PKF: Double-digit revenue growth ahead for U.S.

ATLANTA, Ga. – PKF Hospitality Research announced that, according to the March 2010 edition of Hotel Horizons, U.S. hotels should enjoy double-digit revenue growth by 2012.

PKF-HR is forecasting hotel rooms revenue to grow 10.5 percent on a per-available-room basis (RevPAR) in 2012. “The U.S. lodging industry has not seen double-digit growth in RevPAR since the inflationary days of the late 1970s and early 1980s,” said R. Mark Woodworth, president of PKF Hospitality Research. “The strong growth in RevPAR is driven by Moody’s Economy.com’s forecasts for income and employment. In 2012, Moody’s is projecting income to grow at a 4.4 percent pace, something we have not seen since 2006. In addition, the 3.2 percent forecast growth for employment that year is an all-time high since 1988.”

Until 2012, however, market conditions will remain relatively soft. For 2010, PKF-HR is forecasting a 1.1 percent decline in RevPAR, the third consecutive year of falling RevPAR for the U.S. lodging industry. “Fortunately for hotel owners and operators, as economic conditions begin to turnaround in 2011, so should travel and the pricing power of hotel managers,” Woodworth said.

Turning

While PKF-HR is forecasting a 1.1 percent annual decline in 2010 RevPAR, lodging market conditions will turn and improve throughout the year. In fact, as PKF-HR forecasted back in March of 2009, the demand for hotel rooms has been greater during the first quarter of 2010 than it was during the same period the prior year. This growth in demand is expected to persist throughout the year and result in an annual increase in rooms occupied of 1.5 percent.

Concurrent with the growth in demand is a reduced rate in the number of new hotel rooms opening. Supply is forecast to grow 1.2 percent in 2010, down from the 3.2 percent net increase in new rooms that came on line in 2009 according to Smith Travel Research (STR). With demand rising at a 1.5 percent pace, the average occupancy rate for the U.S. lodging industry should increase 0.3 percent to 55.2 percent in 2010. “This is obviously not great growth, but it is a step in the right direction after three years of declining occupancy,” Woodworth noted.

Unfortunately for U.S. hoteliers, a national occupancy level below the 60 percent mark means that rate discounting will persist. PKF-HR does not believe that quarterly ADR will exceed 2009 levels until the third quarter of 2010. “Hotel managers know only too well that cutting room rates rarely results in increased profits. However, given the competitive conditions implied by occupancy rates in the 50s, many operators have once again employed the strategy of establishing a base of contract business to reduce their available inventory,” Woodworth observed. “Such a tactic should position these operators to better capitalize on improving demand conditions: more aggressive pricing policies should result.” PKF-HR forecasts ADR will increase 3.4 percent in 2011 after declining 1.4 percent in 2010.

Segments and Cities

Just two of six chain-scales are forecast to benefit from an increase in RevPAR in 2010. PKF-HR is projecting luxury hotels will enjoy a healthy 5.1 percent increase in RevPAR, while properties in the midscale without food and beverage segment will see their RevPAR rise 0.6 percent. In both segments, it appears that discounted room rates will be required to increase occupancy.

“The most prevalent rate discounting is forecast to occur in the upper-upscale segment,” Woodworth noted. “Most big-box convention hotels fall into this category, so the decline in ADR reflects the negotiating leverage currently held by meeting planners.” Hotels in all six chain-scales are projected to experience a decline in ADR during 2010.

Looking across the country, RevPAR for five of the nation’s 50 largest markets is forecast to increase 6.0 percent or more in 2010. In Newark, Boston, and Anaheim, RevPAR gains will be driven mainly by increases in occupancy. Conversely, rising room rates will propel RevPAR growth in Oahu and Salt Lake City.

The cities forecast to experience the greatest RevPAR declines in 2010 are Baltimore, Phoenix, Austin, Washington DC, and Houston. For the most part, the RevPAR losses in these cities are the result of ADR declines in excess of 2.0 percent. The one exception is Baltimore, which is one of two U.S. markets projected to suffer from a decline in demand in 2010. The drop in Baltimore demand can be explained by the comparison to a relatively strong 2009.

The Bottom Line

“The composition of RevPAR change impacts a hotel’s bottom line. In general, RevPAR growth that is driven by ADR is more profitable,” Woodworth explained. “Given that declining room rates will offset the slight gain projected for occupancy, PKF-HR is forecasting a 5.3 percent decline in unit-level net operating income (NOI) in 2010.”

The 5.3 percent profit decline forecast for 2010 follows an estimated 35 percent fall in 2009. “Looking at the preliminary 2009 data from this year’s Trends® in the Hotel Industry research, managers were able to cut their expenses by approximately 13 percent. Unfortunately these reductions were not enough to overcome the 15 to 16 percent decline in total revenues,” Woodworth said.

Layoffs, along with salary and wage reductions, resulted in a 12.5 percent decline in labor costs, the greatest single expense at a hotel. Other significant cuts were made in the rooms (-12.0 percent), A&G (-14.6 percent), marketing (-12.0 percent) and utilities (-10.4 percent) departments.

Consistency Leads To Efficiency

“I’m sure our forecast of continued declines in revenues in 2010 concerns lodging industry participants. Nonetheless, our forecast for 2010 did not change much since December of 2009, and U.S. hoteliers should be encouraged by this level of consistency,” Woodworth commented.

“Given the degree of accuracy of our forecasts for the fourth quarter of 2009, and the consistency of our outlook for 2010 and beyond, hotel operators should feel increasingly confident about what the playing field will look like for the near- and mid-term. Now they can operate in a more efficient manner,” Woodworth said. “With a clearer picture of the future, hotel managers will be able to implement pricing policies, purchasing practices, and staffing decisions that will maximize revenues and control costs."

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