As Seen In Hotel Business® Green Book 2018

owners & developers report

Hoteliers had a good 2017—but what about 2018? *Hotel Business* spoke with Erik Rowen, VP of development, McKibbon Hospitality; Michael Nixon, president, Innisfree Hotels; Chris Manley, COO, Stonebridge Companies; and Gary Avigne, VP, acquisitions and development, Waterford Hotel Group, to get the details.

—Nicole Carlino

Has 2017 lived up to your expectations? How so?

Rowen: Yes, it certainly has. We have been very busy, and despite rising development costs, there are so many exciting things happening in our industry. These include new brand initiatives addressing changing guest needs and advancements in technology in both hotel products and construction management services.

Nixon: Despite the weather that wreaked havoc on our summer season, Innisfree managed to have a modest increase in revenue for 2017. The excessive rain in the month of June put a damper on our resort properties. In addition, media coverage of the multiple hurricanes that made an appearance in Florida and Texas drove many of our customers to other locations. The great news is that we had some pretty aggressive portfolio growth for the year, adding five properties to our owned portfolio and one to our managed properties.

Manley: 2017 exceeded our internal projections in nearly every market. Initially, we had concerns about international travel in our gateway markets and new supply deliveries adversely impacting certain markets. However, inbound travel was better than anticipated and, due to construction delays, new supply deliveries were somewhat muted. This allowed for increased demand to absorb the supply without a material adverse impact on top-line revenues.

Avigne: We enjoyed a productive 2017 with the addition of nine management contracts this year. These include the addition of two development projects with hotel openings slated for 2018. This level of growth exceeded our projections and we are strongly positioned for continued growth in the coming year. Our expectations were tempered as we entered the year based upon what we know are challenges in the industry, challenges that can make growth somewhat difficult.

What are some significant challenges you see in the coming year for hotel owners? What are the major factors that will impact these challenges?

Rowen: Oversupply is certainly a concern. With recent market conditions and the expansion of hotel development and available brands, inventory is still increasing. Due to these conditions, it's important to focus on the very best locations within our markets and the very best brands.

Nixon: I think that our challenges for portfolio growth will be in the availability of debt. We are still seeing deals out there and want to pursue them, but likely the challenge will be in financing construction and acquisitions at a reasonable rate. From an operational standpoint, improving bottom line while providing more services will be the challenge. The consumer's desire for experiences is not going away, so balancing between providing additional services with investor returns will be the key to success in this area.

Manley: We foresee our primary challenge in 2018 to be labor availability in many of our markets. As an industry, we continue to learn how to do a better job of recruiting and retaining associates who have a committed passion for delivering service and enjoyable experiences to our guests.

Avigne: Even though our new-development horizons have been limited, the reality is that new development is proliferating, which can create another oversupply dynamic in many markets. This can adversely affect the financial performance of existing hotels and therefore moderate the asset value of existing hotels. New supply in limited barrier-to-entry markets will be an ever-present challenge for operators in 2018. Related to this new supply dynamic is the proliferation of new brands, intended to increasingly dissect guest profiles and consumer preferences with nuanced product and service differences. We are all too often competing against our own family of brands.

From an operational perspective, rate aggression in many markets may become challenging in 2018 where new supply has become evident; the need to balance technological innovation with the core concept of hospitality is likely to be an ongoing challenge; and the need to find a way to lower the cost of OTAs by motivating guest direct reservations will continue to be a challenge. Additional challenges to operators include constantly changing brand standards and third-party disrupters.

In looking toward 2018, where do you see the most opportunity for hotel owners?

Rowen: There are many opportunities in the lifestyle hotel segment. It's all about finding the perfect fit for the market. Our lifestyle project designs focus on how the property connects with the local community through architecture, artwork, and food and beverage offerings.

Nixon: 2018 looks to be a decent year—again, with modest increases in both occupancy and ADR. New supply will be a factor in some markets, and in our resort destinations, we are seeing a continued increase in the consumer's desire for more experiential hotel stays. Staying ahead of consumers and their desire for these experiences will be a huge focus for us in 2018.

Manley: We project that 2018 will be similar to 2017, and we believe that the best operators will continue to sharpen their labor management and expense controls in order to preserve operating margins and cash flow. The balance is always to enact such measures without adversely impacting the guest journey and overall positive experience.

Avigne: As a somewhat general statement, it seems to us that opportunities are market by market, not necessarily a broad industry imperative. On behalf of our owners and investors, we are focused on identifying economic growth markets, since the need for hotel rooms is based upon demand from guests, and this means economically strong and growing markets for business and industry. Where there is tangible and legitimate economic growth, there will be the opportunity for some new development projects and for the renovation and re-branding of existing but perhaps aging product. We identify these opportunities for owners and investors.

Erik Rowen, McKibbon Hospitality

Michael Nixon, Innisfree Hotels

Chris Manley
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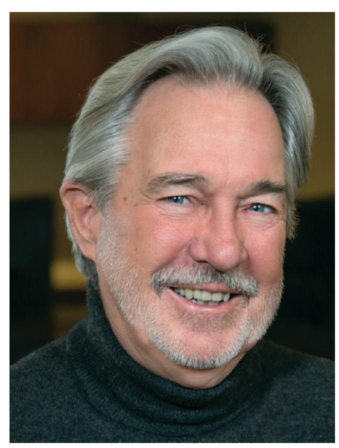

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