

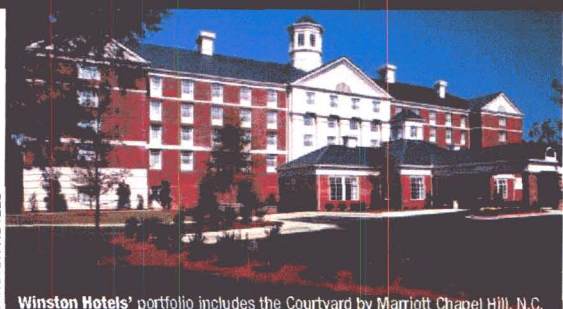


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WINSTON HOTELS



Winston Hotels' portfolio includes the Courtyard by Marriott Chapel Hill, N.C.

Buyers target REITs

By Jeff Higley
 EDITOR-IN-CHIEF

NATIONAL REPORT—The reach for REITs is growing farther by the day.

The wave of acquisitions of lodging real-estate investment trusts hit fever pitch in February as Winston Hotels and Apple Hospitality Two an-



Green
 WINSTON HOTELS

nounced they were being acquired. ING Clarion Partners is acquiring Apple Hospitality Two for about \$890 million including debt, or \$11.20 per share. Wilbur Acquisition Holding Co. is acquiring Winston for \$14.10 per share. Norwegian
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INFO CONCIERGE Trends affecting hotels in 2007



1. Supply and demand in balance
2. More good news for luxury
3. Construction costs
4. Operating costs

For the complete report visit www.ey.com/us/realstate Source: Ernst & Young

Private party

Four Seasons buyout deal to take company out of public arena

By Elaine Yetzer Simon
 SENIOR EDITOR

TORONTO—An influx of private equity into the hotel industry and the performance of the sector are convincing a number of companies that going private is the best move. The plan to take Four Seasons Hotels private in a deal valued at \$3.8 billion is the latest, but those who are involved in the hotel industry said it won't be the last.

If the \$82-per-share proposal is approved by

shareholders, Four Seasons would be owned by affiliates of Cascade Investment L.L.C., which is owned by Bill Gates; Kingdom Hotels International, a company owned by a trust created for the benefit of Prince Alwaleed Bin Talal Bin Abdulaziz Alsaud and his family; and Isadore Sharp, Four Seasons' founder, chairman and c.e.o.

Triples Holdings, the Sharp family holding company, would hold about 10 percent of the shares of

See **Four Seasons buyout** | page 29

FOUR SEASONS
Hotels and Resorts



The InterContinental Montreal is for sale as part of IHG's divestment plans.

INTERCONTINENTAL HOTELS GROUP

IHG pipeline strong

By Stacey Mieyal Higgins
 ASSOCIATE EDITOR

LONDON AND ATLANTA—The preliminary results from InterContinental Hotels Group's 2006 earnings presentation indicate a strong pipeline, plans for brand enhancements and increased performance metrics worldwide.

Andrew Cosslett, c.e.o. of IHG, said during a presentation that the company will exceed its target of net organic growth of 50,000 rooms to 60,000 rooms by 2008. The global pipeline has increased by 47 percent, with 158,000 rooms in the pipeline as of Dec. 31, 2006. The majority of growth continues coming from U.S. hotels, but the Asia Pacific region is gaining share of the pipeline.

According to Richard Solomons, finance director for IHG, revenue
 See **Pipeline** | page 26

THINK TANK

Cap rates, real-estate top of mind

By Jeff Higley
 EDITOR-IN-CHIEF

LOS ANGELES—The state of the lodging industry can be summed up like this: Bullish, but wary.

While meeting in conjunction with the Americas Lodging Investment Summit, members of the Lodging Industry Investment Council said hotel executives need to pay attention to the economic environment now so they won't have to pay more later.

"What keeps me awake the most at night is what's going to happen to [capitalization] rates and how quickly," said Steve Kisielica, principal with Lodging Capital Partners. "Two years ago, everybody was underwriting outgoing cap rates 200 basis points higher than their ingoing, and

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Think tank

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now that underwriting is a bit narrower, some people are even modeling going in and going out at the same rates. We certainly have seen a fundamental shift in all of real-estate and cap-rate evaluation. When does it go back to normal, or does it?"

It appears that net operating income is going to be the barom-

eter for when the cycle turns.

"You have a lot of people coming into the market from other industries, who invest in other real-estate cards, and talk great," said Jim Merkel, managing director for RockBridge Capital. "They'll enjoy growth on their NOI for the next couple years. When they get the volatility in the NOI, in a hotel investment, ... what will be interesting is how the current investment base reacts. There's a lot of new

money coming into the market, new investors that are buying aggressively. The question out there is, how will they react if there is a blip or a setback?"

Other measurements also are considered.

"To a certain degree, we all need to rely on several things," said Bernie Siegel, principal with KSL Capital Partners. "One is that how we're able to leverage off of tremendous market fundamentals for our demand; we

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, president and founder, HREC—Hospitality Real Estate Counselors; Sean Hennessey, c.e.o., Lodging Investment Advisors.

■ **Vice chairman:** Jim Butler, partner, Jeffer, Mangels, Butler & Marmaro



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Northwest Territory
mmalloy@questex.com
(214) 708-0790



Brian Levine
Southwest Territory
blevine@questex.com
(214) 698-8288



Jason Wallace
West Territory
jwallace@questex.com
(801) 430-9999



Mary Jo Cotner
Midwest Territory
mcotner@questex.com
(214) 708-0794



Brian Olesinski
OleSinski Real Estate, Inc.
b.olesinski@questex.com
(214) 708-0790

all feel we bring something to the table in terms of organic growth.

"We're relying on the notion that [earnings before interest, taxes, depreciation and amortization] or cash flows will increase faster than cap rates, or will increase faster than most folks can track. To a certain degree, we all expect some normalcy to return to those metrics."

Normalcy is a thing of the past in at least one critical area for hotel operators, according to Larry Shupnick, senior v.p. of acquisitions & development for Interstate Hotels & Resorts.

"One of the big laments is that you don't have control over the insurance," he said. "Some properties that we've had, we've seen the rates quadruple in the last three years. That's a tough thing to pass on to the guest."

Kisielica said property tax increases are more noticeable.

"We've seen huge property tax exposure; as values have increased, municipalities are catching up," he said.

Mike Cahill, president of Hospitality Real Estate Counselors, said as long as the U.S. economy is buoyant, the hotel industry won't have much to worry about. But he said supply-growth numbers for the lodging industry could become an issue sooner rather than later.

"An example would be that we're building a Palomar Hotel near an office building in Denver," Cahill said. "We have a Renaissance and a Westin popping up within five miles we never anticipated when we were bidding. Not all those will reach fruition, but the concern is there. When I started out, one of my favorite quotes was from John Q. Hammons: 'A developer will build whenever a lender will lend.' I guess that never does change."

jhigley@questex.com