

HOTEL yearbook 2011

What to expect in the year ahead



Four Seasons CEO Kathleen Taylor
on the evolving concept of luxury

The post-crisis outlook in key markets:
20 exclusive situation reports from Horwath HTL

Best Western CEO David Kong describes the key issues
US hoteliers will have to tackle in 2011

The industry's most progressive approach to operations:
our interview with citizenM's Michael Levie

Plus ideas, expectations and insights for 2011
from the Chief Executives of 8 hotel groups

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.



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.



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.



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.

Expect small victories in 2011

HOW WILL 2011 PLAY OUT FOR THE HOTEL INDUSTRY? ACCORDING TO **ADAM SACKS**, MANAGING DIRECTOR OF **TOURISM ECONOMICS** (PART OF OXFORD ECONOMICS), THE WORLDWIDE ECONOMIC FUNDAMENTALS WILL IMPROVE NEXT YEAR, BUT GROWTH WILL NOT BE SPECTACULAR.

SOLVING A PARADOX

Recovery is upon us. However, I have noted two contradictory features of the recovery as we monitor the economic and travel outlook for the world. The first is that our view of economic prospects (in developed economies) is quite subdued compared with the extent of the downturn we have experienced. The second is that travel has rebounded more quickly than most forecasters would have expected.

How do we reconcile these two seemingly contradictory features of the recovery, and what do they mean for 2011?

WHY SO DISMAL? HEADWINDS FOR THE ECONOMY IN 2011

The media have given particular voice to economic forecasters predicting a double-dip recession or at least a new normal for the world economy. As sister companies, Tourism Economics and Oxford Economics believe this both overstates and oversimplifies the position of the economy.

Here's why... First, although the world's developed economies are vulnerable to another recession in their weakened state, it would take another yet unseen shock to the world economy for this to materialize. Second, we would be wise to note that after every recession (and how much more after the Great Recession!) pundits are prone to what we might call «irrational despondence.»

This is not to say that significant headwinds do not remain for the developed economies of the world. In fact, our latest forecasts are far from bullish and note a number of downside risks. As governments exhaust stimulus funds and move decisively toward austerity, we will see a drag on growth next year. Further, the consumer sector will continue to battle the effects of high unemployment and a housing market which is still staggering. And companies remain risk averse, affecting the outlook for both investment and hiring. As a result, economic growth in the US and Europe is expected to be slower in 2011 than in 2010. We assign a 45% probability to this scenario of slowing growth in 2011.

More telling, however, is that when we begin to run scenarios using the Oxford global economic model, the odds of an even weaker outcome in 2011 – what we would consider anemic growth – are relatively significant, with a 25% probability.

So what are the other options? Turning first to the upside, it is possible that recent encouraging investment and M&A signs are a precursor to a renewed global boom in 2011, as strong corporate liquidity feeds into a new investment boom. To this upside risk, we only attach a 20% probability.

This leaves 10% for the scenario in which a recurrent sovereign debt or banking crisis leads to a fresh fall in asset prices, triggering sovereign defaults/reschedulings and/or bank failures.

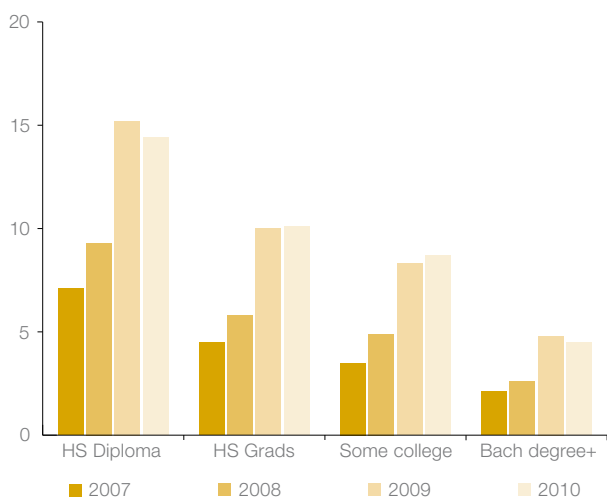
Weighting these possible outcomes, our outlook 2011 is for decidedly muted growth in the developed economies.

THEN HOW IS TRAVEL IS V-SHAPED?!

The paradox to all this is that travel has experienced a true «v-shaped recovery.» We can look at this in terms of air passengers or room nights sold, but the conclusion is the same: travel is back. Businesses have loosened travel purse strings, meetings are rebounding from their lows, and leisure travel is also posting modest growth after relatively modest declines. (Of course in the US and Europe, rate has suffered significantly and is not close to returning to pre-recession peaks. But this is more a feature of the natural response of the industry to the downturn, and the unfortunate reality that it is easy to cut rates but hard to raise them. But demand is back.)

We might ask how this is possible with unemployment close to 10%. The answer relates to the structure of unemployment. The unemployment rate among those with college degrees is a mere 5% and is falling. Meanwhile, those without a high school diploma are enduring 14% unemployment and those with no more than a high school diploma are experiencing 10% unemployment. The implication is clear: the lodging sector's customer base has been relatively unaffected!

