

# Global hospitality insights

Top thoughts for 2015



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# Foreword

The global hospitality industry entered 2014 on an upward growth trajectory; a greater sense of optimism was palpable across most regions, as accelerating capital markets, favorable supply and demand balances, and strong investor appetites fueled higher transaction volumes and strengthened lodging fundamentals.

Robust investor interest worldwide was reflected in the year's key industry trends:

- ▶ More lodging projects broke ground as traditional lenders eased restrictions on construction loan originations.
- ▶ Accelerating cross-border capital flows intensified competition among domestic and international investor groups for hotel assets.
- ▶ In select secondary markets, investors evaluated higher-yield opportunities outside of gateway cities, reflecting renewed interest in the sector.
- ▶ Evolving guest preferences propelled an influx of new hotel brands.

Even amid geopolitical instability, the emergence of new health concerns and stagnant economic growth in certain regions, the global hospitality industry thrives in a cycle of accelerating growth, and optimism prevails in most markets.

Over the next 12 months, further gains in the global hospitality sector are anticipated. Major industry players are seeking to strategically deploy and optimize their capital investments, and strong investor appetites, coupled with the availability of flexible and creative capital sources, will fuel demand for hotel acquisitions. The consolidation of asset-light, third-party management platforms will remain

prominent, as investors continue to seek the most qualified operators to improve the performance of recently acquired hotel assets. Previously dormant lodging markets are positioned to gain traction, as increasingly opportunistic investor groups weigh higher returns in secondary locations and emerging submarkets. And the focus on technology will intensify, as both hoteliers and customers continue to evaluate their return on investment in a lodging experience grounded in sophisticated social, data and mobile applications.

The global lodging industry will continue to adapt as new accommodation platforms emerge. Traditional lodging types now exist in a shared economy with apartment rental services and other alternative offerings, including membership clubs, hostels and avant-garde lifestyle brands. As global travel increases across leisure, corporate and group segments, destinations must effectively implement and invest in their tourism strategy to differentiate themselves. Furthermore, the continued increase in cross-border capital flows will intensify competition in gateway markets among traditional financial investors, presenting new financial and tax implications for both domestic and foreign investors.

At EY, we believe hospitality plays an integral role in building a better working world by connecting global regions across

economic, investment and experiential platforms. The impact of hospitality on our global economy is significant; across the world, the travel and tourism industry encompasses 266 million jobs, and contributes 9.5% of gross domestic product (GDP) globally. With travel and tourism sector growth forecast to expand by 3.9% during 2015, the sector will be increasingly recognized as a key driver of economic growth at the local, regional and global level.<sup>1</sup>

As we strive to address issues important to the industry, we are excited to present this year's edition of *Global hospitality insights: top thoughts for 2015*. The report reveals key issues and trends we believe will be the primary areas of focus in the global hospitality industry in the upcoming year.




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1. "Economic Impact Analysis," World Travel & Tourism Council, 2014.



# Appetite for investment: the current capital climate

Real estate fundamentals continue to improve, and debt and equity capital are abundant, providing a solid foundation for an uptick in transaction volume and overall competition. Global hotel investment continues to steadily increase, with 2014's totals expected to exceed US\$54.5 billion compared to US\$52 billion in 2013. Global hospitality and leisure transactions increased 8% year-over-year through Q3 2014, showing that the industry continues to gain momentum even in the face of accelerating geopolitical instability, health and terrorism concerns.<sup>2</sup> A wave of new hotels will open in 2015, and a robust global development pipeline of approximately 1.3 million guestrooms is in place.<sup>3</sup>

Throughout the Americas, strong performance continued in 2014, with real estate transaction volumes in some markets reaching pre-recession peaks.<sup>4</sup> Specifically in the US, economic and employment numbers have grown increasingly positive, and hotel performance has followed suit amid a rise in business and leisure travel.

Cross-border investment into the US increased approximately 137% from 2013 to 2014, with foreign buyers continuing to look beyond traditional gateway markets to secondary markets, such as Phoenix, Atlanta, Houston and Orlando. Investors from Canada, China, Malaysia, Japan, Singapore and the Middle East have chosen to deploy a large amount of capital in US hotels.<sup>5</sup> Greater competition among these investors and subsequently lenders is allowing for more aggressive loan-to-value ratios, averaging 73% through Q3 2014, compared to 66% in 2013. Investment in the US hotel sector was expected to continue accelerating throughout the end of 2014, with both the full-service and limited-service sectors demonstrating large pipelines of deals under contract.<sup>6</sup>

As a result of strong fundamentals and an increasing array of capital sources, capitalization rates in the US are anticipated to trend lower, with the rates in six major metropolitan markets, including New York City, San Francisco and Boston, averaging 5.5%, compared to 6.9% in 2013. The low rates are highly influenced by the country's low interest rates, which are anticipated to rise in 2015.<sup>7</sup> Nevertheless, with current capitalization rates close to the previous market lows of 2007, potential speculation about a bubble is countered by the fact that risk has been priced into the deals seen throughout 2014.<sup>8</sup>

In Latin America, many countries, including Brazil, Argentina and Venezuela, currently face economic challenges, such as high inflation rates, worsening unemployment and currency devaluation. These issues, coupled with their political instability, translated into weaker fundamentals in the first half of 2014. Hotel occupancy in Central and South America through July was down approximately 1.6% over the previous year, despite the boost from the

2. "Global Market Perspective Q4 2014: Hotel investment maintains momentum despite downside risks," Jones Lang LaSalle, [www.jll.com/gmp/market-perspective/hotels](http://www.jll.com/gmp/market-perspective/hotels), accessed November 2014.

3. "New Hotel Construction Pipeline in Global Shift," Hotel Interactive, [www.hotelinteractive.com/article.aspx?articleid=32644](http://www.hotelinteractive.com/article.aspx?articleid=32644), 17 April 2014.

4. "Hotel Investor Sentiment Survey," Jones Lang LaSalle, [www.joneslanglasalle.com/hotels/EN-GB/Pages/HISS-June-2014-Americas.aspx](http://www.joneslanglasalle.com/hotels/EN-GB/Pages/HISS-June-2014-Americas.aspx), June 2014.

5. "US Capital Trends - Hotels," Real Capital Analytics, August 2014.

6. "US Capital Trends - Hotels," Real Capital Analytics, third quarter 2014.

7. "Fed's Dudley: expectations for mid-2015 rate lift-off reasonable," Reuters, [www.reuters.com/article/2014/11/13/us-usa-fed-dudley-idUSKCN0IX0ZS20141113](http://www.reuters.com/article/2014/11/13/us-usa-fed-dudley-idUSKCN0IX0ZS20141113), 13 November 2014.

8. "US Capital Trends - Hotels," Real Capital Analytics, third quarter 2014.





World Cup in Brazil. The declining operating fundamentals could also be tied to the fact that the region was the only area globally where additions to supply outpaced demand.<sup>9</sup>

Even so, development and acquisition activity has been prevalent. South America now has 400 hotels in the pipeline, totaling 65,479 rooms, of which 40,000 are in Brazil thanks to its surge in corporate and leisure travel, as well as steady increases in its hotel operating metrics.<sup>10</sup> By comparison, the region had 305 hotels in development in December 2013, totaling 49,054 rooms.<sup>11</sup>

In Europe, the Middle East and Africa (EMEA), investor sentiment is high regarding future growth and transaction volumes, which through H1 2014 climbed 70% from a year-ago. Of the 31 major hospitality destinations in the region, including Barcelona, Casablanca and Munich, all except for Moscow are expected to show strong trading performance over the next six months.<sup>12</sup>

Despite concerns over slow economic growth, Europe has witnessed a rejuvenated hospitality market. Investors have displayed great confidence in the continuing strength of London as the pre-eminent European hospitality center, which continues to attract large inflows of foreign capital. In addition, hospitality investment in Germany rose to US\$1.9 billion through July 2014, representing a 100% increase in transaction volume as compared to July 2013 figures.

Germany's low interest rates and high levels of debt liquidity have fueled high levels of investment.<sup>13</sup> While hotels in primary markets, such as Munich, are given the highest valuations across Germany, mirroring the wider commercial real estate market, investors have looked toward secondary markets, such as Frankfurt and Dusseldorf, for higher-yielding opportunities.<sup>14</sup>

In the Middle East and Africa, the development pipeline continues to grow and now includes 637 hotels, with 151,205 rooms, an increase of 139 hotels since December 2013.<sup>15</sup> Countries such as Nigeria, South Africa and Egypt have experienced continued economic growth, creating demand from institutional investors as well as major hotel brands that see expansion into the region as a source of future growth.

Despite rising construction investment and growing occupancy rates among African hotels, foreign capital inflows may soon diminish given investor concerns about tourism in the wake of the recent Ebola outbreak and political instability. While security and health concerns have not yet deterred investment, travelers do appear to be exercising caution. In Nigeria, which was declared free of the virus in October 2014, Lagos' revenue per available room (RevPAR) declined significantly year-over-year, primarily caused by a drop in average daily rate (ADR) from US\$279 to US\$248 (down 11%).<sup>16</sup>

9. "Latin American Hotels Have a Supply and Demand Problem," Skift, [skift.com/2014/09/26/latin-american-hotels-have-a-supply-and-demand-problem](http://skift.com/2014/09/26/latin-american-hotels-have-a-supply-and-demand-problem), 26 September 2014.

10. "Latin America Hotel Market Has 400 Properties Under Development," World Property Journal, [www.worldpropertyjournal.com/latin-america-vacation-news/new-hotels-in-latin-str-global-june-2014-str-global-construction-pipeline-report-luxury-hotels-in-brazil-new-hotels-in-mexico-new-hotels-in-colombia-8362.php](http://www.worldpropertyjournal.com/latin-america-vacation-news/new-hotels-in-latin-str-global-june-2014-str-global-construction-pipeline-report-luxury-hotels-in-brazil-new-hotels-in-mexico-new-hotels-in-colombia-8362.php), 16 July 2014.

