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Can the Demand Problem be Fixed? The Effect of Economic Crisis on the Lodging Sector of the Tourism Industry.

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CAN THE DEMAND PROBLEM BE FIXED? THE EFFECT OF ECONOMIC CRISIS ON THE LODGING SECTOR OF THE TOURISM INDUSTRY.

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While hospitality started with small inns and bed and breakfasts run out of a family's home, the first hotel was a 73-room property in New York City, which was astronomically larger than consumers were accustomed to, (Withiam, 2000, p. 2) and is considered small by today's standards. Throughout life, at one point or another, most have stayed at a bed and breakfast, timeshare, motel, or hotel. Most enjoy the experience, but few realize what happens to lodging properties when there is an economic downturn. During times of economic crisis, families and businesses tend to spend more time controlling expenses, which often results in cuts in travel. Economic "crisis" is considered to be a time of two or more continuous quarters of recession, which is decreasing gross domestic product.

This leads one to question how major economic crises of the past one hundred years have affected and changed the lodging sector of the tourism industry into what it is known to be today. Periodic economic crises and changes to regulatory policies and tax policies have led to an overabundance of supply and lack of demand during these times, which has forced the industry to change and adapt throughout the years. An extensive literature review of selected works covering the 20th and 21st centuries will be conducted. Specific geographic cases will also be examined, which will lead the researcher to a set of propositions with respect to possible new lodging business models.

1 History

1.1 Great Depression

Many scholars have provided a detailed history of one of the world's most memorable, and arguably, worst, economic crisis, the Great Depression. Doreen Mulz argues that there are two sides to the beginning of every crisis. Mulz shows these two sides by analyzing what she terms "secular causes," which includes corporate bankruptcies, home foreclosures, and the Federal Reserve's control of interest rates (2010, pp.87). Mulz says that the first cause of a crisis is what she calls quantitative factors, which is when people overextend themselves by taking on more debt than they can financially handle. This creates highly leveraged financial markets, which eventually lead to a collapse of the housing industry and a "credit crunch" (Mulz, 2010). She says that the second side is the qualitative factors, which she calls human factor decay reasons, which are the lack of human abilities, human potential, moral, aesthetic, human and spiritual capital and high levels of selfishness or greed (Mulz, 2010). Mulz defines a credit crunch as, "a reduction in the general availability of loans or credit" (2010, p. 89). Human factor decay reasons are the lack of certain human characteristics and morals. This makes people more likely to make risky decisions. Mulz (2010) says that the dimensions of human factor decay can be compared to Maslow's hierarchy of needs; she also argues that the human factor decay factors are more critical than the quantitative factors, which she supports by saying that a human's lack of solid ethics and faith in other humans leads to greed and ultimately economic decline (pp. 95).

Mulz' idea that greed and selfishness can lead to economic recession and depression, is one that is contradicted by Linneman (2011), who says that "people are always torn between greed and fear" and that this drives the economy (p. 228). He says that when the American public is driven by greed there is economic growth; when the public is driven by fear, crisis ensues. He argues that this has happened before every major economic crisis since the Great Depression (Linneman, 2011, p.229). Linneman (2011) focuses on the Great Depression by saying that much of the American public turned from optimistic to pessimistic and then became fearful on a grand scale, which ended with investors becoming twenty-three percent poorer in one day (p. 229). Many other experts tend to blame stock markets, banks, and credit card companies for the start of economic crises. What they all fail to do is lay blame where it often begins, which is with the everyday people who overextended themselves and made poor choices, rather than living within their means. This is what Mulz's points out and also what Linneman discusses. This approach seems intuitive, but it is one that is often overlooked.

Many experts focus on governmental failures as cause for the Great Depression. James Livingston and John Kirkwood both agree that governmental flaws and actions caused the Great Depression. James Livingston's article is about the causes of the Great Depression and a comparison between the Great Depression and the current recession. Livingston argues that there are about a dozen causes of the Great Depression, most of which are governmental causes, such as the changing of interest rates by the Federal Reserve. He argues that the main cause of the Great Depression:

> Was not a short-term credit contraction, either due to bank failures or engineered by central bankers…[but] a fundamental shift of income shares away from wages and consumption to corporate profits that produced a tidal wave of surplus capital that

> could not be profitably invested in goods production and, in fact, was not invested in goods production (Livingston, 2009, p. 37).

