

Hospitality Vision
US Performance Review



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Economic Outlook

As of this writing, the US economy is showing signs of modest strength. There is growth, but it is not the kind of growth that has been seen following past recessions when housing made a sizable contribution to the recovery. Instead, growth has been relatively anemic. The housing market remains troubled. Partly as a consequence of this, credit markets have not been strong and bank lending has been continually declining since the start of the economic crisis in 2008.¹ Moreover, the troubles in Europe could have a negative impact on credit activity in the United States.

Despite these headwinds, American consumers continue to spend, which is a bit surprising given an unemployment rate of slightly less than nine percent, a decline in real disposable incomes over the past year, and historically low levels of consumer confidence (although there were improvements by year-end). Why the continued spending? First, consumers have substantially paid down debts. Today, debt service payments as a share of income are at the lowest level since 1993. Thus, consumer cash flow has improved. Second, the saving rate has declined, suggesting a higher degree of confidence on the part of consumers — despite what the survey takers tell. Finally, it is likely that there is considerable pent-up demand following a long dry period.

Consumers might feel a bit more confident because the overall economy is showing modest signs of renewed strength.

In the first half of 2011, economic growth was so anemic that many pundits worried that the US was heading into a new recession. Today, fears of a double dip have abated somewhat given that growth has accelerated. Industrial activity has been rising moderately, with particular focus on production of capital goods. In fact, business investment, especially in equipment and software, has been quite strong during the latter half of 2011.²

In addition, exports have been strong. Although export growth has decelerated somewhat as the global economy has slowed, they remain strong and contribute substantially to overall gross domestic product growth. This reflects the effects of a relatively weak dollar and the impact of a decade of sizable productivity gains for the manufacturing sector.

Corporate profits have been especially strong, helping to boost investment as well as retained earnings. The high level of profits bodes well for business spending in the coming year. Still, the choice to retain lots of cash is a signal that many businesses remain cautious.

Finally, recent growth can be attributed almost entirely to increased demand for goods and services. As companies resisted building up production, inventories dropped to historically low levels. Output increased in response to demand. That bodes well for the future as further increases in demand will require more production rather than dipping into existing inventories.

As for economic policy, it has been a mixed bag in terms of economic impact. On one hand, monetary policy remains supportive of growth. Although the Federal Reserve is no longer engaged in “quantitative easing,” it is engaged in a policy designed to reduce long-term interest rates and, therefore, stimulate more credit demand. While it is too early to say whether this has been effective, the decline in bank lending has eased and consumers have been willing to take on new debt. The Fed has indicated that it is open to another round of quantitative easing should the economy generate disappointing growth.

Fiscal policy is a different story. During 2011, the President and the Congress failed to reach an agreement on dealing with long-term budgetary issues, resulting in the first-ever downgrade of US government debt. Although the bond market yawned at this news, the downgrade probably had a negative impact on business confidence and certainly had a negative impact on equity prices during the summer. As of this writing, there remains no agreement. In an interesting twist, if the Congress does absolutely nothing, the budget deficit may decline considerably because, under current law, taxes are scheduled to rise considerably at the end of 2012, potentially yielding nearly \$3 trillion over ten years. In addition, \$2.2 trillion in spending cuts are already built into future budgets. Thus, the principal issue facing the Congress, is how to come to a politically palliative agreement on long-term deficit reduction policies without impairing economic recovery.



For the hospitality industry, the US economic environment is neither terrific nor terrible. A reasonable expectation for the coming year is that consumer spending growth will be positive but modest, business spending on travel will improve, inflation will be low, consumers and businesses will remain relatively price sensitive, and commodity prices will be soft.

It is also a reasonable assumption that, to the extent there are income gains for households, a disproportionate share will accrue to upper income households, as the economy is likely to demand greater numbers of skilled and educated workers than the labor force can provide. Thus, consumer spending growth is likely to be bifurcated.

Figure 1 – Hotel performance in key U.S. cities: January – November 2011 versus January – November 2010

	Occupancy Percentage point change			Average Room Rate \$			RevPAR \$		
	2011	2010	% change	2011	2010	% change	2011	2010	% change
Anaheim-Santa Ana, CA	71.5	68.2	4.8	113.8	108.5	4.8	81.4	74.0	9.9
Atlanta, GA	60.3	58.4	3.3	83.1	83.4	-0.4	50.2	48.7	3.0
Boston, MA	73.2	70.6	3.7	149.3	142.9	4.5	109.3	100.9	8.3
Chicago, IL	65.7	63.2	3.9	119.1	113.6	4.8	78.2	71.8	8.9
Dallas, TX	60.1	55.5	8.3	86.0	83.0	3.7	51.7	46.0	12.2
Denver, CO	66.8	64.4	3.8	98.3	95.0	3.5	65.7	61.2	7.4
Detroit, MI	60.8	54.9	10.6	77.4	75.2	2.9	47.0	41.3	13.8
Fort Lauderdale, FL*	70.8	67.3	5.3	110.2	108.5	1.6	78.1	72.9	7.0
Houston, TX	60.9	56.0	8.6	91.5	89.2	2.6	55.7	50.0	11.4
Las Vegas*	65.2	59.8	8.9	89.9	86.5	3.9	58.6	51.8	13.1
Los Angeles-Long Beach, CA	72.7	68.6	6.0	123.8	117.1	5.7	90.0	80.3	12.0
Miami-Hialeah, FL	76.0	70.4	8.0	150.8	142.1	6.2	114.6	100.0	14.6
Minneapolis-St Paul, MN-WI	65.4	61.9	5.7	95.9	91.4	4.9	62.8	56.6	10.9
Nashville, TN	63.1	59.0	7.0	93.5	86.7	7.9	59.0	51.2	15.4
New Orleans, LA	65.0	65.7	-1.1	122.5	117.0	4.7	79.6	76.9	3.6
New York, NY	81.3	81.1	0.2	240.8	227.2	6.0	195.7	184.3	6.2
Norfolk-Virginia Beach, VA	56.0	54.4	3.0	85.5	85.7	-0.2	47.9	46.6	2.8
Oahu Island, HI	80.8	78.1	3.5	163.4	148.3	10.2	132.0	115.8	14.0
Orlando, FL	67.9	63.7	6.6	94.0	90.3	4.0	63.8	57.5	10.9
Philadelphia, PA-NJ	67.7	65.1	3.9	115.0	108.5	6.0	77.8	70.7	10.1
Phoenix, AZ	59.2	56.4	5.0	104.9	101.6	3.3	62.2	57.3	8.4
San Diego, CA	70.0	67.7	3.4	126.8	123.4	2.7	88.7	83.5	6.2
San Francisco/San Mateo, CA	80.3	76.2	5.4	156.2	136.5	14.5	125.4	104.0	20.6
Seattle, WA	70.4	67.1	4.9	115.7	111.1	4.2	81.5	74.6	9.3
St Louis, MO-IL	60.2	58.3	3.2	84.3	81.5	3.4	50.7	47.5	6.7
Tampa-St Petersburg, FL	61.3	55.9	9.6	94.5	92.4	2.3	57.9	51.6	12.1
Washington, DC-MD-VA	69.1	69.0	0.2	146.2	144.6	1.1	101.0	99.7	1.3
TOTAL United States**	61.2	58.6	4.4	101.8	98.2	3.7	62.3	57.6	8.2

Source: Smith Travel Research & Las Vegas Convention and Visitors Authority

*Year-to-November 2011

** Total number excludes Las Vegas and Ft. Lauderdale.

Atlanta

According to Smith Travel Research (STR), tourism is up slightly (but still virtually flat) in Atlanta.

