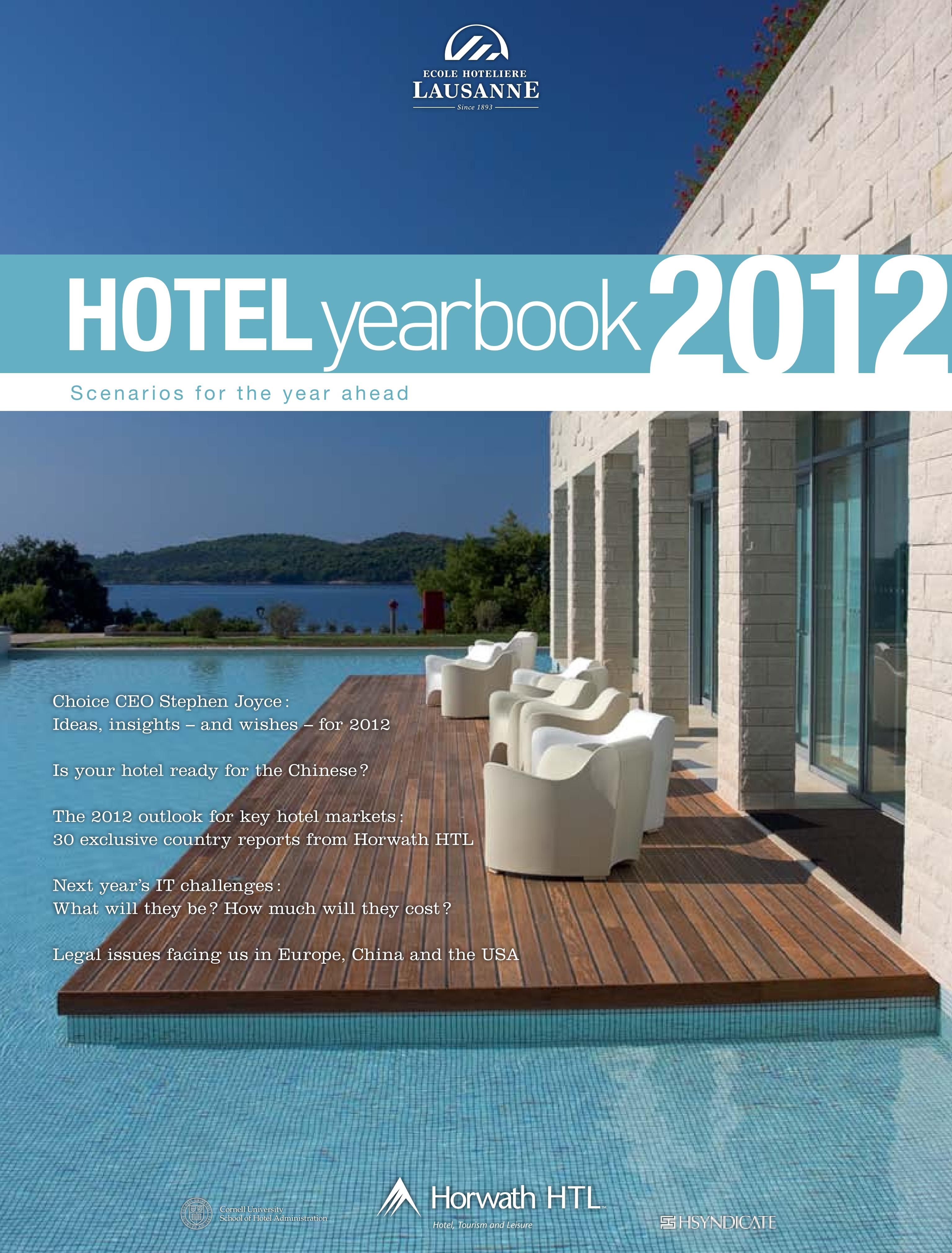

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LAUSANNE
Since 1893

HOTEL yearbook 2012

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Ideas, insights – and wishes – for 2012

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This excerpt from the Hotel Yearbook 2012 is brought to you by :

ECOLE HÔTELIÈRE DE LAUSANNE

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.

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Horwath Hotel, Tourism and Leisure consulting are the world's number one hospitality consulting organisation, operating since 1915. Horwath HTL are the industry choice; a global network offering complete solutions in markets both local and international. Through involvement in thousands of projects over many years, Horwath HTL have amassed extensive, in-depth knowledge and understanding of the needs of hotel & real estate companies and financial institutions.

Horwath HTL are the world's largest consulting organisation specialised in the hospitality industry, with 50 offices in 39 countries. They are recognised as the pre-eminent specialist in Hotels, Tourism and Leisure, providing solutions through a combination of international experience and expert local knowledge.

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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.

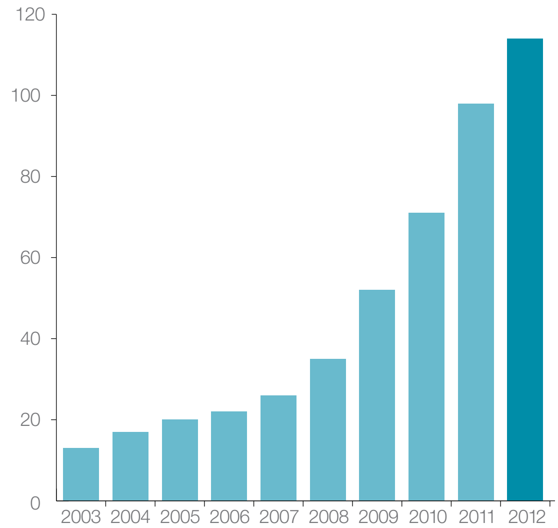
Four questions buyers will be asking in 2012

WHAT'S AHEAD FOR THE INDUSTRY'S RELATIVELY NEW SEGMENT, HOTEL-BRANDED RESIDENCES? **DAN AUGUST CORDEIRO** OF **HOTELBRANDEDRESIDENCES.COM** WALKS US THROUGH SOME ISSUES THAT HE BELIEVES BUYERS WILL FACE NEXT YEAR.

