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Editorial input from 25 hotel industry CEOs
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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.

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How will things get better (and when)?

We asked SIR DAVID MICHELS, one of the hotel industry’s legendary figures, if he would share with us his view of 2010 for the business as whole. The former Chief Executive of HILTON GROUP PLC, Sir David is now a Board member of both STRATEGIC HOTELS & RESORTS and JUMEIRAH HOTELS. In short, he knows what he’s talking about. His outlook in a word: recovery.

To forecast the recovery of the hotel business is really like trying to forecast the recovery in the world economy as a whole, because there is no doubt that the two are indelibly linked. However, hotels do have particular peculiarities and are often the bellwether of the economy as a whole. So, to defy Albert Einstein’s quote, «I never think about the future; it comes soon enough,» I will take my chances of almost inevitably being wrong and try to forecast a likely scenario for 2010.

Let’s look first at where we are some year-and-a-bit into the downturn. Across almost the entire world, we have seen RevPAR – and probably turnover, too – decrease by anywhere from 35% and more. Furthermore, there’s been an almost direct corollary that regardless of its location, the more up-market the hotel, the greater has been this decrease. But even at the budget end of the market, there has been a firm downturn. Across the industry, hoteliers have tried to deal with this by:
• lowering prices in order to try and maintain occupancy;
• cutting as many services as possible that they believe will not directly affect customers;
• delaying or canceling refurbishments and capital expenditure in general; and
• doing without as many team members as any hotel believes it possibly can.

All natural reactions, but as we know in the hotel business, there are a limited number of things you can do to «save the business,» but they won’t increase turnover.

Two other facts cannot be questioned. First, along with much of the property industry, many hotels are running with negative equity, i.e. they are either not paying their interest or have at least broken banking covenants. Second, sales of hotels around the world have not been lower in number in recorded history. Yes, some owners have changed flags or changed their strategy certainly, but have not actually sold the property.

A bleak picture. So how will things get better? And when, and how, might things look different as they do improve?

Let’s first look at the general economic climate. There seems to be the view at the moment [October 2009] that most Western economies have at least bottomed out. It’s just how long we will stay at the bottom that no one is sure of. But at this stage of the cycle for hotels, we have seen in the past – and I believe we will see again in the future – a different attitude, from both business and leisure, as we enter 2010. Corporations in general need to sell to customers; they need to hold long-delayed meetings and conferences; they need to reinvigorate their teams, display products and in a general sense re-enter the business environment. All of these activities directly affect the hotel business, and I believe we will see these events unfold in the spring of 2010. To the positive bottom line of the industry.

Tourists have by no means deserted hotels over the recession; they have merely paid less for the privilege of not doing so. I believe by the second quarter of next year they will start traveling again. Many people now realize that they are not going to be out of work, and many didn’t have a holiday in 2009, so the temptation to have one in 2010 is greater. Transportation costs, in particular air fares, have never been cheaper in real terms, so I believe the holiday industry will return – albeit initially in the guise of shorter breaks.

If these forecasts are true, then hotels will see a much busier 2010 than the last two years – but not a vastly more profitable one, since they will be full at low rates. Rates lag occupancy, and I don’t see a return to 2007 rates until 2011-2012. Therefore, in the industry I see no return to historic profitability until then.

So what happens next year to the hotels – so many of them: too many of them – that are in financial difficulties at the moment?

There are two strong arguments that the banks are in no hurry to put hotel companies into receivership. First, they don’t want to write their balance sheet down. Second, like everyone else, they believe business will return, the natural consequence of which will be higher values – and thus the banks feel there is no need for a writedown. This will almost certainly be the case.
in 2010 so long as the lenders are satisfied with the current management ability.

On the other hand, there is enormous interest on the part of a large number of institutions and individuals, from private equity to rich individuals to wealth funds and real estate investors, who believe they can enter the hotel real estate business now at a good price, and engorge themselves by the consequent upswing. So we are seeing the very few hotels currently being marketed with an enormous number of bidders, at a price no one will accept. I hereby predict that somewhere between April and July of next year, the two views will cross, and a large number of hotels will change hands, brands and owners.

2010 is going to be a particularly interesting year for the hotel industry: a benchmark year to look back on. This article, of course, could be quite perfectly held up for ridicule in hindsight. So I shall put away my crystal ball and hope that I am wrong about some things and right about others. One thing is sure: the hotel industry will continue to survive. It has for over 2000 years, and it will continue to give employment to many – and pleasure to many more.
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Regula Wasinger-Rüegg, Private Banking