U.S. Lodging Industry Capital Expenditures Forecast to Increase Approximately 70 Percent from Record Lows of $2 Billion in 2020 and 2021 to Approximately $3.4 Billion in 2022 – Still the Lowest Amount Since "The Great Recession" More than a Decade Ago

<u>TREND ANALYSIS REPORT</u>
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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 increase by approximately 70 percent in 2022 from the record lows of approximately $2.0 billion in 2020 and 2021 to $3.4 billion in 2022, after unprecedented declines in response to demand and financial 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 2022 capital expenditures priorities are, in approximate most to least common rank order:
- deferred maintenance
- further reconfiguring of food and beverage outlets
- compliance with brand standards
- increased high speed Internet capacity
- RFID/BLE door lock/access systems
- further enhancements to health systems and practices

For 2020 and 2021 capital expenditure priorities were:
- 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 because of both safety and as a "touchless" feature to respond to health concerns

Past priorities have been:
- "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

Increased high speed Internet capacity has been a long term trend, but for the past 18 months, in general, guests are spending more time in guest rooms and consuming more Internet capacity, so this has been one of the high priorities at a time of decreased capital expenditures.

There are some important subtleties behind the data:

1. The amount spent on capital expenditures in 2020 was affected by the timing of COVID. It was not recognized until around March how financially important it would be to decrease expenditures, so there were several months of normal cap ex levels.
2. When owners and managers stopped or cancelled cap ex projects during 2020, there was what some called a "skid factor" – some projects were in process and needed to be completed and some were committed and could not be cancelled.
3. During 2021 and planning for 2022 there were and continue to be "supply chain" problems – some expenditures are not being made or are delayed because of lack of availability of materials or equipment.
4. There have been dramatic increases in the cost of some materials and equipment, contributing to the increased amounts to be spent.

One of the emerging trends in guest room design that was being increasingly implemented before COVID 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 be more sanitary, this trend will accelerate as capital expenditures resume.

For the same reason, sanitation, the trend of replacing of shower/tub combination units with walk-in showers will accelerate as capital expenditures resume, as well as because of lower capital cost for bathroom renovations and lower operating costs.

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 a modern 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.

For the past two years brands and management companies have been more understanding than at any time in history that owners are facing severe operating conditions and financial challenges, and continue to allow relief from introduction of new brand standards and allowing waivers for many existing brand requirements. But starting around third quarter 2021, brands have become more demanding about projects and brand standards requiring capital expenditures.

A trend that has become increasingly influential affecting capital expenditures is use of 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.

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

Year	**Amount (in billions**)
2021	$3.4
2020	2.0
2019	7.3
2018	7.0
2017	6.9
2016	6.6
2015	6.4
2014	6.0
2013	5.6
2012	5.1
2011	3.8
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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