

TRENDS

IN THE HOTEL INDUSTRY



Meeting Planners Gain Leverage

by: Robert Mandelbaum

What a difference a year makes!

Back in the summer of 2007, meeting planners were resigned to the strong market conditions that gave hotel sales managers the advantage when negotiating event contracts. Planners accepted that they would have to pay high room rates and stringent cancellation and attrition penalties.

Fast forward to the summer of 2008 and the negotiating pendulum has shifted dramatically. In response to a survey of meeting planners conducted by PKF Hospitality Research (PKF-HR) during August and September of 2008, planners believed they had increasing power to negotiate favorable room rates. This feeling of empowerment has intensified since the outlook for the U.S. lodging industry has deteriorated further from the time the survey was conducted.

Unfortunately for meeting planners, the shift in negotiating leverage comes during a time when their budgets are being cut. Meeting activity was off in 2008, but planners are hoping that the number of events and attendees they will organize in 2009 will remain roughly the same, or rise. Given the downturn in the economy, this may be wishful thinking.

These observations were reached based on a survey of meeting planners conducted by PKF-HR on behalf of *ConventionSouth* magazine. PKF-HR received survey responses from a total of 129 meeting planners with an average of 17 years experience in the profession. Although the survey focused on meetings held within Southern states, the sample of respondents consisted of planners located throughout the nation. Association planners comprised 34.1 percent of the survey sample, followed by corporate planners (23.8 percent), government/non-profit (13.5 percent), independent (12.7 percent), and other (15.9 percent).

Hoping For Stability

Despite prospects for an economic recession, meeting planners are hopeful that their business will remain stable in 2009 after a soft year in 2008. The majority of planners surveyed believe that the "overall health" of the meetings industry in 2008 was either the same (36.9 percent of planners) or worse (43.4 percent) compared to 2007. Looking towards 2009, more than 50 percent of the planners (51.6 percent) expect the health of the industry to remain the same, but 30.3 percent believe conditions will continue to deteriorate.

Statistically speaking, 73.7 percent of the planners surveyed reported that they have organized either the same number or fewer meetings in 2008 than they did in 2007. For 2009, this number rises to 74.4 percent. The outlook for exhibitions is comparable.

While the number of events has declined in 2008, the number of attendees has fallen off to a greater degree than expected. Nearly 80 percent of the planners reported that attendance at their 2008 events was the same or less than it was in 2007. Increases in the price of hotel rooms, gas, and air service were cited as significant factors influencing the decline in attendance. Planners are optimistic that attendance will either remain the same (55.9 percent), or increase (27.6 percent), in 2009.

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Cut Room Rates

Given the high occupancy levels achieved by hotels in 2007, meeting planners had conceded the ability to negotiate room rates. However, as occupancy began to fall in 2008, and forecasts call for a continuation of declines in 2009, meeting planners now believe they have the ability to save on room rates to achieve better control over their budgets.

In this year's survey, the cost of the sleeping room was ranked as the third highest expense item meeting planners are looking to cut to control costs. This compares to a fifth place ranking in 2007. Food and beverage, followed by off-site events and parties, were cited as the top two areas where meeting planners are applying their red pens.

Further emphasizing the attention being paid to hotel prices is their ranking among site selection criteria. In 2007, room rates were rated as the fifth most important factor influencing site selection. In 2008, hotel room rates moved up to the second most important criteria.

Destination Selection

The amount of available meeting space remains the most important criteria for meeting planners when selecting a meeting destination. The price of the meeting space, along with the price and number of available hotel rooms, remained in the top five factors. Relationship with the local CVB and taxes remained as relatively low selection criteria.

One tactic employed by planners to control costs is the movement of events from primary meeting destinations. After declining in importance in 2007, the percentage of planners considering second or third tier cities in an effort to control costs rose to 38.2 percent in 2008.

The cost of travel is also growing as an influence on the site selection process. Higher gas prices and fares were cited by nearly 48 percent of the respondents as a factor that forced them to change their meeting destination.

When selecting a hotel, the availability of on-site food and beverage outlets remained the number one selection criteria. Business centers and fitness facilities are also important factors taken into consideration by planners. Like last year's survey, the availability of a spa ranked higher than golf or tennis.

For good or bad, meeting planners do not appear to be brand loyal. A majority (62.3 percent) of planners will book their hotels without any brand restrictions. Another 31.1 percent will limit their hotel use to a few select brands, while only 6.6 percent routinely book meetings at just one chain.

