

After the Storms

The hospitality industry rebuilds in the wake of an unprecedented natural disaster season

It was unlike anything anybody had seen before. Windows shattered and blew in on feather beds. Curtains were shredded by 140 mph winds. Lobbies of polished marble and burlled mahogany were submerged in neck-deep water. The 2005 hurricane season ripped away every preconception. No longer just an inconvenient few days of strong wind and rain, this storm season changed perspectives and changed lives. And in the particular cases of hurricanes Katrina, Rita, and Wilma, the season also dramatically changed the hospitality industry.

Of course the impact of these storms carries weight far beyond hospitality, but as the industry continues to lick its wounds, it has become an informal barometer for the overall recovery effort. Getting hotels, restaurants, and casinos up and running is critical to the resurrection of the Gulf Coast and Mexican Riviera economies. And designers, architects, purchasers, and builders, have been cast in the role of saviors.

Gulf Challenges

By most official measures, hurricanes Katrina and Rita had an impact of between \$75 and \$100 billion in property and infrastructure damage in the Gulf region. That figure is compounded by the additional losses in the economy from lost jobs and revenue—as much as \$70 billion by conservative estimates. And a significant portion of those losses is directly attributable to the tourism and travel industries—the backbone of the region's economy.

Katrina knocked out of commission more than two-thirds of the 80,000-plus available hotel rooms in the three-state Gulf region. But in spite of the devastation and in the face of maddening obstacles, nearly 80 percent of that stock is again up and running. In New Orleans, some 20,000 of the 38,000 hotel rooms that were available pre-Katrina are available again, according to Louisiana state officials and Smith Travel Research. And the same sources estimate that out of 78,000 rooms available statewide pre-Katrina, nearly 43,000 are open again. Meanwhile, the Louisiana Restaurant Association reported that by the end of 2005 more than 2,000 dining establishments had re-opened in Orleans and Jefferson parishes.

But according to Patrick Ford, president of Lodging Econometrics, Lodging Real Estate Consultants and Researchers, the numbers are in a constant state of flux. "The numbers are changing in very dramatic ways as we speak," he says. "It's difficult to determine the amount of available rooms in the region because, as I've always maintained, the most important variable would be when the U.S. government stops subsidizing hotel occupancy for displaced citizens." Those subsidies ended in mid-February, having an immediate impact on the amount of "rooms available for regular transient hotel business."

Through it all, hotel operators and restaurateurs worked hard to keep their businesses from going under and staying under. Although major hotel chains did not have their door darkened by the "permanently closed" reaper, they have struggled alongside their independent neighbors to reopen with as little pain as possible. A major source of the struggle has of course been bureaucracy and costs. Rebuilding in the wake of the hurricane season has created an unprecedented rise in the price of labor and materials; by conservative estimates as much as 15 percent in storm-impacted regions.

"Labor has been a massive issue," says Alan Benjamin, president of Lafayette, Colorado-based purchasing firm Benjamin West. "The cost of it and the availability of it have been an enormous problem for everybody working in the area. Given the basic laws of supply and demand there's an unprecedented demand in labor in the recovery zones. Now, with quality labor in such short supply, companies are scrambling to find people to work on their projects."

The effect is compounded by the fact that qualified labor is in demand not just in the hospitality industry but also across all industries in all regions. Work is needed in home construction, on businesses and commercial



A rendering by Gettys of the Fairmont New Orleans' new guestroom.

Hurricanes Katrina and Rita had an impact of between \$75 and \$100 billion in property and infrastructure damage in the Gulf region.

properties, and in the areas of infrastructure including roads, bridges, utilities, and debris removal. The short supply of labor of course raises the specter of unscrupulous labor, a phenomenon about which Benjamin hastens a warning. "I tell people that you have to be careful of the quality of labor you're hiring in a situation like this. A lot of the labor will jump to another job if somebody comes along and dangles a few more dollars in front of them. There becomes a huge value to getting the job done, and the quality firms will see a job through to the end. People are more sensitive in this situation to the

Time God than to the Money God, and the emphasis becomes getting a job done no matter how long it takes rather than how much it's going to cost you."

