

**HD Boutique
Panel Discussion**

9/14/05

**Customer-Driven Strategies And Their Impact On Hotel Design
And Development**

[Michael Adams]

Thanks very much for coming to this panel of industry heavyweights who are going to discuss customer driven strategies and their impact on hotel design. I am going to introduce them to you, let them talk to you a little bit about what they do and then go from there. We start with John Hardy who is President and C.E.O. of The John Hardy Group. Michael Medzigian at the end who is Chairman and Managing Partner of Watermark Capital Partners. Simon Turner, Principal of Hotel Capital Advisers and James Woods, Director of Starwood Hotels. John do you want to begin and talk a little bit about what you are here for?

[John Hardy]

Sure. The John Hardy Group is a development company. We provide a lot of services to the hotel community and also do some equity development of our own and this panel is an outcome of a lot of collaborative efforts that we do with HD Magazine and this started several years ago. We explore various topics that we think are of interest to us or pertinent to what we are trying to do and this panel led out of a conversation about Rick Cash's book. Some of you may have went to the Summit last year, he was a speaker there and has a book called The New Laws of Demand and Supply which is somewhat a macro economic level theory about the fact that you just don't supply goods and services to an industry or market any more. You have to really determine where the demand is and then if you can position yourself to meet that demand, you will achieve higher margins and more success and have the competitive edge over anybody else in the market place. So that was the concept we started with. It's way too academic to really make it interesting. But what we thought we would do is take a group of industry leaders from the investment side that are operating in different market sets and talk a little bit about how the ownership community and investment community approaches their investment strategy from a market point of view and a positioning point of view and a design point of view and see if that would allow all of you to gain more insight into how to approach the assignments that you have or what you are doing with your business or your design and try to meld those two a little bit more together because it would be more successful for everybody if that could happen. And you'll see when

you listen to these very experienced and educated folks talk about what they do. We all have the same issue of how to differentiate yourself in the marketplace and how you position for long term success. It's not an easy thing when you are making investments and you may not see the results of your decisions for years after you have made these decisions and same with design but just a little bit more money at stake a lot of times. So we thought we would try to do sort of the right brain/left brain thing here with you and we have some questions that we are going to go through as a panel but if you would like to ask questions at any point along the way here, feel free to do that. We would like this to be as interactive as possible. That's basically the premise of it.

[Michael Adams]

Jim you want to go?

[James Woods]

Sure. My responsibilities within Starwood and Starwood of course is Westin, Sheraton, Four Points, St. Regis, W Hotels and the luxury collection has been primarily with the W. Hotels development efforts over the last couple of years. When John asked me to be on this panel, it was kind of appropriate with an exercise that we are currently undertaking with Starwood, which is the release of our new select service brand, which we call Project XYZ, which is a product that really is very customer driven. And the way we have approached this product and the way we are designing it is largely as a result of the feedback that we have received both from our customers of W Hotels, and other brands, but also we have actively sought both our two customers as a company, our end-stay users and our development partners; their input into this process and what they want to see in hotels. So you know I think from a standpoint of where we are looking at this Project XYZ, the customer focus is very important to us and how we integrate that into design and what we build and what we develop, I think is key to that process.

[Simon Turner]

I'm Simon Turner. I work for a guy who happens to be a guy with an awful lot of money who in about 1994 decided the hotel business was kind of on its knees. So we made some strategic investments in the hotel business. We own 23% of the stock of Four Seasons, the management company. It's a New York Stock Exchange listed company. We own about 5% of the stock of Fairmont, also a NYSE listed company. And those are our sort of operating platforms, our brand platforms and then underneath that we have a series of real estate investments in Four Seasons. For example we own the George V in Paris. We own a hotel in Geneva called Des Bergues, which will

be reopening some time in December. We own the London Four Seasons. Under the Fairmont brand we own...we just bought the Savoy in London. We just bought a hotel in Monte Carlo and then we own a series of Fairmont Hotels in the United States including...we've been talking about one in New Orleans. It's sort of interesting when John and Michelle asked me to participate in this, we typically, Michael and I, James...we kind of go to the investment conferences. So we're hanging out with bankers and tax accountants and the consultants and that sort of thing. So John has always...I think about the past 5 years, said Simon you've got to get outside that comfortable shell. You've got to come see these design firms because they look at it from a different perspective and I think when John said you know if you have questions, I think it would be interesting for us, certainly for me, to hear what questions you have to the ownership community so that we can kind of share with you I suppose our take on how we interact with the design community.

[Michael Medzigian]

Simon I like that. I work for a guy, very understated. I'm Michael Medzigian. I run Watermark Capital Partners. I have been a hotel investor for quite some time. I started out as a hotel operator with Marriott managing hotels and then have done my investing through a number of different partnerships. We, in the early '90s, started a partnership called Olympus Real Estate Corp and probably bought in the range of \$4 billion of hotels, bought or built just sort of across the spectrum ranging from Fairmont Hotels and Ritz Carlton Hotels down to portfolios and chains of limited service hotels. So you name it, we did it. We restarted the Rock Resort brand and then gravitated a little bit away from hotels running another large private equity firm. I'm not saying this because I'm surrounded by a room of creative people, but ultimately realized that the part I really enjoyed in the business, I had moved away from. The business had gotten so large that we were...found ourselves sitting on boards and never touching the real estate and realized that what I really liked was back when we had gone through these hotels and found ways of adding value to them through design and renovation. And deciding to start Watermark to do it on a little bit smaller scale where the principals of the company could get back close to the bricks and mortar. So we're doing the same thing we've been doing since the early '90s, just instead of sort of on a global portfolio level doing them more of one off project level basis.

