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Panelists spar over recovery timeline

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Phoenix–Break out the Tylenol; it's going to be one heck of a hangover.

The hotel owners, operators and market forecasters who participate in the Lodging Industry Investment Council may have disagreed on how long rate recovery will take when they met at The Lodging Conference, but all recognized it will be a long haul back.

The mix of oversupply, a skewed balance of leisure to business travel and the need to stay competitive have resulted in a rate cocktail that packs a powerful punch to the industry's bottom line.

Mark Lomanno, president of Smith Travel Research, told LIIC members it will take "probably 10 years before rate is up to inflation-adjusted levels."

For 2009, STR's latest forecasts call for occupancy to be down 8.4 percent, average daily rate to be down 9.7 percent and revenue per available room to be down 17.1 percent.

This year will finish with an ADR of $96.43, the company forecasts, after eclipsing $100 in 2008. For 2010, STR forecasts ADR to drop even further, finishing up 2010 at $93.16.

In 2010, STR forecasts occupancy down 0.6 percent, ADR down 3.4 percent and RevPAR down 4 percent.
PKF Hospitality Research forecasts occupancy to be down 6.5 percent at the end of this year, ADR down 11.4 percent and RevPAR down 17.1 percent.

Members of LIIC debated whether owners are justified in cutting rate, or whether they are in fact leaving rate on the table and not managing revenue effectively from weekday to weekend.

2009: Fewer closings
Supply traditionally is defined as new hotel rooms coming into the market, but supply this year has a notable contributing factor—the number of rooms that aren't closing.

"2009 will be have the [fewest] room closings in 20 years," Lomanno said. The properties "won't close because they tend to be old, they tend to have debt service, and there's no incentive for them to close unless someone wants to give them a pile of cash for the real estate, and nobody wants to do that."

Lomanno said more than 60,000 rooms closed between 2004 and 2006, and this year less than 15,000 rooms will close.

New-build supply still is slow to market—a positive effect of frozen credit markets halting new projects.
But without demand outpacing supply in any form, overall industry health will stay poor.

"We're encouraged demand is going to start growing the second half of next year," Lomanno said. "This will be another jobless recovery. Employment and real estate are the two [factors]. There needs to be capital available and alternate uses for the crappy product."

Leisure vs. business
"Rates probably will continue a slow decline even from where they are now if for no other reason than the mix is going to change over the next six to nine months," Lomanno told LIIC. "There may look like an overall erosion of ADR, but that is the transient market recovering a little bit."

It's a given that leisure travel outweighs business and other group travel, but LIIC members debated whether operators are leaving rate on the table or not.

Lomanno cited STR data showing demand for weekday travel is down 7 to 8 percent in the transient sector, and weekend travel demand for the same group is up 4 to 5 percent.

Despite the numbers, he said revenue management is poor and operators aren't taking advantage.

"For all the benefits the Internet gives you, it makes it very difficult to manage day of week rates. So the industry is either lowering rates too much on weekends or not enough during the week," he said.

Kevin Mahoney, COO of Stonebridge Companies, came to Lomanno's defense. "The objective is to beat your STR competitive set," he said. "I went back, I looked at them. We're leaving rate on the table. … Go back and look at your Tuesdays, Wednesdays, Thursdays. Look at your weekend. We are leaving rate on the table."

Mahoney noted the industry remains focused on RevPAR. "We have discussions with our revenue managers and our hotel GMs. An empty room doesn't get sold."

Negotiation-savvy consumers aren't helping matters.

"We're following in the footsteps of the airline industry," said Robert Kline, president of The Chartres Lodging Group. "It's human nature to try to compete with the most efficient route and right now that's the Internet. … Rates will continue to fall until you really can't drop them anymore. Until we really find that we drop below the point to where we can't afford those low rates anymore, they're going to continue to drop."
Brands will wake up and start to lower their standards like the airline industry did, and we're going to be throwing peanuts at our customers because that's all we can afford to do," Kline said.

LIIC members debated whether the turnaround would come from a stubborn GM who refuses to cut rate, or a traveling public that gets frustrated with low standards and starts to pay for quality.

"It's painful now, but people know there are options," said Jim Merkel, president of RockBridge Capital. "People generally know what they want. If they stop getting what they want, they're going to start paying more for it. Most people don't want to bother with negotiating their rate. Americans want what they want. The second they stop getting what they want, they'll pay more for it."