

Featured Stories

Consultants hear about gradual global recovery

05 October 2009 9:17 AM
By Jeff Higley
Editorial Director
jeff@hotelnewsnow.com

QUEBEC CITY, Quebec—The worldwide hotel industry should buckle its safety belt as it prepares for a bumpy ride during the next year or two as the global economy begins to regain its footing.

Members of the International Society of Hospitality Consultants learned—during a panel called “What is the economic outlook for the global hospitality industry” at their annual convention last week—because most elements of a recovery will occur day-to-day, getting back on their feet could be a painstakingly slow process for hotels.



“Despite all the bumps along the way, we are in a form of economic recovery,” said Warren Jestin, SVP and chief economist for Scotiabank Group. “But it’s not taking us back to ‘04, ‘05 and ‘06. ... Short-term issues seem to be what’s obsessing people these days. This time around, the market participants are hypersensitive because they’ve been hit like they’ve never been hit before.”

Therefore, the good news is there will be less bad news, Jestin said. Much like the last year has been filled with unfulfilled expectations, during the next six to eight months, people can expect to often hear the phrase “that was better than expected.”

Pan Pacific Hotels and Resorts is bullish about a sustained recovery, said Eric Levy, the company’s SVP of development.

“I can’t have a lot of real positive things if we’re looking short term, but we’re very positive about mid- and long-term projects,” Levy said.

Recovery by country

Emerging markets throughout the world, such as China, India and several countries in South America, will outperform more developed areas of the world for the next 10 years as the global economy recovers and commodity prices begin rising, Jestin said.

“It’s all about China, India, Brazil and Russia, and possibly in that order, said Ufi Ibrahim, COO of the World Travel & Tourism Council. “The U.S., Eurozone and Japan are still the most important travel economies in the world, but they are the mature markets.”

The Chinese government hasn’t opened the taps yet to allow many Chinese to travel abroad, and when that happens, it will be a boon to travel-services providers around the global, Ibrahim said.

Ibrahim cited the growth of India’s outbound trips as an example of what could happen. Since 1998, the number of outbound trips from India has increased 12 percent annually, and those trips meant US\$6.9 billion in additional spending throughout the world in 2008.

Economic obstacles remain for a global travel industry recovery. Gross domestic product per capita is linked closely with the number of trips people take, and that indicator has yet to spring back to life.

“Unemployment is going up, which is no good news for our industry,” Ibrahim said. “But don’t forget people who are still employed ... bonuses are getting cut, and pay is declining as companies make cuts to try to keep as many people as possible.

“Business travel has been hit significantly this year ... and we suspect that business travel will be the slowest to recover,” she added. “We expect the recovery to be very, very slow with 2010 certainly returning toward growth.”

Jeff Senior, EVP of marketing and sales for Fairmont Hotels and Resorts, told attendees at the Fairmont Le Château Frontenac the key measurement for a recovery is room demand, and that appears to be stabilizing.

“It was about the deepest, ugliest decline you’ve ever seen,” Senior said. “It turned in February, and last month it crossed over. For demand, we’re at parity year over year.”

A three-week worldwide tour of Fairmont’s hotels revealed the Asia/Pacific region’s performance is robust, the performance in the Eurozone is a mixed bag, and in North America, there’s not much light at the end of the tunnel, Senior said.

Weakness in (group) numbers

2010 will be a challenge for most hotels that focus on group business because they won’t have the luxury of cancellation fees they did in 2009 when groups canceled meetings at a brisk pace, Senior said.

“In 2011, we feel a little better,” he said.



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Meeting activity is starting to emerge, but Levy wouldn't call it a trend just yet.

"Meeting planners are busy with short-term meetings but they won't go out on a limb and say it has turned," he said.

Any expected deluge of hotel transactions might indicate frustration and pent-up demand rather than reality, Levy and Senior said.

"I don't expect the same flood of deals in Asia that most people are predicting for North America," Levy said. "It'll be a trickle."

Levy said a Swissotel property in Singapore recently sold for US\$350,000 per key, which at least sets a baseline for future deals.

"It's not going out on a limb to suggest transactions are going to be hard to come by," Senior said, noting he expects the costs of loans to increase 150 basis points to 200 basis points by the end of 2010.