[Michael Adams]

Okay as John said we solicited the questions from the Internet and so I'm going to go through the questions with the panel but again, if you at any time want to interrupt with a question of your own, please do. I don't think there are any extra mikes in the room, so you just have to

Speak up. But wave at us and we'll call on you. First question is: **With the recent rise and popularity of the easy living versus the boutique concept for hotels, does that signal a customers' desire for return to a more regional approach with attention to specific demographics of a site and the surrounding area? If so, how can the uniqueness of that hotel be managed but still run efficiently within a management company need for centralized control?** That's a mouthful. Who wants to take it?

[James Woods]

I think there is clearly a movement in this business towards more specialized hotels. I don't know whether it's specifically more specialized regionally. But clearly within Starwood we see the industry getting divided more on psychographic level. And we're trying to match our products more psychographically to our customers than demographically. And when we look at how we position our hotels, we see them very much as lifestyle assets. And by that I mean we try to build hotels and build brands that reflect the lifestyle of the customers that are staying there. So I think the kind of short answer to that is that I think hotels continue to get more specialized and continue to be less of a commodity sale. But whether it's a regional, I think it's difficult to operate in any kind of efficiency at a level where you are constantly redefining yourself on a property-by-property basis. Certainly at the kind of scale that you know my company operates at. I think certainly Michael and Simon your assets are certainly operated at a different level at a much more specific level and maybe you can speak to that.

[Simon Turner]

This may be somewhat tangential but whenever we look at an asset that we are going to buy...Michael and I in 1996 did a joint venture and bought the Copley Plaza Hotel in Boston and that hotel I suppose in the '50s and '60s was the hotel where everybody had their Bar Mitzvahs and wedding anniversaries and their engagement parties. And the Kennedy's when they won an election had an event in the ballroom, etcetera, and etcetera. And I think the hotel had sort of fallen away from that and what Michael and I did working with the Fairmont guys and the guys on the ground was, how do you return this grand old hotel back to the community. So maybe in a very sort of micro sense that's an answer to the question in that we said we don't want you hunting prints on the wall of beagles chasing foxes, what we want is something that is evocative of where you are. You're in Boston, you're in a historic hotel across from the oldest library in the United States. So I guess what we were trying to do from a design standpoint, was develop and reposition this asset so frankly the community would take back ownership of the asset from a psychological perspective. Same thing in Paris, I suppose, when we bought George V in 1996, it was a

grand old hotel. Frankly it was living on its laurels so we shot the thing down. The guy that I work for also has a very significant investment, Euro Disney. So we have seen firsthand how trying to come in with a very American concept into France, in the case Disney in Euro Disney, the French were just going to rebel. So you had to listen to what the local market was saying and just do things with the restaurant, the design, the positioning of the asset so that the George V was returned almost to the Parisians. This is all at the luxury level. But I think, maybe with the exception of Select Service, I think that anything in the full service sector, you've got to be sympathetic to, not only who your customer is, but the community where the hotel sits.

[James Woods (I Think)]

But I think that has even happened at the lower end of the business. You know you look at the way the Holiday Inn...you know the bar at the Holiday Inn used to be a gathering place and at some point in this industry we got away from that. Nobody is going for dinner at the Marriott Courtyard now with his or her family. It's less of a community gathering place and I think now we've seen over the last, you know, close to a decade a movement back towards that both at the high end and now hopefully more at the low end.

[Simon Turner]

Although I think you are always at the lower end, given the economic of the business and the fact that for a Select Service as they are now called hotel to be profitable, you want food and beverage to be as far away from the operation as you possibly can because you don't make money. So I think that the food and beverage operations and the function rooms are where you have that kind of community coming in...that's the magnet. I'm not sure you have that facility in the limited service world.

[James Woods]

When we were looking at our Select Service product, we went out there and asked a lot of people who stay in this product, what do you like and what do you dislike. And the number one dislike is the food and beverage. It's not executed terribly well and the owners don't make any money on it. But I think there is an opportunity to do something simple you know that becomes more like a coffee shop meeting place, you know, wired, hot spot type thing where you engage the community, provide a place where somebody can go have a good cup of coffee, check their email, have a place to have an informal meeting while still not spending a lot of money on it.

[Simon Turner]

And I may not have my historical facts right...Todd in the previous session was saying to a student who asked the question, what advise? Study your history. I think we all owe a lot to Bill Kimpton because I think Bill Kimpton was really the one that kind of created that, correct me if I'm wrong, but I think he created that kind of living room concept within the Kimpton hotels. Where there was a sense of place, a gathering place where, even if it was just you know a couple cheap bottles of wine and a plate of cheese, it was a gathering place for people in the hotel.

[Michael Medzigian]

A couple examples of that...kind of interesting as you are thinking about... when designing hotels...I support what Simon what said completely. I think the food and beverage part of it is a challenging part of the business. We are in the middle of a project right now. I'm a big fan of giving a consumer what looks like a full service hotel, but operates like a limited service hotel. And I can't name this property because our lessee is a public company and they haven't announced it yet, but we are doing a project where we are taking all of the food and beverage, all of the meeting space and we are taking effectively a big box retailer who is going to come in and you know almost fabricate the building and operate all of that. So to the consumer it's you know they're not losing anything and we get that high margin rooms business. We used to own a portfolio of what I'll call limited service very high end hotels in Monterey, California on the ocean they were the most profitable properties we've ever had because you put some wine and cheese in the lobby and there is a gathering place but you don't have to have a lot of labor associated with that.

