John Hardy: First of all, I really appreciate everyone doing this. The idea is that conversations came from an outgrowth of the HD Summit that Michelle and Michael are very involved with and you have all experienced at other conferences. We see people at the conference and usually the best part of the conference is the conversations we have there. So, we thought maybe it would be interesting if we could bring some really good minds together for topics that everyone has an interest in that will benefit their business.

This conversation came from the fact that the market has changed substantially over the last three years. It has gone from being really awful to a lot better, and I have discussed the topic with each one of you individually but never all of you collectively. So, I am looking forward to this. The title of it, "The Brands, Boutiques, and Purpose Cows," really is a forward thinking concept about the next one to three to five years - where is this market going? The thought was at one time that brands were not that big of a deal, and then they became a big thing. Then boutiques came in and they became a big thing, a market segment of their own and now you have Intercontinental Hotels Group doing boutiques. So, it has gone from Schrager to Intercontinental – so that is quite a shift and the concept of the "Purple Cow" is – and this came from Charles Warren. In a really highly competitive market where everyone is

barraged with all kinds of information, how do you distinguish yourself, whether it is your own business, your own real estate product, your magazine or whatever it is? How do you create something distinctive that will attract the type of revenues that you are looking for and the type of growth potential that create sustainable competitive advantages?

So, that was the thought. So, what I would like to do is just turn this over to Michael Adams. He is our Moderator and he does a great job of it and let him get this started.

Michael Adams: Thanks, John.

If any of you checked on the Web site, you noticed that there was a wide range of questions, and some of them I had to condense. So, I hope I was being fair to the questioner in my reiteration of the question, but if I am not and one of you happens to be the questioner, please speak up.

I guess I would just like to begin with one of John's concerns and that was the idea of segmentations and the trend in mixed-use development. It seems to me, as John pointed out, there is more of that than ever with hotels and timeshares and hotels and condos. There is a recent piece in The New York Magazine that the Plaza and the St. Regis in New York are now offering condo space for

anyone who wishes to spend that kind of money. So, John, do you want to expand on that and talk a little bit about what is on your mind with that question?

John Hardy: Yes. I am interested in that for two reasons. One is that the surge of business that we have had in the last three months has been in those kinds of deals, and they tend to be large resorts, four and five star investment vehicles that have combined hotel use, condo use, fractional or timeshare use, restaurant use, marina use, convention center use and one is a vertical resort type deal that Simon and Dan are familiar with in Vail. Another is a horizontal 225-acre resort in Wisconsin, about an hour and a half from Chicago that includes a water park, and one we are looking here at Atlanta one that is vertical of about $100 million in scope that is a high-end boutique on the lower levels, 223 rooms, and then 100 condos on top of that along with the normal restaurant, health club, and parking.

So, what I am seeing in the market place are these more mixing of uses, more sort of co-investing of professional investors and the private investor through the condo sales feature along side the professional investor and I am just wondering if that is maybe the next “Purple Cow”. I would be really interested in what Simon and

Dan are seeing out there because they have a whole different perspective on it than I do.

Simon Turner: I guess I will take the first crack at that from a couple of angles. Since we just sold the Plaza here in New York and I suppose maybe for those of you who are not familiar with the transaction, I should just share some of the details that Michael has asked about that might be of interest.

We bought the Plaza in 1994 and have spent the last 10 years working it as best as we possibly could to make it a great hotel. And, I think we did a reasonably good job and the Fairmont* guys went in there and did a good job of bringing the service product to a level it needed to be. I think there was money spent on the physical product, but then literally out of the blue, we got an offer. We got offers all the time on the Plaza, as you might expect for an asset like that, but somewhat out of the blue, we got an offer from a residential group or a property group that had experience in historic residential conversions and frankly, when they ran their slide rule over the numbers of the building and looked at its position and its views of the park and looked at the size of the building, because it is a huge, massive space, they formed a view that the value of the real estate of the residential conversion was significantly higher than it was as a hotel building.

So, they put an offer on the table that was substantially higher than any hotel value or any hotel investor could justify. So, with some regret, we sold the hotel approximately a month ago.

