

Lessons from the 2011 U.S. Hotel Appraisals Hospitality Conference

October 31, 2011 / By Russell S. Rivard, Jennifer Sator-Pope



More than 100 hotel owners, brokers, lenders, appraisers, consultants, and other experts convened at this year’s U.S. Hotel Appraisals Hospitality Conference to share ideas and concerns about where things are headed for limited- and select-service hotels. Topics ranged from where to find funding for a hotel project to how a hotel operation can rise above the recent recession’s murky tide. Here’s a synopsis of what we learned.

The Lending Stalemate

U.S. Hotel Appraisals’ Managing Partner Russ Rivard kicked off the conference with a central question: What makes hotel financing so hard to produce or attain in this economy? The answer is complex. Facets include new FDIC regulations that set strict capital requirements for lenders and wavering hotel performance nationwide, which makes hoteliers reluctant to take on debt. These challenges affect not only hotel loans but hotel transactions and values. Nonperforming loans are seen by lenders as a sign that a hotel has lost value, making it more difficult to obtain or extend a loan that could augment the hotel’s performance. Many banks simply refuse to lend on proposed hotel projects where the value of the hotel cannot be substantiated.

When borrowers are “underwater” on their hotel loans, they have nowhere to go. Current stalemates in Washington and the uncertainty of future economic policies give hoteliers reason to hold off on borrowing until this perfect storm recedes. In time, most experts argue, it will—but hotel owners need to keep their properties from foreclosure in the interim. Conference-goers expressed different views about how best to deal with the situation at present, but most were optimistic about the future. You can read more about the present hotel lending climate [here](#).

Hotel Brokering and Support from the Small Business Administration

Hotel owners need to learn more about how assets are valued in the current marketplace, where increasing occupancy or rate alone does not necessarily translate into a higher property value. Professional hotel brokers and consultants help explain lending parameters such as cap rate and LTV’s (loan-to-value ratios) to owners looking to buy, sell, or refinance. Teague Hunter, President of Hunter Realty Associates, explained how the number of brokered hotel deals has picked up in 2011, though the prolonged wait for an economic upturn is beginning to slow things down.

Lenders still active in hotel projects often need a second party to absorb some of the risk. This is where the U.S. Small Business Administration’s (SBA) 504 program comes in. Tim Souther explained that the SBA’s 504 loan program is designed to “finance fixed assets for eligible small businesses on reasonable terms.” What does this mean? Essentially, the program provides up to 90% of the financing for eligible projects through a partnership between the SBA, the hotelier, and a traditional lender. The reasonable terms include a low down payment, a fixed interest rate, and a 20-year term for the maturation of the loan.

This loan program is meant for small businesses, and many limited-service hotels fit the parameters; owners and investors can use the loans for transactions, new builds, and refinancing. Find out more [here](#).

Atlanta Hotel Trends

Mike Brophy, Director of U.S. Hotel Appraisals’ Atlanta office, spoke to hotel demand and performance trends across the city. While 2008/09 brought heavy declines for Atlanta hotels, 2010 and year-to-date 2011 saw a reversal of the trend, moving RevPAR into positive year-over-year territory for the first time since the recession

Summary

Hotel loans, transactions, and performance were on every hotelier’s mind at this year’s conference in Atlanta. Hospitality experts from all walks of life were on hand with answers and advice on how to move ahead.

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began. Atlanta's diverse submarkets, some of which cater heavily to the limited- and select-service set, are, on the whole, faring better than a year before. You can learn more about the end-of-summer standing for Atlanta hotels [here](#).

Organizational Culture: How to Take Your Company from Good to Great

Dr. Debby Cannon, Director of Georgia State University's Cecil B. Day School of Hospitality, called on business leaders to re-examine their company's core values. In the midst of daunting economic challenges, it's essential for leadership to look beyond the adequate and to move from "good" to "great" through questions like: Why do clients come to you? Why do applicants seek you out? What do your current employees value about the work they do for you?

Answers to these questions reveal a company's core values, which represent what your company presents to the world—that is, your clients, colleagues, customers, and guests—and how the world responds. To achieve success, hoteliers and hotel companies have to preserve their core values, especially from the calamitous threats of a recessionary climate; leaders that sacrifice their company's core values are literally "cutting their [company's] chances for survival" in the long term.

The principle of organizational culture can be communicated in ways both internal and external, through tools like a multi-level employee climate survey and marketing and recruitment materials that help you reach a wider audience. Ultimately, it's vital that your company's culture spreads—through your community, clients, applicants, and employees. This is building a company that "people can put their arms around," and your efforts will be rewarded.

Conclusion

We encourage you to visit the [conference website](#) and become familiar, if you aren't already, with the people and companies involved in this year's event. To our sponsors, speakers, panelists, and attendees: Thank you for helping us to rethink, regroup, and recharge. Let's put these ideas to work and celebrate some successful strides in 2012.

About Russell S. Rivard



Russ Rivard, MAI, a Managing Director and Partner with the HVS Dallas office, oversees site inspections, analyses, and valuations of hotels throughout the South Central U.S., with a special emphasis on limited- and select-service properties and portfolios. Russ earned his master's degree in Operational Management from the University of Arkansas. He is a certified general appraiser in Texas and surrounding states. Contact Russ at (214) 766-5394 or [\[email protected\]](#).