

HOTELS'

INVESTMENT OUTLOOK™

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Fall Off

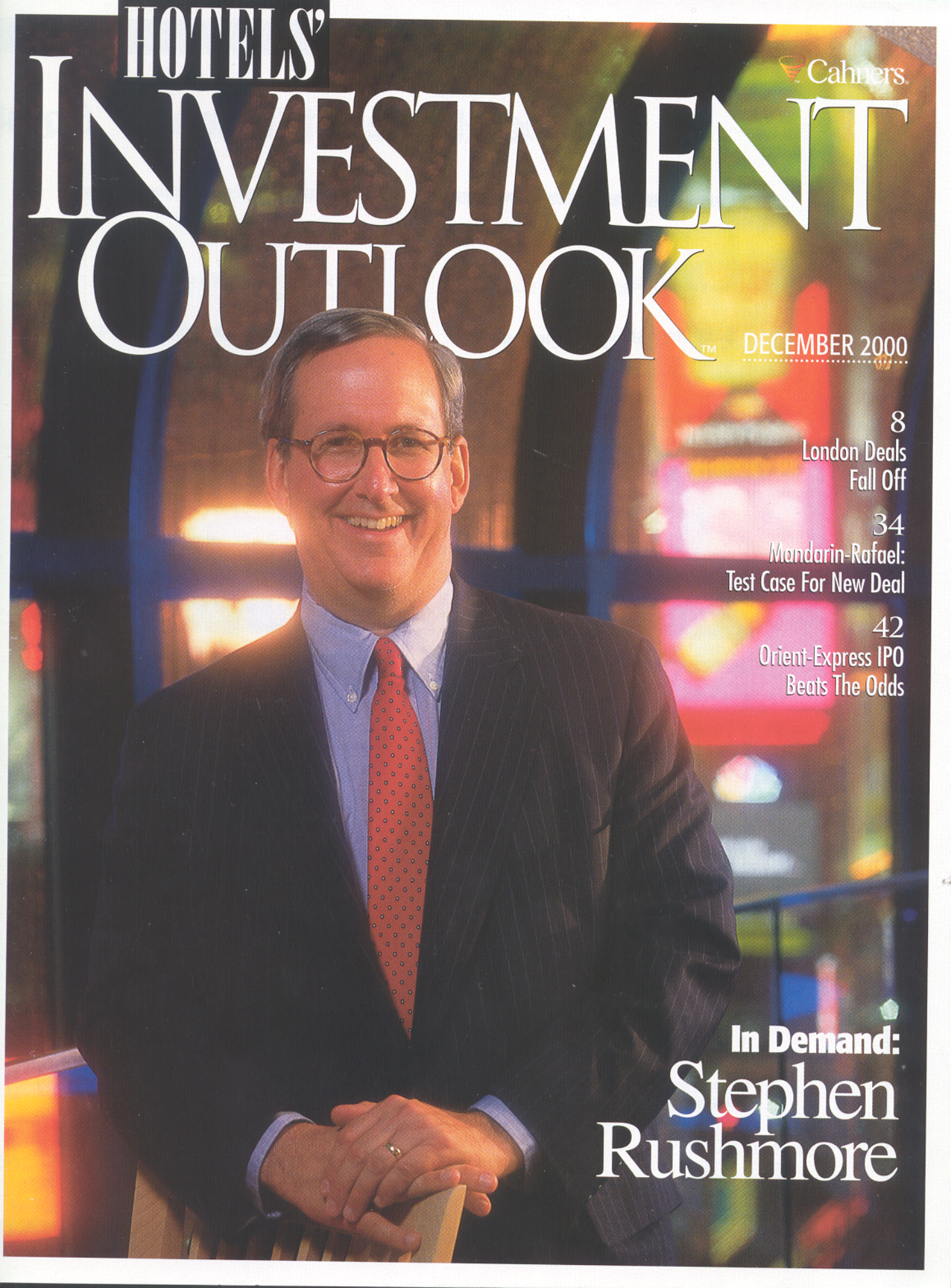
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In Demand:
**Stephen
Rushmore**



Since starting HVS International in 1980, Steve Ruushmore (bottom, middle) has developed a worldwide network of offices operated by partners and created numerous strategic alliances with leading service providers.



IN DEMAND

Stephen Rushmore learned from the best to create HVS International, a full-service consulting firm. Now his goal is to pay it forward.