Here Livingston is arguing that the primary cause of the Great Depression was not bank failures but actually companies not giving dividends and higher wages to employees and instead keeping the profits for investment. The problem arose when those profits were not reinvested properly.

Livingston argues that the current recession closely resembles the Great Depression due in part to the “underlying cause” of each crisis being the same. A shift away from wages and consumption has created a credit freeze in today’s economy, and “all the unprecedented assistance offered to the banking system since the sale of Bear Sterns and the bankruptcy of Lehman Brothers in September—AIG, Washington Mutual, Fannie Mae, Freddie Mac, the bailout package, the equity stake initiative, etc.—has not thawed the credit freeze” (Livingston, 2009, p. 42). Similarly, John Kirkwood, in his structural analysis of the Great Depression, argues that there are more to the causes of the Great Depression than just the collapse of the stock market and that there were predictors long before the crash happened. Kirkwood (1972) argues that while “huge fluctuations in the size of money stock” (pp. 833) contributed to the cause of the Great Depression, the stock market crash was not the first indicator of an economic crisis. Kirkwood (1972) says that this along with the other factors caused the public to increase their demand for currency (p. 823), and banks were not able to keep up with the demand. This ultimately led the banks to fail. This article provides a good history of the entire era, as well as the actual collapse of the market. Both Livingston and Kirkwood discuss the effects of the stock market crash, bank failures, and the Federal Reserve's controlling of interest rates as causes of the Great Depression.

1.2 Savings and Loan Crisis

Many argue that the causes of the Great Depression are similar to the causes of the Savings and Loan crisis of 1986-1995. The Savings and Loan crisis is also referred to as the Credit and Loan crisis. C. Michael Hall argues that there are many different types of crises in the tourism industry. He also says "many of the crises that affect tourism are crisis events that are of a specific duration and occur in an identifiable time and space, although their impacts may be longer lasting" (Hall, 2010, p. 402). Hall (2010) shows how there were two simultaneous crises in the '70s and '80s that caused the recession; an energy crisis and a political crisis, the USSR invasion of Afghanistan and the Iran-Iraq war (p. 405). All of these individual events caused the price of oil to skyrocket, which led to higher prices for travel and thus less travelling.

While Hall discusses multiple crises and how they can cause recessions, Charles Brecher and Raymond Horton focus on the financial causes of the Savings and Loan crisis. They argue that governmental immaturity in financial matters led to the crisis and that recovery was found in retrenchment and resource allocation (Brecher & Horton, 1985, pp. 267). As defined by Merriam-Webster, retrenchment is the cutting of expenses by companies and corporations ("Retrenchment," Merriam-Webster), which Brecher and Horton suggest was done in correlation with resource allocation, municipal management, and municipal services in order to spark recovery from a crisis caused by governmental failures. These failures include being unable to pay bills on a state and local level.

Brecher and Horton (1985) define municipal management as the management of the public sectors of a city (p. 271) and municipal services as the control and management of public services (p. 272), such as waste disposal, police, and firefighters.

Like other experts Peter Linneman discusses the causes of the Savings and Loan crisis. He devotes a chapter of his textbook to economic crisis and focuses heavily on the Credit and Loan crisis. He argues that real estate tax law is to blame for the start of the crisis (Linneman, 2011, p. 60). In the 1980s, the IRS tax code changed, so that the purchase price of land could be depreciated at about eight per cent per year, which encouraged a great deal of commercial development (Linneman, 2011, p. 60). Furthermore:

> You were allowed to sell tax losses, [generated from depreciation], to third parties from 1981 to 1986. This led property owners to create tax losses which were sold to people seeking to shelter taxable income…real estate quickly became a business of manufacturing tax losses rather than satisfying tenant demand for space. It is hardly surprising that an incredible excess supply occurred during the 1980s (Linneman, 2011, p. 60).

