

Deloitte.

Hospitality Vision US Performance Review



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Overview

The United States (US) hotel industry welcomed the dawn of 2010. Performance measures in the first half of 2009 were particularly troublesome for many companies, and only in the closing months of that year were there glimmers of hope that the worst was over. By December 2009, a number of major markets started to experience increases in occupancy and revenue per available room (revPAR), following what in some cases had been multi-year, record-breaking declines. In particular, steep price discounting appeared to be a less important strategy in filling rooms. As noted in this report, domestic tourism activity was starting to revive for a few select markets, while declines in international travel were lessening, and business travel remained mostly stagnant.

The worst recession in 60 years left the travel industry particularly weakened in 2009, given that consumers and businesses were intent on saving rather than spending. In 2009, domestic and international travel spending in the US declined a sharp 8%, to \$712 billion, according to the US Travel Association (USTA). Even with the 4.7% increase forecast for 2010, spending still will not have returned to 2008's level of \$772.9 billion. By segment, leisure travel spending is expected to rise nearly 5% in 2010, while business travel spending is forecast to increase 4%, according to the USTA.

To help strengthen overseas-tourist interest in the US, various travel representatives, including the American Hotel and Lodging Association, have been working toward the passage of the Travel Promotion Act. This legislation would establish a non-profit corporation to better communicate US entry policies and promote leisure and business travel to the US. Economic consulting firm Oxford Economics has estimated that the bill would attract 1.6 million new visitors to the US, create 40,000 jobs, and add billions of dollars in new tourism spending. The Act passed the House and Senate in late 2009 but is pending final approval.

The airline industry in 2010 will continue to face hurdles that could deter some individuals from flying. The government's discussions in late 2009/early 2010 for tighter security measures for passengers flying to the US have led to increased debate and concerns around security versus privacy. Increased fees from airlines will also add to traveler frustrations and costs.

The slight improvement in travel demand at year-end 2009 led some analysts to revise their forecasts upward. Smith Travel Research (STR) in November reported that it expects US hotel occupancy to experience a slight 0.2% dip in 2010, following a 9% decline in 2009, while revPAR is forecast to fall 3.6% for the year, after a record-setting 17% drop in 2009. For 2011, STR expects a stronger recovery, with occupancy up 2.4% and revPAR rising 5.5% over 2010.

Analysts at Deutsche Bank Securities are somewhat more optimistic. Their January 2010 report noted they expect hotel occupancy in 2010 to rise 2.1% and revPAR to gain 0.5% over 2009.

Looking ahead, growth in the supply of hotel rooms is expected to ease, which should help improve industry profitability into 2011. The total active hotel development pipeline in December 2009 included 3,829 projects comprising 401,090 rooms, according to the STR/TWR/Dodge Construction Pipeline Report. This represented a 35% decrease in the number of rooms in the total active pipeline compared with December 2008.

The remainder of this report discusses recent trends for 14 major hotel markets in the US. The occupancy, average room rate and revPAR figures used are from STR.



Figure 1 - Hotel performance in key US cities: January - November 2009 versus January - November 2008

