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## **Challenges ahead for global hospitality industry**

### *Ernst & Young LLP report identifies ten key trends to shape the industry in 2009*

NEW YORK, NY – February 24, 2009 – Global hotel markets are expected to continue to feel pressure from contracting economies and reduced leisure and business travel across much of the world in 2009. However, despite declines across most major regions of the world in 2008, operating performance in the global hotel industry remained profitable as hoteliers focused on controlling costs and preserving the bottom line, according to a report released today by Ernst & Young LLP.

“There is little doubt that most markets in the current economic climate are challenging at best and growth will be hard to come by for most operators,” said Michael Fishbin, National Director of Hospitality Services, Ernst & Young LLP. “As a result, this year we will see hotel operators continue to focus more of their energies on cost reduction, improving operating efficiencies in their hotels, reaching out to guests via enhanced Internet communication and strengthening their brands through an emphasis on green principles in activities related to both development and operations,” he added.

The *US 2009 lodging report* carries an overview of global, including US, hotel sectors as well as in-depth analysis of the main lodging segments and market reports for 17 major US cities including New York, Los Angeles, Chicago, Miami, Dallas and San Francisco.

The report also features ten main thoughts on trends and issues to watch in the hotel sector in 2009. These are:

1. **Capital.** Despite low mortgage delinquency rates, hotel values dropped in 2008 and will continue to drop in 2009 as the economic slowdown takes hold. Meanwhile, cash-rich

buyers are waiting to make deals once acquisition pricing is attractive. A recent Ernst & Young LLP survey of US real estate investors revealed that 60% intended to take advantage of fire-sale prices and buy commercial real estate. With \$400 billion already raised by private equity firms for distressed debt investment and a first wave of bankruptcy judgments expected this year, the transaction floodgates should open before the year is out.

2. **Costs.** If the recession has a silver lining it is that companies are concentrating on improving efficiencies and reducing costs. Hotel companies moving quickly to pare overhead at the corporate and property levels will not only save money but will position their enterprises to be more dominant players for the next cycle.
3. **Business Development.** A recent Google™ survey suggests that a third of travelers have made accommodation decisions based on reviews found online on sites such as TripAdvisor, Yapta, Travel Muse and Concierge. This is just one good reason hotel operators should step up their brand presence on the internet in 2009.
4. **Development.** In recent years, hotels have received growing attention as an instrument of urban redevelopment. We don't expect this to change, but we do expect the mix of uses around these hotels to change. Look for hotel-condo and retail mixed-use developments to make way for hotel developments mixed with office and rental apartments – a mix likely to better suit changing market fundamentals. In resort properties, condo hotel units won't be eliminated completely, but are likely to be scaled back in new developments.
5. **Debt.** With \$19 billion of loans in commercial mortgage-backed securities pools set to mature this year and very few new loans available, hotel borrowers will be proactive in pursuing loan modifications and exploring alternative strategies to recapitalize assets.
6. **Globalization.** While no region of the world is immune to financial turmoil, regions such as Asia Pacific, the Middle East and North Africa and Latin America may offer stronger alternatives in the lodging sector during this slow down. Countries in these regions have large and growing economies and population bases with a relative scarcity of hotels. Look for China, India, Vietnam and Brazil to be among the leading future growth markets.
7. **Green.** Green hotels are gaining momentum internationally and in the US where 415 hotel projects have achieved or registered for LEED certification with the US Green Building Council. With more governments promoting green building and some poised to penalize large carbon footprints, such as convention and urban hotels, look for more green renovations to take place, especially if a dedicated LEED certification for hotels comes into place in the US as expected later this year.
8. **Values.** Look for the Financial Accounting Standards Board's (FASB) Statement No. 157, Fair Value Measurements, to become more important for hotel companies this year as investors look for more clarity amid a downturn in hotel and real estate values.
9. **Alternatives.** The timeshare and cruise sectors of the hospitality industry – once thought to be more recession proof – have been hit hard by the economic downturn. Cruise operators have downsized their offerings, cutting some Australian and Mediterranean routes in favor of cheaper and shorter routes from Baltimore and Miami requiring little or no air travel.

10. **Stimulus.** Any funneling of additional federal dollars into US infrastructure would have a positive long term impact on the domestic hospitality sector by improving access to major tourist destinations and encouraging domestic travel and other aspects of proposed stimulus programs in the US could also benefit the lodging industry.

For a copy of the full 124-page report, go to [www.ey.com/realestate](http://www.ey.com/realestate).

[http://www.ey.com/Global/assets.nsf/International/Industry Real Estate US2009 lodging\\_report/\\$file/Industry Real Estate US 2009 lodging\\_report.pdf](http://www.ey.com/Global/assets.nsf/International/Industry_Real_Estate_US2009_lodging_report/$file/Industry_Real_Estate_US_2009_lodging_report.pdf)

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