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FRIDAY, OCTOBER 30, 2009

## Hotel industry waits for demand to return

by Mark Thomson  
Chicago

The hotel industry has been battered in 2009, yet as supply comes under control in 2010 demand should increase with the improving economy, painting a rosy picture for 2011 and beyond, agreed a panel of experts at an Urban Land Institute Chicago breakfast meeting.

"The hotel industry experienced a double whammy in 2009," said Hans Detlefsen, managing director, [HVS Global Hospitality Services](#) - Chicago, at theWit Hotel in Chicago. "Supply has grown while demand has decreased. This might be ending as demand could stabilize and even grown in 2010, but as far as supply goes, it could be another year before occupancy increases."

The Chicago market still has another major hotel coming on line in 2010, the JW Marriot Chicago will add 600 to an already beleaguered market, stalling recover perhaps until 2011. Supply will then begin to shore up as demand increases.

Detlefsen said that occupancy rates in Chicago dropped from 71 percent in 2008 to 62 percent in 2009. Room rates tumbled as well with nationwide numbers dropping from \$107 per night to \$98.

Laurence Geller, CEO and president, [Strategic Hotel Capital, LLC](#), took issue with the declining room rates, stating that New York City was an inflated market, but the rest of the country did not need to cut so drastically. Some hotels saw very little drop in vacancy, but cut rates nonetheless to stay even with the market.

"Consumers are getting a discount they don't deserve," said Geller. "Do you have to follow the operator who drops rates? That is what most operators chose to do. The airline industry does not do this, but for some reason the hotel industry does."

Geller predicts that the hotel industry will continue to decline in 4th quarter of 2009 and that 2010 will be a rough year. The industry typically lags GDP by six months, insinuating that the start of a recovery may not begin until well into 2010.

"In 2011 we could see 10 percent revpar growth and in 2012 and 2013 the value of hotels will go through the roof because there is no new supply," said Geller. "I don't think we will see new supply until 2015. Developers can go and play golf."

Scott David Greenberg, president, [ECD Company](#) & creator of theWit, said that his hotel has made money each month since its opening in May.

Greenberg said that he sees an "uneven" recovery and that Chicago has lost much of the international business visitors it catered to before the recession.

Geller also sighted the need for business travel to pick up before the industry will rebound.

"Chicago is a meeting city, a convention city," he said. "The Convention and Visitors Bureau is not very aggressive right now. I don't think 2010 will be very good."

All the panelists agreed that while many operators may be stressed in the coming months, it is not likely that there will be a large string of foreclosures with banks reclaiming properties.

"Lenders are not interested in taking back the keys to a hotel," said Detlefsen. "They will assess the situation and determine if the declining performance is because of market conditions or the management. If it is the management, they may step in and take the property back."



From L-R: Donald Shindler, partner, DLA Piper LLP; Scott David Greenberg, president, ECD Company & creator of theWit; Hans Detlefsen, managing director, HVS Global Hospitality Services - Chicago; Laurence Geller, CEO and president, Strategic Hotel Capital, LLC

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The industry that will emerge from the recession will be streamlined and more efficient. The panelists all agreed that the majority of marketing will shift to an on-line format, where operators can reach a targeted audience and save significant dollars.

However, many of the jobs that have been cut in the downturn are gone and will not be replenished, even in a robust market.

"Twenty five percent of the wages that have been cut are gone forever," says Geller. "They will not come back. You can reengineer jobs."

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