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CapEx requirements pick up in 2013

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With FF&E and OS&E costs back to 2007 levels, owners can benefit from price, design and durability.

Highlights

- Project volume will increase in 2013 and continue into 2014.
- This increase in demand for FF&E and OS&E also is being fueled by an increase in real estate transactions.
- FF&E and OS&E costs are back to their 2007 levels.

By Alan Benjamin
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This is the first part in a three-part series from the International Society of Hospitality Consultants focusing on design and renovation. The second and third installments will run Tuesday and Wednesday, respectively.

In past articles, I have talked about the global differences in the capital expenditure process. Last year, [I correctly predicted 2012 as the year of the renovation](#). What does 2013 hold for the CapEx world and the consultants that work in the CapEx area, including project managers, contractors, architects, designers, procurement firms and logistics firms? What can owners and asset managers expect for 2013?

This year we will see a vast increase in project volume that will continue into 2014 and beyond.

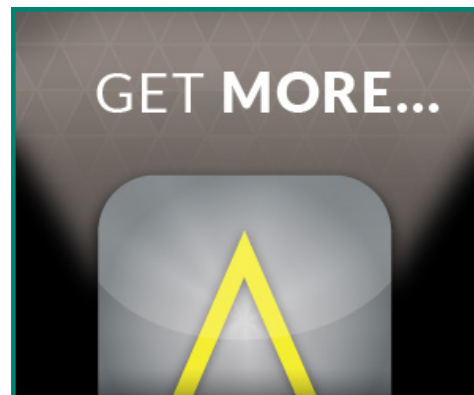
The industry is still handling many deferred renovations of hotels that did not get their CapEx requirements addressed before the recession. For those who did get renovated prior to 2008, it's time to renovate many of them again. It's hard to believe six years have passed since the 2007 renovation peak.

With ever-increasing brand standards, combined with higher guest expectations and instant guest feedback via all the social media channels, there is not a single hotelier today, in any asset class, who can afford to let his asset's physical condition—specifically its furniture, fixtures and equipment and operating supplies and equipment—be anything less than current, clean and fully functional.

This increase in demand for FF&E and OS&E also is being fueled by an increase in real estate transactions. After a hotel is sold, the brand (if applicable) welcomes the new owner to the brand family with a change-of-ownership property improvement plan. Even if the property is an independent, I cannot think of a hotel that has not had a significant capital infusion after a sale. This renovation cycle will eventually normalize. At that time, new construction will come back, as it is already starting with notable construction starts around the world. Overall, I do not see the global



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demand for FF&E and OS&E experiencing a downward shift any time soon.

What to expect

So, what can we expect? Focusing on the purchasing agent's schedule and budget, the high level overview is as follows:

Compressed schedules seem to be the norm today. While various consultants in the CapEx world are generally saying "yes" to the project's demands, it is getting a bit absurd.

When an owner calls in February and states he needs his 300-room, full-service hotel renovated by August, my response is, "August of what year?" The owners has not hired an industrial design firm yet, has not done a model room yet or received brand approval yet, etc. Can it be done? Yes, but at what cost? What positive attributes (design quality, product quality, product cost, logistics cost, etc.) will be sacrificed due to the very compressed schedule? That ideal vendor who has the best quality and cost but has 16 weeks lead time cannot be used, so the second- or third-tier vendor with shorter lead time must be used.

No one wins in this scenario, so owners should plan ahead. Hire your team early. We won't charge any more to be on the project early, and we (as well as every other consultant) will be able to perform better.

Just as the Dow is back to its 2007 level, so are FF&E and OS&E costs. While the costs are relatively the same as six years ago, the quality of the products is vastly better, as efficiencies in manufacturing, innovation and technology are yielding a far better product at a given price point.

This is similar to the auto industry. Think of the features of a \$20,000 car today versus six years ago. The same is true for FF&E and OS&E: TVs are larger with more feature; fabrics are more residential in feel yet also more durable in meeting the most stringent codes; carpets are more complex in pattern and color as well as more durable.

This is a wonderful time to invest in your hotel's FF&E and OS&E. Even though pricing is not at the bottom of the cycle like it was in 2009 and 2010, there are still the significant budget wins to be created and achieved in any hotel segment and market around the globe in the procurement process for each owner.

If owners have a clearly communicated goal for the project and hire the right consultants for their project's interior needs, they can benefit from price, design and durability. One of our largest clients told me last week his CapEx goals for 2013 are very simple: "Better. Cheaper. Faster."

Your CapEx team can make that happen, but please give us the time to make this FF&E and OS&E magic work for your project.

Alan Benjamin a member of the International Society of Hospitality Consultants, is president and founder of Benjamin West in Boulder, Colorado. Benjamin West is the leading FF&E and OS&E procurement firm in the world, with offices in Boulder, Chicago, Dallas, Hong Kong, London, New Delhi and Sao Paulo, with projects in over 30 countries and deploys more than \$2.0 million per day as procurement agent for its clients.

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