

Global Hotel Network®

Chad Crandell - GHN Perspectives



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A GHN Exclusive Interview

State of the Industry Update - Asset Manager Perspective



Chad Crandell
President and Co-Founder
CHM



Global Hotel Network: Following on the heels of the NYU International Hospitality Industry Investment Conference and a flurry of revised lodging industry projections, what is the latest outlook for 2009 and anticipated recovery timeframe?

Chad Crandell: The good news is that the industry prognosticators are finally on the same page in terms of the outlook for 2009. The bad news is they are all in agreement that the lodging industry will hit rock bottom this year. What is most startling from our perspective, and others I'm sure, is the sharp decline in RevPAR that properties have experienced to date. The current national outlook suggests RevPAR decreases to be between 16% and 18% from the prior year. We have witnessed firsthand an even steeper decline within the upscale and luxury-tier hotels. Over the first six months we have seen RevPAR declines within this segment somewhere in the range of a 20% to 25%. Further compounding this decline in RevPAR is the shift we are experiencing in the driving force behind the decline. Initially, roughly 75% of the decrease in RevPAR could be attributed to occupancy shortfalls. Now, ADRs are being compromised and accounting for upwards of two thirds of the decrease in RevPAR which has an even more profound and lasting impact on profitability. And, as a result, owners are now really starting to feel the cash crunch.

In terms of a recovery time frame, there is a lot of uncertainty surrounding just how quickly recovery will occur given this steep and prolonged decline. Most indicators point to sometime during the latter half of 2010 but as a best case scenario. More likely it will be

early 2011 until we truly see some positive growth.

Global Hotel Network: What does the accelerated pressure on cash flow mean for hotel owners this year?

Chad Crandell: Strong RevPAR declines fueled heavily by decreases in ADR are now having a material impact on profitability and we're witnessing a staggering uptick in the number of hotels that fall into a "high risk of default" status. Many investors came into the year with some level of cash enabling them to remain afloat and delay foreclosure for the first quarter, maybe two. What we're looking at now, however, is a virtual tsunami of distressed hotels anticipated to hit the market during the second half of the year.



The Westin Diplomat Resort & Spa,
Hollywood, FL

Global Hotel Network: What strategies have owners employed to try and prevent foreclosure?

Chad Crandell: A typical strategy, under normal circumstances, would be for a hotel owner to try and restructure their loan. We have seen a few select cases in which this has been done successfully, however this only works if the borrower is generating a positive cash flow. For those properties that are now already in the hands of special servicers, strategies to negotiate are much more limited. While the lenders may have some latitude with respect to deferring interest payments or extending the term, reductions in cash or principal payments are not easily attained or even in the realm of possibility. Special servicers neither have the authority, nor the access to cash, to negotiate on this level with borrowers. Further, with securitized loans, special servicers have responsibilities to a tranch of lenders adding to the overall complexity of such deals. A perfect example was Sunstone's decision to walk away from the W San Diego after efforts to reach a compromise with the special servicer failed. It is an extremely tough environment we are in right now. Loan servicers are so busy that they are hard pressed to work through a solution with a performing hotel. Once a hotel transitions to a "non-performing" hotel, you have their attention but in all likelihood it's too late to negotiate.

Global Hotel Network: How do you envision foreclosures shaping the industry?

Chad Crandell: Although history does seem to repeat itself, each cycle possesses unique nuances that serve to shape and change the way in which the industry behaves and once again rights itself. During the last financial crisis in the early 1990s and the one before that in the 1980s, the FDIC and RTC stepped in to assist in resolving troubled banks. We have not seen this same level of intervention this time around or at least there is a considerable lag this cycle. In the early 1990s, most of the loans were not securitized which allowed for easier workout. This is not the case this time around. In terms of shaping the industry, we are going to see a significant shift in the ownership profile over the next year as foreclosures occur and lenders expand their Real Estate Owned (REO) portfolio.

Global Hotel Network: How is being an asset manager in this environment different, if at all?

Chad Crandell: Lenders can generally be categorized as “reluctant owners”, meaning direct hotel ownership is not typically by choice. However, there are several periods of time, much like the times we’re in now, in which lenders fulfilled this role and own hotels. Interestingly, from my perspective and other CHM executives, the concept of asset management and strategies in value enhancement first originated through our involvement with lenders. It wasn’t until the 1990s until our client base begin to expand and shift from an REO asset pool to begin to include equity investors. The core concepts, experience and tools that we were utilizing to achieve results on the lending side were highly transferrable and easily customized to a wide-variety of hotel ownership groups.

For the last 15 years our involvement with the lending community has been related to financing/re-financing activity, coordinating largely on behalf of borrowers. However, we appear to be coming full-circle yet again and anticipate a significant shift in our client profile as the lending community takes on a more active hotel ownership role. While this shift represents a major change in the market, all ownership groups have the same basic needs, so for us, this is not a major change. We do like to remind the lending community, however, that this is how we got our start and frankly, what put us on the map.

Of course there are some changes to our business but they are more endemic to the current economic climate than the client base. We have once again become masters of cash flow (and cash traps!) and waterfalls. As they say, “Cash Is King” and this rings true now more ever than before. Another subtle reality of the times is that speed to deployment is critical right now. The time sensitivity surrounding the issues we are facing at our hotels has increased tenfold and the response time back to owners, lenders and the property management team must be immediate. You could say company-wide we are in a heightened “orange” state of alert as a result of the economy right now.

Global Hotel Network: Given the state of the industry, where has your team been able to find opportunities and realize success in weathering this storm?

