

## **Not Seeing the Trees for the Forest**

**By Scott Brush, ISHC**

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In today's market it seems almost everyone is singing from the same score, the refrain of which goes *"things are currently bad, things are going to stay bad or get worse for a while, then things will get less bad – but only slowly, and no one is going to get to that condition called 'good' until... (fill in your own date)."*

While I recognize the score and its melody, I also recognize that there are real opportunities for the astute hospitality industry professional to sing a different solo, and thus stand out from the common and generally mediocre chorus. As a consultant for more than 30 years I've seen a lot of ups and downs in the industry. Admittedly this may be one of the worst "downs" with both demand and credit being affected at the same time, but there are still bright spots. Not every hotel is over-leveraged or distressed and some projects are still getting financed. Even the hard-hit central Florida market has some less-than-terrible segments. Year-to-date results published by the Kissimmee Convention and Visitors Bureau indicate that although the area's hotels had an overall 18.5 percent decline in RevPAR for the first six months, the hotels in the 150 to 299 room range were down only 3.6 percent.

Lenders tend to have a herd mentality, maybe because most don't understand the hotel business and are unwilling to learn, or hire the necessary expertise and, as one result seem to either finance everything that comes across their desks or finance/re-finance nothing. I've spent much of my career trying to get lenders to understand that even in the best of times there are poorly conceived hotel projects that shouldn't get financed, and in the worst of times, assuming the capacity and competency to separate the wheat from the chaff, there are still excellent projects out there. At the same time as all this gloom and doom is being bandied about, the National Association of Real Estate Investment Trusts' latest U.S. Real Estate Index indicates that lodging REITs are leading all other commercial real estate asset classes this year in total return at 21.3 percent through July 31<sup>st</sup>; will wonders never cease?

Today's hotel industry circumstances include a wide range of hotel operating results, from properties down 50 percent in revenue, to a few, albeit very few, that are actually up

this year over last. I've run across a number of sub-markets that are enjoying very satisfactory results when compared to competitive locations or properties. Mid-market hotels, in general, are faring better than upper-end properties, and one cause can be traced to the now widely accepted premise that nobody gets in trouble for putting their stay in a Hampton Inn, Holiday Inn Express, Comfort Inn or Fairfield Inn, etc., on their expense report.

Another frequent mantra I've espoused is "*Value For Money*" or "VFM" a phrase I "borrowed" from a number of persistent marketing campaigns in the UK in the 1970s. I'm happy to see the concept getting more recent exposure as an alternative to slashing rates which, as Smith Travel Research observes, is frequently counter-productive.

Recently, when evaluating all the 3-Diamond properties in one Florida resort market, that group had a six month RevPAR result only 6 percent down from 2008 even though the overall market area was down 17 percent. The pre-eminent property in the competitive set experienced a six month minimal <1.5 % RevPAR decline compared to the first half of 2008, which in my opinion was largely attributable to having both the right brand and the right management.

In the name of good cost control, creative managers are attempting to enhance the guest experience without sharply increasing costs and, in some instances, actually cutting costs when it can be done without significantly degrading the guest experience. One example is Marriott's recent curtailment of guest room newspaper delivery.

Where there exists the right product, in the right place and with creative and competent management, my recent studies indicate some real opportunities for new development. Frequently this means a moderate size, mid-market, nationally branded extended-stay or limited-service property in a location focused on a traffic generator such as a nearby growing military base, an institution of higher learning, and/or a major health care facility. It is also clear that the advantage is greater when there are limited competitive facilities, and/or those that cannot be made to be competitive. Today, it may be better to acquire and reposition an existing property, rather than building a new hotel since acquisition may now frequently be accomplished at much below replacement cost.

A client in a major metropolitan market that is down over 20 percent in RevPAR this year reports that his mid-market properties were down less than 10 percent in RevPAR and even less in bottom line. He attributes their positive results to the ongoing quality of their operations due to expertise of their management company.

Another client in South Carolina is seeing drastically different results at two properties. One is in an area that, over the past few years, has seen tremendous growth in the residential market – an area that had over 10,000 additional dwelling units planned when

the hotel opened last year. The almost complete halt in the residential market has severely affected the hotel's results, but it has managed to stay "even" with its competitive set even though it has the shortest tenure in the market. In a different part of the same state another property, with the same management company, achieved its highest revenue ever in July of 2009. The major difference appears to be that the second property, rather than relying on expected growth in the residential market, targeted demand emanating from a nearby military base that is undergoing planned expansion.

One of my most interesting recent assignments involved a small tourist oriented "village" within a larger resort market. The village was a walking environment with a variety of family oriented retail, food and beverage outlets and water oriented activities. There were no nearby mid-market chain hotels, and so the area being served primarily by a variety of independent hotels. My opinion was that a small, 80 unit +/- value-oriented, mid-market branded limited service property could be very successful.

Today, I believe that my consistent advice to clients that a manager can easily "break" a property, but that good management can insulate a hotel against bad times, has never been more applicable. Properties which have established a positive reputation, good cost-effective marketing, strong local community linkages, and effective cost control methods, are doing much better than their mediocre, less well managed competitors.

The path ahead may be fraught with danger, at least for the next year or two, but there are significant paybacks out there for those with the ability to properly target individual opportunities.