

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 :



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.



Boutique DESIGN New York

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.



Hospitality Financial and Technology Professionals (HFTP)

HFTP provides first-class educational opportunities, research and publications to more than 4'800 members around the world. Over the years, HFTP has grown into the global professional association for financial and technology personnel working in hotels, clubs and other hospitality-related businesses.



Bench Events

Bench Events host premier hotel investment conferences including the International Hotel Investment Forum; the Arabian Hotel Investment Conference and the Russia & CIS Hotel Investment Conference. Bench Event's sister company, JW Bench, is a benchmarking company that has launched the Conference Bench and the Productivity Bench. An industry first, the Conference Bench, measures performance data for conference space in hotels throughout Europe.



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.



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.



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.

elevation



WATG re-invented the resort to reflect the magic of Kauai by paying homage to the unique island and its culture.

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Ismail Haluk Kaya
Üçgen Construction and Trade Co. Inc.
Should a client invest in a monument to the architect's ego?

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THOUGHT LEADER



Shaun Hannah
WATG's director of sustainability talks about how the recession has impacted green design.

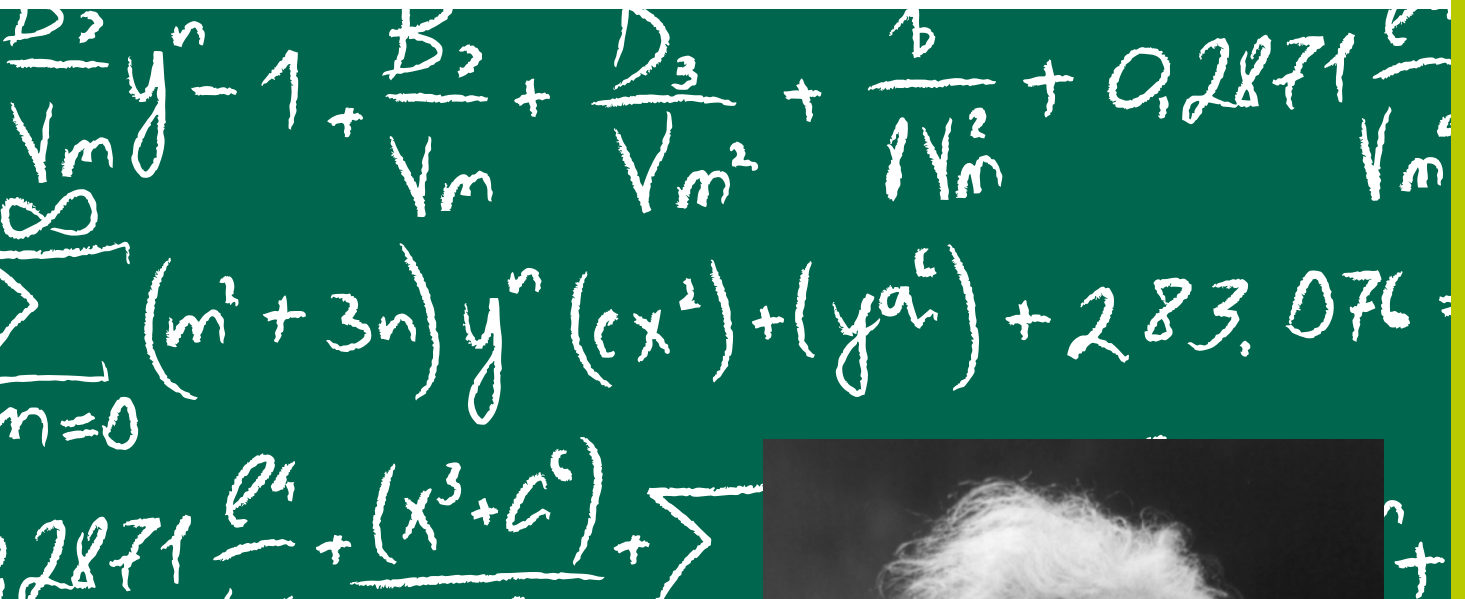
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The secret to investing : $E=mc^2$

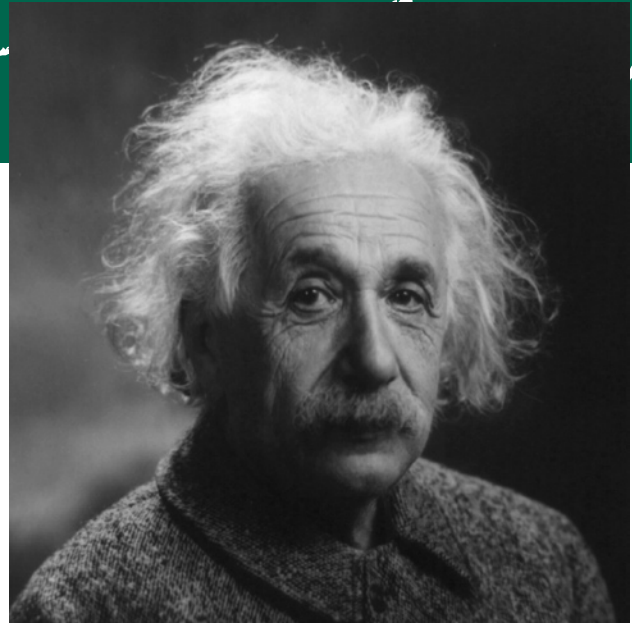
What do good developers have to have in this market ? (Besides a project with potential, of course.) **JONATHAN WORSLEY**, Chairman of London-based **BENCH EVENTS**, takes us into a very special dragon's den and shares his observations there.