Chad Crandell: We have certainly found success with our hands-on, collaborative approach to cost containment. We are fortunate that we have a portfolio of hotels by which we can share and leverage best practices, as well as a deep pool of talent internally from which to draw on and assist in analyzing and implementing initiatives. One of the common pitfalls that owners fall into during a downturn is implementing drastic cost cuts that compromise a hotel’s positioning and impact future value. Where we have been successful is identifying and implementing measures to provide some cash relief through a very thoughtful and deliberate process that preserves value today and in the future.

From a revenue generation standpoint, no available tool is a bad tool – STR Trend Reports, Hotelligence, Vistera, other e-commerce reports, social media monitoring – we use it all to glean insight into the market today and forecast the near future. Using a wide-range of tools, some external and many internally developed models, enables us to be more nimble and make real time changes to favorably impact value.

For us, “Foresight has been 20/20”, and thankfully, the hotels we have been involved with were well positioned to weather the storm perhaps better than most. For instance, we are huge advocates of capital planning and balancing expenditures. During good economic times we are active stewards of capital investment which is now benefiting our hotels as we can afford to hold off on various projects and preserve some cash without impacting

performance given the condition of our assets. Other hotels may not have that luxury and may even require additional owner funds. Likewise, our strategic outlook with ROI projects that we've executed on over the past 5 to 8 years has provided a cushion in many instances. For example, recent investments in re-concepting/re-inventing restaurants and lounges to increase guest capture but also provide a local dining destinations has provided a level of ancillary food and beverage sales which has helped revenues. We have also seen some positive results vis-à-vis the competition relative to guestroom improvements and other public space investments, such as the new lobby re-invented concept at Marriott, among others which have served to differentiate select properties and drive business.

Global Hotel Network: What are your thoughts on the hotel investment climate? When might we see transactions resume? For whom will the market be most favorable?

Chad Crandell: Clearly the industry is caught amidst a financial storm, with about one year under its belt, and likely one more to go until we see some signs of improvement. Investors need to think 12 to 24 months ahead....beyond that visibility is challenging. I truly believe there will be some good opportunities coming out of this cycle and that the value proposition will be very good.

The best time to sell will be when lenders start lending again. Equity is not the issue right now. There is cash in the market but absent available credit at reasonable terms and an ability to leverage equity, we are in a bit of a log jam right now. Assuming lenders resume lending and the nation comes back with strong GDP growth, transaction activity should pick up again as values begin to right themselves. Lenders will not be looking to hold hotels beyond 12 months and with the prognosticators anticipating some level of stabilization in RevPAR during the second half of 2010 and possibly some growth soon thereafter, we should start to see some movement. Thankfully, the hotel supply equation is favorable this time around which should help as well. From a buyer's perspective, equity funds will be back and I suspect REITs will be active given recent efforts to raise capital. Toward that end, the market will be favorable for all parties – lenders who want out and investors who want in... price and value will be the big bogey at least until conditions begin to normalize.

Global Hotel Network: Until market conditions improve and give way to transactions, what advice do you have for hotels owners and lenders?

Chad Crandell: For owners, focus on hanging on to your hotels so you can recover equity and hopefully make some yield at the end of all this. There are advisors and experts who can help and specific strategies for preserving cash flow and future value. The goal for owners should be to hold tight for 2 to 4 years to allow for the market to recover while also ensuring you have a credit vehicle in place to see you through. Look to refinance when possible, likely 2011/2012.



Hyatt Regency Denver at
Colorado Convention Center,
Denver, CO

Likewise for lenders, take advantage of the expertise in the market to recover principal loan value and avoid steep discounting/fire sales that can occur if the property is not well positioned. Know your property and understand the true value of what you have before selling it. Clean up liens, address management contract issues, customer service, operations and prepare for an interim hold period of at least a year.

About Chad Crandell

Chad Crandell is the President and co-founder of [Capital Hotel Management](#) (CHM), leading provider of hotel asset management services and customized strategies proven to maximize hotel value and optimize investment returns. Mr. Crandell is the operations leader of CHM, which was recognized at its inception in 2000 as a “20-Year Old Start-Up” given the vast experience and expertise in the area of lodging asset management. Today, CHM is recognized as the largest independent hotel asset management firm, dedicated to providing unparalleled asset management and investment [services](#), enabled through innovative, out-of-the-box strategic thinking and substantiated with an expertise of lodging and related real estate, to optimize investment returns.

[Crandell](#) actively oversees hotel portfolio and single-asset investments collectively valued at more than \$5.0 billion, representing a wide-range of clients and hotels across the U.S. and in the Caribbean. Managed investments include urban landmark properties, high-profile destination resorts and convention center headquarter hotels for a total of more than 13,000 rooms. CHM is an SEC-registered investment advisor and Qualified Professional Asset Manager (QPAM) and to date, has represented hotel investor interests and evaluated transactions totaling more than \$16 billion.

For more than 25 years, Crandell has dedicated his career to the hospitality industry, previously acting as a principal of Hospitality Consulting Inc. and later managing director of Horwath Landauer. Prior, Crandell held numerous positions in operations and development with InterContinental Hotels, Chalet Suisse International and Koala Inns of America.

Crandell is a 1983 graduate of Cornell University, Ithaca, NY, where is earned a bachelor’s degree in hotel administration. He serves as an active member and past President of HAMA (Hospitality Asset Managers Association) and is an advocate for hotel ownership, asset management and industry issues. Crandell routinely speaking at major industry conferences and has authored numerous articles, chapters and case studies. Mr. Crandell is a member of the International Society of Hospitality Consultants (ISHC), Cornell Real Estate Council, Editorial Research Board of Industry Leaders and International Association of Corporate Real Estate Executives. Mr. Crandell is a member of the Executive Committee on the Endicott College Board of Trustees and holds a Counselors of Real Estate (CRE) distinction.

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