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HOTEL yearbook 2012

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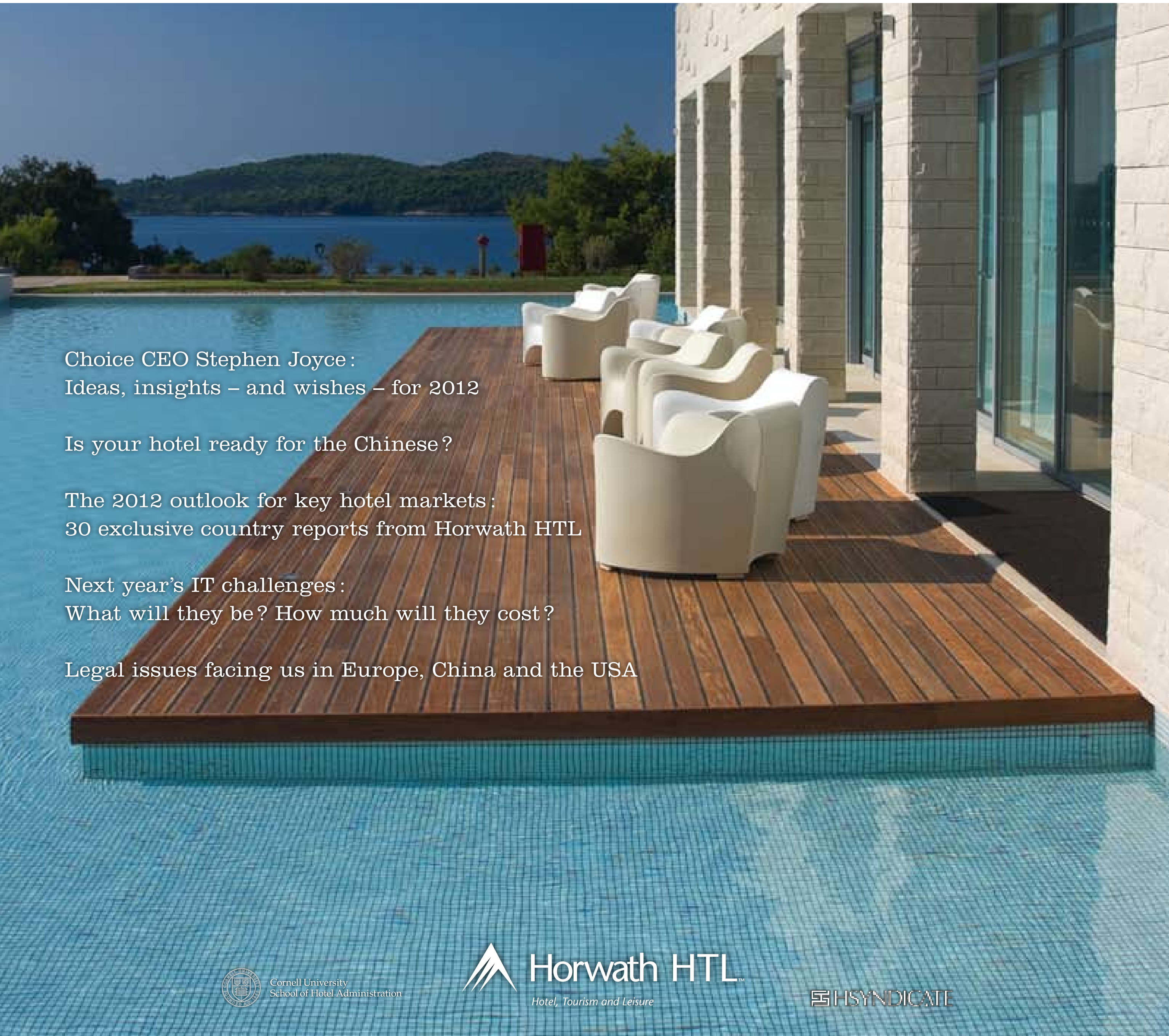

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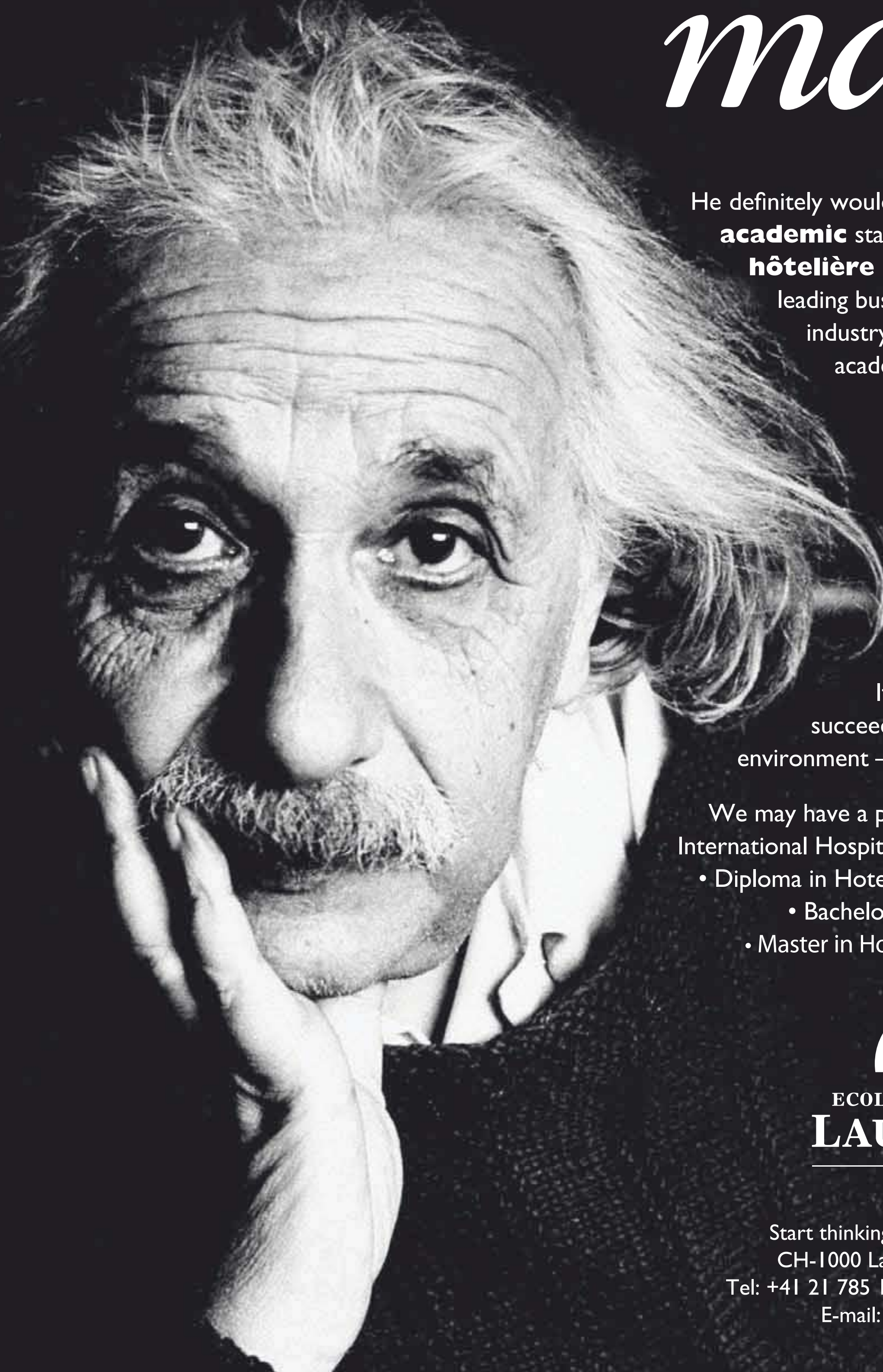

A word from the publishers

Dear readers,

Welcome to the *Hotel Yearbook 2012*, the sixth edition of our annual look at trends and scenarios expected for the year to come in the global hotel industry.

As we do every year, we have tapped into a rich vein of experience and know-how, bringing together more than 60 top executives, senior analysts and respected observers of the hotel industry to contribute their insights and forecasts for 2012.

We are especially proud of our blossoming editorial relationship with Horwath HTL, whose experts this year have written 30 valuable country reports exclusively for The Hotel Yearbook, describing the current situation and outlook for the hotel business in countries ranging from the USA, UK and China to South Africa, Brazil and the Maldives.

It won't come as a surprise that our contributors see 2012 as another challenging year for the hotel industry. The financial crisis that began three years ago has produced a weakened global economy that is not yet back on its feet. There are some relatively bright spots, but the overall outlook is still gloomy.

In addition to the economic slowdown, several other interesting trends will shape the hotel business in 2012, and you will read about them here. Two developments that particularly stand out are the continuing shift of marketing power from hotels to online travel agencies (OTAs), and the emergence of a traveling middle class from the developing world, especially China.

According to Giovanni Angelini, our Hong Kong-based correspondent and former CEO of Shangri-La, the global travel industry will need to be able to handle 800 million more travelers over the next 4-5 years, as the Chinese begin to venture forth more confidently as tourists. This is good news for the hotel industry – but if you want to participate in this boom, it will require some adaptability on your part. Read his fascinating article for more information.

We wish you an interesting read, and an excellent 2012.

Yours sincerely,

Woody Wade
Managing Director
Wade & Co. SA

Michel Rochat
General Director
Ecole hôtelière de Lausanne

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Eight trends for the hotel industry in 2012

AT **CORNELL UNIVERSITY, GLENN WITHIAM** IS DIRECTOR OF PUBLICATIONS, AND **ROHIT VERMA** IS PROFESSOR AND EXECUTIVE DIRECTOR OF THE CENTER FOR HOSPITALITY RESEARCH. THE HOTEL YEARBOOK ASKED THEM IF, BASED ON THEIR LATEST RESEARCH, THEY COULD SUMMARIZE THE KEY ISSUES FACING OUR INDUSTRY NEXT YEAR. ESSENTIAL READING FOR DECISION MAKERS AT EVERY LEVEL OF THE BUSINESS.

Two years ago in this space, we offered eight trends that we saw unfolding for the worldwide hotel industry. As we explain here, some of those trends have become « monsters » while others have simply become a part of the business – « table stakes » as the saying goes.

WHERE OUR INSIGHTS COME FROM

A key aspect of the Cornell Center for Hospitality Research mission is to constantly exchange ideas and information with the hospitality industry. Most notably, we were honored to sponsor the biennial QUIS conference (Quality in Service) in June 2011 and host 1st Cornell Hospitality Research Summit during Oct 2010, which drew an international cross-section of industry practitioners and researchers to share their studies and strategies for improving the service industries. We bring industry and academe together several times a year to focus on specific critical topics, including recent sessions on brand management, sustainability, and the intersection of hospitality and health care. Less formally, we conduct outreach when we give presentations at numerous industry conferences around the globe. Thanks to the support of our corporate partners and senior partners, we are able to sponsor some 25 to 30 ongoing research projects. From these sources, we have attempted to distill this information into these eight key trends.

> Going forward, hotels may find themselves being distributed much like package goods

Two years ago, we highlighted the following trends:

- hoteliers' desire to improve profits,
- increased focus on revenue management
- increasing electronic commerce, particularly with online travel agents (OTAs)
- distribution issues, including search engine optimization
- cost control
- human resources
- front desk management
- sustainability

While hotels still seek to stay current on revenue management, human resources, and cost control, the trends surrounding electronic commerce and sustainability are among those that have become continuing and expanding issues for the hotel industry. In addition, we see some remarkable developments that were only on the distant horizon two years ago. Although we have numbered the trends, they are in no order of importance, because all are critical for the hotel industry.

TREND NO. 1: THE EXPANDED ROLE OF TRAVEL INTERMEDIARIES AND PORTALS

Two years ago, we noted in The Hotel Yearbook that the hotel industry would need to determine how to work with OTAs. That has become only the tip of the distribution iceberg. The industry has seen the growth of major intermediary sites such as Expedia and Travelocity, properties have increased distribution through opaque sites (such as Hotwire and Priceline), and hotel brands have built up their own websites. The entry of Google has added a new dimension to hotel room distribution, since users can book directly from the search results page, instead of clicking through to another site. Going forward, hotels may find themselves being distributed much like package goods. Many guests will go to a travel purveyor for hotel rooms, just as they go to a food market for groceries.

TREND NO. 2: MOBILE APPS AND RFID

Social media, which have grown exponentially in the past two years, will continue to be a force, but the big electronic development for hotel distribution and operations is mobile devices, particularly those with radio frequency identification (RFID) chips. Because of the remarkable plunge in the cost of RFID, we anticipate that this will break out as its own trend soon enough, and the combination of RFID and mobile apps will allow guests to use their smart phones to book a room, check in, open their guestroom door, and settle their folio – all without direct contact with your staff. Even without RFID, guests' use of mobile devices will create opportunities for innovation by hoteliers, including new services and operating efficiencies. Most critically, the dominance of electronic distribution as summarized in trends 1 and 2 will solidify the major trend of access to, and transparency of, information.

TREND NO. 3: BRAND MANAGEMENT AND CUSTOMER RELATIONSHIP BUILDING

Given the strength of third-party distribution portals and the push toward commoditization, the hotel brand will become more important than ever, particularly in the context of developing customers' loyalty. To draw again from the package goods industry, Unilever and Procter and Gamble (to cite just two examples) maintain a powerful brand lineup despite powerful forces for commoditization. The hotel industry can draw from these companies' brand strategies. As explained in a recent brand management roundtable at Cornell, P&G benchmarked eight diverse brands that had grown far faster than their competitive set (including Heineken, Louis Vuitton, and Zara). The study found four critical elements of brand building:

- having an ideal,
- focusing on fundamentals to remain true to the brand's heritage,
- recognizing the importance of leadership (in the form of a brand champion), and
- seeking engagement with customers.

TREND NO. 4: CUSTOMERS' SEARCH FOR VALUE THROUGH SOCIAL COUPONING AND DAILY DEALS

Value comes in all forms, but in the current economic environment, it means special offers and discounts, which are a form of customer engagement. The rise of the daily deal sites, notably Groupon, melded social media with customers' desire to get a « deal ». This trend will continue regardless of whether Groupon survives, because dozens of other websites are also offering social coupons. For hoteliers, this means developing packages that will provide value for all stakeholders, including both customers who seek a deal and those who are « regular » customers, as well as the hotel itself. Strategies include creating packages that are not directly comparable to existing services and controlling cost structures so that the social coupon is not a money-losing proposition. Although social coupons do involve some cannibalization of existing customers, recent research has demonstrated that they bring in new customers and encourage infrequent customers to return, thereby helping to offset the revenue forgone by the large daily deal discount.

> It is now clear that customers' demand for sustainable hotel operations has taken root and expanded

TREND NO. 5: SUSTAINABILITY GOES MAINSTREAM

For those who thought two years ago that sustainability would flame out as a trend (as has occurred in the past), it is now clear that customers' demand for sustainable hotel operations has taken root and expanded. The hotel industry has taken notice, as demonstrated by a push for consistent reporting standards and industry best practices coming from our industry roundtables in both Asia and North America. In that regard, meeting planners and corporate planners are now requesting that hotels provide sustainability-related information (such as energy use or recycling policies). Third-party certification of green claims has become an important part of sustainability reporting, as demonstrated for instance by Travelocity's Green Hotel Directory, which does not recognize self-certified hotels.

TREND NO. 6: BLENDING OF HOSPITALITY AND HEALTH CARE

Although health care structures and financing vary substantially from nation to nation, it has become clear that the core principles of hospitality management apply to health care and assisted living facilities just as they do to hotels. In the USA, for instance, we know of two major hospitals that have managers who were formerly with the Ritz-Carlton Company. Likewise, an offshoot of Hyatt Hotels is a major operator of lifecare

Eight trends for the hotel industry in 2012 cont.

communities. Presentations by these industry executives at a recent industry roundtable highlighted the key element of this trend, which is to instill a culture of hospitality that acknowledges and values all stakeholders. When managers set the tone for the organization, not only does employee turnover diminish, but patients' health is often improved.

TREND NO. 7: NEXT GENERATION GLOBALIZATION

Not long ago, globalization meant that hotel brands from highly developed nations expanded into developing nations, whether through master franchises or by acquiring local firms. Globalization is now flowing in the reverse direction, as brands from developing nations are expanding to developed nations, as well as to other developing nations. To name just a few brands, Jumeirah now manages the Essex House in New York, as well as properties in London and Frankfurt; and Taj operates US properties in Boston, New York, and San Francisco, as well as hotels in London and Sydney. Thus, globalization will mean that hotel brands criss-cross the globe.

TREND NO. 8: ECONOMIC UNCERTAINTY

Two years ago, we thought we were emerging from one of the greatest economic challenges of the recent era. Today, it's not clear that we have emerged from anything – or that we have even found the tunnel with the proverbial light at the end of it. At this writing, it seems that economic and political turbulence will continue, and the hotel and travel industry will constantly be facing a « new normal » somewhere on the globe. ■

Cornell University
School of Hotel Administration

Photo (left to right): Jonathan M. Tisch, James S. Tisch '75, Andrew H. Tisch '71

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The view from the top

TO GET A FEELING FOR THE ISSUES AND CHALLENGES EXPECTED BY THE LEADERS OF THE HOTEL INDUSTRY IN 2012, **MICHAEL HIRST**, CONSULTANT TO **CBRE HOTELS** IN LONDON, TALKED TO A GATHERING OF SENIOR HOTEL EXECUTIVES TO EXPLORE THEIR VIEWS OF THE YEAR AHEAD. AS HIS INTERVIEW PARTNERS, HE CHOSE THESE THREE LEADERS OF THE BUSINESS:

- **KURT RITTER**, PRESIDENT & CEO, REZIDOR HOTEL GROUP
- **RYAN PRINCE**, VICE CHAIRMAN INTERNATIONAL, REALSTAR GROUP
- **KINGSLEY SEEVARATNAM**, EXECUTIVE VICE PRESIDENT EUROPE, WESTMONT HOSPITALITY

...AND ASKED THEM A SERIES OF PROBING QUESTIONS ABOUT THEIR OUTLOOK, OBJECTIVES AND HOPES FOR 2012.

Michael Hirst

MICHAEL HIRST: Gentlemen, you operate in challenging times. Many of the norms we take for granted are changing fast and the business environment remains very unpredictable. You all operate dynamic successful growth hotel businesses, so your opinions and insights will be particularly interesting to the readers of this Hotel Yearbook in understanding what's ahead in 2012. So first, what are your thoughts about business trends in the year ahead?

KURT RITTER: The macro-economic uncertainties still make forecasts difficult.

RYAN PRINCE: Macro-economic confidence related to topics like the euro zone crisis, UK austerity measures and US presidential politics will create the trends over the next 12 months. It will certainly not be a smooth ride.

KINGSLEY SEEVARATNAM: Since the downturn in 2007-8, the anticipated recovery in the MICE market has been very patchy. I expect with the change in sentiment this year, the MICE segment will continue to be challenged.

PRINCE: From an internal perspective, we were not particularly acquisitive from 2006 to 2009, but recently we've made a number of acquisitions and are actively seeking out both small and large scale investment opportunities in the UK and Western Europe.

HIRST: So how do you see occupancy and rate performance in 2012?

RITTER: We have seen in the third quarter 2011 that these uncertainties were starting to impact the RevPAR growth pace in European markets; this needs to be monitored very carefully.

PRINCE: In terms of the UK marketplace, where we own the majority of our hotel assets, the combination of the resilience of the city combined with the Olympics and Farnborough Air Show should see London delivering year-on-year RevPAR growth. Given London's already high occupancy rates, this can really only be delivered through rate and continued evolution of business mix.


Kurt Ritter


Ryan Prince


Kingsley Seevaratnam

SEEVARATNAM: Key events happening in 2012 would be the Olympics and the DRUPA fair. These will have a positive impact on some of the key markets, but in general, we expect 2012 to only show a modest improvement on the previous year.

RITTER: Emerging markets like Russia/CIS and Africa show and will show better results and a continued strong RevPAR development. The same observations are valid for occupancy (it is usually occupancy which increases or decreases first, and RevPAR follows).

PRINCE: There is room to grow on both occupancy and rate in the provinces, however this will largely be determined by 2 factors: one, what happens in the wider macro environment – a seemingly ever-changing place these days; and two, whether brands and operators are able to create some differentiation in their neighborhoods and thus grow RevPAR through market share. The more important question in the provinces is probably less to do with RevPAR and more related to F&B, and in particular meetings and events. They are huge drivers in the mid-market segment, and we'll be keeping a very close eye on these parts of the business.

HIRST: Has the economic downturn created long lasting changes in the way in which you run your business?

RITTER: Not really. Already prior to the downturn we have focused on a profitable growth via non-committed contracts in emerging markets (Russia/CIS and Africa) and on our asset-light business model.

PRINCE: Although top-line growth is critical, the cost base of the properties continues to grow at rates in excess of inflation. In particular energy costs will again be a significant incremental cost in 2012, as will property taxes and other taxes such as the carbon credit taxes.

RITTER: The downturn changed my style of leadership – it became more centralized – but we are now going back to a more decentralized model again, and I'm supported by a strong Executive Committee.

PRINCE: Over the past several years, it would appear the UK government has not been much of a friend to the hospitality sector, with the single largest cost being the abolishment of the

The view from the top cont.

capital allowances regime. This has caused a major disincentive for owners to re-invest in the properties – just at the time they need to be doing it most.

SEEVARATNAM: The pressures that we would continue to experience on the cost side would be: energy, insurance and property taxes.

HIRST: Will you be employing more or less people in the year ahead?

RITTER: Since we are still one of the fastest growing hotel companies worldwide and will open a considerable number of hotels, we will naturally have more employees.

PRINCE: We had a major look at our organization, systems and productivity throughout '08 and '09 and made a number of significant changes through that process. Fortunately, nearly all of those decisions have proven to be both sustainable and worthwhile. Our cost base was reduced, while guest satisfaction and employee satisfaction both increased at the same time.

SEEVARATNAM: Since the downturn experienced in 2007-8, our emphasis has been on productivity, and we were able to manage our hotels at staffing levels that did not have a negative impact on the levels of service but improved profitability.

PRINCE: Our current UK hotel portfolio, which is comprised of 61 hotels and 11,000 rooms, is in a fairly stable state at the moment. We do not foresee any major changes to the underlying staffing levels over the next 12 months – up or down. At a corporate level, Realstar continues to grow its overall portfolio, and I would expect us to continue to expand the team.

SEEVARATNAM: In the existing hotels, we don't intend employing more people and we would expect to see the same level of staff; however, since we're a business that bases itself on acquisitions and turn-arounds, there is always a potential to re-evaluate staffing levels at the head office.

HIRST: What is your policy toward training and development of your people?

RITTER: Rezidor is a true people business, and our employees are our biggest asset. We hire attitude and train skills – we have an ambitious, personalized training and development program which allows employees to grow within our group. The program even includes our own business school. I'm proud to say that more than 90% of our General Managers are «home grown.»

> We feel guests today want more control over their lives and their travel. They also want more choices which may offer the same end result

PRINCE: Human resources is always at the top of our «A list» as the most critical functional area in the hotel arena. At hotel level, it is essential to strive to find the right balance between specific training and policies so every member of the team knows what's expected of them while at the same time able to put their own personal touch in the way they go about their jobs. In an industry where annual turnover can be over 30% per annum, it is critical to make sure appropriate training and re-training tools and practices are in place to make this work.

SEEVARATNAM: As a group we have been very proactive with the training needs of our staff and avail ourselves regularly of various of various initiatives provided by the brand owner.

HIRST: How important is it for management graduates entering the hotel industry to have skills and qualifications in hotel management?

PRINCE: Everyone is different. In our team we have some team members who have developed and succeeded out of GCSE's and A-levels to occupy the upper echelons of management, as well as those who have pursued qualifications from prestigious places like Lausanne and Cornell. If a graduate has the luxury of being able to afford the time and cost of a degree (which is clearly not everyone), graduate degrees do offer a great opportunity to develop their skills and be on the cutting edge, which will maximize their career choices.

SEEVARATNAM: As a company, we have been recruiting graduates, some of whom have had qualifications in hotel management. Clearly, there are significant advantages of being trained in the industry and thus being able to spend far less time trying to understand the industry after joining hospitality organizations like ourselves.

RITTER: I regret a bit that more and more executive positions are occupied by non-hoteliers. It is of course very important to understand overall management rules, to have knowledge in sales & marketing, legal, etc. – but I think it is crucial to also be a hotelier. A good hotel manager must enjoy being a host and must know that it is all about service and all about the guest.

HIRST: What are the main changes in design you are incorporating in new developments?

PRINCE: New hotels are built to last for many decades, so design which considers not only today's guest requirements, but those of the next several years are essential.
In general, we feel guests today want more control over their lives and their travel. They also want more choices which may offer the same end result. Think about mobile communications. E-mail, BBM, SMS – they all do essentially the same thing, yet consumers today require the option to do all of these and more. Hotels of the future will need to be flexible to accommodating a multitude of preferences: self check-in and front desk, self-service food and beverage and room service, carbon neutral without giving up convenience – guests will want it all. The challenge is how to provide all of these to the guest while maintaining an economic model that still yields an appropriate return to the owner.

SEEVARATNAM: As a group, we do not invest in ground-up new developments, but to the extent that significant refurbishments are needed, we work very closely with the brand providers to accommodate the expectations of the modern consumer.

RITTER: When we saw that the design aspect became more and more important to our guests, we launched the Radisson Blu « new breed » properties – hotels with unique and contemporary architecture and design (e.g. the Radisson Blu Hotel Berlin with the world's largest cylindric aquarium in the lobby and the Radisson Blu Hotel Zurich with its spectacular winetower). We also partnered with the iconic Italian fashion house Missoni and created a completely new luxury lifestyle brand, Hotel Missoni. Our guests get a place to live, not only a place to stay.

HIRST: Are you taking measures to improve sustainability and if so, what are these?

PRINCE: Unlike office or residential properties, as both landlords and tenants, hoteliers are in a unique position to take the lead on the climate change front. Less energy consumption means lower costs. Green credentials are also increasingly valued or even required by the customer.

RITTER: Due to our Scandinavian roots, Rezidor was one of the first international hotel groups to implement a company-wide Responsible Business Program, back in 1989. Health and safety of employees and guests, respect for social and ethical issues within the company, and a reduced negative impact on the environment are the key pillars of our program. We constantly develop and improve our Responsible Business activities, and are proud that the US Ethisphere Institute has named us one of the world's most ethical companies for two years in a row (2010 and 2011).

SEEVARATNAM: As a key operator of franchised hotels, we work very closely with the brand owners to sign up on their sustainability programs. In those hotels that are not branded

The view from the top cont.

with international brands, we tend to work with internationally accepted practices such as Green Key.

PRINCE: We have been very proactive in this area for the past 5 years. Unfortunately, sustainability is not a « silver bullet » area. Creating a viable solution in existing properties comes down to multiple issues and areas, some of which require capital investment and others require operational changes to the way things have « always been done. » A simple example, when carrying out our energy audits, we discovered that all housekeepers flushed the toilet, even if there was nothing to flush. When we asked why, they told us it was « good practice. » When you multiply the water usage over 11,000 bedrooms per annum, that's a lot of wasted water!

HIRST: What are your key objectives for the year ahead?

RITTER: To further focus on topline, revenue generation, and a profitable growth especially in the emerging markets of Russia/CIS and Africa.

SEEVARATNAM: Our key objectives for the year ahead would be to acquire hotels in markets where we could add value through branding/re-branding and re-positioning, as well as continue to manage these hotels in which we have ownership/operator interest in a manner that would satisfy the objectives jointly set by ourselves, our equity/financing partners, as well as our employees.

PRINCE: Coming out of a tough few years, we're extremely focused on the guest experience and ensuring that any operational changes or efficiencies are not felt by the guest. Moreover, following a significant investment following the Holiday Inn brand re-launch, we're very focused on re-introducing the brand to the customer and improving the experience while increasing their expectations of the brand.

HIRST: If you could influence one factor in the global economy, what would it be?

PRINCE: I wish I knew the answer to that one!

RITTER: The sustainability of businesses – doing business in a responsible way must be key for any global player and can still be improved in so many companies.

SEEVARATNAM: I hope the citizens of the developed economies would elect responsible leaders who would address some of the major financial issues facing their countries and learn to live within their means.

HIRST: What advice would you give to someone looking to invest in the hotel industry for the very first time?

RITTER: Spend enough time on the planning process and look at all details of the project (there's no one-size-fits-all!), and start the developing process together with an experienced international operator with strong brands.

SEEVARATNAM: The hotel industry is a very capital-intensive industry, and as a consequence, those looking to invest in the industry should appreciate the vital role played by those who manage their asset and hence the value of their asset. I feel that investors have often rushed into making decisions to buy hotels and feel very disappointed when their values are significantly eroded due to poor management decisions.

PRINCE: Either start small and do everything yourself so you can learn from your mistakes and not blow up while you're learning, or find a partner who knows what they're doing. Big and solo is not a recommended first port of entry.

HIRST: Thank you everyone for being so candid with your answers. It looks like you all have a very exciting year ahead with a strong plan to optimize your business performance. I wish you lots of success, and perhaps we'll talk again at the end of the year and review how your businesses have fared. ■

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My 2012 wish list: the 5 most important things I hope to see next year in the US hotel industry

FOR FIVE YEARS, THE HOTEL YEARBOOK HAS BEEN ASKING INDUSTRY LEADERS HOW THEY EXPECT THE HOTEL BUSINESS WILL DEVELOP IN THE YEAR JUST AHEAD. WE DECIDED TO KICK OFF THE 2012 EDITION BY ASKING **STEPHEN JOYCE**, CEO OF **CHOICE HOTELS INTERNATIONAL** AND ONE OF THE MOST RESPECTED OPINION LEADERS IN THE US HOTEL INDUSTRY, A SLIGHTLY DIFFERENT QUESTION : WHAT WOULD YOU *LIKE* TO SEE HAPPEN IN 2012 ? HIS THOUGHTFUL ANSWERS REFLECT HIS 360° PERSPECTIVE.

2011 was a year of strong fundamental operating performance for hotel owners and operators. We saw demand and rate increases across all industry segments. If you owned an asset, life generally was much improved – with more travelers in hotels and limited supply growth. However, as I look to 2012, there are five areas where changes would do us all a lot of good.

STREAMLINED DISTRIBUTION ENVIRONMENT

Firstly, in the ever-evolving distribution landscape, I hope that our franchised hotel owners continue to get the most efficient, lowest-cost reservations through our proprietary central channels. For the entire industry, it is my goal that we see a distribution environment that adequately rewards risk and reward. Such an environment is one where the owners of the physical asset demonstrate the necessary control over their channels in a way that rewards them for the risks and costs they bear every day in owning a property.

I strongly believe that hotel owners should not have their financial returns diluted by third-party entities that have no economic stake in an asset. For years, some third parties have attempted to disintermediate hotel owners – getting between them and their guests – and capture a significant amount of a property's profitability.

The ability to generate incremental reservations for a hotel is perhaps the key reason hoteliers look to affiliate with a brand. Generally speaking, hotel companies create the lowest cost distribution environment for their franchisees through their proprietary channels.

At Choice Hotels, we've focused extensive energies on driving consumers to our central channels – most notably our Website – by educating them that they will get the best possible rate booking directly with us. We've launched an integrated marketing campaign making travelers aware of that fact. The campaign has driven strong results for us – and our franchised hotels – in 2011.

IMPROVED ECONOMY

I also want to see a stronger US economy with less unemployment in 2012. We've got to ask the United States Congress to work together in a bipartisan fashion to tackle the rising deficit and to come to some agreement on restructuring programs such as Medicare and Social Security, as well as removing uncertainty around taxes, labor, health care costs, and lending standards. If we find a way to reduce the crushing deficits we are facing at both the federal and state levels, and bring more certainty for the work environment, we will see an improved climate for business and thus more job creation. This will help increase hotel demand, as people who have jobs take vacations or travel for business.

We also need to foster a political climate that favors small businesses because that is where we will see the job growth. Democrats and Republicans must recognize the importance of the small business owner.

BEING HEARD IN WASHINGTON

That's where working in collaboration with associations in Washington, DC, our industry needs to make its voice heard. On the labor front, it is critical that organization of labor is by choice and not forced upon hotel employees by the Obama administration or the National Labor Relations Board. With the passage of the massive health care legislation in 2010, it is important that the law is enacted in a way that is affordable for small businesses and provides needed access to health care for employees. It is imperative that the federal government and banks work together to thaw what are essentially frozen credit markets. Providing hoteliers access to capital will ensure that our industry will continue to prosper – both in the development of new hotels and the re-investment in existing assets.

At Choice Hotels, we've educated our franchisees and have actively involved them in dialogue with government on issues that impact their profitability. To make their voices heard, we've made available to them a software solution through which they can easily contact their elected representatives on Capitol Hill.

As I noted, you need advocates « inside the Beltway » to drive change. The International Franchise Association (IFA) has led the charge on access to capital. Both IFA and the American

Hotel & Lodging Association (AH&LA) are working diligently on the industry's behalf on the labor and health care fronts. These organizations are sharing the perspectives of our company and our domestic franchised hotels on these important matters – as they advocate every day on behalf of the entire industry.

MORE OVERSEAS VISITORS

Another change I'd like to see in 2012 is an improved visa process that makes it easier for foreign travelers to visit the United States. Even as world travel grew by more than 60 million travelers between 2000 and 2010, the US share of the global travel market declined by nearly a third, and actual visitors remained essentially flat.

During this « lost decade », our economy squandered an opportunity to gain $606 billion in total spending from 78 million additional visitors – enough to support 467,000 more jobs annually, according to US Travel, for which I serve as national chairman.

Inbound international travel supports nearly 2 million American jobs and is one of our nation's biggest exports. On average, inbound travelers spend $4,000 per visit. However, America continues to lose out on the valuable global traveler due in large part to our long, uncertain and costly visa process.

In countries such as Brazil, India and China, there are too few consular officers to conduct the required in-person interviews to enable these travelers to obtain visas. Fortunately, the United States Congress is paying attention to what should be low-hanging fruit for our economy. Momentum is on our side. And politicians on both sides of the aisle agree that promoting tourism will be a shot in the arm for our economy. There is legislation in both houses of Congress that contains provisions that would effectively remove the barriers to travel for key inbound markets.

GREATER DIVERSITY

In 2012, the final change I'd like to see is the continued elevation of the level of understanding of the business drivers for diversity and inclusion within our industry. Hoteliers have increasingly

Stephen Joyce

recognized that as the population of the United States continues to become more multicultural, their workforces – at all levels – must reflect the customers they serve.

Lodging companies are aware that to serve various ethnic and cultural constituencies, increased knowledge and awareness of diversity must be inherent in a company's marketing, sales and operating strategies. I hope to see all hotel companies with increasingly diverse workforces – across the enterprise – capable of recognizing the evolving needs of today's travelers.

It will be great to build on the momentum from 2011, which saw some very important milestones in the diversity arena. The American Hotel and Lodging Association's (AH&LA) Multicultural & Diversity Advisory Committee (MDAC) commissioned a study quantifying the travel and spending power of the top five multicultural segments. This was followed up by a video about diversity in the lodging industry, produced by AH&LA in conjunction with Choice, Hilton, Best Western, Wyndham, IHG, Hyatt, Marriott, and Starwood. The video, « Diversity is Everyone's Business », informs and educates the industry about the business case for diversity. It's available at http://www.ahla.com/diversity/

Based on the findings from the comprehensive study, AH&LA anticipates launching training in 2012 that will provide guidance and insight into meeting the needs of diverse travelers.

I'm hoping all of these things occur in 2012 – they'd benefit our entire industry and the millions of Americans whose livelihoods depend on the health of hospitality. ■

Recovery? What recovery?

THE ILLUSTRIOUS CAREER OF **SIR DAVID MICHELS** COVERS HALF A CENTURY. FORMER CEO OF **HILTON GROUP PLC**, AND SITTING NOW ON THE BOARD OF BOTH **STRATEGIC HOTELS & RESORTS** AND **JUMEIRAH HOTELS**, SIR DAVID HAS EXPERIENCE AS A HOTELIER AND EXECUTIVE THAT IS BROAD AND DEEP. WITH HIS VALUABLE INDUSTRY AND MANAGERIAL KNOW-HOW – NOT TO MENTION HIS SARDONIC SENSE OF HUMOR – THERE IS HARDLY A BETTER MAN TO ASK FOR A HELICOPTER VIEW OF THE COMING YEAR.

Woody Wade has asked me to do my annual forecast yet again. I have severely questioned his sanity in so doing, when re-reading last year's article, I forecast « a first hesitant year of recovery ». While my mother would have said « from your mouth to God's ears », He obviously wasn't listening, because the only thing to recover last year was me, from a very bad cold.

Almost exclusively, 2011 has been a year of fear. Some places – London in particular, but also Paris and parts of Eastern Europe – have actually had a good year. But most of the Continent has been patchy at best and in downright difficulties in a lot of places. I stick by the fact that our industry in particular always recovers and always booms – because our customer base never goes away, and indeed with the emerging economies continues to grow. But I cannot imagine that 2012 will be that year.

A lot of properties are either now in the banks' hands or indirectly controlled by the banks, and although each hotel sale gets lots of publicity, the actual number of sales is dismally small, mostly because the perceived gap between buyer and seller in this climate is so very large.

We now see major hotels pretty well throughout Europe owned by third parties, banks, institutions, funds, wealth funds, rich individuals, property companies, etc. With comparatively few assets owned by the major brands, one forecast I am quite relaxed in making is that, beginning in 2012, the big brands will once again invest in hotel real estate, either partially or totally through lease or directly.

The traveling public followed the retail trend of examining every price point and getting – or thinking they are getting – real value for money before traveling. Unusually, this is happening in both the business and pleasure segments. Even in the few busy destinations, this trend is keeping rate growth lower than usual, while costs for the industry continue to rise steadily.

Despite the difficulty of raising debt and the enormous uncertainty of the next year or two, there will still be new or refurbished hotels, both small and large, which will make a real contribution in their originality and their customer attention.

Aside from these and the budget market, this is an industry which, in comparative terms, is still at a standstill in Europe. There are new openings, but they are few and far between.

One trend that has continued (and indeed, I believe, increased) is the penetration of the multiplicity of brands, flaunted by the major flags. Whoever thought we would see a couple of dozen Hilton Garden Inns and Double Trees appear almost overnight? I still forecast that by 2020, well over 50 % of Europe's stock will be flagged. Still not as much at the USA, which is at 70 %, but the process will take place at a very accelerated rate to catch up.

Though common in the USA, a relatively new business in Europe is the rise of the professional asset manager, as more hotel real estate moves into the hands of third parties. At least in theory, as these owners know nothing of the industry, there is an increased need for middlemen to watch out for their interest and translate the complexities of the contracts of the big brands and the idiosyncrasies and professionalism of most general managers. This trend will grow steadily in 2012 and onwards.

> How do I keep the cost down, service up, and the marketing constant and successful?

If you're lucky enough to still be gainfully employed in the industry – and even luckier to own your own hotel – then you are, as always, faced with our three big dilemmas: How do I keep the cost down, service up, and the marketing constant and successful? Those who balance these three properly will remain in the business forever.

Having now completed 50 years in the industry, I can only say that whatever the climate, we are so lucky to have such an entertaining and fulfilling profession. I know very few of my many colleagues who, looking back, would have done anything else... That's worth bearing in mind on an empty Sunday night in Cologne. ■

Do you feel lucky?

SOURCING DEBT, ALLOCATING SCARCE CAPITAL AND IMPROVING PROFITABILITY WILL BE KEY CHALLENGES FOR HOTEL COMPANIES NEXT YEAR, SAYS **ALLEN TOMAN**, PRINCIPAL OF COMO, ITALY-BASED **REALITY ADVISORS**. HOWEVER, THAT MAKES 2012 SOUND ALMOST LIKE JUST ANOTHER TOUGH YEAR... AND DEPENDING ON THE BREAKS, IT MAY BE MUCH MORE THAN THAT. THIS ARTICLE IS A MUST READ, BUT NOT FOR THE FAINT-HEARTED.

«I do not believe in a fate that falls on men however they act; but I do believe in a fate that falls on them *unless* they act.»
- Buddha

«Politics is the art of looking for trouble, finding it everywhere, diagnosing it incorrectly and applying the wrong remedies.»
- Groucho Marx

As this is written, politicians in the developed economies have given new meaning to Groucho Marx's satirical comment and added poignancy to the statement attributed to Buddha.

The EU has been struggling with how to make an imperfect union appear to be less imperfect. This goal has not been helped by the EU leadership's continued delay in taking the unpopular, but necessary, actions to both rescue insolvent banks and insolvent nations, and maintain the «union». In the United States, the political parties have focused on struggling with one another, seemingly oblivious to the high level of unemployment, the alarming (and growing) gulf between the rich and poor, the deteriorating finances of the national, state and municipal governments, and the structural imbalances in the economy. In Japan, the politicians continue to change places and to defer the hard decisions necessary to avoid yet another «lost decade». In India, another round of anti-corruption measures has passed at the national level only to be ignored by the states, and foreign investment has slowed in response to delays in economic reforms and weakening in the non-agricultural sectors of the economy. And, for China, there is a growing (and alarming) realization that the central government's dual policy of financing deficits for other nations so they could purchase Chinese goods, coupled with pushing cheap credit to expand industries and construct massive public works, is reaching the end of its useful life without a clear «next step».

In recent weeks, the EU has announced yet another «stress test» of its banks hoping both that the outcome is positive and that investors will believe (this time) that the majority of European banks are truly solvent and adequately capitalized. The US president has proposed a «jobs creation bill» that has been rejected by Congress. The rating agencies have downgraded the sovereign debt of the US, the UK, France, Italy (again), Spain (again), Greece (again), and, issued a warning regarding China.

The Central Banks have not been sitting idle. The Central Banks of China, the EU and the US are all in the market to buy, or swap on favorable terms, sovereign or domestic bonds held by banks. The goal is either to help the banks repair their balance sheets or, in the case of China, to bolster the public equity markets. In the developed economies, interest rates remain at record lows with no end in sight due to massive amounts of monetary accommodation and the provision of liquidity to the financial sector.

In Japan, the politicians continue to change places and to defer the hard decisions necessary to avoid yet another «lost decade»

Once again, estimates for 2011 and 2012 Gross Domestic Product growth have been revised downward by the International Monetary Fund. These downward revisions indicate that the EU and Japan will barely grow this year or next, the US will grow at a very low rate, and many of the emerging economies, including possibly China, are beginning to slow.

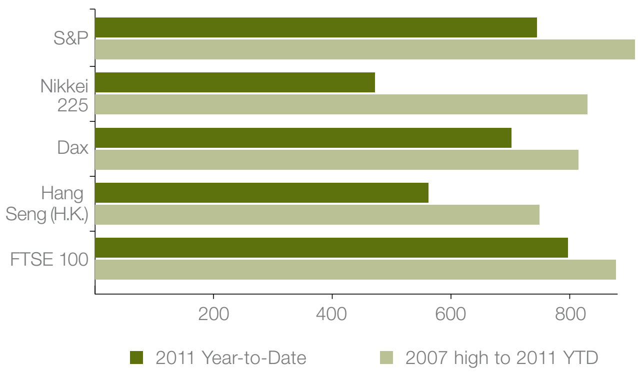
All of this uncertainty and inaction is being reflected in the public equity markets. These markets appear to be both unsettled and uncertain about whether another downturn (recession) or a recovery is on the horizon. In recent weeks, there has been another positive surge in the stock markets around the world after an equally troubling downdraft in the prior weeks. However, as with past «surges», this one may reverse itself quickly. Should any troubling economic or political news emerge. Despite some gains, the markets are in an extreme state of uncertainty and remain well below pre-crisis levels. **Chart 1** compares returns of various stock indexes for two periods: the pre-crisis (2007) high level versus current levels and year-to-date results.

All of the major indexes remain well below their 2007 pre-crisis highs and, more troublesome, as I write this in late October, all of the major indexes are negative for 2011. This is an indication that investors are not optimistic about the near-term economic prospects of the major economies and that any «recovery» is still in process. Especially troubling is the poor, and similar, performance of the equity markets for the 2nd largest (and emerging market) economy and the 3rd largest (and, long troubled) economy: China and Japan, respectively.

RELATIVE PERFORMANCE OF MAJOR INDEXES

To put this in perspective, imagine an investor who wants to put his savings to a productive, profitable use, investing $1,000 in 2007 or at the beginning of 2011. **Chart 2** shows the result of those investments for each of the major indexes. $1,000 invested in the Hang Seng (Hong Kong) equity market at the beginning of 2011 would now be worth $748. On average, the equity markets have been destroying wealth, with the result that investors have switched vast amounts of cash to seemingly «safe» assets such as gold (the price of which rising 40 % so far this year before dropping back to a 20 % gain), government bonds, trophy real estate assets, or mattresses.

RESULTS FOR $1,000 INVESTED IN MAJOR INDEXES



«If you're going through hell, keep going.»

- Winston Churchill

HOTEL OWNERSHIP

For the hotel industry, this has been a mixed, uncertain year with more to follow. While rates and occupancies have improved in many of the major markets driven by a resurgence of business travel, the secondary markets and tourism remain moribund.

The tie between the hotel industry and the public markets has grown stronger in recent years. The public markets have become a major source of both equity and debt financing, allowing many companies to grow faster and at a lower cost than would the private alternative. During this downturn, the public hotel companies have not fared well. **Chart 3** illustrates the performance of a combined group of large public companies representing hotel ownership (hotel REITS), hotel operating (management & franchise organization) and non-hotel real estate ownership (non-hotel REITS) in relation to the S&P 500. The results are based only on a selection of 4-5 companies in each

Do you feel lucky? cont.

category with the largest market capitalization, so may not be representative of the industry at large. What they do indicate, however, is that the REITs have had the largest change in price (i.e. have the highest risk) while the hotel operating companies have lower volatility and, for 2011, are outperforming the S&P 500.