During the late 1970s and early '80s, financial institutions were very busy financing, then refinancing, hotels across the United States. At the same time, a young Stephen Rushmore was busy trying to build a reputation for providing hotel valuation services and market studies, better, he thought, than those offered by the few consulting companies serving the hotel industry. On his own for the first time and in search of his first big client in 1980, Rushmore had the great fortune of meeting Matthew Hart, then with Marriott and now with Hilton Hotels Corp. He had enough moxie to convince Hart that burgeoning Marriott hotels needed appraisals done along with feasibility studies. Hart acquiesced and Rushmore's Hospitality Valuation Services (HVS) had its first big break. Give Rushmore credit for entrepreneurial spirit and something almost every successful business person will tell you is so important to success—great timing.

Today, some 20 years later, Rushmore, following in the footsteps of his mentor, the late Stephen Brener, is still an innovator. Through the development of new divisions within his organization and through strategic alliances, Rushmore has added multiple services and built a strong global brand now known as HVS International. Today, HVS International offers services ranging from valuation and consulting, to executive search and interior design, and

Rushmore, 55, a Cornell University graduate and father of two Cornell legacies, is best known for his valuation studies, data presentations at industry conferences and his forthright assessment of industry conditions. Package this with his philanthropic ways, his affable personality and approachable demeanor and you have the makings of an individual whose industry voice is important and advice sought after.

"Steve is a throwback to a less frenetic time in the hotel industry when you

Stephen Brener taught Rushmore about hard work, how to market and sell professional services, and how to sell credibility.

has 11 offices around the world with plans to expand into several more world gateways by opening new offices or creating alliances with local consultants.

"He's the octopus that ate the hotel industry," says Randy Smith, chief executive of Smith Travel Research, Hendersonville, Tennessee. "Steve has all types of tentacles out there. HVS is an amazing operation and Steve has a certain aggressiveness that enables him to expand and exceed expectations."

could have a one-on-one with a single practitioner," says Jonathan Tisch, president and CEO of Loews Hotels and the chairman of the NYU hotel industry investment conference founded by Brener. "In an era of consolidation and alliances, to still be able to talk with a boss on a variety of topics is unusual and worthwhile."

HONING HIS CRAFT

A business which last year grossed US\$16

HVS International At A Glance

Founded: In 1980 by Stephen Rushmore

Headquarters: Mineola, New York

Revenue: US\$16 million in 1999; same projected for 2000

Employees: 200; another 200-300 alumni working in the hotel industry

Locations: New York, San Francisco, Miami, Denver, Vancouver, Toronto, London, New Delhi, Mexico City, Singapore, Sao Paulo; new offices planned for Paris, Germany, Tokyo, Australia, Eastern Europe and the Middle East

Direct or referral services: Valuation, consulting, eco-services, executive search, food & beverage, laundry, technology, timeshare exchange, spa management, purchasing, architectural and interior design, construction, waste management, third-party management, hospitality investment, asset management and operational advisory, hotel brokerage, accounting, operational and management strategy development

Operating philosophy: Offering full-service consulting services over a wide range of services throughout the world. An entrepreneurial, client-driven company that wants to do high quality work

Vision: Increase global coverage to offer services in every major market around the world

million and supported about 200 employees took roots when Rushmore was a junior in high school. To find a summer job in a hotel, he leafed through a pamphlet of Cornell hotel school grads and found a resort in Whitefield, New Hampshire, operated by Mary Dodge Silk, the wife of Professor Thomas Silk, who ran the admissions department at Cornell. He not only snagged a job as assistant salad chef at the resort, but he finessed an interview with Professor Silk, which led to his admission to Cornell.

Upon graduation in 1967, Rushmore married and went to work in Rochester, New York, for the Robin Hood Rooms restaurant chain. Six months later, he was drafted into the Vietnam War and eventually came home to attend the Universi-

"I give someone a large portion of a small pie, as opposed to a small portion of a large pie. If the partner is successful, they will benefit directly."

— Stephen Rushmore

ty of Buffalo, where he earned his MBA.

Rushmore's fate was sealed in 1971 when he went to work for Stephen Brenner in the hospitality division of Helmsley Spear, a large real estate company owned by Harry Helmsley. "Stephen Brenner was an absolute genius when it came to understanding deal structures, valuations and marketing professional services," says Rushmore with great reverence.

Brenner taught Rushmore about hard work, how to market and sell professional services, and how to sell credibility. It was the template for what was to become HVS International. "Typically, hotel owners need valuations every three to four years, and we need to be in front of them continuously," says Rushmore. "We do this by direct mail. If you are an owner, lender, operator or potential

client, you will hear from us every two or three weeks with meaningful information about the hotel business. This is what I learned from Steve Brenner."

