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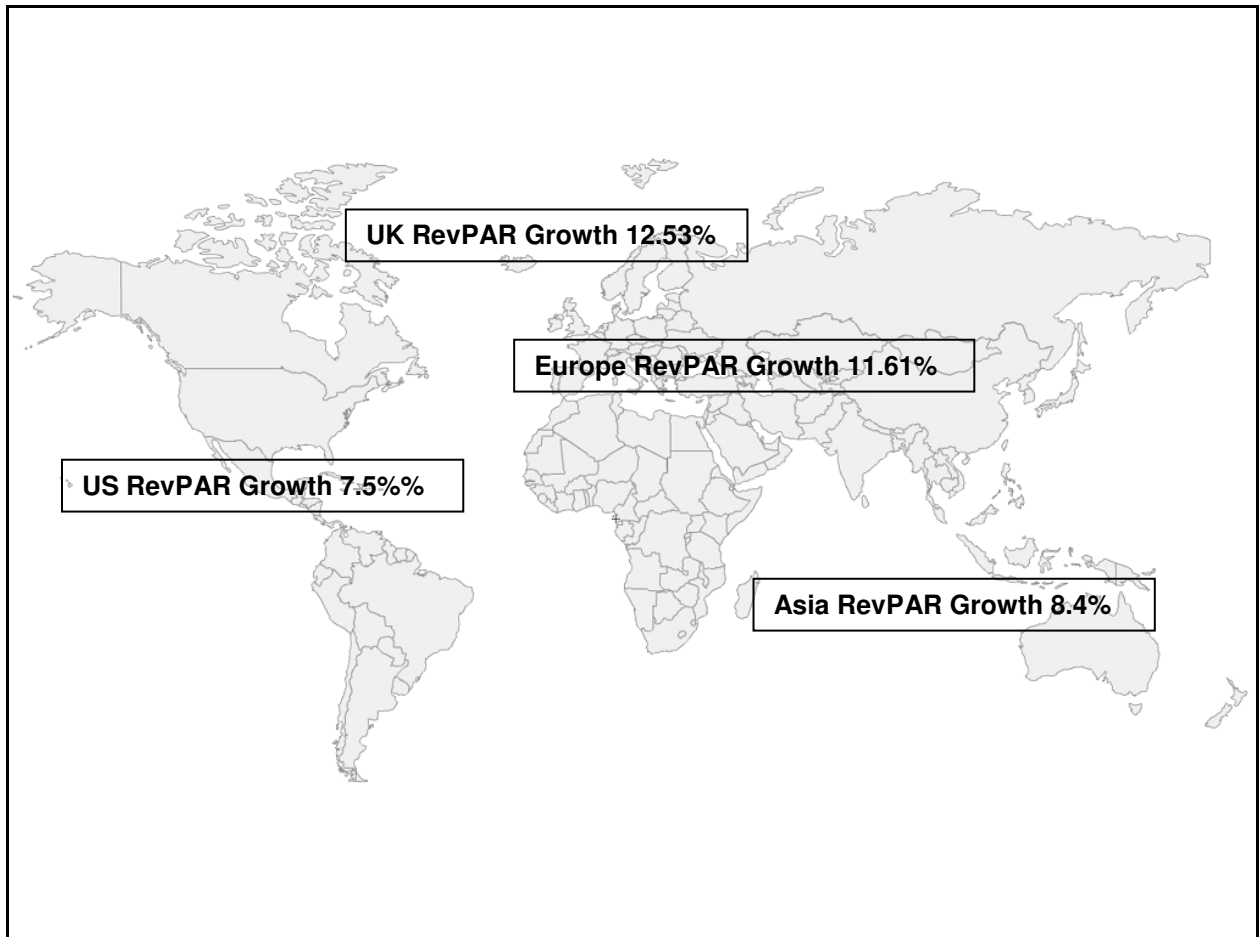
Performance of the Global Lodging Industry (2007)
James Chappell, Managing Director
The Bench

The hospitality industry is a global giant. The latest figures from the World Travel and Tourism Council (WTTC) estimate that Travel and Tourism will account for 10.4% of Global Gross Domestic Product in 2007 and is responsible for 231 million jobs worldwide, International Lodging Performance Encompassing all components of Travel & Tourism, consumption, investment, government spending and exports, in 2007 Travel & Tourism Demand is expected to generate some US\$7,060 billion of economic activity worldwide, growing to US\$13,231 billion by 2017.