Dan Abrams: This is Dan Abrams. We have not seen a high-end hotel project that did not have a residential or for sale or mixed-use component to it in probably a year and a half. I think the explanation for that is actually kind of simple when you look at the mathematics. The cost of building, in some cases owning a full-service, luxury-type hotel is rarely justified by the returns that you can get in terms of rate and revenue and that sort of thing. And taking any particular site, if you are talking about a development deal and looking at the various uses, it is rare that it makes any sense to build out the entire entitlement in terms of that they are in a hotel product. You wind up with much too big a hotel and what the real estate community has figured out is that they can optimize the value and usage of a particular piece of property by having a mixed-use facility that might have hotel, retail, residential components, whether it is condominiums, condo-hotel, whatever the for-sale component that is optimizing the value of the parcel. But at the same time, by creating a portion of the piece that is for sale and that can be liquidated in a relatively short order, the remaining cost spaces that

you have in the hotel tends to be manageable, relative to the revenues that it can generate.

So, we are finding that on these mixed-use types of facilities, after you run the numbers out and you take out the revenues that are anticipated from the for-sale component, the remaining basis in the hotel is very, very reasonable, relative to its cost. It is typically much less than its cost. Therefore the numbers of the hotel tend to work.

As I said, we have not seen a project other than something like that in probably a year and a half. They are all coming in with a for-sale component.

Simon Turner: Just to echo I think what Dan said, we have a pretty significant investment in Four Seasons, the brand. So, we stay fairly on top of first of all, what Four Seasons is doing on the development side, but also what the other luxury brands are doing. I would echo exactly what Dan said. When we look at the pipeline of our brands as well as the competition, very, very few, if any, of the major new development projects are just straight hotel. There is always a hotel and fractional, hotel and condo, hotel and office, hotel and

something else, and the whole sort of mixed-use approach; and being able to amortize or allocate the infrastructure costs across multiple uses as well as I think to achieve some synergies from a revenue standpoint or either from a cost standpoint, that is the name of the game on the new-build side.

But I guess to build on something that Dan referred to, you only have to look at The Wall Street Journal today and the heading on the front page of one of the sections is, "Investors Buy Real Estate at Record Pace," and it goes on to say, "Wary of stocks, more individuals buy condos than rental property." I think what is driving this an awful lot is that there is so much money sloshing around in the system and I think what is happening in the residential real estate market as a whole and the knock-off effect that it is having on our business is all about money supply and money flow. There is just a ton of money that is going into the residential real estate market and there are those in the hotel business or related to the hotel business who are taking advantage of that huge investor appetite, looking for a hard asset investment.

John Hardy: I think you are right, Simon. We talked about this a little bit at ULI and Lou Plasencia went around the room and asked all the investors how much they were looking at investing in the market

going forward and every single one of them said, "As much as possible."

But then when we got down to, "Well how do you really see the returns there for all this capital?" They really could not answer that very well. Correct me if I am wrong, Dan, but it was really money-driven more than market-driven it seemed like.

Dan Abrams: I think that is right. I think that the group, the ULI Group, was fairly uniformly uncomfortable with what they had to pay for property at the same time fairly aligned that they were just going to go and pay for them because they had to get money out the door. It was a very, very interesting bit of tension in the views.

John Hardy: It is very odd that you would have this capital appetite, and I think some of it is justified market-wise because there are trends of people investing – and I think this goes back to 9/11 and the technology boom combined, where people are uncomfortable with the stock market because you had 9/11. You had all this corporate scandal. Then you had a recession. Then you had the technology bust. So, people are uncomfortable that they cannot put their hands on some solid physical asset. So, whether it is Baby

Boomers or it is outside capital from the Mid East or the US, I think they are thinking that the psychology is that if I invest in a hard asset, the value may drop 10% or 20%, it not going to go to zero, and I have something, a hard physical asset, that maybe I can get some return out of it. I think that is driving a lot of this hotel/condo development where people are investing. For right now, the psychology and the mindset is for people to put money into real estate in one form or another.

Bob Harnach: The question I have is, how long do you foresee this mixed-use trend continuing? It seems – and I will answer it partially – it seems like what we have now is a growing supply side and the only way that supply side works is if there is a growing demand side. If we are talking about four and five star hotel properties and the prices that I have seen on some of these condo/hotel parcels have been exorbitant. How many people are out there creating the demand for this type of product?

John Hardy: That is the big question. I do not know where all this demand is coming from exactly.

Claude Amar: I would like to backtrack a little bit. I think that the reason why we saw so much of these hotel condos developments is also for another two reasons. One is that it reduced the debt ratio at a time when debt was difficult to get, and the second one is most of them were done in refurbishment where the developer did not want end up with a 600 or 700 room hotel. And since they sold very well, the trend was established.

