

Collin County hotel market overview

By Gregory Crown

Recent History

The Dallas area hotel market exhibited significant growth in both supply and demand during the 1995-2000 period. Driven by job growth that at times led the nation, lodging demand grew at historically high rates, affording pricing power that pushed average room rates to their highest levels ever. At the same time, large increases in limited service supply followed the growth in demand. The area hotel market peaked in 2000, with occupancy rates above 65%. From there, the national recession, the events of 9/11, the wars in Afghanistan and Iraq, and troubles in the telecom, airline, and high tech sectors had significant negative impacts on area hotel market demand. Occupancy in the Dallas market fell 10 points, average room rates fell \$10, and revenue per available room fell over 20% - with the area hotel market bottoming in the second quarter of 2003. Since

that time there has been a moderate-paced upward movement in demand, accompanied by limited additions to supply. The recovery that began in the third quarter of 2003 continued during 2004. Within this area-wide context, the Collin County hotel market has behaved in a very similar fashion.

Collin County Market

Hotel demand in the Collin County market consists of commercial, group, and leisure market segments, with the commercial market segment being by far the largest. The concentrations of office, retail, industrial, and distribution that drive this market have historically been located along or near the North Dallas Tollway and North Central Expressway. However, recent development trends have added the President George Bush Turnpike, SH 121 and US 380 to the list of commercial growth corridors. The group market segment is largely driven by corporate sources, supplemented by social,

military, education, religious, sports, and fraternal groups with representation in the area. Leisure markets are largely the result of demand owing to visitors to local residential populations.

Hotel supply in Collin County totals over 12,000 rooms, concentrated in Plano (Legacy and North Central Expressway), Richardson (Telecom Corridor), Frisco (SH 121), Allen (North Central Expressway), and McKinney (North Central Expressway).

2005 Outlook

The Collin County hotel market is expected to exhibit continued moderate growth in both demand and supply in 2005. On the demand side, new office and retail space will continue to be added to the northwest Plano / Frisco area, in the vicinity of the intersection of SH 121 with both the Dallas North Tollway and Preston Road. The opening of the Frisco Convention Center will also spur hotel demand in this area. Office, distribution,

retail and flex space is expected to be added along Central Expressway in Allen and McKinney, and along the President George Bush Turnpike in east Plano and Richardson. New additions to supply in 2005 will include a 300-room Embassy Suites in Frisco and an 87-room Holiday Inn Express in McKinney. Several other hotel projects are being discussed for addition to the Plano, Frisco, Allen, and McKinney markets, but are unlikely to be completed before 2006. We expect that 2005 market occupancy will rise to the 63-65% range, an increase of two points over the levels of 2004. Average room rate is expected to hit the \$83-\$84 level, an increase of 4% over 2004.

Gregory Crown is the vice-president of PFK Consulting, an international firm of management consultants, industry specialists, and appraisers who provide a full range of services to the hospitality, real estate, and tourism industries.

Security through rational investing

By B. Frank Voigt

The Efficient Market Theory states that at any given time, the price of a security fully reflects all information that is available. The theory is that when new information is available the market quickly absorbs it and then the security is priced accordingly. This ongoing process theoretically creates a very efficient and rational market.

This theory has crashed headlong into the reality that investors tend not to act rationally. Most people buy a stock believing

that it is worth more or will be worth more than they paid. Most people sell a stock believing exactly the opposite. The quest to understand the difference between one investor's decision to buy and another's decision to sell resulted in the creation of a new field of study called Behavioral Finance.

The field of Behavioral Finance has really grown over the past several years as a means of explaining the volatility of the stock market. Behavioral Finance is based upon the belief that investors do

not act nearly as rational as once was believed. Emotions and bias factor into to the decision process that each investor goes through as he or she makes the decision to buy or sell a security. The following list contains some of the traps a rational investor will want to avoid:

Optimism

Generally speaking most investors are optimists. If an investor did not believe the future was going to be better than the present, investing would be completely irrational. However, an optimistic bias leads to bold predictions about the future that may be overstated. Anyone remember the late 1990's and the discussions that we had about entering a new "paradigm" and the old valuation models no longer applied?

Overconfidence

A fatal flaw in investing can be overconfidence in one's own investment decisions. Investors tend to believe they possess superior knowledge and can rely upon it to guide them to good investments and away from poor investments. Most investors acknowledge that there are inherent risks in investing. However, most also believe that they are nearly immune to those risks.

Loss Aversion - Investors feel the pain of loss more intensely than the joy of gain. When the outlook for an investment we currently hold changes, we tend to hold on to our "losers" to avoid the pain of locking

in a loss but will much more easily choose to sell if we can lock in a gain. A more rational decision is to determine if the new outlook warrants selling the investment or buying more. Whether the investment is currently at a gain or loss should not factor into the decision.

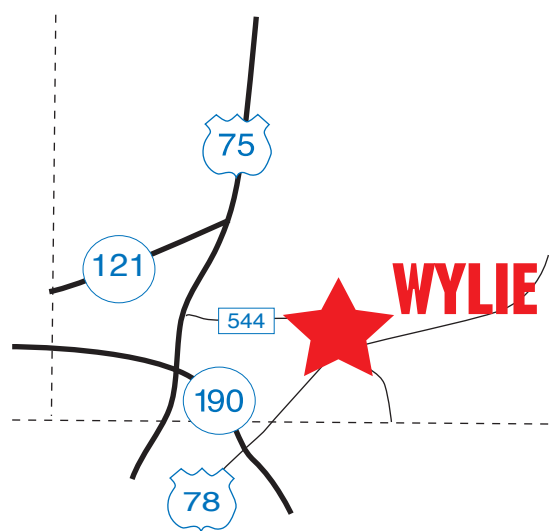
Herd Mentality

Investors tend to follow the crowd with respect to their investments. If an investor hears several people at a social gathering discussing an investment that he or she does not currently own, he has a tendency to want to purchase the investment. Whether or not this particular investment fits into his or her goals and objectives will become secondary to "not being left behind".

Unfortunately no investor is completely immune to emotional influences. Recognizing irrational behavior, however, can serve to minimize its impact on your investment returns.

B. Frank Voigt is a Principal with Smith, Frank & Partners, L.L.C. he can be reached at 972-490-4377 or by email at frankv@smithfrank.com. Smith is a Registered Representative of and offers securities and advisory services through NFP Securities, Inc. Member - NASD/SIPC/ A Registered Investment Advisor. Smith, Frank & Partners, L.L.C. is an affiliate of NFP Securities, Inc. and subsidiary of National Financial Partners Corp., the parent company of

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