	Occupancy %			Average Room Rate %			RevPAR \$		
	2009	2008	% change	2009	2008	% change	2009	2008	% change
Anaheim-Santa, CA	64.5	69.8	-7.6	110.27	123.50	-10.7	71.08	86.14	-17.5
Atlanta, GA	53.7	60.2	-10.8	83.60	91.80	-8.9	44.91	55.27	-18.7
Boston, MA	63.7	68.3	-6.7	138.92	155.57	-10.7	88.54	106.31	-16.7
Chicago, IL	57.7	65.0	-11.3	113.69	133.05	-14.6	65.56	86.52	-24.2
Dallas, TX	52.3	60.2	-13.0	86.41	94.43	-8.5	45.22	56.81	-20.4
Denver, CO	59.4	65.0	-8.7	93.85	106.83	-12.1	55.70	69.45	-19.8
Detroit, MI	48.6	56.5	-13.9	78.88	87.20	-9.5	38.36	49.25	-22.1
Fort Lauderdale, FL	63.0	65.8	-4.3	109.14	126.79	-13.9	68.72	83.38	-17.6
Houston, TX	56.9	68.2	-16.6	92.71	100.99	-8.2	52.76	68.93	-23.4
Las Vegas, NV	58.8	67.1	-12.4	92.10	119.18	-22.7	79.99	54.12	-32.3
Los Angeles-Long Beach, CA	65.1	72.6	-10.3	114.74	129.45	-11.4	74.71	93.96	-20.5
Miami-Hialeah, FL	65.0	72.0	-9.7	138.92	159.49	-12.9	90.27	114.81	-21.4
Minneapolis-St. Paul, MN-WI	57.4	63.7	-9.9	92.03	102.97	-10.6	52.79	65.57	-19.5
Nashville, TN	55.7	61.6	-9.6	90.06	95.77	-6.0	50.16	58.99	-15.0
New Orleans, LA	58.1	64.3	-9.6	112.95	119.30	-5.3	65.63	76.65	-14.4
New York, NY	76.9	82.4	-6.7	210.62	273.32	-22.9	162.03	225.27	-28.1
Norfolk-Virginia Beach, VA	54.7	56.8	-3.7	84.30	89.64	-5.4	46.37	50.88	-8.9
Oahu Island, HI	73.3	75.6	-3.0	149.10	169.25	-11.9	109.36	128.00	-14.6
Orlando, FL	60.7	66.3	-8.4	93.52	106.54	-12.2	56.76	70.59	-19.6
Philadelphia, PA-NJ	62.8	67.0	-6.2	111.21	123.47	-9.9	69.89	82.72	-15.5
Phoenix, AZ	53.2	60.8	-12.6	107.10	126.47	-15.3	56.97	76.96	-26.0
San Diego, CA	64.6	71.6	-9.7	126.26	144.52	-12.6	81.58	103.41	-21.1
San Francisco/San Mateo, CA	72.7	76.4	-4.9	134.82	157.22	-14.2	98.02	120.14	-18.4
Seattle, WA	63.0	69.8	-9.8	113.80	127.79	-11.0	71.69	89.22	-19.6
St. Louis, MO-IL	55.9	60.3	-7.3	82.11	87.45	-6.1	45.92	52.74	-12.9
Tampa-St. Petersburg, FL	53.3	57.8	-7.8	99.30	108.30	-8.3	52.94	62.94	-15.5
Washington, DC-MD-VA	66.6	69.0	-3.4	146.32	154.38	-5.2	97.47	106.45	-8.4
TOTAL United States	56.1	61.7	-9.1	97.77	107.43	-9.0	54.85	66.30	-17.3

Source: Smith Travel Research

Atlanta

As with a growing number of major metropolitan areas, there is a muted sense of optimism for Atlanta's hotel industry in 2010. It will be a welcome change for the area's \$11 billion hospitality industry. According to STR, the hotel market is the ninth largest in the US, based on room revenue.

The market is more dependent on business and convention travelers than many other major cities, and the sharp falloff in these areas has taken its toll on hotel room demand. However, because the area began experiencing difficulties earlier than did many other major markets, it may well turn around sooner than most.

Through 2009, however, travel-related numbers remained depressed. Annual occupancy figures have declined since 2006, while revPAR fell nearly 6% in 2008 and was down another 19% in 2009. The number of visitors to Atlanta dropped in 2007 and 2008, and only in late-2009 were there signs that travel to the area was improving. Looking ahead, one major positive for hotels is that the number of convention bookings for 2010 has been increasing over 2009. This gain is a major reason for the recent sense of optimism. Tourism also is said to be improving. In December, the Southeastern Conference college football championship that was held in Atlanta drew the highest hotel occupancy for the market since 2003. January 2010's Chick-fil-A Bowl also was expected to increase hotel occupancy, particularly since it involved two out-of-state teams.

