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Editorial input from 25 hotel industry CEOs

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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.

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.

WATG

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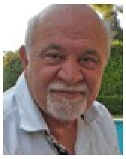

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Not out of the woods yet

LIZ HALL, Head of Hospitality & Leisure Research at **PRICEWATERHOUSECOOPERS** in London, walks us through the numbers for 2010. Her conclusion: Next year will start off with the sector under continued pressure in Britain, but the slowdown itself will slow down.

At last, seeing the wood for the trees?

Our UK hotels forecast tracks the impact on the hotel industry of the seismic economic events since Lehman's collapse and looks at the trading outlook for 2010. Even though the UK economy is beginning to show some signs of stabilization, and GDP growth is expected to resume in 2010 (albeit modest growth), the aftershocks of the worst recession for 60 years are still being felt as consumers and businesses keep their wallets firmly shut and travel less. If they are travelling, many are not keen to pay the high room rates of the past few years.

Nevertheless, there is talk that there are better times ahead, and the mood among consumers and in the hotel sector is now overwhelmingly more optimistic. Our research among 60 hotel groups and investors conducted in the summer of 2009 shows that three quarters of the hoteliers polled were more optimistic than they were six months earlier. But 36 % of operators still told us they have seen no green shoots yet in the hotel sector, more than twice the proportion of those who said they had.

Despite this, we feel that although the current situation is bad, it could have been much worse. The weak pound has encouraged some domestic travellers to holiday at home, but more importantly, it has attracted European travellers to London and other tourist traps, such as Edinburgh.

Improved optimism is reflected in hoteliers' focus, with attention turning away from managing costs to growing revenues, but it's a delicate balance between managing occupancy and room rates, and for some businesses balance sheet restructuring is inevitable.

But we remain cautious for 2010

While the hotel sector has been hit by a myriad of problems, arguably the biggest problem facing the industry is businesses cutting back on corporate travel, conferences and meetings. The business travel market is a high-margin business and crucial for a hotel sector recovery. In addition, consumers' balance sheets have been badly hurt by the recession and they are focusing on price and value. UK consumer spending is expected to decline by 3.5 % in 2009 compared to 2008, and may decline further in 2010; in any event it is unlikely to recover to pre-recession levels until 2011 at the earliest.

…as rates are set to remain under pressure

As a result, while rate declines should slow in 2010, economic and travel fundamentals remain weak, and despite accelerating cost cutting programs, the evidence points to more difficult trading as the year begins. A lack of corporate travellers on peak days, trading down, customer mix effects and discounting pressures will continue to suppress room prices. As of October 2009, as this is written, we are expecting UK hotel average room rates (ARR) will have fallen by 8.1 % in 2009, to £77.69 a night, down from a peak of £84.53 in 2008 – the biggest drop since 2002, when we saw rates fall by almost 6 %.

In 2010, consumers should find ARR across the country at around £76, a similar rate to that in 2005 (see Table 1). In terms of UK revenues, we do not expect any growth in RevPAR for hotels in 2009 but expect the rates of decline to ease in 2010, to £52.38, down from £53.67 forecast in 2009 and over £61 in 2008.

Baseline Scenario (premised on 4.6 % GDP decline in 2009 and 0.3 % GDP growth in 2010) % growth on previous year

2009

	UK	London	Provinces
Occupancy	-4.3 %	-1.2 %	-6.0 %
ARR	-8.1 %	-9.8 %	-6.6 %
RevPAR	-12.1 %	-10.9 %	-12.3 %

2010

	UK	London	Provinces
Occupancy	-0.2 %	-1.0 %	-0.9 %
ARR	-2.2 %	-4.7 %	0.0 %
RevPAR	-2.4 %	-3.8 %	-1.0 %

Econometric Forecasts: PricewaterhouseCoopers August 2009. Benchmarking Data: STR Global August 2009

The price is right in London

In London, hoteliers have nimbly replaced missing corporate travellers with lower-priced overseas and domestic holiday breaks. Aided by the strong Euro, London has attracted visitors keen to take advantage of some of the lowest prices for many years. Hoteliers have sacrificed room rates to keep their hotels busy. It proves that if the price is right, London remains a must-see destination for both UK and global travellers. For this reason, occupancy is expected to remain at around 79 % for both 2009 and 2010, a drop of only 200 bps from the peak in 2007. A return to growth in room rates, however, is still not on the horizon, and falls of almost 10 % in 2009 and a further 4.7 % in 2010 could take room rates down to £105 – almost £20 lower than they were in 2008.

An even harder slog outside London

Except for a few honey pot centers, the provinces don't have London's universal appeal and are heavily dependent on domestic corporate business demand. As a result, the options for switching business are narrower, and we feel further discounting will not be enough to prevent occupancy rates falling to about 64 % in both 2009 and 2010, levels not seen since the early 1990s. Coupled with a 6.6 % fall in room rates in 2009, our scenario anticipates that RevPAR will fall by 12.3 % in 2009 and drop a further 1 % in 2010.

The hotel sector's fortunes are closely tied to the economic cycle and a comparison with the past shows just how hard the hotel sector has been hit this time. If anyone needs reminding what events caused the peaks and troughs of the past, we have suggested some triggers. We can debate the exact percentage declines, but this chart shows that this trading period has been equally as bad as any we have seen in the last 30 years. It has been intense, with a synchronized global recession hitting consumer and corporate demand for London and provincial hotels at about the same time.

Light at the end of the tunnel?

The global economy is back from the brink; the UK economy is showing some positive signs; and although the sector is by no means out of the woods, a way out now looks much closer. Our latest forecast suggests the sector (especially rates) will remain under pressure into 2010 but that the rate of revenue decline will slow substantially. There are still unknowns that could upset things, as well as a slower economic recovery delaying the revival in conferences, meetings and corporate travel.

Although it might be hard to tick all the boxes yet on a recovery, we believe it will become easier as 2010 progresses. ■