ECOLE HOTELIERE
LAUSANNE
Since 1893

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

WADE & COMPANY
HSYNDICATE
Cornell University School of Hotel Administration
WATG designing destinations

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.

The good, the bad, and the excellent: The 2011 outlook for the US hotel industry

DATA NEVER LIE, SAYS **JAN FREITAG**, VICE PRESIDENT OF GLOBAL DEVELOPMENT FOR **STR**. BASED ON AN IN-DEPTH ANALYSIS OF THE KEY FIGURES AND TRENDS ALREADY APPARENT IN 2010, JAN WALKS US THROUGH SOME FORECASTS FOR THE YEAR AHEAD IN THE US MARKET.

As 2010 draws to a close, US hoteliers breathe a collective sigh of relief and actually look forward to the next year. Whereas 2009 ended with the knowledge that the worst was behind us but various levels of uncertainly remained, 2010 is ending with the firm belief that 2011 will prove to be a strong year for the industry.

The RevPAR numbers for the last few years underline this compelling story. In 2008, total US RevPAR was down 2 % followed by a massive decline of 16.7 % in 2009. Through the first three quarters of 2010, RevPAR is up 4.5 %, and we forecast RevPAR growth in 2011 to be + 5.3 %. So, while the RevPAR growth rates are in no way making up for the past steep declines, at least now STR is able to report RevPAR positive growth, fueled by occupancy and rate increases.

While we expect the year 2011 to be substantially better than the last three years, not everything will be rosy. To bring a further understanding of the trends that will have an impact on the hotel industry in 2011 here are some of the more important topics:

- Luxury is the new «luxury»
- Group ADRs continue to lag
- Markets that are hot (or not)

LUXURY IS THE NEW «LUXURY»

With the collapse of Lehman Brothers and the dreaded «AIG Effect» (or what some dubbed the «*Wall Street Journal* Effect»), luxury hotels seemed to be the losers in a «new normal hotel industry» shaken by banking meltdown and the subsequent global recession. And indeed, the luxury hotel performance numbers were rather disheartening: ADR declined 16.1 % while room demand declined 0.6 %.

It is interesting to point out this rather strong discrepancy between demand decline and ADR drop, since there should be – at least in theory – a relationship to the magnitude of the declines in both measures. It seemed that hoteliers, threatened by worsening economic conditions and with their core customer base under siege, felt the need to preemptively decrease room rates to keep occupancy decline in check.

TOTAL UNITED STATES
Chain Scale Key Performance Indicator Outlook 2011F by Chain Scale

Chain Scale	Occupancy (% chg)	ADR (% chg)	RevPAR (% chg)
Luxury	0.4	6.7	7.1
Upper Upscale	1.6	5.4	7.0
Upscale	2.1	4.4	6.5
Midscale w/F&B	-1.0	2.5	1.5
Midscale w/o F&B	1.8	4.0	5.8
Economy	1.3	2.3	3.6
Independent	2.4	3.7	6.1
Total United States	**1.4**	**3.9**	**5.3**

When looking at the data in more detail, it becomes obvious, though, that the occupancy decline was driven by the increase in new rooms. Room supply increased by 5.1 % in 2008 and another 8.7 % in 2009. The occupancy decline in 2009 was a corresponding 8.6 %. Which begs the question: were the rate cuts too steep? The two sides to the argument are as follows:

a) Rate cuts were necessary and prevented a further demand decline. In other words, rate cuts did what they were supposed to do, namely entice new customer groups to give the now more affordable luxury hotels a try. At the same time, the discounts let the core group of business travelers know that they could still afford a luxury room, even in times of expense cuts and tighter travel budgets.

b) On the other hand, the counter argument is that rate cuts were too steep too fast and really only hurt the hotel industry. Luxury travelers take their cues from larger macroeconomic indicators and rate cuts do not stimulate incremental demand, they only shift rooms around to the

lowest rated competitor, so the industry overall loses out on billions in revenues.

The question is, do frequent business travelers who are facing a travel moratorium handed down from the executive office really care what the room rate of their favorite hotel is, if they have strict orders not to travel? Or does the leisure traveler, not sure about his own economic picture or even his own unemployment situation, take a vacation – even if it is heavily discounted – when the expected bill at check-out is the equivalent of a paycheck, or more? It stands to reason that the discounts only entice the travelers who would have taken a trip anyway and who were probably prepared to pay luxury prices. In addition, the idea to attract a new breed of luxury customer who checks in only when the prices have hit rock bottom may not mix well with the regular luxury traveler. Anecdotally, we have heard evidence that those two groups do not co-exist well in the lobby, at the pool, at the bar and may even dilute the brand image that the luxury hotel so carefully crafted and built.

Starting in October 2008, luxury hoteliers cut rates for 19 consecutive months but have now reported ADR increases since May 2010. On average, ADR increased 5.1 % for the last five months, and the trend is clearly pointing towards an acceleration in this pace. That said, keep in mind that for eleven of the twelve months in 2009, rates declined for more than 10 %, and 20 % in the month of June alone. It will take some serious pricing discipline to regain the $47 the luxury industry ADR declined for the year.

