

HOTEL yearbook 2010

What to expect in the year ahead

Sir David Michels on the shape
of the coming recovery

The outlook for 20 key markets,
from China and the USA
to Germany, Brazil and Libya

Is it time to change in-room
technology standards?

How the crisis
will affect luxury in 2010

Editorial input from 25 hotel
industry CEOs

This excerpt from the Hotel Yearbook 2010 is brought to you by :



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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.



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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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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.



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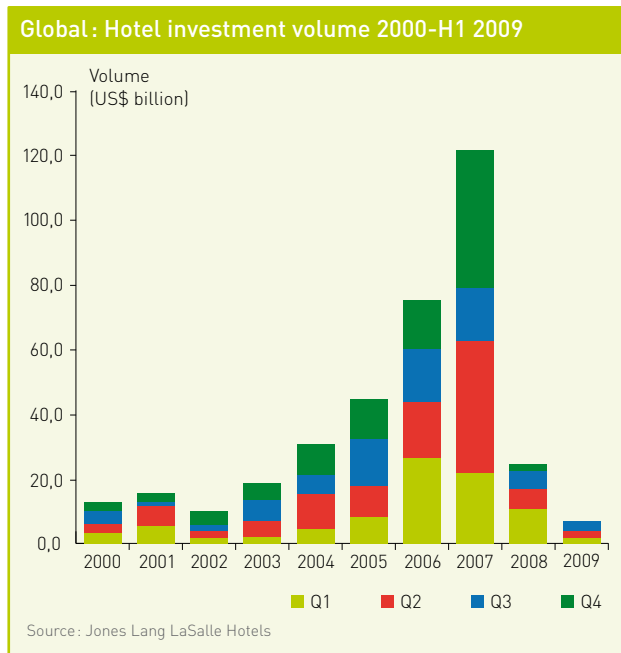
When debt is not an option...

With deal volumes finally starting to show some signs of recovery after hitting one of the lowest points of the decade earlier in the year, hotel investors are no doubt starting to question how the global hotel transactions market will look in 2010. **ARTHUR DE HAAST**, Global CEO, and **SUE-LIN HENG**, Vice President Global Hotel Capital Group at **JONES LANG LASALLE HOTELS**, walk us through their projections for next year.

The global hotel transactions market registered its second consecutive period of growth in the third quarter of 2009. Total transaction volumes were just under US\$ 3 billion, marking a 40 % increase over 2Q 2009 volumes, and a 67 % increase over 1Q 2009 volumes – the slowest quarter in the global hotel transactions market since the third quarter of 2001. By region, Europe, Middle East and Africa (EMEA) continues to be the most active, recording more than \$1.2 billion in hotel sales, followed by Asia Pacific at \$1.0 billion and the Americas at just over \$700 million.

Asia Pacific – a region to watch

For the first time in the decade, annual transaction volumes in Asia Pacific are expected to finish ahead of those of the Americas. In a market which has had to deal with limited liquidity and is currently largely dominated by domestic investment, investors from Asia Pacific have also been one of the few international buyer groups that have been active in cross border investment activity. For year-to-date September 2009, capital from Asia Pacific accounted for more than a quarter of all transactions that were undertaken in the year, a significant increase from previous years. In comparison, international buyers from Europe, Middle East and North Africa (MENA), and North America have all substantially decreased their share of cross-border deals in the same period.



Given year-to-date trends, Jones Lang LaSalle Hotels is projecting that global hotel transaction volumes will finish 2009 around the US\$ 10 billion mark, similar to 2002 levels when the market started to recover from the 9/11 attacks in New York. Looking further ahead, we believe there are a few notable trends that will significantly shape and impact the outlook for the global hotel transactions market in 2010.



Notable transactions by Asian investors in the year include the acquisition of W San Francisco by Asian conglomerate Keck Seng Investment (Hong Kong) for US\$ 90 million, Hong Kong and Shanghai Hotels' acquisition of a 20 % stake in the proposed Peninsula Paris development for €100 million, and ►

TCC Hotels' purchase of two Hyatt hotels in Australia for A\$ 155 million.

Increasing consolidation and M&A activity expected on the corporate level

Given the sector is having to deal with some of the worst trading conditions in the decade, we expect the combination of significantly reduced revenue levels and continued pressure to aggressively reduce costs will push hotel companies around the globe to explore further opportunities for consolidation on the corporate level.