11. "Central And South America Hotel Development Pipeline For December 2013 Increases to 305 Hotels," Hotel News Resource, [www.hotelnewsresource.com/article75877.html](http://www.hotelnewsresource.com/article75877.html), 15 January 2014.

12. "STR Global: MEA pipeline for July," Hotel News Now, [www.hotelnewsnow.com/Article/14329/STR-Global-MEA-pipeline-for-July](http://www.hotelnewsnow.com/Article/14329/STR-Global-MEA-pipeline-for-July), 28 August 2014.

13. "Germany still the darling of the hotel investment sector with transaction levels heading for €2bn," 4 Hoteliers, [www.4hoteliers.com/news/story/13221](http://www.4hoteliers.com/news/story/13221), 2 October 2014.

14. Ibid.

15. "Global hotel pulse: Middle East/Africa news," Hotel News Now, [www.hotelnewsnow.com/Article/13850/Global-hotel-pulse-Middle-EastAfrica-news](http://www.hotelnewsnow.com/Article/13850/Global-hotel-pulse-Middle-EastAfrica-news), 10 June 2014.

16. "Global Capital Trends," Real Capital Analytics, midyear review 2014.



17. "Global Capital Trends." Real Capital Analytics. midyear review 2014.







# Active global M&A in the hospitality industry

For several years, confidence in the economy and in deal markets has improved, and the recent surge of mergers and acquisitions (M&A) activity appears reminiscent of 2007. Within hospitality, deals have gained traction, with flush capital and portfolio optimization remaining key drivers. Sentiment in the sector remains positive: a recent EY survey of more than 75 hospitality and leisure executives found that 99% of the respondents expect the global M&A market to continue to improve or stay the same in the next 12 months.<sup>19</sup>

M&A activity overall and in the RHC sector is driven by a desire for incremental growth, the strategic merit of transactions and the availability of debt and equity on favorable terms. The presence of these elements has fueled M&A in recent years. The higher volume of global capital chasing real estate opportunities has also contributed. In the US, for example, foreign investors made approximately 11% of the US\$355 billion in real property deals last year, with prominent investment groups from China, Japan and Singapore fueling transaction volume within hospitality specifically.<sup>20, 21</sup>

The influx of capital has caused fund managers to look for new ways to expand their real estate portfolios in a hypercompetitive environment, with favorable market conditions encouraging higher confidence and the risk appetite to place capital. However, investors out to make deals should be aware of additional risks and complexity in the markets.

Across the world, real estate investors have become more confident about acquiring real estate operating platforms with the objective of owning the underlying real estate, and not necessarily for operating the platform as a business. However, the challenge lies in vetting this type of deal, particularly under an increasingly high-speed diligence period. Real estate investors may be familiar with underwriting individual hotels, assessing value and modeling cash flows, but these kinds of transactions cannot be solely dissected as real estate portfolio acquisitions. There are additional, value-impacting factors to weigh when buying an entire platform, including the appropriate level of overhead required to operate the properties, as well as potential commitments and off-balance-sheet liabilities of the business. Additionally, the parties may encounter discrepancies in pricing expectations – for example, if a seller prices itself as a stand-alone business while a prospective buyer prices the deal as the acquisition of individual properties.

20. "Cross-border capital tracker for United States," Real Capital Analytics, 3 March 2014.

21. "2013 Year in review," Real Capital Analytics, January 2014.

19. "Global Capital Confidence Barometer," EY, October 2014.





For company acquisitions, the real estate portfolio valuation is a critical part of the due diligence process when the real estate is key to the strategic rationale of the transaction. Yet a top-down business assessment is also crucial to ensure the property valuation is not misguided.

Within hospitality, a recent trend of acquiring hotel management platforms has emerged, in which the real estate is often not a significant component of the transaction. The strategic rationale of investors in this space is to acquire a management platform and enlarge it by adding management contracts with minimal capital investment and operating costs, resulting in future earnings growth. However, an operating platform must be carefully evaluated to determine whether the business can sustain earnings growth.

New players are also emerging. In recent years, certain financial institutions and other alternative investors, which have been indirect real estate investors, are now looking to expand to new platforms, taking advantage of their base-level knowledge of real estate from their lending or other investment activities. These new players are not only diversifying the M&A landscape but are also making it more competitive. Within hospitality, new players are mainly competing for trophy assets in select gateway markets. However, seasoned industry players with a track record of success are still driving most activity in the hotel space.

While it is uncertain whether M&A activity in 2015 will outpace the peak observed in 2007, investors appear to be chasing opportunity and expansion with a newfound discipline. Capital marked for the real estate markets may once again be abundant, but the way it is channeled continues to reflect the lessons learned since the financial crisis.



# Outbound investment from Asia

Overseas capital accounted for 41.2% of 2014's global hotel investments through October, compared to 34.7% in 2013, 29.9% in 2012 and only 25.9% in 2011.<sup>22</sup> Asian investors (primarily dominated by China, Hong Kong, Japan and Singapore) represented 43.2% of the cross-border hotel transactions during the 12 months ending October 2014, followed by North American and Middle Eastern investors,<sup>23</sup> and the flow of money from Asia into the mature markets of North America, Europe and Australia is anticipated to keep rising. Currently, the top three global hotel markets for Asian investment are Manhattan, Hawaii and London, representing 48.5% of total Asian hotel investment globally during the 12 months ending October 2014.<sup>24</sup>

A number of "push" and "pull" factors drove the year-over-year increase in cross-border activity. While these Western countries "pull" international buyers to transparent markets for capital preservation and more stable property yields, many of these international buyers are also encouraged to invest abroad due to the geopolitics in their home countries. Most notably, buyers from Asia are "pushed" toward outbound investments due to their individual government's cooling interventions for domestic real estate and the easing of government regulations regarding overseas investments.

Over the prior 12 months, China has been one of most active hotel buyers, investing 27.4% of the total outbound capital from Asia, followed by Japan (21.6%), Singapore (17.5%), Hong Kong (12.5%) and Malaysia (9.9%).<sup>25</sup> Representing the largest increase in investment dollars, China's cross-border hotel investment volume has increased from just US\$107.4 million in 2011 to US\$2.7 billion during the 12 months ending October 2014.<sup>26</sup> In 2014, Japan's acquisition activity was predominately related to a Japanese company's US\$1.4 billion entity-level buyout of a luxury hotel portfolio, with six properties located throughout Hawaii and San Francisco.<sup>27</sup>

During the past year, some of the most active investors from Asia have been state-owned enterprises (SOEs) and large-scale developers, who are intent on investing overseas as a way to diversify their portfolio and build their international brand. For these investors, Downtown Los Angeles has been a target for ground-up hotel mixed-use development, largely due to the abundance of large parking lots that are primed for development and the shortage of hotel rooms within walking distance from the Los Angeles Convention Center.

Over the prior 12 months, Asian organizations invested approximately US\$844 million in development sites in Los Angeles, which is 198.2% greater than sites in Manhattan and 645.3% greater than sites in San Francisco. One such company is a Shanghai-based state-owned Global Fortune 500 company, which began construction on its more than US\$1 billion hotel mixed-use development project in Downtown Los Angeles last summer and it acquired additional mixed-use development sites in New York, Toronto and London last year.<sup>28</sup>

Additionally, in 2014, Australia was a target market for overseas Asian buyers, with hotel transactions increasing 8.5% and development site transactions increasing 180.5% during the 12 months ending October 2014, versus the year-ago period.<sup>29</sup>

22. "Trends & Trades: Third Quarter 2014," Real Capital Analytics, 3 November 2014.

23. Ibid.

24. Ibid.

25. "Cross-Border Capital Tracker: October 2014," Real Capital Analytics, 3 November 2014.

26. "Trends & Trades: October 2014," Real Capital Analytics, 29 October 2014.

27. "Cross-Border Capital Tracker: October 2014," Real Capital Analytics, 3 November 2014.

28. Ibid.

29. Ibid.



Australia is likely to continue to be a target market due to its growing Chinese population and visitation levels; favorable tax regime; weakening currency versus the Chinese renminbi over the past five years, which is expected to persist; and higher yields compared to other gateway cities in the US and Europe.

While SOEs and developers will continue to acquire and develop significant assets in major gateway cities, a second wave of investors from Asia is beginning to emerge: insurance companies. For instance, in September, a Chinese insurance company acquired the Waldorf Astoria, a luxury hotel with more than 1,400 keys in New York City, for almost US\$2 billion, representing the highest price paid for a single hotel property in the US and the largest acquisition of a US property by a Chinese company.<sup>30</sup> It is predicted that Asian insurers will become one of the largest investor groups in the coming years, with an estimated US\$75 billion to invest in global real estate by 2018, as regulatory restrictions continue to ease.<sup>31</sup>

The China Insurance Regulatory Commission first allowed insurance companies to invest abroad in 2012 and increased the maximum allocation in real estate (both domestic and foreign) from 20% to 30% of total assets in February 2014.<sup>32</sup> Real estate investment restrictions have also been lowered in South Korea and Taiwan over the past couple of years, increasing the maximum real estate allocations permitted as well as streamlining the procedures for investing in property abroad.<sup>33</sup> Furthermore, a number of other companies, in industries such as air travel and construction, are investing and developing hotel properties in order to diversify their income stream.

In addition to acquiring stand-alone properties, overseas investments are also expanding upon existing platforms. Besides investing in US-based hotel management companies, this cycle is also witnessing an expansion of Asian-based hotel management companies. For example, Wanda Group, one of the largest commercial developers in China, is developing billion-dollar mixed-use projects in London, Chicago and Australia's Gold Coast in order to build luxury hotels utilizing the company's five-star hotel brand. The developer's ambitious goal is to build at least 15 luxury hotels in 15 international cities by 2020 and expand its China-based hotel brand. Another example is a Hong Kong-based company, which is acquiring four- and five-star hotels to reflag under its luxury hotel brand and three-star hotels to convert to its newly formed lifestyle hotel brand.<sup>34</sup>

Considering the current geopolitical environment in Asia, limited investment opportunities in their home countries and the perceived stability in Western countries, Asian investors will continue to be major players in global capital markets in 2015 and beyond. In addition, increasing outbound China tourism is expected to fuel additional Chinese investment in the global hotel market.

