

“There’s a disconnect between the lenders and the borrowers.” JONATHAN FALIK, JF CAPITAL ADVISORS

INDUSTRY COVERAGE

Money

Continued from page 31

relationships between lenders and operators aren’t necessarily the best, communication can bridge the gap.

“There’s a fundamental disconnect between the lenders and the borrowers,” said JF Capital Advisors’ CEO Jonathan Falik. “Lenders don’t see what’s going on with property-level operations. Until lenders start to look forward ... we’re still going to have a pretty frozen set of capital markets.”

Tom Corcoran, chairman and founder of FelCor Lodging Trust, agreed, saying the capital market is the “single issue that’s going to determine where we’re standing in a year and two years from now.”

Some bright spots are appearing, panelists said. Stonebridge Cos. recently closed on two construction loans, said COO Kevin Mahoney.

And Kimpton Hotels & Restaurants’ President and CEO Mike Depatie said the company still has discretionary capital to invest in acquisitions, hotels or joint venture partnerships from the fund it raised several years ago with college endowment money.

In the meantime, owners and operators can take advantage of today’s negotiation-friendly environment.

“We went back and renegotiated trash and waste-removal contracts,” Mahoney said. “We are never done renegotiating a service agreement.”

Development executives from Carlson Hotels Worldwide, InterContinental Hotels Group, Marriott International, Kimpton Hotel & Restaurant Group and Morgans Hotels Group debated how brands are changing to meet the needs of owners and franchisees in a negotiation-friendly environment.

Brian Quinn, VP of development for IHG’s Hotel Indigo and Crowne Plaza brands, simplified the brand challenge as falling into two initiatives: driving revenue and managing costs. And all endeavors must be undertaken with the least amount of impact on the guest, he said.

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LIIC Top Ten

Since 2003, the members of the hotel industry think tank, LIIC—The Lodging Industry Investment Council, are surveyed annually to develop a list of the major hotel investment opportunities and challenges for the coming year. For the full text of the LIIC Top Ten, visit www.HotelWorldNetwork.com keyword: LIIC.

- 1 **Lodging real estate investment will get worse before it gets better:** Overall, hospitality investors believe the recession will last 6 to 9 more months.
- 2 **Lodging real-estate values continue to drop:** 81 percent of respondents believe that hotel real-estate values will continue to decrease over the next 12 months, with 52 percent predicting a significant decrease of more than 5 percent. In terms of chain scale, upscale hotels are forecasted to have the largest value drop.
- 3 **Deals gone bad?** 96 percent of investors believe their assets purchased in 2007 and 2008 are “underperforming compared to expectations.”
- 4 **Beginning of new investment cycle?** For the first time in five years, 61 percent believe we are in the first inning of a new hotel real-estate investment cycle.
- 5 **Quality and volume of product to buy?** 38 percent believe hotels on the market are average quality but 55 percent believe they are below standards.
- 6 **How will you invest in hotels today?** 41 percent of the group is planning to acquire assets directly from lenders, with an equal percentage of respondents seeking to acquire notes.
- 7 **Interest rates will increase:** 56 percent of the LIIC think tank believes hotel interest rates will increase over the next

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, CEO and founder of HREC—Hospitality Real Estate Counselors; Sean Hennessey, CEO of Lodging Investment Advisors; and Jim Butler, partner, Jeffer Mangels Butler & Marmaro



12 months. 15 percent believe interest rates are “going down” and the remainder of the group predict that interest rates will remain “flat.”

8 **Debt availability?** The mortgage capital crisis dominated concerns. The lack of availability was first, followed by cost (interest rates), amount (loan/value ratios) and need for recourse.

9 **Equity return rates increasing:** 67 percent of respondents say unleveraged equity rates will increase over the next 12 months.

10 **Hotels under construction have peaked:** 68 percent of the LIIC think tank believes new hotel construction has already peaked. Another 24 percent believe the peak will be reached in 2009.

The 2009 LIIC Top Ten survey was compiled in April 2009 by LIIC co-chairman Mike Cahill, CEO and founder of HREC Hospitality Real Estate Counselors.

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