John Hardy: Claude is the hotel/condo –more prevalent in Europe than it is in the US?

Claude Amar: In Spain, yes. Not in France and in northern Europe. Not yet. In England, yes, yes.

John Hardy: Are they urban hotels? Are they resort hotel properties?

Claude Amar: Both. We see in these results the same phenomenon as you have in the US with the timeshare. It is picking up again, but then it is called timeshare.

John Hardy: I asked the Interval guy who is on our ULI Committee if the condo trend has affected the timeshare business, and he said it has had a big impact. Because if you think about it, other than the distribution of having an exchange, if you could – they are basically financing these things 100%, and it seems like if you had a choice, you would invest in something you might get a return on or that you have some residual value in. There is a secondary market for it where in timeshare; there really is no secondary market. So, if you thought about it from the personal investment point of view, and you had a property that was a resort that you liked or it is in Las Vegas or it is in Manhattan, you would think there would be more of a trend to the condo side of it than the timeshare because of the fact you have the residual value and the chance to maybe make it pay for itself and make a return.

It will be interesting to see how big a trend this really is. Personally, I think it is a substantial trend. I think there are a lot of things going on plus the fear of another terrorist attack, and what it is going to do to the stock market. The fact that Baby Boomers want to have a physical asset that they can point to or they can go and enjoy rather than putting it into stocks where they do not know where it went or they can track, but if you buy a condo in Ft. Myers and you buy a condo in Las Vegas, you can go and enjoy that. You can go see it.

To me, I think it is more than a temporary trend. I think it is going to last a while. In cities like New York and Gateway cities like New York and Miami, where people come up from South America and buy a condo. New York is pretty much on fire, real estate wise. I think it is the only city in the country where you are having inventory compression in the hotel industry.

Simon Turner: You mentioned the Baby Boomers. I think to talk about this subject which is the residential bubble or boom whatever you want to call it, without talking about demographics, is missing a huge impact. I think that if you look at the number of Baby Boomers who are approaching retirement and if you look at the advances in health care such that people are living longer and are active longer; and then borrowing something from PDS which, if you look at the trend which has occurred over the past 5 or 10 year maybe, people are now less collecting possessions but more collecting experiences, it all sort of ties together. You could sit there and say, ‘Listen; find me a piece of dirt that is in some way close to a beach or a mountain or a golf course. I mean people make mistakes if they make this assumption, but find me a piece of Direct that is decent. Build something on it to market it to the Baby Boom retiring generation, and how can you miss? Again, I think in the execution of something like that, I think some people will miss, but certainly if

you look at the macro view where everything points to a continuing opportunity to sell second homes, fractionals, timeshares, whatever, to the Baby Boom generation as they sort of move into that, with those retirement years.

John Hardy: Yes, you are right, and it is also the younger people are also very attuned to traveling and all those kinds of experiences, too. My kids are in their early 20s. They have lived in foreign countries. They have been everywhere. Travel is second nature to them.

Michael Adams: One of the questions I guess would be how this will effect the larger hotels in terms of new construction as opposed to renovation, and what do you see in that regard?

John Hardy: I see more new construction and in this, I would be interested in hearing what Dan and Simon are saying but there is so much capital, there are not that many deals to recycle any more that I can see. A lot of them have been done already. They are in the hands of the consolidators, Marriott or Starwood or REIT, so I do not know where the turnover is going to come from on existing property unless the prices just get so high that people take advantage of

that. I would think it would drive more new construction, maybe though it is not totally justified.

Dan Abrams: It is more of a new construction type of product because you can configure the property the way you want. If you are going to do, let us say, a combination of a condominium and a hotel and you are going to be selling luxury condominiums, you have to configure that property so the condominium owners have a separate entrance, a separate elevator bank, somewhat different set of amenities and service. You cannot really do it that easily with existing property. That type of setup.