While London and New York have been prominent outbound markets for the past five years, other key cities are beginning to garner international attention, such as Sydney, which is entering its third year in the cycle. Moreover, as gateway markets become more expensive and investors mature, it is anticipated that outbound activities will expand beyond the most common type of investment – individual asset acquisitions – to include a greater number of joint venture and platform-level investments. The forecast for the global hospitality market is strong, and cross-border transaction levels are expected to continue to rise, with Asian investors at the forefront of the activity.

30. "Chinese Insurer Buys Waldorf Astoria for a Record \$1.95B," *Forbes*, [www.forbes.com/sites/michaelcole/2014/10/06/chinese-insurer-buys-waldorf-astoria-for-a-record-1-95b](http://www.forbes.com/sites/michaelcole/2014/10/06/chinese-insurer-buys-waldorf-astoria-for-a-record-1-95b), accessed 30 October 2014.


31. "Asian Insurers Target Global Real Estate As Regulatory Restrictions Ease," CBRE, [www.cbre.com/EN/aboutus/MediaCentre/2014/Pages/Asian-Insurers-Target-Global-Real-Estate-.aspx](http://www.cbre.com/EN/aboutus/MediaCentre/2014/Pages/Asian-Insurers-Target-Global-Real-Estate-.aspx), accessed 27 October 2014.

32. *Ibid.*

33. *Ibid.*

34. "Wanda Acquires 'Jewel Project' in Australia's Gold Coast," PR Newswire, [www.prnewswire.com/news-releases/wanda-acquires-jewel-project-in-australias-gold-coast-271068181.html](http://www.prnewswire.com/news-releases/wanda-acquires-jewel-project-in-australias-gold-coast-271068181.html), accessed 30 October 2014.





# Seeking operational excellence: consolidation of third-party management companies

Prominent in North American lodging markets, third-party management companies provide daily property and operational management services as well as year-round financial and accounting support for hotel owners, while marketing the hotel brand through a franchise agreement.<sup>35</sup> Improving hotel fundamentals globally and increased access to capital have led investors to seek out this operational expertise to maximize investment on both newly acquired and existing hotel assets.

By providing a value-add strategy for companies to leverage scale and rapidly achieve growth initiatives, third-party management platforms have driven M&A within the hospitality industry in recent years. Investment funds, foreign buyers and existing management companies are all looking to capitalize on expected industry growth – and they are increasingly investing in these in-demand third-party management companies.

Third-party management companies are far more mature in the US, a country that is a leader in the sector's M&A activity, which has surged in the past five years.<sup>36</sup> Transactions in the US have included some of the country's largest third-party operators. As of year-end 2013 in the US, 18 management companies each operated a portfolio of 50 or more hotels, with the top 15 each managing a portfolio in excess of 8,000 rooms.<sup>37</sup>

The same trend is making its way throughout the world, but on a smaller scale. Europe and Latin America are estimated to be 5 to 10 years behind the US in terms of transaction activity in the sector but are, however, experiencing significant growth in the creation of third-party management companies. In the Middle East and Asia, the presence of third-party operators is limited and transaction activity is minimal as investors favor the franchise model, and manage properties themselves, while brands continue to develop and become fully integrated into the market.

For investors, acquiring proven management companies that can expand is attractive because they can achieve relatively higher returns given the prevailing low cost of capital on a risk-return spectrum. Consolidation in the industry has become an effective way to grow and diversify portfolios by providing opportunities for geographic expansion and to rapidly

35. *Hotel Investments Handbook*, Chapters 19 to 21, HVS.com, 2008.

36. "Third Party Management Companies: Key Trends and Issues," Hotel Analyst, 22 January 2014.

37. "2014 Hotel Management Survey," hotelmanagement.net, March 2014.



penetrate markets that align with strategic initiatives. Investors are finding opportunities to enhance bottom-line performance by gaining expanded market penetration and operational strength, as well as buying power for various operating systems to better compete in the market.<sup>38</sup>

Key drivers in recent transactions have illustrated that investors particularly value operationally sound third-party management companies with established infrastructure, which can bring them access to new deals and lucrative operating platforms. In addition, investment firms are specifically targeting companies with strong relationships and experience within the real estate and hospitality industries, which also can provide access to prospective transactions and significantly increase deal flow.

Management companies are also using outside investment as an alternative means to finance strategic growth initiatives. Capital partnerships often provide opportunities to leverage resources that would not otherwise be at the company's disposal, which can significantly improve market share and economies of scale. Consolidation provides opportunities for management companies to form new relationships and create synergies in infrastructure, procurement, reservations, sales and revenue management, and other technology systems.

In addition, the increasingly competitive environment in the sector has made management companies more inclined to offer key money or sliver equity in order to secure new contracts.<sup>39</sup> With equity participation anticipated to continue in coming years, the demand for capital partnerships is expected to continue to grow.

Third-party management consolidation also continues to support the hospitality industry's strategy toward an asset-light model. By constructing a hotel business with an asset-light structure, it allows the business to separate itself from owning the bricks and mortar of real estate while providing the brand the ability to capitalize on its operating strengths.<sup>40</sup> The asset-light strategy allows management companies to enter and exit markets with less risk and more flexibility and to achieve increasing returns with each new contract due to economies of scale. Investors, therefore, gain quicker access across borders, oftentimes with local management expertise.

Market indicators point to robust transaction activity in the sector through 2015 and onward. The US is expected to remain the leader in M&A activity as the third-party operator model continues to mature throughout other parts of the world. Investors and third-party managers have significant opportunities to fuel growth through consolidation, particularly in emerging markets, which will lead to an active trading environment in the sector in 2015 and likely beyond.

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38. "Interstate Maintains Strong Growth Here and Abroad," Hotel Management, [www.hotelmanagement.net/operator-owner/interstate-maintains-strong-growth-here-and-abroad-29159](http://www.hotelmanagement.net/operator-owner/interstate-maintains-strong-growth-here-and-abroad-29159), accessed 13 October 2014.

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39. "Hotel Management Companies and Equity Contributions: Benefits and Risks," HVS, August 2014.  
40. "Third Party Management Continues Consolidation," Hotel Analyst, 30 July 2014.



# Lifestyle lodging products

Over the past several years, the millennial generation has increasingly impacted the lodging industry, calling into question products and offerings that have for decades been industry mainstays. Today's emerging traveler, millennials and millennial-minded travelers, is more cost-conscious and experience-focused than ever before, whether traveling for business or leisure. To meet these changing demand preferences, hoteliers are seeking innovative alternatives to traditional lodging products. Several of these products initially emerged in Europe and Asia, as highly fragmented markets, less stringent lodging standards and cultural preferences fostered innovation in lodging concepts. Now, in the US, these concepts are becoming increasingly attractive to hoteliers and investors seeking to capitalize on this changing demand base while increasing investment returns.

Historically, the European alternative lodging industry has largely catered to students and backpackers, offering no-frills accommodations and communal spaces that provided cost savings and enhanced social atmospheres. As these new products and experiences began to evolve over the last several years, affordability and a focus on social experiences were maintained.

Substantially aligned with the desires of millennials and millennial-minded travelers, these low-cost, amenity-rich hostel, lifestyle budget hotel and hostel/hotel combination concepts are now becoming viable in major US and Asian markets, such as New York, Los Angeles, Miami, Singapore and Tokyo, where traditional hotel rates are prohibitively expensive, as well as markets such as Detroit, New Orleans, Nashville and Portland, where unique atmospheres, architecture and cultural elements draw greater demand. With a focus on limited service with added conveniences, these products are able to decrease costs by removing unnecessary and high-cost elements, such as large guestrooms with full furniture sets, full-service restaurants, room service and daily housekeeping. It replaced them with more practical alternatives,

such as smaller rooms, grab-and-go food and beverage outlets, daily housekeeping to hotel rooms but not to hostel rooms, free bicycles, free Wi-Fi and iPad usage and pay-as-you-go amenities such as air conditioning, towels, toiletries and high-quality in-room coffee machines.

These new products and concepts often emphasize common areas, lounges and bars as the focal point of the property and invite guests to spend more time congregating in revenue-generating areas of the hotel, in turn maximizing revenue per occupied room (RevPOR) spent. Communal spaces are often intended to be inviting to guests by seamlessly blending with the lobby, while their concepts and designs focus on attracting local demand.

As the demand for experience-based lodging has increased, a specialized lodging concept that has gained popularity over the last several years in the US, Europe and Asia is lifestyle membership clubs. More similar to a traditional day club than a hotel, these concepts offer members-only facilities, such as meeting and event spaces, food and beverage outlets, nightclubs, pools, and spas, and they include boutique hotel components that leverage the club's





membership base as a primary demand generator. With a focus on providing social interaction and workspaces for like-minded individuals, often in niche industries such as fashion, fitness, arts and cinema, these concepts aim to produce a creative and local experience.

Membership clubs often feature programs and events with culinary, academic and wellness elements, appealing to a broad array of non-member hotel guests. With multiple components, lifestyle membership clubs benefit from diversified revenue streams, including annuities from membership fees and guest fees, and have greater flexibility to use lower-cost, nontraditional spaces, sometimes with locations across various venues throughout a city. Although these club concepts initially originated in major cities with significant artistic influences, such as New York and London, similar concepts have emerged in cities with expanding creative scenes, such as Berlin, Budapest, Nashville and Shanghai.

As development costs and land prices in metropolitan cities continue to soar, alternative lodging concepts have presented developers with unique opportunities to reduce costs while maintaining the ability to generate strong demand. With shorter development periods, smaller rooms and the ability to use nontraditional spaces, these concepts can have lower development costs than traditional full-service hotels.