[John Hardy]

I think a lot of the differentiation that is going on started probably in the '80s with Marriott with Courtyard. They needed a product that would go into smaller markets that cost less to operate and build and they really basically replaced Holiday Inn as the road warrior's product of choice. And then they realized that there were other market segments that weren't being addressed...it's actually a marketing term called "sneakerization" which goes back to Nike when Nike first started they had one running shoe now they have hundreds. And the specialization and the economy are across all industries. So whether you're a designer who specializes in hotels or restaurants or you're doing limited service hotels or full service, there is a tremendous amount of segmentation going on...specialization for these almost micro markets. And from a design point of view, if you can work with the ownership group and support their investment goals which XYZ is a great example of the modern day version of Courtyard I think because the W product for example which is a great product and which XYZ is

somewhat derived from can't go into every market, it's way too expensive and too risky and difficult to do and takes forever so you take Starwood's core competency or my perception of it, you may have different views, they are very creative and always pushing the envelope of design and marketing and that sort of thing which I really like. So the XYZ project is a very specialized new brand that adopts some of these lifestyle characteristics that people are attracted to and it's very forward thinking from a design point of view which is where everyone is today. It really started in the early '90s with Schrager I think and Kimpton also but in order to be competitive in New York City Schrager did a very zoomy hotel and he came out of the club business so his differentiation point was this club scene but they got too old to stay up all night doing clubs so they decided to do hotels. And everybody has got to use every tool in their tool kit to be differentiated. So from a design point of view it makes design a lot more important because design then becomes another way to differentiate. And that's the great thing about the last 10 years and hotels have really led that you see it in auto design now or in a cars where you can go on the Internet and design your own car. There is more and more of that. How you apply that to a hotel where it's a fixed object and sometimes by the time you finished it, it's a big project and you may be outdated already. So a designer if you can figure out a way to support that type of market segmentation with your own abilities or your firm or your resources that can be a real advantage for the ownership community I think and for the design community and it extends all the way down to the product manufacturers, how do they position themselves for these trends going on in the marketplace. You see it with plumbing fixtures there is a lot more interesting design being done in hardware and all types of things than there was 10 years ago.

[James Woods]

John I think you touched on Ian Schrager's early experiences there and I think that's a really good example of how you know the design is kind of the necessity there. You know you started out with a building that wasn't five star quality; he didn't have the money to spend to totally gut it and didn't have the high quality staffing levels of a five star hotel. And design really defined kind of what he was doing and it was very much what got designed was a function of how the business was run and how much money they had to spend. And I think that there is a key thing that we always try to adhere to is that design for just no reason is nice but you really got to listen to your customers and see why you're doing these things and restaurants and bars and clubs and all that and understanding just kind of where the money gets spent and how decisions get made by ownership and where you can spend money and where you can't because as Michael was saying our business is such that we make money selling rooms and all the other

things are in many ways kind of diluted to what we do. So how do we create a full experience for the customer while still reaching our investment hurdles and satisfying our investors?

[Michael Medzigian]

I would like to go back to the original question for Michael and at the risk of being controversial I just disagree with the question...it was a complicated question so let me see if I've got this right. I think it said...we're sort of reverting from the boutique concept to this easy living concept. I'm not sure that we ever got away from the easy living concept. I get nervous when I say we started Rock Resort chain because someone with a different last name started it long before I was involved. But we relaunched it I guess back in the late '90s, the mid to late '90s. And the concept was you know you've got these places, these wonderful environments, whether they be the San Juan Islands off of Seattle or Vermont or the Caribbean and we built a club outside of Aspen. There are things about those environments that people want to be around and you can kind of design around that. I think that's sort of a long-term theme that people have always wanted and always will want. I mean you could argue whether the Ian Schrager "I don't want black lights in my hotel" and maybe at certain points in your life you do want that but I suspect at a certain point in your life you move past that and you want something different.

[Simon Turner]

They wreak havoc with your bifocals.

[Introductory Speaker]

They certainly do. I think whether it's you know, it's either sort of the environment that's around you or service levels or the physical plant that's around you, one of those things is something you gravitate toward for whatever reason. I don't know that that's changed over the last few years. I think maybe it's just becoming a little more apparent to us.

[John Hardy]

I think the other thing that has been great for the industry is when they started with the boutique movement, it made design a lot more important in the overall product and there wasn't all this standardization you got to fit in this little box of how you do design. I always found that very frustrating being an architect that we had to do everything the same way, you know Marriott drove me crazy...they were always very difficult for me to work with because they weren't really opened to new ideas where someone like a Starwood was. But you went from the boutique movement which we actually had a panel on that with Michelle and Michael where we explore really what is a

boutique, is it size, is it design, it's really kind of concluded and attitude more than anything else. And now we have the lifestyle brand...I'm not familiar with the easy living term but from a design point of view, it's really a great thing that you have a lot more options now for what you do and people are open to more creativity. So I think that would be a great thing for the design community actually where it goes from here.

[Michael Adams]

I'm glad you said that...I hadn't heard of the easy living tag either.

Question from the Audience...

[Michael Adams]

We could be here a while. She asked for working definition of a boutique hotel.

[Simon Turner]

No idea. We all disagree by the way.

Two things. Number one I have no idea and number two I'm not sure if I had the answer what I'd do with that. It's just kind of a tag and James was talking about W.

[James Woods]

"W" is a good example as a brand that I think is often called a boutique hotel.

[Simon Turner]

Is that a boutique hotel?

