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## Hotels' maturing debt raises eyebrows

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### Story Highlights

- Pay downs, property-improvement-plan money and modifications are being used to restructure loans in some cases.
- "You're going to see deleveraging ... it's got to happen," said Bob Massey of TriMont Real Estate Partners. "You just can't kick this down the street."
- Operations and revenue management are also an important part of today's hotel environment.

GRAPEVINE, Texas—Maturing debt on performing assets, a topic that weaved its way throughout last week's Fishing for Solutions conference (put on by Prism Hotels & Resorts), is a bit of an enigma in the hotel industry. When it was issued up to five years ago, the debt was looked at as a great opportunity. Now it's become an albatross around the necks of some borrowers, and even some lenders, because there is little positive action that can be taken on it.

Panelists on the "What are the Hotel Experts Saying? Where are Hotel Values Headed? What are the Brands Doing to Help?" panel at the conference said flexibility is the key for owners who are facing commercial mortgage-backed securities loans coming due.

"The ones that are performing are performing because they're floaters," said Alan Tantleff, managing director of New York-based FTI Consulting. "We're actively engaged to try to restructure those loans through some combination of pay down, (property-improvement-plan) money or modifications. There are still quite a bit of modifications out there."

Bob Massey, VP of hospitality assets for TriMont Real Estate Advisors, said pay downs of existing debt is the first thing borrowers should expect.

"The first question I ask is, 'Do you have any money?'" Massey said. "No? 'Do you want to give me the keys today?'"

He said it's inevitable that some owners will have to dip into their pockets to avoid losing assets.

"You're going to see deleveraging ... it's got to happen," Massey said. "You just can't kick this down the street."

Terry Sanders, senior VP of development for Wyndham Hotel Group, said it's important for franchisors such as [Wyndham](#) to be keenly aware of potentially troublesome loans.

"We know early on when people are in trouble," he said. "We try to do a workout with them as much as we can. We're always the first ones to not get paid, so all we can do is be flexible."

Tantleff said that's a far cry from where the franchising world was a few years ago.

"The brands have learned a lot about bankruptcies and defaults in the last two years," he said.

The panelists agreed the logical thing for borrowers to do is develop a plan and communicate with the parties involved.

### Operations outlook

The panel addressed several other issues as well. Among them was operations.

Mike Sacenti, principal with Hospitality Investment Management, offered a positive spin on the effect the tough economy is having on hotels.

"Turnover is way down because of the tough job market," he said. "That's a line item on the (profit-and-loss statement) that just doesn't exist right now. As turnover has come down, the profits have gone up."

Sacenti and Massey praised the work revenue managers have done.

"The (most valuable players) in the hotel industry right now are revenue managers," Sacenti said. "Companies with top revenue managers are getting the most lift on the top lines and the bottom lines."

Massey said revenue managers are more important than ever because hotel operators are starting to see a contraction in rates—particularly group rates—after thinking the rates would be more robust

"Particularly now close to budget season, everyone is focused on the rates they're paying," Massey said. "There's a show of cautious optimism

that things are going to be fine, but companies are taking steps to start planning for tomorrow if that (recovery) doesn't happen."

Another concern for Massey is the cost of insurance.

"We're already seeing 10 to 15% increases this year, and that wipes out a lot of profit we thought we were going to have," he said.

**PIPs are a hot topic**

Property improvement plans also were a hot topic during the panel discussion. Wyndham's Sanders said most franchisors have to push for a number of PIPs to be completed.

"It's getting to the point where you've got to fix some of these things, the high guest-impact items," Sanders said. "We will give (owners) time, but we still want them done."

Massey said a PIP can only be done when there is a change of ownership. Any new owners need to ensure any PIP they agreed to is completed on time.

"Once you make that commitment, don't falter on it," he said. "If you do, you'll lose all your credibility and (franchisors) will ride you like a bad horse."

Massey and Tantleff agreed pricing PIPs should be left to experts. Massey said owners who conduct their own PIP estimates generally miss the actual cost by 15% to 20%.