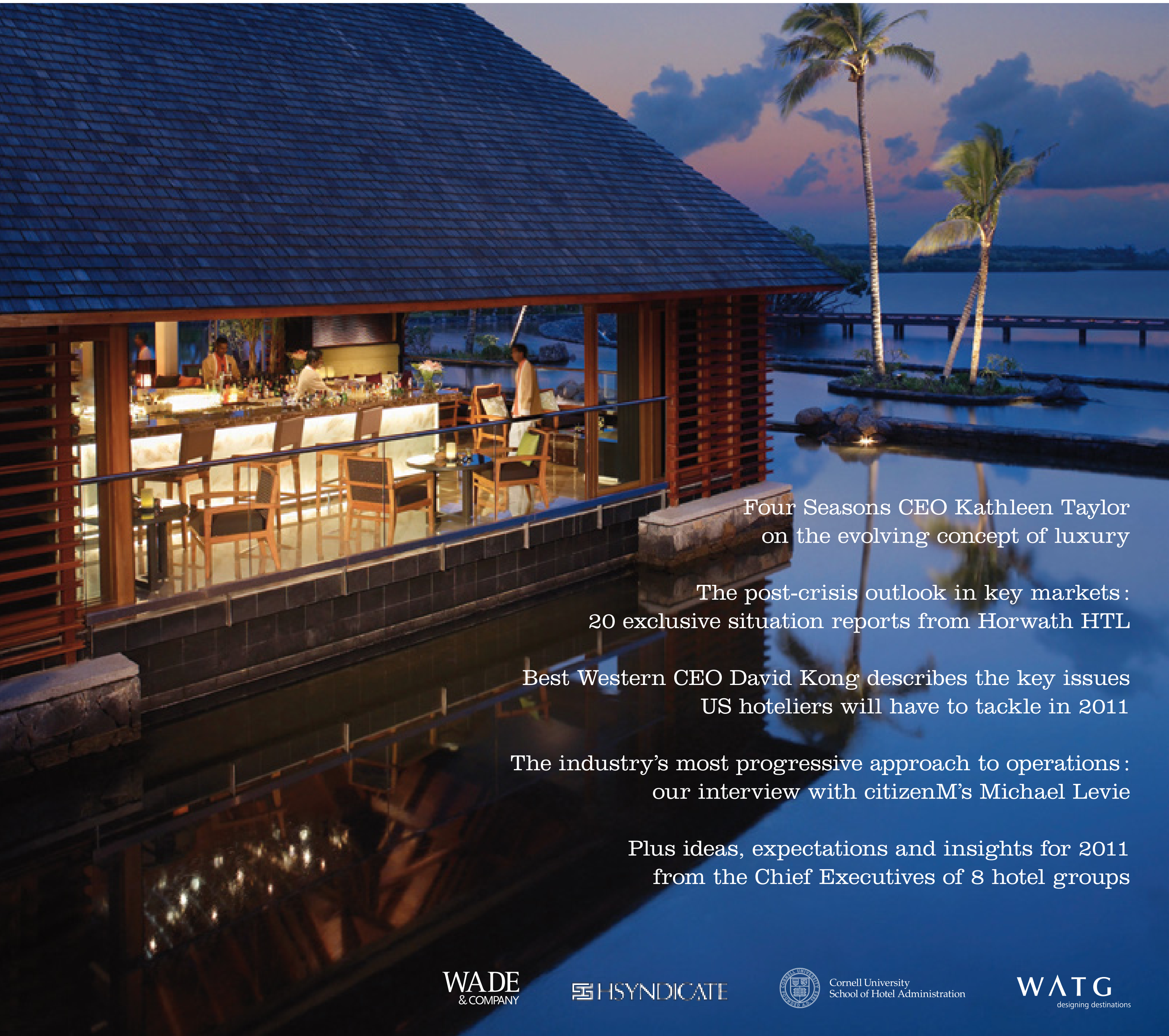
ECOLE HOTELIERE
LAUSANNE
Since 1893

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 2011 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.

Towards the three-way win

PHILIP BACON, MANAGING DIRECTOR OF THE MADRID OFFICE OF **HVS** AND **DEMIAN HODARI**, PROFESSOR OF STRATEGIC MANAGEMENT AT THE **ECOLE HÔTELIÈRE DE LAUSANNE** REPORT ON THE SUCCESS FACTORS FOR BRANDED RESIDENCES IN 2011 AND BEYOND.

