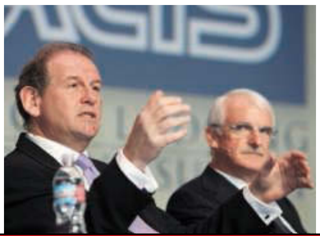

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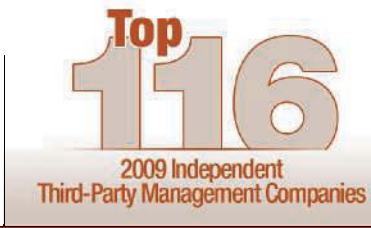

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A HotelWorld Network Publication | Vol. 224, No. 3 | March 2009

'A near-total shutdown'

Lenders, buyers, sellers and operators discuss stagnant hotel real estate market

By Jason Q. Freed
SENIOR EDITOR

SAN DIEGO–This year's first Lodging Industry Investment Council roundtable was much larger than expected, with many in the hospitality real estate market coming prepared to ask questions and discuss survival tips. If there was one question that represented a theme, it was from Lodging Investment Advisor's CEO Sean Hennessey: "What needs to happen to stop the bleeding?"

From a disruption of deals to flailing fundamentals, those who own and operate hotels said they are seeing their markets get worse every day.

"Everyone sees this as an event—not your normal recession—and we're trying to get through it together," said Angelo Stambules, VP of lending, hospitality for Capmark.

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▶ Timeshare industry shifts focus from development to operations
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The parallel between the failure of the economy and its effect on the hospitality industry has never been more clear. In fact, Mike Cahill, CEO of Hospitality Real Estate Counselors, said he is worried the economy is not in a recession, but more of a "controlled depression."

"It really has to do with a fundamental difference in the time length of the cycle," Cahill said. "Normally a recession is something that has to do with overcapacity or oversupply and is relatively short term. I just don't see what the catalyst is going to be that's going to stop this downward propulsion toward more layoffs and more people just not having jobs."

Hennessey discussed the effects of the financial meltdown on the hospitality industry, blaming "a near-total shutdown" of securitized mortgage markets,

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SECOND IN A SERIES:
WORKING WITH MILLENNIALS

New tactics needed to train Gen Y workers

By Emily Hanna
ASSOCIATE EDITOR

NATIONAL REPORT–Team members from Signature Worldwide, a training and marketing company that specializes in the hospitality industry, recently went into a typical hotel training session like they would any other.

But this time they found a marked change: Trainees were text messaging, talking and seemingly not paying attention to the lessons.

"At first, [the trainers] thought it was just rude," said Lisa Kalmar, instructional designer at Signature Worldwide. Soon after, they discovered

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CITYCENTER LAND LLC

CityCenter's Vdara Hotel and ARIA Resort & Casino are accepting reservations, but the Harmon Hotel component has experienced setbacks—like much of the Las Vegas pipeline.

Vegas bets on tradition

Developers hope new projects continue to increase demand

By Jason Q. Freed
SENIOR EDITOR

LAS VEGAS–If one positive can come from the current financial crisis and its effect on hotel development in Las Vegas, it's that visitors may see less of the tower cranes and wooden facades that have been constant eyesores littering Las Vegas Boulevard for the past 10 years.

The Las Vegas skyline was expected to receive a major transformation over the next few years, but challenging economic conditions and turmoil in the credit market has some developers scaling back and even canceling plans.

"The credit crisis and weak consumer confidence have negatively affected development in Las Vegas," said Gamal Aziz, president and CEO of MGM Mirage Hospitality. "Projects have been delayed or canceled and many existing developments are having a difficult time securing capital."

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> "You're only a seller in today's market if you have to be." RICHARD CONTI, THE PLASENCIA GROUP

Near-total shutdown

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which were the main vehicle for liquidity over the past several years.

"Until a new system comes into place to replace that, we're going to be losing a lot of liquidity in the industry, which will only lengthen the amount of time until recovery," Hennessey said.

Occupancy and revenue per available room saw gradual declines throughout 2008, but the reality of a reeling economy didn't strike hoteliers until September. On Sept. 15, 2008, the collapse of Lehman Brothers Holdings, a major hospitality lender, signified distress.