Here Linneman shows how the change in tax code allows developers to sell their debts to private individuals in order to write off the sale on their federal income taxes. This makes development of large commercial properties more popular and sparks a building boom. Linneman (2011) also argues that the crisis was caused in part by a lack of money available in the economy. He credits this to fear defeating greed, which he believes has been the cause of all major economic crises (Linneman, 2011, p. 229).

1.3 Late 1990s and Early 2000s

While the causes of the Credit and Loan crisis are similar to those of the Great Depression, the causes of the recessions in the 1990s and 2000s tend to be different. Linneman (2011) believes that greed was taken over by fear as a result of the Russian ruble crisis and the terrorist attacks of September 11, 2001. 'Greed being taken over by fear' means that people became afraid to invest because of economic instability and would rather save. Adam Blake and M. Thea Sinclair discuss the economic crisis that resulted from the September 11, 2001 terrorist attacks. They argue that the entire tourism industry was affected by the terrorist attacks, but they focus on the transportation part of the industry, specifically airline travel. The authors argue that crisis led directly from the attacks and furthermore say:

> That if an economic shock is believed to be long-lasting or even permanent, policymakers should concentrate their attention on minimizing adjustment costs as the economy moves towards a new equilibrium. If a shock is believed to be temporary, the concern should be to insulate the economy from its adverse effects (Blake & Sinclair, 2002, p. 2).

Blake and Sinclair believe that in times of long or permanent economic crisis, the government needs to adjust spending in order to create a new economic equilibrium to regain stability quicker, but in times of temporary crisis the government needs to work to protect the economy from feeling any effects. Blake and Sinclair (2002) show how the Bush administration did this by implementing several stimulus packages, security acts, and coalitions. These include: the Air Transportation Safety and System Stabilization act, which worked to protect air traffic and its passengers, the Travel Industry Recovery Coalition, which works to build confidence in travel and restore economic stability to the industry, and the Homeland Security Act, which works to protect the US from terrorism of any kind (pp. 4). The authors discuss how the airline industry took a huge hit because people were afraid to fly, both domestically and in-bound internationally, but it also took a big hit financially because of damages directly resulting from the attacks, which negatively affected the tourism industry and economy as a whole (Blake & Sinclair, 2002, pp. 2).

While Blake and Sinclair focus only on the terrorist attacks as cause for a recession, C. Michael Hall (2010) argues that the recession was caused by the 9/11 attacks as well as by an outbreak of Foot and Mouth Disease and SARS and finally by the wars in Afghanistan and Iraq. Hall (2010) argues that the cause of a crisis is made up of multiple factors on a worldwide basis, including oil/energy issues, political issues, health issues, natural/environmental disasters, and financial issues. Hall (2010) argues that these individual events discouraged international and domestic travel and caused the industry have a subpar growth level for the year, which caused a crisis in the industry.

1.4 Current Crisis

Both of the above arguments can be cited as causes for the current recession, but there are other reasons as well. Hall (2010) argues that the current recession was started by a rapid rise in oil prices, a swine flu pandemic, and the wars in Iraq and Afghanistan. Darrell Issa, Doreen Mulz and research published in *Financial Management* all agree that the current recession was caused, at least in part, by the housing market. They all argue that as interest rates on mortgages declined, housing prices skyrocketed, which created an inflationary bubble, which is defined as a time when housing prices are higher than the home should be worth. This trend ultimately led to the bubble bursting. Livingston (2009) argues that the Federal Reserves' control of interest rates caused the bubble to continue to inflate and ultimately burst, so banks were no longer lending. Mulz (2010) argues that in addition to the housing collapse, human greed and selfishness led to the recession. She argues people have unlimited wants and used credit as a way to fulfill these wants, rather than saving, which is what occurred with the housing collapse (Mulz, 2010). Contrary to Mulz's beliefs, the research in *Financial Management* argues that investor's disregard for systemic market risk, the natural ups and downs of a company, and reckless investments led to the market crash. Denis Simon also argues that investments, or lack thereof, especially in foreign markets, led to an unstable economy and then a crash.

