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The Impact of Hurricanes on Supply and Demand:

What owners and investors of Florida hotels should know

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Florida and Hurricanes

If you own or invest in hotels in Florida, hurricanes must have crossed your mind, if one didn't actually cross your property. This is what you get when you're in the business of hotels in paradise. Mother Nature will occasionally remind you that the same forces that create balmy breezes and bring out-of-towners to your hotel can also bring high winds, heavy rain, and tidal surges. For as long as Florida has been married to the sun, it has had an affair with hurricanes.

The National Weather Service has identified Southwest Florida as one of the most hurricane-vulnerable areas of the United States (Southwest Florida Regional Planning Council Website, 2006). Based on historical data from the Tampa Area Offices of the National Weather Service, Southwest Florida can expect to receive a hurricane warning once every two and one-half years (2006). The frequency with which hurricanes hit Florida is not likely to change, but how you react to hurricanes may after you read this article.

There is nothing you can do to prevent a hurricane. You could add "hurricane-proof windows" which are all the rage with coastal properties, but as owners of damaged hotels will tell you, the only aspect of these windows that is remotely hurricane-related is that you can see one through the window when it approaches your hotel. Humor aside, this article examines the impact of the 2004 hurricanes on three Florida markets and provides an analysis of demand and supply. Understanding how these two variables respond to hurricanes can help you identify solutions should a hurricane come into contact with your hotel. Although markets were also impacted by hurricanes in 2005, the immediate impact on demand and supply are less apparent—masked by the residual impact of hurricanes in 2004. Therefore, 2005 has not been examined in this article.

Hurricanes and Demand

Contrary to what you may expect, in most cases demand in lodging markets increases in the aftermath of hurricanes. If a hurricane spared your hotel but you're worried that it scared off your guests – don't be. In fact, you should direct your attention on ways to minimize the physical wear on your property, as it will, in all likelihood, experience a period of inflated occupancy.

Although hurricanes may dampen immediate leisure travels to Florida, hotel rooms in hurricane-hit markets will be filled by demand from two other sources: evacuees and relief workers. In the immediate aftermath of a hurricane, hotel rooms will be filled by evacuees—people who have been temporarily displaced from their primary residence. In the longer run, "hotel rooms will be filled by individuals involved in the recovery effort and massive building boom (Rushmore, 2006)." Demand can remain high for a few years as "government agencies, insurance adjusters, contractors, and construction workers flood the area (2006)."

Smith Travel Research (STR) is an independent research firm that compiles data on the lodging industry. The STR data for a sample of six mid-scale and upscale hotels located in Palm Beach Gardens, Florida is presented in the following table. The data shows the sample's aggregate, monthly occupancies and their respective changes in comparison to prior years.

Occupancy Sample of Six Hotels in Palm Beach Gardens

	2002	2003		2004	
Month	**Occupancy**	**Occupancy**	**% Change**	**Occupancy**	**% Change**
January	63.2 %	68.3 %	7.9 %	75.4 %	10.4 %
February	76.0	83.9	10.4	89.2	6.24
March	78.7	85.2	8.3	92.2	8.23
April	65.4	70.2	7.3	82.9	18.10
May	56.0	56.7	1.2	70.1	23.67
June	68.6	66.3	-3.3	70.5	6.23
July	62.3	57.5	-7.6	65.8	14.35
August	61.3	57.7	-5.8	65.4	13.28
September	46.2	47.7	3.2	80.5	68.87
October	60.2	64.7	7.3	88.5	36.85
November	58.4	70.4	20.5	85.9	21.95
December	54.8	66.4	21.3	70.6	6.35
Annual Averages	**62.5 %**	**66.1 %**	**5.8 %**	**77.7 %**	**17.6 %**

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In September 2004, the month hurricane Ivan struck, occupancy increased by nearly 70% compared to September 2003. Historically, September occupancy levels in the Palm Beach Gardens market lingered below the 50% range; in 2004, the month's occupancy level jumped to roundly 81%. This temporary inflation in occupancy levels is common not only in markets directly hit by hurricanes, but also in markets proximate to impacted regions. Markets in Central Northern Florida also experienced immediate, inflated occupancy gains generated from demand by hurricane evacuees and relief workers.

The following table presents the aggregate occupancy data for a sample of eight hotels in the City of Ocala, located in northern central Florida.

Occupancy Sample of Eight Hotels in Ocala

	2003	2004
Average Daily Room Count	1,058	1,058
Available Room Nights	386,170	386,170
Change	1.9 %	0.0 %
Occupied Room Nights	266,775	300,707
Change	5.0 %	12.7 %
Occupancy	69.1 %	77.9 %
Change	3.1 %	12.7 %

Smith Travel Research

The market was not hit by hurricanes in 2004 and the quantity of room supply was not altered from that of 2003. The number of occupied room nights and the market area occupancy level increased by roundly 13% in 2004 over 2003, indicating that even in the absence of a change in room supply, occupancy levels increased.

