

Hotel Online

News for the Hospitality Executive

Sound Bites from NYU International Hospitality Industry Investment Conference

By Jim Butler, June 4, 2009

Here are some of the things we heard that we thought worthy of note.

- RevPAR projections for 2009 range from STR's optimistic forecast of "only a -9.8% drop" to -20% drop (basically extending the year to date experience for 2009 for the rest of the year).
- This RevPAR decline translates into a 40-50% decrease in NOI at many hotels, and nonrecourse owners are deciding that they are not going to pay the negative carry on debt service, or increasingly, the negative operating losses.
- Rich Conti of the Plasencia Group: "We are in the "do nothing" stage now. Lenders are doing nothing other than 90 day extensions. There is still a huge disconnect of the bid and ask from buyers and sellers."
- A few lenders are taking properties back, or borrowers are handing them the keys. The prevailing practice up to now -- particularly in the CMBS world -- seems to have been "extend and pretend" (extend loan maturities and pretend everything is OK).
- Budgets are being revised downward on a monthly basis. Anyone looking at forecasts made last quarter (much less year end 2008) is "driving only by looking in the rear view mirror."
- Despite data suggesting that rate cutting does not raise occupancy, hotels are slashing rates as they try to "catch the falling knife" of declining occupancies and ADRs.
- Henry Vickers, AEW: "I think we will see a lot more defaults coming now as borrowers realize their equity is gone."
- Steve Van, Prism Hotels: "We are projecting that CMBS loan defaults will go from the current default rate of about 2% to an astonishing 8% by the end of this year. And the loan defaults will go from "technical" or maturity defaults to payment defaults as borrowers quit making loan payments. That is when CMBS lenders will start taking properties back."
- Generally speaking everything is still pretty much in gridlock with some sense (or is it hope?) that the bid-ask gap may be starting to close. There are lots of people making bids on properties, but as Bill Reynolds of Thayer Lodging said, "Basically, we are a buyer if you are ready to fall over dead as a seller."
- There is very little money for construction or development, except perhaps loans guaranteed by the SBA, Department of Agriculture, or some local banks. The few lenders that are making any loans can cherry pick sponsors and loan terms.
- Mark Lomanno of Smith Travel Research: "After years of educating consumers about the unique values of hotel brands and product, the price wars send the consumer a different message that says customers only need to worry about price. . . . This time the rate declines are more severe. This looks twice as bad as 2001. Last time it took 6 years to recover from rate declines. This time it will take longer."

- Anonymous 1: "How do you practice yield management in this environment? There is such a short booking window. We are down 57% in occupancy and we are going to do whatever we have to in order to sell room nights."
- Anonymous 2: "Our group customers are coming to us and saying, "Your competitors have slashed their rates and we want you to cut yours too if you want our business." What are we going to do?"
- Worst markets? - NYC followed by Phoenix, Chicago, Las Vegas.

Jim Butler is a founding partner of JMBM and Chairman of its Global Hospitality Group®. Jim is one of the top hospitality attorneys in the world. GOOGLE "hotel lawyer" and you will see why. JMBM's troubled asset team has handled more than 1,000 receiverships and many complex insolvency issues. But Jim and his team are more than "just" great hotel lawyers. They are also hospitality consultants and business advisors. For example, they have developed some unique proprietary approaches to unlock value in underwater hotels that can benefit lenders, borrowers and investors. (GOOGLE "JMBM's SAVE program".) Whether it is a troubled investment or new transaction, JMBM's Global Hospitality Group® creates legal and business solutions for hotel owners and lenders. They are deal makers. They can help find the right operator or capital provider. They know who to call and how to reach them.

Contact:

Jim Butler
Chairman, Global Hospitality Group
Jeffer, Mangels, Butler & Marmaro LLP
1900 Avenue of the Stars, 7th Floor
Los Angeles, CA 90067-4308
(310) 201-3526 direct
jbutler@jmbm.com
www.HotelLawBlog.com