



Hotel News

## Great Times, Great Opportunity, Now Stay Sharp

**Yes, the hotel economy is soaring. Just don't let it go to your head.**

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The hotel industry is being buoyed by what many industry insiders are saying are the strongest fundamentals of all time.

Makes sense too. Demand for hotels is still lofty, new hotel supply has been checked in due to somewhat reticent lenders, and the Consumer Confidence Index is at the second highest it's been during the last eight years, according to the Conference Board. And your customers are happy to pay more than ever for a hotel room.

Plus the economy is pegged to grow at a 2.5 percent annual rate for the next three years, according to **Bernard Baumohl, Chief Global Economist of The Economic Outlook Group** during a presentation at The Lodging Conference last week in Phoenix.

In fact, event attendees were downright giddy at the state of the lodging business and it seemed as if everyone was in deal making mode. With evidence pointing toward several more great years in the business it's no surprise. Read about the good news [here](#) in a piece from last week.

But with great power comes great responsibility – just ask Spiderman – and now is the point of the cycle where hoteliers need to be responsible to themselves to not get cocky and stay sane. To me, this is the 'invincibility' part of the lodging cycle where typically smart professionals start believing they are smarter and better than they really are. It's a heady time where certain folks could potentially fail to distinguish between the incredible rise of powerful fundamentals compared to their particular skill sets and accomplishments.

It's a time when that deadly sin of greed starts to kick in cleverly disguised as ongoing success and we all have to be extra diligent to recognize it. It's a tricky

mistress that lulls us unknowingly into a state where we all feel invulnerable to the immutable laws of nature. I see it happening already on the brokerage side of the business, for example. During The Lodging Conference many brokers I spoke to said hotel owner clients are still sitting on the sidelines absolutely convinced property valuations will continue to rise wildly and there will be a market to sell their properties a year from now.

Maybe so, maybe not. But it's most definitely an indication hubris has a way of obfuscating reality, and that has the potential to lead to some awfully bad decision making. Yes, I am a big believer in the future state of the business during the next couple of years, but I am noticing more and more that same kind of crazed fervor that leads people to be blind to certain warning signs during the decision making process.

However, don't let me shake that unrelenting confidence you have because it is a great time out there to be in the hotels business. Confession time: It's also that point of the cycle where I wish I had a growing portfolio of properties under my care. I see all the dealmakers and secretly yearn to be a part of that exciting mix, but am also fully aware that it's not my bag. I'll just sit here in the corner and provoke.

Meanwhile, **Baumohl** made some other very insightful, and what feels to be spot on observations. A good chunk of the overall health of the hotel industry is tethered to new hotel development and construction, and **Baumohl** warns an interest rate hike is coming.

I suppose the Fed has to do something as they cannot keep interest rates at bottom of the barrel level forever. They must have some tool giving them a wiggle little room should there be a drop in the economy.

**Baumohl**: "The Fed is very likely to raise rates later this year then mostly hold during the 2016 election year. They will move in December and then essentially 'go fishing'. Expect to see short term rates raise very gradually over the next couple of years."

Additionally, he said unemployment claims are at a 15 year low – yes, yes, I know people have dropped out of the workforce – and the housing market is back is strong too.

Tomorrow we'll take a look at how some of the leading hotel industry executives see the state of the business.

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