U.S. Corporate and Contract Hotel Rate Negotiations for 2022 - Forecast

Trend Analysis Report
October 2021

Bjorn Hanson, Ph.D., Adjunct Professor
New York University School of Professional Studies – Jonathan M. Tisch Center of Hospitality

U.S. corporate and contract hotel rate negotiation season would normally have started during September as it has every year for the past 60 years, beginning soon after Labor Day and continuing into December.   But this year, similar to last year, the traditional negotiation process with RFPs ("requests for proposals") and property inspections is the exception. The mode model seems to be email exchanges, maybe a virtual meeting to agree on an approach, and then more email exchanges to agree on details.

The prior year usually provides a starting point and base for levels of demand and negotiated room rates, and there are forecasts, estimates, or at least indicators about the how much more (or less) demand there will be in total and in what markets in the coming year. 2021 does not provide a good base for volume or negotiated rates.

Until last year, every year since 2011 the balance of power between buyers (such as corporate travel managers) and sellers (such as hotel directors of sales and marketing) has favored sellers because of anticipated increases in hotel occupancy, and forecasts for increases in average daily rate that at the time of negotiations were for higher rates than the average daily rate increases than were realized.

For 2021, generally buyers should have had more of the advantage, but most buyers had dramatically less travel volume and more uncertainty and therefore less information with which to negotiate. The ranges of seller behavior were extreme, with some sellers offering dramatic decreases in negotiated rates from 2020, to others seeking large increases in rates of 10 percent or more based on the view that there would be less volume, so buyers should pay higher rates, and rates should be higher because of increased cleaning, payroll, and other costs. Some hotel executives believed rates needed to be and therefore would be higher to offset the lowest occupancies in history. The ranges of buyer behavior were also extreme, but with most not being as aggressive as they might have been to negotiate the lowest possible room rates.

Making the negotiations even more difficult was that there were fewer buyer and seller employees involved in rate negotiations because of furloughs and employee reductions for many buy and sell side organizations.

For decades, corporate and contract rates have represented almost 20 percent of occupied U.S. room nights and almost 30 percent of U.S. lodging industry revenue (Source: Author). In recent years, starting around the time of the 2009 recession, the share of negotiated corporate demand (excluding "contract", which includes airline crew demand) has been declining. Specific data for corporate negotiated rate demand excluding contract rates are not available, but it is estimated that pre COVID, in 2019, the shares were approximately 15 percent of occupied U.S. room nights and 25 percent of U.S. lodging industry revenue (Source: Author). More and more demand that had been subject to annual negotiated rates has been "open" – individual travelers being allowed to select accommodations that are not part of a negotiated rate agreement, or stay in "sharing economy" accommodations, subject to certain travel policies.

There seem to be four primary approaches for rates negotiations for 2022:

1. Maintaining the rates negotiated a year ago for another year.
2. A discount (typically 10 to 30 percent) applied to a defined rate, often the Best Available Rate (BAR) – this approach is often referred to as "dynamic pricing".
3. A hybrid model based on last year's negotiated rate or a discount to the Best Available Rate, whichever is lower. There remain concerns about this because, for example, these rates are difficult to audit for buyers, and for sellers property management systems are not designed for setting rates with these options, and many buyers are reluctant to validate this model for future negotiations.
4. Fewer (or almost no) negotiated corporate rates, but guidelines for travelers.

Based on interviews as of the time of this analysis, it is estimated that the distribution of rate negotiation approaches will be:

Maintaining 2021 rates	35 to 45 percent
Discount to BAR	30 to 40
Hybrid	10 to 15
No negotiated rates	10 to 20

There are two significant but subtle factors related to average daily rates in 2021:

1. Although 2021 occupancy is lower than in the past – about 15 occupancy points lower than 2019 – much of the occupancy has been concentrated around weekends. The weekend "peaking" has allowed many hotels to shift to higher rate schedules for those limited periods, but those limited periods represent large shares of accommodated demand. Average daily rate for 2021 is about $25 or almost 20 percent lower than 2019.

