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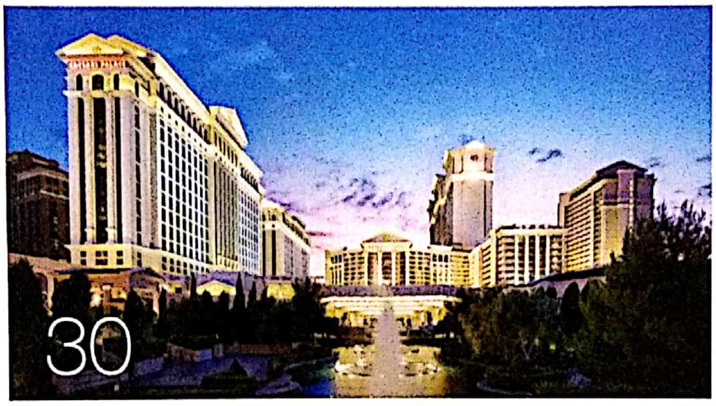

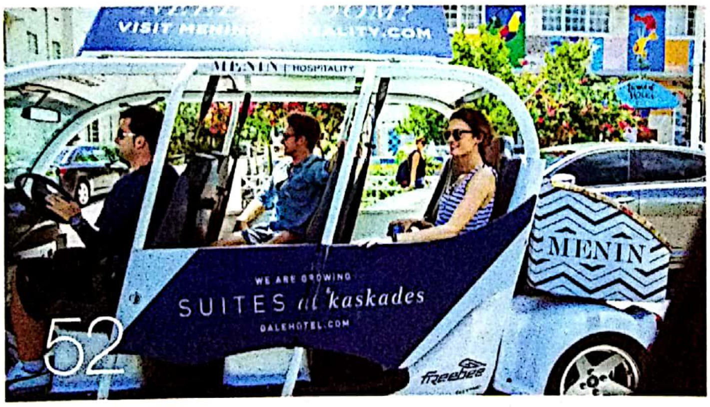

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HOTEL MANAGEMENT

The chasm between brands and owners is wide—or is it?

BY DAVID EISEN
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I recently asked two Wall Street analysts this question: Is there a correlation between the stock performance of hotel C-corps and revenues/returns for hotel owners (real estate investment trusts and franchisees)?

My initial thought was, yes, there is a linkage. If a company like Marriott International or Hilton is hitting it out of the park, the owners of hotels that are either managed by those companies or carry their brands must be reaping the rewards, too.

My assessment may be wrong—or it may be right.

Michael Bellisario, a senior research analyst with Robert W. Baird, claimed I was incorrect. It is his job to cover hotel C-corps, hotel REITs and the like from The Street perspective. He explained to me why my analysis is faulty.

"The brands' business models continue to evolve and they are much more top-line focused in terms of fee income earned; the REITs are valued on bottom-line performance," he offered.

Since hotel companies began to decouple from owning real estate, their asset-light approach became a fee-heavy business, generating revenue from percentages paid by hotel owners to use their flags, their marketing, their distribution and their loyalty programs. "This is accomplished by growing their system size and having more dots on the map, the so-called network effect," Bellisario said.

Brands show their worth by driving revenue per available room; owners derive wealth from growing EBITDA and net operating income.

Some are succeeding better than others, but most companies whose fortunes rise and fall in owning, operating or branding hotels have shined in the past year. Publicly traded hotel companies have had a sensational calendar year on Wall Street. Marriott's stock over the past year has risen more than 36 percent; Hilton is up 33 percent over that same period; and IHG is up more than 20 percent. (Expedia, a business dependent on hotel inventory to sell, is actually down 27 percent over the past year.)

Now consider Host Hotels & Resorts, the nation's largest REIT. Its stock price is up close to 23 percent over the past year. Likewise, fellow REITs Pebblebrook Hotel Trust and LaSalle Hotel Properties are up 28 percent and 18 percent, respectively.

Brands and hotel owners operate different business models but use each other to their own gain. In that way, their businesses complement one another. REITs are up; hotel C-corps are up—what does it all mean?

While Bellisario does not see a distinct correlation between Wall Street stock pricing and hotel revenue, Patrick Scholes of SunTrust Robinson Humphrey does; well, kinda.

"There is a correlation, but it is not one to one," he explained. "The stocks typically are leading indicators of hotel revenues. For example, the 12 months ending June 30, 2008, were the most profitable 12 months ever for hotels. But during that time period, the stocks took a nosedive. And that nosedive was in anticipation of 2009 being a horrible year for hotel owners/REITs, perhaps the worst one in our lifetimes, which it was.

"Now, contrast the 2009 hotel-level performance versus the stocks in 2009. 2009 was an amazing year for lodging stocks and this was in anticipation of a recovery beginning in 2010."

Wall Street is cold-hearted: it doesn't care what you've done lately; it cares about what you will do. That much is evident in Scholes' analysis. The hotel industry may be humming along revenue-wise, but stock prices could tumble solely based on what's lurking around the bend.

Hotel owners and brands are inextricably linked, but their fortunes may not be. I've often written about an antithetical relationship between the two—what's good for one is bad for the other. Consider supply: Brand companies, in order to grow their stock price, need to show net-unit addition; meanwhile, owners abhor new supply cutting into their margins. It's symbiosis gone wrong.

A REIT's stock price is an aggregate of its entire portfolio. But each hotel it owns produces different profit-and-loss statements. A hotel C-corp's stock price takes into consideration net-unit growth and fee streams. But each hotel that flies one of its flags produces different P&Ls. There is no arguing that hotel owners and public hotel companies operate different business models and profit differently, but the success or failure of one ostensibly should impact the success or failure of another. This is not always the case.

Should the fortunes of owners and the brand companies be better aligned? That's a correlation many would welcome. **HM**

EDITORIAL MISSION STATEMENT

HOTEL MANAGEMENT SUPPLIES THE CREDIBLE NEWS ANALYSIS AND OPERATING RESOURCES THE LODGING INDUSTRY NEEDS TO PROSPER AMID CONSTANT CHANGE. COMPREHENSIVE REPORTING AND RESEARCH OFFER TOP-OF-MIND AND QUICK-HITTING INSIGHTS WHILE INTRODUCING THE PEOPLE DRIVING THE FUTURE OF THE HOTEL COMMUNITY. STRATEGIES ABOUT MARKETING, FINANCE, TECHNOLOGY, DESIGN AND PRODUCT PURCHASING GO BEYOND THE BRICKS AND MORTAR TO BRING READERS CLOSER TO THE FUNDAMENTALS OF OPERATING IN THE LODGING BUSINESS.