

HOTEL yearbook 2010

What to expect in the year ahead

**Sir David Michels on the shape
of the coming recovery**

**The outlook for 20 key markets,
from China and the USA
to Germany, Brazil and Libya**

**Is it time to change in-room
technology standards?**

**How the crisis
will affect luxury in 2010**

**Editorial input from 25 hotel
industry CEOs**

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The Ecole hôtelière de Lausanne (EHL) is the co-publisher of The Hotel Yearbook. As the oldest Hotel School in the world, EHL provides university education to students with talent and ambition, who are aiming for careers at the forefront of the international hospitality industry. Dedicated to preparing tomorrow's executives to the highest possible level, EHL regularly adapts the contents of its three academic programs to reflect the latest technologies and trends in the marketplace. Since its founding in 1893, the Ecole hôtelière de Lausanne has developed more than 25'000 executives for the hospitality industry, providing it today with an invaluable network of contacts for all the members of the EHL community. Some 1'800 students from over 90 different countries are currently enjoying the unique and enriching environment of the Ecole hôtelière de Lausanne.



Boutique DESIGN New York

Boutique DESIGN New York, a new hospitality interiors trade fair, will coincide with the 94-year-old International Hotel/Motel & Restaurant Show (IH/M&RS). Designers, architects, purchasers and developers will join the hotel owners/operators already attending IH/M&RS to view the best hospitality design offerings as well as explore a model room, exciting trend pavilion and an uplifting illy® networking café.



Hospitality Financial and Technology Professionals (HFTP)

HFTP provides first-class educational opportunities, research and publications to more than 4'800 members around the world. Over the years, HFTP has grown into the global professional association for financial and technology personnel working in hotels, clubs and other hospitality-related businesses.



Bench Events

Bench Events host premier hotel investment conferences including the International Hotel Investment Forum; the Arabian Hotel Investment Conference and the Russia & CIS Hotel Investment Conference. Bench Event's sister company, JW Bench, is a benchmarking company that has launched the Conference Bench and the Productivity Bench. An industry first, the Conference Bench, measures performance data for conference space in hotels throughout Europe.



Cornell University School of Hotel Administration

Founded in 1922, Cornell University's School of Hotel Administration was the first collegiate program in hospitality management. Today it is regarded as one of the world's leaders in its field. The school's highly talented and motivated students learn from 60 full-time faculty members – all experts in their chosen disciplines, and all dedicated to teaching, research and service. Learning takes place in state-of-the-art classrooms, in the on-campus Statler hotel, and in varied industry settings around the world. The result: a supremely accomplished alumni group-corporate executives and entrepreneurs who advance the industry and share their wisdom and experience with our students and faculty.



Hsyndicate

With an exclusive focus on global hospitality and tourism, Hsyndicate.org (the Hospitality Syndicate) provides electronic news publication, syndication and distribution on behalf of some 750 organizations in the hospitality vertical. Hsyndicate helps its members to reach highly targeted audience-segments in the exploding new-media landscape within hospitality. With the central idea 'ONE Industry, ONE Network', Hsyndicate merges historically fragmented industry intelligence into a single online information and knowledge resource serving the information-needs of targeted audience-groups throughout the hospitality, travel & tourism industries... serving professionals relying on Hsyndicate's specific and context-relevant intelligence delivered to them when they need it and how they need it.



WATG

Over the course of the last six decades, WATG has become the world's leading design consultant for the hospitality industry. Having worked in 160 countries and territories across six continents, WATG has designed more great hotels and resorts than any other firm on the planet. Many of WATG's projects have become international landmarks, renowned not only for their design and sense of place but also for their bottom-line success.

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WATG's director of sustainability talks about how the recession has impacted green design.

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Going up market, and looking abroad

Extended-stay hotels are demonstrating resilience in a recession and continue to attract developer interest in the US – but the biggest opportunities are elsewhere, says **MARK SKINNER**, Partner in the Atlanta-based **HIGHLAND GROUP**.

The demand side of the equation

Demand for extended-stay hotels started to fall in the fourth quarter of 2008 and the decline accelerated into 2009. Demand declined 3.6% for the first half of 2009 compared to the same period in 2008. However, this compares favorably to the corresponding 8% overall decline in hotel demand.