COMBINED RESULTS RELATIVE TO THE S&P 500

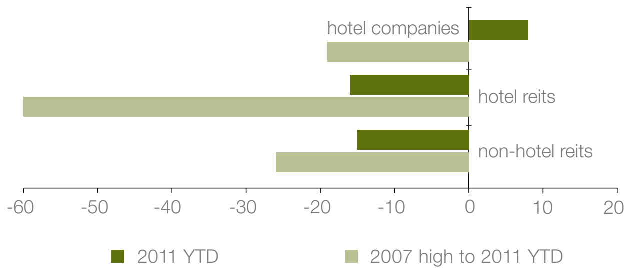
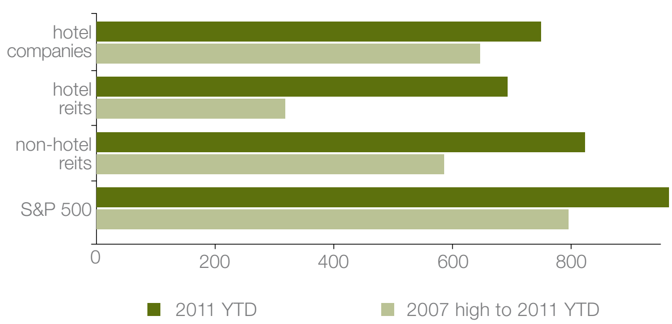


Chart 4 provides another look at this information. It shows the recent value of $1,000 invested in each category at either the height of the market (before the downturn) or at the beginning of 2011. An investment in the hotel REITs at either time leads to the largest loss of value. As the hotel REITs compete directly for ownership of hotels with private equity, their results provide a clue to the relative returns to ownership over this period and the impact the downturn has had on value.

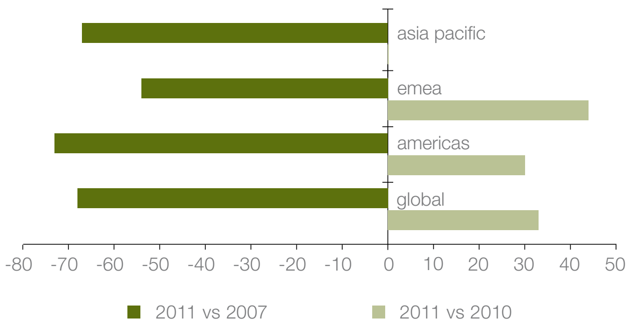
COMBINED RESULTS RELATIVE TO THE S&P 500



The good news is that, over the past year, sales transaction volumes have increased dramatically in most regions. This is summarized in **Chart 5**. The bad news has two parts: first, transaction volumes remain, on average, far below the record level of 2007 and, second, the transaction activity remains confined primarily to major markets.

The issues facing owners in 2012 will be much the same as in 2011. Key among these are sourcing debt, allocating scarce capital and improving profitability. Given the continued uncertainties in the overall economies and in the course of the recovery, things to look for related to ownership in 2012 include:

HOTEL TRANSACTION $ VOLUME (AS % OF PRIOR PERIOD)



1. *Increase in distressed sales (at last).* In the developed economies, the pressure for banks to « cleanse their balance sheets » of bad loans is mounting. More loans and foreclosed assets should be brought to market in 2012. In 2011, a number of funds raised capital to buy distressed real estate and a number of these have deployed their initial funding largely in the purchase of single family homes and loans. As a large number of hotel loans come up for refinancing in 2012 and 2013, expect the volume of distressed hotel transactions to increase markedly.

2. *Increase in lending.* All lenders now claim to be both relationship lenders and « open for business ». This is likely to

become, at least partially, true, as the banks begin to redeploy capital in order to bolster earnings. There are already multiple lenders quoting on major hotel financing and refinancing transactions. In 2012, the lenders should begin to widen their horizons beyond the competition for « trophy » deals.

3. *An increase in portfolio transactions (even in the EU).* The mix of hotel transactions in 2011 has been heavily skewed to large, single asset sales. In Europe this is due, in large part, to the lenders' unwillingness to enter cross-border transactions while they retain exposure to sovereign debt. In other areas, owners of hotel portfolios have been waiting for a continued improvement in operations and the greater availability of financing. Another motivation will be pressure from lenders on owners with portfolios that are either in violation of covenants or not performing at acceptable levels.

4. *Consolidation or privatization of some of the smaller public ownership firms.* A number of firms have operated for several years with negative earnings per share, stock values below book value, capital raises in the form of new issues of common or preferred shares, seemingly endless debt negotiations and restructurings, and limited ability to acquire new assets. These companies have to be considering whether being public and/or independent maximizes returns, especially to management. And they have become increasingly attractive as a means to gain control of substantial hotel real estate.

5. *Capitalization rates should remain low in 2012.* Recent decisions by the US and the EU Central Banks to maintain the current level of interest rates combined with improving but uncertain property results should continue to hold cap rates down and enhance values.

« He who does not economize will have to agonize. »

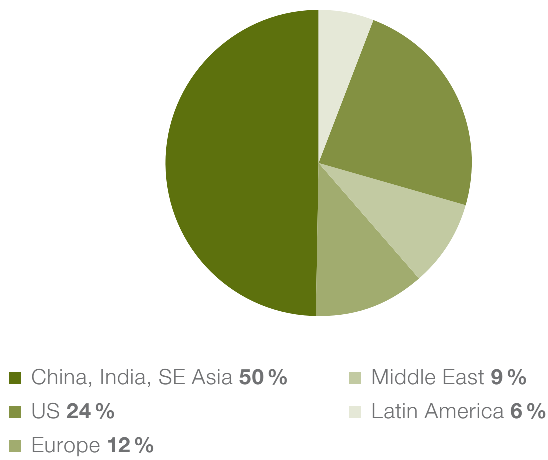
- Confucius

OPERATIONS

The good news for operations is that the majority of major markets in the US and EU will record double-digit increases in RevPAR for 2011, with the expectation of similar results in 2012. The recovery in demand and pricing power has been led by a largely unexpected rebound in commercial demand. This result has primarily benefited the « gateway » cities and major commercial markets. Many of the Asian and Latin American markets have seen increases in demand, also led by increases in the business sector ; however, pricing in all but the « gateway markets » in Asia has seen mixed results due to new supply and weakness in the leisure segment.

Chart 6 summarizes the share of new hotel rooms for 2011 originating by region. The supply of new hotel rooms is being dominated by Asia with China being, by far, the largest source of new rooms.

2011 % SHARE OF NEW ROOM ADDITIONS

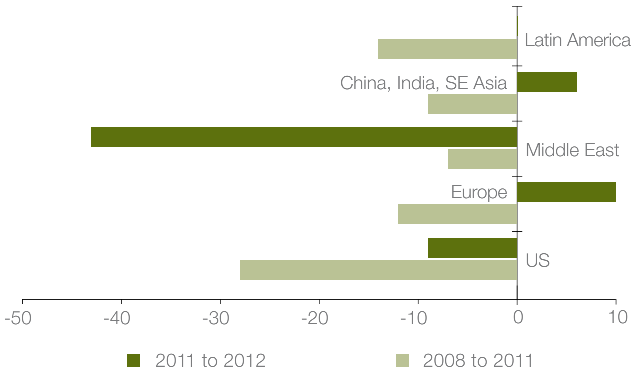


The supply of new hotel rooms has been decreasing each year over the past three years. **Chart 7** illustrates the annual percentage change between 2008 and 2011, plus the estimated percentage change from 2011 to 2012. After years of decreasing, new room supply is anticipated to increase in 2012 (but from a much lower base) in Asia (primarily China) and Europe. The rate of the decrease in new supply is anticipated

Do you feel lucky? cont.

to slow in the US and Latin America. Given the substantial decreases in supply during the recession, for 2012 new supply should be a concern for operators in very few markets.

% CHANGE IN NEW ROOMS SUPPLIED PER YEAR



The operating side of the industry has been under tremendous cost pressure for the past three years. The mantra has been « do much more with much less ». The result has been, in many cases, changes in the service model, revised staffing guidelines, significant amounts of deferred maintenance, and tight controls on all expenses. In markets where demand is increasing, the issue is whether current operating and maintenance levels are sustainable as rates increase. Some things to look for in 2012 related to operations:

1. *Negative message from the airlines.* After another year of poor earnings results, the airlines have decided to focus on driving revenue and, they hope, profits. The first steps in this direction have been a decrease in capacity for some international routes, developing « premium seating » schemes, consolidating routes, and limiting service to some destinations. In addition, several of the budget airlines have been offsetting weaker tourist demand by targeting business travelers with « rewards » and preferential treatment. The bottom line: fares rose significantly in 2011, and the airlines appear ready to do more of the same in 2012.

2. *Positive message in tourism.* Gateway cities maintained, and in some cases, strengthened their tourism numbers in 2011. In part this was done with the help of the chains and major operators who intensified tourism marketing and promotions with deals ranging from « double points » to « stay three and pay for two ». As the employment and economic picture stabilizes, tourism to other markets should increase as the anxiety of employed consumers decreases, despite increases in transportation costs. The bottom line: this trend should benefit most markets, with the largest impact on tourism-oriented and secondary markets.

3. *Mixed message from ownership.* While transaction volumes and asset prices have started to recover, they remain far below pre-recession levels. While the path of the recovery remains unclear, owners will continue to defer capital expenditures and resist changes to operating costs that are not offset by a multiple of increased profitability. The bottom line: the challenge to operations will be to demonstrate how increased expenditures on maintenance or operations translate into increased profitability.

> Given the uncertainty of these times and the lack of political leadership that has become evident, any view of 2012 has to contain caveats

4. *Mixed message from operating companies.* With the start of the current recession, operating companies lost a significant portion of their revenue as base fees decreased and incentive fees all but evaporated. Like the hotels, they shifted their operating paradigm to expense containment and deferring expenses. Bottom line: while sympathetic to the issues of maintenance and tight operating cost levels, the operating

companies are, for the moment, aligned with owners in terms of not increasing expenditures unless there is solid evidence of a multiple increase in profitability.

5. *Relatively clear (and positive) message on supply.* With the exception of a few markets (China, India and Europe) the addition of new rooms will continue downward for at least another year. Bottom line : more (or, rather, less) of the same.

Given the uncertainty of these times and the lack of political leadership that has become evident, any view of 2012 has to contain caveats. First, all bets are off if the US Congress moves forward with its « currency manipulation » legislation aimed at China. Second, all bets are off when (not if) Greece defaults on its sovereign bonds, unless there is a comprehensive, credible and funded EU plan in place to mitigate the impacts on the European banks and the sovereign debt of the other « troubled » EU members (particularly, Spain and Italy). Third, all bets are off if China is unsuccessful in managing its « credit bubble » by raising rates, reducing outstanding credit and supplementing the capital base of its major banks. Fourth, all bets are off if the US and EU policy makers continue to focus on politics rather the glaring economic challenges that face their economies and the world.

> In the financial system we have today, with less risk concentrated in banks, the probability of systemic financial crises may be lower than in traditional bank-centered financial systems.
>
> *- Timothy Geithner, 2006*

> Never before in modern times has so much of the world been simultaneously hit by a confluence of economic and financial turmoil such as we are now living through.
>
> *- Timothy Geithner, 2008*

Just as the Secretary of the US Treasury's view of the financial world shifted from « rosy » to a more nuanced position, a businessperson, reviewing the probabilities of various economic outcomes, would probably conclude that « all bets are off » for 2012, and then proceed with a focus on mitigating the downside. It is a year to continue to be cautious in the face of numerous unknowns and real economic risks. ■

Needed: a crystal ball

THE FINANCIAL CRISIS CONTINUES – NO NEWS THERE. BUT HOW WILL THE EVOLVING CONDITIONS AFFECT LENDING IN THE HOTEL INDUSTRY IN 2012 ? WE ASKED SPECIALIST **AAREAL BANK** ABOUT THE OUTLOOK. SENIOR EXECUTIVES **BETTINA GRAEF, MICHELLE WEISS** AND **CHRISTOF WINKELMANN** RESPONDED WITH THE FOLLOWING ANALYSIS AND INSIGHTS FOR THE HOTEL YEARBOOK.

Today's newspapers are full of predictions about the future of the global economic situation. An unusually high degree of uncertainty prevails throughout, with one dominant question: Are we slowly but finally recovering from the past crisis, or are we on the brink of a new one? This insecurity is reflected in all industries, but more than ever in the banking world, and thus also in the hotel lending industry.

THE GOOD NEWS

After hitting the bottom in 2010, 2011 saw continued recovery and strong growth in the hotel markets across the globe, although some regions experienced quicker improvement than others. However, optimism returned and overall confidence in the markets has certainly picked up.

The same trend was visible in the hotel investment market, with global hotel transactions at US$ 14.8 billion in the first half of 2011, up 117 % when compared with the same period last year, according to Jones Lang LaSalle Hotels. While last year was mainly dominated by smaller single asset transactions, this year shows a renewed interest in larger portfolio deals as illustrated by the Mint portfolio that was purchased by Blackstone, MSREF's Inter-Continental Hotel portfolio sold to a Lebanese high-net-worth individual, the renowned Maybourne Hotel Group acquired by the Barclay Brothers, but also the sale of the management company Rosewood Hotels & Resorts, including five properties, to the Hong Kong-based firm New World Hospitality.

The reasons behind the growing activities are certainly the improvement in hotel performance visible across all regions, but also the changes in investors' or lenders' sentiment. More investors, led by REITs, private equities, institutional funds as well as high-net-worth individuals, are back in the market with equity around to be invested. Overall, confidence is up and yields in certain regions are back down at pre-crisis level. However, in spite of the increasing availability of debt compared to the last years, it still remains at a very selective basis. As the accessibility to financing is a key driver of the hotel transaction market, this will continue to hold back transactions from returning to more normalized levels.

BUT WHERE ARE THE LENDERS?

Although the markets have improved since the global economic downturn, financing of hotels continues to be tight and this is not likely to change in 2012. There are fewer banks willing to lend; firstly due to the exit of lenders that were in the hotel investment industry for the high returns during the peak years rather than for their commitment to the industry, but also because of the hindered condition in the banking world, specifically the continued economic challenges caused by the sovereign debt crisis in the Euro zone and the new regulations governing, among other things, larger capital ratios (e.g. Basel III).

Hotels are considered to be a more sophisticated asset than other types of real estate, and as some lenders suffered more than others during the crisis, they subsequently became more cautious or even withdrew from the industry entirely. Several lenders are moving away from foreign ground and predominantly focus on their domestic market. There are currently not only a limited number of lenders still active in the hotel investment market, but those remaining have become very selective, with stricter requirements and greater emphasis on the quality of the asset as well as the sponsors behind it. Furthermore, focus lies on the hotels' achieved cash flow with financing limited to trading assets, rather than developments or projects that require extensive capital expenditure or repositioning. Some lenders are also still busy cleaning up their balance sheets and dealing with their assets, as demonstrated by the Royal Bank of Scotland's move to come to the market with their 42 UK Marriott hotel portfolio this summer, or the von Essen portfolio by Barclays and Lloyds, with others expected to follow.

Further issues influencing today's lending condition include the introduction of tighter controls. Following the recent financial crisis, the call for stricter regulations became louder, and in September 2010, Basel III was agreed. The new rules, which will come into effect starting in 2013, demand various new restrictions such as significantly bigger capital reserves. This may pressure some banks that are not in a position to increase their capital to reduce their balance sheets, subsequently leading to reduced lending volumes. Moreover, the current

sovereign debt crisis, which again dominates today's global agenda, and the resulting uncertainty and consequent market volatility, make it more difficult and expensive for banks to fund. The falling share prices of banks seen during the last months have put further strain on their day-to-day business.

HOW WE SEE THE OUTLOOK FOR 2012

So what does that all mean for the hotel lending industry in 2012 ? As we see things at Aareal Bank, the hotel investment market is still on its path to recovery, and hotel lending volumes are not expected to significantly increase from the levels in 2011. Nevertheless, while debt availability is – and continues to be – limited, there are still a few specialized banks that remain active in the market. Even though lending terms have somewhat improved, funding in general becomes more expensive for lenders, and as a result, margins are anticipated to widen further. However, with interest rates across all regions continuing to be historically low, overall rates will still be lower or equal to pre-crisis levels. Nevertheless, lenders' terms will remain conservative, at loan-to-value ratios that require an equity contribution of 40 % or even more, depending on the quality of the property and location. However, the focus is shifting more on parameters such as yield-on-debt or EBITDA multiples, emphasizing the hotel's trading history. Still, the majority of activities will center on key gateway cities, such as London and Paris in Europe, where performance is expected to remain strong. Yet, considering the vast amount of financing during the peak years of 2006 and 2007, mostly at five-year terms and at aggressive conditions, 2012 will be a busy year of refinancing for lenders – although at terms that are less attractive for investors.

Then again, we might be seeing increased activity in the hotel lending industry by other players. Under the Solvency II regulations, insurance companies will benefit from shifting to invest in debt instruments rather than investing directly through equity, and therefore, an interest in hotel lending may be observed in 2012. Furthermore, the second half of 2011 has seen a return of commercial mortgage-backed securities (CMBS) in the hotel industry, a source of financing that used to be widespread, with Deutsche Bank's sale of over US$ 600 million of floating-rate CMBS, the first offering of this type since 2007.

On the other hand, the speed of recovery in hotel performance varies, and has proved to be more sluggish than expected in the second half of 2011, with forecasts being adjusted at more conservative levels. The sentiments are becoming more mixed, and confidence levels are suddenly not as high any more. The current global economic situation produces a high degree of uncertainty on the investment market : the mounting pressure on the European sovereign debt crisis is leading to enormous volatility in the markets, downgrades of various countries and banks by the rating agencies, falling prices of bank shares and downward revisions of global economic growth forecast. These are all factors that will influence the development not only of hotel performance in 2012, but especially on the lending market.

It is therefore very difficult to make a reliable forecast for the entire industry. There are some good fundamentals, including a limited amount of new supply that will enter into the market, improved performance across the regions and the return of transaction activities. The current crisis is driven more by the capital markets being affected by the sovereign debt crisis rather than the tourism and hotel industry. While we cannot speak for all lenders, Aareal Bank has been and will continue to be committed to the hotel industry as a reliable and experienced partner, through good times as well as difficult times. ■

An obsolescent model

IN GERMANY, HUNDREDS OF LEASE CONTRACTS ARE GOING TO EXPIRE DURING THE NEXT FEW YEARS, SOMETIMES FORCING OWNERS TO ENTER INTO DIFFICULT NEGOTIATIONS WITH OPERATORS. **OLIVIA KAUSSEN** AND **ADRIAN FLÜCK** FROM **CBRE HOTELS** IN MUNICH DISCUSS POSSIBLE OUTCOMES OF THIS SITUATION, AND POSIT SOME IDEAS ABOUT THE FUTURE OF THE TRADITIONAL LEASE AGREEMENT.

The German hotel market is dominated by hotels run subject to lease contracts, while in the rest of the world, the large majority of hotels are run subject to management contracts. The main reason for this is the German investor profile. German institutional investors are usually passive investors who hold all kinds of different asset classes such as office buildings, shopping centers and warehouses. Hotels often represent less than 10 % of the total capital spent. For this reason, investors do not have specialist teams to look after the hotel operation. In addition, according to their statutes, open and closed-ended funds are only allowed to receive rental income and not income from business operations. Another reason for the dominance of lease contracts is that most of the German banks finance hotel developments and investments only subject to a lease.

During the years after the fall of the Berlin Wall in 1989, numerous international hotel operators expanded their presence in Germany, often by signing 20+ year lease agreements. At the same time, domestic hotel groups expanded aggressively into the former East Germany. Today, 21 years after the country's reunification, these hotels are facing a big challenge. It is estimated that the tenants of around 400 hotels (Hotour Hotel Consulting) are potentially going to terminate or renegotiate the lease contracts.

The simple solution of extending the existing lease is sometimes the answer. However, for the following reasons this is often not the case:

- Old style lease contracts often do not oblige the tenant to invest regularly (no FF&E reserve account) and tenants naturally invest less money towards the end of the lease term. Therefore, these properties are usually in need of extensive refurbishment.
- Major investments in technical equipment as well as the roof, windows and façade are often necessary after 20 years of operation.
- A lot of the leases are above market level.
- There will be a major change to the German accounting system. It is planned that as of 2013, the IFRS (International Financial Reporting Standards) rules will be altered to show rental relationships as capitalized assets in the form of rights of use and the payment obligations associated with the lease relationship as liabilities on the balance sheet.

Many international operators are eager to use this opportunity of expiring lease terms to increase their presence in Germany, by signing management rather than lease contracts. However, German institutional investors rarely have any other alternative than insisting on a fixed lease, as they are required to show a rental income from their real estate investments according to their statutes and in order to take advantage of tax benefits. Since the majority of hotel owners in major German cities are institutional funds, the operators' negotiating power is very limited.

What are the options for hotel owners who are confronted with an expired lease contract and therefore face the above issues? Lease notice periods are usually between 12 and 24 months. This leaves a reasonable amount of time for negotiating a new contract with the existing operator or a new tenant. In most cases we have witnessed so far, operators want to continue to operate the property, but subject to capital expenditure and a reduced rent. Such requests often result in financial difficulties for owners, since they need to spend capital and at the same time see their returns diminishing.

The following situations have already occurred, and we expect to see similar ones in the coming years:

- We expect lease re-negotiations with existing tenants to make up the majority of solutions. Negotiations are potentially hard and long, however might fruitfully end in a new lease structure acceptable for both parties. The Hilton Mainz was successfully renegotiated, including a significant capital expenditure of €38 million funded by the owner, Mainzer Aufbaugesellschaft.
- Negotiations with different hotel operators are an alternative solution, especially in secondary locations. For example, Maritim decided not to prolong their lease with Nürnberger Versicherungsgruppe in the center of Hannover. Gold Inn, a small operator with an opportunistic vision and local know-how, was willing to take on the lease after a refurbishment program and now runs the hotel under the brand Dormero.
- The last resort is the sale of the property subject to « vacant possession, » i.e. without an operating agreement in place. These are attractive investments for opportunistic buyers, such as Event and Grand City. These types of investors are happy to take the risk of repositioning the asset and to operate the property themselves. The Mövenpick Stuttgart airport, for example, was sold by Union Investment to Grand City after the lease term expired.

Despite the difficulties described above, we believe that lease contracts in Germany are here to stay. If set at the right level, they have a lot of benefits for both owners and operators and clearly separate the real estate from the operation. We expect to see more lease contracts in the future, especially in the budget sector, where companies like Motel One and B&B are rapidly expanding, based on fixed leases, and are attracting a lot of investor interest. In the mid- to upscale market, we foresee an increasing number of hybrid lease contracts that limit the operators' risks. These contracts have a lower fixed lease plus a turnover and/or profit sharing arrangement. In addition, guarantees are often limited to a maximum of two years' rent.

International operators willing to increase their presence rapidly in Germany will have to obey the rules of the German market. If they are unwilling to do so, their expansion might take longer than they wish, or they will have to find the right franchise partners who will sign the lease agreements for them. ■

Aiming for more agreeable agreements

IN THE CURRENT ECONOMIC ENVIRONMENT, CHALLENGING SCENARIOS LIE AHEAD FOR THE US HOTEL INDUSTRY. INCREASED FINANCIAL UNCERTAINTIES MEAN THAT CERTAIN LEGAL ISSUES RELATED TO THE RELATIONSHIP BETWEEN OWNERS AND DEVELOPERS, ASSET MANAGERS AND OPERATORS WILL COME INTO SHARPER FOCUS IN 2012. **LETVIA M. ARZA-GODERICH** AND **SCOTT A. PRESTON**, OF LOS ANGELES BASED **PRESTON ARZA LLP**, SHARE THEIR OUTLOOK FOR THE COMING YEAR.

We are all facing unsettling challenges due to the global financial and economic realities, and the hotel industry is no exception. Financing constitutes a frequent obstacle, and in that regard, developers, owners, asset managers and operators are dealing with the element of risk in a more poignant fashion. Thus, when documenting contractual relationships and transactions involving hotels, this poignancy must be addressed. In the spirit of sharing some helpful insight, we offer the following commentary on certain legal issues, concerns and developments of significance for the various players in the hotel industry.

THE MANAGEMENT AGREEMENT: ROADMAP TO THE FUTURE?

In the branded hotel industry, there is a clear trend towards a business model based on the branding operator not owning the hotel assets, but instead operating the hotel as an agent of the hotel owner, pursuant to a long-term, renewable management agreement that ordinarily comprises complex and

detailed terms and conditions reflecting industry standards. Key provisions of hotel management agreements include, *without limitation,* the term (duration) and conditions for renewal, the manner in which an operator's management fee is calculated and paid, what portion of such fee corresponds to an *incentive fee* which may be subject to its own specific basis, the obligations of the hotel owner to provide the capital for the maintenance and improvements of the hotel facilities in compliance with the operator's standards, the funding of reserves, the definition of what constitutes default on the part of the hotel operator and the owner, respectively, the rights of each party to cure its default, and the all-important termination rights. Negotiation of a hotel management agreement typically is a protracted process during several months.

FAIRMONT V. TURNBERRY: THE POWER TO REVOKE

The general presumption in the industry has been that the terms of a hotel management agreement defined the « private rule of law » between the parties. That may have been the case until the recent, eyebrow-raising case of *FHR TB, LLC, et al. v. TB ISLE RESORT, LP,* better known as Fairmont v. Turnberry, in the United States District Court for the Southern District of Florida. The case generated much controversy, as it involved the unprecedented « overnight » ouster by the hotel-resort owner (Turnberry) of the manager-operator brand (Fairmont), in blatant disregard of clauses and provisions in the management agreement that required prior notice of default, right and opportunity to cure and other typical provisions with respect to termination.

Fairmont filed a request for injunction, claiming that it had the contractual right to have its management team reinstated by order of the court. Turnberry countered with a very basic argument under the parties' chosen law of New York; in brief, Turnberry relied on the fundamental « agency » nature of the relationship between manager (as agent) and owner (as principal), and the owner-principal's *power* to revoke such an agency relationship at will (subject to the agent-manager's claim for damages as a result of such premature termination). To the surprise of many, Turnberry prevailed, and Fairmont was denied injunctive relief. The well-reasoned and impartial analysis of the magistrate, adopted by the court, should be mandatory reading for anyone involved in the negotiation and drafting of a management agreement between a branded operator and an owner. Enjoy a memorable quote from the opinion summarizing the general rule of law of agency in New York: « [T]he principal has the *power* to revoke the agency even if that revocation is wrong, even if it breaches the applicable contract and even if the revocation creates a clear-cut liability for damages. »

The opinion alluded to the one exception to the rule of revocability of an agency: « when the agency is coupled with an interest in the subject of the agency. » However, the case placed a fresh light on the legal concept of *« coupled with an interest. »* We regale you with a second memorable quote from the opinion: « Words alone are not enough to establish an agency coupled with an interest. … Since [agent] does not have a property interest in [the subject of the agency], its agency is revocable and it was revoked. » The opinion held that Fairmont's right of first offer and right of first refusal in the event that the owner placed the hotel property for sale were contingent, not actual, *immediately vested* rights, and thus did not make the agency one « coupled with an interest. » As is often the case, the devil was in the details.

SNDAS (SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENTS)

We have trouble remembering a time when financing was such an issue in any business area, but particularly in the hotel industry. In such a dire scenario, with lenders demanding stringent loan-to-value requirements and shying away from overleveraged structures, debt service becomes a difficult proposition for many hotel owners. By signing a Subordination, Non-Disturbance and Attornment Agreement (« SNDA »), a hotel lender essentially agrees that if said lender seeks a receiver or acquires control of or title to the property through a foreclosure or analogous proceeding, that lender will step into the shoes of the hotel owner's obligations pursuant to the hotel management agreement.

Aiming for more agreeable agreements cont.

Traditionally (or shall we say « before the crisis »), SNDAs were commonplace, came as part of the management brand's package of forms, and lenders signed them without much pause. Now, lawyers for hotel lenders are advising them to consider the consequences of signing an SNDA very carefully, in view of the possibility that once an SNDA is signed, foreclosure will not cut off that hotel management agreement. In such a case, the hotel property value might be reduced because it is « encumbered » by the obligations under the long-term hotel management agreement. Thus, many lenders have adopted the practice of refusing to sign SNDAs. Given the paucity of financing sources, some brands are caving to the lenders' refusal to sign SNDAs. We should point out that voices of reason from within the industry suggest that a well-negotiated, carefully crafted SNDA may become a vehicle for an orderly transition in a foreclosure or post-foreclosure setting.

KEY MONEY PROVISIONS

« Key money » is a term referring to a financial contribution by the hotel operator to the hotel construction or conversion, in upscale or large-size projects, and usually not paid until the hotel is about to open or has just opened. Hotel management agreements will ordinarily include the terms with respect to the operator's contribution and owner's repayment of key money. Hotel management agreements often provide what is known in the industry as the key money « burn-off » (a form of amortization or gradual forgiveness of the obligation to repay the key money over initial fifteen- or twenty-year term of the management agreement).

A commonly found provision calls for the immediate repayment of the key money should the management agreement be terminated for any reason. In these challenging times in which occupancy levels have tended to decline, lawyers for hotel owners are advising them to contemplate a scenario where the operator terminates the management agreement and then demands repayment of any unamortized key money from the hotel owner.

One method to seek protection from such a risk is to ascertain that the key money obligations are integrated into the hotel management agreements and, thus, subject to a defense by the owner on the basis of the operator's breach of its obligations under said management agreement. Cases have been reported in which the key money obligations were in a separate agreement, rendering it difficult for the hotel owner to obtain a discharge of key money repayment obligations upon termination by the operator.

> We should point out that voices of reason from within the industry suggest that a well-negotiated, carefully crafted SNDA may become a vehicle for an orderly transition in a foreclosure or post-foreclosure setting.

A DISAPPEARING COMPONENT: THE SECOND HOME

An experienced development executive for a prominent international hotel brand recently reminded us of a significant change in the mix of hospitality projects seeking sources of financing or funding: the dwindling market for a vacation or second home.

While many developers insist on including a residential component in their development plans for tourism resorts or larger hospitality projects, the harsh reality appears to be that the market for a second or vacation home has weakened considerably. Exceptions to this trend can be spotted in destinations such as Panama, where the marketers of mixed-use developments including a residential component are targeting a lower-income purchaser by offering a modestly priced alternative. Such a real estate component, however, will not generate significant additional income streams for the hotel, the way it was once projected in the hotel industry. ■

Sol Meliá Vacation Club
at ME Cancun


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

Flexibility on the horizon

WHAT WILL BE THE KEY LEGAL ISSUES FACING THE HOTEL INDUSTRY IN CHINA NEXT YEAR? WE ASKED **DR. ULRIKE GLUECK**, MANAGING PARTNER OF THE SHANGHAI OFFICE OF THE INTERNATIONAL LAW FIRM **CMS**, AND HER SENIOR ASSOCIATE **HUGH ZHOU**, TO SHARE THEIR EXPECTATIONS WITH THE HOTEL YEARBOOK.

OVERVIEW OF THE CHINESE HOTEL MARKET

Mirroring the rapid development of the overall Chinese economy, China's tourism and hotel sectors have seen remarkable growth in the past decade. Many international hotel groups have aggressively expanded their presence in tier 1 and tier 2 cities. In addition, numerous local hotel chains have emerged and quickly occupied markets in all tiers.

By the end of 2010, there were approximately 13,991 star-rated hotels in China. The number of guest rooms reached a staggering 1.71 million, 36,400 more than at the end of 2009, offering 2.98 million beds. Although the number of both hotels and beds slightly decreased during the global financial crisis in 2008 and 2009, gross operating profit (GOP) levels increased for all star-rating categories in 2010, with three-star hotels recording the largest increase at 52 %.

In the meantime, the construction of new hotels has picked up speed again. Smith Travel Research Global, an information provider that tracks supply and demand data for the hotel industry and provides market share analysis for all major international hotel chains and brands, reported in May 2010 that China had 96,691 hotel rooms under construction, considerably more than the US (70,962), Europe (58,617) and the Middle East/Africa (71,707).

As J.W. Marriott Jr., Chairman and CEO of Marriott International, put it: « China is arguably the world's most compelling tourism market today. »

CONDOMINIUM HOTEL SECTOR MAY FACE OBSTACLES

Condominium hotels are very popular in Western countries and were first introduced in China in the early 1990s. Condominium hotel projects already exist in almost all major Chinese cities, such as Beijing, Shanghai, Chengdu, Guangzhou, etc. However, these projects have recently been encountering difficulties in gaining approval from local authorities. The main reason is that a condominium hotel is still deemed to be commercial real estate rather than residential real estate.

In China, ownership of land can only be vested in the state or collectives. All other entities or individuals can only acquire so-called land use rights. Owners of a real estate property (e.g. a hotel guest room or residential premises) can only enjoy the use right of corresponding land for a limited time period. The latter depends on the approved land use purpose. Typically, land can be used for residential, commercial, industrial or comprehensive purposes. Depending on the purpose of use, the term differs. For example, the term of use for residential purposes is 70 years, whereas the term of use for commercial purposes is only 40 years.

For a traditional hotel project, only land designated for commercial use can be utilized, and the property title of a hotel cannot be split into smaller property titles on a guest room basis. However, for a condominium hotel, a residential property title may be granted in order to help individual owners purchase guest rooms based on split property title certificates. Consequently, a condominium hotel is more akin to a residential real estate property (based on residential use with a use term of 70 years) than a traditional hotel (based on commercial use with a use term of 40 years). However, after more than two decades of condominium hotel development in China, the traditional residential real estate market seemed to have been impacted, with condominium hotel developers increasingly trying to sell their hotels by mixing the concepts of residential real estate and commercial real estate. This finally spurred the government into action, especially as the Chinese real estate market was overheating.

The first signs came in the Beijing hotel market with the issuing of a local regulation on sales of hotel projects, whereby the condominium hotel business model was no longer permissible for hotel-related land use right purchase projects approved after 30 May 2010. This means that smaller property titles on a hotel guest room basis cannot be granted to individual owners. For hotel-related land use right purchase projects approved before 30 May 2010, the condominium hotel business model can still be implemented, but the developer must confirm that the condominium hotel-related land use right is for commercial

Flexibility on the horizon cont.

use only, i.e. only with a term of 40 years, and all relevant taxes, public utilities costs and construction-related standards are different from those of residential real estate. In 2011, Nanjing (the capital city of Jiangsu Province), Hangzhou (the capital of Zhejiang Province) and Ningbo (the second largest city in Zhejiang Province) and others started to implement similar local practices to close the door on new condominium hotel projects. Shanghai and Guangzhou are likely to follow in the near future.

FRANCHISE BUSINESS MODEL: MORE FLEXIBLE SOON?

International franchisors and branded retailers are quickly entering the market to benefit from China's expanding middle-class consumer base. This also offers opportunities for the hotel sector, which has traditionally been one of the key sectors for the franchise industry worldwide. Hotel franchise business models in China have already started to expand considerably.

China has modified the regulatory framework governing franchise activities several times in the past. Before 2007, foreign franchisors were required to operate at least two self-owned stores within China for more than one year before they were permitted to franchise their brands or services to local Chinese franchisees. New franchise regulations issued in 2007 eased the above requirement by stipulating that a foreign franchisor satisfied the «two stores, one year» requirement provided it had operated two self-owned stores in its home country or other jurisdiction, not necessarily in China.

> Hotel franchise business models in China have already started to expand considerably

Recently, the government published new draft franchise regulations for public discussion. They are expected to be enacted in the coming year. For the first time, the draft regulations provide clearer guidance for hotel management companies seeking to determine whether they meet the «two stores, one year» requirement. Hotels under direct management of the hotel management company can be deemed self-owned stores. This means that once the hotel franchisor has directly managed two hotels in China or other jurisdictions for more than one year, it is entitled to conduct franchise business in China.

MORE PREFERENTIAL TAX TREATMENT AND FINANCIAL SUBSIDIES MAY BE ON THE HORIZON

According to the PRC Corporate Income Tax Law and its implementing rules, at state level a hotel owner may receive corporate income tax credits for 10 % of the total investment amount relating to the purchase of special equipment for environmental protection, conservation of energy and water, work safety, etc., provided this special equipment is listed in the Catalogue of Special Equipment Dedicated to Environmental Protection Entitled to Preferential Income Tax Treatment, the Catalogue of Special Equipment Dedicated to Conservation of Energy and Water Entitled to Preferential Income Tax Treatment, and the Catalogue of Special Equipment Dedicated to Work Safety Entitled to Preferential Income Tax Treatment.
This preferential tax treatment is becoming more and more widely implemented by the tax authorities. In addition, at regional level, an increasing number of local governments (especially those of tourist cities in China) are willing to grant local financial subsidies to certain hotels satisfying the green hotel criteria promulgated by the China National Tourism Administration in 2006.

Many readers may be aware that construction of a Disneyland in Shanghai commenced in 2011. In order to facilitate development of the Disneyland project, the Shanghai government has recently designated an area of 20 square kilometers surrounding the site as a tourist holiday resort. The management committee for this area reports directly to the Shanghai government and is currently considering preferential terms for modern service industries. In this connection, both hotel management companies and hotel projects may enjoy preferential treatment in the future. ■

Hotels v. Online Travel Agents: whose side are you on?

AS OTAS (ONLINE TRAVEL AGENTS) HAVE BECOME BIGGER AND MORE POWERFUL, THEY HAVE NOT ONLY DRAWN FIRE FROM THE HOTEL INDUSTRY BUT HAVE ALSO BEEN SCRUTINIZED IN TERMS OF THEIR IMPACT ON COMPETITION, AND THIS WILL CERTAINLY REMAIN A HOT TOPIC IN 2012. WE ASKED **TOM PAGE**, HEAD OF THE HOTEL & LEISURE GROUP FOR LONDON-BASED **CMS CAMERON MCKENNA LLP**, TO GIVE HOTEL YEARBOOK READERS AN OVERVIEW OF THE ISSUES.

Recessions tend to focus the minds of hotel operators. Squeezed margins across the industry make hoteliers re-examine where their revenue comes from and where their costs are going. In many cases, the hoteliers' sights have set on the Online Travel Agent (OTA), the long-time savior and scourge of the hotel industry. Estimates from PhoCusWright show OTAs delivering 46 % of all revenue to hotels in 2010, with Expedia and its affiliates being the largest of these with a 44 % share of the OTA market. Research by the Cornell School of Hotel Administration on a sample of bookings through IHG's own website showed that 75 % of people booking had previously visited an OTA prior to booking and 62 % had specifically visited Expedia.

OTAS UNDER ATTACK

There is no doubt then that OTAs are an integral part of the industry and vital to any hotel operator's success. Yet they have recently come under attack, including a UK investigation into potential illegal price-fixing. Yet it was not complaints by hotel operators that triggered the investigation, but a complaint from a smaller OTA.

Of all the grievances aired against OTAs, the most frequent is the use of « rate parity » agreements. OTAs can impose penalties upon hotels for not enforcing rate parity including financial penalties, reducing the search ranking or even removing the hotel from the website altogether. Other grievances include:

- « Last room availability »: forcing hotels to sell discounted rooms through OTAs that could have sold on a non-discounted basis
- Unfair search rankings: rooms that are least discounted will appear last in the search rankings in any given location
- OTAs advertise discounted rates that are not available or outbid hotels for keywords on search engines to divert search traffic to the OTAs' sites rather hotelbrand.com.

THE OTAS' PERSPECTIVE

The OTAs claim that hotels are under no compulsion to sign up with the OTAs and that if they do not like the terms, they can withdraw from that website. They also point out that operators generally set the rates on the OTAs' websites via a direct feed from their own central reservations systems (CRS). As a result, it is the operators that are setting the price to consumers, not the OTAs.

UNDERSTANDING THE COMPETITION LAW ISSUES

From a legal perspective, the analysis gets difficult, as you need to understand the difference between the merchant model and the retail model. Under the retail model, the OTA simply acts as agent and takes a commission – no different from when a travel agent books you a holiday or an estate agent sells you a house. Competition law in the UK and many other countries does not affect such agency relationships – there is no resale. Under the merchant model, the OTA acts more like a traditional retailer, buying a product from a supplier, adding a mark-up and re-selling the product at the marked-up price.

ILLEGAL RESALE PRICE MAINTENANCE

Generally, if a supplier dictates the price at which the shop must sell their goods, the arrangement could be vertical resale price maintenance, prohibited by European law. We believe this rule is the focus of the UK investigation. But there are factors specific to the hotel sector which may make it difficult to apply the rule:

- It is only the merchant model which can be prohibited in terms of resale price maintenance, since only in that model does the OTA re-sell the product.
- In real terms, for all concerned, both models are comparable. In both models, hotels tend to determine prices offered by OTAs to consumers, who do not know how OTAs are remunerated. It is hotels that actually deliver the service to the consumer, not OTAs.
- Turning to the underlying purpose of competition law, it is difficult to see how consumers are significantly affected. Rate parity affects the rooms of one particular hotel, not of competing hotels. Hotels operate in a very competitive environment and cannot maintain artificially high prices.
- So if there is no difference to consumers between the retail and merchant models and no other form of price-fixing, is it

logical that one model can be prohibited by competition law and the other not?

From our perspective, we do not believe that rate parity by itself should be considered illegal price-fixing, especially where hotels themselves set the rates seen by consumers.

HOW IS THE HOTEL INDUSTRY RESPONDING?

Hotel operators have perhaps been guilty in the past of being naïve in allowing the larger OTAs to dictate terms and move the industry from a retail model to a merchant model. OTAs have exploited their strong bargaining position and purchasing power to increase their margins and fund their large online marketing budgets to capture ever greater market share.

Operators are now fighting back by increased marketing through direct online sales and less dependency on OTAs. The hospitality industry representative body, HOTREC, has published its «Benchmarks of fair practices for Online Travel Agents» that sets out its 20 points on how OTAs can operate fairly and competitively for the benefit of hotels, intermediaries and consumers, to encourage fairer behavior. We would like to see this more widely recognized and adopted.

But as powerful as the OTAs have become, they are still entirely dependent upon the operators for product. Withdrawal of a large operator's room stock will cost an OTA millions of dollars in lost revenue. Savvy operators, such as IHG and Choice, have been willing to use their own negotiating strength and withdraw product until sensible terms can be agreed. But playing a game of bluff when both sides could lose millions is a risky game and not for the faint-hearted.

BENEFITTING FROM OTA ONLINE MARKETING SPEND

It is easy to think that the OTAs are making super margins at the hotel industry's expense, but the larger OTAs have succeeded through intense marketing. Leaked Google documents in 2010 showed that Expedia and Hotels.com together spent over $9.2 million in one month on Google advertising alone. The hotel industry has benefitted from this massive online marketing spend. But the ubiquity of Expedia means that all hotels and operators have to be on it to compete and the benefit of that marketing spend for one hotel over its competitor is lost. It is possible that the marketing spend has increased revenues for the whole hotel industry and improved consumer information and choice, but this is almost impossible to measure.

The entry of Google itself into the travel sector will again change the dynamics of online distribution and marketing and provide further challenges for operators to determine the best online distribution strategies.

UNDERSTANDING OTA JARGON

Merchant model: OTA sells the room to the customer and pays an agreed net rate (ie after deducting its margin) to the hotel.
Retail model: OTA takes booking as agent for the hotel and hotel pays OTA a commission on the gross rate received from the customer.
Expedia and affiliates: includes Hotels.com, Hotwire.com, Venere.com and TripAdvisor.
Rate parity: the practice of maintaining a single room rate available to consumers across all distribution channels.
Last room availability: allowing OTAs access to all available rooms, not just a limited allocation. ■

Eleven markets, eleven stories

ACCORDING TO **HORWATH HTL**, 2012 WILL BE A YEAR OF UNEVEN RECOVERY ACROSS EUROPE – UNLESS THE FINANCIAL, FISCAL AND EURO CRISIS WORSENS SUBSTANTIALLY, IN WHICH CASE ALL BETS ARE OFF. TO GET AN IDEA OF THE OUTLOOK IN KEY MARKETS ACROSS THE CONTINENT, THE HOTEL YEARBOOK ASKED 11 DIFFERENT OFFICES OF HORWATH'S INTERNATIONAL NETWORK TO CONTRIBUTE THEIR PROFESSIONAL ASSESSMENT OF WHERE WE ARE AND WHERE WE ARE GOING.

UNITED KINGDOM

SITUATION REPORT

The UK hotel market has continued its recovery from the global financial crisis, with year-to-date RevPAR to September 2011 increasing by 5.9 % to £58.37 according to STR Global (the source for all the performance data you see here). This recovery has largely been driven by ADR growth and in particular that of London, the driving force behind overall UK hotel performance. This growth in part illustrates the continued revival in corporate travel, which is less price sensitive than leisure demand, in addition to the continued benefit of the depreciation of Sterling, making visiting the country more affordable internationally.

London has experienced a remarkable year, with year-to-date RevPAR (to September 2011) growth of 10.7 % to £110.74, driven for the most part by rate growth. Hoteliers are now well ahead of pre-recession performance levels, illustrating the city's status as a key global hub. The capital continues its robust performance, reaping the benefits of being strengthened by the multi-national source of both business and leisure visitors, which generates demand 365 days a year. As at the time of writing, there has been talk of some softening of corporate demand towards the end of Q3 2011, in particular from the USA, which we attribute to the recent turmoil and continued uncertainty in the European financial markets.

In contrast to London, hotels in most of the regional markets are experiencing far more protracted recovery and are still struggling to generate pre-recession occupancy levels, with room rates remaining below the peak of the market, exemplifying the continued difficult times which face the country. Year-to-date RevPAR (to September 2011) has grown by 2.3 % to £42.51, wholly driven by occupancy increases, while ADR has marginally declined. Provincial hoteliers are typically heavily dependent upon corporate demand, and the continued reduction in public sector budgets, which drives much of regional hotel demand, has impacted performance. As a result, any business-focused hotel in the provinces is likely to be facing challenges. In addition, the rise in VAT and inflation has prompted reductions in consumer spend, further impacting

demand. There are, however, bright spots – principally those markets which are bolstered by both business and leisure markets, such as Edinburgh.

As regards the investment market, the cost and limited availability of debt continue to shape the market, with deals taking much longer to complete than before the financial crisis. Nonetheless, whilst the total amount transacted has shown some growth compared to 2010 and in the region of £2.4bn to October 2011, including the contested £700m Maybourne Hotel Group transaction, there has been a considerable increase in the number of transactions taking place this year. The stellar hotel performance across the capital, coupled with the weakness of the pound, is continuing to draw cash-rich overseas buyers, in addition to a number of domestic companies, to London assets. Furthermore, the unsettling global financial climate has worked in the capital's favor, with many (in particular cash buyers entering the market for wealth preservation) perceiving London real estate to be safe to invest in at present. The upscale and luxury end of the market continue to drive transactions, with yields for trophy assets reported to be back to pre-recession levels. The majority of deals in the capital have comprised single asset disposals. Free and clear hotel investments are preferred, as they open the hotel up to a wider investment audience. In addition, this market is more liquid.

