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Potholes dot road to recovery

By Jeff Higley
EDITOR-IN-CHIEF

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PHOENIX—Potential military action in Iraq and a continued sluggish economy are among the chief reasons panelists and speakers at The Lodging Conference are skittish about predicting when the hotel industry will see a reversal of its current downturn.

"There are too many variables at this time to be able to predict," said Larry Shupnick, senior v.p. of development and acquisitions for MeriStar Hospitality, during a Lodging Industry Investment Council roundtable, which was held during The Lodging Conference. "We'll see a little improvement by 2004. The big question is what happens in a war with Iraq? Will there be terrorism attached in spotted places in the United States? That will have a great factor on when and how we recover because the world has to react in a different way than what we're used to in the Western world of doing business."

"Next year we're looking at 2-[percent] to

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Mike Shannon (left) of KSL Recreation Corp., and Anupam Narayan of Best Western International discuss current events at The Lodging Conference in Phoenix.

The Lodging Conference

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3-percent [revenue-per-available-room] growth, and you have to look at 2004, but who's to say at this time next year we won't be saying it's not 2004 [or] 2005?" said Todd Siegel, director of Hyatt Development Corp., during the LIIC roundtable. "That is going to cause some movement in the sales markets. [That's when you'll] have an owner saying, 'Last year they told me it was 2003, now they're telling me 2004, maybe now it's 2005, I don't want to hold this thing anymore. I want to get out, and get out now.'"

John Q. Hammons, chairman of John Q. Hammons Hotels & Resorts, said he has been through downturns before during his 83 years, and he has found them to be the best time to continue developing. However, he cautioned that the next rebound is going to be a little different than those in the past.

"It's going to be every bit of a year to almost three years before we see a complete turnaround," Hammons said.

Bjorn Hanson, global industry leader—hospitality and leisure for PricewaterhouseCoopers LLP, led a panel during the early October conference that indicated there could be some merger-and-acquisition activity in the industry—if the buyers and sellers would start being more realistic.

"All of the reasons and conditions are in place for stepped-up activity in 2003," Hanson said. "But cautious and depressed capital markets and egos and personalities won't let this marketplace bounce back until 2004 or 2005."

From left: Todd Siegel, director of Hyatt Development Corp.; Charlie Muller, chief operating officer of CNL Hospitality; Kirby Payne, president of American Hospitality Management Co.; and Dieter Huckestein, president–owned and managed hotel operations for Hilton Hotels Corp., speak at various venues during The Lodging Conference in Phoenix in October.

A change in tune

That's a different tune than hotel-industry executives were singing in January when The Lodging Conference last was held. Attendees at that edition of the conference, which originally was scheduled to begin on Sept. 11, 2001 but was postponed because of the terrorist attacks, said they were "cautiously optimistic" about a turnaround occurring in late 2002 or early 2003.

That all changed heading into the fall conference, which was held at the Arizona Biltmore.

"Until there is something people can grasp onto and say we'll be OK for the next six to 12 months, I don't see how anyone can accurately predict, near term, what this segment is going to do," said Jim Butler, chairman of the global hospitality group of Jeffer, Mangels, Butler & Marmaro LLP and one of LIIC's chairmen.

Curtis Nelson, president and c.e.o. of Carlson Hospitality Worldwide, said business travel has declined about 20 percent throughout the United States, and he's worried leisure travel might dip because the average consumer is carrying 27-percent debt.

"You have to be concerned that the consumer has so much debt," Nelson said.

2000 was the pinnacle for the industry in its history, and the industry might never see those numbers again, Steve McKenzie, managing director for Eastdil Realty, said during the opening power-panel session.

What's ahead?

Mike Shannon, president and c.e.o. of KSL Recreation Corp., which has a $2-billion resort portfolio that comprises more than 4,000 guestrooms, said leverage-buyout players will become an issue in the industry during the next year. Shannon also said he expects major companies to begin shedding underperforming brands.

"You're going to see de-conglomeration and spin-offs," Shannon said. "They can't afford to feed all the children in the stables any more.

"It's happening in every industry, and it will happen in ours because [companies] haven't delivered shareholder value," he said. "People lost their focus and have a lot of substandard brands. Wall Street will punish those who don't have a focus."

Mike Leven, chairman and c.e.o. of US Franchise Systems, predicted that Six Continents would split up and sell its hotel brands in groups.

"There are companies that want to sell themselves," Leven said. "The question is, does anybody have any money?

"I do think you'll see something that is going to surprise some people," he added. "There may be some surprises in the next few months in terms of who gets sold."

Individual assets also will continue to gain favor in the acquisitions department, panelists said.

Nelson said the difference between bid prices and ask prices is shrinking.

"People are starting to look at the long-term value of the assets," Nelson said.

Jonathan Gray, senior managing director for Blackstone Real Estate Advisors, said he believes values will drop more than they already have.

"The best buying opportunities are generally when there's maximum distress," he said. "I don't think we're there yet."

As hotels and hotel companies continue to look for ways to maximize efficiencies, cutting costs is no longer an option, according to several panelists.

"In limited-service, if you cut any more, guests will be checking themselves in and checking themselves out, and cleaning the room in between," Leven said.

Nelson said Carlson's largest cuts have been in the back of the house.

"Largely, the cuts we made were checking the checker," he said. "The decision maker is closer to the customer."

Dieter Huckestein, president—owned and managed hotel operations for Hilton Hotels Corp., said his company's mantra has been maximizing productivity. Huckestein gave the example of Hilton converting to an electronic paycheck payment system that's saved the company a quarter of a million dollars.

Optimism

There are other reasons for optimism. Huckestein said government travel has increased 20 percent at some of Hilton's hotels.

Steve Rudnitsky, president and c.e.o. of Cendant Corp.'s hotel division, said things have to get better.

"Right now, we're at the bottom," Rudnitsky said.

Others agreed.

"[The industry] has weathered a tremendously difficult time," said Charlie Muller, chief operating officer for CNL Hospitality. "Rates will grow back very slowly. Demand is going to depend on peoples' psyche, threat of terrorism, how business comes back, etc.

"It's a great time for the business right now, because we've been through a real down time and we've figured out how to survive and make money on less revenue. That's been helpful for the business. We went through 10 or 11 years of growth in RevPAR, growth in rate, and you ended up with a few more mints on the pillow and maybe one more guy at the front door than you should have. Fortunately or unfortunately, a lot of that has been cut out.

"[It's] unfortunate for the people who lost their career opportunities. There was a lot of creep that's come back in the business that's been taken up because of this tremendous slowdown. It gets a little better over time."

Steve Rushmore, president of HVS International, said there's a silver lining in this downturn.

"We have a recession, but not as strong as last time," said Rushmore, who added that limited construction activity is favorable for the industry. "Today is the second-best time to buy hotels. 1991 was the best time."

jhigley@advanstar.com

Above, Curtis Nelson (left) of Carlson Hospitality Worldwide smiles as Dieter Huckestein of Hilton Hotels Corp. makes a point during a panel discussion. **At right, Mike Blahosky** of CB Richard Ellis talks as Vicki Richman of American Hospitality Management Co. listens during the Lodging Industry Investment Council roundtable.