

2008 Slowdown for U.S. Hotels

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PKF Hospitality Research (PKF-HR) is reaffirming their forecast for a modest slowdown in U.S. lodging industry performance in 2008.

For the year, PKF-HR is projecting occupancy levels to experience a slight decline (-0.7 percent), while average daily room rates (ADR) should grow 5.3 percent. The net result is a 4.5 percent gain in revenue per available room (RevPAR), the slowest pace of RevPAR growth since recovering from the 2001 to 2003 industry recession. While the PKF-HR forecast calls for a deceleration in the pace of revenue growth, it should be noted that the 4.5 percent RevPAR growth rate is still above the Smith Travel Research long-term average of 3.4 percent. These findings come from the recently released fourth quarter edition of Hotel HorizonsSM, the quarterly lodging forecast report produced by PKF-HR.

'Given the cyclical nature of the lodging industry, a slowdown in performance does not come unexpectedly,' said Mark Woodworth, president of PKF Hospitality Research. 'Hotel construction activity is picking up and will cause a modest imbalance between supply and demand.'

On the consumer side, PKF-HR does not foresee an imminent catastrophic economic recession that would have a negative impact on lodging demand. 'We are concerned that the residential credit-crunch might have a negative impact on leisure travel patterns in the summer of 2008. Fortunately, corporate profits continue to support commercial lodging demand and should mitigate any fall-off in leisure demand,' Woodworth concluded.

Buying, Not Building

While the total pipeline of planned hotel projects is at an all-time high, only a small number are actually breaking ground. The high costs of construction and land, combined with firmer capital market discipline, have helped to control the volume of new supply additions. In many instances, the purchase and renovation of an existing hotel continues to be more feasible than the construction of a new property.

'Given our analysis of current hotel construction activity, PKF-HR is forecasting a 2.6 percent increase in lodging supply in 2008, or approximately 115,000 new hotel rooms. This is the greatest annual supply increase since 2000, but still less than the 150,000 new rooms added in both 1998 and 1999,' Woodworth noted.

Most of the new supply in 2008 will enter the Upscale and Midscale without Food and Beverage segments of the industry. Properties in these categories typically contain a limited amount of public space that makes them relatively cost-effective to build. Conversely, PKF-HR is forecasting an 11th consecutive year of declining inventory in the Midscale with Food and Beverage chain-scale category. It should be noted during the third quarter of 2007, the greatest percent increase in pipeline construction activity occurred in the Luxury segment. However, given the time required to build these elaborate facilities, the impact of the new competition will not be felt until 2009 and beyond.

ADR Drives Revenue

Across the board, all segments of the lodging industry are forecast to experience flat or declining occupancy levels in 2008. Luxury hotels are forecast to achieve the greatest gains in ADR (6.6 percent), followed by properties in the Midscale without Food and Beverage (6.0 percent) and Upscale (5.5 percent) segments. Meanwhile, hotels in the Midscale with Food and Beverage (3.8 percent) and Economy segments (2.9 percent) are expected to lag in ADR growth.

'The ability to increase room rates will drive revenue growth for the year,' Woodworth said. 'Luxury hotels enjoy a loyal base of guests that are less affected by the recent dour economic news. The Midscale without Food and Beverage and Upscale chain-scales include several select-service brands that are very popular among both business and leisure travelers.'

City Performance Varies

Geographically, all regions of the nation are forecast to experience growth in RevPAR in 2008. 'However, as we always caution our clients, individual cities have their own cyclical behavior,' Woodworth added.

Hotel managers in Austin and Salt Lake City are expected to enjoy ADR growth rates in excess of 7.5 percent in 2008, due to a relatively limited amount of new supply coming on-line. This strong growth in ADR should result in nation leading RevPAR gains above 8.0 percent.

At the other end of the spectrum, hotels in the Long Island, Washington DC, and Sacramento markets will struggle to grow their revenue in 2008 because of supply growth in excess of 5.0 percent. Hotel managers in Fort Worth and San Antonio will face the greatest increases in new competition. The lodging inventory in these markets is projected to grow in excess of 9.0 percent, thus resulting in a forecast decline in RevPAR for Fort Worth (-2.2 percent) and a slight 1.4 percent gain for properties in San Antonio.

