- **Red Lion Hotels Corp.** reported the company received no purchase offers following a strategic review of the company. Columbia Pacific, which had expressed interest before the review, has withdrawn its previous indication of interest.

- Cascade Investment, the investment firm of Microsoft co-founder Bill Gates, increased its stake in Chicago-based hotel operator **Strategic Hotels & Resorts.** Cascade has acquired 4.2 million shares, or 5.6 percent of shares.

- **Real estate markets** in the U.S. are expected to bottom out in 2009 and flounder for much of 2010, with ongoing drops in property values, more foreclosures and delinquencies, according to the Emerging Trends in Real Estate 2009 report released by the Urban Land Institute and PricewaterhouseCoopers LLP.

- The American Hotel & Lodging Assn. has decided to drop plans for creating a hotel-specific **green certification program**. The association will move ahead with guidelines to help hoteliers make their properties more sustainable.

- New York City goverment officials announced the opening of a new tourism and marketing office in India, the culmination of a two-year plan to strengthen the impact of the city's $30 billion **travel and tourism industry**. Travel to New York City from India generated $266 million in 2007.

For updated breaking news, visit *www.HotelMotel.com.*

The rate debate

You've got to know when to hold, know when to fold, industry financial experts say

By Stephanie Ricca
EDITOR IN CHIEF

PHOENIX–Just one week after Lehman Brothers Holdings filed for bankruptcy on Sept. 15, kicking off the most recent chain of events in this year's financial crisis, lodging industry investors, brokers, lawyers and corporate executives met in Phoenix to talk about how the current economic climate might affect business in the near and far future. The topic foremost on their minds: rate cutting.

The fall meeting of the Lodging Industry Investment Council was held in conjunction with The Lodging Conference in late September.

"This year we're suggesting to hold rates, hold rates," said Jan Freitag, Smith Travel Research VP of global development. "Rate growth year to date is 3.6 [percent] to 3.8 percent, roughly around the rate of inflation. You can't really control supply, but you have some control over rate."

Supply, demand, segment and occupancy contribute to the rate debate, particularly as the U.S. faces an economic climate similar—many LIIC participants said—to post-9/11 conditions.

The numbers: 2008 and 2009

All numbers are reported as percent change, with the exception of occupancy, which is reported as percent. All numbers listed are forecasts.

	STR 2008	STR 2009	PKF 2008	PKF 2009
Room supply	2.5%	2.4%	2.6%	3.5%
Room demand	-0.3%	0	-0.2%	-1.1%
Occupancy	61.4%	60%	61.3%	58.7%
Average daily rate	3.8%	3.5%	3.6%	1.3%
RevPAR	1%	1.1%	0.8%	-3.0%

Sources: PKF Hospitality Research, Smith Travel Research

"One of the great myths of the hotel business—and it's got a radioactive half-life of about three days—is that when you're in a market and your competitor drops his rate 10, 15, 30 bucks, that we're going to hold our rate," said Steve Van, president and CEO of Prism Hotels & Resorts. "Are we going to have empty rooms? Every cycle we talk about, 'We're going to hold the rate. We're going to hold the rate.' You hold the rate! We're dropping ours."

William Reynolds, managing director and chief acquisitions officer of Thayer Lodging Group,

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Accor defines Motel 6 prototype rollout

Accor's Motel 6 redesign will include wood floors, flat-screen TVs, glass showers, granite countertops and bright wall colors and bedding. All Motel 6 properties should be updated by 2013.

ACCOR

By Stephanie Ricca
EDITOR IN CHIEF

Poirot
ACCOR NA

CANCUN, MEXICO–Since the Sept. 17, 2007, naming of Olivier Poirot as CEO of Accor North America, Motel 6 and Studio 6, Accor has been quietly realigning its business philosophy. With the goal to "regain our uncontested leadership in price value in the economy segment," Poirot updated Motel 6 and Studio 6 franchisees this September about the brands' new corporate vision and Motel 6 prototype plans, united under the theme "Phoenix: One team, one vision."

The prototype first was announced

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IHG

CEO Andy Cosslett [right] and interim president of the Americas Richard Solomons discussed IHG's asset-light business model at the IHG conference in Los Angeles.

Holiday Inn eyes upscale, timeshare

By Jason Q. Freed
SENIOR EDITOR

LOS ANGELES–More than 50 years after its inception, one of the most historic hotel chains is undergoing a major transition. During the InterContinental Hotels Group 2008 America's Investment and Leadership conference, it was apparent the company is focusing the majority of its efforts on continuing to revamp the Holiday Inn brand.

Relaunches of the Holiday Inn and Holiday Inn Express brands, complete with quality assurance upgrade plans, new amenities, new signage and the removal of hundreds of thousands of unsatisfactory rooms, were announced at the 2007 brand conference. This year, as the relaunch presses on, leaders announced several new initiatives: a venture into the timeshare market, new leadership and a lofty goal to raise room rates and move Holiday Inn into a new competitive set.

IHG opened its 2008 conference as any other, with CEO Andy Cosslett delivering the first general session speech about the hotel company's recent successes and future plans. But this year, the familiar face that normally would follow Cosslett was missed—Stevan Porter, president of the Americas, died in early September.

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Rate-cutting debate

Continued from page 4

agreed, laying out a scenario: "The fact is, when you're on the ground running the hotel and your competitor [cuts rates], you're going to blink, or somebody's going to force you to blink who supervises you, or [are you] going to tell your investor, 'Nah, we're just kind of holding the rate?'"

Chad Crandell, president of Capital Hotel Management, was the first to say "panic."

