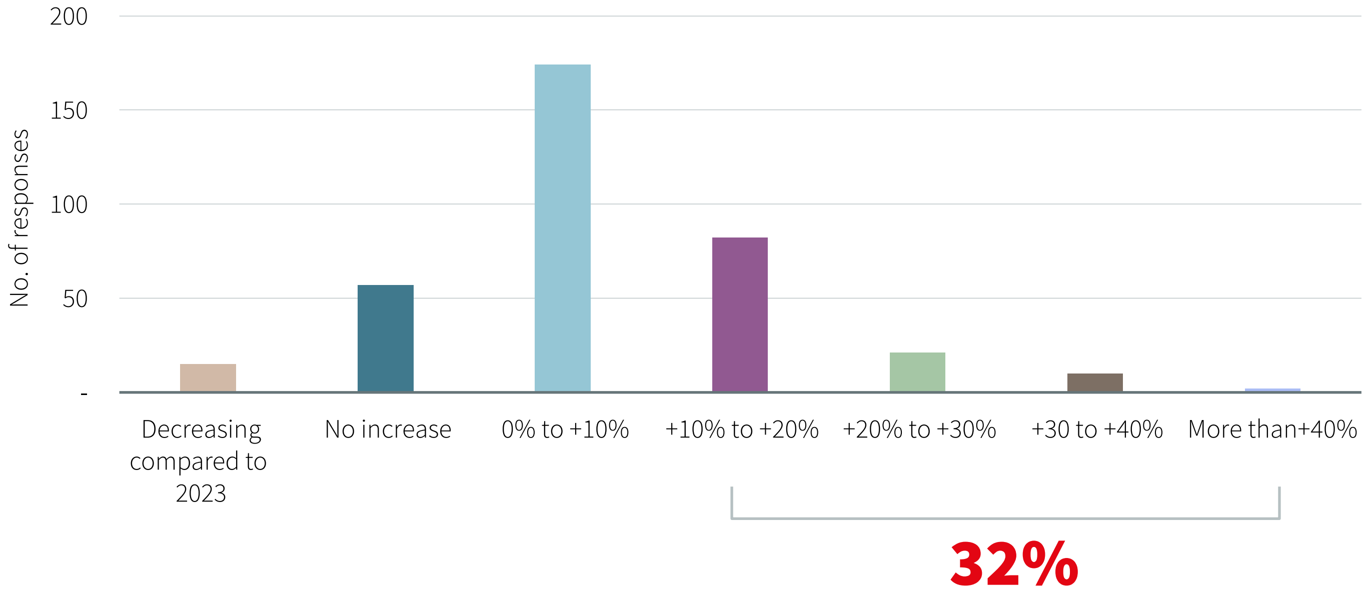
Looking forward to 2024, 32% of the respondents expect to see energy costs increase by more than 10%, which is down significantly from the 51% currently experiencing 10% or more in 2023 compared to 2022. This indicates that energy costs will be a reduced concern for hotels in 2024 compared to this year.

### Expectations in energy cost growth

How much do you expect energy costs to increase in 2023 compared to 2022?




How much do you expect energy costs to increase in 2024 compared to 2023?