This global industry had been tested to the limit during the last cycle. The bottom of the trough for Markets in '97, '98 saw a fledgling recovery hampered by a string of events that effected economies worldwide. Asia started in '97 with Japan's economic collapse, putting the emergency brake on the 'Tiger' economies of the Asia Pac region spectacular growth up until that point. This was followed by 9/11, The SARS epidemic, The Tsunami and The Iraq war in quick succession of one another, lengthening the down cycle and causing a number of businesses to go under.

Since then, we have seen a period of sustained growth from 2003 in all markets. General worldwide economic growth has been key, with low cost airlines giving access to destinations for an enormous number of new travellers in the US, Europe and India. However, there are some concerns that growth will come under pressure from a slowdown in the global economies, an unprecedented weak dollar and the recent collapse in the credit markets caused by enormous losses in the US Sub Prime Market. This has compounded nervousness in the markets about whether the industry has reached the top of the cycle, a good example of which was Marriott stock plunging 8% in a day after they released their Q1 figures which came in 1% less than projections. With all these factors in mind, the year to date figures for 2007 are of enormous interest, so what are the signs? We shall start with the end of the year figures for 2006.

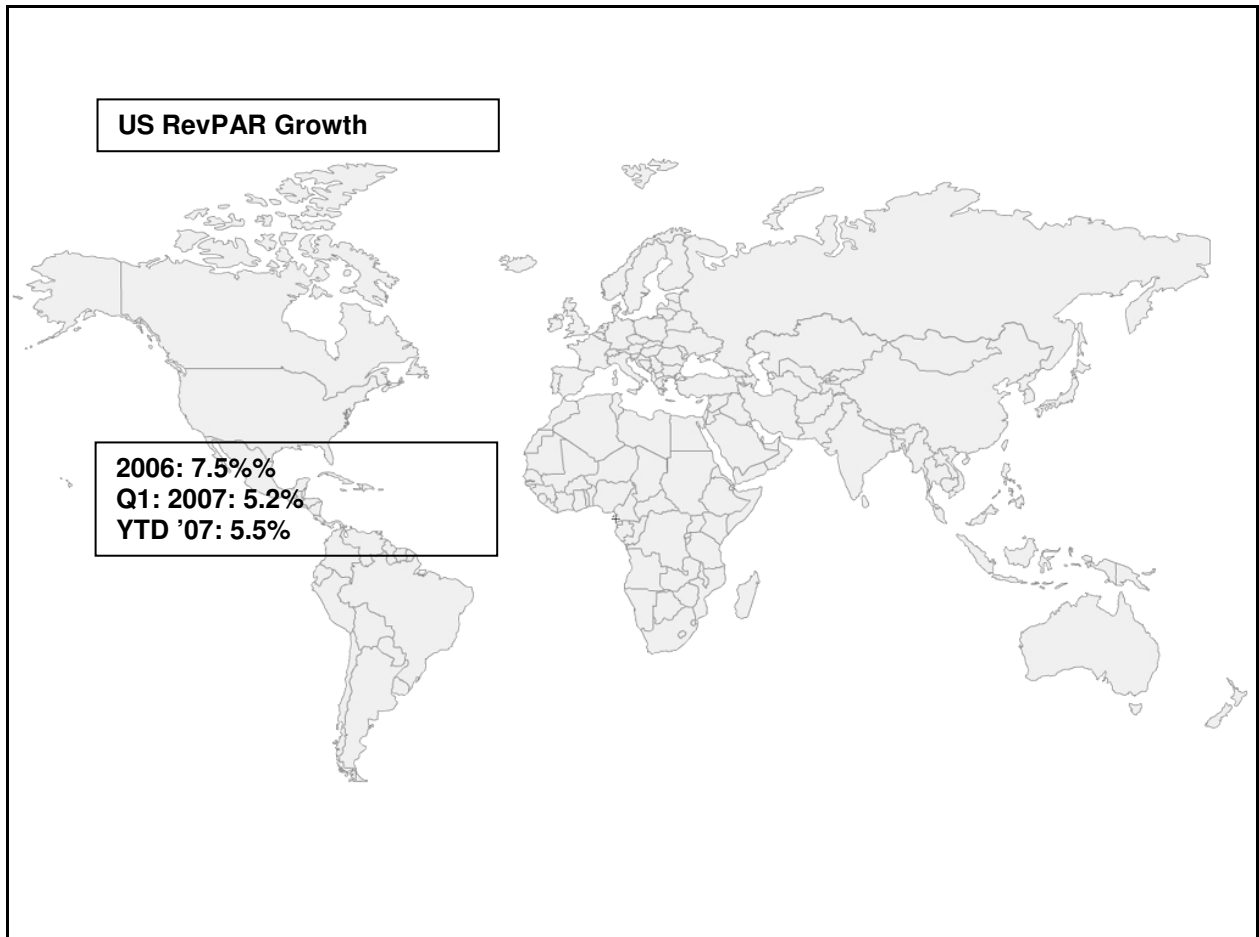
Global Performance 2006



The United Kingdom leads the way, with 12.53% RevPAR growth for the year. This was driven by a surge in demand after the July bombings in London the previous year, which displaced a huge amount of demand for a period of four months and meant that the year on year increase was unnaturally inflated. Europe is next with 11.61% growth on the back of the football world cup in Germany and the effect that had on business confidence in Europe's largest economy. The US grew by a solid 7.5%, although the growth was predominately in the top end of the market, the economy sector grew by only 2%. Lastly Asia Pacific grew by 8.4% with results mixed across the region.

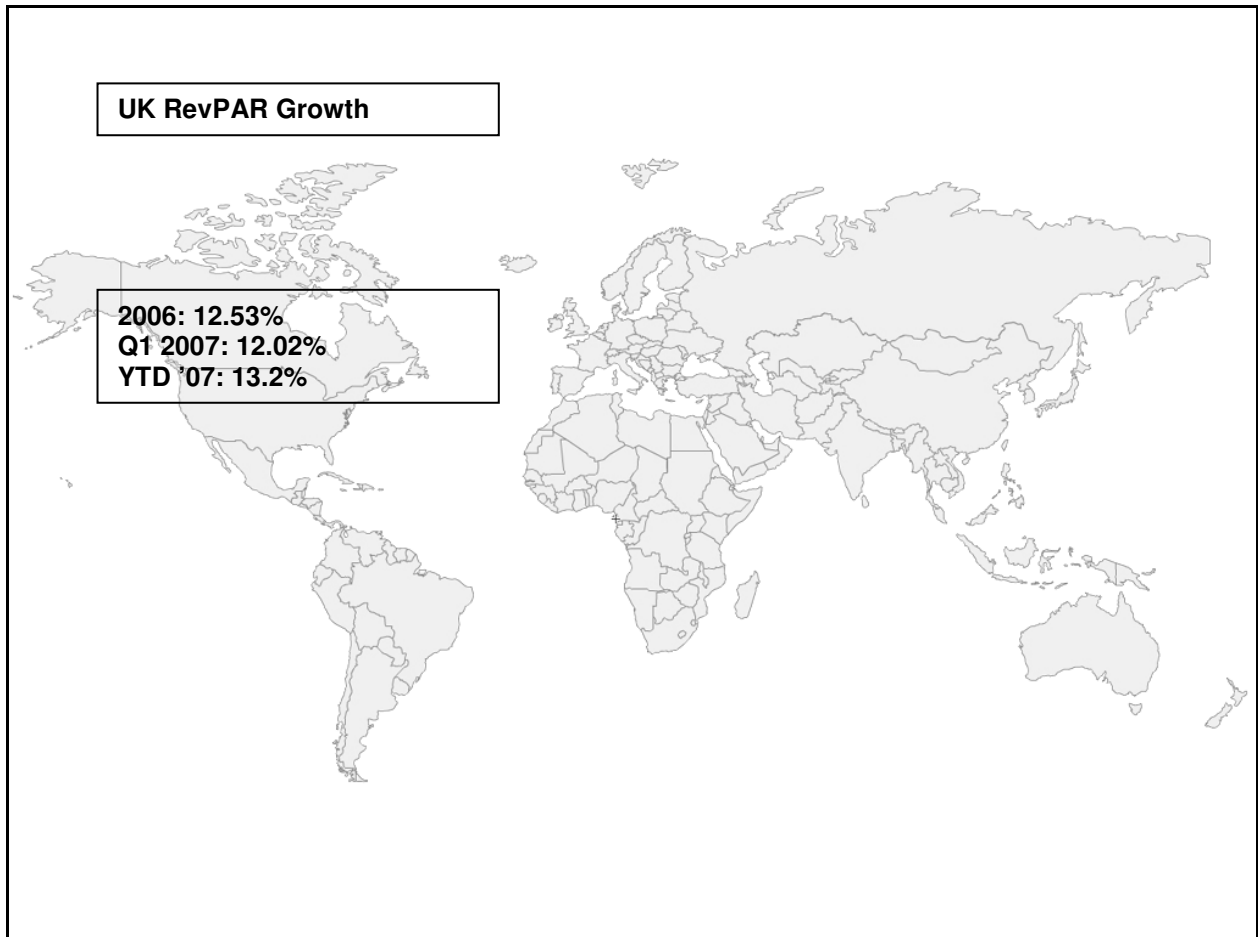
All of these regions though, experienced solid, stable growth and the expectation was that this would continue into 2007, so has it?