In addition to the expected increase in convention activity, hotel demand in 2010 and 2011 will likely be helped by several new tourist attractions that are expected to open, including the Center for Civil and Human Rights, the College Football Hall of Fame, and a National Health Museum. In early-2010, the Atlanta Civic Centre is hosting the popular *Diana: A Celebration Tour*, an exhibit in memory of the Princess of Wales that has been a strong tourist draw at its other showings around the world. Also, the newly renovated Atlanta Buckhead Hotel & Conference Center now has 25,000 square feet of conference space.

The Atlanta market has an estimated 93,000 rooms according to STR. Several hotel construction projects will add another 4,000 rooms over the next year or so.



Chicago

Chicago's travel industry was hard hit in 2009. Cutbacks in business and personal travel took their toll on the city, which typically is one of the most popular destinations for US travelers. The city had hoped to increase its tourism industry by hosting the 2016 Summer Olympics Games, but in the fall of 2009 it lost out to Rio de Janeiro, Brazil. Also, Oprah Winfrey announced she was ending her talk show, which was taped in Chicago and drew many visitors. In addition, two large trade shows decided to pull out of the city.

For January – November 2009, revPAR in Chicago was down 24.2%, while occupancy was off 11.3% from the same period in 2008. The decline in hotel revPAR for the 11 months was the third-weakest of the major markets followed by STR. Only New York and Phoenix had larger declines. The decline in occupancy was the fifth-weakest of the major markets.

There are minimal signs of a turnaround. In November, occupancy rates had declined for 23 of the last 24 months.

Hotels around O'Hare Airport, a major travel hub, are said to be particularly hurt by the soft occupancy numbers. A sharp falloff in air travel has contributed to the difficulties at these facilities. In late December 2009, two hotels in the suburbs of Chicago announced they would close.

Dallas

The longer-term economic prospects for Dallas remain mostly bright. The city continues to be one of the fastest growing in the US, unemployment is not as widespread as in other parts of the nation, and it currently is undergoing a wave of revitalization projects in its central business district. In 2009, the Winspear Opera House and Wyly Theatre, both of which anchor the new AT&T Performing Arts Center, opened. Construction began on a new deck park that will connect Dallas' uptown and arts district. A new Aloft hotel began operating across the street from the Dallas Convention Center. A city-owned 1,000-room Omni Dallas Convention Center Hotel was approved by the voters and is scheduled to open in 2012. In Arlington, located between Dallas and Fort Worth, the new \$1.2 billion Dallas Cowboys football stadium opened in mid-2009; it will host the 2011 Super Bowl.

The area's hotels in 2008 managed to hold up relatively well when compared against other major metropolitan areas, but the city succumbed to the travel industry's woes in 2009. For all of 2008, revPAR was flat with 2007. However, the first 11 months of 2009 saw revPAR drop 20% from the same period in 2008. Occupancy for the first 11 months of 2009 was down 13%, with December showing little improvement. While 2010 promises to have its challenges, the longer term fundamentals for Dallas remain healthy.

Fort Lauderdale

Despite the area's high unemployment rate, difficult housing market, and weakened economy, Fort Lauderdale has remained a relatively popular vacation spot for tourists. As a result, Fort Lauderdale in 2009 had one of the smallest declines in occupancy of the major markets reported by STR. Through November 2009, its occupancy rate was down only 4.3% from the first 11 months of 2008. This occupancy decrease compares favorably to other markets such as Las Vegas and Phoenix where double-digit occupancy declines continued throughout most of the year. While occupancy fared relatively well, deep discounting of room rates led to larger declines in revPAR. For the January – November 2009 period, revPAR was down 17.6% from the same period in 2008.

