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New England's lodging segment may have taken a hit but 'seeds of recovery' are already being sown

December 17, 2008 - Front Section

As this article is being written, the National Bureau of Economic Research has met and declared that the recent economic expansion period, which we fondly remember, ended in December 2007. Throughout the current year, we have been laboring through an unreported 'stealth' recession. In addition, the U.S. Congress reluctantly approved a request for funding \$700 billion to repurchase 'troubled', sub-prime mortgages. Instead of following the initial plan approved by Congress, the U.S. Treasury has opted to provide direct cash injections into America's leading domestic banks, to 'unfreeze' the capital markets.. Further, a 'rescue and recovery' plan has been approved for CitiBank, America's second largest bank. Currently the CEO's of Ford, Chrysler and General Motors are meeting in Washington to request \$36 billion in funding to continue operations and forestall massive automotive industry layoffs.

Recently reported events on employment and production output have confirmed the recession. Retailers are bracing for a 'bleak' holiday shopping period. Consumers have lost confidence and pulled back spending. Against this backdrop, capital and credit markets remain frozen. Banks are reluctant to lend, even to each other. An economy that had been based on three "C's" - capital, credit and consumers - has stalled out- recovery is not yet in sight. No comprehensive plan has been put forth to support a broad based recovery. Development of a comprehensive 'economic recovery plan' will await the efforts of a new administration.

Lodging Industry Impacts

Not surprisingly, the effects of a weaker employment market on travel are affecting the performance of hotels. Noted (see graph) are reported results for the New England states in contrast to the total U.S. lodging.

While the credit crisis surfaced in mid-September, the immediate impacts were not felt throughout New England until October. For the month of October, lodging operations in all but the state of Vermont reported significant declines in occupancy ranging from 5.8% in R.I. to 10.7% in Conn. Further lodging demand at all six New England states reflected declining demand. The steepest demand declines occurred in Mass. (-5.3%) and Conn. (-7.1%) reflecting cutbacks in both leisure and business travel. While R.I. experienced a moderate decline in demand (-1.6%), reported supply increases (4.6%), occurring in Providence and Warwick, caused added stress on maintaining occupancies in the region.

For the ten months ended October 2008, lodging operations in all but the state of Vermont reported occupancy declines ranging from Mass. (-1.4%) to R.I. (-6.0%). R.I.'s occupancy decline resulted, to a large extent, from a 5.8% increase in new room supply. Room rate increases throughout the region held up fairly well with all but the State of R.I. reporting increases in average rates.

Anticipated Impacts

Going forward, HRI anticipates that lodging operations throughout New England will be impacted continuously during the coming year. While supply increases will be held in check by constraints imposed by capital markets, demand declines will likely continue throughout the year. Reported declines in leisure travel can be expected to abate, however, business travel 'cutbacks' could accelerate as the recession deepens. Urban markets, dependent on corporate travel, will be challenged to maintain both occupancy and rates.

HRI anticipates that New England markets will experience further occupancy declines of 3% to 5% with minimal increases, if any, in average rates. It will be a challenging period for most operators but the industry itself will remain profitable - more than can be said for many other industry sectors including automobiles, airlines and certain retail sectors. HRI further anticipates that while the 'seeds of recovery' are already being sown, any broad based recovery affecting lodging will be delayed until early to mid 2010.

Responsive Strategies

Noted below are excerpts from an article written by HRI, in July 2001. The article, published in this journal, was focused on developing responsive strategies for a recessionary environment.

Step up Marketing Efforts

This is an excellent time to pull the sales staff together and discuss retention strategies for current accounts. Make sure that your current customers know that you appreciate their business and that you want to continue to meet their needs. Certainly if your sales staff indicates needs not being met, focus on solutions.

Here are some low cost amenities that could be viewed as privileged extra's - early check in or late check out procedures, automatic upgrades to king rooms or suites when available, complementary newspapers (consider strong local papers and the Wall Street Journal, not just USA today), an in-room basket to include fruit, cookies and water.

Follow an airline strategy - create your own 'Ambassador Club' with defined low cost, high value amenities for your preferred accounts. Your sales team will come up with more ideas. It is equally important to review local accounts that don't use your hotel. Take all the members of your executive team and create an outreach program to visit those accounts and seek to acquire their business. Give the team objectives and incentives. Keep the team together in frequent meetings to share feedback, until all local accounts have been canvassed.

You will acquire some additional business, just because you reached out and asked for the business. Don't be surprised if just the visit has promoted trial. If you get trial from new accounts, thank them for the business and move them to a corporate account status.

Don't focus solely on corporate accounts - renew your efforts to attract leisure business from Social Groups, Family reunions, anniversaries, graduations, college reunions, visiting sports teams, etc. Create weekend 'getaway' packages and tie-ins with local events. Become more visible in the local community - consider advertisements in local suburban papers. This type of business is especially productive in shoulder seasons.

Re-enforce Employee Performance

Pull together the entire hotel staff and share with them Management's Goals and Objectives. Make sure that each and every associate can identify their role in seeing that the objectives are achieved. Keep in mind that your hotel guests will have far more frequent contact with your associates than with your management team.

Once Again, Motivate

Consider establishing or renewing employee recognition and incentive programs. Make sure that all departments and all associates have the tools, resources and incentives to provide outstanding guest service.

Keep in mind, the wisdom involved in the simple statement - "if you take care of your employees and they take care of your guests, then the results for the hotel will take care of themselves."

Maintain Your Rates

Over the past three years, most hotel operators have been able to increase rates and improve profitability. Industry profitability has hit an all-time high. Realistically, rate increases will be difficult to sustain during the current economic storm. We have advised clients to hold rates for the next twelve months and focus on maintaining or building occupancies with value based strategies.

In past recessions, some hotel operators have employed strategies which focused on "reduced rates". Often rate reduction programs led by one operator mushroomed into local rate wars. The rate wars continued until most operators realized the flawed nature of a rate reduction strategy. During difficult economic periods, room demand will not be increased by reduced rate strategies. Today's lodging guests have very definite expectations. It is far more important to understand and meet those expectations than to simply offer our valued products at a lower price. That's a lesson that should have been learned from the past.

The above strategies, published seven years ago, worked well in the past recession and they will again.

Back to Basics - With a Twist

Before letting this article go to press, HRI contacted Sean Riley, of Maine Course Hospitality Group, an accomplished operator of hotels located throughout Northern New England. When asked for his thoughts on responsive strategies he offered a comment - "Back to Basics - with a Twist". When asked to elaborate, Sean said - "while expense reduction is important, you need to drive the revenue lines. You need to take care of your employees, take care of the guests and take care of the hotel". Well said, Sean.

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