

Regulations, politics fill leaders' plates



Jim Merkel, managing director for RockBridge Capital, said the hospitality industry is probably as well positioned as it's ever been.

H&MM | JEFF HIGLEY

By Jeff Higley
EDITOR-IN-CHIEF

LOS ANGELES—The lodging industry has more than just financial concerns as it attempts to extend the positive economic run it has enjoyed for the past 18 months.

According to executives participating in a Lodging Industry Investment Council roundtable held in conjunction with the Americas Lodging Investment Summit in January, industry leaders need to prepare themselves for political,

regulatory and labor issues that will affect their companies in the short- and long-term environments.

"The hospitality industry is probably as well-positioned as it's ever been right now, where you have the fundamentals still growing at a strong pace," said Jim Merkel, managing director for RockBridge Capital. "There are all kinds of risks out there that I don't think are getting a lot of attention right now. But something will happen that will disrupt the growth, and we have to

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COMING NEXT ISSUE:

► Think tank: Hotel industry bullish but wary

IN THE news

■ **Four Seasons Hotels** agreed to a private acquisition valued at \$82 per share. Owners will be affiliates of Cascade Investment LLC, an entity owned by Bill Gates; Kingdom Hotels International, a company affiliated with Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud; and Isadore Sharp, Four Seasons chairman and c.e.o.

■ Real-estate investment trust **Apple Hospitality Two** agreed to an acquisition by an affiliate of ING Clarion Partners in a deal valued at \$890 million. Apple's portfolio includes 64 hotels comprising 7,690 suites.

■ Wilbur Acquisition Holding Co. agreed to purchase REIT **Winston Hotels** in a deal valued at \$14.10 per share. Winston owns or is invested in 53 properties comprising 7,205 rooms.

■ Joseph R. Kane Jr., 42-year industry veteran and most recently **Wyndham Hotel Group** group president of the Days Inn, Howard Johnson and Travelodge brands, retired in February and will continue to work with the company part time. Ken Greene, most recent president of the Howard Johnson and Travelodge brands, succeeds Kane as group president.

■ The average **hotel market up-cycle** lasts 6.7 years, according to a survey done by Hotel Investment Strategies LLC, a New York lodging investment advisory firm. The survey followed 50 full-service hotels over 20 years. At the end of 2006, three-quarters of survey participants reported they were in the up-cycle; 35 percent said they were in the recovery phase and 40 percent said they were in the expansion phase.

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La Quinta updates growth goals, marketing

By Jeff Higley
EDITOR-IN-CHIEF

FAJARDO, PUERTO RICO—La Quinta Inns is likin' the private life.

About a year after being acquired by The Blackstone Group, a private-equity firm that has been aggressively acquiring hotels and hotel brands for the past five years, La Quinta officials were basking in the sun during the brand's annual conference in January at the El Conquistador Resort in Puerto Rico.

Wayne Goldberg, president and c.e.o., told the 800 attendees that things couldn't have gone smoother in the transition from being a public company to being part of a private entity.

"2006 was by far the best year in the history of our great La Quinta brand," Goldberg said.

But the brand won't sit still, he said.



While participating in a "Dancing with the Stars" skit, Feliz Jarvis [right], executive v.p. of sales, told conference attendees they can't underestimate the importance of property general managers passing on local leads to drive La Quinta's national account business. "It's essential that we work together," she said.

Among other things, executives said La Quinta plans to aggressively grow its franchising base, acquire hotels to convert to company-owned La Quinta properties, continue upgrading

its corporate-owned hotels and adopt a new approach to marketing—including rolling out a new logo that will be incorporated in signage and other collateral material during the next

couple of years.

Julie Cary, executive v.p. and chief marketing officer, said the marketing plan includes leveraging the strength of the company's Southwest appeal without hitting consumers over the head with it. For example, the sun in the former La Quinta logo was extracted and turned into the new icon.

Goldberg said the three main focal points of La Quinta are people, product and service.

"These are more than just words," Goldberg said. "It's about wowing our guests."

The brand opened 85 properties in 2006—more than during any year in its history. Of those, 68 were franchised hotels and 17 were corporate-owned.

