

Hotel Development: Turning Troubling Trends Into Opportunities

Howard J. Wolff
Wimberly Allison Tong & Goo (WATG)
hwolff@watg.com

Arabian Hotel Investment Conference – Dubai – 2 May 2005

Travel and tourism is the world's number one industry, with expectations for its continued growth in the next decade. Nonetheless, industry profits have been on the decline in many parts of the world.

Hotel development is a risky business.

- Of all the hospitality projects being conceived today, three quarters will not make it out of the pre-planning stage.
- More than half of those remaining will not make it past the planning phase.
- Another 22% will not make it through design.
- And some will even fail during construction.
- That's a 91% failure rate!

TRENDS

Troubling Trend 1: **Increased competition in the marketplace**

A growing room count and increasingly cluttered marketplace make it critical to differentiate your property.

Troubling Trend 2: **A decrease in demand**

Declining demand translates to declining occupancies, revenues, and profits.

Troubling Trend 3: **Discounting of rates**

Cutting room rates doesn't stimulate travel. Rather, it creates expectations that guests will be able to continue to get reduced rates in the future. In the long run, you cannot cut your way to profitability.

Troubling Trend 4: **Rising expenses**

Construction related expenses are rising and so are operating expenses. Your employees represent the biggest portion of your operating expenses, and they are costing you even more if your property is getting in the way of them doing their job.

Troubling Trend 5: ***Short-sighted cost cutting***

Too often, cost cutting decisions are made without weighing the long-term repercussions. Usually it means deferring costs rather than eliminating them.

Troubling Trend 6: ***Inadequate programming and planning***

If you go through each step of the pre-planning process, you'll arrive at the proper mix and size of spaces. If not, you'll have an underperforming property on your hands.

Troubling Trend 7: ***Inexperienced design and development team***

Even one inexperienced partner can bring down the whole team, causing delays and costing you money. Poor project management contributes to the fact that the average hotel project now takes 13 months longer to complete than it did five years ago. A high-end hotel takes over 1,900 days to go from concept to completion.

Troubling Trend 8: ***Environmental and cultural insensitivity***

Hotels that offer no distinctive experience to guests ultimately fail in the marketplace.

Troubling Trend 9: ***Underperforming facilities***

It's virtually impossible to profitably manage a poorly planned or obsolete property. Guest preferences – and competitive pressures – are accelerating the pace at which renovations occur.

OPPORTUNITIES

Tip 1: ***Begin with the end in mind.***

Articulate a clear vision. Then take a hard look at your goals and objectives in light of market demand, financial projections, and feasibility studies. Anticipate regulatory hurdles and approvals. Proceed only if it pencils out.

Tip 2: ***Create a master plan to maximize your return on investment.***

This is a critical step.

Tip 3: ***Design for the top and bottom line.***

A poorly designed hotel can cost you a fortune after it is built. A well-designed hotel can contribute significantly to your bottom line.

Tip 4: ***Save money wisely.***

Look at value engineering as a constant process rather than as a way to cheapen the building after it has been designed. If done right, you'll get more building for the same money or the same building for less money.

Tip 5: *Target your ideal clientele.*

If you know who they are and understand what they're looking for, you'll have a greater chance of maximizing your profitability. A little research can pay off handsomely. One group of travelers you cannot afford to ignore is women. Another group, affluent travelers, look for quality above all else when selecting accommodations. And they like having choices. Most feel that taking frequent pleasure trips is both a sign of success and a way to reduce stress.

Tip 7: *Distinguish your property by design.*

According to a recent survey, when it comes to making the initial decision to book a reservation, it's all about image. Seven out of 10 affluent travelers say design is important. And nearly 4 in 10 say it's more important than price. If you've got a distinctive property, you're much less likely to find yourself having to cut rates and compete on the basis of price. Design is a key differentiator.

Tip 8: *Embrace the local culture.*

Pete Wimberly said: "The most successful project in its marketplace will be the one with the strongest sense of place." It may also be appropriate to create a themed environment based on an imagined culture.

Tip 9: *Go Green.*

It pays to be environmentally friendly. People are willing to pay more for less: less waste, less energy, less pollution. Investing in site design and landscaping can also contribute to the value of your property in a quantifiable way.

Tip 10: *Look new and fresh.*

Renovation can pay dividends. What can you do to re-invent and revitalize your property? Adding additional sources of revenue can attract more guests and increase spending per guest:

- A spa.
- Executive level accommodations and amenities.
- Weddings and receptions.
- Retail.
- Timeshare or fractional units.
- Villas.
- Golf.
- Banquet/meeting facilities.

The developer who knows about the troubling trends in the industry will be better prepared to turn those obstacles into opportunities and create a successful destination.