



Hotelier: Industry should strengthen in coming years

By THOR KAMBAN BIBERMAN, The Daily Transcript
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Hotel consultant and developer Robert Rauch says with barely any new supply, increased demand and room rates finally on the uptick, the next few years should be increasingly strong for San Diego's lodging industry.

Rauch writes that new hotel/motel supply growth is expected to be less than 1 percent in the county both in this year and in 2012.

Nationally, **Smith Travel Research** reports that supply grew 2.2 percent during 2010, and demand increased 6.6 percent.

San Diego is not only delivering considerably fewer hotels, Rauch noted that the only full-service hotel to break ground thus far this year in the county was the Hilton Carlsbad Beach Resort. That 215-room, three-story venue is planned for restaurants, conference rooms, an outdoor swimming pool and underground parking on about eight acres.

Rauch, citing data by Smith Travel Research, said if demand grows by the 3 percent average of the last 30 years nationally, occupancy will move up aggressively in 2011 again due to the low new-supply levels. Following a two-year recession, there is unusually high pent-up demand and San Diego is no exception, according to Rauch.

Still, Rauch has indicated that it likely will be 2012 before occupancies here are comfortably back in the 70-plus percent ranges again. Even though the occupancy rate ranges may be in the mid- to upper-60 percent ranges for a while, that is considerably better than the forecast national figure of 57.9 percent by the end of 2011.

Jan Freitag, Smith Travel Research vice president of global development, was similarly optimistic in statements made during the recent American Lodging Investment Summit.

"The good news is that recovery is driven by the luxury and upper end of the market and that ADR growth will be strong in 2011, since in a recovering market most hoteliers take their cues from the rate leader," according to Freitag. "The bad news could be that hoteliers lock in their group rates for the next few years based on the most recent, low ADRs (average daily rates) and then come to the realization that they did not maximize revenues when the groups actually come to stay in their hotels ..."

Nationally, Smith Travel Research is forecasting the ADR will climb 3.9 percent this year to \$101.55. Rauch said while he doesn't expect the ADR to climb much in San Diego this year, the average rate here is much closer to \$130.

CIC Research reported the San Diego visitor industry finished last year at 29.9 million visitors and total visitor spending of almost \$7.1 billion. This represented about a 1 percent increase in visitor volume and a 2 percent increase in visitor spending.

A strong increase in overnight visitors (+4.5 percent) was recorded in 2010 in San Diego County. Room nights sold increased 10.0 percent in December compared to the prior year, according to CIC.

"With all the key metrics like Consumer Price Index, Gross Domestic Product, industrial production and even unemployment headed in the right direction, the hotel industry, which closely follows these metrics, is beginning an upward cycle ..." Rauch said.

Freitag said companies anticipate a higher level of activity and indicated that business travel volume started to heat up this year, leading to recovery of transient occupancy levels in hotels.

Dangers still exist. Along with concerns that hoteliers might lock in low rates for conventions that could hurt them significantly later, Freitag warns that discounting threatens the entire industry.

"It stands to reason that the discounts only entice the travelers who would have taken a trip anyway and who were probably prepared to pay higher prices," Freitag said.

Both Freitag and Rauch indicated that while the transient ADR is often used as a starting point for group room negotiations, everything gets thrown out the window during a depressed economic environment.

"Group rooms are obviously contractually guaranteed, and in a declining market, discounting those group rates makes little sense for the hotelier," Rauch wrote before adding that hotels must also be flexible if they hope to keep their availability open.