

Rushmore on Hotel Valuations

Creator of the Hotel Valuation Methodology

Inflation- The Best Thing to Happen to the Hotel Industry in a Long Time!

While everyone is looking at the recent high level of inflation and the Fed is trying ways to bring it down, hoteliers should quietly be thinking, “We hope it never ends.”

In simple economic terms- inflation is the loss of buying power that occurs when too much demand is chasing too little supply. There are many theories as to what is causing the current wave of inflation- I think it is a combination of factors all related to the pandemic. Let’s look at the two components that create inflation- too much demand and too little supply.

Too Much Demand

During the pandemic, most of the world was locked down for a period of time. Other than buying toilet paper, sanitary wipes, and Pelotons most people were

When the hotel industry was emerging from the pandemic- most data analytic firms totally misread the positive impact on ADR created by an inflationary economy

Rushmore on Hotel Valuations

The world's only newsletter that focuses on current issues impacting the value of hotels. Steve Rushmore, the retired Founder of HVS, created the **Modern Hotel Valuation Methodology** which is the basis of the five textbooks he authored for the Appraisal Institute. Steve can be reached at:
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housebound and couldn't go out and spend money. As the result, those who had a job and were able to work from home started accumulating wealth (savings). At the same time, those who lost their jobs or couldn't work benefited from very favorable governmental unemployment benefits. Unfortunately, even some who could work found it financially beneficial to take the governmental handouts rather than accepting employment. The final result was, a large number of people had money to spend but due to the pandemic could not spend it.

This all changed with the vaccines and the lifting of the lockdown restrictions. People immediately started shopping, eating at restaurants, and traveling. The term "huge pent-up demand" was used by players in almost every industry. In my economic terminology, this is simply, **"Too Much Demand."**

Too Little Supply

Looking at the supply side of inflation- the pandemic adversely affected the production of supply (products) along with the distribution of supply or what is now referred to as "supply chain." When much of the world was sitting at home locked down, those in the manufacturing industry could not go to work and produce supply. This impacted everything- from building materials to computer chips. This also had a cascading effect where home builders couldn't build new homes from the lack of building materials and auto manufacturers could build cars from the lack of computer chips. The result was immediately after the pandemic was brought under control- there were almost no products available for either manufacturers or the consumer. In my economic terminology, this is simply, **"Too Little Supply."**

To further complicate the situation was the breakdown in the supply chain, or how products get from the manufacturer to the consumer. It took time for ships to get loaded and sail, trains, and trucks to start rolling again and for stores to restock their empty shelves

The World's Only Hotel Valuation Certification



If you are an experienced appraiser looking to specialize in valuing hotels or a new valuer starting your career, you need to obtain a hotel valuation certification. By successfully completing my course **"How to Value a Hotel"** you will become a **Certified Hotel Appraiser (CHA)**. For more information: www.certifiedhotelappraiser.org

Steve Rushmore Announces his new Online Course: "How to Value a Hotel"

This online course teaches how to perform a hotel valuation using Rushmore's **Modern Hotel Valuation Methodology**. Designed for experienced appraisers looking to specialize in valuing hotels or new valuers starting their careers, this course provides all the knowledge and tools needed to evaluate hotel markets, forecast income and expense, and value all types of hotels. For the final project, students value an actual hotel. For more information: www.hotel-learning-online.com

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In a capitalistic society where the government doesn't control the free marketplace and when there is more demand than supply, holders of the limited supply will seize the opportunity to raise prices. It is the interaction of all these factors we call **inflation**.

