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Think tank: Foreigners key to rebound

By Jeff Higley
EDITOR-IN-CHIEF

LOS ANGELES—Participants in two Lodging Industry Investment Council roundtables are making contingency plans for a long-term continuation of the economic downturn, but most said they foresee improvement coming sooner rather than later.

The roundtables were held at the Los Angeles offices of the law firm Jeffer Mangels Butler & Marmaro in conjunction with the Americas Lodging Investment Summit. They were held before the start of the war with Iraq.

The first step for the turnaround is convincing international travelers to take advantage of the weak dollar abroad and begin visiting the United States again, participants said. Congress took a big step in helping that happen in mid-February when it passed a $396.4 billion appropriations bill supported by the American Hotel & Lodging Assn. that includes $50 million for international tourism promotion.

H&MM/JEFF HIGLEY

Jim Whelan, executive v.p. with Kimpton Hotel & Restaurant Group, said the United States must make foreign travelers feel comfortable.

Jim Whelan, executive v.p. of Kimpton Hotel & Restaurant Group LLC in San Francisco, said he would love to see the depressed dollar bring the foreign traveler back to the United States.

"First, we have to get rid of the terrorism aspect," Whelan said. "That's just overwhelming everything. Airline safety, the ease of airline travel, the sense of safety of foreign travelers—[that] when they come into the United States, they are not going to be carded, and that they'll be able to get out and to come back in. We don't have the foreign traveler coming into San

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Foreigners key to rebound

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Francisco. We're expecting it could pick up this summer. That will be determined more by the sense of world peace than anything else that we do."

Whelan said the reduced value of the dollar is a significant opportunity for the United States to become more competitive and bring the hotel business back up to jump-start the economy.

"You will see people coming back in and buying in this country, which will create more liquidity," he said. "You'll see properties trading hands, but with the dollar depressed, our properties look cheap to everybody outside, especially in the European zone."

Sean Hennessey, director-hospitality and leisure practice for PricewaterhouseCoopers in New York, said the international community likely will take advantage of more than just the deflated dollar and discounted room rates at hotels in the United States. Hennessey said foreign investors will start looming large on the hotel industry's radar screen.

"We're already seeing in the New York market some German and other Western European investment in the States taking advantage of the weak dollar," he said. "In cycles past, they've tended [to lean] toward the safer real-estate first, the office buildings and some prime retail, and then gone after the hotel sector. Unless the hotel sector weakens, I suspect you'll see some foreign investment in the hotel sector for the first time in a good while."

What drives companies

What those foreign investors could find is a glut of hotels on the market. Many companies have divested assets or have them on the selling block as they prepare for the worst—a long-term war, more acts of terrorism in the United States or a dramatically poorer economy.

MeriStar Hospitality Corp. is one of the companies that has divested, according to Larry Shupnick, the Washington-based company's senior vice president of development.

"We recently sold off some of what we consider nonstrategic assets to build up our reserves in case something happens," Shupnick said. "If we get lucky and nothing happens, then those dollars would be used for renovation."

Jim Butler, vice chairman of LIIC and a partner with JMBM, said the current fear is that more terrorism in the United States could be driving some companies.

"This is a real-world example that came up [in January] and obviously represents an extreme example, but we met with a major property owner in the New York metropolitan area that has a tremendous concentration of skyscrapers, office, residential and hotel products all in a very short radius of Ground Zero," Butler said. "Their strategy is to diversify out of New York, feeling they are one dirty bomb away from having everything they own destroyed. That is a serious thought on some minds in the country."

Managing costs

Beyond that, attracting guests to hotels was on the minds of all of the roundtable participants.

"You get to the point where cutting expenses becomes somewhat impossible without just closing a hotel, but before you get there, you use the largest area of your expense, your human resources, [and you] go out and find more business," Whelan said. "San Francisco is extraordinarily competitive, and it has seen an astonishing drop-off in business, but there is still some business out there, and the real focus is intense hands-on revenue management.

"... One of the benefits, if you can find the silver lining, is the industry has seen that fixed expenses are not as fixed as they once were. We can take costs out of operations, but driving the revenue line is the key to all of this."

Chad Crandell, president of Beverly, Mass.-based Capital Hotel Management, said brand standards often can be a hindrance to cost-cutting measures, and therefore can affect revenue.