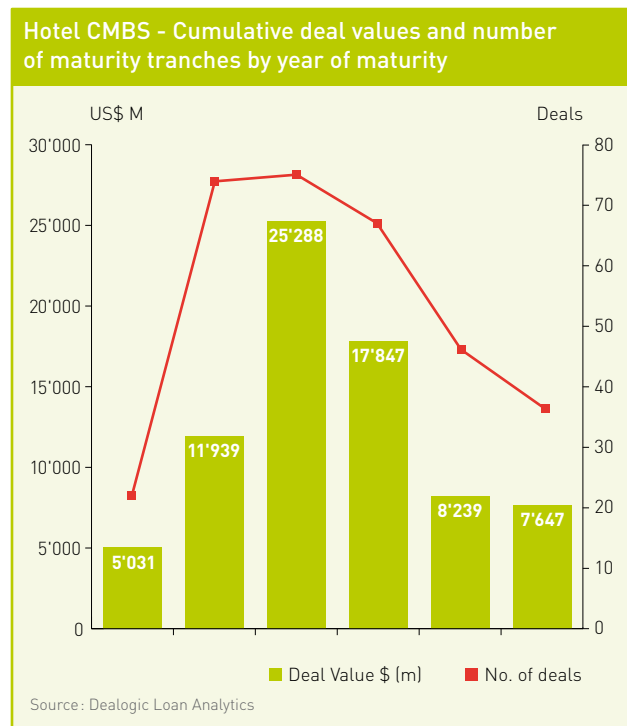
A number of such deals have already occurred in 2009 and we anticipate such transaction activity to significantly accelerate in 2010 as hotel companies seek ways to improve financial strength, increase negotiating power with customers and suppliers, and mitigate competitive pressures. In September this year, NH Hotels and Hesperia announced plans to merge their hotel businesses to create the largest hotel group in Spain in a deal expected to create significant synergies at both income and expenditure levels. Earlier in the year, Starwood Capital Group acquired Golden Tulip Hospitality BV with the intention of using the Louvre Hotels distribution platform to grow the brand through a strategic alliance between Louvre Hotels and the Golden Tulip businesses.

Hotel financing to remain constrained; greater public market activity expected

While global credit markets are starting to see some signs of thawing, this has yet to fully reach the property sector, and lack of debt continues to shape the hotel transaction market. With increased securitization of lodging assets in recent years, the global hotel sector will have to contend with immense debt obligations over the next few years.

According to statistics provided by Dealogic Loan Analytics, the global hotel sector faces looming deadlines to refinance syndicated bank debts of over \$5 billion in 2009 and \$76 billion on a cumulative basis by 2014. The supply imbalance between these maturing loans and available financing – which is already evident and will only get worse in the near future – is

thus likely to continue limiting debt available for financing hotel transactions. On the other hand, most benchmark stock indices worldwide have posted robust recoveries year-to-date 2009, and investor sentiment continues to be restored in most global equity markets.



Consequently, we believe that a significant amount of hotel transaction activity in 2010 is likely to be funded either directly or indirectly from the public markets. 2009 has already seen a few instances of such activity: In October 2009 Sunstone Hotel Investors announced a public offering of 20 million common shares priced at \$7.20 each, and indicated proceeds from the share issue will be used towards working capital and other general corporate purposes, which could include hotel acquisitions. In July, Starwood Capital Group's Starwood REIT – aimed at acquiring real estate and distressed debt opportunities – also raised over \$800 million in one of the



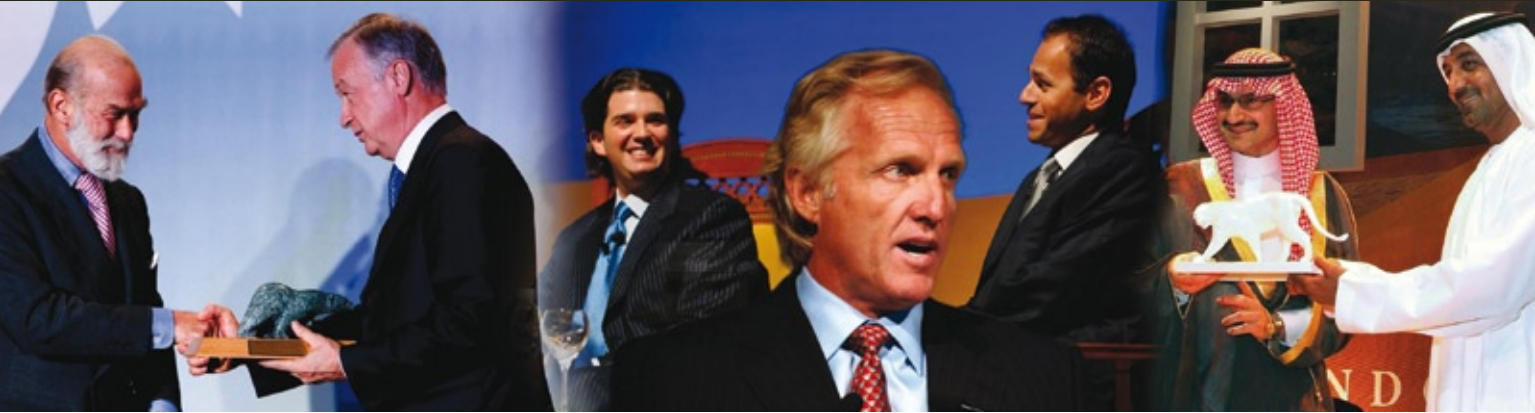
largest US initial public offerings (IPOs) of the year. While no plans have been announced with regards to their hotel assets, we also note that Blackstone, one of the world's largest hotel owners, is aiming to list up to eight of its portfolio companies to take advantage of improved equity markets.

Our conclusion

Taking into account the above trends, overall the outlook for the hotel transactions market in 2010 is more positive relative to 2009. Market liquidity is expected to improve, particularly in the Americas, a region which has been lagging the others, and this will be driven in part by an increasing number of hotel

assets being placed under the control of banks and also by greater capital activity from the public markets. The recent modest recovery levels witnessed to-date in 2009 bode well for continued recovery next year and we anticipate transaction volumes to improve in 2010. ■

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