



San Diego posts biggest April hotel rate drop among nationwide markets

By THOR KAMBAN BIBERMAN, The Daily Transcript
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Hotwire.com, the discount travel site, reports San Diego had a larger year-over-year percentage room rate drop in April than any other major hotel market in the country. San Diego posted an 11 percent April-to-April drop for a 3 1/2 star hotel.

"Many San Diego-area hotels continue to price competitively and drop rates in order to attract close-in leisure bookings. We expect to see this pattern continue in San Diego for the next couple of months with rates potentially picking up in the summer," Hotwire writes, adding that a 3 1/2 star hotel here may be found for \$96 per night.

San Diego's ranking was higher than Oahu at a 10 percent drop, Detroit at an 8 percent drop, Kansas City, Mo., with a 7 percent decline and Nashville with 7 percent drop as well.

San Diego hotel developer and consultant Robert Rauch, who has a lot of respect for the Hotwire surveys, concurs that San Diego has seen the steepest percentage room rate drops during the past year of any major metropolitan area. Not only that, he says the room rates here for the 3 1/2 to 4-star properties discussed by San Francisco-based Hotwire, have dropped by a full 25 percent on average since August 2008 with about 13 percent of that occurring in 2009.

Not everyone agrees that San Diego has seen the most precipitous drops. Kevin Berry, a **Trigild** vice president of operations, whose San Diego firm acts as a receiver for hotels across America, said if he had to guess he would say the most precipitous room rate drops have been Orlando during past 12 months. He thought that Phoenix would have a high place on the list as well.

"I do think San Diego would be in the top four or five, but not as dramatic as the others," Berry said.

The Hotwire figures might have been quite different if the drop were calculated in terms revenue per available room or RevPar. RevPar is calculated by multiplying the average daily room rate by the occupancy of the hotel.

A **Smith Travel Research** survey found that while San Diego saw a drop in RevPar of some 20.5 percent in 2009, New York City saw a RevPar drop of 26.3 percent. Chicago, Houston, Detroit and Phoenix also had greater declines than here.

Smith Travel Research found that in February, the latest available data, San Diego with an 8.6 percent year-over-year RevPar drop, showed less than half the decline than Washington, D.C./Maryland/Virginia, with a 22.2 percent Revpar decline during the same period.

Looking at just California, San Diego's RevPAR decline of 20.6 percent in 2009 was quite high, but San Jose's was considerably worse at 26.4 percent. Ontario, South Lake Tahoe, Newport Beach/Dana Point, Oakland and Santa Monica Marina del Rey each had greater declines than San Diego.

Whether calculated by room rates or RevPAR, the numbers have dropped but while they may change, the economy has impacted the bottom line before.

"Between 1989 and 1995 there was virtually no growth in average rates," Rauch said.

Rauch, who developed a Homewood Suites and a Hilton Garden Inn in the Sorrento Valley area just in time for the recession, said with a countywide occupancy that has declined from 71 percent in the summer of 2008 to about 63 percent today, hotel owners have had little choice but to keep dropping rates. He conceded that he along with along with a lot of other hoteliers, he has basically written off his food and beverage concessions as a loss leader.

"We have no food and beverage profit at all. We just have to do this to keep people coming," Rauch said. "You have the vigilante consumer out there looking for the best deal."

Alan Reay, **Atlas Hospitality Group** president, said whether it is making food and beverage a zero sum game or giving away the third night free, hotel owners are having to get creative to get people in the door.

"And in Las Vegas they are giving away rooms in hopes of making money on the rest," Reay said.

Rauch said he thinks the occupancy rates have bottomed out already and the room rates should begin to edge back up by the second half of the year. He doesn't expect dramatic rate increases for the foreseeable future, however.

What encourages Rauch, who currently charges about \$140 per night at his hotels, is advanced bookings have noticeably picked up in recent weeks and the third quarter 2010 is shaping up to be considerably stronger than he might have expected.

Reay agrees with Rauch that the occupancy has pretty much bottomed out and rates will start a slow climb in the second half of this year.

"It's not going to be a situation where it snaps back as quickly as it declined," Reay said.