

# Hotel & Motel Management

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News

## Local banks, interest rates ease development drought

By Jeff Higley  
EDITOR-IN-CHIEF

**NATIONAL REPORT**—Few industry observers are surprised leading institutions are taking the lead in the development slowdown in the lodging business.

Historically low interest rates are having some effect on the construction cycle. More developers are looking at variable rates rather than fixed rates as the financing vehicle of choice. Variable, or floating, rates often come in as low as 4.5 percent, while fixed rates generally are in the 6-percent to 6.25-percent range.

"Most lenders didn't put floors on rates, and that's helping some developers get inexpensive capital—if they can find it," said John Barkidjija, first vice president at

rates," said Todd Siegel, director of Hyatt Development Corp. "When those spike, there's going to be a lot of blood."

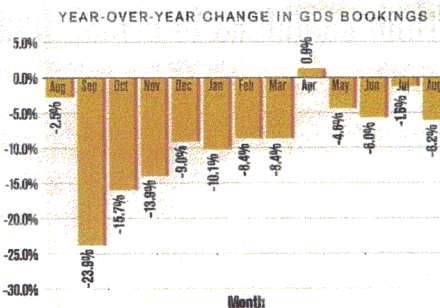
"Usually, high interest rates also go along with high inflation. When you get inflation, that's usually when the economy is heating up," said Jim Buter, chairman

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### ▶ The downward trend continues

The chart at the right shows the monthly year-over-year change in Global Distribution Systems bookings from August 2001 through August 2002. Only April 2002 showed an increase in GDS bookings, while July showed a narrow decrease.

Source: TravelCLICK Bookings from SABRE, Galileo and Workspan GDSes.



Barkidjija



Barrow

Corus Bank in Chicago. "Mostly it's helping hotel owners make debt payments because the [interest] rates have dropped so low."

Brantley Barrow, executive v.p. and chief financial officer for the Hardin Group, said his company is fortunate in this kind of interest-rate environment.

"Most of our construction loans are floating rates," Barrow said. "Having the cost of money less than 5 percent is amazing. Money's cheap—if you can find it."

Having banks show lenders the money is the big problem, said Bill Fortier, senior v.p.-franchise development for Hilton Hotels Corp.

"Even though the interest rate is fantastic, the lending institutions don't want to get involved [in the lodging industry]," Fortier said. "It's too risky from their point of view."

Several attendees of the Lodging Industry Investment Council roundtable, held in conjunction with The Lodging Conference in Phoenix, said interest rates were a big issue on the hotel industry's landscape.

"I don't think the industry is in that bad of shape, predominantly due to the lower interest rates and low leverage," said Mike Cahill, president of Hospitality Real Estate Counselors and one of LIIC's chairmen.

"What's sustaining a lot of people and groups are the low interest

# Developers face drought

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of the global hospitality group for the law firm of Jeffer, Mangels, Butler & Marmaro and one of the chairmen of LIIC. "That's usually when you get your rate movement. In a sense, it might be higher interest rates that are the saving factor for the industry if everything else is getting inflated."

Other attendees of The Lodging Conference agreed.

"The lenders have been pretty patient, and floating rate loans have provided some breathing room," said Steve McKenzie, managing director of Eastdil Realty Co. LLC.

And as has happened in past downturns, local bankers are saving hotel developers' bacon, attendees said.

Anupam Narayan, interim president and c.e.o. of Best Western International, said the brand adds about 150 hotels each year—about 70 percent of which are new construction. He said that this year, the new-construction properties represent about 60 percent of new members.

"Our hotels are being built in the mid-market segment that's getting money from local banks," he said.

Mike Shannon, president and c.e.o. of KSL Recreation Co.,



Olson



Brown

summed up the situation in one sentence.

"The value of a local bank will never be as high as it is right now," Shannon said.

Fortier said there's plenty more activity on the acquisition front, where hotels are purchased and reflagged. He said many new owners of such hotels are banking on getting a 15-percent return on their investment annually before selling the assets in four or five years.

Len Wolman, chairman and c.e.o. of the Waterford Hotel Group, said his company prefers to have fixed rates for its assets. Only one hotel in its 21-hotel portfolio that it has an ownership stake in has a floating interest rate.

"We're in the hotel business, not the money business," Wolman said. "We want to have as many elements fixed as possible."

Even though lenders are selective when it comes to doling out capital, some developers believe

there might be a light at the end of the tunnel.

"There's not a ton of money for new development, but there is money coming back into the marketplace," said Danny Brown, managing director for Ison Hotel Group, which is developing three hotels. "It certainly wasn't there last year. You certainly have to provide a good chunk of it."

## Other reasons

Steve Olson, president and c.e.o. of Leisure Group, which develops, manages and has a financial stake in hotels, said part of the slowdown in development can be attributed to escalating construction costs during the last few years.

"Even six to eight months prior to 9/11, we slowed down," he said. "It was difficult to project what the final costs per unit would be."

Barrow said trade contractors are hungrier and more apt to offer their services for reasonable fees.

"We're finding much more interest from people wanting to participate in projects," he said. "From a hard construction standpoint, we're seeing a softening of prices."

Olson said that because land costs and construction costs have increased, choosing the right brand to flag a new property is more important than ever.

"You have to be able to get a

[room] rate high enough to justify the costs," Olson said.

He said that two to three years ago, the company had four construction projects going simultaneously. That has slowed to zero.

"There seems to be a lot more interest from investors to get into any real-estate because the [stock] markets are so poor," Olson said. "And they're not looking for the returns they once were looking for. [Returns of] 8 [percent] to 10 percent is what we're hearing that investors are looking for. We're

getting ready to start a few projects, so we're going to be able to test the waters on that."

Sources for this article agreed that the testing in the development cycle might continue for months and hinge on one thing.

"This hangover in the development area is going to last for awhile," Fortier said. "Even if interest rates go to zero, banks still aren't going to lend until they feel there's an improvement in the economy."

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## Wellesley property earns Patriot Award

AUSTIN, TEXAS—The Wellesley Inns & Suites Austin/North Mopac received the State of Texas National Guard Patriot Award for its service to military guests. Lt. Gen. Daniel James III, (left) admires a banner displayed by the hotel that was signed by guests. Larry Bills, Wellesley's g.m., (center) and Larry Nobles, Wellesley's director of sales, hold the banner.