Living in hotels is nothing new. But over the past ten years, purchasing whole-ownership flats or villas bearing the brand of a major hotel group and used at the disposal of the homeowner – hotel-branded residences – has become an important part of the luxury hotel development business and the residential real estate industry. By lending the « halo » of luxury hotel brands to for-sale residences, developers have been able to achieve pricing premiums of 10 to 50 % over comparable non-branded properties. These often generate the feasibility for the hotel itself, through both the increase in revenue and the timing of the sales proceeds.

By the end of 2011, there will be nearly one hundred operating branded residential projects worldwide, affiliated with some of the world's most prestigious hotel chains, such as Four Seasons, Ritz-Carlton, St. Regis and Mandarin Oriental. Of these, 90 % only became operational between 2007 and 2011, with the average hotel-branded residence having operated for about four years.

HOTEL-BRANDED RESIDENCE DEVELOPMENTS OPERATING WORLDWIDE*



**Data only includes whole ownership properties without mandatory rental programs, and thus excludes fractionals, residence clubs, extended stay and hotel-condos.*
Source: HotelBrandedResidences.com

Given the recent surge in operating properties, the business model has leapt from conceptual plans to operational realities. Branded residences have also weathered the ongoing financial crises with several examples of failed projects, bankrupt developers and construction defects, resulting in numerous lawsuits in the United States, where they have so far been the most prevalent.

In 2012, buyers of hotel-branded residences will be more sensitive to these downside scenarios and will be scrutinizing premiums paid for these properties more than ever. Given that they are the cornerstone of the business model, developers that build them and hotel brands that use them to grow their hotel

Four questions buyers will be asking in 2012

portfolios should take another look as well. To do so, start with the following four questions, which buyers will, and developers and brands should, be asking this year.

QUESTION NO. 1: IS THE RESIDENCE TRULY DEVELOPED AS A PREMIUM ONE?

While virtually all hotel brands do get involved in the design and construction of their new hotels, services provided specifically to the residences are rare. As such, the quality of the residences themselves – both inside the four walls and outside – can be inconsistent, despite the brand. If homeowners pay a premium for the residences because they bear the hotel's name, both the developer and the hotel chain need to ensure that every aspect of the residence reflects the quality of the brand and the buyer's lofty expectations if they want to realize a pricing premium.

QUESTION NO. 2: IS THE RESIDENCE TRULY OPERATED AS A PREMIUM ONE?

While the hotel brands pride themselves on providing luxury hotel services to their residential owners, the residences are not always managed by the same chain that manages the hotel. That means that buyers of branded residences interact with third-party property managers for some aspects of homeownership. If not managed properly, this could reflect badly on the entire development and leave buyers wondering why they paid a premium in the first place.

QUESTION NO. 3: ARE THE TERMS OF THE SALE SAFER THAN A NON-BRANDED PROPERTY?

Buyers of hotel-branded residences often state, « If it's good enough for [the brand], it's good enough for me. » But in reality, the brands have few controls over the offering terms of the third-party developers. Thus, buyers who purchase a hotel-branded residence have many of the same risks as unbranded properties. These can include brand-damaging instances of operational deficits, bankrupt developers, or construction delays and defects. Agreeing to pay a premium does not always ensure that homebuyers' interests are more protected than those of non-branded properties.

QUESTION NO. 4: WILL THE HOMEOWNERS BE ABLE TO GENERATE THE SAME PRICE PREMIUM WHEN THEY WANT TO SELL?

The implication of stronger resale values is one of the oft-cited reasons why buyers choose branded residences in the first place. Yet the hotel brands often disallow homeowners from using the name of the brand when reselling, and the potential risk of termination or replacement of the hotel brand could undermine the premium value that the brand offered the residences. This may be the trickiest obstacle, given the brands' intellectual property and the developers' insistence on termination clauses, but if large premiums that underlie the entire business model erode, it could force some changes in this area.

> Those developers and brands with good answers to these questions will be the ones that can realize sustained pricing premiums over the long term

As the hotel-branded residence industry matures, hoteliers and developers alike need to pay more attention to what generates the pricing premiums by potential buyers aside from the *de rigeur* lifestyle photography and designer showrooms. Addressing these four questions is the first step toward making sure that buyer premiums are not a short-lived dream and that they withstand the real tests of brand-loyal but demanding homeowners. Those developers and brands with good answers to these questions will be the ones that can realize sustained pricing premiums over the long term. Given that developers rely on this premium for their projects to make economic sense and the hotel brands would not otherwise have a hotel to manage, all parties should take another look to ensure the business model delivers on homebuyers' dreams. ■

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Preston Arza LLP | 8581 Santa Monica Boulevard #710 | West Hollywood, California 90069-4120
Debbie Jaloma | Director, Business Development | debbie@prestonarza.com
Tel. (310) 464-0352 | Fax (310) 943-1701 | www.prestonarza.com