2 Industry Evolution

All of these crises have caused the tourism industry to change, but in what way? Stephen Rushmore and Erich Baum talk about how the hotel-motel industry started and how is has changed throughout the years with the evolution of the lodging sector. The authors discuss the beginning of each change in the sector in great detail. They also state that the economy was the cause of some of these changes. Rushmore and Baum (2002) argue, "the 1920s produced one of the greatest hotel-building booms in American history" (pp.3). They also show how this building boom created a larger demand problem after the start of the Great Depression. They discuss how most new construction properties from the 1920s ended up in foreclosure after the stock market crash, and how travel came to a standstill, which dramatically decreased hotel occupancy and average daily rates (Rushmore & Baum, 2002). All of these authors agree on the same basic timeline of the evolution of the lodging sector. This timeline suggests that bed and breakfasts and individually owned and operated hotels were the industry’s first products, followed by chain-hotel groups after the Great Depression, condo-hotels, and timeshare point systems after the Credit and Loan crisis.

Several governmental law changes combined with economic downturns, in the 1960s and 1970s ultimately led to the Savings and Loan crisis of the late 1980s. The Coastal Wetlands Act, enacted in 1968, allowed commercial lodging in coastal and low-lying areas to be better protected by flood and natural disaster insurance (Damonte, 2008, p. 2). This act made commercial building and high-rise hotels in coastal areas more desirable for developers and ultimately encouraged overbuilding. This overbuilding can be attributed to the greed of developers and operators. The Coastal Wetlands Act made properties with flood insurance, in flood prone areas, more valuable (Bin & Kruse, 2005). Operators know that oceanfront properties inherently come with more demand, which means nightly rates can be higher and customers will still pay them.

The Coastal Wetlands act led to overbuilding in the industry much like the tax laws. Internal Revenue Service tax code changes allowed property to be depreciated by eight percent of the purchase price per year, shielding companies from tax exposure (Linneman, 2011). The new tax codes also allowed debt to be sold off to third parties by selling individual units in a building complex, also known as timeshares, (Linneman, 2011), as well as by selling hotel syndications (Rushmore & Baum, 2002). This law allowed companies to reap short-term financial benefits without incentive to stabilize the long-term, which led to many hotels being overloaded with debt (Rushmore & Baum, 2002). In 1986, tax law saw another change that eliminated the previously mentioned tax benefits, but overbuilding and enormous debt had already become a problem (Rushmore & Baum, 2002).

Glenn Withiam, who argues that different laws and economic crises have forced the lodging sector to adapt since the 1960s, agrees with Rushmore and Baum. Withiam focuses on four major tourism hubs and shows how the industry in those areas has evolved. Withiam (2000) says that “the oil shocks of the 1970s put a lid on tourism and inflation ran rampant…Nevertheless, Orlando continued to expand and a slumbering giant awoke: for the first time in 20 years, the number of hotel rooms in New York City increased” (para. 3). Withiam uses this to show that the tourism industry is robust and in certain areas, especially major business sectors, recession-resistant. Frechtling (1982) supports this theory by saying “travel and tourism is more resistant to general economic recession than the overall economy” (p. 287). Frechtling says this because during the recession in the 1980s, the number of US trips steeply declined, but miles and nights travelled did not decline as greatly. This shows that guests still travel, just not as frequently in times of economic crisis.

Similar to Withiam, Rushmore, and Baum, Taylor Damonte talks about the evolution of the lodging sector and how demand and lodging industry performance have been damaged by oversupply. Damonte (2008) argues that “during the recessions of the early 1980s and early 1990s…condo-hotels and timeshares allowed developers to continue building commercial lodging product even in markets where the average occupancy rate did not warrant the addition of new hotel properties" (para. 6). Damonte's (2008) valuable contribution is the recent history of the industry and examples of how the industry has been affected by recessions, although he limits himself by focusing strictly on coastal regions, especially Myrtle Beach. Damonte states that for the past forty years, resort development has been growing and that this is due in part to changes in tax and the federal wetlands law, a type of insurance law. He continues by showing how changes in commercial tax and insurance laws in the 1980s and 1990s sparked the creation and subsequent development boom of timeshare properties, and the rise of condominiums as "overnight lodging accommodations" (Damonte, 2008).

