



Removing the Distress from Distressed Assets

Smart hoteliers are finding new and sometimes dramatic ways to boost business at flagging hotels.

Friday, September 11, 2009

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Hotel real estate chatter these days seems to constantly focus on distressed hotels. There are plenty of them out there and many companies are starting to shift acquisition and/or management strategies to dealing with hotels that aren't providing expected cash flow.

Problem is, too many hotels were built with too much easily available debt and a cash crunch is making them miss debt service payments. And, unlike any other industry recession, hotels that are in the distressed category aren't necessarily bottom-of-the-barrel properties a heartbeat away from demolition. Many are brand-spanking-new and, if run by the right people, may still have a chance to survive and thrive.

At the Real Share Hotel Investment Summit held yesterday in New York City, a lot of the conversation was highly tuned to how operators could best take advantage of hotels that have been sputtering along and are near insolvent.

When a hotel is slipping into financial malaise, many times a new operator is brought in in an attempt to reverse the slow slide into the abyss.

One of the biggest culprits causing this problem was too many developers drunk on access to easy loans and building hotels in markets that should never have been built in the first place. Either the market was already crowded or a hotelier built a high-profile property that had no business being built in the first place. Now the owner is sitting on an improperly positioned hotel in dire straits.

"Often you have owners that want a real upscale brand when a market doesn't support it," said Biff Hawkey, Senior Vice President of Development with Hostmark Hospitality Group, who explained that in many cases these hotels need to be rebranded to a flag that doesn't command as high of a rate. "[Owners] have had to discount so seriously against their premier [brand] name. It's made more sense to come in with a less pricey brand.

Hawkey blamed an overheated economy for creating the illusion that more upscale brands could survive in certain markets, when the reality the premium rates of 2006 and 2007 were an aberration.

Steve Van, President & CEO of Prism Hotels, agreed. He explained this reality is especially troublesome for the five-star segment. "They [five-star hotels] barely worked before. And now when the billionaire owner is worth a million, the problem is magnified. What do you do with a Four Seasons in a market where you can only get \$200 a night? We will buy that Four Seasons, figure out a way to get out of the contract and down-brand to something that works. It's a great brand at \$600 a night, but not at \$300."

There are some five-star hotels operating in a negative cash flow situation. They are not even making operating expenses and there may be nothing else they can do," said Robert Winchester, President, Waterford Hotel Group.

Winchester said it's important to fully evaluate the market where the hotel is located, its specific niche and area demand generators to determine the best brand for the property. "For investment, we really evaluate best brand for that particular property," said Winchester, noting that changing the brand is not always the case when his company is appointed by a special servicer. Special Services are sometimes appointed when a hotel falls into default. In those cases, there may be limitations on money that can be reinvested in the property.

Navin Dimond, President and CEO of Stonebridge Companies, said his companies have bought full service hotels and moved them to a select service brand, which turned the property from a money loser to a very successful investment. You have to put the right lens on and look at every option that may actually increase the value of the asset," said Dimond. "Thinking of every option is critical. You have to find where the intrinsic value is in a real asset, that is, where there is some real value."

But whatever option a new owner chooses, these experts say it's critical to stay with a hotel brand familiar to the general public.

"Our group sees brands as bringing value. You pay for that insurance. Look, everyone does fine in good times, but it's [affiliation with] great brands in hard times that can help build market share,"

Sometimes, though, closing the hotel may be the smartest option of all.

At Prism Hotels, Van said they've recommended it three times already. When his company looks at the hotel budget on a five-year basis going forward, he said sometimes the best option is to just close the building and try to wait for property valuations to climb...then sell it in two or three years. "This is a fundamental shift in the hotel industry where this would make more sense," said Van.

One major instance of this happening was with the Four Seasons Exuma, which closed during the summer. It was purchased by Sandals and will reopen later this year as the Sandals Emerald Bay.

The original article can be found at <http://www.hotelinteractive.com/article.aspx?articleid=14842>