

2010

2010 – A Year in Review for Hotel Firms

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Editor's Note...

2010 – A Year in Review for Hotel Firms

2010 has been a memorable year for hospitality firms.

Several big-ticket acquisition transactions made media headlines during this year. Public REITs bought key assets in important locations. The \$95-million acquisition of Sofitel Lafayette Square in Philadelphia by LaSalle Hotels and the \$74-million purchase of Hotel Monaco in Washington DC by Pebblebrook are just a few examples. Experts projected over \$6.5 billion in acquisition related transactions for hospitality firms during 2010 relative to \$2.2 billion a year ago. Other hospitality stories also made medial headlines during 2010. Sir Richard Branson of Virgin Airlines announced the launch of his new brand, Virgin Hotels. Ian Schrager, the boutique hotel pioneer and founder of Morgans Hotel Group, and John Russell of B Hotels & Resorts and Advaya Hospitality also announced the launch of new lifestyle brands. Among other top stories, the long legal battle between two major lodging icons finally concluded with a court order announcing settlement of Starwood's suit against Hilton Hotels.

Stockholders of hospitality firms have reason to celebrate as 2010 comes to a close. During 2010, hospitality industry ranked in the top 10% of all economic sectors in terms of its stock returns. The year to date returns for the lodging, resort & casino, and restaurant sectors were 48.61%, 106.37% and 35.38% respectively per Morningstar experts. The ReVPAR for lodging firms increased significantly by 5.6% during the year, exceeding the initial expectations of several experts. Further, the returns for the lodging sector beat the S&P 500 index returns by over 30% according to Investopedia sources. Table 1 summarizes the 2010 stock returns of key lodging firms.

Stock Name	MarketCap	YTD	1-Year
7 Days Group Holdings, Ltd.	994.78	60.42	65.87
Choice Hotels International, Inc.	2,307.72	24.15	22.56
Gaylord Entertainment	1,716.63	82.63	79.36
Home Inns & Hotels Management, Inc.	1,665.96	15.67	17.06
Hyatt Hotels Corporation	7,919.70	52.73	52.27
Intercontinental Hotels Group PLC	5,616.12	39.11	38.92
Marcus Corporation	395.18	6.71	5.23
Marriott International, Inc.	15,101.61	52.91	50.75

Morgans Hotel Group Company	261.3	89.06	94.16
Orient-Express Hotels, Ltd.	1,415.93	28.21	28.71
Red Lion Hotels Corporation	149.05	61.74	68.21
Sonesta International Hotels Corporation	78.37	89.24	85.13
Starwood Hotels & Resorts Worldwide, Inc.	11,591.53	67.08	64.47
Wyndham Worldwide Corporation	5,242.00	50.92	49.22
<i>Source - Morningstar Investment Research center</i>			

Such important events and record breaking stock performance should suggest a favorable outlook for this industry during 2011. However, experts continue to be cautious about the industry's growth during the coming year. According to Standard and Poor's, although the lodging industry is experiencing improvements relative to its poor performance last year, its current performance remains substantially below its peak level of 2007. While experts predict a more favorable supply outlook in 2011 and an increase in business travel as the economy recovers, they also expect the domestic consumer demand to remain fragile given the high unemployment, bifurcated consumer confidence and overall condition of the current US economy. Understandably, given the volatility in today's economy, a recent HVS report has summarized its "cautiously optimistic" 2011 outlook for lodging firms by saying "Hotel owners, investors, consultants, and appraisers will need to keep a close eye on fluctuations in the economy, the industry, and individual hotel markets and assets. But the good news.... is that overall performance metrics are on the upswing, a trend expected to continue as the national and international economies strengthen and elicit more travel."