

**2023**

# HOTEL ECONOMIC FORECAST LUNCH MEETING

2020

2023

**NOVEMBER 10, 2022**

11:15AM-1:30PM

HANDLERY HOTEL SAN DIEGO



SAN DIEGO COUNTY  
**LODGING**  
ASSOCIATION

# Welcome

## Robert Gleason

SDCLA Chair  
Evans Hotels



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ASSOCIATION



# Nathan Kelly

*Director of Research*

*San Diego Tourism Authority*





## Robert Rauch, CHA

*CEO of R.A. Rauch & Associates Inc.*

*Faculty Associate, Arizona State University*

*"The Hotel Guru"*



# Hotel Market & Forecast Update

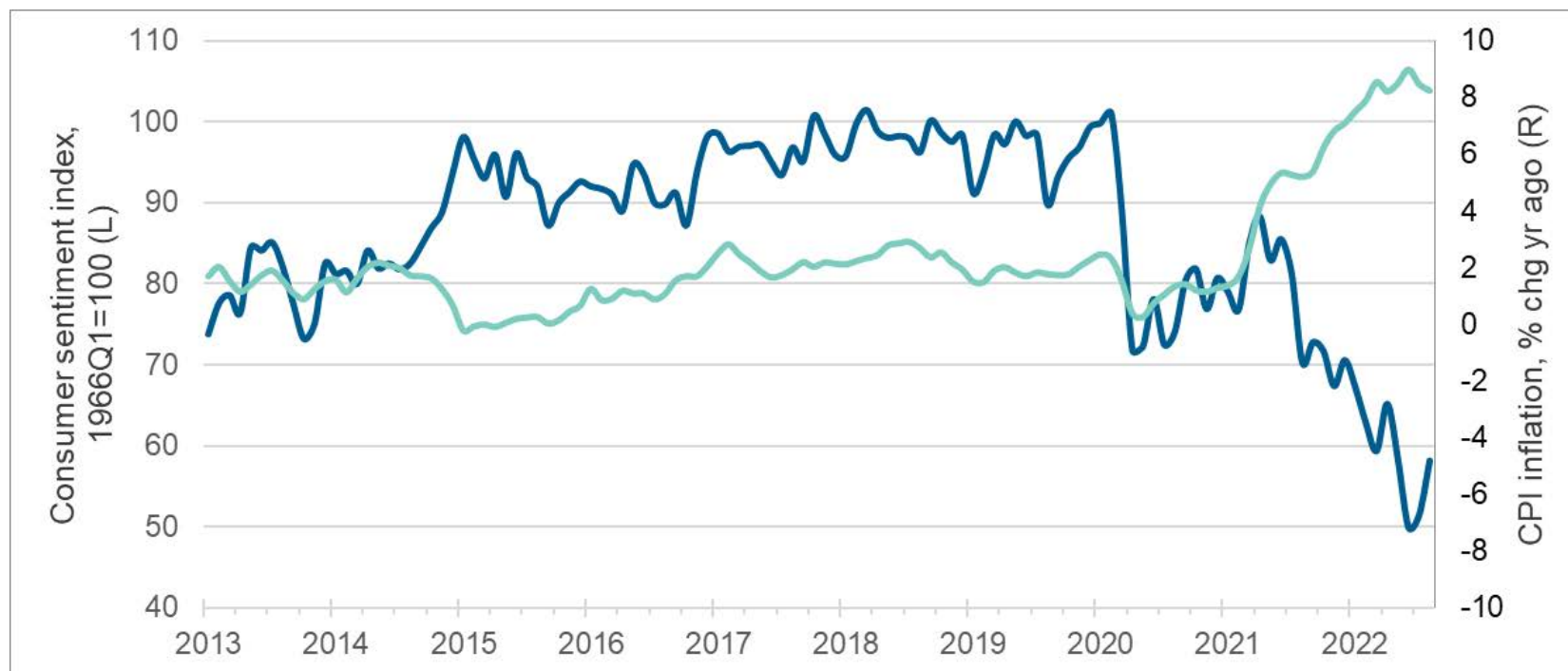
November 10, 2022



TOURISM AUTHORITY

# Consumers Are on the Defensive

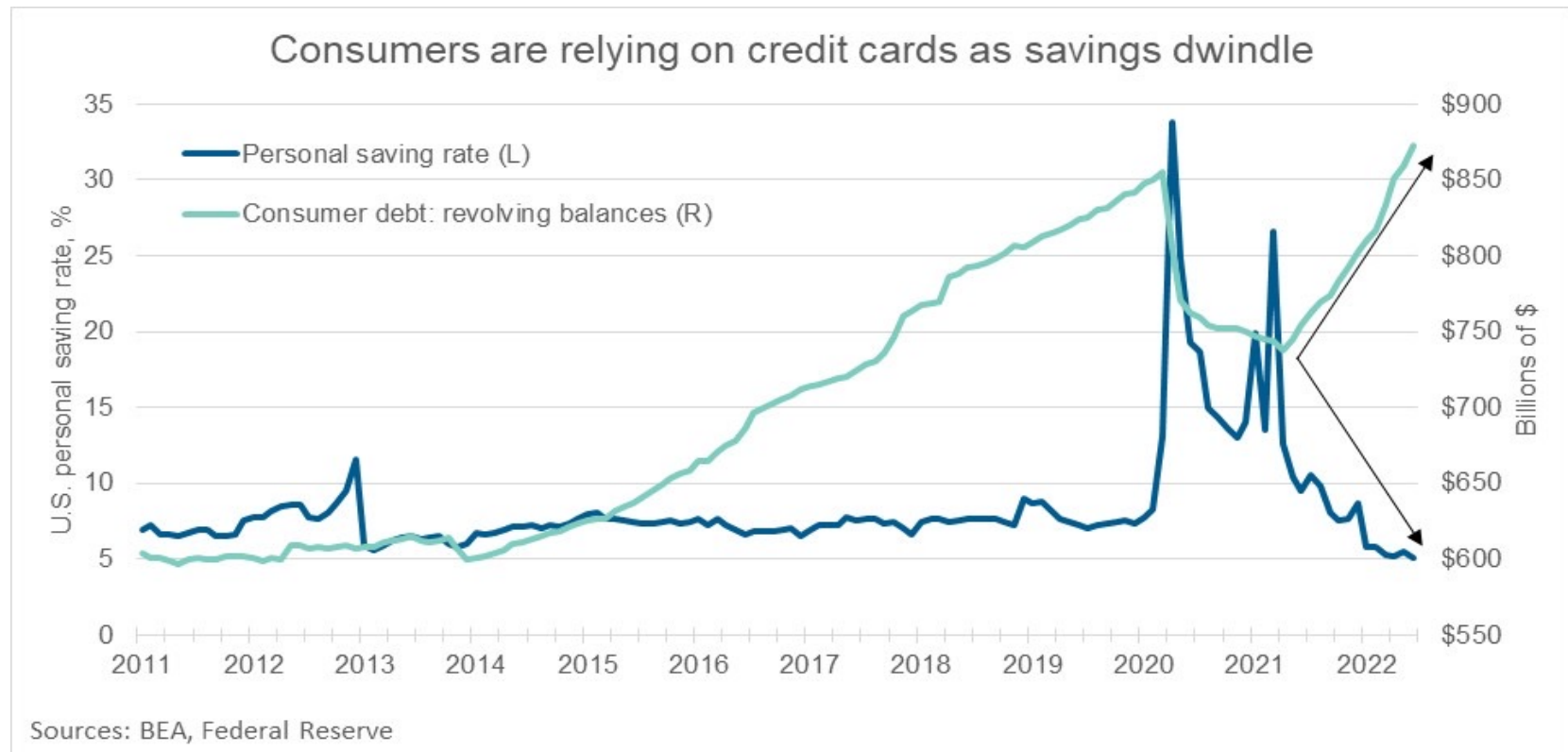
Inflation has taken the wind out of consumers' sails this past year.



\*Each ppt increase in inflation shaves 3 points from consumer sentiment

# Households are Financing Purchases

Savings are down, credit card balances are up.

