

U.S. Lodging Industry Fees and Surcharges Forecast to Increase to a New Record Level in 2018 – \$2.93 Billion, and Another Record Anticipated for 2019 – the Newest Emerging Category is “Resort Fees” for Urban Luxury and Full Service Hotels

TREND ANALYSIS REPORT

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Following the 2017 record of \$2.7 billion, total fees and surcharges collected by U.S. hotels are forecast to increase to another record level of \$2.93 billion in 2018.

The increase for 2018 reflects a combination of approximately 2.5 percent more occupied hotel rooms than in 2017, and more fee and surcharge categories and higher amounts, for a total increase of 8.5 percent. Some of the most important changes for this year include higher amounts for reservation cancellation fees, and the emergence of urban hotels charging the equivalent of resort fees, but lower amounts for high speed internet access.

Fees and surcharges emerged as an industry practice around 1997 and accelerated when energy surcharges were introduced for a large number of hotels in 2000. Since then there have been numerous new categories of fees and surcharges.

Examples of fees and surcharges include: resort /amenity/facility fees; early departure fees; reservation cancellation fees related to timing of cancellation; early check in fees (for checking in before check-in time, typically 3:00 pm); Internet access fees; telephone call surcharges; business center fees (including charges for receiving faxes and sending/receiving overnight packages); room service delivery surcharges; mini-bar restocking fees; charges for in-room safes; automatic gratuities and surcharges for other than all-inclusive resorts; baggage holding fees for guests leaving luggage with bell staff after checking out but before departure; charges for a non-binding guarantee for a specific room type; and charges for unattended parking. For groups there have been new or increased charges for bartenders and other staff at events, special charges for set-up and breakdown of meeting rooms, and administrative fees for master folio billing.

One of the relatively new fees and surcharges that accelerated during the past two years, a charge was for early check-in, primarily for resorts, more common in Las Vegas (typically check-in time might be 3:00 pm, but if a guest arrives earlier and a guest room is available, traditionally there was not a charge for early check-in), has continued to increase as an industry practice, but the pace has slowed. Two other of the relatively new fees and surcharges last year, charging for unattended surface parking in suburban locations and holding checked luggage, have increased as a practice this year.

The newest fee and surcharge is the equivalent of a resort fee for urban hotels. These fees have proliferated in the past year and are now common in major cities, and are typically approximately \$20 to \$40. These fees are the largest contributor to the total fee and surcharge increase for 2018.

The practices for disclosure are evolving, different than for most resorts charging resort fees, sometimes these are shown as part of the "total" cost of occupancy to a guest rather than as a specific extra charge.

The services related to these fees and surcharges range from no new services, to planned or unscheduled activities such as visits to local attractions, receptions, and printing, copying, overnight package delivery, "complimentary" bottled water, newspapers, and early or late check out if not in conflict hotel occupancy, and others.

Anecdotal reports are that these charges at urban hotels are receiving limited guest resistance. There are some reports of objections from travel managers with negotiated rates when their travelers are charged extra amounts because these are not included in the annual agreements, and these amounts are always or almost always removed from guest folios or the statements issued to the travelers' organizations.

In 2017 and 2018 much of the industry (major brands and independent hotels) announced or reiterated reservation cancellation policies, with 48-hour notice to avoid a fee of one night room rate for hotels, and increasingly for the entire length of the reservation for resorts. The enforcement of these cancellation policies varies by market and hotel.

U.S. lodging industry fees and surcharges have increased every year except for brief periods following 2001 and 2008 when lodging demand declined.

Fees and surcharges are highly profitable - many have incremental profitability of 80 to 90 percent or more of the amounts collected.

Some fees and surcharges are sometimes described as "hidden" or "surprise," but disclosure on websites, confirmation emails, "tent" cards in guest rooms, room service menus, and guest service directories continues to increase. In the past two years, interviews indicate the issue may be more about unpopularity of fees and surcharges than fees and surcharges being "hidden". One of the reasons for the sense that some of these fees and surcharges are "hidden" or "surprise" is because the categories and amounts are often established hotel-by-hotel rather than by brand, and the categories and amounts can change frequently. Also, OTA (on-line travel agencies) disclosure is sometimes less obvious or missing.

It is a challenge to have fees and surcharges removed from guest folios when guests complain because brand management believes the charges are usually properly disclosed, are understood to be a common industry practice, and front office and management personnel have been trained to respond to guest concerns about fees and surcharges.

Many state attorneys general are evaluating or investigating the industry practice of fees and surcharges in response to consumer complaints, politicians raising the issue, and visible reporting.

Regarding resort fees and now equivalent fees at urban hotels, there are regular statements that it would be better to include resort and other fees and surcharges in room rates. There are several reasons not in favor of this practice, including:

- the higher room rate by adding fees and surcharges would subject to municipal occupancy taxes, so guests would be subject to more tax (although in Nevada occupancy tax applies to both the room rate and resort fee)
- room rates change frequently and are closely monitored by many travelers whereas resort and other fees and surcharges change less frequently
- many travelers focus on room rate
- separating the room rate from resort fee allows guest to make comparisons, such as one resort might have a higher fee but more amenities and service

Other occasional comments relate to whether or not it is the role of government to mandate how businesses such as hotels and resorts price their goods and services, if fees and surcharges are adequately disclosed.

The estimated amounts of fees and surcharges collected are summarized below:

<u>Year</u>	<u>Amount (in billions)</u>
2018	\$2.93 (forecast)
2017	2.7
2016	2.6
2015	2.45
2014	2.35
2013	2.1
2012	2.0
2011	1.85
2010	1.7
2009	1.55
2008	1.75
2007	1.75
2006	1.6
2005	1.4
2004	1.2

2003	1.0
2002	0.55
2001	1.0
2000	1.2

The outlook for 2019 is for another increase to another record for fees and surcharges as average daily rate increases are not keeping pace with higher costs including payroll and real estate taxes, so other forms of revenue and profitability are pursued. The largest percent increase is likely to be the service and amenities fees, the equivalent of resort fees for urban hotels.

These estimated amounts based on a discussions with lodging industry executives and corporate travel executives, analysis of industry financial data, press releases, and information available on hotel and brand websites.

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Bjorn Hanson, PhD, is an adjunct professor with the NYU School of Professional Studies Jonathan M. Tisch Center for Hospitality and Tourism. He is a hospitality and travel researcher, widely respected for his industry research. He holds CFE (Certified Fraud Examiner) and CRE (Counselor of Real Estate) professional designations. He has served as Divisional Dean of the School of Professional Studies - Preston Robert Tisch Center for Hospitality, Tourism, and Sport Management, and as co-interim Dean of the NYU School of Continuing and Professional Studies (now the School of Professional Studies). He retired as Global Industry Leader of Hospitality and Leisure, at PricewaterhouseCoopers LLP before joining NYU.