

HOTEL yearbook 2010

What to expect in the year ahead

**Sir David Michels on the shape
of the coming recovery**

**The outlook for 20 key markets,
from China and the USA
to Germany, Brazil and Libya**

**Is it time to change in-room
technology standards?**

**How the crisis
will affect luxury in 2010**

**Editorial input from 25 hotel
industry CEOs**

This excerpt from the Hotel Yearbook 2010 is brought to you by :



Ecole hôtelière de Lausanne

The Ecole hôtelière de Lausanne (EHL) is the co-publisher of The Hotel Yearbook. As the oldest Hotel School in the world, EHL provides university education to students with talent and ambition, who are aiming for careers at the forefront of the international hospitality industry. Dedicated to preparing tomorrow's executives to the highest possible level, EHL regularly adapts the contents of its three academic programs to reflect the latest technologies and trends in the marketplace. Since its founding in 1893, the Ecole hôtelière de Lausanne has developed more than 25'000 executives for the hospitality industry, providing it today with an invaluable network of contacts for all the members of the EHL community. Some 1'800 students from over 90 different countries are currently enjoying the unique and enriching environment of the Ecole hôtelière de Lausanne.



Boutique DESIGN New York

Boutique DESIGN New York, a new hospitality interiors trade fair, will coincide with the 94-year-old International Hotel/Motel & Restaurant Show (IH/M&RS). Designers, architects, purchasers and developers will join the hotel owners/operators already attending IH/M&RS to view the best hospitality design offerings as well as explore a model room, exciting trend pavilion and an uplifting illy® networking café.



Hospitality Financial and Technology Professionals (HFTP)

HFTP provides first-class educational opportunities, research and publications to more than 4'800 members around the world. Over the years, HFTP has grown into the global professional association for financial and technology personnel working in hotels, clubs and other hospitality-related businesses.



Bench Events

Bench Events host premier hotel investment conferences including the International Hotel Investment Forum; the Arabian Hotel Investment Conference and the Russia & CIS Hotel Investment Conference. Bench Event's sister company, JW Bench, is a benchmarking company that has launched the Conference Bench and the Productivity Bench. An industry first, the Conference Bench, measures performance data for conference space in hotels throughout Europe.



Cornell University School of Hotel Administration

Founded in 1922, Cornell University's School of Hotel Administration was the first collegiate program in hospitality management. Today it is regarded as one of the world's leaders in its field. The school's highly talented and motivated students learn from 60 full-time faculty members – all experts in their chosen disciplines, and all dedicated to teaching, research and service. Learning takes place in state-of-the-art classrooms, in the on-campus Statler hotel, and in varied industry settings around the world. The result: a supremely accomplished alumni group-corporate executives and entrepreneurs who advance the industry and share their wisdom and experience with our students and faculty.



Hsyndicate

With an exclusive focus on global hospitality and tourism, Hsyndicate.org (the Hospitality Syndicate) provides electronic news publication, syndication and distribution on behalf of some 750 organizations in the hospitality vertical. Hsyndicate helps its members to reach highly targeted audience-segments in the exploding new-media landscape within hospitality. With the central idea 'ONE Industry, ONE Network', Hsyndicate merges historically fragmented industry intelligence into a single online information and knowledge resource serving the information-needs of targeted audience-groups throughout the hospitality, travel & tourism industries... serving professionals relying on Hsyndicate's specific and context-relevant intelligence delivered to them when they need it and how they need it.



WATG

Over the course of the last six decades, WATG has become the world's leading design consultant for the hospitality industry. Having worked in 160 countries and territories across six continents, WATG has designed more great hotels and resorts than any other firm on the planet. Many of WATG's projects have become international landmarks, renowned not only for their design and sense of place but also for their bottom-line success.

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Down but not out

One of California's most successful contributions to the hotel industry is **JOIE DE VIVRE**, a collection of 38 boutique properties throughout the Golden State. Founded in 1987 by **CHIP CONLEY**, a young man still in his mid-twenties, the company's «brand personality has a lot in common with the California lifestyle experience», in the words of Joie de Vivre's Web site. So what is the impact on a company like this when the state itself falls on hard times? Chip tells us about his expectations for 2010 in the California hotel market.

As a large independent hotelier in the state of California, you get a unique perspective on the trends and consumer behavior in the nation's largest state. In my 23 years in the business, I've seen the aftermath of earthquakes, fires, dot-com crashes, and the hysteria around viruses from AIDS to SARS to the swine flu – but I haven't seen anything like what we're currently experiencing.

I won't belabor summarizing the obvious challenges the worldwide hotel industry faces right now, but instead will focus on some of the micro-trends that will be relevant in 2010 to California hoteliers and investors in Golden State hotels.

1. If «stay-cations» continue next year, I'd rather be a California hotelier than a Hawaii hotelier.

In normal times, 51% of the amount spent here on rental cars, hotels, and intra-state air travel is spent by Californians. In times like these, when consumers are cutting back their spending and staying closer to home, it helps to have 38 million people residing in our state.

Approaching this «domestic market» is one thing I would expect to see hoteliers start doing in 2010. For example, given that all of Joie de Vivre's hotels are here in the state, we have done cross-marketing of our comparable hotels to people in certain regions of the state. About half the members of our Joy of Life Club loyalty program are Californians, so we pay extra special attention to them, know their buying patterns, and make recommendations of things they might want to do without having to fly more than an hour or drive more than three hours. Additionally, we've evolved the website to become the travel portal for the California travel experience, with deep and rich travel advice about any parts of the state where we have hotels. Being a location-specific brand works to our hotel owners benefit in this downturn.