Environmental practices are rising in importance, but are not critical selection criteria. "Environmentally Friendly" was considered a somewhat important hotel selection criteria, while "Green Certified" was considered a low facility selection factor.

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Hotel/Planner Partnering

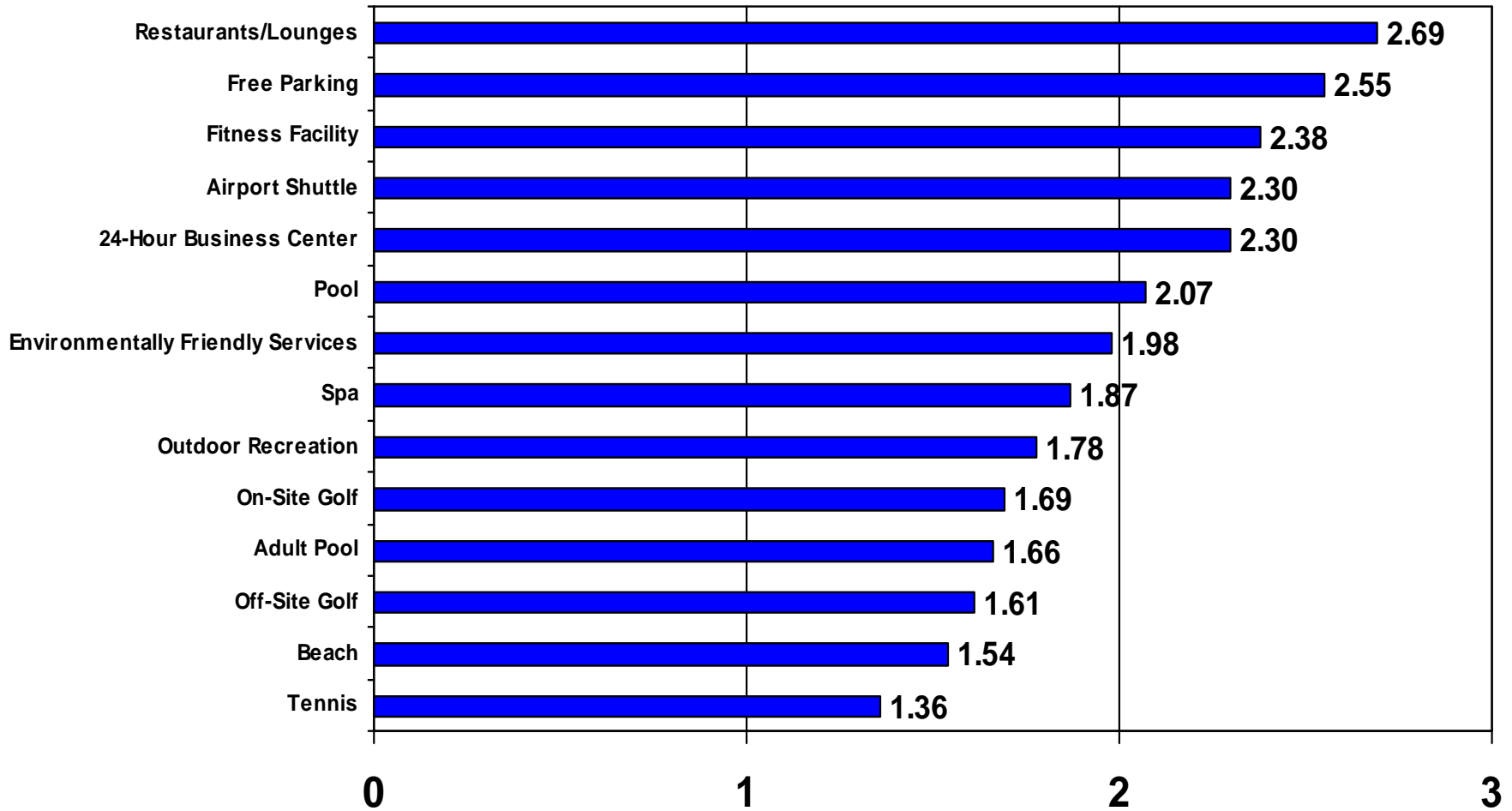
Since the meeting planner survey was conducted, PKF-HR's outlook for U.S. lodging industry performance in 2009 has deteriorated. The December 2008 edition of *Hotel Horizons*SM forecast a 5.3 percent decline in occupancy for 2009, accompanied by a 2.7 percent drop in average daily room rates. Despite the desire to maintain room rate integrity by practicing yield management, hotel management will likely discount in 2009 to a greater degree than it wants to.

