Hotel investors and resort owners hunker down for another year

By Karen Dybis, CPAmerica International, Of Real Value Client Newsletter

January 2010 --- Thanks to a dismal 2009, hotel investors and owners are best to follow their instincts and hunker down for another year as there will be little to moderate growth across most of the United States, industry experts predict.

While the hotel and resort outlook is gloomy, experts agree there are opportunities for some investors to snag properties in hot areas such as New York or Washington D.C. if they can find the few motivated sellers out there.

So just how terrible was the previous year? U.S. hotels filled 55 percent of their rooms in 2009, about 15 points below 2008 and 18 points under 2007 when the hotel industry recorded 63.1 percent occupancy, according to **industry consultant Jeff Coy of Phoenix-based JLC Hospitality Consulting.**

Hotel room rates dropped from $106 in 2008 to $97 in 2009 nationwide. Meanwhile, revenue per available room, the leading indicator of health in the hotel industry, dropped 1.8 percent in 2008 and a dramatic 17 percent in 2009.

"As a result of these declines, many US hotels are scrambling to make payroll, cover costs and meet debt service," **Coy** said. "An economic recovery could save a lot of hotels from disaster, if it comes soon enough."

The question remains as to when such a recovery will occur. **Coy** said his analysis of the available data gives him little hope.

"This recovery is shaped like a Reclining-J – a rounded trough with a long gradual uphill grade like a beginner's ski hill with a rope tow," **Coy** said.

The hotel investment arm of Jones Lang LaSalle predicts U.S. hotel sales will increase moderately this year. Some investors will feel shy because of liquidity concerns, the company said. But some motivated owners will be selling, so if you have the cash there will be some tasty properties on the market.

Business has to get better after a dismal 2009, according to the company's 2010 hotel outlook. Hotel portfolios were in the dumps; it felt like another tragic year. Transaction volumes were at their lowest levels in a decade.

Areas quickest to recover are those "gateway" areas like New York, San Francisco and Boston, the 2010 report said. East and West coast properties will do well because of European travelers, eager to take advantage of the exchange rate.

However, Jones analysts believe resorts will struggle for a while longer, especially those that cater to luxury travelers. And any markets that depend on corporate or convention travel will feel the hurt throughout 2010. Most scenarios will improve as there are fewer new properties popping up during this economic downturn.

The bigger problem is room rate discounting, according to **Coy**. Instead, smart hoteliers learn how to maintain prices by adding more value to the guest experience.

“Most hoteliers know that room rate discounting is a double slammer. It is a 2X loss of both occupancy and rate that significantly affects profits,” he said. “It has been proven by numerous hotel studies that you really can’t change consumer behavior using price in a falling market.

“In an up-market, hotel owners follow the leader. In a down-market, hotel owners follow the first owner that panics and cut his rates. It takes years to recover the lost revenue and reset hotel room rates. Discounting can also damage a hotel’s value perception and reputation,” **Coy** added.

Generally, **Coy** believes that hotels, resorts and the like remain important to those traveling for business as well as pleasure. Business travelers, while seemingly scarce, remain committed to meeting face-to-face despite changes in technology, such as teleconferencing.

“Web conferencing is not a replacement for face to face meetings,” **Coy** said.

He points to a quote from John Russell, CEO of NYLO Hotels and former chairman of the American Hotel & Lodging Association. According to Russell, “People don’t want to sit in their office looking at each other on computer screens. That personal interaction -- getting together to talk over dinner, drinks or a cup of coffee -- is the foundation on which business relationships are built. It’s what drives business.”

Getting people, especially that all-important business traveler, to spend again is simple, Coy noted. To resume traveling, consumers are looking for a better job outlook, a return to a more ethical society and stronger controls for the financial services industry.

Whether these things can occur is the larger question.

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