## News

# Overbuilding the middle?



By Guest Contributor on 12/20/2017

New brands equal new franchise opportunities and new supply. At the point where supply growth outpaces demand growth is historically the point where the lodging cycle starts to lose steam, eventually resulting in a widespread downturn. With the latest wave of midscale brand launches, in particular, is the U.S. hotel industry flirting with disaster? Opinions differ.

"Inevitably, enough new supply growth industry wide will be a problem. There will be a downturn. The question is not if, but when," says consultant Daniel Lesser, president and CEO of LW Hospitality Advisors, New York City.

On a brighter note, STR in a presentation last month cited positive numbers for the U.S. for 2017 year-to-date through September. While supply growth across all lodging sectors was up 1.8%, demand growth jumped 2.4% with occupancy at 67.4% remaining basically flat. "Supply growth continues to ramp up," cautions STR presenter Shawn Grenley, "but demand growth is holding."

The U.S. upper midscale segment for the period reflects this same basic trend line: supply growth up 4%, demand growth up 4.4%. Grenley's conclusion: "No downturn in sight."

During Hilton's third-quarter earnings conference call in October, CFO Kevin Jacobs was similarly upbeat, noting that supply growth remains "relatively modest and fairly stable," demand growth "strong."

Furthermore, Jacobs sees new brands, including Hilton's midscale Tru, "ramping up quickly."

Ultimately, say brand executives, it's back to the matter of differentiation. "In the crowded midscale segment especially, there will be room for a new entry if it truly fills an unmet consumer need that's out there," says Ron Pohl, Best Western Hotels & Resorts' chief operations officer and senior vice president, having recently helped launch Glo.

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*Contributed by Bruce Serlen*