For the first 11 months of 2011, revPAR increased slightly (3.0 percent) and occupancy expanded by 3.3 percent. With average rates at \$83.13, along with a 60.3 percent fill rate, the hotel business in the region realized a small improvement. In fact, as noted by the Atlanta Convention and Visitors Bureau, for the fourth consecutive year, hoteliers have seen a drop in room rates.

Over the past few years, Atlanta's hotels have suffered more than those in many other cities for two reasons: a decline in tourism because of the recession and an unfortunately timed hotel building boom. But as the number of visitors grew (even only a small amount), the city's hotel business may have reason for optimism.³

In a sign of the revitalized times, the Atlanta Development Authority is providing up to \$44 million in lease-purchase bonds for the proposed Hilton Garden Inn/Homewood Suites, being developed by North Point Hospitality Group Inc. The 12-story, 240,000-square-foot hotel will have 134 rooms branded Hilton Garden Inn and 92 rooms branded Homewood Suites. As reported by the *Atlanta Business Chronicle*, construction that began in the summer 2011 should be complete by first quarter of 2013. In particularly heartening news, the project is creating more than 200 construction jobs, and the finished hotel will employ about 100.

According to Atlanta Convention and Visitors Bureau, the city's versatile meeting spaces make the city a perfect venue for conventions, large and small. A case in point: T.D. Jakes Ministries will hold its conference, "Woman, Thou Art Loosed," in Phillips Arena in 2012, for the first time since 2006. The event is expected to draw nearly 20,000 women from all backgrounds and cultures (pitchengine.com).

Atlanta's Hartsfield-Jackson International remains one of the world's busiest airports. According to Airports Council International, the airport is busy (despite the economic recession) because it hosts both a strong global carrier and a strong low-fare airline. In December, airport officials announced the beginning of regular, chartered flights to Cuba; Atlanta is one of only eight US cities that have gained federal approval for "purposeful" travel to the communist island nation.⁴



Chicago

The hospitality industry in Chicago continues to emerge from the recession; in fact, economic indicators and industry data appear to suggest continual, albeit mild, improvement in the market.

STR metrics show that occupancy for the year-to-date through November was 65.7 percent, compared with 63.2 percent for the same period in 2010. RevPAR for the first 11 months of the year increased a modest 8.9 percent to \$78.24.

Tourism has always been important to Chicago's economic structure, according to the Chicago Convention and Tourism Bureau. The industry generates about \$11 billion in direct spending and \$616 million in tax revenue, while sustaining 124,000 jobs. In the summer of 2011, Navy Pier (one of the city's most visited sites) announced a \$155 million revamping, including an expanded Chicago Shakespeare Theater and Chicago Children's Museum.⁵

Special events certainly feed the demand for hospitality. For instance, the Chicago marathon in the fall attracted many tourists. Of the 45,000 runners, 25 percent were first-time visitors to Chicago. According to *CBS Chicago*, the event generated more than \$70 million for the city's tourism industry. When Michael Bay filmed *Transformers: Dark of the Moon* on Michigan Avenue, both Hotel 71 and Trump International touted their own per-night packages. Overall, the production generated more than \$20 million in local spending.⁶



In December, the Chicago Convention and Tourism Bureau unveiled a \$2.3 million advertising campaign for 2012 intended to attract visitors from places within driving distance (such as Indianapolis, Milwaukee, St. Louis, Detroit, and Cincinnati). The ad promotes the city's tourism highlights: Navy Pier, Shedd Aquarium, the Field Museum, the Museum of Science and Industry, and "Broadway in Chicago": each contributed funds to the effort. A departure from previous efforts, the campaign markets the city as a "destination" for leisure, business travel, and conventions.⁷

The city budget for 2012 increases taxes on hotels to 4.5 percent, making the overall tax on hotel rooms 16.4 percent and putting Chicago's rate among the three highest in the nation. (According to *Crain's Chicago Business*, the city's tourism bureau hopes to share in some of that additional revenue to fund marketing efforts). For the typical tourist, the increase would amount to \$1.78 per night. Could the hike, while probably not intimidating to a single traveler, affect the city's convention bookings? Chicago is predicting an increase of as much as seven percent in hotel occupancies because of a NATO summit and other events

planned for 2012, so the city does not anticipate a drop in tourism revenue.⁸ Also, in the fall, *Crain's Chicago Business* reported that several Chicago hotels pledged to make more than \$500 million in improvements to help bolster the local convention industry and attract more trade shows.

For the second year in a row, the North Michigan Avenue area — the "Magnificent Mile" of exclusive shops, restaurants, and hotels — snagged the No. 1 spot on Priceline's list of the 50 most popular tourist destinations for the Memorial Day and Fourth of July holidays. The first Radisson Blu hotel in the United States — and Chicago's newest luxury hotel — opened in the award-winning "Aqua" tower (which also houses high-end condominiums).

In its biannual *Hotel Investor Sentiment Survey*, Jones Lang LaSalle Hotels names Chicago among the top five cities for hotel acquisitions. In November, *Crain's Chicago Business* reported that Sam Zell bought the two-year-old Elysian Hotel in the Gold Coast and would convert it into a Waldorf Astoria. Despite opening in the depths of the hotel downturn, the Elysian has always received strong reviews, even being named the best US hotel in a recent survey by *Condé Nast Traveler* magazine. After the conversion, the hotel's per-room price could be the highest in Chicago.

As reported by *Las Vegas TSG Business News*, Chicago scored a victory on the international air travel scene by landing a major convention for airlines and airports: The World Routes Development Forum. Chicago will host the 2014 forum, expected to be attended by officials from 300 to 400 airlines and 1,200 airports.