In the regions, there are signs of interest in well-located hotel assets, although a scarcity of available quality product continues to be an issue. However, 2011 has not been without its victims, with a number of hotels falling into administration over the course of the year. Prime casualties have included those that financed at the peak of the market, who have been forced to refinance as senior debts have matured, but have been unable to do so at current loan-to-value ratios; or those in breach of their covenants and where the banks have enforced their contractual rights. The vast majority of receiverships have occurred in the provinces as the sector struggles to get back to pre-recession levels, with a number of high profile portfolio receiverships, including the Von Essen portfolio, Menzies Hotels, Professional Ventures Corporation's (PVC) 42 Marriott-branded hotels, and Butterfly Hotels. Nonetheless, some London assets

Eleven markets, eleven stories

have not escaped, with the Crowne Plaza London-Shoreditch and Dorset Square Hotel suffering the same fate.

On the development side, the UK continues to hold Europe's largest active pipeline, and the focus has been on the capital in the run-up to the London 2012 Olympics. As a result, London is the most active city for hotel development with some 3,500 rooms (3.3 % of total London supply) expected to open by the end of 2011, according to Visit London. This new supply has largely been focused at the budget, four and five-star end of the market, and in the City/east London. High-profile openings have included the W Leicester Square, Corinthia Hotel, and Renaissance St. Pancras Hotel, ensuring that the five-star market in London continues to grow.

OUTLOOK FOR 2012

Looking ahead to the coming year, the eyes of the world will be on the UK, and in particular on London, with the London 2012 Olympics and Paralympics in the summer. 2012 is expected to be a good year for London, and while there have been mixed reports on what the Olympics will bring to the capital, with concerns regarding the potential displacement of tourists and corporate demand, we anticipate that London hotels will reach full occupancy during the games. However, hoteliers will have to be dynamic in their revenue management to guarantee that rate is optimized, while ensuring that they do not price themselves out of the market, and value is provided to customers.
Other major events during the year include the Farnborough International Air Show, which is expected to further boost London's Q3 performance, and the Queen's Diamond Jubilee celebrations, which include the creation of an additional bank holiday. This bank holiday could bring a mixed bag of fortunes to hoteliers in the form of increased domestic leisure visitors, but also potentially deterred business demand.

The outlook for the provinces remains mixed. Some UK regional markets are expected to benefit from increased leisure demand caused by the overspill effect of the Olympics during Q3, with those towns hosting or near to Olympic events – in addition to popular tourist destinations outside London – absorbing demand. However, the forecast for performance within the provincial market, which is largely influenced by UK GDP growth, UK investment growth, and UK unemployment, is more cautious and less bright as we move outside London and the major cities. UK public sector belt-tightening is expected to continue, and coupled with the Government's focus on cutting travel costs, is likely to have a direct impact on regional hotels and their ability to increase rates. The country's economic recovery still has a long way to go, and with UK families facing the biggest drop in their

Looking ahead to the coming year, the eyes of the world will be on the UK, and in particular on London, with the London 2012 Olympics and Paralympics in the summer

standard of living for 30 years, with inflation levels currently at 5 %, utility costs mooted to increase by up to 25 % and the rise in the minimum wage from October 1, provincial hoteliers are likely to find it increasingly challenging to grow profitability. There could, however, be an increase in so-called « staycations, » which have been popular since the onset of the financial crisis and which could bolster performance somewhat in some regional markets.

The hotel investment market is likely to continue to be influenced by the cost and availability of debt, with loan-to-value ratios staying at between 50 % and 60 %, and continued higher margins and arrangement fees, favoring high net worth individuals and cash-rich buyers. Banks, special servicers and lenders are likely to continue introducing stock to the market as they try to clean up their balance sheets. A lot of the assets that the banks own is situated in secondary and tertiary locations, some of which are likely to sell at a discount, pressurizing the recovery of hotel values. London is expected to maintain its popularity due to its resilience, while hotel investment in the provinces is likely to be slower. Additional hotels which were acquired at the peak of the market and are unable to be refinanced at present loan-to-value ratios are expected to enter the market. As a result, we anticipate that there will be more receivership casualties to come during 2012.

On the development side, close to 4,000 (3.8 % of total London supply) additional rooms are anticipated to open in the capital over the course of 2012, with a focus on east London, completely reviving the area as hoteliers are keen to capitalize on the buoyant market hoped for during the Olympics. Elsewhere in the UK, where sourcing finance for new developments is much more challenging, development is expected to remain slow. Finance will, however, be available for the right product in the right location, and we expect continued development of the branded budget to mid-market hotel sector. This in turn is likely to put pressure on some of the independent poor-quality stock to improve their offering, or potentially force them out of the market.

The ominous cloud of the European sovereign debt crisis continues to unsettle global markets and hangs heavily over the UK. There are early indications that this uncertainty has flowed into business confidence, and this could clearly have a significant negative impact on the recovery of the UK hotel market as we look at 2012. Nonetheless, there are many reasons to stay positive about the coming year, in particular given the global showcasing of the country worldwide with the London 2012 Olympics – which can only serve to enhance the country's image worldwide.

| Alexandra van Pelt

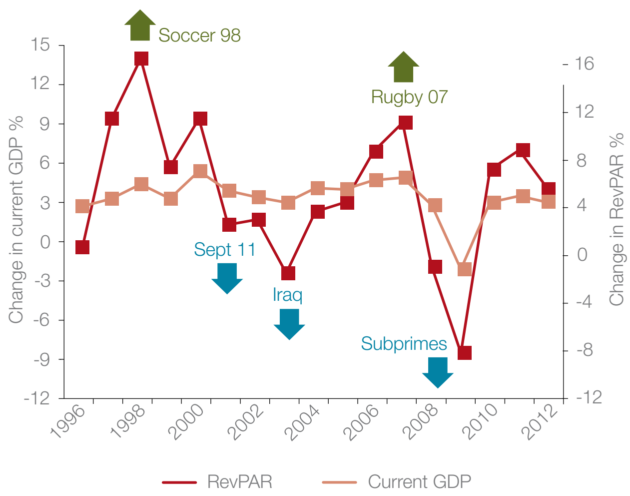
FRANCE

SITUATION REPORT

Like most of the European economies hit by the debt crisis, France saw its growth rate melting in 2011. Real GDP grew by 1 % over the first half and slowed to 0.3 % during the third quarter, while a 0 % growth is expected for the last quarter.

The graph presented here shows the evolution of GDP growth in France over the last few years, and the corresponding evolution of RevPAR.

FRANCE: GDP AND REVPAR GROWTH



Source: INSEE/Horwath HTL

French hoteliers took advantage of higher occupancies recorded in 2010 to increase their rates in the upper segments, while growth remained very moderate in the economy and budget segments. As a result, the average RevPAR for 2011 is expected to grow at the same pace as for 2010.

On the development side, financing organic development is still an issue as credit terms and equity to debt ratios are very challenging: 40 to 50 % equity to debt ratio is required assorted with a 6 % interest rate for a 12/15 years loan.

Another threat for hoteliers is the announcement made by the government to revise upwards the VAT rate on food and beverage from current 5.5 % to 7 %.

Eleven markets, eleven stories

OUTLOOK FOR 2012

The outlook for 2012 is moderate, as growth in GDP is anticipated by the economists to be 1 % instead of the 1.7 % as forecasted initially.

Nationwide, it is reasonable to anticipate RevPAR growth in the range of 3 to 4 % for 2012, deriving mostly from increases in price rather than occupancy, and with a stronger dynamic in Paris than elsewhere in France.

Regardless of the crisis affecting the country, the French capital is still acclaimed as one of the leading destinations worldwide and attracts an increasing number of long-haul visitors from emerging countries, and is specifically feeling more Chinese demand. One of the most notable events on the agenda of top Parisian hotels in 2012 will be the opening of the Peninsula, while the Ritz and also probably the Crillon will close for major renovation works.

Philippe Doizelet

GERMANY

SITUATION REPORT

According to the German Hotel Association (IHA) the number of overnight stays totaled 85.2 million, a growth of 6.9 % resulting in an increased turnover rate of 3.8 % in the first term of 2011. Furthermore, the ARR also recorded a rise in price amounting to €93 ; however, this was still less than the average rate in Europe (€99.00) which rose by 4.1 %.

This growth process also had an impact on the willingness to invest. In February 2011, almost 80 % of all hoteliers surveyed planned to invest the same amount or even more in their hotel facilities. Hoteliers could proclaim a positive increase in revenue which was not solely invested in goods but also in the labor force. The Federal Labor Office reported about 7,000 employees more than in the previous year within the hotel industry. This is partially due to the « bed tax, » a new introduction in effect because of the decrease in the VAT.

Due to the economic upswing, a positive result in the German hotel industry can be noted, and about 70 % of the most important hotel companies received a Blue Chip rating, making them a desired investment partner. Their RevPAR recorded a growth of 15-20 %.

OUTLOOK FOR 2012

In Germany, Switzerland and Austria about 760 hotel projects are currently under development. As a result of this construction boom, the predatory competition will increase within the next few years. A considerable development will occur in 2012 by the hotel group Lindner Hotels. They will introduce a new hotel concept called « me and all » by the end of next year. In their hotels, they will introduce a completely different concept : without reception, lobby or restaurant. Instead, it is planned to install a lounge for multiple use. This new brand will be positioned within the 4-star segment and will target business and city travelers in need of modern communication technologies. These latest technologies will be installed in each room, as well as in the lounge, where a kind of test lab for such equipment will be launched.


Courtesy of KLAFS GmbH & Co. KG

In Germany, only 26 % of all hotel rooms are affiliated to hotel chains. This is a rather low rate in comparison with other European major countries. However, independent hotels are increasingly challenged to compete with large hotel chains in terms of brand recognition. Current developments show that independent hotels are joining big hotel brands more and more in order to strengthen their position and increase their market share. This conversion is a great opportunity to gain more revenue and brand awareness. Jeff Wagoner, president of Wyndham Hotels and Resorts, added that the brand can be a contributor to the industry, creating new support opportunities such as « big-brand websites » and « reward programs. » He further states that independent hotels hesitate to change their concepts. This is regarded positively and encourages independent hotels to join branded companies.

According to the latest trends, budget hospitality, wellness and cruising have been identified as growth segments in Germany. Budget hotels are mostly located in city centers and stand for clean and modern accommodation facilities with a tendency to use spaces efficiently in terms of fusing public components. These hotels are equipped with only the necessary amenities, whereas the market is turning toward unique and extraordinary designs as a counter-balance. The fact that travelers are more price-conscious underlines this development. « No-frill hotels » will be the name of the game.

Medical wellness is a combination of holidays, preventive health measures, recovery and wellness, whereby even health insurance companies underwrite some of the costs. It is an alternative to passive wellness activities. Large tour operators have discovered

Eleven markets, eleven stories

this growing and lucrative niche market and are including the medical tourism segment in their programs. Many foreigners come to Germany for treatments, as the country is known for its advanced medical technologies and skills. Today, demand is already greater than supply, and especially the age 50+ target market is increasingly interested in health-oriented tourism. As more and more people strive for longevity and pay substantial attention to their health, we believe that this trend should continue.

Cruising is the fastest growing segment in tourism. Last year, river cruises in Germany recorded a considerable 11.3 % increase in revenue. In our view, this trend will continue over the next decade. The most popular river cruises for passengers are along the Rhine and its tributaries, and the Danube. However, forecasts should be viewed with caution. By the end of 2011, the 7 % VAT rate for river cruises expires. Unless no other agreement is concluded, the VAT will increase to 19 % in 2012. This will have a direct impact on current sales prices, investment and operating costs. How big the effect of this regulation will be on the German cruise industry remains to be seen. We will surely keep an eye on this market.

The Cruise Baltic, a cooperation between 24 destinations in the Baltic Sea region, has noted an average increase in the total

> Cruising is the fastest growing segment in tourism

number of passengers of 11.4 % per year over a period of ten years, and this number is expected to grow significantly. On the Baltic Sea, the German port of Rostock is the second largest destination in terms of turnarounds, including part-turnarounds. Rostock received 114 calls last year, ranking number seven in the Baltic Sea. This destination experienced strong growth in the numbers of calls over the last few years, and a drastic increase is expected in the years to come.

Rüdiger Knospe

RUSSIA

SITUATION REPORT

It's a relatively inspiring tale. All being said, 2011 has been a reasonably good year, considering the global economic downturn, which impacted Russia from late 2008 until autumn 2010.

New openings at all levels in Moscow, such as the upscale new InterContinental Hotel; the W and Four Seasons in St. Petersburg (2012), in addition to a portfolio of mid-market and budget hotels and numerous international mid-market brands, such as Park Inn, Courtyard by Marriott, Ibis and Novotel to name a few in key regional cities. The economy in Russia has proven to be more resilient than its European counterparts, and with oil prices still relatively high, the prognosis therefore must be considered good going forward; however, Russia has shown that it is not economically immune to global downturns, as evidenced by a significant reduction in investment in the hospitality sector during 2009/2010. The main stumbling block remains the lack of local or international bank finance for hotel projects in Russia – and indeed, neighboring CIS countries as well.

The profile of Russia has been raised with the increased media coverage of the forthcoming Winter Olympics in Sochi and the awarding of the 2018 FIFA World Cup to Russia – acting very much as a catalyst to increased momentum of hotel development.

Hopefully, with advent of these worldwide sports events it will lead to an easing of visas, the advent of competitive air fares going forward and opening of tourism to the country on a much greater scale.

OUTLOOK FOR 2012

So what will investors be focusing on in 2012 – will the rate of hotel development pick up or remain patchy? Certainly there appears to be a willingness on behalf of international hotel companies to expand their respective brand portfolios throughout the country, and investors – usually high net worth individuals – wanting to secure attractive returns on investment in the hotel sector, today's most favored component within the real estate world.

One salient fact that must be borne in mind when considering Russia as an emerging market is that the global economic downturn has not altered the considerable imbalance between quality hotel supply and demand. Indeed, opportunities are being sought in cities as small as 150,000 populations to develop international hotels where there is a proven demand from local businesses. For quite some time, the optimum opportunity has been considered to be the introduction of mid-market hotels in major cities with populations of 800,000 or more – as a result, some popular regional cities such as Ekaterinburg, Kazan and Samara are in danger of becoming oversupplied.

Sentiment from the recent Russian Hotel Investment Conference (RHIC) in Moscow in mid-October 2011 suggests there is still a positive mood in the investment community, with investors continuing to push forward hotel projects and, in many instances, over and above alternative real estate propositions. Although lack of domestic bank finance is still a key characteristic in the Russian economy, it is becoming more available to those who choose, albeit at punitively high interest rates. It is likely that the surge in availability of domestic finance on more attractive and competitive terms will occur only when international institutions start to lend once again – which in the short term seems unlikely.

One factor that remains unquestionable in the successful development of hotel and leisure-related projects in Russia lies in the ability of foreign and, indeed, Russian developers to find suitable local partners who can secure the best land deals, obtain the necessary and numerous permits, deal with sometimes difficult local officials and be safe in the knowledge that the business is secure. Many projects have failed as a result of poor local representation, over-inflated construction contracts, and generally poor advice being sought.

Will 2012 be the year the Russian authorities decide to relax visa requirements? Will more low-cost airlines be allowed competitive access to Russia's cities? It has already been confirmed by government sources that visa restrictions will

Eleven markets, eleven stories

be lifted for the Winter Olympics in 2014, and with the FIFA World Cup to be hosted in 13 cities throughout Russia, it may well be a precursor to the permanent introduction of a much more lenient immigration system – which can only enhance the attractiveness of Russia as a holiday and business destination.

As key investors in the hotel sector in Russia are local as opposed to foreign, it is likely that they are less affected by the swirl of economic doubt that seems to be hovering over USA and Europe at the moment – who knows?

| Michael O'Hare

SPAIN

SITUATION REPORT

In 2011, Spain has seen a long-awaited, if somewhat timid, recovery in the tourism market. After 2009, when Spain logged the lowest figures in history in this sector, the country received 20.9 million visitors during the 2011 summer months only – the third highest in history.

The economic downturn of the last 3 years has left Spain in a very weak financial situation. However, tourism is set to take big role in the country´s recovery. The encouraging results of the past year had an immediate positive impact on transactions and development. In the first six months of 2011, 15 hotel transactions worth a total of EUR 400 million had been agreed, an amount representing 75 % of the total of all transactions from the previous year.

OUTLOOK FOR 2012

Today we can say that Spain is slowly but surely returning to its pre-economic crisis standards with regard to volume and, to a lesser extent, tourist expenditure. Forecasts are positive for the near future.

In 2012, one segment of the hotel industry that appears to make a fair contribution to this growth is the Condominium Hotel sector. We've written about that in detail in a separate article (see page 98).

| María Rosa Barcia

The 812-room Comwell Bella Sky, largest hotel in Scandinavia

SCANDINAVIA

SITUATION REPORT

2011 has been a good year for hotels in Scandinavia, with RevPAR growth in all countries and capital cities. Both occupancy and ADR levels are up in all countries, numbers for the year through September show.

Scandinavia's largest hotel, the 812-room Comwell Bella Sky, opened in May in Ørestaden, just outside Copenhagen. The regions tallest hotel, the Scandic Victoria Tower in Kista, outside Stockholm (299 rooms, 34 floors, 118 meters tall) opened in September.

Denmark

The summer of 2011 was the best on record for Danish hotels, with an increase in overnight stays of almost 9 % over 2010 (for the months of June, July and August). Total revenue is lagging behind, though, indicating a lower spend per guest. A significant increase in capacity, especially in Copenhagen, has been absorbed by higher demand.

> The summer of 2011 was the best on record for Danish hotels, with an increase in overnight stays of almost 9 % over 2010

Scandinavia's largest hotel operator, Nordic Choice Hotels, has pulled out of the Danish market and its portfolio of hotels will be taken over by First Hotels, another pan-regional operator.

Norway

The oil-fuelled economy of Norway is performing well. Hotels have managed to maintain rates and increase occupancy in 2011, resulting in RevPAR growth of 5-6 %. Growth is coming despite new capacity in some of the biggest cities. Hotels in less urban areas are struggling with occupancy rates in the low 40s.

Sweden

The industrially driven Swedish economy is also performing well. High GDP growth in 2011 (compared to European peers) has resulted in higher hotel demand and higher rates. Gothenburg, Sweden's second largest city, is especially outperforming, with double digit RevPAR growth expected for the year.

THE OUTLOOK FOR 2012

Scandinavia benefits from significant intra-regional travel, both in the business and leisure segments. With the Swedish and Norwegian economies outperforming the rest of Europe (Denmark is doing well, but not that well), the region is somewhat insulated from the troubles of the Euro-zone. However, a significantly weaker Euro could negatively impact future trading as foreign arrivals decrease and locals pursue good deals farther south. Interest rates in Scandinavia are being kept low for the foreseeable future to counteract the effect of local currencies growing too strong.

In 2012, the independent Hotel d'Angleterre in Copenhagen will reopen as a pure-bred 5-star property with 80 refurbished suites. Other significant developments in the region include the Clarion Hotel Post in Gothenburg, with 500 rooms in the former main post office, opening in January 2012. In Trondheim, Norway's third largest city, room capacity is set to grow by 25 % in 2012.

International operators are still struggling to establish a significant presence in the region. Local property owners and banks are reluctant to sign management agreements – at least outside the capital cities. With no shortage of local operators willing to enter into long leases, this situation will change slowly, if at all.

Eleven markets, eleven stories

Sentiment studies for the three countries show continued optimism for the latter half of 2011 and for 2012 as well. Hotel operators are positive about the hotel market as a whole, wish to hire more staff and invest.

The main airports serving Copenhagen, Stockholm and Oslo are all ramping up for higher passenger numbers in the years to come. Air traffic in both Stockholm and Oslo is near current capacity.

All three capital cities are also major cruise ports, and in Copenhagen in particular, this benefits the hotel industry as the city is a major turnaround port. Additional growth is expected in 2012.

We expect there to be continued growth in demand for hotel services in all the capitals of the region as well as in secondary city markets. In some cities, like Stockholm, both ADR and occupancy are expected to increase, possibly indicating double-digit RevPAR growth. In Oslo, significant new room capacity will open in and around the city, putting pressure on both occupancy and rates. In Copenhagen, capacity growth has slowed and 2012 promises to be a good year as well.

Erik Myklebust

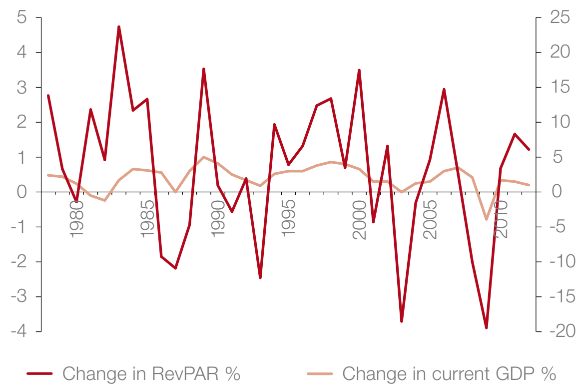
THE NETHERLANDS

SITUATION REPORT

The hotel market in The Netherlands showed a modest recovery in 2010, after the economic crisis led to strong declines in 2008 and 2009. While the recovery continued in the first half of 2011, the growing concern regarding the debt crisis and possible Euro crisis has increased the uncertainty for the coming months.

As shown in the graph below, there is a strong correspondence between GDP growth and RevPAR growth in The Netherlands.

THE NETHERLANDS



Source: CBS/CPB/Horwath HTL

The recovery in the Dutch hotel industry was led by the hotels in Amsterdam, which presented a strong increase in occupancy in 2010 and are expected to have achieved further increases in both occupancy and room rates in 2011. In the rest of the Netherlands, the recovery has been far more modest.

The relative strength of the Amsterdam hotel market is reflected in the number of new openings and renovations. Over 1,000

new hotel rooms were opened in Amsterdam in 2011, including the 550-room Double Tree by Hilton Amsterdam Central Station and the five-star, 128-room Conservatorium Hotel Amsterdam. Additionally, many of the top-tier hotels in Amsterdam underwent extensive renovations, including Sofitel The Grand, Hotel de l'Europe and Okura Amsterdam.

OUTLOOK FOR 2012

The outlook for 2012 remains clouded by uncertainty. The forecast for the GDP growth has already been changed from 1.75 % in June 2011 to 1 % in September. It should be noted that this forecast does not include a potential new financial crisis, in which case all bets would appear to be off. At the same time, supply will continue to increase. New hotel developments are announced almost daily, particularly in Amsterdam. Most notable among the newly announced developments is the arrival of a Waldorf Astoria in the city center of Amsterdam, expected to open in 2013.

In light of these developments, the projections for RevPAR growth may also need to be reconsidered. Based in part on the results of the first 6 months of 2011, RevPAR was originally estimated to increase by 8 % in 2011 and 6 % in 2012. These figures will undoubtedly be corrected downwards as time moves on.

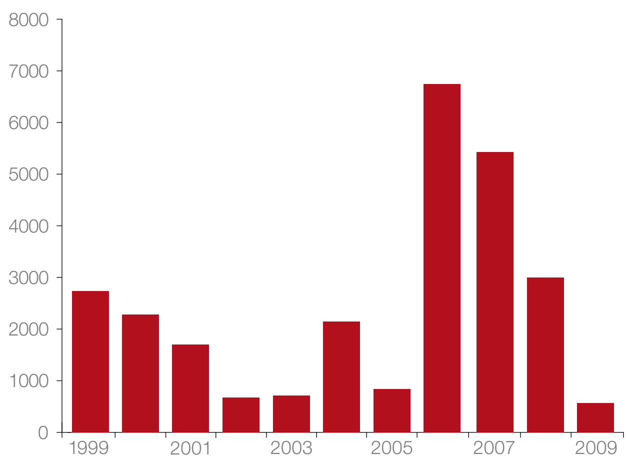
| Marco van Bruggen

IRELAND

SITUATION REPORT

In recent years, the performance of the Irish hotel industry has been severely impacted by several factors – oversupply in the market, a fall-off in overseas visitor numbers, over-reliance on the domestic market and rate discounting. One of the main talking points within the industry is the issue of oversupply. Hotel room stock in Ireland increased by over 26,000 rooms between 1999 and 2009. Almost half of these were introduced in 2006 and 2007. This surge in development coincided with the introduction of the hotel capital allowance scheme. This scheme allowed for a 7-year rate of write-off of capital expenditure incurred in the construction/refurbishment of hotels. The scheme was extended until 2008.

INCREASE IN HOTEL ROOM STOCK 1999-2009



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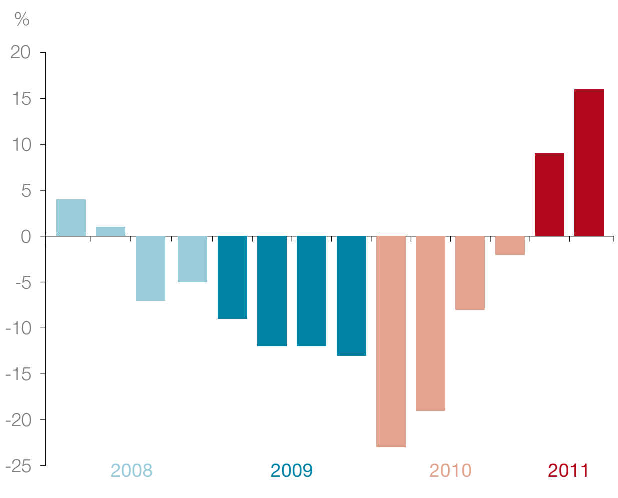
There are currently over 880 hotels in Ireland – ca. 60,000 rooms. In the peak years of 2006 and 2007, where overseas visitor numbers reached over 8 million and the domestic market benefited from high levels of disposable income, hotels in Ireland enjoyed occupancy levels of ca. 70 % and average rates of €97. The consequences of the additional room stock were not felt until 2009, when the industry was severely impacted by the global economic crisis.

The world reacted quickly to the economic climate, with overseas visitor numbers beginning to fall in late 2008, dropping by some 2 million since 2007 to around 6 million in 2010.

QUARTERLY MOVEMENT IN OVERSEAS VISITOR NUMBERS 2008-2011



In order to boost occupancy levels, Irish hotels aggressively targeted the domestic market. This market now accounts for 65 % of all hotel guest-nights sold in Irish hotels, up from 53 % in 2005. While the number of domestic trips in 2010 were at a similar level to 2010, spend was down ca. 10 %. Discounting room rates became one of the key business strategies adopted by Irish hotels to attract the price-sensitive domestic market.

The average rate for Irish hotels has fallen €24 since 2007. Profit levels of Irish hotels have fallen by 50 % since 2008 but stabilized in 2010. Due to reduced room rates, the Irish hotel sector is now a much lower profit margin business.

Following 10 years of high capital investment in the hotel sector, mainly funded by bank loans, many hotels have loan interest costs which represent twice the achievable profits for their hotel. Many Irish hotels have become insolvent entities. This is evident as receivers have been appointed to 11 % of the Irish hotel room stock. Although it is normally a last resort for banks to appoint a receiver, we are likely to see the number of receiverships increase over the next 12 months as more hotels are unable to pay their bills.

There is evidence that some recovery for the Irish hotel market has begun in 2011, but future recovery will be two-tiered and led by the capital city, with more provincially located properties experiencing more challenging operating conditions than the key cities. While Dublin and Cork have recorded increases in both average rate and occupancy each month during 2011, other cities such as Galway, Limerick and Waterford are taking longer to increase their occupancy levels, indicating it may take some time for them to be in a position to yield rate.

Dublin and Cork have enjoyed an increase in tourist and commercial activity, targeting several market segments enabling them to maintain stable occupancy levels. Dublin benefited from the high profile visits of Queen Elizabeth II and President Obama in May 2011. These visits attracted widespread global media coverage worth an estimated advertisement equivalent of €289 million. It is also positive to see that overseas visitor numbers increased in 2011, as Ireland welcomed over 440,000 additional overseas visitors in the first eight months of 2011 against the same period in 2010.

OUTLOOK FOR 2012

We are optimistic that 2012 should deliver better results for the Irish hotel industry. Occupancy levels should continue to grow on a national basis. Rate recovery will continue to be led by the key cities, but it will be a slow process and may take several years to recover to pre-recession levels.

Key concerns recently highlighted by Irish hoteliers include level of charges and extent of arrears for Local Authority property rates, pressure on disposable income levels, the issue of oversupply and the level of support from banks. Irish hotels have become more reliant on their banks for overdraft facilities, forbearance on loan repayments and for capital expenditure funding.

While international brands are well represented in the Irish market, brands such as Marriott, Conrad, Days Inn, Hilton and Starwood have recently reduced their representation in Ireland. This has diluted the presence of international brands in the sector. Several indigenous hotel management companies have emerged, capitalizing on the increase in hotel receiverships as they have taken over the management of a number of hotels.

The Dublin Convention Centre celebrated its first year in operation in September 2011, hosting over 300 events. There are over 200,000 delegate-days confirmed for 2012. Delegates are likely to spend an average of six days in the host country. With 25 % bringing their family, many delegates capitalize on the opportunity to combine business and leisure. This will not only benefit Dublin but, as delegates are likely to travel around the country, this will provide a much needed boost for other locations.

While overseas visitor numbers are increasing, the domestic market is still under considerable pressure and will continue to curtail discretionary spend over the next 12 months as an austere budget is expected to be announced in December. The UK market accounts for ca. 44 % of all overseas visitors, so it will be imperative during 2012 to target this market, emphasizing the quality of our hotel stock and the value for money available. The recent reduction in the VAT rate (from 13.5 % to 9 %) for restaurant and catering services, hotel and holiday accommodation and admissions to a variety of entertainment services will help in promoting Ireland as a value-for-money destination.

London will host the Olympic Games in 2012, and Ireland is hoping to capitalize on this. The introduction of a short-stay visa waiver program was announced by the Irish Government in mid-2011 with a view to attracting additional overseas visitors. Visitors from countries such as Russia, Saudi Arabia and India who have received a UK visa will no longer need to apply for a second visa for entry to Ireland. We are optimistic that this will encourage additional overseas visitors to include Ireland in their Olympic itinerary.

The current economic conditions will continue to create a difficult operating environment for the Irish hotel industry. The reliance of the industry on the domestic market will impact the level of recovery during 2012. There was evidence of a turnaround for the industry in 2011, and through the recently introduced initiatives and uplift in overseas visitor numbers, we are confident that the Irish hotel industry will continue to turn the corner in 2012.

Eimear Harney

POLAND

SITUATION REPORT

2011 has been another year of recovery from the crisis that hit the market in 2009 resulting from the global financial crisis. In 2011, as well as in 2010, the main indicators on the market (occupancy rate, ADR, RevPAR) were growing and were close to, or for some hotels or regions, actually as high as the results from 2008, which was the best year for hoteliers before the crisis.

In our opinion, this situation is a result of many factors, among which we must mention :

- Recovery from the financial crisis in terms of number of hotel guests – which in 2010 was the highest in the last decade.
- Growth in the total number of hotel guests, mostly the result of a strong domestic market and growing demand generated by Polish tourists ; the share of Polish tourists in the structure

Eleven markets, eleven stories

of hotel guests grew in last 5 years by 8 percentage points (to almost 2.5 million guests).

- Relatively good situation of the Polish economy, which was not hit by the financial crisis as hard as in Western countries.
- The growth of ADR and RevPAR was a result not only of growing demand and occupancy levels, but also of growing prices and the end of the price war that took place in 2009 and in 2010.

2011 is kind of special for Poland because of the Polish EU presidency. Many events related to that were organized in Polish cities, which significantly stimulated the hotel market. Especially in Warsaw, the prices and occupancy rates in hotels are growing thanks to the demand generated by the officials from EU countries coming to Poland. In the other top cities of Poland, it varies due to the room supply, which for example in Katowice increased in 2010. Concerning the hotels located in tourism destinations – i.e. the seaside – we noticed that bad weather confounded the high expectations of hoteliers for higher profits than in 2010. We expect that the results achieved by hotels in Q4 2011 should be better than in 2010 – mostly thanks to the EU presidency.

OUTLOOK FOR 2012

The year 2012 is going to be very special for the whole hotel sector in Poland. Along with Ukraine, Poland is the host country of the EURO 2012 football (soccer) tournament, which will take place in June and July and will definitely result in significant growth of prices and demand on the market – not only during the tournament, but also before and after it. The demand is also expected to grow for the regular reasons, such as the further development of the economic situation and new foreign investments in Poland. Here in Poland, we believe that the best performing markets will be the main Polish cities, traditionally perceived mostly as business destinations, which now, thanks to the EURO 2012 tournament, will have a chance to be perceived as touristic destinations, too.

Demand will be additionally stimulated by the largest promotion campaign of Poland in history, run by the Polish Tourism Organization. Many people associated with the tourism business in Poland believe that this tournament can be a breakthrough for the touristic market and a great opportunity for Poland to promote itself in the international arena. Of course, we must stay tuned for news concerning the second stage of the financial crisis, which could negatively influence the continued growth of Poland's GDP. This is very important because without strong domestic demand for hotel services, we can face difficulties improving on the results achieved in 2011.

On the supply side, we believe that we will witness further dynamic development. In 2012, many investments will be finished that were started 4 or 5 years ago, but stopped due to problems obtaining financing from the bank during the worst moments of the crisis. We expect the appearance of around 6,000 new hotel rooms in approximately 70 facilities in Poland in 2012, around half of which will appear in the main Polish cities (i.e. 30 hotels and 3,000 rooms). This means for the whole of Poland a growth in the supply of 7 % and 8 % in terms of hotels and rooms respectively.

What we are also going to observe in 2012 is a further development of hotel chains in Poland which used to be interested in high-end hotels and now are changing their focus more on economic and mid-scale hotels, to be developed, we believe, mostly in the main Polish cities. Among the most interesting news items in this regard:

- Best Western, which had 11 hotels in Poland in mid-2011, will almost double this number by the end of 2012 (20 hotels are planned).
- Hilton Int. announced signing 2 contracts for DoubleTree by Hilton, 4 for Hampton by Hilton, and 1 for Hilton Garden Inn, which will all be realized by the end of 2013. Currently there are only 3 hotels belonging to this group in Poland.
- Louvre Hotel Group, with its partner Warimpex, plans to open 6 new hotels (4 Campanile and 2 Premiere Classe) in main cities in southern and western Poland.
- New chains are interested in entering Polish market – the most important one seems to be German Motel 1 with its modern economy products.

The scale of new openings outside the cities will be similar to the past but the character of the new supply will be different. In central Poland and touristic destinations, hotel investors currently see the potential in conference hotels with a full range of services and condo hotels, for both of which there is a growing demand on the Polish market.

Hotel chains are interested both in opening new hotels in Poland as well as conversion of their existing ones. Also, Polish hotel owners seem to understand the potential benefits of being a part of an international hotel chain and are more willing to sign franchise and management contracts. We expect that especially chains such as Hilton Int., Best Western, LHG, Accor and IHG will be the most active in Poland, particularly with their economy brands.

We believe that the growing supply on the market will meet the expectations of guests and will even generate some demand from those who, for the time being, were not interested in Poland due to its lack of suitable hotel facilities.

| Janusz Mitulski

THE BALKANS

The Balkans, a culturally and economically diverse region which is still unintegrated and financially dependent on the EU, together with Greece as an issue, represents a less developed EU emerging market. Although influenced by the crisis, some new projects are happening, revealing the positive expectations of international investors regarding the future.

In 2011, **Croatian** tourism continued its growth with a 7 % increase in overnights and ADR recovery. With EU negotiations finished, 2013 is the expected year Croatia will join the EU, and therefore the positive effects of higher volumes and further

Eleven markets, eleven stories

growth are expected in 2012. Croatia is still adjusting its investment and general framework in order to provide a better environment for the hotel business. International hotel brands are to open several hotels in 2012, predominantly in Zagreb and the coastal region (Istria, Split and Dubrovnik), with Hilton as the most active brand.

Although the crisis hit **Bulgaria** two years ago, the hotel market is still feeling the impact in terms of ADR, while occupancy – though slightly recovered – is still not providing a profitable framework for the majority of non-branded hotels. City hotels suffered a strong decline in overnights in 2011 – around 30 % compared to 2010. Taxation and the gray economy are still an issue in Bulgaria. Several hotel companies are opening hotels in the near future here – Hilton, Meliá and Accor.

Romanian tourism is mostly business-related, with Bucharest the most important city destination. Room oversupply resulted in hotels struggling to maintain profitable performances. City hotel occupancy is notably recovering, reaching 52 %, while ADR remains at the same levels of 2010. In 2012, slight performance improvements can be expected, mainly in terms of occupancy – also an impact of 2010's new branding. The investment cycle in Romanian tourism is in a downturn with only a few investments in second-tier destinations (Cluj, Poiana Brasov).

Montenegro in 2011 is continuing the growth begun in 2010 after it began to recover from the global crisis. In 2011, estimated growth in terms of overnights will be around 10 %. In 2012, some major investments will be started, but it will be several years before they are finished. The hotel complex in Tivat, the Luštica development project and the island Sveti Marko project are good examples.

Chisinau, the **Moldovan** capital, generates 80 % of all hotel overnights achieved in Moldova, with MICE being the most important market segment. The Chisinau hotel market was severely hit by the crisis in 2008 and 2009, causing ADR to fall by approximately 15 % and occupancy rates by 10 %. In 2010, the first signs of recovery were noted, and this trend will continue in 2012, but with higher growth rates.

The developing tourism sector in **Serbia** is focused on business travel to the capital and some second-tier cities. In 2011, the tourism sector experienced an upward trend in occupancy and ADRs, but is still recovering from the crisis. In the near future, there are several mountain and spa resorts planned, while some major projects are on the way – Stara Planina and Kopaonik. Tenuous development in city and resort capacities is expected, combined with the penetration of Belgrade by some international hotel brands.

| Miroslav Dragičević

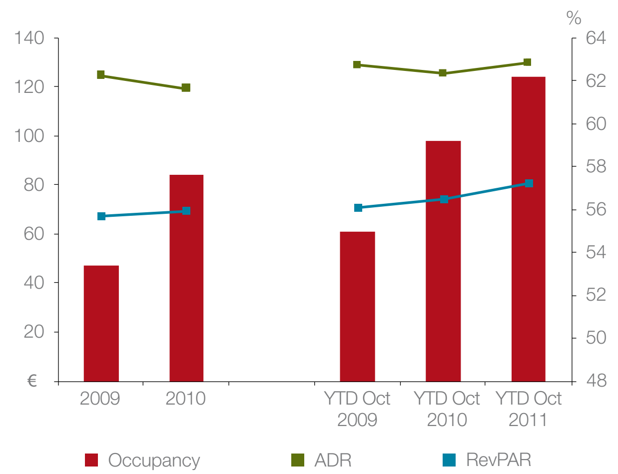
ITALY

SITUATION REPORT

After being hit hard by the global economic recession, and despite the difficult position of the Italian economy, the Italian hotel market recovered in 2011 with all indicators up. Hotel performance figures were boosted by the increase in demand, both from local and international markets, with an increase, respectively of +1.9 % for local travelers for the first half of 2011, and +0.9 % for international travelers, according to Federalberghi. Indeed, 2011 was a year full of major events, attracting additional local and international visitors, such as the 150th anniversary of the Italian Republic in March, and above all the beatification of Pope Jean Paul II in May, which attracted more than a million visitors from all over the world.

The launch of an accommodation tax at the beginning of 2011 did not discourage travelers to Italy, and the country's key tourist destinations such as Rome, Venice, Milan and Florence have led the way toward recovery, all experiencing major improvements in occupancy along with an increase in rates. In terms of operating figures, after a drop from 2009 to 2010 resulting in a 3 % decrease in rates to maintain occupancy levels, in 2011 the Italian hotel market is surpassing its 2009 results. This year, occupancy increased from 59.2 % in YTD October 2010 to 62.2 % in YTD October 2011, whereas in the same period, ADR grew from €125.43 to €130.00. This led to a 8.9 % growth in RevPAR to €80.84, according to data from STR Global. Compared to YTD October 2009, occupancy is up 13 %, ADR up 1 %, and RevPar up 14 % – an impressive jump underlining the success of the price sacrifice Italian hotels opted for rather than an occupancy boost, and illustrating very welling the strength of the Italian hotel market and its capacity to react and recover quickly.

ITALY HOTEL MARKET HISTORICAL PERFORMANCE - 2009 TO YTD OCT. 2011



Elaborated by Horwath HTL from STR Global Data

OUTLOOK FOR 2012

According to the Horwath HTL Global Market Survey 2011, most hoteliers believe that the market will have performed better, or equally well, in 2011 compared to than 2010. Their general sentiment for 2012 is in line with this expectation. In short : Italy's hoteliers are rather optimistic for the coming year.

Even if the economic situation is quite unsure, the change of government is expected to give back enthusiasm to local travelers and boost domestic demand, which is the main feeder market for the country. International travelers, leisure and corporate, are also back in the country and expected to play an increasing role in the Italian hotel market.

Considering the pipeline of investment projects, the Italian economy is opening itself towards international investors with politics facilitating foreign investments along with marketing campaigns for promoting the country.

The fragmentation of the hotel market leaves spaces for new development opportunities in major cities as well as secondary destinations, both for hotel investors and international hotel chains, which are under-represented in the country with an aggregation rate of 6 % (compared to 31 % for France and 22 % for Spain, Italy's main competitors). Important historical buildings are also becoming available for reconversions into hotels, creating new opportunities.

Zoran Bacic ■

Peak performance : a thing of the past ?

HOTSTATS IS A MONTHLY PROFIT & LOSS HOTEL BENCHMARKING COMPANY CURRENTLY ACTIVE IN EUROPE, MIDDLE EAST AND NORTH AFRICA. WE ASKED **TONY OLIVEIRA**, THE COMPANY'S BUSINESS DEVELOPMENT MANAGER, TO SHARE THEIR ANALYSIS OF THE HOTEL PERFORMANCE IN SOME OF EUROPE'S KEY CITIES.

In the table reproduced below, our samples include four-star and five-star branded hotels. Data presented highlight the high, low and latest performance with moving annual totals tracking from September 2006 to September 2011 for three key performance indicators : RevPAR, TrevPAR and GOPPAR. Each data point represents the accumulated 12 months performance.

For further clarification, TrevPAR is the sum total of net revenues from all operating departments (rooms, food & beverage, conference & banqueting, leisure, etc.) plus rentals and other income per available room. GOPPAR is defined as the total departmental operating profit, less all undistributed operating expenses (cost of sales, expenses and payroll).

Our top 7 findings :

1. **Peak performance –** London is the only city currently outperforming its pre-recession peaks in the three key performance indicators.

2. **Profit conversion –** Destinations convert at an average of 35.4 % of their latest 12 months TrevPAR performance to GOPPAR. The ratio was 36.6 % at the peak and 31.8 % at the low point. During the latest 12 months, the highest ratio is for London (49.3 %), then Amsterdam (40.8 %) and Edinburgh (38.8 %). The lowest is Dublin at 26.7 %, the only city below 30 %.

3. **Disappointing –** 8 out of 10 destinations reached their TrevPAR peaks in 2007 or 2008, and 7 out of 10 reached their GOPPAR peaks during that period ; the impact of inflation has further eroded the subsequent performance.

MOVING ANNUAL TOTAL SEP. 2007 TO SEP. 2011

Metric	RevPAR				TrevPAR			
Cities	Peak	Low	Latest 12 mths to Sep 11	Latest vs. Historic Peak	Peak	Low	Latest 12 mths to Sep 11	Latest vs. Historic Peak
Amsterdam	€ 143.87 12 mths to Jan 08	€ 106.23 12 mths to Jan 10	€ 136.05		€ 205.28 12 mths to Jan 08	€ 155.25 12 mths to Jan 10	€ 190.98	
Berlin	€ 95.15 12 mths to Aug 11	€ 81.56 12 mths to Oct 09	€ 94.92		€ 147.53 12 mths to Sep 11	€ 129.66 12 mths to Oct 09	€ 147.53	
Budapest	€ 77.02 12 mths to Mar 08	€ 54.86 12 mths to Apr 10	€ 62.70		€ 120.14 12 mths to Jul 08	€ 87.44 12 mths to Apr 10	€ 97.95	
Dublin	€ 116.77 12 mths to Oct 07	€ 84.48 12 mths to Aug 10	€ 97.90		€ 256.53 12 mths to Dec 07	€ 158.01 12 mths to Sep 10	€ 171.60	
Edinburgh	€ 72.96 12 mths to Sep 11	€ 67.32 12 mths to Apr 10	€ 72.96		€ 116.37 12 mths to Dec 07	€ 106.60 12 mths to Apr 10	€ 112.00	
Frankfurt	€ 80.02 12 mths to Sep 11	€ 64.23 12 mths to Dec 09	€ 80.02		€ 123.51 12 mths to Feb 08	€ 103.68 12 mths to Oct 09	€ 122.24	
London	€ 144.62 12 mths to Sep 11	€ 120.03 12 mths to Oct 09	€ 144.62		€ 198.06 12 mths to Sep 11	€ 173.42 12 mths to Oct 09	€ 198.06	
Madrid	€ 104.20 12 mths to Jan 08	€ 70.92 12 mths to Jan 10	€ 81.03		€ 155.81 12 mths to Jan 08	€ 105.81 12 mths to Jan 10	€ 116.78	
Paris	€ 166.81 12 mths to May 08	€ 136.76 12 mths to Dec 09	€ 165.47		€ 239.93 12 mths to May 08	€ 201.49 12 mths to Dec 09	€ 239.80	
Warsaw	€ 68.77 12 mths to Sep 11	€ 58.69 12 mths to Nov 09	€ 68.77		€ 122.53 12 mths to Nov 07	€ 108.43 12 mths to Feb 10	€ 121.65	

over 95 %　　between 85 % & 95 %　　under 85 %

4. Optimism – In terms of profitability, Amsterdam, Berlin, Edinburgh and Paris are on track to outperform their historic peak before the end of 2011, thanks to commercial sector demand.

5. Seasonality comparison – Despite Frankfurt posting a higher TrevPAR than Edinburgh, its GOPPAR performance is below that of the Scottish city. This reflects a burdensome cost structure for the German commercial center, combined with a market demand which exhibits marked peaks and troughs.

6. Surprise – Warsaw is currently performing at its peak for RevPar and GOPPAR, which appears to vindicate a strategy of maintaining average rate over chasing volume, which offers good prospects for the city's hoteliers for the forthcoming UEFA EURO 2012 and beyond.