2. Creating experiences will be the way to pry open the consumers' wallet.

Let's face it, both the business and the leisure traveler have changed their buying patterns. Business travelers are getting used to teleconferences and going to fewer faraway meetings.

Leisure travelers are renewing their Netflix subscriptions, eating out at McDonald's, and BBQing in the backyard. So, with fewer people traveling in 2010, a hotelier can either try to just get a larger slice of the existing shrinking pie or they can consider new ways to encourage people to gather or celebrate.

We've been able to do effective targeted marketing to locals to give them reasons to celebrate birthdays, anniversaries, and other special occasions closer to home at our hotels and restaurants. We've also created new events at our hotels – whether it be a food festival, a wedding service trade show (people are still getting married, and friends and family are still coming to town to celebrate), or an aphrodisiac night for couples who want to leave the kids at home – that give people a reason to come visit us. In the winter of 2009, we beta-tested two «Weekends with Chip» at our Ventana Inn in Big Sur that were focused on interesting subjects and the hotel filled up so fast that we are now doing one of these monthly at one of our California destinations.

In sum, next year you can't just sit around waiting for people to just show up. Create a compelling reason why consumers should come and spend money with you. Don't just «sleep,» create memories.

3. The suburbanization of boutique hotels.

There was a time when the only place in the US where you could find a boutique hotel was in one of the major gateway cities of the country: New York, Los Angeles, Miami, San Francisco. But, just as retail has proven that there can be style in the suburbs, the hotel industry has also learned that the 'burbs can be just as sophisticated as downtown.

Think about how retail has evolved in the past two decades. In the San Francisco East Bay town of Walnut Creek, you'll find a Tiffany's and a collection of other retailers that you might only have found in Manhattan a quarter century ago. Not far away, you'll see cool retailers like Anthropologie, Urban Outfitters, and Forever 21. And, of course, there's the ubiquitous Gap or Pottery Barn. There's a new democracy of design and what it means is that the suburbs and office parks are ripe for a non-

generic, more stylish type of hotel product. Of the more than a dozen hotels we've opened in the past 15 months, 75 % have been in suburban locations like Huntington Beach, Long Beach or Santa Clara. And some have been in what might be considered secondary urban markets like Sacramento or Oakland.



properties (going to the beach is free, so even in down times there will be demand – plus it's nearly impossible to build new hotels near the beach), and properties near universities, hospitals, or certain government facilities, all of which tend to be more recession-resistant.

You didn't see boutique hotels in these markets three or four years ago, and as this trend continues into next year and beyond, it means that suburban developers aren't required to sign a franchise agreement to create the typical Holiday Inn Express, Courtyard by Marriott or Hilton Garden. 2010 will see the start of an onslaught of three-star boutique hotels that the chains are unleashing in non-urban markets: loft from Starwood, Indigo from Intercontinental, Hyatt Place from Hyatt, and Cambria Suites from Choice. The chains call these «lifestyle hotels.» The consumer will likely continue to call them boutiques.

4. The recovery will be spotty and, unlike past recoveries, it will be less geographically specific and more based upon product type.

I don't know any hotels – geographically, brand-wise, or product type – that haven't seen a sizable drop in their business in 2009. As recovery starts to kick in (and my feeble guess is that some hotels will start seeing year-over-year improvement in the 3rd quarter of 2010), the improvement will likely be less due to location and more due to the market segment that the hotel focuses on.

For example, I do believe San Francisco hotels will have a better 2010 than Los Angeles will (because SF has no new supply), but I think what's going to be most noticeable is that luxury hotels, suburban business park hotels, and conference hotels or resorts are going to take much longer to recover throughout the state than will leisure-oriented hotels, neighborhood properties, and more economy or affordable hotels. If you had to make some geographic bets in the state, choose San Francisco, beach


5. OK, yes, next year there will be lots of hotel defaults and great buying opportunities for all-cash buyers.

This is so obvious that I almost didn't include it. Depending upon whose statistic you believe, between 5 and 25 % of California hotels will either go back to a lender or be sold at a huge discount over the next couple of years as loans mature or borrowers find themselves in default.

As bad as the adversity period currently is for hotels, the opportunity period will balance that out, and the opportunity will be most prevalent for all-cash buyers who won't have to wade into the treacherous waters of traditional hotel financing. Being able to swoop in, do quick due diligence, and close escrow fast will provide a buyer the ability to get a 10-20 % savings on the price as compared to someone who might take a more traditional approach to acquiring and financing the asset. The investors who will be most rewarded in 2010 are those that have their ear to the ground regarding which hotels are most fragile in terms of their finances so that the investor can be a problem solver before the deal comes to the market.

All in all...

California's demise has been predicted for decades. Whether it's our kooky politics and lifestyle, our problematic state budget, or our boom-and-bust economy, people have written us off many times before. But this is still the 8th most prosperous economy in the world (if we were our own country) and the state has a lifestyle brand known the world over and physical beauty that isn't getting any less attractive. I'd still bet big on California, especially with some of the deals we're likely to see in 2010. ■

A nighttime photograph of a city skyline, likely San Francisco, viewed from a high vantage point. The city is illuminated with various lights, including streetlights and building lights. In the foreground, the red suspension cables of a bridge (likely the Golden Gate Bridge) are visible, creating a grid-like pattern over the city. The sky is dark blue, and the water in the foreground is dark. The overall mood is serene and urban.

Create a compelling reason why consumers should come and spend money with you. Don't just «sell sleep», create memories.



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