

Hunter Conference panelists preach patience

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ATLANTA—Steven Schwartz, chairman and CEO of First Hospitality Group, was the first one with the courage to say it.

"We've hit bottom," he said on the president's panel, during the second day of the Hunter Hotel Investment Conference.

And that was a positive sign because bottom insinuates that there is no more freefall, but a leveling out or—dare it be said—an upturn ahead. Others seemed to agree throughout the conference.

Greg A. Gregory, chief underwriter, SVP with CWCapital Investments, said he's hoping the industry is at a floor and the uptick will come soon, but patience is required.

"It feels like we're probably bumping along the bottom," he said. "Whether that bump along the bottom is the start of an upturn or we're just seeing the bottom of a U, I'm not sure if anyone can confidently predict."

Gregory said 2011 will be a year of RevPAR growth—hopefully enough to offset inflationary growth—and hoteliers will have to wait until 2012 and 2013 to see some real solid improvements.

"We all hope it will happen faster than that," he said.

"We are seeing a bottom of the fundamentals out there; we're seeing occupancy bottom and actually upturn," said Jon Benowitz, managing director at Rockbridge Capital.

Benowitz also noted that the bid-ask spread conversations "have become a lot more realistic," indicating that transactions may improve in the near term.

Distress still in the air

Much of the focus at the conference involved CMBS loans and how owners left holding distressed assets should work with special servicers.

Gregory noted the action was currently with larger transactions, leaving smaller distressed assets playing a waiting game.

"All these big transactions are sucking the oxygen out of servicers right now—so you get down to the \$4-million, \$5-million, \$6-million loans, they probably don't get as much attention unless there's a real fire," Gregory said.

Gregory also said borrowers have to have a good story, a plan for the property.

"They're not going to lend you additional money, they are likely going to come up with some sort of a restructuring of the loan that involves an A note and a B note with preferred returns for the lender," he said.

Watch fundamentals

Dr. Rajeev Dhawan, director and associate professor for the Economic Forecasting Center, Georgia State University, told attendees that jobs were the key component of the economy for hoteliers to watch.

"Once the jobs come back, you will have hotel occupancy [up], you will have spending in the economy, you will have leisure travel, you will have financing available," he said.

But Dhawan cautioned that printing money doesn't create a single job.

"Jobs come from investment capital spending [from] both small and big businesses," he said.

Sam Chandan, president and chief economist for Real Capital Analytics, said when compared to early 2009, things feel different and they are different. But he also told the audience that fundamentals had a way to go.

"What is a timeframe around which we might think about a recovery in fundamentals?" Chandan asked. "If you look at the last downturn, the recession in the United States technically ended in November of 2001. Occupancy rates didn't reach their low point for the hotel sector [and] for the office sector at the national level for another two years after that."

Chandan said in five or 10 years, people will look back and see this crisis not as one of fundamentals or overbuilding, but about how we financed our properties.

"[It wasn't about financing] new properties coming online, but the valuations of the properties that we traded as we approached the peak of the asset price cycle for commercial real estate," he said. "Instead of it being a market that was characterized by best-in-class operators acquiring assets, it was largely opportunistic investors who were buying in 2006 and 2007. [They were] acquiring assets not because they intended to operate them over a very long period of time, but because over a relatively shorter period of time they anticipated that they would be able to realize significant gains on sales."