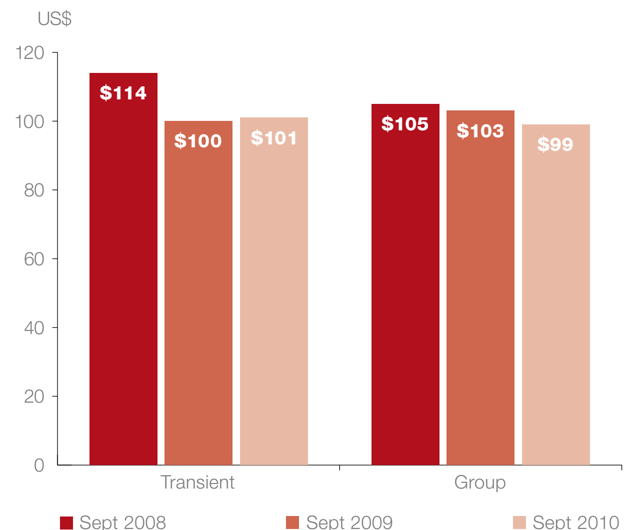
On a very bright note, room demand for the first nine months of 2010 is about two million room nights higher than it was last year. For 2010, STR expects room rates to increase 1.3 % and RevPAR to surge back 9.4 %. Obviously, these growth rates are not sustainable in the long run, but nonetheless, the 2011 RevPAR growth is currently projected at 7.4 %, driven by very strong ADR growth of 6.7 %. Despite those room rate growth numbers, it will be interesting to see, what damage to their reputation, if any, was sustained by luxury hotels that offered their rooms at such steep discounts.

GROUP ADRS CONTINUE TO LAG

Historically, ADRs for Group rooms (rooms sold in increments of 10 or more) are lower than ADRs for Transient rooms (rooms sold in increment of between 1 and 9). The transient ADR is often used as a starting point for Group room negotiations, and then the Group room ADR is discounted by a certain factor. But during a recession or a depressed economic environment, Transient rates are discounted much more heavily and more quickly than Group rooms, and often the outcome is that Group rooms turn out to be more expensive than Transient rooms.

Group rooms are obviously contractually guaranteed, and in a declining market, discounting those Group rates makes little sense for the hotelier. However, the ability to book a Transient hotel room on a third-party site for less than the Group block rate creates headaches when the time of the conference or Group stay comes around.

ADR BY SEGMENT
(Total US, Segmentation ADR Year To Date Sep'08 - '10)



Source: 2010 Smith Travel Research, Inc.

The good, the bad, and the excellent : The 2011 outlook for the US hotel industry cont.

In the US, the year-end 2008 Transient rate ADR ($113) was $8 higher than the Group ADR ($105). At the end of 2009, Transient ADRs had dropped by - 11.6 %, so that Group rooms (ADR of $101) were $1 more expensive than Transient rooms (ADR of $100). Through the first nine months this trend has reversed, Transient rates increased 1 % to $101 (as of September 2010, year to date), but Group rates declined 3.6 % to $99. The monthly ADR changes are also telling. Transient ADRs have increased for the last 8 of the 9 months in 2010, whereas Group ADRs have declined every month from February 2009 to August 2010. Only in the last month on record, September, did Group room rates increase, but only by a paltry 0.1 %.

The current modest increase in Transient rates, combined with the decrease in lead time for booking Group rooms (what some refer to as a « smaller booking window ») will have serious implications for hoteliers in 2011 and 2012.

There is the very real possibility that hoteliers receive inquiries for Group rooms in 2011, look at their book of business, see little activity and gladly book the Group, at a discount to the currently prevailing Transient rate. We are afraid that the hoteliers who are doing so are not taking into consideration the prevailing positive market conditions and that they are leaving money on the table. In other words, when those meetings are held in 2011 and 2012, the revenue manager and marketing manager will be in shock when realizing the difference between the negotiated Group room ADR (which was negotiated in 2010) and the prevailing Transient ADR of 2011 or 2012.

When negotiating Group rooms for the next two years, it will be imperative to be very aware of past booking patterns and not to take every business at any room rate. We understand that pressures from owners and asset managers may lead to a short-sighted trend of « booking business at any cost, » but we feel that the winning strategy in this environment is to hold out, maybe not even take every piece of business that is offered, and trust the data.

With limited new room supply on the horizon and general macro economic trends improving, existing hotels can make the most of the Groups that are looking for venues in the future – if the hotels keep their availability open.

MARKETS THAT ARE HOT (OR NOT)

The economic recovery of 2010 did not affect all markets equally, although most markets saw positive RevPAR growth, driven primarily by gains in occupancy.