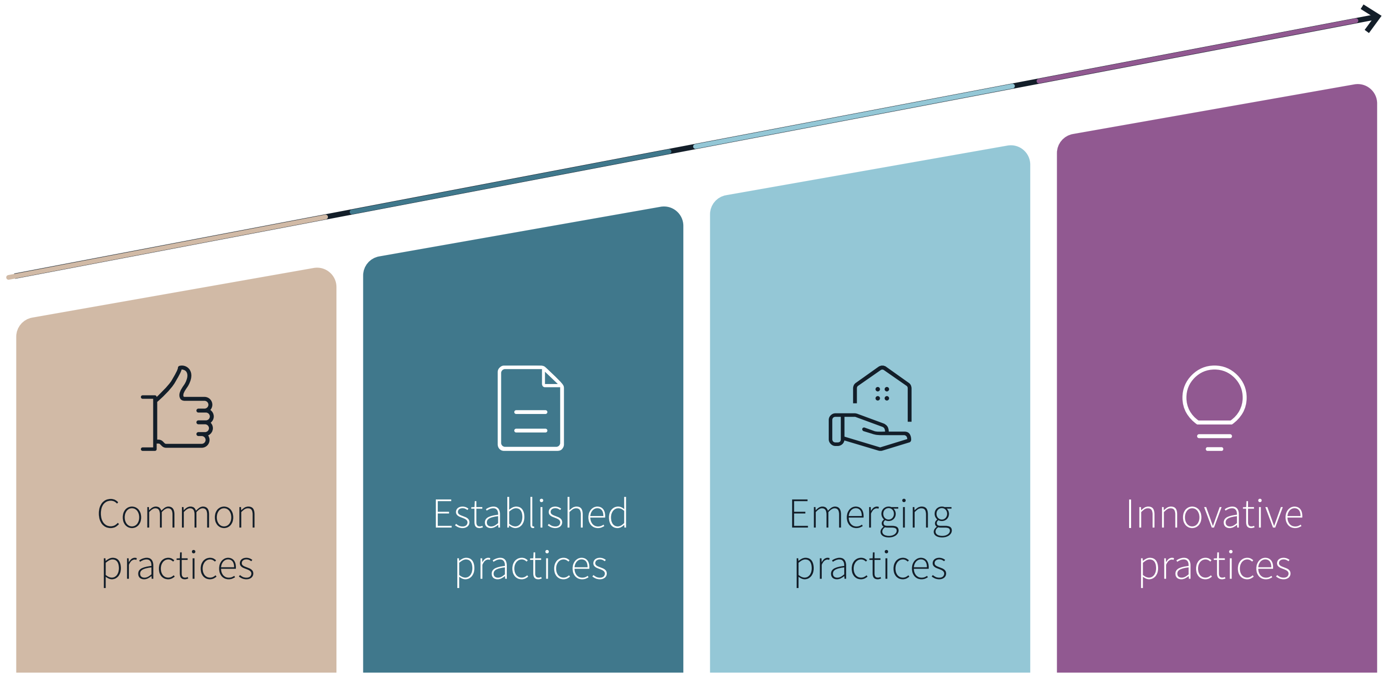



Source: JLL's Hotel Operators' Sentiment Survey 2023

Most of the responding hotels which expect energy costs to decrease in 2024 have implemented energy-saving measures or adopted sustainability initiatives which positively impact their cost base.

The higher energy cost environment has certainly resulted in better return on investment for capital funded energy saving programs, and has heighted the focus on the efficiency of operational standards.

### Energy-saving measures in hotels




**Common practices**

- Implementation of energy efficiency measures in the past three years
- Benchmarking of the energy performance against peers within the company portfolio, where applicable
- Planning and implementation of energy reduction initiatives

**Established practices**

- Implementation of preventive maintenance plans for building energy and water fixtures
- Tracking of energy consumption on a regular basis
- Elevator and escalators with electrical Regeneration Drive

**Emerging practices**

- Usage of energy-efficient LED lighting
- Windows with enhanced reflective and/or insulating characteristics to reduce heating and cooling requirements
- Upgrade of BMS and GRMS (Guest Room Management System), integrated with PMS

**Innovative practices**

- Usage of sub-meters
- Adoption of renewable energy
- Batteries to store and redistribute solar generated energy

Source: Greenview & WTTC – Green Lodging Trends Report 2022, JLL



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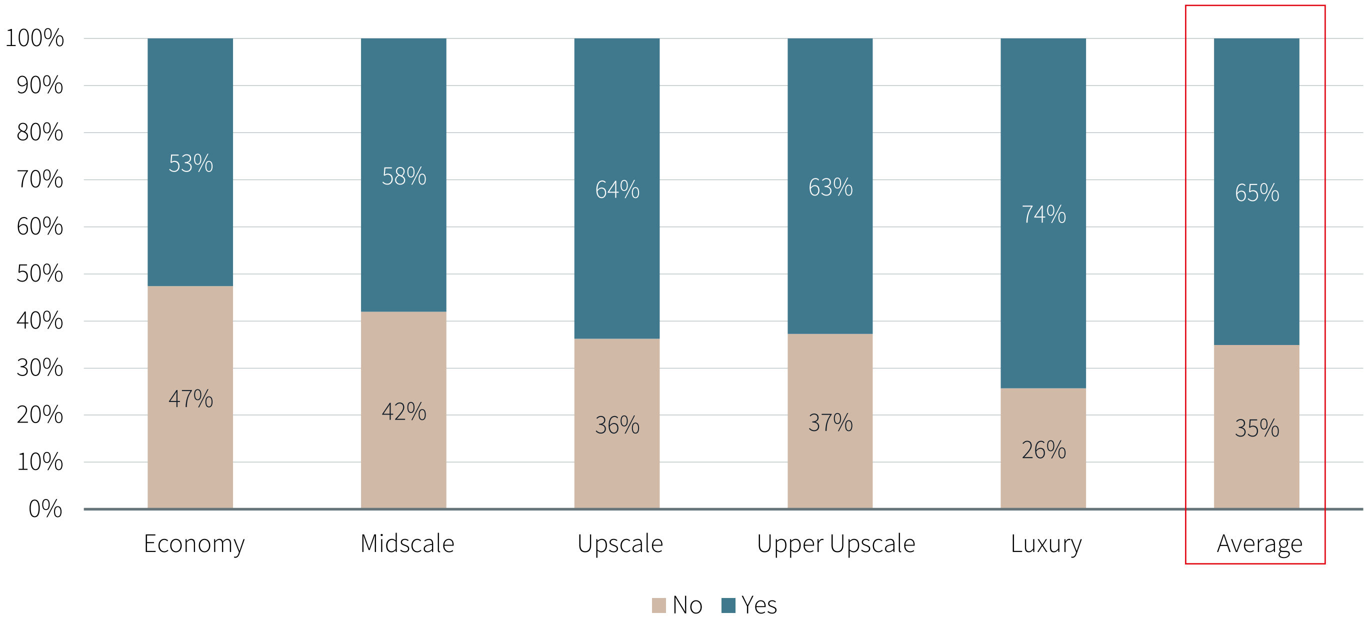
# Sustainability to remain in focus