Additionally, through efficient uses of space, lower operating costs and management terms that are both less expensive and more flexible than traditional chain management agreements, these products can have higher operating margins than traditional full-service properties. As a result, many of these alternative lodging products have penetrated some of the most expensive and highly trafficked neighborhoods in the world, including Times Square in New York and South Beach in Miami. However, as these products typically emphasize design as a component of the hotel's experience, hoteliers must ensure that soft costs and furniture, fixtures and equipment expenses are appropriately managed.

Despite their growing popularity, many investors and lenders consider alternative lodging products as appealing only to a specialized consumer whose preferences will ultimately change with trends. As demand for new lodging products and experiences continues to grow, hoteliers will need to balance satisfying this demand with investments in traditional products.



# Critical success factors for new lodging brands

The global lodging industry has experienced strong growth over the past 12 months, laying the groundwork for an emerging trend of launching new hotel brands worldwide.

The competitive environment for new hotel brands may be better than ever thanks to technology integration within the industry, which has leveled the playing field. New entrants now coexist with long-established global players in an online world of transparent pricing, social media marketing and digital reputations.

Alongside this paradigm shift in technology, hoteliers are developing brands that cater to a new set of demographic and psychographic customer profiles. Millennial travelers – those born roughly between 1980 and 2000 – and older affluent but young-minded travelers are the primary targets of today's brand developers. These travelers seek experiential products and brands that reflect their personal values.

Accordingly, new brands from established or newly formed companies are departing from the "home away from home" philosophy of hospitality, favoring hotels that feature smaller guestrooms emphasizing functional design, public spaces designed to stimulate social interaction, amenities and offerings that promote wholesome and healthy lifestyles, enhanced technology throughout properties, the integration of local cultural elements into the guest experience, and affordable luxury design and service levels.

Across the globe, newly launched brands are targeting market opportunities at different chain scales. In North America and Europe, most are seeking to capture travelers at the middle to upper price tiers.

You can see a similar trend toward the middle price tier in the Middle East. Luxury brands have traditionally dominated the hotel landscape in Dubai; however, as Dubai's government has waived the municipality fee on each room night for three- and four-star hotel developments, market participants have now been incentivized to introduce brands within lower to middle price tiers and focus on developing lifestyle lodging offerings.

Across Asia, development of new brands has been most prominent in China, where they have the opportunity to build long-term brand equity in a market with little existing brand loyalty. New brand development is prominent across all price tiers but is slightly more concentrated in the upper level.

As more lodging products are launched in today's competitive global market, new contenders must understand the most important aspects for developing, successfully launching and positioning



themselves for growth. Here are several critical success factors for growing and developing new hotel brands:

- ▶ **Analyze the market for opportunity gaps.** When developing a brand, identify unfulfilled demand needs by chain scale, geography and market positioning.
- ▶ **Understand your target customer segments and stay relevant to them. Customers do not buy a “stay”; they buy a feeling and want to share your belief.** New brands are establishing themselves in increasingly niche markets. Allocating resources to understand and anticipate a target segment’s lifestyle and lodging preferences is crucial. It’s also important to identify the innovators and early adopters – your key target segments when launching a new brand or product.
- ▶ **Ensure that the foundation of your differentiating concept translates into unique guest experiences.** A focused brand promise is key to delivering a signature guest experience. Successful brands infuse their values into each aspect of the guest stay to create a product that is perceived and valued as truly unique.
- ▶ **Identify whether the best route to address your target customer segment is through developing a new brand or extending an existing brand.** Leveraging existing brands to address a customer niche can work to accelerate growth but is not always the appropriate choice. You can contrast the W and Waldorf-Astoria brands, which are excellent examples of how both these routes can be used.

▶ **Lead with a purpose-driven brand and build a culture based on your purpose.**

Brands and organizations that have an aspirational and humanistic purpose in place internally and infused in all customer touch points enjoy the benefit of having all stakeholders – from sales representatives and IT staff to C-suite executives – galvanized around the same belief.

▶ **Plan the long-term execution of the brand appropriately.**

Successful brand developers consider their development business model, including greenfield versus brownfield as well as franchising, management contracts, JVs or ownership. For example, a company can focus on greenfield to manage quality, but brownfield conversions – especially in Europe – will accelerate growth.

To achieve a successful brand launch in today’s environment, brand developers need to keep pace with the trends and dynamics of the market. With technology disseminating information faster than ever before, customer preferences and insights need to be anticipated to evolve a brand ever more rapidly. The successful lodging brands of tomorrow will invest to understand key differentiating market and customer insights and move forward with concept and experience development today in order to stay relevant in the long term.





# Condominium hotels – lessons learned

Improvement in the global second-home and overall lodging markets, particularly in gateway and primary resort destinations, combined with an updated regulatory framework is causing a resurgence of interest in condominium hotels.

Condominium hotels vary in structure and operation throughout the globe. While in most locations they physically resemble a condominium development, offering large units with kitchen facilities and little public space beyond a reception area, in other locations the asset resembles a typical transient lodging operation. This latter model became popular during the last real estate upcycle in the 2000s, particularly in the US. In this model, the ownership structure is divided between a hotel lot owner, who owns the building's public spaces and ancillary revenue-generating facilities, and individual unit owners, who, if participating in an available rental program, share in the revenues and expenses associated with the rental of their units as transient lodging accommodations. This kind of condominium hotel features the public space, amenities and level of finishes consistent with a hotel operated by the affiliated brand.

Regardless of the physical appearance or operating structure, condominium hotels are often considered attractive to developers, lodging operators and unit owners alike. In markets where traditional construction lending was limited, the presale of units had allowed developers to obtain construction financing, aligning themselves with a hotel operator to gain pricing premiums on unit sales. Lodging operators benefited

from new inventory under management and potentially earning a licensing fee on the sale of the units. Unit owners often purchased units assuming that values would continue to appreciate and that the income generated from their revenue split would cover their costs of ownership.

With the global economic decline, however, many condominium hotels, particularly those located in the US, have faced litigation, restructuring or bankruptcy, mostly due to issues surrounding control, income allocation and securities issues. At the core of the complexity has been the applicability of securities laws to the offering of condominium hotel units.

The US Securities and Exchange Commission (SEC), in a 1973 release (SEC Release 33-5347) and in subsequent no-action letters, has addressed the issue of when the sale of condominium units constitutes the sale of a "security." In brief, the SEC's guidance prohibits (a) the pooling of income, (b) emphasis of the investment aspects of the condominium and (c) restrictions on use of the condominium (such as a mandatory rental program). This issue affected projects targeting both US buyers, a major source of global investment in second-home real estate, and international buyers, who, familiar with the concept back home, faced additional complexity and risk.



Most developers sought to avoid the costly and impractical registration process and set up procedures to avoid having to register, or targeted non-US buyers, who were except from such regulations. They offered optional rental programs, avoided sharing or discussing any information related to the economics and separated the rental program and purchasing decisions. Income and expenses were individually allocated to unit owners whose unit participated in the rental program. This complexity was further exacerbated by the deal being put together prior to unit owners being involved. For example, revenue and expense allocations may have made sense to the operator and developer but often did not sit well with unit owners, who ended up sometimes facing higher than anticipated maintenance fees and capital expenditure requirements with lower than expected revenue.

The impact of avoiding SEC registration produced relatively uninformed purchase decisions by the primary contributor of capital to the project, the unit purchaser. Buyers, not having been provided forward-looking income estimates, often overestimated occupancy and rate assumptions. Further, by splitting revenue, the hotel operation often struggled. Given the high prices paid for highly amenitized units during this era, the revenue that a given unit could produce often calculated negative returns. Unit owners blamed the hotel brands and the developer for lack of financial returns despite often being in markets in which hotel performance may not have been feasible given the prices paid per unit.

Given that the rental program participation could not be mandated, owners frequently rented their units outside the hotel operator's voluntary program, with the unit guest unable to access the hotel operator's services and amenities. Operators, struggling with managing inventory around owner usage and varying rental program participation, also were required to address frequent unit

owner calls for explanations, accounting for each unit's income and expenses separately, and carefully balancing rotation of units among developer and unit owner inventory.

These issues, combined with a complex set of agreements that often were unclear or inconsistent with the structure, led some projects to fail. And the global economic downturn exacerbated the situation.

Recently, in the US, the Jumpstart Our Business Startups (JOBS) Act contained provisions that are being applied to condominium hotels and serve to bring the structure more closely aligned with other global markets. This, and a resurgent global economy and real estate market, may give new hope to branded condominium hotels. In the JOBS Act, the new Rule 506(c) allows for greater general solicitation and advertising as long as buyers are accredited investors.

If a condominium hotel is under the new rule, a developer could then pool revenues and expenses, mandate participation in a rental pool and provide greater information that may emphasize economic benefits. These new provisions serve to provide more information to the buyer.

While many questions remain regarding compliance with rules concerning securities sales, many globally recognized lodging operators are weighing the pros and cons of managing condominium hotels and/or have developed procedures to control risk (requiring a certain percentage of units to be dedicated hotel inventory, for example).

In the right markets, condominium hotels can be mutually beneficial for all parties when interests are aligned and the details are carefully thought through, disclosed and documented.





# Emerging submarkets within mature lodging markets

In recent years, urban revitalization and population growth in outlying areas surrounding major cities have created a wealth of opportunities outside mature lodging markets. These once untouched and undesirable submarkets across the world are now attracting stakeholder attention, as evidenced by the significant public and private investment taking place in these areas.

The expansion of major urban centers has resulted in higher market rents, limited development opportunities and more aggressive competition; this, in turn, has created higher barriers to entry and lower yields for investors. As a result, residents and developers are being priced out of the urban cores and they have been forced to look for more desirable opportunities in peripheral areas. Typical characteristics of these submarkets include easy accessibility to the urban core, authentic food, beverage and retail offerings, and lower levels of congestion.

Lodging investors and brands have the opportunity to pioneer a neighborhood by entering the market in the early stages of development, introducing brands that complement the area and create social spaces that welcome both local residents and visitors. Tourists are initially attracted to these submarkets by the lower price of lodgings. However, as these areas become more established, the thriving food, art and music scene often attracts visitors seeking a more authentic and unique experience.

