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HOW TO DISCOURAGE HOTEL OVERBUILDING: A CASE STUDY

Hotel overbuilding is a subject which has been frequently addressed by hotel and real estate professionals during the last few years. Advice is often given on how individual hotels can better compete within an overbuilt market by utilizing tools such as product differentiation and aggressive marketing campaigns. While these techniques can be effective in luring existing demand from one lodging establishment to another, the fact remains that in an overbuilt market, existing supply far outweighs demand; therefore, depressed lodging conditions on a whole will prevail until demand increases. The best way for existing hotels to survive within an overbuilt area is to take an active role in trying to prevent additional, unnecessary rooms from entering the saturated market.

This conclusion was reached by the members of the San Antonio Hotel/Motel Association (SAHMA) last year, a time when major hotel expansion had just taken place and a large number of proposed projects seemed to foreshadow still further expansion. Hotel operators began to see room revenues decline as a result of the rapidly-increasing competitive environment, and it appeared that San Antonio would enter into a situation similar to that of nearby Houston and other overbuilt metropolitan hotel markets. Despite the increased concern of operators of existing properties in San Antonio, groundbreaking for new hotel construction continued, while additional projects were being placed on the drawing board. Many of these hotel operators and owners reviewed a variety of feasibility studies illustrating a wide range of growth rates, competitive analyses and historical occupancy levels. They believed that the disparity between historical and projected results indicated that the market was being evaluated inaccurately.

The association recognized the need for an analysis of the San Antonio lodg-

ing industry which would publicly document the area's present supply and demand dynamics, as well as forecast the future impact of expansion. What SAHMA sought was a feasibility study of the entire San Antonio lodging market which would demonstrate the actual economic health of the area to city planners, developers, and operators involved in the development of the local lodging industry. A majority of association members agreed that each property participating in the study would disclose its annual operating statistics in order to calculate the area's current occupancy, rate and market mix. Furthermore, the association decided to commission an independent organization to perform the study due to the confidential nature of the information to be reported. (After an interview and proposal process, Hospitality Valuation Services, Inc. was considered best qualified to perform this San Antonio area hotel market study.)

The study began with a formal survey in which SAHMA members, as well as representatives of non-member properties located within the market area, were asked to report pertinent operating statistics. Of the area's total supply of 14,668 hotel rooms, 11,019 were ac-



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counted for in the survey, which was conducted by mail, telephone and personal interviews. This 75% response rate ensured that the areawide operating results used as a basis for the study were a far more accurate representation of the market's aggregate performance than those utilized in any study previously conducted in the area. Disclosure of development plans by operating companies, city officials and developers allowed the study to accurately reflect the future supply of lodging accommodations expected to enter the market. After analyzing this extensive data, a computer model was developed to estimate the current hotel room night demand in four market segments (commercial, meeting and convention, vacationer and contract) in each of three hotel class markets (luxury, standard and economy) situated within two geographic regions of the city (northern and downtown San Antonio).

Roughly 100 commercial transient lodging facilities were identified as being competitive within the San Antonio market. Approximately 60% of the 14,668 available guestrooms are situated in northern San Antonio and 40% are located downtown. This supply of accommodations grew at the average annual compounded rate of 9.2% from 1976 to 1985, which can be further broken down into a 10.1% increase in northern San Antonio and 8.1% downtown.

The survey determined an areawide occupancy level of 66.4% which was equally balanced between northern and downtown San Antonio. Occupancies in individual segments ranged from a low of 60.4% in the northern San Antonio luxury market (primarily due to a 58% increase in that area's guestroom supply in 1985), to a high of 70.8% in the standard/economy market of downtown San Antonio.

A total of 2,427 rooms were identified as certain additions to the competitive supply by the year 1990, yielding an increase of 16.5%. Of these additional units, 814 will be located in northern San Antonio (representing a 9% increase) and 1,613 will be situated downtown (an increase of 27%). All of the

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certain additions in northern San Antonio are anticipated to take place in either the standard or economy classes, while all of the definite additions downtown are expected to be in the luxury class.

Premature expansion of the northern lodging market or any further growth in the downtown market (beyond those additions which are currently certain to come on line) could induce a high number of hotel bankruptcies and foreclosures resulting from low occupancies.

This market study has provided the City of San Antonio, developers and lending institutions with either existing or prospective interests in San Antonio an accurate documentation of the area's lodging economy, as well as a recommended course of action which can be utilized to effectively expand the supply of lodging accommodations in proportion to the growth in demand. The key to the success of this project was undoubtedly the involvement of individual hotels within the San Antonio lodging market. 