In November, Mark Kirk (R-IL) proposed a \$5.5 million project to make O'Hare's international terminal the most "Asia-friendly" in the US. Funded by private donations and sponsors, the project would include signage that could change languages, as well as the use of universal icons and symbols. The effort would complement the plans of economic development officials since the number of international travelers (especially from China, Japan, Korea, and India) is expected to grow in coming decades, while domestic travel will likely remain relatively flat.⁹

Dallas

Will the Dallas hotel industry reach a full recovery by 2013? The signs are good.

According to STR, the Dallas hotel market in 2011 experienced an impressive double-digit jump in revPAR. The first 11 months of 2011 showed positive indicators of improvement with occupancy up 8.3 percent from the same period in 2010. The Dallas-Ft. Worth-Arlington area accounts for 29.3 percent of the state's hotel market share.

The new Omni Dallas Hotel, complementing the 2.1 million square-foot Dallas Convention Center, may help revitalize the city's convention business. The hotel — which includes more than 1,000 rooms; 110,000 square feet of meeting and event space; and 7,000 original pieces of art from 150 local artists — opened in November. Two years in the making, the hotel actually opened early and under-budget. It has already contracted nearly 300,000 room nights. Since its plans were announced in 2009, the hotel has booked 73 citywide meetings. Several prominent Dallas companies have scheduled conventions for 2012.¹⁰

With the opening of the Omni Dallas Hotel, other hotels are sprucing up.

The Sheraton Dallas Hotel — the market's largest, with 1,840 guest rooms — will upgrade more than 500 rooms in 2012. Beginning March 1, the \$12 million renovation will include new furniture, wall vinyl, artwork, and carpets with the intent of attracting meeting planners looking for high quality at a reasonable price.¹¹

At the same time, The Joule will begin a \$78 million renovation that will expand the hotel to nearly an entire city

block. Among many highlights is the addition of 31 guest rooms (21 rooms, eight suites, one single-story penthouse, and two three-story penthouses); the restyling of the hotel's lounge into an "adult playground" featuring a 600-square foot screening room; an 8,000 square-foot subterranean spa; and expanded event spaces. The project — combining the talents of hospitality designers and architects — should be completed by fall 2012 (prnewswire.com).

In February, Dallas/Fort Worth Airport (DFW) began a seven-year, \$1.9 billion terminal renovation project, a sign of the heavy demand on the facilities. But will the bankruptcy of a particular airline affect the work? According to airport officials (as cited in the *Dallas Business Journal*) the answer is "no" — at least not immediately. In other news, Emirates Airline started service to DFW.

Fort Lauderdale

Fort Lauderdale's metrics, while holding steady, remain flat overall.

According to STR, for the first 11 months of 2011, occupancy was up a small percentage point of 5.3 percent from the same period in 2010, while revPAR improved (7.0 percent) to 78.1 from 72.9. Florida's difficult economic climate appears to continue to dampen room demand, with average room rates up only 1.6 percent.

Yet, Fort Lauderdale is still a popular destination for tourists, not just in winter and spring, but even in summer months. The *Miami Herald* reports that more than 21 million people traveled to Florida between April and June, an increase of nearly seven percent from the same time in 2010, perhaps signaling a break in seasonality for the industry. At the same time, the number of international travelers increased by 16.3 percent.

Many hotels and hospitality companies enticed travelers with "perks" over price cuts, according to the *Miami Herald*. For example, the Ritz-Carlton offered room upgrades, \$100 in resort credit, free valet parking, a \$25 gift card, and a two-for-one savings at local attractions, calling the promotion "Vacation like a VIP." Fort Lauderdale-based Regent Seven Seas Cruises announced that beginning in 2012, guests booked in rooms and suites at the concierge-level and above would enjoy priority shore excursions, restaurant reservations, and free upgrades.



But the news was not all good, as the *Sun Sentinel* reported that the city's largest annual convention plans to relocate in 2012. Leaving Fort Lauderdale is ARVO, the Association for Research in Vision and Ophthalmology, whose annual meeting generated \$13 million a year. The move could affect jobs, tax revenues, and construction. In some good news, the International Gay & Lesbian Travel Association convention attracted more than 400 people from 35 nations.

According to an annual study by the Global Business Travel Association Foundation, three Florida cities — Fort Lauderdale, Fort Myers, and West Palm Beach — topped the list of the lowest tax-burdened cities out of 50 destinations, taking into account general sales tax and travel-related services, such as car rental, hotel, and meals.¹² This could be good news for companies planning conferences for 2012.

The *Sun Sentinel* reports that while airlines offered fewer seats from Fort Lauderdale to several Caribbean islands (including Jamaica, the Bahamas, the Dominican Republic, Trinidad, and Tobago) in 2010-2011, three carriers plan to increase service to the region in 2012, at least in part because of demographic trends (that is, the number of South Floridians with ties to the Caribbean has grown significantly in the last decade).

Las Vegas

Las Vegas remains one of the largest hotel markets in the world attracting both leisure and business travelers. In fact, the tourism industry continues to show signs of a steady recovery, as the city welcomed 39 million visitors in 2011 (up from 37.3 million in 2010).¹³

STR metrics revealed the city's revPAR through November 2011 had increased double digits to 13.1 percent from the first 11 months, with an 8.9 percent increase in occupancy to 65.20 percent. Average room rate increased 3.9 percent to \$89.91.

As of October, the Las Vegas Convention and Visitors Authority reported 20 consecutive months of gains in prior-year comparisons. Taxable sales rose all year long (by double-digit percentages in some months), while statewide gaming revenue rose nearly 10 percent year-over-year.¹⁴

According to TripAdvisor, leisure travelers continue to choose Las Vegas as the "number one for best value" in the US. A new survey from Deloitte LLP reveals that for business travelers Vegas is the top "hot spot." More than 60 percent of business travelers visit the city to attend an industry event; but only 38 percent of these expect to spend on entertainment and gaming.¹⁵

Looking ahead, the Las Vegas Convention and Visitors Authority developed a three-year business plan that outlines aggressive strategies for growth. Introduced in November, the plan recommends targeting key market segments, especially international travelers who typically stay longer and spend more than their domestic counterparts. International travelers currently make up 18 percent of visitors; the city's goal is to increase this market share to 30 percent over the next decade. The plan's tactics include sales, public relations, and marketing efforts overseas. The authority also committed \$5 million in aesthetic and functional enhancements to the Las Vegas Convention Center (breakingtravelnews.com).

A proposal for a \$1.57 billion Las Vegas National Sports Center includes a 17,500-seat arena for basketball and hockey. Both the baseball and football stadiums could also be expanded.¹⁶ In the spring, developers announced plans for an amusement park, a new shopping and food area, and a pair of Ferris wheels, all intended to stimulate tourism on the Strip (UPI.com). Mid-summer, KTNV reported that, after an eight-year negotiation, the Humboldt-Toiyabe National Forest Service approved the plan of the Las Vegas Ski and Snowboard Resort to add 50 new ski runs, more parking, a new lodge, and more jobs for locals.

