

Ernst & Young Identifies Top 10 Trends in the Hospitality Industry

2007-02-15

Top trends that will influence the global hotel industry in the year ahead include the stabilizing of the U.S. lodging market, increasing capital flows into the hospitality sector from a broad range of investors, including offshore funds, and superior performance among luxury hotel brands, according to a report released today by Ernst & Young LLP.

"In this report we've identified ten key macro trends that, taken together, we believe will shape the hospitality sector this year and for years to come in the U.S. and in major hospitality markets around the world," said Michael Fishbin, national director, Hospitality & Leisure, Ernst & Young LLP.

The ten key trends identified in the report are:

#1 Supply and Demand in Balance

Perhaps the biggest positive trend for the industry in 2007 is that supply growth is relatively low with a 2.5 percent increase projected this year. This, combined with last year's 1.8 percent growth gives owners a chance to upwardly reposition existing hotels and grow revenue per daily room (RevPAR) and average daily room rate (ADR). Stability is good for the industry's short term profitability and, as a result, the outlook for 2007 is positive.

#2 More Good News for Luxury

The hotel sector generally is experiencing positive growth, but the performance is particularly strong in the upscale sector. With no sign of a drop-off in the primary demographics populating upscale hotels, more stellar performance is expected.

#3 Construction Costs

Developers will have to be more creative in planning and building new hotels due to high construction costs. Look for more mixed-use developments incorporating hotels, especially in the upscale segment, more creative financing strategies and maximizing of project density to make the numbers work in a more expensive development environment.

#4 Operating Costs

For hotel operators, better control of energy and other major operating costs will be a key objective in 2007. For the last two years, costs such as labor, energy and insurance have skyrocketed. While automation has historically helped manufacturing, it has played a very limited role in reducing costs in service-based industries, such as hotels. Yet hotels' use of web-based systems is increasingly helping the bottom line.

#5 All the World's a Stage for Hotel Investors

One aspect of the phenomenal influx of capital into the hotel sector is that the sources of this capital wave are truly global, creating a worldwide investment market with growing cross-border transaction activity. In an increasingly complex business environment, investors are likely to seek out deals in all corners of the globe. However, the U.S. hotel sector, as the most transparent market in the world, will continue to garner more than its share of foreign capital.

#6 Will New Passport Rules Dampen Tourism?

The U.S. Western Hemisphere Travel Initiative may cause a short-term drop-off in travel to the Caribbean and Mexico as U.S. tourists balk at the almost \$100 passport fee or get caught in a lengthy application process. Some hotels are proactively moving to offset the passport cost by offering discounts to first time passport holders. The passport impact is likely to be short term and may even help U.S. domestic tourism.

#7 Pricing Issues May Cloud Sector's Future

The last few years have seen solid market fundamentals, limited construction of new product and low interest rates, the combination of which has driven pricing on some deals into the stratosphere. With more construction ahead, hotels' operating growth levels are unlikely to be sustained. We'll begin to see this year what return on investment these top premiums will yield.

#8 Private Equity's Love Affair with Hotels

Private equity players were the biggest single buyers of existing hotels in 2006, and they are expected to continue to buy in 2007. Since many do not have significant lodging industry experience, the question remains, how will they perform as owners? And when and how will they execute their exit strategy? We'll begin to learn the answers to such questions this year.

#9 Growing pains for condo hotels

With the U.S. building boom of 2005-2006 now over, there may be headaches on the horizon for developers and owners who jumped into this market with both feet. An estimated 8,000 new units are expected to become operational in the next 12 months in the U.S. despite last year's cooling of the development market. By 2008, developers and owners will have a good

idea of what worked and what didn't in the condo hotel craze. Meanwhile, the hotel condo craze has hit the Caribbean, Mexico, the Middle East and Europe's resort vacation spots.

#10 The hotel market as an engine of economic recovery

In Mississippi's Gulf Coast region, the inventory of hotel rooms leaped 23 percent between March and September 2006, contributing significantly to the area's tourism and gaming recovery and boosting its struggling economy. Communities around the world have a growing awareness of the impact hotels can have on their economies and will move quickly to support rebuilding of this critical sector in the event of natural disasters or human conflicts.

"In general, the hotel sector continues to perform well and has been especially adept at attracting new investment," said Fishbin. "But continued growth within the sector depends on many of these factors."

Ernst & Young offers a range of services for every major hospitality segment, from lodging to travel and from tourism to attractions -- including hotels, resorts, mixed use developments, convention and conference centers, stadiums, amusement parks, golf courses, and other leisure-related assets.

For a complete copy of the Ernst & Young Report 'Top Ten Thoughts for the Hospitality Industry in 2007' please visit <http://www.ey.com/us/realestate>.

This article comes from Hotel News Resource

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