Unlike many other large metropolitan areas, marketing money for tourism in Fort Lauderdale has not been cut back, which should continue to boost tourism dollars in the area. The tourism outlook is expected to be helped by new ship sailings out of Port Everglades. In addition to the Oasis of the Seas, reportedly the largest ship in the world, the port will be home to several other large cruise ships. Many of these tourists will likely fly into Fort Lauderdale and stay at local area hotels either just before or after the cruise, thereby helping to boost hotel room demand. The area should also benefit from the 2010 Super Bowl. While Miami will host the Bowl, many events will be held in Fort Lauderdale. The Pro Bowl, also being held in Miami, could help hotel occupancy here.

Fort Lauderdale continues to await the opening of the area's long-planned convention center and hotel. Original estimates called for a 1,000-room hotel next to Port Everglades in Fort Lauderdale that would have opened in 2011. But in 2009 the deal with the county was cancelled. Recent hotel openings have included a trendy W Fort Lauderdale. On the transactions side, one hotel sold in 2009 at a price lower than what it sold for in 1998.



Las Vegas

Prior to the recent global economic crisis, many believed the Las Vegas gaming industry was recession-proof, quoting performance from the last two economic downturns (2001–2002 and 1990–1991) as evidence of the city's invincibility. However, Las Vegas in 2009 may have suffered the most serious decline of any market. Each of the key metrics, including the number of travelers, gaming revenues, business conventions, hotel occupancy, room rates, airline traffic, and vehicle traffic have all fallen sharply. In the past, significant growth in the market came from both gaming and non-gaming revenues, such as room revenues, restaurant revenues and show revenues – but these revenue streams have all been impacted by the recession.

As a result of steep price discounting, the city's revPAR through November 2009 had plummeted 32% from the first 11 months of 2008. RevPAR declined for 17 consecutive months through November, with June down a staggering 46%, making it the worst month of the year.

Due to the city's difficult housing market and the drop in tourists, unemployment in the state of Nevada reached record levels in 2009. The city is also experiencing increased competition from states that have recently been passing laws allowing various types of gaming activities. As a result, gaming revenues in Las Vegas have been declining for nearly two years, according to the gaming commission.

Previously, Las Vegas had experienced a decade of solid growth with ample credit available, allowing the strip to construct ambitious capital projects. By the end of 2009, the pools of liquidity that had once helped drive growth had evaporated. The gaming industry also experienced a rapid increase of room supply during boom years, which has now become a liability as demand has failed to keep up with supply growth.

In late-2009 there were small signs of improvement. In September, the city saw its first year-over-year increase in visitor volume since May 2008. Also, convention attendance reportedly is improving.



Supply continues to increase. In December 2009, the Vdara and Mandarin Oriental hotels, along with the 4,000-guest-room Aria Resort & Casino, opened. All are part of the massive CityCenter complex, an \$8.5 billion, 67 acre mixed-use project that is expected to help boost travel to the city in 2010. This increased room supply could prove to be even more challenging for many hotels over the next couple of years if demand remains sluggish.

Los Angeles

As with most cities located in the West, Los Angeles witnessed more severe declines in its hotel metrics in 2009 than did many other major markets. The weakness was due in part to the more difficult economic climate, including higher levels of home foreclosures and unemployment, relative to most other areas of the country.

In Los Angeles, revPAR plummeted 20.5% year-to-November 2009 to \$74.71. Average room rates declined 11.4% to \$114.74, while occupancy was off 10.3%.

Los Angeles is comprised of 983 hotels with about 96,000 guest rooms, the nation's fifth-largest concentration of rooms. According to STR, the city generated US\$2.7 billion in room revenue, ranking it fourth in the nation. More than half, 53%, of that revenue came from luxury, upper-upscale and upscale hotels.

The Atlas Hospitality Group, an Irvine-based consulting and brokerage firm, reported that the number of hotels that were foreclosed in the state rose 313% in 2009, from 15 to 62 hotels. Los Angeles County had six hotel foreclosures, affecting a total of 1,168 rooms. Nearby Ventura and Orange Counties had a total of three foreclosures in 2009.