Despite good news overall, a few problems persist.

The "Strip" lost significant market share to Macau and Singapore gaming industries, which suggests that the hospitality industry will continue to struggle. As a result, enterprises like the Station Casinos LLC, after shedding more than \$4 billion in debt and emerging from bankruptcy in June, still faces challenges in returning to profitability.¹⁷



According to the US Bureau of Labor Statistics, the 2011 unemployment rate for Las Vegas was 12.5 percent. (But the outlook perked up a bit toward the end of the year, and a year-over-year comparison shows a total increase of 12,000 local jobs). A report issued by the Brookings Institute says that Las Vegas faces two related economic challenges: a relatively uneducated workforce and a dependence on industries most vulnerable to the recession.¹⁸ The city is also the nation's top market for foreclosures. By the end of the year, one in seven homes in Nevada was vacant and house prices continued to slide, falling nine percent from 2010.¹⁹ As Vegas Inc. notes, low consumer confidence leads to less spending, especially on travel and entertainment.

Perhaps most illustrative of persistent challenges, in November the city government moved employees into the new \$127 million City Hall, which some say is likely to remain mostly vacant. According to the associated press, the nine-story building was designed to hold 600 staffers. But only 200 moved in because of several rounds of budget cuts and hiring freezes. (The city council decided to build the hall five years ago, before the bust in housing and tourism).

In October, McCarran International Airport reported its highest monthly passenger counts of the year with 3.7 million passengers. Expansion plans for the airport complement a growth strategy, as a new terminal (scheduled to open in June, 2012) should boost the city's ability to handle international visitors. According to *USA Today*, customs will be able to process 2,200 passengers per hour (a big increase over the current capacity of 800).

Los Angeles

In 2011, Los Angeles was one of the top-performing metros for hotels.

STR reports that the city saw a revPAR increase of 12 percent for the year-to-November 2011 to \$89.98. The area's hotels performed very well, with occupancy increasing six percent to 72.7 percent. Average room rates rose 5.7 percent to nearly \$123.82.

According to the Los Angeles Convention and Visitors Bureau, the city hosted more than 26 million tourists in 2011, a record number bolstered by an 18 percent increase in international tourism.²⁰ In fact, Los Angeles is second only to New York as the top-ranked destination for overseas visitors, who represent one-fifth of the city's tourist arrivals and generate more than one-third of tourist spending.²¹



As an international gateway market for visitors from the Far East, Los Angeles remains a desirable travel destination "hot spot" for Chinese tourists, as reported in *China Daily*. In 2011, the number of visitors from China increased 40 percent compared to 2010. In December, the mayor visited China to promote friendship, trade, tourism, and investment. In announcing his plans, he noted that, compared to other US cities, LA is China's number one trading partner. Not surprisingly, air carriers added daily, nonstop flights between Chinese cities and Los Angeles.

In the spring, LA Inc., a nonprofit group that markets and promotes tourism for the city, projected that tourism — Los Angeles' largest industry — would generate nearly \$14 billion in direct visitor spending in the local economy, while supporting 450,000 jobs (bizjournals.com). Among "big events" boosting tourism in 2011 were the NBA All-Star weekend and the Electronic Entertainment Expo, which contributed to a 51 percent increase in convention room bookings.²²

During 2011, the city approved the formation of the Los Angeles Tourism Marketing District, a business improvement initiative aimed at raising more than \$10 million annually to promote LA to out-of-towners. The city council also approved plans for a massive redevelopment of the Wilshire Grand Hotel. The \$1.2 billion project will include a 45-story reconstruction of the hotel with an accompanying 65-story office building and retail complex. According to the *Los Angeles Times*, the city gave the project a \$79 million tax break.

In 2011, the sale of hotels in Los Angeles County increased dramatically. By the end of October, investors had spent \$550 million (on such properties as the Kyoto Grand Hotel and Gardens and the Sheraton Universal Hotel Los Angeles), a 77 percent increase from the same 10-month period in 2010. Jones Lang LaSalle also reports a flood of foreign and domestic investment in major projects. For example, Korean Air plans to demolish the 896-room Wilshire Grand Hotel and replace it with a \$1-billion mixed-use complex (including office, retail, and residential components, along with a luxury hotel). Also planned is a 22-story hotel to be operated as both a Residence Inn by Marriott and a Courtyard by Marriott starting in 2014.²³ Hershpa Hospitality Trust acquired the 260-room Marriott Courtyard Westside in Los Angeles for \$47.5 million. This hotel is Hershpa's first property in Los Angeles (businessweek.com).

To keep their revenues up and rooms full, some trendy hotels are introducing "game rooms" to give 20- and 30-somethings an alternative to the city's nightclub scene. Gaming may provide a good reason to stay in for the night and spend money at the hotel. (labusinessjournal.com).

As reported in the *Los Angeles Times*, California's hallmark industries — high tech, movies, and tourism — added nearly 100,000 new jobs in February, the biggest monthly increase since 1990 and a possible sign of an economy on the mend. In addition, according to the Los Angeles County Economic Development Corporation, new construction at Los Angeles International Airport (LAX) is expected to create nearly 40,000 jobs, generate \$2.62 billion in worker income, and take in \$6.9 billion in revenue, while helping the city recover from the ongoing recession.

While passenger volume at LAX increased 16 percent over the Thanksgiving holiday, LAX officials report that overall passenger volume has not yet returned to 2007 levels (its highest post-9-11 level before dropping again due to the economic difficulties of the past few years).²⁴

Miami

The Miami market emerged victorious in overall performance for 2011.

According to STR metrics, Miami's revPAR saw an impressive, double-digit improvement (14.6 percent) in the year-to-November 2011, while occupancy grew eight percent. Average room rates climbed a steady 6.2 percent to \$150.83.

The jump in occupancy in Miami-Dade County's 47,500-room hotel business was a sure sign of the city's growing popularity as a top tourist destination. Nearly half of Greater Miami's visitors come from outside the US. In 2011, tourists spent nearly \$20 billion on lodging, food, shopping, transportation, and entertainment. The Greater Miami Convention and Visitors Bureau invested "more marketing dollars than ever" to support 2011 tourism — \$4 million more than its typical budget of \$10-\$12 million. Among the bureau's tactics for summer were seven limited-time promotions.²⁵

The bump up in hospitality business helped spur job growth in the sector. In Miami-Dade County, leisure and hospitality jobs (which include posts at attractions, hotels and restaurants) hit an all-time high, according to figures from the US Bureau of Labor Statistics.

