

Fact Sheet: State of the Hotel Industry

Over the past decade, the hotel industry has seen some dramatic changes, both in San Francisco and nationwide. Following the bust of the dot-com economy, through the post-September 11th downturn, the industry struggled through several years of depressed occupancy levels. Then, from 2004-2008, the industry boomed as occupancy levels and room rates soared. Recently, the industry – following the rest of the economy – has contracted dramatically.

Behind the headlines, however, lies a much more complex and fascinating story. While 2009 has seen a steep downturn in overall hotel revenues, the industry has demonstrated fundamental profitability. In fact, it is hotel workers who are bearing the brunt of the downturn, as they have in each of the past three recessions. Workers have experienced deep layoffs, reduced hours, and increased workloads. Meanwhile, major publicly-traded hotel companies have reported continued profits.

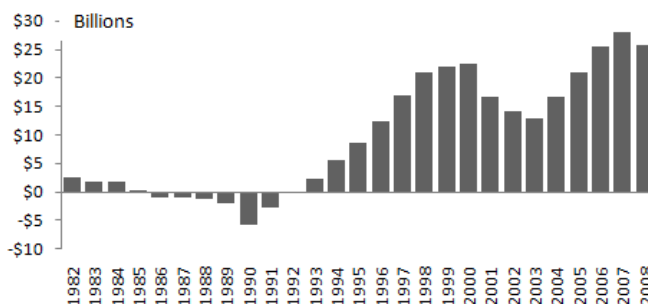
A profitable industry

The US hotel industry has seen a series of booms and busts since the early 1990s. Through all this time, however, it has remained fundamentally profitable. *Even in the downturn after September 11th*, the industry returned tens of billions in profits to its owners. Over the past decade, the industry has generated over \$200 billion in profits. Not since 1991 has the industry as a whole lost money (see chart). *(source: Smith Travel Research, PriceWaterhouseCoopers)*

The sudden downturn *has* pushed a handful of individual San Francisco properties into distress. Recent articles identify the Stanford Court, the Four Seasons, and the Personality Hotels as properties in (or close to) default on their loans. Each of these cases is unique, but they all have one thing in common: these properties all changed hands during the boom in real estate prices in 2006-07. As in the housing market, cheap debt and a booming economy drove hotel asset prices to record levels. Simply put: many hotel buyers paid more than they could afford. This bubble is now unwinding (as evidenced by Starwood's recent \$90 million sale of the W Hotel), and asset prices are returning to levels that are sustainable by the underlying market.

As an industry, though, hospitality is cyclical – and it has always come back strong from previous downturns. Since the 1930s, hotel investors have averaged 8% annual returns. Today, the industry is poised to do the same. During the past six months, hotel stock prices have surged (in some cases doubled in value) and investment analysts are urging their clients to buy into many companies in anticipation of a strong recovery. Locally, PKF Consulting predicts that the San Francisco hotel market will turn around by mid-2010 (with a 4% gain overall), and come back strong in 2011-12 (with 18% and 10% gains in each

Hotel industry profits (1982-2008)



Sources: Smith Travel Research, PriceWaterhouseCoopers

Corporate net income (millions of dollars)

	2004	2005	2006	2007	2008	2009 (Q1-2)
Starwood	322	393	1,043	542	329	140
Marriott	596	669	608	696	362	14
InterContinental	620	648	744	463	262	60
Hyatt	227	336	315	270	168	-36

Sources: SEC Forms 10-K, 10-Q, 20-F

“We are reiterating our bullish call on the hotel stocks.”

“Earnings this quarter were mostly in-line or above our estimates driven by strong cost cutting.”

Goldman Sachs (8/10/2009)

of those years). (source: PKF Hospitality Research, *Hotel Horizons* June-August 2009 ed.)

Squeezing workers

The hotel industry has maintained its fundamental profitability by squeezing workers. As business began to shrink in late 2008, hotel companies responded quickly by laying off thousands of workers nationwide, and cutting back the shifts of others. They have won applause from investment analysts for maintaining profit margins in the face of steep drops in revenues. According to one Goldman Sachs analyst, “expense reductions have been so dramatic that even a modest pick-up in RevPAR [revenues] should lead to outsized profit gains” (Goldman Sachs, 8/9/2009).

For two decades, hotel companies have seized on economic downturns as an opportunity to extract more out of their workers. As hotel workers and analysts alike will testify, the reduction in staffing levels are rarely, if ever, reversed (Wachovia Capital Markets, 5/28/2009). In fact, since the late 1980s, corporations have steadily reduced the number of workers employed to provide service to guests. In 1988, nearly 71 workers were employed to service 100 occupied guestrooms. Last year, that number was down to 53 – a 25% reduction. During this time, hotels have added in more amenities and heavier linens – increasing the workload, even as the number of workers doing it has fallen.



“Hotels are forced to improvise when faced with tough times. Moreover, the bulk of the efficiencies in staffing levels appear to be retained when market conditions improve.” (emphasis added)

Wachovia Capital Markets (5/27/09)

The heart of San Francisco’s economy

Tourism is the heart of San Francisco’s economy. According to the San Francisco’s Convention & Visitors Bureau, hospitality sustained \$8.5 billion in visitor spending during 2008. (source: SFCVB, “2008 Visitor Volume and Spending”). As this industry turns around in the coming months and years, it is imperative that hotels continue to maintain living wage jobs that add to, rather than detract, from the city’s economy.

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UNITE HERE! Local 2 is the union of food service and hotel workers in San Francisco and San Mateo Counties. It represents about 12,000 members in the hospitality industry. For more information visit www.unitehere2.org or contact Riddhi Mehta at 707-695-2364 or rmehta@unitehere2.org