Stakeholders in the hotel sector are becoming increasingly aware of the need to embrace sustainability and broader Environmental, Social, and Governance (ESG) principals. The upcoming changes in the 12th Revised Edition of the Uniform System of Accounts for the Lodging Industry (USALI), with an implementation at the start of 2025, should be updated to include sustainability metrics, and various reporting guidelines are spurring positive changes in Asia Pacific. As investors and guest-preferences favour ESG supportive hotels, government institutional incentives and sustainability-linked financing continue to be key to getting owners and developers on board in Asia Pacific[3].

There is therefore a real opportunity to align interest on sustainability between owners and operators, and incorporating green terms and incentives into Hotel Management Agreements (HMAs) is one way to do so[4].

Some 65% of the respondents to the Hotel Operators' Sentiment Survey have now implemented a carbon emission reduction plan. Notably, a higher proportion of hotels in the higher-end segments have embraced this initiative. This can be attributed to the fact that these hotels are often managed by international chains that have set clearer guidelines on implementing ESG measures, including sustainability and carbon reduction efforts.

**Proportion of hotels with carbon emission reduction plan**




Q. Does your hotel have a carbon emission reduction plan?
Source: JLL's Hotel Operators' Sentiment Survey 2023





By obtaining a sustainability rating, hotels can demonstrate their commitment to specific environmental standards, energy efficiency, waste management, water conservation, and other sustainable initiatives. These ratings are a credible way to communicate their sustainability efforts to guests, stakeholders, and the broader industry. Looking to 2024, the majority of hotels in Asia Pacific intend to get rated. This is a significant increase from 38% rated today, and will positively drive the sustainability agenda within the sector.

There remain challenges encountered by hotels in their sustainability journey, and lack of funds, lack of in-house expertise and technology are the top challenges encountered in Asia Pacific. Whilst 'Limited capital or funds to tackle ESG goals' is considered as the top challenge in 2023, 'Difficulty in determining KPIs to measure success against goals' was the main challenge encountered by hotel operators in 2022[5], suggesting that the hotels in Asia Pacific have progressed in their sustainability journey.

