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Positive signs of a slow and steady recovery amid Middle East, Japan, oil, war and unemployment crises

March 24, 2011 - Spotlights

I spent the first week of March in Atlanta attending the Hunter Hotel Investment Conference. Unlike the other major hotel investment conferences including American Lodging Investment Summit (ALIS), The Lodging Conference in Arizona and NYU in New York City, Hunter attracts a larger percentage of regional hotel owner operators as opposed to institutional hotel owners and investors. Typically, this allows attendees to get a good sense of what other owner operators are experiencing in the hotels they own and operate daily. While the national outlook is certainly great information, it is also important to speak with regional hotel companies to see how they are overcoming similar challenges and continuing to focus on new opportunities.

The National Outlook:

The national outlooks revealed by Smith Travel, Colliers PKF and Rubicon were positive, although cautionary, considering the macro economic challenges that continue to plague the global economy. The unrest in the Middle East and North Africa, rising oil prices, the housing crisis, unemployment and "under employment", consumer confidence and the loss of discretionary income dominated discussions regarding the issues that are impeding a sustained recovery. Add to these challenges the recent natural disaster in Japan, and the overall picture only looks worse. That being said, all three companies presented data that clearly demonstrates positive trends in the hospitality business.

Smith Travel Highlights:

Jay Frietag presented Smith's forecast for 2011

- * Supply +0.7%
- * Demand +2.5%
- * Occupancy +1.8%
- * ADR +4.2%
- * RevPar +6.1%

One of Jay's most interesting comments during the presentation caused everyone in the room to reflect. "Since 2000, average daily rate is up 15.8%—an average of 1.6% each year, which is less than the rate of inflation. 'I wonder why you still want to be in the hotel industry.'"

With regard to the hotel supply closer to home, the STR/McGraw Hill Construction Dodge Pipeline Report stated that, "among the U.S. regions, New England has experienced the largest decrease in rooms in the total active pipeline, falling 35.1% with 9,281 rooms. Moreover, the region has America's fewest guestrooms under construction with just 885." Although the lack of hotel supply is difficult for those in the development and construction business, our "high barriers to entry" and lack

of new hotel supply will eventually help lead the hotel industry out of the recession.

Colliers PKF:

Mark Woodworth's presentation focused on employment, RevPar growth in the Top 50 markets, increasing operating profits and capitalization rates. Mark expects 2012 to be the "next good year" in the hotel business with many Top 50 markets returning to "nominal" hotel numbers. He also expects net operating income growth around 10% and a decline in the number of loan delinquencies. In his opinion, capitalization rates will stay in the between 8.2% and 8.8% over the next three years.

Over the years, I've found Mark's information to be extremely useful. He focuses on the macro economic data that directly impacts hotel performance including employment, housing prices, inflation and airline traffic. Although his presentation was geared to national performance, his rationale is applicable to hotel markets anywhere in the country.

Rubicon:

Tim Hart, CEO of Rubicon, was the most upbeat of the group. Unlike Smith Travel or Colliers PKF, Rubicon analyzes data accumulated from future bookings rather than historical occupancy and rate information. Rubicon divides rate data into four segments: negotiated, discount, qualified and retail. And, according to Tim, every segment is trending positively and contributing to ADR growth.

Rubicon's 2011 projections:

- * Occupancy +6-8%

- * ADR +5%

Summary:

The industry ended 2010 on a positive note. After a dismal 2009, occupancy and RevPar increased in 2010, transactions started taking place and signs pointed toward a sustainable recovery. As the first quarter of 2011 draws to a close, the national hotel outlook appears positive, but world wide political unrest, oil prices and the negative effects of Japan's natural disaster make it difficult to predict how 2011 will ultimately unfold. Overall, the hotel owners I spoke to in Atlanta, as well as those that I speak to daily, feel we are slowly and steadily recovering. Best of luck to everyone as we head into our busy spring and summer seasons!

Information for this article was gathered from "Hotel News Now" www.hotelnewsnow.com.

David Roedel is a partner with Roedel Companies, LLC , Wilton, N.H.