Given the financial stress that both hotel managers and meeting planners will be experiencing in 2009, it may provide an opportunity for both parties to work together for a common good. Hotel managers and meeting planners can partner to find soft spots on the calendar when hotels can fill up their rooms while offering reduced prices. In fact, 60.1 percent of the survey respondents did say that "hot dates, special deals and meeting reward offers" were somewhat or very important criteria when selecting a meeting site. Concessions by both parties heading towards the trough of a business cycle could enhance relations between both parties when economic conditions bottom-out, or reach another peak.

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Robert Mandelbaum is the Director of Research Information Services for PKF Hospitality Research. Special thanks to Kristen McIntosh, Vice President and Editor of *ConventionSouth*, for sponsoring the survey. This article was published in the December 2008 issue of *Lodging*.

IMPORTANCE OF HOTEL AMENITIES

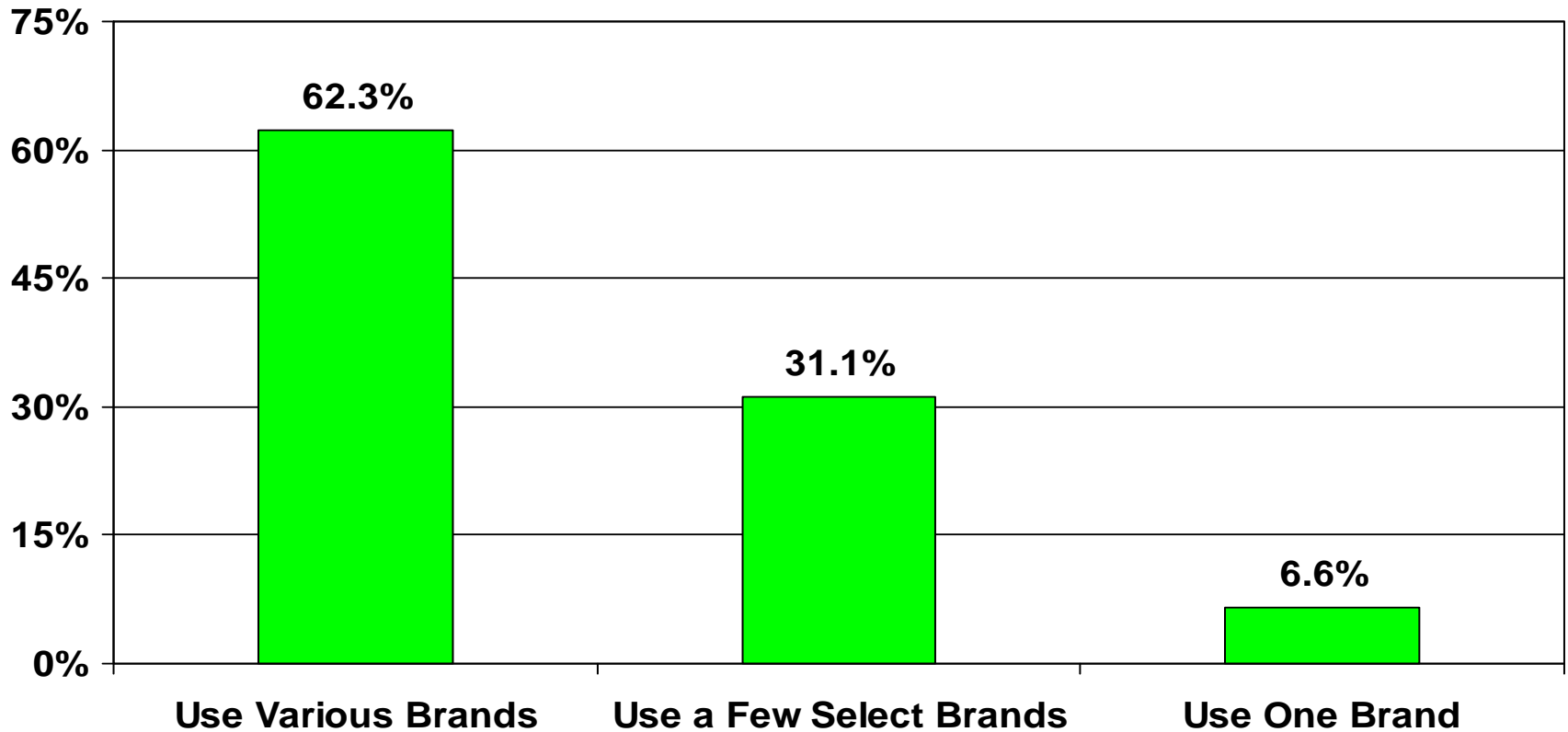


Scale: 1 = Unimportant, 2 = Somewhat Important, 3 = Very Important

Source: Convention South, PKF Hospitality Research

IMPORTANCE OF HOTEL BRANDS

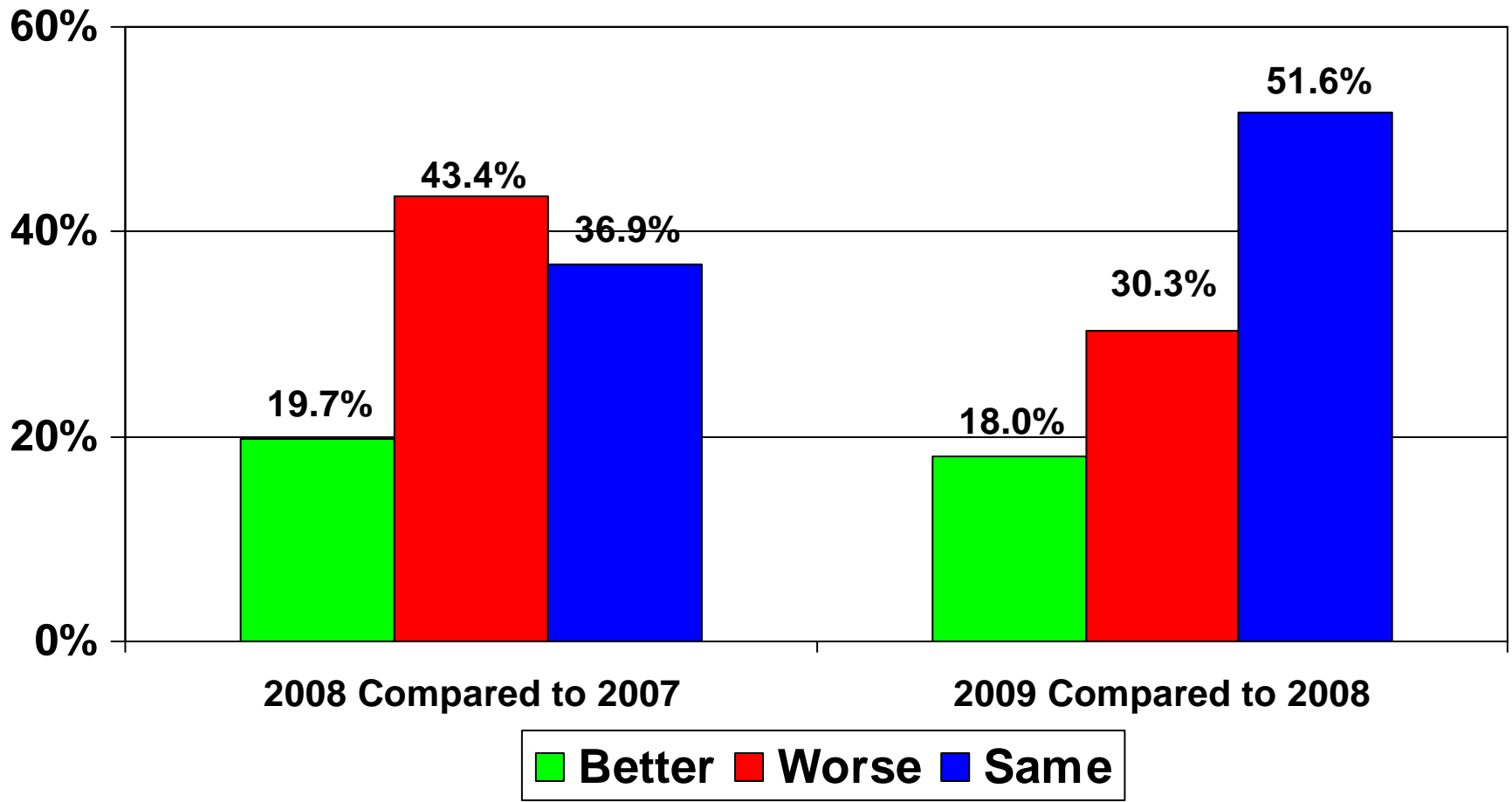
Percent of Meeting Planners



Source: Convention South, PKF Hospitality Research

OVERALL HEALTH OF MEETINGS INDUSTRY

Percent of Meeting Planners



Source: Convention South, PKF Hospitality Research