One example of a submarket that has benefited from expansion and urban renewal is Brooklyn, New York. In the early 2000s, as real estate prices in Manhattan continued to increase, investors and residents began to seek out more affordable opportunities in nearby Brooklyn. In 2004, to support and encourage the revitalization of Brooklyn, the local government rezoned several neighborhoods and invested US\$400 million to promote retail, residential and commercial development in the borough. Brooklyn immediately experienced a significant increase in development. Since then, the number of apartment units has tripled, the number of affordable apartments has increased from zero to over 400<sup>41</sup> and downtown Brooklyn is now the third-largest office district in New York City, with 17.3 million square feet of office space.<sup>42</sup>

Since 2007, Brooklyn's hotel inventory has doubled, with new properties primarily consisting of midscale to upper-upscale and independent properties. As of October 2014, the Brooklyn pipeline has 27 projects totaling 2,378 rooms, representing an 11.6% increase in rooms from the prior year and proving that investor

41. "Downtown B'klyn Seen as 'Shining Example,'" *Crain's New York Business*, [www.craigslist.com/article/20140715/REAL\\_ESTATE/140719927/downtown-bklyn-seen-as-shining-example](http://www.craigslist.com/article/20140715/REAL_ESTATE/140719927/downtown-bklyn-seen-as-shining-example), 15 July 2014.

42. "Downtown Brooklyn," New York City Economic Development Corporation, [www.nycdc.com/sites/default/files/filemanager/Services/Location\\_Services/Downtown\\_Brooklyn/CBD\\_1Q11\\_DB.pdf](http://www.nycdc.com/sites/default/files/filemanager/Services/Location_Services/Downtown_Brooklyn/CBD_1Q11_DB.pdf), accessed November 2014.



confidence in Brooklyn's lodging market remains high. Despite this, Brooklyn represents one of the nation's most underserved metropolitan areas for lodging. The area has only one hotel room for every 589 residents; in Manhattan, this per-capita rate is more than 29 times higher, showing that Brooklyn needs more hotels to meet demand. Lodging development in Brooklyn offers developers more affordable land prices, as well as favorable tax incentives. Brooklyn's hotels exhibit strong operating performance, with occupancy and an average daily rate (ADR) well above national averages.<sup>43</sup>

Brooklyn, which now attracts millions of visitors annually, has also become a tourist destination in its own right. It is now popular with for leisure and business travelers seeking a more authentic and local experience.

Similar to Brooklyn, development and urban renewal have surged in Oakland, California, over the past decade. Oakland benefits from its proximity to a major urban city, San Francisco, which is about 20 miles away. Given its location north of Silicon Valley, diverse tourist and cultural attractions, its status as a major hub for technology and biotech employment and that it is a gateway market to Asia, San Francisco has become one of the world's most sought after markets for real estate investment.

However, as prices in San Francisco continue to rise, investors are looking to peripheral areas, particularly Oakland, for additional opportunities. In the 1990s, Oakland's mayor introduced the "10K Plan," which was intended to attract 10,000 new residents. More recently, it launched the "10K Two Plan" to attract an additional 10,000 residents. It is doing this through 15 major housing development projects, totaling more than 7,500 units.<sup>44</sup> Oakland has also focused on increasing public areas, such as Lathan Square, to support additional development and enhance the community.

Companies, particularly start-ups, are choosing Oakland due to the value proposition: large and more affordable office space. The residential population has shifted to a younger, professional crowd, attributable to Oakland's cultural diversity, as well as its authentic restaurant and bar scene. Recently, the city has been recognized as a highly desirable travel destination by well-known publications throughout the US.<sup>45</sup> In 2013, Oakland attracted more than 2.5 million visitors.<sup>46</sup>

Oakland experienced significant development over the past decade. However, lodging offerings in Oakland are limited, with just 94 hotels (only 14 of which are branded properties), while San Francisco has more than 200.<sup>47</sup> As such, occupancy rates in Oakland are higher than in most other California submarkets due to the extremely limited supply and high demand. According to Visit Oakland, Oakland is experiencing revenue per available room (RevPAR) growth of approximately 13%, well above the US national average.<sup>48</sup>

Other neighborhoods in cities across the world, including East London, Kreuzberg in Berlin, Trastevere in Rome and Revolutni in Prague, have exhibited similar qualities to Brooklyn and Oakland, including urban renewal, an increase in newer lodging brands, boutique properties, proximity to urban cores and increased public and private investment. As visitors continue to choose to stay in these peripheral areas, the lodging need within these submarkets, and the emergence of new submarkets across the globe, is anticipated to expand.

43. "Brooklyn Lures Hotel Investors, Customers, as Alternative to Manhattan," Hotel Management, [www.hotelmanagement.net/investment/brooklyn-lures-hotel-investors-customers-as-alternative-to-manhattan-29057](http://www.hotelmanagement.net/investment/brooklyn-lures-hotel-investors-customers-as-alternative-to-manhattan-29057), 2 October 2014.

44. "Project Gentrify in Oakland," SocialistWorker.org, <http://socialistworker.org/2014/10/02/project-gentrify-in-oakland>, 2 October 2014.

45. "Oakland Turning Into Hot Market for Business, Real Estate," ABC7 News San Francisco, <http://abc7news.com/archive/9116764>, 26 May 2013.

46. "Visit Oakland 2014/15 Strategic Plan," VisitOakland.org, [http://visitoakland.org/wp-content/uploads/2014/02/VO14008\\_strategic-plan\\_web.pdf](http://visitoakland.org/wp-content/uploads/2014/02/VO14008_strategic-plan_web.pdf), accessed November 2014.

47. "Oakland primed to seize on demand for hotels," SFGATE, 4 September 2014.

48. Ibid.





# Hotel technology 2.0

New advances in technology continue to alter the relationship between hotels and guests. User-friendly and powerful smartphones and tablets are changing travelers' online preferences and habits, redefining how they research, plan and book a trip. Empowered with more knowledge and social media, today's hotel guest is pushing hotels for improved products and services in their travel experience. From an ownership standpoint, advances in data analytics are transforming the hospitality industry with the potential to enhance a hotel's financial performance and offer detailed insight into customer preferences. As the use of mobile devices, social media and advanced analytics continues to proliferate, and as online distribution channels become more accessible, technology has created new opportunities for hotels to drive operating efficiencies and engage with guests, from booking to checkout.<sup>49</sup>

49. "Conrad Hotels empowers travelers with end-to-end mobile customer experience," *Mobile Marketer*, [www.mobilemarketer.com/cms/news/database-crm/18296.html](http://www.mobilemarketer.com/cms/news/database-crm/18296.html), accessed October 2014.

We'll begin with today's traveler. According to a 2013 global survey by TripAdvisor, 87% of travelers use a smartphone and 44% use a tablet while traveling. As such, hotels are rethinking all aspects of the hotel experience, with a focus on accommodating these devices in guestrooms, meeting spaces, lobbies and front desks.<sup>50</sup>

For example, one international hotel brand has taken a more proactive approach by partnering with a leading engineering and technology university to redesign the future hotel experience and find innovative ways of making public areas more exciting, user-friendly and relevant to the technology needs of today's traveler.<sup>51</sup> In Silicon Valley, one major brand recently launched a robot butler equipped with a tablet to facilitate interaction between guests and staff. For instance, a guest may call the front desk to request a forgotten toiletry; the hotel staff then inputs the guest's room number into the robot's tablet interface and places the toiletry on the robot, which delivers the item directly to the room.<sup>52</sup>

50. "Social Media, Smartphones & Tablets Now Essential Travel Tools for U.S. Travelers," TripAdvisor, <http://ir.tripadvisor.com/releasedetail.cfm?releaseid=808058>, accessed October 2014; "Mobile/Smartphones," European Travel Commission, <http://etc-digital.org/digital-trends/mobile-devices/mobile-smartphones/regional-overview/north-america/>, accessed October 2014.

51. "The Future Hotel Experience," MIT Mobile Experience Laboratory, <http://mobile.mit.edu/projects/the-future-hotel-experience>, accessed October 2014.

52. "Starwood Introduces Robotic Butlers At Aloft Hotel In Cupertino," TechCrunch, <http://techcrunch.com/2014/08/13/starwood-introduces-robotic-butlers-at-aloft-hotel-in-palo-alto/>, accessed August 2014.

According to a 2014 US survey by USamp and Smith Micro Software, more than 60% of travelers prefer to purchase and reserve hotel guest services using mobile devices rather than face-to-face with hotel staff.<sup>53</sup> As such, hotel companies are turning to products and applications that empower guests to browse inventory, book amenities, complete reservations and purchase a variety of services (such as room service) via mobile devices to drive engagement and increase revenue-generating opportunities.<sup>54</sup> Other mobile innovations include mobile keys, check-in kiosks and mobile-enabled property management systems, allowing hotel employees to interact more with guests.

Moreover, recent advances in wearable technology, such as smart watches and glasses, are expected to revolutionize the way customers access the web and contribute personal content. For example, hotel reviews that feature video instead of just text will place even more emphasis on hotel reputation and performance.

53. "Majority of Consumers Prefer to Purchase and Reserve Hotel Services Using Mobile Devices," Smith Micro, [www.smithmicro.com/company/news-room/press-releases/2014/06/23/majority-of-consumers-prefer-to-purchase-and-reserve-hotel-services-using-mobile-devices](http://www.smithmicro.com/company/news-room/press-releases/2014/06/23/majority-of-consumers-prefer-to-purchase-and-reserve-hotel-services-using-mobile-devices), accessed October 2014.

54. "10 Hospitality Technology Trends You Need To Know About," Smart Brief, [www2.smartbrief.com/hosted/ad2187/Hospitality\\_Trends\\_2013.pdf](http://www2.smartbrief.com/hosted/ad2187/Hospitality_Trends_2013.pdf), accessed October 2014.