Rushmore left Helmsley Spears in the middle '70s to work for a real estate investment trust (REIT) as a hotel foreclosure specialist. As a result, he had the opportunity to witness a cycle that saw the economy go through an energy crisis, REITs lend indiscriminately on hotels and overbuilding that led to the bottom dropping out of the industry in the late '70s.

Rushmore then went back to work with Brenner for a few years before deciding to venture out on his own in 1980. His rationale for taking the leap: the major consulting firms were operational specialists without a strong grasp of the real estate side of the business. Rushmore thought he was golden because he could market himself as the first member of the Appraisal Institute with a degree in hotel administration. He had the ability to combine feasibility studies with financial projections and valuations at the same price other consultants offered just the market study. But to generate business he realized he first needed additional credibility and did so by authoring a textbook for the Appraisal Institute on hotel valuation. Soon thereafter, HVS was born.

It took the consulting firms about six to eight years to realize HVS had made serious erosions into their market shares for these types of products, according to Rushmore. "The beauty was they couldn't train their people to appraise without five years of experience and testing," he says.

The competition has since trained its people to compete with HVS' product, but Rushmore already had the Marriott business and the fortune of starting a business during a period of tremendous industry growth that required his services. "We were able to come up with a product that offered something different



Rushmore's Point Of View On...

Performance in the United States. I thought it would be down in 2000 because of new supply, but that isn't happening because of a vibrant economy. We are headed for a period when we won't see any large increases or decreases in occupancy, and we are approaching maximum room rates in many markets... What will cushion an economic downturn is the fact we are not highly leveraged and won't see foreclosures and bankruptcies we've seen in the past. There are many deals with 30-40% equity, leaving room for a downturn.

The labor challenge. It's a very difficult business to make money and not a whole lot left to pay staff... I don't think the industry has done a good job of professionalizing a career path... In Europe, it will be interesting over time to see whether family pride and the independent nature of hotels keeps the profession of hotelkeeping at a high level. I taught my valuation course this spring in Lausanne and it was over-subscribed... Everyone wants to become a consultant.

Consolidation. It will cause



Rushmore's office is filled with hotel memorabilia. His room key tag collection stands at more than 8,000 items.

The common bond in all HVS offices is that Rushmore has 50% voting control, forcing all parties to reach decisions by consensus. However, he does not necessarily have 50% of the economic control.



Rushmore, here with wife Judy, earned his private pilot's license in college and today owns two airplanes.

than what anyone else could offer and we had barriers to entry for five to 10 years," says Rushmore. "By that time, we had offices open, divisions started and a brand."

EXPANSION PLAN

In 1985, Suzanne Mellen started HVS' expansion when she opened a West Coast office in San Francisco as a 50-50 partner with Rushmore. "This shows what I like to do," says Rushmore. "I give someone a large portion of a small pie, as opposed to a small portion of a large pie. If the partner is successful, they will benefit directly."

Shortly thereafter, offices were added in Boulder, Colorado, Miami and London, which triggered a change in the company's name to HVS International in 1991. Rushmore made the global push because he felt HVS had "the better mouse trap" when it came to the combination of market and feasibility studies, as well as valuations. "Reports in London, for example, were one-page documents done by chartered surveyors," says Rushmore. "They told clients they were the greatest in the world and this is the value—trust me. They weren't providing the detailed report and were charging

twice as much as we did for a full report. Initially, we received a lot of resistance, but after three or four years we became the standard."

Offices in Singapore, Sao Paulo and Mexico City followed and the goal going forward includes adding HVS offices or creating alliance partners for every major gateway within the next 10 years. Immediate goals include opening offices in Paris and Germany, as well as Eastern Europe, the Middle East, South Africa, Hong Kong, Tokyo and Australia.

The common bond in all the offices is that Rushmore has 50% voting control; not necessarily 50% of the economic control. "That forces everyone to reach decisions by consensus, which leads to buy-in from all parties," says Rushmore.

NEW SERVICES

As HVS became an established brand, the partners realized it was time to add other services and found people inside and outside the organization to start new business. For example, gaming and asset management divisions started in the San Francisco office; eco-hotels and executive search ran out of New York; food and beverage services out of Boulder; and investment services in London. The most recent division to open is based in Boulder where Greg Hartmann has launched HVS Technology Strategies, combining the office's operational and financial expertise with a technology focus.