2011 YEAR END REVPAR FORECAST (as of September 2010 reports)

-5 % to 0 %	0 % to 5 %	5 % to 10 %	10 % to 15 %
Miami-Hialeah	Boston	Anaheim-Santa Ana	Orlando
	Denver	Atlanta	Phoenix
	Los Angeles-Long Beach	Chicago	
	Nashville	Dallas	
	Oahu Island	Detroit	
	San Diego	Houston	
	San Fransisco-San Mateo	Minneapolis-St Paul	
	Washington DC	New Orleans	
		New York	
		Norfolk-Virginia Beach	
		Philadelphia	
		Seattle	
		St Louis	
		Tampa-St Petersburg	

For the purposes of this article, we focus on the top 25 largest lodging markets (excl. Las Vegas), historically the « engine » of the US lodging industry. Through September, RevPAR increased 4.5 %, driven by a strong occupancy rebound of 5.6 % and a slight decline in ADR of 0.7 %. It is worth noting that

11-21 →
WALL ST
1-26 →
BROAD ST

The good, the bad, and the excellent: The 2011 outlook for the US hotel industry cont.

the ADR decline was driven by the drop in the first quarter of 2010 and that ADRs for the month of September were up 2.0 % for the US.

Through September, the 25 largest markets recorded a RevPAR increase of 8.4 %, comprised of a 6.7 % occupancy increase and 0.4 % decline in rate. Not surprisingly, the largest RevPAR gainer was New York City, where hoteliers were able to increase their room rates by 7.6 %, driven by a strong occupancy gain of 6.6 %. At the end of the 3rd quarter, New York City occupancy stood at 80.9 %, and the ADR was the highest in the top 25 markets at $217.

So it seems that the banking crisis and the temporary drop in Group business has not severely hurt the market and indeed the rebound is in full swing. Anecdotally, it also seems that transaction volume has picked up, and this market is again on the top of every hotel investors' list. New York City is positioned to reap the most benefit from the rebound in Transient business travel, business and leisure Group business and international and regional leisure travel. So we expect RevPAR growth rates to remain healthy through 2011 and beyond, primarily driven by ADR.

Within the top 25 markets, the markets with the best gains are positioned up and down the coasts, with markets in the middle of the country still facing some headwind and diminished pricing power. Of the seven markets with positive ADR growth through September, five are on the coasts, namely: Boston, New York City, Miami, San Francisco and Los Angeles. All those markets had occupancy growth over 6 %, and in the case of Boston, occupancy grew almost 12 %. Historically we have seen the negative economic impact spread from the east coast to the west coast and then impact the larger markets elsewhere. In a recovery, this pattern is repeated, and we expect that coastal markets send impulses of growth to other markets in the top 25 and then to the rest of the country.

For 2011, we expect that 24 of the 25 Markets show positive RevPAR growth, with only Miami showing a small RevPAR decline. The strongest RevPAR increases are expected to move from the coastal cities to the other markets, and we forecast that Phoenix and Orlando will see the strongest RevPAR increases in the top 25 markets.

CONCLUSIONS

As the global economy recovers and travelers return in meaningful numbers, the devastating RevPAR declines of 2009 are a thing of the past. The lodging industry improvement in 2010 was widespread but still not universal.

TOTAL UNITED STATES
Key Performance Indicator Outlook Scenario
(% change vs. Prior Year) 2011F

	Low Growth	Forecast	High Growth
Supply	1.3	**1.1**	0.8
Demand	2.1	**2.5**	2.2
Occupancy	0.8	**1.4**	2.2
ADR	3.4	**3.9**	4.4
RevPAR	4.2	**5.3**	6.6

The good news is that recovery is driven by the luxury and upper end of the market and that ADR growth will be strong in 2011, since in a recovering market most hoteliers take their cues from the rate leader.

The bad news could be that hoteliers lock in their Group rates for the next few years based on the most recent (i.e. low) ADRs, and then come to the realization that they did not maximize revenues when the Groups actually come to stay in their hotels in 2011 or 2012.

The excellent news is that markets up and down the east and west coast have turned the corner and that RevPAR growth is sustained and ADR driven. This then sends signals to the other major markets across the US, with a positive impact for all hoteliers. If macro economic conditions hold, 2011 will be a very good year to be in the hotel industry. ■

Sol Meliá Vacation Club
at ME Cancun

Hotel Marina El Cid Spa and Beach Resort
Puerto Morelos, México

In these challenging times, a boutique law firm seizes the opportunity to provide services which are prompt and fees that are accessible, with an emphasis on international transactions.

Preston Arza LLP is a team of proactive and highly experienced attorneys eager to provide clients with modern solutions, tailored specifically for their legal needs, and to assist them in creating optimal legal and fiscal structures, at competitive rates. As a multilingual and multicultural boutique law firm, we bring over 40 years of combined legal experience to add value to our clients' projects and investments, both domestically and internationally.

We invite you to contact us to discuss your needs.

Preston Arza LLP | 8581 Santa Monica Boulevard #710 | West Hollywood, California 90069-4120
Debbie Jaloma | Director, Business Development | debbie@prestonarza.com
Tel. (310) 464-0352 | Fax (310) 943-1701 | www.prestonarza.com