Hotels settling in

The accommodation sector has been impacted by changing travel patterns – and changing purchasing methods. Industry insider **Scott Mitchell** ponders the future for hotels.

IT WOULD BE AN understatement to say that 2003 has been a rollercoaster year for the accommodation industry. A number of highly significant world events, from the lows of the SARS outbreak and the war in Iraq to the highs of the Rugby World Cup, have provided the Australasian accommodation sector with one of the most challenging years in recent memory.

While the doom and gloom of 2001/2 still hung in the air heading into 2003, the general sentiment is that a late rally in the final third of the year has put the industry back on track and has, at the very least, provided a cautious sense of optimism for 2004. While we're still awaiting official forecasts, it is expected that average occupancy figures in most major centres this year will show a slight increase from the post-Sydney Olympic Games years. However, many hotels have been forced to sacrifice yield to achieve these occupancy levels.

Poor distribution options and a "sell rooms at any cost" thrust from some hotels has changed the approach and expectation of buyers significantly in the past 12 months. It is these hotels which will find it most difficult to recover their yields in coming years, having educated the buyer to prefer a discount web model. Tempting (and sometimes necessary) as it may be for a hotel to compete with rival properties on rate alone, it is the most disciplined hotels, which have "stuck to their guns" on rate integrity, that will achieve the best results when the market strengthens.

State of the market

As always, some major centres performed better than others in 2003. Sydney and Melbourne hotels, while not experiencing spectacular growth in 2003, have certainly stabilised. However, recent hotel closures and apartment conversions, in Sydney in particular, certainly aided this stabilisation for the properties that remain. Brisbane experienced quite a strong year with high volumes of conference, convention and special events business helping the hoteliers' cause. The added bonus of international events such as the Golden Oldies rugby tournament and the Rugby World Cup also made a positive impact on the market.

Adelaide and Perth appear to have been the weakest performers in the market. Adelaide, in particular, experienced a large increase in new room stock, but unfortunately the demand has not kept up with the supply. Darwin had what would be best described as a "typical" year; a very strong high season in the winter months, but soft in the remaining periods.

Overall, the best performing major centre appears to be Canberra. Many hoteliers are lauding a surge in demand in the nation's capital with new stock, primarily in suburban locations, performing strongly against demand. The relatively "boutique" nature of new properties in Canberra has also ensured that an oversupply in coming years should be avoided.

Looking ahead, most major centres expect a modest growth in demand for 2004, with the exceptions being Adelaide and Perth which are both expected to struggle. Of most interest will be how the Melbourne market in particular copes with an increase in new room stock, including the recently opened Crown Promenade Hotel as well as anticipated new property openings in inner-city areas.

Product

Again it was the apartment accommodation sector which recorded the strongest performance in 2003. High levels of occupancy from the corporate and government sectors were expected, however the leisure sector has really given apartment-style accommodation a further boost. Extra space, cooking and washing amenities and multi-room apartments are popular with the business traveller during the week, and then on the weekends the families and holiday-makers flock to enjoy the facilities.

As an indicator of the success of apartments one need look no further than the Medina Serviced Apartments group which has plans to open two new properties in Perth in 2004, a market which is already highly competitive.

Distribution and Rates

2003 was certainly a year for the buyer, especially for those smaller buyers who haven't had great success in negotiating favourable rates in the past. However, when speaking with industry colleagues it is apparent that most hotels will be placing strong importance next year on increasing their yields. Key to this drive will be a re-evaluation of distribution channels. Hoteliers need to start asking the questions: "who are our clients?" and "what is the best way for us to interact with them?".

The past year or two has been a fruitful period for distressed inventory websites. The success of these websites, at the expense of more traditional distribution models such as travel agents, has led to a plethora of "copy-cat" models flooding the market. It is difficult, however, to see this as a sustainable trend in the medium to long term; with the benefit of experience, hotels are developing more strategic approaches to distressed inventory sites.

A "less is more" policy is being employed by hoteliers, where the most-visited, highest-producing sites attract the greatest support from suppliers. In many cases, hotels are placing stock on just one or two of the most popular sites and disregarding the others altogether. Because the distressed inventory model relies on any given site having the best rates to capture business, the smaller players will struggle to capture their share of the market if they cannot compete with the lower rates on offer from their larger counterparts.

> "After a few tough years, the **accommodation sector** may finally be looking forward again."

Australia's Top Ten Hotel Operators – as at December 2003

2003 Rank	Operator	Rooms	Properties	2002 Rank
1	Accor Asia Pacific Corporation	15,872	98	1
2	InterContinental Hotels Group	7,277	31	2
3	Starwood Hotel & Resorts	4,140	13	3
4	Rydges Hotels & Resorts	4,044	21	4
5	Constellation Hotel Group	2,859	34	7
6	Mirvac Hotels	2,490	21	8
7	Hyatt Hotels & Resorts	2,465	8	9
8	Pacific International Hotels	2,257	17	6
9	Stamford Hotels & Resorts Pty Ltd	1,992	9	10
10	Marriott International	1,917	6	11

Source: Jones Lang LaSalle Hotels

Of course, from the hoteliers' point of view, distributing stock on the World Wide Web presents a far more attractive cost option than distributing through a GDS. The web models are usually very easy to use and are

almost always available without a transaction fee (other than commission), unlike a GDS. As hotels become more adept at managing inventory online, a strong push will come from management and shareholders to use this method wherever possible.