"My guess is that if Lehman hadn't gone under in September, [average daily rate] would not have gone negative in the fourth quarter of 2008," said Mark Lomanno, president of Smith Travel Research. "The effect on the lodging industry, or the effect on the economy in general, of Lehman going out of business was probably, in order of magnitude, no different than Sept. 11."

Deal breaker

Beyond a drop in demand, the failure of the credit market has had the most dramatic effect on those who deal day to day with transactions in hospitality real estate. Property values have plummeted to record lows and most at LIIC agreed with Steve Johnson, EVP of real estate for Driftwood Hospitality Management, who said a large disconnect between sellers and buyers remains because sellers aren't ready to take a hit.

"The first question we ask when we see a property for sale is, 'What's the reason for the sell?'" said Thom Geshay, SVP of business development for Davidson Hotel Co. "You wouldn't sell in this market unless you had pressure to do so."

"You're only a seller in today's market if you have to be," added Richard Conti, president of The Plasencia Group. "That's why there is no product."

Cahill said the smaller deals—those less than $12 million—are still getting done, mostly financed

LIIC & H&MM
THINK TANK

LIIC's mission

The Lodging Industry Investment Council (*www.liic.ws*) is the premier think tank in the hotel industry. Its members include a diverse mix of 70 influential leaders in the real estate and finance fields. Membership is by invitation.

Co-chairmen: Mike Cahill, CEO and founder of HREC—Hospitality Real Estate Counselors; Sean Hennessey, CEO of Lodging Investment Advisors; and Jim Butler, partner, Jeffer Mangels Butler & Marmaro

H&MM is the sole media sponsor of LIIC and provides exclusive coverage of the council's membership meetings and private roundtables throughout the year.

"It's not that everyone wants to cut the free coffee, but you almost have to." THOM GESHAY, DAVIDSON HOTEL CO.

through local banks. However, he admitted, if lenders would be more stringent and force borrowers into foreclosure after non-payment, more properties would then be forced to come to the market.

Stambules said that because this is such a tumultuous market, as long as hotel owners on Capmark's balance sheet are open to dialogue and show a willingness to support their deals, the lenders are willing to work with the borrower.

Depending on how the current bailout plan affects asset values, banks shouldn't be under increasing pressure to foreclose and monetize bad assets to increase capital, he said.

"We're not afraid to take an asset back, but so long as debt service is being paid and borrowers are prepared to support their deals, servicers are going to continue to work with their borrowers," Stambules said.

Ask the operator

Another perspective came from the owner/operators at the roundtable event, who said property-level staffs are struggling to keep up with readjusting the amenity creep while keeping guest satisfaction high. A few operators agreed that during successful times, brand standards got out of hand and it's time to pull some of those standards back.

In fact, one operator said Marriott International recently sent its franchisees a letter explaining a relaxation in brand standards, and Hilton Hotels Corp. cut back on central fees.

Michael DeNicola, EVP and chief investment officer of FelCor Lodging Trust, said most brands have been proactive in addressing the downturn.

"We've seen, on Hilton's side for example, significant changes in the way they're managing our hotels," he said. "They've also been proactive in coming to us about not requiring capital that was originally planned in hotels and changing brand standards. It's a change in mentality, and most of the brands are doing it that way."

Geshay discussed how Davidson is attempting to not cut personnel, but instead remove any excess from the operation.

"For example, Westin came out with a list of exceptions that they could do," he said. "They'll allow one bar of soap in the rooms. They'll allow fewer towels in a king room. You don't have to put robes in, except by request. They've softened the stance on some of those things."

But, Geshay said, the challenge becomes removing some of the extras without hurting guest satisfaction.

"It's not that everyone wants to cut the free coffee, but you almost have to," he said. "One thing that may come out of this [is] you're probably going to see service scores slide."

Jim Butler, attorney at Jeffer Mangels Butler & Marmaro, said his firm has seen an increase in owners who "feel like cornered rats" because the drop in demand is leaving them with fewer resources to keep up with brand standards.

"I think we are going to see more intense discussions [between owners and brands] and sometimes that will be very contentious," he said.

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