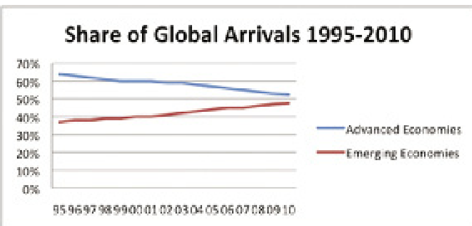
REPRINTED FROM
Friday, January 20, 2012
NEW ENGLAND
Real Estate Journal
THE LARGEST WEEKLY COMMERCIAL/INVESTMENT NEWSPAPER IN THE WORLD

International travel and the hospitality industry - Change needs to start



Graph 1 - Source: United Nations World Tourism Organization (Jan. 2011)

Josh Bowman, Sherin and Lodgen

Hotels are more than just commercial real estate. Every hotel is a "going concern", which means its value is affected as much by the local commercial real estate market as by larger economic forces. With that fact in mind, this month I will address an issue that is critically important to owners of hospitality assets: international travel.

The role of international travel in the hospitality industry and the economy at large cannot be understated. Considered an "export" by the U.S. Department of Commerce ("DOC"), international tourism ranks ahead of both agricultural goods and motor vehicles, and, according to the DOC, is the single largest services sector export in the U.S. According to the DOC, international visitors to the U.S. spend $134 billion and directly or indirectly support 1.1 million U.S. jobs. While international travel accounts for only 4% of total travelers in the U.S., because international travelers spend more per capita than domestic travelers, international travelers account for 19% of the total travel-related spending in the U.S.

So how much is the New England hospitality industry affected by international tourism? Probably more than you think. Both Massachusetts and Connecticut rank in the top 20 in percentage of international travel among U.S. states, with Massachusetts ranking 7th overall. Boston is the 9th most visited city in the U.S. by international travelers, ahead of Chicago, Atlanta and Philadelphia. Each year Massachusetts attracts 2 million international visitors, who spend $2.1 billion, pay $1 billion in state and local taxes, and support 121,700 Massachusetts jobs. According to the Massachusetts Office of Travel and Tourism ("MOTT"), approximately 10% of all visitors to Massachusetts are international travelers.

Yet, we can and must do better. Between 1995 and 2010, the advantage of so-called advanced economies over the so-called emerging economies in international tourism has almost disappeared, as the graph indicates. (See Graph 1)

In fact, the U.S. market share of overseas visitors has dropped from 17% to 12.4% since 2000. This drop occurred at a time when worldwide travel surged by 40%. What is even more alarming is that the U.S. is losing market share to other advanced countries.

So why is the U.S. falling behind in attracting international travel? One reason might be that the U.S. has been relatively slow to implement a national marketing effort to attract international travelers. Until March of 2010, the U.S. had no marketing program for international travel whatsoever. This changed with the passage of the Travel Promotion Act of 2009, which created the Corporation for Travel Promotion (now called Brand USA) - a public/private partnership that provides a federal match of up to $200mm (generated by ESTA fees from airline tickets) for private sector spending on marketing for international travel. However, since the private sector has failed to commit much to the program, as of last fall, the government had only spent approximately $22.2mm of its available funds. As a result, the U.S. spends roughly 10% of what countries like Australia and Spain spend on international tourism marketing. And while Massachusetts has had success in attracting international travelers (especially in the convention market segment), MOTT and similar local and state groups (the Greater Boston Convention & Visitors Bureau, the Massachusetts Port Authority and Massachusetts Lodging Association, to name a few) are in need of more support if they are to continue to promote our region to international travelers.

Another explanation for why the U.S. is falling behind other countries in attracting international travel is our dysfunctional visa issuance and visitor entry procedures. Even travelers wishing to enter the U.S. from countries that are part of the Visa Waiver Program (36 countries that have been granted expedited visa issuance procedures) are faced with a cumbersome and expensive visa application process, inefficient filing and fee collection procedures, and unhelpful immigration personnel. The U.S. is infamous for long lines in its airports, minimal informational assistance, and rudeness towards international travelers. We need to respond better to demand, improve efficiency through technology, add additional (and better mannered) personnel, and expand the Visa Waiver program to allow entry to the U.S. without a visa. The cost of such reforms could be financed by fees paid by international visitors, so no additional taxpayer dollars would be required.

If the present situation is not changed, the costs will be substantial. According to Roger Dow, president of the U.S. Travel Association ("USTA"), doubling the number of arrivals of tourists from Visa Waiver countries would generate about $208 billion in new spending and create over 825,000 new tourism-related jobs in the U.S. While we don't know how many of those benefits will directly flow to our region, it is reasonable to assume that the number will be significant. So it is critical that our industry reacts to the situation, as soon as possible.

So what can we do? Well for starters, the private sector needs to access the millions of dollars that are sitting unutilized with Brand USA. The federal government matches private sector contributions 2 to 1 for the first $100mm, yet, as of October 2011, the private sector had only committed $11.1mm to the effort. This is unacceptable. Additionally, efforts of Brand USA must be coordinated with other similar groups, such as the President's Export Council (which includes local luminary Richard Friedman), the USTA, and the DOC. Finally, local and federal groups should work together to determine a strategic direction for the implementation of a comprehensive international marketing campaign.

In addition, the federal government must solve its problems with the visa system and visitor entry into the U.S. This will only happen if our elected officials are educated about this issue and the benefits that increased international tourism will bring to their constituents. Lobbying efforts by the hospitality industry should be increased. In any case, at the end of the day, change needs to start with the hospitality industry itself. We must educate ourselves about this issue, and then work together to address it.

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Bowman has been listed as a Massachusetts Rising Star by the publishers of Boston Magazine every year since 2005, is listed in Madison's Who's Who and is admitted to practice law in Massachusetts and New York.

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