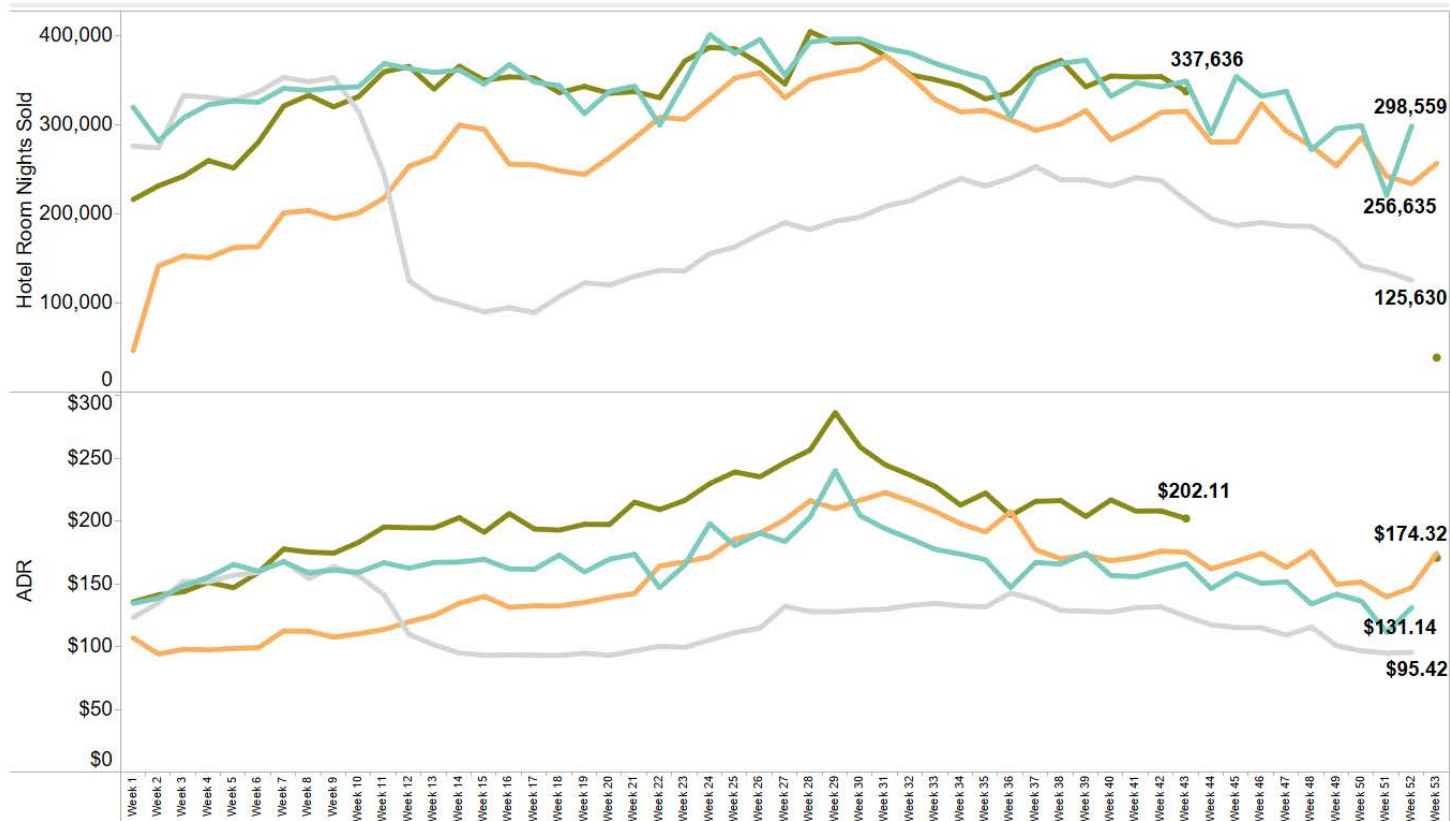


# San Diego Hotels Still Doing Well...



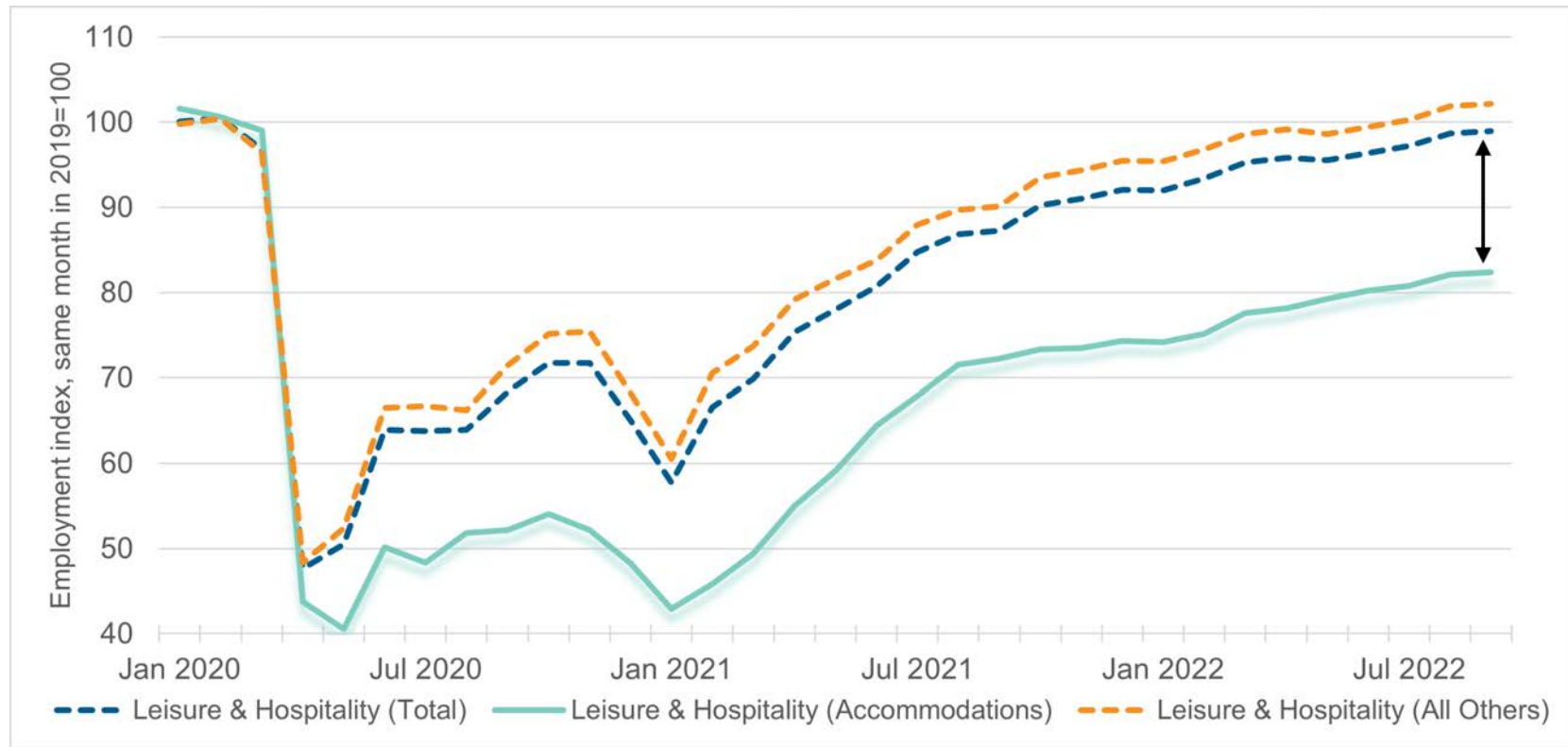
San Diego County Weekly Demand & Average Rate Trend  
Calendar Years 2019-2022 through October 29, 2022  
Source: STR, Inc

Year  
2019  
2020  
2021  
2022



Sources: STR, SDTA

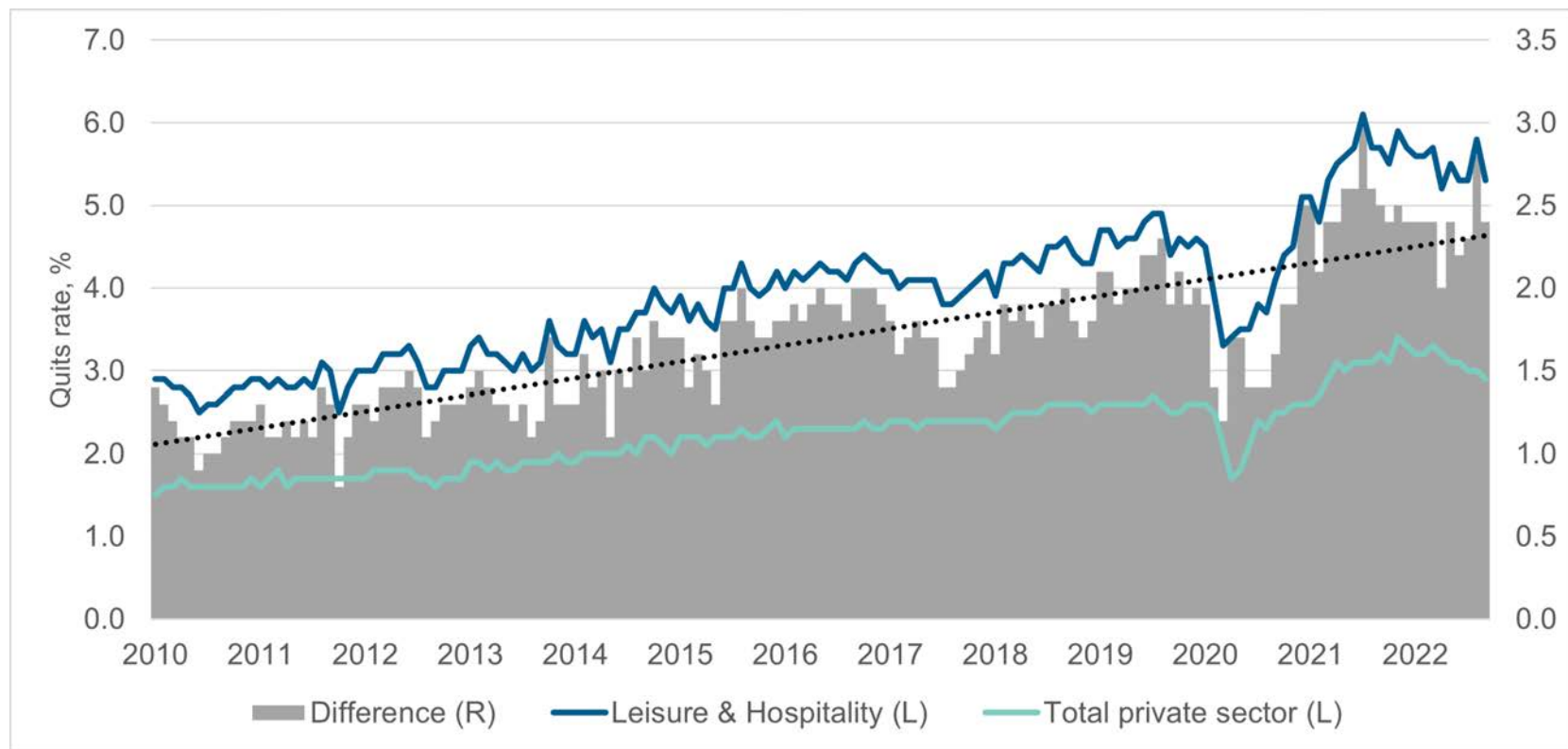
## ...Even While Short-Handed, but...



