

Hotel Investment Strategies

A Neighborhood Business

In the July 2003 issue of *HOTELS* magazine, Jeff Weinstein's editorial addressed his observations made during the NYU hotel investment conference that even though various hotel industry leaders "don't know what the future holds" the usual list of industry "soothsayers" had no problem giving future economic predictions their "best shot." Since I was identified as one of the soothsayers, I feel obligated to at least defend my predictions of the future, while at the same time damning with faint praise the macro-centric outlooks provided by some of my colleagues.

Basically, Bjorn Hanson of PricewaterhouseCoopers predicted over the next 12 quarters there will be no recovery of real RevPAR to the previous peak (I don't even know what that means.) Randy Smith of Smith Travel Research forecasts room supply increase of 1.5%, while demand will increase 2%. I was quoted as saying hotel values should increase 7% in 2003, 10% in 2004 and 18% in 2005. While I am not going to opine as to whether these U.S. lodging statistical predictions are realistic or not, I am going to bluntly state, "So what. And who cares?"

I am sick and tired hearing that this week's national hotel occupancy is 5% above or below the same week last year, RevPAR has declined for the second month in a row or supply growth is declining and demand growth is increasing. This extreme dissection of the U.S. hotel industry means nothing. Worst, Wall Street devours these statistics as soon as they are published, often sending hotel stocks rocketing skyward or crashing into the earth depending on the direction of the data.

Everyone needs to remember hotels are neighborhood businesses. They are impacted by local supply and demand dynamics. Maybe the national economy might affect macro travel trends slight-

ly, but who cares that the U.S. hotel occupancy level now is below 60%. This national data is just an average of hundreds of local hotel markets, some of which are doing very poorly, some slightly poorly, some very well and some not so well. It is like you can still drown in a swimming pool that has an average depth of three feet (.9 m). Broad-based averages can be very deceiving.

So let's not fixate on this national data and become elated when it

shows positive trends or have heartburn when the results are not as favorable. Rather, we need to focus on local information that will actually help real world hotel owners, operators and lenders make good investment decisions. Now to demonstrate that this soothsayer is not speaking with forked tongue, I refer my readers to page 26 of the July issue of *HOTELS*, where I provide six years of actual and four years of projected hotel value trends for more than 80 individual city markets throughout the world. This is the type of information that needs to be dispersed to the industry. If you own a hotel in Minneapolis, wouldn't you like to know that I am predicting local hotel value increases of 17% in 2003 rather than hearing the typical hotel in the

United States will see its value rise by 7%? If you were selling a hotel in San Antonio, wouldn't it be important to know that while hotels in most U.S. markets lost value in 2002, those in San Antonio increased an average of 19%, and you need to let prospective buyers know that this market is bucking the trend?

Smith Travel Research does an excellent job of collecting and reporting hotel statistics on a micro level, so I find no fault with the informative efforts of Randy Smith's organization. However, other consulting firms and soothsayers give way too much emphasis on providing national data, which can be very misleading when people attempt to benchmark it against local results.

I hope the hotel soothsayers will go back to their databases, extract information for neighborhood or citywide markets and report these hotel statistics, which will help rather than mislead industry participants and observers. ♦



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Percentage Change In Hotel Values

	1998	1999	2000	2001	2002
New York City	18%	5%	17%	-40%	-5%
San Francisco	5	5	26	-37	-32
San Antonio	4	-4	7	-2	19
Baltimore	13	13	23	-11	12
Houston	6	-24	15	16	-26
United States Average	0%	1%	17%	-23%	-5%

Source: HVS International