



Lodging Conference: Rate is 'the \$3-billion question'

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By [Stephanie Ricca](#)

Hotel and Motel Management

Phoenix—What a difference a year makes.

At the 2008 Lodging Conference here in Phoenix, talk centered on how the hotel industry would feel the effects of the very recent Lehman Brothers collapse. This year, hindsight is 20:20: Owners and developers have a markedly more subdued attitude, but they are ready to face the realities of rate hangovers, special servicing and the still-frozen credit markets.

The rate debate took center stage on Wednesday.

"When will rate catch up? That's the \$3-billion question," asked Harry Javer, president of The Conference Bureau and event founder.

Not anytime soon, according to Mark Lomanno, president of Smith Travel Research. At the Lodging Industry Investment Council roundtable meeting, he said it will take "probably 10 years before rate is up to inflation-adjusted levels."

For 2009, STR forecasts 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.

2009 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.

PKF identified the top five and bottom five U.S. markets for forecasted ADR growth and forecasted RevPAR growth. The top U.S. markets are Oahu; West Palm Beach, Fla.; Atlanta; Salt Lake City and San Diego. Markets on the bottom are Sacramento, Calif.; Long Island, N.Y.; Hartford, Conn.; Memphis; and Oakland, Calif.

"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."

Tom Corcoran, chairman of FelCor Lodging Trust, also addressed rate during the View From the Top general session panel.

"Rate is the single biggest problem we have," he said. But he added that following every downturn, "We have a great upturn. It's not 'if' but 'when,'" he said.

The rate question has been heavily debated throughout 2009, with most owners and operators taking the stance that rate cutting is a necessity in this competitive environment of price transparency.

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.

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