MOVING ANNUAL TOTAL SEP. 2007 TO SEP. 2011			
GOPPAR			
Peak	Low	Latest 12 mths to Sep 11	Latest vs. Historic Peak
€ 83.81 12 mths to May 08	€ 50.54 12 mths to Jan 10	€ 77.85	
€ 52.40 12 mths to Oct 08	€ 43.48 12 mths to Oct 09	€ 50.74	
€ 42.24 12 mths to Jul 08	€ 23.14 12 mths to Apr 10	€ 29.43	
€ 56.09 12 mths to Aug 08	€ 37.11 12 mths to Sep 10	€ 45.81	
€ 44.28 12 mths to Nov 07	€ 39.94 12 mths to Apr 10	€ 43.41	
€ 39.53 12 mths to Sep 11	€ 27.51 12 mths to Oct 09	€ 39.53	
€ 97.64 12 mths to Sep 11	€ 79.50 12 mths to Oct 09	€ 97.64	
€ 61.65 12 mths to Jan 08	€ 28.23 12 mths to Jan 10	€ 35.84	
€ 88.89 12 mths to May 08	€ 63.13 12 mths to Dec 09	€ 81.48	
€ 45.37 12 mths to Sep 11	€ 36.98 12 mths to Nov 09	€ 45.37	

7. All that glitters is not gold – in 7 out of 10 markets, GOPPAR growth is behind RevPAR and TRevPAR growth.

Opportunities and challenges vary on a market by market basis. It seems likely that most markets will be able to grow RevPAR performance; but it seems equally likely that most markets will not be able to grow TrevPAR and GOPPAR performance at the same

> Hoteliers deploying best operational practice will therefore wish to focus on how to optimize non-rooms revenue and profit in order to achieve maximum benefit from gains made in RevPAR

rate. Hoteliers deploying best operational practice will therefore wish to focus on how to optimize non-rooms revenue and profit in order to achieve maximum benefit from gains made in RevPAR. What is certain is that RevPAR can no longer be regarded as the sole benchmark for comparative hotel performance. ■

Signs of life

ASIA IS INSULATED FROM EUROPE'S CURRENT ECONOMIC WOES – ISN'T IT? TO FIND OUT HOW SEVERAL ASIAN AND PACIFIC MARKETS WILL LIKELY FARE IN 2012, WE TURNED TO **HORWATH HTL**, WHOSE CONSULTANTS SPRANG INTO ACTION AND PRODUCED THE FOLLOWING SITUATION REPORTS AND OUTLOOKS COVERING TWELVE COUNTRIES FROM THE UAE TO AUSTRALIA, AND SEVERAL POINTS IN BETWEEN.

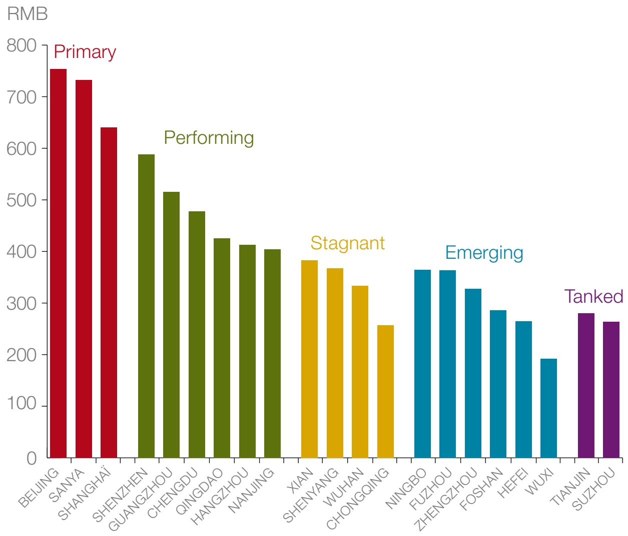
CHINA

SITUATION REPORT

While it is tempting to lump a whole heap of data together and come up with a « China Outlook », the China reality is the same for any large country – one story cannot tell the whole tale. So instead I will break up the China market into what I see as different market types based on performance – it's a tale of the good, the bad and the ugly!

To do this I have recently devised the following groupings of market types:
1) *Tanked*; 2) *Emerging*; 3) *Stagnant*; 4) *Performers*; and 5) *Primary Leaders.* These five classifications would cover most major hotel markets across China. The data presented has been sourced from the 2011 China Hotel Industry Study (only 5-star have been included) and from STR Global for year-to-date 2011 data (top-tier market groupings for performance data) and pipeline data.

YEAR-TO-DATE SEPTEMBER REVPAR PERFORMANCE LEVELS, STR GLOBAL DATA



Please note some markets have insufficient data to be included in the above chart.

TANKED MARKETS

Tanked markets are those that have been totally overwhelmed by new supply additions and do not seem to have the ability to generate demand to be able to drag themselves out. There is also a continued heavy pipeline of new additions set to enter these markets. Suzhou and Tianjin are the representatives of this category.

Tanked Markets Key Data	2010 Financial Data
Number of Hotels	21
Total Rooms	6,483
Occupancy %	50 %
ADR	RMB 673
RevPAR	RMB 336
Total Revenue (PAR)	RMB 220,406
GOP (PAR)	RMB 53,810
GOP (% Total Revenue)	24 %
Hotels In Pipeline	25
Rooms In Pipeline	8,329

Both Suzhou and Tianjin have been hit extremely hard with new supply additions over the last 3 to 5 years and have suffered a relatively prolonged period of extremely low occupancy performance levels. Extremely low occupancies have impacted rates in the markets and are insufficient to allow for a decent GOP to be recorded.

Outlook: Given extensive supply pipelines it would appear that these Tanked markets will not be seeing much relief, with significant additions still to come, particularly for Tianjin. As such, these markets might be « tanked » for some time.

EMERGING MARKETS

Emerging markets are those that have yet to see any significant entry of international 5-star hotels (or have just had new branded hotels enter) and are just now starting to mature as viable hotel markets for the international brands. Cities in this category include Changsha, Wuxi, Hefei, Fuzhou, Foshan, Guiyang, Zhengzhou, Jinan, Taiyuan and Ningbo. All except Taiyuan have a leading international 5-star hotel present in the market, but competition generally remains limited – although in Ningbo, competition has already heated up, and from YTD data it would seem that Wuxi may not be able to realize it's potential anytime soon.

Emerging Markets Key Data	
Number of Hotels	34
Total Rooms	11,969
Occupancy %	60 %
ADR	RMB 619
RevPAR	RMB 371
Total Revenue (PAR)	RMB 321,411
GOP (PAR)	RMB 116,454
GOP (% Total Revenue)	36 %
Hotels In Pipeline	49
Rooms In Pipeline	16,707

We can see that performance levels in these emerging markets are a step above the stagnant markets, with higher ADR levels driving improved GOP. Occupancy does remain weak, however, at only 60 % in 2010 and typically it is the leading one or two hotels in the market that are driving performance and profitability, as they tend to be able to record a significant premium over the competition.

Emerging markets are labeled as such because they typically lack any real depth in room night demand. These markets are at strong risk of being unable to cope with large amounts of new supply (demonstrated by Wuxi).

Outlook: Each of the emerging markets has a moderate amount of new supply set to enter, but not so significant that it could cause a major problem. Ningbo, already struggling with recent supply additions, is likely to be impacted the most, and may move into the Tanked category in the next couple of years. And it would seem Wuxi has already become overwhelmed. Guiyang, Taiyuan and Zhengzhou could be tested the most in regard to the depth of top-tier demand. However, as long as additions are spread over the next three to four years, these markets should be able to absorb the supply.

STAGNANT MARKETS

Stagnant markets are those that have failed to improve upon performance levels for the last 5 to 10 years. This has often been the result of continued new supply additions to the market, and while demand growth has been strong, it has been insufficient to allow for improvements in occupancy or growth in average rates. Markets that I would consider to be stagnant include Wuhan, Shenyang, Chongqing, and Xi'An – although Xi'An has certainly shown greater growth potential in the last few years and could soon be considered a « Performer. »

Stagnant Markets Key Data	
Number of Hotels	28
Total Rooms	9,985
Occupancy %	62 %
ADR	RMB 528
RevPAR	RMB 325
Total Revenue (PAR)	RMB 216,883
GOP (PAR)	RMB 69,717
GOP (% Total Revenue)	32 %
Hotels In Pipeline	31
Rooms In Pipeline	11,495

The markets listed above have not been overwhelmed by supply over the last 5 years, although all have had some new additions with Chongqing suffering the most in that regard. However, other than Chongqing, where demand growth has been strong, the other markets listed have struggled to record any real improvements in either occupancy or average room rates and

Signs of life

the quality of properties in the market have generally aged. The result has been a low average rate below RMB 600.

Outlook: Chongqing will continue to be hit hardest with new additions, and while demand growth should continue to be relatively strong, the scale of the new supply is likely to continue to suppress market performance levels in the years to come. Shenyang and Wuhan may struggle to support the new supply additions set to enter the market, while Xi'An may have more potential to improve performance. On the whole, though, most of these markets may not make much improvement.

PERFORMING MARKETS

Performing markets are those that have an established base of quality hotels and have largely been able to support the growth in supply with strong growth in demand and at the same time grow room rates. Cities in this category include Guangzhou, Shenzhen, Hangzhou, Qingdao, Chengdu and Nanjing.

Performing Markets Key Data	
Number of Hotels	54
Total Rooms	21,376
Occupancy %	63 %
ADR	RMB 824
RevPAR	RMB 522
Total Revenue (PAR)	RMB 372,176
GOP (PAR)	RMB 137,282
GOP (% Total Revenue)	37 %
Hotels In Pipeline	73
Rooms In Pipeline	24,932

The Performing hotel markets are able to record a considerable premium in average room rates at above RMB 800, compared to the previous market types. However, as with most markets, occupancy remains relatively soft at 63 % due to consistent increases in room supply.

Outlook: We are set to see some significant additions for the Performing markets, particularly in Chengdu, Guangzhou and Hangzhou. While Performing markets are better placed to handle new supply additions, given the larger base of existing quality supply present, some of these markets over the next 5 years may slip into the category of Stagnant markets, with future growth in room rate levels curtailed by persistent low occupancy performance. The markets with smaller existing supply bases such as Chengdu, Hangzhou, Qingdao and Nanjing are at most risk of this.

PRIMARY LEADING MARKETS

The analysis for Primary Leading markets has been restricted to Shanghai, Beijing and Sanya, and has only included hotels that recorded an average room rate higher than RMB 1,000 in 2010. Shanghai and Beijing are clearly the two leading hotel markets in China, with considerably more scale in existing hotel supply, significant rate depth, and the presence of the best hotels in China. The Sanya market has been a phenomenal growth story over the last 5 years and has thrived on the continued significant additions of quality international-standard 5-star hotels. Impressive room rates and GOP levels have been achieved in Sanya, which warrants its inclusion in this market category.

Primary Leading Markets	
Number of Hotels	49
Total Rooms	19,815
Occupancy %	63 %
ADR	RMB 1,427
RevPAR	RMB 893
Total Revenue (PAR)	RMB 591,424
GOP (PAR)	RMB 268,823
GOP (% Total Revenue)	45 %
Hotels In Pipeline	47
Rooms In Pipeline	16,733

The Primary Leading markets perform significantly above Performing markets in regard to average room rates, recording a premium of 73 %. Significant revenue is generated by the Primary Leading hotels, not just due to the premium ADR level, but also through a significant share of food and beverage revenue.

Outlook: While the supply pipeline for the Primary Leading markets remains strong, these markets are well placed to be able to absorb the additions. Beijing would seemed best placed for this, with a relatively small pipeline set to enter the market in the coming years, while Shanghai will feel more pain with relatively strong additions to continue. Sanya has the largest pipeline increase, yet for the last 5 years has demonstrated not only a strong ability to absorb new supply, but to continually push room rate growth. This will surely be tested, but there are yet to appear any indications that this will not be the case moving forward.

| Damien Little

AUSTRALIA

SITUATION REPORT

Despite suffering major floods and cyclones in part of the country and a softening in consumer confidence and spending levels, the Australian hotel industry has continued to progress well in 2011. Driven by 20 consecutive years of GDP growth and a burgeoning mining sector, the outlook for room demand remains strong. Having been one of the few countries to avoid negative GDP growth during the GFC, Australia's real GDP is expected to continue to grow by about 2.5 % in 2011 and by 4 % in 2012. Unemployment remains below 5 % and is falling, while corporate profits have held up. Both of these factors have supported hotel demand.

Beyond the corporate sector, the situation remains less positive. International visitor arrivals have generally trended downwards or been flat in recent years (and are expected to remain below 6m in 2011) while in sharp contrast, outbound departures continue to surge (and now exceed 7m per annum), reflecting the combined impact of the continuing strength of the Australian dollar (that is encouraging Australians to holiday overseas) and the increasing number of low-cost destinations in the region that can be reached on low-cost carriers. Markets such as Bali and Thailand continue to benefit, while previously expensive markets for Australia such as the USA are benefitting from pent-up demand out of Australia and in response are now actively pursuing Australia as a target market (thereby exacerbating the problem for domestic Australian leisure destinations).

On a more positive note, the growth in demand out of China and elsewhere in Asia has helped mitigate the impact of falling demand from markets such as Japan, while positive announcements have recently been made in relation to one of the most important factors that will influence future inbound demand, namely the growth in airline capacity for carriers out of China and out of key hubs such as Dubai.

As an indication of the strength of recent demand, occupancy in Australia's city hotel markets has grown from under 70 % to over 80 % during the past decade, while ADR growth has exceeded 3 % per annum. Sydney, Brisbane and Perth are achieving high 80 % occupancy levels while Melbourne and some smaller markets such as Canberra also continue to record impressive RevPAR growth rates.

Signs of life

NEW SUPPLY PIPELINE

The recent strength of hotel performance in Australia is also partially due to the minimal level of new room supply entering the market, a situation that looks likely to continue in most key markets for the foreseeable future. According to Jones Lang La Salle Hotels, there are currently less than 4,000 rooms under construction or proposed, representing only a 4 % increase in room supply in Australia's major accommodation markets. However, a sharp increase in recent development approvals and an increased preparedness by local governments to provide development incentives suggest that longer term, the demand/supply imbalance may be alleviated somewhat. Innovative concepts such as the use of prefabricated modular hotels are also being introduced in some remote markets where alternative construction is not otherwise viable.

HOTEL INVESTMENT

Australian hotel transaction volumes are exceeding A$1 billion per annum and demand remains strong, in particular from cashed-up Asian investors. As a result, values have held up well despite difficult global economic conditions, and there have been few distressed sales. However, in several domestic leisure markets, the situation remains more problematic. Major transactions in 2010/11 included market leading properties such as the Novotel on Collins in Melbourne and Hilton Melbourne Airport, while leisure market transactions included the iconic Ayers Rock Resort and Sheraton Mirage Port Douglas. Several opportunistic acquisitions, such as Fairmont Resort, Blue Mountains were also achieved.

| John Smith

JAPAN

SITUATION REPORT

After the nightmare of the worst ever earthquake on March 11, the Japanese hotel industry had to face another shaking. The shaking was not actually a physical one – although in fact we have had many physical aftershocks – but it was a big shake in the market environment. According to STR Global, as shown in the accompanying tables, average RevPAR for major full-service hotels in Tokyo fell to JPY 8,561 in March 2011, or 38.7 % from March 2010. It should be noted that we had expected RevPAR of major hotels in general to increase in most of the major markets for the whole year 2011. In fact, we had seen clear improvements in major KPIs, namely occupancy, ADR, and RevPAR in major markets until February – or more exactly, until March 11, 2011.

KPIS FOR MAJOR FULL-SERVICE HOTELS IN TOKYO (January-March, 2010 and 2011)

	2010 Jan-Feb	2011 Jan-Feb		2010 Mar	2011 Mar
OCC	74 %	74.8 %		81.8 %	51.1 %
ADR	JPY 16,639	JPY 17,014		JPY 17,068	JPY 16,754
RevPAR	JPY 12,306	JPY 12,722		JPY 13,968	JPY 8,561

Source : STR Global

Hotels in the Tokyo area became major victims of the problem with the Fukushima Nuclear Power Plant (rather than of the East Japan Earthquake followed by the record-breaking tsunami). From our past experience of co-called « Lehman shock, » we believe that the current market turmoil is completely different from what we experienced during the previous recessionary period in 2009. At that time, faced with a depressed market environment after the « Lehman shock, » hotels in Tokyo lost corporate clientele because of the sudden and intense economic downturn. Instead, they resorted to heavy discounting on their room rate to attract leisure FIT, and many hotels successfully managed to compensate for the lost corporate sales with the leisure demand. However, what we observed after the earthquake, especially in March and April in the Tokyo market, was that all segments including business, domestic and international leisure, FIT or group, all stagnated, thus hotels could not sell their inventories even if they offered heavy discounts. As a result, average occupancy for our sample full-service hotels in Tokyo was down by as much as 30.7 %, to 51.1 % in March 2011 (March 2010 : 81.8 %).

In contrast, we observed improved performance for hotels in northeastern Japan, the area near the epicenter of the quake. Hoteliers in Sendai and other major cities in northeastern prefectures say that they have seen strong recovery-related lodging demands from corporate travelers, volunteers, or even local governments renting entire hotel properties to provide shelters for local people in need and to house recovery corps.

OUTLOOK FOR 2012

Probably the biggest challenge that the Japanese hotel industry will have to cope with for 2012 should be how they achieve the full recovery of overseas visitor arrivals, particularly in the leisure segment. The Japan National Tourism Organization (JNTO) announced that overseas arrivals to Japan dramatically decreased in March by 50.3 % compared to 2010, to 352,800. The decreasing trend in the number of visitor arrivals is projected to continue until the problem with the nuclear power plant in Fukushima has been settled.

Meanwhile, we project that domestic demand is coming back relatively sooner, as we confirmed a positive move in the domestic leisure FIT segment during the long holiday week from late April to early May (which is what we call the « golden week »), as well as during the summer vacation period in July and August. Major tourist areas in general reported that their visitor arrivals compared well to the previous year, and hotels in these areas enjoyed the same or even higher levels of occupancy compared to 2010. We believe this is a very promising note for the future market recovery. STR Global also indicated an improving note for major markets nationwide. For example, as shown in the second table, STR Global reported that the negative margin had significantly narrowed in RevPAR, both for YTD to July 2011 and for the month of July 2011 compared to the figures during the same periods in 2010, which we believe should be a very promising sign for the future.

KPIS FOR MAJOR FULL-SERVICE HOTELS IN TOKYO (January-July, 2010 and 2011)

	2010 Jan-Jul	2011 Jan-Jul	2010 Jul	2011 Jul
OCC	77 %	63 %	79.2 %	71.2 %
ADR	JPY 16,973	JPY 15,784	JPY 16,712	JPY 14,940
RevPAR	JPY 13,069	JPY 9,943	JPY 13,233	JPY 10,640

Source: STR Global

While the exact financial impact from the East Japan Earthquake is yet to be estimated, bookings for more than 560,000 rooms were cancelled after the earthquake. In our interviews, we heard from General Managers at Japanese hotels that a majority of them projected total revenue for their property to slightly decrease in 2011. However, we believe that the long-term negative effect of both the earthquake and the nuclear power plant problem will be minimal to the Japanese industry. Major international tourist locations like Kyoto had no damage from the quake, and they have nothing to do with the Fukushima problem. However, the real issue should be the timing – or when people *recognize* that things have been settled and it is safe enough to travel around Japan. While it all depends on how long it takes until the Fukushima nuclear power plant problem is completely settled, we project to see further market recovery in 2012.

Kobi Takabayashi

INDIA

SITUATION REPORT

2011 is turning out to be a sweet-sour year. It began with strong promise from the viewpoint of operations and development activity. However, economic challenges and lack of policy initiatives have impacted hotel development. While operations have maintained momentum for the most part, development activity has clearly slowed down as money has become expensive.

Signs of life

In 2011, demand revival has occurred across most markets leading to a steady improvement in occupancies; rates have also improved, particularly in the last quarter. On a city-wise basis, these must be seen in the context of increased supply absorption, with about 9,000 new rooms being added in 2011 (about 15 % addition to the supply of branded hotel rooms).

New hotels opened this year include two much celebrated luxury hotels – The Oberoi, Gurgaon and the Leela Kempinski Delhi. Supply growth continues across segments and brands. Brands are gradually spreading beyond the metro cities: Chandigarh, Coimbatore, Jaipur, Kochi are among the cities with new first class and higher grade hotels, while budget hotels are spreading through a wider market. This does help deepen the supply and support new demand in the primary cities while also creating greater supply depth in metro markets. New supply in 2011 will round off with the partial opening of the 600 room ITC Grand Chola in Chennai.

Inbound travel volumes for the period January through September 2011 have increased by about 10 % over 2010; foreign exchange earnings grew by 16.6 % in the same period, reflecting higher realizations from visitors. Of course, the per capita spend has largely remained unchanged, since the Indian rupee has depreciated by nearly 10 % in recent months. Domestic travel continues to be a significant volume driver for hotels: 725 million visits in 2010, with over 800 million visits expected for 2011. In reality, however, the translated demand for hotel rooms really comes from less than 2 % of the domestic visits.

OUTLOOK FOR 2012

It is difficult to take a realistic view for 2012, as several uncertainties could shackle the performance and growth of the industry: the Euro-zone crisis and expected recession, lack of reform impetus in the Indian economy, slowdown in investment as funds become scarce and expensive, impact of high inflation on profitability and discretionary spends, etc. Each of these would be significant, and the combined implication could be

> The leisure sector, particularly upscale leisure, which is significantly dependant upon inbound travel could suffer from the Euro-zone challenges

severe. The Indian economy has previously enjoyed greater resilience due to the strength of its domestic sector – but this side of the business, too, is hurting as inflation and high interest rates impact demand.

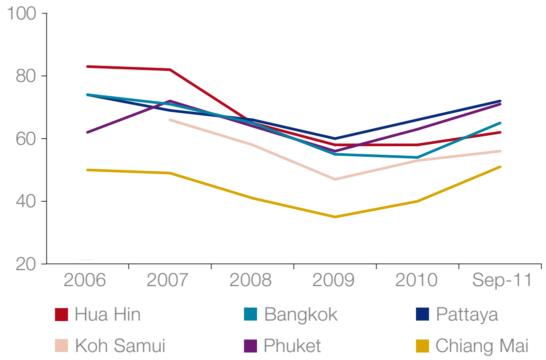
Against this backdrop, the outlook for new growth will clearly be cautious – not in terms of exploration of longer term opportunities, the initial planning and site acquisition, but in terms of actual commitment of development funds. On-going projects at an advanced stage of completion will go through to completion, though developers will encounter difficulties in any refinance structuring that was intended post-commencement of operations.

On the flip-side, the slowdown in capacity addition would be sweet music to the existing hotels. There will clearly be a less competitive environment than may have been anticipated in the medium term. Demand levels are still good and will recover smartly, once the business environment gains positivity. Operating hotels will reap benefit from this medium-term demand/supply imbalance. The leisure sector, particularly upscale leisure, which is significantly dependant upon inbound travel could suffer from the Euro-zone challenges; mid-market and upper upscale hotels could gain amidst buyer rate conservatism; banqueting and F&B may suffer inflation led pressures in demand and operating costs.

And the best will win.

Vijay Thacker

OCCUPANCY PERFORMANCE, THAILAND HOTELS, 2006-2011 (SEPT YTD)



SEPT YTD	BANGKOK		PHUKET		KOH SAMUI	
	OCC	ADR	OCC	ADR	OCC	ADR
2009	51 %	3,197	54 %	3,887	48 %	8,760
2010	51 %	2,974	63 %	3,926	56 %	7,306
2011	65 %	3,019	71 %	3,948	56 %	8,056

SEPT YTD	PATTAYA		HUA HIN		CHIANG MAI	
	OCC	ADR	OCC	ADR	OCC	ADR
2009	57 %	2,404	59 %	3,612	29 %	2,919
2010	65 %	2,272	58 %	3,535	37 %	2,535
2011	72 %	2,507	62 %	3,682	51 %	2,495

THAILAND

SITUATION REPORT

2011 continues to be a very eventful year for Thailand. After a relatively peaceful first half of the year, all eyes were on the Land of Smiles in July as the country held its first general elections since 2007. The populist Pheu Thai Party won the majority of seats, and Thailand's first female Prime Minister, Yingluck Shinawatra, sister of ousted ex-Prime Minister Thaksin Shinawatra, was appointed. After almost five years of political unrest and economic instability, the Thais, and the region, were eager to witness reconciliation amongst the various political stakeholders in the nation.

Occupancy of hotels in the key destinations within Thailand started to slide since the political crisis in 2006, reaching rock bottom in 2009 amidst the Global Financial Crisis. As the country emerged from the worst of the economic and political conditions, occupancy performance started to recover in 2010, albeit at a slow pace. As of September YTD 2011, hotels in most destinations are registering growth in both occupancy and average daily rate (ADR). The calm political situation in 2011 bode well for the tourism sector. International visitor arrivals to

Signs of life

Thailand between January and July reached about 11.2 million, which was a 26.5 % growth over the same period in 2010. Asian source markets accounted for about 59 % of total international arrivals, followed by European markets which accounted for about 30 %.

In terms of occupancy, popular leisure destinations such as Phuket, Pattaya and Chiang Mai have resumed to pre-crisis levels. ADR, however, remains a struggle – only Hua Hin has recovered from the crisis, while all other key destinations are achieving market ADRs about 10 to 20 % lower than pre-crisis levels. In addition, according to the 2011 Thailand Hotel Industry Annual Survey of Operations published by Horwath HTL, increasing departmental and undistributed expenses have exerted additional downward pressure on operating profit, diminishing GOP margins by about 13 % year-on-year in 2010 (of the sample of respondents).

Nevertheless, 2011 also saw the opening of several delayed but much anticipated hotels and resorts in Thailand. IHG's Crowne Plaza returned to Bangkok through the rebranding of the previous Pan Pacific Hotel located in Silom. The 176-room St. Regis Bangkok opened in a prime downtown location in April, making it the newest luxury property in the city. Conrad Koh Samui opened in September, as the only west facing resort on the island. Other high profile hotel projects, such as Siam Kempinski Bangkok, Four Points by Sheraton Sukhumvit 15 and W Koh Samui opened in the later half of 2010 and entered their first year of operations in 2011 as well.

Unfortunately in September 2011, flash floods hit 60 out of 77 provinces in Thailand, swamping factories of international companies such as Canon Inc, Western Digital and Honda Motor Co., destroying more than 25 % of the nation's rice farms and crippling transportation networks in the country. Overall damage, according to the Thai Finance Ministry, could exceed US$6 billion. Travel warnings were issued by 21 countries including the key geographic sources such as the United States, Japan and Singapore. Hotels across the country have reported a significant number of cancellations and drops in room reservations. As a result, the Thai Central Bank announced, in late-October, a revised forecast for economic growth in 2011 from 4.1 % to 2.6 %. At the time of writing (November 2011), there is still no end in sight for the crisis, and the country faces a variety of threats, including the outbreak of disease.

OUTLOOK FOR 2012

How enduring will the smiles be? After an extended period of economic and political turmoil, and a series of unfortunate events, the country and its people are ready to move on and rebuild the country's economic prowess and image.

The Tourism Council of Thailand (TCT) anticipates that economic woes in Europe and the USA will have a negative impact on tourist arrival statistics in Thailand, as the growth of European tourists has shown signs of slowing down in Q4 2011. TCT expects that arrival numbers for 2012 will likely be static as the US dollar and the Euro grow weaker against Asian currencies. As a result, Russian and Asian markets will rise in importance in the Thai tourism industry. The Thai government is still hopeful that, despite the ups and downs in the last decade, international tourist arrivals will reach its target of 27 million, generating tourism revenue of about THB 1.1 trillion by 2015.

2012 will be a crucial year for Thailand. The willingness of the various political parties to put the past behind them and the ability of the new parliament to reinvigorate the economy will have a large impact on the progress of the country. Growth in corporate demand for Bangkok will be largely impacted by stability in government policies and the health of the general economy. At the same time, hotels in Bangkok are expected to continue struggling with oversupply, particularly in the upscale segment, which will inevitably make it challenging to increase ADR in the short to medium term. Leisure demand for the beach destinations, however, has been better insulated against these external factors. Destinations such as Phuket and Pattaya are expected to continue to excel in both occupancy and ADR.

Some exciting new openings expected in Bangkok in 2012 are the W Bangkok, Regent Bangkok Hotel & Residences, Hotel Okura Bangkok (Okura's first foray into Thailand), Hilton and Doubletree by Hilton, Sofitel So Bangkok (Accor's new brand and the second Sofitel So in the world, after Mauritius), and Hotel Indigo Bangkok Wireless Road. New resorts to look out for in 2012 are Radisson Resort Hua Hin and Similan Beach – A Ritz Carlton Reserve.

True to its tourism campaign slogan of « Amazing Thailand, » Thailand has proven to be a very resilient leisure and business destination in the region, having weathered the devastating tsunami in 2004, the last 5 years of political gridlock, street protests, airport closures, the Global Financial Crisis and the recent floods. International tourists continue to flock to the country, drawn by its warm hospitality, distinct cuisine, world-class hotels and resorts, and white, sandy beaches. We are optimistic that Thailand will ultimately pull through and regain its foothold as one of the prime tourism destinations in the region.

Shyn Yee Ho

SINGAPORE

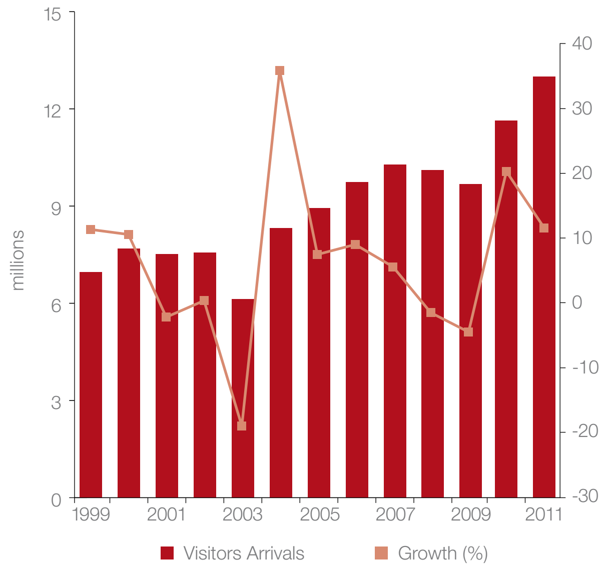
SITUATION REPORT

Following on the extremely well timed opening of two multi-billion dollar integrated resort (IR) complexes (Marina Bay Sands and Resorts World Sentosa) in the first half of 2010, visitor arrivals to Singapore have been scaling new heights. As of YTD August 2011, arrivals were up 15.5 % year-on-year, putting arrivals for the year on track to reaching 13 million (vs. 11.6 million in 2010). The induced visitor growth comes primarily from regional source markets such as China (+39 %), Hong Kong (+27 %), Japan (+21 %), ASEAN (+17 %), Korea (+14 %) and Australia/NZ (+12 %).

In addition to the attraction of the two casinos (16,000 m^2 each), the IRs are generating incremental arrivals from their substantial convention and exhibition spaces, retail malls, concert/show theaters and a Universal Studios theme park. At the same time, a variety of new age retail complexes springing up along Orchard Road, and the upgrading of existing centers, has served to augment Singapore's image as a shopper's paradise. Business visitors have also been on the rise as the strategy to position Singapore as the regional MNC and financial services hub, as well as an international center for bioscience research, has been proving to be successful.

Signs of life

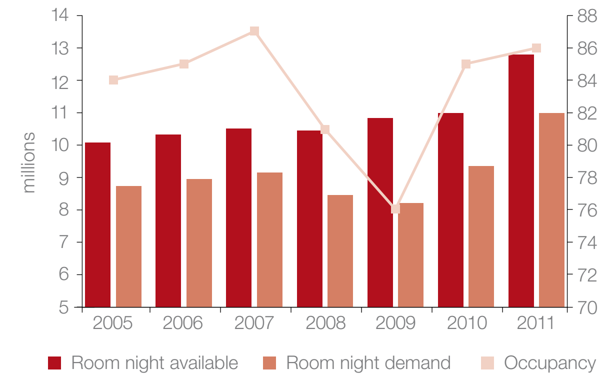
SINGAPORE TOURISM ARRIVALS, 1999-2011F



Source: Singapore Tourism Board

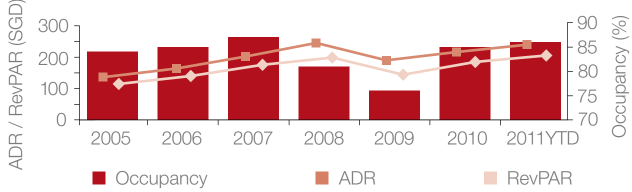
Not surprisingly, the growth in visitor arrivals has also translated into a booming hotel market. Despite the addition of some 7,000 rooms since the beginning of 2010, market occupancy has remained high, hovering at 86 % as of YTD September 2011. Given the strong visitor arrivals, it's not surprising that hotel room-nights are up 17 % year-on-year, which compares to 14 % growth in room-nights available. Such sustained high occupancy has supported ADR increases across the market, averaging just over 13 % growth year-on-year. RevPAR in turn has grown a stunning 15 % year-on-year.

RNA, RND AND OCCUPANCY, 2005 TO 2011F



Source: Singapore Tourism Board

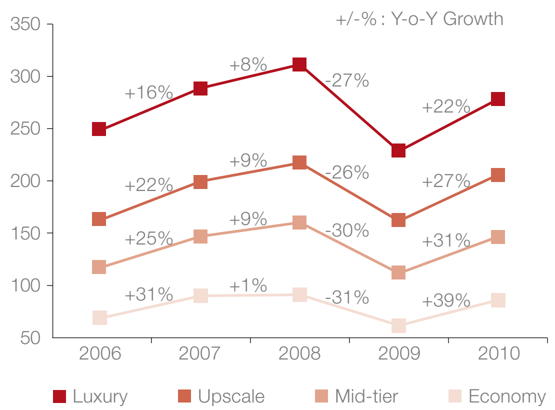
MARKET REVPAR, 2005 TO 2011 (YTD SEPT)



Source: Singapore Tourism Board

RevPAR growth has been experienced across all hotel product categories. However, based on 2010 results, the Economy segment has been experiencing extraordinary RevPAR Growth (+39 % in 2010). As a result, a flurry of new branded Economy hotels are now under development, while the two operating Ibis hotels in town were acquired by a local investor at amounts significantly above their investment costs (one was acquired only three months after its opening).

REVPAR BY HOTEL TIER, 2005 TO 2010



Source : Singapore Tourism Board

OUTLOOK FOR 2012

As Singapore's open economy is particularly vulnerable to external shocks such as a potential economic meltdown in Europe, a double-dip recession in the US, and a slowdown in growth in China, a cautious outlook for 2012 is warranted. However, with current market conditions so strong and no tangible signs of downturn yet evident, it's hard not to be bullish about the prospects for 2012.

For starters, supply growth is estimated at « only » 7.5 %. If the demand growth pace fell by half, market occupancy would remain at 85-86 %, while at no growth, occupancy would still be at 80 %, a rather healthy level relative to any international comparison. Should demand growth exceed 7.5 % – which is quite possible – the market will actually be under quite a bit of stress with regard to availability of both rooms and staff to provide proper service levels, though revenue managers (and hotel owners) will be quite pleased by the favorable conditions for further strong ADR/RevPAR growth.

> RevPAR growth has been experienced across all hotel product categories

Additional considerations supportive of a positive outlook, include the following :

- 2012 will be the second full year of operations for the Marina Bay Sands convention and exhibition center and thus will see it hosting an increasing number of large-scale international events.
- The opening of several significant new attractions at Resorts World Sentosa, including the Maritime Xperiential Museum, Equarius Water Park and Transformers : The Ride at Universal Studios
- The opening of a new US$ 500 million international cruise terminal
- Expansion in medical tourism via new facilities and added regional promotional activity
- Continued growth in Singapore's status as the regional hub for MNC operations, financial services, research and development, etc.
- New low-cost carriers entering the market (e.g. Scoot by Singapore Airlines) and the expansion in routes and schedules further improving and widening Singapore's access points
- Continued hosting of the Singapore F1 night race
- In addition to an overall increase in the number of arrivals, the added attractions to Singapore's tourism offer have helped increase average length of stay to 3.9 nights in 2010 (vs. 3.4 in 2005)

All in all, Singapore is considered one of Asia's hottest destinations, which has translated into incredibly strong hotel market performance conditions and made it probably the most sought-after market for hotel developers and investors.

Robert Hecker

MALAYSIA

SITUATION REPORT

In 2010, Malaysia recorded a modest 3.9 % increase in foreign arrivals, the lowest increase since 2004, to 24.6 million. Despite the recovery from the slight economy downturn of 2009, hotel occupancy levels across the country declined slightly to 59 % from

Signs of life

61 % in 2009. While most states and territories registered declines, hotels in Kuala Lumpur and Selangor chalked up increases in occupancy levels of 4.2 and 2.4 % points, respectively.

The Malaysian economy improved significantly in 2010 with GDP growth of 7.2 % from -1.7 % in 2009. For the first quarter of 2011, the economy grew at 4.9 %, well within market expectation of between 4.7 % and 5 %. It slowed in the second quarter to 4 % due to weaker exports to developed countries. According to Bank Negara, Malaysia's Central Bank, the debt crisis in the Euro zone and the slowing growth in the USA pose risks to Malaysia's economy because of the volatility those developments can cause in financial markets. But the Central Bank maintains optimism in achieving a 5 % GDP growth in 2011 due to intact economic fundamentals.

Foreign arrivals for the first half of 2011 fell 4.2 % compared to the corresponding period last year to 11.4 million (2010 : 11.9 million). Although the Government has targeted tourist arrivals at 25 million for 2011, a target increase of 1.7 %, it looked as if the target may not be achieved due to an expected drop in tourists from Japan owing to the tsunami and nuclear energy crisis. However, the floods currently inundating Bangkok, which began in October 2011 and are expected to continue through December 2011, may divert some tourist traffic to Malaysia. Hence, we are confident the tourist arrivals target set by the Government may be achieved.

The average occupancy levels of the hotel market in Kuala Lumpur for the first 8 months of 2011 improved by 1.0 percentage point to 71 % compared to the corresponding year in 2010. It is expected the whole year's average occupancy for 2011 will register between 71 and 73 %. Similarly for the ADR over the first 8 months, the market registered a 1 % increase compared to the corresponding period in 2010 and it is estimated the market will achieve a small increase of between 1 and 2 % for 2011 ; i.e. ADR of between RM 265 and RM 270 (US$ 88 and US$ 92).

OUTLOOK FOR 2012

For 2012, the country's hotel market may see a slight decline in performance due to projected slowdown in tourist arrivals. The decision by Malaysia Airlines, the national carrier, to rescind flight services to South Africa and Argentina, as well as reducing flight frequencies between Kota Kinabalu, one of Malaysia's top holiday destinations, and Tokyo, Osaka and Seoul, does not bode well for the tourism industry.

Kuala Lumpur is expected to remain the top destinations for both corporate and leisure. 2012 will see the opening of the 455-room Grand Hyatt Kuala Lumpur, adding another major brand player in the high-end hotel market that will soon be joined by St Regis (2013-14) and W (2014). The increasing number of top brands is expected to boost ADRs in Kuala Lumpur. For 2011, the ADR of the top-five hotels is expected to register approximately US$ 135, a slight increase of 3 % over 2010.

The outlook for the islands of Penang and Langkawi are also bright, with the former island undergoing a renaissance at the moment. The designation of George Town as a World Heritage Site in 2008 has provided a boost to the tourism industry. Amanresorts is building a property on Penang Hill which will undoubtedly elevate the status of the island as one of Asia's primary destinations. The proliferation of small boutique hotels, restaurants, cafes and galleries housed in restored shop-houses in the heritage enclave over the last two years have been drawing foreign visitors to the island, on track to putting Penang Island on the road to becoming the Pearl of the Orient again. In 2010, airport passenger movements registered a phenomenal increase of more than 25 % to 4.2 million, although the compound annual growth between 2000 and 2010 was only 4.3 %.

Langkawi has the highest ADR in the country and is considered a high-end destination. However, the projected opening of the 214-guestroom Four Points by Sheraton in Langkawi in early 2012 is expected to change the tourist mix. Currently, the island draws mainly budget and high-end travellers with very limited accommodation options for tourists in the middle. Further developments at The Datai Bay to build two high-end resorts (one of which is a Shangri-La) over the next two years will further consolidate Langkawi's position as Malaysia's main luxury holiday destination.

Another primary destination in Malaysia that attracts a significant number of foreign tourists is Kota Kinabalu in Borneo. Despite the popularity of Borneo with its miles of pristine beaches, beautiful islands and eco- and adventure tourism, there has been very little hotel development over the last decade. During the period 2000 to 2010, tourist arrivals to Sabah saw a compound annual growth rate of 11.5 %. In 2010, tourist arrivals to Sabah stood at 2.5 million. The pending openings of the high-end all-villa resorts on Pulau Tiga and Pulau Gaya by YTL Hotels in late 2011/early 2012 will further enhance Kota Kinabalu as a primary holiday destination of Malaysia.

Sen Soon Mun

INDONESIA

SITUATION REPORT

Jakarta

The Jakarta hotel market is continuing its upward trend, especially in ADR, after a long hiatus with rates coming back up to a more respectable level when compared regionally. Market occupancy has somewhat stabilized since 2009-10 ; not many hotels came on line in the past five years. As a result, RevPAR for Jakarta hotels is probably at its highest level in a long time.

There is an expectation : an influx of mid-tier and limited-service budget hotels starting operations this year, in particular the proliferation of home-grown brands such as Pop !, Amaris, Max One, Whiz, Fave and so on, along with international brands such as Formule One, Tune, Holiday Inn Express, Days, etc. Data on these lower segments of the hotel market, however, are not yet readily available.

Aside from the lower-end segments, several middle and high end hotels are expected to come on line from the end of 2011,

Signs of life

including the Raffles at the Ciputra World, the Luxury Collection, Pullman and St Regis. Accor is also planning several mid-tier hotels with its Mercure and Novotel btands. Early rumors are floating around that a W is also coming into Jakarta in the not so distant future.

Jakarta	2009 YTD Dec.			2010 YTD Dec.			2011 YTD Aug.		
	Occ	ADR	RevPAR	Occ	ADR	RevPAR	Occ	ADR	RevPAR
Top Tier	60%	$71	$42	66%	$86	$56	67%	$91	$61
Mid Tier	72%	$49	$36	75%	$56	$42	71%	$62	$44
Combined	64%	$63	$40	70%	$72	$50	69%	$78	$54

Bali

Across the board, the 2010 year-end results for Bali came out in the middle of last year and were better than originally anticipated. Although the ADRs are quite flat year-on-year, coming from a fairly high base anyway, occupancy is showing a healthy up-trend. Coming out of the effects of the global financial crisis, the rates have been climbing back up in the first three quarters of 2011, while occupancy has somewhat stabilized.

Foreign visitor arrivals into Bali have breached historical records since 2007 and the trend seems to be continuing. 2010 ended with about a 7 % increase year-on-year, while 2011 is poised to end up with about the same increase by year end (slightly above 8 % at end of August).

With strong market performance continuing, hotel development seems to be in high gear. And this is true for all hotel products across the board, from limited-service budget hotels like Tune, Amaris, Pop!, Fave and Max One, to high-end products like Baccarat, Jumeirah and Ritz-Carlton, and anything in between, like InterContinental, Anantara, Sofitel, Westin, etc. across Bali Island. High land prices are perhaps the only factor that is somewhat putting a brake on the hotel development frenzy in Bali.

Bali	2009 YTD Dec.			2010 YTD Dec.			2011 YTD Aug.		
	Occ	ADR	RevPAR	Occ	ADR	RevPAR	Occ	ADR	RevPAR
Upper Luxury	46%	$511	$236	52%	$494	$256	56%	$540	$302
Luxury	65%	$238	$156	74%	$247	$182	75%	$270	$202
Top Tier	69%	$133	$92	75%	$134	$100	77%	$144	$112
Mid Tier	82%	$77	$63	82%	$77	$63	77%	$90	$69
Combined	72%	$120	$87	75%	$127	$95	75%	$140	$104

OUTLOOK FOR 2012

Although there are worries over the far-reaching effects of the continuing economic uncertainties in the US and Europe into the Asian and Southeast Asian markets, Indonesia seems to be relatively unaffected and continues to be on the path of relatively strong economic growth – at least for the next few years leading up to the 2014 election year.

With continued improved accessibility and very active domestic traffic thanks to low-cost carriers, most hoteliers in Jakarta are optimistic that the market buoyancy will continue as long as the new addition to supply can be somewhat controlled.

For Bali, the moratorium on hotel development permits in the three most densely populated Regencies in South Bali is still in force and should slow down the addition to new supply, while the infrastructure deficiencies are being ironed out by the local government. In the meantime, unaffected Regencies such as Tabanan on the west coast and Klunkung on the east coast are poised to become the locations for the next generation of world-class resorts on this Isle of the Gods.

> With strong market performance continuing, hotel development seems to be in high gear

With the appointment of a new Minister of Tourism in the recent cabinet reshuffle, most industry practitioners are expecting some positive changes related to the immediate future of the tourism and hotel industries in Indonesia.

Rio Kondo

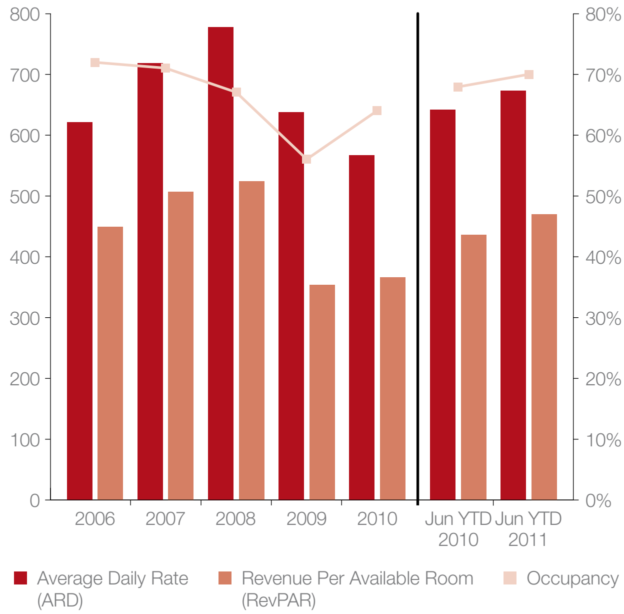
MALDIVES

SITUATION REPORT

You arrive at the airport, and within minutes, you are whisked off to a private island via a speedboat or a low flying seaplane. You fly over the vast blue Indian Ocean, with a panoramic view of the numerous small but lush islands that make up this exotic destination. At the resort, you are greeted by your hosts and exotic beats on the bodu beru, before being escorted to your own villa with a plunge pool. You take a deep breath of the warm, salty, tropical air; while white, soft sand trickles between your toes and a rich underwater world awaits a few steps away.