[James Woods]

I don't know that we consider ourselves a boutique hotel but we have properties from 49 rooms to soon to be 3,000 rooms in Vegas. We certainly think that our product in Vegas is going to be differentiated from the other product and serve a very certain specific lifestyle. That's why we gravitate more to this lifestyle term rather than boutique. Boutique I think it is confusing...is it a small thing? Is it a unique one off? We have a brand. We have 21 assets opened today that are all different but have this unifying link between them.

[Simon Turner]

For me, 10 years ago, what Bill Kimpton was doing was a boutique hotel. I just think that the world has moved on...

[John Hardy]

Even Bill doesn't use boutique any more.

[Simon Turner]

Bill is no longer with us. They are doing a 3,000 room boutique hotel that doesn't make any sense it is not a boutique hotel I don't think it's an operative term any more.

[Question From Audience Member]

I don't understand the term lifestyle. Why does everybody want to use lifestyle?

[Michael Adams]

I think that term came when Kimpton decided they didn't want to be called boutique hotels any more. And they adopted the term lifestyle but I don't know what was behind that. Maybe if somebody knows.

[Simon Turner]

I'll get back to the same point. Why does it matter? Does it really matter what you call it? Do we have to put a tag on it? For me whenever I look at a hotel investment that we are making, it's not some sort of global or national tag. We always go straight to the local market and say, where does this asset fit in the local community and with the local demand side of things. And I think I may be...I don't want to get away from some tag thing but I may not be giving the design community enough credit but I think that it would do an awful lot of designers a lot of good to spend a little bit of time upfront understanding the demand side of the equation from a hotel perspective. I'm not saying you don't, but I think that if it's a convention hotel, is it mostly small corporate groups? Is it mostly international groups? Is it discretionary travel...is the leisure travel you know a lot coming from Asia. And I know intuitively you might kind of have a feel for this and I think an awful lot of you will take your lead from the management company but from an ownership perspective, if I'm in a room with a designer and they are talking to me about my customer base, for me it just shows so much more depth and so much more thinking into how they can help me in my business. And John you do a lot more guides than I do but do think that kind of thinking goes on in the design community?

[John Hardy]

Not enough. And one of the most frustrating things for us is designers that have a preconceived idea of what they want to do or they just seen the latest restaurant and the latest hotel and they're going to try to do something similar and they start. And everybody loves to jump into design, it's really hard to get everybody to slow down and talk about what they are really trying to accomplish and make sure everybody is on the same page as far as the end goal. That's really not

what anybody wants to do. It's not that hard, it just takes a little extra time. So that's one point I would make. Do you have a question?

[Michael Medzigian]

I'm sorry before you go to the other questions I just want to say that on that point there is a designer in the room who knows who he is and I don't think I should say his name. But we were doing a project recently and when I was looking at the plans I said, "Well where is my glass wall?" And they said you can't afford the glass wall, we took it out. They are very in tuned with understanding exactly what Simon was saying which is, I mean I've had plenty of fights with designers where I've said, "No that's all we are spending. Get rid of it. Get rid of it." And they couldn't understand why that's all we were spending. There are obviously firms out there that really do focus on you know the business plan and how much money we intend to make or think we can make with the asset and therefore there is a certain amount that we can spend. That's you know...it's refreshing when you work that way.

[James Woods]

To reinforce Simon's point you know when we design a hotel, we are not designing it for at the end of the day, ownership. And we are not designing it for you the designer, we are designing it for the customers. And you know I think sometimes...you know my experience with designers is we forget that. We're not just building this for us and our friends you know we are building this for a specific group of customers and if we stop asking what our customers want and stop testing what we are doing with the customers, we've lost our focus and we've lost what we are in this business to do.

[Michael Medzigian]

The other thing on that when you say understand who the customers are, it's really getting hard because we sit and we talk about these words like "lifestyle" and "easy living" and it sounds like there is this big global customer out there whose taste this year is a little bit different than they were 4 years ago. I live in Chicago or just outside of Chicago what's rather interesting is when I'm with my family, we can't find places and hotels that are big enough for us when we are traveling. And there are a lot of people that have the same issue and that are why you've got things out there today like exclusive resorts because when people travel they want to have the entire house. They can't fit into a suite and a hotel. The flip side of that, if you listen to the experts, divorce ripples through 4 generations in terms of your interest in being married or not being married. If you look at the City of Chicago today 70% of the adults are single. So you can't say that your customer is a single person who wants the Ian Schrager-ish type

property or you can't say it's Michael Medzigian with his brood of kids that are traveling with him. Most of these hotels that we invest in have multiple sources of demand. So it's really something that needs a lot of focus.

[James Woods]

To that point there are multiple sources. You have to weigh them but I think what we are seeing in this industry is a movement towards or away from the products that are all things to all people. So rather than build a hotel that's got the Medzigian wing the oversize rooms and then the single rooms, you are seeing guys who are saying I want to go after that customer or I want to after the single you know Chicago customer. And it's certainly something we are looking at is trying not to be all things to all people but trying to be the right things to the right people; trying to segment the customer a little bit more. We look at W Hotels all the time and if you're staying at a W you are just as likely to see somebody 65 years old as you'll see 25 years old. We've been shocked by that. And because...going back to this word, it's a lifestyle. People are going there not because it's their age group but because it's consistent with what they want to do or be.

[John Hardy]

You had the best description of lifestyle brand I've ever heard. Do you know what it was?

