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## **Positive trends continued through September and the future appears bright for the hotel industry**

October 25, 2012 - Spotlights

It's mid-October and fall is definitely here. Turning leaves bring out "leaf peepers" while leisure and business travel is hitting its peak. For many, the only solace of saying goodbye to warm, sunny days and the onset of cold, dark winter ones are glorious autumn afternoons. Personally, without fall weather (and the start of football season), the thought of freezing temperatures and 4:45 PM sunsets would send me into a deep dive. Fortunately, for the hotel industry, positive trends continued through September and the future appears bright.

I recently attended The Lodging Conference in Phoenix. The conference set a new attendance record with over 1,400 attendees from across the US and overseas. The four day event is one of the marquee events for our industry, attracting representatives from all market segments including owners/investors, brands, operators, consultants and service providers and vendors from every discipline. Throughout the week the mood felt "cautiously optimistic". Demand is up, supply is low and average daily rates (ADR) are on the rise. So, with positive dynamics at work why do hoteliers remain cautious?

The clouds of political and economic uncertainty, both domestic and international, are keeping widespread optimism in check. The conference opened with a panel of experts discussing the current state of the hotel market, where we are going and how macroeconomic factors could influence future performance. Vail Brown of Smith Travel Research (STR) commented that the US hotel industry set an all-time high in room revenue, over \$78 million, through August. In addition, demand has exceeded room supply for 25 consecutive months and through the end of this year demand will continue to grow at about 2%. Finally, the numbers show that occupancy recently returned to pre-recession levels but ADR continues to lag. The opportunity for hotels owners and operators to increase profitability lies in ADR, not occupancy.

Regarding new hotel development, the growth is modest. Bruce Ford of Lodging Econometrics commented that there are currently 67,000 hotel rooms under construction compared to over 180,000 during the peak in 2008. Coming out of the recession Ford expected more new development but owners and lenders remain cautious choosing instead to acquire existing hotel inventory and renovate versus building new hotels. Fundamentally, the lack of new supply entering the market, combined with record occupancy, creates the opportunity for owners/operators to increase ADR and profits over the next two years. Assuming this trend continues, expect developers and their lender partners to resume new construction in high performing markets in 2014 and beyond.

Bernard Baumohl, chief global economist for The Economic Outlook Group, said he believes 2013 could exceed expectations. He cited the lowest household burden in over 18 years combined with over \$1.7 trillion of corporate capital "sitting on the sidelines" ready to invest in the right opportunities

given positive signals. In addition, he mentioned that the election, regardless of who is elected, would help put an end to the two year political stalemate that negatively impacts the economy. Finally, assuming politicians pass the appropriate measures to prevent another recession, the economy is poised for continued growth. He said international events, specifically conflict sparked by the Iranian nuclear situation, could send oil prices "over \$200 per barrel" and send the world into a tailspin.

Industry conferences provide great perspective and business development opportunities, but they do not necessarily reflect the market conditions in New England and the northeast U.S. We expect demand to increase for the remainder of this year and into the next two years throughout the majority of the northeast markets. Assuming our forecast is correct, ideal conditions exist for raising ADR and hotel profits.

As hotel investors, operators and developers we are eagerly looking to expand our portfolio and reap the rewards of an ever improving hotel marketplace. Like many others, we believe acquiring existing hotels, renovating and repositioning is the best scenario but believe highly selective, new development will return as market conditions continue to improve.

Best of luck to everyone in the hotel industry the remainder of this year and the coming years. Also, enjoy the fall weather as you mentally prepare for the long, dark winter ahead.

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