Uncontrollable Variables That Affect the Hospitality Industry

By Cameron Moore, Area Leader / Principal

For hoteliers, how you meet the travel needs of tourists and business professionals is a determinant of success. And as within any industry, the hospitality industry is subject to a number of uncontrollable variables that affect those involved in management or ownership of hotels, restaurants and other hospitality establishments. These uncontrollable factors include local and global economics, population shifts, and legal changes. It is crucial to be aware of these variables and monitor trends to ensure their impact on your business is a positive one.

Economics

When speaking about the uncontrollable factors in the hospitality industry, it is in reference to the macro environment. External factors, such as unpredictable economic cycles of a nation or natural disasters, are among the factors those working within the industry have no control over, yet often have the greatest impact. When economies go sour, the hospitality industry often suffers because of a drop in discretionary spending. Tourism may go by the wayside during times of extreme economic difficulty, leaving industries within the hospitality industry, such as the hotel business, dependent upon the continued patronage of the business community. However, despite the worse scenarios, responding appropriately can lead to survival, stability and eventual success. Management must be forward-thinking in how the situation is handled, and consider their pricing matrix, increasing customer loyalty and offering other inducements beyond competitive rates that will draw lodgers.

Population Shifts

It is no secret that America is changing, and the population will be completely different by 2050. It is projected that 20% will be over the age of 65, 42% will be part of the labor force and an overwhelming majority of the population will be “millennials.” Demographic changes have a major influence on travel demands in the hospitality industry. As quickly as hotel guest demographics change, so do their preferences and cultural trends, so savvy hoteliers must adapt to remain competitive.

One major population shift will likely occur by 2015, when it is expected that U.S. Baby Boomers will own 60% of the nation’s wealth and account for 40% of the spending. Because this generation is transitioning into retirement, the increased opportunities and relative affluence makes their travel demands of utmost importance. The Baby Boomers have adapted a “forever young” mindset, and prefer travel habits more associated with younger generations. Experiential travel is highly desirable, since they now have the time explore their interest and passions.

Another change to consider is the increasing migration to smaller cities and towns. As suburbs and country landscapes become more appealing, the population shift will bring about a “declustering.” More “sub-cities” and “multipolar cities” (several small city centers rather than one huge city) will be created. By 2050, suburbs will have their own vibrant town centers, and will bring about a revival of the heartland. In addition, “secondary cities” near airport hubs will also see population growth. Millennial college graduates are flocking to cities like Baltimore, Louisville and Portland. How local hotels adjust to meet the changing population demographics and travel profile will determine their viability going forward.
Legal Changes

Another uncontrollable variable that companies within the hospitality industry are largely affected by is changes in law. The regulatory environment in the hospitality industry can change from time to time and this can have an effect on the way that hotels, airlines and restaurants all go about conducting business. For instance, a change in the tax laws that raise the price of gas will affect tourism and costs for the hospitality industry as well. Another example would be changes to the wage structures. The New York Department of Labor is preparing to adopt a new Hospitality Industry Wage Order, replacing individual wage orders for the hotel and restaurant industries. The changes were based on recommendations of a wage board, resulting in many significant changes to existing industry practices.

Signed at the end of last year, ATRA is a good example of how legal changes relate to the industry. The Act gives incentives for investment in furniture, fixtures and equipment (FF&E), incentives to develop new products and technologies, and incentive to hire. Taxpayers may want to consider building, expanding and investing in FF&E. For growing companies, the ability to take Section 179 expense deduction and bonus depreciation can have a significant effect on the company’s ability to accelerate tax deductions and free up cash flow necessary for expansion. To take advantage of product and technology incentives, operators who have test kitchens and have investment expenses for developing new technologies and procedures should see if they qualify for this potentially significant incentive. As for hiring incentives, there are added incentives to hire individuals in “targeted groups,” such as qualified veterans and residents of Empowerment Zones. There is also an added incentive for potential expansion into an Empowerment Zone. While ATRA provides some incentives to grow business and hire new employees, the Act does not resolve questions related to the Affordable Care Act (ACA), the “debt ceiling,” or changes to Social Security and Medicare. These unanswered questions may have an impact on economic growth over the next few months that taxpayers should consider.

For information on how Paradigm Tax Group can assist you with the property taxes associated with your hospitality properties, and how these variables affect them, please contact Cameron Moore at (678) 954-6002 or cmoore@paradigmtax.com.