



# A Bright Year Ahead for California Hotels and Resorts



By Bob Eaton

Nothing stays the same...and some things never change: Commercial buildings, hotels and resorts never stay the same. Because their guests change every day, business is different every day, every week and every year, and the buildings' look and feel needs to reflect the ebbs and flows of consumer trends.

Some things never change: As any lodging enterprise appreciates,

there are two components of well-being; the general economy and how your "mousetrap" stacks up today to your competition. How popular would a hotel be today with shag carpets, rotary dial phones and 14" black & white TVs? The hospitality experience needs to reflect the ever-changing services, amenities and furnishings expected by traveling consumers.

Much like a Broadway theater over time, the business of operating hotels and resorts is continually and periodically "re-staging," updating and changing the production.

2015 was a good year for hotels and resorts. Occupancy rates hit an all-time high, hotel companies worldwide went above and beyond to meet guests' demands for wellness and technological advancements, and hotels' commitment to sustainability continued to pick up steam.

The hotel sector has lagged the recovery of every other commercial property type this cycle, in part because of its unique vulnerability to these general macro-economic

trends and in part because hotels are one of the more complicated assets to operate. Here's our take on several trends that we will be watching during the coming year:

**Dynamic pricing:** Hotels and resorts have moved much closer to the airline industry and other businesses by adopting a dynamic pricing model or "real time pricing." This is great for leisure travel. Simply stated, it is the process of determining a hotel room's value or price at any time in a fluid manner depending on current market conditions, day of the week, seasonal fluctuations, etc. This model has been responsible for allowing travelers to choose specific dates to minimize the room rates charged. By visiting a resort destination in the off-season, visitors can realize significant price reductions. The "price" of a hotel room in Napa can vary hundreds of dollars from a fall/harvest weekend compared to a winter visit mid-day. As more of us are mobile and virtual, we can take advantage of off-season pricing for our leisure travel. Resort areas historically ran annual occupancies in the mid-60%, but now these areas are running 80%. The good news is that resorts are smart enough to price their inventory with demand, but those prices will not be going south anytime soon.

**Airline pricing** should be stable in 2016: As the economy drives both business and leisure travel, it directly impacts the airlines and lodging. With airfare prices expected to remain relatively steady, U.S. business travel volume is predicted to reach 502.8 million person-trips in 2016. More than one-third of millennials (who account for close to \$300 billion annual spending worldwide) are estimated to be planning to take more vacations in 2016. The year ahead is sure to be dynamic. Accordingly, hotels and especially resorts will try to keep things fresh and interesting and continue to promote themselves and try to impress with creative activities, programs, amenities and experiences.

**Impact of the "sharing economy":** Even at a time when hotel occupancy rates are soaring in many domestic markets, disruptive forces like Airbnb and the sharing economy are forcing hospitality industry leaders to rethink the way they do business. Hotels in 2016 will cater mostly to the luxury and group market, while business and leisure



## California Hotels & Resorts *(Continued from page 31)*

transient travel will migrate to sharing accommodations like Airbnb. Sharing accommodation entrepreneurs present a real threat to traditional hotels. In some markets significant percentages of Airbnb accommodations already are operated by a small number of professional managers—and are earning much higher revenue than other hosts. These are sophisticated hosts using tools like yield management, just like hotel companies.

Hotels can't wish away Airbnb, yet there is denial going on among the hotel brands and their leaders. Airbnb probably won't be as transformative for hotels as Uber has been for the taxi industry, but it may be the next big distribution channel, competing with the online travel agents like hotels.com, priceline.com, etc.

Commercial hotels and suburban office parks: With the

exception of Silicon Valley and other tech-concentrated business parks, the future of suburban office parks and their select service hotels may be less clear. As the millennials seek urban environments for work and living, the prospects for these developments may be diminishing as they cannot compete with the 24/7 life seen in many major west coast cities. The hotels and their franchised restaurants that flourish today in suburban settings may see their demand wane to the extent that some change of use may be the only way to survive. It may be that starting now and over the next 10 to 20 years, the suburban limited service hotels morph into assisted living facilities to meet the needs of the boomers now entering retirement. What always stays the same is the cyclical nature of our times and the well-being of hotels and resorts.

---

*Eaton is president and founder of Eaton Hotel Investments of Arroyo Grande and San Francisco and an industry veteran who can be reached at [www.eatonhi.com](http://www.eatonhi.com).*