Global Markets 2007



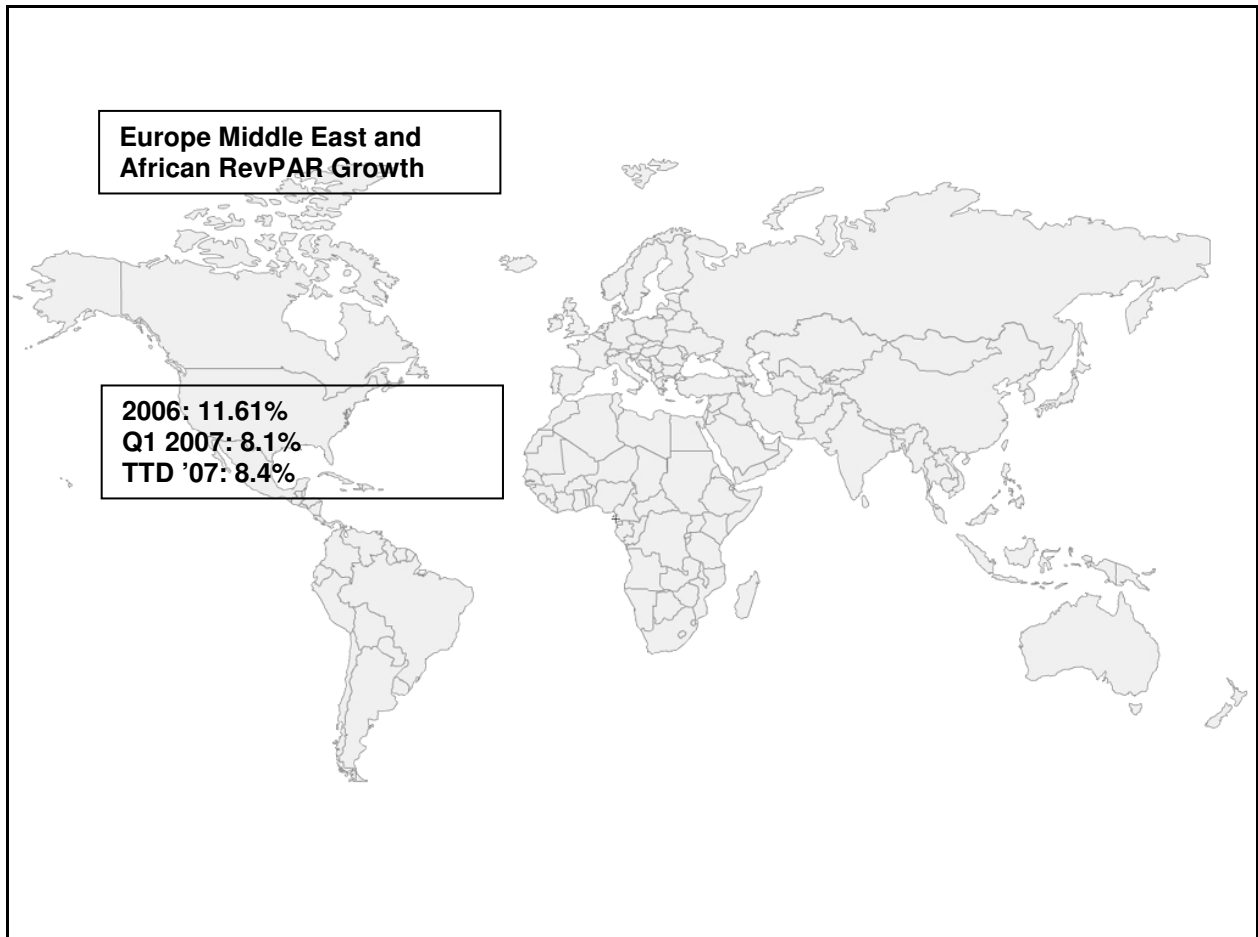
America

North America dropped slightly on the growth figures from last year. North American RevPAR grew by 7.5% in 2006, slowing to 5.2% in the first quarter of 2007, rising slightly to 5.5% year to date. As new supply comes into market during the growth cycle, pressure is put on the occupancy actually drops slightly from 64.5% in 2006 to 64.4% in 2007 as markets absorb the new inventory. Average Rate is healthier growing from USD \$98 in 2006 to \$103.66, a 5.7% increase in 2007 meaning RevPAR grew from \$63.22 to \$66.71



UK

Figures for the UK in 2007 have so far exceeded expectations. 2006 RevPAR growth, already inflated following the London bombings in July 2005 have continued to rise. Q1 results dropped slightly to 12% caused by Easter moving from April to March, but have recovered to top 13.2% for year to date. There are two elements causing concern however, firstly the concentration on good results on city centres, and the lack of new supply coming into the hotel market allowing growth. If London, Edinburgh, Glasgow, Manchester and Aberdeen were taken out of the overall figures for the UK, growth would drop to less than 4%. Growth is very city centre and brand centric, with the high end Upper Upscale brands and the economy sector (Premier Travel Inn and Travelodge) far ahead of traditional three and even four star hotels. Secondly, there has been very little new hotel supply coming into the UK market outside of the budget brands, and as a result, growth has been driven almost entirely by average room rate, 12% as opposed to less than 1% in occupancy. As the UK has already reached the peak rates of the previous high of 2000, there is obvious concern as to how long this can be maintained.



