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Council addresses industry's future

Key markets, dealmakers still waiting for recovery to take shape

By Jeff Higley
EDITOR-IN-CHIEF

NEW YORK—It's only a matter of time before transaction activity in the lodging industry begins to grab the spotlight.

While it might not take the form of the frenetic pace of the transaction markets of the late 1990s, the next wave of deals will come at a welcome time, according to members of the Lodging Industry Investment Council.

"It'll take a couple of large sales to entice other sellers to come out," said Dana Ciraldo, senior vice president for Hodges Ward Elliott. "There is a pent-up demand for transactions. In the fourth quarter,

when we start having positive year-over-year numbers, we'll see a lot of assets come out on the block."

Michael Blahosky, first vice president and regional director for CB Richard Ellis, said the end of the deal drought might be close.

"We're starting to see some sellers ready to start pricing their product," Blahosky said. "If I had product, we'd be having a great time because there's a lot of capital out there."

"When somebody makes the first move and establishes a watermark on what kind of valuations we'll be using, we'll see a lot of activity follow," Blahosky said.

Eva Wasserman, vice president,

managed development for Hilton Hotels Corp., said Hilton has had much activity in the feasibility-study arena.

"On the development side, people want to do something," Wasserman said. "They're tired of just sitting around and being creative. They want action."

Ciraldo, Blahosky and Wasserman were among the 32 LIIC members and guests that met in New York in early June. LIIC is an industry think tank that provides a format for its members to enhance their professional careers as well as networking opportunities within the lodging industry's investment community.

The meeting covered a multitude of topics, but none was more

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Key issues

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discussed than the industry's recovery from the economic downturn.

The importance of the leisure-travel market has been underscored by the dramatic decline in business travel during the last nine months. Leisure travelers have been out in force, particularly in drive-to markets.

"For the first time ever, Friday and Saturday nights are the strongest nights of week," said

Sean Hennessey, director for Price-waterhouseCoopers.

That spells tough times for hotels, attendees said.

"The business traveler has yet to show they are back in the market," said Mike DeNicola, c.f.o. for FelCor Lodging Trust. "Until the business traveler returns, we won't have a recovery."

Richard Conti, president and c.o.o. of Boykin Lodging Co., said there's reason for some optimism. Conti said Boykin had five hotels post positive revenue-per-available-room results in the first quarter,

even though companywide RevPAR declined 16 percent during the first three months of the year. He said the company is projecting a year-over-year decline of 12 percent in the second quarter before turning positive.

Market performance

Robert Kline, managing director and principal for Oxford Capital Partners, said his company's 700-room property in New York experienced a 15-percent increase in occupancy in the first quarter.

"The price war has induced the

regional traveler to come to New York," Kline said. "But the question that remains to be answered is what will be the long-term impact on corporate rates? Occupancy will come back strong but the average rate will be soft."

Despite the well-chronicled troubles being experienced in major cities, Conti said they still are a desirable place to hold assets.

"Even with this crisis, [owning hotels in major cities] is still the long-term goal of most major companies," Conti said.

San Francisco has been one of the metropolitan statistical areas hardest hit by the economy.

"When will San Francisco get strong again?" said Jim Whelan, chief development officer for Kimpton Hotel & Restaurant Group. "When NASDAQ starts going back in the right direction."

Whelan said the San Francisco market has been particularly hit hard by the halt of international visitors to the United States and by the dramatic decline in convention and group business.

Whelan said it's important that the market begin to rebound early next year.

"The convention center expansion is on target to open in February 2003," he said. "The question is, 'Will [convention business] show up?'"

Henry Vickers, principal for Boston-based AFW Capital Management, said the transaction climate in Boston is going to be ugly for a while and that getting transactions done in California is going to be difficult for at least the next 12 months.

The financing climate has been somewhat of a surprise, attendees said. While money is tough to get, the lack of a large number of debt delinquencies in the industry is a pleasant surprise.

"We were expecting a large wave of properties not being able to cover debt," said Phil Ribolow of Deutsche Bank. "That hasn't been the case."

Fighting back

The response by hotel companies to the downturn was lauded by several attendees. Chad Crandell, president of Capital Hotel Management, said his company was pleased with Marriott International's response to the downturn.

"They were out in front in terms of relaxing brand standards," Crandell said. "There was some significant relaxation on brand standards such as [food-and-beverage], room service and doormen."

"The challenge is now that the cuts have been made, and as we go into the recovery, how are we going to layer those costs back in?"

Crandell said there is more discussion about how to convince brand officials not to add the costs back in right away than there was to get them to agree to the cuts in the first place.

Vickers said hotel operators must be aware of the timing of reintroducing services and personnel.

"There are a certain level of cuts that have to be reinstated or you will lose market share," he said.

DeNicola said brands have started to mandate the reintroduction of previously cut services.

"We've seen a creep back up in the expense part in the last month or two," he said.

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