

# 2018 FORECAST REPORT



## Pipeline Growth Creates Forecasting Challenges

The mega hotel pipeline filled with new, about-to-open and speculative rooms in Hamilton County makes 2018 forecasting more challenging than ever.

Through October and for the running previous 12 months, **Hamilton County had 12% more rooms** available versus same time last year. Compare that to less than 1% new room growth in Marion County and all of Indiana. Evansville – with almost 9% more rooms available – is the only other city in the county's competitive set with significant lodging growth.

Hamilton County has never had this amount of sustained year-over-year-over-year growth in hotel rooms. Ever.

Occupancy obviously must decline with all that growth, but that decline has been relatively small, less than 2% for the past 12 months – although no doubt hotels feel the pressure. Through July, **Hamilton County sold 10.7% more rooms than in the same period in 2016, which means it sold almost 90% of all those new rooms available;** that statistic should make overall occupancy challenges easier to swallow.

Indeed, room absorption in 2016-2017 has been more positive than anyone imagined.

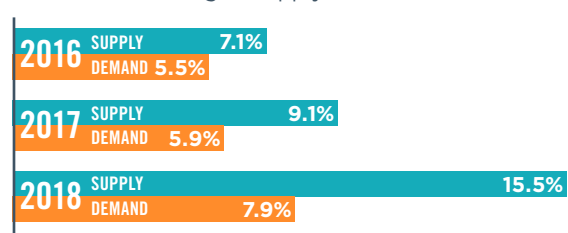
*Consider this:* In June 2017, Hamilton County averaged 80.9% occupancy. With 15,750 more rooms to sell in 2017 than in June 2015, Hamilton County managed to absorb 12,246 of those rooms in one single month.

June 2018, however, will be *another* story. The county will have yet another 16,000 rooms to sell for that month. To keep at this pace, hotels will need to sell more than 12,000 *additional* rooms of that total. To put it another way, **the county will have more than 29,000 additional rooms to sell in June 2018 than it sold in June 2015.** Ask any hotelier how challenging that math is.

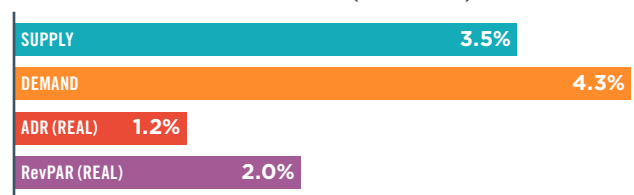
## SNAPSHOT: Occupancy Rates



## SNAPSHOT: Averaged Supply vs. Actual Demand Growth



## SNAPSHOT: Annualized Growth (2015-2016)



*\*Source: Tourism Economics; Hamilton County Tourism predicts a slightly higher rate*

## National Trends to Watch

- Early indications from STR Global analytics shows the sub-markets are already softening. Said to be the canary in the coal mine, it could indicate some dipping of demand and rates. That said, it's predicted to be a soft dip and as Hamilton County is not trending with the national forecast may mean nothing to our area. Nationally, business travel trends continue to show slow growth
- 2018 brings yet another 9-year growth cycle to completion, and many worry about the "bubble" as it is called. Others say this cycle is different than any previous one.
- Business transient makes up a good deal of Hamilton County's market demand. Tourism Economics states that on average, commercial business accounts for 55% of our room nights. TravelClick reports that committed occupancy (groups + transient rooms booked) continue to show healthy signs, primarily from the group side, but also transient leisure.

## What Will 2018 Bring?

Barring no black swan event, the biggest challenge in 2018 will be absorbing those additional rooms coming into the pipeline. This does not require an economics degree – if you have more supply, you must create more demand to consume more supply.

No community – no matter how successful – easily absorbs as much inventory growth as Hamilton County will continue to see in the coming two years. Compare an annual 10%+ growth in supply for 2016-2018 to these forecast national numbers from STR and Tourism Economics:

- 2017 predicted national supply growth +2%; occupancy change -.3%
  - *Hamilton County supply growth +9.1%; occupancy change -.12% through July*
- 2018 national supply growth +2.2%; occupancy change -.02%
  - *Hamilton County supply growth +15.5%; forecast occupancy change – 6.6% - but we think that this number may be high*

For context, Tourism Economics, in a Hamilton County Tourism forecast study for 2017-2021 predicted a 65.5% year-end occupancy for 2017, and through July that number was 68.2%. As was noted earlier, the occupancy decline was less than expected.

**This is one unusual market to predict, but we do not think the 2018 occupancy market-wide will dip to 61.2% as the forecast indicates; we are calling for a higher occupancy by year-end given the . This means demand will need to exceed the predicted 7.9%.**

The county saw definite growth in group room pick-up for Grand Park events in the spring 2017. For the first three months – April through June – the county leaked one-third fewer rooms thanks to local hotel properties picking up more of the Grand Park sports business. That support of the sports product is much appreciated. It translates to 17% of the overall new room nights available and 33% of the tournament days sold and is key to sustaining occupancy.

Tourism Economics in its May 2017 study commissioned by Hamilton County Tourism, Inc. also forecasts the following 2018 market shifts:

- Supply will be up again almost 16% by year-end 2018, but demand will be up 7.9% as absorption of the inventory will slow down a bit
- Commercial and leisure demand each will grow about 4%
- ADR, as a result of occupancy decline, will remain flat
- RevPAR will likely decline as well, due to increased supply
- Grand Park business will stay flat in county, unless hotels can/ will free up the coveted double-double rooms to give to this sports market to help fill the void and avoid leakage out-of-area
- Weekday will continue to take the hardest hit with the new inventory, as weekend in 2017 has continued to remain strong, averaging more than 73% occupancy

Hamilton County Tourism feels this is a fair but conservative estimate of the market situation. These scenarios are based on no additional room pick-up from Grand Park or its spectator base which has proven to be a room generator. Also, there is some speculation that our ADR does indeed have a little room to grow. That could help contribute to better RevPAR.

**The good news is that 2018 is the most challenging year on the horizon; 2019 looks better.** Unless some of the many speculative hotels come to fruition in 2019, things will begin to balance a little more next year as the market demand begins to meet with the new supply.

Hamilton County Tourism is pushing the non-sports group market with gusto, focusing on shoulder leisure marketing and continues to support product development that will drive weekday and softer season travel.

### For more information contact:

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## Lodging & Key Industry Impact Map



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|--------------------------------|--|----------------------------------|------------------------|--------------------------------|
| Information Technology         | Corporate Headquarters and Shared Services | Ruoff Home Mortgage Music Center | Agriculture Technology | Innovation-Based Manufacturing |
| Entrepreneurs                  | Life Sciences                              | Grand Park Sports Complex        | Conner Prairie         | Sports/Tourism                 |
| Center for the Performing Arts |  |                                  |                        |                                |

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