February 2013
Vol. #5 Issue #2

Winter

THE OUTLOOK

Industry pundits use the ALIS conference (January 22 to 24) to look forward rather than back. This year, things were reasonably upbeat as many of the more than 2,500 attendees talked contracts in the hotel's public areas and outside meeting room doors according to Patrick Mayock's article for www.HotelNewsNow.com, part of Smith Travel Research (www.str.com). Executive panels identified "hot US hotel markets" and a resort rebound piquing investor interest. STR expects continued slow growth in the room supply with about a 1% increase in 2013 (after a 0.5% increase in 2012). At the same time meeting demand is expected to "improve at an encouraging pace" according to Benchmark Hotels & Resorts (www.benchmarkhospitality.com). PKF has also indicated that their recent survey of meeting planners resulted in an overall optimistic attitude indicating continued growth in delegates and attendees in 2013 although the number of meetings is expected to remain flat. (www.pkfc.com)

According to HotelNewsNow.com, the industry's data trackers are optimistic with STR forecasting RevPAR increases of 5.7% in 2013 and 6.0% in 2014. STR also forecasts that the national peak average rate of $107 (reached in 2007) will be surpassed in mid-year 2013. PKF Hospitality Research (www.pkfc.com) is projecting between 5% and 6% growth in RevPAR in 2012 and a 7.2% compound annual increase in RevPAR through 2016. PricewaterhouseCoopers (www.PwC.com) is projecting a 5.9% RevPAR increase in 2013 with room night demand increasing 1.8% while supply lags at a growth level of only 0.8%.

DEVELOPMENT/ACQUISITION/INVESTMENT

Debt financing may be easing further – Joel Ross at Citadel Realty in New York – jross@citadelrealty.com who has not always been the most positive voice in the industry indicates: "I am now getting calls from lenders who have not talked to me in 4 years, looking for new business. There is now plenty of money and it is low cost. Conduit loans are easily available at 65% LTV . . . . Mezz is back. You can get up to 85% LTV now for a decent deal if the borrower is strong. There is even a beginning of cash-out-lending which was not even discussed 6 months ago. Mezz will even fund a no cash flow renovation deal if they buy into the story and it is a strong borrower." Please note that he has emphasized "strong borrower" several times in his most recent missive.

OPERATIONS

With hospitality markets showing encouraging signs of life and tax season just around the corner, now is a good time to look at a Cost Segregation study. According to information provided by the M&E Cost Segregation firm, a properly completed study allows the write-off of a greater percentage of the building's cost over a shorter time period, increasing depreciation deductions and thereby lowering the tax burden. There is typically an immediate financial benefit for hotel properties purchased, developed, or renovated in the past 10+ years such as a 3-story economy property developed at a cost of $2.6 million where the final report identified additional depreciation of $452,848 resulting in a cash benefit of $181,139 – an ROI of 31-to-1; or a 120-room hotel purchased for $13 million where the final report identified additional depreciation of $1,532,052 resulting in a cash benefit of $612,821 - an ROI of 82-to-1. For more information go to www.costsegleader.com or contact Tom Miller at (612) 963-4004 or tmiller@costsegleader.com.

THE NEW “NORMAL”

The recent release of AAA’s Five Diamond award winning hotels for 2013 is just one indicator of the need to keep your property in “guest ready” condition. You need to be at the highest level of facilities, services and amenities for your hotel’s position in the marketplace. At least you should be at or near the top of your competitive set. You might not be the newest property on the block, but that is no excuse for anything less than a pristine clean hotel with a well-trained, attentive and caring staff. You may not have the latest technology or the largest flat-screen TV in the market, but what you do have should work easily and properly.

Pinnacle Advisory Group www.pinnacle-advisory.com, in a February 2013 article, emphasizes that “Periodic refurbishments are essential for every hotel with the goal of the upgrades having a positive impact on guest satisfaction and average daily rate (ADR). As design trends and preferences change frequently it is critical for a hotel to stay current in order to meet guest expectations, compete effectively and drive market share.” The article goes on to show the increase in capital spending since the 2010 low point and provides examples of what some of the chains are doing now.