Welcome to the Maldives. To many, the Maldives is the epitome of luxury travel in the region and was previously reserved for a select few. With a large variety of resorts these days, the Maldives is much more accessible than ever before. The Maldives has witnessed some significant changes in recent years, such as the appointment of a new President for the first time in 30 years, the replacement of an age-old bed tax with a goods and service tax, the entrance of a different mix and profile of resorts, and shifts in the geographic sources of key markets.

KEY PERFORMANCE INDICATORS, UPSCALE RESORTS, MALDIVES, 2006-2011 JUNE YTD



Due to the global financial crisis and a large influx of new supply, the Maldives suffered a significant blow in 2009 and 2010. Between 2004 and 2008, the upscale segment, for instance, welcomed an average of about one new resort per year. Starting in 2009, however, several new resorts opened

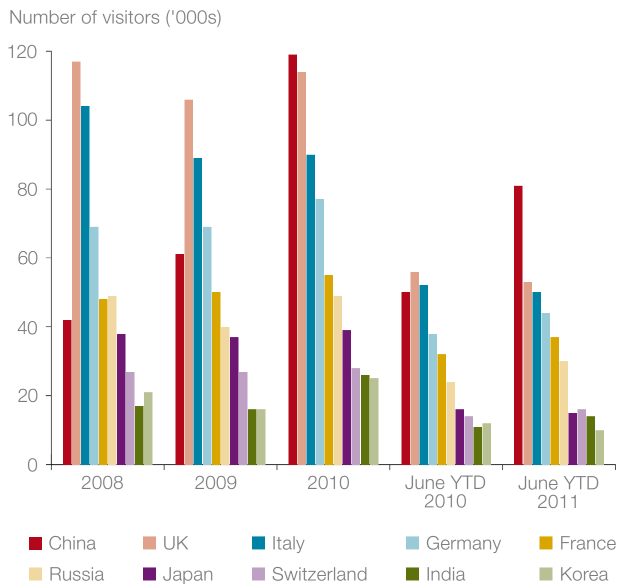
Signs of life

their doors, such as the Shangri-la Villigili, the Beach House by Waldorf Astoria, Constance Halaveli and the Alila Villas Hadahaa (now Park Hyatt). Coupled with an overall drop in tourist arrivals (with a more significant impact on the upscale segment), the upscale resorts reported a low occupancy of only 56 %, with an 18 % year-on-year drop in ADR and a corresponding 32 % drop in RevPAR. ADR continued to slide in 2010 as demand numbers continued to drop and the market struggled to absorb the new supply.

The biggest change to tourism in the Maldives has been the drastic switch in the geographic sources of its visitors. The more prominent nationality sources to the Maldives had typically been European

2011 has begun to see several changes in consumer trends. The biggest change to tourism in the Maldives has been the drastic switch in the geographic sources of its visitors. The more prominent nationality sources to the Maldives had typically been European, namely the United Kingdom, Italy and Germany. Since 2009, however, these numbers have declined gradually; and in 2010, China became the largest geographic source to the Maldives, accounting for 15 % of total international tourist arrivals. This radical change in a relatively short period of time has seen resorts scramble to translate resort collaterals, come up with new food menu items, recruit Chinese-speaking front line staff and create more guest activities in the resorts. As the Chinese travel at different times of the year compared to their European counterparts, hotels in the Maldives are also seeing less apparent seasonality patterns throughout the year.

TOP 10 SOURCE COUNTRIES, MALDIVES, 2008-2011 JUN YTD



2010-2011 has also seen the implementation of two important Tourism bills:

- Second Amendment to the Maldives Tourism Act. With the amendment, land lease rent will no longer be computed based on number of beds, but will be based on the sizes of the islands. Lease period shall be for a maximum period of 50 years from the date of lease, instead of 25 years previously (subjected to extension, should initial investment exceed US$10 million).
- Tourism Goods and Services Tax Bill. According to the new bill, a tax of 3.5 % is levied onto room rates, all goods and services sold to tourists, travel planner charges and domestic transportation. The bed tax will gradually be abolished by the end of 2013.

In recent years, some of the upscale properties in the Maldives, such as Centara Grand Island, Lily Beach and Diva have taken on a new strategic direction and positioning, introducing all-inclusive packages to the destination. This is a relatively new phenomenon in this exclusive holiday location. Several new resorts opened their doors in 2011 as well. Familiar brands already with a presence in the Maldives, such as Constance, Per Aquum, Six Senses and Anantara, are expanding their portfolio with subsequent properties. Hyatt International marked their first foray into the Maldives with the rebranding of the Alila Villas Hadahaa into a Park Hyatt. Also in Q4 2011, the Maldives will see the entrance of new brands into the « playground, » such as Dubai-based Jumeirah and US-based Viceroy.

OUTLOOK FOR 2012

After an encouraging first half of the year when the market saw a slight improvement in both occupancy and ADR, hoteliers in general are positive about full year performance in 2011. However, with such a significant influx of new supply in the second half of 2011 and in 2012, compounded by fears of another global recession triggered by economic troubles in the US and the EU, many are nervous that the market will undergo a slump similar to that of 2009.

China, we feel, will continue to be the largest geographic source for the Maldives in the short to medium term, as the destination gains rapid popularity among honeymooners and wealthy extended families in the Mainland. These Chinese visitors will continue to gravitate towards resorts which are going the extra mile to cater to their needs and those with strong word-of-mouth marketing. Another fast growing market to watch out for is the Russian market. Unlike the Chinese travelers, they prefer staying in beach villas and have the propensity to incur ancillary expenses, such as food, beverages and spa.

Recent years have seen regional brands enter the Maldives, such as Thai-based Anantara and Centara. In 2012, two other Thai brands, namely Dusit Thani and Amari, will be entering the ranks. We will likely see further postponement in the openings of several properties currently under construction, such as the JW Marriott Gaakoshibee, the Regent Malefushi and the Mandarin Oriental Maavelavaaru, as developers seek out additional financing to complete these projects.

Average occupancy of the market, particularly in the upscale segment, is expected to be impacted by the new supply ; and some resorts, especially those which are less established or aged, will have a harder time staying competitive. Luxury properties, such as One & Only, Four Seasons, Soneva (Six Senses) and Huvafen Fushi are, however, expected to be minimally impacted due to their strong market reputation and no new competition in the top-luxury segment.

| Shyn Yee Ho

UNITED ARAB EMIRATES

SITUATION REPORT

The political and social unrest which started early in the year 2011 has heavily shaken the hotel and tourism markets in the Middle East and North Africa (MENA). Amid the chaos of the Arab Spring, which resulted in political upheaval in several countries, the United Arab Emirates (UAE) has proven to be a safe oasis in the region.

The UAE has not seen any of the violence that has reverberated through the MENA region, and as a result, regional as well as international tourists have diverted their travel plans to their safer destinations. Particularly the Emirates of Dubai and Abu Dhabi, which offer a comprehensively developed tourism infrastructure like high-quality hotels, shopping facilities and other attractions, have been the focus of travelers.

The hotel market in the UAE has clearly benefited from the Arab Spring, and it is unlikely that this trend will change until « hot spot countries » such as Egypt, Tunisia and Syria have regained some stability.

According to data from STR Global and our own research at Horwath HTL, current key performance indicators of the hotel market reflect the positive trend. After the typically lower demand during the summer months and the Ramadan season, occupancy in Abu Dhabi rose to 62.4 % in September 2011, which represents an increase of 8.7 % compared to the same

Signs of life

month the previous year. The annual performance in the capital of the UAE currently stands at 63.3 % occupancy, which is 14.3 % higher than in 2010, along with an average daily rate (ADR) of US$ 156.99 YTD in September 2011.

The hotel market also experienced an upswing in Dubai, where the occupancy in September 2011 surged to 71.9 %, which is an increase of 13.2 percentage points compared to last year's performance of 63.3 %.

ADR in Dubai amounts to US$ 207.72 on a YTD basis, representing an improvement of 11.2 % compared to 2010. The RevPAR in the Emirate rose to US$ 152.13, which is a substantial increase of 8 % in relation to the market performance in 2010.

The sharp decline of the tourism market in the years 2008 – 2010 in the aftermath of the financial crisis also had a drastic impact on the hotel development pipeline. Following the boom years, several projects – given the changed economic situation in the UAE and the restricted availability of development finance – were cancelled, put on hold or scaled back.

As of September 2011, Dubai has an inventory of approximately 53,000 hotel rooms whereas the Emirate of Abu Dhabi currently counts around 13,000 quality units. An additional 1,700 rooms in Dubai and 1,500 keys in Abu Dhabi entered the market. The major openings were mainly in the 4 to 5-star category in both destinations. The slowdown of hotel projects positively contributed to the recovery of the hospitality industry, as the market could easily absorb the additional supply.

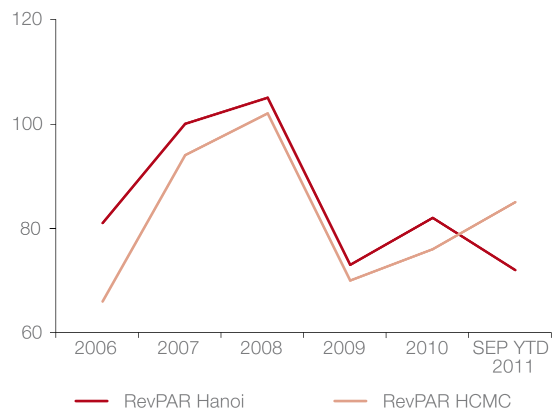
OUTLOOK FOR 2012

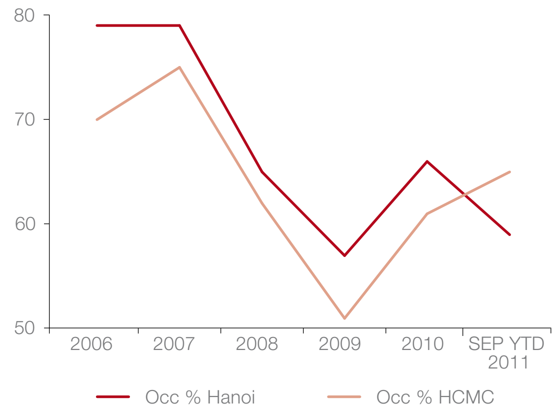
The uncertainties in Europe with regard to the slowdown of the economy in the coming year could cast long shadows and pose a downside risk on arrivals from Europe, which represents one of the most important feeder markets for international arrivals in the UAE.

There is still potential to diversify the hotel and tourism offering, for example by focusing on budget/mid-market hotels or through special products which appeal to specific travelers, such as boutique hotels or the all-inclusive hospitality concept.

The UAE has cemented its position as a safe oasis within a turbulent region and will continue to be one of the preferred places in MENA for leisure and business.

| Hannes Schied





VIETNAM

SITUATION REPORT

2011 will be remembered as the year in which Vietnam experienced the highest inflation rate amongst Asian countries. In September, the inflation rate reached 22 % year-on-year. As such, the inflation rate for the year is expected to average 18.7 %, much higher than the 15 % previously forecasted by the government. Soaring prices hurt business investors in various ways, such as through increased labor costs and double-digit interest rates, while increasing overall uncertainty – which investors don't like in general.

Despite such turmoil, the hotel sector has managed to stay positive. According to STR Global, the Vietnam hotel market witnessed year-on-year RevPAR growth of 3.3 % in September, comprising a 4.5 % increase in ADR and a 1.1 % decline in occupancy. Both the Ho Chi Minh City (HCMC) and Hanoi upper-tier hotel markets have undergone tough times, but the HCMC market, which historically lagged slightly behind Hanoi in terms of occupancy and RevPAR, has now begun to outperform Hanoi.

Besides HCMC and Hanoi, the country has started to develop major leisure destinations along the coast such as Nha Trang, Cam Ranh, Da Nang, Hoi An. As a result, a number of new hotel developments are appearing such as the Sheraton Nha Trang, Hyatt Regency Danang Resort and Spa, Crowne Plaza Danang and Novotel Imperial Hoi An.

International arrivals as of YTD September recorded a 15.5 % year-on-year growth. Regarding the number of arrivals by market, China registers the largest share at 23 %, followed by

Signs of life

South Korea and Japan at about 9 % and 8 %, respectively. While the number of leisure travellers increased by 10 %, the number of business travellers decreased by 5 %. As a result, mid-tier hotels catering to price-sensitive leisure travelers performed better than upper-tier hotels focusing more on corporate guests.

OUTLOOK FOR 2012

Vietnam's economic growth rate for 2011 is forecast at 5.8 %, which is one percentage point lower than 2010. For 2012, the government is hoping to ease the inflation rate to 11 %. As such, massive pressure is put on the government and its policies to stabilize the economy and regain investor confidence in the country. As a result, corporate business demand growth is expected to remain sluggish in 2012. However, the leisure market is expected to continue growing fast, especially from neighboring countries. September year-on-year figures show that the number of arrivals from Cambodia and China increased by approximately 60 % and 45 %, respectively.

With a large influx of supply in 2012 (approximately 75 % increase in Hanoi, reaching 4,000 rooms, and 38 % increase in HCMC, reaching 7,000 rooms), hotel owners and operators will need to prepare for tightened competition, with extreme downward pressure on rates. However, with labor costs relatively low and gross operating profits relatively high as a result, there is room to see through further tough times while maintaining positive operating profit. In the longer run, the addition of new internationally managed and branded hotels is crucial to the future growth of the Vietnamese tourism industry.

| Van Phan

PHILIPPINES

SITUATION REPORT

After a lackluster performance in 2009, the hotel and tourism industry in the Philippines ended on a high note in 2010. Despite the bus hostage taking situation and travel warnings from countries such as USA, Australia, Hong Kong and England, the country welcomed a record 3.52 million international visitors, exceeding the previous high of 3.14 million set in 2008.

According to STR Global, market occupancy surged by 5 percentage points to 67 % in 2010, while countrywide ADR averaged PHP 4,760, inching up by less than one percent from 2009. Hotels in greater Manila, a key hotel market, registered better performances, with average occupancy improving by 5 percentage points and ADR growing by 2 %.

The hotel market's buoyant performance was driven partly by improved economic conditions in main visitor source countries such as Korea and USA. Corporate travel was also strong, supported by the resurgence in domestic and foreign investments, following the positively viewed election result boosting investor confidence. Remittances of Filipino foreign workers also sustained strong consumption and encouraged domestic travel.

Outlook for the tourism industry remains favorable in 2011. Based on YTD August 2011 international tourism arrivals figures, the industry is in the midst of another strong year. The country received around 2.60 million visitors during the first eight months, increasing by almost 12 % from the same period in 2010. The strong showing is led by the 30 % surge in Korean visitors. As of YTD August 2011, the Korean market accounted for the largest share of visitor arrivals at 24 percent.

While the nationwide market occupancy remained at 68 % as of YTD September 2011, ADR showed an improvement of 5 % in the same period. Hotel market occupancy in Manila averaged 72 %, while ADR averaged PHP 5,136, increasing by one percentage point and 3 %, respectively, from YTD September 2010.

OUTLOOK FOR 2012

There are some positive developments surrounding the long delayed PAGCOR Entertainment City, an ambitious integrated casino project in the Manila Bay consisting of numerous hotels, casinos and entertainment facilities. Belle Corporation, one of the four companies authorized to develop hotels and casinos at the compound listed PHP 4.5 billion worth of shares in 2011 to fund the construction of the company's Belle Grande Manila hotel and casino project. Albeit the future of the project is still uncertain, news such as this has created a buzz, sparking additional investor interest in the Philippines.

2012 should also be an interesting year in terms of new hotel supply with the opening of the 330-room Fairmont and Raffles Hotel in the Makati CBD. The last top-tier hotel built in the Makati CBD was the Shangri-La back in 1993.

Future growth in the tourism and hotel industry is largely contingent on the improvement of tourism infrastructure. The Ninoy Aquino International Airport (NAIA) in Manila, the main gateway to the country, is already operating at full capacity. Terminal 3, the newest terminal in NAIA, has faced controversies over the years and has not been fully operational. President Aquino has announced plans to utilize Terminal 3 to its maximum capacity, which may mean moving some international flights from Terminal 1. However, currently, ANA is the only foreign based carrier to operate out of Terminal 3. Also, repairs on the terminal and upgrades to equipment have yet to begin.

The Diosdado Macapagal International Airport (DMIA) located in the Clark Freeport Zone is reportedly being touted as the next primary gateway replacing NAIA in the future. Although the airport capacity issues may only have minimum impact on tourism in the near term, expansion and solving the problem will be critical for sustained growth and supporting projects such as the ambitious PAGCOR entertainment city.

While caution on the industry outlook is warranted due to the European debt crisis, global economic slowdown and constant travel warnings to the Philippines, our outlook remains positive for 2012. Our optimistic view is supported by good economic forecasts driven by strong remittances and investments spurring corporate and regional domestic travel amidst minimal hotel supply growth.

Jerome Siy ■

Fundamentals rebounding

OUR REGIONAL OUTLOOK CONTINUES WITH A LOOK AT KEY MARKETS IN THE WESTERN HEMISPHERE. **HORWATH HTL** HAS PROVIDED AN IN-DEPTH LOOK AT THE PROSPECTS FOR 2012 IN THE USA, BRAZIL AND THE CARIBBEAN.

USA

SITUATION REPORT

Economy

The economy of the United States is the world's largest national economy. Its nominal GDP was estimated to be nearly $14.7 trillion in 2010, approximately a quarter of nominal global GDP. The US economy has been expanding since the end of the recession, which is officially considered to have ended in June 2009. The recovery has been fragile, however, with many mixed signals that have led to uncertainty in the consumer and business markets.

The announcement in July 2011 from the Commerce Department's Bureau of Economic Analysis that from late 2007 through the end of June 2009, the US economy contracted 5.1 %, was an upward revision from the previous figure of 4.1 %. This signaled that the recession was even worse than had been thought, and put into perspective the modest nature of the recovery. The US Bureau of Economic Analysis reports third quarter 2011 GDP growth of 2.5 % over the same quarter the prior year, with the annual growth rate measured at 1.6 %.

While the positive growth in GDP indicates that the recovery has continued for nine consecutive quarters, it has largely been a jobless recovery, with the unemployment rate hovering around 9 % for the past year.

The high unemployment rate, coupled with the lingering housing market downturn, has hit consumers hard. TransUnion, a credit reporting agency, has reported an uptick in mortgage delinquencies for the third quarter to 5.88 %, the first such increase since the fourth quarter of 2009. Furthermore, housing prices continue to erode, declining 1.1 % in September according to CoreLogic, with Fitch Ratings anticipating a further 10 % slide before the market stabilizes.

As a result of the combination of these factors, consumer confidence is near all-time lows, and given that consumer spending is a significant driver of the overall GDP, the low consumer confidence levels indicate worrisome conditions for future sustained economic growth.

Finally, both external threats and internal political gridlock further exacerbate the problems facing the country's economic recovery. For the former, the sovereign debt crisis in the Euro-zone has markets alarmed at the possibility of yet another round of bank failures or bailouts, or even the collapse of the Euro as a central currency. And internally, the country has to face significant issues related to the federal deficit, with no indication of cooperation in Congress to resolve the issues. All of these conditions threaten to stall the recovery or, worse, push it back into a double-dip recession.

Lodging industry performance

Similar to the overall economy, the US hotel industry continued its recovery in 2011 from the depths of the downturn in 2009. The overall trends featured the following : supply growth remained low ; demand grew at a steady rate ; growth in ADR occurred ; and RevPARs grew as well as overall profits.

According to Smith Travel Research (STR), through September 2011, year-to-date national occupancy was up 4.6 % (58.9 % YTD 2010 versus 61.6 % YTD 2011) while ADRs were up 3.6 % ($97.97 in 2010 and $101.45 in 2011). The result of the growth in these indices was RevPAR growth for year-to-date 2011 of 8.3 % ($57.74 in 2010 and $62.54 in 2011). The steady growth of lodging demand, coupled with ADR growth, despite the negative economic environment appeared to demonstrate the underlying momentum of the lodging market's recovery.

STR statistics indicate that the Luxury segment enjoyed the largest increase in RevPAR growth at 8.6 % year-to-date through September 2011, although all segments (Upscale, Mid-Price, Economy and Budget) had RevPARs growing at rates in excess of 7 %. In general, it appears that the US lodging recovery was being led by the RevPAR growth at the upper end of the scale in Upscale, Upper Upscale and Luxury segments.

With respect to overall location, STR reports that the Resort and Urban markets experienced the strongest RevPAR growth

Fundamentals rebounding

rates (10 % and 8.6 % respectively), while the Small/Metro Town locations experienced the lowest growths in RevPAR at 6.7 %. The top 25 markets are leading the way in terms of RevPAR growth at 9.6 % while all other markets had RevPAR growth at 7.3 %. Within the top 25 markets, the metro areas with the largest RevPAR growth in 2011 included San Francisco/San Mateo (19.5 %), Nashville (13.6 %) Oahu Island-Honolulu (13.5 %), Dallas (13.3%), Los Angeles-Long Beach (13.3 %) and Miami-Hialeah at (13 %). The top 25 markets with the lowest RevPAR growth included Washington DC-Maryland-Virginia (0.9 %), Norfolk/Virginia Beach (2.3%) and St. Louis (5.2 %). New York and Chicago experienced RevPAR growth of 6 % and 8.9 % respectively in 2011.

Most industry experts are anticipating year-end 2011 RevPAR's growth to be in excess of 7 % when compared to 2010, with similar type growth rates forecast for 2012. RevPAR growth in excess of 5 % has traditionally become regarded as exceptional. Despite this recovery, the US lodging metrics are still approximately 5 % below those of 2007, so if growth occurs as projected in 2012, the performance may finally surpass these previous high, although not adjusted for inflation.

With respect to hotel industry revenues and profits, STR reports that in 2010 industry revenues in the US were $127.7 billion with industry profits moving to $18 billion. Many experts believe that with the improving lodging metrics, which are indicating significant growth in revenue for 2011, profits, or NOI, will grow in excess of 10 % and possibly 15 % in 2012.

Supply

US Hotel rooms in the development pipeline are considered to be at very low levels. As of September 2011, according to STR, there were approximately 54,000 hotel rooms (or approximately 350 new properties) under construction, a decrease of 7.8 % from the same period in 2010. The Upper Upscale and Upscale segments represent the majority of these rooms (over 58 %). Markets experiencing the strongest number of hotel rooms under-construction are in key US cities such as New York, Boston, Orlando, Miami and Washington DC. The Pacific region experienced the largest decrease in rooms under-construction or in the active development pipeline,

The low level of new hotel construction is one of the major factors keeping markets growing in terms of their occupancy and rate. Given the lack of capital available in the market due to the uncertain economic conditions, the amount of new construction is expected to remain low for the next several years.

Transactions slowed by access to capital

What goes down, must come up. The rebound in US hotel investment went from a near-dead stop in 2009 to $14.5 billion as of the 3rd quarter of 2011, according to Real Capital Analytics. This rapid growth has also had a positive effect on average prices, which went from an average of $60,000 to about $140,000 per key, where it seems to have stabilized. This average pricing trend has been heavily influenced by pricier downtown transactions in major markets, most notably in New York City, specifically Manhattan. Coastal markets, including New York, Los Angeles, Boston, and Miami, dominated the acquisition market for hotels in the first half of 2011. Specifically, hotel sales in Manhattan totaled $1.7 billion during the first six months of 2011. San Diego, which boasted the two largest hotel deals during the first half of 2011, was close behind with a sales volume total of $1.6 billion. The third-ranked city was Los Angeles with sales volume of $499.0 million. Furthermore, urban markets such as New York, Boston, Washington DC and San Francisco are highly sought after as many hotel assets trade at below replacement cost, and these primary markets have shown the strongest market rebound. Full-service properties comprise more than 75 % of trades and account for most of the price appreciation.

The largest portfolio trade was Hyatt's $650 million acquisition of 24 assets from Lodgeworks, followed by the family of Cheng Yu-Tung (a billionaire from Hong Kong) who purchased five luxury properties from Rosewood and Maritz Wolff for $521 million, and Five Mile Capital's $400 million acquisition of a Red Roof Inns portfolio. In a multi-property sale, Hersha Hospitality Trust sold 18 hotel assets, mainly consisting of Residence Inns and Hampton Inns, to an affiliate of Starwood Capital Group for an aggregate purchase price of $155.0 million, or about $80,560 per key. The hotels range in size from 72 rooms to 150 rooms and are located throughout the East Coast. Hersha sold this portfolio as part of its « noncore disposition program » aimed at realigning its portfolio towards urban gateway markets with higher growth opportunities. The sale price was based on trailing 12-months income and a reported overall capitalization rate of 8.4 %. This strategy of disposition aligns with the market trends across the country, and other companies may move towards such dispositions if the major urban markets continue to demonstrate stronger performance than secondary cities.

National chains took advantage of the economic downturn to remove older product from their systems by requiring upgraded property improvement programs (PIPs). The end result for the older and/or smaller properties that have been suffering from the economic down turn is an inability to maintain their product,

> The recent turmoil in world capital markets, issues with the potential Greek economy and a volatile stock market resulted in significant declines in hotel REIT share prices

much less capitalize a PIP. Without a franchise affiliation, the impact is two-fold: declining values due to the recession plus an immediate loss in value of approximately 30 % according to brokers, from the loss of the franchise.

Brand quality and asset location remain key factors for investors. Over the past 12 months, lower prices attracted investors, leading to a 30 % increase in sales of limited-service properties affiliated with national brands. Transaction velocity was more brisk in the last six months of the period, when approximately 55 % of all deals for the entire year were executed. Activity during this period, however, does not fully reflect the effects of economic turmoil at the end of the third quarter. The median price of branded limited service properties was $27,800 per room over the past 12 months, marking a decline of 20 % from the previous 12-month stretch. The effects of distress on values remained evident, with multiple properties trading at less than $15,000 per room. While the recovery in sales of flagged limited-service properties remains notable, sales of full-service assets with brand affiliations have dominated activity through much of this year.

REITs active, but cooling off

In 2010, REITs were the largest buyer group across the Americas, accounting for 51 % of single-asset acquisitions by volume, or 40 % of the number of single-asset trades, evidencing the high quality of the assets they purchased. In particular, major hotel assets situated in gateway US markets were highly sought after by lodging-centric REITS that had the ability to raise relatively low cost capital through IPO's and offerings. The recent turmoil in world capital markets, issues with the potential Greek economy and a volatile stock market resulted in significant declines in hotel REIT share prices. These share prices of publicly traded hotel focused REIT's do not currently justify acquisition activity, and they are effectively now out of the market. According to a recent report by PwC, a more eclectic group of bidders, such as equity funds and foreign buyers, are surfacing as they, too, look for opportunities in the lodging sector as prices rise in other commercial real estate segments, such as apartments.

Financial turmoil

The question was asked at the US Hotel Appraisal 2011 Hospitality Conference: « What makes hotel financing so hard to produce or attain in this economy ? » The answer is complex. They include new FDIC regulations that set strict capital requirements for lenders, and improving but still weak hotel performance nationwide, which makes hoteliers reluctant to

Fundamentals rebounding

take on debt. These challenges affect not only hotel loans but hotel transactions and values. Nonperforming loans are seen by lenders as a sign that a hotel has lost value. When borrowers are « underwater » on their hotel loans, they have nowhere to go.

More assets came to market in 2011 due to several factors. First of all, lenders took control of assets and sold them as real estate owned (REO), or appointed a receiver to sell the asset or restructure the debt and arrange a consensual sale with the borrower. Secondly, asset sales increased due to the maturing debt which could not be refinanced at current loan-to-value rates (60 % to 65 %), resulting in the borrower needing to sell the asset to retire the debt. While delinquency rates for hotel CMBS loans are down slightly in October, to approximately 12.4 % as a result of resolving $604 million in troubled loans, according to Fitch, there is still over $12 billion in hotel CMBS loans maturing in 2012, which will be difficult to refinance in the current market conditions.

Capitalization rates

In the investment market, low interest rates will sustain activity, though the effects of uncertain economic conditions remain unclear. Unresolved challenges in Europe may tighten the availability of acquisition financing, which remains accessible only to the most qualified borrowers. A shift in buyer composition has also developed in the fourth quarter of 2011. REITs, that paid capitalization rates as low as 7 % for select assets in primary markets, dropped out due to a decline in stock prices in the third quarter. This has provided additional acquisition opportunities for private investors. The market for branded full-service or select-service hotels remains strong, especially for assets in primary markets or locations with strong demand drivers. Capitalization rates for these properties vary based on brand and location, but range from 9 % to 10 % for most assets. Distressed properties also remain available, usually on an all-cash basis.

With mortgage interest rates at historic lows, and plentiful equity capital (more buyers than sellers), capitalization as well as discount rates have continued to fall, as shown on the following chart.

HOSPITALITY INVESTMENT SURVEY RESULTS

	Capitalization Rates (OAR)*			Discount Rates (IRR)*		
Lodging Segment	**3rd Q 2011**	**1st Q 2011**	**3rd Q 2010**	**3rd Q 2011**	**1st Q 2011**	**3rd Q 2010**
National Economy/ Limited-Service/ Midscale	9.80%	9.80%	10.20%	11.38%	11.94%	12.31%
National Select Service	9.40%	8.40%	NAV	11.55%	11.55%	NAV
National Full-Service	7.96%	8.79%	9.50%	10.75%	10.95%	12.15%
Luxury/Upper Upscale	8.05%	8.28%	9.00%	10.56%	10.58%	11.41%

**Rates on unleveraged, all-cash transactions*

Source : PwC Real Estate Investor Survey, 3rd Quarter 2011

OUTLOOK FOR 2012

With a reluctance of banks to lend on the development of new supply of US hotel rooms for the foreseeable future, lodging fundamentals are rebounding as corporate and group meeting business continues to increase from cyclical lows. The perceived long-term upside in the lodging sector has resulted in heightened transaction activity and pricing of all types of hotel assets over the past year.

According to the 3rd Quarter 2011 PwC Real Estate Investor Survey, survey participants expect most property values to rise, on average, over the next 12 months. Expectations range up to 40 % for the Select Service segment, with the lowest average of 3.9 % for the Full Service segment.

EXPECTED VALUE CHANGE* Survey Lodging Markets

Segment	Range	Average
National Economy/Limited-Service/Midscale	(2%) to 30%	5.90%
National Select Service	0% to 40%	11.70%
National Full-Service	(10%) to 30%	3.90%
Luxury/Upper Upscale	0% to 25%	6.40%

**Over the next 12 months*

Source : PwC Real Estate Investor Survey, 3rd Quarter 2011

There are many uncertainties in the national and global economy that could result in a return to the doldrums for both hotel market performance and the transaction levels in the country. Should the fundamental conditions of the US economy continue to gradually improve, however, these projections mean that hotel asset values will continue to improve over the near term.

Mark Beadle

BRAZIL

SITUATION REPORT

The eyes of the world have turned to Brazil during the last years. Its outstanding economic growth, supported on solid macro-economic fundamentals that result in an improving market performance and the leadership in all the regional economic rankings (FDI, industrial production, infrastructure development), has positioned Brazil, a country accounting for 47 % of the overall area of South America, and with the 5th highest population in the world (191.5 million people), as the one of the « stars » of the selected BRIC group.

One of the major effects (and causes) of the Brazilian economic tale has to do with the widespread appearance of the middle class. Though inequality remains present in most of the regions and major cities of Brazil, the truth is that the economic policies implemented during the last decade boosted the purchasing power of millions of Brazilians, stimulating all the sectors of the

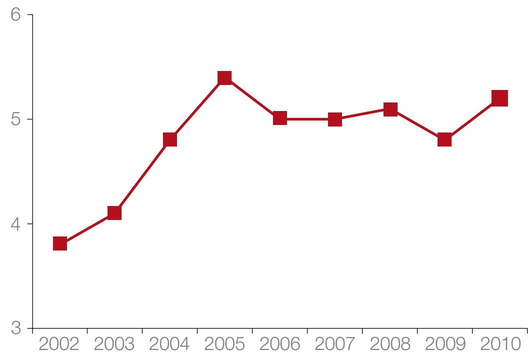
Salvador Prime Complex,
Hotel InterCity Premium Salvador,
Salvador de Bahia – Brazil

Fundamentals rebounding

economy, including, of course, the demand for hotel, tourism and other related services.

Domestic demand rules the hotel and tourism industry. 88 % of the total tourism demand (accommodation, transport, services in general) is generated by domestic tourists. Looking at the flat trend in international tourist arrivals in Brazil over the last few years, it is clear that demand growth is not linked to the external segment.

INTERNATIONAL TOURIST ARRIVALS TO BRAZIL (MILLIONS) / 2002-2010

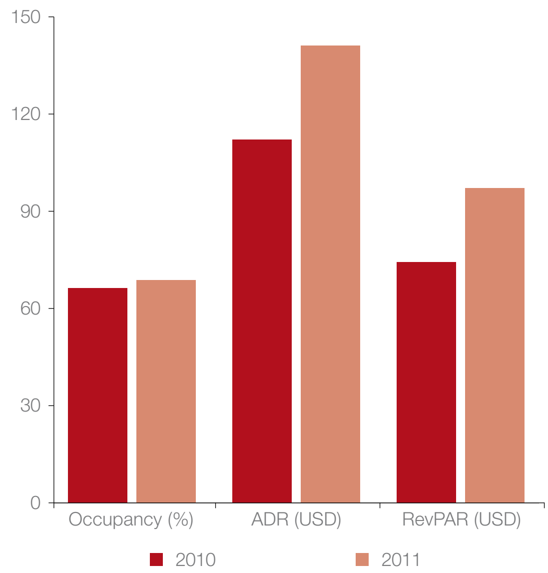


Source: Ministry of Tourism of Brazil

During 2011, the Brazilian hotel market grew significantly in comparison with 2010, mainly in the variables related to rates and RevPAR. In general terms:

- Average occupancy in the last three years has remained above 60 %, declining slightly in 2009.
- Average daily rate has posted steady growth since 2004, reaching US$ 141 in 2011 (September YTD).
- RevPAR has also increased gradually since 2004, reaching US$ 97 in 2011 (September YTD).

BRAZIL HOTEL MARKET PERFORMANCE /YEAR TO DATE – SEPTEMBER 2011 VS SEPTEMBER 2010)



Source: STR Global

Brazil's current hotel supply consists of over 9,500 hotels (over 440,000 rooms) and, though the country has become one of the most attractive hotel investment markets in the region, offering interesting long-term growth potential, as less than 10 % of the total hotel offer (27 % of total rooms) is chain affiliated, either nationally or internationally, while small and non-affiliated independent hotels account for 90 % of the total hotel offer (73 % of total rooms).

The emergence and growth of low cost and regional airlines, the development of the national infrastructure and the decentralized economic profile of the country (22 cities with more than 1 million inhabitants) ensure the basis for a growing domestic market. On the other hand, regional and national hotel chains such as Bourbon, InterCity or Slaviero became aware of this scenario and are developing a new generation of Brazilian hotel chains that combine local products with a more professional and standardized operation. Finally, though real estate funds are starting to appear as an attractive option to invest in the hotel industry, most of the funding for the Brazilian hotel supply under development is still gathered through other mechanisms, including widely held stock, family funds and financing through public sector programs (BNDES).

OUTLOOK FOR 2012

Brazil's hotel industry is still going through a transformation period, developing the competitiveness of the hotel supply, diversifying tourism destinations and introducing new lodging formats. Competitive supply, once linked to family and local owners, is slowly moving towards a more professional and «chain-affiliated» scenario through the penetration of international and, primarily, national hotel chains.

Taking into account the domestic profile of the Brazilian market, projected investments and scheduled openings for the next year are oriented to increase the supply of three main segments of the market:

1) *Economy and mid-scale (3 and 4-star) hotels located in secondary cities* (i.e. those with a population of 300-800,000). Frequently as part of mixed-use projects including retail, offices and/or residences, these type of products, developed as part of clusters, are turning out to be attractive due to their risk diversification and ease of commercialization among small investors (i.e. widely held stock).

2) *Upscale hotels (5-star) in capital cities.* Some major urban centers like Belo Horizonte still don´t have a developed upscale supply. International hotel chains have become aware of this and are planning future openings and seeking opportunities.

3) *Convention center hotels.* According to the last ICCA (International Congress and Convention Association) rankings, Brazil is one of the top ten countries in the world in terms of hosting international events; moreover, the domestic market is growing exponentially. This type of product could also find opportunities in secondary markets (regional capital cities) that concentrate major industrial areas and commercial activities and lack of infrastructure to host large events.

In the coming year, we will see the consolidation of the domestic market in terms of demand, while international brands will have to prove their commercial skills against the more flexible and familiar national hotel chains, whereas foreign investors should stop setting their eyes on Brazil – and start setting their feet here!

| Mariano Carrizo

THE CARIBBEAN

SITUATION REPORT

Economies in the Caribbean in 2010 experienced a better than-expected economic recovery. The Gross Domestic Product (GDP) of the region expanded by 2.9 % in 2010, after contracting by 1.3 % in 2009. Although this was after a 6.5 % increase in 2007, economic growth is expected to slightly continue recovering by 3.1 % in 2011 and 3.4 % in 2012. Predicted total tourism and travel contribution to GDP for the Caribbean is the highest in the world at 14.2 % at the end of 2011, while the Caribbean is rated as the number 1 region out of 12 regions measuring the relevance of tourism to its national economy.

Tourist arrivals for 2010 in the Caribbean managed to recover the loss of 2009, and match the figure of 2008 with 20.1 million arrivals, compared to 19.5 million for 2009. The most visited destinations in the Caribbean are Dominican Republic, with over 4 million visitors a year, Cuba (2.3 million), the Mexican Caribbean (2.1 million) and Jamaica (1.9 million). Visitors to the Bahamas and Puerto Rico also totaled 1.3 million each. These countries make up 73 % of the total tourist arrivals, with all the other islands together accounting for the remaining 27 % of the air visitors to the Caribbean in 2010.

The market share of tourist arrivals to the Caribbean during the last decade indicate that the Caribbean has been consistently attracting a market share of the world tourist arrivals between 2 % and 3 %, giving the Caribbean the 10th highest ranking out

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of the world's top 15 regions for international tourism receipts. This performance has been consistently achieved during more than 30 years, which is a clear indication of the sustainability of the region's tourism industry.

International tourism receipts for the Caribbean region were $23.6 billion for 2010, an increase of 2.1 %, which is an improvement on the two previous years of -3.2 % and -5.3 % for 2008 and 2009 respectively. These numbers make the Caribbean region the 4th highest in the world for receipt per tourist arrival.

Our estimation of room supply in the Caribbean for the year 2010 was approximately 300,000 hotel rooms. The major destinations providing this supply are, the Dominican Republic with nearly 68,000 rooms, Cuba (50,000), the Mexican Caribbean zone (28,000), and Puerto Rico (14,000). The Organization of Eastern Caribbean States (OECS) countries comprise 18,000 rooms, the other Caribbean Commonwealth countries about 75,000, and the Dutch West Indies and French West Indies about 17,000 each. This represents a growth in the hotel room supply of 14 % in the last five years; the stock of hotel rooms in 2005 amounted to 260,000. Physical hotel plant investment in the Caribbean Region is mostly concentrated in the costal zones of each corresponding Island. The commercial hotels are mainly located in the major cities of the islands, such as Kingston (Jamaica), San Juan (Puerto Rico), Santo Domingo (Dominican Republic), and other cities.

During the year 2010, our estimates of the average hotel occupancy in the Caribbean region was 63 %, an important indication in the beginning of recovery in the hospitality industry after the economic crisis of 2008, which led to a drop in hotel occupancy. The highest hotel occupancies reached were in Puerto Rico (73 %), Dominican Republic (67 %), US Virgin Islands (65 %) and the Mexican Caribbean (60 %). The rest of the Caribbean Countries achieved occupancy rates that range from 57 % to 62 %. The average occupancy and room rates are generally higher for the resort hotels in the coastal zones, compared to business hotels in either luxury, upper upscale, upscale or any other type of hotels.

> Most of the tourism industry believes that the BRIC economies are one of the biggest growth opportunities of the next five years – if not the biggest

The main source of market tourist arrivals to the Caribbean in 2010 was the USA, providing 50 % of all stopover arrivals. Europe was the next largest contributor to Caribbean arrivals (19 %), with Canada just behind (14 %).

OUTLOOK FOR 2012

We believe that the Caribbean will continue maintaining its fair share as one of the premier worldwide tourism destination. Its rich diversity of history, culture and language along with its range of tourist attractions, including beaches, scenery and the hospitality of its people, makes the Caribbean one of the most attractive investment destination worldwide. This view is supported by Josef Forstayr, president of the Caribbean Hotel and Tourism Association (CHTA) who states that the Caribbean « will continue to inspire our potential visitors from North America and Europe, » as the Caribbean can « recognize the opportunities which exist in new, emerging economies. » He also states that the Caribbean countries are the « masters of good value for money… necessary during times of economic stress » and is « confident » the Caribbean will remain the most « desirable warm weather destination in the northern hemisphere. »

The role of the BRIC (Brazil, Russia, India and China) countries will play an important role in future tourism trends in the Caribbean. China has the 4th most important outbound travel market, according to the WTO (World Tourism Organization), and Brazil has seen record growth in its international network in the Caribbean. St Maarten recognizes that to commit to sustainable development, it needs to develop a BRIC policy to attract the fastest developing economies. Also, most of the tourism industry believes that the BRIC economies are one of the biggest growth opportunities of the next five years – if not the biggest.

The Caribbean's traditional single-hotel developments are changing to projects based more on efficient touristic mixed-use concepts. This has led to an increased number of leisure products in the Caribbean, including golf, spa, luxury real state, conference centers, resort and vacation communities.

Tourism's contribution to the GDP has helped the Caribbean to smooth the effects of the financial crisis ; also the trends for 2012 predict an increase in the performance of the key indicators for the tourism and hotel industry in the Caribbean, including increases in occupancy, room rates and RevPAR. The rising number of tourist arrivals, market share and tourism receipts all reflect an improving industry for the region since the financial crisis. Based on the expected outlook for the region, we believe the future of the Caribbean hotel industry will be of continued improvement, reaching the prevailing performance levels prior to the crisis in a short period of time.

Sotero Peralta ■

Slow but steady

OUR 2012 ASSESSMENT OF KEY GEOGRAPHIC MARKETS FOR THE HOTEL INDUSTRY IS ROUNDED OUT WITH A LOOK AT AFRICA. THE SOUTH AFRICAN OFFICE OF **HORWATH HTL** CONTRIBUTES A LOOK AT PROSPECTS IN ITS OWN BACKYARD, WHILE THE REST OF THE CONTINENT IS REVIEWED BY **W HOSPITALITY** IN NIGERIA.

SOUTH AFRICA

SITUATION REPORT

Since 1994, when South Africa transitioned from the system of apartheid to one of democracy, the country's tourism industry has grown exponentially. South Africa has become the country with the highest influx of tourist arrivals in Sub-Saharan Africa and has one of the best tourism infrastructures in the region. Today, the South African government recognizes the possibilities the tourism sector can deliver, subsequently identifying it as one of the six core pillars of growth in the country's New Growth Path framework.

After several years of remarkable growth, the global financial crisis took its toll on travel and tourism worldwide, and the number of tourist arrivals in South Africa began to decline from late 2008. Despite hosting the 2010 FIFA World Cup mega soccer event last year, growth in tourist arrivals between 2008 and 2010 slowed considerably.

In the meantime, the hotel industry had enjoyed rising demand as well as significant investment in the sector, with hotel performance peaking in 2007. However, the arrival of the downturn in late 2008 caused those hotels relying on international leisure travel to suffer, while those hotels relying more on domestic corporate and government travel fared better, given the number of projects in-country pertaining to World Cup preparedness activities.

In light of declining tourist arrivals, compounded by an increase in room inventory as new hotel developments commenced operations in anticipation of 2010, room-night demand in 2009 declined by an estimated 10 percentage points, while average room rate was estimated to have increased by approximately 4 % (before being adjusted for inflation of approximately 6.5 %).

The year 2010 was welcomed with renewed optimism, and although overall room-night demand declined by an estimated 3 percentage points when compared to occupancy registered in 2009, room rates negotiated some years prior in respect of the 2010 FIFA World Cup mega event helped the South African hotel industry register a 15 % increase in average room rate (in

South African Rand terms), prior to taking into account inflation of approximately 4 %.

In the first five months of 2011, hotel performance was comparable with occupancy and average room rate registered in the same five-month period last year. As would be expected, hotel performance over June and July 2011 was significantly weaker then occupancy and average room rate registered over the two-month 2010 FIFA World Cup period.

While year-to-date September 2011 room-night demand registers an estimated 2 percentage point decline, year-to-date September

2911 average room rate has decreased by an estimated 14 %. The outlook for the remainder of 2011 is one of cautious optimism in anticipation of domestic corporate and government demand weakening as the end of the year approaches.

OUTLOOK FOR 2012

Looking ahead to 2012 and beyond, continued uncertainty in many of the country's key source markets is likely to continue to subdue international leisure travel demand. With local economic activity slowing, we expect a weakening of demand from the domestic corporate and government demand segments which is likely to place further downward pressure on room night demand. As hoteliers continue to attempt to gain market share through competitive pricing, hotel owners are likely to come under pressure as they experience cash flow problems and struggle to pay interest on their loans.

We believe that the return to growth is likely to be slow with hotel performance largely driven by the return of the international leisure traveller, coupled with an improved local economic environment. We anticipate that the South African hotel industry's recovery is only likely to be reflected in late 2013.

Michelè de Witt ■

Getting there

OUR MAN IN AFRICA, **TREVOR WARD**, MANAGING DIRECTOR OF LAGOS-BASED **W HOSPITALITY GROUP**, TAKES US ON A *TOUR D'HORIZON* OF THE MANY CHANGES AFOOT ON THE CONTINENT – INCLUDING A NUMBER OF INTERESTING HOTEL PROJECTS.

Africa is no stranger to conflict. Wars come and go – Angola has been at peace for nearly a decade, so are Sierra Leone and Liberia. But it has become something of an « image thing » – another war in Africa, factions fighting over resources of one type or another. 2011 saw civil war in Cote d'Ivoire, ended with the help of the international community, and North Africa, particularly Libya, was racked for most of the year by liberation struggles, less about resource control this time and more about freedom.

