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CELEBRATING 55 YEARS

Of the Top 25 U.S. markets, 21 show positive RevPar growth in 2011, a positive trend to continue

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The end of each year brings with happiness, wonderful times with family and friends and optimism for the coming new year. In addition, it yields the stress of business planning, budgeting, last minute shopping, holiday travel and the unwelcome sight of Ryan Seacrest splashed across the television on New Year's Eve. Fortunately, Ryan is in the rear view mirror, and hoteliers are "cautiously optimistic" as they enter 2012. If we agree that 2011 was a "return to normalcy", what will we say about 2012 when we turn to the calendar to 2013?

Predicting the future of the hotel business is a difficult, if not impossible task. Fortunately the hotel industry benefits from real time data provided by Smith Travel Research regarding demand, supply, occupancy, average daily rate (ADR) and revenue per available room (RevPar). However, in the hotel business demand is cyclical and highly sensitive. Negative economic news typically causes both business and leisure customers to pull back on travel plans and cancel trips, meetings and vacations.

Smith Travel recently reported 8.1% RevPar growth in 2011 over the previous U.S. year. In addition, a new record was set in the number of overall rooms rented in the United States. Looking ahead to 2012, experts are predicting another healthy RevPar gain weighted more favorably to ADR rather than occupancy.

The Positive:

PKF Hospitality Research recently released their market update for 2012. Mark Woodworth and Jack Corgel outlined five reasons why they believe RevPar will grow 6.1% in the next twelve months. In addition, they believe 4.7% of the gain will come from ADR. Their optimistic view included the following:

1) Travelers, both leisure and business, have more money in their pockets. Leisure travelers are confident they will not be laid off and can afford to spend money on hotel rooms. Regarding business travel, corporate profits are up and companies are traveling more than they did in 2010 or 2011;

2) It appears unemployment reached its low point and we are now adding jobs;

3) New hotels are not being built - no new supply allows current owners to recover in most markets ;

4) Of the Top 25 U.S. markets, 21 of them showed positive RevPar growth in 2011, a positive trend predicted to continue in the coming year;

5) The U.S. continues to attract international travelers. Overnight stays by international guests grew 5.4% in 2011 and will continue to grow in 2012.

The Negative:

The positive outlook predicated by PKF is not shared by everyone in the industry. Joel Ross, in a column written for www.HotelNewsNow.com, ("Dr. Doom's Real World Predictions for 2012) shared a more pessimistic view. According to Ross, there are simply too many uncertainties in the world, or potential "black swan events" to predict any meaningful growth in RevPar. Joel He sighted the following challenges facing our economy:

1. Political unrest in North Korea, Iran and Syria;
2. The White House imposing additional regulations on the U.S. banking industry ;
3. Continued stress on the European financial system ;
4. Limited U.S. job growth ; and
5. The vast amount of commercial real estate loans maturing in the next two years.

The Brutal Facts:

Although hotel fundamentals improved in 2011, and are poised to trend positive in 2012, most owners who took loans out in 2007, 2008 and 2009 are feeling the pressure of over-leveraged and "under water" loans. To date, most lenders have made the decision to "extend and pretend" hoping the market would correct underwriting mistakes made in years past. Unfortunately, in many cases, the gap between operating cash flow and debt service is simply too vast, thereby causing widespread loan defaults.

Currently, lenders and borrowers are making difficult decisions regarding the future of their hotel loans. When lenders are faced with underwater real estate investments, selling the hotel may not be a viable option because the value is probably less than the outstanding loan balance. Faced with defaults, owners can either hand the asset back to the bank or solicit "rescue capital", or new investors to help them recapitalize the investment and pay down the loan balance. Throughout New England, hotel bank foreclosures started in a meaningful way in 2011 and are poised to accelerate in 2012.

Forecast:

At Roedel Cos., we are eagerly anticipating a positive 2012. The hotels we own and operate were up over 10% in hotel revenue in 2011 and we expect RevPar to increase 8-10% in 2012. In addition, we feel that the market dynamics are strong and barring a catastrophic world event (or a Ryan Seacrest television special), the hotel industry is poised for record growth the next three years. Best of luck to everyone in 2012!

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