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The winners and losers in hotel profits

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The 2015 HOST Almanac shows what departments came out ahead and what lagged behind when it comes to generating hotel revenue.

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In early May, STR Analytics, sister company of Hotel News Now, released the 2015 HOST Almanac, which includes same-store income statement data for more than 5,000 hotels across the nation.

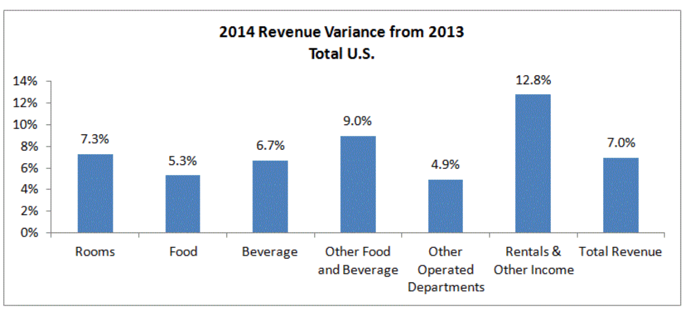
The two most significant data points were the 7% increase in revenues, and 10.7% increase in gross operating profit for 2014. In examining the data in more detail, there are some interesting trends when looking at specific line items that we collect.

Here are some of the biggest year-over-year winners and losers from an owner's perspective in 2014:

Winner: F&B Profit
Food-and-beverage departments outperformed rooms departments in 2014, based on profit growth.

The F&B departments in our same-store set grew profits 11.9% in 2014 compared to 2013 levels. Meanwhile, rooms profits increased 7.8% for 2014. This increase was aided by strong revenue growth in other F&B revenues and well-controlled expense growth. F&B expenses increased 4.1%, well below the 6.1% growth in F&B revenues. This combination decreased the F&B expense ratio of 74.3% in 2013 to 72.8% in 2014.

Revenues



Winner: Other F&B revenue
Two revenue categories experienced more growth in 2014 than the rooms department: other F&B revenue and rentals & other income.

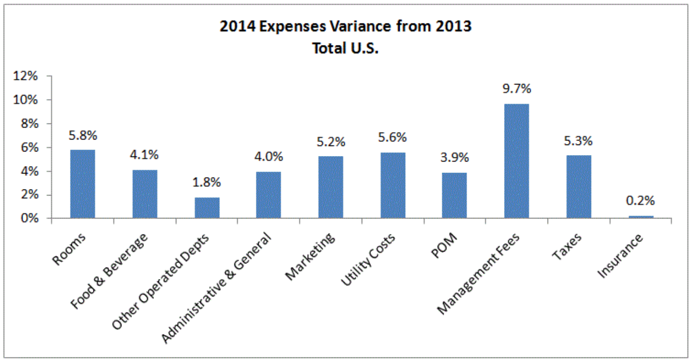
Other F&B revenue grew 9% in 2014 for our same-store sample, versus 7.3% growth in rooms revenues. Other F&B revenue primarily consists of meeting space rentals, audiovisual services and rental, and F&B-related service charges. This revenue category is closely aligned with banquet and catering operations and group business. So just as we have seen group demand rebound strongly this past year and a half, the increased revenues in other F&B revenue is another indication that group business is back.

Winner: Rentals & other income
Rentals & other income increased 12.8% in 2014, which was by far the greatest revenue increase.

This category is the smallest percentage of revenues, contributing 1.3% of total revenues for this same-store set of hotels. Rentals & other income includes revenues for anything that doesn't have any direct expenses. This includes items such as attrition fees, cancellation fees, commissions from third parties, guest laundry and dry cleaning, and any leased retail or restaurants on-site.

The majority of the increased revenues in rentals & other income has come from cancellation fees the past two years. Now that occupancies are beyond peak historical levels, many operators have become stricter when it comes to enforcing cancellation fees because of the lost opportunity costs for that unoccupied room.

Expenses



Loser: Travel agent commissions
Travel agent commissions were added this year in an effort to study online-travel-agent costs. However, most large data providers do not break out OTA commissions alone, and instead lump them into travel agent commissions, which is included as a detailed rooms expense by many data providers.

In addition, operators can account for these costs as a rooms expense or include it as rooms revenues net of this cost. So while we cannot make any conclusions about OTA costs, travel agent commissions were interesting in that they increased 19.2% in 2014. It appears bookings shifted toward using travel agents and OTAs even more in 2014.

Loser/winner: Management fees
Management fees realized a 9.7% increase in 2014. Management fees include both base management fees and incentive management fees. Base management fees are typically a percentage of total revenues, so these should increase at the same rate of revenues, or 7%. Consequently, the large increase in management fees is an indicator that incentive management fees have kicked in for many properties. Incentive management fees are usually zero until a certain level of profit is attained. So while this increase hurts the bottom line, it is an indicator of large profits.

Winner: Insurance
Insurance was an interesting category in that it only grew 0.2% in 2014. Insurance is considered a fixed expense, so you wouldn't expect much growth year to year, but it was still lower than expected. For instance, in 2013 insurance grew 5.8% compared to 2012. So while it was a pleasant boost for the bottom line, it's safe to say we can expect more growth in 2015.

Loser/winner: Reserve for replacement
Reserve for replacement showed a 15.7% increase in 2014 when compared to 2013. However, if we look at only those hotels that reported a replacement reserve both years, the increase was 9.9%. As a percentage of revenues, reserve for replacement was still only 1.8% in 2014 for all reporting hotels. More hoteliers seem to be increasing their reserves now that profits are up.

Other Notables
Loser: Limited-service segment sees modest GOP growth
The big winner this year in terms of profit growth was full-service hotels with 11.7% gross-operating-profit growth versus 6.9% for limited-service hotels.

Profit growth was somewhat muted in the limited-service segment by significant increases in property operations and maintenance (7.2%), although expenses increased more significantly across the board for limited-service hotels compared to full-service hotels. However, limited-service hotels do still show a much greater profit margin (GOP, 48%) than full service (34.5%).

Winner: Luxury and upper-upscale classes control utility and POM growth
Utilities and property operations and maintenance expense were well controlled by luxury and upper-upscale hotels in 2014. The year-over-year increases in 2014 were roughly 3% to 5% for each category in these upper-tier segments versus 5% to 8% in the remaining classes.

Winner: Independents control expenses better in 2014
The same-store sample of hotels in the independent chain scale grew profits 12.1% in 2014. This GOP growth was despite less-than-average rooms revenue (6.9%) and total revenue (6.8%) growth.

Chain-affiliated hotels illustrated stronger revenue growth of 7.3% in the rooms department and 7% overall. However, GOP for these affiliated hotels increased 10.6%.