

THIRD-PARTY F&B BOOSTS REVENUES

The Dow Hotel Company launches a new division to operate restaurants in hotels outside of its own. **Morrissey Hospitality Companies** counts on restaurants as a large driver to boost hotel revenue, while **The Lion and Rose British Restaurant & Pub** and **Beef 'O' Brady's** look to add units in hotels. Dow Hotel Company becomes the first hotel company that also is a third-party operator of hotel restaurants with its first offspring open in Seattle. Morrissey aims to add up to five hotel and restaurant management contracts by year's end. The Lion and Rose British Restaurant & Pub hopes to sign up its first hotel unit in 2010. Beefs hopes to add up to six hotel locations.

Historically, hotel companies considered F&B as little more than a necessary headache that barely breaks even, but using a branded restaurant or bringing on an established restaurant management company can turn it into a profit center instead of a burden. Many hotel companies are missing the boat on picking up revenues from 25% to 45% that Dow brings in on F&B, or restaurant Morrissey's restaurant revenues that top \$5M at one location. It can be a relief for hotel operators to have an established brand or third party come in and take over the space. Plus, the restaurant can pull outside traffic into the hotel. A good restaurant can also boost additional revenue for the hotel, as people may decide to have weddings or parties. Branded restaurants in hotels gained steam over the past five or so years, but the trend hasn't really taken off just yet. It's still more common than not to see a generic vanilla restaurant at most midscale and upscale properties, but expect this trend to further pick up in 2010 and 2011, as hoteliers scrutinize operations to raise the bottom line. Many boutique and upper upscale hotels have already identified restaurants as another way to set their hotel's scene and connect with the guests.

The Dow Hotel Company launches its third-party management division and inks its first contract at the **Embassy Suites Seattle-Tacoma International Airport** in Washington. Dow converted the existing restaurant that was not being run properly to its **Basil's Kitchen** brand and got it up and running in two weeks. Several similar deals are in the works. Dow decided to add this division since the company's restaurants were doing so well in its own properties that it wanted to help out struggling hotel restaurants. President **Murray Dow** believes that restaurants in hotels are different from traditional units as they require specialized management, marketing and systems. Companies such as Dow provide the perfect fit. VP of Marketing and Revenue **Randall King** notes that 45% of the company's total revenue comes from F&B. Dow owns 10 hotels and 11 restaurants throughout six brands ranging from upscale dining to lounges and bistros that are specifically designed to fit the marketplace. They will work with any hotel brand except **Hyatt**.

Morrissey Hospitality looks to add two to three management contracts and three to five consulting deals that will be a mix of hotels and restaurants by year's end. The company's managed 20-year-old **St. Paul Grill** in **The St. Paul Hotel** in St. Paul, Minn., sees revenues of \$5.5M/year. Ten years ago, CEO **Bill Morrissey** identified a need for an Italian concept near that hotel and soon launched the freestanding **Pazzaluna Urban Italian Restaurant & Bar**, which brings in AUVs of \$4.5M. Morrissey recently picked up two long-term restaurant management contracts for **Enjoy! Restaurant** in Apple Valley, Minn., and **Paradise Landing Restaurant** on Balsam Lake, Wis. The company exclusively manages full-service hotels and restaurants and its portfolio includes three hotels and eight restaurants. Morrissey believes that this is a great economy to boost revenues by elevating dining experiences and pulling in banquets, especially weddings.

Casual-dining pub chain Lion and Rose hopes to ink a hotel deal this year and envisions adding locations in high-end hotels in Vegas, San Antonio or other upscale markets that match its customer base. Count on more sites throughout Texas, including Austin and San Antonio with around two to open by year's end. Owner **Allen Tharp** just opened the fifth unit in Austin. He looks for a bit smaller prototype at around 4,200 s.f. to 4,500 s.f. Buildout is very low at around \$400K equaling out to ROIs between 4:1 and 5:1. AUVs are \$2M and the average check is around \$16. The company is debt free but works with **Compass Bank** and **Bank One** if need be.

Beef 'O' Brady's looks to open three to six nontraditional units in a mix of hotel and sporting arena locations this year. Hotel growth is targeted in the company's core Florida markets, including Tampa and Orlando. Units range from 3,000 s.f. to 4,000 s.f. An average initial investment to open a new construction unit runs \$500K to \$700K, while conversions can be open for as little as \$100K to \$250K. An average check is around \$9.50 and Beef's prides itself on being able to serve a family of four for only \$30.