HOTELGURU.com
November 2014

November Report
Lodging Conference Takeaways

By Bob Rauch

Bernard Baumohl of The Economic Outlook Group is an extraordinary economist. He was able to paint the U.S. macroeconomic environment in a clear, concise fashion at the 20th annual The Lodging Conference this past week. “The economy has been expanding for 6 years and has the legs to continue the expansion through 2017,” according to Baumohl. “It makes sense that the expansion will continue for a while since we had such a slow start in 2009-2012,” he added.

During that period the economy was not on solid footing due to unknown quantities such as Obamacare, the government shutdown, energy prices and a very weak level of consumer confidence. “Currently, payrolls are up, gas prices have been declining, discretionary spending is up and consumer sentiment is the best in seven years,” Baumohl stated enthusiastically.

According to the Bureau of Economic Analysis, more capital spending coupled with a Federal Reserve that is not likely to tighten monetary policy soon will make for good times ahead. Foreign investment is up and tax reform is likely, especially if the Republicans take the Senate in this month’s elections.

Lodging Industry

According to Vail Brown, VP Global Development for STR, “the hotel industry is performing at near-peak levels, and the prosperity should continue for many months and years. 2013 was an amazing year. We had more rooms to sell than ever before, we sold more rooms than ever before, and we sold them at a higher rate than ever before.” Mark Woodworth of PKF indicated that the economics in local markets are doing well and that 14 of 55 markets PKF monitors are forecast to have their highest occupancies ever in 2015.

Clearly, we at RAR Hospitality see strong demand growth, though some sectors and locations are doing much better than others. Demand (rooms sold) is up 3.5 percent in 2014 and group demand is starting to see some lift as reported by TravelClick. We believe that most of the revenue per available room (RevPAR) growth over the next two years will come from average rates as occupancy levels are at their peak. STR forecasted 6.5 percent RevPAR growth for 2014 and over 5 percent RevPAR growth in 2015.
Brown added that in the early 1990s, the hotel industry had 112 months of continuous RevPAR growth before the 2001 downturn and there were 65 months of RevPAR growth before the downturn in 2009. We are currently at 47 months so there is room for continued growth.

We believe that 2015 will be the greatest year ever for the lodging industry.

Lodging Economics reported that supply growth might become an issue after 2016 as the pipeline of starts is growing but right now, times are good. There are 126,000 rooms under construction in the U.S. The average selling price rose from $117,300 per room in the first half of 2013 to over $150,000 in the first half of 2014 with seller and buyer activity at similar levels. Prices are reaching all-time highs and there is still continued growth ahead for longer term players. This could be one of those rare times where it is good to be a seller and a buyer at the same time.

On the brand and technology front, Hilton's John Vanderslice, head of Global Lifestyle Brands, announced the new brand, Canopy, which will feature a high-tech, straight to room approach. "We'll call our staff members "enthusiasts," and create a service culture that is guest-directed," Vanderslice said. "For example, we're going to open this concept with "straight-to-room," which is to say we're going to allow you to use your cell phone as your room key and go right to your room. Now the enthusiasts are going to help you with that process—if you want—but it's very, very guest directed."

Although the majority of speakers were very bullish on our industry, some topics of note that emerged included "Ebola fear," concern about minimum wage, Airbnb and OTAs. But the overwhelming vibe was extremely positive with enthusiasm for the year ahead.

Selected Markets

We operate and provide consulting services to hotels in San Diego, Phoenix and

Colorado Springs as well as several other markets so we thought we would identify some key changes going on in those markets:

San Diego will see an increase of 13 percent new supply over the next four years if all current projects in the pipeline materialize. From our experience, 8-10 percent is more likely and demand will absorb most of it. The San Diego market suffered in 2013 when then Mayor Bob Filner pulled the plug on marketing dollars. With Mayor Kevin Faulconer at the helm, the funds are now flowing and the market in 2014 is up almost 10 percent over 2013, in line with other strong California markets.

Phoenix is a market that was hit particularly hard in the Great Recession. In the past 12 months, Phoenix has recorded double-digit REVPAR growth and is perhaps the hottest recovery market in the U.S. There are submarkets that are stronger than others but all are seeing “lift” from the strength in both room demand and rate growth. Further, the Super Bowl will see phenomenal results as it hits right at the start of the season. This is counter to what occurred last year when New Jersey hosted this event…not quite in the peak of the market. Perhaps that is an understatement.

Colorado Springs is one of those markets that saw virtually no recovery until now. While double-digit REVPAR growth is not there yet, we are seeing solid growth of over 5 percent this year. This seems to be the pattern for many secondary markets in the U.S. They do not have the strength of the primary markets yet but are also improving.

At the end of the day, now is the time to take full advantage of the strong economy. 2015 is poised to be a stellar year for the lodging industry and at least for the near term, we believe the investment fundamentals are sound.

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