

Weak Dollar Likely to Benefit US Hotel Markets in 2008

2008-03-26

Ernst & Young's annual lodging report indicates non-US travelers may hold key to performance of hospitality sector

A weak US dollar may be the primary factor in the ongoing solid performance of the US hospitality sector in 2008, according to a report released today by Ernst & Young's Global Real Estate Center.

"The continued weakness of the dollar is producing multiple beneficial effects on the US hotel market which is likely to continue for the foreseeable future and which may pull the sector through current recessionary pressures," said Michael Fishbin, Ernst & Young's US Director, Hospitality & Leisure.

Today, international tourists are looking to the US as a prime vacation spot and are spending more money, often upgrading to higher-end and even luxury accommodations because their local currency now buys, in some cases, more than twice what it did just a few years ago. Total arrivals in the US have witnessed 18 months of successive growth since April 2006, according to the US Department of Commerce, and in the first 11 months of 2007 international visitors spent US\$111.6 billion, up 13 percent from the first 11 months of 2006.

Fishbin pointed to a parity between the US and Canadian dollars, which has increased Canadian spending power south of the border, and to the euro, which has strengthened from one euro per dollar to 0.66 euros per dollar in recent months. The same exchange rate economics also benefit foreign business travelers who are now able to leverage the strength of their home currencies to take longer stays in US hotels, according to Fishbin.

"As long as this exchange rate bonus exists for non-US travelers, the benefits will be seen at hotels from ski resorts in Vail and Aspen to cruise ports such as San Diego, Seattle and Miami and traditional tourist and business destinations such as New York, Orlando and San Francisco," Fishbin said.

Second, US consumers are staying closer to home, and if they take vacations, they are more likely to travel within one of the 50 states.

Third, the pipeline of new construction hit its peak in the fourth quarter of 2007, and with the economic slowdown and far tighter credit, some hotel construction projects have slowed while others have been shelved. A supply-demand imbalance is likely to benefit existing hotels and could result in higher room rates in cities such as New York, Miami, and San Francisco.

"Last year, the hotel sector in this country showed solid gains in occupancy and average daily room rates (ADR)," said Fishbin. "Looking forward, we see the continuation of a prolonged upward cycle that began two years ago."

The report also highlights the continued influx of foreign capital into the sector as a result of cash-rich international investors such as private equity, high net worth individuals and even sovereign funds, which are probing markets across the country looking for hotels to purchase.

Now in its fourteenth year, Ernst & Young's 2008 US Lodging Report contains detailed analysis of the six main lodging sectors: luxury, upper upscale, upscale, midscale with food and beverage, midscale without food and beverage, and economy, as well as observations on 10 key trends facing the industry. In addition, the report includes detailed analysis and commentary on the hotel sectors in the 16 largest US hospitality markets: Atlanta, Boston, Chicago, Dallas, Ft. Lauderdale, Hawaii, Las Vegas, Los Angeles, Manhattan, Miami, New Orleans, Orlando, Phoenix, San Diego, San Francisco, and Washington, D.C.

For a full copy of the report visit www.ey.com/realestate.

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