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Houston - For the Month of December

	Occupancy			Average Daily Rate			RevPAR		
	2007	2008	Difference	2007	2008	%Var	2007	2008	%Var
Texas	52.6 %	51.5 %	-1.1	\$102.85	\$103.37	0.5 %	\$54.14	\$53.26	-1.6 %
Houston Area	51.6 %	56.5 %	4.9	\$111.66	\$113.73	1.9 %	\$57.60	\$64.22	11.5 %
Houston	52.9 %	56.0 %	3.1	\$115.64	\$118.95	2.9 %	\$61.14	\$66.60	8.9 %
CBD Houston	48.0 %	50.8 %	2.8	\$149.60	\$151.41	1.2 %	\$71.87	\$76.96	7.1 %
Galleria/Post Oak	61.3 %	58.0 %	-3.3	\$142.28	\$145.10	2.0 %	\$87.17	\$84.12	-3.5 %
Texas Medical Center	56.2 %	64.7 %	8.5	\$115.34	\$115.49	0.1 %	\$64.86	\$74.75	15.3 %
Intercontinental	65.3 %	61.0 %	-4.3	\$77.39	\$93.99	21.5 %	\$50.54	\$57.31	13.4 %
Hobby Airport	49.3 %	57.4 %	8.1	\$90.05	\$94.36	4.8 %	\$44.40	\$54.20	22.1 %
Clear Lake	53.5 %	65.0 %	11.6	\$77.25	\$103.33	33.8 %	\$41.29	\$67.21	62.8 %
Southwest Houston	46.5 %	53.4 %	6.9	\$103.33	\$92.06	-10.9 %	\$48.03	\$49.15	2.3 %
Stafford / Sugar Land	62.6 %	67.4 %	4.8	\$80.79	\$82.03	1.5 %	\$50.58	\$55.29	9.3 %
Westchase	48.2 %	49.8 %	1.6	\$111.85	\$118.83	6.2 %	\$53.89	\$59.18	9.8 %
Katy Freeway	45.3 %	55.0 %	9.7	\$92.88	\$97.13	4.6 %	\$42.05	\$53.42	27.1 %
Northwest	50.4 %	52.0 %	1.6	\$85.14	\$92.29	8.4 %	\$42.87	\$47.98	11.9 %
Reliant Park/South Mai	49.1 %	47.9 %	-1.2	\$66.64	\$78.19	17.3 %	\$32.73	\$37.45	14.4 %
East/Baytown	44.3 %	64.1 %	19.8	\$62.80	\$71.66	14.1 %	\$27.82	\$45.91	65.0 %