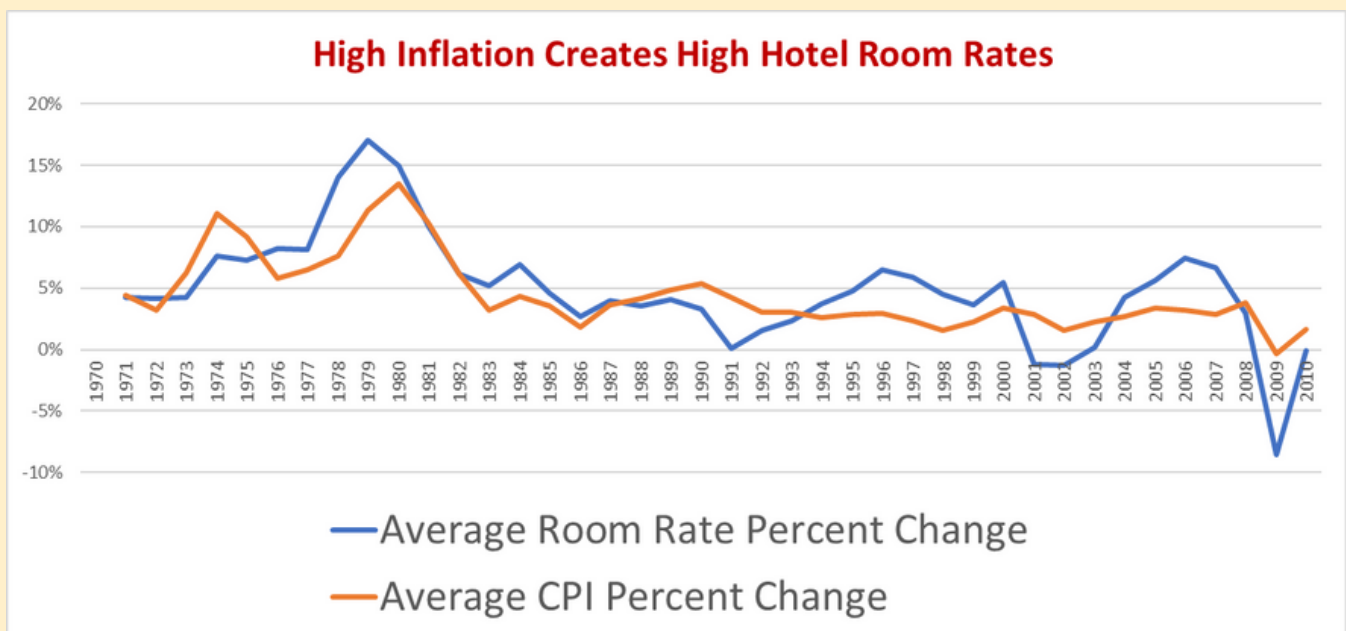
Inflation and the Hotel Industry

Since a hotel offers a service rather than a physical product it doesn't always exhibit the same inflationary characteristics as a product. For example, looking back at history, there have been periods of time where hotel demand has been relatively low, but because the underlying rate of inflation was high, hotels were able to increase their average daily rate (ADR) at a rate that even exceeded the inflation. While I cannot explain this phenomenon, it doesn't matter because today the pent-up travel demand in most hotel market segments is huge and travelers are returning with a vengeance. Yes, there are some segments that have not recovered as fast as others such as large groups and business travelers- however, the underlying pent-up demand is still there and has not dried up.

To provide support for the title of my article, "Inflation- The Best Thing to Happen to the Hotel Industry in a Long Time!" let's go back in history and look at the following graph which shows Average Room Rate Percentage Change (ADR- Blue Line) and the Average Consumer Price Index Percentage Change (CPI- Brown Line)



Steve Rushmore is the Founder of HVS and the **Creator of the Hotel Valuation Methodology**. He has authored eight textbooks on hotel valuation and investing, along with over 350 articles on similar topics. In addition, Steve has taught thousands of industry professionals around the world. His online course- "**How to Value a Hotel**" is used by the leading hotel schools and consulting organizations. Contact Steve at steve@steverushmore.com or visit his website www.steverushmore.com



Whenever the blue line is above the brown line hotels were able to increase their room rates faster than the rate of inflation. The graph shows that between 1970 and 2010, except for a few short periods of time, hotel room rates rose more than the CPI inflation. Let's look at the graph more closely.

1973-1983- One of the highest periods of inflation in the United States with the CPI increasing as much as 14% due to factors such as the Arab oil embargo and runaway government spending. During this time hotel room rates consistently rose faster than inflation exceeding 17% in 1979.

1988-1993- One of the few periods where the hotel room rates lagged the CPI. This period was characterized by massive hotel overbuilding created by indiscriminate construction lending by the Savings and Loan industry. Coupled with the Middle East oil embargo in 1991 which greatly reduced travel it was a perfect storm of over-hotel supply and under-travel demand. With no revenue management at that time- hotel managers decided not to push room rates.

1993-2000- A long period of recovery with minimal growth of new hotel supply and increasing hotel demand. Hotels had no trouble increasing their rates faster than the CPI.

2001-2003- The attack of September 11th- brought travel to a standstill for several months. Also, online travel agents came into power bleeding off hotel room rates resulting in a short period of time where inflation exceeded hotel rates.

2008-2010- The great financial crisis/recession where hotel room rates actually fell in one year. Again, even with this massive slowdown in travel demand- the negative impact on hotel room rates was short-lived.