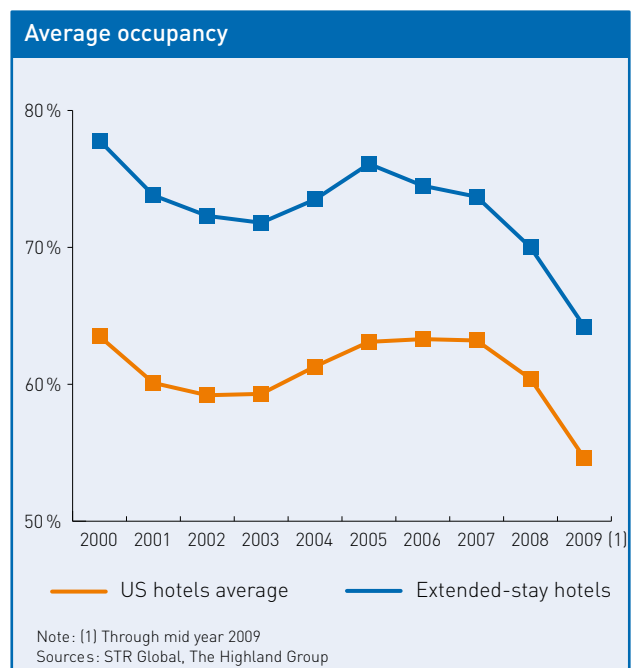
For comparison, extended-stay hotel demand increased during the downturn which began in 2001 and it grew faster than overall hotel demand as the economy picked up in 2002. Year-over-year, extended-stay demand growth peaked at 8% in 2005. More recently, the rate of extended-stay hotel demand growth began to slow down in 2007, as did overall hotel demand growth – but it slowed more rapidly.



Extended-stay hotels' strong price/value position is a major reason why demand has not fallen further. Nightly room rate reductions as the length of stay increases make extended-stay hotels more affordable than comparable traditional hotels for longer stays. Moreover, longer term guests can reduce the

total cost of a stay further by preparing meals in their room, which has a fully equipped kitchenette. In some cases, guests on expense accounts keep the unused part of a daily food per diem allowance, which is an incentive to select hotels with kitchens en suite.

Relatively strong demand for extended-stay hotels has helped the segment maintain an occupancy premium above the overall hotel industry.

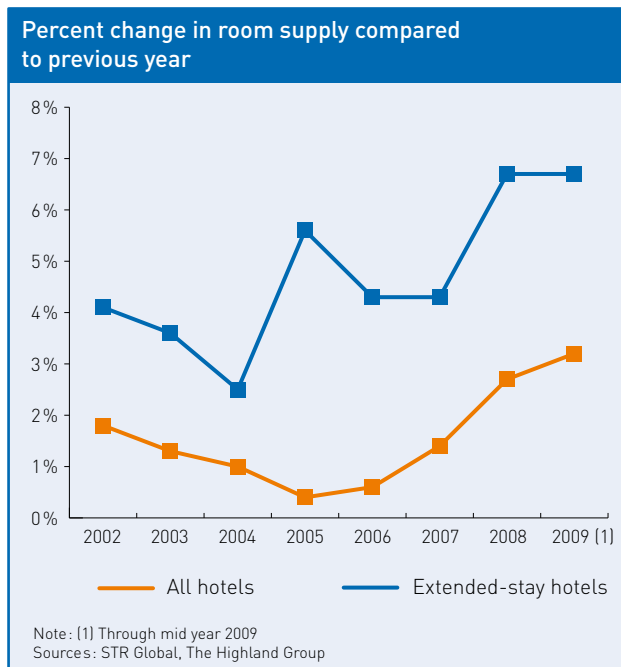


The premium has narrowed from a high of 14 percentage points in 2000 to about 10 points now. A comparatively strong rate of supply growth is the reason behind the narrowed occupancy premium. In 2010 and the foreseeable future, supply growth is expected to level off, and the occupancy premium is expected to stabilize.