Montgomery Co.	40.4 %	51.8 %	11.3	\$92.23	\$87.04	-5.6 %	\$37.30	\$45.07	20.9 %
Galveston	47.2 %	59.3 %	12.1	\$106.98	\$107.67	0.6 %	\$50.47	\$63.82	26.4 %
Beaumont	41.1 %	82.3 %	41.2	\$82.28	\$91.56	11.3 %	\$33.81	\$75.33	122.8 %
Bryan/College Station	48.3 %	40.8 %	-7.5	\$65.50	\$64.86	-1.0 %	\$31.63	\$26.46	-16.3 %
Victoria	66.1 %	79.5 %	13.4	\$56.48	\$56.43	-0.1 %	\$37.34	\$44.88	20.2 %
Room Rate									
Under \$45.00	52.2 %	59.3 %	7.1	\$41.56	\$42.97	3.4 %	\$21.68	\$25.48	17.5 %
\$45.00 to \$60.00	48.6 %	53.6 %	5.0	\$49.92	\$53.42	7.0 %	\$24.26	\$28.64	18.0 %
\$60.01 to \$80.00	49.2 %	58.5 %	9.2	\$71.99	\$71.67	-0.5 %	\$35.45	\$41.90	18.2 %
\$80.01 and Over	52.3 %	56.3 %	4.0	\$131.40	\$130.68	-0.5 %	\$68.77	\$73.56	7.0 %
Property Size									
Under 120 Rooms	49.2 %	58.3 %	9.2	\$79.14	\$88.39	11.7 %	\$38.92	\$51.56	32.5 %
120 to 200 Rooms	53.0 %	59.0 %	6.1	\$78.83	\$85.12	8.0 %	\$41.77	\$50.25	20.3 %
201 to 300 Rooms	53.2 %	58.9 %	5.7	\$137.95	\$141.58	2.6 %	\$73.35	\$83.40	13.7 %
301 rooms and Over	51.3 %	53.3 %	2.0	\$135.59	\$134.62	-0.7 %	\$69.51	\$71.74	3.2 %
Property Type									
All Suite	62.7 %	56.4 %	-6.3	\$104.21	\$122.85	17.9 %	\$65.31	\$69.28	6.1 %
Economy	50.3 %	53.1 %	2.8	\$42.66	\$48.99	14.8 %	\$21.44	\$25.99	21.2 %
Extended Stay	50.9 %	63.2 %	12.3	\$89.12	\$97.49	9.4 %	\$45.37	\$61.65	35.9 %
Full Service	50.3 %	53.9 %	3.6	\$138.90	\$138.09	-0.6 %	\$69.94	\$74.49	6.5 %
Limited Service	51.9 %	61.4 %	9.5	\$79.03	\$84.89	7.4 %	\$41.04	\$52.12	27.0 %

