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For those committed to riding out the recession and staying in the industry, better times are within reach

January 27, 2011 - Spotlights

The hotel industry continues its slow and steady climb out of the recession. In 2009, the hotel market hit rock bottom. According to Smith Travel, revenue per available room (RevPar) dropped approximately 17% nationally from 2008. Although the final 2010 numbers are not official, Smith Travel reported in November that they expected year-end RevPar to increase 5.3% over 2009. Although a nice gain, the increase is represented entirely by occupancy with zero increase in average daily rate (ADR). As we enter 2011, the question worth millions of dollars to hotel owners, investors and operators is: When will owners and operators be in position to increase ADR?

The 2009 recession and the 2010 recovery placed incredible pressure on hotel borrowers and their lenders. Despite RevPar plummeting to historic lows, several factors kept most owners in business including: (1) historically low interest rates and interest only loans; (2) lender provided "waivers" and "modifications"; and (3) hotel brands providing owners with additional time to invest in capital improvements. In addition, operators sharpened their pencils by reducing fixed costs such as real estate taxes and property insurance, as well as direct costs by re-negotiating contracts such as Internet service, cable TV and waste removal. Taking these measures kept owners in business, but the industry needs significant year over year RevPar growth for the next three to five years to fully recover.

Although there has not yet been a complete recovery, 2010 showed many positive signs that such a recovery may soon be a reality. Although Smith Travel reported modest RevPar gains nationally, the numbers for many northeast and mid-Atlantic hotel markets outpace the national average. The northeast corridor from Washington DC through Boston, continues to lead the industry out of the recession. Many of the primary (city) and secondary (suburban) markets are boasting double-digit RevPar gains.

As RevPar improves the lack of credit for new hotel construction will continue to play a prominent role in recovery. With increasing RevPar and no new competition entering the market savvy hotel owners and investors are starting to reinvest in their hotels. The deferred capital improvements, brand mandated upgrades and complete renovations are becoming meaningful priorities. In addition, although lenders continue to steer clear of new construction, they are providing financing for renovating distressed and real estate owned hotels for sponsors with successful track records.

The hotels we own/operate and the projects we are currently pursuing point towards the recovery which began in 2010 continuing into 2011. Our hotels outperformed their 2010 budgets by over 10% and we anticipate another 10% increase in 2011. ROK Builders, our construction management subsidiary, started and completed more renovations in the second half of 2010 than all of 2009 and their 2011 pipeline is nearly full. Finally, transactions are starting to take place. For example, this fall we purchased a bank note, recently foreclosed on the asset, and it is slated for a major renovation this April. This month, we agreed to acquire a real estate owned hotel in need of a new brand and a complete renovation. In both cases, local lenders are expressing real interest in providing financing for the projects.

Forecasting 2011 is not an easy assignment. While Smith Travel is suggesting another 5% RevPar increase we are more confident. Although every market must be judged individually, we predict RevPar increases closer to 8% in most northeast and mid-Atlantic markets. The lack of new supply coupled with increased demand in renovated and refreshed hotels will provide the leverage operators need to gradually increase ADR in 2011 and beyond.

We wish the best of luck to everyone in the hotel business. Although the last two years presented unprecedented challenges for those committed to riding out the recession and staying in the industry, better times are well within reach.

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