Economic Climate and the Performance of US Hotels

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This study examines the opinions of large banks about the importance of typical items found in a lodging feasibility study and the extent of their satisfaction with the analysis presented in these studies. In order to determine bankers’ attitudes about and satisfaction with lodging feasibility studies, a survey was distributed to large banks with asset holdings of over $2 billion. Results show that, while bankers did consider most sections of current feasibility studies important, they seemed to be dissatisfied with the usefulness or reliability of various sections of the report. As such, some important issues relevant to the structure of current lodging feasibility studies are better understood.

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The existing hospitality literature describes how global diversification in the hotel industry looks for a broader presence regardless of existing global representation. However, the finance literature reports a negative impact from global diversification because of the potentially higher cost of coordinating corporate policies. Moreover, agency problems can increase along with the size of the firm. This study measures the wealth impact of hotel global diversification on bidders at the time of international acquisition announcements. We find significant abnormal positive returns on the day of the announcement. We also find that international acquisitions have lower abnormal returns than domestic acquisitions at the time of the announcement.

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In many hospitality and tourism programs, students are usually required to take only the most basic finance course. This can leave them drastically under-prepared for real-world situations. Hospitality and tourism is the world’s single largest industry and probably one of
the industries most affected by foreign exchange movements. This exposure to foreign exchange movements is magnified by the discretionary nature of hospitality and tourism spending, making the profitability of hospitality providers very sensitive to changes in the exchange rate. This paper explores the effect, if any, of a change in the dollar value of five currencies—UK pound, euro, Canadian dollar, Japanese yen, and Mexican peso—on the hotel occupancy in seven major U.S. tourist destinations—Orlando, Los Angeles, Washington, D.C., New York, San Francisco, Miami, and Las Vegas.

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This study investigates the performance of hotel common stocks relative to specific market indices and assesses whether or not historic beta was an appropriate measurement of future risk for hotel stocks in the market downturn of 2008. Using three different measurements of beta, the study finds statistically significant differences in beta between typical and up market scenarios as compared with a down market scenario. This difference was persistent regardless of the beta measure used. The study also identifies a statistically significant difference in betas between hotel real estate investment trusts and hotel C corporations in the down market scenario. This study identifies the significant risk taken on by investors in assuming that betas for hotel stocks will be persistent across varying market scenarios.

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Economic Climate and the Performance of US Hotels

The U.S. economy finally seems to be recovering from recession. However, trends in the economic indicators suggest that this recovery is weak. Much of the recent expansion in consumption and housing market resulted from the government stimulus money in the economy. With the GDP growth rates staying in the negative in recent quarters, the poor labor market trends continue to concern many economists. Unemployment rate was above 10 percent early in the fourth quarter of 2009, and other, more comprehensive measures of unemployment (that include workers able to find only part-time jobs or who have given up looking for a new job) were near 18 percent. Such trends, in turn, suggest a poor outlook for private wages, salaries, personal income, and discretionary income in the U.S., at least in the immediate future. Given such an economic climate, what could be the outlook for the U.S. lodging industry?

Most experts agree that the coming years should continue to be challenging for hotels. According to Michael Paladino, Corporate Senior Director at Fitch, a pricing recovery for the sector could be difficult over the next 12 months, which, in turn, should constrain a rebound in lodging profits. According to PricewaterhouseCoopers’ U.S. lodging forecast for 2009 and 2010, hotel occupancies are expected to remain around 55–56 percent, while ADR and RevPAR growth rates are expected to remain negative for both 2009 and 2010. Experts are forecasting a rebound in hotel ADRs and RevPARs as late as in 2011. Commercial real estate property values are also expected to decline almost 50 percent from their peak according to some. Distressed asset sales are also expected to rise over the next 12–18 months, leading up to the largest concentration of commercial mortgage backed hotel loan maturities in 2011 and 2012. Finally, another important factor to consider would be the exchange rate dynamics. As noted by Standard & Poor’s analysts, the saving grace for the U.S. hotel industry in 2008 was international tourism, lured by the cheap dollar and bargains on air and hotel fares. Now that the dollar is not so cheap anymore and recessionary trends have grown worldwide, the boom in international visitors to the U.S. seems to have slowed somewhat.

On the positive side, all economic downturns are followed by a period of growth and prosperity. Many experts strongly believe that the worst of the economic recession is over. The USA Today/IHS Global Insight Economic Outlook Index shows moderating but firm economic growth in early 2010. The International Monetary Fund also acknowledged renewed economic trends and upgraded its economic outlook for 2010. Many hoteliers are beginning to think that the downward spiral of occupancies in the U.S. hotel industry should finally end in 2010 with more stable demand for hotel rooms. Some say the best investment strategies rely on investment timing skills and the ability to recognize opportunities as soon as they arise. Could these trends suggest a potential investment opportunity for today’s hotel owners and investors? Only time can test this hypothesis for us!