Meanwhile, on the supply side

Extended-stay hotel developers react quickly to market conditions. The rate of increase in supply accelerated to almost

6% as the post-2001 recovery in the hotel market gained momentum in 2004 and 2005. The spike in construction costs following a series of natural disasters including Hurricane Katrina in September 2005 then slowed the increase in extended-stay hotel supply as the rate of overall hotel supply growth continued to rise.



The rate of growth in extended-stay supply accelerated in 2008 and peaked at just below 7% through the middle of 2009. The recession is expected to result in a significant decline in supply growth next year.

Performance in a recession

Extended-stay hotel operating performance is strongly correlated to that of the overall hotel industry. Trends tend to be similar, but during the last downturn, extended-stay hotels lagged both the decline and the upswing by about two quarters. Because of a relatively high dependence on the construction industry, economy and mid-price extended-stay

hotels were among the first to feel the current recession, which began in December 2007. As the recession deepened, overall hotel RevPAR and extended-stay hotel RevPAR began showing quarterly declines in the third quarter of 2008.

Change in RevPAR compared to the same quarter in prior year

	3rd 2008	4th 2008	1st 2009	2nd 2009
Extended-stay hotels	-1.3%	-6.4%	-14.4%	-17.2%
All hotels	-1.1%	-9.8%	-17.7%	-18.2%

Sources: STR Global, The Highland Group

Early RevPAR declines were slightly more for extended-stay hotels than the overall hotel industry, but that has reversed for the last three consecutive quarters. Generally, extended-stay hotels have not discounted rates as much as comparable traditional hotels in response to recessions.

US outlook for 2010

Extended-stay supply growth is projected to range from 4 to 5% in 2010. Based on current projections for the overall hotel industry and the historical relationship between extended-stay and overall hotel demand, extended-stay demand growth is likely to be below its increase in supply in 2010. Consequently, average occupancy is expected to fall slightly. Average rates are projected to remain stable and RevPAR is forecast to post a small decline in 2010 based on current expectations.

A maturing segment

There are now more than 300,000 extended-stay hotel rooms in the US. The segment's room supply has increased a remarkable 600% since 1995. Although still only about 7% of total US room supply, extended-stay hotels are present in every primary and secondary market in the country. They are also in a lot of tertiary markets. Future development in the US is favoring

replacing older products and filling underserved niches. Starwood's Element and Hyatt's Summerfield Suites are taking branded extended-stay hotels to a more upscale level than has been generally available. Hilton's new Home 2 Suites brand is attracting developers looking to add services, amenities and average rate to the mid-price extended-stay segment. These trends indicate that the extended-stay segment in the US is entering a mature phase.

New markets

There is very little statistical information available on the demand for and supply of extended-stay hotels outside the US. However, the size of the potential development opportunity is evident from some of the information available. The same drivers that attract guests to extended-stay hotels in the US exist around the world. Travelers are away from home for training, relocation and temporary assignments in every major city worldwide. People on assignment for long periods value space, privacy and the feeling of being at home wherever they travel.

Consider that the average stay in hotels in the US is 3.1 days. The average stay in Canada is 3.8 days. The average stay across much of Europe, in some major cities and elsewhere is even longer. « Extended-stay » is defined as a stay of 5 or more nights. Given that many hotel stays are 1 or 2 nights, a significant share of hotel room nights in many countries must therefore be 5 or more nights. Statistically, extended-stay room nights could be an even larger share of the total lodging market outside of the US than domestically.

Even where the demand for extended-stay hotel rooms is lower relative to the US experience, there could still be a large opportunity for development. By some measures, such as population and nominal gross domestic product, the 27-member European Union (EU) is a larger market than the US. Some estimates also show that the EU has more hotel rooms than the approximately 4.5 million rooms in the US. Yet extended-stay hotel rooms are unlikely to exceed 20,000 in the EU compared to more than 300,000 in the US. Furthermore, the great majority of extended-stay hotel rooms in the US are part of national and international hotel companies. Hilton,

Marriott and InterContinental Hotels Group all have extended-stay hotels outside the US, but they are currently only a fraction of their US extended-stay rooms. Clearly, a significant development opportunity awaits in 2010 and beyond. ■