With growth comes opportunity. In March, Jones Lang LaSalle Hotels predicted that deal volume in Miami-Dade could hit \$750 million in 2011, a 250 percent increase over 2010. The analysts credited the boom to Miami's position as an international gateway.²⁶

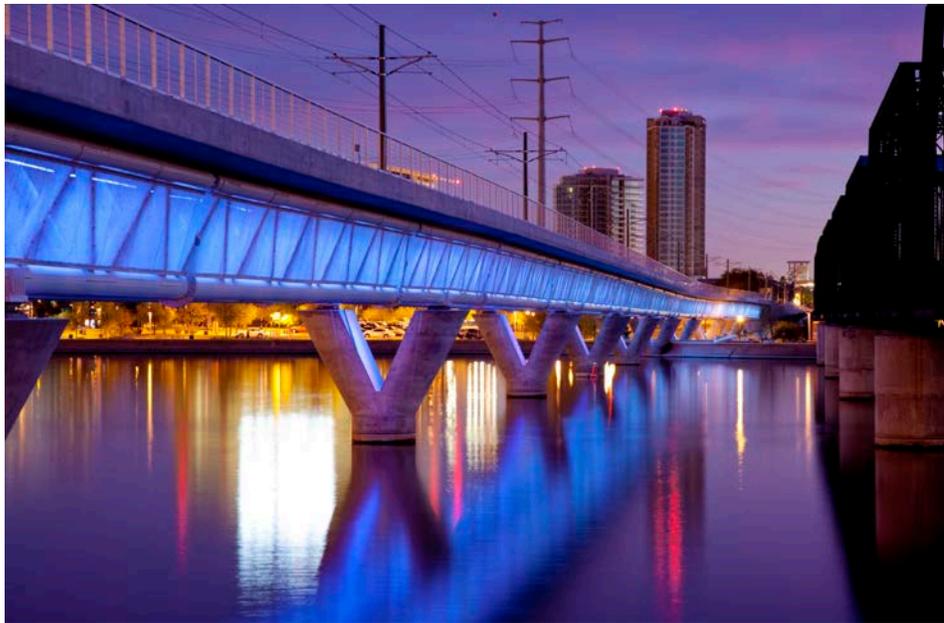


According to the *Miami Herald*, small boutique hotels and larger independent hotels sought new ways to attract business, some by partnering with online travel guides, others by introducing rewards programs. The daily newspaper also reported a “cultural awakening” with the development of Miami Art Museum and Miami Science Museum in downtown’s Museum Park. When the science museum is completed, Miami will have built four world-class arts and science institutions in a 12-year span.

At the same time, Florida lawmakers are aiming to “give Las Vegas a run for its money” (CBS Miami). In September, a bill introduced in the state House and Senate would create a state gaming commission to regulate casinos and allow a limited number of gaming licenses. (The current law largely limits casino gambling to resorts operated by Native American tribes). If the state approves the bill as written, resort casinos would be allowed to operate and sell alcohol 24 hours a day. Resort casinos would pay a 10 percent state tax on gross receipts. The amount of investment required of a casino operator: \$2.5 billion. At least one investor — the Malaysian-based Genting Group — has already submitted a proposal to build a \$3.8 billion casino resort with six towers, 50 restaurants, and a shopping mall overlooking Biscayne Bay in downtown Miami. *The Wall Street Journal* reports that the group has spent about \$450 million on real estate, while pledging to help rebuild part of an interstate highway.²⁷

In just the first quarter of 2011, Miami International Airport (MIA) served more than nine million travelers, an overall increase of 6.1 percent over the same period last year. *Miami Today* reports that international passenger traffic jumped 7.95 percent and the number of domestic passengers grew 4.55 percent. Over the summer, the airport added flight options intended to increase international travel to the city, including flights to Moscow, Amsterdam, Barcelona, and Brasilia. Also, Miami became one of only a handful of cities in the US with regular service aboard an Airbus A380; the two-story aircraft flies a daily Lufthansa Frankfurt-Miami route.

Of course, Miami remains a major hub for arriving and departing cruise ships. A \$250 million revamp of the Port of Miami, scheduled for 2012, will allow the city to berth the largest cruise liners (miamitodaynews.com).



Minneapolis

Overall, the Minneapolis hospitality industry reported a good year.

Metrics from STR show occupancy up 5.7 percent and revPAR advancing a respectable 10.9 percent in the year-to-November 2011. These gains in revPAR are above the 25-metro average reported by STR.

Minnesota Public Radio noted an uptick in the industry even before the warm weather, noting in April that lodging revenue was up nearly 12 percent in the state (higher than the national average, but not yet at prerecession levels). The upswing is expected to continue with planned hotel expansions and renovations, including downtown Minneapolis projects at the Hyatt Regency and Radisson.²⁸

National Geographic picked Minneapolis among the “10 Best Trips of Summer 2011” — only one of two locations in the continental US. The editors characterized the city as having a “pedestrian-and-pedal-friendly downtown and welcoming Midwestern vibe” which “make it easy for first-time visitors to quickly feel at home.” The magazine particularly praised the city’s art/music celebrations and cultural festivals.

Watkins Research Group, named Minneapolis's convention and visitors' bureau — Meet Minneapolis — third-best among those in 46 North American cities (bizjournals.com). In December, Meet Minneapolis revealed a new tagline for the city — "Minneapolis: City by Nature" — along with an initiative intended to increase visitors by 300,000 annually. According to the mayor, job growth is the main objective behind the new ad campaign (promoters say the hoped-for growth could add up to 500 hospitality jobs in the city).²⁹

The Minneapolis-St. Paul International Airport (MSP) is the second-most fiscally efficient large airport in North America, according to an analysis of 2009 data by the Air Transport Research Society, which concluded that the cost per boarding passenger at MSP is among the lowest for hub airports in North America. In 2011, a study by FlightStats (an online flight tracking and airport information service) named MSP the second most punctual airport in the world (cambridge-news.co.uk).³⁰ In 2011, MSP added full-body scanners at its security gates that provide far less-revealing X-ray-like images. Travelers who are deaf or hard of hearing also now have access to visual (as well as audio) paging services (bizjournals.com).

New Orleans

In New Orleans, city boosters are feeling a positive momentum.

In 2010, hotel demand grew the fastest of any market followed by STR. In 2011, that stellar growth leveled off, as revPAR rose only 3.6 percent for the year-to-November, while occupancy actually declined -1.1 percent. Average room rates increased a slight 4.7 percent to \$122.48.

