

INDUSTRY INSIGHTS

Alumni offer diverse perspectives about the hotel industry

BY ELAINE REGUS

There is no doubt that the hotel industry has taken a beating in the past year, but signs are pointing to a recovery, albeit a slow one. All three key performance measurements – occupancy, average daily rate, revenue per available room (RevPAR) – were up in June 2010 compared to a year ago, according to Smith Travel Research (STR), which is forecasting RevPAR growth of 5 percent for the year.

Even so, high unemployment rates, lack of conventional loans for hotel financing and a glut of overvalued hotel properties could hamper the recovery in some areas at least. If there is a lesson to be learned from the recent downturn, it is: be flexible, do your homework and do not be afraid to try new things.

Collins College alumni and partners Joey Wolosz and Jeffrey Durham, who own two hotels in Northern California, have turned a time of turmoil into a time for opportunity by investing in their properties and their people.

“We have found other opportunities we did not know were out there,” Durham said. “We’ve met some amazing people and had some amazing experiences that we would not have had if the past 14 to 16 months never happened.”

Other Collins College alumni, who are working in the industry, have tapped new markets, increased customer service and changed the way they do business. Here are their perspectives:



OWNERS' PERSPECTIVE

Wolosz and Durham bought the Holiday Inn Express in Fortuna, the heart of giant redwood country, two years ago and the Chablis Inn in Napa in May 2010. They also own the Passport Hotel Group, a hotel brokerage firm, and a winery called Poem Cellars.

While many hotel owners dropped rates and tightened their belts in the past year and a half, Wolosz and Durham have held steady on rates and made some strategic investments in people and property that are paying off. They hired a revenue manager for the Holiday Inn Express, who tracks rates and minimum lengths of stay at the hotel, monitors the competition, manages inventory and maintains the hotel's presence on travel websites such as Orbitz, Travelocity, Priceline and Hotwire.

“There is no way we can stay on top of all that,” Durham said. “We really learned that we can be more successful as a team by outsourcing.”

Wolosz and Durham also hired a social media marketing consultant to post, monitor and respond to comments on Facebook, Twitter and TripAdvisor. “Social media is huge and it is free,” Durham said. The consultant created 20 pages of content for the Chablis Inn website including tips and tricks when visiting Napa Valley. If someone posts a tweet on



Joey Wolosz and Jeffrey Durham own two hotels as well as Passport Hotel Group and Poem Cellars. They are standing here at their Holiday Inn Express in Fortuna, Ca.

JOEY WOLOSZ '93 AND JEFFREY DURHAM '89

Twitter asking for a restaurant recommendation in the area, the Chablis Inn can respond with a recommendation, thus initiating a conversation. They also launched a campaign to manage their reviews on sites like TripAdvisor and Yelp by encouraging happy customers to post a review and by commenting on negative reviews with either an explanation or an apology.

The whole idea is to start a conversation and drive traffic to their website, Wolosz said.

The key to good reviews is a good staff. One of the main reasons the couple bought the Holiday Inn Express was because of the existing employees. They were showing the property to potential buyers when they realized how amazing the staff was.

“That was the tipping point,” Durham said.

Since then, the pair has created a recognition culture by handing out annual raises and giving employees a “quality of life” bonus of \$50 every quarter that they can use to get a manicure, pay for child care or whatever else they choose.

“If we take care of our employees, they will take care of our guests and our guests in turn will take care of our bank account,” Durham said.

They also are investing in their properties. They recently painted the Holiday Inn Express exterior and added cosmetic improvements. Every week, they add a small upgrade to the Chablis Inn property like landscaping or added signage.

Business is picking up. Small business owners and sales people who stay at the Holiday Inn Express are staying longer and Durham and Wolosz are starting to see more European tourists.

One mistake people in the industry make is getting into what Durham calls “the sky is falling” mentality. It is too easy to get caught up in the bad news, which is one reason that Durham and Wolosz do not own a television set.