[James Woods]

Now you're putting me on the spot. I think the one I used was it's a hotel that either reflects the lifestyle of its customer or the lifestyle that that customer wants to achieve.

[Simon Turner]

Let me challenge that just for a second. I think it becomes really difficult and we are going to get to your question I promise. But our hotel in Paris is a fabulous luxury hotel. It's as good as it gets. So hopefully we've designed it as a lifestyle hotel for the top tier customer. The problem with that is in one month we'll have you know Hilary Clinton, Vernon Jordan, Lenny Kravitz, Bruce Springsteen and the royal family of Saudi Arabia in the hotel. I'm just not sure...I mean we may be designing a lifestyle hotel, but those are some pretty diverse lifestyles.

[James Woods]

They have diverse lifestyles but what they seek in a hotel experience, I think is somewhat consistent.

[Simon Turner]

Agree.

[James Woods]

You know Lenny Kravitz could go stay at the boutique hotel where you know there is music playing all night but he sought out your hotel. For that George V experience...

[Simon Turner]

He likes to hang with Hilary in the bar.

[Michael Adams]

I'll give Simon's hotel a plug I was there recently and it is...what you have done there is different...you can go in a lot of hotels that have beautiful, physical plans and that is clearly a beautiful physical plan but as I told Simon I think it's the best service I've ever had in a hotel any where in my life bar none. I can't imagine it being better. And I guess if you can pull that off you can accommodate a lot of different kinds of demands, if they are willing to pay.

[John Hardy]

We have a question over here.

[Question from audience: [inaudible]]

[Simon Turner]

If I can just key off Michael's comment. I think from a Four Season's perspective, if you check into the Four Seasons in Tokyo, the new one with a very kind of edgy, modern feel, and you check into the Four Seasons in Paris with a very traditional French feel or the new Four Seasons down in Terre Blanche in Province which has kind of ...I don't know its sort of a mixture of minimalist, very soft modern kind of feel to it, it would be very, very different. But when you check in and you plug in your computer and immediately if the Internet fires up and you call up and you say listen I need something pressed within 2 hours, it comes right back. So I think for Four Seasons, the differentiating factor around the world is, the consistency of service. I think that from a design perspective that's driven by the location, the local feel. But I think at our level, up at the Four Seasons level, I think that service is the differentiating factor. Now having an efficient plan and an attractive plan makes or provides the platform to be able to deliver good service. So you've got to have both.

[Michael Medzigian]

And you know at the end of the day I think it's sort of who is driving the bus. Who is your customer because James you are building a brand.

I don't know if you like calling W a brand or not but I think of it as a brand. I'm a real estate investor who gets involved with brands by necessity. When we started Rock Resorts, what I really liked about that was, I could go out and look at a unique asset in a unique location that I thought people were going to gravitate towards. When I was standing in the San Juan Islands looking out my window and the whale swimming by, I thought I'm not sure how we'll make money here but I bet people are going to like this. I don't think of it as a brand, I think you can go to those properties and you are going to see the same amenity package in the bathroom. You know you go to the website and you are going to see that all the spas have the same name but other than that, it is a very local place. So if it's my hotel you are going to see me driving it and putting the value in the real estate. If it's a brand driven investment, you are going to see something very different. So I'm not sure they are all the same.

[John Hardy]

Let me add something to that. I don't think those are necessarily contradictory concepts if you look at lifestyle or branding. I've never been a big brand fan but I've been forced to promote them because it's the only way to differentiate yourself in the marketplace. And I think from a design point of view or an investment point of view but especially design, what people really respond to now, this is an emotional response for you, you are going to have the greatest positive reaction whether it's George V or project XYZ, whatever you do it has to be genuine and authentic. If you can achieve that authentic position, whatever it is that people will respond to emotionally, it will be successful. If you try to fake it or you try to over think it because you think a brand is this but it really isn't the right application for that opportunity, then it's a mistake, I think. It's very tricky to do that.

[Michael Medzigian]

We used to own a small hotel in New York, the Algonquin. And I tried to fake it as we were going through the design exercise I didn't know why people would want to come to this place that was however many years old it was because it had this big literary history. I thought we needed to do something different and make it cool. And people thought I was out of my mind and they were right. As we got into the renovation, I don't know if you know the hotel, it has been around for 100 years and it's well known in literary circles and as we got into the renovation, it became clear that people didn't even want us speeding up the creaky old elevator; that was what they remembered and that's exactly the way they wanted it. So you have to be careful.

[Simon Turner]

But the problem with that is that the Dorsey great fan club that went to the Algonquin is an aging demographic and 10 years from now they are history. So you are left with a demand base and a design that's sort of being set up for that demand base and there were no guest. So then what do you do?

[Michael Medzigian]

I don't know, we sold it.

At some point I think you do have to change but at least for sort of our 5 year holding window it was clear to make it look and feel very nice bring it back to its original glory but don't upset people.

[Simon Turner]

What's interesting is the new owners stepped in held for 4 years they are about to put it on the market as well. They haven't figured it out either.

[Introductory Speaker]

Roger Hill had a question.

This is more of a question for Simon relating to the XYZ product

Did everyone hear the question? Could you repeat it.

[Simon Turner]

Roll out of XYZ they are insisting if Roger is correct on only new construction so no conversions. Roger's question is, can you roll out a brand and get it established quickly enough and in solid enough locations sticking to that new build requirement? Is that correct.