**Top 3 challenges in setting or achieving environmental goals in your hotel**

**#1**
Limited capital or funds to tackle ESG goals

**#2**
Lack of in-house sustainablity expertise

**#3**
Unsure which technology solutions to adopt

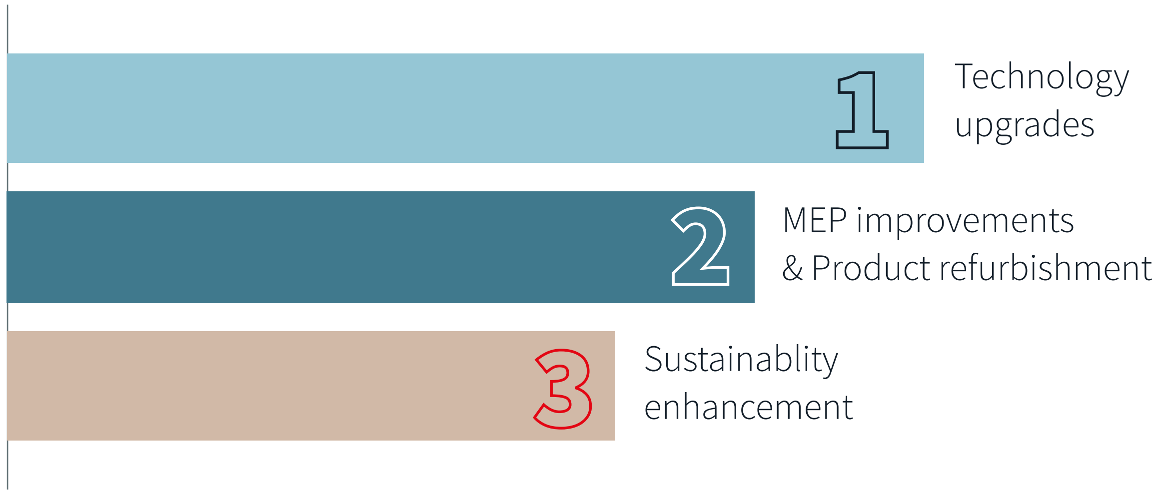
[3]JLL – Sustainable hotels: setting the scene in Asia Pacific, June 2022
[4]JLL – Green HMAs in Asia Pacific: the need to align interests on sustainability, July 2023
[5]JLL – Sustainable hotels: setting the scene in Asia Pacific, June 2022

# Technology upgrades as top CAPEX priority

When it comes to the priorities given for capital expenditure (CAPEX) for 2024, technology upgrades top the podium, followed by MEP improvements, Product refurbishment, and Sustainability enhancement. Technology adoption in the hotel sector is generally slow, with legacy systems in place, and many of the large operators taking a long time to form new technology partnerships and to approve new systems. This change appears to be accelerating, and some of the focus areas of the coming years at a hotel level include: migration of more local server-based system to cloud-based; faster roll-out to mobile check and mobile keys to reduce the pressure and enhance efficiency at the front desk; guests requests and in-room orders through mobile chat platforms on the operator's proprietary platforms or a third-party's, some could include chatbots; food waste management by weighing and recording waste that could have been reduced with better planning in terms of preparation, or explore its alternative usage.

Investing in underutilised spaces, particularly in F&B should also be part of CAPEX priorities. This involves commercially reassessing F&B spaces, studying the factors that drive results, and making thoughtful investments. It is necessary to re-evaluate and optimize existing spaces, or re-purpose directing resources towards high-yielding opportunities.

### Top 3 priorities in CAPEX for 2024




Q. Where are your priorities in CAPEX for 2024?
Source: JLL's Hotel Operators' Sentiment Survey 2023



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# Conclusion

The hotel sector in Asia Pacific has enjoyed a period of strong recovery following the pandemic, despite cost increases and lower tourism volumes. As the industry looks ahead to 2024, the outlook continues to be buoyant with trading momentum positive and cost pressures easing.

In the year ahead, we expect volatility to remain as the tourism sector heads towards full recovery, with geopolitics, pressure on discretionary spending, and the high cost of travel holding back the pace of demand recovery. In this environment, agility will be important to hotels as they switch demand segments and source markets.

Hotels should take the opportunity to evolve their operating standards to attract talent, to improve margins, and to remain relevant to heightened guest preferences. Opportunities also exist in rebranding and repositioning, particularly in the full-service segment, as guests seek differentiating experiences and concepts.

Capital expenditure will be another key focus area for the coming years due to owners pulling back on spend during the pandemic (and not having caught up yet), further technology demands from guests, a stronger emphasis on concepts, design and F&B offerings as lifestyle hotels roll out and increasing ESG pressures and compliance requirements.

It is opportune to be strategic in asset planning particularly during the upcoming budget review season. Focusing on the strategy that could bring about proposed outcomes will be pertinent, allowing for flexibility as we navigate through unpredictability.





# Key takeaways from HOSS Asia Pacific 2023

Occupancy is expected to **increase**, mostly in the **Upper Upscale** and **Luxury** segments

Rise in energy cost is expected to **decelerate** by 2024

**73%** of the respondents expect ADR to **increase** Y-o-Y in 2024

When it comes to setting or achieving environmental goals in hotels, **lack of funds**, **expertise** and **technology** are the top challenges

By 2024, labour costs are anticipated to rise by **10** to **20%** over 2019

**65%** of respondents have a carbon emission reduction plan

Positive sentiment on **Total Revenue** and **GOP**, expected to **reach or exceed 2019-level** in 2024

The highest Y-o-Y increase in labour cost in 2024 should be mostly recorded in the **Upscale to Luxury** segments

External sustainability rating **on the agenda** for 2024





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