Sources: BLS, SDTA

# ...At an Enormous Cost

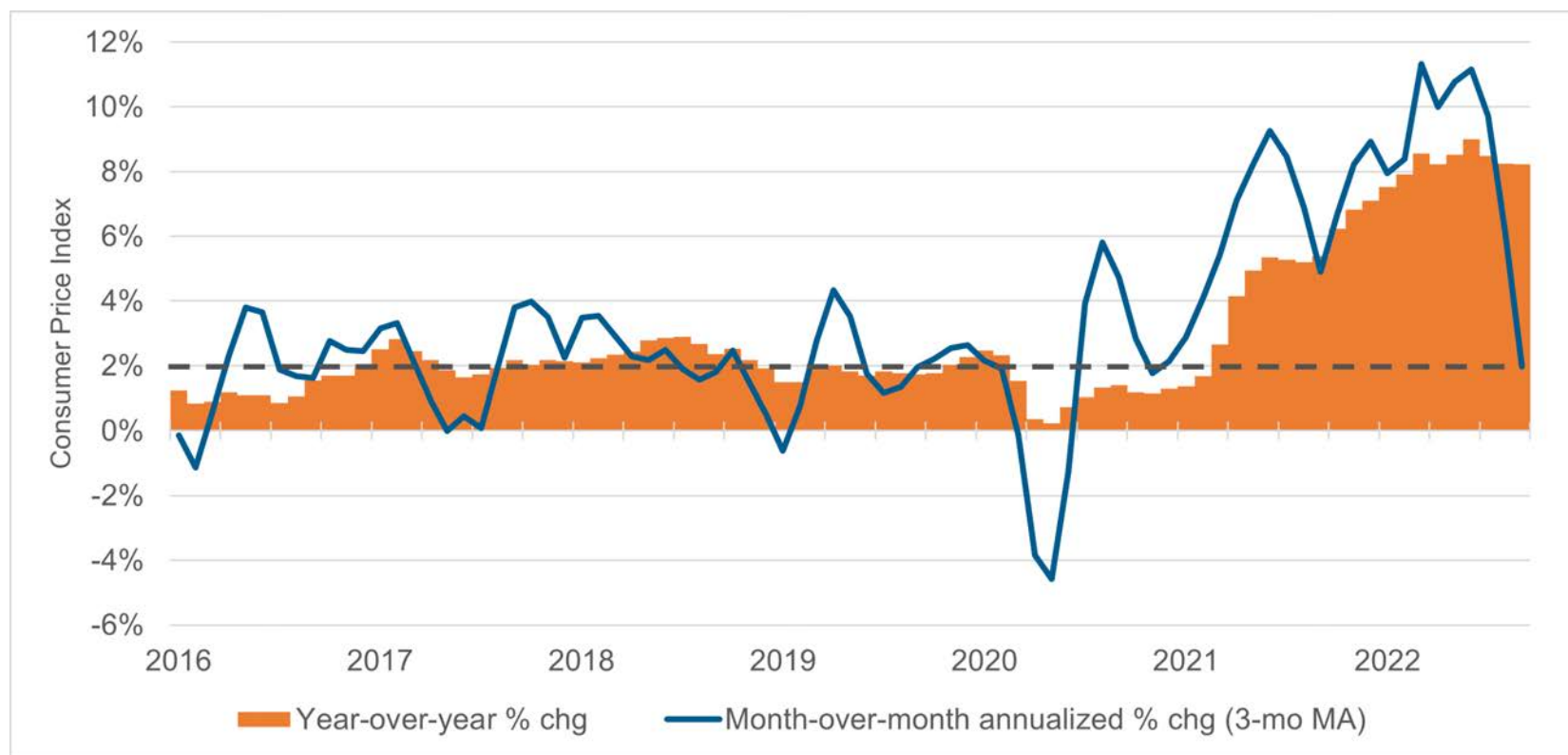
The industry faces a retention problem, not a hiring one.



Sources: BLS, SDTA

# ...Has the Fed Been Too Aggressive?

Inflation, while still hot compared with a year ago, has largely fallen back to the Fed's target of 2% when looking at month-over-month changes from June through September.



Sources: BLS, SDTA

## FORECAST ASSUMPTIONS

	2022	2023
<b>Economic outlook / Covid-19</b>	<ul style="list-style-type: none"> <li>We have assumed that the spread of Omicron subvariants, such as BA.5, will result in higher levels of infections and hospitalizations early in the year, but that restrictions and individual behaviors will not substantially change as a result. Over time, we have assumed that Covid-19 recedes as a major cause of death.</li> </ul>	<ul style="list-style-type: none"> <li>With Covid-19 largely entering the endemic phase, focus has shifted toward inflation and the economy. Unprecedented action by the Fed to combat inflation in recent months has led to expectations of a mild recession in the first half of 2023, which may cause a setback to the group recovery.</li> </ul>
<b>International</b>	<ul style="list-style-type: none"> <li>Progressive increases in international inbound travel. International arrivals to US estimated at 36.8% below 2019 levels.</li> </ul>	<ul style="list-style-type: none"> <li>International arrivals to US recover to 24.3% below 2019 levels.</li> </ul>
<b>Business travel</b>	<ul style="list-style-type: none"> <li>Corporate travel normalizes progressively through 2022 as travel policies and budgets are revised.</li> </ul>	<ul style="list-style-type: none"> <li>Business transient demand in San Diego remains below 2019 levels as mild recession slows recovery.</li> </ul>
<b>Leisure travel</b>	<ul style="list-style-type: none"> <li>Leisure travel continues to be boosted by favorable factors (e.g., improving employment levels and economic conditions, reduced public health concerns, and pent-up demand).</li> <li>Competitive pressures increase</li> </ul>	<ul style="list-style-type: none"> <li>Softer leisure transient demand in San Diego approximately flat relative to 2022, due to less pent-up demand and effects of a mild recession.</li> </ul>
<b>Group travel</b>	<ul style="list-style-type: none"> <li>The return of group meetings dependent on type of group or vertical industry.</li> <li>Larger events are slower to recover.</li> </ul>	<ul style="list-style-type: none"> <li>Forecast assumes group demand improves steadily but remains below 2019 levels due to factors such as continued risk aversion, and lags in booking.</li> </ul>

## SPECIFIC SAN DIEGO MARKET SHIFTS

### October 2022 versus July 2022 Forecast

What has changed relative to July 2022 forecast?

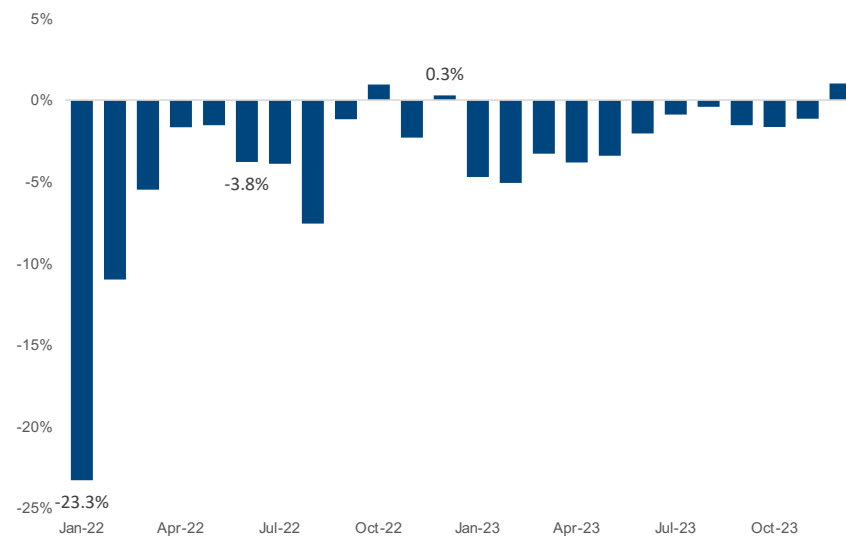
- Total demand during 2022 Q3 was weaker than expected, but ADR was substantially stronger.
- Group demand in 2022 Q3 is estimated to have been 15.3% below 2019 levels, representing a setback in the recovery relative to 2022 Q2 (-2.9% below 2019 levels).
- The outlook for the US economy has again been downgraded relative to the prior forecast. The Oxford Economics outlook now assumes a mild recession next year. The recession is expected to be driven by elevated prices, more costly borrowing rates, and weaker corporate earnings that will cause a retrenchment in consumer spending, business investment, and hiring in the first half of next year.
- The forecast assumes a weaker demand outlook. Demand is assumed to increase in 2023 as business transient and group demand further recover, but leisure demand is expected to be slightly below 2022 levels.
- ADR is assumed to remain strong, but to not quite match the levels achieved during parts of 2022, resulting in an ADR decline of -2.5% in 2023.
- Adjusted for inflation, this indicates 2023 real ADR 0.2% above 2019 levels, and real RevPAR 2.2% below 2019 levels.
- Overall, with a weaker demand outlook and a stronger ADR outlook, the forecast anticipates room revenue growth of 0.3% in 2023.