Most researchers agree that economic crisis negatively affects the tourism industry. Blake and Sinclair (2002) argue that because transportation declined greatly after the 9/11 attacks, the tourism industry as a whole suffered greatly as well. Damonte (2008) argues that with each crisis the industry has adapted to survive, by finding new ways to sell lodging real estate, which eventually leads to an oversupply of lodging inventory, which further depresses average occupancy rates. Ognjen Blazevic agrees, in a review of the Tourism and Hospitality Management 2010 conference proceedings in Croatia, saying, "due to economic crisis, in some tourism oriented countries new processes were opened in offer and tourism product restructuring, aiming at adjusting the offer to the new demand" (p. 785). He also argues that tourism has fallen both internationally and domestically (Blazevic, 2010).

Murphy (2008) argues that there are more rooms available, but fewer guests are travelling. Lloyd-Jones (2005) agrees with Murphy, saying that during times of economic crisis, occupancy and average daily rate, or room rate, decrease greatly and must fight to slowly rise. Woodworth also agrees saying that average daily rates are at an all-time low, and while certain geographic regions are starting to rebound, the industry as a whole is still struggling greatly (Woodworth, 2010). LaDonna Morrison (2010) argues that during times of financial crisis, companies often choose to enter into a merger in order to regain stability. Merging can give a company a competitive advantage against the rest of the industry, but it can also create a more efficient business model, which helps a company's budgeting (Morrison, 2010).

3 Criticisms

Conversely, some researchers do not agree with the idea that tourism is negatively affected by economic crisis. Douglas Frechtling (1982) argues that tourism is more resistant to economic recession, especially compared to the overall economy. He supports his argument by saying that during the Credit and Loan crisis, domestic vacation nights rose and overseas travel rose (Frechtling, 1982). However, much of his evidence consists of short-term statistics and situations and he does not comment on long-term situations.

It can be said that the lodging sector is often negatively affected by economic crisis and recession. It is unclear how to correct this problem and increase average business performance. Is there a new real estate model that can fix the problem of oversupply in the lodging sector? Are there marketing solutions that can help solve the problem of unsold lodging room nights? Is there some combination of the two approaches that can serve to reduce the cyclical downturns in the lodging business performance?

While the research of other experts in the field is quite well rounded and informative, limitations in the research have led to several questions. Experts fail to say what the outcome of the current economic downturn will be. They also fail to compare each crisis to the others and show how each has affected the lodging sector. Authors show how one specific economic crunch has affected the industry but they do not look at other crises and solutions in comparison.

4 Summaries and Conclusions

4.1 Great Depression

Have the changes made in to real estate policy, such as the wetlands act and the IRS tax laws, in addition to solving the current problem of excess supply, inadvertently sowed the seeds of the next cycle of oversupply? The first example of this in the twentieth century occurred just before the crash of the stock market and the beginning of the Great Depression. At that time, Americans were convinced that real estate investments were safe and could make them wealthy. Groups throughout the country were convinced to open major commercial hotels as a career. Rushmore and Baum show how this happened:

> During the Roaring Twenties, hotel promoters set up shop in towns and cities throughout the United States and sold local residents on the idea that real estate was a sound and safe investment. Their sales pitch was not based on economic feasibility…the financing fees and commissions promoters charged tended to be high and were usually paid as soon as the financing was in place. As a result, promoters had no vested interest in the hotel's performance. (2002, p. 3)

The future never could have been predicted, but *Hotel Management* magazine did warn against 'overhoteling' (Rushmore & Baum, 2002, p. 3) in the early 1920s. By the mid-1920s *Hotel Management* magazine "urged professional hoteliers to tell the public the 'real facts' about hotel occupancy levels and financial conditions to offset the exaggerated stories that had circulated earlier in the decade and contributed to overbuilding" (Rushmore & Baum, 2002, p. 3). Just before Black Tuesday, the 'start' of the Great Depression, it was "found that occupancy nationwide had dropped for 85.5% in 1920 to 67.6% in 1928…the number of hotel failures also illustrated a downward trend, with 64 failures reported in 1924 and 112 in 1928" (Rushmore & Baum, 2002, pp.3). These trends came about due to the fear in the consumer market rather than greed, which usually keeps the market in equilibrium.

