

PUBLICATION

Convention Reports

April 16, 2008

Your intrepid reporter attended the American Lodging Investment Summit (ALIS) in January and the International Franchise Association Convention in February. Much energy was devoted to strategies for maintaining positive growth in harder times with more demanding underwriting terms for financing and more challenges to operating efficiencies. Here are some observations on matters of interest to the hospitality world:

- Consumer spending fueled by perceptions of household wealth, spending against home equity and wage growth has ended. The economic stimulus package will not cure the underlying issues in the economy. Until all of the pain from the credit crunch and its fallout is known and absorbed, uncertainty will prevail. But uncertainty creates opportunity.
- Conventional financing is likely to return as the collateralized debt obligation (CDO) market continues to find turmoil. Underwriting criteria will be tighter but optimism about underlying values is rampant. Smaller transactions (less than \$1B) are likely to be the focus of activity. Cap rates are increasing; interest only periods will be short and smaller loan pools will be created rather than larger so investors will better understand risks.
- Tourism and hospitality activity cannot be exported, but the U.S. does a poor job of serving foreign visitors. Exchange rates favoring foreign visitors cannot be exploited efficiently because of the paucity of in-bound marketing efforts. Homeland security concerns slow entry of visitors, and language barriers remain in all environments, even in gateway cities.
- If the trial lawyers succeed in getting Congress to pass the so-called Arbitration Fairness Act, the option to select arbitration for dispute resolution in consumer, employment and franchise disputes will disappear. There is no plan for additional courts at the federal and state level to handle the increase in litigation that could occur. Years of efforts creating skilled arbitration panels to handle routine disputes efficiently will be for naught.
- The industry has an opportunity to attract talented people but weak support of entry level recruiting and training means the best and brightest will continue to look elsewhere.
- Green is here to stay; customers expect sustainability as a key brand strategy.
- Strong brands that add value will be more significant to maintaining and gaining market share as the pie shrinks or stops expanding; focused investments by brands will reward the brand and its affiliates.