# KEY RESULTS

Comparison to 2019 as a base year

## Demand impact

Difference relative to same month in 2019



- Forecast assumes demand in 2023 is below 2019 levels.

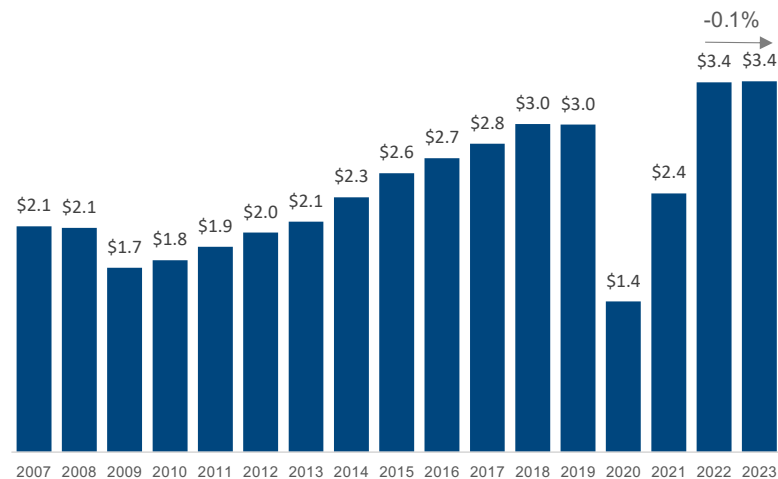
Source: STR, Tourism Economics

## KEY RESULTS

Comparison to 2019 as a base year

### Room revenue

In billions

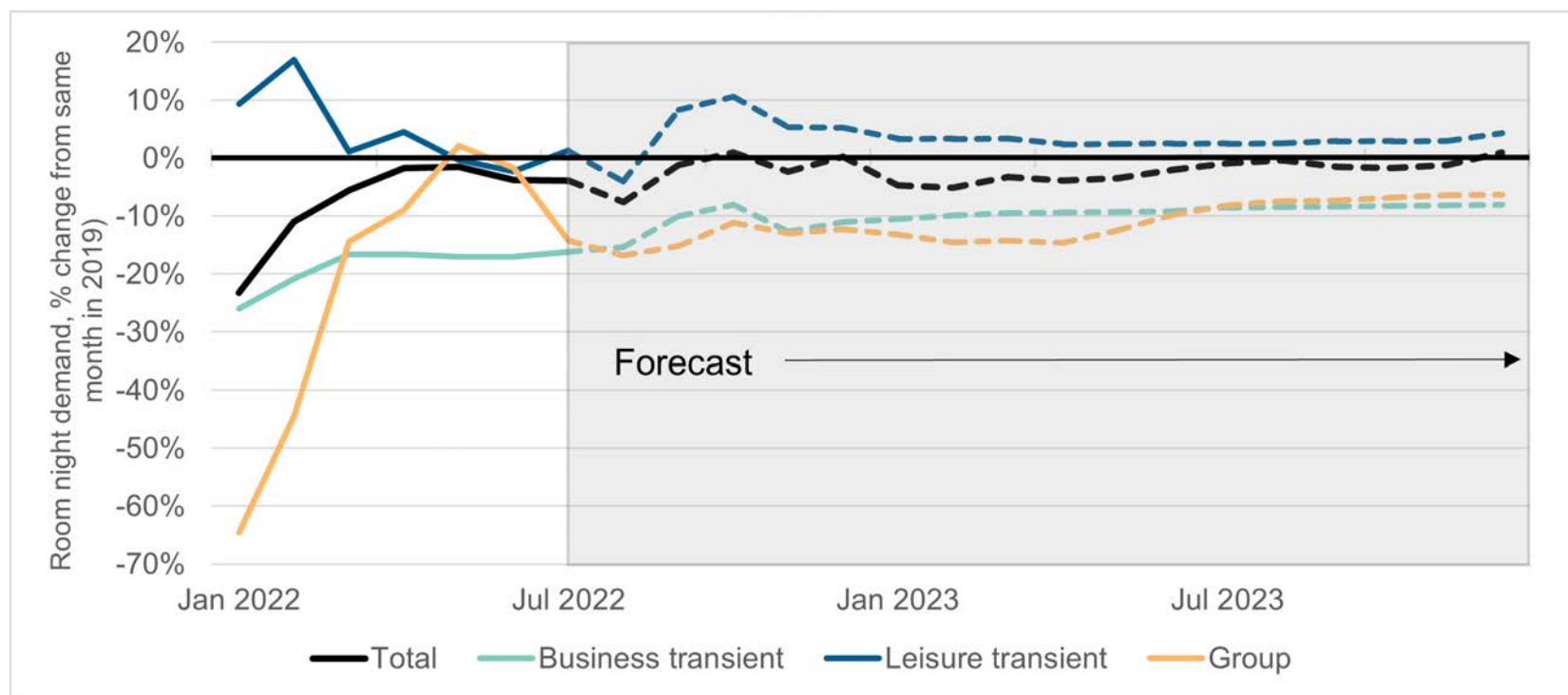


Source: STR, Tourism Economics

- Room revenue in 2023 is expected to remain approximately flat at \$3.4 billion (13.2% above 2019, 0.3% growth relative to 2022).

# Leisure Will Continue to Lead

However, the industry will need to rely more heavily on the Group and Business Transient segments to maintain topline performance as Leisure plateaus at or just slightly below 2022 next year.

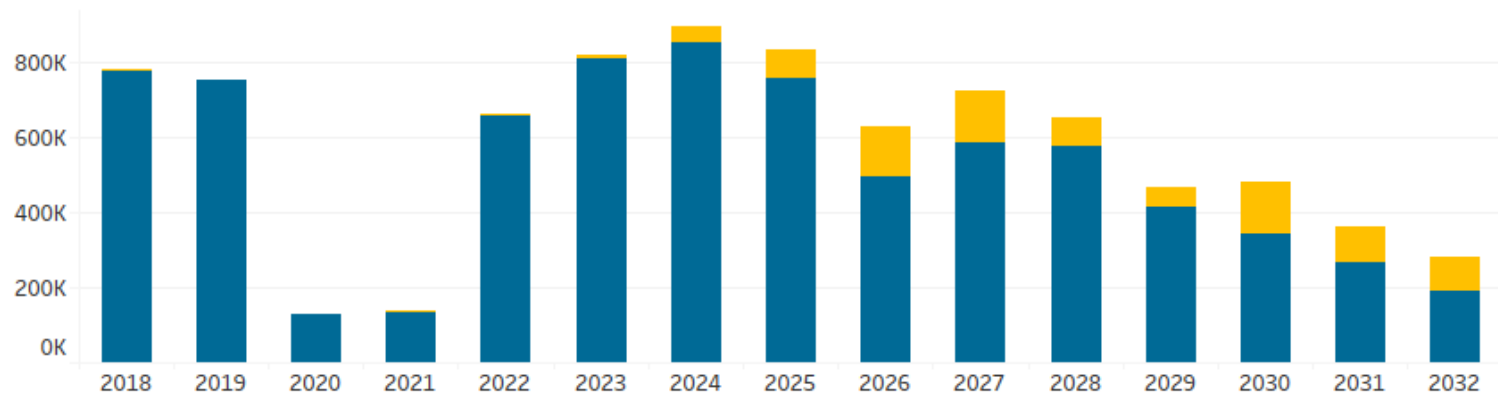


## San Diego Convention Center Current Future Bookings

The pandemic decimated convention center bookings through 2021, but bookings have rebounded quickly in 2022. Uncertainty remains around robustness of actual attendance for future conventions.

