

A snapshot of the 20th Investment Conference in Berlin, March 2017

GLOBAL WINGSPAN AND INTRODUCTION



We all believe we have a global wingspan, yet not everyone understands how European and International politics has a daily effect on our lives and the hotel business around the world...

I will therefore endeavor to share information associated with hospitality trade and investment conferences and how they impact on all of us in the hotel and restaurant industry

Firstly, I have written a history of Berlin the ITB and IHIF to set the stage for my comments on the 2017 Investment Conference. I will then share further information learned at the 20th Annual Hotel Investment Conference.

Yearly there are 3 major Conferences for hospitality where CEO's of major brands attend; like Marriott, IHG, Hilton or Accor. The March Berlin Conference is one of them.

WHY IS THE WORLD'S LARGEST TRAVEL TRADE SHOW IN BERLIN? WHY DID IT START THERE?

When the second World War ended West Berlin was an island surrounded by East Germany. In order to help stabilize and make West Berlin self-sufficient (as they were afraid it would be taken over by the Russians) the West decided in 1965 to start an overseas import trade show. The original five participating countries were those whom participated in liberating West Berlin from the Nazis. The ITB means International Tourist Exchange.

In the early days of the ITB West Berlin had all the intrigue a modern day Casablanca. It was then the end of the cold war and there was a wall dividing East and West Berlin. During ITB we would hear about those who tried to escape from East Berlin and were shot outside the wall. As well, West German taxi drivers who had roots in East Berlin, were afraid to drive to East Berlin as they weren't certain they would be allowed to return to West Berlin.

In 1966 the first trade show opened and there were 250 trade visitors and that has now increased to almost 180,000 trade visitors in 2016 and the Exhibition space which was in 1966 just about 600 meters in 1966 is now over 200,000 meters. In 1996 six countries and several hotel chains participated; in 2016 – 180 countries participated and hundreds of hotel groups.

I have attended the ITB for 40 consecutive years. On my first trip to the ITB there were only 6 halls and now in 2016 there was 28 halls. (ITB provides buses to take you from hall to hall). Each hall is as big as the Sky Dome surface. In 1966 I was with the Canadian Delegation where our booth was in a hall way between two buildings. This space was shared by Canada, USA and Holidays Inns. At that time the airlines who could fly into West Berlin were limited to the airlines from countries that liberated West Berlin. East German traffic controllers were responsible for letting these flights pass through the East German air space into West Berlin, which meant that they at their own leisure could keep planes on the ground for hours without giving permission to fly to West Berlin.

In West Berlin, if you walked around the city you would see a building and then a space between and another building. This was as a result of the fact that the building that was not there had been bombed and destroyed during the war and there were still buildings with bullet holes marking them! At night if you went to the top floor of your hotel you could see where East Germany started as it was all black while West Berlin was all lit up.

With the lack of hotel rooms and the growth of the ITB many exhibitors and business travelers had to go to East Berlin to find accommodation. This was challenging as they had to enter through East German police check points and "check point charley" (quite scary and very intimidating). Returning to West Berlin from East Berlin was also quite a challenge as cars were inspected very closely as were the passengers to ensure that they were really who they said they were on their passports.

The hotels on the East Berlin side were not luxury 5* hotels, built generally by the Russians and most were many years old and poorly managed; but people needing rooms stayed there.

Some countries in the world (almost every country in the world is represented at the ITB now spend their entire 100% tourist budget for one trade show; especially those whom do not have access to the internet due to political reasons. Saying that, any hotelier who works in our industry and who haven't been to the ITB is missing a great opportunity to see who their competitors are and be educated, and of course, be entertained

Optimism Amongst Hotel Investment Community at 20th Anniversary Global Gathering.

More than 2,000 delegates from 80 countries gathered at [The International Hotel Investment Forum \(IHIF\)](#) in Berlin to celebrate the 20th anniversary of this event in March 2017.

Amidst a backdrop of European and international political and economic uncertainty, delegates gathered to celebrate the 20th anniversary at the Hotel InterContinental, Berlin, Germany.

Overall the mood of the industry was optimistic, albeit cautious, as all indicators pointed to generally a strong appetite and demand. Roger Bootle the Chairman of Capital Economics opened his overview saying "the world economy is set reasonably fair." Historically I might add at all conferences speakers; especially Economists Hedge their bets and don't always say anything is 100% sure!

This Investment Conference programme had been crafted to include both a retrospective look at the previous 20 years of the hospitality industry as well as a look at emerging and future trends looking forward to the next 20 years.

Turning to the takeaways from the conference, technology remains a significant focus for the hotel brands; accurate implementation, efficient analysis and productive use. Speakers commented on how technology "enabled you to own the guest".

Further key themes emerging from this year's industry event included the continued prominence of alternative accommodation providers, like Hostels and Airbnb, who were pushing the hotel sector to adapt as the traditional boundaries blur. The OTA's are also a continued sore point of concerns and we debated at length

Accor Hotels CEO Sébastien Bazin said during his keynote speech that Hostels and Airbnb "were the companies that the industry needs to watch; they are very good and what they are doing is legitimate". A refreshingly realistic attitude perhaps and in contrast to those previously heard dismissing new entrants to the sector. Sebastian also failed to mention in his speech that Accor was buying a company doing Airbnb style operations; so instead of trying to beat them he is joining the Airbnb platform.