If you are going to do a condo/hotel where the people actually own the units that they are in, that typically could be a conversion product from an existing property. So, it really is going to depend on what you are trying to do with the property. I do believe that a lot of new construction will be spurred on by this type of format and I do share the views of the other panelists that it is a very demographic-driven – I agree with Simon there. I think it is interesting because we talk about this internally here all the time about the depth of the demand and it does seem as though if you build a reasonable product with one of the, what I will call one of the scarce amenities. So, it is a water front or a mountain or a great

golf course or something like that, that there is almost no end to the demand, that sort of appears to be, but we do not actually believe that and we think that we do not know where it is but there is a finite number of players who are going to be buying units at $1,000 a foot and more. There is a lot of talk of people who are now empty nesters and Baby Boomers who are selling their homes who are now worth multiple millions and buying expensive units in New York and other urban areas and that all makes a lot of sense. But that only makes sense if they can sell their homes first, and you are not going to see people paying $2,000 a foot in New York if they cannot sell their house out in Short Hills because interest rates have now gone up a lot. In other words, it does trickle down because you need people to move up into the homes that are being sold before the people can go and buy the new ones.

It is related to interest rates, I do believe. It is related to the strength of the economy but it is clearly demographically driven and it really is hard to say. On the one hand, there are all these Baby Boomers and supposedly with that kind of cash. There is also a lot of stuff you read in the paper about the savings rate and the fact that probably most Americans have not saved enough money for retirement. So, I am trying to figure where all the people are

coming from who are paying $1,000, $2,000 a foot and whether that is going to go on forever and it seems to be, that it will not.

Michael Adams: Where then does this leave the boutique hotels since that is one of the elements in John's title for this. What is the state of that in your view these days?

Dan Abrams: I think boutique hotels, there are two aspects of boutique hotels. One is the extent to which they are a fad, just a unique cute thing that someone wants to try once or twice.

And some of the customers for boutique hotels are the followers of what is hot today. But, I do believe that a boutique, hotel and other very targeted types of products have a role and it is a role that was previously not filled and it really has to do with the variety of taste that the consuming public has and demonstrates. There will always be a group of people who like to stay in a small, stylish, more personalized, more residential, kind of hotel who did not have that choice 10 years ago who have that choice now. It is a segmenting of what I think was an existing market that was not served.

What we have seen, and I think we are seeing this in all phases of life, whether it is residential, real estate, hotels, the financial markets, if you look at something like securitization where 15 years ago there was one type of fixed income investment and now the same type of fixed income investment is sliced and diced into 20 different pieces to appeal to 20 different buyers, but it is the same underlying instrument. The mortgage, for example.

Now you have the hotel business which used to have 4 different types of hotels but 20 different types of customers. Now you have 20 different types of hotels. From the big ones to the small ones. It is locational. It is service oriented. It is extended stay versus true transient. This is all simply serving existing demand that was there but never addressed before.

John Hardy: There is a term for this and I think it is increased specialization and the term is called sneakerization. It comes from Nike when they started that one shoe. Now they have over 200 different models, and it is a micro market brand extension and specialization that goes on and to give you an example. One of the deals we are looking at in Atlanta, it is a combination hotel/condo complex and this is vertically integrated. So, condos on top, hotel on the bottom. It is a boutique brand. So they are taking the boutique brand which

is already a sub-market of the hotel industry and then they are going to add the condo component to make it even more specialized.

So, I think that is the trend in every area of business.

Simon Turner: I think one of the things if you were to try to look at the boutique business and think about the design aspects of the boutique business and how it ties into this – my hero in the boutique business always was and always will be Bill Kimpton because I think what Bill Kimpton did was he had a phrase where he said he bought junk and he sold antiques. And essentially what he did was he went into emerging neighborhoods. He went into old buildings and he took those closet-sized rooms and those unusual hallways and those strange bathrooms and he actually from a design standpoint created something that he could sell at an antique price. And I think there are lots of opportunities for Kimpton and maybe some of the other guys to go into existing buildings, and from a real estate perspective, design something that is appealing and unique and residential and very intimate that sells because of its uniqueness. And I worry a little bit about how the new build approach to boutique hotels and obviously they all come in different shapes and sizes now and I think the kind of cutting edge “W”

approach will fill a certain niche. But I will think the best opportunity in the boutique business is just follow up what Bill Kimpton did 20 years ago: You buy junk and you sell antiques.

Michael Adams: As a PS to that, it is interesting that they are no longer using the term boutique hotels for Kimpton properties such I think is rather interesting.

John Hardy: What are they calling them now?

Michael Adams: I think it is Life Style Hotels or, but clearly it is the marketing choice as was to say that it just has lost its impact.

