Who’s raising rates and who’s doing deals

The Lodging Industry Investment Council shares who’s doing business where, and how

By Stephanie Ricca

Phoenix—Just as the past two years weren’t a typical recession, 2011 and 2012 won’t be a typical recovery, either.

Members of the Lodging Industry Investment Council, a think tank comprised of brokers, developers, owners, lenders, lawyers and more, debated the realities of the new normal at their September meeting, which was held in conjunction with The Lodging Conference.

Operating fundamentals, combined with supply and demand, are the first indicators that this recovery isn’t typical. To make the most of it, members agreed hoteliers must recognize the differences this time around and remember that on an operating level, the hotel business is very much a local one.

“Historically, the relationship between room demand and average daily rate has been very clear,” said Vail Brown, VP of sales and marketing for STR. “When demand comes back up, ADR goes right along with it.”

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IHG details Crowne Plaza relaunch plans

InterContinental Hotels Group will reposition the Crowne Plaza brand, which has nearly 400 hotels worldwide, in three phases. The first phase, called “Freshen Up,” is underway now and will continue through 2012. It involves raising product quality and consistency, driving revenue and performance, refreshing the brand’s Sleep Identity program and launching a new brand identity. The next phases will address the brand’s new target customer with new training programs, development and distribution.

Vantage Hospitality makes list for sixth year

For the sixth consecutive year, Vantage Hospitality was named to the Inc. magazine 500/5000 ranking of the nation’s fastest-growing private companies. Vantage is the only hotel company included on the list for the past six years. The company’s brands include Americas Best Value Inn, Canadas Best Value Inn, China Best Value Inn, Value Inn Worldwide, Lexington Villageways, Lexington Hotels and Lexington Inns.

First Hilton Garden opens in Istanbul

Hilton Worldwide opened the Hilton Garden Inn Istanbul Golden Horn, which is the fourth Hilton Garden Inn in Turkey.

Le Méridien expands growth in Thailand

Rates and deals

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"Not so this time. This time, demand plummeted to around 7 percent and ADR kept declining, so when demand came back, it's taking longer for ADR to grow."

As of August, industry-wide room demand was up 5.2 percent, according to STR, and ADR was up 3.5 percent year-over-year.

Brown warned anxious hoteliers—particularly ones doing deal underwriting—that being super aggressive about raising rates isn't necessarily what operators are comfortable with at this stage of the game.

"Each market is moving differently," she said. "We're still seeing strong numbers week after week, month after month."

In well-performing markets, the revenue per available room scales finally are tipping in favor of rate.

"As of August, 11 of the top 25 markets experienced double-digit RevPAR growth," Brown said. "A lot of it was due to a bigger contribution of ADR than occupancy."

That ADR-occupancy relationship is another one that might not be what hoteliers are used to during this recovery.

Some of LIIC's owners and operators expressed concern that their still-low occupancy was hampering rate growth.

"We're way off rate because our occupancy is under 60 percent," said Doug Dreher, president and CEO of The Hotel Group. "We really got our rate growth in the low 60s [occupancy percentage]."

But Brown pointed out that contingency may no longer be relevant.

"Is it a new normal?" she asked. "Do you have to have occupancy in the low 60s to get that rate growth? We're not sure you have to."

WHO'S RAISING RATE?

Again, market and segment are the key factors behind successful rate pushing, LIIC members said.

CA Anderson, president and COO of the Dow Hotel Co., said the company is locking RevPAR close to industry average, driven by demand and ADR, and rate.

"We're really pushing in the next year," she said. "We've had some markets where we've been very, very successful.

Larry Shapnick, SVP of development and acquisitions for Interstate Hotels & Resorts, said the hotels Interstate manages in the limited-service segment are experiencing a little better rate and occupancy than some of the full-service ones, because of the diversity of the markets.

That mirrors STR's industry-wide occupancy and ADR data, which shows the economy segment gaining 4.2 percent over last year, not terribly far behind the segment leader—luxury—which has occupancy up 5.4 percent over last year.

Group business continues to be a headache, particularly given new worries about a double-dip recession that came into the hotel in late summer.

Brown said that from a city standpoint, 13 of the top 25 markets are forecasting to have RevPAR growth of 10 percent to 15 percent this year. Leading the pack—San Francisco, a city Brown said could see RevPAR growth of 15 percent to 20 percent in 2011.

In those markets, group booking also seems to be coming back, according to Brown.

"It's above where we were in 2010 and 2009, but that's not saying much," she said.

In top 25 markets, including convention and second-tier markets, Brown said hotels are booking group business ahead of pace for 2012, "but I think it's 2013 and 2014 that are not moving as quickly as they want it to," she said.

WHO'S BUYING?

Mike Cahill, CEO and founder of HREC Hospitality Real Estate Counselors, brought the conversation around to the buying side, indicating some concern that economic conditions may be inching toward another mini recession.

"It's an interesting theoretical time when we are," he said. "From a business perspective, are buyers actually buying, or is this a snap-back?"

LIIC members responded with some buying stories, reinforcing the common sentiment that for months, deals have proven to be complicated and murky along the way.

"I feel a little more positive than the pundits," said Thom Geary, EVP of business development at Davidson Hotel Co. "Deals lately have taken longer to get done. It's been a long process. As deals are stretched out and monthly revisions come out, things go down. It's creating a little uncertainty in how we underwrite things."

The all-cash deal still wins in the end, he said.

And with real estate investment trusts laying low (See story on page 6), opportunities for non-REIT buyers are still there.

"It feels like we have a window to get some deals done, where there's not all that artificial pricing," Geary said. "There's opportunity now for guys like us to be competitive and not have to duking it out with REITs."

Of course, specific market performance is essential on the buying side as well as the operating side, Jim Merkel, president and CEO of RockBridge Capital, reminded the group.

"Everything we do looks at how that hotel is positioned in the market," he said. "We don't agree over a 5-year to 7-year horizon that the economy is going to shrink. We don't think there's a double-dip."

Some markets can be dreamers, Merkel said, and that has to factor in when owners consider what it will take to get underperforming or undercapitalized hotels into shape.

"We're not looking to flip [hotels] overnight," he said, adding that owners need to have the time to make a deal lucrative.

"We think the opportunity is there with deals that are upside-down," Merkel said. "We call them zombie deals—they're coming to market, they aren't what they are, they aren't what the price is. Yet, we've been involved in these."

Berrie Siegel, president and CEO of KSL Capital Partners, said the chunky deals his company gets done are "a gut-check," all-equity deals that "aren't an easy decision," he said.

"The headwinds are blowing," he said. "We're seeing positive trends in the rearview mirror. We're trying to push rates next year for our group business, but in the past 30 days it hasn't been as nearly as achievable."

Anderson brought home the local market attraction when it comes to deals.

"We don't take global trends as much into account," he said. "It's more like, what are the businesses in town? Who's coming to the hotel? Who's eating in the restaurant? Is all of our business coming from a 15-mile radius?"

Members of the Lodging Industry Investment Council discussed the ADR-occupancy relationship during the recovery, group bookings and more during the group's meeting in September.