Labor issues affect virtually every rebuilding and rehabilitation project in the impact zone. Reacting to the crisis, the architecture and interior design firm Montgomery Roth opened an office in Houston to augment its original New Orleans headquarters. "Our intent is to keep the office open," says Lisa Roth, whose company is busily working on such ongoing projects in the region as the Sheraton and Cabo Wabo in New Orleans, as well as Serranos restaurant in Lafayette, Louisiana. "But the biggest trouble we have is finding people to work. We're actively interviewing and hiring people every

week. Our office in Houston has helped us a great deal. The city has been great; there's a great employee pool to work with." But she hasn't been the only one having a hard time finding employees. "Our contractors were having to deal not only with damage to the structure and the general setback of not being able to access the city, but they had lost [subcontractors] and were being held up by that too," she explains.

Opportunities Knock

It's arguably an exercise in spin-doctoring genius, but calling the hurricane-impacted region the "Gulf opportunity zone," as the U.S. government dubbed it, has more than a hint of truth to it. The setback dealt by the 2005 hurricanes does in fact present opportunities, and nowhere is that more evident than in the hotel, casino, and restaurant rehabilitation projects underway throughout the region. "I liken it to restoring an old car," says Benjamin, whose company currently has projects ongoing in Florida and New Orleans, including the Renaissance Pere Marquette. "You figure, while you're in

there, you might as well improve this other stuff, too. If you've got water damage then you have to do the floors. If you have to gut the entire place down to drywall, many places are asking themselves, 'Is this an opportunity to change my room mix?' Or, let's say the first floor was wiped out, and it's a 20-year-old hotel, how now can you best value the space? Maybe a business center? Situations like these give the savvy asset manager or owner an opportunity to say, 'Now that this happened do I take that money plus more contributed capital to do the things that I really need to do to this hotel?'"

It's an excellent analogy, but like most classic cars, it can take someone only so far. Many are hard pressed to get their insurance adjuster to kick in to spruce up their old car, and that's the challenge faced by operators who hope to make capital improvements on top of their rehabilitation effort.

"As it relates to business interruption policies, it makes sense to make these kinds of improvements while the opportunity is there," says Roger Hill, chairman and CEO of Chicago-based design firm Gettys. "If you decide to do things beyond the needed repairs it can get confusing for everybody. It can really slow things down because you can easily get into disagreement over who's paying for what. It's so critical to get that all organized before starting in on a project."

Gettys, which is involved in hurricane-related rebuilding projects in New Orleans and Mexico, maintains a "belts and suspenders" approach to operating in these circumstances. "It's a big logistical challenge, of course," Hill says. "But it's so important to maintain your company's reputation during these times for when the next downturn occurs. You control what you are able to—have the path clearly laid out and stick to those goals. Those who have a clear plan are the ones who are up and running again first."

The plan is also influenced by outside forces, including the law. Insurance claims issues notwithstanding, many projects can also get bogged down in governmental regulation. In the case of the Gulf Coast, the Federal Emergency Management Agency (FEMA) has been the force to reckon with—however belatedly. FEMA has advised hotels and casinos in the region's floodplains to rebuild either further inland or higher or both. The requirements are based on new assessments of the 100-year flood elevations for the area. From a design standpoint, this is crucial. Large structures, like hotels and casinos, face the prospect of raising floor levels 15 feet and perhaps designing parking garages beneath them. In fact, the destruction of 13 casinos in Biloxi, Gulfport, and Bay St. Louis, Mississippi, led to a change in the state's 1990 casino laws that legalized casinos but restricted them to the waters of the Mississippi River or the Gulf Coast. Now they can be built 800 feet ashore, giving them



Workers paint the hallways of the W New Orleans.

