

Winter 2011

2011 – A Year in Review for Hotel Firms

Atul Sheel

Follow this and additional works at: <https://scholarworks.umass.edu/jhfm>

Recommended Citation

Sheel, Atul (2011) "2011 – A Year in Review for Hotel Firms," *Journal of Hospitality Financial Management*: Vol. 19 : Iss. 2 , Article 1.
Available at: <https://scholarworks.umass.edu/jhfm/vol19/iss2/1>

This Editor's Note is brought to you for free and open access by ScholarWorks@UMass Amherst. It has been accepted for inclusion in Journal of Hospitality Financial Management by an authorized editor of ScholarWorks@UMass Amherst. For more information, please contact scholarworks@library.umass.edu.

Editor's Note...

2011 – A Year in Review for Hotel Firms

2011 was yet another memorable year for US based lodging firms.

Regardless of the political, economic, and natural crises witnessed globally, hotel acquisitions rose 117% to \$14.8 billion in first half of the year. The \$405.5 million New York Park Central deal of LaSalle Hotel Properties, the \$262.5 million portfolio disposition of Diamond Rock Hospitality Co., and the billion-dollar 64-hotel deal between Innkeepers USA Trust, Cerberus Capital Management LP and Chatham Lodging Trust were just some examples of such transactions. Because hotel companies often rely on their stocks to raise capital, improving equity markets favored acquisition transactions earlier during the year. However, the scenario changed during the latter part of 2011. Hotel stocks were depressed consequent to fears of yet another economic debacle, followed by a marked slow down in acquisition activity. Many companies such as Host Hotels & Resorts Inc. scuttled their ongoing deals to purchase other properties because of significant decline in their stock value (35% for Host) amidst a broader trend of decline in hotel stocks.

As 2011 comes to a close, stockholders of lodging firms are certainly unhappy with the performance of their stocks. During 2011, the lodging industry ranked in the bottom 20% of all economic sectors in terms of its stock returns. The hotel component of the Dow Jones All REIT index, which tracks 16 hotel REITs, posted significant decline during the year. The year to date returns for the lodging and resort/casino sectors were negative 21.45% and 0.24% respectively, significantly lower than their performance in 2010 (48.61% for lodging; 106.37% for resorts and casinos) according to Morningstar experts. Even though the RevPAR for lodging firms is expected to increase during the year by 7.7% (Smith Travel Research projections), the overall stock returns of the lodging sector in 2011 were almost 23% lower than the S&P 500 index returns. Table 1 summarizes the 2011 stock returns of key lodging firms.

Table 1
2011 Total Stock Returns of Key Lodging Firms

Stock Name	Market Cap (Million\$)	YTD %	1-Year %
7 Days Group Holdings, Ltd.	573.35	-46.06	-46.06
Choice Hotels International, Inc.	2329.4	4.32	1.54
Gaylord Entertainment	1200.05	-31.02	-32.85
Home Inns & Hotels Management, Inc.	1219.01	-34.28	-35.46
Hyatt Hotels Corporation	6333.83	-16.19	-16.28
Intercontinental Hotels Group PLC	5161.3	-7.14	-5.7
Marriott International, Inc.	10057.13	-22.41	-22.85
Morgans Hotel Group Company	187.15	-32.86	-32.18
Orient-Express Hotels, Ltd.	910.96	-41.88	-41.97
Red Lion Hotels Corporation	134.75	-11.65	-12.75
Sonesta International Hotels Corporation	113.68	45.07	53.7
Starwood Hotels & Resorts Worldwide Inc.	9622.06	-18.13	-18.04
Wyndham Worldwide Corporation	5854.22	28.87	26.96
<i>Total</i>	43696.89	-	-
<i>Key Lodging Firms - Average</i>		-14.10	-13.99
<i>Key Lodging Firms - Weighted Average</i>		-11.58	-11.98
<i>Overall Lodging Industry</i>		-20.58	-21.36

Source - Morningstar Investment Research Center

Such weak performance of lodging stocks raises concern about the outlook for this industry during 2012. Experts continue to be “cautious” about the industry’s growth in the near future. Analysts at Standard and Poor’s remain concerned about an “uneven recovery in the U.S., particularly in 2012”, and predict an overall “neutral” outlook for the hotels, resorts and cruise lines sub-industry for the coming 12 months. A recent article in Lodging Hospitality echoes the cautious views of most lodging experts as follows “The U.S. hotel industry will see less growth in 2012 than previously predicted because of continuing economic headwinds and a stellar 2011”. Experts at Smith Travel Research (STR) predict that the U.S. hotel industry will report smaller increases in all three key performance metrics (namely occupancy, ADR and RevPAR) for year-end 2012 than previously forecasted. STR has revised its 2012 forecast for the industry’s occupancy to 60%, or an estimated occupancy growth rate of 0.2% vis-a-vis its original forecast of 2% growth. While STR is still optimistic that the performance of US hotels will remain positive in 2012, their experts are certainly concerned about the overall developments in the US economy, particularly the lack of growth in its macro-economic indicators.

On the positive side, however, the sub par performance of lodging stocks (negative 21.45% total returns, 23% below the S&P 500 index) in 2011 could also make them attractive buys for investors during 2012. What is noteworthy is that the overall performance metrics of the lodging sector continued to remain on the upswing in 2011 since their pre 2009 collapse. A 60% occupancy forecast for the coming 12 months, is certainly much better than the industry’s near recessionary occupancy of 54.5% (8.8% decline) during 2009. Hopefully, with much of the domestic and global economic uncertainty behind us, many analysts predict such upswing in performance metrics to continue benefiting hotel operators during the coming months.