

## Think tank members predict more deals

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Hotel & Motel Management

Los Angeles-Let the dealing begin.

Participants of Lodging Industry Investment Council roundtables held in conjunction with the Americas Lodging Investment Summit said conditions are right for a slew of hotel transactions to transpire.

"[Deals] are out there now, and/or they're anticipated in the next quarter or so," said Jim Francis, president of Highland Hospitality. "There's a decent amount of money out there. I'm hoping there are a significant number of transactions out there, so while it's competitive you can still get a reasonable deal done."



Steve Van, president and c.e.o. of Dallas-based Prism Hotels, said there will be a lot of money spent on renovating assets in the near future.

"What's happening is that institutional buyers are coming back into this recovery quicker than what happened in the last recovery," said Rob Kline, president of Oxford Lodging Advisory & Investment Group. "Prices are popping up faster than what they did in the last recovery. Smart sellers will take their assets to market now. Because of the high-intensity shock syndrome we have, we run the risk of letting people buy the future today before it proves itself out."

Bernie Siegel, executive v.p. of hospitality investments for Lowe Hospitality Group, said total transactions exceeding \$4 billion, including the announced sale of six hotels in KSL Recreation's portfolio to CNL Hospitality, could occur during the first quarter of this year.

"From a pricing perspective, it looks like the gap between the bid and the ask is narrowing, with most of the movement coming from the buyer's side," said Scott Stephens, principal with HREC Investment Advisors. "We're definitely seeing buyers getting much more aggressive."

Roundtable participants said it's clear what buyers are looking for:

- Stephens: "Most of the larger buyers seem to be looking for similar asset types-resorts, branded, upper-upscale, urban markets."
- Francis: "There's money that's chasing other deals, too, but there's certainly a decent amount of money looking at upper-upscale, premium limited-service of an urban nature. The Courtyard and Hilton Garden Inn products in the right urban markets are a screamer economically. Those things work well. We want to stay with the premium, the best brands."
- Siegel: "We're looking for an investment criteria that is similar to a lot of other groups in that we're seeking full-service hotels in primary, urban and resort markets. However, we can and do successfully operate independently where the project will allow that and where our skill set can bring that to the table. But what people don't realize is we've also done market-driven branding where it's appropriate, and we'll do so going forward."
- Eva Wasserman, v.p.-North Central region-managed development for Hilton Hotels Corp.: "We're seeing groups of investors looking to buy either individual properties or portfolios where there's an opportunity to reflag, and they're looking at poorly managed [assets], particularly investment funds that aren't tied up with management-even the ones that are looking for flags on the franchised side."
- Jim Butler, partner with Jeffer Mangels Butler & Marmaro LLP: "We're seeing, in management agreements, new development as enthusiastic folks are going out and acquiring property, working on entitlements, lining up their operator, their franchise, the team. At the same time, we're seeing bankruptcies, workouts and litigation over failed situations with operators or franchisors. There continues to be that duality."

But the situation isn't all candy and roses for everyone. There are owners who have properties that are in trouble.

"There's more stress out there than the technical figures would suggest," Siegel said. "A lot of owners are coming out of pocket to finance debt service because they can fund part of that with [refinancing] at low interest rates, but they're still coming out of pocket for proceeds."

"The ones we're seeing is the owner has tried to hold on for the past year and a half, and the recovery isn't coming fast enough," said Mike Cahill, president of Hospitality Real Estate Counselors. "If there are guarantees, the banks are arguing the guarantees. If there are no guarantees, we're just seeing guys saying, 'We don't want to continue to pump money into this asset. The bank can have it.'"

And there won't be a shortage of suitors for these properties, roundtable participants said. The deals could happen soon, said Frank Nardoza, president of REH Capital Partners.

"When we start looking at trailing 12 [months] come June, barring any other terrorist disaster, we're finally going to see more of that money being efficiently placed in the marketplace," Nardozza said. "Then the answer to the question will be, come June there's not enough money to do all the deals that could potentially be done because that money will be spent. If that trend line continues, that money is going to be spent. Therefore, we'll all be sitting here trying to figure out how we're going to get the deals done come the third or fourth quarter of 2004."

### Renovations boost

Steve Van, president and c.e.o. of Prism Hotels, and C.A. Anderson, executive v.p. of acquisitions and development for Interstate Hotels & Resorts, said there will be a lot of money spent on renovating properties in the near future.

"An underestimated phenomenon that is going to be a boom area is anyone doing remodeling business," Van said. "Every property we look at has had three to four years of deferred maintenance. There's so much deferred maintenance, and the franchisors are getting more rigorous. There is going to be hundreds of millions of capital industrywide going into renovations."

"Our largest client is spending an inordinately large amount of money on their real-estate assets," Anderson said. "The same is true with other large owners, simply because the brands have really put the screws to everybody. Rightly so. Brand standards have slipped the past few years since 9/11. Things have gone downhill a little bit."

### ► Global Distribution System trends

	Full-year 2003 hotel E-commerce results			
	Roomnights	Percent growth	ADR	Percent growth
<b>Top 10 U.S. city results</b>				
New York	4,782,857	0.0%	\$191.94	-1.4%
Los Angeles	3,907,056	5.7%	\$121.54	-1.5%
Washington/Baltimore	3,465,605	2.1%	\$135.80	0.3%
San Francisco/San Jose/Oakland	3,387,668	-4.7%	\$135.04	-7.4%
Chicago	2,867,041	-1.7%	\$126.07	-2.5%
Dallas	2,030,798	-2.9%	\$99.76	-2.8%
Atlanta	1,937,869	-5.0%	\$102.21	-3.6%
Boston	1,642,434	-4.5%	\$140.43	-6.5%
Las Vegas	1,637,633	23.7%	\$120.04	4.3%
Houston	1,476,366	-5.9%	\$106.95	-3.8%

Source: TravelClick. Bookings from Sabre, Galileo, Worldspan and Amadeus GDSes and Pegasus Solutions.