According to the New Orleans Convention and Visitors Bureau (NOCVB), in the first half of 2011, the city had a 7.7 percent increase in visitors, evidence that tourism is slowly inching closer to pre-Katrina levels. (In 2004, New Orleans had a record-breaking 10.1 million visitors). Of the 4.8 million visitors through summer 2011, 77.2 percent were visiting for leisure, 14.4 percent attended conventions, associations, corporate meetings, and trade shows, and 8.4 percent were in New Orleans for general business. They spent a total of \$3.1 billion, a boost of more than 10 percent over January-June 2010.

Now, the city has plans to attract 13.7 million visitors by 2018.

STR reports that the city had 35,194 rooms in the spring of 2011, about 4,000 rooms shy of its capacity before the storm. But in the past year, 17 new hotels were in preplanning stages. Even more significant, a few "new" hotels reopened. For example, after a \$275-million redesign and revitalization, the Hyatt Regency New Orleans put 1,193 renovated rooms back in the market, while doubling its meeting and exhibition space.³¹ The 1,622-room Hilton New Orleans Riverside spent nearly \$100 million rebuilding and is now experiencing or exceeding pre-Katrina level ADRs (NOCVB).

In September, the New Orleans Convention and Visitors Bureau announced that a joint venture between Carey Watermark Investors Incorporated and HRI Properties would invest more than \$45 million refurbishing the Chateau Bourbon Hotel in the historic French Quarter, a prime location for visiting tourists and business travelers alike. Upon completion of the renovation, expected to be in the second quarter of 2012, the property will be renamed the Hyatt French Quarter hotel, through a franchise agreement with an affiliate of Hyatt Hotels Corporation.



New Orleans certainly continues to know how to throw a party.

More than one million people visited for Mardi Gras (NOCVB). In April, the Greater New Orleans Hotel and Lodging Association reported that the Ernest N. Morial Convention Center kicked off the spring season with all of its 10 halls occupied for the first time since July 2010. During April and May, more than 136,000 people attended 13 events at the convention center, generating nearly 186,000 room-nights (an 18 percent increase from the year before). Among the organizations holding conferences in 2011 were the American College of Cardiology, the American Institute of Architects, and the American Public Transportation Association.³²

Now, New Orleans is preparing for major sporting and cultural events that promise to boost tourism trade. Over the next 18 months, the city will host college football's national championship game, national basketball tournaments, and the 2013 Super Bowl. In April, the Port of New Orleans will welcome a fleet of tall ships and military vessels as part of a bicentennial celebration of the War of 1812. Also in the spring, an air show featuring the Navy's Blue Angels is expected to draw more than 100,000 people.³³

Perhaps it's not surprising that both TripAdvisor and *Travel + Leisure* recognized New Orleans as a premier travel destination in lists released in July 2011. Also, subscribers to *Corporate & Incentive Travel* magazine and *Association Conventions & Facilities* magazine once again recognized the New Orleans Convention and Visitors Bureau for superior customer service with an "Award of Excellence" and the "Distinctive Achievement Award." *Meetings and Conventions* magazine named NOCVB one of the top five CVBs in the world.

Louis Armstrong New Orleans International Airport got off to a strong start in 2011 after posting its seventh straight year-over-year gain in February (according to figures for the first two months of the year). The airport handled 621,220 travelers in February 2011 compared with 618,534 in February 2010. The number of passengers leaving the airport was up 10.3 percent from the prior year; the number arriving was up 9.5 percent.³⁴

New York

In 2011, a record number of tourists visited New York City — slightly more than 50 million people — generating an economic impact of around \$48 billion and supporting 320,000 jobs in the five boroughs (msnbc.com).

STR reports that the city realized a modest 6.2 percent boost in revPAR (compared to 14 percent in 2010). But the occupancy rate hit 81.3 percent, after an increase of 0.2 percent (suggesting limited capacity for growth overall). Compared to other markets, New York still maintains the highest average room rate (ADR) at \$240.79 (all figures are through November).

At a press conference in November, Mayor Michael Bloomberg affirmed that the city's \$31 billion hospitality industry is growing, despite the struggling economy. By the end of 2011, New York had 90,000 hotel rooms. Of the expected 2012 hotel openings, 40 percent are in boroughs outside of Manhattan and particularly feature budget properties.³⁵

Deal volume in the New York hotel market doubled in 2011. According to a report by Jones Lang LaSalle Hotels, deal activity reflected a combination of increased room demand, the rising stock prices of real estate investment trusts, and the loosening of credit markets. Participants included institutional funds seeking liquidity, brands wanting to improve their assets and retain management contracts, and investors seeking to exploit the dramatically improving transactions market and low-cap rates (hotelnewsresource.com).

Marriott International, announced a franchise agreement to develop the Courtyard and Residence Inn Manhattan/Central Park, a new 68-story property housing two different hotels — a 378-room Courtyard by Marriott hotel and a 261-room Residence Inn by Marriott hotel. Hersh Hospitality added two hotels to its New York City portfolio — the 112 room Holiday Inn Express Wall Street and the 81 room Hampton Inn Financial District — for nearly \$70 million. Sheraton New York Hotel and Towers announced a \$150 million renovation project, part of the hotel's commitment to enhance its global portfolio (hotelnewsresource.com).

The first Conrad hotel in New York City opened 463 luxury rooms in the financial district. In June, London-based YOTEL also opened its first US hotel, promising visitors to New York a high-style, low-priced alternative, while Hilton Hotels & Resorts opened Hilton New York Fashion District (hospitalitynet.org).

At the same time, almost a third of all hotels opening in Manhattan in 2011 were boutique or lifestyle hotels, and more than half of the 33 new properties that came online were independent hotels, according to researchers in Tourism and Management at New York University (newyorkcityluxuryhotels.com).

Wedding-generated hospitality revenue is likely to increase significantly over the next three years, according to a report from the Independent Economic Conference, as same-sex marriage ceremonies promise to generate at least \$284 million in spending, while putting another \$27 million in taxes and license fees into the state's coffers. But as reported by *The Daily Beast*, these estimates are very conservative as they assume an average cost of \$4,000 per wedding (the average wedding in New York City costs about \$70,000, while the national average is closer to \$30,000). Revised estimates climb up to at least \$2 billion, with hotels and event spaces being the biggest winners.

In October, Mayor Michael R. Bloomberg announced that a new 4,000-passenger ship would make New York City its year-round home port beginning in May 2013. The ship, the largest ever to home port in the city, will bring an estimated 140,000 additional embarking passengers into New York over two years, resulting in an estimated \$35 million in additional direct spending.

Oahu Island

Oahu tourism started 2011 with a bang, and hotel room demand increased through November.

According to STR metrics, the Oahu market was one of the top performers of the year, with the largest increases in all three key performance metrics: occupancy, average daily room rates, and revenue per available room. Occupancy increased 3.5 percent over January-November 2011 and revPAR advanced an impressive 14 percent. Average daily room rates also gained momentum, increasing 10.2 percent to \$163.36.



