

## News release

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### **Light seen at the end of the tunnel for global hospitality industry**

*New York and Berlin, 31 March 2010* – A report released by Ernst & Young's Global Hospitality Services practice at the 2010 International Hotel Investment Forum in Berlin concludes that despite significant changes forced on the hotel sector in the last few years as a result of the global financial crisis, the hospitality industry is poised for future growth.

Ernst & Young's *Global Hospitality Insights: Top thoughts for 2010* discusses the key trends and issues that the global hospitality services team views as critical for companies operating in the sector to navigate over the next 12 months.

The issues and trends to watch include valuation, financing, government initiatives, tourism, acquisitions, privatization, restructuring, operational, accounting and the future of the luxury hotel sector.

#### **Valuation and financing key to sector**

Valuation and financing may have the most immediate short term impact on the sector, according to Michael Fishbin, the Global Leader of Ernst & Young's Hospitality & Leisure practice.

"Accurately determining the value of a hotel property or portfolio remains a challenge to the industry in the wake of the global financial turmoil, but the sector may be nearing the peak of capitalization rate increases. We expect some recovery in underwriting and a

rise in transaction activity this year, as investors and sellers come to a consensus around value,” Fishbin said.

Financing is another critical component of increased deal volume, according to the report, yet the global hospitality team sees the credit crunch dissipating this year as various capital sources re-emerge, led by public-and privately-held investment groups as well as international sources. Many of these have been raising new capital from institutional, individual and government affiliated sources.

### **REITS and IPOs to pick up in 2010; hospitality central to accounting debate**

A key trend that Ernst & Young sees becoming a major global theme in 2010 is access to public equity markets by real estate companies through initial public offerings, particularly involving rolls ups of existing portfolios into REITs. The trend is already underway in the United States. A recently-released Ernst & Young report, *Against all odds: 2010 Global REIT report*, found that REITs are leading other property investments out of the global economic downturn largely thanks to the resiliency of the REIT model.

There have also been recent IPOs of hospitality and gaming ventures based in Macau. “We’ll likely see this trend spread to other markets around the world this year as the sector looks to regain liquidity,” Fishbin predicts.

Another global issue hospitality companies will have to watch carefully in this decade is the ongoing debate within the global business community regarding historical cost (US generally-accepted accounting principles) versus fair value (international financial reporting standards) accounting. “As a global industry, the hospitality sector should be finely attuned to the issues at play in this debate especially as the judgment calls required in assessing fair value are particularly important at a time when the industry is relatively inactive,” observes Fishbin.

### **Silver lining for hospitality**

“There are a number of trends that make up the proverbial silver lining for the industry, such as growth in tourism, advancing restructuring efforts and improving fundamentals,” remarks Tim Behle, Senior Manager in Ernst & Young’s Global Hospitality Advisory practice, and Editor of the *Global Hospitality Insights* publication.

Tourism around the globe is expected to increase in the near-to mid-term bolstered by more focused government initiatives, such as the US's Travel Promotion Act, and favorable demographic trends in many emerging countries, most notably China, India and Brazil.

As the hospitality sector has come to grips with the severity of the downturn, industry participants are expected to continue to proactively work through the issues. "With restructuring efforts by owners and lenders further intensifying, the industry is poised to emerge on a stronger financial and operational footing," says Behle.

"From a fundamentals perspective, we are nearing the bottom," Behle further explains. "The shrinking supply pipeline coupled with strengthening demand will bolster the recovery of lodging sector."

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For more information on Ernst & Young's 2010 *Global Hospitality Insights* or to download a copy of the report, visit [www.ey.com/realestate](http://www.ey.com/realestate).

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