Dan Abrams: This is Dan. I have a question for Simon. When you say you think the better approach might be Kimpton's approach. Is that because you think that that is what the customer wants, a more comfortable and older re-stylized building? Or do you think that is the only cost effective way to deliver that kind of product?

Simon Turner: I think it is a cost-effective way. I think that coming out of the conversation we just had on residential conversions and the housing bubble, I guess I would qualify it, by saying that any situation where there is an old building that might have lent itself to

a Kimpton or something similar style conversion, if that building has the potential to be re-worked as a residential project, forget about it. It is going to be a residential project. The hotel cannot stack up. So, I guess, Dan, I was going down that road because I think the certain, smaller, older buildings, I think that from a real estate perspective, doing that kind of conversion makes more economic sense than a new build.

John Hardy: And it kind of depends on the market you are in, too.

Bob Harnach: I wanted to add a couple of things. We are talking a lot about supply here and what I keep coming back to is, I am hearing everyone express views on trends, and, Simon, I agree with you. I think this demographic trend on mixed-use property extends through the Baby Boomer which would be probably the next 10 to 15 years as people are buying up property, but it is the demand and what is causing the demand to make this happen?

The first demand in this mixed-use was drive for luxury and service, personalization in the market place. People with high net worth wanted a place they could go to in multiple cities that would be taken care of for them. Rather than owning a house, they had a

condo that had both high-end five and four star hotel service levels to it. It is about experience. Michael brings up boutiques are no longer boutiques. They are life style hotels. That says it right there. People are looking for that unique, individualized, customized experience and moving up in luxury levels, and that was one of our prior conversations about luxury. But it is really about filling the demand as hotel operators or hotel owners filling the demand of providing that experience, that life style and how that will proceed in the future.

John Hardy: This is the purple cow aspect of it is, what is that experience that is different than what people are getting now that will give you a competitive edge in the market place? Is it by combining the condo with hotel so the condo owners get the hotel service? I think that is part of it. Combining the right hotel brand, whether that is Four Seasons, W, Ritz – that gives you a micro-market there that is different than somebody else.

What is interesting in Wisconsin, I do not know how familiar you guys are with this, but there is a tremendous water park development trend underway in the Midwest that started up in the Wisconsin Dells. It is like Universal Studios or Disney, 70,000 to 80,000 square feet of basically warehouse space with water parks

inside and a hotel around it and condos and people are buying condos with $350,000 to be close to the water park, not to mention the hotel rooms that are already there.

Michelle Finn: What is fueling the water park?

John Hardy: I think it is the experience thing. You have a combination of the weather in the Midwest where it is awful six months out of the year. You have a huge population around Wisconsin between Milwaukee and Chicago and Gary, Indiana, and the northern Illinois area. Probably 8 million to 12 million people there within a 2-hour to 3-hour drive of an area that is basically like Myrtle Beach. That is what started it in the Dells, there was an entertainment destination but it was not year 'around. They added the water park and all of a sudden it became a “year round” amenity. And then they build another water park and it gave another destination for people to go to. So, they can go to restaurants there. They can go miniature golf. They can go to Ripley's. It is kind of like Orlando type thing on a small scale.

We are doing a water park at O'Hare, of all places. We converted it to a Wyndham. It is like a $5 million conversion and a $28 million water park at O'Hare.

Michelle Finn: I have to tell you. I go to all those water parks with my kids and I think you and I discussed this. I am still waiting for somebody to design a sky bar concept so that parents can watch their kids and be in a different room.

John Hardy: Well know what? At O'Hare we are going to try and do a slightly adult version of a water park, more the Cirque du Soleil theme rather than the Sands of the Kalahari type. So there is a whole other thing if that is a regional play. But it has implications for what we're talking about because what I am seeing is, if you are going to be competitive in the market place, you have to offer – it may not just be a design thing in terms of creativity. It may be a creative real estate play where you have to combine the right uses to not only create, satisfy that marketing you are looking for but average down your basis at the same time, which has driven all this mixed-use development, it is reducing risk and reducing your basis.

Simon Turner: Can I just direct a question to Michelle here? You posed the question, 'what is driving all this demand for these water parks. I guess I would put it back to you. Since you go with your kids, why do you choose to go to them versus another place?

Michelle Finn: Most of the time when I travel to water parks with my kids, it is usually for a hockey tournament, and there are obviously a lot of kids in sports programs. For tournaments, they are always looking for hotels or the coaches and managers are always looking for hotels that give kids an opportunity other than to skate, and if it is a winter sport, there is not going to be a beach. So the water parks are a huge appeal, it seems to me in the Midwest.