"What was a brand standard before at a certain price structure may not be appropriate to be a brand standard in today's modified pricing structure," Crandell said. "We're trying to take a look at the revenue coming in and match the brand standard and the service level to make sure it's appropriate for that price-value relationship. Just as the airlines are having to go through a pretty significant restructuring, I think if this continues in a very long level of where we're operating right now, where the recovery keeps getting pushed off, that we may need to look at that a little more carefully than we have.

"That is the whole issue of the brand standard—what the customer really wants, what are they willing to pay for, and modify that standard and service level with what the customer is willing to pay."

Rob Klein, president of Oxford Lodging Advisory & Investment Group LLC of Mill Valley, Calif., said that among the most important, yet often overlooked, factors in a hotel's success is the tenaciousness of its general manager—particularly in the era of Internet-driven room rates.

"This industry always has been hard on salaries for general managers," Klein said. "It's pretty phenomenal that in our case at our hotel in New York City, we went from $400,000 in Internet business to $6 million in less than 18 months. That really speaks to the need and the pressure on the g.m. to be very adaptive in this kind of economy, where things do change so quickly.

"Yes, the brands are important as distribution channels, but we also need very adept business leaders who are running these big companies," he said. "You wouldn't pay the president of a large company the way that we pay our g.m.s in these hotels. You have to balance the pressures of the brands and their distribution channels; it's incumbent upon us to find the best people as g.m.s and pay them what they deserve."

jhigley@advanstar.com

LIIC's mission

The Lodging Industry Investment Council is an industry think tank that meets three times annually to discuss hotel finance, development and operations issues. Its 70 members include consultants, lenders, operators, developers, educators and legal professionals.

Co-chairmen for LIIC are Mike Cahill of Denver-based Hospitality Real Estate Counselors and Sean Hennessey of PricewaterhouseCoopers' New York office. Vice chairman is Jim Butler of Jeffer, Mangels, Butler & Marmaro, a Los Angeles-based law firm.

Turning the corner

Participants of a Lodging Industry Investment Council roundtable conducted in January gave this advice to the lodging industry to help speed up the turnaround:

- **Jim Whelan, executive v.p. for Kimpton Hotel & Restaurant Group:** "Keep the faith and hold your prices."

- **Frank Nardozza, chairman and c.e.o. for REH Capital Partners:** "Make sure that you have knowledge and control of all your distribution, and really understand how customers are getting to your properties. Do everything proactively to be in front of that revenue rather than behind it."

- **Jim Butler, attorney, Jeffer Mangels Butler & Marmaro:** "Get smart and get active. Drill down and get the details. Whether you are a lender, owner or operator, know your customer, know your operations, know the details of what is there, and then be proactive about it."

- **Bernie Siegel, managing director-hospitality division for Secured Capital Corp.:** "I would strongly suggest taking advantage of an incredibly favorable capital-markets environment. Access both the debt and equity sides of the business while capital is abundant. ... Those who have a prudent business plan, have paid attention to all these suggestions, and who have strong credit and management teams will always be able to access favorable capital. I can't remember too many times in my career where it's been this favorable."

- **Sean Hennessey, director-hospitality and leisure practice for PricewaterhouseCoopers:** "Given that the near-term outlook for the sector remains fairly weak, focusing on the bottom line types of activities will be the most prudent thing to do. Payables, receivables, cost containment and making sure–to the greatest extent possible–that you can keep the property up to the level that's appropriate without major investments but keeping an eye on the expenses is going to be the theme for a lot of operators."

- **Greg Casserly, president and c.o.o. for Tarsadia Hotels:** "Our mantra in our company right now is price, and we have everybody from the chairman down to the house attendants worrying about how to be good salespeople. That's one aspect of price, the other is yield management. ... the second leg is, and will continue to be for a long time, cost containment."

- **Mark Tobin, president of HREC Asset Management:** " ... discipline is a good word. ... It's a time to stay prudent. Discipline in terms of financial management, systems, customer service and capital structure is important."

- **Steve Van, president and c.e.o. for Prism Hotels and Remic Hotel Management Co.:** "Be positive, be optimistic, but don't act on assumptions that are optimistic and positive. Be prepared for some more fundamental problems that we can't control. Keep liquidity until it's clear that some of the fundamental problems that can happen are past, and that may be two or three years."

jhigley@advanstar.com