BACKSTORY

Not So Big Oil

ENERGY MARKET HOTELIERS LOOK TO CONTROL COSTS AS LOW OIL PRICES IMPACT PRODUCTION

BY SEAN DOWNEY

AFTER DROPPING PRECIPITOUSLY LAST YEAR, oil prices have settled into a new normal the past few months, with crude staying cheap on account of a global supply glut. In February, Federal Reserve Bank of Dallas President Richard Fisher said in a television interview that low oil prices will likely persist for a year or two. He also said that he isn't worried about the impact these prices will have on shale-oil producers in the United States because the continued strong demand for oil will drive big producers to absorb smaller ones and cut costs to become more efficient.

As a hotelier operating properties in the North Dakota, Ohio, West Virginia, and Texas energy markets, Marian Goodman, CEO of Florida-based Sky Hospitality, is budgeting for the potential impact these changes might have on her hotels. While she's quick to say that revenues from her energy market properties were generally up, she sees change on the horizon. "In January, most of our properties are up overall versus budget, but that is coming out of occupancy, and we are already seeing some rate deterioration and downward pressure from the corporate contracts."

She also sees a huge difference in how low oil prices impact each region. "For starters, a lot of Ohio and West Virginia are actually gas markets as opposed to oil," Goodman says. "There's a lot of what they call 'wet gas' in those areas." In Ohio, there is a flurry of pipeline construction projects underway to keep up with production. When Jan Freitag, SVP of strategic development at STR, looked at energy market RevPAR numbers for last year, he saw similar differences. "In the oil markets of South Texas, RevPAR is up 1.3 percent. In North Dakota, it's only up 0.7 percent," he says. "In Oklahoma, it's up about 2.4 percent, and the Pennsylvania numbers are similar. The point is that we've seen supply coming into those markets, and there has been an impact as gas prices continue to be lower."

He adds that places like Houston and Dallas are economically diversified enough to be more insulated from fluctuations in the price of oil than markets primarily dependent on energy-producing industries. Case in point, the number of drilling rigs operating in North Dakota fell to 159, the lowest level since November 2010. According to the North Dakota Department of Mineral Resources, the state had 183 rigs in December 2013. "A lot of these oil producers have been built for the long run, so when oil prices are back up, they kick back up the wells immediately," Freitag says.

MICROFINE
The Microtel Inn & Suites in Buckhannon, West Virginia, is one of over a dozen properties that Sky Hospitality operates in U.S. energy markets.

That said, it will likely take some time before anyone can take an accurate measure of how oil prices are impacting specific energy markets. "Unless it's the actual oil companies reducing their travel, I don't know if we're going to see immediate reductions in RevPAR in a lot of those markets," says Jamie Lane, senior economist at PKF Hospitality Research. "Some of these oil companies are just going to keep pumping oil at these lower prices just to keep the debt service going. Obviously, that's not going to persist for very long, but it can delay the reaction to lower oil prices in some of these areas."

Goodman says the big producers in North Dakota have been saying

since October that they would be slowing down oil exploration. "For the big producers, this means they aren't drilling at the same rate as before, and for the smaller companies, it can even mean capping wells until prices come back up," she says. "We're seeing a few pieces of business that dropped off because of this change, but the big players aren't shutting down wells." What these companies are looking to do, she says, is renegotiate their corporate room rates.

"They say since we aren't getting as much profit, we're going to have to reduce our cost of doing business," adds Goodman. These oil producers have already gone through the process of renegotiating their service contracts, and they've cut workforce wages and perks to bring their costs in line with the new price for crude. "We first got involved in energy markets when we operated in Arkansas," she says. "Things were booming and then the price of natural gas took a nosedive." While there was plenty of pain felt in the aftermath of that downturn, Goodman says she isn't seeing any signs of the same thing happening now. "At this point, there's dropping pressure on our rates, but this is being more than made up for in demand."

The flip side of the oil companies' push for efficiency in their operations is the downward pressure they're applying to wages, which they had driven up in North Dakota and some areas of Texas at the height of the boom. "Hotels and other service industries have had to pay enormous wages compared to the average anywhere else in the country, because the oil companies have paid so much," Goodman says. "Now, as they begin to reduce their wage rates, we're going to be able to reduce ours too." And getting a handle on wages should provide her company with the means to better navigate the ups and downs ahead.

> "Some of these oil companies are just going to keep pumping oil at these lower prices just to keep the debt service going. Obviously, that's not going to persist for very long, but it can delay the reaction to lower oil prices in some of these areas."
>
> **Jamie Lane,** senior economist at PKF Hospitality Research

LODGING Thought Leadership Webinar

MANAGING BROADBAND FOR TODAY AND TOMORROW.

THURSDAY, APRIL 30, 2015 // 1:00PM–2:00PM EST

Hotel owners, operators and CIOs are all being challenged by the exploding demand for broadband service. Connectivity has become a critical amenity as hotels constantly struggle to keep up with guest demand. Every property has a unique situation depending on many variables, including building construction, legacy systems, retrofitting, internet service providers, applications used on property, etc.

JOIN CORNING'S INDUSTRY EXPERTS AND LEARN THE FOLLOWING:

- How to evaluate and manage your property's current broadband capacity/delivery
- Type of solutions available today
- New Builds, Conversions and Upgrade options for existing infrastructure
- How to be prepared when wire-line and wireless carriers show up at your front door
- Long-term network considerations
- Expected ROI

PRESENTERS

PAUL PAOLISSO
Director, Vertical Markets-Hospitality
Corning Optical Communications

ALLEN DIXON
Wireless Implementation Manager
Corning Optical Communications

REGISTER NOW! @LODGINGMAGAZINE.COM

FOR MORE INFORMATION: BILL CORSINI, LODGING
BCORSINI@LODGINGMAGAZINE.COM | 215-321-9662, EXT. 41

sponsored by CORNING