Angelo Lombardi, executive v.p. and c.o.o., identified three primary goals for operations in 2007:

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Employees drive custom experiences

By Heather Gunter
ASSOCIATE EDITOR

COLUMBUS, OHIO—It's all about the customer experience. And hotel employees shoulder much of the responsibility for creating that experience, according to customer council members of Signature Worldwide, a Columbus, Ohio area-based company specializing in business and training solutions.

Council members and Signature executives who participated in a roundtable discussion in January agreed that hotel employees **must make a connection with guests**.

"It's back to the basics, but we need a little

flair," said Sean Riley, c.o.o. of Maine Course Hospitality Group.

Experiences should be individualized for guests, Riley said. For a truck driver who regularly stays at one of the company's hotels, the hotel staff sets up cones so the guest has an easy place to park his semi.

"It's listening to find out what they need, not just, 'Yes sir,' and a smile," he said.

It's crucial to make a connection with guests, agreed Alie Gaffan, director of training, Pacifica Hotel Co.

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Sean Riley, Maine Course Hospitality Group, discusses catering to guest needs.



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Regulations

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be prepared for whatever obstacles appear.”

The LIIC roundtable, sponsored by HOTEL & MOTEL MANAGEMENT and held at the offices of Jeffer, Mangels, Butler & Marmaro, revealed that executives are a bit squeamish about the political climate.

“We’re at risk of new regula-

tions, both politically as well as economically,” said Mike DeNicola, executive v.p. and chief investment officer for FelCor Lodging Trust. “You hear all the press reports about how we’re at record levels of income, so it’s only natural now that not only is the union reading this and saying we want a couple pieces of your pie, but the regulators are also saying that they want the taxes and the regulations.”

The obstacles will take many

forms, including union activity in the lodging industry. With the shift of power to Democrats in Congress, it will become a big issue, fast.

“I’d be more concerned along the neutrality on the abilities of unions, because they have a lot more power in Congress now with the Democrats,” said Steve Van, president of Prism Hotels.

Merkel said unions will be stronger if potential amendments to the National Labor Re-

LIIC's mission

The Lodging Industry Investment Council (www.liic.ws) is the premier think tank in the hotel industry. Its members include a diverse mix of 70 influential leaders in the real-estate and finance fields. Membership is by invitation.

■ **Co-chairmen:** Mike Cahill, president and founder, HREC—Hospitality Real Estate Counselors; Sean Hennessey, c.e.o., Lodging Investment Advisors.

■ **Vice chairman:** Jim Butler, partner, Jeffer, Mangels, Butler & Marmaro



Mike Cahill

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lations Act are adopted.

“Where unions have a neutrality agreement, or card-check agreement, what they really do is bypass the federally mandated requirement of a democratic process, of having an open election, with both parties supply-

State of the Industry

Where are we in the cycle?

Bernie Siegel, KSL Capital

Partners: “Looking from a hotel fundamentals standpoint, we’re in the sixth inning in the capital markets; in the investment cycle, we’re in much later than that—call it the eighth or ninth.”

Steve Kisielica, Lodging Capital

Partners: “From a capital markets standpoint, we’re in the sixth inning, and maybe from a fundamentals [standpoint], we’re seventh or eighth, hopefully with some extra innings.”

Jim Merkel, RockBridge

Capital: “We’re, as a whole, past the midpoint. Each market, each submarket, they all have different fundamentals, and we’re seeing a lot of deals or markets that are in the ninth inning. The key is you’ve got to be very selective, you’ve got to be in the right aspects. All in all, we’re around the sixth inning.”

Jim Butler, Jeffer, Mangels, Butler & Marmaro

“We’ve got a number of years to go before there’s a change in the fundamentals, the support from the economy and the good times, and we should sit back and enjoy it instead of worrying about a thunderstorm tomorrow.”

ing information and having a secret ballot," Merkel said. "The neutrality card lets you put peer pressure on people at home, as they're leaving work, whatever.

"Without the protection of secret ballot, without the election process itself, without the information, the union then becomes the designated representative," he said. "That's a disaster for our industry."

DeNicola said employment regulations also will have a big impact on the lodging industry during the next couple of years.

"You look at things like California, just with the employment regulations, where a waiter or a waitress has to take two 10-minute breaks and a half-hour lunch break in the middle of their time," he said. "The issue

is if the waiter or waitress doesn't want to take the break anyway because they don't want to give up their table."

Regulations surrounding development also are making a dent in the lodging industry.

DeNicola said anti-development groups forcing referendums need to be on the lodging industry's radar.