Hotel openings in 2010 include the \$970 million skyscraper that will house the JW Marriott Hotel in the lower floors and the Ritz-Carlton in the upper floors; and the W Hollywood Hotel & Residences at the famous corner of Hollywood and Vine that is expected to appeal to members of the entertainment industry.

The market may be seeing light at the end of the tunnel. STR's weekly data for early January saw healthy increases in the three key measures, including occupancy, average daily room rate, and revPAR.

Miami

Miami saw revPAR decline 21.4% year-to-November 2009, to \$90.27. With occupancy dropping 9.7%, average room rates in the city fell 12.9% for the 11-month period. Fewer people came to Miami for a vacation in late-2009 as the city continues to be impacted by economic problems both locally and nationally. Similar to California and Arizona, the increases in home foreclosures and unemployment have been particularly hurtful to Florida's economy. According to Brookings' Metro Monitor, a quarterly review of America's 100 largest metropolitan economies, eight of the 20 metro areas that had the worst economic performance in late-2009 were in Florida, including Miami.

The market may be showing signs of a gradual recovery. Competitive room rates and hotel deals helped fill rooms over the Christmas 2009 holidays. The area also is experiencing slight increases in European tourists as a result of the low dollar.

Early-2010 tourism could receive a boost from the Pro Bowl that is being held on January 31 at Sun Life Stadium and the February 7th Super Bowl. Football fans may be enticed to stay for the entire period, benefitting both Miami and Fort Lauderdale. Between 1980 and 2009, the Pro Bowl had been held in Hawaii after the Super Bowl.



South Florida may hold substantial gambling potential. There are various news reports of developing casinos throughout Miami-Dade and Broward counties in the next decade which could draw new visitors to the area.

In 2009, Vice President Joe Biden visited Miami to discuss how the \$787 billion stimulus package will help support South Florida transportation projects. Biden visited the Miami International Airport and toured the Miami Intermodal Center (MIC). As part of the MIC station program, a light-rail automated people mover system will be developed to help travelers and commuters. The light-rail will operate between MIA and the two major structures of the MIC – the Rental Car Center and the Miami Central Station – and expects to be operational by 2012.

New Orleans

The city, long considered a popular destination for nightlife, live music, and dining, continues to rebuild from Hurricane Katrina, which hit in 2005. Although construction activity continues to be strong, the area's population, at roughly 350,000, remains down by more than 100,000 from its pre-Katrina days, according to US Census figures.

For hoteliers, however, New Orleans has recently been one of the better performers in the US. In 2009, occupancy, average daily room rate, and revPAR improved as the year progressed. In mid-December the area had the largest weekly increases in all three metrics of the top markets. Weakness earlier in the year, however, brought year-to-date figures for occupancy and revPAR down by near-similar percentages to the averages for the major markets tracked by STR. RevPAR was down 14.4% from the first 11 months of 2008.

Increased tourism activity has been the driver behind the recent upturn in hotel room demand. Bookings for New Year's Eve were strong according to the New Orleans Convention and Visitors Bureau, which also reported that demand for hotel rooms for the 2010 Mardi Gras were ahead of last year's pace. Part of the strengthening in demand is said to be from locals who are vacationing closer to home and taking advantage of lower pricing from hotels.

The city was also helped in 2009 by the completion of a successful season for its football team, the New Orleans Saints. There reportedly were large numbers of Saints fans traveling to the games from outside of the city. Additionally, footage of New Orleans that aired during Saints games helped publicize the city's post-Katrina rebuilding efforts.

While tourism may be increasing, business travel to the area remains weak, according to the New Orleans Hotel & Lodging Association. Conventions bookings, often done years in advance, fell sharply following the hurricane and have yet to return to pre-Katrina levels. The recession also is keeping demand subdued in the business sector.

In late 2009, a luxury property, the Roosevelt New Orleans Hotel, reopened its doors following a \$145 million renovation to repair damage from Hurricane Katrina. STR data shows that at the end of 2009, the city's hotel industry was operating with about 90% of its pre-Katrina room count.

