

LIIC at ALIS: Lodging industry's buoyancy boosted by calm seas

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Los Angeles—The lodging industry's incredible success during the last 12 months is a result of many situations converging at the right time, according to members of the Lodging Industry Investment Council who participated in a *Hotel & Motel Management*-sponsored roundtable held in conjunction with the Americas Lodging Investment Summit.

The roundtable, held at the offices of the law firm Jeffer, Mangels, Butler & Marmaro, revealed to no one's surprise that the lack of new supply coming online is the industry's biggest friend. Steve Kisielica, principal with Lodging Capital Partners, said that lack of new supply could be the norm for at least two more years.

There are reasons for the lack of supply growth, just as there are other reasons the lodging industry is enjoying its most prolific period since 1997-99:

—"Escalating construction costs," said Bernie Siegel, principal with KSL Capital Partners. "During prior cycles the governor was prudent lending practices."

—"More people are involved in the process," said Jim Merkel, managing director for Rockbridge Capital. "And the more people involved in the process, the more difficult it is to build. We've seen delays in the process because of the number of people involved."

—"The third leg is the economy," said Jim Butler, partner with JMBM. "We've obviously had steady, continuing growth in the economy, and that has continued to boost all of the fundamentals that are already in place."

Whatever reason, the industry is booming, and there's no sign of a slowdown.

"The availability of cheap debt [continues to spur the industry]," said Mike Cahill, president of Hospitality Real Estate Counselors. "As long as you make cheap capital available to the hotel industry, it fuels acquisitions, and it fuels development."



From left: Steve Kisielica of Lodging Capital Partners and Jim Merkel of Rockbridge Capital participate in the H&MM-sponsored roundtable.



From left: Mike DeNicola of FeiCor Lodging Trust and Steve Van of Prism Hotels.

Steve Van, president of Prism Hotels, said the driver for the lodging industry is an easy one to spot.

"There's a dramatic disparity in the allocation of income to the upper 1 percent to 2 percent portion of the income bracket," Van said. "There's a huge amount of capital that has nowhere else to go."

Therefore, that capital finds a home either as an investment vehicle in the hotel industry or as an end-user of luxury-lodging products, Van said.

"It's helping [the lodging industry] a lot," he said. "If there's some move [by the recently installed Democratic-led Congress] to start taxing that, then it could affect lodging."

Mike DeNicola, executive v.p. and chief investment officer for FelCor Lodging Trust, said the changing demographics of travelers are a big key to the lodging industry's wave of success.

"Travel is cheap, and it's available," DeNicola said. "Instead of being a luxury item that it was not so long ago, it's a bargain-basement type of thing. Everybody now expects to travel, and that plays to both business guests and leisure guests."

It's ironic that airfare—which used to be the most expensive component of traveling—now in many cases is less expensive than the lodging component of a trip, he said.

So, it all boils down to cash. Larry Shupnick, senior v.p. of acquisitions and development for Interstate Hotels & Resorts, said there's no reason to think the well is going to go dry any time soon.

"There's still a lot of money around," Shupnick said. "There's too much money chasing too many deals. We'll get deals done, but we will pay."

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