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Are we there yet?

New indicators for a new economy

By **Stephanie Ricca**
EDITOR IN CHIEF

NEW YORK—A year ago, members of industry think tank the Lodging Industry Investment Council forecasted a financing slowdown.

Six months ago, they were deep in solution-seeking mode, and today they are debating what microindicators might start the turnaround.



On May 31, before the opening of the NYU International Hospitality Industry Investment Conference, six members of LIIC met with HOTEL & MOTEL MANAGEMENT editors for

a roundtable discussion, and for the first time in a year, some of the brokers, financiers, lawyers and owners in attendance had real examples—albeit small ones—that

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CEOs: Recovery around the corner

By **Jason Q. Freed**
SENIOR EDITOR

NEW YORK—There was a general consensus at the NYU International Hospitality Industry Investment Conference in June that as far as the lodging industry is concerned, the worst is behind us and we've flat-lined at the bottom of a trough. But no one could agree on when a recovery will begin or how long it will take. And this time, hoteliers weren't willing to make guesses.

"You never read about a psychic winning the lottery," said Eric Danziger, president and CEO of Wyndham Hotel Group, during the conference. "The ability to forecast is just a guess on all of our parts. It's beginning to rebound.

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CONFERENCE COVERAGE

Wyndham clarifies brand direction

By **Chris Crowell**
ASSOCIATE EDITOR

RIO GRANDE, PUERTO RICO—A transition that's been slowly evolving since Eric Danziger took the helm as president and CEO of Wyndham Hotel Group in December reached a moment of clarity at the Wyndham Owners and General Managers' Conference



Danziger
WYNDHAM

"Our brands, to some degree, are adopted," said Jeff Wagoner, president of Wyndham Hotels and Resorts. "So, you take our brands, put the proper clothes on them, educate them appropriately and you end up with clarity—something that makes sense for the future."

The first level of the strategy involves dividing the Wyndham Hotel Group brands into three categories, which Danziger calls "reinvigorate," "optimize" and "grow."

The reinvigorate category includes Ramada Worldwide, Howard Johnson and Travelodge.

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May 27-30. For this new regime, the emphasis going forward is on defining and positioning each of the 11 brands in the Wyndham portfolio.

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Top three ways to make your meetings more green:

1. Add proper recycling bins
2. Make bottled water by-request
3. Serve condiments in bulk

Source: Pineapple Hospitality



INDUSTRY COVERAGE

LIIC panel

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things might be looking up.

Change your thinking

Alternate sources of financing do exist: Some LIIC members are

participating in projects funded by tax-exempt bonds for municipal projects, like convention center hotels.

"There's a tremendous appetite for tax-exempt bonds," said Mike Cahill, CEO and founder of Hospitality Real Estate Counselors.

City- and taxpayer-fund-

ed projects "may be a sign of the few types of development projects [getting financed]," agreed Jim Butler, founding partner of Jeffer Mangels Butler & Marmaro.

With financing sources tight, cash is king.

"The broker firms are making cash offers for things that peo-

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



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ple would normally look at you askance over. You're waiting for some seller to drop dead, basically," said Bill Reynolds, director and senior advisor of Thayer Lodging Group.

Cahill agreed, saying HREC has in the past few weeks closed several deals on select-service properties in lower-stress markets where revenue per available room hits haven't been as bad as in larger markets. "People feel comfortable about how to underwrite there," he said.

External indicators

Don't forget about the rest of the economy, Butler warned. In addition to housing, Butler said "the other shoes to drop are the credit card mess, commercial real estate and employment. The pump hasn't gotten primed. This is the start of something. It may be the start of a double-dip with more pain to be endured. All commercial real estate, even hotels, they're buckling down."

While LIIC members agreed that factors like unemployment and housing distress affect the hotel market, the word "turnaround" means different things to different people.

As a broker, Cahill said the increased number of phone calls coming in is a positive.

For Reynolds, it's not just the actual deal that indicates some forward motion. "You can see some sort of recovery, albeit somewhat moderate, all before the buying actually happens," he said.

For operators, microindicators of a turnaround are all relative.

"We said, as an operator, that we are experiencing less decline than we were first quarter of this year," said CA Anderson, EVP of acquisitions and development at Interstate Hotels & Resorts. "We're kind of bumping along the bottom here. Every capital partner

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"Until we get through this year, I don't see a lot of activity." JIM MERKEL, ROCKBRIDGE CAPITAL

we've talked to ... is sitting back saying, 'I'm not comfortable with this yet.'"

At least, consumer perception might be influencing real-time activity for the better, said Chad Crandell, president of Capital Hotel Management. "The spin from the media is better," he said. "First quarter GDP was good news. Psychologically, people are saying, 'enough bad news.' They're looking for the positive. In many ways perception is reality."

Cost vs. value

Most financiers agreed it is challenging to see the real value in an asset compared to its sticker price.

"To me, we're clearly in a new game," said Jim Merkel, president of Rockbridge Capital. "I don't know how long this inning is going to be. We've got money, and we're looking at a lot of stuff, but we can't get a lot of conviction. You're replacing bad months with good months. Until we get through this year, I don't see a lot of activity. It won't be until that point in time."

Reynolds agreed. "I would say the same thing for Thayer. We've made some offers, ... but you have to make that offer on a judgment. You say, 'I like this market, I like this asset, so I'm going to pay a price that's so low.' But if you ask me to underwrite it in any particular sense, you can't do it."

Distressed hotels

Many LIIC members forecast fallout from distressed hotel assets.

Classifying an asset as distressed doesn't mean it's the end of the line. "The bright point indicator I'm looking for is when the borrower sees they have no equity left ... but keeps operations running," said Steve Van, president and CEO of Prism Hotels & Resorts.

The upcoming wave of distressed and foreclosed assets will muddy the waters, LIIC members said, because no hard-and-fast rules indicate winners and losers.

"The special servicers ... are ignoring that there will be vast amounts of litigation over the conflict that special servicers are in and whether they have done the right thing," Butler said.

Owners with troubled assets are hoping to refinance rather than turn over a foreclosed asset because nobody wants the real estate, Reynolds said. But problems can surface when special servicers get overloaded and receiverships and litigation increase.

"All the while, the perfor-

mance [at the hotel] is ticking down, and cash needs are huge at the properties," Merkel said.

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From left: C.A. Anderson, Interstate Hotels; Bill Reynolds, Thayer Lodging; Jim Merkel, Rockbridge Capital; and Mike Cahill, HREC



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