The hoteliers' greatest opportunity for improvement in web-based distribution is surely on their own website. Compared with many other countries, especially the United States, branded hotel websites are extremely underutilised in Australia as a distribution platform. This is despite the fact that a hotel's own branded website is by far the cheapest platform for distributing their stock. As the hoteliers attempt to recover the "direct" market they have lost to the distressed inventory sites, a strong focus will be placed on improving the distribution via their own sites in the coming years.

Meanwhile, the increased consolidation of more traditional distributors, the TMCs, is also likely to have some effect. How this activity will impact on room rates is yet to be fully determined, although with many hotels focusing on strengthening yields there would appear to be little joy ahead for buyers expecting rate decreases.

Consortia rates seem set to remain relatively stagnant into 2004, despite some of the major players' ability to provide higher volumes as a result of consolidation; consolidation in the market will simply make it easier for hoteliers to distribute their stock and rate submissions as the number of major players reduces. Whilst the individual room night volumes of some TMCs will increase, hotel groups with national coverage are unlikely to adversely affect their relationships with the remaining players by "cutting deals" based on increased volumes.

Looking forward

So, it seems that after a few tough years, the accommodation sector may finally be looking forward again. While 2004 is not tipped to be a spectacular year, it does appear that, at the very least, a period of further stabilisation is likely. Hoteliers, battle-hardened and hopefully wiser as a result of the hardship of the past few years, are determined to drive the industry forward and build a strong platform for growth in 2005.

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ACCOMMODATION PROVIDERS

Group	Brands	HQ	Number of beds				Listing
			Aus	NZ	Sing	HK	
Best Western Australia	Best Western	Sydney	8613	1358	-	472	
Carlton Group of Hotels	Carlton Hotels, Carlton Crest Hotels	Singapore	1265	455	636	-	57
Carlson Hotels Asia Pacific	Regent International Hotels Radisson Hotels & Resorts Park Plaza Hotels & Resorts Country Inns & Suites by Carlson Park Inn	Singapore	2050	-	441	468	
Constellation Hotel Group	The Chifley Hotels, Country Comfort Hotels, Australis Hotels and Resorts	Sydney	3071	-	-	-	54, 55, 59
Crown Hotels	Crown Towers & Crown Promenade Hotel	Melbourne	950	-	-	-	57
Duxton Hotels International	Duxton	Melbourne	815	388	-	-	52
Flag Choice Hotels	Comfort Inn, Quality, Clarion and Flag	Melbourne	13,600	2,800	550	-	
Grand Hotels International	Hotel Grand Chancellor The Chancellor, Hotel Chancellor Chancellor Resorts, Chancellor Inns, Hotel Grand Continental Hotel Grand Cental	Kuala Lumpur	1100+	1300+	390	-	2, 52
Heritage Hotel Management Ltd	Heritage Hotels, CityLife Hotels, Rutherford Hotel Nelson	Auckland	-	1200	-	-	61
Hilton Hotels of Australia	Hilton, Conrad	Singapore	3,634	163	645	455	52
InterContinental Hotels Group	InterContinental Hotels and Resorts, Crowne Plaza, Holiday Inn.	Singapore	7371	1665	719	1674	
Le Méridien Hotels & Resorts	Le Méridien Hotels & Resorts	Hong Kong	242	-	407	173	55
Marriott International, Inc.	Marriott Hotels & Resorts, JW Marriott, Renaissance, Ritz-Carlton, Ramada International	Hong Kong	2128	-	374	2147	
Medina Serviced Apartments#	Medina Grand, Medina Executive, Medina Classic	Sydney	1474*	-	-	-	60
Melbourne Short Stay Apartments#	Melbourne Short Stay Apartments	Melbourne	200*	-	-	-	60
Millennium, Copthorne & Kingsgate Hotels	Millennium, Copthorne, Kingsgate Hotels & Resorts	Singapore	-	3464*	2289*		56, 61
Mirvac Hotels and Resorts	Quay Grand, Quay West, Sebel	Sydney	2675	208	-	-	51, 53
Pacific International Hotels	Pacific International Suites, Hotel, Apartments, Resort	Sydney	3000	-	-	-	53
Quest Serviced Apartments	Quest	Melbourne	2832*	668*	-	-	
Raffles Hotels & Resorts	Raffles, Swissotel Merchant Court & Swissotel	Singapore	359	-	2,507	750	59
Rendezvous Hotels International	Rendezvous, The Marque	Sydney	806	-	300	-	
Rydges Hotels & Resorts	Rydges Hotels & Resorts	Sydney	4,087*	897*			53
Saville Hotel Group#	Saville	Sydney	1450	-	-	-	
Shangri-la Hotels and Resorts	Shangri-la, Traders Hotels	Hong Kong	563	-	1760	1265	58
Southern Cross Suites#	Southern Cross Suites	Melbourne	334	-	-	-	59
Stamford Hotels and Resorts	Sir Stamford, Stamford Plaza, Stamford Grand	Sydney	2500	500	-	-	56
Starwood Hotels & Resorts	Westin, Sheraton, Four Points, St Regis, The Luxury Collection, W Hotels	Singapore	4114	422	413	780	

* room numbers – beds not available # mostly apartments

Information drawn from survey data. Note that a number of significant players did not respond to the questionnaire and are therefore not shown.