During the 1930s, "new construction ceased and more than 80% of the nation's hostelries were forced in foreclosure or receivership…commercial and leisure travel came to a virtual standstill, and the average national hotel occupancy fell to little more than 50%" (Rushmore & Baum, 2002, p. 4). While "the depression forced many hoteliers out of business, it offered those with cash the opportunity to expand their holdings by purchasing distressed properties" (Rushmore & Baum, 2002, p. 4). The ability for hoteliers to buy new property was what kept the industry afloat, and ultimately brought it back, by creating what is now known of as a chain-hotel group.

The Hilton hotel group is an example of how a hotel group flourished during the recovery from the Great Depression (Rushmore & Baum, 2002). Hotel supply had been greatly diminished by the foreclosures caused by the Great Depression, but the start of World War Two "created an unprecedented demand for transient" travel (Rushmore &

Baum, 2002, pp. 4). With lenders still cautious about lending and labor and material shortages throughout the country, it was difficult for hotels to maintain the high level of service, to which guests had become accustomed, and this led the way for a new lodging product, the motel (Rushmore & Baum, 2002, p. 5). Motels catered to the needs of the travelling sailor or family, with highway-oriented locations. This new product sparked demand throughout the industry and made vacationing easier and more affordable.

4.2 Savings and Loan Crisis:

"In the 1970s just as budget motels began to inundate the market, the entire lodging industry experienced the start of a construction boom reminiscent of the 1920s" (Rushmore & Baum, 2002, p. 8). The construction boom allowed hotel groups to begin franchising their hotels and this quickly resulted in overbuilding and poorly run properties (Rushmore & Baum, 2002, p. 8). The National Flood Insurance Act created in the 1968, also known as the Coastal Wetlands Act, and new tax laws initiated by the Internal Revenue Service in the 1980s also sparked construction throughout the industry and eventually gave rise to new innovative lodging product, such as the timeshare point systems, developed by most of the major lodging management corporations.

The changes in tax accounting laws and the creation of condo-hotels encouraged developers to continue building, even though there was not enough demand in the market to warrant the building. Developers chose to continue to build for real estate reasons and selfish reasons. They knew they could make a profit whether the property was fully sold or not, which was unsustainable for the market because occupancy rates and demand for nightly room rentals was not high enough to compete with a growing supply. This continued, irresponsible building eventually led to the Savings and Loan crisis.

As occupancy continued to decrease throughout the Savings and Loans crisis timeshares began competing with hotels and motels. So, while motels were a new product created during recovery from the Great Depression, timeshares and point systems were a product created during the economic downturn to try and spark demand and recovery in the financial community after the Savings and Loan crisis.

4.3 Late 1990s and early 2000s

Due to previous overbuilding and the Savings and Loan crisis, lenders were shy about financing hotel growth until the mid 1990s. However, by 1998, “moderate to high supply growth in the economy and mid-priced segments, caused America’s hotel occupancy level to decline,” which made lenders more cautious and thus caused them to freeze hotel financing in order to protect themselves (Rushmore & Baum, 2002, p. 13). The lodging sector again had an oversaturated market and limited customer demand. This only became worse with the fear instilled in travelers after the terrorist attacks of September 11, 2001. As a response to fear in the market following the attacks, the Federal Reserve “made a well-intentioned, but enormous mistake” (Linneman, 2011, p. 232), by cutting interest rates. As interest rates dropped, it encouraged long-term investments, such as commercial building. As occupancy remained low in the early 2000s, the lodging industry again created a new product to spark demand in travelers. New products that were introduced included the “all-suite hotel, the extended stay hotel, and the hard budget hotel,” (Rushmore & Baum, 2002, p. 13) all of which were well received by the traveling public. A hard budget hotel is simply a budget hotel with more amenities (Rushmore & Baum, 2002, p. 14). It left guests feeling that they got more for their money. These new products ignited demand throughout the industry and brought the lodging sector into a time of recovery.