Europe

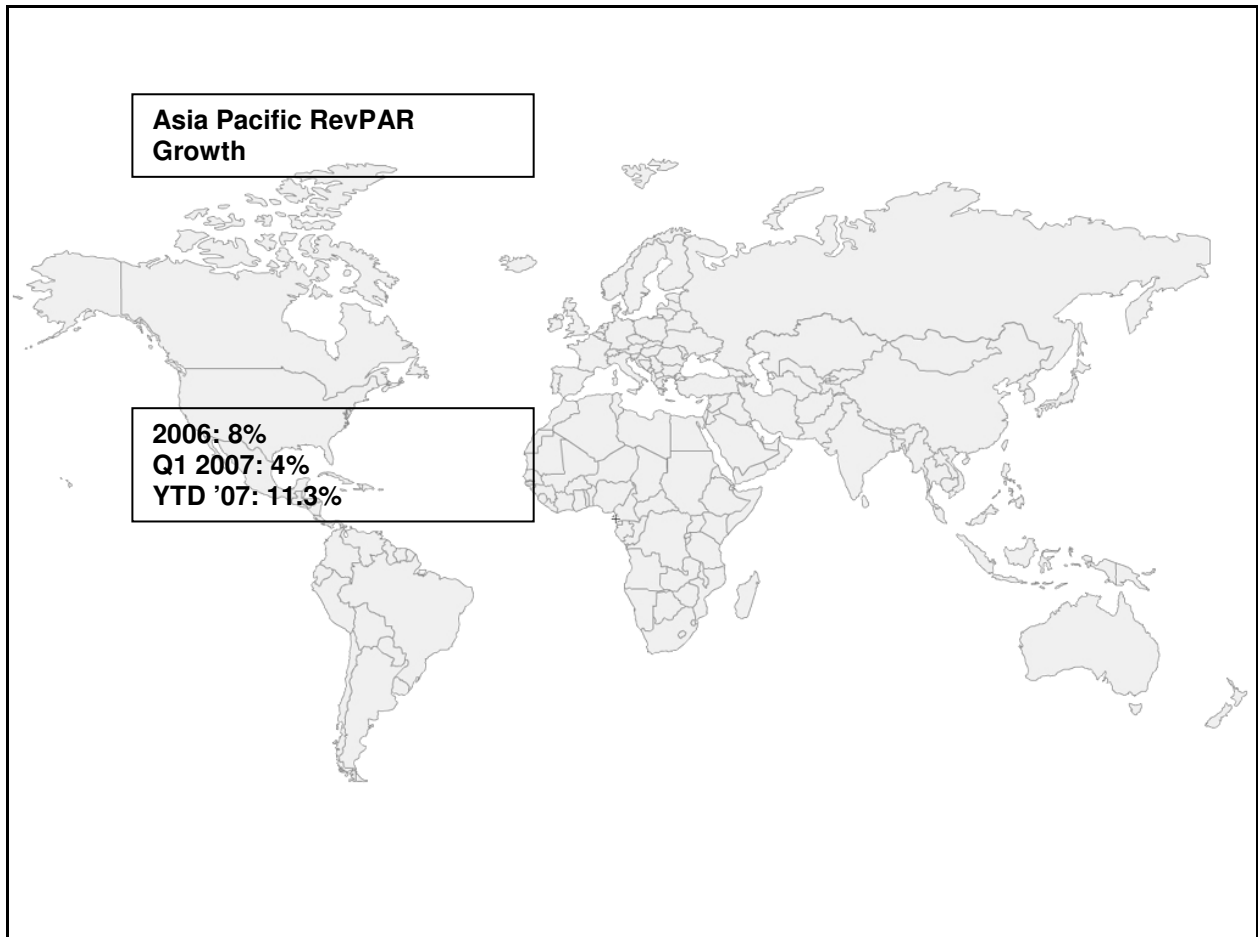
Europe has displayed uneven hotel performance, with results varying from region to region. At the high end, Northern Europe which consists of the UK, Sweden, Denmark, Finland and Norway, are experiencing excellent growth figures. Scandinavia especially is a very strong bi-annual conference market, with Stockholm for example hosting the European Cardiology Association, and two week event that saw RevPAR rise 45%. Southern Europe, Spain, Portugal, Malta etc have had a fair year with 5.7% increase in RevPAR driven entirely by average room rate, which grew from €107 to €115. Occupancy actually fell from 65% to 64.2%. Eastern Europe grew even less, only 2.9% with Russia falling 8.2%, and the Czech Republic falling 1.3%. Romania bucked the trend with a 10.9% increase, although the size of the hotel market there precluding them from having much of an impact on the data. Western Europe, covering France, Germany and Italy grew by 3.6 % as result of a reaction to the world cup in 2006, although the Rugby world cup in France should pull the total yearend figures. Only Italy remains stagnant, with all major destinations displaying negative growth, Rome has fallen 5.3% year to date and Milan 2.1%

Middle East and Africa

Occupancy		Rate		RevPAR		% Change YTD		
2007	2006	2007	2006	2007	2006	Occ	ADR	RevPAR

<u>Middle East/Africa</u>	69.2	66.6	158.0	137.2	109.3	91.4	3.9	15.1	19.6
<u>Middle East</u>	69	67.5	191.7	167.7	132.3	113.2	2.2	14.3	16.8
<u>Northern Africa</u>	70.7	65.9	89.4	78.0	63.4	51.4	7.2	14.6	22.9
<u>Southern Africa</u>	66.5	64.1	153.7	127.0	102.3	81.3	3.8	21.1	25.6

Much continues to be written about the Arabian Peninsula and the economic experiment that is underway. Dubai, currently running at over 90% occupancy, has been a driving force within the region. The new airport at Jebel Ali opens next year with the aim of bringing 15 million dedicated visitors a year by 2010, more than London combined. It will have to if the current room supply under construction comes to fruition. At the moment, the current room count of 39,000 will rise to over 70,000 within three years. Impressive as these numbers are, it is other African countries that catch the eye though so far in 2007. Kenya has grown 34%, Turkey 30%, Egypt 24.5%, Oman 24% and Jordan 20%. The UAE by comparison has grown by 16%.