According to 19th century Scottish journalist Charles MacKay, author of *Extraordinary Popular Delusions & the Madness of Crowds,* « Men, it has been well said, think in herds. It will be seen that they go mad in herds, while they only recover their senses slowly, and one by one. »

In the current tumultuous world of residential real estate, this claim appears to be holding true. Many of us are now engaged in a new form of crystal ball gazing that has to deal with the absence of those conveniently positive growth curves that became the common tool of speculators and developers in forecasting the future. However, downturns are commonplace in business, and it is how you come out of one that is the real test, rather than how you caught the wave in the first place.

If MacKay was right, we will all come out of this economic meltdown one by one and based on our individual merits, but, as also identified by business writer James Surowiecki, the wisdom of crowds is not to be ignored, especially when the particular crowd involved is a group of 150 final-year students at the Ecole hôtelière de Lausanne working on the latest EHL Strategy Challenge. Co-organized and moderated by the authors, the theme this year was « The Future of the Shared Ownership Industry in Europe » and the students were tasked with forecasting the future of the *timeshare, branded residences* and *fractional ownership* segments, including private residence clubs and destination clubs.

This article focuses on branded residences, which have emerged in recent years as perhaps the archetypal example of blending hard-nosed real estate investment with that elusive concept, « lifestyle. » If « lifestyle » means simply « the way that a person lives, » then branded residences reflect a new way of living for cash-rich and time-poor HNWIs, the main target market for these properties across the globe.

Owning several private residences is not a new phenomenon for the elite. However, as was made very clear by the results of the EHL Strategy Challenge, the forecast growth of the HNWI sector remains one of the few bright lights in the tunnel of economic recovery, especially when one looks at newer markets like India, Russia and China.

The business model is simple enough. Build high quality residential real estate in very desirable locations and then integrate branded hospitality services (and probably a hotel) via an agreement with one of the growing list of players in the field, e.g. Fairmont, Four Seasons, Jumeirah, Kempinski, Mandarin Oriental, Ritz Carlton, St Regis, Wyndham. Finally

The Ritz-Carlton Residences, Bangkok

The Mandarin Oriental Residences, Dellis Cay

– or preferably before you start building – persuade individual investors to buy the properties at a significant premium above

The Jumeirah Beach Residences, Dubai

the price of « equivalent » non-branded real estate (if you can find some, of course).

For the time being, branding in this context refers to hospitality branding. Although Mr Armani is breaking into the market with his own lifestyle statement, there is a good reason for this. While we would not necessarily buy a hotel branded suit, we would rather put our trust when it comes to hotel service in people who dedicate huge resources to developing standards and training staff – in fact the invisible but indispensable side of the hospitality business. It is not enough to build a great apartment.

The result? Well, in theory three groups of happy people, a real three-way win: developers with cash in the bank more quickly and more profitably; branded operators with a new source of management revenue and, perhaps more appealing, royalties from the use of their good name; and owners with a gilt-edged investment in branded residential real estate with the promise of long-term investment protection and, for some, the possibility of rental revenue from periods when they are not in residence.

> Owning several private residences is not a new phenomenon for the elite

It is sometimes said that true exclusivity, and therefore premium value for branded residences, precludes the existence of a rental program, but never forget the ability of the HNWI to recognize an opportunity to make money, especially when the motivation comes from tax planning, as is the case in many jurisdictions around the world.

It all sounds perfect, but the reality is that achieving a properly balanced result is far from easy and in the coming years the continuing lack of development finance, coupled with a more risk-averse attitude from investors, will put even more pressure on the ability to satisfy all three groups.

If the HNWI segment continues to hold fast, the ability to develop truly special properties will be the key to getting the attention of these people. This means finding projects that are set for the long haul and these are more likely to be found in the safe havens of the real estate world: the global gateway cities and those few recreational destinations that have already matured and where prime real estate is in short supply.

There was clear consensus about this from the EHL students in their Strategy Challenge reports; put your money on London, at least for now, but don't lose sight completely of opportunities further East, especially as that is where your customers will be coming from.

Together with the golden rule about location, financing is the other key to success. Branded residences are not (and probably never were) about speculative investment in secondary residential property aimed at short-term gains; that arena now contains the severely damaged remains of many badly-conceived projects. There are still some gems out there that will need serious « recalibration » and imaginative mezzanine financing solutions, but the high returns required by equity investors make the financing of genuine branded residence products very difficult, especially as off-plan sales have become an exceptional answer to the question of « If I build it, will they will come? » We cannot all have projects like One Hyde Park, but it is something to aim at. ■