Save for Rainy Day while Sun is Still Shining

“Good times ahead, but be cautious.” That’s the message I heard from the leaders of the U.S. hotel industry who gathered in Los Angeles this past week at The Americas Lodging Investment Summit.

By many indicators, the U.S. lodging industry has nearly fully recovered from the impact of the attacks of September 11, 2001. Occupancy and average daily rate (ADR) have steadily increased over the past three years and now stand near—but not yet above—the peaks seen from the late 1990s up to mid-2001.

According to Smith Travel Research, ADR across the United States rose to a high of $86.48 in June 2001. In December 2004, ADR reached $86.42.

The picture is not quite as rosy as it appears, however, since those figures are nominal dollars and do not factor in the effects of three years of inflation. If inflation is considered, the lodging industry still has a way to go before room rates fully recover from the effects of 9/11.

Over the same period, the cost of operating a hotel has steadily increased. Labor, supplies, taxes, insurance, and utilities have all gone up, particularly the latter two, driven by terrorism, the hurricanes that whipped across Florida last fall, and the soaring price of oil.

While most industry leaders are bullish about 2005, many are warning that our fortunes could change in an instant. “We are only one plane flying into a building away from a drastic change in our economy,” said Henry Silverman, CEO of Cendant Corporation. Recent history has also taught that we’re just one natural disaster away from a complete change in the travel landscape, whether it be hurricane, typhoon, earthquake, or tsunami.

At our Pacific Outrigger and OHANA properties, we, too, are cautiously looking forward to a good year in 2005. The big challenge we will face is the decline in our Waikiki inventory, as our Beach Walk Project gets underway. There will be fewer rooms available, and those that remain open will face the challenges of noise and traffic congestion. We will have to work very hard to make sure that guest inconvenience is kept to a minimum.

With the news generally good and tax revenues rising, the Hawaii Legislature will be tempted in its current session to increase government spending. Several columnists have issued important warnings and are urging our lawmakers to exercise extreme caution. Economies are cyclical. We are going through a good cycle now, but it will change tomorrow as surely as the sun will rise and set. Unfortunately, government spending is rarely cyclical. Once a program is established, it is hard to stop, reduce, or change. Remember when we had those $500 million surpluses in Hawaii 14 years ago, which were spent on all types of programs, leaving no money saved to pull us through when we later experienced almost eight years of business downturn?

Let’s enjoy our good fortune while the sun is shining, but at the same time, let’s also save for the inevitable rainy days in our future.