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Editor's Note...

Lodging Industry Trends—Today and Tomorrow

The performance of the lodging industry slipped during the first half of 2003 relative to the industry's already poor picture in 2002. As shown in the Smith Travel Research (STR) *Lodging Review*, the lodging industry's total occupancy declined 1.9% and room rates dipped from \$84.63 to \$83.92.

Lodging Industry Profile

(First five months of year)

SEGMENT	Occupancy (%)		Room Rate (\$)		% CHANGE 2002–2003		
	2002	2003	2002	2003	Room Revenue	Rooms Available	Rooms Sold
Industry total	57.8	56.7	84.63	83.92	(1.2)	1.5	(0.3)
By price							
Luxury	66.1	65.1	147.48	144.55	(1.0)	2.5	1.0
Upscale	60.1	59.0	92.24	90.83	(0.8)	2.7	0.7
Midprice	55.5	54.3	68.14	67.47	(1.8)	1.3	(0.8)
Economy	52.5	51.2	52.03	51.97	(2.4)	0.2	(2.2)
Budget	54.6	53.5	40.24	40.48	(1.5)	(0.1)	(2.1)
By location							
Urban	61.3	60.0	123.41	118.96	(2.9)	2.8	0.7
Suburban	58.9	57.6	77.91	77.33	(1.2)	1.8	(0.5)
Airport	61.7	60.6	79.45	77.98	(2.3)	1.2	(0.5)
Highway	54.5	53.5	64.93	65.42	(0.3)	0.9	(1.0)
Resort	61.6	61.3	146.48	147.11	0.6	0.8	0.2

Source: Smith Travel Research's *Lodging Review*.

In general, such declines were consistent across most lodging segments. Recent STR reports also show that the industry's revenue per available room (RevPAR) decreased 2.6% to \$47.59 in the first five months of 2003 vis-à-vis the comparable year-earlier period. Recent STR figures also show that the lodging industry's pre-tax profits deteriorated significantly from \$22.5 billion in 2000 to \$14.2 billion in 2002 (\$16.1 billion according to Price-waterhouseCoopers). On the one hand, such alarming trends should lead one to question the industry's operating efficiency. On the other, it is always nice to discover that a positive side of the equation also exists, and that one is not alone in this struggle for financial recovery, given today's adverse economic conditions.

Despite these difficult years of economic recession punctuated by terrorist attacks, outbreak of the SARS epidemic, and the war in Iraq, the U.S. lodging industry still continues to show positive pre-tax profits. No doubt the industry still remains vulnerable to many malignant variables such as the threat of terrorism. However, considering the growing

consensus among our economists that the worst is over, it would be rational to support the recent AH&LA forecast of the industry's smooth recovery in 2004. As appropriately observed by Standard & Poor's, existent trends suggest that the lodging industry should at least perform better than it did during its last downturn in the early 1990s. Two factors seem to work in its favor at this time. First, controlled interest rates and low financing costs show promise for a low-cost recovery. The second factor, as observed by both Standard & Poor's and PricewaterhouseCoopers, is gain in operating efficiency. Following a sizable decline in expenses per available room during the previous two years (4.0% according to PwC), the lodging industry's breakeven occupancy level came to a record low of 47.4% (relative to 60% until 1995). Will such trends be able to steer the lodging industry clear of trouble in the coming year? Only time can tell us the right answer.