Continuing on another topic Bazin said we need to watch the OTAs: When they grow they take something away from me, but they also bring me traffic, he joked, a nod to the duality of OTAs, the good and the bad.

"Every year that passes, OTAs are growing three to four times faster than we are Bazin" he said. "It means you need to tap into what they do. Think differently and adapt.

Bazin said Accor Hotels has three pillars. The first its core competency: the management or franchise of some 4,000 hotels worldwide. Unlike most hotel companies that are totally franchise concentrated, Accor Hotels manages over 70 percent of its hotels, and franchises under 30 percent.

"Brands are only sexy if you can engage in new a contract with owners," Bazin said, adding that his company opens one hotel every 36 hours.

The breakout seminars highlighted Innovation and differentiation which all said remain vital to survival and success in this fast moving, consumer lead age. Every brand discussed and showcased new concepts, ideas and formats to entice customers to experience their brand

A figure was shared by another speaker that OTA's like; Expedia, Price line and booking.com spend almost 12 Billion Dollars a year on advertising.....so how can you beat them? That much money could buy most hotel groups and have change to spend.

Another noteworthy point, frequently repeated throughout the event, was the similarity between a brand and an OTA in terms of the restrictions, costs and stipulations on a hotel. Cody Bradshaw, Senior Vice President and Head of European Hotels at Starwood Capital said "in the next 20 years something has got to give – the brand fees are not that different to the OTA fees."

These were other topics discussed throughout the Conference

1. These are some of the reasons given at the IHIF why Airbnb is growing.

Supply is lagging behind demand—and giving Airbnb room to grow

Thanks to low-cost airlines, travel numbers are steadily growing. In 2012, the numbers hit 1 billion, and by 2015, overall arrivals had reached 1.2 billion. "That growth is a compounded annual growth rate of 5 percent going forward.

If Hotel supply is lagging behind at 2 percent, leaving a gap of 3 percent that needs to be filled. That is where Airbnb and home sharing service have jumped in. "There just isn't enough supply." Were comments made.

As an example; Amsterdam saw a 474-percent growth of Airbnb usage. In the same period, hotel occupancy in the city increased by 8 percent and supply increased by 12 percent, while rates went up by 14 percent.

2. Comments on Europe: Since the IHIF Conference is based in Berlin there was a certain bias on discussing Europe 2016 - 2017.

Europe is adjusting to a new normal – was the heading of the conversation.....

In the wake of terror attacks and dramatic elections, Europe seems to be holding steady. "The Brexit hasn't really had an effect yet" was said.

France and Brussels, meanwhile, are recovering from recent terror attacks that hurt visitor numbers. Paris, however, is on the rebound, although it was noted that the recovery has taken some time. "France has had much shock this was twice they got hit bad". That hurt the economy for a year."

"We are getting used to shocks another speaker claimed" and whether they are terrorist shocks [or] political shocks, Europe is becoming immune to them."

3. Europe's investment scene is changing

Private equity in the UK is almost completely flat. "In fact, private equity will be divesting now over the next few years of products that they bought into over the last few years." The Brexit brought the shutter down, he said, "but it was a shutter that was coming down anyway, because they were pretty much on their investment in the UK."

Investors are now eyeing central Europe, where there's "ample product" available with distressed bank lending.

This puts the UK and mainland Europe in very different positions "The UK is a seller's market at the moment, and in Europe, it's the other way around." Germany and Holland have "an enormous amount of new supply coming in," while portfolios are changing hands in the UK.

4. Mergers & Acquisitions are affecting brand identities

Now that the Marriott/Starwood merger has been finalized, We in the industry will be watching to see how they fare with 30 brands. The number of brands in the industry "grows every day," but will they ultimately diminish the value of any parent brand? "Do clients now realize that in checking into a Curio or a St. Regis they are getting a Hilton or a Marriott?"

5. Eurozone

Looking to the Eurozone; many speakers discussed the major divergences between countries; Ireland and Spain showing particularly strong growth whilst Italy had very little. They referenced the various significant political events on the horizon and said "no one remembers a time so fraught with political risk" and also "if there is a fracturing in the Eurozone Britz it is likely to spread". The UK since Britz it has had a growth rate at the rate of 0.8% GOP so there are reasons to be optimistic; although inflation is increasing and earnings don't look set to match this increase which will "result in a squeeze on people's incomes.

If we look specifically at the City of London; Britz it will cause a loss of a bit of business and some jobs; but it will be marginal. Its position will remain strong. Looking at Europe it was said "the last thing Europe needs now is stability; because stability means stagnation" and so many concluded that in their opinion "interest rates were going to go up sooner, further and faster" than widely predicted.

6. The merger between [Marriott](#) and [Starwood](#) might have been completed in late September 2016, but that was just the beginning.

Since that time, owners and their asset managers have awaited confirmation that related merger expenses would be "net neutral," as initially promised. Then, in March 2017, a communication came down the pike detailing "Project Tetris," which refers to Marriott's planned integration of Starwood properties into Marriott's finance model. It is one of many expected initiatives directed specifically at Starwood-branded hotel owners.

Project Tetris outlined the transition plan and savings anticipated as a result of leveraging Marriott's size and scale to improve negotiated merchant contracts and achieve incremental savings through increased buying power. In addition to economies of scale, efficiencies are expected through the implementation of updated systems and processes. These savings will be dependent on product, market and the hotel's purchasing power.