Looking ahead, the \$800 million modernization of the Louis Armstrong Airport that began in 2009 is expected to help increase visits to the city. In 2013 the city will again host the Super Bowl, which is likely to provide a boost to tourism.



New York

New York City (NYC) experienced its worst performance ever in 2009, according to STR data that goes back to 1987. For the first 11 months, revPAR was down 28%, which was the second-worst of the major markets followed by STR. Only Las Vegas had a steeper falloff. The average room rate in New York decreased 23%, and occupancy was off 6.7%. However, due to the popularity of NYC as a destination, occupancy for year-to-November 2009 was at 76.9%, the highest of the major markets.

NYC remains a desirable destination for tourists and business travelers. Several NYC attractions are considered America's landmarks such as the Statue of Liberty, the Brooklyn Bridge, the Empire State Building, and Central Park. NYC was the number-one destination for international travelers in 2008, capturing a 32% market share, nearly three times greater than Los Angeles, according to NYC & Company, a market research and travel company.

For international travelers, NYC has recently been a bargain due to the weaker dollar. International travelers represent an important source of tourism revenue because they tend to stay longer and spend more money. On average, international travelers stay for 7.8 nights and spend approximately \$230 per day, according to the federal government's Office of Travel and Tourism. NYC has depended on international tourist arrivals in 2009 to help balance the steep decline in business travel.

Oahu Island

Due largely to the sharp falloff in statewide tourism, Hawaii has experienced its worst recession in more than half a century. Hawaii depends on tourists for about a third of its economy, and the number of total visitors for the first 10 months of 2009 was down 5.5% from the same period in 2008, according to preliminary statistics by the Hawaii Tourism Authority. For those who are visiting the state, they are spending less. As a result, Hawaii is projecting major budget deficits through 2011 and has been considering cutting state workers.



The declines in tourism have led to a sharp contraction in lodging demand. Statewide hotel occupancy for the first six months of 2009 was the lowest ever recorded. The state's hotel industry lost an estimated \$238 million in revenue over the hard-hit summer months, according to STR and Hospitality Advisors. Oahu Island, while one of the "better" performing areas in the state, has been hurt by the pullback in tourism spending. Through August 2009, occupancy on the island had declined for 13 consecutive months on a year-over-year basis. Occupancy rates in September, October, and November 2009, however, were slightly above 2008 results, indicating that the worst may be over.

While occupancy in Oahu has firmed, average daily room rates and revPAR continue to decline. For the first 11 months of 2009, revPAR was down 14.6% from January-November 2008. While this decline is steep, many other cities – including New York, Phoenix, and Chicago – have experienced much larger declines.

Since the fall of 2009, the number of tourists arriving in Hawaii has been slowly increasing, partly because of attractive pricing from hotels that is helping convention traffic. In addition to larger numbers of tourists coming from Japan, the state is wooing Chinese travelers. Hawaii's governor went to China in October 2009 to promote tourism. In 2010, the state will also likely benefit from a host of new routes to Hawaii being added by several major US airlines.

In 2011, Walt Disney Parks & Resorts expects to open a resort on the island that will include a convention and banquet facility. In November 2011, the state expects to host more than 10,000 visitors who will be attending the Asia-Pacific Economic Cooperation summit.

Orlando

The Orlando market may be more susceptible to fluctuations in consumer spending because it is a city essentially without a solid base of manufacturing or corporate businesses. Instead, Orlando depends heavily on tourism to help grow its local economy.

While Orlando is a favorite destination catering to families, the market continues to remain in a slump. One key factor affecting hotel performance may be the area's abundant hotel supply. Orlando has over 117,000 hotel rooms, the nation's second-largest concentration of rooms, according to STR, which may have contributed to continuing softness in the market.