UNEMPLOYMENT RATE BY EDUCATION



Source: BLS

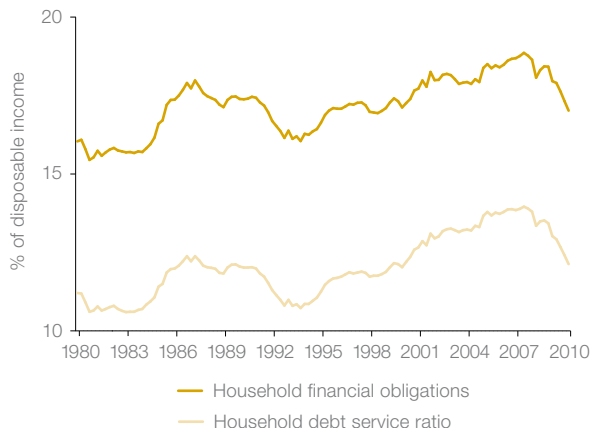
We hear so much talk about the indebted consumer, but the cost of that debt has been incredibly stable over the past thirty years

Also, even though income growth has been tepid and we hear so much talk about the indebted consumer, the cost of that debt has been incredibly stable over the past thirty years.

WHAT DOES THIS MEAN FOR 2011 ?

The paradox of a weak and risk-filled economic outlook alongside relatively strong travel leads us to several conclusions about the coming year. We call each of these «small victories,» because none of them takes us to the position of strength of a few years ago. However, each of these mini-conquests marches the industry forward toward full recovery.

US HOUSEHOLD DEBT MEASURES



Source: FRB

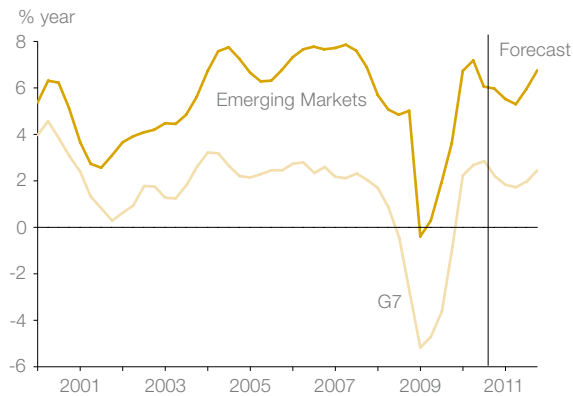
1. *Demand growth* will soften overall as the upward swing part of the cycle ends. Note, we are talking about demand growth, not absolute demand. In this sense, 2011 will experience slightly slower room demand growth than seen in 2010. This is partly due to the softening economic environment but more a function of comparisons to a higher base.
2. *Business travel* will continue its recovery in both transient and group as companies shift toward an investment mentality. Businesses are flush with cash. Although companies may remain conservative about large-scale investments, there will be a strengthening appetite to participate in trade shows, conventions, and to meet with clients and prospects.
3. *Leisure travel* will hold its own due to low debt service costs and a skew of unemployment toward low-income households. In fact, as confidence improves in 2011, we might even be surprised on the upside.

Expect small victories in 2011

cont.

4. *Average Daily Rates* will edge upward as supply growth is subdued and demand growth continues. We are already seeing glimmers of this but the industry will be increasingly emboldened to increase rates as demand rises into 2011 and supply growth slows. This is in line with our overall forecasts on spend per trip, driven largely by a return to more historic average length of trip.

G7 & EMERGING MARKETS: GDP GROWTH



Source: Oxford Economics

5. Finally, we give a nod here to *emerging markets*. There is not enough space here to detail our view of individual markets and their respective opportunities. However, suffice it to say the global economic outlook is more dependent upon the strength of these economies than ever before. Therefore, we look to the BRICs economies and to others around Asia to be drivers of world economic growth as well as dynamic growth markets for the lodging industry in 2011.

In conclusion, we face tempered economic prospects with real downside risks. However, the industry enters 2011 poised to make incremental steps towards full strength. ■



Would Einstein get in? *maybe.*

He definitely would have met our rigorous **academic** standards! But at the **Ecole hôtelière de Lausanne**, the world's leading business school for the hospitality industry, we demand not just excellent academic performance, but *more...*

Our students also need to have the *talent* that drives this business. Have you got a creative streak? Are you quick on your feet? Flexible, open, a good team player, an excellent communicator? Are you a "people person"?

If so – and you have the brains to succeed in an academically demanding environment – contact us.

We may have a place for you in one of our International Hospitality Management Programmes:

- Diploma in Hotel and Restaurant Management
- Bachelor of Science Degree
- Master in Hospitality Administration



ECOLE HOTELIERE
LAUSANNE

— Since 1893 —

Start thinking about it at www.ehl.edu
CH-1000 Lausanne 25, Switzerland
Tel: +41 21 785 11 11, Fax: +41 21 785 11 21
E-mail: admission@ehl.edu