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Surviving the Perfect Storm
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The recent performance of lodging properties suggests that we can expect the development cycle to return as individual markets begin to show potential for development feasibility. Several key indicators underpin this assertion:

- Record transaction activity
- Decreasing rates of return as REITS re-enter acquisition mode
- Reemergence of business travel
- Increased leisure travel
- Economic growth
- Year to date May performance per Smith Travel Research:
    - Occupancy up 4.6%
    - ADR increased 3.5%
    - RevPAR growth of 8.2%
- Availability of financing
- Lower level of recent supply additions

Many markets are experiencing significant occupancy and rate growth. Nine of the top 25 markets experienced double-digit RevPAR growth through May according to Smith Travel Research. Most of these markets are top tourism, business, and costal markets suggesting significant increases in both corporate and leisure travel. The average RevPAR change among the top 25 markets was 10.5%, with an average overall United States growth of 8.2%. These growth rates are likely to trend downward as we move through the summer months, reflecting the travel season in 2003. Regardless, the U.S. Lodging industry is returning to vigor reminiscent of the late nineties.

Positive market trends make many consultants, owners, and managers pause and think back to the last few cycles for perspective. John Corgel, PhD authored an article entitled "Predictive Powers of Hotel Cycles", which appeared in the "Hospitality Investment Survey" by PKF Consulting. The interesting thing about cycles, as Dr. Corgel points out is that "cycles have turning points that are nearly impossible to forecast because they often occur as a consequence of unpredictable external stimuli". This is precisely what happened following 9/11 providing the external stimuli that lengthened and deepened the trough of the first cycle of this century. Indeed, conditions gathered for the lodging industry that brought about "the perfect storm".

The perfect storm had been developing in the lodging industry well before 9/11. The culmination of several major factors precipitated the last downturn. Warnings were heralded by the capital market disruption in late 1998 when capital sources showed signs of skittishness. Many lenders began to worry that the US was becoming oversupplied with lodging product. Nationally, supply grew by an average annual rate of 3.7% between 1997 and 2000. It was not unusual to observe supply growth in active markets exceeding 30% within a 5-year period. The fear of many lenders and developers was well founded.

Storm clouds of a weakening economy formed in 2001. Subsequently, the terrorist attacks on 9/11 magnified this weakness, and provided a very clear cyclical turning point. The languishing economy lay comatose as the war on terror was debated and finally launched. Supply completions or overhang, business travel cutbacks, travel fears, and SARS converged for the tumult which was unleashed on the lodging and travel industry.

Each cycle humbles our predictive powers. Clearly, the major turning points, economic recession, the savings and loan crisis, 9/11, are not something anyone can build into a supply and demand model. This unpredictability is compounded by regional and local trends impacting a hotel submarket. The mind-boggling array of variables expresses the unique dynamic of the hotel industry. It is why the business is so attractive to such a wide range of professionals, from academic to entrepreneurial. Tools available to the lodging professional today such as Smith Travel Research assist in better modeling and forecasting. Their use as we enter the cyclical growth phase will help in anticipating macro trends and short-term performance. The keys to helping us properly predict future performance of lodging property are fundamental. A few of these fundamental considerations include:

- Selecting a true competitive set
- Anticipating new supply
- Researching demographic, transportation, and demand generator trends
- Paying attention to the neighborhood life cycles, new development, and redevelopment
- Considering demand leakage to new markets outside the immediate area
- Placing less reliance on extended forecasts than near term estimates

As with any forecast though, we can expect the unexpected to impact the dynamics of the lodging industry. It's a fascinating business!

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