



LODGING NOTES

AND RANDOM THOUGHTS

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BRUSH &
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STATE OF THE LODGING ECONOMY

Almost everybody seems to agree that operating metrics for the hotel industry are improving with Smith Travel Research (STR) statistics showing that supply is up less than 1 percent YTD while demand, occupancy, ADR and RevPAR are all up much more for the current month (May 2011), running 3 months, running 12 months and YTD. However, one must remember that while not all properties suffered equally over the past three years, not all properties are feeling the same level of improvement. Hotels, like spouses, must be evaluated individually.

HOTEL TRANSACTIONS

Last July (2010) we reported that Steve Rushmore said (in relation to hotel values) that "It appears the US hotel industry has finally reached the bottom point of this cycle. . ." The most recent numbers posted by HVS indicate that he was reading his tea leaves correctly, at least as far as gateway cities and trophy properties are concerned. The rest of the transaction market seems to be bumping along the bottom. A recent press release from HVS indicates "Of special note is the number of transactions (in 2010) above the \$249,000 price-per-room mark, which was more than five times that of 2009." Their annual "HVS Survey of Major and Mid-Market U.S. Hotel Transactions" is available for purchase in the HVS Bookstore (www.hvs.com)

A recent article in HotelNewsNow.com (www.hotelnewsnow.com) address the growing problem of lack of time in the decision process for acquisition. A combination of buyers with money and a limited number of trophy assets frequently means that the potential purchaser with the ability to make a decision quicker than his/her competitors is the one who is successful. Teresa K. Goebel's story which appeared on the 25th of June provides a series of tips to help manage compressed due-diligence periods. Although specifically targeted to shortened time frames, the tips are almost universally applicable in the hotel acquisition process.

HOTEL OPERATIONS – RENOVATIONS

The brands are once again becoming more demanding about quality standards and more properties are realizing the economic benefits (as well as the necessity in many cases) of undergoing renovation. Owners of trophy properties – and those buying more – are seeing the benefit of fixing up their assets rather than building new. Input from a hospitality oriented interior design firm (You and I Design Inc.) indicates that the cost of a renovation program can be recouped quickly with enhanced income in addition to being able to write off the expense as a tax deduction. More information is available at www.HospitalityInteriorDesign.com or via email at uandidesigninc@earthlink.net. The best operators are finding ways to tackle the current renovation "opportunity" so that they will be in position to take advantage of the improving market. Construction firms, furniture companies, and others are often offering advantageous pricing. The same prices may not be around when they are more in demand.

In addition to renovations required by the brand or just to stay competitive in the market, Jonathan Nehmer Associates in an article on Hotel Interactive (www.hotelinteractive.com) says "Don't underestimate the 'wow factor'" Putting something extra or unexpected in the public areas or the spa or the F&B outlet or even the exterior landscaping and pool area can provide a 'point-of-difference' to returning market segments.

THE NEW "NORMAL"

Online Travel Agencies (OTA's), can't live without them – can't live with them. They provide a significant portion of the reservations at many hotels – and many hotels bemoan the loss of control over their own inventory that is becoming more prevalent. Brands are enhancing their web sites and making them easier to use and many hotels are launching/improving their own web sites to both control their room availability better and lessen the impact of the costs and fees associated with the largest OTA's. According to a recent article by Glenn Haussman at www.hotelinteractive.com the 10,000 member Asian American Hotel Owners Association (AAHOA) "has unveiled its plan to create an Online Travel Agency that will lower costs of the reservation to member hotels while also freeing members what many insiders feel are onerous rules dictated by the largest and most popular OTAs."

Ground-up development still seems to be a difficult road to try and follow in today's lending market but, almost as an 'interim' measure some developers have taken to the idea of 're-purposing' existing properties such as high-rise residential and even office buildings, as lodging facilities. The economy has taken its toll on residential and commercial development as well as hotels and some are available at attractive prices in locations that, perhaps, a hotel project could not previously have afforded. Benefits include cost savings and shortened time to opening. Now if we could only get somebody to re-purpose those hotels that have outlived their useful life!

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