

# THE RECOVERY OF US HOSPITALITY INDUSTRY SPREADS ...



The US Hotel industry started coming out of the grips of recession in 2010 but it was restricted to a few. However, it was only in 2011 that this began to spread to the whole of the lodging industry. The 2012 PKF Hospitality Research, LLC (PKF-HR) Trends revealed that 80.5 percent of the participants had an improvement in total revenue while only 72.3 percent actually had some growth in profits in the year 2011. The survey took into consideration data from about 7000 participants from all over the US. It studied NOI or net operating income of participating hotels after deducting rent, taxes, interest, depreciation, capital reserves and amortization.

## The Spread of Profit

One of the most encouraging results was that there was a 12.7 percent increase in profits which came from all types and levels of hotels. However the maximum recovery was for resort hotels at 18.1 %, followed by full service hotels at 14.7. At the lowest level were suite hotels and extended stay hotels. However, this is far from the levels of profit that existed prior to the recession.

## An Analysis Of Revenues And Expenses

Analysis of the available data reveals that there was a 7.1% increase in revenue per available room with an improvement of about 6.2% in total revenue. It goes to the credit of the managers who managed to convert this into higher net profits by keeping control on operating expenses. This is despite the fact that a number of operating expenses, such as, salaries, taxes and employee benefits, are by and large fixed and can not be reduced. The increase of 4.1% in labor costs also included an increase of 3.3% in salaries as well as a 6.1% increase of payroll expenses which was not under their control.

Though the percentage of occupied rooms was 3.1 only, there was an increase of 4.1 % increase in labor costs. This implies that there was a noticeable decrease in productivity.

On the other hand, the improvement in total revenue as well as net operating income led to higher management fees. However, thanks to several property tax appeals, there was a remarkable decrease in property tax.

In short, there has been some improvement in revenue, which coupled with stringent operating expenses and a reduction in property tax has led to better profits in the year 2011 as compared to the period of recession. However, there is still room for much improvement if hotels want to reach earlier profit levels.

## Future Prospects

According to the PKF-HR Hotel Horizons, US hotels should experience considerable rise in revenue right through 2015. A rise in occupancy levels is expected which in turn will lead to higher pricing policy. Thus it is expected that there would be a better revenue scenario for the hotel industry. This will be based on higher ADR or average daily room rates.

The steps taken to reduce expenses during 2009 have still been in practice during 2010 and 2011. If

these measures are continued, then the combination of increase in ADR and reduced expenses should lead to remarkable growth in profits for the hotel industry. This would far exceed any growth levels that have been seen for the last 70 years.

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