# Lodging Industry Investment Council roundtable discusses current events

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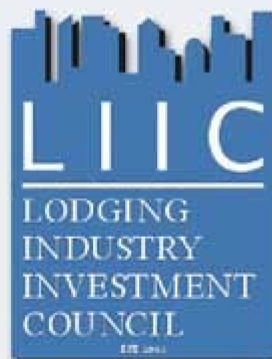
Hotel & Motel Management

During the Americas Lodging Investment Summit in January, H&MM editor-in-chief Jeff Higley met in the offices of Jeffer Mangels Butler & Marmaro LLP with several members of the Lodging Industry Investment Council to discuss their views about the current environment in the hotel industry.

Members of the roundtable included:

- Jim Butler, attorney with Los Angeles-based Jeffer Mangels Butler & Marmaro
- Greg Casserly, president and c.o.o. of Costa Mesa, Calif.-based Tarsadia Hotels
- Sean Hennessey of New York-based PricewaterhouseCoopers LLP
- Frank Nardozza, chairman and c.e.o. of Fort Lauderdale, Fla.-based REH Capital Partners LLC
- Bernie Siegel, managing director-hospitality division for Denver-based Secured Capital Corp.
- Mark Tobin, president of Denver-based HREC Asset Management
- Steve Van, president and c.e.o. of Dallas-based Prism Hotels and Remic Hotel Management Co.
- Jim Whelan, executive v.p. of Kimpton Hotel & Restaurant Group LLC

## 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.

**Higley:** "What's the most positive aspect of the hotel industry as of today?"

**Van:** "The most positive thing is low interest rates. Without that, a lot of arteries would start bleeding, but fortunately we have low interest rates."

**Siegel:** "The capital markets are still very favorably looking at the hotel business, despite our short-term pressures. Low interest rates certainly help that, and on the investment side, the equity portion of the

transaction market is being fairly aggressive, using attractive leverage, low-cost financing to purchase at what they consider to be very handsome levels."

**Butler:** "The best thing is there's no place to go but up. We're seeing some modest improvement in the industry in general, but perhaps most importantly, we're establishing a new base of expectations from which more realistic and a solid growth pattern can be built."

**Hennessey:** "One is that hotels are in fairly good shape by and large because in the good years a lot of the earnings were reinvested into the properties. Some of the best properties are still in very good condition to withstand the downturn for some period of time. There's certainly still issues out there on the operating and capital sides. Some owners have said operators have been more than willing to work with them in this down environment since they have a common enemy rather than fighting each other, although the issues between owners and operators will still continue to be an issue the industry has to deal with for sometime to come."

**Tobin:** "We're seeing an enormous amount of activity with some fairly unique capital structures. The low cost of capital and the structures of a tax-exempt project revenue financing are helping municipalities to push hotels into areas with real economic development need, which is what a hotel fulfills. It's an economic development engine. We find it interesting that municipalities are finding an opportunity to create a low cost of capital vehicle and realize lodging demand in areas that require economic development. It's likely to assist in the resurgence of some [markets] that really need lodging demand supported."

**Nardozza:** "The key thing I see is the occupancies are starting to come back in a lot of the markets. We're getting some occupancy, we're still depressed on rates, but at least there's people traveling, particularly in the leisure segments. My company is focused on trying to buy hotels, and we're finding in some of the leisure markets there are some good rebound stories coming into play. Also, it's a great opportunity for people who have capital to start stealing market share. If you can put the capital to the deals so you can steal market share, that's going to help buoy the buying opportunities. Also, there's a lot of capital out there, which is a great thing. We have people behind us that are just itching to put capital into us and our challenge is to find the right deals."

**Whelan:** "In our small niche of the market, one thing we see that is good for the future recovery is the real cessation of supply growth. We've seen very little increase in supply, and we see the pipeline really being choked off. So when the recovery does start to come back, occupancies are coming back but rates have been really hammered by price competition, we expect to see that leverage jump up. We have some pretty solid customers who are loyal and want to come back to our type of hotel, so that does provide us cushion getting through the markets we're in right now."

