Hotels, Quality Retail Benefiting as Work and Spending Habits Evolve

As more employers embrace greater workplace flexibility and consumer behavior evolves, strong performance among hotel and quality retail assets points to a potentially brighter future for real estate.

Hotel demand has rebounded quickly since lockdown as remote/hybrid workers splurge on more travel (and longer stays) than other office workers. Revenue per room at U.S. resorts for 2022 jumped 20% above pre-pandemic levels, and other markets globally mirror this trend.[1]

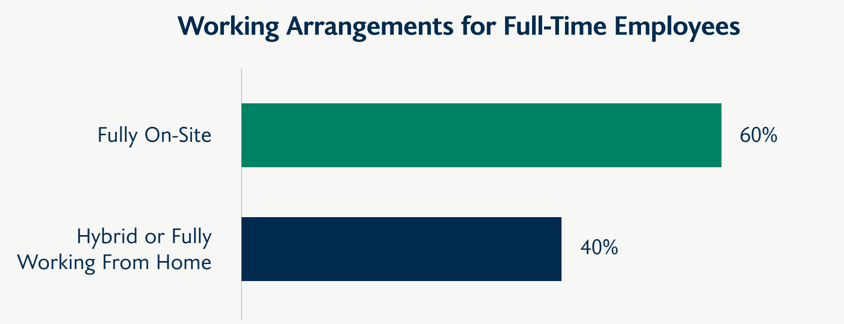
Quality retail, too, is benefiting alongside the growing popularity of e-commerce: The retail vacancy rate was only 4.2% in July—the lowest among real estate sectors—and rents are rising faster than was the case in 2019.[2]

Flexible Work: A Boon for Travel

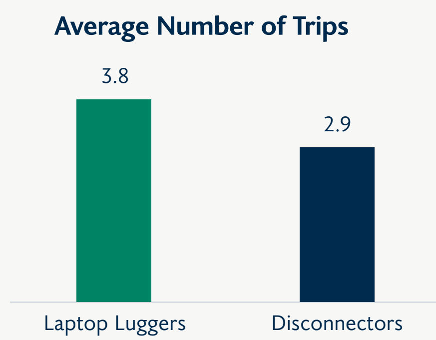
Flexible work has proven to be a boon for hotels and travel. Today, 40% of full-time employees are hybrid/remote workers, as shown in **Figure 1.** Crucially, this cohort often bring their work with them on vacation and, as a result, are taking more trips than other workers. As millennials continue to show an increasing propensity to spend on high-quality experiences, we anticipate continued demand for this trend.

Figure 1: Remote Work Is Enabling Americans to Travel More

Americans Have More Workplace Flexibility...



...and Are Taking More Trips



Laptop luggers are employees who plan to work during their longest trip of the season.
Source: *The Experience Economy Endures: 2023 Deloitte Summer Travel Survey*, Deloitte, May 22, 2023.

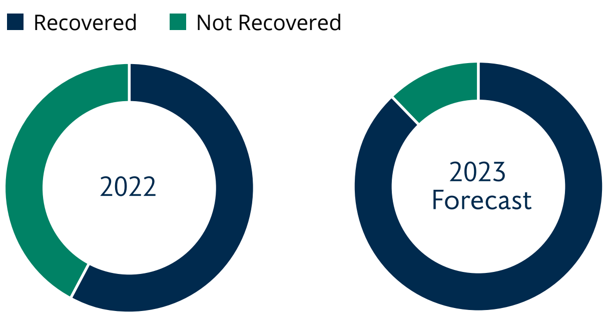
A growing number of those trips are weekend vacations, taking place Thursday through Sunday. Compared with the same period in 2019, U.S. hospitality revenue per room is trending higher for each of these so-called “shoulder days.” As of June 30, 2023, for example, nightly revenue increases compared to 2019 were: Thursday (+13%), Friday (+17%), Saturday (+27%) and Sunday (+28%).[4]

Hotels Rebound, Supply Tight

Hotels are also supported by supply-demand dynamics. By May, the vast majority of the biggest U.S. hotel markets had rebounded to above 2019 levels of revenue per available room (**Figure 2**). Demand is strong and supply is constrained, both in the United States and in popular destinations such as southern Europe, a scenario that makes the long-term outlook that much more attractive.

Figure 2: Lodging Has Rebounded in Most Major U.S. Markets

Operating Results in Top U.S. Hotel Markets



Recovery measured by aggregate revenue per available room (RevPAR) for 65 largest U.S. markets. RevPAR represents average revenue per available room. There is no assurance that such events or projections will occur, and actual outcomes may be significantly different than those shown here.

A market is determined to have recovered if aggregate RevPAR has exceeded 2019 levels.

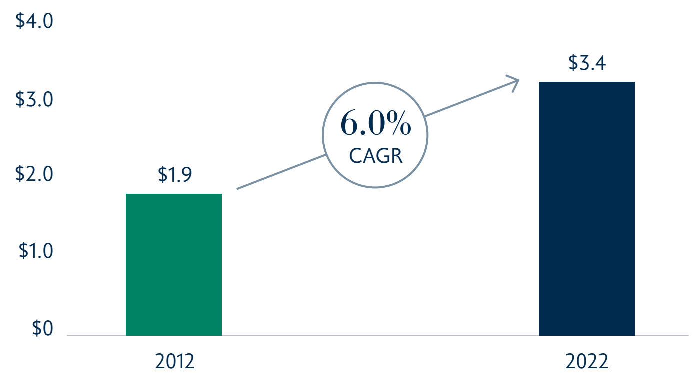
Source: CBRE, as of May 2023.

The Retail Experience: Quality Beats Basic

Retail places offering a high-end shopping and/or entertainment experience continue to perform better than run-of-the-mill shopping spaces. For example, between 2012 and 2022 luxury malls posted a 6% compound annual growth rate (CAGR), as shown in **Figure 3**. At the same time, entertainment venues/facilities are seeing both strong demand and limited new supply.

Figure 3: Despite Dour Headlines, High-Quality Retail Is Growing

Net Operating Income for A++ and A+ Properties ($ Billions)



Graphic shows change in NOI for 46 properties rated A++ and A+ (from June 1, 2012, to June 1, 2012) owned by Simon Properties, the largest mall owner in the United States.

Source: Simon Property Group, Green Street property grades, as of June 1, 2023.

An Investing Opportunity?

As investors seek signs of a commercial real estate recovery, data suggests the "new normal" favors luxury travel and upscale retail. At the same time, we expect some property owners may struggle to refinance existing floating-rate loans and could be forced to sell worthy properties at bargain prices. Given these conditions, we expect property valuations may yet fall further before interest rates stabilize and capital eventually returns to real estate markets. Between now and then, we believe this sets up an opportunity for Brookfield to acquire properties that can harness these longer-term lifestyle and spending trends at bargain prices.

ENDNOTES

[1] STR Inc. data as of February 2023.

[2] Commercial Real Estate Market Insights Report, National Association of Realtors, July 2023.

[3] *The Experience Economy Endures: 2023 Deloitte Summer Travel Survey*, Deloitte, May 22, 2023.

[4] Source: STR Inc. data as of June 30, 2023.

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