The water park concept in the Midwest, but I kind of see it more with the basketball teams or the hockey teams, soccer teams, these kids are there for a weekend. So, parents are trying to find a property where they probably could have an experience, an adult sort of experience and hence the sky bar concept but so the kids can have a great time, too.

Dan Abrams: I actually am closing a construction deal probably this Friday on a hotel water park, ground up transaction, very large transaction at a

pretty incredible location not in Wisconsin but clearly will be taking business from the Dells and other Wisconsin locations. This is in Minnesota. And I have been studying the industry actually for a few years. Very interesting concept. It obviously does not work everywhere but it definitely works in cold weather climates, trying to get away from the extreme seasonality of summer and winter.

An interesting fact about these things, they tend to run full or close to full in the summer months, believe it or not. Full and close to full on the weekends. Fairly empty during the week except for school holidays when they pack them in; they are basically full and what is interesting about them is that they provide tremendous price value to middle income families. You get a hotel and amusement park experience without having to get on an airplane. Practically no one flies to these things. They are all drive-to and people, by the way, drive 3.5 hours to 4 hours to get to the Wisconsin Dells from Minneapolis, Chicago, and other places and have been doing it for years.

But basically you pay for the room and you get the water park for free. Now you pay more for the room than you would at a regular hotel but the water park hotels are designed to sleep in a room four to six people. It is generally a bed and there typically will be a

pullout couch and there often will be a kids' area with bunk beds. So, basically you pay for one room, four to six people, you get the water park for free and they are being designed very, very intelligently to capture the guest and keep him spending. So, you pay for the room. You get the water for free but there will be a restaurant for the parents and maybe the families to have dinner in. There is food court where the kids can eat food all day. There will be a bar for the parents with a view of the water park so they can sit and drink and snack and watch their kids and gift shops that do an incredible amount of business for when you get tired of being in the water. And the people who run these water parks know exactly how long, on average, kids below the age of 12 stay in the water versus kids from 12 to 16 stay in the water. So, the question is when the kids who are 12 to 16 will only stay in the water 2 to 3 hours a day, now what do they do? Well, you have a terrific game arcade where they pump quarters into machines for hours on end. They are making money left and right with features that keep the guests in your facility and in most cases, guests do not leave.

John Hardy: We are learning the business a little bit, too, Dan, and they force everybody to get out of the water park. I do not know whether it is

every hour and a half or two hours as a safety check, but it is really a way to get everybody to go to the game room and buy food.

Dan Abrams: Go to the game room. Go to the food court. Go to the gift shop.

Simon Turner: I thought it was the chlorine shock of the pool.

Dan Abrams: Well, right, right. These things have been around awhile and I really definitely think it is a price value kind of thing. The cost of a weekend for a family of four or six relative to flying to Orlando or almost anything else you could do, you have to get on a plane, and there is a tremendous cost difference.

John Hardy: The strategy on O'Hare is kind of interesting because I do not know of another airport water park anywhere. So this could be the first one but it is the last hotel to fill there. They got it very cheap. They can be a water park alternative for people who do not want to drive all the way to the Dells. Maybe it is a shorter weekend, and there are a lot of people around the O'Hare area obviously within an hour radius and where the ADR might be $80 overall for the week, on the weekend, the place is empty because no one wants to stay at O'Hare. So, if they can capture business where it is $200 a room

for a family of four, the incremental bump in revenue is huge and then if they can create a corporate outing type arrangement during the week, that is also added value. So, it is going to be interesting to see how this is all going to work out because it is a different application of the different concept.

Dan Abrams: The location, by the way, I can tell you is right next door to the Mall of America. It is located right in between the Mall of America and the Airport of Minneapolis.

John Hardy: That would make a lot of sense.

Michelle Finn: Great spot.

Dan Abrams: It is an awesome, awesome location and about the numbers that we know, about half a million people from Minneapolis visit Wisconsin Dells. So, I have 3.5 to 4 hours to go to Wisconsin Dells a year. So, we only need to capture a quarter of those and we are at 75% occupancy for the year.

Michelle Finn: Most of the water parks are mid-priced. Do you see a demand for a luxury water park?

John Hardy: Four Seasons Resort and water park?

Dan Abrams: I do not. I do not. I think that is why I said price value several times. I think that is the name of the game here, price value.