Not only does this growth strategy give HVS the chance to build business, it gives its people a chance to spread their wings and fulfill their dreams. "If my people have good ideas and business plans to provide other services, then we try to accommodate them... If you are highly motivated, driven, work hard and do good work, you can do far better with HVS," says Rushmore.

HVS has also developed several alliances with separate companies, one of the most successful being HVS' deal

Rushmore's POV On...

major brand impact problems... If I owned an Embassy Suites sitting across from a Hilton, I would still see it as a competitor, but one using the same reservations system... Hotel companies will find out they can't operate this way and will spin off some of their brands.

M&A activity in the U.S. We are up 10-15% in the number of transactions versus last year, but I don't expect many large transactions going forward. Hotel industry assets should not be owned by public vehicles because Wall Street has never recognized real estate as having inherent value... Only during the mid-'90s did Wall Street fall in love with this industry because you could buy hotels at 33% of replacement cost and soon it would be worth full replacement cost. That was the upside that allowed hotel companies to really flourish. Once value enhancement was achieved, there was no growth left and that is when people bailed out of hotel stocks.

Owners', developers' biggest mistake. I would always buy hotels with barriers to entry. The biggest risk is always overbuilding.

Sellers' biggest mistake. To successfully sell a hotel, you need to market it correctly. I am a firm believer in using a brokerage company that knows what they are doing... Listing online is a waste of time because you won't get the maximum selling price.

Builders' biggest mistake. They don't truly understand the economics of furnishings and equipment; what needs to be replaced often and what doesn't... You need to tie the physical life to your functional life in a hotel. To buy carpeting for a hall that will last 15 years when you know you need to change the color every eight years is the type of mistake I see most often.

Renovators' biggest mistake. Some office buildings being converted have long narrow rooms that don't feel right or layout well. The issue is being forced. If it's a great location, it might be better to



The Rushmore family on vacation in Montignac, France.

with Hodges Ward Elliott, a hotel brokerage and finance company out of Atlanta. "Because of the nature of our business, we know what hotels are for sale," says Rushmore. "When we are asked to recommend a broker, we tell clients about our alliance with Hodges Ward Elliott. If they make the sale, we get a referral fee."

To give HVS the look and feel of a full-service consulting firm, Rushmore and his crew have developed similar alliances in the United States with a design firm, an architect, a third-party hotel management firm, a public accountancy, a purchasing organization, a time-share exchange firm, a foodservice equipment specialist, a spa management company and others.

To date, three ventures have been disbanded, including a "secret shopper" business and an investment banking division started with Roger Cline, currently with Arthur Andersen. "We tried to do transactions in 1990 and 1991. It was bad timing," says Rushmore. "We never closed a transaction and spent hundreds of thousands of dollars, and it didn't work. You need a track record. If you haven't put together a deal, people don't tend to use you. We should have hired someone with a tack record."

While expansion has been impressive

over the past 10 years, 60-70% of HVS' revenue still comes from valuations, market studies and feasibility studies. The next biggest revenue source is Keith Kefgen's executive search operation, and the rest is equally divided among the divisions, according to Rushmore. Through the first three-quarters of 2000, HVS' business was off 10% but Rushmore expects to end the year even with last year's revenue total. He attributes the flat numbers to the Federal Reserve's decision to spike interest rates and its short-term impact on transaction volume.

THE HEADACHES

Of course, being an entrepreneur and business owner is not without its headaches. An industry source told *HOTELS' Investment Outlook* Rushmore has been named a defendant in lawsuits as many as 40 times and has published articles based on fabricated data.

Rushmore denies ever having used false information in any of his published materials and says he has been sued no more than four times. "During the Resolution Trust Corp. (RTC) time," he says, "the New York office did hotel appraisals for savings and loan offices which went out of business. The RTC went through appraisals and sued most professional

Rushmore's POV On...

demolish the building and create a well-designed hotel.

Credibility of industry data, information. I discount information on a macro basis. The hotel industry is a micro business. What is happening in California has no impact on New York. You own a hotel in a local market that is impacted by local supply and demand, operating costs and labor issues.

Hotel pet peeves. If I don't have two phone lines in a room, I feel deprived. And I must have Internet connection for my laptop.

Favorite hotel amenities. I love the shoeshine machines. I hate shining my shoes, so when I go to a hotel with a service, I bring three pairs of shoes and send one out each day for shining.

Negotiating management contracts. Today, hotel companies are putting in equity through mezzanine financing, credit enhancements or actual cash infusion so they have more bargaining power. As a result, contracts are more like joint ventures as opposed to fee based. If you are going to be a long-term owner, this is a good thing because you'll have a good partner. If you want to sell after three or four years, you have just eliminated any other management company or brand to sell to. You need to understand what your investment outlook will be as far as ownership goes.