Asia Pacific

This region is vast and covers countries as diverse as India, China, Japan and Australia. The whole region has undergone a sustained period of economic growth after the collapse of the Japanese financial markets in '97, followed by 9/11 and the crippling effects of the SARS epidemic and the Tsunami. The region is seen as key by many major brands for growth as costs and saturation points are far lower than they are in the US and Europe. The enormous economic potential of countries such as India and China, and the emergence of a new middle class of world travellers is a demographic that has sharply come into focus over the last two years. In terms of results however, some of that development has started to impact on the RevPAR growth, not because of a drop in demand, but because of the new supply that is starting to come onto the market. China is a perfect example of this, RevPAR falling 2.8% because the occupancy dropped over 7% as new supply is absorbed into the market. India has yet to experience the same kinds of supply that China has, and has subsequently managed to capitalise on the increase in travel to raise average rates 30%. The main beneficiaries of a surge in tourism in the region have been Vietnam, who have grown 44% so far, Indonesia, which has grown 40% and Cambodia which has grown by 36%.

Asia Pacific Regional Performance

Occupancy		ARR		RevPAR		% Change year on Year		
2007	2006	2007	2006	2007	2006	Occ	ARR	RevPAR

<u>Asia Pacific</u>	68.7	69.8	133.6	118.07	91.7	82.4	-1.6	13.2	11.3
<u>Central & South Asia</u>	68.1	69.2	187.9	141.49	127.9	97.9	-1.7	32.9	30.6
<u>North-eastern Asia</u>	67.6	71.6	127.6	122.4	86.3	87.6	-5.6	4.3	-1.5
<u>South-eastern Asia</u>	68.9	65.3	117.1	92.48	80.7	60.3	5.5	26.7	33.7
<u>Australia & Oceania</u>	72.8	71.9	149.8	129.74	109.2	93.2	1.3	15.5	17

Asia Pacific City Performance

	Occupancy	ARR	RevPAR
<u>Asia Pacific</u>	-1.6	13.2	11.3
<u>Vietnam</u>	10.8	30.5	44.6
<u>Indonesia</u>	18.3	18.5	40.2
<u>Cambodia</u>	22.0	11.8	36.4
<u>Philippines</u>	1.3	33.7	35.5
<u>Singapore</u>	3.6	30.0	34.6
<u>India</u>	-1.4	30.9	29.1
<u>Australia</u>	4.2	18.5	23.5
<u>Taiwan</u>	-3.8	24.9	20.1
<u>Thailand</u>	-3.4	22.0	17.8
<u>French Polynesia</u>	-8.9	22.0	11.1
<u>South Korea</u>	-0.4	5.0	4.6
<u>Japan</u>	-2.2	4.7	2.4
<u>Guam</u>	-2.7	0.3	-2.4
<u>China</u>	-7.1	4.7	-2.8
<u>Fiji</u>	-19.2	-7.4	-25.2

Summary

The markets have held up well and have continued to grow on the strong performance in 2006. On a region by region basis, supply remains key to development, and whereas in the United States, where a recent surge in the number of new bedrooms will adversely affect the occupancy levels in key destinations as that new supply is absorbed in 2008, Europe will remain hamstrung by the relative lack of building in the region. Jonas Lang La Salle estimates that \$16 Billion of hotel real estate transactions took place; the majority of those transactions were existing stock changing hands, and not new bedrooms being built. If we look at the capital cities of Europe and see that growth is almost all average room rate, that is unsustainable for long as rate growth cannot continue at 10-12% per annum. Asia Pacific will continue to boom in 2008 and a perfect rate growth environment is being displayed in many regions. Hong Kong and Singapore have shown very strong rate growth and the Olympics in Beijing will drive tourism to the region.

Global threats like terrorism, Iraq and possible future conflict with Iran cause concern, but on the whole, 2007 will be looked back on as a good year for hoteliers.

About The Bench

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