That's a great question. When I saw the announcement and I suppose if I look at limited service hotels all the way up the spectrum to five star full service hotels, for me, years ago, the limited service hotel business was kind of like the burger business. In that when I went to McDonalds I knew exactly what I was going to get. When I went to a Courtyard, it wasn't going to be flashy or innovative or whatever, I knew exactly what I was going to get. The trick I think for these guys is to provide that consistency of service with kind of a design flare or an attitude or whatever you want to call it. Let me put it off to one side for a second. For me one of the best plays in the hotel business and one of the most successful executions was about 10 years ago when a guy named Paul Novak did something out of Dallas with Bedrock Partners where he went in...Paul was one of the guys in the ground floor developing Courtyard. He went in and saw old tired HoJos and Days Inns in great locations and he said it's really a land bank, I'm going to just shot the

thing down. I'm going to put a new skin on it. I'm going to rip the guts out of this building and within the frame I'm going to create a brand new hotel. I have a feeling that there is a role for a guy like Paul or someone like him to convince these guys that they have the capacity and the ability to take an old product and you have to shut it down. Because I think the consumer, to make the transition, the consumer is going to insist on it being a new hotel. So you are going to have to shut the doors, you're going to have to put the chain link fence around it. You're going to have put a new skin on the building. But I think in order to roll out the product, you may need to get there and the key is to find the right developers to execute on that strategy.

[James Woods]

I think the key in us making the decision to make this a new build brand was we really think that this was the first truly new hospitality product, not a distilled down version of something else, something that's truly rebuilt from the ground up and with the unique guest room, that's come along since Holiday Inn really. And by making some decisions we've made in the guest rooms, going to what's a square guest room than the industry is used to. You know our king rooms are 15"x18" our double queens are 18"x18". You know it doesn't lend itself...we have a foot higher of ceilings, 9-foot ceilings, it doesn't lend itself well to being a conversion product. What it does lend itself fairly well to in these urban locations is adaptive reuse which is something that we've done very successfully in the W world. You know you find an old office building, you find an old industrial building, you find something that you know you can use as a blank canvas on which to then graft this concept into. I think from a more suburban or Greenfield development the decision to be new built was important for us because this is going to be something different. It's not merely a new FF&E package into an older Days Inn or something. So Roger I hear you and that's a concern and something we've heard from a number of people but as I think we spend more time showing this concept off to the design community and to the investment community, I think you will see where we are headed with this.

[Michael Medzigian]

I think it may be...it's probably apparent to everyone in the room, new build is tough. For every 40 hotels that we have been able to acquire and renovate and start with something that was there...maybe we doubled the size of it but there was an existing property when we started with it, for every 40 of those maybe there is one ground up new build that we are able to pull off. So clearly it affects your velocity of getting pins in the map initially. I guess if I had to kind of Karnac the future maybe while I would agree with Roger, you know the economics and the ability to get pins in the map you can do a lot more if you went

the renovation route. If I had to Karnac the future my guess is if you are trying to create new it's a great way to start and show people what the product is do you, I'm speaking for your board and I'm not on it, do you change 3 years down the road after you've got some critical mass and you can say this is the product, most people do eventually.

[Simon Turner]

You have to come out committed to the vision. You have to have the first 12-foot ceilings and both dimensions. Once the brand is more than just some really, really good press releases, then I think you've got more flexibility to work with the adaptive reuse.

[James Woods]

You know we recognize the opportunities to build brand new hotels in New York City and Chicago and San Francisco unlimited but frankly we've been surprised by the number of opportunities that have been presented to us since we made these release where there are new build opportunities or where there are adaptive reuse. And certainly it is difficult but for the integrity of the product, you know, to put it out there has been, not to name names, other brands that have come out recently in the last few years where I think what their product is, it's a big question mark with the community because they started with the renovations and conversion product. We are committed to our vision for this product and that vision is only attainable really in a new build product.

[Question from audience: You are all representing companies that are pretty much America based...Jim I want to ask you in particular as you roll out your brand

[???

Actually I'm not sure that's correct. Sorry.

[Question from audience: My question is what is your vision for the international market? And what brands that are already international you see approaching into your market place here? Because I think there are quite a few lower end good design that are starting to look at U.S. market but I don't see yet in the market place

[James Woods]

This would certainly be a huge growth vehicle for us in Asia and Europe. I think we will see more of them coming into this market. I think that's what's driving us to come up with a better product and what's necessitating the fact that we need to come up with something that meets the needs of our customers now but also is something that's you know different from what the traditional offerings are. I think

the international companies coming to this market is inevitable. I don't think it's a bad thing.

[Simon Turner]

It's a tough market to break into though. The U.S. has got so many really, really smart people, whether it's within hotel companies and the investment community and the design community...you look at Accor and their Sofitel brand in the United States, I think there are 6 of them or maybe 7 of them.

[James Woods]

Some of them are very good... but not really a brand.

[Simon Turner]

You look at Swiss Hotel, what do they have now 2. I think or something like that...your question was at the lower end and I can't think of a significant non-U.S. brand that has a real presence in the United States.

[John Hardy]

They tried with Novotel and Evus too and it didn't go anywhere.

[Michael Medzigian]

Mandarin came to me over 10 years ago saying let's do a deal where you can introduce it to the U.S. and frankly we didn't do it because they wanted to do all new build. It needed to be 440 rooms with a certain amount of meeting space and I just didn't think we could do that many of them and look where they are today. I think it's a very hard market.

[Simon Turner]

I'm not convinced if your question is specifically is kind of the mid-market and below. I'm not convinced we are going to see a lot of international, European or otherwise, concentration or certainly from a branding perspective, we have so many brands in this country that are so well analyzed and so well positioned and there are smart guys in White Plains who are saying well, okay we've got a brand that is here why don't we just twist it a little bit and we can capture this segment.