### ROOM NIGHT SUMMARY

*Figures based on calendar year*



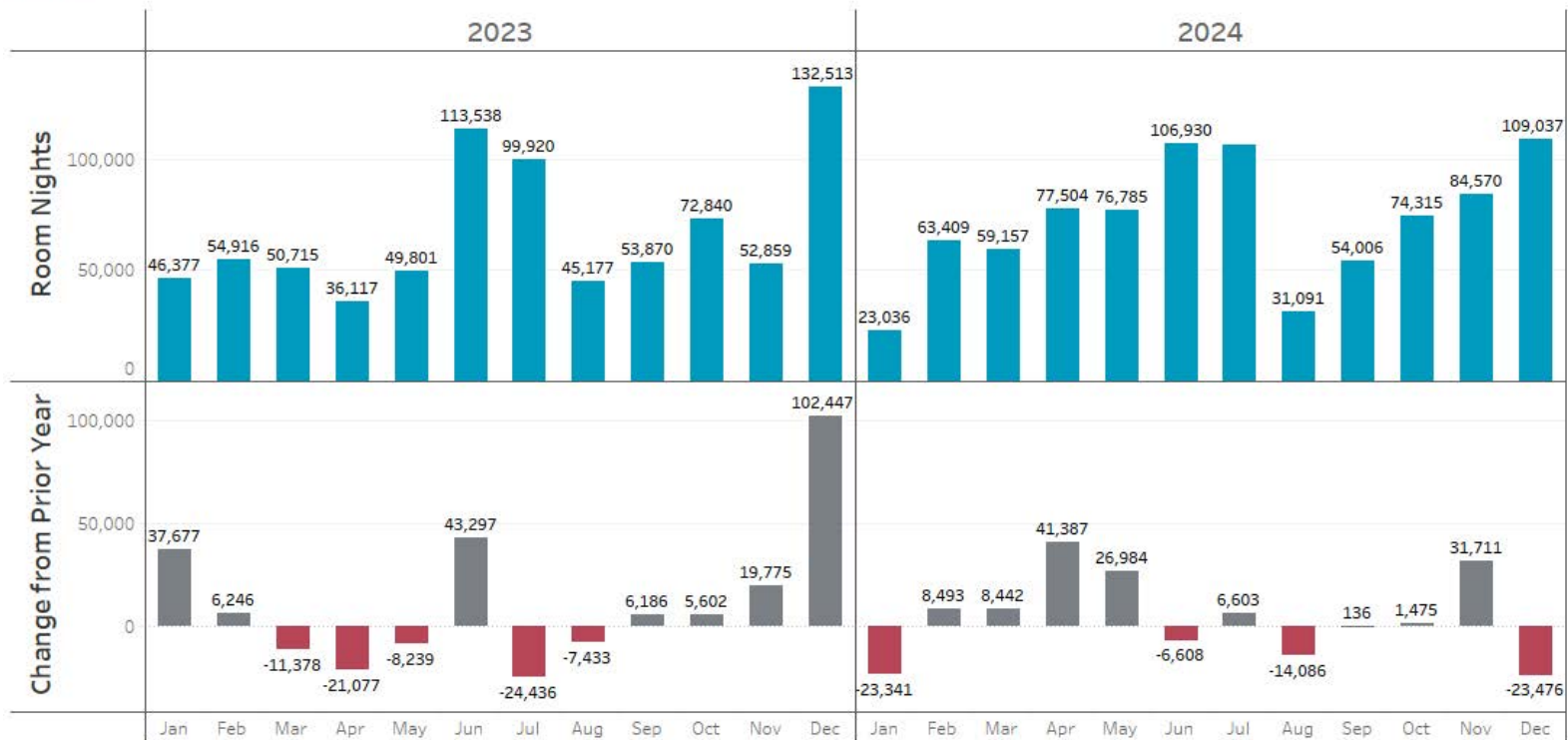
Tentative Room Nights	0K			0K	0K	8K	42K	78K	133K	135K	76K	50K	141K	95K	91K
Definite Room Nights	778K	753K	128K	139K	660K	809K	850K	755K	494K	585K	576K	414K	340K	267K	191K
Definite Conventions	124	161	33	27	103	67	46	37	29	24	20	16	11	11	5

# Citywide Room Utilization by Month 2023/24



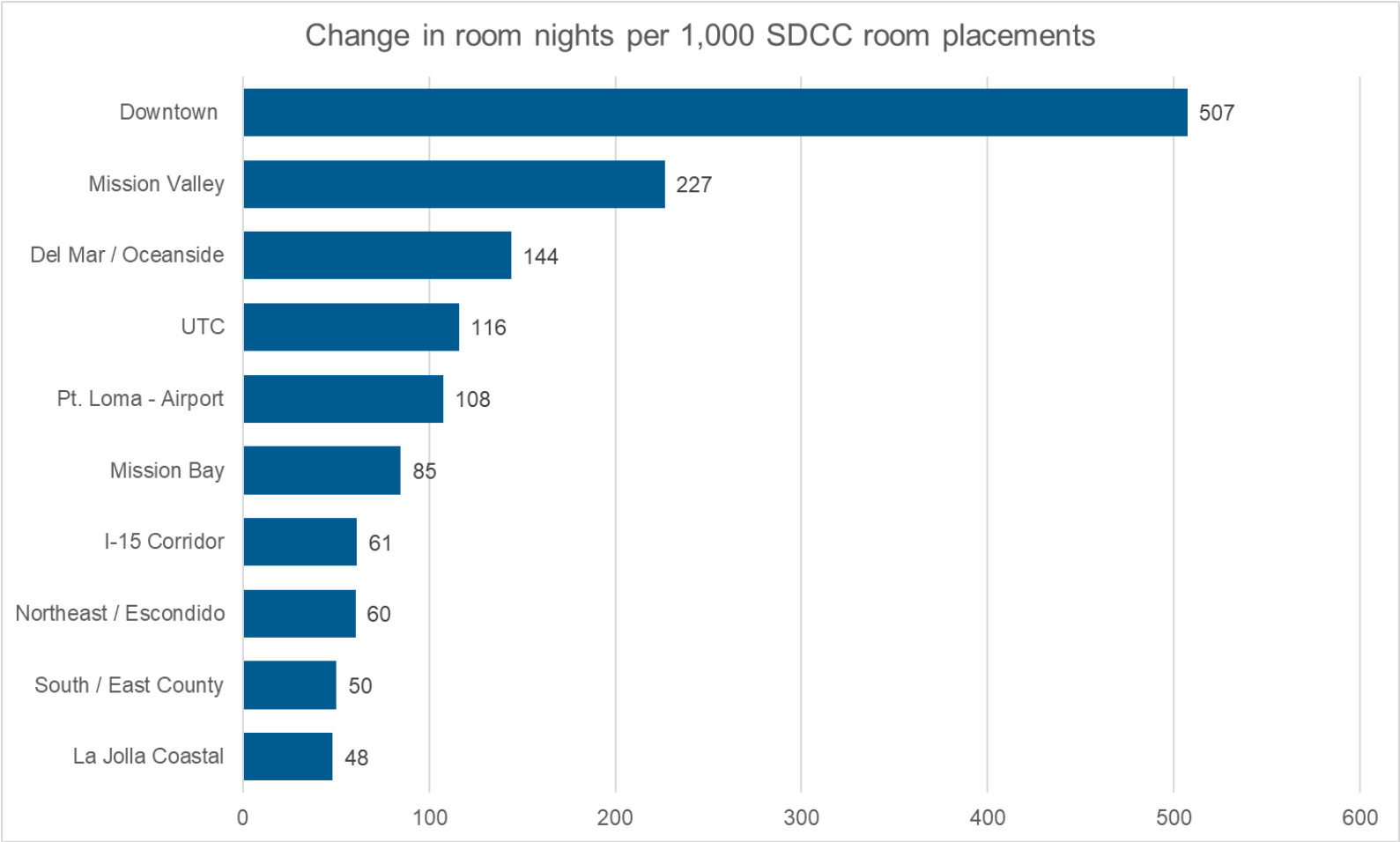
## Citywide Definite Room Nights 2023 vs 2024