From an ownership standpoint, new technology has also impacted how guests are acquired in the discovery and booking phases, as travelers are increasingly looking online to book hotel rooms and customer acquisition costs continue to rise. According to 2014 research by eTrack, eMarketer and Alexa.com, 57% of all travel reservations are taking place online, while internet travel booking revenue has grown by more than 73% over the past five years.<sup>55</sup> At the same time, the competition to gain control of the distribution channel has intensified.<sup>56</sup> Through acquisitions of property management and digital marketing platforms, online travel agents (OTAs) are providing additional services to encourage hoteliers to distribute rooms on their sites.<sup>57</sup>

On the other hand, hotel brands seek to drive bookings to their own proprietary websites by leveraging the power of loyalty programs and streamlining the booking experience. In 2014, a major international hotel company stated that it booked over 50% of its reservations through its direct central reservations system due to its strong rewards program.<sup>58</sup> Other innovative online reservation platforms can also provide hotels with a source of additional revenue by allowing non-hotel guests to book meeting space on an hourly basis.<sup>59</sup>

Leading hotel companies are also leveraging advances in data analytics and artificial intelligence (AI) technologies to increase online reservations, improve the return on advertising spend (ROAS), better understand guest preferences and build stronger customer relationships.<sup>60</sup> In 2014, one international hotel company reported an impressive ROAS increase of approximately 2,100% by deploying a new online advertising platform, which combined data analytics with AI technologies.<sup>61</sup> AI technologies utilize powerful algorithms to determine the most appropriate media to focus advertising spend. Other big data and AI applications focus on enhancing a hotel's revenue management system by dynamically changing room rates based on a number of changing variables, including the hotel's website activity or weather conditions.<sup>62</sup>

Hotels must holistically embrace social, mobile and analytics to drive business improvements, enhance hotel guests' experiences and deliver results. A hotelier's ability to keep up with rapid technology changes and embrace the latest technology tools will differentiate successful hotel organizations going forward.

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55. "Internet Travel Hotel Booking Statistics," Statistic Brain, [www.statisticbrain.com/internet-travel-hotel-booking-statistics](http://www.statisticbrain.com/internet-travel-hotel-booking-statistics), accessed October 2014.

56. "Hospitality Asset Managers Association (HAMA) Study Documents Growing Revenue Acquisition Costs Outpacing Hotel Revenue Growth," HospitalityNet, [www.hospitalitynet.org/news/154000320/4066627.html](http://www.hospitalitynet.org/news/154000320/4066627.html), accessed October 2014.

57. "Evolution in Electronic Distribution: Effects on Hotels and Intermediaries," Cornell University School of Hotel Administration, [www.hotelschool.cornell.edu/research/chr/pubs/reports/abstract-13606.html](http://www.hotelschool.cornell.edu/research/chr/pubs/reports/abstract-13606.html), accessed October 2014.

58. "5 Tech Trends That Will Shape Hospitality," Hotel News Now, [www.hotelnewsnow.com/article/14016/5-tech-trends-that-will-shape-hospitality](http://www.hotelnewsnow.com/article/14016/5-tech-trends-that-will-shape-hospitality), accessed October 2014.

59. "Office Space, by the Hour," The New York Times, [www.nytimes.com/2013/02/19/business/hotels-carve-out-work-spaces-rented-hourly.html](http://www.nytimes.com/2013/02/19/business/hotels-carve-out-work-spaces-rented-hourly.html), accessed October 2014.

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60. "Major global study reveals how big data will transform the hospitality industry," Amadeus, [www.amadeus.com/hotels/newsrepository/articles/major-global-study-reveals-how-big-data-will-transform-hospitality-industry](http://www.amadeus.com/hotels/newsrepository/articles/major-global-study-reveals-how-big-data-will-transform-hospitality-industry), accessed October 2014.

61. "Hotel chain utilizes new digital advertising platform to great success," .Rising, [www.dotrising.com/2014/01/13/hotel-chain-utilises-new-digital-advertising-platform-to-great-success](http://www.dotrising.com/2014/01/13/hotel-chain-utilises-new-digital-advertising-platform-to-great-success), accessed October 2014.

62. "Duetto Raises \$21M Led By Accel To Equip Hotels With Big Data Surge Pricing," TechCrunch, <http://techcrunch.com/2014/07/09/duetto>, accessed October 2014.



# Investment promotion agencies – catalysts for tourism investment

Over the last decade, tourism, spurred by foreign direct investment, has evolved into a key economic driver for many destinations, promoting income growth and job creation in local economies. While global tourism has grown rapidly, there is tremendous future potential: international tourist arrivals worldwide are projected to increase about 70% between 2013 and 2030, reaching 1.8 billion.<sup>63</sup> Tourism currently accounts for nearly 9.5% of the worldwide GDP and is projected to increase to 10.3% by 2024.<sup>64</sup> The hospitality and tourism sectors have emerged as key value drivers and differentiators in a competitive economy, including in emerging economies, where growth has shifted away from goods and products toward services, with tourism and hospitality accounting for a significant portion.

Competitive destinations across the globe have recognized the value in tourism and developed new, or enhanced existing, destination management organizations (DMOs) to include investment promotion agencies (IPAs) or divisions. This is a strategic shift that aims to drive local and foreign investment into the destination to improve both the product offering and visitor experience. The most effective IPAs act as an “investment concierge” – entities that help foreign investors navigate local rules and regulations, traverse bureaucracy, access market data and research and assist with investment opportunity identification. Whether a hotel development, golf course or tourism infrastructure, the IPA takes a multi-dimensional view on the best channels for increasing tourism – matching the most suitable investors with tourism needs. For investors unfamiliar with specific destinations, IPAs effectively reduce due diligence costs, which broaden the pool of potential investors, while creating a competitive and transparent investment process.

DMOs and IPAs are generally organized as public entities, often as a division within the tourism or economic development ministry

or department. Recently, however, a more public-private trend has emerged – yielding more nimble organizations that use a business model similar to that of a private business, which is producing the most effective results. The public-private structure has proven to add technical investment expertise, efficiencies and flexibility to dealmaking, while reducing political whims in the process. This structure also enhances their ability to attract and retain highly qualified real estate and hospitality professionals with track records in finance, development and acquisitions.

Effective DMOs often include leadership, such as chief investment officers and investment managers, both supported by teams of analysts. By reducing uncertainty, and consequently spurring investment and development, these teams create the foundation for the rest of the DMO to promote and market the destination. The investment division of the DMO, the IPA, in addition to identifying potential investment trends and tourism investment opportunities, is responsible for developing and maintaining strong working relationships with current and prospective capital partners. Additional responsibilities

63. “Tourism highlights: 2014 edition,” UN World Tourism Organization, <http://mkt.unwto.org/publication/unwto-tourism-highlights-2014-edition>, accessed November 2014.

64. “Travel & Tourism Economic Impact 2014: World,” World Travel & Tourism Council, [www.wttc.org/~media/files/reports/economic%20impact%20research/regional%20reports/world2014.ashx](http://www.wttc.org/~media/files/reports/economic%20impact%20research/regional%20reports/world2014.ashx), accessed November 2014.





include evaluating risk and return metrics for competing investment opportunities, coordinating with government entities to increase access to investment opportunities within the destination and developing and implementing the overall investment strategy to increase the attractiveness of the destination from an investment and tourism perspective.


The role of government as a partner is critical to the success of an IPA. Leading IPAs work with governments to draft incentive and concession legislation to induce capital investment. With the cooperation and support of public offices, IPAs have the ability to incentivize investors through a variety of channels. Government involvement – via debt, equity contributions or guarantees – serves as an indication of confidence in local investments and its commitment to the success of the tourism value chain, while reducing investor risk. Moreover, government-sponsored investment programs, such as commercial immigration (e.g., the US EB-5 program), are prime examples of aligned public and private interest with positive economic benefit. Currently, much-needed development is taking place on new hotels and mixed-use resort projects in the Caribbean using commercial immigration to attract investors. Profit repatriation benefits and residence work permits for key investors and development staff are among some of the incentives used. Governments with investment arms that can provide transparency and one-stop facilitation and that can deploy public capital have increased confidence among private investors, which in turn leads to economic development and job opportunities.

IPAs have recognized that reliable business intelligence and local data are crucial for attracting foreign investors. The most effective IPAs have the proper systems and people in place to collect qualitative and quantitative data needed for foreign direct investment. This data includes hotel performance metrics by chain segment, room supply pipeline, macroeconomic data, construction costs, zoning and permitting information and an overview of available investment opportunities. The data should be accessible and accurate to provide real added value for investors, with responsive IPA staff filling requests for it as needed.

Key performance indicators are essential for IPA teams tracking the effectiveness and success of the investment plan. IPAs measure their performance by assessing the changes in three key metrics, including international and domestic visitation, tourism expenditure and tourism sentiment over time. IPAs can benchmark their progress in other areas by setting strategic goals such as the amount of capital funds raised, investor sentiment, marketing promotions and tourism job creation.

For a destination, it is not enough to just show promise – to capitalize on the global expansion of hospitality and tourism markets and attract investors, well-structured IPAs have proven to be crucial. Thanks to their transparency and responsiveness, they have reduced hesitation in the capital markets and shown that tourism is an important economic differentiator.





# Mutual learning opportunities: the sharing economy and the lodging industry

The sharing economy has cast consumers as service providers, enabling underutilized assets to be operated for financial gain. The leading companies in this new sharing economy market have initially been focused on the transportation sector, including well-known ridesharing companies Uber and Lyft, which connect passengers with private drivers. In addition, they have also made inroads into the hospitality space by, for example, connecting travelers with home or apartment owners and matching part-time cooks with adventurous eaters.

The rise of many of these businesses has been impressive, as some have reached valuations on par with well-established, publicly traded companies.<sup>65</sup> Not only are their valuations making headlines, but their growth is as well. Uber, only in its sixth year of operation, already controls about 17% of the US\$100 billion global taxi/limousine market.<sup>66</sup> In a year, Airbnb, a company that enables people to rent out lodging, added more listings to its existing inventory than the largest hotel companies introduced as new units combined over the same period.<sup>67</sup>

As shared economy concepts continue to grow their footprint in the hospitality and leisure sector, both the traditional lodging industry and the new-age sharing economy companies can learn from one another. Some examples include segmenting customers, changing consumer preferences, creating customer loyalty and managing feedback, to name a few.

