

TRAVEL INTENTIONS AND THE IMPACT ON SUMMER LODGING/TOURISM VOLUMES

Hotel owners and operators (and their lenders) are waiting with baited breath to gauge business volumes over the next several months. While little in the way of distressed hotel activity has cropped up to date, a bad summer may convince some lenders to intervene. How this would affect hotel values and the relationships between owner, manager and lender remains to be seen.

Last week Travelocity released the most recent Traveler Confidence Report based on surveys completed in mid to late April of Travelocity members located in the United States. Among the findings:

- Travel intentions are up - some 21% of respondents were planning an increase in travel when asked in April 2009 as compared to November 2008.
- Decreased airfare and hotel rates have had a positive impact in spurring travel - 25% of respondents said lower airfares permitted an unexpected trip while 18% noted lower hotel rates had the same impact.
- Travel budgets strong—Two-thirds of respondents report their summer travel budgets will remain the same or increase when compared to last summer.

The April data provides an interesting comparison to a survey completed of both American and Canadian travelers in late 2008 that found:

- Canadians were more likely to take a single, extended trip while Americans favoured multiple shorter trips.
- Price is significantly less influential among Canadian than American travelers although Canadians state that reduced travel costs would be a significant incentive for additional travel.

In addition to these findings, Travelocity predicted that 2009 "would be the year of the travel deal." Good omen or bad, the effects of this prediction remain to be seen. The complete Travelocity reports that can be found on their website at:

<http://svc.travelocity.com/about/newsroom/resources/0,5705,,00.html>

But what do these findings indicate? In many respects, it's probably too early to tell. The Travelocity findings are interesting but will Canadian and American travelers' actions line up with their survey responses? A number of factors will be telling as we head into June and July, including:

- Are the more recent American results (April) reflective of how Canadians might travel? And what about those business travelers? We've already seen significant falloff in organized meeting and convention activity. Will room blocks associated with spring/summer convention events pan out?
- Is the industry's tendency to discount (see survey results above) going to prove to be a double-edged sword? The number of travelers might be up but price discounting could lead to reduced revenue levels (and increased cost).
- What impact will the new United States passport requirements (effective June 1, 2009) have on outbound travel to Canada? This concern is particularly acute in border destinations such as Niagara Falls and Victoria.

Discussions with lenders, brokers and restructuring advisors over the past several weeks suggest a cautious approach to dealing with potential distress situations. Further, a general consensus exists that the greatest distress on the horizon is maturity risk not operating risk. Even in those relatively few examples where debt service commitments are not being met, the shortfalls are modest given interest rates and less than calamitous EBITDA levels. Lenders are reluctant to step in unless management is significantly underperforming.

The summer months will be the proof however. If June and July prove to be worse than expected, consideration may turn to more interventionist approaches before autumn and winter are upon us.

For further information on how HLT Advisory can assist your organization contact:

Lyle Hall
416.924.2080
lylehall@hlta.ca

Rob Scarpelli
416.924.0750
robertscarpelli@hlta.ca

Jeff Dover
416.924.7737 x223
jeffdover@hlta.ca

Cindy Wilson
416.924.7737 x226
cindywilson@hlta.ca

HLT
ADVISORY

166 Pearl Street, Suite 200
Toronto ON M5H 1L3
www.hlta.ca

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