The industry needs to keep revenues in perspective. If 2008 was a banner year and revenues dropped in 2009 but were consistent with 2007, which is not so bad.

“Our RevPAR was down 1 percent last year. Fortunately or unfortunately, we are happy about that,” Durham said. “Some hotels in the San Jose area were down 20 to 30 percent. But, we did our homework. We did research. We knew what we were getting into and we knew the market and we made an educated decision.”



Chris Chiotis founded Pacific Capital & Brokerage Inc. His company refinanced the historic and picturesque Casa Laguna.

BROKER'S PERSPECTIVE

CHRIS CHIOTIS '95

In 2004, Chris Chiotis founded Pacific Capital & Brokerage Inc., a boutique commercial real estate brokerage firm that specializes in hospitality. His primary business is acting as a hotel mortgage broker and providing financing for properties in the \$5 million to \$30 million range.

The current economic situation is grim for many hotel owners, who are overleveraged with assets worth 40 to 50 percent less than what they paid three or four years ago. Chiotis said a recent industry survey found that 478 of an estimated 3,300 hotels in California are in default or have been foreclosed on. Since 75 percent of all hotels in the state were financed or refinanced between 2005 and 2007, that means more than 2,500 may be underwater and as many as 10,000 nationwide.

Currently, banks are giving hotel owners some breathing room by opting to work out arrangements for lower payments, something called "Extend and Pretend," but that will not last as banks come to the realization that values are not going to return to where they were three or four years ago, Chiotis said.

"Our clients have become banks and institutions who are quickly becoming owners but they are reluctant to sell on such depressed values," Chiotis said.

The situation is creating a huge opportunity for management companies and asset managers with experience in the hotel industry to step in and operate the hotels on behalf of the banks, who are not interested in letting their investments deteriorate while they wait for the market to improve.

Chiotis said his company has shifted its focus to government-guaranteed financing, which is the only real source of capital for hospitality companies right now.

"Even though there are government guarantees in place and other incentives, banks are reluctant to pull the trigger on hospitality deals so locating a lender is like looking for a needle in a haystack," Chiotis said. "We have access to some needles but it is tough out there. Conventional money is virtually non-existent."

He predicted a "pretty big tidal wave on the horizon for the industry." The banks will not hold onto these hotels forever, they are going to start selling them off. How it all shakes out remains to be seen. In the meantime, Chiotis is finding optimism in the smaller deals.

"We are still financing deals but it has to hit on all cylinders," Chiotis said. "It has to be the perfect deal."

DEVELOPMENT PERSPECTIVE

AMELIA SMALLCOMB '05

Amelia Smallcomb, a senior business development manager with Gettys Group, Inc., a hospitality design, procurement and development firm with clients worldwide, said her company has had to be more creative as the competition has increased and more accommodating as clients are looking for greater value both at home and abroad.

"Before the economic slump, we would interview against two other interior design firms," she said. "Nowadays, we are interviewing with 15 or 20 and we have to compete in design competitions before we even get awarded the work."

The types of renovations her company is hired to do also have changed. More clients are wary about spending money right now so they focus on soft goods like replacing pillows and comforters or changing upholstery on furniture to freshen the appearance of their hotels.

Smallcomb said Gettys has become more creative in spreading their services among other sectors of the industry such as looking at new opportunities of doing interior design for hospital waiting rooms and other public areas or serviced apartments concepts overseas in the Middle East with Rotana Hotels.

While hotel owners in the United States are investing in renovations, a majority of the new hotel construction occurs internationally where there is a shortage of rooms in areas like China, the United Arab Emirates and some Latin American countries.

The June 2010, STR Global Construction Pipeline Report showed that China ended the month with 138,492 rooms either under construction or in the planning stages, which accounted for more than half the rooms in the pipeline among Asian countries followed by India with 43,360.