5 Current Strategy and Strategic Propositions

The overall outcomes of the past three major economic crises have been the same, innovation to spark demand. While history shows that new lodging product can intrigue investors enough build new properties, it is another matter to convince travelers to rent enough rooms to make those properties sustainable. With supply so greatly exceeding demand and average daily rates and occupancy falling to record lows, now is not the time for innovation but rather restructuring. As the crisis has worn on since late 2008, more and more rooms have flooded the market, increasing supply further and simultaneously demand has dropped to 55 percent and lower in some regions (Woodworth, 2010). Woodworth (2010) shows how the fourth quarter of 2009 demand dropped 30.7 percent while supply climbed 22.8 percent in the same quarter. This is a telling statistic for the industry about the chances for recovery by creating new supply.

Many small tourist towns in New York, such as Cooperstown and Saratoga, saw drastic increases in occupancy and average room rate during the summer of 2010 as compared to the summer of 2009 without increasing supply (see table 1) (Churchill, 2010). This suggests that making the development of new lodging product viable from the investor's perspective, it not itself a viable solution to the problem of oversupply.

While adding new lodging product to the real estate mix has, in the past, allowed developers and property operators to survive even during times of low occupancy rates. These strategies ultimately lead to overbuilding and flooding the market, which have yet to help the sector recover. In October 2008, over "740,000 [units] were either under construction or planned," that had fallen from 785,000 at the beginning of the year (Murphy, 2008, paras. 7). This added to a market that was already considered flooded. In 2009, demand was projected to decrease by one percent, while supply was projected to increase by over two percent, and in 2010 supply was projected to increase by another one point two percent, while demand would only increase by point four percent (see chart 1) (Murphy, 2008, chart 1). All the added supply continues to hurt the market. By restructuring current product and using effective marketing and sales techniques, to move current inventory, the lodging sector could use current supply to spark new demand and ultimately recovery.

Some might say that history is quite telling. If the strategy of innovation has worked in the past it is likely to work again. Throughout the industry this is an accepted ideology and many CEOs agree. James Murren, CEO of MGM Mirage in Las Vegas is one of these believers. In the heart of the economic crisis in 2009 Murren began constructing the MGM Mirage's CityCenter Resort, a 4,800 room hotel and 2,400 condo unit complex (Palmeri, 2009). The project has a staggering amount of debt, at about twelve million dollars, and will flood an already saturated market upon its opening in 2010 (Palmeri, 2009). Murren believes that his property will spark demand for guests to return to Las Vegas and thus drive average room rates upward from their current "roadside motel prices" (Palmeri, 2009, para. 2). While it is too soon to say with any certainty if MGM Mirage's CityCenter will save the strip and raise demand, it is unlikely that 7,200 more rooms in Las Vegas will be completely booked at any given time and the extra supply is certain to hurt competitors and ultimately the industry as a whole.

Economic crisis has forced the lodging industry to change and adapt throughout the years, causing the sector to have an overabundance of supply and lack of demand during periods of economic downturn. During the last three major economic downturns, the lodging industry created timeshares, condo-hotels, and timeshare point systems, in order to sell lodging real estate even during periods during which average occupancy rates would not warrant a healthy level of sales. Now that the current economic crisis has once again lead to lower occupancy and average daily rates, the lodging industry finds itself in a situation where it must restructure rather than innovate in order to recover.