The effect on the hotel industry in these countries has been serious. Marriott, Starwood and Rezidor were all obliged to close their hotels that had only just opened in Tripoli, Libya's capital, and at the end of 2011 they remain closed due to the uncertainties that remain in this country undergoing a tsunami-sized transition. Several hotels in Egypt were destroyed during the uprising there, and in Abidjan, Cote d'Ivoire's main city, the manager of Accor's Novotel hotel was, tragically, murdered by his abductors.

At least 20 states in Africa are, today, experiencing conflict or the after-effects of conflict. That's nearly half the continent.

But Africa and the Africans are incredibly resilient, and in my nearly ten years of living on the continent, I have seen remarkable advances in the hotel industry. From being the continent with wars in every region at the turn of the century, a « hopeless case » in many people's eyes, and with few hotels suitable for international visitors, I am very confident that Africa is now « getting there. »

Conflict, or more positively the efforts of the local and international communities to recover and move forward, actually generates opportunities for hotel investors. The international community is more involved than ever in assisting Africa to move forward, for two reasons – one being the *moral imperative*, that it is wrong to stand by while people suffer, and the other *self-interest*, to encourage trade, particularly in resources such as minerals, oil, timber and others.

The most obvious opportunities for investors have been the rebuilding of damaged hotels. Take Freetown for example, one of the smallest capitals in West Africa, which is seeing investment in the Mammy Yoko Hotel, to be branded and managed by Rezidor as a Radisson Blu, and in the Cape Sierra Hotel, to be rebuilt and opened as a Hilton. The latter deal was driven by the World Bank's International Finance Corporation (IFC), which supported the government in the privatization process. Afreximbank, the multilateral agency based in Cairo, is providing financing for these and other hotels through its ConTour product, specially designed for hotel projects.

The IFC is one of the international institutions taking the lead in promoting hotel and tourism development in Africa, as a job creator and as a catalyst for further development, enabling investors in other sectors to visit the country, government to host investor workshops and other events, and so on. The international airlines are moving in big time – Emirates, Turkish, Qatar have joined the likes of BA and Air France with multiple destinations and various code share arrangements ; Brussels (the former Sabena) is expanding again, particularly into West Africa ; and the US carriers – Delta, United and Continental – are moving in, serving Dakar, Monrovia, Accra, Lagos, Abuja and other cities.

So too are the international hotel chains, many of whom are now taking Africa really seriously, with development directors and operations teams based around the continent – Marriott in Ghana, and Accor, Rezidor, Hilton and IHG in South Africa. Marriott are still to make much of a mark in sub-Saharan Africa, but Rezidor is steaming ahead, with 43 hotels open or under development in 16 countries. Their hotel in Lagos, opened in

May 2011, has become the rate and occupancy leader after just four months, in a crowded market.

North Africa is going to be incredibly interesting in 2012. At the end of 2011, Libya is still a mess, and an awful lot of sorting out is going to be needed before investors (except for those in the oil industry) have the confidence to go there. But the country will certainly be more open than before, the new leaders are likely to be more receptive to the outside world, particularly the investors who can create much-needed jobs, and funds for rebuilding. And this will generate hotel demand throughout the country, not just in Tripoli where the main focus has been previously.

Tunisia has already shown that its transition is a peaceful one, and has been the first to hold elections for a new government. Heavily dependent on the European markets for its tourism, I see a rapid bounce back, both in the mainstream beach tourism product, and also in the boutique hotel sector. Egypt has in the past shown its ability to recover from terrorist attacks and other external factors, and while Cairo has something of an image problem going forward, the Red Sea resorts benefit from having their own identity, separate from that of the country itself, boosting the success of marketing efforts.

Morocco was virtually unaffected by the uprisings elsewhere in the region, but needs to look at its visa policies if it is to diversify its markets within the continent itself – a highly successful hotel investment conference held there in 2011 could have been even better had some delegates not been refused visas.

In sub-Saharan Africa, 2012 could see the opening of Marriott's first hotel in the region, in Accra, Ghana; Hilton opening in Kampala, Uganda; Radisson Blu in Freetown, Sierra Leone; and InterContinental in Lagos, Nigeria. Kigali, the capital of Rwanda, could see two new hotels open in 2012, the Marriott and the Radisson Blu, while the Accor group have several openings slated in Nigeria, Ethiopia and Senegal. Accor, one of the first players in the African market, particularly in the French-speaking countries, is set to make a major new commitment with a dedicated fund for investment in existing hotels and green-field projects.

Compared to the BRICs, hotel development in Africa is painstakingly slow. While the hotel chains announce the opening of scores of new hotels in China (Starwood claim a new hotel opening there every two weeks), the development of just one hotel in Africa can take several years. While it is the oldest continent, Africa is still young in many respects, and in South Sudan boasts the world's youngest country. New governments in post-conflict states lack the capacity to create the environment for investors, particularly in higher-risk sectors such as hotels (the emphasis is more on get-rich-quick sectors such as mining and oil); the contractors don't have the experience; the professions such as engineers and project managers are lacking in skills – and so on.

But it can be done, it will be done, and Africa is no longer an unknown quantity – at least not to the international hotel industry. ■

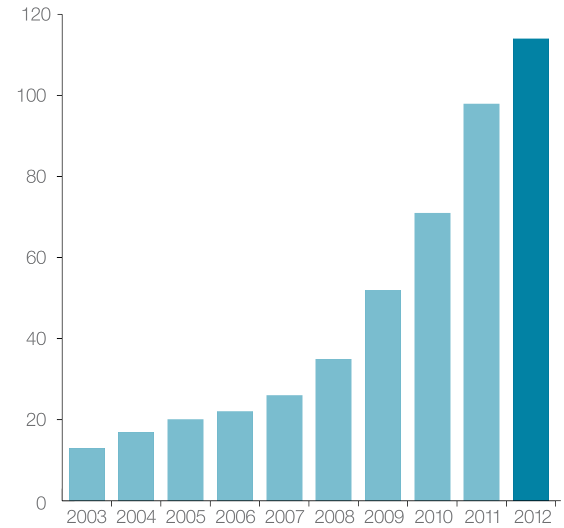
Four questions buyers will be asking in 2012

WHAT'S AHEAD FOR THE INDUSTRY'S RELATIVELY NEW SEGMENT, HOTEL-BRANDED RESIDENCES? **DAN AUGUST CORDEIRO** OF **HOTELBRANDEDRESIDENCES.COM** WALKS US THROUGH SOME ISSUES THAT HE BELIEVES BUYERS WILL FACE NEXT YEAR.

Living in hotels is nothing new. But over the past ten years, purchasing whole-ownership flats or villas bearing the brand of a major hotel group and used at the disposal of the homeowner – hotel-branded residences – has become an important part of the luxury hotel development business and the residential real estate industry. By lending the « halo » of luxury hotel brands to for-sale residences, developers have been able to achieve pricing premiums of 10 to 50 % over comparable non-branded properties. These often generate the feasibility for the hotel itself, through both the increase in revenue and the timing of the sales proceeds.

By the end of 2011, there will be nearly one hundred operating branded residential projects worldwide, affiliated with some of the world's most prestigious hotel chains, such as Four Seasons, Ritz-Carlton, St. Regis and Mandarin Oriental. Of these, 90 % only became operational between 2007 and 2011, with the average hotel-branded residence having operated for about four years.

HOTEL-BRANDED RESIDENCE DEVELOPMENTS OPERATING WORLDWIDE*



**Data only includes whole ownership properties without mandatory rental programs, and thus excludes fractionals, residence clubs, extended stay and hotel-condos.*
Source: HotelBrandedResidences.com

Given the recent surge in operating properties, the business model has leapt from conceptual plans to operational realities. Branded residences have also weathered the ongoing financial crises with several examples of failed projects, bankrupt developers and construction defects, resulting in numerous lawsuits in the United States, where they have so far been the most prevalent.

In 2012, buyers of hotel-branded residences will be more sensitive to these downside scenarios and will be scrutinizing premiums paid for these properties more than ever. Given that they are the cornerstone of the business model, developers that build them and hotel brands that use them to grow their hotel portfolios should take another look as well. To do so, start with the following four questions, which buyers will, and developers and brands should, be asking this year.

QUESTION NO. 1: IS THE RESIDENCE TRULY DEVELOPED AS A PREMIUM ONE?

While virtually all hotel brands do get involved in the design and construction of their new hotels, services provided specifically to the residences are rare. As such, the quality of the residences themselves – both inside the four walls and outside – can be inconsistent, despite the brand. If homeowners pay a premium for the residences because they bear the hotel's name, both the developer and the hotel chain need to ensure that every aspect of the residence reflects the quality of the brand and the buyer's lofty expectations if they want to realize a pricing premium.

QUESTION NO. 2: IS THE RESIDENCE TRULY OPERATED AS A PREMIUM ONE?

While the hotel brands pride themselves on providing luxury hotel services to their residential owners, the residences are not always managed by the same chain that manages the hotel. That means that buyers of branded residences interact with third-party property managers for some aspects of homeownership. If not managed properly, this could reflect badly on the entire development and leave buyers wondering why they paid a premium in the first place.

QUESTION NO. 3: ARE THE TERMS OF THE SALE SAFER THAN A NON-BRANDED PROPERTY?

Buyers of hotel-branded residences often state, « If it's good enough for [the brand], it's good enough for me. » But in reality, the brands have few controls over the offering terms of the third-party developers. Thus, buyers who purchase a hotel-branded residence have many of the same risks as unbranded properties. These can include brand-damaging instances of operational deficits, bankrupt developers, or construction delays and defects. Agreeing to pay a premium does not always ensure that homebuyers' interests are more protected than those of non-branded properties.

QUESTION NO. 4: WILL THE HOMEOWNERS BE ABLE TO GENERATE THE SAME PRICE PREMIUM WHEN THEY WANT TO SELL?

The implication of stronger resale values is one of the oft-cited reasons why buyers choose branded residences in the first place. Yet the hotel brands often disallow homeowners from using the name of the brand when reselling, and the potential risk of termination or replacement of the hotel brand could undermine the premium value that the brand offered the residences. This may be the trickiest obstacle, given the

> Those developers and brands with good answers to these questions will be the ones that can realize sustained pricing premiums over the long term

brands' intellectual property and the developers' insistence on termination clauses, but if large premiums that underlie the entire business model erode, it could force some changes in this area.

As the hotel-branded residence industry matures, hoteliers and developers alike need to pay more attention to what generates the pricing premiums by potential buyers aside from the *de rigeur* lifestyle photography and designer showrooms. Addressing these four questions is the first step toward making sure that buyer premiums are not a short-lived dream and that they withstand the real tests of brand-loyal but demanding homeowners. Those developers and brands with good answers to these questions will be the ones that can realize sustained pricing premiums over the long term. Given that developers rely on this premium for their projects to make economic sense and the hotel brands would not otherwise have a hotel to manage, all parties should take another look to ensure the business model delivers on homebuyers' dreams. ■

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.

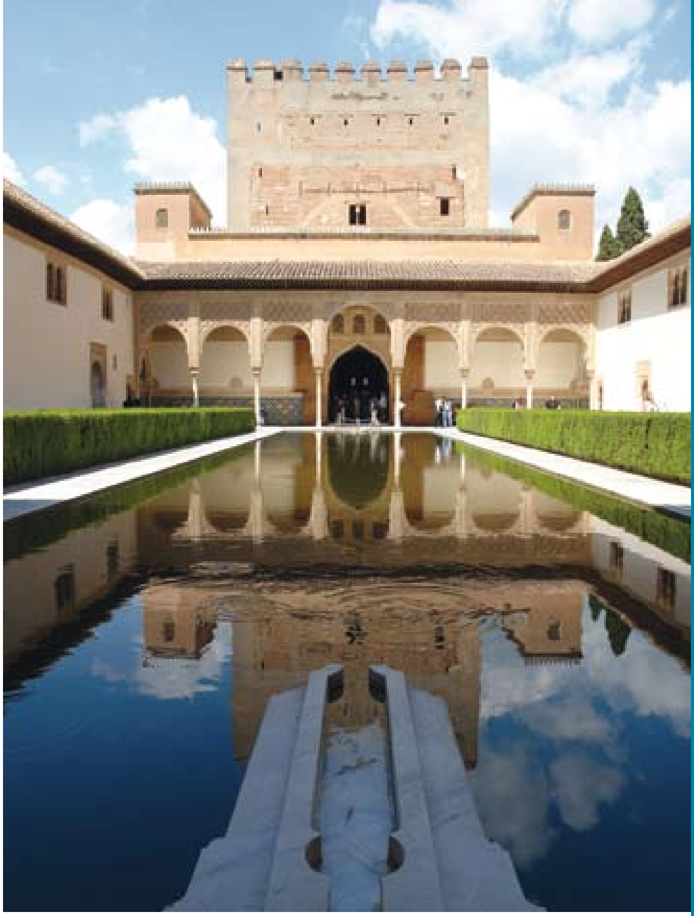
Condo-hotels have a slightly more complex set up than a traditional hotel or apartment hotel :

- **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. ■

London swings

THE 2012 OLYMPIC GAMES ARE GIVING LONDON THE IMPETUS TO COMPLETE A NUMBER OF HOTEL PROJECTS – WHICH IN TURN IS GIVING INTERIOR DESIGNERS THE OPPORTUNITY TO DEMONSTRATE THEIR CREATIVITY IN SOME INTERESTING NEW SPACES. **DEXTER MOREN**, DIRECTOR AT LONDON-BASED DESIGN PRACTICE **DEXTER MOREN ASSOCIATES**, SHARES HIS EXPECTATIONS FOR THE KEY DESIGN TRENDS HE SEES FOR THE YEAR AHEAD IN THIS DYNAMIC HOTEL MARKET.

London hotel development is undoubtedly one of the busiest single property markets in Europe, fuelled by the emergence of London as a global destination of choice for business, conference and leisure that maintains continued high rates and occupancy levels. Certainly the Olympics have provided momentum to complete projects by a certain time and has also focused development to the east of London, but no one builds hotels for one sporting event, and longer-term demand seems insatiable – all brands want to be in London or increase their provision in an otherwise difficult UK hotel market.

As such, in the year ahead we're going to see a broad range of new hotel interiors across a spectrum of brands and budgets, and I highlight what could be seen as the emergence of some new trends.

FOOD & BEVERAGE

Food & beverage design has always been an important component in boutique hotels and luxury brands. This year in London alone, we've seen several new openings sign up signature chefs such as Heston Blumenthal, Marcus Wearing, Wolfgang Puck and Nuno Mendes.

One of the most significant moves, however, has been the industry reverse, where restaurateurs have become hoteliers. Trevor Gulliver and Fergus Henderson of St.John's have opened a 15-room hotel in the heart of Leicester Square. Inspired by a similar concept in Beirut, they have extended their offering of « Nose-to-tail eating » to « From table to bed. » How soon before other successful restaurateurs join them ?

INCLUSIVE DESIGN

Inclusive design has often been treated as an obstacle rather than an opportunity within hotel design. Many openly admit to the disappointment at being allocated an « inclusive » bedroom primarily because of its clinical bathroom. However, with the Olympics and Paralympics coming to London, now more than ever we have the opportunity to reconsider people's needs and design hotel spaces that work for all. Emphasis will be placed on attractive bathroom layouts with concealed fittings and built in flexibility, clear navigation and considered lighting that doesn't look like it belongs in a hospital. My firm is currently working with InterContinental Hotel Group to develop a new model that will presage in an all inclusive wing of 50 bedrooms, due to open in Southwark ahead of the Paralympics.

TECHNOLOGY

One of the most rapidly changing aspects in hotel design is the use of technology, and how it is shaping the guest experience. My last international flight was booked and paid for on the internet, with boarding pass loaded directly to my mobile phone so that no paper ticket or even boarding pass was created. On my return to the UK, an Iris eye scan meant I didn't even need my passport. The implication for hotels is immense, as we all know that technology that may be prohibitively expensive or cumbersome today will be cheap and micro-sized within a very short timescale.

Self check-in at hotels is already rendering the reception desk obsolete, similarly to how it has all but replaced airport airline

desks, and it is already possible for that same mobile phone to unlock the bedroom you've booked, clock up consumption from the minibar, access your bill, or set your selected bedroom environment. While ultimately, technology allows guests more control over their experience, one of the key aspects that sets a hotel apart is service, and it will be important for designers

> The implication for hotels is immense, as we all know that technology that may be prohibitively expensive or cumbersome today will be cheap and micro-sized within a very short timescale

and hoteliers to strike a balance with the expectation that this will differ dependent on service level. In all this, it mustn't be forgotten that there is nothing more frustrating than technology that is not intuitive, unmaintained or has malfunctioned.

SPACE UTILIZATION

London property values and constraints of existing buildings provide a unique design environment, unlike any other city. At one end of the market, there continues to be growth in new micro-room brands where bedrooms of between 7 and 12 m^2 take reference from shipping and airline cabins to provide comfortable sleeping arrangements with accoutrements of en-suite luxury. Pioneered by companies such as easyHotel, this sector is no longer just a budget offer, as referenced by brands such as Citizen M or Yotel. Ironically, the role for interior design in this market is probably the most challenging, with the need to create the illusion of acceptable guest experience within an area smaller than an average car parking space. This spatial optimization doesn't diminish across the spectrum of hotel room sizes, with even 5-star hotels squeezing brand standards. With notable exceptions, such as London's newly opened Corinthia and the proposed Shangri-la, in contrast to places like Dubai where bedroom sizes tend to be brand standard plus 5-10 %, equivalent London hotels tend to be brand standard less 5-10 %. Given that essential components such as the bed, bath, shower, etc. cannot be diminished, the spatial planning skill of interior designers working in London need to be supreme.

DAYLIGHT

Meeting and conference space has seen the light in demand from customers for spaces that are not permanently closeted in blackness and artificial light. While there always remains the need to be able to create a dark environment, hotel reports of strong customer preference for meeting and conference space to be able to provide natural light is illuminating. While views are not always achievable in an urban context, new hotels such as DMA's Hilton Bankside propose ingenious scoops to draw light into basement space.

ROOFTOP BARS

When I started designing hotels, no self-respecting hotelier would let a designer even suggest rooftop food & beverage, citing Hilton Park Lane as the exception that proved the rule. Increasingly, the rooftop bar is firmly ensconced as a « must have » in both conversion and new-build hotels, as we discover the joys of pie in the sky !

London swings

SUSTAINABILITY

Finally, sustainability continues to remain a pertinent issue in the hotel world, with continually evolving techniques and technologies both to satisfy client sensibility and offset dramatic energy cost rises. Approaches have moved a long way from polite notices to re-use bath towels – however, there is still a long way to go.

Is it the recession blues or sustainability sensibility that is making recycling the new black in interior design? Re-used found artefacts, sometimes left as discovered, sometimes refinished or re-upholstered, but never enough not to look reclaimed, are appearing in more frequency. In parallel with the sumptuous and traditional new interiors of The Savoy and Corinthia, we're also seeing an increase in the trend to leave environments as found, with exposed concrete being as fashionable as sand-blasted brick was a decade ago. My firm is currently developing a new hotel brand at Tobacco Dock that will feature loft style, pared down, simple, unostentatious interiors, as referenced in the US Nylo brand or the Gastwerk in Hamburg. ■

The giant is wide awake

« CHINA IS NO LONGER THE 'SLEEPING GIANT' IN THE OUTBOUND TRAVEL AND TOURISM BUSINESS, » SAYS **GIOVANNI ANGELINI**, FORMER CEO OF SHANGRI-LA HOTELS AND RESORTS AND NOW HEAD OF **ANGELINI HOSPITALITY** IN HONG KONG AND VICE CHAIRMAN OF **DUSIT OVERSEAS COMPANY LTD**. IT IS FULLY AWAKE, AND IN A VERY SHORT PERIOD OF TIME HAS BECOME THE FASTEST-GROWING TRAVEL MARKET IN THE WORLD. WITH HIS IN-DEPTH KNOWLEDGE OF THE REGION, THIS SEASONED EXECUTIVE GIVES THE HOTEL YEARBOOK A PRACTICAL AND USEFUL OVERVIEW.

It is estimated that there will be over 100 million International travelers out of China well before the year 2020 (most probably by the years 2017-8), a very large volume for the travel industry to handle. Statistics shows that 47.5 million Mainlanders travelled out of China in 2009 and around 57.3 million in 2010, about 4.3 % of the total population. The experience of the past few years has proven to us that the Chinese outbound market is developing at a pace unparalleled in the history of the travel and tourism industry.

China National Tourism Administration (CNTA) predicted that outbound travel from China would increase 14 % to 65 million in 2011, while the overseas spending by these Chinese travelers on their trips outside China would jump to US$ 55 billion from US$ 48 billion in 2010.

ENORMOUS POTENTIAL

The long-term opportunities that China offers to the global travel and tourism industry are second to none. Is the world – and the industry – ready for this movement ?

International trips out of China are increasing very rapidly, and all those in the industry must understand what is happening, and most importantly, how to respond. The potential of this market cannot be ignored, is here to stay, and will make a major impact in many destinations around the World.

Mostly thanks to rising disposable incomes and relaxation of restrictions on travel, outbound travel has increased by an average of close to 20 % per year since 2000 (originally from a low base), and will continue to increase in the years to come, perhaps at a lower percentage growth rate. China has become much more « worldly » within the travel industry.

International arrivals (inbound) in China for 2010 reached a record of 26.2 million, representing a growth of 7.3 million visitors or 6 % over 2009. The country is already Asia's top travel destination, and is predicted to be the top global destination and a major player for outbound travels.

There are continuous improvements within China favoring outbound travel, among them :

- Political support for activities related to outbound travel
- Easier access to passports and hard currency
- Approved Destination Status (ADS) agreements with all important destinations, signed with the respective foreign governments
- Improved International relationships around the world
- Increased leisure time – a 5-day working week and 3 weeks of paid vacation annually
- Consistent changes in consumption and lifestyle, especially in the area of seeking new personal experience and well-being
- Continuous appreciation of the local currency, the RMB, and the emergence of a huge middle class with spending power and a thirst for travel
- Greater interest in in-depth travel and new destinations
- Availability of cash – the Chinese culture in general is strong on saving
- Larger choice of countries and destinations to visit and tours to participate in than previously
- Increase in the availability of international flights to major destinations around the world – also from the secondary cities within China
- Aggressive external promotions, from « Visiting China » to « Chinese Visitors. »

Mostly due to strong regional economies, outbound travel originating from the South and East of China tends to be more frequent than from the North and West of China.

> We must accept the fact that there are cultural differences between Chinese and Western consumers

Travel trends are gradually changing. First-time travelers tend to go the old traditional way of group travel for 10-14 days (long haul) and visit ten or so Western cities or countries in one stint. These trips are referred to as « Eye Opening Tours, » in which tourists try to see first-hand what they have read or heard about, or perhaps learned about in school. On the other hand, the individual traveler (especially on subsequent trips) may travel to only one or two destinations, and tends to spend more money.

While sightseeing vacations still top the list, eco-tourism holidays are growing fast. There are also clear indications of more sophisticated and adventurous areas of travel, heading towards destinations off the beaten tourist track. On that note, incentive travel from China also has been growing in the past couple of years. Given there are many organizations eager to recognize their employees, incentive travel has strong growth potential.

It is thus critical for decision makers and operators in this industry to understand Chinese consumer behavior and the ever-changing travel purchase and research patterns of this market.

We must accept the fact that there are cultural differences between Chinese and Western consumers. Differences exist as well between the tour group dynamic and that of the well-off individual traveler. The expectations of each vary greatly. Also, there is a need to understand that offline travel agents and tour operators still dominate the final travel arrangements (they make the bookings), while the consumer is in many cases influenced by online information. Therefore, Chinese language portals are critical for promoting destinations. This applies to countries or cities, hotel groups, major tourist attractions and anyone interested in attracting the Chinese outbound market.

Of course, a major advantage in China for any hotel groups or operators would be a comprehensive online booking capability in Chinese/Mandarin, especially for the individual traveler.

The travel and tourism industry must also very clearly understand the sensitivities of Chinese travelers as well as a range of problems that repeatedly arise, e.g. :

- Difficulties getting visas in many places
- Issues with safety, hygiene and risk of virus (H1N1 and similar)
- Quality expected by Chinese travelers
- Perception of discrimination in some parts of the world (a very sensitive issue)
- Bilateral political relations and specific situations between China and other countries that develop concerning specific issues from time to time.

Like in most parts of Asia, open relationships and communication aiming to develop trust and confidence with travel agents in China are critical for closing business deals. Also, one has to know and understand how the process works for obtaining visas, as well as many other peculiarities that pertain to the Chinese traveler's needs and expectations, among them air and land transportation, currency, payments and credit cards.

ONLINE BOOKINGS

Hotels around the world are getting used to the ever-growing Chinese OTAs and booking sites such as Ctrip, eLong, Qunar.com, Kuxum.com, and Daodao.com.

As China's travel market continues to grow, adoption of online booking is picking up as well. While only around 10 % of international trips were booked online in 2009, that proportion is expected to double by 2011 and double again by 2013. Web-based travel search in China still lags behind Western markets, but things are changing very fast.

One of the strategic directions Ctrip will be taking in the coming couple of years is to focus on the growing online overseas FIT Air and Hotel Packages. This is because « individual leisure travelers » who are exposed to buying online are increasing year on year, and many of them are frequent business travelers.

The Internet is becoming a very important platform for Chinese consumers. More and more Chinese are buying online, and Taobao.com is the largest website for this. Chinese consumers are buying almost everything there, including branded products and travel packages.

The giant is wide awake cont.

China's global distribution system (GDS) environment is closed to outside competition. For this reason, the ones belonging to Ctrip, eLong and similar sites will dominate and do well. Will this business eventually open to outsiders? When? It's difficult to answer at this stage. Of course, outside operators like Rakuten, which is very successful in Japan, will try very hard to find ways to exploit the potential of the Chinese market, and other global systems will try as well.

SOCIAL MEDIA

In Mainland China, social media marketing is growing. Despite the fact that China restricts Internet use, blocking Facebook, Twitter and YouTube, the country's major portals such as sina.com, qq.com and 163.com are active and give anyone interested in the Chinese market a useful snapshot of Chinese culture and trends among the « Gen Ys » – who also are potential travelers.

Several of China's meta-search sites focus on travel within China, Hong Kong and Macau. These sites, which tend to emphasize greater value (but not necessarily « deals » or lowest prices) aren't yet global, but could become so in the near future.

HOW HOTELS CAN RESPOND

Hotels worldwide wishing to compete for this ever-growing travel market must be willing to make the extra preparations and appropriate actions to prove themselves ready.

- **Communication.** Mandarin-speaking staff – as well as sales and marketing personnel – become a must for this market, as does providing Mandarin versions of in-house material such as directories, menus, information, etc.

- **Food.** In general, travelers from China will not stay more than two days without Chinese food. Hotels should either provide Chinese fare in house, or make arrangements with outside providers. Chinese travelers are particularly sensitive regarding their breakfast options. They welcome items such as congee, simple dim sum, steamed rice and even soup. The traditional continental breakfast will not do.

  During the 1980's influx of Japanese travelers, hotels did make an effort to provide some Japanese food. Now it's time to make a similar effort for the Chinese, with the exception that the Chinese market has much stronger potential for the future. Freshness is important. Avoid using frozen foods. The suggestion here is to communicate with tour organizers well beforehand as to group preferences and be well prepared.

- **Hotel rooms.** Tour group preferences are for twin beds (two beds), whereas individual travelers will often request a king or queen size bed. In addition to the standard amenities, Chinese travelers prefer there be slippers in the room, and a kettle (very important), as the Chinese love to make tea, and in some cases will even bring along their own tea leaves. Stock the mini-bar with instant dry noodles (another kettle-oriented amenity). Lastly, if possible to do so, include an easy-to-operate, in-room safety deposit box, with instructions in Mandarin.

- **Simple plans, simple itineraries.** Hotels must be sensitive to the fact that in most instances, members of tour groups may not be able to communicate or read the local language. It may be that this is their first time out of China, or first time in that particular region. Thus, hotels would be wise to set up a 24-hour Mandarin language contact (or capability), and to help groups create a packet of basic information (containing hotel and group contacts and rooming lists, meeting agenda with times and locations, international telephone calling instruction, meals schedule, basic wake-up call and front desk guide, group departure, ground and air transport times and locations). Sharing medical assistance and related information as appropriate is also essential.

  It's helpful too to remember that Westerners (including hotel employees), normally aren't familiar with Chinese names, and thus will tend not to be able to differentiate the last name from the first name. This normally creates confusion.

CHARACTERISTICS OF THE CHINESE TRAVELER

Hotel operators and staff must always be sensitive to cultural differences. Regarding the Chinese traveler, one may note the following:

• Places less importance on punctuality and maintaining a rigid schedule
• Tends to be very sensitive in instances of perceived discrimination
• Tends to be more comfortable within in a group while in a foreign destination
• Appreciates any signage and information in Mandarin
• Prefers to visit as many places as possible during the stay in a foreign destination
• Has high interest in places where Chinese leaders or celebrities have also visited
• While the older generation prefers to pay in cash, the younger generation is more likely to use a credit card.

While individual travelers will definitely prefer city-center hotels, and are most likely prepared to pay downtown rates, tour groups will tend to be less demanding and more likely to leave location choice to the ground operator or local agent. In most cases, price will dictate hotel choice and location.

PUBLIC BEHAVIOR

China's National Tourism Administration is taking steps to address widely reported concerns regarding the behavior of their citizens traveling abroad – even having recently gone so far as releasing a list of « do's and don't's » for citizens intending to travel abroad. This behavioral shift may take some time, but there are already positive improvements. Meanwhile :

• Individuals may light up cigarettes in non-smoking situations.
• They may dress too casually for certain places such as more formal restaurants.
• Some Chinese like to speak loudly when in groups ;

The giant is wide awake cont.

consequently, dining and hotel check-ins may be boisterous or crowded.

Public displays of frustration are frowned upon by the Chinese, even when the situation merits it. The notion of «face» is important, and any organization who understands this will do very well in this potentially large market. Chinese take pride in their nationality and hotels and hospitality people must heed this sensitivity.

SHOPPING

It is a fact that Chinese tourists spend much more on shopping than tourists from elsewhere. According to The New York Times, an American's Paris shopping expenditures amount to just 40 percent of a Chinese visitor's.

Primarily they buy luxury brands and favor high quality local souvenirs. They are fully aware that many of the branded products are made in China, and of course they stay away from those. Also Chinese travelers are demanding when it comes to product quality as well as shopping options. They are bargain hunters, skilled at comparison and negotiation.

LUXURY BUYERS

A recent McKinsey report states that by 2015, China will overtake Japan as the world's largest luxury market, as its economy booms and an emerging middle class spends a growing amount of cash on high-end items. Chinese consumers enjoy displaying their wealth and success. When traveling, they don't merely spend on themselves, but also purchase gifts for friends and family. Also, luxury consumers in China are younger than their global peers.

The Hurun Report in Shanghai recently released its annual «Hurun RIch List.» According to the List, some 875,000 Chinese people are now worth more than $1 million, and almost 200 of these are billionaires – and the real number is likely to be far higher.

Over the next decade, wealthy Chinese will account for an increasingly larger share of global spending on goods such as bags, vehicles, watches, shoes, clothes and other branded items. And let's not overlook the private jets, prime real estate properties, works of art, and many more prime luxury items that they'll also consume.

The growing Chinese upper class is only just beginning to become a major force in the luxury markets worldwide, and this applies to hotels as well. Are the hotels ready for this enormous potential?

Now is a great opportunity for high-end hotel brands to differentiate themselves, establishing relationships and building repeat business with China's new economic elite. These are

> When traveling, they don't merely spend on themselves, but also purchase gifts for friends and family

people prepared to part with significant sums, so long as the exercise heightens their social standing (i.e. both «face» and status). It will be fascinating to see who will succeed. Rewards will be very high.

TRAVEL SPENDING

Mainland Chinese travelers presently spend an average of $3,750 per person per overseas trip (over $5,000 for longer trips, and around $2,500 for regional trips). Compare those numbers to the amounts for Hong Kong and Taiwanese travelers, which were an average of $2,700 and $2,100 respectively, and it becomes clear that Mainland Chinese enjoy shopping during their travel. (source: Travelzoo Asia-Pacific)

IMPACT ON AIRLINES

As forecasted by The International Air Transport Association (IATA), worldwide annual commercial airline passengers will rise to 3.3 billion by 2014 (up from the 3.5 billion it estimated in 2009). IATA projects that 45 % of these new passengers will travel on Asia/Pacific routes with well more than half flying on routes connected to China.

This creates enormous business opportunities, but it also presents some challenges. In the next four to five years, the global travel industry needs to be able to handle 800 million more travelers – many of them from the rapidly developing countries like China and India. This will require capital and infrastructure in terms of airports, in-land transportation, hotels, security, and so on.

The United States will remain the largest single country market for domestic passengers (671 million) and international passengers (215 million). At 379 million, China will be second-largest, followed by Japan (102 million), Brazil (90 million) and India (69 million).

Regarding international passengers, IATA data showed that while the United States will continue to account for the largest number, China is experiencing the largest growth. IATA research stated that at 10.8 % growth, China will be the world's fastest-growing market for international passenger traffic, followed closely by the United Arab Emirates (10.2 %), Vietnam (10.2 %), Malaysia (10.1 %) and Sri Lanka (9.5 %).

It's worth pointing out that two of the world's top five airlines (by market capitalization) are in China. The country is emerging as an aviation powerhouse and is clearly the fastest-growing international and domestic passenger marketplace. It's also important to note that China plants to build 45 new airports in the next five years at a cost of $230 billion (source : Bloomberg) and has placed large orders of new wide-body planes both for long-haul and domestic use. There is serious commitment and support for the coming growth in China travel and tourism industry.

IMPACT WITHIN ASIA

China is a major contributor to the travel and tourism « arrivals » within numerous Asian destinations. It's generating larger volume of arrivals now, and has strong potential to increase travel arrivals coming years.

Asian travel destinations in which China ranks first in « arrivals »

- Hong Kong – China is the most dominant visitor nation, by far
- Macau – Las Vegas-style gaming and entertainment destination
- Vietnam – An emerging travel market with huge growth potential
- Maldives – Very expensive destination

Asian destination in which China ranks second in « arrivals »

- Singapore – Indonesia ranked No. 1. Casinos are the major draw
- Thailand – Malaysia ranked No. 1. A tremendous value destination
- Myanmar – Thailand ranked No. 1. In vicinity, and excellent value
- Brunei – Malaysia ranked No. 1

Other Asian destination where China ranks high for « arrivals »

- Cambodia – China 3rd behind Vietnam (1) and South Korea (2)
- Laos – China 3rd behind Thailand and Vietnam
- Philippines – China 4th behind South Korea, USA and Japan
- Indonesia – China 4th behind Singapore, Malaysia and Australia
- Malaysia – China 5th behind Singapore, Indonesia, Thailand and Brunei.

Chinese arrivals in India and Sri Lanka are not among the top 10 markets for those two countries at this stage. However, the potential for increase is strong, particularly if government relations between the countries continues to improve.

Clearly, China is driving much of the Asia Pacific business and leisure travel growth. This has been reflected in Asian hotels' performance during 2010. Statistics shows that the travelers in the age 20-35 demographic favor Asia, while older age groups still prefer Europe and the Americas.

The giant is wide awake cont.

The busiest time of the year for leisure travelers coming from China is during the Lunar New Year Festivities (Chinese New Year), around National Day (October 1st), and during China's Autumn Festival, also referred to as the « Golden Weeks. » Obviously, plenty of travel also occurs around individuals' work holiday time, which may occur at various points of the calendar year.

An emerging Chinese travel trend is to escape the severe weather during temperature extremes. Not only are some Chinese leaving behind the winter chill in favor of warmer climes; many are also finding distant oases to escape to in the hot summer months as well.

Chinese corporate travelers, a growing market, are becoming increasingly savvy. They're continuously studying options to find the best deals available on how to stretch their business-travel investments.

LONG-HAUL TRIPS

While Asia remains the most popular destination, long-haul travel continues to increase rapidly. With more than 2.4 million Chinese visitors in 2010, Europe commands the second-most preferred destination position, with Germany, France and UK leading the way. Visiting Oceania (Australia, New Zealand and others) is high on the list as well.

More than a million Chinese visited the United States in 2010, and with the recently opened Canadian destinations, North America is becoming an increasingly attractive place to go. South America also is enjoying popularity, with Brazil, Argentina and Chile among top choices.

Because China has an unfortunate, high level of airborne pollutants in its cities, some of the more sophisticated travelers are actually seeking to leave the bad air behind and escape to destinations where the environment is cleaner.

One additional note: The Chinese tend not to spend much time in beach resorts when travelling overseas.

GAMING CITIES MAKE THEIR OWN LUCK

Believe the old saying, « the Chinese have gambling in their blood, » because mega-casinos and resort-style gambling worldwide are definitely attractive to Chinese visitors, and benefit from the strong likelihood of repeat visits.

Note the success with Chinese visitors of popular gambling and entertainment destinations such as: Las Vegas, Macau, Singapore, South Korea, Australia and others. Gaming destinations have a decided advantage over others in attracting the Chinese travel dollar.

ASIAN OUTLOOK

Today Asia is already an astounding force in travel. It will only continue to astound. As Chinese travel picks up and the number of Chinese travelers enjoys a corresponding rise, Asia will become the top travel region in the world during the years to come. With 62 % of the world's population and roughly one third of its GDP, Asia is a major source of business for hotels and for the travel industry in general.

The hospitality industry needs to be well equipped to handle the large volume of travelers coming from Asia. Hotels and the like will need to manage the rapidly changing travel landscape. As such, increasing value will be placed on things like marketing, promotions, bookings, flights, accommodation, ground transportation, dining, sightseeing, shopping and much more. Asia's emerging markets are poised for explosive online growth, another factor that will bring a major impact to travel and tourism worldwide.

China and India are leading the way among the globally emerging economies helping to drive travel demand. Growth is the name of the game for all industries within those countries, including the travel and tourism business in corporate, group and individual leisure, in meetings and conventions, education, sport, and elsewhere.

ESTABLISHING A PRESENCE

From major hotel groups on down to the smallest hotel chains, it goes without saying that all organizations seeking success here must establish sales representation within China. Setting up offices and being present to develop business relations in China thus becomes essential. Wise personnel would do well to establish connections with the various local travel and tourism bodies – promoting the brand, soliciting new business and facilitating hotel bookings.

Optimal locations for regional sales offices include: Shanghai (east region), Beijing (north), Guangzhou (south) and Chengdu or Chongqing (west). China is vast, and with its high population and diversity, good coverage is essential for gaining return on a multiple-office investment. If one could only afford a single office, Shanghai would be the obvious choice, with Beijing a close second.

One reality that industry players are facing now is a serious shortage of qualified and committed sales and marketing personnel. In China, employee turnover in this field is high and loyalty is low. To retain talent, companies must strategically consider improving average base compensation, supported by attractive incentives. In general, local employees respond well to clearly defined incentives on top of a base compensation.

Finally, a word of advice regarding those individual hotels without a franchise (or lacking a chain affiliation) who are interested in China nevertheless. Companies will make progress faster when they first establish good working relations with the agents based in their respective home regions who represent China's large operators. These individual hotels also should consider attending industry activities in China, such as the annual China Outbound Travel and Tourism Market conference (COTTM), and others like it, to develop business contacts.

BOOKING AND PAYMENT

It's a serious commitment for any operator, owner, or manager seeking to cater to this market long-term. Any given organization must first define whether it truly wants to enter this market. If there isn't sufficient interest, it's probably best to wait.

However, if the hotel is in fact interested, then it becomes essential for the business to prepare tailored, specific communications, address special dining requirements, make any necessary room modifications, print material in Mandarin as required, and execute many more related actions that may be required of the particular location in meeting the needs of its Chinese visitors.

When it comes to the topic of booking and payment, the hotel must have Mandarin speakers on staff at the front, as well as inside the sales department, to field the requests and place a value on details of the group's visit.

The giant is wide awake cont.

It is important to establish a primary contact person with whom the hotel is going to be dealing. There is likely to be a contact traveling with the group, and also a local representative who is not actually going to be along for the visit. Establish up front who is giving the guarantee, who will be making payment, and who handles ground transportation and tours.

Signed agreements must include the currency, amount of the deposit, final payment and timing, early check-in and late checkout information, individual consumption, free accommodation for guidance escorts, and of course, all other standard group handling processes.

TREND: THE CHINESE SERVING THE CHINESE

Given the growing outbound tourism that is being projected for the next several years from within China, we can expect corresponding growth in China among travel and tourism related organizations. New businesses will form, taking over or developing hotels and related services. In Hong Kong, for example, the China travel service owns and operates four mid-scale economy hotels intended mainly for the Chinese traveler. Most probably, this company (and others like it) will expand into other markets to take advantage of the brand loyalty (and patriotism abroad) of Chinese travelers.

WHAT TOURISM OFFICIALS CAN DO TO RESPOND

- Relax visa rules, making visas easier for Chinese travelers to obtain.
- Provide more incentives to tourism organizations handling the Chinese market.
- Tailor more convenient facilities specifically to this audience.
- Encourage more direct flights to key Chinese cities.
- Establish and fund new sales offices within China to promote tourism.
- Create a China-hosted tourism website aimed directly at this audience.
- Create attractive programs that stand out in the highly competitive Chinese travel market, and direct smarter and more highly targeted marketing and promotions that communicate the unique offerings available.
- Develop and maintain partnerships in China with top tourists organizations.
- Participate in China's key travel and tourism exhibitions and conferences.
- For continuity, match your senior, or stronger, relationship builders in relationships with China tourism organizations, who value the continuity.
- Take the initiative to ensure the presence of Mandarin-fluent travel personnel during as much of the journey as is possible – this would include at airports and onboard, immigration and customs, ground transport, hotels, restaurants, shops, sightseeing tours, etc. Tourism officials may wish to provide Mandarin language instruction for those in contact with the Chinese customers.
- Aim for shopping opportunities that include consistent product quality and pricing.
- Encourage or arrange for Chinese restaurants to open their doors to individuals or groups where Chinese tourists will visit.
- Strive to immediately address challenges Chinese tourists encounter regarding any aspect of the travel experience (airline, hotel, transport, dining, etc.). Prompt troubleshooting not only resolves the problem at hand but also helps promote reputations in the often-critical Chinese media.
- Set up a 24-hour, Mandarin-fluent call center and offer fast response to questions.
- Avoid the longest lines while passing through Customs and Immigration.
- For Chinese tourists who love to shop, make tax refund forms available and offering assistance with the overall process and form completion.
- Be aware of travel health requirements, preparing accordingly.

NAPOLEON WAS RIGHT

There is a famous quote from Napoleon regarding China. I'd like to close by updating it in an apt way – a variation encountered at a recent travel and tourism conference presentation in China:

«Let China sleep, for when she wakes, she will shake the world. She already has.» ■

« Technology engulfs the entire operation »

IN OUR THIRD TECHNOLOGY ROUNDTABLE, THE HOTEL YEARBOOK BRINGS TOGETHER THIS TIME A GROUP OF EXPERIENCED HOTEL IT PROFESSIONALS TO ASK THEM ABOUT THE EVOLVING ROLE OF TECHNOLOGY IN HOTEL OPERATIONS, AND THEIR EXPECTATIONS FOR 2012. THEIR CONSENSUS : TECHNOLOGY HAS BECOME AN IMPORTANT PART OF THE OVERALL GUEST EXPERIENCE, AND AS SUCH NEEDS TO BE FRONT AND CENTER WHEN A WIDE VARIETY OF OPERATIONAL DECISIONS ARE BEING DISCUSSED.

Our panel this year :

- **XAVIER CHABREDIER**, Starwood Complex IT Manager, South of France & Monaco,
- **ALMIR KALENDER**, Group IT Manager, QDHP Swiss Management AG, Zug, Switzerland,
- **BRYAN MULLINER**, Strategic Development & Revenue Director, Protea Hotels, South Africa,
- **TERRY PRICE**, CIO, The Grove Park Inn Resort & Spa, Asheville North Carolina, and
- **STEFAN ZIMMERMANN**, IT Manager, Badrutt's Palace Hotel, St. Moritz, Switzerland.

As always, the redoubtable **IAN MILLAR**, professor of hotel technology from the **Ecole hôtelière de Lausanne** moderated the discussion.

IAN MILLAR : Gentlemen, welcome. As we come to the end of 2011, my first question to you all is, what have been your technology challenges this year and how have you handled them ?

TERRY PRICE : The biggest technology challenge that I've had to deal with this year is guest wireless Internet. More people are travelling with more devices – laptops, smart phones, tablets, etc. The challenge is with these smaller devices. The radio strength of the RF antennae is just not as strong as a full-class laptop. Therefore, our infrastructure is having issues providing the signal strength necessary for these devices to connect consistently.

Speaking of « consistency », another part of the challenge is the expectations of an imperfect technology. As professionals that have to support these guests, sometimes, you just have to completely reset a wireless card to get it to connect. It may be an IP stack issue or whatever – however, our wireless network always takes the blame. I would like to talk to the individual that designed Starbucks' wireless Internet. Because according to my guests, « It always works at Starbucks. »

STEFAN ZIMMERMANN : Since Badrutt's Palace Hotel is a seasonal hotel, open from June to September and from December to April, project implementation time is always quite limited as not to affect day-to-day operations.

My challenges included increasing security as well as modernizing the network. This was accomplished by optimizing the configuration and the purchase of new Cisco devices. Another large project was the replacement of the TV system. Next fall, 240 Samsung TVs are going to be installed. The video-on-demand market is very big. Ultimately a solution had to be found which would cover hardware (i.e. the LED TVs, in part with 3D), software (i.e. a content management system), and accessories (i.e. a media hub to connect PC, iPod, iPad, and so on).

Terry Price

Stefan Zimmermann

Ian Millar

BRYAN MULLINER: Challenges are opportunities (allow me to remind myself!) New technologies continuously need to be evaluated for their ability to enhance guest satisfaction and drive revenue, and that's why at Protea Hotels ITC it reports through Revenue Management. New technologies are evaluated across five key revenue optimization key disciplines, those being CRM, product modeling, pricing, distribution and demand management. Integrating emerging technologies, particularly in the social engagement and location based arenas, into the existing infrastructure in a manner in which it will enhance guest satisfaction and drive revenue continues to be a challenge. Probably the biggest challenge this year has been identifying ways to facilitate affordable, reliable connectivity to allow us to explore hosted/cloud solutions.

XAVIER CHABREDIER: 2011 has been an important year, with an increased work load on security and compliance, and the implementation of different major projects. With regard to security and compliance at all levels, the importance is to educate and explain why! To do this, one of the best available communication supports around the business is the user desktop.