**Higley:** "Jim, your company is expanding. You used to be a more regional player, now you're a national player. How difficult is that to do in this environment?"

**Whelan:** "It is difficult, it would be silly to say otherwise. We've doubled our growth in the past five years. We have two third-party developments coming online pretty quickly, one in Cambridge [Mass.] and one in Boston. We have one of our own in San Francisco, but these have been in the pipeline for quite a while. We're expecting to see that there needs to be a start. Although capital is out there, it's being very patient and waiting to see what is the right moment to connect. With Iraq looming, it's difficult for people to take that leap of faith."

**Higley:** "It seems there is a lot of optimism out there. Is that a leap on my part?

**Hennessey:** "There is always going to be optimism in this type of business, especially one that is so management intensive. People can't put the finger on any given element that represents a real positive momentum for the sector, but people just recognize it's a cyclical business."

**Siegel:** "Some restructurings have been occurring across many different legs of our business or feeder businesses to the lodging sector. Jim may speak about management-owner structures and a new understanding, if you will, going forward. Ultimately, as painful as that might be in the short term, that's positive for our business going forward. The airline business has to be fixed. It might be painful, it might be inconvenient right now, but looking at both security and pricing, once those two issues are addressed and

cured to a certain degree, we'll be better off. The positive bit of news from the capital markets is they learned their lesson in the last trough in the early 1990s because capital structures are still prudent and we're not seeing nearly as much pain as we did the last go around, and that will continue."

**Nardozza:** "Having said that, we're starting to see quite a few hotel properties whose loans are coming due from 1998 and '99, and I know a lot of the capital sources that made those loans have been patient through 9/11, but they're starting to want to see something happen. There still are a lot of owners out there who are under-capitalized and so the fresh capital-if they can place that fresh capital behind sponsors who have the credibility and appropriate worth levels, the capital will place their money into new acquisition opportunities if they're buying right at a lower bit of different lower bases than the previous owner. We'll see a lot of that this year. We're tracking those loans, and we have about 200 of them looking to see what's going to happen with the lender. There's going to be a lot of activity in that regard this year."

**Butler:** "It may be interesting to see if bankruptcies are triggered by those bullet notes because the so-called rules apply to healthy situations, where the only problem is you have a bullet loan and then they'll go through a reorganization and essentially rewrite the note for the lenders. It isn't because the company is in trouble or because they can't meet its regular obligations as they fall due, it's that bullet loan that could trigger it and for which one whole part of the bankruptcy laws were designed."

**Van:** "We do a lot of work in the [commercial-mortgage-backed securities], which makes up 22 percent of the hotel loan and one problem with those in terms of loans coming due is unlike a bank or pension fund, it adds more flexibility. These are pools of loans that are meant to perform like bonds, and as such has a fixed due date. It's very difficult for these servicers to extend the loan because you have bond-holders waiting to get paid off. Hundreds of hotel loans are coming due from 2004 to 2006, and it's very difficult to get them refinanced."

**Nardozza:** "It's interesting that you mention these special servicers and the CMBS loans. We've met with most of the key special servicers and went through their portfolio of problem loans and found that these are situations that I don't know if they'll ever find a fix. It's possible a lot of those loans got into the big pools to stick it through there … I don't know what the answer is for those loans under the special service or review."

**Higley:** "Do you see that in the next three or four years, a flurry of foreclosures and other problems?"

**Nardozza:** "I'm anticipating this year, there will be a lot of friendly turnovers. You have the guy who's been reaching into his blue jeans trying to make debt service on the mortgage and struggling with some issues, struggling in some cases just to meet payroll in certain off months. There will be some transactions where the owner and the lender just come to terms and say, 'It's better off that we give you the keys and take day-of-the-move foreclosure,' or whatever it might be because it is very costly for owners to go through that bankruptcy process. It may or may not work because there is such a spread between where the principal balance of the loan is vs. where the cash flow is right now. The key will be the perceived equity in the project. If someone perceives that they have a lot of equity, then they will struggle hard. And all properties, as we know, are not affected by the downturn. Some will be stronger and better able to withstand that kind of fight and cost. Others will just say, 'Why bother?'"