One of the things that we struggle with in this one in Minneapolis is that during the week, how do you book regular transient guests? That is one of the biggest cautions we have in the underwriting is, if you are a businessman and you are flying into Bloomington or you have business at the Mall, why would you stay at a water park hotel when you have other non-water park hotels you can stay. You are not going to use the water park. So, why go there?

Michelle Finn: Well, let me ask you this. Is there a trend, a demographic trend for businessmen or women taking their kids with them on trips?

Dan Abrams: Probably a small one.

Michelle Finn: Okay.

Dam Abrams: We think we could actually pick up some business, in this particular case, where the family comes because the Mom wants to shop and she says, 'We will go to the water park hotel which is next door. I will go to the mall and you, Dad and the kids will stay and play. So, we think we will pick some of that business up. Shopping business for the non-shopping part of the family.

It is an entertainment venue. It is very price value oriented and they are popping up in a fairly significant way in not just in the Midwest but also in the Pocono's, Niagara Falls. I think there is one being built up state New York, quite a lot of places.

John Hardy: I think there is one in California now, too.

Dan Abrams: There is one in California. I know there are quite a few of them in Europe, too, by the way.

Michael Adams: Well, this drills into another one of the questioner's concerns which was the threat of another terrorist attack and I say it connects in that, will there be more call for domestic travel both on the economy

level and the luxury level if there is another sizeable attack and travel starts to diminish? Anyone want to take that?

John Hardy: At our ULI Group, we have talked about this several times and basically no one can handicap economically what the impact would be. Everybody knows it is a risk. Everybody – 80% of the people think it is going to happen every time we vote. It is the vast majority. Everybody is expecting it to happen. We actually rebounded pretty well from 9/11. Everyone is thinking – correct me if I am wrong, Dan or Simon – the rebound would be quicker, have less of an impact, but it will obviously affect things.

The other thing we learned at ULI was right now the hotel economy has detached itself somewhat from the airline economy in that the passenger demand for airlines does not have as direct affect as it used to have on the hotel business and that is probably because of the drive to nature of lot of the Wisconsin Dells type demand or wherever people are driving because I think drive-to locations obviously are a lot stronger now than they were probably before 9/11. But, if you look at certain cities like New York, New York is on fire in terms of travel. So, some things do not make sense to me. You hear about it being detached from airline travel, the regional market is really strong. But then you see New York that it is really

on fire, Simon and Dan, does that make sense to you? Or is New York also a drive-to market besides a fly-to market?

Simon Turner: New York is a drive-to market. One of the things, Dan, I do not know if you have experienced this as well, but I think when you look at the strength of the Euro or the weakness of the dollar, whichever way you want to look at it, as you walk up and down Fifth Avenue and around the tourist areas of New York, there is an awful lot of Spanish and Italian and German and some of the Scandinavian languages. I think on the international front, New York is really, really inexpensive for all of these people even though the market is on fire. I also think that from a shopping standpoint, the states have always been a cheaper place to shop and with the Euro kind of hovering at 135, New York is on sale.

Dan Abrams: I think New York, if you look at the demand generators in New York relative to the hotel inventory, I think New York is probably the most under-hoteled city in the country. You also have to factor in the trends that we are losing rooms, not gaining rooms, because a lot of hotels are being converted to residential, but if you look at the number of square feet of office in the city relative to the number of hotel rooms, you look at the number of demand generators in terms of tourist attractions, entertainment venues, Time Square, airport

traffic around the city, in other words people just coming in and going out, it is very under-hoteled.

So, it does not surprise me, it never surprises me, when you cannot get a room during the week in New York which is now often the case again, and I think whatever shock there is to the system because of potential terrorist attack or whatever, New York will bounce back to the same position which is during the week you cannot get a room and the weekends you can but they are still running 60% on the weekends.

Simon Turner: Although, Dan, I have to tell you that when we owned the Plaza, Saturday night was our strongest night for years and years and years. Now when the road warriors really got out there and were driving midweek demand, so hotels like the Waldorf and the Plaza and some of those sorts of iconic hotels, the weekends have always been strong.

Dan Abrams: Was that drive to or fly-in businesses? By the way, I am not surprised by that at all because a night at the Plaza is was a treat. We drove in and did that from the New York suburbs.