In the short term following a hurricane, increases in hotel occupancies tend to be more a factor of inflated demand than a factor of changes in supply. However, in the long run, the impact of a hurricane on supply will play a much larger role in shaping market conditions.

Hurricanes and Supply

In any hotel market hit by a hurricane, the most easily quantifiable economic variable to change is supply. Specifically, supply will decrease as a portion of the existing hotel room inventory is damaged or completely destroyed. Whether these rooms are temporarily put out of service, or permanently removed from the market, the result is a period marked by a shortage of hotel rooms and even a possible shift in market orientation.

In beachfront markets more severely damaged by hurricanes, subsequent, long-term occupancy increases are more a factor of reduced supply than a factor of inflated demand. If your hotel is left standing in a hurricane-hit market, even with just a partially operable rooms inventory, get ready to witness record high occupancies in the years to come. The hurricane has just wiped out a portion of your hotel's competition.

In 2004, hurricanes Charley, Frances, Ivan, and Jeanne tore through Daytona Beach leaving a trail of partially destroyed improvements and heaps of construction debris. The hotels still open and operational in the market after the hurricane experienced substantial growth in occupancy. The STR data for a sample of seven mid-scale and upscale hotels located in Daytona Beach, along the Atlantic oceanfront, is presented in the following table. The data compares the aggregate room count and occupancy of the seven hotels in 2003 and 2004.

Sample of Seven Hotels in Daytona Beach

	2003	2004
Average Daily Room Count	931	851
Available Room Nights	339,785	310,749
Change	-	(8.5) %
Occupancy	60.0 %	71.8 %
Change	-	19.7 %

Smith Travel Research

The 2004 hurricanes caused available room nights supply in the market to decrease by roundly 9%, and consequently, market occupancy increased by roundly 20%. It should be noted that the actual available room nights in the entire Daytona Beach market decreased by an even higher percentage than the 8.5% decrease indicated in the preceding table. The table represents data from a sample of seven hotels that remained operable following the hurricane, thus, the decrease in room count is only representative of rooms damaged within the sample and not reflective of the percentage of room nights lost in the market, including hotels which were completely destroyed.

According to representatives of Daytona Beach economic development, the 2004 hurricanes had a more destructive impact on the smaller, older hotels and motels than on the larger, newer properties. The hurricanes reduced the market area's "mom-and-pop" motel room count by roughly 2,000; these rooms are unlikely to return. The rooms reduction in the less upscale hotel segments has been a strong catalyst in the transition of Daytona Beach from a "mom-and-pop" and budget motels market dependent on special events to a more upscale hotels market catering to conventions and family travelers. The resulting shift in market orientation has also pushed marketwide average daily rate (ADR) upward.

If your hotel was performing poorly and barely clinging onto the edge of a positive bottom line, hurricane damage could provide perhaps the simplest and least costly way out of the business. If your hotel was exhibiting sound performance, insurance payouts could be used to prompt renovations and improve your hotel's position in the market. Many beachfront hotels across Florida experienced severe water damage following the four months of hurricanes in 2004. In addition to restoring the damaged guestrooms, many of these hotels' owners have opted to utilize some economies of scale to make capital improvements. Whether the hotels have been converted to hotel condominiums or more upscale hotel products, the additional improvements have better positioned the properties and increased their values. In Florida's hurricane-hit markets, newly renovated properties tend to wield higher values post-hurricane as a direct result of repositioning renovations and decreased competition.

Although the shortage of supply in any market will prompt the entry of new hotel products, this process will take time. Moreover, construction of new hotels will likely be hampered by the high construction costs and limited availability of contractors and materials in the next few years. A holding pattern in the full-service sector may emerge due to the tighter operating margins of large-scale facilities. As a result, the focused-service segment will probably enter the market first, since these hotels operate with higher margins and can absorb higher costs (Taylor, 2005). Under these circumstances, full-service hotels that can renovate and resume operation in the timeliest manner stand to benefit the longest from a shortage of supply.

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As a result of the demand and supply dynamics discussed, you have reason to be optimistic about your hotel investments in Florida. Fortunately, the value of a hotel is not determined by the likelihood of it being hit by a hurricane, but quite possibly, by the manner in which you react. Whether or not you can identify strategic solutions and act promptly will determine whether your property will be a benefactor or a casualty of the hurricane.

According to Steve Rushmore, president and founder of HVS International, "history shows that recovery [following a disaster] occurs rapidly once a solution to the disaster is implemented or becomes apparent (2006)." Although hurricanes can be devastating, they are also disasters with identifiable solutions. Understanding the unique demand and supply dynamics in its aftermath can help you identify solutions as well as investment opportunities. There's not a lot you can do about a hurricane, but a hurricane can sure do a lot for you.

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