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a better chance to withstand hurricane winds. "On the Gulf Coast a lot of the casinos have taken the chance to change their own zoning so that they can move inland and won't have to rebuild on the water but rather in safer areas," explains Roth, who is currently starting a hotel FF&A design for Harrah's in Biloxi and doing renovations on Harrah's in New Orleans. "Certain establishments are having to raise the ground level of their operation so that they are in line with the FEMA requirements of the floodplain. The requirements have changed and many designers are working hard to bring their clients in line with the new laws."



The Sheraton New Orleans' damaged ballroom being renovated by Montgomery Roth.

"It's like a mad-dash to the finish line and everybody's after the same prize."

South of the Border

When Cancun and the Riviera Maya, Mexico, braced for the onslaught of Hurricane Wilma, only the storm veterans knew what its true impact might be. Sadly, they were right. The country's picturesque east coast supports some 38 percent of Mexico's out-of-country tourist arrivals, so any interruption in that pipeline can be devastating.

But tourism officials now report that in Cancun, hit hardest by Wilma last October, as many as 10,000 of

the city's approximately 25,000 hotel rooms are now open. Meanwhile, the Riviera Maya to the south is operating much further along, with nearly 85 percent of its 25,000 hotel rooms already open again.

This certainly has not been easy, and the better-than-expected results are due in large part to the efforts of designers and builders. The strain in the Mexico situation has, like the Gulf Coast, been in finding adequate labor. "Labor has been a huge challenge for us," says John Hardy, president of the John Hardy Group in Atlanta, which is currently providing the recovery services for Hilton Cancun set to open in May. "The Mexican contractors negotiate for 30 percent of their contract up front because they've been burnt so many times, so that makes things more difficult in situations like these. And the fact is some are capable and some aren't—there's just a lot of unskilled labor that you take a chance with."

In Mexico, the supply and quality of labor hasn't been the only obstacle. "Nothing is staged," Hardy explains. "We're trying to work with resources earmarked for the entire city so it's tough to get what you need for a single

project. It's like a mad-dash to the finish line and everybody's after the same prize." Hill agrees adding, "Virtually all the materials to work with have to be imported, so there is this huge demand for materials in the region, which has placed greater strain on many firms."

Yet in spite of the monumental problems faced during the recovery, many operators managed to turn circumstances in their favor. "We made design improvements to our existing product to take the hotel up a notch," says John Long of Iberostar, whose property in Cozumel had its palapa-style roofs ripped off and blown away. "The rooms had thatched roofs with no real support structure inside. So we took the opportunity to add steel reinforcements to the structure beneath. Now, from the outside you have the palapa roof and from the inside you have a real ceiling. Our restaurant had these huge palapas that we reinforced with steel that looks like wood."

Most structures in Riviera Maya are rebar-enforced cement block, rarely damaged by wind. The preponderance of this type of structure in the area helped get things back on track fairly quickly. Cancun, however, does not enjoy the same solid foundations. According to Long, that devastation negatively impacted Riviera Maya as well. "From a business standpoint the damage to Cancun has been disastrous for us all. The public does not distinguish between Cancun and Riviera Maya and they have not made the connection that we're almost entirely back on line," he explains. "It's been like pulling teeth to get people to understand."

Equally strenuous is the tugging at insurance claims, which has hamstrung some operators to the point of stagnation. "You have to negotiate everything again and again," Long says. "We still have not recovered our first insurance claims from back to Hurricane Emily [which thrashed the Caribbean in July 2005]. Many hotels are still waiting for funds to be released, but we've been fortunate to proceed without them. From the physical plant standpoint, we've recovered 100 percent."

Meanwhile, Cancun continues to add inbound flights, including American Airlines, which in February finally resumed normal schedules to Cancun. Construction is also underway on a third terminal at the airport, which functioned normally since November. The result: visitors coming back in search of sun and sand. Though the famed beaches may be slow to meet them. Many beaches suffered severe erosion in the hurricane and a \$17 million federally funded restoration project is underway to restore the strand between Punta Cancun and Punta Nizuc. "Things are looking pretty good from what I can tell," Hardy says. "The mood is generally upbeat. It's a tourist destination and the people know their business. They are on top of everything and they're trying to do the right thing."