**Hennessey:** "There is almost nobody out there at this point that thinks there is a bounce back yet to occur and that that's going to create equity which is going to solve everyone's problem. The sense I get from investors is they realize where room rates and occupancies are today is the base from which they're likely to grow. Maybe if the economy picks up in a couple of years, somewhere down the road we may have a spike in room rates that will accrue to the benefit of owners. Again, it's not anything you want to make plans around today and certainly not anything that's going to flow into the values in a bankruptcy court context.

**Siegel:** "We're also looking at the convergence of the expected recovery in revenues and profits with what happens to the interest-rate market. There's a very big need and hope on all of the owners' parts of our business that those go hand in hand and we don't have a spike in rate prior to recovery and profits because then it will only exacerbate what Frank and Steve are seeing and these trends of fall pickups and maturities that will not be able to be refinanced. They usually do not go hand in hand. There might be a lag of 30, 60 or 180 days, so it's really hard to say, particularly with all this geo-political risk. We've never been able to gauge the direction of interest rates, but it's similar to Jim's comment."

**Van:** "There's one sort of mathematical structural problem, that is if interest rates have been at 5 [percent] or 6 percent and the economy recovers or there's a big budget deficit, interest rates can go up 1 or 2 points, which means 10 [percent] to 30 percent in a very short period of time-much faster potentially than the economy can recover. RevPAR cannot go up as fast in terms of jump in interest rates. That's what concerns me."

**Tobin:** "Given the product you work, Steve, there's a lot of talk that certainly the bond rates are not going to moderate for much more than 12 to 24 more months and certainly 100 to 200 basis points is something people are prepared to accept in 12 to 24 months, but I think the bond sell run-up is coming to a quick end. It will be interesting to hear what people think is going to happen to the rates in the real-estate if in fact bond rates fail to moderate and start pushing higher 12 to 24 months out, given that your crossing events is certainly likely to skew the wrong way if bond rates stop moderating over that timeframe."

**Siegel:** "What we're advising our clients, and it depends on a deal on the sponsorship, if you're a low-leverage borrower and proceeds aren't an enormous challenge to you it makes all the sense in the world to lock in fixed today. If you have a debt service issue, which actually applies to much of our business or you have a proceeds challenge, which is also very common today, what we're advising and seeing is go ahead and float at origination with either a swap into a fixed or a cap that protects you from a moving rate. It's an extremely advantageous time to borrow now, not just to ride out the wave in expectations of recovery, but the cost of capital is exceptionally low on the debt side and even the equity side."

**Van:** "What can you fix it at now? What are the general terms?"

**Siegel:** "In many cases lower than our mortgages are at this table."

**Nardozza:** "It really depends on recourse, non-recourse, length of term, but having been in the market looking for money in that regard, if you're talking about a 65 percent loan-to-value, you probably can find fixed rates somewhere in the 6, 6.5-percent range right now. There's quite a few players who will step up, assuming you have a well-sponsored project and 35-percent equity in the deal.

**Higley:** "Does anyone care to take a guess at how many properties, what percentage, would you classify "in trouble" right now? Bjorn Hanson said it 5 or 5.5 percent."

**Hennessey:** "That's tracking where the defaults were over the past year, and as the year went along, it was approaching 6 percent but still a little bit shy of that. We don't see in our baseline scenario much of an increase in additional defaults, especially not among the better-quality assets. The types of assets we have seen in default, in arrears or having other problems, have been older properties, a lot of unaffiliated properties, a lot of hotels in weak markets where eight new competitors have opened up in the past couple of years. I don't expect to see any signs of significant foreclosures and default activity at the really high level that we saw last time through the cycle in the early 1990s, where you had the overhang of first-class properties that were built when it was tax-advantageous in the early '80s. We expect to see basically a moderate rise, another point or two tops, in the default rate. Now that's assuming there is not other events that are playing into the scenario, which would be terrorist incident, a big spike in interest rates, there's a number of things that could go wrong that would change that scenario."