I don't see it.

[Question from audience: how do you guys figure out what each of your guests want?]

[James Woods]

We ask them.

[Michael Adams]

Question is how do they figure out what future guests want.

[James Woods]

I think there is no easy answer to that question. But I think the best answer to it is we actively engage in dialogue with our customers. We spend a lot of time listening to kind of what they are looking for and what they don't like about their current hotel experience. But I think that to be successful in this business, you've got to get out of the office once in a while and see what's happening outside of the hotel business. I think that's really important you know. If you go sit in a Starbucks and see how people interact in a Starbucks. You go to the mall and see how they interact there; that tells you what people are doing outside of their hotels. Simon's point before about Lenny Kravitz and the royal family of Saudi Arabia staying in his hotel and you know is that a lifestyle...well it doesn't really matter what their lifestyle is outside the hotel, they have chosen that lifestyle inside the hotel. So to understand what people's lifestyles are outside of our hotels, helps us gauge what they will want inside our hotels. One of the things that we heard when we went out and talked to, not just our customers, but also our competitors customers and other people in the market is that self-service is a big movement in the hotel business, self-service kiosks. We hear people all the time say that they like experience now actually in the airports. What was originally a cost cutting measure and a measure to reduce the amount of full time bodies has become a real convenience and people really like that. Take the number of people between me and my room or take the people between me and my seat in the plane away and we heard that. And one of the things that we are trying to do with our new product is listen to that and bring some of the learning's from the retail experience or the air travel experience into the hotel business. So, and in answer to your question besides just asking them...because one of the things...it's tough to ask the customer what they want. A lot of times they don't know exactly what they want but looking outside of the industry and seeing what people are doing when they are not staying in hotels is really important.

[Michael Medzigian]

Can I ask a question? I'm curious about something you just said. Who likes self-service? How many people like self-service? I'm really curious about that because I hate self-service. I don't trust it. I want someone to stand there and take ownership and tell me it's okay.

[James Woods]

And I think the key to that is...the key to successful self-service is feeling like you made the choice to have self-service and that if you need somebody, they are right there.

[John Hardy]

I'm not sure that self-service is what it's about. It's about convenience because people are very time poverty stricken. And there may be times when it's better to have a person there. But there are a lot of times you don't want to take the time. And if you remember when the ATM came in, a lot of people hated ATMs because you couldn't talk to a person, now ATMs are so well accepted, its the same thing with self-serve kiosk.

[James Woods]

It's certainly environmental also. I don't want to check in George V with a kiosk but at the same time if I walk into my select service hotel, I just got off the plane, it's 1 o'clock in the morning, I don't necessarily need to talk to the desk clerk to get my room key and go up to my room. And you know if there were a good sandwich there that I can get and help myself to it and check myself out and not have to engage in a lot of conversation, I would do that.

[John Hardy]

I think one of things that's really, really interesting is that and, if you look at the last 10 years, most of the innovation in the hotel industry has come from people outside the industry. Barry Sternlicht looked at it like it was a retail function and that's still how it kind of works... Schrager, Kimpton. Innovations don't come from all the hotel guys sitting around because they talk themselves out of everything that's innovative because it's not safe.

[James Woods]

A good example of that is...by show of hands how many people here take showers in...when they stay in the Courtyard or the Garden...? How many people take baths?

[John Hardy]

Zero

[Simon Turner]

But all the research says that women want bathtubs.

[James Woods]

That's right. Women want bathtubs they have small children. Again this is a traditional hotel accepted fact. But if you ask people that's not what they want. What they want in today's world is a great shower.

[John Hardy]

At XYZ we have no tubs, it's all showers, cool showers.

[James Woods]

Right, and if you are going to give somebody a tub. If you decide that it's important to give somebody a tub, give them a good tub. Don't give them the shower/tub combination you know 3 feet wide, 5½ feet long. Give them a real tub, if it's truly something that's important to them.

[John Hardy]

For designers I think and owners too, look at the consumer trends because that is really another way to tell what's going to be required and what's in demand. There is a lot of crossover. Todd Oldham was up here talking about hotel design and he comes out of the fashion industry and Michael Graves is doing things with Target. There is a lot of crossover in design, which I think is great. And there is a lot of crossover in real estate now and you see that with the way Barry approached hotel, the way Schragger did. And now you have all these mixed used components where now you can't do a full service hotel without a residential component, you would never get it financed. It would make no sense. So now you have crossover in terms of use with all different types of mixed use now that there wasn't 5 years ago. So I think it's about convenience. It's about customization. It's about giving people what they want. And figuring that out is the hard part.

[Question from audience: Does anybody think that the consumer today is looking for environmental issues in hotels?]

[Introductory Speaker]

The question is whether consumers are concerned about environmental and health issues in hotels?

[John Hardy]

I think to some degree...I know someone who is promoting an environmentally safe room where it has no contaminants and no out gas or anything. They can solve all those problems with their products and the way they treat the room. It has gotten no traction because people talk a lot about that.

[James Woods]

They don't want to spend the money. They don't care that much. There's not enough of them.

[John Hardy]

Maybe there is one segment you could do a fully health hotel?

[Audience participation –it seems to be happening more in the Northeast than it is in the rest of the country.]

[Michael Medzigian]

I think the only people that are really behind it...are if you are doing business with the U.S. government. The U.S. government, not so much in the hotel business today, but in the office business, if you want to rent space to the government, it's moving in the direction that you have to do certain things. But I'm with John; I think this is not taking traction.