Two example propositions could be as follows: restructuring may come in the form of repositioning condominium properties for sale as timeshares. This is more likely than repositioning them as hotels, due to condominiums not typically having convention space, which a hotel would require. It is not possible to say that this is the only solution for the current supply and demand problem because the timeshare product is difficult to sell in an ongoing recession. Another alternative for redevelopment of condominium properties, should land and financing be available, is to build convention space and convert the properties to all-suite convention properties. This would allow the property to create corporate and convention business and special events revenues. These are only two possible solutions and each property must be individually analyzed to see which option, if any, is the most viable. The lodging situation, as a whole, will need to continue to be analyzed in the coming months and years to know with any certainty what should and will be done to recover the lodging industry.

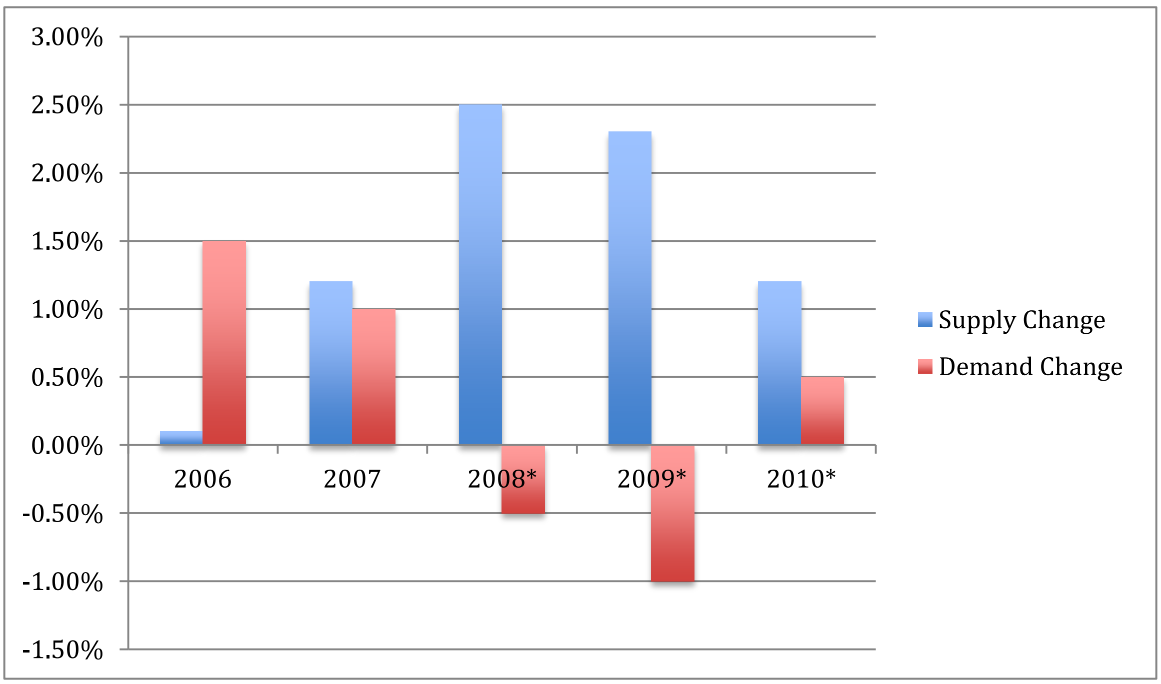
In conclusion, the temptation by policy makers to make changes to regulatory or tax policy and developers to create new lodging product, in order to make commercial lodging real estate more financially viable when occupancy rates are relatively low, should be resisted. It is clear that these policies and new properties only serve to inflate supply further over time, which eventually leads to yet another round of oversupply and financial crisis. Instead governments and industry experts should focus on ways to strengthen travel demand in order to drive lodging occupancy to financially sustainable levels.

Table 1: Occupancy Rates

Place Rates:	July '10	July '09	June '10	June '09
Saratoga Springs	75.6%	65.8%	75.6%	66.0%
Lake George	76.6%	66.5%	60.8%	55.8%
Albany	65.5%	60.5%	62.7%	59.4%
Schenectady	59.4%	55.3%	52.9%	49.0%

Chart 1: Supply v. Demand

*Projected



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