

HOTELS

Brace Yourself

December 10, 2008, By Jeff Weinstein

Yesterday was filled with more bad news for the hotel industry—from riots in Athens to new 2009 projections by PKF, who expects a 7.8% decline in RevPAR in the United States next year—the worst since 1938. The first RevPAR increase might not come until the second quarter of 2010.

I was privileged to attend a half-day forum presented by the Chicago law firm Perkins Coie at the Fairmont Chicago, owned by Laurence Geller and Strategic Hotels & Resorts. We were the only meeting in the hotel, by the way, according to Geller. The event was titled, “Navigating Troubled Times in the Hotel Industry.” Talk about an understatement. As Geller plainly put it during his remarks, “It sucks.”

If owners, developers, operators and lenders weren’t feeling bad enough walking into the “Gold Room” at the Fairmont, opening speaker Michael Medzigian, chairman and managing partner of Watermark Capital Partners, brought them down even further.

Medzigian talked a lot about the intense consumer fear out there and how important it is for them to start spending again to lead the United States out of a recession. He added that 1 in 5 residential mortgages will soon be “under water” and referred to the bubble extending to Dubai, China and Russia. Commercial real estate, he says, is expecting to decrease in value between 20% and 50%. Medzigian added that Goldman Sachs might be predicting -3.5% GDP growth over the next four quarters in the United States. If that turns out to be the case, the lodging industry is in for a very rough 2009—and that does not even include the potential impact of the next shoe to drop in this financial meltdown, consumer credit card debt. Harsh stuff, ey?

The best advice Medzigian could offer was to buy cheap debt, asset manage your assets to the hilt and wait. Eventually, he added, there will be another fortune to be made. But it appeared he wasn’t exactly sure when that time would come—definitely not yet.

The next session of the afternoon focused on operations and development. The consensus was that every segment of the market is getting hurt, especially luxury, resorts and long-haul destinations.

While everyone continues to chant the mantra of maintaining rate integrity, this panel was more realistic and admitted price wars are very real today, especially as that strong weekend business disappears. Biff Hawkey of the Hostmark Hospitality Group says he uses marketing and incentive programs to disguise rate cuts. Who isn’t offering a discount of some sort for a multiple-day stay? “No one is coming without a deep discount,” he said.

Deno Yiankes of While Lodging Services Corp. added that everyone is reducing rates, especially with the demands being made by top national accounts. Sure, it prolongs the recovery, he admitted, but he says he has to drive revenue and as a result he must play the rate game.

To a man, all the operators are looking at staffing efficiencies as the best opportunity to control costs and that cross training is a great idea as volume decreases.

These panelists also agreed that food and beverage is taking a major hit, especially the banquet and catering business this holiday season. Yes, the AIG effect has been extraordinary and is very real.

To close the discussion, Geller took the stage to say, yes, this is the worst of times. However, things will come back stronger, and then we will screw it up again, he scoffed. While he didn't have any concrete answers for the current woes facing operators and owners, he did point to five things that bode well for our future.

1. Owners and brands are now partners, not adversaries. Brands are adopting technology properly, doing better consumer research and are generally smarter now. Plus, the "lunatic brands" have not gone too far creating oversupply heading into this downturn. It makes the recovery at least a little easier.
2. Consumers might be face-down in the sand right now, but they will revert to demographic desires as soon as they can. They will forget their pain and start spending again, and we can capture them with proper target marketing.
3. Money is out there, circling like the rings of Saturn, looking to be spent in hopes of making even more money. You might not be able to see it, but it is there and those who have it want to make more. Lending will come back, Geller predicts. It always does, he says. "I have great faith in the inevitability of history."
4. Believe in the sieve. These downturns sort out the professionals from the amateurs. This is just yet another shakeout and in the end this industry will end up even more professional.
5. America is an amazing society and the entrepreneurial spirit is so great that we will prevail in the end. It is so great, opines Geller, that this spirit will drag us out of this recession and create opportunity. It always does and always will.

So yes, it might take four to six more quarters before we see spending really pick up, but have faith.