

Hotel Investment Strategies

Observations From The Road

While surveying the global partners of HVS International, I have put together a list of some of the trends impacting the hotel industry, along with a few of my comments and advice.

■ **Spas.** It seems that every 4- and 5-star hotel currently has or is in the process of adding a spa. Many of these multi-million dollar spa ventures make very little economic sense since they typically do not generate a large amount of incremental occupancy nor are they particularly profitable. I look at spas with the same perspective as gourmet restaurants: necessary evils if you run an upscale hotel, but expect to lose a lot of money at the worst or break even at the best. Unless you are a spa-oriented resort like Canyon Ranch, the best way to minimize your potential health spa losses is to focus marketing resources on the local day spa clientele. Lastly, before taking the plunge and adding a spa to your property, take a look at your customer demographics because the predominant users of spas are still women.

■ **High-Speed Internet Connections.** If you do not currently offer an in-room, high-speed Internet connection, don't expect me to stay at your hotel. This is the attitude of a growing number of travelers, so if you are putting off getting connected, you better call your Internet provider today. While most Internet addicts are willing to pay extra for this service, I gasped when I was billed US\$25 per day by the Four Seasons Hotel in Berlin. If you are the first hotel in a market offering high-speed Internet, you will get some incremental occupancy, but your competition will quickly follow, thus eliminating any competitive advantage. Be satisfied to break even.

■ **Boutique Hotels.** What is a boutique hotel? Since there is no industry-approved definition for a boutique hotel, let me give you mine. A boutique hotel is an independent, upscale lodging facility with fewer than 150 rooms offering an intimate and comfortable motif and décor. They must include a high-quality, trendy dining venue and lounge—hopefully with a celebrity chef. Guestrooms need a king-size bed with a thick mattress, down comforter and at least eight large pillows. The front desk staff must be either unemployed actors or models. They must all be dressed in black and wear communication headsets.

■ **Condominium Hotels.** A condo/hotel is a scheme utilized by developers to create hotel projects that have little or no economic feasibility. There are two types of condo ►

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hotel structures that essentially turn hay into gold. The first is to incorporate a residential condominium component into the overall project. Because residential space typically creates more value per square foot than hotel space, the sale of condominiums will effectively subsidize the substandard returns of the hotel component. However, developers hope the specialized services (maids, concierge and catering) offered by the hotel to the condominium owners will enhance the condo sales prices and decrease the sellout time. The second condominium structure involves selling each hotel room to an individual investor who puts the unit into a rental pool and receives a share of the room's revenue each time it is occupied. For some reason, these investors are willing to risk US\$200,000 to US\$400,000 per room, personally guarantee repayment of their own mortgage and usually accept a sub-par return on their capital. A better alternative for investors who want to capitalize on hotel ownership with a much lower risk component is to either buy stock in publicly traded hotel companies or REITs or invest in a limited partnership or a limited liability company (LLC).

■ **Hotel Alarm Clocks.** Why are hotels incorporating AM

and FM stereo radios, CD players, thermometers and ATM machines into their bedside alarm clocks? These high-end multi-functional electronic devices require an MIT engineering degree to accurately set for the alarm to actually go off in the morning. Like many travelers facing the challenge of programming the alarm on one of these ultra-complicated clocks at 11 p.m, I end up calling the front desk for an old-fashioned telephone wake-up call. I recommend hotels give away these useless gizmos and return to the simple and reliable one-function alarm clock with the lighted numerals.

Hope those tips and observations are helpful. If you have seen any other global hotel trends worth mentioning in my future columns, drop me an e-mail. ♦



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