Buoyed by inbound international travelers taking advantage of favorable currency exchange rates, New York should continue to enjoy particularly high levels of occupancy, ADR, and RevPAR. Like the rest of the nation, however, New York metro area hotels are forecast to experience a drop in occupancy (-1.4 percent), with the overall occupancy rate remaining above

80.0 percent. The decline is attributable to record-breaking levels of new hotel construction activity.

'The pipeline for new hotel projects in Manhattan is unprecedented, but so are the high levels of occupancy and ADR,' says John Fox, senior vice president in the New York office of PKF Consulting. 'Neighborhoods are opening up in Manhattan where developers never thought of building before.' For 2008, New York metro area hotels are forecast to achieve an annual occupancy of 82.7 percent, with an average daily room rate of \$299.38.

Cost Concerns

PKF-HR is forecasting a healthy 8.5 percent increase in the bottom line of the average U.S. hotel in 2008. Of concern for hoteliers is the rise in the cost of operations. While total revenues are forecast to increase by 5.3 percent, hotel operating costs are projected to rise 4.0 percent, nearly double the expected pace of inflation. Labor-related costs make up 45 percent of operating expenses at the typical hotel. Low national unemployment rates put pressure on wage rates and make it difficult for hotel managers to find staff. Further, PKF-HR has observed an increase in expenses that management has less control over, including employee benefits, utilities, property taxes, and insurance.

Decisions, Decisions

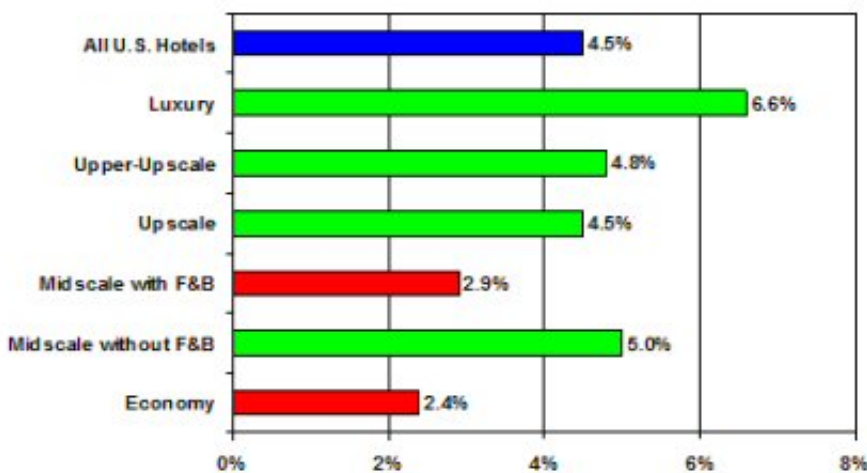
Approaching 2008, economists and government officials are starting to show signs of pessimism regarding the health of the nation's economy. In addition, industry veterans know lodging is a cyclical business and the good times cannot continue without end. 'Given the potential for a turbulent economic and investment environment, combined with the first signs of increased competition, U.S. hoteliers will have to think a little harder in 2008 than they've had to the past four years,' said Woodworth. 'Should owners sell or hold their properties? Is it time to build or buy? Should management continue to push room rates, or retain occupancy? These are the questions we'll be helping our clients answer during the year.'

PKF-HR has long cited the ability of U.S. hotel managers to adapt to changing operating environments. 'We do not believe 2008 will be a difficult year for hotel managers, but they will face more difficult decisions regarding pricing, cost controls, and marketing. For the most part, 2008 will still be a seller's market, but a softening economy will make travelers more price sensitive than they have been the past three years,' Woodworth concluded.

For owners and investors, a forecast of stable market conditions without any major swings up or down makes it difficult to decide what to do strategically. Woodworth notes, 'Traditionally, investment activity is greatest when there is a perception that the market is approaching a peak, or about to climb out of a trough. At these points in the cycles, hotel real estate participants act on their respective investment strategies and either buy, build, sell, or hold. Without a distinctive up or down direction for the market, each owner and investor will have to decide whether or not sustained, moderate growth in profits, representing a modest dividend on their investment, meets their financial goals.'