In September 2009, Doubletree Hotels opened its largest property worldwide, the Doubletree Resort Orlando – International Drive, following a \$35 million dollar makeover. One of the other big news stories of 2009 was the opening of the Waldorf Astoria Orlando in October, the first Waldorf hotel outside of New York City. Surrounded on three sides by Walt Disney World Resort, the property offers 28,000 square feet of meeting space, two executive boardrooms, and an 8,100-square-foot Grand Ballroom.

By year-end 2009, Orlando hoteliers had yet to see an end to the downward decline of revPAR. Year-to-November 2009 saw revPAR down 20% from the first 11 months of 2008. Occupancy for the 11 months was off 8.4%, to 60.7%. The market is competitive and many big hotels have cut their rates to compete. Average room rates for the year to date declined 12.2% to \$94, resulting in an overall revPAR decline of 19.6%, extending a steep decline that began in 2008.

Orlando, like a few other cities, has benefitted from the arrival of international travelers as a result of the weaker dollar. International airport traffic increased 24.2% in October, while domestic traffic remained relatively flat. Overall, October year-to-date airport traffic was down 6.6%, according to the Orlando International Airport.

Phoenix

Phoenix, Arizona's largest city, has suffered through one of the worst housing slumps experienced by any US metropolitan area in recent years. Housing prices continue to contract and are down more than 50% since the mid-2006 peak, according to various estimates. In contrast, the national average home price has been flat-to-slightly-rising since the summer of 2009. The bursting of Phoenix's housing bubble has led to widespread unemployment and a record budget deficit. The US Labor Department reported in October

2009 that Phoenix had the largest percentage drop in employment of any major city.

In December 2009, Phoenix's Mayor went to Washington to request hundreds of millions in bailout money for construction projects that hopefully would help the city's falling tax revenues by boosting employment. For the city, job cuts and hiring freezes have been put into place to help close the budget shortfall.

Economic troubles in Phoenix are similar to several other cities in the West. Metropolitan areas in California, Idaho and Colorado have all been experiencing collapsing housing markets and damaged economies.

With tourism demand sharply curtailed from nearby areas, coupled with the global recession, Phoenix's lodging industry has experienced a sharp contraction. Occupancy and revPAR through November 2009 had withered from two years of declines. Of the major markets tracked by STR, Phoenix had the fourth-worst decline in occupancy (-12.6%) and third-worst falloff in revPAR (-26%) for the first 11 months of 2009. The drop in occupancy for full-year 2009 will be the third consecutive annual decline for Phoenix.

The metropolitan area's economy is not expected to recover over the near term. Home prices remain depressed and foreclosures are at record levels according to numerous reports. Travel is still contracting. In the state of Arizona, the American Automobile Association has reported that 2009 year-end holiday travel in the state was down 5.7% from 2008.

To help draw business travelers, the Phoenix Convention Center has recently been expanded to 900,000 square feet. The 20-mile, \$1.4 billion light-rail line that links Sky Harbor International Airport with downtown Phoenix opened in late-2009, as did the Sheraton Phoenix Downtown Hotel.



San Francisco

San Francisco perennially is among the top destinations for travelers. Orbitz reported that in 2009 San Francisco was the seventh-most-popular US destination among its users. While the soft global economy has severely weakened hotel demand in the city, results for late-fall 2009 suggest that the worst may be over.

Although tourism is still the city's biggest industry, hotel occupancy through September 2009 had declined for 16 consecutive months. A turnaround appears to be at hand. In October and November 2009, occupancy increased over 2008 figures. Deep discounting from lodging companies has meant that room rates have deteriorated sharply, causing revPAR to fall. For the first 11 months of 2009, revPAR was down 18% while occupancy was off 5%. In 2009, 49 groups were scheduled to hold meetings at the Moscone Center, the city's biggest convention complex. That would be down from 53 groups in 2008, according to the Convention & Visitors Bureau.