**Higley:** "What is the state of hotel valuation, and where will it be six months from now?"

**Nardozza:** "The people that do them are being challenged. As far as where valuations are going, it's somewhat of a flippant answer, but some regards, they're not going. People are just struggling with how to value a hotel. We've only been able to figure out, in situations where we can jump in and there are some very specific issue in the property where we can put our finger on, and say this is the reason this property is struggling. We can look at history and try to be smart in terms of where the property was performing in 1997 and how it's likely to perform going forward."

**Siegel:** "Certainly in the forth quarter, we saw several large transactions, portfolios, large single assets that traded at low-cap rates, single-digit cap rates and in some cases sub-7 cap rates. That is an indication that buyers are acknowledging the short-term cash flow pressures on last trailing 12 [months] and that they're being more aggressive with low-cost financing. However, as Frank alluded, valuations are definitely down from

the peaks of 98-99.

**Casserly:** "What we've experienced in the last 18 months or so is that the spread between the bid and the ask has been outrageous and no one's been able to close the gap. We have been pretty quiet over probably 12 months, and then all of a sudden last year around August, things started to heat up a little bit and we had a spate of acquisitions. We closed on four deals before year-end. We started to see people get a little more sensible about what their real value of the property was. People were holding out and surviving mainly because of the low interest rates. The interest-rate environment had buoyed a lot of owners, had provided a lot of support to owners, where in times past in this type of cycle, 14 cents or 15 cents was going to pay debt, now you're only in the three or four range. You had a lot of staying power. By the same token, operationally we've changed the line on rising operational costs. The pressures seem to just start to twist, and the torque was there at the end of the year where we started to see things change. We're hopeful that we'll see a lot more acquisition activity or transaction activity in general. Now people are motivated to move, whether it's the sunset, or they don't see any real lift in the environment. Getting out of the car today, the Dow was below 8,000. Who knows what psychologically people are going to come to grips with. We're fairly regional, but we'll see a lot more activity in this part of the world over the next couple of years."

**Higley:** "You mentioned the Dow. A couple of years ago at this conference, or it was three, they were up on the stage saying 'Who's voting that the Dow's going to be over 12,000 by the end of the year.' Sixty percent or more of the people thought over 12,000. Here we are under 8,000 today. What affect does that have on hotel owners and operators? Is it something they really get into, or does it really affect day-to-day operations?"

**Butler:** "We tend to think in terms of cycles, replacement costs, what's happened in the leisure component, etc., but the reality is our industry is not controlled or dominated by the economy. The Dow is not the economy, it isn't that simple, but it does reflect it. What it is thoroughly reflecting now is massive uncertainty about Iraq, terrorism, the economy in general, what happens with business. The business that is the other half, that leisure traveler. All is a 1-to-1 correlation of the economy in our industry. However, we ought to say that is what is going to have an overwhelming impact and controlling influence on our industry."

**Whelan:** "Where the hotel industry sits smack in the middle of the sea of macro-economics that we're all in is the single most pertinent reason we're suffering where we are in terms of rates. Businesses and travel planners say they're still cutting back on their travel budgets. They're not sure if they want people to be potentially out on business trips if there's going to be another war. The size of group meetings and the booking windows are short, the size of the meetings are down. This is not because of the Dow but is symptomatic of the Dow. The Dow reflects optimism or pessimism. It reflects people's expectation of the bottom line. And people's expectations of the bottom line also drives travel budgets and meetings. It's a good precursor for our business to see the Dow going back up."