Last Updated 8/4/2022 2:06:27 AM



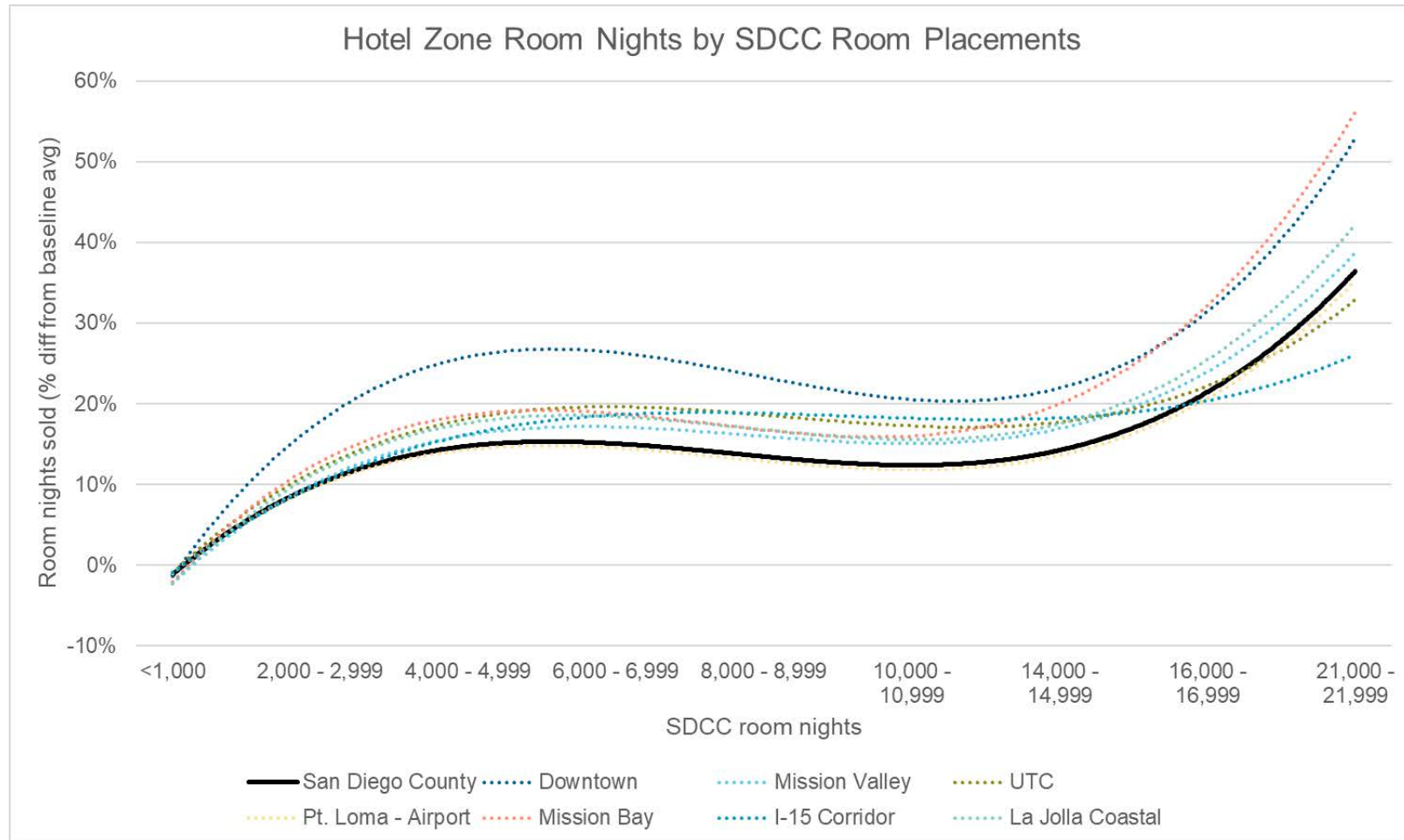
Data presented is confidential and proprietary property of the San Diego Tourism Authority. Distribution or publication of this data is prohibited without prior authorization from the San Diego Tourism Authority.

# Citywide Conventions Are Important Beyond Just Downtown

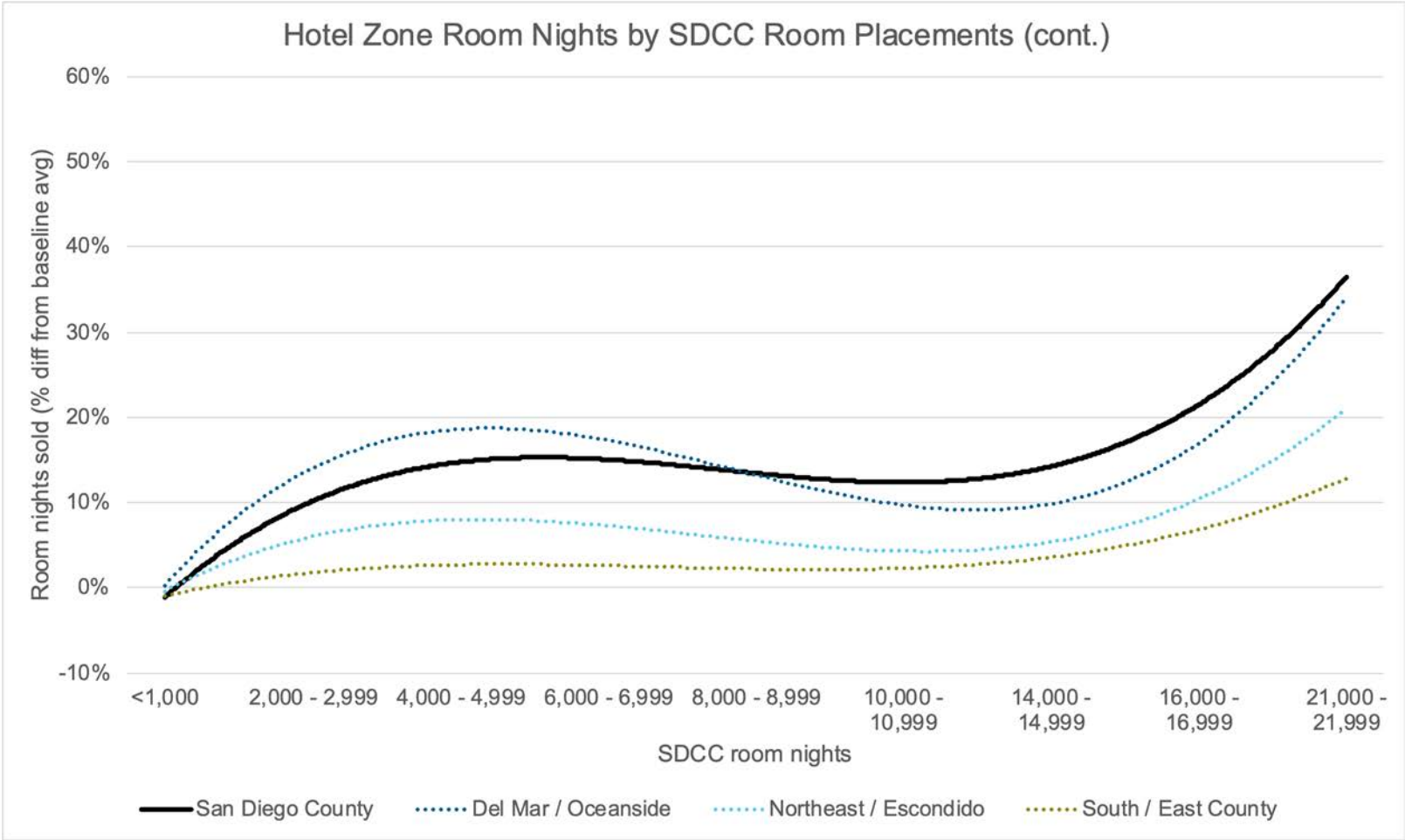


Net total for all regions = 1,407

## Citywide Conventions Are Important Beyond Just Downtown (cont.)



Citywide Conventions Are Important Beyond Just Downtown (cont.)





TOURISM AUTHORITY

# THANK YOU!

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Director of Research, SDTA  
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(619) 557-2824

For additional data, insights, and resources, visit:

[sandiego.org/about/industry-research.aspx](http://sandiego.org/about/industry-research.aspx)

<https://members.sandiego.org/sdta-members/research-and-reports.aspx>



# 2023 SAN DIEGO LODGING FORECAST

BY BOB RAUCH & SARAH LYNCH

## U.S. LODGING FORECAST

- Strong lodging demand will support pricing, but most occupancy gains will be in the group and corporate market, ergo, each market/submarket will differ as to occupancy and ADR growth
- Short-term Rentals doing well (Airbnb, VRBO, Marriott Apartments—newly announced 11-9-22)
- Cost to buy is less than to build—new development muted
- Debt maturity and high interest rates will cause sales next year
- Continued difficulty finding good employees
- Operating costs a big challenge (labor, insurance, energy, food)

Source: RAR Hospitality

## ***SAN DIEGO DOWNTOWN***

Business travel returns and meetings reconvene; all three pillars of hotel demand are forecasted to be strong. For the first time in 20 years there is significant new growth in the office market, under construction or planned as well as IQHQ, Seaport Village, Horton Plaza revamp and more

New hotel supply:  
AC HOTEL, 145U ON 5<sup>TH</sup> AVENUE

- ✓STR through 9/30/22: 73.4% at \$237, RevPAR is \$174
- ✓Forecast 2023: 77% at \$244, RevPAR at \$188

## CORONADO

Coronado has the highest average rates fueled by a walkable downtown, beaches, great resorts and independent boutique hotels, all close to downtown and no new plans for supply increases

This new hotel is part of Hotel Del:

BEACH VILLAGE AT HOTEL DEL, 67U

✓STR though 9/30/22: 72% at \$464, RevPAR \$334

✓Forecast 2023: 74% at \$475, RevPAR \$351

## AIRPORT / POINT LOMA

The airport terminal expansion reinforces its regional destination footprint. The region continues to be a sustainably strong hotel market for the foreseeable future with Harbor/Shelter Island

No new supply

✓STR through 9/30/22: 73.9% at \$175, RevPAR \$129

✓Forecast 2023: 75% at \$180, RevPAR \$135

## **MISSION VALLEY/OLD TOWN/KEARNY MESA**

Keep an eye on Mission Valley as demand will be quick to outpace supply once the residential development projects near completion. Old Town and Kearny Mesa remain strong

New supply:  
WOODSPRING SUITES, 122U

✓STR through 9/30/22: 76.8% at \$156, RevPAR \$120  
✓Forecast 2023: 78% at \$161, RevPAR \$126

## **MISSION BAY/PACIFIC BEACH**

Mission Bay shows how independent hotels can thrive today as these hotels continue to renovate and provide a healthy mix of leisure and group demand without a brand. Pacific Beach continues to slowly evolve

