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Economic Climate and the Performance of US Hotels

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The Journal of HOSPITALITY FINANCIAL MANAGEMENT

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Editor's Note...

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!