**Higley:** "Are people going to be focused more on drive-in markets or fly-in markets?"

**Nardozza:** "They're flying. The leisure travel is almost back to where it was in 2000. People are flying for leisure, and they're flying cheap. They also want to stay cheap, and that's why occupancies have held pretty good on the leisure side. It's business and corporate meetings that's being hammered right now."

**Butler:** "The Euro is at an all-time high relative to the dollar. As managers in an international destination, Jim how do you take advantage of the purchase power of the foreign traveler in an environment where there isn't a lot of foreign travel? Is that an opportunity we can somehow leverage?"

**Whelan:** "I would love to see the depressed dollar bring the foreign traveler back in. First we have to get rid of the terrorism aspect. That's just overwhelming everything. Airline safety, the ease of airline travel and the sense of safety of foreign travelers when they come into the United States [are big issues]. We don't have the foreign traveler coming into San Francisco. We're expecting it may pick up this summer. That will be determined more by the world peace sense than anything else that we do. I will say on a broader, macro level, the reduced value of the dollar is a significant opportunity for the United States to get more competitive and bring our business back up to jumpstart our own economy. You will see people coming back in and buying in this country, which will create more liquidity. You'll see properties trading hands, but with the dollar depressed, our properties look cheap to everybody outside, especially in the European zone."

**Hennessey:** "It's not just cheap to stay in the rooms, but as the year rolls along, you'll see a more foreign investment coming in. We're already seeing in the New York market some German and other Western European investment in the States taking advantage of the weak dollar. In cycles past, they've tended to gravitate toward the safer real-estate first, the office buildings and some prime retail and then gone after the hotel sector. Unless the hotel sector weakens, I suspect you'll see some foreign investment in the hotel sector for the first time in a good while."

**Higley:** "Can we talk a little bit about the relationship between management companies and owners right now. How would you describe it? Are they friends or foes at this point?

**Butler:** "There's a natural tension between operators and owners as being on opposite sides of the contract, and that tension becomes much greater either when the results of an individual property are down or when the industry as a whole is down and the result of the individual property are down. At this time, the relationship between owners and operators is probably as tense or strained as it has been maybe since the early 1990s, when there were many foreclosures and properties lost through economic failure. There are probably three results of that. One we're already seeing, which is the bloom of litigation between owners and operators over existing long-term contracts where owners are either seeking damages for breaches of fiduciary duty or contract and/or termination of the long-term agreement. Second, the operators will move quickly to fix those problems in their contracts because most of the liability can be fixed. The problem is that it will swing the terms of the management agreement to become far more onerous to owners and that probably leads to the third area, which is creation of tremendous opportunities for operators who are willing to justify their relationship on a more performance and satisfaction guarantee-type basis instead of the long-term view that this hotel is in our distribution system and we're not going to give the owner controls, rights of termination or the other things. They will be interesting times because of that."

**Van:** "We're being asked already this year from large owners of hotels who are unhappy with their current management to make proposals. Part of it has to be that they're just looking for a scapegoat or they're unhappy, but the other part is they're looking for some leverage to get deals from management companies willing to put their fees where their projections are."

**Higley:** "What does the money think of this? Do capital providers care about the management-operator relationship?"

**Siegel:** "Absolutely. It's always been a quagmire. I'm sure Jim's dealt with it a lot. For the larger institutional properties, lenders absolutely prefer a chain-affiliated manager. However, in the event of a default, they would love to be able to replace that manager. And usually, big chains will not allow both. I would imagine that we'll reach a heated level of negotiations going forward in this environment."

