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Buyers seek hard-to-find assets

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NEW YORK-"Underperforming" is in the eyes of beholders when it comes to hotel assets. But in the lodging industry's current economic climate, there might be more beholding than there are assets available.

C.A. Anderson, executive v.p. of acquisitions and development for Interstate Hotels & Resorts, and Sean Hennessey, Lodging Industry Investment Council co-chair and principal in Lodging Advisors, discuss assets during a LIIC roundtable.

During a Lodging Industry Investment Council roundtable sponsored by HOTEL & MOTEL MANAGEMENT in conjunction with June's New York University International Hospitality Industry Investment Conference, several participants identified underperforming hotel assets as the most sought after product in the lodging industry but they aren't easy to find.

"I'm not sure there's an infinite number of those [underperforming assets]," said Dan Lesser of Cushman & Wakefield. "When you look at the portfolio of buyers of hotel real-estate today, they typically are sophisticated capital sources that are aligned with management companies and every manager thinks they can manage better than the next guy. They look at the next guy's operation and say it's underperforming. It may not, in fact, be underperforming. The hotel industry is notorious for being ego-driven."

"A lot of the underperformance has come from a lack of [capital expenditures] over the last several years," said Rick George of Hospitality Real Estate Counselors. "There probably are some assets out there that are truly underperforming and can be made better. There are a lot of hotels that have not kept up with their capital expenditures that do have a good box, are in a good location, in a good market that can be improved and have gone down in terms of brand and can come back in terms of brand, again with the right capital expenditures."

Dan Lesser of Cushman & Wakefield participated in a LIIC Roundtable, which was held in conjunction with the NYU Investment Conference in June.

There are clear indications of what hotel owners are looking for when they're searching for underperforming assets, George said.

"We have, as a team, at least one conversation, maybe two or three or four a day, with people who are looking for the Hilton Garden [Inn] conversion opportunity, or the Marriott conversion opportunity," George said. "We can't find enough of these underperforming assets. Everyone is scouring the land for these things. That's where the creativity starts happening, because people are going into other types of buildings to find and create these underperforming opportunities."

Regardless of the availability, the industry is enjoying a strong run as it rebounds from its three-year downturn-and roundtable participants expect the number of transactions to increase.

C.A. Anderson, executive v.p. of acquisitions and development for Interstate Hotels & Resorts, said the current environment reminds him of six years ago.

LIIC's mission
The Lodging Industry Investment Council is an industry think tank that meets three times annually to discuss hotel finance, development and operations issues. Its 70 members include consultants, lenders, operators, developers, educators and legal professionals.
Co-chairmen for LIIC are Mike Cahill of Denver-based Hospitality Real Estate Counselors and Sean Hennessey of PricewaterhouseCoopers' New York office. Vice chairman is Jim Butler of Jeffer, Mangels, Butler & Marmaro, a Los Angeles-based law firm. LIIC's Web site is www.liic.us.

"We don't have the compression factor that was occurring then," Anderson said. "There was a lot of money in the market and consumer spending was up, job satisfaction was up, satisfaction with the government was up. There were a lot of positive indicators. I don't think you have that kind of an experience in this economy when there's a war going, there's potential for terrorist attacks coming up towards our election cycle. ... People are a little more cautious. I don't think we're moving ahead full steam like we were when we transitioned from '98 to '99, but I'd certainly compare this favorably to the '98 period."

Others said there are positive signs that the industry has turned the corner.

All that adds up to good news for the foreseeable future.

"We're forecasting that we should beat revenue targets this year, and close to or beyond the targets we have for net operating income," Anderson said. "We still don't have the ability to move rate like we'd like to, but that'll come back as the occupancies come back. We're continuing to be bullish."

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