Simon Turner: I think it is a combination. I think one of the great things about New York is it is kind of the international destination from both Latin Americans, for Asians to a large degree, and then for Europeans. And then you have millions and millions of people coming into New York and then they are going to the Rockefeller Center for a treat - this is a gridlock alert day. That means you have just thousands of people coming into the city to see the Rockefeller Center tree lit. The Thanksgiving Day parade had 2.5 million people was the estimate. Again, you had people trekking in from the suburbs. Some of them stayed overnight.

Dan Abrams: You know, when you get numbers like that, which New York often does, you do not need a high percentage of those people to decide they are staying over to avoid the traffic and make it a little bit of a holiday, to book most of your rooms.

Michael Adams: Claude, is there a European perspective on this subject?

Claude Amar: Well New York has always been extremely fashionable for Europeans and the exchange rate today is very much in favor of that. So, I am not surprised at what I hear.

Michael Adams: Would another major terrorist attack here make a difference?

Claude Amar: I do not think so. European tourists have always traveled. We have not seen much lower numbers after 9/11, even traveling to the US. People were going on a daily basis. Americans would not travel but Europeans would be traveling.

Michael Adams: One of the questioners suggested an increase in elaborate resorts here that would fulfill the needs of the higher end traveler. Anyone see anything like that?

John Hardy: I do not think any more than what we have already talked about. I do not know if that is a unique market to itself, Europeans who want to travel the US and they need some particular product tailored to them.

Simon Turner: I must admit with all the discussion of the water park and then there was a comment of do you see kind of a Four Seasons or kind of a Ritz Carlton upscale water park, clearly the answer is "no". But I think if you look at the design of some of the up market, the Five Star Resorts, I think you will see that the impact of the demographics is being felt in the luxury resorts in that many of

those luxury resorts which 10 or 15 year ago, would have been mostly couples, are now affluent families and initially you saw them doing two pools. One quiet adult pool and then another pool where those kids on the property would go. Now, what you are seeing is, I think, an awful lot of those resorts, the upscale resorts, saying, "You know what? We really need to build more of a water slide or a water feature attraction, because the affluent consumer who has two or three teenage kids and if the kids are happy on vacation, then everybody is happy,' they want the water the slide. They see the ad for Atlantis and say, 'Boy I want to plummet 300 feet through a tank of sharks.' The compromise might be that the Four Seasons Scottsdale puts in a larger pool with a couple of larger water features but the parents are going to say, "I'm not going to go to Atlantis but I will go to the Four Seasons in Scottsdale as long as they have a pool which continues to keep the teenage contingent happy.'"

Dan Abrams: Yes, Simon, I think you are really using the analogy at the luxury end is the extra pool and segmenting the customer who is there so they get along with each other, maybe by keeping them apart, but the features you will see at the luxury properties are going to be signature golf courses, spas. Not just a spa with two treatment rooms, where you can order up a massage a day in advance. We

are talking about significant space dedicated to spas and exercise, health, that sort of thing. Maybe that is the luxury equivalent to a water park. You are bringing the customer in but the customer is going to a higher end kind of experience than kids running around getting water dumped on them.

Michael Adams: Well, that does bring up another question about amenities and luxury properties and he or she suggested that maybe all of the impulse toward connectivity might lead to an impulse for lack of connectivity where you go to a resort where there is no Internet connection, where there is nothing but serenity.

Dan Abrams: Off the grid.

John Hardy: Is that not what Adrian Zecha did?

Claude Amar: Yes. No television in the rooms.

John Hardy: Yes. Claude was very involved with that.

Claude Amar: Yes, and it worked. People paid not to have television in the room.

Michael Adams: Is that encoded as well? Are there any other means of communication?

Claude Amar: I think they have phones in most of the hotels but not in all of them.

John Hardy: That is kind of the whole echo terrorism component also.

Dan Abrams: The objective is to take out as many of these things as possible and then charge more for the room.

You want serenity? Okay. Well, pay another $50 and take out the TV and rip out the Internet.

Claude Amar: Is not the answer flexibility? You can wire the room if the guest wants to plug the computer in every wall, he can do it. If he wants a TV, you just put a TV in the room and if he does not want it, then fine.

John Hardy First of all, I appreciate everybody's contributions and it kind of confirms some of the things that I thought. But I got a little bit out as I had not realized before I guess maybe it is the whole demographic part that you brought up, Simon, and the specialization. It has helped me. I hope it has helped some other folks here.