

# hotel

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# MANAGEMENT

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→ pulse

**SURVEY SAYS**

**Top limited-service hotel chains by guestrooms**

- 1 Hampton Hotels 174,667 rooms
- 2 Best Western Int'l. 158,638 rooms
- 3 Holiday Inn Express 152,814 rooms
- 4 Days Inn 125,210 rooms

Source: Hotel Management survey

SEE PAGE 20 FOR MORE SURVEY RESULTS



**IHIF**  
**Investment opportunities grow in Europe, Russia and Africa**

**Christopher Day**, managing director of Christie + Co.; **Marina Usenko**, director of acquisitions and development for CIS and the Baltics for Starwood Hotels & Resorts Worldwide; and **Trevor Ward**, managing director for W Hospitality Group

**By Stephanie Ricca**  
EDITOR IN CHIEF

**BERLIN**— While economists and franchisors are demonstrably bullish on the hotel market outside the U.S., what about the developers and investors behind the projects operating and in the pipeline?

Turns out they're pretty optimistic as well, though the degree of optimism changes market by market.

Generally positive hotel performance fundamentals in EMEA, Asia-Pacific and Russia certainly don't hurt, according to

Elizabeth Randall Winkle, managing director of STR Global. She moderated a panel on the topic at the International Hotel Investment Forum in Berlin in March.

Revenue per available room was up worldwide in 2012, and while North America posted the largest increase (up 6.5 percent over 2011), the Middle East and Africa weren't far behind (up 5.6 percent over 2011) and Europe continued to grow its region-wide RevPAR, up 4.8

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**INTERNATIONAL HOTEL INVESTMENT FORUM**

Coverage from the International Hotel Investment Forum 2013



Concord Hospitality's  
**MARK LAPORT**

This CEO balances management and development with equal aplomb | **See page 16**

Mark Lafort, CEO of Concord Hospitality Enterprises Co. (left), with Principal Richard Branca. The two are at the groundbreaking of the Cambria Suites Times Square, which Concord will manage when it opens in 2014.

**SPECIAL REPORT**

## Diversity describes lending landscape

**By Stephanie Ricca**  
EDITOR IN CHIEF

**NATIONAL REPORT**— Take an economic recovery, add in strong U.S. hotel performance metrics and a favorable hotel construction market and what do you get? Hotel transactions on the rise. Investors say that so far this year the hotel industry is seeing improved liquidity in the transactions marketplace.

Hotel financing in the U.S. comes from diverse sources these days, according to reports

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**DEVELOPMENT**

**Auberge, AJ Capital partnership**  
Auberge Resorts and AJ Capital join forces on Anguilla's Malliouhana Hotel & Spa.  
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**TECHNOLOGY**

**Automating your PMS**  
Recent trends have pushed a surge in the number of systems with which a PMS must operate.  
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**DESIGN**

**Laundry room position**  
Convenience, comfort and concealment are the hallmarks for a hotel's laundry area.  
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## U.S. lending report

*Continued from page 3*

from the investment conferences this year. From balance-sheet lenders to hedge fund investors targeting mezzanine debt, funding players are coming back to the hotel space and they're particular about what they'll back.

"The debt market is so much better than it was 24 months ago, especially with the recovery of [commercial mortgage-backed securities]," said Scott Schory, EVP of Wells Fargo Bank at the recent Hunter Hotel Investment Conference.

### WHO IS INVESTING?

With the bid-ask gap tightening, many players are competing for

portfolio deals."

That's a change from 2012, when REITs were laser-focused strictly on top 10 U.S. markets. Now some are casting a wider net for acquisitions, most notably looking into Europe. At the International Hotel Investment Forum, Douglas Kessler, president of Ashford Hospitality Trust, explained how despite the regulatory issues involved with deals outside the U.S., Europe presents good opportunities in terms of EBITDA multiples, the key element most REITs are valued on.

"You can buy a hotel in a U.S. gateway city at a 5.5-percent cap rate, with a RevPAR of maybe \$150 to \$200," he said. "Yet for

try Investment Council meeting in January. Hotel Management is LIIC's exclusive media partner.

He pointed out deals so far this year from Starwood Capital (particularly in Europe), and Blackstone Group's acquisition of Apple REIT Six.

But beyond those large investors going after portfolio buys, more typical investors are having luck picking up good assets at good terms in less restrictive markets.

"That typical investor has been priced out of gateway markets at this point, but they're gravitating to cities like Pittsburgh, Columbus and Indianapolis, which aren't doing badly," said Alan Tantleff, senior managing director at FTI Consulting.

Ben Brunt, principal of investment management for Noble Investment Group, said at the LIIC meeting that Noble is focusing on what he calls "better secondary markets."

"With our structure, we've found that we can't compete against the public companies: We're still very price-per-key-oriented and in many cases our exit assumptions are below today's replacement costs," he said.