Most established lodging brands are intentionally standardized, which, from a consumer's perspective, helps set expectations for the product and services

while increasing overall confidence in the experience. This enhanced trust in both the product and brand enables a faster selection process for the customer. In comparison, lodging platforms under the sharing economy model typically provide non-standardized products, which can vary widely in physical attributes, quality and level of service; this requires more initial research by the customer before making a buying decision.

While the numerous types of accommodations in a sharing company can be an advantage for travelers seeking a unique, less-traditional experience, attracting other specific segments of the market can be a challenge. For example, business travelers seek certainty, reliability and ease when making lodging decisions. Hotel companies, on the other hand, have segmented their products based on different consumer preferences into various brands, each associated with a differentiated product type, design, price point and facility and amenity package, enabling consumers to make their lodging choices faster and with a greater degree of confidence.

65. "Airbnb Weighs Employee Stock Sale at \$13 Billion Valuation," *The New York Times Dealbook*, <http://dealbook.nytimes.com/2014/04/21/morning-agenda-airbnbs-10-billion-valuation>, 23 October 2014.

66. "A Disruptive Cab Ride to Riches: The Uber Payoff," *Forbes*, [www.forbes.com/sites/aswathdamodaran/2014/06/10/a-disruptive-cab-ride-to-riches-the-uber-payoff](http://www.forbes.com/sites/aswathdamodaran/2014/06/10/a-disruptive-cab-ride-to-riches-the-uber-payoff), accessed 16 October 2014.

67. "Airbnb: The Hotel Disruptor Unconstrained by Real Estate," *Bloomberg TV*, [www.bloomberg.com/video/airbnb-the-hotel-disruptor-unconstrained-by-real-estate-g34TH4zdTiiQgq1z~Wlt~A.html](http://www.bloomberg.com/video/airbnb-the-hotel-disruptor-unconstrained-by-real-estate-g34TH4zdTiiQgq1z~Wlt~A.html), accessed 18 August 2014.



Segmentation in the shared economy is possible, as seen by Uber, which has adopted the use of brand categories with the introduction of uberX, UberBLACK and uberXL. These differentiated categories not only help segment the customers based on different product types and needs, but it also allows the consumer to make a quicker buying decision.

Loyalty programs are one significant driver of bookings for traditional hotels. Hotel companies pride themselves on the strength of their reward programs to create brand affinity and loyalty and ultimately to generate revenue. These programs are an especially important contributor to business-travel demand, as they enable travelers to earn points on business trips that can then be redeemed for personal travel. Given the success of these programs for established hospitality companies, a lot can be learned from them.

Currently, the only major company in the sharing economy that has launched its own loyalty program is Uber. The introduction of reward programs appears to be a logical next step for many of the business models in the sharing economy in order to foster and strengthen loyalty among their users. However, these programs will likely be somewhat different from the existing hotel companies' programs based on how customers can redeem points and how the ultimate service provider gets compensated. This is due to the decentralized nature of most of the sharing economy models.

One of the key challenges in the sharing economy is the lack of control over inventory. Traditional lodging companies control their inventory not only in terms of supply but also in terms of pricing and execution of the service. Business models in the sharing economy are commonly based on a third-party host setting the price and providing the service. Pricing may prove particularly challenging for hosts who lack the necessary experience to effectively assess the market value of the service they are providing.<sup>68</sup>

The lodging and travel sector, particularly airlines, have long seen pricing as a key success factor and developed sophisticated pricing models and revenue management tools. While some companies in the sharing economy have started to adopt similar strategies, most programs are still in their infancy. Airbnb, which originally had left pricing at the discretion of its hosts, has spent significant effort on developing a pricing model following feedback from users who faced difficulties setting the right price point for their listings.

The predictive pricing algorithm provides hosts with a recommended price for their listing depending on many factors, including room style, property type, number of reviews, capacity, location, seasonality, pricing of other listings, hotel and airline demand, and even temperature changes at the destination. However, it still allows the host to ultimately set the final price.

Customers are increasingly seeking unique, authentic experiences anchored in the destination they are visiting. Part of the appeal of the shared economy concepts has been their ability to cater to those specific needs. Given the diversity of unit locations in any particular market that companies like Airbnb offer, customers are able to have a differentiated experience by, for example, staying in local neighborhoods that do not feature traditional hotel accommodations and but offer unique amenities. Other examples include Feastly or EatWith, which offer home-cooked tasting menus that could change daily in the intimate setting of the chef's home.

The traditional lodging industry has taken note, as we are seeing a shift toward adding lifestyle brands, allowing customization and incorporating authentic local offerings. For new and existing lodging projects to succeed, it's imperative for them to take this shift in guests' preferences into account.

68. "Fueled Fix: How Airbnb Should Unleash Market Pricing," *Forbes*, [www.forbes.com/sites/rameetchawla/2014/11/07/fueled-fix-how-airbnb-should-unleash-market-pricing](http://www.forbes.com/sites/rameetchawla/2014/11/07/fueled-fix-how-airbnb-should-unleash-market-pricing), accessed 7 November 2014.



Companies in the sharing economy, on the other hand, have found an arguably better solution. By hosting reviews on their own websites, they are able to better oversee and control content. In addition, their process, which in most cases allows only one review per service experience, provides full transparency to both users and hosts and better ensures the authenticity of the feedback. This concept could offer traditional companies in the hospitality industry an alternative solution to the current approach of relying on third-party websites for publicly available customer feedback, which would also bring the process in-house.









# Global tax considerations

As lodging players look to 2015, certain tax issues must be carefully evaluated as an integral part of a company's overall investment strategy. This year, several key tax considerations, including the continued growth and sophistication of cross-border hospitality investments, the acceleration of the use of Opco/Propco structures and spin-offs, escalating tax enforcement initiatives and an increasing number of indirect taxes, will remain top of mind for industry participants looking to invest in the hospitality sector globally.

During 2015, significant cross-border capital flows will continue to draw focus from a tax standpoint. The deployment of capital by sovereign wealth funds and other global institutional investors will require careful consideration of tax regimes and withholding requirements in traditional markets, as well as emerging ones. As new markets gain momentum, with new alliances and joint ventures formed, tax advisors can no longer focus on one tax regime when structuring hospitality investments and operations.

Instead, advisors must carefully consider the tax consequences of where the capital originates, where the investment vehicle is located and where the capital is deployed. Given the heightened tax scrutiny that investor groups are now subject to, they must also properly manage cross-border tax implications that could adversely affect profitability. In response, tax advisors are now called on to develop robust tax models that project capital flows and the related tax consequences throughout the life of the investment.

These models, which incorporate multi-jurisdictional tax analysis, are ongoing management tools that allow "what if" scenarios at any point in the investment cycle. As countries are regularly revising

and updating applicable tax laws to remain competitive in the global marketplace, tax advisors must continually review the investment structures being utilized, as structures that may have been optimal in the recent past may no longer be the most tax-efficient structure.

The strategic use of REIT structures to hold lodging assets across the globe will continue to gain investor attention in 2015. As observed over the past year, the wave of countries adopting REIT structures keeps growing, with more than 30 countries having now enacted some version of REIT-like structures. Global REITs will gain even more traction, fueling cross-border capital flows, whether through publicly held REITs traded on exchanges or through private REITs, sometimes referred to as baby REITs, which may own only a single property.

Another prominent trend that will remain important in the lodging sector in 2015 is the separation of operations and property ownership, commonly known as Opco/Propco structures. Opco/Propco structures involve the separation of the real estate into one company and operating assets into another company. The structure allows for organizations to identify and focus on one core business, whether it be owning lodging facilities, operating them or maximizing the values of brands and other



intellectual properties. The creation of an Opco/Propco structure is often accomplished through a spin-off of one company to the shareholders of the previously combined enterprise, initially creating “brother-sister” companies. Over time, the overlapping ownership subsides, as the Opcos and Propcos attract dedicated investors into one company or the other.

Before creating the Opco/Propco structure, advisors must evaluate if the spun-off entity qualifies for tax-free treatment, or whether the creation of the Opco/Propco structure qualifies as a taxable transaction for the company, and in turn, the shareholders. A thorough analysis of potential taxable gains, as well as analysis of indirect taxes, such as transfer and property taxes, is necessary to make an decision about whether to convert to an Opco/Propco structure. Many Opco/Propco structures utilize REITs to serve as the Propco; the Propco will then lease the property to the Opco, which operates the lodging asset. The lease structure of the Opco often includes both a fixed base component as well as a contingent or participating rent component based on the gross revenues of the Opco.

In addition to Opco/Propco separations, the lodging sector will continue to witness spin-offs among major industry players. Having gained considerable recognition in recent years, lodging companies are now using spin-offs to strategically segregate their portfolios. For instance, some hospitality players have segregated their limited-service properties into a separate entity from their portfolio of larger, full-service properties. This segregation can be accomplished via a spin-off, similar to the Opco/Propco separation. If properly structured, it may be possible to execute a tax-free spin-off to separate the property classes. However, even if a tax-free spin-off is not a viable option, lodging REITs may still consider taxable spin-offs in an effort to segregate their property types and gain efficiencies.

Global tax enforcement will go on evolving and expanding in 2015, causing hospitality companies to prioritize the tracking and monitoring of global tax compliance issues and related tax controversy matters. Many companies are turning to electronic platforms to not only identify and monitor global tax risks, but to also proactively manage them. For example, a leading practice among successful hospitality companies is to maintain a real-time dashboard that monitors global tax filings and alerts them to upcoming filing deadlines and other critical tax milestones. In addition, many lodging companies have increased their focus on transfer pricing, both globally and domestically. Companies must ensure that the “transfer pricing” of their intercompany transactions, as well as cost allocations, are at “arm’s length” and compliant with the relevant tax regimes.