Evaluating management companies. There are probably 25% of the management companies I'd want operating my hotel. The biggest problem is they provide a level of service the customer is not paying for, such as a concierge on duty at 7 a.m. when no one comes down until 8 a.m.... A lot of owners choose a brand based on perception of service without evaluating financial performance. They end up with a hotel company that won't provide the best return. You want to see the financial statements of similar hotels to make a proper evaluation. Ask the management companies to show you financial statements. ▶

"My greatest personal satisfaction is giving highly motivated people opportunities to live their dreams. It's fun." - Stephen Rushmore



Rushmore plans to start an industry museum within the next five years, housing everything from floor plans to "dummy" bellman.

service firms looking for insurance dollars as income. We settled these matters."

In another action, Marriott sold and HVS valued 70 Courtyard hotels in the late 1980s. The hotels didn't do well after the sale and investors sued Marriott because they were not satisfied with their return. HVS was eventually named in the suit and settled out of court. "We recommended the Marriott transaction at a fair and reasonable price, taking into account the overbuilding of the late 1980s," says Rushmore. "The other attorney said if there was overbuilding, we should not have recommended to buy the hotels."

Rushmore adds, "When you're a service firm and sell opinions, and things don't work out, people tend to sue when they see you have errors and omissions insurance. I have a US\$1 million package and the four suits have not depleted the coverage."

THE PRIVATE SIDE

There is another side to Steve Rushmore that is not all business. Not only is he

very philanthropic, having endowed a professorship at the Cornell hotel school and donated the Jennings-Rushmore computer lab at New York University's hospitality program, he is an avid flyer and collector of hotel memorabilia. He plans to start an industry museum within, perhaps, the next five years.

Rushmore has collected and cataloged more than 8,000 key tags, one of his favorites being an original from Brown's Palace in Denver. He also has about 2,500 hotel pens, his favorite being the cobalt blue pen with the gold tip from Ritz-Carlton. He has an assortment of hotel keepsakes, ranging from menus and photos to the silver tray given to maitre d'hotel Oscar Tschirky at the Waldorf=Astoria on the occasion of his 50th anniversary with the hotel.

Plans for the museum include a working hotel with 15 to 20 replicas of famous rooms from around the world, including an original Holiday Inn room and, he hopes, a room from the Ritz in Paris. Rushmore wants to get sponsors to pay for the rooms and derive revenue from guests staying in the rooms. He is open as to where the museum would be located. A home at the Educational Institute in Orlando, Cornell in Ithaca, New York, or at New York University sound logical, but he wants to make sure it is at an easily accessible site.

Another fascination of Rushmore's is roadside "cuisine" and diner food. It started when his mother told his father she married him in sickness and health—but not for lunch. As a result, Steve got into the habit of eating at local diners or junk food havens such as White Castle. His favorite spot: a joint in Rochester, New York, called Nick Tahoe's, home of the Garbage Plate, which is a sandwich consisting of cold baked beans, hash brown potatoes, a layer of chili, a hot dog and hamburger topped off with another lay of chili.

Not surprisingly, as Rushmore travels, he loves to discover where the locals eat.

About five years ago he was given a book about "road food," and about two years ago, he and his son met the authors. One thing led to another, and about four months ago a joint venture was created and a web site was launched called road-food.com. Not intended to be advertiser driven, the site has been average more than 100,000 hits a day, causing the partnership to rethink its plans for commercial activity.

All kidding aside, when asked to consider his remaining professional objectives at this point in his career, Rushmore thinks about expanding the business but, perhaps, is more interested in developing his people. "We are looking a lot closer at training and getting people on a career path within the firm," he says. "We want HVS to be a job for life. If you want to stay in this industry, we should have a spot for you that will keep you motivated and excited for as long as you want."

Simply put, Rushmore says in closing, "My greatest personal satisfaction is giving highly motivated people opportunities to live their dreams. It's fun." ■

Rushmore's POV On...

The good ones will do it and the bad ones will say it is confidential.

Franchising. The biggest issue has to be impact and competition from putting too many franchises in one market... Impact studies are about as accurate as most feasibility studies, but franchisees have existing relationships with hotel companies, which have an implied fiduciary responsibility not to hurt their franchisees. And for a study to say a hotel a quarter-mile away won't have an impact is conjecture, at best... Some franchisors are getting better at impact issue, but it's still the major issue. ■