HVS

MARKET REPORT

Conquering the Credit Crunch: Part II

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Hotel owners need professional guidance in this tough economic climate. Here are some tips to help you weather the storm.

Hotel values have seen a 10 to 20 decrease from the peak levels recorded prior to mid-year 2007. Both the number of transactions and asset pricing are down in 2008, and these market conditions are expected to endure well into 2009.

The following suggestions can help owners of existing hotels maximize revenues in the downturn and stay strong for the eventual climb back up.

• **Prepare an ad valorem (tax) appraisal.** An up-to-date tax appraisal guided by a hotel professional ensures that your hotel's value assessment reflects the conditions of today's market. At the peak of the real estate bubble, hotels transacted at record levels. Upon its burst in late-2007 and continuing into the present, hotel sales have declined dramatically. Given such drastic economic swings, deriving market-appropriate capitalization rates (obtained by dividing a hotel's net income by the sales prices of comparable transactions) prove challenging for local tax assessors. Assessors can therefore have difficulty in selecting appropriate capitalization rates to use in their valuation models. These rates can also overlook a hotel's limited growth of potential revenue in a down market. As a result, failure to use an appropriate capitalization rate can result in an inflation of assessment levels and ultimately lead to a higher tax burden for the owner. Firms that specialize in hotel valuation utilize intricate methods such as the Simultaneous Valuation Formula, an advanced "band-of-investment" analysis, when reconciling to an estimated market value. HVS can prepare ad valorem tax appraisals to determine whether your property is being overvalued by the local assessor. Once accepted by the local jurisdiction, ad valorem appraisals can save thousands of dollars in property taxes.

• **Get creative with marketing efforts.** Unique marketing strategies can lead to successful, effective public relations and word of mouth. The Colonnade Hotel in Boston is taking a creative spin on the economic situation by offering a "Bulls & Bears" package based on the 4:30 p.m. Dow Jones Industrial Average's closing bell. If the market finishes down for the day, guests are rewarded with a 20% discount off the day's lowest room rate; if the market is up, 10% will be deducted. Christopher Lynn, Director of Sales and Marketing at the hotel, remarked that the program has been "wildly successful" and emphasized how important it is "to develop packages and promotions that are creative and to employ them quickly," especially in a down market.

• **Embrace LEED initiatives.** It's never too late for up-and-running hotels to adopt LEED standards. A recent study conducted by the American Hotel & Lodging Association revealed that one in five hotels will incorporate LEED standards in 2009. Before switching over to green initiatives, find out what incentives your local government may provide. Utilities rebates for installation costs and retrofitting changes are offered by many municipalities with energy-conservation programs, thus helping to reduce the initial cost of the switchover. On average, green buildings are estimated to save approximately 40% in water use, 30% in energy use and greenhouse gas emissions, and 50 to 75% of construction and demolition waste going to landfills.

• **Hold on to your asset(s) for the next two to three years.** Now is not the best time to sell your property or portfolio. Steve Rushmore recently noted that “overall, the decline in hotel values is expected to reach its lowest point in 2008.” Rushmore adds that “continuing its sluggish pace from the latter half of 2007, hotel sales activity is expected to remain slow through early 2009. Therefore, if it is not necessary to sell, hotel owners should ideally hold on to their assets for the next two to three years.”

• **Get Back to Basics – Service 101.** It should come as no surprise that success in the hospitality industry depends on good service. Whether it’s to a budget inn or a five-star resort, patrons will be more likely to return if they feel they’ve been treated by helpful, knowledgeable, expeditious hotel staff. Hotel owners and managers set the tone and agenda for how their properties operate, and it is more important than ever to send an upbeat vibe to your staff. Sometimes this begins with evaluating the attitudes, skills, and goals of your employees. 20/20 Skills, the only HR assessment and advisory firm dedicated to the service industry, provides a heavily researched and field-tested system for human capital management. The firm has a track record of identifying peak performers, mitigating weaknesses, and nurturing talent to buttress a hotel’s bottom line. Cultivate a strong team during these unstable times. Your guests will thank you with their trust and their travel dollars.

By employing some of these suggestions between now and the inevitable economic upturn, hotel owners can better position themselves to capitalize on a revitalized market. Please visit us at http://www.hvs.com/Services/Consulting/Boston or call us at (617) 424-8912 to learn more.