In 2009, the worst months for the city were early in the year when hotel occupancy plummeted to the 50% range, the lowest rates since 2004. By November, occupancy had improved to 66.3%. Long-brewing difficulties however have put eight San Francisco County hotels in default according to a December 2009 report from the Atlas Hospitality Group. When San Francisco is added to the surrounding counties of Sonoma, Napa, Marin, San Mateo, and Alameda, the number of hotels in default at year-end 2009 stood at 50, which represented 16% of the statewide total of 307 hotels in default. In addition, Atlas reported that only one hotel in San Francisco had been sold in the past 18 months.

There are signs of a turnaround for the city. Visitor levels, for one, appear to be improving. Arrivals at San Francisco International Airport increased 3.9% in October, representing the fourth consecutive monthly increase, according to the Airport. In 2008, the city had 16.4 million visitors who spent \$8.5 billion, thereby boosting tax revenues by \$528 million, according to the San Francisco Convention & Visitors Bureau.



Washington DC

Helped by an abundance of low- or no-cost tourist attractions and the January inauguration of a new president, Washington DC was one of the best performing metropolitan areas for the hotel industry in 2009. Located along the heavily populated East Coast corridor, Washington's museums, government buildings, and zoo remained popular destinations for many travelers during the recession.

"Best performing," however does not imply growth. For the first 11 months of 2009, occupancy was down 3.4% from the same period in 2008. This was the second-best performance, behind Oahu Island's 3.0% dip. The 8.4% decline in revPAR for the 11 months was the smallest of the major markets reported by STR. The only other market to show a single-digit revPAR decline for the 11-months was Norfolk-Virginia Beach, Virginia, which was down 8.9%. Despite some weakness for the hotel industry, the area surrounding Washington DC remains attractive due to expected long-term growth in its population. Grubb & Ellis, a real estate services firm, placed Washington DC in the top ten markets for office, retail, and multi-housing construction for the period 2010 through 2014.

Hotel openings and closings made headlines in 2008 and 2009. The completely renovated W Washington DC hotel, which calls itself the closest hotel to the White House, celebrated its opening. In December 2009, a local developer signed an agreement to buy the legendary Watergate Hotel back from the bank that foreclosed on the property earlier in the year.

The Gaylord National Resort & Convention Center, located in Maryland just outside Washington, DC, opened in 2008 and contains a 2,000-room hotel. In addition, Disney announced in 2009 that it expects to build a 500-room resort hotel near the Gaylord Center.



Conclusion

Figure 2 - Hotel demand. Has it bottomed?



Source: Smith Travel Research

Hotel companies in early-2010 were turning moderately optimistic. Some senior executives were noting in meetings with analysts that booking volume was increasing and occupancy was firming. Many hoped that the momentum would continue as the year progressed.

Industry-wide numbers from STR hold the promise of a recovery. As shown in the chart, year-over-year comparisons are becoming less negative. In November 2009, revPAR was down 12.3%, the smallest decline since the financial crisis of late-2008.

While some hotel companies embraced revenue management and rate optimization strategies to help them get through the recession, the industry will likely need increased travel spending from consumers and businesses to improve profitability in the year ahead.

Questions remain regarding the strength of the hotel industry's recovery. The over-supply of rooms will continue to impact the sector this year, with almost 100 hotels expected to open in 2010, according to STR. Steep discounting, particularly in the luxury segment, could continue to dampen any real improvement in revPAR. Through November 2009, revPAR for the luxury segment was down 16.9% from the first 11 months of 2008, representing the sharpest drop of any segment, according to STR. Last, weakened commercial real estate values and increased foreclosure activity in 2010 could keep the recovery muted.

Regionally, the improvement in travel-related spending is expected to be uneven. Markets still suffering from serious housing declines, high unemployment, and government budget cutbacks will likely take longer to recover. The international tourist sector however should strengthen in 2010 which would help major destination cities such as New York City and San Francisco.

Given that STR has reported that the hotel industry lost \$15 billion in total room revenue through 2009, any amount of recovery would likely be welcome by the industry.

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