Finally, in 2015, indirect taxes, such as transfer taxes, property taxes and value-added taxes (VAT), will be increasing burdens for hospitality companies, as governments across the globe carry on with introducing and expanding indirect tax obligations to raise revenue. While indirect taxes may not have been as much of a material burden for companies in the past, going forward indirect taxes will present a meaningful cost for the lodging sector. Tax advisors have sometimes found that even intercompany transactions may generate unexpected tax liabilities, and new indirect “change of control” transfer taxes – triggered when subtle ownership changes are made at the parent company level – can be a burden. Thus, investors will want to review applicable indirect tax implications before initiating new structures or activities.



# Changes in financial reporting: the new revenue recognition standard

The way that hospitality companies recognize revenue will soon change after the long-awaited revenue recognition standard is issued by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (collectively, the Boards).<sup>69</sup> The standard will supersede nearly all revenue recognition guidance in US generally accepted accounting principles (GAAP) and IFRS; as a result, hospitality companies around the globe will need to re-evaluate their policies and practices for recognizing revenue for arrangements associated with owned, managed and franchised properties.

The standard uses a five-step model to outline the principles an entity must apply to measure and recognize revenue and related cash flows from contracts with customers. The model's core principle is that an entity will recognize revenue at an amount that reflects the consideration to which it expects to be entitled in exchange for transferring goods or services to a customer.

When applying this model, hospitality companies must use greater judgment and make more estimates than they currently do under today's guidance. Areas needing increased judgment may include identifying the performance obligations (i.e., promises to transfer distinct goods or services to a customer) in the contract, making estimates of the amount of variable consideration to include in the transaction price and determining how the transaction price should be allocated to each performance obligation.

For example, a hotel management company offers services to hoteliers governed by the stipulations of a hotel management contract. Under the new revenue recognition rule, the management agreement must be analyzed to determine if the stipulations represent performance

obligations. Specific contractual obligations may include arranging services for hotel guests, employing hotel personnel, providing revenue management and accounting services, granting the right to use intellectual property and trademarks and performing marketing activities. Substantial judgment will be necessary to determine which of these stipulations individually, or when bundled with other promises in the arrangement, represent performance obligations.

After performance obligations are identified in an arrangement, the transaction price is determined. The transaction price includes an entity's estimates of variable consideration that it may be entitled to from the arrangement when it is probable<sup>70</sup> that a significant reversal of revenue will not occur in a future period. The standard refers to this threshold as a "constraint." This differs from current guidance, which allows for revenue recognition only when amounts are fixed and determinable. Variable consideration may include amounts that are earned based on the underlying performance of the property (e.g., a percentage of hotel revenues) or incentives that are earned when certain performance thresholds are met.

69. The FASB issued the new revenue standard in Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*. The guidance will be codified in Accounting Standards Codification 606, *Contracts with Customers*. The IASB issued the new revenue standard in IFRS 15, *Contracts with Customers*.

70. The IASB standard uses "highly probable," which has the same meaning as "probable" in US GAAP.



Once the performance obligations are identified and the transaction price is determined, companies must allocate the transaction price to each performance obligation. The standard generally requires that entities allocate the transaction price to the performance obligations in proportion to their stand-alone selling prices. However, in certain circumstances, variable consideration may be allocated to a distinct service in a series of distinct services (e.g., the management services performed in the second month of a one-year contract). Revenue for each performance obligation is then recognized when the performance obligation has been satisfied, which is when the good or service has been transferred to the customer.

The new revenue recognition standard also provides specific guidance for recognizing revenue from sales-based royalties earned in exchange for granting distinct licenses of intellectual property (e.g., use of brand names and trademarks) that differs from the general model described above. Under this specific guidance, royalties from such arrangements are not recognized as revenue before the subsequent sales occur. As a result, hospitality companies would not be required to include in the transaction price amounts expected to be received in exchange for distinct licenses of intellectual property until the subsequent sales occur.

The accounting for gains and losses on the sale of certain nonfinancial assets, including real estate properties, also may change in certain circumstances. Under the new standard, when real

estate is sold and a management or franchise agreement is retained, it is more likely that the transaction will qualify for sale recognition, and that revenue (i.e., gain on sale) will be recognized sooner than it is under today's accounting. In comparison, under current guidance,<sup>71</sup> the restrictive recognition criteria that must be applied to real estate sale transactions often delays the recognition of a sale and/or results in a deferral of the associated gain on sale.

Other considerations that hospitality entities will need to evaluate include how to recognize amounts paid to real estate owners to secure management or franchise contracts, whether reimbursements received for payroll and other costs incurred should be presented on a gross or net basis, and the accounting for customer loyalty points programs.

Most public entities will adopt the standard in 2017, while most private entities will adopt it the following year. Early adoption is allowed under IFRS; however, public companies that report under US GAAP are not permitted to early adopt, while nonpublic companies applying US GAAP may elect to adopt the standard at the same time as public companies.

The standard allows for either "full retrospective" adoption, meaning it is applied to all periods presented in the financial statements, or "modified retrospective" adoption, meaning it is applied only to the most current period presented in the financial statements, but other disclosures are required.

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71. Accounting Standards Codification 360-20, *Real Estate Sales*.

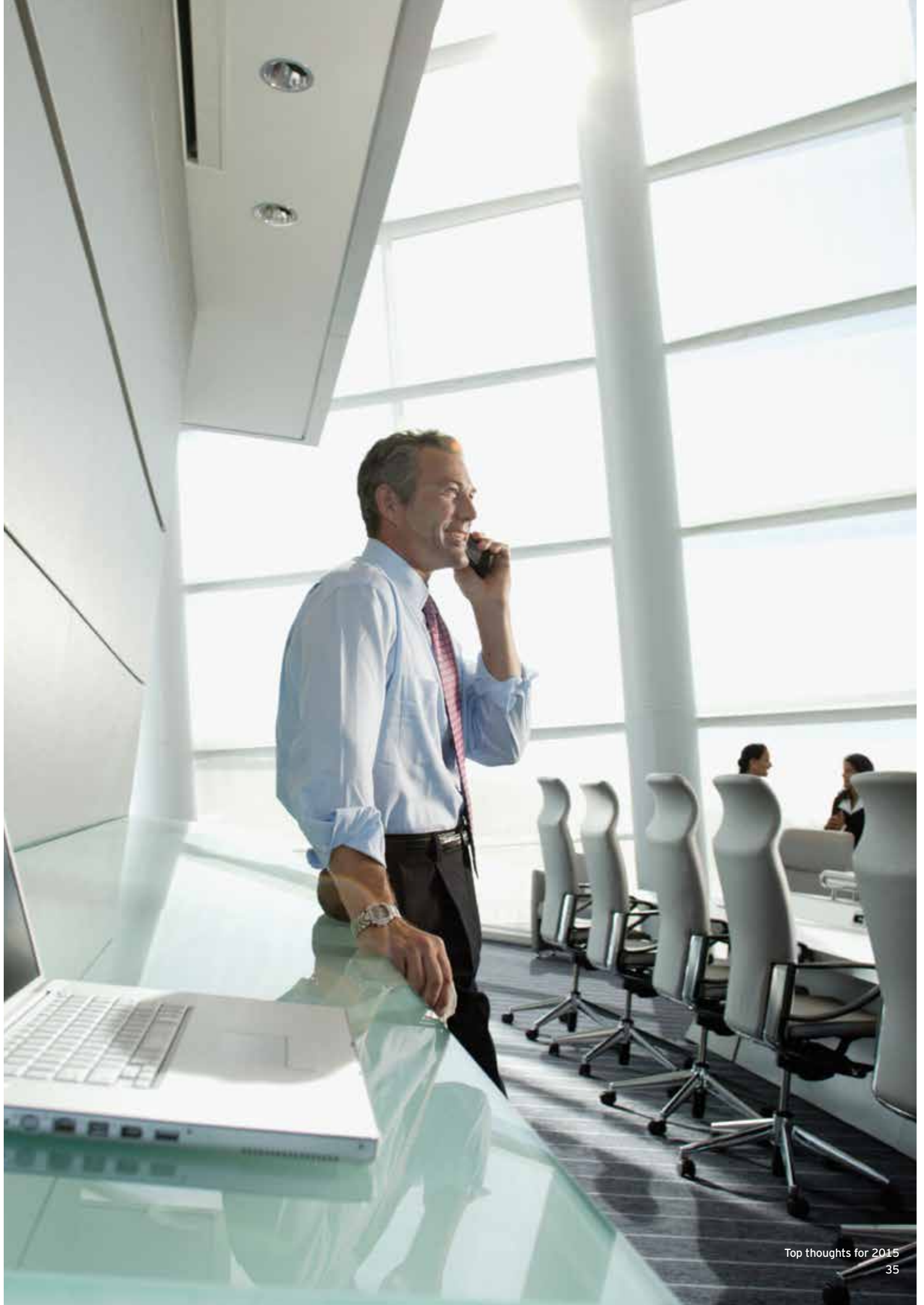




With over two years until the effective date, it may appear that there is ample time to prepare for adoption of the new guidance. But companies should begin working with auditors and other advisors to evaluate their existing revenue arrangements and address interpretation and application issues. While some companies may be able to implement the standard with limited effort, many companies will find implementation to be a significant undertaking. Companies with more work in front of them will need to move at a faster pace and may need to consider adding resources. An early assessment is vital to managing implementation.

Early communication with key stakeholders (e.g., audit committees, investors) will be important if a company anticipates significant changes in the timing and presentation of revenues. In addition, consideration should be given to whether any changes are needed in internal control over financial reporting.

In addition to their internal preparations, hospitality companies should monitor the discussions of the hospitality industry task force that was formed by the American Institute of Certified Public Accountants (AICPA) to discuss the standard's application to common industry transactions. They also may want to monitor the discussions of the Joint Transition Resource Group for Revenue Recognition (TRG) established by the Boards to help them determine whether additional guidance or clarification is needed.



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