New supply:  
FAIRFIELD INN MISSION BAY, 107U

✓STR through 9/30/22: 75.5% at \$276, RevPAR \$209  
✓Forecast 2023: 76% at \$280, RevPAR \$213

## ***SAN DIEGO / LA JOLLA***

Although the coastal village of La Jolla remains slow to redevelop, the market enjoys high occupancy and even higher rates, as demand continues to exceed supply

No new supply

✓STR through 9/30/22: 72.9% at \$341, RevPAR \$249

✓Forecast 2023: 75% at \$346, RevPAR \$259.5



## ***UTC – CARMEL VALLEY***

This corporate/leisure/group submarket has strong biosciences and communications technology sectors with Illumina, Qualcomm, BD and many more

No new supply

✓STR through 9/30/22: 81.8% at \$224, RevPAR \$183

✓Forecast 2023: 82% at \$229, RevPAR \$188

## ***I-15 CORRIDOR***

This corridor has a strong corporate base of business with Apple, HP and many more providing mid-week room demand, some group demand and access to all other submarkets to pick up leisure business

No new supply

✓STR through 9/30/22: 79.3% at \$175, RevPAR \$139

✓Forecast 2023: 78% at \$175, RevPAR \$137

## ***SAN DIEGO NORTHEAST / ESCONDIDO***

This area of San Diego County had been essentially dormant and under-represented as a significant part of the region's hotel inventory. Lots of new development activity in San Marcos' North City will eventually get to Escondido

No new supply

- ✓STR through 9/30/22: 72.7% at \$148.07, RevPAR \$107.61
- ✓Forecast 2023: 72% at \$146, RevPAR \$105

## ***DEL MAR - OCEANSIDE***

Del Mar through Carlsbad remains a strong residential enclave of affluent residents, businesses and hotels, while Oceanside is enjoying a significant upgrade in all areas. This coastal area will continue to command high prices due to several recent, luxury hotels on the coast

No new supply

✓STR through 9/30/22: 71.9%% at \$223.36, RevPAR \$160.62

✓Forecast 2023: 74% at \$234, RevPAR \$180

## ***SAN DIEGO SOUTH AND EAST***

The completion of multiple, massive development projects like the Chula Vista Marina Project, the Gaylord Hotel and Convention Center and more will stimulate an influx of travel demand in all segments. Rates are currently low but occupancy has been high, somewhat driven by the midscale and economy product that is becoming desirable to many

No new supply --- yet!

✓STR through 9/30/22: 81.1% at \$137.67, RevPAR \$111.65  
✓Forecast 2023: 80% at \$136, RevPAR \$109

## 2023 BUSINESS PLAN AND BUDGETING

- We see 2023 up in occupancy by two to three points with average rates tricky due to the return of corporate and group demand at lower ADR. Some markets may see reduced ADR
- Corporate negotiated business and corporate/association group are expected to show the most occupancy growth in 2023
- Leisure business will likely decline and begin to fall into a more normal pattern in 2023. Weekend occupancy and rates are continuing to hold up, but with fewer mid-week leisure stays
- Each submarket will have unique year over year performance changes depending on their reliance on group, corporate and leisure business as well as international travel
- **Note: use caution in relying on 2019/2022 rates for budgeting—check market mix**

## TOP 10 TRENDS FOR 2023

- Mullet Travel – bleisure with a haircut as an image
- Customized Service – think texts in advance, during and after stay
- Adventure Tourism – San Diego has water and is near mountains – win!
- Training – we just promoted line employees to managers!
- Travel with Purpose – F&B, cannabis, spiritual, wellness
- Sustainability and Diversity – farm to table, recycle on steroids, diverse staff
- Staycations are back – Another win for San Diego, our backyard is great!
- Essentialism and Minimalism – value seekers emerge with grim economic forecast
- Digitized Guest Experience – mobile key, contactless and digital marketing
- Wellness, Fitness and Diet – expanded fitness center, personalized spa treatments

Source: RAR Hospitality



**Bob Rauch** serves as CEO of [RAR Hospitality](#). He is an internationally recognized hotelier with over 40 years of hospitality-related management experience.

Bob has been directly involved in developing several San Diego hotels including the Del Mar Marriott, Hilton Hotel Gaslamp Plaza, Hilton Garden Inn Carlsbad, Hilton Garden Inn and Homewood Suites Del Mar and Fairfield Inn by Marriott San Marcos among others. In addition to being the “hotel guru” he publishes Hospitality Insights, an electronic newsletter and is a faculty associate at Arizona State University where he teaches tourism industry entrepreneurship. He sold his management company in February, 2020 to Hostmark Hospitality Group.

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[www.hotelguru.com](http://www.hotelguru.com)

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# CONTRIBUTORS

LONDON MOEDER ADVISORS  
SAN DIEGO TOURISM AUTHORITY  
STR  
SARAH LYNCH

# Thank You!



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# CALIFORNIA'S ENERGY MARKET IS COMPLEX

WE'LL HELP YOU PUT THE PIECES TOGETHER



## WHO WE ARE

### Who We Are Starts With Who You Are

We approach the energy market with the same integrity and compassion that our clients apply and expect in their own organizations. Our team is insightful, curious, empathetic and driven to help our clients' businesses succeed. We're passionate about helping our clients understand the energy markets and mitigate their risk with prudent and proven approaches. Since our inception in 1997, our **client retention rate has held steady at 94% annually**. Allow us to share how we can work together.



## WHAT WE DO

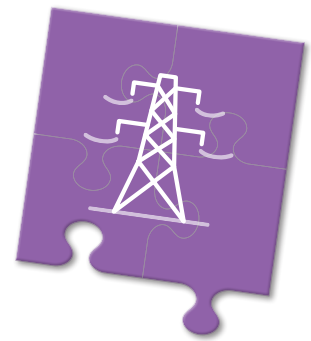
### Energy Management Solutions

In its simplest form, there are two ways to control energy costs: a) reducing consumption (how much energy you use); and b) managing the cost per unit of energy (how much you pay for the energy you use). Our **CE360 Process** targets all components of your Energy Wallet:

#### SUPPLY MANAGEMENT

##### Manage Price and Usage Volatility

Do you have access to the data and expertise you need to make budgetary decisions about your energy supply? Whether it's natural gas or electricity, we're able to mitigate risk and stabilize your supply costs so you can focus on your business. These solutions **require no upfront capital costs** and necessitate **no mechanical changes**.



#### DELIVERY MANAGEMENT

##### Utility Bill Auditing

**More than half** of your utility bill is for the delivery of energy – not the energy itself. Our audit team is solely focused on reducing those delivery charges, whether for electricity or natural gas, which will positively impact your business' bottom line. We execute these strategies and tactics via our proprietary rate engines coupled with decades of utility experience built in.



#### DEMAND MANAGEMENT

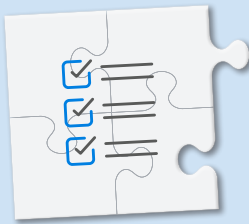
##### CE360 White Glove Consulting

Supplying your energy is only half the service you need. Assessing and controlling what, why, and when you use energy is the rest of the story. Our **Energy Services Team** provides visibility into your operating environment and methods to improve reliability, efficiency, and reach your sustainability goals.



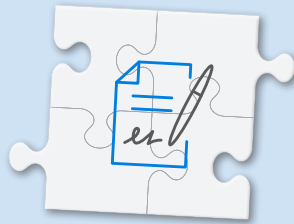
## HOW WE DO IT

### The Four Phases of the CE360 Process



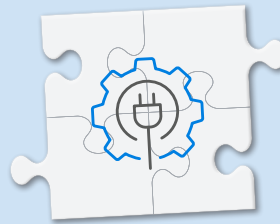
#### Needs Assessment

It starts with a 30-minute conversation



#### Proposal Recommendations

You decide what actions to take with us



#### Execution of Your Strategy

We work with you to ensure project deliverables are met



#### Accountability Review

Our team tracks and provides performance reviews

“

Given the maddeningly complex California energy market, we depend on Commercial Energy for candid advice and recommendations. Through their energy procurement strategies, we've saved over 12% on gas and electricity costs – without any capital investment or mechanical changes. I would highly recommend working with Commercial Energy.”