Project implementation is challenging to handle, and the focus needs to be on project planning and timeline first and to ensure that the right people sponsor it.

ALMIR KALENDER: Increasing bandwidth demand is one trend that is not likely to change in the near future. Another one is information security, as our industry continues to collect more and more information about the guest. Offering tiered bandwidth and load balancing utilizing multiple low-cost Internet connections are the measures we use to meet the growing demand for bandwidth. Having moved to the centralized hotel systems has simplified the process of managing information security.

MILLAR: Many people say that, as an industry, we are not very good with technology. How would you respond to that?

MULLINER: I have to agree! When you look around and see how other industries such as medicine or the military have adopted new technologies, you wonder if we will ever catch up. I think this has come about because we see ourselves as a «people» business, providing quality service through authentic interactions with our guests. The reality is that we need to harness technology to enable our staff to be able to deliver more effective guest experiences, rather than relying on the traditional «Mein host» approach to hospitality.

Further, guests' expectations have moved from viewing a hotel room as a place to sleep to an extension of their office or home. This has resulted in an expectation to have access to their corporate VPN, business e-mail, personal content (music, photo, movies etc.), social networks, and so on.

« Technology engulfs the entire operation » cont.

Hotels have been traditionally about « bums in beds ». However, due to these expectations and requirements of specifically business travel, hospitality has no choice but to embrace technology, and will prove to be one of the most advanced technology providers in the future.

ZIMMERMANN : I think the opinion is certainly true if a hotel does not wish to invest in technology, or to replace personal guest contact with technology. Should management not recognize the importance of IT, or if there would be a lack of financial resources, the possibility of strengthening innovation and process optimization would be lost.

In addition, many hotels prefer to maintain direct contact with a guest, rather than replace this contact using modern communication media. For example, a guest ordering a coffee using a tablet rather than contacting Room Service directly. Lastly, there will always be people who believe that a hotel has only five workstations for reservations, with front office and accounting all using one Office application.

KALENDER : That perception still exists, even though we have seen new and exciting technologies such as virtualization, SaaS, mobile computing, high definition TV, just to name a few, find widespread use in the hotel environment. Another fact that supports that statement is that the hotel industry as a whole is couple of years behind in terms of the technology guests use in their homes. Users training to better understand the technology environment is one area where I can see the biggest opportunity to change that perception.

CHABREDIER : As an industry, there may be a big gap between hotels depending on capital expenses available for technology. Hotels' main focus is on operations, whereas technology is used to support the business and give an exceptional guest experience, from the booking process to the check-out. I do believe we are good with technology ; however, lots of independent smaller hotels do not have the capacity or the focus to invest in technology like major hotel chains can.

PRICE : I feel that the hospitality industry is very good at technology. You have to be good in order to take $50 and make it look like a $50,000 system. Money is always the stumbling block when it comes to advances in technology for our industry. Unless it is a new build, annual capital budgets are usually very tight and always steer towards guest-facing needs. Another stumbling block is the expectations of the guest. Consumer electronics are exploding at an alarming rate, which is good for the consumer, but not so good for us. Electronics that we would need to use has to be the commercial grade equipment and that is usually behind the curve from the consumer grade. Not to mention, whatever we buy has to be multiplied by X rooms, which in my case is 514.

> Should management not recognize the importance of IT, or if there would be a lack of financial resources, the possibility of strengthening innovation and process optimization would be lost

MILLAR : What is the one new technological advance you are most looking forward to in the coming 12-18 months ?

KALENDER : Today's travelers rely on the use of smart phone devices to manage their stay. Based on that fact, I expect to see better integration of these devices in a hotel technology environment in order to provide value-added services to guests resulting in a positive guest experience.

PRICE : I am very excited about what the tablet and smart phone technologies are going to be bringing to the table. Most all forms of communication will be using these two devices, and it will be fascinating to see what will be developed to use with our systems. Just to throw in a point: one technology seems to be on the lips of many people and that is «the cloud». I feel that the cloud is very similar to the consumer electronic issues. It is a very long way away from being a viable solution for the hospitality market. However, there will be vendors and companies that try to use it. In my opinion, they will face many difficulties and ultimately fail. (Just wanted to throw my two cents in on that one.)

ZIMMERMANN: We're not expecting any huge changes. More and more, as Terry mentioned, applications will be available in the cloud. The big advantage here is that applications will no longer need to be installed locally on the workstation, so resources can be saved and required capacity can rapidly adapt to actual demand.

MULLINER: To finally move to a «hosted» environment with our hotels' PMS's! The savings in hardware upgrades and software enhancement roll-outs will be very beneficial. Finally, we will be able to provide our owners with a true «on consumption» model that will move IT into OPEX rather than CAPEX.

I don't believe there is one specific technology that has focus within the next 12-18 months, but rather a combination of guest and administrative services using similar technology. Connectivity is the current inhibitor.

MILLAR: Are you seeing more importance placed on technology by hotel managers, and not just in the areas of hardware and software, but also resources to deal with the ever increasing demand on technology, both for the guests and hotel operations?

PRICE: Not from where I'm sitting. There is more «visibility» to the owners because some technology things are in their face now. «We need flat screen TV's.» «We need high-speed wireless Internet.» «We need mobile app check-in.» These technologies are cool and there are more owners willing to spend a little money to get these. But notice I said a «little» money. They spend just enough to get the technology, but not enough to sustain it properly. Owners need to be better educated on the true costs of a technology initiative and the need to know what they are actually capable of doing. Quit going to Disney World, then coming back to your single property and saying, «We really need to do this cool thing I just saw.» Disney has a very large IT staff and budget. I have 3 people and a coupon.

ZIMMERMANN: My answer to your question is Yes. By now, hotel management has recognized how important it is that IT is represented in almost all areas, and the way it promotes and supports the business. The ubiquitous implementation of new technologies will also require a constant need to expand training opportunities. The availability of the systems must likewise be ensured.

Employees with no computer knowledge must also be trained. To handle all these training opportunities, a company must offer instruction at the workstation, e-learning platforms and knowledge base. Regarding accessibility to the systems, this in turn requires that the IT department be available 24/7.

KALENDER: We live in a fast-paced environment where the information is available at our fingertips, and we want it without waiting. Smart hotel managers have realized that the demand for technology is only going to increase, and that having resources available is critical to ensure smooth hotel operations and guest satisfaction. Those who don't will find themselves left behind.

MULLINER: I think hotel managers are realizing that they need to have staff that are tech-savvy and not just rely on hotel-based IT staff. It's all about education, and technology is impacting all of us every day in everything we do – not just at the workplace. Certainly guest-facing staff need to know how the technologies that are available in the hotel work and be able to give guests some basic support.

« Technology engulfs the entire operation » cont.

Hotel operations need to leverage technology to enhance their ability to provide statistical and analytical information to ensure they are optimizing revenues, be that in distribution, utilizing new social technologies, or for traditional revenue management processes.

CHABREDIER: IT people need to be able to wear different hats and share their time between being a manager and giving support to the business. For technology support, again it is important to educate and give the right tools to the end users.

We do notice a decrease in demand from the guests as they become more comfortable with technology. The demands are now much more specific in terms of services and not on troubleshooting. The main focus is to find the balance between the guest, the associates and the investor.

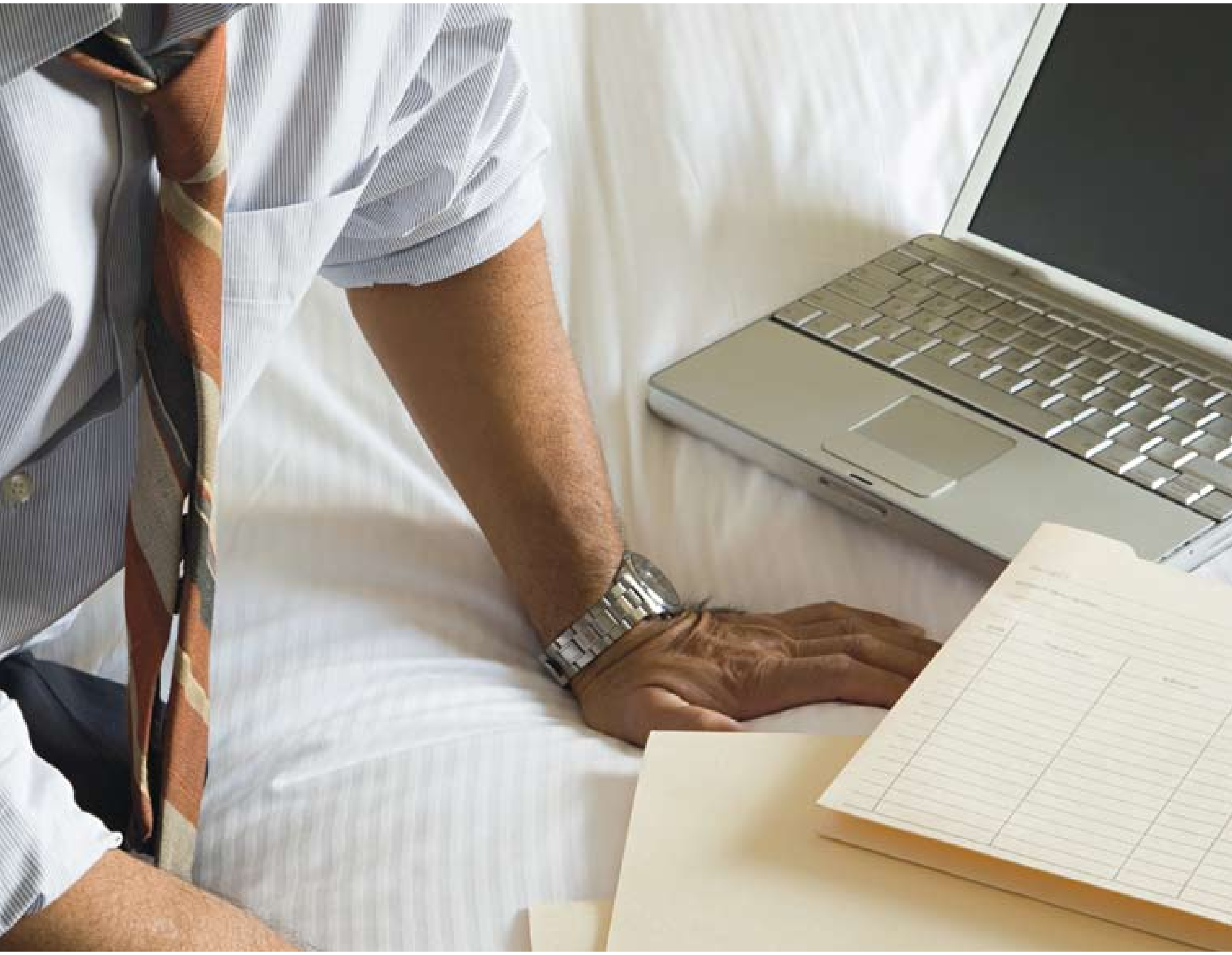
MILLAR: Looking ahead, what do see as your short-term technology issues in relation to hotel operations?

ZIMMERMANN: When Apple launched the new iPhone 4 and iPad 2, the connection of these devices to our Wi-Fi hotspot was sometimes not possible. I hope that when the iPhone 5 is brought out, no such problems will arise. A large number of our guests will always have the newest products. For the IT department, this means that when a new electronic gadget is rolled out, we must familiarize ourselves with it to be in a position to support our guests.

An additional point to note is the new TV system. Operating the new system has been simplified, but it may happen that some guests find it more difficult.

KALENDER: Our industry is known for having many different technology systems which are not necessarily linked to each other. It is challenging for hotel operations to use guest information spread among different systems. I expect to see a better interfacing between hotel systems with a goal to consolidate as much guest information as possible.

PRICE: I believe the short-term technology issue that « needs » to be focused on is guest information management. We all are sitting on extremely powerful software systems that could provide us with very valuable information about our guests. This information can help market to, but more importantly, service the guest. However, the data is a mess. We need to



focus on getting the data cleansed and creating the proper Standard Operating Procedures (SOP) to keep the data clean and relevant. With that, we need to understand that there is no technological magic bullet to make it happen. It will take actual people doing the work.

MULLINER: Dealing with the torrent of social media applications and formulating a strategy to deal with them effectively and professionally. There needs to be guidelines but not control. Brand image needs to be protected, but allowing conversation is important.

« Technology engulfs the entire operation » cont.

The key issue would be the availability of affordable, reliable connectivity.

MILLAR: If we could jump in a time machine to the year 2015, what do you feel will be the technology experience we will be offering our guests in the future? Do you really believe we can exceed guest expectations in the area of technology?

PRICE: First off, if I could jump into a time machine, I'd shoot a little farther than four years ahead… In my opinion, I feel we'll start seeing more hotel companies start to focus their guestroom technologies around room controls. With utility costs on the rise and a more social focus on being green, we need to manage the guests' use of the power, HVAC, and water. I believe guests will be more appreciative of that use of technology instead of just a new gadget. Other than green-related items, allowing guests to use their own media content in the room will be vital. However, to answer the last part of the question, I would say No. I feel we will be constantly chasing down a guest's level of tolerance with our technology, not their expectations.

ZIMMERMANN: Guests will be offered the possibility to centrally control their room using a tablet PC or smart phone – for example, lighting, temperature, TV and sound controls – as well as receiving information about the hotel and its service range. These personal devices will also enable additional services thanks to Augmented Reality. This technology will create increased interaction with the hotel architecture and restaurants.

A further innovation will be the ability to make payments using your smart phone via Near Field Communication (NFC). By 2015 there will also be changes in television technology. 3D TV without glasses will be widespread, and transparent OLED displays will appear on the market.

KALENDER: The trend of guests bringing their own technology and content will increase, and we should be headed in a direction of offering a technology platform to the guest to use their own devices. This can vary from using smart phones to control room features to using it on a hotel WiFi network for internal and external calling. One way we can exceed expectations is to make the technology intuitive, and what would be a better way to do it than to allow guests to use their own devices.

MULLINER: Internet-enabled TV, location based services, RFID tags, mobile device check-in, custom room art, and so forth… But is this really where the differentiators will be? Won't it be service that will become the new luxury that all guests will be craving and be prepared to pay for? The technology will just be the enabler – but never the differentiator.

CHABREDIER: Specific hotels or chains will have apps for mobile smart devices that replace the old in-room directory, give access to the room and many more services or offers. A green attitude and comfort. Domotics will be available in the guest bedrooms.

Sure, we can exceed guest expectations, and that's our target and focus. Technology needs to offer and deliver a great guest experience.

MILLAR: Do you expect the 2012 IT budget you'll have to work with will be larger, smaller or the same as 2011? If it is different, can you explain why?

CHABREDIER: Having already worked on the 2012 IT budget, it appears very similar to 2011, with an increase on security and compliance. IT industry budgets are driven by the overall business strategy, so it is important the two are closely aligned.

The IT budget needs to be clear to assist in provisioning the business needs. It should give a realistic view of IT costs and allow to plan for major expenses.

KALENDER: The IT budget is likely to remain the same, with focus on a more efficient use of available resources. This is partly due to the technology increasingly moving to the SaaS model and shifting parts of the CAPEX to OPEX.

ZIMMERMANN: Compared to 2011, the IT Budget was reduced due to virtualization of servers and the consequent reduction in hardware costs. The purchase of additional hardware for testing purposes is a thing of the past. Energy consumption was also reduced by 20 %.

However, we expect an increase in costs owing to the implementation of new applications. The IT department will also undertake new tasks for which, for example, the Technical Office was previously responsible. An example is the conversion of the telephone system to VoIP or a new IPTV system.

> Technologies are now a crucial part of the business at all levels

PRICE: My technology budget will be slightly higher in 2012, simply because we have a fleet of PCs that are approaching their 6th year of life. Therefore, I got a « little » extra money to allow the beginning of the replacement process.

MULLINER: Much the same. We have things to do… We need to spend the money…

MILLAR: To finish, if there was a message you could give to a hotel General Manager in relation to technology, what would it be and why?

ZIMMERMANN: That the time is over when the IT department had clearly definable costs. IT should function as a business enabler und must therefore understand the business. Far too often, meetings are held and after a considerable time we discover that business and IT have gotten their wires crossed. IT must demonstrate its value in the language of business, supported by business-adequate operating figures across the value chain of business processes. Strategically important innovations can only be realized through close cooperation between the various departments and IT.

KALENDER: We have seen the emergence of exciting new technologies over the years, and they are definitely here to stay. It is important for a hotel General Manager to embrace the technology, as it has become an important part of the overall guest experience. Allocating resources to implement it, train users and support it will help allow everyone to understand and make better use of the technology available.

PRICE: Pay your IT guys more! If I could give a message to hotel General Managers, I would say to make sure your head IT person is at the table with the rest of the upper management. Technology engulfs the entire operation and it's a core piece to any initiative the company is planning. So, why are the decisions always made without the person that understands this the most? We are long past the day where the traditional IT professional sits in a closet somewhere running reports. So why is it taking so long to bring them to the forefront in the business decision process?

CHABREDIER: Technologies are now a crucial part of the business at all levels. Being in a people industry, technologies play an important role in guests' decision making, using social media, and in the guest experience – from booking their stay to the check-out process. Staff satisfaction can also be affected by technology, and this does have an impact on service.

In addition to this, IT security is very important to guarantee business continuity and reputation.

MULLINER: What would I say? Embrace it! Use it – to drive revenue and enhance guest service! ■

More belt-tightening

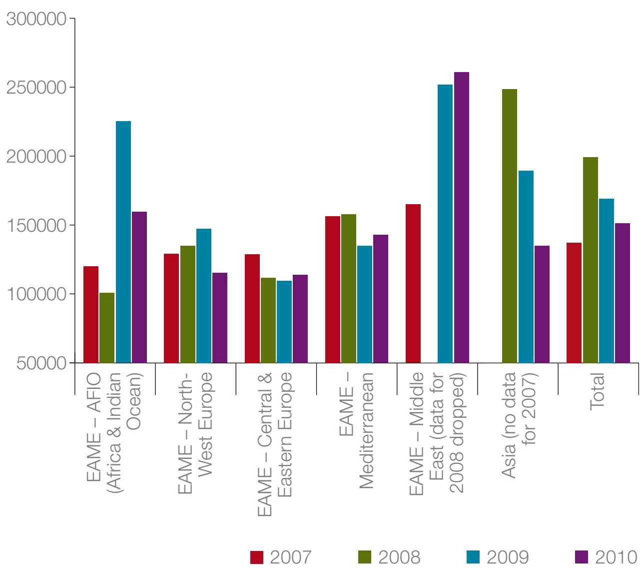
TWO YEARS AGO, IN THEIR HOTEL YEARBOOK ARTICLE *WHAT'S NEXT FOR IT SPENDING?*, **HILARY MURPHY** AND **INES GHORBAL** FROM THE **ECOLE HÔTELIÈRE DE LAUSANNE** REPORTED ON THE REDUCTION IN IT SPEND AT THE PROPERTY LEVEL IN THE EAME REGION AND PREDICTED THAT THE TREND WOULD BE MAINTAINED. UNFORTUNATELY, THOSE PREDICTIONS WERE CONFIRMED, AND ACCORDING TO THE AUTHORS, BELT-TIGHTENING IS STILL ON THE MENU FOR 2012 AS THE FINANCIAL CRISIS MUTATES INTO A LONG-TERM ECONOMIC STRUGGLE. HOWEVER, UNLIKE TWO YEARS AGO, THERE IS SOME GOOD NEWS: SIGNS OF RECOVERY ARE EMERGING FOR SOME REGIONS AND PROPERTIES. THAT MAY BE AN INDICATION OF THE END OF THE BUDGET COSTS PERIOD.

Launched in 2008 by Lausanne Hospitality Research (LHR), the IT Benchmark report tracks IT spending at property levels on an annual basis. The report was designed in collaboration with the CIOs and VPs of some of the key European hotel companies (among them Starwood, Rezidor, Golden Tulip, Four Seasons, Mandarin Oriental Hotel Group, Jumeirah Group, and Corinthia). It contains key metrics and analyses resulting from data supplied from midscale and upscale properties throughout EAME. The survey that is sent each year contains three main dimensions:

1. demographic data describing the property
2. financial data which provided annual figures from the closing financial reporting
3. IT expenditure/usage data which revealed CAPEX and OPEX spend and distribution of IT spend.

This year's fourth edition of the IT Benchmark report presents the results for a total of 154 hotels from the EAME region and tracks the data over a 4 year period that spans from 2007- 2011.

GRAPH 1: AVERAGE IT INVESTMENT AT PROPERTY LEVEL IN EAME



Trends in the global economic environment for the coming year are uncertain. The struggles in the Euro-zone, the increasing debt levels of Western countries, and the stagnation of their economic outputs point to a difficult year ahead for the USA and Europe. At the same time, despite a slowdown in their annual GDP growth, issues with their balance of trade, the so-called «emerging countries» seem to confirm their strong presence on the international economic scene. Driven by this global economic situation, it is with no surprise that we identify the same pattern in the tourism and in the hotel sector. In its 2011 Barometer, the WTO reports that the «*multi-speed recovery [is] slower in most advanced economies [and] much faster in most emerging and newly industrialized markets.*» (WTO, 2011:1). At the hotel level, the results of the IT benchmark also reveal a regional clustering in terms of IT spend per property, with for instance a clear slowdown in the Northern European Region (see graph 1).

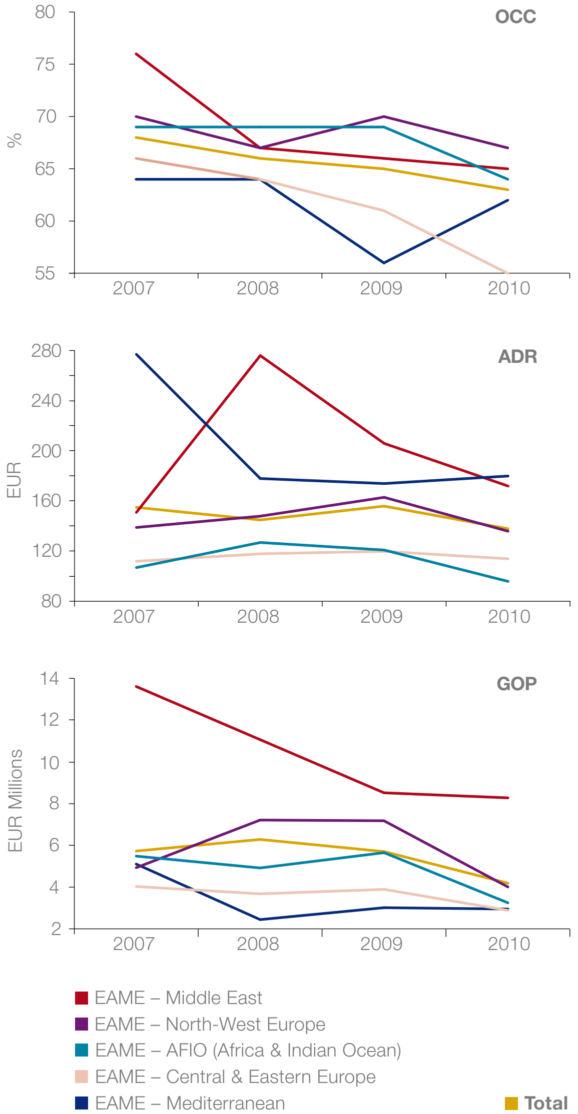
PROPERTY OPERATING INDICATORS: WHAT HAS CHANGED?

A first look at the 4-year comparison of financial indicators can suggest a negative outlook for the region. The EAME region records a steady average annual 3% decline in occupancy over the past 4 years (see graph 2). However, a closer look at the result allows for hope.

Over the last year, occupancy has further decreased from its 2009 level, but the decline is less important than in the past. In the Middle East region, for instance, after the abrupt 10% drop of occupancy between 2007 and 2008, the decrease is only by 3% and 2% during the 2008-2009 and 2009-2010 periods respectively. Signs of a slow recovery and the light at the end of the tunnel may be in sight in 2012, as the GOP has been maintained at a steady level over the past year and the WTO forecasts an increase in inbound arrivals in the region.

Similarly to the changes in occupancy, overall ADR in the EAME region has decreased by an average annual rate of 3% (graph 2). But again, signs of recovery are appearing. The Mediterranean region, for instance, which recorded the highest increase in occupancy level of the sample in 2010, is offsetting its drop of 2009 while maintaining a rather steady ADR and GOP (see graph 2).

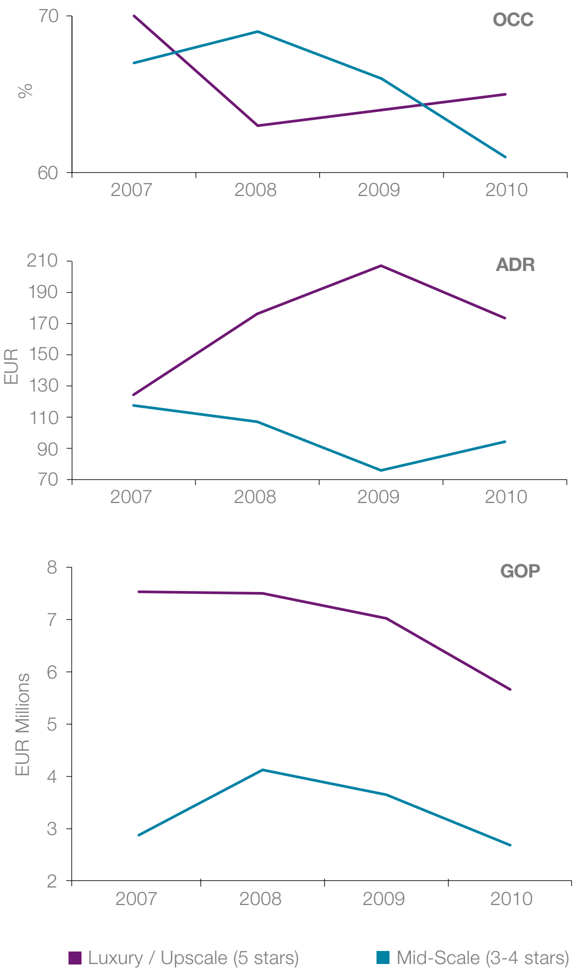
GRAPH 2: REGIONAL DIFFERENCES: OCCUPANCY, ADR, AND GOP BY REGION (2007-2010)



From a service level standpoint, the past four years are a perfect example of two opposite selling strategies that, unfortunately, have led to the same negative result. While the upper-end segment of our sample sacrificed its ADR last year to successfully increase its occupancy, the mid-scale group has increased its ADR and sacrificed its occupancy. The overall result for both strategies has been a steady decrease in GOP (see graph 3). But again, despite how it may look, all is not doomed. ADR of both segments has fluctuated but reverted back to their 2009 levels, which combined with the positive indicators for tourism, is a positive sign. The good news, however, seems to be more directed towards the luxury segment than mid-scale, whose occupancy has dropped to below the crisis' level (see graph 3).

More belt-tightening cont.

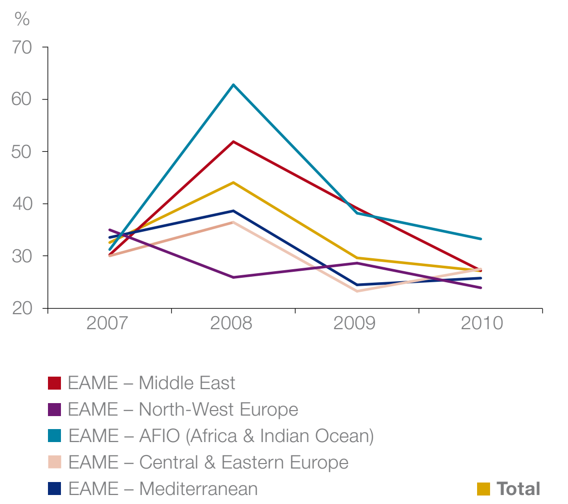
GRAPH 3: OCCUPANCY, ADR, AND GOP BY SERVICE LEVEL (2007-2010)



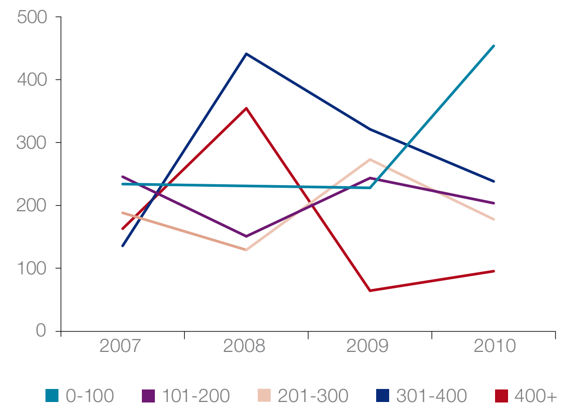
PROPERTY IT SPENDING: WHAT HAS CHANGED?

Property-level IT spending has changed both in the overall amount spent per room and in the distribution of spend, i.e. less investment in technology and more short-term exploitation. This is evident in both the upscale and mid-scale sectors and in all regions in EAME. The only region to remain fairly consistent is North West Europe, i.e. the more established markets, despite a decrease in its overall property level financial indicators (see graph 4). It may be because these markets and suppliers are well established and spend is on upgrades rather than on entirely new investment. Given that much of the hotel industry is on a 7-year technology-buy cycle, then this fluctuating picture in the regions would appear to continue for next year, though trends are still towards a relative percentage increase in IT OPEX spend with some « spikes » in spending in new build and emerging markets where the base percentages are low to begin with. This increase is more noticeable in the hotels with between 100 and 200 rooms (see graph 5), whereas the hotel properties with 201-300 rooms seem to have a more stable OPEX spend on IT (300-350 Euros per room) – see graph 5. However, the total amount of money spent at property level has declined since 2008, at the beginning of the economic crises (see graph 1), and continues to worsen for all but very few regions. An exception is the Middle East, which experienced a slight increase in overall IT spend in 2010 but has yet to repeat the very high level of IT investment that was experienced in 2008.

GRAPH 4: CAPEX ON IT, % CHANGE



GRAPH 5: OPERATING EXPENDITURE ON IT BY PROPERTY SIZE (NUMBER OF ROOMS)



WHAT NEXT?

It is becoming more and more difficult to forecast for an entire region, as tourism and hotel performance are a reflection of the global economic situation. Similarly to the economic outlook,

> This concept of remote hosting is becoming more attractive, and more widely available, from IT vendors to the hospitality sector

some sub-regions are showing signs of recovery; others are still struggling. The Middle East region is an illustration of this situation. So what should come next in terms of IT spend at the property level should also reflect this pattern. We expect that the sub-regions that show signs of recovery will budget a higher level of IT expenditures, while others will wait for clearer skies and more long term positive economic indicators. *But overall, considering this situation, the shift from CAPEX to OPEX will be maintained over 2012.*

This is reflected in the continued year-on-year decrease in CAPEX spending from 2007 to 2010; in 2010 this decrease was 8.4 % and is relatively significant to overall IT budgets in Europe (IT Benchmark report 2011). There is a long-term shift in CAPEX to OPEX spending (see graph 6), explainable in part by the rise in outsourcing/cloud computing and net-based applications (software as a service, SAAS). This concept of remote hosting

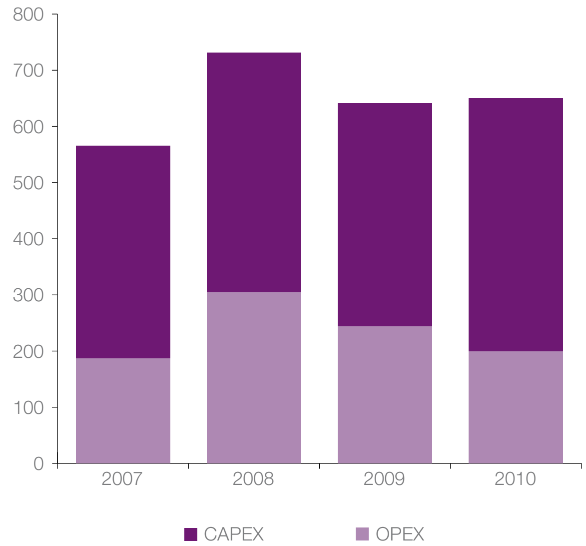
> Some sub-regions are showing signs of recovery; others are still struggling

is becoming more attractive, and more widely available, from IT vendors to the hospitality sector. This is likely to continue through 2012 as consumers and businesses alike become more familiar with tools such as Dropbox, Google Docs and Skydrive to remotely store content and access software. Forrester (2011) predicts that cloud computing is going to increase from about $41 billion in 2011 to $241 billion in 2020, making an even stronger case for spending on OPEX to continue when storage cost (formerly hard drives, servers, etc...) migrate to temporary, flexible, rentable, lower-risk options.

Additionally, the continued shift from CAPEX to OPEX spending in 2010 may be related to the shorter-term thinking that prevails as the economic outlook remains unpredictable and the debt crisis in Europe worsens. Though « belt-tightening » was precipitated by the economic situation in 2008, the economic situation did not significantly improve in 2010 and 2011 and heralded even further economic crises within the Euro-zone, which are unlikely to improve. *Our predictions for 2012 are that IT spend in real terms will continue to decline for the regions where the economic outlook is negative, and stagnate for the others,* as more value is extracted from existing systems and short-term thinking and risk-reducing purchasing prevails.

More belt-tightening cont.

GRAPH 6: AVERAGE CAPEX/OPEX PER ROOM, IN EUROS



As hotel performance is closely related to tourism performance, it is encouraging to see that the UNWTO (2011) predicts the global growth in tourism to continue, but at a « more moderate pace » – around 4.2 %. This is due to such factors as the increasing cost of travel and lower level of elasticity to GDP (a proxy measure for traveler affluence). The UNWTO also predicts that emerging-economy destinations will surpass advanced destinations in 2015 in arrivals, with Europe dropping by 10 % over the next 20 years or so, whereas growth is forecasted for Africa to grow from 5 to 7 % and Middle East from 6 to 8 %. Though these figures are encouraging, the base is low, so these markets may not be reliable in terms of growth to replace the loss in Europe. It is likely that this will be replaced by increased demand in Asia and the Pacific rim countries.

In 2012, we expect hotels to take steps to maintain GOP, by maintaining occupancy rates, stabilizing ADR and being extra prudent on costs. We anticipate, in the light of this financial prudence, that *IT spend in 2012 will be cautious,* with fewer long-term capital investments, and *large-scale IT investment opportunities will be limited for hotels owners, contract managing companies and suppliers.* ■

Lady with beret in front of Badrutt's Palace Hotel, 1933

The dawn of a new age

« 2012 WILL BE THE YEAR WHEN HOTELS WAKE UP TO THE POWER OF SOCIAL MEDIA, » SAYS **PETER O'CONNOR**, PROFESSOR OF INFORMATION SYSTEMS AT **ESSEC BUSINESS SCHOOL** IN FRANCE. HE SEES A NUMBER OF DIFFERENT WAYS THE INDUSTRY WILL FINALLY EMBRACE THESE NOT-REALLY-SO-NEW-ANY-MORE COMMUNICATION TOOLS.

Over the past two decades, the Internet has transformed how hotel rooms are bought and sold. Before the Web, customers typically contacted the hotel directly for information, or relied on travel agents, tour operators or other intermediaries to suggest properties that might be appropriate. However, challenges occurred because of both knowledge and impartiality. Even the best intermediary could not be aware of all options, and thus their recommendations were naturally limited by their knowledge of a destination. Impartiality was a bigger challenge. Intermediaries tended to be commercially motivated, leading many to question whether their recommendations were a genuine match with client needs or were given as a result of payments made for business delivered.

The growth of the Web in the late 1990s added greatly to the quantity of information available to consumers. Instead of going through a professional, customers could search for information on travel options for themselves. However, despite this newfound access to vast amounts of information, the challenge of credibility remained. On the web, most travel information originated from one of two sources – either directly with suppliers or as editorial on a travel website. In either case, the base information also usually originated with the supplier, thus making it biased towards the supplier in question. To read many websites, every travel experience is unadulterated hedonism – a sharp contrast to the reality of today's overcrowded, under-delivering travel environment.

Social media, however, potentially help address this credibility issue. Since travelers enjoy talking about their experiences, discussing future plans and seeking the recommendations of others, social media sites such as blogs, social networks and review sites have become important information resources. Such sites provide consumers with easy access to a pool of high-quality, topical and most importantly, unbiased information, generated not by commercial interests but by other consumers, thus helping to reduce, if not totally eliminate, the aforementioned credibility issue. As a result, social media have had an almost immediate and dramatic effect on how travel is researched, planned and bought. Most commentators agree that social media now act as a key element in the traveler's research process.

THE REACTION OF THE HOTEL INDUSTRY: DENIAL

Despite undeniable evidence, the reaction of the hotel sector to the tidal wave of social media has been typical – to deny that it is happening and to bury its head in the sand. Never an early adopter of technology, in the late 1990s the hotel sector tried to ignore the growth of web distribution and ended up losing control over their pricing and inventory to Online Travel Agents. Now another online revolution is in progress, and hotels urgently need to figure out how to manage and exploit it before they are left behind again.

> To read many websites, every travel experience is unadulterated hedonism – a sharp contrast to the reality of today's overcrowded, under-delivering travel environment

Unfortunately, instead of trying to figure out how to successfully leverage social media, most hotels have to date spent their time nit-picking about accuracy or complaining about how they don't have the budget to deal with anything new. Instead of filing law suits against TripAdvisor, hotels need to wake up and smell the coffee. Social media, in all their wild and wonderful forms, are here, and here to stay.

Hotels, although stubborn, are not stupid. That's why, in my humble opinion, 2012 will be the year when they finally stop their tantrums and start to embrace social media as a customer service, marketing, promotional and relationship building tool. Progress will be slow, but every journey begins with a single step.

PREDICTIONS AND TRENDS

Based on recent events and feedback from various hotel companies, it's clear that there is change afoot! Below are some of the developments that I see happening in the short term in relation to the hotel social media space:

Terrific TripAdvisor: Having moaned about the possibility of fake reviews since the site's launch, 2012 will be the year when hotels finally admit and accept what TripAdvisor does – acts as a fantastic (and free) source of customer feedback, and, when hotels do their job right, as an incredible promotional tool.

Several of the large hotel chains (including Accor, Worldhotels and Premier Inn) have already come to this realization, adding TripAdvisor widgets to their Brand.com websites so that customers (and the corporate office) can see the quality of each property, practically in real time. 2012 will be the year when this approach goes mainstream, and hotels start putting their own house in order, focusing on improving customer service and the overall guest experience, rather than wasting time and money ranting about the unfairness of it all.

Vivacious video: Faced with a client base that has grown up with streaming video and computer games, text and images are clearly

The dawn of a new age cont.

no longer enough. 2012 will be the year when hotel companies wake up to the power of multi-media as a selling mechanism. Video, both professional and user-generated, will start to become integrated into the promotional strategies of innovative hotel chains, and will become commonplace within three to five years.

Already we are seeing evidence of the power of video to attract site visitors (and when done well, customers). InterContinental Hotel Group has had incredible success with its Concierge Insider Guides, while there are few travelers left who have not

> 2012 will finally be the year that hotels embrace the power of social media as a primary (rather than alternative) customer communications and relationship channel

seen the incredible presentation of the MGM Grand in Maximum Las Vegas. Today these are the exceptions. Tomorrow they will be the norm.

Superior social networks: For years, hotels have been trying to build up a relationship with their customers, spending millions on running rewards (sorry – I mean loyalty!) programs in a vain attempt to win the right to speak with their clients and try to influence future stays. Practically everyone (hotels, clients, dogs on the street) agree that most of these programs simply do not work and are a waste of time, money and plastic!

2012 will be the year when the mainstream chains follow innovators such as Citizen M and realize that they can build a closer relationship with their customers through the social networks they use every day rather than by giving them points for stays they will never make. Expect a big emphasis on building presence and generating activity on social networks such as Facebook by hotel companies, even if most cannot figure out the return on investment of their actions.

Lovely location-based services: Even as hotels struggle to get their heads around the potential of social media as a whole, technology and society are moving on. Customers are mobile, and increasingly they expect their social media to be mobile as well – hence the incredible consumer popularity of services such as FourSquare, Gowalla and Facebook Places. During 2012, leading-edge hotel companies will start to take baby steps in these arenas, gaining considerable first-mover advantage over their competitors.

Modified mindsets: I've spoken before about the need for a new skill set to successfully manage hotel sales and marketing. The challenge however is that the necessary competencies are evolving rapidly, in response to both incredible technological advances and rapid consumer adoption. 2012 will be the year when hotel companies begin to change how they hire – instead of looking for concrete skills and x years of experience, the more forward thinking will start hiring based on attitude and mindset. Skills can be easily taught and unfortunately date quickly, but employees that think differently can overcome such challenges easily. As Darwin said, it's not the strongest or the most intelligent of the species that survives; it's the one most adaptable to change.

Having hesitated for so long, 2012 will finally be the year that hotels embrace the power of social media as a primary (rather than alternative) customer communications and relationship channel. It will be the year when they devote the time and resources to using social media properly, rather than simply setting up a Facebook page that no one ever reads. It will be the year when hotel companies hire creative young people to act as their social media champions, and empower them to do whatever it takes to build, animate and sustain meaningful and authentic presences on the social media channel used by their customers. 2012 will be all of this, and more.

Because if it's not, we're doomed! ■

Smart hospitality IT: inspiring new ways to communicate

REVENUE MANAGEMENT, SOCIAL MEDIA, IT AND COMMUNICATION ARE TIGHTLY LINKED TOGETHER, SAYS **MICHAELA PAPENHOFF**, MANAGING DIRECTOR OF DÜSSELDORF-BASED CONSULTING FIRM H2C. SHE RECOMMENDS USING THE YEAR 2012 TO GATHER THE INFORMATION YOU NEED ABOUT THESE RAPIDLY EVOLVING SERVICES SO THAT INVESTMENT DECISIONS CAN BE MADE FOR 2013 AND BEYOND.

With the launch of IBM's 5150 personal computer 30 years ago, new technology and design standards were introduced causing significant changes across all industries. This year, combined shipments of smartphones and tablets will outperform those of PCs. In 2012, the growth of smartphones and tablets is expected to almost double vs. 2011 (Source: Morgan Stanley, The Economist). With more consumers relying on the web for shopping, playing, obtaining information and interacting with their peers, a new era is evolving in how people integrate IT as a communication tool in their lives. New technology and applications are tested and commented by consumers first – who are often much faster in adoption than large organizations that run long testing labs prior to releasing new software.

Forced by the market's rapid developments, the hospitality industry is facing major changes thanks to the rising demand of customers to «feel like at home» while using technology when traveling. Most consumers are determining their own pace of technology innovation, not driven by the companies they work for that equipped them with technology as in the past. This behavior raises the bar for hoteliers, as guests increasingly expect the same pace of technology innovation from hotels they stay at, whether it's for business or private reasons. Companies providing guest services such as hotels are confronted with tech-demanding consumers – and equally important: tech-

> IT and communication are crucial to success

demanding employees. Free WiFi connections in hotels are viewed as self-evident so that guests can act as if at home, but providing free basic WiFi access seems to be a challenge that no doubt will need to be addressed in 2012.

Employees wish that their own personal devices become integrated with their work life (source: IDC research in 2011), and they expect their employers to provide the same IT standard they use at home. Access to business information that allows working remotely from different places has been introduced by property management system provider companies. The software allows managing some or all applications via the Internet, depending on the development stage of the provider, thanks to «software as a service» (SaaS). Due to software customization capabilities, it is up to the individual employee and her access level how she can use applications, merge them with private data and personalize them. More than ever, IT companies are forced to increase their investments in R&D spending, also addressing security issues caused by data privacy and the hotel's ultimate goal of keeping (guest) data safe. Hospitality companies building on «consumerization» (IT developments driven by consumers/guests and how they wish to interact with hotels while traveling) attract technology-affinitive workers just at the right time as IT and communication are crucial to success.

Cloud computing is standard when interacting with social networks such as Facebook; however, it has not yet been adapted by the majority of European properties when it comes to their property management systems (PMSs). This is mainly due to connectivity and security constraints, as well as the fact that the existing systems' landscape cannot be changed easily. Property management companies have developed SaaS solutions over the past years, and it will be crucial in 2012 to obtain the required knowledge about the available solutions, compare the offers carefully by using a SWOT analysis that addresses functionality and cost alike. Not having to run and support own in-house systems by using cloud computing can save money and resources that could be used for other business priorities, such as interact-ing with guests on social media platforms – which should be part of a hotel's customer reten-tion management strategy.

GET YOUR APP UP

The opportunities in IT and interactive communication definitely outweigh the challenges. The question of whether a mobile app is better than a mobile website is raised frequently. H2C believes there are good reasons for a hotel to have both. For example, an app for information and reservation of services

while the guest is in-house, addressing special requirements based on guests' preferences in a neatly packaged format. A mobile website can fulfill the need of providing quick information while searching for a last-minute room, as well as stimulating bookings via an easy-to-use reservation engine. As long as Internet connections remain unstable in certain areas, mobile apps are unlikely to disappear, since some of them do not need a constant connection to the Internet. However, HTML5 will enable more desk-top-like functionalities and transcode webcontent into the mobile web by 2013. Therefore, it is crucial to include the current developments into your 2012 planning to address consumers' needs and improve reach and revenues by offering online booking capabilities, e.g. of ancillary services, nicely supported by a virtual concierge application.

Near-field communication (NFC) chips turn mobile devices into mobile wallets that can be used for wireless payment – also and especially when traveling. Google has built NFC transmit and receive systems into its Nexus S Android phone to obtain information of the consumer's shopping behavior and use the data to include their advertisements pre-, during, and post-purchasing. For hoteliers, this is another opportunity to increase brand awareness and reach. NFC also enables smartphones to act as door keys, e.g. BlackBerry users of the new OS 7 can just hold their NFC-enabled device in front of a reader to open the door. At the same time, tone signal door locks enable even legacy mobile phones to provide electronic key features as well. Although these are exciting opportunities, I suggest using the year 2012 to obtain relevant information about these services so that investment decisions can be made for 2013 and beyond.

With augmented-reality apps such as Layar, the mobile phone's camera can record the real environment, let's say a street in Madrid, and merge it with screen information to show hotels, restaurants, sightseeing attractions and other points of interest. This is another example of customer's interaction with IT and how hoteliers can communicate their brand message.

To summarize, H2C strongly believes in direct communication, e.g. via the hotel's (mobile) website or via customized mobile apps – and of course personally. The search, shop, buy and retain process has become increasingly complex, with new IT solutions available and changing customer behavior due to market opportunities driven by large players such as Apple, Amazon and Google as well as travel suppliers such as airlines. The effect on the hospitality industry has been enormous so far and will continue to evolve over the forthcoming years.

