U.S. Lodging Industry Capital Expenditures Decreasing Almost 75 Percent to the Lowest Levels Recorded in this Series – Decreasing from Record $7.3 Billion in 2019 to Approximately $2 Billion in 2020

TREND ANALYSIS REPORT
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The total amount of U.S. lodging industry capital expenditures ("cap ex") for the U.S. lodging industry is forecast to decrease by almost 75 percent from the a record $7.3 billion in 2019 to $2 billion in 2020 in response to the effects of COVID-19.

Capital expenditures are costs incurred with the purchase and installation of capital assets to maintain, renovate, and enhance hotels. For example, wall covering and carpeting are generally included as capital expenditures, painting generally is not. New construction, room additions, and major construction to convert a hotel to a significantly different property are not included as capital expenditures for this analysis.

For 2020 capital expenditure priorities are:

- cleaning and sanitation equipment
- semi-permanent signage, mostly related to social distancing, wearing masks, and related health instructions
- reconfiguring food and beverage areas such as installing partitions between seating tables/seating areas, converting complimentary breakfast areas from buffet style service to pick up of "grab and go" items (one executive interviewed for this report uses the term "breakfast in a bag"), and installing or reconfiguring outdoor dining areas
- installing MERV and other filter systems, sometimes based on regulatory requirements, primarily in public areas
- purchase of personal protective equipment that qualifies as capital expenditures, although most does not
- RFID/BLE door lock/access systems, which were a priority last year continue because of both safety and as a "touchless" feature to respond to health concerns

In contrast, priorities for 2019 were:

- "panic buttons" for selected staff positions to alert management of a risk or incident
- software and technology upgrades to protect guest and employee information
- enhanced breakfast offerings, requiring new equipment, design, and decoration
- in-room technology including connectivity between personal devices and in-room entertainment systems
- enhanced and sometimes increased size of Fitness Centers
- increased high speed Internet capacity
- RFID/BLE door lock/access systems
- replacement of tub/shower units with walk in showers except in suites and some multi-bed rooms
- implementing new room designs, many that replace wall-to-wall carpeting with hard surface flooring - aesthetic updates to building exteriors

Although the purchase of “panic button” type systems continue, and upgrading high speed Internet capacity continues at reduced amounts or with temporary suspensions because of less need for bandwidth at a time of lower occupancy , almost all other types of capital expenditures have been cancelled, delayed, or suspended.

One of the emerging trends in guest room design that was being increasingly implemented last year was to remove or reduce the areas of wall-to-wall carpeting, instead installing hard surface floors for the guest room entrance area only, or installing hard surface flooring throughout guest rooms or except around the perimeter of the bed(s). Because of sanitation concerns and increased priority for surfaces that both can be and have the appearance that they can thoroughly cleaned, this trend will accelerate when capital expenditures resume.

For the same reason, sanitation, the trend of replacing of shower/tub combination units with walk-in showers will accelerate when capital expenditures resume.

The combination of replacement of carpeting with hard surface floors and replacement of shower/tub units with walk-in showers were and will continue to cause the most dramatic noticeable changes in the appearance of guest rooms in the U.S. since the removal of CRT televisions and the armoires that housed them were removed and replaced with flat screen televisions decades ago.

Other benefits of hard surface flooring are that it lasts longer than carpeting, is faster and easier to clean, is less prone to show stains, sections can be replaced, most guest rooms with hard surface flooring appear larger, and some believe creates “fresh and modern” and more sanitary image. Other benefits of walk-in showers over shower/tub combination units is less water consumption and waste water, lower energy costs because less water is consumed, lower initial capital costs, and most bathrooms with walk-in showers appear larger, and they are faster and easier to clean and offer a more sanitary image.

Many of the capital expenditures in 2019 and planned for 2020 were required by brand standards. This research has not found any exception among brands or management companies understanding that owners are facing the most severe operating conditions and financial challenges in history and are proactively offering relief from introduction of new brand standards and waivers for many existing brand requirements.

A trend that became significant starting around 2012 and that was increasingly influencing capital expenditures is social media comments for individual hotels and for brands about property condition, amenities, design, competition, and services. This research found that social media comments related to capital expenditures have decreased possibly because consumers understand the financial challenges for hotel owners, and because more consumer attention may be focused on health and sanitation issues.

Capital expenditures being made are mostly in three categories:

- changes to the hotel to change operational practices related to COVID-19 (partitions between tables, reconfiguring breakfast areas, cleaning equipment, MERV or other filters for public areas, etc.)
- projects that had started or were committed that could not be cancelled or delayed
- amounts allocated based on individual property owner and manager decisions about what is needed for individual hotels to respond to competition and the effects of COVID-19

Below is a summary of estimated U.S. lodging industry capital expenditures by year:

Year	**Amount (in billions)**
2020	$2.0 (forecast)
2019	7.3
2018	7.05
2017	6.85
2016	6.6
2015	6.35
2014	6.0
2013	5.6
2012	5.1
2011	3.75
2010	2.7
2009	3.3
2008	5.5
2007	5.3
2006	5.0
2005	4.8

These estimates are based on interviews with selected hotel executives, analysis of announced brand standards, and other sources including press releases and media reports, and a literature search.

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

About the Author

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