We can work it out

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Washington, D.C. — Sometimes a workout is the best solution when you're feeling distressed.

It's no different for hotels, according to speakers at the Distressed Hotel Summit in Washington, D.C., this week, produced by Hotel & Motel Management.

The realities of special servicing and loan workouts have set in, and lenders, asset managers and owners debated the best ways to approach the fallout of distressed properties, given the foggy forecasting climate.

More than 250 attendees quizzed lenders and special servicers in particular about topics ranging from government policy to legal issues to who will buy distressed assets and when.

Here are a few talking points from the speakers:

PKF Hospitality Research's Mark Woodworth on CMBS performance:
"Twenty-one percent of all CMBS loans are in some stage of nonperformance. That's up from 18 percent not two months ago."

PricewaterhouseCoopers' Scott Berman on the effect of low group travel:
"When you look at the 10 percent year-to-date occupancy decline, 75 percent of that loss is attributable to the group segment."

PKF Hospitality Research's Mark Woodworth on transaction outliers:
"Picture a bell curve of transactions over time. If you look at the [front] of the curve and the bottom of the curve the transactions that occur in those spaces are investment-value transactions, they're not market-value transactions. What [those] represent is what a particular buyer is willing to pay for that asset at that time."

CW Capital Asset Management's Jeff Carter on the rising numbers of loans in special services:
"In June of 2007, we had three hotels in special services. The loan balance on those three was $26 million. By January of 2008, we had eight properties [in special services] with a loan balance of $44 million. By January of 2009, we had jumped to 37 properties and a loan balance of $372 million. Now where we stand nine months later, it's 106 properties and $1.4 billion of hotel loans in special services. It gives you a sense of the meteoric rise of distressed assets."

Prism Hotels' Steve Van on the distressed hotel life cycle:
"If you look at what's happening today, it's because of problems 12 months ago. Two weeks ago CMBS defaults were at $60 million. We're adding about a billion a day ($100 million of that in hotels) to the default."

Keybank Real Estate Capital's David Harrison on restructuring loans with a lot of players:
"It's something like herding cats or trying to hold sand … when you have that many lenders in one room at the same time, especially when they don't all have secured interest in the real estate"

Anglo Irish New York Corp.'s Garrett Thelander on transaction rebound:
"The X factor is the capital markets. We might get some green shoots, but in terms of transaction volume, when do the capital markets recover to allow for normal financing? That's the real X factor, when it comes to stimulating real activity on the transaction side."

Prism Hotels' Steve Van on hiring a management company for a distressed asset:
"If you're looking to hire a management company and you're a lender, ask what percent of the companies you own. If they own more than 50 percent of their properties, then you ask, 'why would they want this?'"

Hotel Asset Value Enhancement's Michelle Russo on group business coming back in 2010:
"Our view for next year is that hotels will book a long-term average, at least that. They're starting with a depressed number going into the year, so it will be below average after all. We think there's going to be a lot of short-term meetings and fewer cancellations."

Citi's Chris Albano on the ideal borrower-lender relationship:
"Fresh equity speaks the loudest. Come to me, tell me, 'This is where we are today, this is why.' Explain the problem. Be prepared, have financials, make my life easy. Then offer a solution. The key is presenting the problem but also presenting a real solution."

Keybank Real Estate Capital's David Harrison on loan extensions:
"If the lending group can find a way to extend the term beyond one year, that is often enough time to get it done. The borrowers will do what's needed to be done to stay in the deal and keep it moving. That one-year extension? It's not going to get the deal done. Everybody knows it. You can sign it, but 8-10 months down the road, you're going to be back at the table."

Watermark Capital Partners' Michael Medzigian on defining distress:
"If I've got an asset where my debt is coming due in three years … to me, that's distressed. I'd like to think today about what to do about it, as opposed to three years from now."

Thayer Lodging Group's Lee Pillsbury on opportunities:
"It's this lack of visibility and uncertainty in the market, that's where the opportunity is … I personally like the uncertainty, I like the lack of clarity … out of that ambiguity, there comes great risk, but also great rewards."

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