I'm hoping to write this communiqué without reference to certain phrases to avoid repeating the messages that you no doubt constantly hear and read about in the media – phrases that can be shortened to the acronyms CEC for the « current economic climate » and GR for « global recession ».

Instead, I'm going to take Einstein's famous equation and demonstrate how it can be adapted to the hotel industry and, in particular, for developers who are looking for investment in their projects.

As always (some may even say annually), we're all looking for that « next big market, » the one that is still in its infancy, can be molded to suit purpose and, of course, offer those large returns on investment that we seek ; in this industry, we certainly don't have time to sit on our laurels. The BRIC (Brazil, Russia, India and China) economies are certainly attractive markets – Goldman Sachs has predicted that by 2050 the combined economies of the BRICs could eclipse the combined economies of the current richest countries of the world. However, developers have their ideas on what and where they think would make a good investment opportunity, and the



financial community has its own. Unfortunately for developers, their financial colleagues are under serious pressure to ensure that their investments yield handsome short- and long-term returns – essentially, to become even more accountable to their businesses than ever before.

So it was with interest that we ran a session called the Investment Den at the recent *Russia & CIS Hotel Investment Conference*, an idea based on a Japanese TV program that in

the UK is called Dragon's Den. In the program, contestants have what they perceive to be a viable and possibly profitable business idea, but lack funding to get their business up and running, or to use for promotion or expansion. They have the chance to present their business to five incredibly wealthy entrepreneurs (« dragons ») who can decide to invest (either individually or with another dragon) in the business for a percentage of equity, or opt out altogether.

The premise with the Investment Den was similar in that four developers presented their current projects to an internationally recognized panel of three investors with particular expertise of the Russian and CIS market: Georg Folian, David Geovanis and Dmitry Tetiouchev. While the session was more of an opportunity for the developers to showcase their enterprises and not a serious business transaction – no actual money was expected to be put on the table – the interest really lay in what the investors were looking for in a project in order for them to invest.

Everyone at the event was in agreement that the Russia and CIS region offers fantastic opportunities for the hotel industry, but this doesn't mean that everyone will make money. It is likely that we are now at the bottom of the market and things can only look up. For Moscow, the revenue per available room (RevPAR) for 2009 was predicted to be -25-30% vs. 2008. In 2010, this change is expected to be +10-15% vs. 2009, putting the city in the top bracket of RevPAR growth. It also has one of the highest average daily rates (ADR) in the world. In spite of the variety of the developers' projects, the investors were collective in their reasons for wanting to invest in any project, and their reasons make for interesting reading:

- Don't be, or try to be, too ambitious – this is not the time to be taking excessive risks. For example, can you really hope to sustain an ADR of \$550/night, especially at a time when ADRs are still declining?
- Ask yourself, are you really unique? For example, does Moscow or St Petersburg really need another luxury hotel in a market where luxury hotels are witnessing alarming falls in their ADRs?

- Are your returns on investment projections realistic? Will investors really get 15-20% ROI?
- Be committed to what you want your development to be – mixed use, boutique, luxury, etc. Investors don't want to make the choice for you, that's your job. So, don't present them with a range of options. They want to see *your* commitment, energy and motivation to *your* development shine through.
- They are interested in opportunities in Russia, and in particular cities such as St Petersburg, which lack conference venues, and suitable accommodation for business and recreational travellers.

Investors are in great demand, now more than ever, and this means they can have their pick of which projects to invest in. How do you stand out from the crowd in a market where there is so much choice, a dearth of transactions, falling volumes and a large amount of inventory available at low prices?

I believe that, as well as having a development with potential (which goes without saying), developers must have the drive, ambition and energy to match. They also need to have very through market knowledge and the right contacts; key factors in driving profits in a market such as Russia. This may sound familiar, but I have seen too many people enter « promised land » markets, only to see them fail (sometimes spectacularly) because they've gone in with the mindset of « I know what I'm doing. » As Russia begins to emerge from the economics of the last two years, we'll see it being at the forefront of increasing occupancy, ADRs and RevPARs.

So where does $E = mc^2$ fit in? Well, Einstein was certainly correct with the E being *energy*, but if you're looking for investment in your development, then you're only going to get that energy from *motivation* and *commitment*. Einstein may have been one of the world's greatest physicists, but it seems he may have made a decent hotel investor too. ■