"Even though politically you might have a city or town that's pro-growth and understands

how growth and development creates jobs, and funding for the schools and their local economy, you have voting referendums being done that prohibit growth and development," he said. "If it were a bad time, we'd be fighting like crazy. But we don't tend to fight these things in good times as much."

Larry Shupnick, senior v.p. of acquisitions and development for Interstate Hotels & Resorts, and Bernie Siegel, prin-

icipal for KSL Capital Partners, said local politics are becoming more important in the national spotlight.

"Cities and municipalities are so in need of funds, and they're making these deals with the unions, and they're basically forcing the developer to deal with these issues," Shupnick said. "Even if you have a prop-

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erty changing hands—when we sold the Doubletree in San Pedro (Calif.), last year, we were forced by the city to review our situation because we had a ton of ground leased to the Port of Los Angeles."

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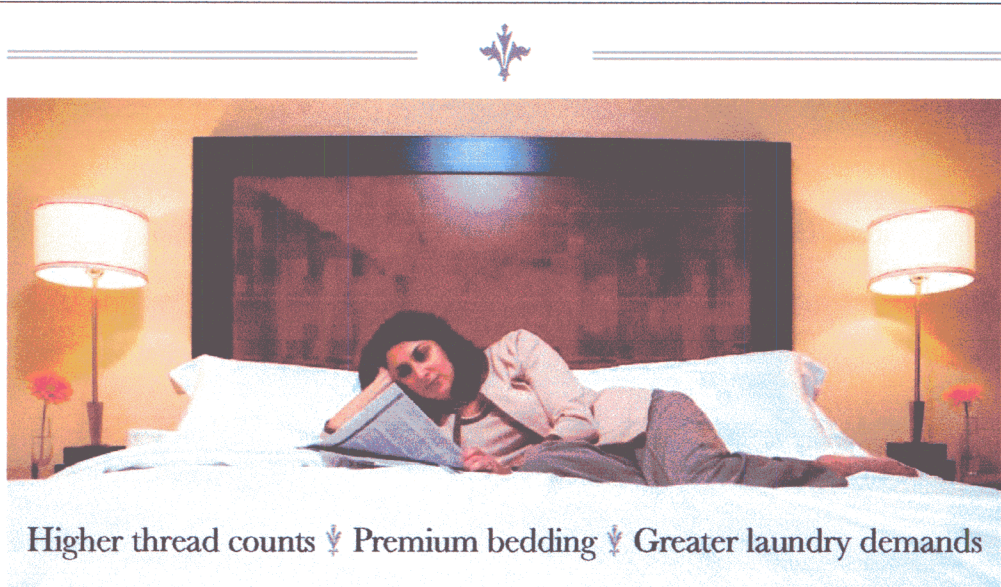
Mike Cahill, Hospitality Real Estate Counselors: "We're in the mature phase of the cycle. But it's a different type of cycle. Ten years ago, hotels were kind of exotic in a real-estate portfolio, and now most of our clients have hotels really as an accepted class."

Steve Van, Prism Hotels: "We're in the third inning in supply because there's just not that much out there. We're in the fifth or sixth inning in demand, but the capital market's going to turn right back on us."

Mike DeNicola, FelCor Lodging Trust: "Lenders are still out there, they're getting more particular. We're later in the cycle for capital, which is consistent with what most people are saying. And on the operating side, we're in like the same time period where we were in '97."

Larry Shupnick, Interstate Hotels & Resorts: "To change the sport, this is starting the third quarter. We'll run a couple, two or three good years, as long as the interest rates remain where you can borrow money, and then make some sense, because that's going to be tied to what the cap rates are going to be."

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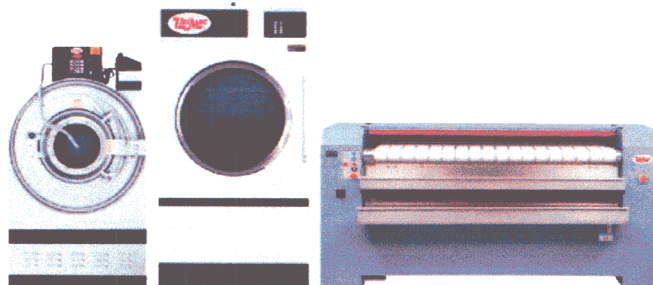


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