

## A few hoteliers forge ahead in down economy

### No slowdown for Chicago's luxury Elysian or IHG's Indigo boutiques

**CHICAGO (MarketWatch) -- Even as other hotel and resort projects conceived and started in better times get scaled back, postponed or canceled, David Pisor is not slowing his down a bit.**

Indeed, the founder and chief executive of the Elysian, described as an "ultraluxury" property on Chicago's Gold Coast is working frenetically to get his 188 guest rooms -- and at least some of the 52 upscale condos -- up and running by the planned opening date of July 15. Hundreds of workers are swarming around the clock through clouds of dust in the 60-story tower, laying marble floors, installing carpet and attaching fixtures to the rooms, spa and restaurants.

When it opens, at a cost of \$280 million -- amid the worst economic conditions in a generation, and when austerity is an increasingly popular watchword -- the Elysian could be the Windy City's most expensive accommodations, with basic rooms starting at \$375 a night and the suites running to four figures.



Elysian Hotels, Lobby at the Elysian.

After some tricky negotiations to get the land he needed (at the highest price per square foot ever paid here at the time), Pisor broke ground on the project in 2006 -- in an era when development in Chicago and elsewhere around the country was moving at a near-frantic pace.

While he certainly did not anticipate how much things would change, Pisor remains fairly sanguine about his prospects. "You can never time things right when you start out six or seven years ahead," he said.

"When you start it so long ago, there is now ay to tell what it will be like when you are coming to market. But it can be beneficial to open in a down market. The team will be more lean, more cross-trained, and it can grow or shrink with demand."

But, Pisor hastened to add: "We have not scrimped on any of the finishes," a point made obvious by touches like the Roman-style mosaics in the spa and the real cobblestones in the spacious courtyard, itself a considerable extravagance in a neighborhood where land can go for \$1,000 a square foot.

Nor will the Elysian, named after the legendary resting place of the Greek pantheon, nickel and dime its guests. Wireless Internet access is free for all comers, along with phone calls to anywhere in the United States. Tipping is verboten.

Pisor expects things could be a bit rocky at the start. "We expect to open full speed ahead and there will be more people out of the gate. Then it will probably taper off for a while."

He caught a big break on the residences, which compared with nearby projects that sit half-finished, half-empty or both, are selling briskly. Only five remain, according to Pisor, and three have sold in the last three weeks -- in a market that is essentially dead in the water.

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Filling the rooms, at least in the near term, could be an issue, though. For the year to date compared with the same period of 2008, industry-wide occupancy levels are off 11%, while rates are down more than 8% and revenue per available room (RevPAR, a key industry metric) slumped 18.2%, according to Smith Travel Research. The posher the property, the harder the hit: In the luxury segment, occupancy fell 16%, rates were down 14% and RevPAR plummeted 27.5%.

On the other hand, the Elysian and other projects may also benefit from a sharp decrease in the number of rooms expected to come on line. The total active U.S. hotel-development pipeline in April included 5,033 projects with about half a million rooms, according to the latest figures from the STR/TWR/Dodge Construction Pipeline Report. That is down almost 20% from April 2008 -- and the decline is showing little sign of slowing down.

The luxury and upscale segments are faring the worst, with a 25% decline in the in-construction phase, and planned projects are also off sharply.

"After seeing it as our biggest concern for several years, we are no longer as worried about supply growth," said Steve Kent of Goldman Sachs. "We expect that over the next few years supply growth will decline below its historic average of 2.5% and could possibly be less than 1% in 2011."

The pipeline of new hotels is still on the downswing, he elaborated, as existing ones are finished or scrapped with no new developments to replace them.

"A lack of new supply could support rate growth down the road," Kent commented. "The decreasing pipeline could help stabilize and thereafter improve rates. While this lack of new developments hurts franchisers and managers who need large pipelines to grow revenues, it helps owners who should outperform as new competition is limited and asset values increase due to scarcity."

## **Mood Indigo**

Some companies aren't cutting back -- much -- on their plans. Intercontinental Hotels Group PLC ([IHG 10.64](#), -0.03, -0.28%) , the world's largest hotel company, is pushing forward with some ambitious rebranding and expansion projects even as the recession tightens its grip. It is in the middle of a global overhaul of its Holiday Inn chain and also rolling out new Indigo properties at a decent clip.

Described by Janis Cannon, the unit's global head, as a "sensible boutique," Indigo is "not trying to roll back or pull back at all. There is definitely a customer appetite for our brand. They get really great, locally differentiated experiences and vibrant design without paying a premium for it."

There are about 25 Indigos open now, including a new one in London, and 60 in the pipeline, Cannon said, and the company hopes to have 250 open by 2013 in locales as far-flung as Shanghai and Costa Rica.

"We have experienced some softness but overall, our brand performance has been pretty consistent," she added. "There has been some trimming of demand, but it hasn't been catastrophic or anything."

Indigo's basic operating principle is to provide "high-end standards at a reasonable price" according to Cannon, in an "anticookie-cutter" environment that is "accessible and affordable."

IHG also has expanded the boutique concept to some unusual places, putting Indigos not just in trendy areas of major cities but even out in the suburbs, while keeping the pricing at roughly three-quarters of competitors like Starwood Hotels & Resort Worldwide Inc.'s ([HOT 23.50](#), +0.01, +0.04%) W chain or privately held Kimpton Hotels.

For Cannon, that is a sweet spot to be in because, downturn or not, she believes that people hold travel to be one of their "greatest freedoms," and many will still hit the road regardless of the economy.

"Travel used to be something you did," she said. "Now it part of who we are."

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