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Luxury Hotels Fully Recovered? Not So Fast

LOS ANGELES —Luxury hotels have bounced back faster than the rest of the industry during the economic recovery. But that rebound can be misleading, hoteliers at an industry conference here said.

Atelier Christian De Portzamparc.

Luxury hotels under development include a Park Hyatt in New York, which will be part of a condominium tower (shown in this rendering).

"Luxury is back because it went so far into the ditch," said Marty Collins, chief executive of hotel developer and owner Gatehouse Capital Corp., speaking at law firm Jeffer Mangels Butler & Mitchell LLP's Meet the Money hotel conference. "But if you look at the luxury hotels that are worth a lick, it's only a handful."

U.S. luxury hotels have outpaced the overall industry in regaining occupancy and revenue per room since early 2009. They posted a revenue-per-room gain of 13.3% and an occupancy gain of eight percentage points in that span, according to Smith Travel Research. In comparison, all U.S. hotels notched a 6.5% gain in revenue per room and a gain of four percentage points in occupancy since the first quarter of 2009.

But luxury hotels fell much further during the recession, leaving them with far more ground to make up than the rest of the industry. Even with their strong recovery of late, they remain 15.7% below their early 2007 revenue-per-room perch and 4.7 percentage points lower in occupancy than in early 2007.

That's a problem because many luxury hotels were financed using boom-time values and cash-flow projections. They're still a long way from reaching those figures again, leaving some owners covering debt-service shortfalls out of their pockets or facing difficulty refinancing the loans.

"Many luxury hotels … are virtually bankrupt in what they're returning to their owners," said Robert Alter, founder and executive chairman of Sunstone Hotel Investors Inc., a real estate investment trust that owns 33 hotels.

There are some bright spots. Luxury hotels will face little competition from new hotels being built. The 6,018 luxury rooms currently under development amounts to a 4.3% increase of the U.S. luxury supply, according to Lodging Econometrics. That's lower than the overall U.S. hotel development "pipeline" of 7.2% growth. (Luxury hotels are generally defined by five-star brands such as Four Seasons, Ritz-Carlton, St. Regis, Mandarin Oriental and others.)

Finally, luxury travelers were unlikely to shift to midscale hotels during the recession, and those that did have returned. "The customer hasn't changed," said Greg Mount, president of hotel owner and manager Richfield Hospitality Inc. "Ultimately, they're still looking for that service, that experience, and they're going to seek it out wherever they go."