Panel debates external obstacles to recovery

The new normal includes high gas prices and other uncontrollable market conditions

By Stephanie Ricca
EDITOR IN CHIEF

NEW YORK–Just like no person is an island, no hotel (or hotel transaction) is immune to external factors.

In today's hotel operating and purchasing environment, those external factors include still-high unemployment, a possible double-dip in the housing market and high fuel prices during summer travel season—just as the industry is experiencing tangible signs of recovery.

But how much do those factors really affect your business and how many have become simply the new normal? Members of the Lodging Industry Investment Council addressed these topics from a macro perspective at the New York University International Hospitality Industry Investment Conference in June.

"We've entered a unique period where we're in an upcycle, but the last four months have been steady as she goes," said Mike Cahill, CEO of HREC Hospitality Real Estate Counselors. "People are still buying. There's a little more release from special servicers of better product, but relatively steady. Business as usual."

In May, the national unemployment rate was 9.1 percent, according to the Bureau of Labor Statistics. May also brought confirmation from sources like Standard & Poor's of a double-dip in the national home price index, citing prices down 32.7 percent from peaks five years ago.

On top of those numbers, fuel prices still average out at slightly higher than $3.50 per gallon [as of June 25], according to AAA, up from $2.75 per gallon during the same time in 2010.

LIIC think tank members debated whether these factors will make significant impact on a hotel industry recovery.

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What do you think?

Have you noticed—or not noticed—the impact fuel prices, unemployment and other economic factors have had on your business this summer? Visit www.HospitalityWorldNetwork.com today and vote in our online poll. Results will be published in a future issue.

"If there ever is a good time to leave [IHG], this seems like it."
Jim Abrahamson, president and COO, Interstate Hotels & Resorts

BRANDS

Abrahamson: President, COO role at Interstate 'a terrific opportunity'

By Stephanie Ricca and Andrew Sheivachman
EDITOR IN CHIEF AND ASSOCIATE EDITOR

NATIONAL REPORT–Jim Abrahamson hit the ground running as president and COO of Interstate Hotels & Resorts. A week after the announcement that the former president of the Americas for InterContinental Hotels Group would take the lead position at Interstate, he was off to China.

Abrahamson takes the reins at Interstate as it grows its international footprint. So far this year, the company has added more than 100 hotels to its portfolio of third-party-managed properties, including its first contracts in China, a country Interstate is serious about. The next few months will be a transition period, with the plan to succeed current Interstate CEO Thomas Hewitt by year's end.

"Both companies have a lot in common," Abrahamson said, comparing his past position at IHG with his new one. "IHG is a leading brand company, and Interstate deals with brands. That orientation with brands and quality is critical. No. 2, I've had the opportunity to work with great leaders in my career and this will be no different. And No. 3, IHG very much thinks globally—it doesn't think like a U.S. company that works globally. And Interstate's strong push is on its global footprint."

All in all, Abrahamson said the position at Interstate came about at the right time professionally.

"IHG is in great shape and continuity is assured, with Kirk Kinsell taking over [Kinsell previously was president of the Europe, Middle East and Africa region for IHG and

See **Abrahamson to IHR** | Page 43

Interstate Hotels & Resorts at a glance

Company type: Independent third-party management company
Ownership: 50/50 joint venture between subsidiaries of Thayer Lodging and Jin Jiang Hotels
Number of properties: 334
Number of guestrooms: 61,200
Footprint: 39 states, the District of Columbia, Canada, Mexico, England, Ireland, Belgium, Russia, India and China.

Source: www.ihrco.com

by the numbers

ARRIVALS

Most from Canada and Mexico
In 2010 the U.S. received 59.7 million international arrivals. Approximately 26.4 million were from overseas markets and 33.4 million were from Canada and Mexico.

SPENDING

Trade surplus favors U.S.
International travelers to the U.S. spent $134 billion in 2010, and travel spending abroad by Americans totaled $103 billion.

SHARE

Number down over a decade
The United States' share of total international arrivals was 6.3 percent in 2010, down from 7.5 percent in 2000.

ACTIVITIES

History ranks low
Top leisure activities for overseas visitors are shopping, dining, city sightseeing, visiting historical places and amusement parks.

Source: The U.S. Travel Assn.

Costs, unemployment

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"The issue is whether the double-dip in the housing market and bad jobs report really means the seeming improvement in lodging will take a setback," said Jim Butler, partner at Jeffer Mangels Butler & Mitchell. "I think the double-dip in the housing market is not significant [related to] the improvement in the lodging industry, because the uptick was fueled artificially by tax credits and it wasn't very much."

Timothy Dick, SVP of Trimont Real Estate Advisors, agreed, saying it's all part of life in the hotel industry.

"People have gotten more comfortable with the shifts we've experienced," he said. "There's optimism but there's also caution, what with gas prices and summer travel."

Scott Socha, VP of business development for Delaware North Companies Parks & Resorts, sees firsthand how seasonal factors affect travel and hotel operations—Delaware North manages properties in America's national parks and major cities. While weather can play a role in his property's seasonal success—he cited closures so far this summer at Yosemite and Yellowstone because of rain—fuel prices aren't much of an issue.

"Going back 40 years or so of parks data, gas can go up to $4 per gallon and traffic is still fine," he said. "I don't know what the breaking point is, but $4 isn't it."

It's not so much about the cost of gas as it is the value, predicted John Arabia, CFO of Sunstone Hotel Investors.

"It's less about the absolute value of gas than a recent change in value," he said. "Consumers have now seen $4 per gallon gas a couple times, and people are almost budgeting for it. It's becoming the new normal."

LIIC members said the fuel factor depends on the market and the consumer's travel habits.

"The cost of oil will affect different sectors different ways," Arabia said. "The drive market will be affected one way. Now, when airlines start cutting capacity, that's what to look for." HM

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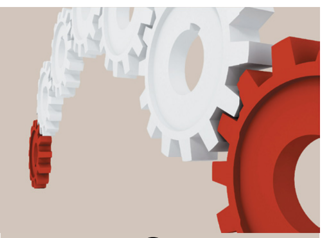
Coming in the **August** issue

Hotel Management brings you more coverage from the latest meeting of the Lodging Industry Investment Council in next month's issue. For past coverage of these meetings and roundtables, visit www.HospitalityWorldNetwork.com and search for the keyword "LIIC."



LIIC&HM THINK TANK

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

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