"If you're in a market where [The Ritz-Carlton Hotel Co.] or Four Seasons [Hotels and Resorts] are dropping the rates, you have no choice," he said. "If luxury panics, everyone else follows suit because I can't have a Sheraton that charges $189 with a Four Seasons at $199. Most of those customers will go grab that Four Seasons experience over my Sheraton experience. That's what we're seeing in a lot of our markets. There's a little panic. The business model we're seeing is that it's a lot easier to operate when you're operating at a higher volume and compressing rates to get that last dollar. When the opposite occurs, they can discount to maintain that 74-percent occupancy. I won't say it's quite the panic we saw last cycle, but we clearly are seeing rates drop, and drop fairly quickly in key markets."

Mike Cahill, CEO and founder of HREC–Hospitality Real Estate Counselors, asked Freitag if STR forecasts revenue per available room decreases similar to 2002, when, Cahill said, "RevPAR decrease for the country was 1.5 percent, which was the worst scenario in 10 years."

Freitag said that's not in the forecast. "I have to come back to rates," he said. "We learned our lesson. If you look at the rate decrease post 9/11, it was probably a lot stronger than we reported versus what the consumer actually felt. … The message I get from this conference is that there are a lot of opportunists out there who are waiting, and I think that's true for the economy overall."

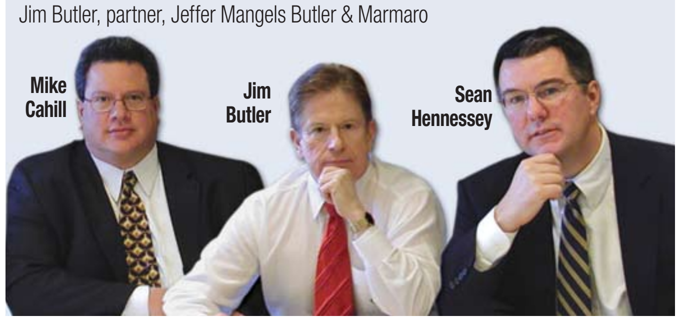
Comparisons to 9/11

"If you asked us all eight months ago, it was, 'Industry fundamentals are good, this is a debt-driven crisis,'" Cahill said. "Where did we all miss the boat? Was it just because there have been so many factors? No one predicted the financial crisis. No one predicted oil prices would stay high. If you look at post 9/11, it was a period of an unprecedented historic event, and now, just through naturally occurring [events], you're talking a worse RevPAR growth factor for the industry?"

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 of HREC—Hospitality Real Estate Counselors;
Sean Hennessey, CEO of Lodging Investment Advisors,
Jim Butler, partner, Jeffer Mangels Butler & Marmaro



Jim Butler, attorney for Jeffer Mangels Butler & Marmaro, said the current financial crisis reminds him of 9/11.

"In NYC, it's like an atom bomb went off," he said. "It's devastated employment; it's devastated the psyche. That panic—[the government] bailout, Merrill Lynch sold off, Goldman converted—this stuff has just got everybody stunned."

Doug Dreher, president of The Hotel Group, pointed to the myriad issues distinguishing the present economic environment from a post-9/11 scenario. "You have foreclosures, subprime loans, oil prices, the dollar's down, de-leveraging, consumer confidence down," he said. "There are so many different factors causing this uncertainty, whereas after 9/11 … we actually had a rally after it."

Robert Stiles, EVP, principal and head of the western region for Cushman & Wakefield Sonnenblick Goldman, made the connection to the consumer as well.

"The de-leveraging really is going to be extreme on the individual citizen level," he said. "They represented two-thirds of our [gross domestic product] before spending increased after 9/11. That same de-leveraging is going to happen all the way down to the consumer. People are having a harder time getting credit cards, home equity loans; home values are down."

Group vs. transient

The shift in group and transient business many LIIC participants noted is happening at a time when rates and occupancy potentially will feel a big impact.

Referencing higher-end segments, Freitag pointed out that: "Year to date through August 2007, business was skewed toward transient. This year we're seeing that flipping. We're seeing more groups being accepted, bolstering the occupancy. Because you're shifting demand to lower-rate rooms, obviously the rate growth is compressed," he said.

"What we're seeing in some markets is 20-[percent] to 30-percent drop in transient demand this month," Van said. "Something dramatic is happening, particularly in markets like New York, but we're seeing it in others."

Cheryl Boyer, president of Lodging Advisors LLC, noted the poor timing of the rate debate.

"You're negotiating your corporate rates for next year in the midst of everything that's happening," she said. "I reached out to a bunch of regional directors of sales and marketing in the New York area to take a pulse, and for the first time ever I'm hearing that people are looking at where they can strategically lower rates for some of the key customers they want to hold on to who brought volume to the hotel."

Bernie Siegel, principal with KSL Capital Partners, noted the real estate and insurance businesses, what he called "the most profitable segment of demand," are out of work and not traveling for leisure or business.

"Transient definitely has fallen off the cliff since Labor Day," Crandell agreed. "That has a lot of operators worried. If transient goes, there's no yield management in that scenario."

How does segment play into the group versus transient business scenario? "If you're talking about a 120-room hotel in Mexico, there's no issue there," said Steve Kisielica, principal of Lodging Capital Partners. "But if you're talking a 500-room Hawaii incentive house where you need group business, it's one of the easiest things for a company to take off their budget. That's an issue."

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Pictured [from left] Glyn Aeppel, partner and CIO at Andre Balazs Properties, Larry Shupnick, SVP of acquisitions and development for Interstate Hotels & Resorts, and Bill Reynolds, managing director and chief acquisitions officer at Thayer Lodging Group.