Smallcomb's company is also expanding into other areas of the world where being an outsider can be a deal breaker. "Some clients are not as eager to work with us if we did not have a presence in their country or city. We are in the process of forming alliances in the Middle East and throughout Asia with local architectural firms. That strategy has proven to be a very strong tool for us."

Smallcomb is confident that the worst is over based on recently awarded bids and projects currently in her company's pipeline for the next quarter both domestically and overseas. "I definitely feel, and I know, that the economy is bouncing back."



Grace Lee is an economic development specialist for the City of Garden Grove where work is underway to strengthen its tourism and lodging segments. She is standing along Harbor Avenue which is at the heart of the city's International West Resort District.

GRACE LEE '06

GOVERNMENT PERSPECTIVE

Grace Lee is an economic development specialist for the City of Garden Grove Economic Development Department, which markets development opportunities within the city to promote and attract retail, industrial and entertainment ventures.

In the past 10 years, the Garden Grove has developed and assisted nine brand-name hotels including the Crowne Plaza Resort Anaheim, Hilton Garden Inn and the Hyatt Regency Orange County within the city's International West Resort District. The district covers 560 acres of hotel, retail, dining and entertainment adjacent to Disneyland.

While some of the hotels in the district have experienced a decline in RevPAR ranging from 11 to 24 percent, Lee said others in the city's resort district have seen increases of 4 to 24 percent.

The Great Wolf Lodge, a 600-room, 10-story hotel with a 100,000-square-foot attached indoor/outdoor water park, is currently in the planning stages and will become the district's centerpiece.

Lee said the city capitalizes on a number of selling points from minimal infrastructure requirements to great access and visibility to entice businesses to locate in the city during the current economic downturn.

In order stir recovery among businesses, the city created a "Buy in Garden Grove" program during the holiday season encouraging businesses to provide a special discount or other offer to customers who mentioned the program. The campaign was promoted in newspapers, cable TV, radio, flyers, direct mail and on the city's website.

Long-term goals are important in a down economy, Lee said, because it keeps the city on track and motivates the Economic Development Agency to make deals.

"Deals are out there, but it just takes time to find the right one," Lee said. "We know hotels, restaurants, entertainment venues want to come to the world famous International West Resort District, and it is all a matter of making the right deal."

BRANDON FEIGHNER '05

FINANCIAL CONSULTANT'S PERSPECTIVE

If Brandon Feighner was a weatherman, he would be predicting partly cloudy with patchy pockets of sunshine over Southern California and cloudy with gradual clearing over the rest of the nation. But Feighner, an associate with Colliers PKF Consulting USA in Los Angeles, does economic forecasts for the hotel industry not weather forecasts.

"If the national occupancy percentages are in the mid-50s, Southern California is in the mid-60s. Even if it is bad in California, the industry is a lot better off than places across the nation," Feighner said.

Southern California is a dynamic economy with its array of leisure attractions and great climate. "Where else can you go skiing in the morning and hit the beach in the afternoon?" Feighner said.

Nationwide, things are beginning to pick up, too. Feighner's company is predicting that recovery for the hotel industry will be strong through 2013. After reaching the bottom in terms of occupancy and other performance indicators, the hotel market is on the upswing.

"Business is returning to some semblance of normal," he said. "People are dusting off projects and getting them going."

A lot of Feighner's business is with long-term clients like the City

of Los Angeles with projects that have stretched out more than 30 years. He has noticed in recent months more phone calls and questions from clients, who are anxious about the economy.

Feighner's company has been tracking trends in the hotel industry for 90 years with ups and downs every seven or eight years. His advice for anyone contemplating getting into the hotel business is this:

"First, I try to get them to understand that a hotel is a cyclical business first and foremost. They have to know the cycle and they have to know that hotels are a unique, unique business unlike an office or industry building. You have to continually rent each room, every night for 365 days a year.

"You have to know your asset and know what you're getting into. Hotels are very much a relationship business and a lot of people did not realize that."



Brandon Feighner is a consultant with Colliers PKF Consulting USA in Los Angeles.