

How to avoid pitfalls of building in a hot hotel market

I think most of us would agree that the current hotel development market is rather Buster Poindexter—it's hot, hot, hot! As a result, it seems that everyone is trying to get in on the game, which means that opportunities are becoming harder to come by and, when they do surface, the potential pitfalls are many.

What can you do, as a developer, to make sure that your hotel project doesn't stumble along the way? The following suggestions could well make the difference between a successful endeavor and a wasted effort

Particularly when a lot of product is coming to market, a major brand can add the extras that will make your hotel stand

out in a crowd.

Does your new hotel have access to reservations systems, revenue maximization and loyalty programs? Does your property have access to overflow and cross selling from other family hotels? In a crowded marketplace, these types of tools can net guests that otherwise might not have even considered your property.

While independent flags and smaller chains can offer certain things, they typically cannot help with these drive generators to anywhere near the degree of the larger, more established ones. Without these extras, your hotel most likely is missing out on numerous room nights.

Make sure you know your preferred market inside and out because without that insight, you really have no way of knowing what it is you're getting yourself into. An independent, third-party feasibility report can go a long way in helping you learn invaluable tidbits that could determine whether you sink or swim in the long run.

Do you have a good location? What are the barriers to new entry? Are there a number of other new hotels coming into the market that are known or rumored? If you aren't an expert on your own marketplace, the answers to the aforementioned questions could come back to seriously bite you.

Sure, you want to be on the corner of Busy Street and Main Avenue, but odds are, so does

everyone else. Does this mean you should throw in the towel? Not by any stretch of the imagination. Instead, take the advice of other experts, whether it is from your feasibility report or your franchisor.

Typically, when money is readily available and the market is hot, many hoteliers elect to upgrade the brand prototypes. Maybe they choose to add more rooms or

potential guests. While keeping your hotel up-to-par is certainly necessary, overdoing it often is a costly decision that can take an otherwise strong performing hotel to the back of the pack.

With construction costs coming down and room rates on the rise again, a lot of savvy developers are looking into full-service hotels. The cycle is ripe for this strategy.

Over the past 10 years, out of every 10 full-service projects we looked at, seven were conversions and three were new-build properties. Today, that equation has completely reversed, with seven out of every 10 projects being new construction and three being conversions. Since it takes a couple of years for these hotels to actually open, now is the time to get under way.

Additionally, there are several hot, new, full-service prototype options among highly esteemed brands that make upscale hotel development more affordable and appealing than ever.

There is no need for a heated market to become stifling. With these tips in mind, you should be able to beat the heat with the best of them. You may want to forego the Poindexter bouffant, though.

Bill Fortier is the senior vice president of franchise development for Hilton Hotels Corp.'s brand performance and development group in Beverly Hills, CA. He may be contacted at bill_fortier@hilton.com. ▲

Make sure you know your preferred market inside and out because without that insight you really have no way of knowing what it is you're getting yourself into. An independent third-party feasibility report can go a long way in helping you learn invaluable tidbits that could determine whether you sink or swim in the long run.

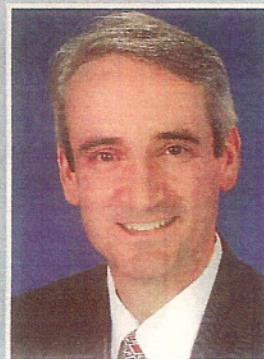
Edward L. Xanders, CHA
President



Interim Hospitality Consultants, LLC

4145 Yardley Circle, Tallahassee, FL 32309
Phone: (850) 893-6010; Fax (850) 893-8345
www.interimhospitality.com

FRANCHISING forum



Bill Fortier
Hilton Hotels Corp.

food and beverage or to overhaul amenity packages. More often than not, this decision produces a number of unintended consequences. The result of such endeavors typically necessitates raising your room rate, and if you have comparably segmented competition in the area, your new \$25 higher rate could make all those upgrades less attractive to

Another Record Breaking Year: U.S. Hotel Industry Reports \$26.6 Billion in Profits in 2006

June 18, 2007, Hendersonville, TN: The U.S. hotel industry had another record breaking year in 2006. Based on statistics compiled by Smith Travel Research (STR), the U.S. hotel industry generated \$133.4 billion in total revenues and \$26.6 billion in profits. Both numbers are industry records. Revenues increased by 8.7% from the \$122.7 billion generated in 2005 and profits increased 17.9%, up from \$22.6 billion last year.

Mark Lomanno, president of STR, commented: "Strong Average Daily Rate (ADR) growth of 7.2% fueled increased industry profitability. Relatively modest demand growth of 0.7% helped bolster operators' pricing power as occupancy levels exceeded 63%. While such strong rate growth is not sustainable, the expected rate growth for the coming years is still well above the rate of inflation." For the year 2006 the industry recorded the following results:

Benchmark	Value	Percent Change from 2005
Supply	1.6 billion room nights	+0.3%
Demand	1.0 billion room nights	+0.7%
Occupancy	63.4%	+0.4%
ADR	\$97.61	+7.2%
RevPAR	\$61.88	+7.7%
Total Industry Revenues	\$133.4 billion	+8.7%
Total Industry Profits	\$26.6 billion	+17.9%

Randy Smith, owner and founder of STR added: "Profit margins increased to almost 20%, up from 18.4% last year. It is also worth mentioning that of the \$10.7 billion in additional revenues the industry generated, over \$4 billion flowed through to the bottom line.

Although hotel construction pipeline numbers have increased, it seems construction time has lengthened. In addition, new supply is regionally distributed and only a few major cities face potential overbuilding. We estimate new supply increases will have a slightly negative effect of -0.7% on occupancy in 2007. But ADR growth, while slowing is projected to still be strong at around 6.0%. Fueled by this increase, 2007 will mark the first year that industry ADR breaks \$100, another milestone in the industry's history. We see no reason why the U.S. hotel industry should not be 'Fine though '09!'"

Condo Hotels

What's the Difference?

With all the buzz about hotel condos, hotel residences and other hotel-branded residence projects, it's important to understand your options. Here's the basic breakdown.

Condo-Hotel

"Condo" units (rooms or suites in a hotel) are sold to individual buyers who can use them for a pre-determined number of days (usually 30-60). Owners can opt to place their unit in a hotel-managed rental pool and receive revenue to offset ownership costs for the balance of the year, while their unit is kept in top shape by management. All owners have access to hotel services and amenities while in residence.

Cost: Can vary from several hundred thousand to several million.

Examples: The Tides, The Setai, The W South Beach (all in Miami); the W Fort Lauderdale, Fla.; the Ritz-Carlton Grand Cayman.

Hotel Residences

You buy a unit in a hotel-branded building, own it outright, and have access to all hotel services and amenities. There is no rental pool option.

Cost: Expect to pay a hefty premium over a "non-hotel-branded" condo in the same market.

Examples: The Residences at the St. Regis (New York, San Francisco, Fort Lauderdale); Four Seasons Private Residences (Punta Mita, Mexico; Miami; San Francisco; Jackson Hole, Wyo.); The Residences at Ritz-Carlton (multiple locations); Breakers Row at the Breakers Palm Beach, Fla.

Mixed Use

A hotel that offers both the "condo-hotel" and the "hotel residence" option at the same property, and may also have offices and retail tenants on site. A "hotel residence" will typically have a separate entrance.

Cost: Will vary by location, size of the property and hotel branding.

Examples: Trump International Hotel & Tower (New York, Chicago, Toronto); The Time Warner Center (featuring Residences at the Mandarin and One Central Park condos, New York); Canyon Ranch Living (Miami Beach).