We consider upselling opportunities via direct online channels, offered during and after the buying process, as great opportunities to increase demand and thus sales. Usability, functionality and revenue generation capabilities need to be carefully weighed out and must be customized to reflect the brand's image and character, addressing the right customer seg-ments. It is not important how many features and different channels are being used, but more important than ever, that the right content is offered to the right customer at the right time. Sounds familiar? Yes, revenue management, social media, IT and communication are tightly linked together. And those companies embracing these elements best are creating more value for their customers and employees alike. ■

Navigating through the «perfect storm» of leadership confusion

SUCCESSFUL LEADERS IN 2012 WILL RECOGNIZE THE TOTAL ORGANIZATION ENVISIONED AS ONE CULTURE OF TRUST, WRITES **GENE FERENCE**, PRESIDENT OF **FERENCE LEADERSHIP AND STRATEGY**. COMPANY VISION, MISSION, VALUES AND GUIDING PRINCIPLES WILL PROVIDE DIRECTION IN AN ENVIRONMENT OF COLLABORATIVE LEADERSHIP, WHILE EFFICIENT SYSTEMS AND PROCEDURES WILL IDENTIFY HOW WORK IS BEST ACCOMPLISHED WITH IMPASSIONED PEOPLE PROVIDING THE HEART, SOUL AND SPIRIT OF THE CUSTOMER EXPERIENCE.

In recent years, expectations regarding leadership behaviors have undergone significant change. Some changes regarding what service leaders should say and do challenge the very core of thinking regarding how work gets done. Questions are asked: What leadership practices are no longer appropriate? What are today's leadership expectations? How will collaborative leadership be the focus for tomorrow's success?

Changes in leadership style have not occurred overnight, but the greater impact has accumulated over recent years. Pressures from a down economy, customer expectations of increased value, challenges of employee retention and entitlement attitudes have all contributed to a perfect storm of leadership confusion. Indeed, the leadership style of some managers is in crisis and, at best, in need of reorientation and restructuring. In 2012 we will see this happen.

In this article, I am not solely predicting next year's leadership challenges, as multitudes of potential sub-topics can be placed under the umbrella of leadership challenges. Rather, in conducting an informal survey of hospitality general managers and executive team members, I have asked them for their top leadership challenges for 2012. Although it's a relatively small survey (n=21), responses nevertheless come from global settings on four continents. I have taken their topics and distilled them to headline:

- Energizing talent
- Developing leadership capabilities, and
- Improving performance for customer value.

My personal text commentary has been developed from primary research, industry trends and executive retreat discussions conducted globally.

ENERGIZING TALENT

Every person has limited energy to expend in one 24-hour period. How we spend our day depends on what is important to

us. In the workplace, we are influenced mostly by the person to whom we report and by fellow peers. Most people look upon a new day as an opportunity to accomplish positive, constructive contributions that will culminate in making people happy. Part of leadership's role is to ensure positive team member interactions occur continuously in order to ultimately create an environment of thrilling the customer.

As we all have only so much attention to give in the daily pursuit of quality products, personalized services and memorable experiences, why is it that some employees are able to consistently go above-and-beyond in providing services to guests? Moreover, some companies will generate spirit, passion and soul in each and every employee for each and every moment of customer interaction on a 24/7/365 basis. How do they do this? What are their secrets? In achieving this synergy of emotions, three practices are evident:

1. Every employee understands the *big picture*. They develop a deep understanding of vision, mission, core values, guiding principles and expected standards.

2. Every employee develops *personal passion* for what they do. They feel a part of the team rather than apart from the team. Their passion regarding what they do stems from pride in the contributions they make to the guest experience. Research shows that pride is a key motivator in achieving and sustaining success.

3. Every employee *provides inspiration* to teammates who, in turn, are inspired by their team leader. By definition, leadership is an influencing process and all leaders affect attitudes and behaviors of others. Inspiring people to want to create great memorable experiences is one of the over-arching goals of excellence and peak performance.

DEVELOPING LEADERSHIP CAPABILITIES

General managers, department heads and supervisors fall short of becoming great leaders when perceived to be monarchs of their own kingdoms. «My-way-or–the-highway» philosophies once practiced under the guise of providing direction to employees have gone by the wayside. Environments full of fear of making a mistake and lacking in job security go the way of the pre-industrial age. Providing direction without the human elements of support, respect, compassion, and patience fails to develop human capabilities and the peak-performing teams of tomorrow.

Today's effective leader represents a collaborative relationship between employee and manager. Collaboration is a key element in building trust. Working as a team for common objectives develops relationships and, over time, nurtures the tenets of trust. Collaborative leadership embraces a process in which employees share their differing points of view, solve issues and overcome challenges by joining together in open communication in the pursuit of discovering solutions.

The strength and success of collaboration depends on building a foundation of transparency, trust and open communication. Throughout this process, individual thoughts and personal feelings are explored and shared among team participants. Success is achieved by putting aside individual self-interests and personal agendas and focusing on developing excellent communication skills and dynamic interactions. Decisions are derived from both hard facts as well as the intuitive feelings of what will and will not occur. Ultimately this interactive combination taps into the wisdom of teams. Collaborative leadership principles include but are not limited to:

1. Being visually acute in observing and reading people from moment to moment.

2. Engaging employees in positive mindsets and proactive behaviors.

3. Assisting others in their development of effective communication.

4. Developing trusting employee relationships through organizational transparency.

Navigating through the «perfect storm» of leadership confusion

cont.

5. Developing synergies among individuals and between teams for the achievement of organizational objectives and departmental goals.

6. Being a quality engineer by observing, reporting and/or correcting shortcomings in brand vitals: quality products, personalized services and memorable experiences.

While points of view may differ on exactly how some personalities best collaborate in different situations, the fact remains that fundamental human motivations remain the same. Today's younger generations do represent similar needs and wants to those of previous generations; however, youth can and often do view their work environment with different value priorities. To establish a base for developing tomorrow's leadership capabilities, today's youthful employees seek fulfillment in three high-priority values:

1. The need to *respect* their manager – the person completing their performance evaluation.

2. The need for continuous *learning* – enabling career advancement.

3. The need to have *fun* on the job – engaging in team interaction breaks.

These three youth-generated *priority* values relate to customer interactions as well. To what extent do staff members respect the wishes of each customer, answer questions in such a way as to provide information as a learning episode for each guest, and turn a routine interaction into a *fun* experience?

IMPROVING PERFORMANCE FOR CUSTOMER VALUE

Ineffective leadership results from lack of sensitivities to change. The comfort zone of «what has worked in the past will work in the future» no longer holds true. Often this point of view serves as the downfall for efforts to improve performance and customer value. Why? Because priorities in values have changed with multiple generations now represented within one team; communication patterns have changed with social networking and the lightning-fast transfer of information; individuals and teams expect increased transparency, and top management is aging and characteristically more set than ever in their ways of what has worked in the past.

With the world economy in slowdown, one continuous challenge is to reexamine how our products, services and experiences are best offered. This involves thinking strategically about the true nature of the business: deluxe hotel, destination resort, high-end casino, theme-entertainment, signature food and beverage, or one of the many fusions in today's hospitality industry. All of these businesses produce value-chain vitals: products, services and experiences. What is needed is an examination of how quality products, personalized services and memorable experiences are created and valued? An analysis of each value generated element may be made following three phases: 1) creating Ideas, 2) real-time production, and 3) brand power.

At which of the above phases is improved performance generated? Often real-time production becomes value neutralized by your competition's quality products: your prime steak competes with your competition's prime steak, one dream bed competes with another's cloud bed and brand name amenities equally compete with other up-scale amenity lines.

> With the world economy in slowdown, one continuous challenge is to reexamine how our products, services and experiences are best offered

Let me propose that increased performance is generated mostly through No. 1, creative ideas, and ultimately through No. 3, brand power. While No. 2, real-time production, is certainly critically important (remember chefs are only as good as their last meal, engineers their last installation of the latest gadget, and interior designers their last renovation), long-term improved performance and increased value are realized mostly through the creation of unique ideas and their marketing through the power of the brand. So be sure to tap into the creativity of all employees. Those at the front lines often have the most insightful ideas. And be sure to include all employees in your big picture; everyone needs to be confident of your strategic plans and the brand's future if they are to put their heart and soul into organizational vision.

In sum, improving performance for customer value can be achieved with every guest, every time, every day by concentrating on crafting personalized services and creating memorable brand experiences. This focus will add to customer value and in turn will raise the bar for improved performance.

So here are my thoughts on leadership challenges for 2012 :

1. Identify core values that everyone understands, embraces and follows. Use these values as a basis for employee selection, on-the-job performance and leading a successful collaborative culture.

2. Communicate the big picture to all employees so they develop personal passion. Remember the story of the passer-by who asks the stone masons, « What are you doing ? »
- The first flatly states, I am laying down stones.
- The second sarcastically responds, I am making a wall.
- The third enthusiastically replies, I am building a cathedral.

3. Create the right motivational environment for leaders by adapting to the personal drives of diverse generations. Tune into each employee's thinking patterns (right and left brain do make a difference) and be sure to actively listen to the collective voices of your entire employee base. In balancing management-by-walking-around practices, confidential employee feedback surveys also provide a very important avenue of communications.

4. Embrace change as a constant. While we have come a long way from simply guaranteeing room reservations, American cheeseburgers, French onion soup and efficient air conditioning, the creative stretch for instilling excellence and achieving peak performance will always be a challenge.

5. Quality products and personalized services today provide only two of three critical factors for tomorrow's success. Like a three-legged stool that cannot stand without all its legs, a separate and distinct third performance factor needs to be addressed. To ensure this leadership seat at the high-stakes table of success, organizations in 2012 will increase their strategic bandwidth by identifying what they can do to further stabilize their service seat by providing memorable experiences 24/7/365.

EXAMPLES OF TEAM INTERACTION BREAKS

Plan employee dining events with monthly themes.

Schedule interactive E-mail games that build relationships.

Arrange for cookie eating contests and similar competitive events.

Celebrate birthdays as inter-departmental team events to foster personal connectivity.

Create above-and-beyond recognition celebrations with unique awards for helping co-workers.

Make new friends by offering « personalized » ice cream cones to employees working in other departments. ■

Should business leaders trust their gut decisions?

IN A WORLD WHERE DECISION-MAKING IS TAUGHT AS A SCIENTIFIC DISCIPLINE, GOOD OLD-FASHIONED INTUITION HAS GOTTEN A BUM RAP. BUT THE POTENTIAL OF INTUITION TO HELP MANAGERS SEE OPPORTUNITIES AND SOLVE PROBLEMS SHOULD NOT BE DISMISSED, SAY **KEITH KEFGEN**, CEO OF **HVS EXECUTIVE SEARCH** AND HIS COLLEAGUE **DR. JIM HOURAN**. THEIR INSIGHTS WILL PROVIDE COMFORT FOR HOSPITALITY LEADERS IN THE YEAR TO COME.

In an interesting study from the 1950s, a researcher analyzed the number of tickets sold for 28 passenger trains that had crashed during the decade. It was observed that these trains consistently had fewer people on board. Weather conditions, holidays, and number of tickets sold on the previous day, week and month were taken into account to determine if the reduced number of passengers on the ill-fated trains was merely a remarkable random fluctuation. The researcher rejected that idea and determined that human intuition was at work.

In other research, business leaders, who at the time had doubled their company profits in five years, scored above chance on computerized precognition tests. These successful executives claimed to be able use their intuition to foresee money-making opportunities.

Intuitions, flashes of genius, hunches, gut decisions… whatever you call it, many seasoned executives and entrepreneurs have shared with HVS Executive Search, during formal interviews and casual conversations, that they have had a profound sense of sudden knowing at some point during their career. Despite dramatic examples of apparent intuitions like those noted above, psychologists are increasingly unraveling the seemingly mysterious nature of intuitions.

Initially, academia held two competing views. One defined intuition as an *experience-based phenomenon* that draws on tacit knowledge accumulated through experience and retrieved through pattern recognition. The other view was that these experiences follow from a more spontaneous, innate *creative ability.*

The current thinking is that intuitions incorporate both elements. In particular, these experiences appear to represent a non-sequential – rather than simply linear and logical – way of processing information that simultaneously draws on both rational thoughts and emotional perceptions. The result is a kind of direct knowing without any use of conscious reasoning. This latest theory observes that neither experience nor creativity alone is sufficient to produce trustworthy intuitions. Rather, it would seem that intuitions are most powerful when creative capacity meets a wealth of accumulated internal knowledge that can be understood or manipulated in new and novel ways.

NEW INSIGHTS FOR LEADERS

Many studies support the value of gut decisions in the workplace. HVS Executive Search co-authored one of the most recent studies on the topic, which was subsequently published in the North American Journal of Psychology. This study was important because, according to Dr. Lynn McCutcheon, editor of the Journal, «it tested some of the latest thinking of what intuitions are and when they might best be heeded and trusted.» In other words, this new work offers guidance for if and when business leaders should trust their gut decisions. This is a pertinent issue in 2012, since the economic and market forces of the past few years have arguably been game-changers for the industry. Common wisdom and historic trends no longer set the precedent. More than ever, leaders may well be tempted to leverage the intuitions in themselves and trusted advisors for setting organizational mission and corresponding strategies.

The study involved an online survey of nearly 1,000 professionals at different employment levels who completed psychological tests of intuitive thinking and transliminality (the tendency for psychological information like imagery, ideation, and perception to come into and out of conscious awareness effortlessly; presumably due to enhanced interconnection or «crosstalk» among different parts of the brain). Three major findings emerged from this study:

- First, the results clearly supported the idea that managerial decision-making and entrepreneurial *intuition can be a critical factor in business success.* The bottom line is that hunches should neither be minimized nor dismissed due to their ephemeral quality.

- Second, intuitive thinking significantly correlated with transliminality, suggesting that *intuitive ability is partly an inborn trait that is grounded in an individual's physiology and which relies heavily on sensory and emotional functions.* The bottom line is that creative capacity is a necessary ingredient for intuitive thinking.

- Workplace intuition increases as managers move up the organizational chart. In other words, *individuals with greater professional experience, market knowledge and authority are more likely to experience intuition in the workplace and show a willingness to act on it.* The bottom line is that creativity is not enough to generate effective intuitions. Rather, the creativity often works best in conjunction with an existing storehouse of knowledge and experience from which previous limitations and parameters are identified and new patterns or opportunities can be recognized.

These findings are consistent with the latest theory of intuitions and generally support the concept of *entrepreneurial intuition* – the idea that successful entrepreneurs are passionate innovators and risk-takers, who have extraordinarily accurate hunches about future business opportunities because they have natural creative tendencies that allow them to understand and manipulate their accumulated experience and knowledge in new and novel ways.

OUR ANSWER TO THE QUESTION

The results of the study suggest that, generally speaking, business leaders can trust gut decisions ; but there are some caveats about who will have the most accurate intuition and *when* it will occur. Often business leaders make decisions that are fact-based and grounded in the experience of others *(« if it worked for them, it will work for us »)*, as well as their own personal history. This is frequently a reasonable course of action, since decisions based on quantitative data and mathematical models are almost always more valid than ones based on a person's best clinical or qualitative judgment. However, past experience and contemporary « best practices » can break down or become irrelevant in the face of *non-routine decisions* or *ill-defined problems without existing precedents.* These are the circumstances under which intuitions thrive.

Accordingly, we propose that intuitive thinking is an increasingly important skill for business leaders. Societal and economic forces are moving so quickly today that historic experience as a decision making tool has been marginalized. How could Google, Facebook and Twitter succeed in the face of Fortune 500 competitors ? Founders like Mark Zuckerberg, Larry Page and Sergey Brin had intuitions about the power of their ideas. As Zuckerberg so aptly explained near the start of Facebook, « I don't know what Facebook is or could be, but I know it will change the world. »

These entrepreneurs so passionately believed in their mission that neither logic nor history mattered. How could non-hotel people like Barry Sternlicht and Ian Schrager change the way hotels are viewed today ? Sternlicht saw value in a paired-shared REIT structure that everyone else left for dead. He also converted well-established Sheraton hotels into Ws ; a concept that meant nothing to the traveling public at the time. Likewise, Schrager took his experience in the nightclub business and had an intuition that he could adapt it to hotels. While the industry thought he was crazy, he created an entirely new genre of hotels.

An obvious question the study raises is whether someone can train for intuition. Maybe not fully taught in the classic sense, but the evidence suggests that intuition can be substantially nurtured and honed in professionals that exhibit natural intuitive tendencies. Indeed, valid methods like proprietary psychological questionnaires to screen emerging leaders for intuitive capacity are available. We also suggest that demonstrating how intuition works to tacit learners can open a door to greater learning by all managers. ■

Please contact the authors for more details on the study, *A Transliminal View of Intuitions in the Workplace,* published in the North American Journal of Psychology and other research referred to in this article.

Making Europe's hotel industry more sustainable: 5 changes to watch... and a bet to take in 2012

UGO TOSELLI, PARTNER AT PARIS-BASED **ECO2 INITIATIVE**, ARGUES THAT 2012 MAY WELL BE THE YEAR THAT EUROPEAN HOTELS REALLY BENEFIT FROM THEIR STRATEGIC ENGAGEMENT IN SUSTAINABILITY.

After many decades of growth based on intensive use of resources, Europe is facing the dual challenge of stimulating the growth needed to provide well-being to its citizens and of insuring that the quality of this growth leads to a sustainable future. Turning these challenges into opportunities for its economy, Europe requires a fundamental transformation within a generation in energy, industry, transport, and agricultural systems, and in producer and consumer behavior. Since the adoption of the Kyoto Protocol in 1997, Europe has officially taken the lead in the Western world in tackling global warming and greenhouse gas (GHG) emissions. The first period emission reduction commitments expire at the end of 2012. Even though the hospitality industry has never been considered a major source of GHG emissions, a decarbonization process is now definitively engaged for all European industries.

CHANGE 1: A LEGAL FRAMEWORK CONCERNING ENERGY EFFICIENCY IN BUILDINGS WILL MAKE ITSELF FELT MORE AND MORE

In 2007, EU leaders endorsed an integrated approach to climate and energy policy and committed to transforming Europe into a highly energy-efficient, low-carbon economy. They made a unilateral commitment that by 2020, Europe would cut its emissions by at least 20 % of its 1990 levels, to be implemented through a package of binding legislation. On their roadmap for moving to a competitive low carbon economy, EU members states have committed themselves to reducing GHG emissions by 20 %, increasing the share of renewables in the EU's energy mix to 20 % and achieving a 20 % energy efficiency target by 2020. The EU is currently on track to meet two of these targets, but will not meet its energy efficiency target. No need to draw a picture here: in 2012, further efforts will be made by members states for achieving energy efficiency.

Nearly 40 % of final energy consumption is in houses, public and private offices, shops, restaurants, hotels and other buildings. In most cases, two thirds of this usage goes into space heating. The energy saving potential is there, and techniques exist to cut existing buildings' consumption by 50 to 75 %. But the renovation rate of buildings is too low, and the barriers to energy efficiency need to be overcome. Promotional systems for the private sector will take place shortly, depending on the member state, aiming to encourage investments in energy efficiency solutions. In 2012, informed hoteliers will need to stay connected in order to identify these solutions, and transform legislative action onto real product enhancement opportunities.

CHANGE 2: ENERGY COSTS WILL WEIGH MORE HEAVILY IN OPERATIONAL BUDGETS

In Europe, where deregulation is now effective for all countries, market liberalization is more synonymous with increases. After having reached a peak in August 2008, the cost of electricity production in Europe is increasing regularly. In the period from May 2009 to March 2011, the Platts pan-European price index increased by 62 %. Rising prices of underlying fuel used for power production, sensitivity to nuclear alternatives, and stronger environmental legislative pressure are among the most serious reasons why electricity prices will continue to increase steadily each year, regardless of the demand.

Air conditioning, heating and lighting alone can represent up to 80 % of a hotel's utility bill. Electricity use accounts for 60 to 70 % of the utility cost and is usually considered as an «expenditure required anyway» to satisfy guest experiences. A room in an Accor budget segment hotel consumes 5,000 kWh a year, while a mid-scale room consumes 8'000 kWh and a luxury one about 25,000 kWh. The more comfort a hotel is offering its customers, the higher the electricity bill. The electricity bill of a 5-star hotel in France is about 2,000 Euros per room per

> Tourism mobility is being affected by national and European policies to reduce GHG emissions

year. On a time scale of one year, and considering a RevPAR of 600 Euros in a 5-star hotel of 160 rooms, the first 500 rooms sold are entirely dedicated to paying the electricity bill. This situation is not sustainable. In 2012, facing increasing electricity prices again, and a legislative framework encouraging energy efficiency, European hoteliers will dedicate particular attention to reducing their energy consumption while maintaining their level of services.

CHANGE 3: LEISURE AND TOURISM WILL BE AMONG THE SEGMENTS TO SUFFER MOST FROM RISING ENERGY COSTS

Hospitality and tourism industries are among the most important activities in our world. We are about 1 billion people traveling per year, and this largest migration in human history is repeated every year, generating almost $1 trillion. 10 % of the world wide GDP and employment depend on tourism. But this giant has its Achilles heel. In his extensive Report on the Economics of Climate Change, Sir Nicholas Stern indicates that business-as-usual behavior will increase the cost of climate change to the equivalent of around 20 % in consumption per head, now and into the future. Of course, tourism is very sensitive to weather. But beyond weather sensitivity, climate change is deeply modifying the way we are consuming tourism. As the Stern review explained, 20 % less consumption will reduce discretionary resources available to consumers for tourism.

At the same time, tourism mobility is being affected by national and European policies to reduce GHG emissions. Beginning 1 January 2012, the inclusion of the European Union Emissions Trading Scheme for flights of all airlines from and to European airports will be a reality. European airlines want their foreign competitors held to the same environmental standards they have to meet, because buying carbon credits increases ticket prices. Brussels has estimated the increase as between 2 and 12 Euros a flight. Increasing transportation costs changes the structure of the journey by changing the mode of transport. As a consequence, mainstream tourism consumption may concentrate in regional markets, benefiting regional actors. In 2012, European hoteliers might begin to take the opportunity of focusing their commercial efforts on local markets in order to capture new customers.

CHANGE 4: CUSTOMERS WILL BE BETTER INFORMED AND MORE DEMANDING

Beyond the environmental education of new generations that will deeply change consumer behavior in the coming years, numerous actions during last few years have already led to modified buying processes – even if only slightly. Among these are environmental labeling initiatives conducted by many different industries and product manufacturers. Ten years ago, people didn't ask for environmental information about what they were buying. They simply didn't care. Today, you find such information displayed on products like energy-efficient light bulbs, on energy-saving tires, on your flight ticket, or even at Marks & Spencer.

Customers who follow only these recommendations do not exist. But those who consider that information in addition to price, quality, brand and reputation will soon become the norm. Since 1 July 2011, a national experiment is being carried out in France to inform consumers through environmental labeling for at least one year. Under specific European Commission guidelines, the label will involve displaying the carbon footprint of products for sale across all sectors, incorporating both products that are manufactured and consumed in France and products that are imported into the country for consumption. In 2012, European hoteliers will make a special effort to identify their environmental assets in order to stay connected to better-informed customers.

CHANGE 5: SUPPORTING SUPPLIERS WILL MAKE HOTELS STRONGER

Procurement professionals are now integrating sustainable criteria into their sourcing decisions. Organizations are vulnerable if they do not identify potential risks they are taking through inappropriate sourcing decisions, especially regarding environmental and social issues that are very public opinion-sensitive. Sustainable supply management continues the key process of helping transform the choice of supplier into a

Making Europe's hotel industry more sustainable: 5 changes to watch... and a bet to take in 2012

cont.

competitive advantage. « Helping » means more than respecting payment deadlines. It involves building a stronger relation with suppliers through a partnership approach dedicated to a tight collaboration between the buyer and the supplier.

This approach brings together principles of Corporate Social Responsibility and supply management to strengthen the quality of delivered products and services on a sustainable basis.

When chefs from all over the world decide to engage a strong relationship with a small but high-quality food supplier from their regional market, they strengthen their offer while helping an artisan to continue his work. At Ansamble, a regional catering company based in France, Romania and Morocco, they decided to source a large proportion of their vegetables from local and organic suppliers. In order to stabilize the purchase price of products usually priced more expensively, they signed long-

term agreements with their best suppliers, stipulating advance payment, in order to encourage them in continuing their quality work. In 2012, European hoteliers will take the time to know more about their suppliers in order to define how to enhance their offer through global partnership to sustainability.

Hopefully 2012 will be a year of economic rebound for Europe and for the world. Many things will occur and we will see if what is presented above will be part of the movement. To be honest, most of those changes have already begun as 2012 is already on track. Finally, the variable that will make all the difference, or not, is the hotelier himself. Will he be able to overcome the pitfalls of everyday life and initiate true long-term thinking? If he realizes that « business as usual » behaviour will lead him to the wall, I'm betting he will. ■

Giving back

REGULAR HOTEL YEARBOOK CONTRIBUTOR **LYNDALL DE MARCO** HAS BEEN A CHAMPION OF CSR ACTIVITIES THROUGHOUT HER CAREER, BELIEVING FIRMLY IN THE HOSPITALITY INDUSTRY AS A « POWER FOR GOOD. » IN 1995, FOR EXAMPLE, SHE STARTED THE YOUTH CAREER INITIATIVE IN THAILAND, A UNIQUE PARTNERSHIP WITH THE HOTEL INDUSTRY THAT NOW OPERATES IN THIRTEEN COUNTRIES AND HAS HELPED THOUSANDS OF YOUNG PEOPLE. IN THIS YEAR'S EDITION OF THE YEARBOOK, WE ASKED HER TO TAKE AN IN-DEPTH LOOK AT A SUCCESSFUL CSR PROGRAM RUN BY A MAJOR INTERNATIONAL PLAYER. SHE CHOSE « CHECK OUT FOR CHILDREN », AN ALLIANCE BETWEEN **STARWOOD HOTELS & RESORTS** AND UNICEF AND ONE OF UNICEF'S LONGEST STANDING AND MOST SUCCESSFUL SIGNATURE CORPORATE FUNDRAISING PARTNERSHIPS. TO LEARN MORE ABOUT IT, SHE INTERVIEWED **EVEN FRYDENBERG**, SVP OPERATIONS, EUROPE AFRICA MIDDLE EAST FOR STARWOOD HOTELS, WHO ALSO OVERSEES STARWOOD'S GLOBAL AS WELL AS DIVISIONAL CSR ACTIVITIES IN EAME.


Lyndall De Marco

LYNDALL DE MARCO: Even, what inspired Starwood to start this unique program?

EVEN FRYDENBERG: « Check Out for Children » was initiated by Robert Scott, our former chief counsel, about 16 years ago. Robert was motivated by the belief that Starwood and its guests would welcome the opportunity to put something back into the communities in which we operate. He approached UNICEF with the idea of helping some of the world's most vulnerable children, in the beginning by focusing on the immunization of children against deadly childhood diseases. We at Starwood strongly believe in this idea and continue to focus on this unique partnership.

LYNDALL: Could you describe how the monies are collected? What is the total amount you've raised so far? How have the funds been used?

EVEN: The Check Out for Children mechanism is incredibly simple and extremely effective. Upon arrival at a Starwood hotel, guests are invited to add one dollar (or its equivalent in local currency) to their bill upon check out, as a donation to UNICEF.

From its launch in November 1995 until today, guests at participating Starwood hotels have donated a staggering US$25 million to UNICEF. With these Check Out for Children funds, UNICEF was able to immunize more than one million children against deadly diseases.

Since September 2011, Starwood and UNICEF have been joining forces to give access to quality education to children worldwide. All funds raised from guest donations will support UNICEF's education programs and interventions, such as building and improving schools, training teachers, supplying school equipment and campaigning to ensure children stay in school.

LYNDALL: Apart from the collection of monies, are the management and associates of Starwood involved in the implementation of the program in any way?

EVEN: Absolutely. The commitment and dedication of our associates and Starwood's senior leadership team is critical for the long-lasting success of this partnership. In addition to running the Check Out for Children program, Starwood EAME aims at collecting additional funds through its annual « Road to Awareness » associate fundraising campaign, an incredible team effort involving thousands of Starwood associates around the world.

Since 2008, we were able to raise over one million dollars through the « Road to Awareness » initiative, funding projects in Mozambique, Egypt & South Africa and most recently Romania and Pakistan. All of this is only possible thanks to the hard work, creativity and enthusiasm of Starwood associates participating in this campaign.

Furthermore, we call upon associates to become UNICEF ambassadors so that each hotel has at least one active representative. The role of these associates is to create awareness and inform both staff and guests about the program. This is a great way to give our associates the chance to get personally involved. They also get to see the results of their investment, as our best ambassadors are given the opportunity to visit projects and see with their own eyes how our support transforms children's lives.


Even Frydenberg

LYNDALL: I think Starwood is one of the few hotel companies that has a partnership with an international organization. Could you describe your partnership with UNICEF? What are the benefits of partnering with an international organization?

EVEN: The partnership is one of trust and belief in the same cause. We have an ethical duty towards our guests to make sure their donations are well spent. UNICEF is an organization that really lives up to our commitments and is recognized by our guests globally.

Starwood puts a lot of emphasis on global citizenship. This includes our sustainability strategy as well as our focus on supporting the communities in which we operate. This is reflected in the establishment of a dedicated team whose role is to drive all activities in the area of Corporate Social Responsibility, including the day-to-day management of our partnership with UNICEF as well as our global relationship with Conservation International.

LYNDALL: The customer plays a key role in this program. Have you had any guest feedback on the program? What are the benefits of partnering with your customers on this type of initiative?

EVEN: Any donation is purely at the discretion of our guests and our associates are tasked only with explaining the program to them. The positive feedback and support of our guests is evidenced by over $25 million raised over the years.

I would also add that it is becoming evident that more and more of our guests are choosing brands that share their sense of purpose for social responsibility. Our key corporate customers want to work with businesses that share their social vision and focus. Also, our individual guests increasingly appreciate that Starwood hotels offers the opportunity to give something back to the communities in which we operate.

> The partnership is one of trust and belief in the same cause

LYNDALL: Apart from the marvelous benefit to Africa, how has this program impacted on Starwood as a company? In a commercial sense, what is the greatest value to Starwood of «Check Out for Children»?

EVEN: For the company, I would say it has really deepened the meaning of our core values and created a culture of caring for our guests, for each other and others who are less fortunate. We encourage our associates to «do the right thing» by taking personal responsibility in the projects we support. We always strive to respect colleagues, hotel owners, partners, the environment and communities in which we operate, and our partnership with UNICEF is just another example of this corporate value being put into practice.

LYNDALL: Are there any business benefits for doing all this good work? Why should hotels bother? Is there any return to the shareholder? How would you encourage other hotel companies to get involved and make the commitment?

EVEN: As I said, at Starwood, we have been working hard to integrate social responsibility and sustainability into all aspects of our business. As a result, both axes are a critical part of our core strategy. We have set ourselves some quite aggressive goals like reducing overall energy use by 30 % and water use by 20 % per available room in 2020. Not only do we believe that we have a responsibility to do good as a business, but we see how making our business more responsible and sustainable yields great benefits for our company – such as more efficient operations and more engaged associates. Our partnership with UNICEF strengthens our company culture, as it has really deepened the meaning of our core values and created a culture of caring for our guests, for each other and others who are less fortunate. ■

YHS GLOBAL

putting hospitality talents in the spotlight

The hospitality industry remains one of the fastest growing business sectors in the world. Countries such as China are developing new hotels at a very fast pace, creating a large number of new job opportunities. Hotel companies are therefore faced with an ever-increasing need for qualified human resources. If today's hotel companies wish to sustain their growth strategy while maintaining their service quality, which is directly correlated with their perceived brand and reputation, they need to respond to this growing need.

The so-called «War for Talent» has kept many senior leaders up at night, along with thoughts about attracting, retaining and developing talent, as well as about maintaining a strong organizational culture. Many global hospitality organizations have long recognized the importance of creating a strong employment brand, as well as building critical relationships with hotel schools all over the world. Competition is strong, with many hotel companies planning growth in the same parts of the world, and therefore often recruiting out of the same talent pools. On top of increased competition, organizations have to adapt to a number of other new challenges impacting the workplace, such as the exponential development of technology, the forces of globalization, social media, shifting workforce demographics, the increased importance of knowledge workers, the rise of Corporate Social Responsibility, and most importantly the integration of the «Millennials» into the workforce. Each generation looks at the workplace through a different set of lenses, and has therefore very different expectations what work should look like, how to communicate and how to learn. Understanding how to best attract, develop and retain today's talent is crucial for fostering a strong employment brand, and building strong relationships with educational institutions is therefore more important these days than ever before.

Both educational institutions as well as companies within the hotel industry recognize the potential shortage of qualified labor in the years to come, which is why one can see new hotel schools opening in several regions throughout the emerging markets. This apparent opportunity of offering more and more people the educational ground to join the hotel industry comes along with the individual company's aspiration of trying to attract the most talented students into their company. In today's abundance of hotel companies

around the world and the highly competitive market for qualified employees, how do companies manage to achieve this right fit in terms of employment and how do hospitality companies manage to differentiate themselves in the eyes of students from hotel schools?

In order to answer these questions and to align the different stakeholders within the hotel industry, five students from the Ecole hôtelière de Lausanne founded YHS Global, a non-profit association that engages in three key features: The YHS Community, the YHS Ranking and the Young Hoteliers Summit. While the YHS Community is a powerful global network of like-minded hospitality talents, and the YHS Ranking is a yearly list of the best hospitality employers according to students' perception worldwide, YHS Global is particularly proud of its Young Hoteliers Summit, which now, two years after its inauguration, takes place in different parts of the world and is continuously seeking for new opportunities to grow.

YOUNG HOTELIERS SUMMIT

The current spring edition of the Young Hoteliers Summit in Europe and the autumn edition in Asia bring together students, industry professionals and schools in order to discuss challenges in today's hospitality industry. At the given growth rate of new hotels especially in emerging markets, there is a big need to develop people, well suited to fit the forthcoming job openings. YHS Global has been collaborating with companies such as Starwood, Jumeirah, Rezidor and Accor in the past and is happy to be working together with Hyatt as the Challenge Provider for the 2012 Young Hoteliers Summit at the Ecole hôtelière de Lausanne. The third Young Hoteliers

YHS 2011

by hospitality students worldwide

Summit Lausanne, will take place from the 19th - 21st of March. This flagship event serves as a platform for industry leaders and hospitality students from over 20 schools around the world to foster a dialogue and come up with actionable proposals to tackle issues on employment, career development and working conditions in the hospitality industry. The Summit involves keynote presentations given by insightful and forward thinking leaders in the business world, panels during which employers and students debate current employment related topics, company focus groups, and finally a creativity challenge, where student delegates from different schools are teamed up and need to work together to find the preeminent solution to a given case study. This year's Summit will have new features, as it will take place over three days instead of two and will include a job fair, a second panel discussion, and additional workshops. Hyatt, Starwood and Four Seasons have proudly confirmed their participation to the Young Hoteliers Summit 2012.

YHS Global will continue to expand its activities in new regions and is happy to announce the recent success of its new chapter and the inaugural Young Hoteliers Summit Asia 2011 at the Beijing Hospitality Institute. The Summit gathered hospitality students from China, Thailand, Korea and proved that there is a need to keep on building a global community of talents within the hospitality industry as our world is becoming smaller day by day.

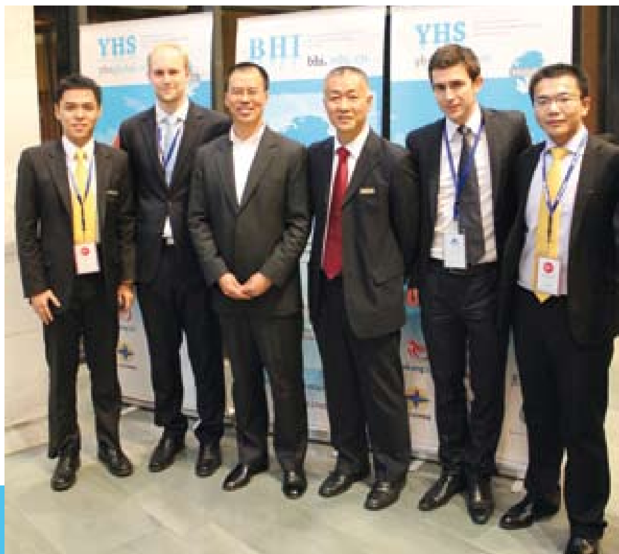
Many organizations have been keen to start working with YHS Global, in order to get a better feel of where they are positioned in employment brand perception. Supporting YHS Global in various ways, such as being the « Challenge » provider, offers opportunities for many employers to interact with young professionals from a variety of top schools from around the world, and to learn more about how they can better attract young graduates to their organizations. The particular benefit to the « Challenge » provider is that a group of qualified young hoteliers will work on a project, bringing a fresh perspective to an existing process, and making a number of recommendations for implementation. This represents a very forward-thinking strategy for an organization : giving access to young, external professionals to review well-proven, internal processes... but it is very much in line with the principles of a learning organization, where everything one does should be challenged on a regular basis in order to improve or adapt to a changing environment, and foster continuous learning.

The challenge provided by Hyatt this year will revolve around « careers and development, » which will represent a real win-win with YHS Global's mission to improve professional opportunities for young talent in the hospitality industry.

YHS HOTEL COMPANY EMPLOYER RANKINGS

While the Young Hoteliers Summit offers a platform for dialogue, this year's initiated YHS Rankings help to trigger the above-mentioned dialogue by putting hotel companies in the spotlight, triggering and fostering the dialogue between educational institutions, hospitality companies and young talents. The YHS Rankings offer certain guidance to hotel companies on how they are perceived by the young in the hotel industry. It is based on a global survey aiming at uncovering the perception of students on the best employer in the hospitality industry. It is only by understanding where one stands today as a company in terms of brand perception that one might be able to improve and attract increasingly more young talents in the future.

The first YHS Hotel Company Employer Ranking was created so as to uncover the perception of young talents on employment challenges and opportunities in the hospitality industry. While suggesting an improved attempt of understanding one's global perception as a hotel company, hospitality management students were asked to



share who they believed was the best hotel company employer for different types of careers. YHS Global is convinced that its ranking and the subsequent reports, enabling an in depth understanding of the results according to different parameters such as geographical region, attended hotel school, level of studies etc., has tremendous value for hotel companies in terms of them understanding their brand value as potential employers. While the YHS Hotel Company Employer Ranking is the main ranking, there are 4 additional rankings evaluating companies' performance in terms of recruitment, internship offers, management training programs and direct entry positions.

This year over 1,500 students from more than 50 hospitality schools participated in the Hotel Company Employer Ranking, which aims at revealing which hotel company is perceived as the most attractive in regards to fulfilling employees' long-term career objectives. The following companies were the Top 5 ranked organizations:

1. Starwood Hotels & Resorts Worldwide
2. Four Seasons
3. Marriott International
4. Hilton Worldwide
5. Hyatt Hotels Corp.

YHS Global is happy to see that companies such as Jumeirah, Hyatt, Accor, Kempinski and Starwood are now tracking the results of the YHS Rankings in order to get first hand input on how they perform as employers for young talents. The next global YHS Ranking will be issued in early 2012 – so stay tuned.

The YHS Hotel Company Employer Report has likewise been very well received by the industry, and is considered a very valuable instrument to measure employer brand positioning, as well as more detailed brand perception. Those organizations that are interested in using this feedback to improve a number of their internal processes were able to ask for a Company Specific Report as well. This report breaks down the responses into more detail, and provides organizations with additional information on how they are perceived by young professionals in areas such as the fulfillment of career interests and objectives. Another valuable feature of this customized report, according to the feedback received from a number of companies, is the section on recruitment. It provides an overview of the motivation why graduates would (or would not) join a certain hotel company, and how this compares with other organizations surveyed. This section is particularly interesting, as it is a critical aspect as to why organizations partner with educational institutions. The results are broken down by school, adding additional insights into how specific hotel brands are perceived in different schools, as well as by geographical region, which is of value and interest for the more global hotel companies, operating in Europe, Africa, Middle East, Asia and North America.

While some companies may consider the results as not being representative, others have been very active in exploring additional opportunities to use this feedback for a number of purposes, such as working on improving some of the weak areas, or further developing the areas where they seem to be excelling, or concentrating on specific schools to improve their employer brand perception.

YHS GLOBAL

YHS Global is a non-profit association, launched by a group of students at the Ecole hôtelière de Lausanne in 2009. It acts towards improving professional opportunities for young talent in hospitality by fostering a dialogue between companies, educational institutions and the young in hospitality.

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Grooming future talent

EDUCATING THE NEXT GENERATION OF LEADERS IN HOSPITALITY IS AN IMPORTANT RESPONSIBILITY. IN THIS ARTICLE, **MICHEL ROCHAT** OF THE **ÉCOLE HÔTELIÈRE DE LAUSANNE**, LOOKS AT THE LATEST TRENDS IN HOSPITALITY MANAGEMENT EDUCATION, FROM THE STUDENTS' AND THE RECRUITERS' PERSPECTIVES AND MAKES SOME RECOMMENDATIONS ON HOW SCHOOLS SHOULD ADDRESS THE CURRENT CHALLENGES AS WE ENTER 2012.

The hospitality education market has proven particularly resilient to the economic downturn. Enrollment in hospitality management degree programs is growing, with many new programs being created to respond to this demand. The courses offered have very diverse content and quality levels, from spa design classes to online hotel management courses. Generalist business schools have also been attracted by this opportunity and are now offering hospitality classes for Masters students and executives.

With this healthy growth also comes increasing confusion in the market – navigating through the myriad programs and degrees can be daunting, both for future students and for managers of hospitality businesses looking to recruit employees.

In this context, we need to go back to the fundamentals : an education program should select candidates with the most suitable profiles and educate them to best answer the needs of the hospitality industry. Understanding the hospitality education market from both the students' and the recruiters' point of view is therefore essential in order to ensure that competent, motivated young candidates are matched with employers for a successful, long-term relationship.

THE STUDENTS' VIEW : WHO ARE THE FUTURE TALENTS IN HOSPITALITY MANAGEMENT ?

Attracting students might be the main objective of some of the less reputable institutions. However, if one strives to be the reference in hospitality education, as we do at the Ecole hôtelière de Lausanne, our main goal becomes providing the industry with the best talent. This demands that we identify, attract and select the students best suited to a career in hospitality.

An important step is to check that candidates have all the prerequisites to thrive in our industry. This includes not only the academic excellence necessary to master all the strategic and technical elements, but also a passion for customer service, and the conviction that a career in hospitality is the right choice for them.

Today, the diversity of candidates is immense, not only in terms of age groups and countries of origin (for example, there are 80 nationalities on campus at the Ecole hôtelière de Lausanne), but also in terms of motivation, career path, etc. In general, applicants can be grouped into three categories :

- Young employees and trainees who wish to fast-track their careers in hotel chains (or succeed their parents in the family hotel business), but spend only a relatively short time in school so that they can rapidly return to work ;
- High school graduates who are passionate about the hospitality industry (or more generally about careers which focus on customer service), who value the additional skills that a hospitality management degree will give them in comparison with a generalist business degree ;
- Managers in their 30s and 40s, looking to change careers and join the hospitality industry, often with a view to starting their own business.

As providers of hospitality education, we must therefore tailor our programs to cater for these different profiles, so that each has the chance to succeed. We need to resist the temptation of proposing a one-size-fits-all curriculum or an endless list of *à la carte* options – which both confuse students and make them wonder « is this degree really for me ? » At the Ecole hôtelière de Lausanne, we propose solutions for each of the three main student groups by offering a 2-year diploma as a career accelerator, a comprehensive bachelor's degree aimed at high school graduates, and a master's degree for career changers where individual coaching takes center-stage.

THE RECRUITERS' VIEW: WHAT DO HOSPITALITY EMPLOYERS EXPECT FROM THEIR FUTURE RECRUITS?

At the Ecole hôtelière de Lausanne, we benefit from a close relationship with industry leaders and our 25,000 alumni – many of whom manage the world's best hotels – to gain insight about the key skills sought by hospitality recruiters. We combine this knowledge with our research on future hospitality trends in order to design our programs.
A couple of points are particularly noteworthy:

First, staff turnover is an on-going concern for hospitality employers. To mitigate this situation, hospitality management schools must therefore propose candidates with a true interest for the industry, ensure that new employees can be immediately productive and find the best individual fit for each company's needs and values. At the Ecole hôtelière de Lausanne, we have chosen to address this issue throughout our entire education process. We start by admitting candidates with a passion for hospitality, and then nurture this passion throughout their time on campus, with stimulating educational and real-life projects. We immerse our students in all operational aspects of a hospitality business to give them a concrete environment to apply their strategic and leadership skills. Finally, we offer recruiters opportunities to test our students in their own business environment, with several internships plus our famous « student business projects » where groups of five students work for ten weeks on a consulting mandate.

Second, excellence in the consumer experience has become the key loyalty driver, while customers have become more informed and demanding. This requires strong analytical and strategic skills in order to design the best hospitality concepts, an aptitude for the techniques and management processes that enable a business to consistently deliver a superior experience, and a true mastery of the art of delighting people. We strive to achieve this mix of abilities in our students by basing our curriculum on a unique combination of art and science. Moreover, the multiple facets of customer experience make it a particularly complex topic to master, so we cannot restrict our teaching to the classroom. We need to make all activities on and off-campus an opportunity to learn – whether it is about organizing a charity fundraising event, a VIP wine-tasting event or designing a restaurant concept as part of a consulting mandate. Only with this all-inclusive pedagogy can we be sure that our graduates are ready to truly contribute to the success of our hospitality business partners.

THE ECOLE HÔTELIÈRE DE LAUSANNE IN 2012

We hope that in 2012 the Ecole hôtelière de Lausanne will continue to be the reference for excellence in the field of hospitality education. Our philosophy combines learning advanced business management techniques with hands-on training in the best international hospitality practices, and a unique focus on the culture of hospitality, which builds the interpersonal skills needed to excel in the industry. This philosophy is the foundation of our Bachelor program's new Preparatory Year, which we will introduce in 2012. Students will be immersed in the universe of hospitality know-how and values right from the outset, and will be able to develop their practical skills together with an understanding of all managerial implications. Last but not least, in 2012 we will continue to promote social responsibility and sustainability as core to the behavior of our future graduates, the leaders who will invent tomorrow's world of hospitality. ■

Masthead

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