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Hotel industry recovers as travelers fill rooms

Occupancy is rising this year following a drought of business and leisure guests amid the recession. Hoteliers have reduced discounting but largely have resisted raising room prices.

Robert J. Lowe Jr., co-president of Lowe Enterprises, developer and co-owner of Terranea, walks by one of the Rancho Palos Verdes resort's eight restaurants last month. Terranea expects to have more than 740,000 paying hotel and restaurant guests this year, a 22% increase over 2010. (Ricardo DeAratanha, Los Angeles Times / July 29, 2011)

By Roger Vincent, Los Angeles Times

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Terranea, a Tuscan-themed luxury resort on the bluffs of Rancho Palos Verdes, couldn't have opened at a worse time.

The sprawling seaside resort had 582 rooms to rent, a fancy spa, eight restaurants and bars, plus one of the largest ballrooms in the region — and, at its debut two years ago, faced the coldest hospitality market in decades.

The owners hired 50% fewer employees than they had planned, launched generous discount promotions and prepared for the worst.

In 2009, the hotel industry was in the roughest shape since the Great Depression of the 1930s. Business and leisure travelers drastically cut back on hotel stays, and many owners including

Terranea's faced the threat of foreclosure.

Hundreds of California hotels did go into financial default, but the tide turned this year as travelers ventured forth again, industry analysts said. Terranea alone expects to have more than 740,000 paying hotel and restaurant guests this year, a 22% increase over 2010.

"There is a huge difference" at the resort these days, said Robert J. Lowe Jr., co-president of Lowe Enterprises, developer and co-owner of Terranea. "When we opened in the teeth of the recession, we had 600 associates. Now we have 900."

The hotel industry bottomed out earlier this year and began to improve in March, hoteliers said, and it looks like the recovery will continue through the vacation season.

"This summer was the acid test," said Laurence Geller, chief executive of Strategic Hotels & Resorts Inc., which owns some of the country's best known luxury inns including the Hotel del Coronado in San Diego County.

"I didn't know whether summer would bring a consumer pullback and drop in leisure or group bookings," Geller said. "Neither has happened."

Revenue per available hotel room, a standard industry measure, has shown consistent improvement for the past 18 months, according to new data from TravelClick North American Hospitality Review on hotel bookings from June 30 through June 30, 2012.

Recent turmoil on Wall Street hasn't derailed the industry's recovery, industry observers said.

"The soft patch in the economy hasn't affected the hotel yet," Lowe said of Terranea. "July and August appear to be very strong and we are cautiously optimistic it's going to continue."

The nascent financial recovery for hotel owners has been more a result of filling rooms than raising room prices, though, analysts said.

"Demand is up well, but rates are still tough to get and not as up as I would like them to be," Geller said.

Though hotels haven't notched up their posted rates substantially, they have cut down on promotional discounts such as three nights for the price of two that became common in the lean years. Hoteliers also are reducing the number of rooms they sell at discounts to price-busting travel websites, such as Expedia.com, Geller said.

That may not stop Californians who like fine hotels but don't have the money in their pockets to pay for them immediately. Such credit spenders, a big part of hotels' leisure clientele, disappeared in the economic downturn, Geller noticed.

"California has the greatest proportion of aspirational travelers," he said. "When credit cards got maxed out, they got freaked and didn't travel. Now the leisure business is creeping back."

Demand in Southern California is shifting, said Geller, whose company also owns Loews Santa Monica Beach Hotel and the Ritz-Carlton Laguna Niguel. Santa Monica is easily the strongest market, he said, surpassing the previous epicenter of Beverly Hills and Bel Air.

"It's an age thing," he said. "Baby boomers like Beverly Hills shopping and all that. Gen Xers are exercise freaks who love the outdoors, fresh air and running trails" found around gentrified Santa Monica, with its fine dining and upscale shopping. "There's a lot more life there."

The downtown Los Angeles hotel market has improved with the success of the L.A. Live entertainment complex and its many events, Geller said, but isn't able to command Westside rates.

Hotel operators are relieved at the revival of group business, which plummeted in 2009 through what became known as "the AIG effect."

Insurance company American International Group Inc. took a public drubbing after spending $443,000 to treat top employees at the St. Regis Monarch Beach resort in Dana Point just days after accepting an $85-billion federal bailout. Other companies quickly canceled group outings to save money and avoid looking out of touch during a time of hardship for many.

Group business at Terranea is up 32% so far from the same period last year, officials said, and wedding revenue has increased almost as much. Food, beverage and spa revenue is up 63%.

"Once you relax, you spend more money," Lowe said.

Also spending more money are hotel buyers, who are paying prices for trophy properties that match those of the last boom. Although hotel values plummeted as much as 60% during the recession, they have come roaring back for the top tier, according to industry observers.

"The price variation from 2007 to 2011 is a very sharp 'V,'" said consultant Alan Reay, president of Atlas Hospitality Group.

Buyers spent nearly $1.8 billion on 166 California hotels last year, an increase of 240% from the amount spent in 2009 on 92 hotels, Reay said. The most expensive purchase price per room amounted to $587,500 that Seattle real estate investment company Washington Holdings paid last year for the St. Regis Monarch Beach.

Most actively acquiring hotels are real estate investment trusts, which are taking advantage of the low cost of borrowing money now, Reay said. Also in the market are foreign buyers, including Shenzhen New World Group Co., a Chinese real estate developer that bought the Los Angeles Marriott downtown last year and the Sheraton Universal Hotel in Universal City in January.

Other investors were disappointed that the hotel industry meltdown didn't bring them scores of foreclosed properties to buy at deep discounts the way the real estate crash of the 1990s did. This time around, banks renegotiated more loans, offering extensions and sometimes writing down the value.

Critics at the time said banks were not facing their losses as they should, but "kicking the can down the road turned out to be the right strategy," Reay said.

http://www.latimes.com/business/la-fi-hotels-comeback-20110818,0,6669894,full.story