[Audience participation – A lot of your colleges are pursuing that direction, so maybe down the line it will happen.]

[John Hardy]

Could be an emerging trend but hasn't really risen to the surface yet.

[Simon Turner]

The only example of...real life example that I've seen is in Fairmont and I think the Canadians tend to be a little more environmentally aware than those of the south of the border. And I remember that the Fairmont guys have a little tent card that sort of says if you are not going to be checking out and you don't mind reusing your towels, please put them here. I sort of looked at it and it's different. It's kind of unusual and sort of a little weird. That's the only example I've seen.

[Simon Turner]

We're not seeing any and I'm not particularly close to it but we are not seeing any kind of consumer reaction that would drive us to make that a priority from a demand side perspective.

[Michael Medzigian]

Sort of along a similar line, not answering your question specifically, we invest in a lot of different kinds of real estate and I mentioned exclusive resorts earlier. Anyone who is familiar with the private residence club concept, where you pay a half million dollars and buy into the club and get use of these houses. There is a lot of them...exclusive is the largest. Today there are a couple others. I have a Abercrombie and Kent, they are a number of them that have some critical mass and suddenly there are quite a few that are trying to get in the business. And we have seen business plans for many of them recently. There is one that has been trying to do, again not exactly what you are asking, but do only an eco-friendly destinations, eco-tourism, they have not been able to get their program off the ground. So as John said the emerging trend maybe, are people flocking toward it that we haven't seen that.

[Michael Adams]

There is a question. I think we have time for one more.

[Question from audience: I was wondering what is the greatest challenge that you face today especially in design for hotels]

[Simon Turner]

Well I think...it's interesting John made the observation that all of the innovation...it was a blanket statement...I'm sure you didn't mean it to be as blanket as it sounded but...all the innovation in our industry comes from outside, whether it's retailers or residential development. I think the biggest challenge, sort of from a macro perspective, is being able to take design innovation and yet apply kind of the practical aspects of running a hotel to something that's new and different for our industry. So, for example, in the hotel that I'm staying here, in Miami, it's edgy. Well, they've got this really cool kind of shelf in front of the mirror which...and I'm a guy who doesn't travel with an awful lot...but it doesn't fit my shaving kit. So if it doesn't fit my shaving kit, it won't fit anybody else, I'm guessing. It's edgy and it's good, it doesn't work. The floor is a kind of high tech, high gloss finished floor, which looks kind of cool when you walk in but if you have to step out of the bathroom with wet feet, it's an accident waiting to happen. So I think it's things like that where yes we should be very, very open to new ideas from the outside, but you need to have kind of the old fuddy duddy hotel guys who are looking at it saying, okay it looks really cool but it's going to be really hard for housekeeping to maintain or it's a slip and fall law suit waiting to happen. I think that's a real challenge marrying innovation and practicality.

[Questions from audience: inaudible]

[John Hardy]

Everything is pretty much customized.

[Michael Medzigian]

Do you work with a purchasing company or have your own? I guess I have not heard that as a problem in the past. I've heard...

[Michael Medzigian]

I've got two answers to your question before as to the two couple big problems I see out there. And one I think we touched on already. I find it very difficult to marry sort of the right brain/left brain in the design community. I think there are fabulously creative people out there. I think there are finance people, like me, finding people that marry the two are really tough. And I've been doing this a long time and I have not broken the code many times. So I think that's a challenge. The

other one, which I think is coming, which is scaring me and it's not so much a design as it is trying to build things is I don't think you can have fuel costs that we have right now without seeing construction cost and product cost go through the roof. And I really worry that's been coming...we price out projects and before we build them, the price has changed. And I think that's going to continue.

[John Hardy]

One example of what you are talking about is the right brain/left brain thing all working right...when we first started with Barry Sterlicht, this was before W and before they bought Westin we were doing the original boutique Ws and we were experimenting around, his big thing was I want to do a white bed spread. And everybody said it's impossible, you can't do it. And he was just adamant, we are going to do a white bed spread because I want to see that clean look when I come in and guess what, they figured out how to do it. Now it's nothing to see white bed spreads everywhere. But the dogma at that time was you couldn't do it. I think any owner/designer have that challenge...if it's something you really believe in that you think can create a difference, you have to fight for it but you have to also figure out practically how you are going to deliver it because just fighting for it with no answer for how you are going to make it work, isn't going to go very far.

[Michael Adams]

I think one more.

[Question from audience: inaudible]

[Simon Turner]

We see it all the time when you try to bring residential product into the hotel room. I've seen some rooms with some great Barbara Barry furniture from their residential line – it last about 60 days. That doesn't mean it's bad furniture, it's just not designed for that use. So think doing the transfer from kind of that more residential feel you can't go direct, you have to interpret it.

[James Woods]

The challenge is that we as hotel companies and hotel owners try to get further outside the box and bring more people in the design community who are non-traditional hotel...not traditional hotel designers into our world, it's imperative for us to create a framework from which you guys can work and give you guys the performance specifications and say we need a slip resistance... as slip of "X", we need this chair to last for 10 years because not all the times, particularly in our business, our hotels are owned by third parties and

we are specking materials that need to last. We don't have the opportunity of just saying, oh that chair didn't work, we'll buy a new one. They are on regular replacement cycles that are multi-year. So I think that the challenge is for us as a hotel company is keeping up with working with the design community and you guys recognizing the fact that we know how to run hotels and us recognizing the fact that you guys...we want you guys to be creative but working together to try to get to something and working in that framework.