Data includes information from 103 participating properties with 19,523 rooms.

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Houston - For the 12 Months Ended December

	Occupancy			Average Daily Rate			RevPAR		
	2007	2008	Difference	2007	2008	%Var	2007	2008	%Var
Texas	66.1 %	66.1 %	0.0	\$111.11	\$113.35	2.0 %	\$73.46	\$74.96	2.1 %
Houston Area	65.8 %	68.0 %	2.2	\$116.45	\$123.53	6.1 %	\$76.66	\$84.03	9.6 %
Houston	66.2 %	68.2 %	1.9	\$119.64	\$127.94	6.9 %	\$79.24	\$87.19	10.0 %
CBD Houston	63.3 %	67.0 %	3.7	\$152.86	\$162.71	6.4 %	\$96.77	\$109.09	12.7 %
Galleria/Post Oak	70.3 %	70.0 %	-0.3	\$146.54	\$157.07	7.2 %	\$102.95	\$109.92	6.8 %
Texas Medical Center	71.9 %	72.7 %	0.9	\$118.39	\$122.72	3.7 %	\$85.08	\$89.27	4.9 %
Intercontinental	75.5 %	72.1 %	-3.4	\$82.35	\$93.12	13.1 %	\$62.17	\$67.16	8.0 %
Hobby Airport	56.0 %	65.1 %	9.2	\$88.18	\$95.87	8.7 %	\$49.36	\$62.45	26.5 %
Clear Lake	71.3 %	73.4 %	2.1	\$79.86	\$87.94	10.1 %	\$56.94	\$64.56	13.4 %
Southwest Houston	62.9 %	66.2 %	3.4	\$101.90	\$94.80	-7.0 %	\$64.06	\$62.81	-2.0 %
Stafford / Sugar Land	68.9 %	68.0 %	-0.9	\$78.03	\$82.41	5.6 %	\$53.75	\$56.05	4.3 %
Westchase	68.1 %	68.2 %	0.1	\$115.00	\$125.43	9.1 %	\$78.31	\$85.57	9.3 %
Katy Freeway	62.2 %	66.3 %	4.1	\$98.37	\$104.50	6.2 %	\$61.21	\$69.32	13.2 %
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Extended Stay	70.7 %	72.8 %	2.1	\$90.87	\$98.24	8.1 %	\$64.25	\$71.48	11.3 %
Full Service	65.2 %	66.7 %	1.5	\$143.01	\$153.00	7.0 %	\$93.22	\$101.98	9.4 %
Limited Service	65.7 %	69.8 %	4.1	\$82.16	\$86.68	5.5 %	\$53.96	\$60.52	12.2 %

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