Today, coming out of one of the worst travel recessions coupled with near-record-high rates of inflation, the hotel



Where Hotel Professionals Learn how to Make Successful Hotel Investments

Now, you can now take courses with Steve without leaving your living room. He is developing a whole series of online courses covering topics such as "How to Value a Hotel", "How to Use Hotel Market Analysis & Valuation Software" For more information: www.hotel-learning-online.com



The World's Only Hotel Valuation Certification

If you are an experienced appraiser looking to specialize in valuing hotels or a new valuer starting your career, you need to obtain a hotel valuation certification. By successfully completing Steve Rushmore's course and a final project, you will become a **Certified Hotel Appraiser (CHA)** or a **Certified Hotel Valuer (CHV)** the world's only hotel valuation certification. For more information: www.chvsc.org

industry has again shown it can raise rates faster than inflation. During 2022 the CPI will have increased about 8% while hotel room rates have gained around 17%

What gives hotels the ability to stay ahead of inflation is their ability to historically change room rates on a daily and now on a second-to-second basis. A good hotel operator will focus a great deal of attention on maximizing rooms revenue- particularly ADR.

Yes- but what about the downside of inflation- the increased cost of doing business (i.e. labor, utilities, maintenance, etc) and the higher cost of capital? I agree it will cost more to operate a hotel these days but in most cases increasing the ADR on its own does not create any additional expense with the exception of certain commissions and percentage fees. Also, those expenses that have risen with inflation probably have not grown faster than the increase in ADR. The bottom line- hotel owners come out ahead during periods of high inflation.

The only exception are those owners who did not refinance their floating rate with a fix rate mortgage. They made a big mistake and are probably not benefiting from the rise in their room rates.

So let the inflation continue and for hoteliers, **"Let the good times keep rolling."** Permission to Republish with Attribution



Hotel Investment Library

Expand Your Hotel Knowledge Books, Articles and Research on Hotel Investing

The Hotel Investment Library is a collection of timeless books and articles written by Steve Rushmore over the past 50 years.

Steve Rushmore, Founder of HVS, pioneered the concept that hotel investing requires in depth knowledge of both hotel operations and real estate. He then literally "wrote the book" on this concept showing the world how to evaluate hotel investments through his eight textbooks, 350+ articles, software and numerous speeches and seminars.
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Advance Your Hotel Career Become a Certified Hotel Appraiser/Valuer



If you are serious about your professional growth in the hotel industry, you should consider becoming a **Certified Hotel Appraiser** or a **Certified Hotel Valuer**. This certification demonstrates proficiency in performing hotel market studies, making financial projections and valuing hotels. It will make you more competitive when applying for jobs in hotel valuations/consulting, asset and revenue management, hotel development and ownership.

To distinguish between an ordinary appraiser and a hotel appraiser Steve Rushmore, MAI, created a certification program that focuses on the business aspects of a hotel valuation. Through Steve's online course, **"How to Value a Hotel"** experienced appraisers looking to specialize in valuing hotels and new valuers starting their careers can become a **Certified Hotel Appraiser (CHA)** or **Certified Hotel Valuer (CHV)**.

Learn "How to Value a Hotel" from the creator of the Modern Hotel Valuation Methodology

Hi- I'm Steve Rushmore and I would like to tell you about my online course- "**How to Value a Hotel.**" It teaches how to perform a hotel valuation using my **Modern Hotel Valuation Methodology.** Designed for experienced appraisers looking to specialize in valuing hotels or new valuers starting their careers, this course provides all the knowledge and tools needed to evaluate hotel markets, forecast income and expense, and value all types of hotels. For the final project, students value an actual hotel.

You will be working with the latest version (6.0) of my **Hotel Market Analysis and Valuation Software-** three powerful software models that have become the hotel industry standard for hotel valuations and investment analysis throughout the world. By the end of the course, you will be able to perform your own hotel market analysis and valuation plus many other applications.

The course consists of video lectures, readings, hands-on software case studies, quizzes, and a final project valuing an actual hotel. It should take about 20-35 hours to complete the 75 short lessons. You can start at any time and proceed at your own pace during your free time.

Most importantly, I will play a vital role during your learning process- through the wonders of Zoom- you can reach out to me with your questions and I will personally assist. After completing the course, I will also be available to mentor your professional development. Hopefully, this will be the start of a long-term friendship.

Upon successfully completing the course and final project you will receive the **Certified Hotel Appraiser (CHA)** or a **Certified Hotel Valuer (CHV)** certification. These certifications recognizing your hotel valuation skills will set you apart from other appraisers and consultants.

This course and software package also provides answers to a wide range of key hotel investment questions such as How much is my hotel worth? What can I do to maximize value? What is the likely impact of new competition? How much value will a refurbishment add? Is my market strong enough to support adding more hotel rooms? What is the impact of my brand adding another hotel to the market?

So why should you take this course? Valuing a hotel is not a simple process. You need to understand the interrelationship between a hotel's operational and real estate components and how this impacts the hotel valuation process. My course will lead you step-by-step through this process so upon completion, you will have learned **How to Value a Hotel.** For more information:

www.hotel-learning-online.com

[To Hear Steve Rushmore Teach His Course Click Here](#)

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