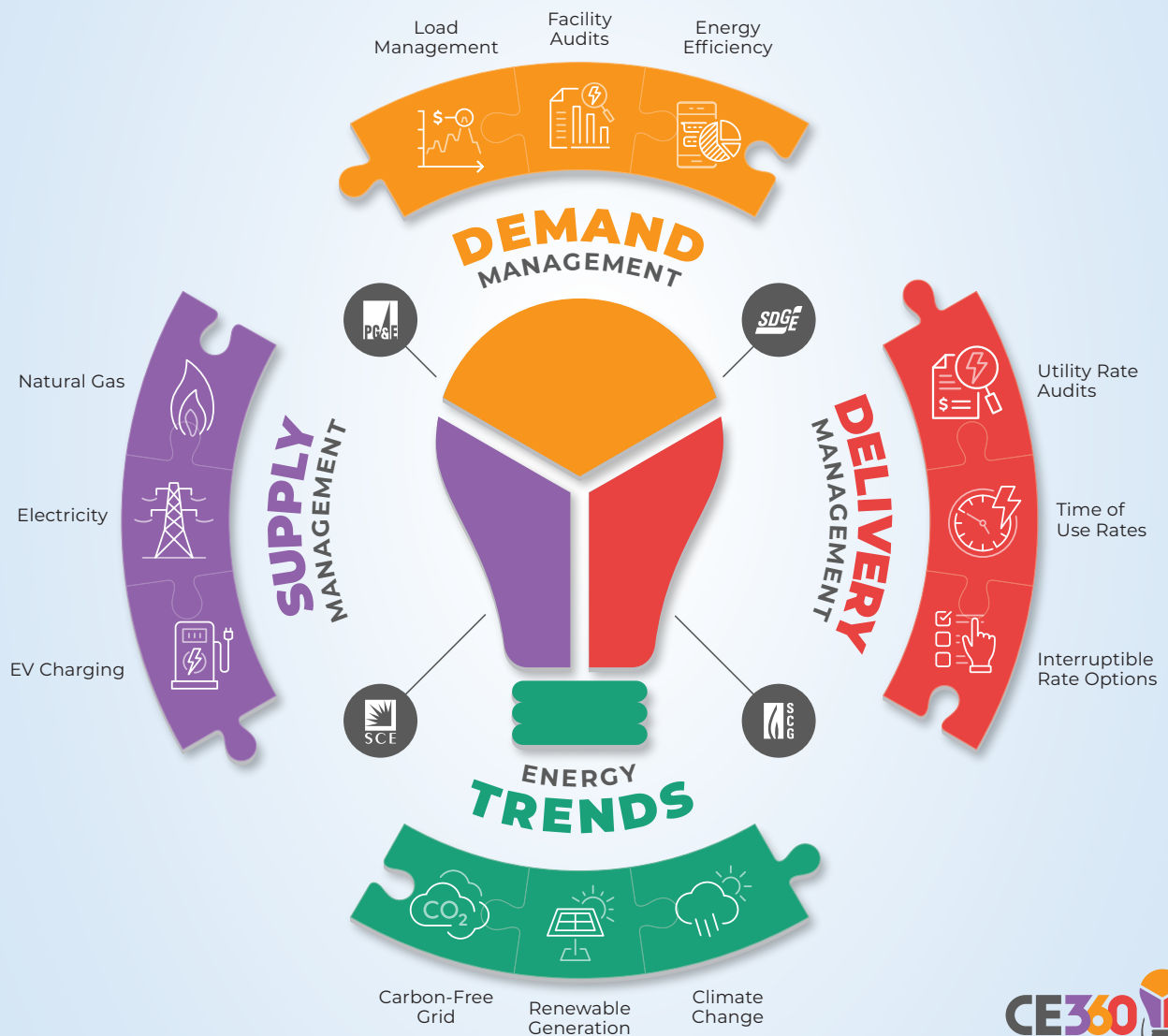
*Chief Engineer*



## WHAT WE FOCUS ON

### The CE360 Approach

We provide your business an honest assessment of your energy ecosystem and the greater energy market. We then strategically approach your energy budget by taking into consideration both the tactical and strategic aspects of your energy future. Our analytic approach provides tangible clarity in your decisions. We approach your unique situation with the most robust set of energy solutions available in the market and work with you to come to an actionable plan. After implementation, we return to show you how your chosen solution performed. Not only against your budget, but also against your expectations. Your interest is our guiding light.



## WHO WE WORK WITH



### COMMERCIAL BUILDINGS

Commercial properties contain a lot of energy variables: number of buildings, occupancy rate, on-site generation, and more – we consider all in your sustainability equation.



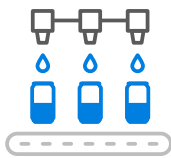
### CORPORATE CAMPUSES

Few are basic, some resemble theme parks, others are essentially cities. Regardless, we ensure your campus will meet sustainability goals and avoid price shocks.



### EDUCATIONAL CAMPUSES

In education, incoming funds are front-loaded, leaving you vulnerable to energy price shock if the market shifts. Our energy purchasing options help mitigate your risk.



### FOOD & BEVERAGE PROCESSING

We know that you budget around supply chain seasonality. So, we analyze every aspect of your energy usage to avoid energy price shock.



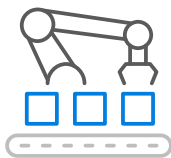
### HEALTHCARE

You can improve the level of care and outcomes while lowering operating costs and avoiding power surge premiums.



### HOSPITALITY

Your energy needs fluctuate depending on seasonality, occupancy rate, amenities, facilities, and more. Our detailed energy analysis accounts for all of them.



### MANUFACTURING

We take the time to understand your supply chain and cost drivers to ensure your energy strategy gives you an advantage in the market.



### MEMBERSHIP CLUBS

Be it amenity seasonality, outdated equipment, or any number of factors, our personalized approach will help you avoid energy price shock and plan for the future.



### MULTI-FAMILY HOUSING

Let us take stock of the energy variables that matter to you: occupancy, total square footage, utility pass-throughs, number of meters, and amenities.

## UTILITIES WE OPERATE WITHIN

Commercial Energy is Authorized by  
Your Utility to Serve Your Business



**Pacific Gas & Electric**  
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**Northwestern Energy**  
[northwesternenergy.com](http://northwesternenergy.com)  
406.497.2806



**Southern California Gas Company**  
[socalgas.com/for-your-business/](http://socalgas.com/for-your-business/)  
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**Energy West, Inc.**  
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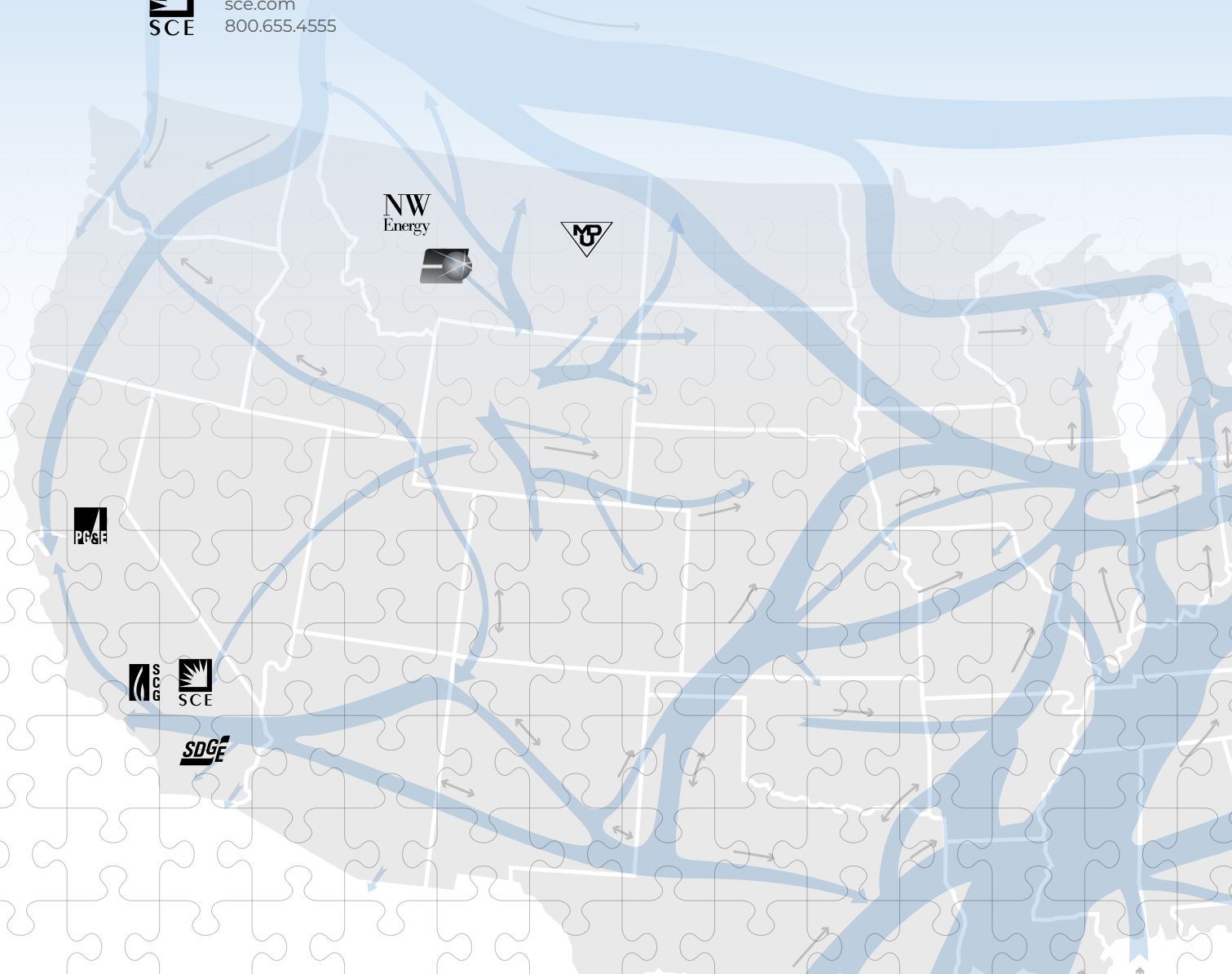
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