2. For some hotels, corporate and group rates in 2021 are lower than leisure rates. With less corporate and group rates, average daily rates have increased because of the mix of demand rather than real increases in room rates.

When these factors are not fully understood or disclosed, buyers may be using data that lead to misunderstandings about the rate environment, and therefore agreeing to higher negotiated rates.

As last year, Issues involved in negotiations often include contractual commitment for health practices.

Another new buy side negotiation is for cancellation policy flexibility; cancellation policies have become more rigorous in recent months – both the policies and enforcement.

An emerging, not yet common provision in negotiations is disclosure of and/or commitments for hotel and hotel brand and management corporate ESG (environmental, social, governance) practices. These can include third-party generated or confirmed environmental reporting, board of director composition, compensation reporting, and other matters.

There are other factors considered by some buyers:

1. In the background remains the knowledge on the part of many buyers that recent years have represented among the largest percent and dollar increases in corporate and contract rates in decades (of between 5.75 to 7.0 percent for 2016, 3.0 to 4.0 percent for 2017, and 2.5 to 3.5 percent for 2018 and 2019). (Source: Author). As mentioned above, in all of these years, the outlook for average daily rates at the time of negotiations was for greater increases than were realized by the U.S. lodging industry, therefore many buyers believe they have been overpaying and this is the year to reset to lower negotiated rates.
2. Another issue in the background has been that many corporate travel managers and convention planners have been concerned about published "member rates" and non-refundable rates posted on brand web sites that have been lower than corporate, contract, or convention rates. Many travelers and attendees expect corporate, contract, or convention rates to be lower than rates available to the public. These published rates have been one initiative by brands to encourage direct booking.
3. Additionally, Airbnb, which until about four or five years ago had not generally been embraced by corporate travel managers and convention planners now has business relationships with American Express Business Travel, BCD Travel, Carlson Wagonlit Travel, many corporate travel managers, and others. Sharing economy brands are increasingly focused on attracting corporate demand. For example Airbnb has its Airbnb for Business and Business

Travel Ready programs. Other sharing economy brands have been acquired by traditional lodging organizations, further establishing these concepts as appropriate alternatives to traditional lodging.

U.S. General Service Administration (GSA) per diem hotel rates become effective every year on October 1. The GSA rates are for the 48 contiguous states, and apply to approximately 2,600 counties. There are 322 Non-Standard Areas with higher rates. The standard per diem rate starting October 1, 2021 was $96. The GSA decided to "freeze" rates at 2021 levels "in light of the unprecedented declines in ADR [average daily rate] due to the COVID-19 pandemic" and "to ensure the maximum lodging allowances for federal travelers are sufficient in FY 2022 as the lodging industry recovers."

This annual report has included estimates of the average U.S. percent change in corporate and contract rates; conditions this year make estimates more uncertain. Based on information available at this time, the estimate is for an average increase for 2022 over 2021 corporate and contract rates or rates paid is 10 to 15 percent as services are restored, sellers are more aggressive to address financial challenges, and business and group (primarily for small meetings, but also for mid-size events and meetings of 150 to 400 attendees) demand continues to recover.

Estimates included in this report are based on selected discussions with industry executives and corporate travel executives, analysis of industry financial data, press releases, and information available on hotel and brand websites.

EDITORS: To interview Dr. Bjorn Hanson about this research or for more information, please contact him directly at brh1@nyu.edu.

About the Author

Bjorn Hanson, PhD, is an Adjunct Professor for the New York University School of Professional Studies Jonathan M. Tisch Center of Hospitality. He founded the hospitality consulting practice at PricewaterhouseCoopers/Coopers & Lybrand and retired as global industry leader of hospitality and leisure with responsibility for all services to those industries for PricewaterhouseCoopers LLP before joining NYU. He has served as a full clinical professor, divisional dean of the Tisch Center, and co-interim dean of the School of Continuing and Professional Studies. He is a director with Summit Hotel Properties (a NYSE REIT) and Executive Vice President of 795 Fifth Avenue Corporation. He holds CFE (Certified Fraud Examiner) and CRE (Counselor of Real Estate) professional designations.