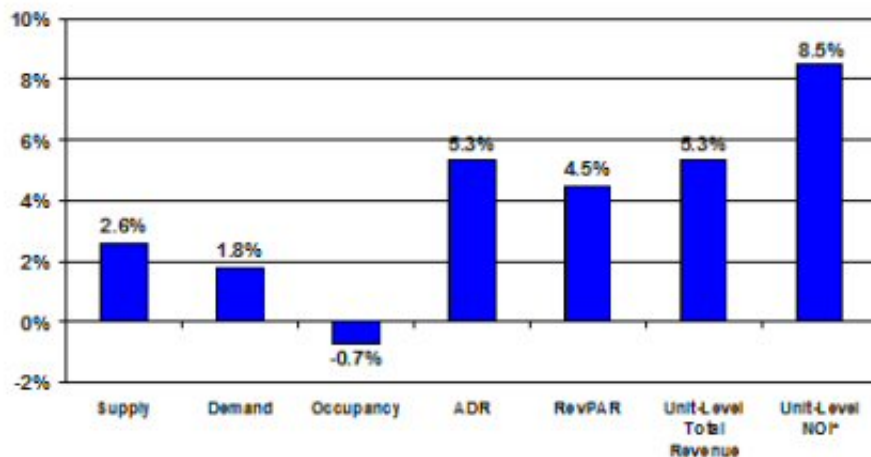
To purchase a fourth quarter 2007 Hotel HorizonsSM report for the United States, or one of 50 individual markets, please visit the firm's online store at www.pkfc.com/hotelhorizons, or call (866) 842-8754.

2008 Forecast Change in RevPAR By Chain Scale



Source: PKF Hospitality Research, Fourth Quarter 2007 Hotel HorizonsSM Report

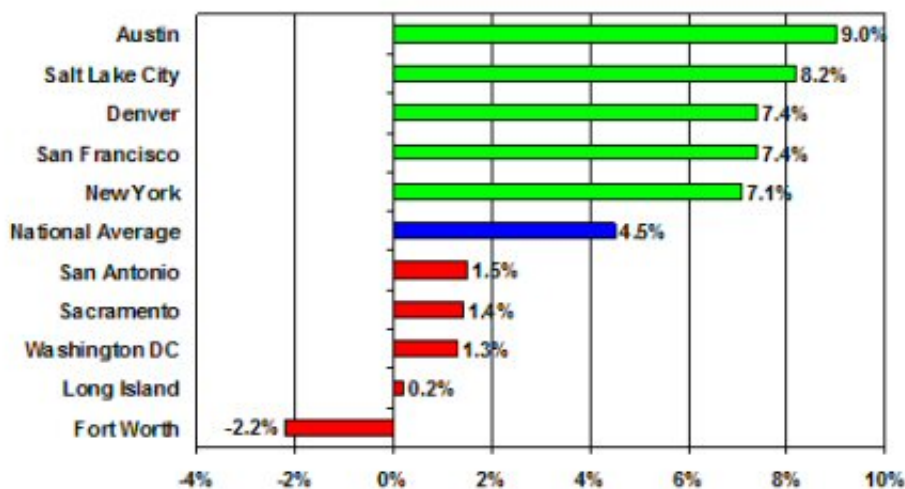
U.S. Lodging Industry Forecast Change for 2008



Note: * Before deductions for capital reserve, rent, interest, income taxes, depreciation, and amortization.

Source: PKF Hospitality Research, Fourth Quarter 2007 *Hotel Horizons*SM Report

2008 Forecast Change in RevPAR Select U.S. Lodging Markets



Source: PKF Hospitality Research, Fourth Quarter 2007 *Hotel Horizons*SM Report

PKF Hospitality Research (PKF-HR), headquartered in Atlanta, is the research affiliate of PKF Consulting, a consulting and real estate firm specializing in the hospitality industry. PKF Consulting has offices in Boston, New York, Philadelphia, Washington DC, Atlanta, Indianapolis, Houston, Dallas, Bozeman, Sacramento, Seattle, Los Angeles, and San Francisco.

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