In November, the 2011 APEC (Asia-Pacific Economic Cooperation) conference gave the Oahu hotel industry a bigger-than-expected bump, as occupancy peaked at 87.3 percent; room revenue exceeded year-before levels by double-digit percentages (*Hawaii News Now*).

In early March, the tsunami in Japan threatened the sector, especially since the Japanese make up nearly 18 percent of Hawaii's 7.1 million annual tourists (the state's single largest source of visitors outside the continental US). Eighty percent of these travelers stop in Honolulu, a gateway city. Thousands of bookings of tours and hotels were canceled, according to the Hawaii Tourism Authority.³⁶

But in October, the number of visitors to Oahu rose 2.1 percent (compared to October 2010), while spending jumped 36 percent to \$639.6 million. They also stayed comparatively longer (7.02 days compared to 6.86 days) and spent noticeably more on a daily basis (\$256 per person from \$197 per person). Overall, total visitor spending across the state for the first seven months of the year increased 16.1 percent, compared to the same period last year (hawaii247.com).

Where did the tourists come from? For the first 10 months of 2011, arrivals to Oahu from Canada rose 22.8 percent, but arrivals from US West (-2.4%), US East (-0.6%), and Japan (-5.7%) were lower than year-to-date 2010 (hawaii247.com).

A real surge in interest also came from Australian tourists likely because of a strong exchange rate and an increase in the number of flights between Sydney and Honolulu. December figures from the Hawaii Tourism Authority show Australian visitor numbers were up 36 percent (on top of a 26 percent jump in 2010). Data also shows Australians are staying longer in Hawaii, with an average of nearly 10 days, and spending more money during their stay.³⁷

By the end of the year, the islands' regional airline had launched year-round daily flights to Australia, a growth strategy likely to boost the number of visitors even more.

Orlando

Everything's looking up in Orlando.

STR metrics show that during 2011 (through November), revPAR figures increased 10.9 percent, with average room rates increasing four percent and occupancy rates gaining momentum at 6.6 percent.

Orlando ranked fourth among the 25 most visited cities in the US, according to Concur, a travel services company. Also, for the ninth consecutive year, Orlando remained the most popular summer destination in an American Society of Travel Agents survey, "Hot Spots for Summer": Orlando came out on top with an 18 percent share of responses. Some local attractions — including SeaWorld Parks' Aquatica — made it onto TripAdvisor's list of the country's Top 10 water parks.

In a bid to carve out new niches from within its existing hotels, Walt Disney World announced plans to convert some of its 25,000 hotel rooms into moderately priced, princess-themed rooms and "health-and-wellness" suites. The initiative includes the company's first new hotel in Orlando in nearly a decade, Disney's Art of Animation Resort: more than half of the roughly 2,000 hotel rooms will be basic suites aimed at budget-conscious families.³⁸ The *Orlando Sentinel* also reports that Disney generates an estimated \$18.2 billion a year in economic activity for Florida, while being responsible for more than one of every 50 jobs in the state. All told, the enterprise (Disney World, Disney Cruise Line, and its Disney Vacation Club) accounts for 2.5 percent of Florida's cumulative gross domestic product.

The 400-room Wyndham Grand Orlando Resort Bonnet Creek opened in October, more than five years after the project was announced (hotelnewsnow.com). In another project, developers scaled down earlier plans for a 260-room hotel in downtown Orlando and now hope to build a 155-room Cambria Suites instead. If approved by city officials, the \$20 million project would be the first newly built hotel in the city center since the Grand Bohemian opened in 2001.³⁹

In April, air traffic increased 5.6 percent. That trend continued in May, the third consecutive month with more than three million passengers arriving and departing from Orlando International Airport. The airport estimates that the total number of passengers for 2011 exceeded 35 million, an approximate two percent increase over the 2010 total. With the addition of several new carriers and additional routes from established airlines, the number of international travelers totaled nearly 3.4 million, a record amount and a more than five percent increase over 2010 (orlandoairports.net).

Phoenix

The past year has been a middling one for the Phoenix hospitality industry.

STR metrics show that through November, occupancy in the Phoenix market was only 5.0 percent higher than the same period in 2010, while revPAR was up by 8.4 percent. Yet, industry watchers predict that macro-level demand drivers, including population growth and a burgeoning economy, could set the stage for sustained growth in the years to come.⁴⁰

Overall, tourism was up in 2011, with more leisure and business travelers visiting the state. Higher occupancy and room rates were enabled by a decline in the number of new rooms added in the market (an advantage that could disappear as new properties come on line). Smith Travel Research says that the fans of spring training stimulated Phoenix's tourism industry in March.



On another positive note, the Clarendon Hotel reported first-quarter revenue increases of 38.7 percent compared to 2010; the Candlewood Suites Phoenix experienced a similar uptick. The 242-room Westin Phoenix Downtown opened during March, one of many new properties, most still under development. In November, Marriott International announced its intention to move forward with a 280-room urban concept hotel at Central Avenue and Madison Street, part of the redevelopment efforts at the Luhrs Tower. Construction could start in early 2012 (bizjournals.com).

As reported by *The Arizona Republic*, the developer of downtown Phoenix's CityScape project secured a \$34.3 million loan from the nonprofit Phoenix Community Development and Investment Corporation (a participant in a US Department of Treasury community development program) to help cover construction costs for the Palomar Hotel. The project also received a \$12 million loan from a Hispanic community development agency that focuses its efforts on assisting low-income and minority residents and businesses, which cited the hotel as a source of jobs for a Latino workforce.

Yet, hotel and tourism officials fear that Arizona's controversial immigration law will cause Phoenix to lose the business of conventions and conferences, which are often booked two or more years ahead of time, noting that reservations lagged in 2011.⁴¹

On a positive note, the Arizona Department of Commerce predicts that the hospitality and leisure sector would add a total of 17,400 jobs in 2011 and 2012.

San Francisco

In 2011, San Francisco was a top-performing market in the US, with a nearly \$8 billion tourism industry whose growth exceeded the national average.

As STR metrics make clear, San Francisco reported the highest revPAR increase — a 20.6 percent gain — among the top US markets for the year-to-November 2011. San Francisco also posted the largest average room rate (ADR) gain with double-digit growth (14.5 percent) to \$156.23. The ADR increase drove the bulk of San Francisco's revPAR growth.

Why did San Francisco come out ahead?

STR credits the city's diverse demand base (since San Francisco is a financial center, convention market, and leisure destination), its role as a gateway for international travel (which prompts hotels like the Hilton Huanying to offer Chinese travelers authentic amenities), and its hospitable climate.

