



# nerej

## **By David Roedel - According to PFK Hospitality Research report "hotel fundamentals are strong and will improve"**

October 27, 2011 - Spotlights

While working my leaf blower for over four hours on Saturday I was reminded of a saying we used when I worked for Susse Chalet hotels in the 1990s, "when the leaves start to fall, hotel occupancy is soon to follow". That said, the opportunity to capitalize on the highest demand periods of the year, September and October, typically allows hotel owners and operators to increase average daily rates (ADR) and increase cash flow prior to the lower demand winter months. After putting the leaf blower away, and collapsing on my living room floor, I not only wondered how many more leaves would drop on my lawn, but also how far occupancy and ADR would drop as autumn turned to winter.

If the September results recently announced by Smith Travel Research (STR) are an indication on future performance, the future looks bright. On the heels of a record setting summer, September continued a very good year for the U.S. lodging industry. (see chart above).

Looking inside the numbers, STR reported that luxury hotels outgained all other hotel segments by virtue of strong business and leisure demand. Overall, hotels with higher ADR are performed better than hotels with lower daily rates. If this trend continues, what does it mean for the economy and budget lodging sectors? Also, what is the impact on hotels in marketplaces where low demand does not justify increased daily rates? Finally, when we look at 2012 what should we expect?

Aaron Walls and Jamie Lane from PKF Hospitality Research recently published a report that focused on five reasons why hotels will outperform the economy. Like many hoteliers, our company lived through the dark days of 2009 and is eager to move forward into a profitable future. The PKF report outlines why we should expect hotels to continue their positive trend despite macro-economic challenges.

In the article, PKF indicated corporate profits are up and so are travel budgets. Also, profits are causing salary increases and renewed confidence in personal financial stability. As confidence returns, so does leisure travel which makes up a significant portion of the positive STR trends. Regarding unemployment, although the unemployment rate continues to hover around 10% nationally PKF breaks down unemployment by educational level. Those with a bachelor degree or higher are working, in fact only 4.7% are unemployed while those with no college are unemployed to the tune of 10.3%. Those that are employed are traveling and are paying to stay in hotels with higher average daily rates causing hardship for economy hotels. Finally, Moody's Analytics predicts corporate profits and salaries will continue to improve over the next four quarters and companies will begin hiring at a faster pace. In PKF's opinion, hotel fundamentals are strong and will continue to improve.

We agree with the PKF article and are cautiously optimistic that improving hotel fundamentals will continue through 2012 and beyond. Obviously, macro-economic conditions will remain a threat but hotels are a market by market investment. In many cases, what is happening in Greece, Libya or on

Wall Street does not impact hotel performance in New England. That said, budgeting season is in full gear and we expect the hotels we own/operate to increase room revenue by 10% in 2012. In addition, we continue to invest in hotels through acquisitions and highly selective new development. Although the back pain from yesterday's leaf gathering is proof of my efforts, the leaves already reclaimed my lawn. Hopefully, my "leaf struggles" are not an indication of falling hotel occupancy as we enter 2012. Roedel Companies wishes the best to our fellow hotels owners and operators as the bright colors of autumn turn into the dark days of winter.

Month   3-month   Year to Date

Sept. % Change   Sept. % Change   Sept. % Change

\* Occupancy   63.3% 5.7%   66.5% 4.0%   61.6% 4.6%

\* Average Daily Rate (ADR)   \$103.40 4.0%   \$102.96 3.8%   \$101.45 3.6%

\* Revenue Per Available Room (RevPar)   \$65.47 10%   \$68.44 7.9%   \$62.54 8.3%

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

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540