**Nardozza:** "I swore that in 1993 if the economy ever came back that no lender would ever make a loan again without having the right to terminate the operator. It seems for years like no one cared. Everyone forgot there were problems in being able to sell an asset encumbered with a long-term management contract. It still doesn't seem to be, from the lenders we encounter, as big an issue as I would have thought. … One of the things I have observed is that there is a cookie-cutter process going on in the industry that everyone out there is trying to jump on the bandwagon. If you look at the complaints that are being filed on all these deals across the country that are now filtering down to secondary sized management companies from their owners, they look exactly like the suits against the major companies. They even have the same wording in them. We still do some advisory work in our company, and I'm getting at least two calls a month from people wanting us to be expert witnesses in some of these deals. I think the industry has to understand that a lot of this talk about this very hostile environment is really just a lot of players out there trying to stay covered. Jim, I don't know if you have to deal with that, but it seems like there's a lot of that going on."

**Butler:** "Frank, I think you're right. The question is, 'Is the cookie-cutter approach just because people are just copying other people's handiwork or because the abuse complained of is an industry-wide abuse?' When you see the purchasing of Avendra, and you see six of the major hotel companies in Avendra, all using that process, if there is an issue about the purchasing, if there has been the usurpation of an asset from the hotel and transferred in exchange for stock of an entity creating equity in a less advantageous situation, then everyone of the operators using that vehicle has to look very carefully at their practices. Therefore, if the same

complaint that appears in one of the complaints filed in court would logically appear for every hotel managed by every one of those operators."

**Nardozza:** "The point I was really making there was that prior to observing the suits that have been filed in the very case you described, there wasn't a hostile situation between those other owners and management. It's just that they've opened their eyes and some of them have jumped on the bandwagon. The big issue between the owner and manager clearly is to make sure you can take the manager out when the circumstances are appropriate. If there's a problem with the lender, the lender should have the right to be able to take those managers out. The other issue is I think the owners should be sure they can meet their debt service and provide a modest level of return to their investors before all the cash goes out to the operator. That's the other major shift that I see going on. We're getting back to the language of saying after subtracting debt service, a 10-percent return in equity and property tax and everything else to make sure that there's cash to do the basis.

**Hennessey:** "We've dealt with a couple of owners who've called us, and they say, 'I've seen what's been in the headlines with some of the big companies, and I'm not as big as them, but I feel like I still have to report to my board, and it's incumbent upon me to at least explore whether we have an issue in this area or not regardless of whether we go to a lawsuit or whatever.' Everyone feels like they have to look at it, they just can't ignore it.

**Higley:** "Greg, is this whole situation good or bad for the industry?"

**Casserly:** "Maybe I have a more regional view of this thing, but I don't really see the tension. There are a couple of guys who get a lot of press, without mentioning any names, but at the end of the day if you have a decent approach to doing business, and you can't really in this environment buy any asset of reasonable size without having some kind of relationship with a national lodging company. If you're going to be in the business and you're going to basically pay in that sandbox, meaning buying significant, substantial assets, it's incumbent upon you to have good relationships with those lodging companies. Our experience is all the main lodging companies, the relationship is very good. If you approach the relationship from a reasonable, business-savvy perspective, there isn't any tension. Nobody comes to the table thinking 'You're the bad guy, and it's going to be a tough deal.' We come to the table with, 'There's a lot of money to be made for everybody if we roll up our sleeves and get into this as partners.' That approach has worked extremely well for us. I'm looking at it from my little view of the world. These guys work in a much larger perspective, but we haven't felt that kind of tension. No one has come to the table with that kind of prejudice if you will when we started negotiations."

**Higley:** "Where does the Internet pricing structure fit into today's hotel environment?"

**Tobin:** "As strong as the Internet is, there is no brand awareness that is geographic and price specific. People are not seeking out a brand-specific opportunity. They're not even seeking out a geographic-specific opportunity, particularly when you're queried as to a point that maybe 5, 10 or 15 miles from your interested point of origin. The impact of this intermediation is tough to tell where it will stop. I'm unsure it will stop when you have supply contracting to a point where yield management does take hold, but this intermediation is here to stay in some way, shape or form. The strength of the alternate distribution channel is here to stay and likely to get stronger. Tough to tell to what degree pricing will move, but it is not going to go away as a significant impact in how we do business."