So he said the company is putting its strength behind conversions to top-three brands. The company recently acquired the Courtyard by Marriott Columbus Downtown and plans a complete renovation.

Private equity investment firms have unique acquisition goals, but in general are finding opportunities in the markets they're seeking.

But beyond those typical investor groups, outsiders are beginning to penetrate the hotel sphere, speakers said at the Hunter Hotel Conference.

"We see the advent of new people in our space—hedge funds that yesterday were investing in junk bonds and now they're buying mezzanine [debt] and they're looking at it as a secure play," said Barry Olson, managing director of Goldman, Sachs & Co. "These guys just look at [hotel investment] as an absolute yield—it's how they invest."

### WHO IS LENDING?

With a larger pool of investors coming back into the hotel acquisition market, lenders are defining their guidelines with sharp precision. Jon Wright, president

and CEO of Access Point Financial, a balance-sheet lender to hotels, said his company's sweet spot is financing delayed CapEx funding and bridge financing for refinances or acquisitions.

Still, the company does have a lending platform—in January it provided first mortgage financing for a \$375-million dual-brand Residence Inn and SpringHill Suites by Marriott under construction in Nashville.

Anne Hampton, VP of Wells Fargo Bank Hospitality Finance, which has been an active lender for the past 12 months, said at the LIIC meeting that Wells Fargo continues to have a strong pipeline.

"We're continually looking to grow our business and we're hungry for assets," she said.

And like REITs looking to diversify their acquisitions outside the U.S., Hampton said lenders are investigating those options as well. Wells Fargo in particular is looking to increase its lending capabilities in London and Canada.

Most investors say they are finding good prices on debt at favorable terms. Low interest rates continue to make the debt market favorable, but in addition to the new-normal lending terms, hoteliers are investigating newer funding sources, notably, the EB-5 visa platform.

Jim Butler, partner with Jeffer Mangels Butler & Mitchell outlined the process and pros and cons of the EB-5 program at the LIIC meeting. He called the process of acquiring the investment capital "very different compared to going to the bank," but a good additional option for companies that also may have more traditional financing in place.

The program allows foreign investors to put \$500,000 to \$1 million in investment, and 10 jobs for U.S. workers in exchange for a green card.

Still, the terms are restrictive in their own way and suit some hotel development projects better than others.

Butler said it is "an increasingly smart idea for projects that will get done and are branded in major centers," because if the project doesn't get finished and the jobs aren't created, the visa is revoked. For this reason, investors going after these visas are looking for sure bets.



## LIIC & HM THINK TANK

### LIIC'S MISSION

The Lodging Industry Investment Council ([www.liic.org](http://www.liic.org)) 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 & Mitchell

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



HOLIDAY INN EXPRESS

**Secondary and tertiary markets** are attractive to certain types of investors. Earlier this year Charter One Hotels & Resorts acquired the Holiday Inn Express in Clermont, Fla. (shown) for \$3.48 million.

hotel assets and different groups have different tastes. Public companies still are focused on high-profile properties in limited gateway markets, but private investors are finding good opportunities, particularly with limited-service brands in secondary cities, without having to compete with REITs.

"Every [real estate investment trust] out there has raised equity and is actively pursuing deals," said Nelson Knight, EVP and CIO of Apple REIT Companies. "We see a lot of competition, especially in the top 10 markets, but it's broadening now even to the top 25 markets, both smaller deals and

a similar hotel in Europe, at the same cap rate, you're acquiring a much higher RevPAR—maybe 40 percent higher. So the flowthrough benefit of that higher RevPAR could favorably impact a REIT in Europe."

While REITs still dominate deals that fit certain criteria, other investors are finding more and more opportunity this year.

Mike Cahill, CEO of HREC—Hospitality Real Estate Counselors, called 2013 "the year institutional investors come back to secondary and tertiary markets because they feel more certain of the economy."

Cahill led the Lodging Indus-

"EB-5 isn't funding stupid development," Butler said. "If you put in all cash, if you've documented the deal correctly, you can use EB-5 to take out a portion of the investment," he said.

Despite the terms, some companies are taking advantage of the program. Gus Stamoutos, EVP of franchise development for Wyndham Hotel Group, said at the Hunter Hotel Conference that some Wyndham projects are being funded by EB-5, though it's estimated to be less than 5 percent, mostly because the Wyndham projects fall into the \$5-10-million range. "We're not actively chasing it, but if there is a project that comes to us with EB-5 already in place, we'll look at it," he said.

Butler called the source of funding small but growing. "The government is doubling the number of EB-5 visas it processes every year, and it's estimated that maybe 20 to 30 percent of that may be in hotels."

The bottom line? "If you're talking to any lender at all, they were prudent enough to survive the downturn," said Bruce Lowrey, managing director of RockBridge. **HM**

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