Another contributing factor was the lack of growth in room inventory: 2011 saw no new construction, and only six properties entered the planning phase, as reported by the *Contra Costa Times*. Because of the high cost of building in San Francisco, investors put their money into existing properties: as noted by the Atlas Hospitality Group, nine major hotels were sold for a total dollar volume of more than \$780 million. At the same time, millions were spent on hotel renovations across the city and region. For example, according to the *San Francisco Business Times*, the Hilton San Francisco Union Square started its \$50 million project to remake 550 of its 1,908 guest rooms. The hotel's 20,000-square-foot ballroom and 31 of its meeting rooms will be expanded and updated with contemporary design features, as will the property's public spaces.

Also, the convention business was relatively strong. For example, the International Pow Wow travel convention — held in San Francisco again for the first time since 1992 — attracted 3,500 exhibitors, more than 1,000 foreign tour operators, and 450 travel writers to the Moscone Center with the aim of selling American vacation packages. Over the next three years, that convention alone could boost tourism by \$350 million (bizjournals.com).

But when it came to recovery, not all parts of the city were equal. The *San Francisco Chronicle* reports that times were tough for hotels in San Francisco's Nob Hill area. The Stanford Court defaulted on an \$89 million loan. The Mark Hopkins and Huntington Court were both put up for sale, while the Fairmont lost a protracted battle with the city over its plans to go part-condo.



Terminal 2 at San Francisco International Airport opened, offering such amenities as 350 power outlets, art exhibits with cell phone guided tours, and a play area for children. The transformation was described by *The New York Times* as a \$383 million gutting of a drab 1950s-era building that last served as the international terminal before being shuttered more than a decade ago. Also, a city mandate had required that terminal 2 achieve at least LEED Silver status for its energy efficiency, water conservation, and other environment-friendly attributes.⁴² In November, *The Arizona Republic* reported that Allegiant Air will begin service to San Francisco in early 2012.

Washington, DC

The hospitality market in Washington, DC was flat compared with most other markets in 2011.

STR metrics show that in the first 11 months of 2011 revPAR increased slightly by 1.3 percent, while occupancy rates were up only by less than 1 percent. Average room rates remained nearly flat with a 1.1 percent gain to \$146.

In 2011, the CityCenterDC project finally kicked off, after years of planning. According to *The New York Times*, the \$700 million complex — with 2.5 million square feet of office, residential, and retail space, as well as a public plaza and park — is an ambitious project that caps a transformation of downtown started in the late 1990s. Completion of CityCenterDC, which will include a luxury hotel, is expected in late 2013, according to the developers.

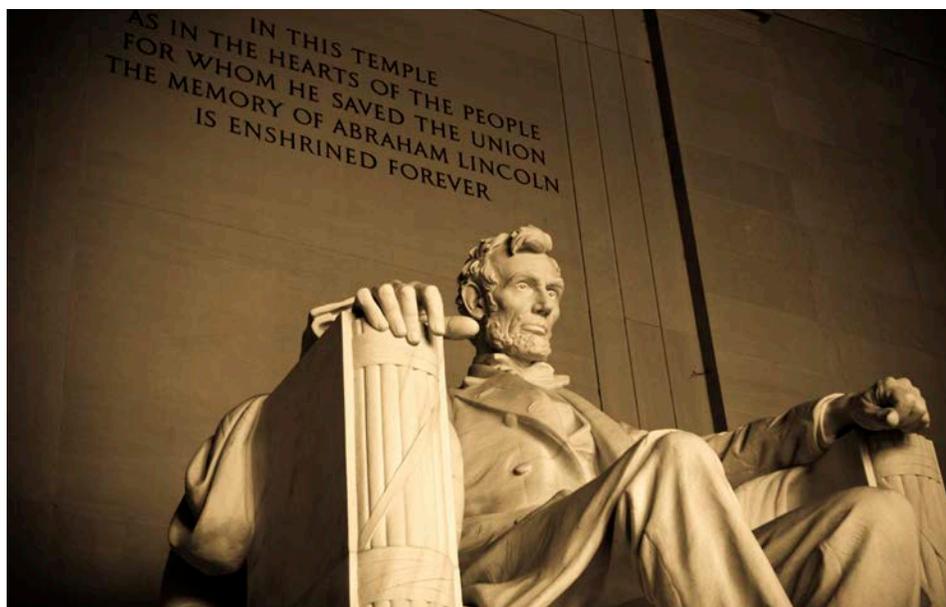
Hersha Hospitality Trust acquired the 152-room Capitol Hill Suites for \$47.5 million, a move intended to expand the company's footprint in the Washington, DC market (bloomberg.com). Chesapeake Lodging Trust purchased Courtyard Washington Capitol Hill/Navy Yard for \$68 million (costar.com), and a Bethesda-based hotel company purchased the 888-room Grand Hyatt D.C. for \$442 million (bizjournals.com).

Choice Hotels International announced plans to develop the city's first Cambria Suites hotel, the project being a joint venture between Choice Hotels, Concord Hospitality, and Roadside Development (investor.choicehotels.com). At the same time, other investors made plans for properties in the area. *The Washington Post* reports that Richard Branson, owner of Virgin Hotels, told participants at The Americas Lodging Investment Summit that Washington, DC would be a prime market for his business, but did not identify any specific targets. Barclays Capital looked for buyers for the St. Regis hotel.⁴³

Trump Hotel Collection proposed transforming the historic Old Post Office Pavilion into a nearly 300-room luxury hotel complete with conference meeting space, a spa, and museum. Though listed on the National Register of Historic Places, the building was deemed under-utilized by the government, and the General Services Administration solicited proposals for its redevelopment.⁴⁴

Looking forward, tourism officials in both DC and the surrounding suburbs are concerned about the potential impact of politics on business. The likelihood of cuts in federal spending could hurt business, especially since DC is the center for many government meetings and conventions. If federal travel is curtailed, hotels will feel the pinch.⁴⁵

Washington, DC is the nation's fourth most expensive market for air travel, according to the Bureau of Transportation Statistics, with both Dulles International and Reagan National above the national average for air fares.



Conclusion

Despite the ongoing global economic challenges, the US lodging industry is likely to continue to improve. In early 2012, Hotel companies are moderately optimistic. At a recent industry conference, senior executives (as well as analysts) agreed that booking volume was increasing and occupancy was improving. Many hoped that the momentum would continue and even gain speed. Business travel is also returning, and this recovery trend is likely to persist.

Regionally, the improvement in travel-related spending is expected to be a “mixed bag.” Markets still suffering from serious housing declines and high unemployment will likely take longer to recover.

Planning today — for coming changes in everything from demographics to technology — could help both businesses and the industry overall thrive in 2013 and beyond.

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