

HOTEL yearbook 2012

Scenarios for the year ahead

Choice CEO Stephen Joyce :
Ideas, insights – and wishes – for 2012

Is your hotel ready for the Chinese?

The 2012 outlook for key hotel markets :
30 exclusive country reports from Horwath HTL

Next year's IT challenges :
What will they be? How much will they cost?

Legal issues facing us in Europe, China and the USA

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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.



HORWATH HTL

Horwath Hotel, Tourism and Leisure consulting are the world's number one hospitality consulting organisation, operating since 1915. Horwath HTL are the industry choice; a global network offering complete solutions in markets both local and international. Through involvement in thousands of projects over many years, Horwath HTL have amassed extensive, in-depth knowledge and understanding of the needs of hotel & real estate companies and financial institutions.

Horwath HTL are the world's largest consulting organisation specialised in the hospitality industry, with 50 offices in 39 countries. They are recognised as the pre-eminent specialist in Hotels, Tourism and Leisure, providing solutions through a combination of international experience and expert local knowledge.



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.

New product, new opportunity

APARTMENT HOTELS ARE CERTAINLY NOT A NEW CONCEPT IN SPAIN, WRITES **MARÍA ROSA BARCIA** OF **HORWATH HTL**'S BARCELONA OFFICE. CONDO-HOTELS, ON THE OTHER HAND, MOST DEFINITELY ARE. SHE FILED THIS REPORT ON HOW THIS NEW INDUSTRY SEGMENT WILL BE PRESENTING INTERESTING OPPORTUNITIES IN 2012 IN SPAIN, ONE OF THE WORLD'S TOP TOURIST DESTINATIONS.

In Spain, « Aparthotels » have typically followed the traditional hotel operation, a formula well adapted primarily to a high Spanish demand, as well as foreigners' demand when in Spain.

Condo-hotels saw their first real development in the USA, and the model was soon a winner in France. They should not be confused with timeshare, however, where the owner owns a « piece » or percentage of an apartment, along with other owners who own their « piece » as well. Timeshare is part ownership of a particular space in time each year, and the owner may use that apartment for a contracted number of weeks, or exchange his time for a similar timeshare in another destination. This type of owner does not receive any income from the rental of « his » apartment. In traditional Apartment Hotels, the building has one owner, and the apartments are rented out much as is done in a hotel.

In the condominium hotel concept, which combines both hotel and residential aspects, each apartment, or residence of another type, has an individual owner, and the apartments are rented out by the centralized system of one hospitality company or operator. As with timeshare, the owner has the right to use his apartment for a contracted number of weeks, but he does not belong to an international network of holiday apartments that enables him to « exchange » destinations. However, the owner receives a percentage of the income which results from the renting of his apartment by the management company. And this is what makes this concept a winner, with a growing number of projects being developed today in Spain and South America. New projects are typically found in coastal, holiday regions, while many urban renovations are adopting this tried and tested concept as a profitable solution.

Condo-hotels have a slightly more complex set up than a traditional hotel or apartment hotel :

- **Developer:** This is the entity that builds the project, and then sells the individual apartments, or residences, to individual owners. There are many advantages for a promoter of a condominium hotel, including the possibility of selling the

units in advance, the ease of financing (financing done by the buyer/investor) and the possibility, through added hotel services, of selling the units at a higher price than 2nd homes.

- **Operator:** A key player in the success of the project, the operator rents out the apartments much in the same way it would a hotel. The difference is that a percentage of the income goes to each owner, and the operator must keep in mind the dates in which the owner may use his apartment. This is a special type of operation, and the apartment sales often depend on the strength, experience and guarantee the operating company can offer. Both the owners and the financial entities want security for their investment. Although the management of the project may be a bit complicated with a large number of owners, having guaranteed clients and assured future clients is an advantage. In addition, income for condominium hotels often is higher than traditional operations.
- **Owner:** As mentioned, each apartment or residence has its sole owner, a sort of 2nd home ownership. The owner holds a deed to the apartment, and signs an agreement which includes the dates he is allowed to use the residence, as well as the total allowed length of stay. The owner then receives from the operator a percentage of the income generated from the rental of the apartment when not in use by the owner. The owner may find it more difficult to obtain financing as it is a touristic property, but once achieved, there are very interesting advantages, perhaps the most important being the advantage of having a simple 2nd home enjoying hotel services (cleaning, maintenance, other facilities), the possibility of receiving an interesting percentage of the rental of the apartment, and the increase in value of the unit over time – which also makes it easier to resell.
- **Financial entity:** Another key player, this figure is essential for correct financing of the construction and sales of the units. The developer must find the financing agreement that covers the development costs at the best possible rates, offering future owners interesting finance conditions for the purchase

of their unit. On the other hand, this financial entity will need a solid financial projection guarantee from the operator of the project. The advantages for the financial entity are clear: there is a reduction of risk by fractionizing the debt into different investor/owners, and a further guarantee is ensured through possible future investors/buyers.

ANDALUSIA FIRST

The province of Andalusia, the world famous touristic southern region of Spain, is the first to catch on to the opportunities offered by this wind of change. With the lasting negative effects still being felt due to the international economic downturn, and with an important dependence on tourism as the main provider of the local and national income, condominium hotels provide a profitable reconversion alternative to many aged and obsolete touristic projects, as well as an interesting venture for new developments.

For this, local government is fast adapting the legislation to regulate and control these developments, accommodating this new concept to the region, ensuring a careful strategy that will generate secure and positive results in the long term. Most importantly, to create the necessary touristic dynamics and ensure a continuity of touristic inflow, regulations revolve around the key concept of tourism, avoiding the stagnation of touristic business brought on by an oversupply of residential properties.

Some of the new regulations under negotiation today include, with regard to the concept, that all units of the project must be under «touristic accommodation,» i.e. not residential. For this, operation contracts must be made with a single exclusive operator per project, with agreements that may not be for less than 10 years. At the same time, guarantees must be made to ensure the units are not used for residential purposes, i.e. each contract must restrict the use of the apartment by owners to no more than 2 months per year.

In addition, a new constitution envisages the horizontal vs. the vertical ownership model.



A word of caution: Although the advantages and opportunities are manifold, owners of old or obsolete hotels or buildings must not make the mistake of thinking that a condominium hotel will be the easy answer to all their problems.

Indeed, in the current environment of touristic turmoil, and the uncertainty of returns for the long-term future of any project, all risk factors must be taken into account. Added to this is the imperative of creating a competitive product, with original services and carefully developed facilities, as with any touristic product. However, one finds in many cases attractive low interest rates added to a volatile stock market, making it a real estate alternative worth studying. It is an especially interesting option that offers better profitability and security for expensive land in prime locations.

In conclusion, the entrepreneur who wishes to venture into such a business, especially in the case of renovating an existing project, must understand the need for funds and/or financing options, on the one hand. On the other hand, the choice of operator, one with experience and proven success in this sector, is key to the success of a condominium hotel project, and oftentimes the one who will make the project possible or not.

Finally, public and private initiatives must go hand in hand, and the Spanish Government is still in its first steps of setting up the future legislation for this fresh new opportunity for the Spanish hospitality sector. ■





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