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Omicron Weakens Global Lodging Revenue Recovery Prospects

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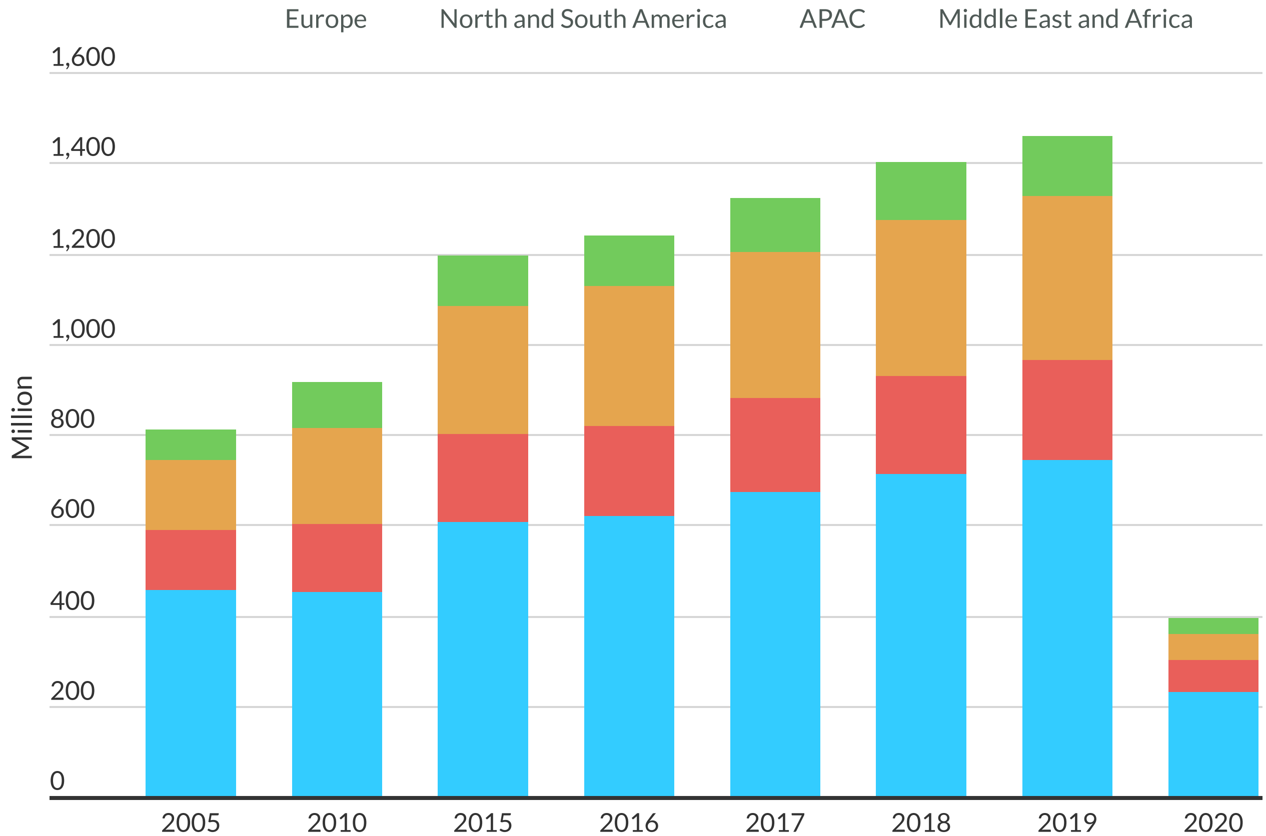
Fitch Ratings-Madrid/Paris/London-14 January 2022: The global spread of Omicron and the reintroduction of travel restrictions weaken recovery prospects for revenue per available room (RevPAR) in the global lodging sector, Fitch Ratings says. International travel is most affected, which means that hotel operators worldwide continue to rely on domestic leisure and the return of domestic business travel, at least in 1H22.

International Arrivals with Overnight Stay Remain Weak



Source: Fitch Ratings, UNWTO

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We have lowered our expectations from our previous outlook report and now anticipate RevPAR to recover to about 70% of 2019 levels in 2022, predominantly in 2H22. Occupancy gains and rate performance in the US in 2021 were greater than we expected, but many countries in APAC and Europe remain subject to tighter mobility restrictions. China, the largest contributor to global outbound tourism in 2019, will not have a meaningful recovery in international travel as long as it pursues its zero Covid-19 strategy.

RevPAR Recovery by Region

Compared to 2019 RevPAR

Source: Fitch Ratings

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We maintain our expectation that the sector's RevPAR will take at least four years to recover to pre-pandemic levels. Pent-up demand and high disposable income in most regions support leisure travel, but changing restrictions limit visibility, meaning many hotel bookings are made at the last minute.

Demand for leisure travel will continue to focus on holiday destinations, regional getaways, outdoor accommodation, such as campsites, and self-sufficient short-term rentals. We expect urban destinations, especially in the upscale segment targeting business travellers, to remain under pressure as 'return to office' policies have again been delayed, due to Omicron, with limited local trips and almost no business gatherings.

New hybrid working models may blur the line between business and leisure travelling, leading to longer stays, but we expect demand for international business trips to remain fragile as corporates have shifted towards virtual events and videoconference meetings. Business trips, albeit mostly domestic, are recovering faster in the US than in other regions.

Those hotels that have survived the pandemic have been strengthened by the experience, with abrupt closures and reopenings improving flexibility around task reorganisation, staff management and density optimisation. More hotels were able to remain open in 2021 than in 2020, with generally lower losses due to greater cost-absorption capacity.

Asset-light operators have generally proved more resilient than asset-heavy peers, with less-volatile profits, despite not having fully recovered incentive fees yet. Inflation, tight labour markets, sharper competition from short-term rentals and the lack of public-sector support, such as furlough schemes, will pose new challenges in 2022, particularly for independent hotels with less financial flexibility.

Related Research:
Fitch Ratings 2022 Outlook: Global Lodging

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