**Nardozza:** "I've had an interesting personal observation of the whole Internet issue. Historically, we've always been complaining about rate depression from wholesalers … it's just that the leisure business that's now on the Internet. It's the same complaint … we could have sat in this room 20 years ago and said, 'It's the wholesalers. They're going to ruin the business.' Now, the longer-term impact is that the corporate traveler, the frequent transient corporate business traveler didn't use those channels in the past and didn't buy through wholesalers. Now they are going on the Internet, particularly when you talk about the mid-tier companies and below. That's their travel agent, literally. That is their means of distribution. Find the cheapest rates, hit those sites, keep hitting those sites until you find it. That's a new behavior change. We didn't have that 20 years ago. Twenty years ago, we had chains trying to be the intermediary for all their properties, and they were controlling pricing in many regards. Now, all of a sudden, business travelers have changed the way they're buying. That's going to be a longer-term impact. As far as the leisure part, it's always been an issue. It's just on the Internet

now."

**Tobin:** "Frank's point about when the chains all failed in their strategies and faced forces like Expedia, they went the same way as the purchasing world. The company travel web is nothing more than a consortium of hotel companies owning an alternate distribution channel. So clearly they believe there's a long-term impact that speaks to the benefits or the detriments of this intermediation. It will be interesting to see whether they themselves as they corral their own product inside a medium that is anticipated to be as objective as Expedia, whether the travel web will work for the brands."

**Higley:** "What would you give as advice to the lodging industry to help speed up the turnaround?"

**Whelan:** "Keep the faith and hold your prices."

**Nardozza:** "Make sure that you have knowledge and control of all your distribution and really understand how customers are getting to your properties. Do everything proactively to be in front of that revenue rather than behind it."

**Tobin:** "Several years ago I worked for a gentleman named Steve Brenner, and I remember him telling me when I was searching sites for him one month: 'If the hotel was meant to be there, it would be there.' On the other side of that, discipline is a good word. We talked about capital structure. It's a time to stay prudent. Discipline in terms of financial management, systems, customer service and capital structure is important."

**Hennessey:** "Given that the near-term outlook for the sector remains fairly weak, focusing on the bottom line types of activities will be the most prudent thing to do. Payables, receivables, cost containment, making sure to the greatest extent possible that you can keep the property up to the level that's appropriate without major investments but keeping an eye on the expenses is going to be the theme for a lot of operators."

**Casserly:** "Our mantra in our company right now is price, and we have everybody from the chairman down to the house attendants worrying about how to be good salespeople. That's one aspect of price, the other is yield management. Working the distribution channels. The Web has been good to us because we operate in some markets that do have some compression, unlike a lot of other markets in the country right now. It actually works great as long as you have single-image inventory. As long as you can have the technology, and we invested very heavy in technology for a small company, as long as you can have that platform, the whole world changes for you. The second leg is, and will continue to be for a long time, cost containment. Operating in California, that has special meaning because of the sundry idiosyncrasies of this wonderful state. Workers compensation as one example is a major, major issue out here. We find ourselves involved politically much more than we would like to be, but it's what our business is about."

**Butler:** "Get smart and get active. Drill down and get the details. Whether you are a lender, owner, operator, know your customer, know your operations, know the details of what is there and then be proactive about it."

**Siegel:** "I would strongly suggest taking advantage of an incredible favorable capital markets environment. Access both the debt and equity sides of the business while capital is abundant. It is not overly aggressive, but it is incredibly inexpensive and reasonable. Those who complain about lack of financing typically are looking for development funding, high leverage or trying to fund projects that may or may not make economic sense. Those who have a prudent business plan, have paid attention to all these suggestions, who have strong credit and management teams will always be able to access favorable capital. I can't remember too many times in my career where it's been this favorable."

**Van:** "Be positive, be optimistic, but don't act on assumptions that are optimistic and positive. Be prepared for some more fundamental problems that we can't control. Keep liquidity … until it's clear that some of the fundamental problems that can happen are past, and that may be two or three years."