



Gradual start to transaction activity

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Phoenix—Time heals all wounds, and the same can be said of transaction recovery in the hotel industry, according to members of the Lodging Industry Investment Council.

At the group's September meeting in Phoenix, brokers and asset managers encouraged patience as the industry ramps up to a pre-recession environment—and it may take years, they said.

In the meantime, microindicators of recovery can help owners, asset managers and brokers get some idea of what the future will hold.



"The fundamental story is horrible, and the capitalization markets for lodging are still very tough, but there seems to be a light at the end of the tunnel," said Patrick Deming, managing director at Eastdil Secured.

Deming said that while hospitality cap markets are not yet improving, other real estate sectors are giving off what he called "a positive vibe," with lenders coming back into the market.

Transaction activity will start slow and low.

"We're moving the under-\$10-million transactions," said Mike Cahill, CEO and founder of Hospitality Real Estate Counselors. "A lot of those buyers are used to doing recourse ... and they are OK with a 50 percent loan-to-acquisition cost."

Cahill said his brokerage firm is doing a lot of broker opinion to value projects on distressed hotels.

"A lot of people just don't know what to do with [these assets]," he said. "Very entrepreneurial-oriented, lower-end hotels are available. The worst is over, but I think it's going to be more of a trickle than a tsunami."

Jim Merkel, president of RockBridge Capital, agreed that relatively smaller deals are moving. He said the company already has had payoffs on seven loans it has been involved with in that category.

But few buyers are testing markets for large transactions.

"Once you get into the \$20-million range, there's not a lot of desire there," Merkel said. "You have to be an all-cash buyer these days to make anything happen in any sort of time frame."

But does that all-cash buyer exist?

"Rob, if an all-cash buyer came to you, would he justify a lower sales price than someone who has to leverage it?" Cahill asked Robert Kline, president of The Chartres Lodging Group.

"I think there are not many buyers out there who can complete the transaction without fresh financing," Kline answered. "The only buyer, generally speaking, is that all-cash buyer. They will show up. They will come into the market."

Cahill agreed and predicted pure equity buyers will get "unbelievable deals" on hotels in 2010. But the obstacle might be product volume.

"The problem really is the amount of product," he said. "The lending community is very sluggish. Today alone, I got four requests on broker-opinionated hotels. These are still in the loan portion of the special service. They still have to go through the workout."

Panelists agreed that while small deals do indicate market movement, and many buyers will take advantage of low asset costs, the industry forecast does not necessarily call for all sunny days ahead.

"You will not be able to say wholesale, across the board, that whatever hotel you buy [at low cost in this environment] will make lots of money," Deming said.

Merkel warned owners and operators not to expect immediate turnaround, but to settle in and ride out the cycle.

"We're not smart enough to know all the influences," he said. "We all knew the market was going to cycle. We didn't think it would coincide with political changes and a credit crisis to make it more severe, but it's going to come back. This is normal. It's going to take time."

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