

Hotels face tough negotiations on corporate rates

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The U.S. hotel industry, already suffering through a dismal U.S. economy, an airline crisis and record fuel prices, now faces tough negotiations over a major source of its income -- corporate room rates.

Corporate contracts account for almost 35 percent of the U.S. hotel sector's revenue, according to lodging industry veteran Bjorn Hanson of New York University.

And when annual negotiations over 2009 rates start in September, corporate customers will likely hold a stronger bargaining position for the first time in years as softer demand puts hotels in a more defensive position.

"The balance of power will have done one of the quickest shifts it has done from the sell side to the buy side -- it will be the lowest rate of rate increases in about four or five years," said Hanson.

Business travelers are crucial for hotels because they pay higher room rates, spend more money, and are a more reliable source of revenue than leisure travelers.

"They have an extra level of profitability," Hanson said.

Room rates in the United States have increased about 4.7 percent this year, mainly because of corporate rates that were negotiated last autumn when economic expectations were rosier than they are now, he said.

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