

PUBLICATION

Hunter Investment Conference Report

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Your correspondent attended the March 6-8 Hunter Hotel Investment Conference in Atlanta. The mood was much more upbeat than recent hotel investment conferences, with the number of people claiming to be buyers almost in alignment with the people claiming not to be sellers (except at the right price). For those interested in what the forecasters predict, we recommend the conference's econometric presentations found on the Smith Travel Research (www.hotelnewsnow.com), RubiconGroup.com and Colliers PKF websites. My conference takeaways:

- REVPAR growth has reached a plateau after steady growth for much of 2010, but should resume as demand growth in most segments collides with steady or only slightly increasing supply
- Demand is returning in the business segment and long term group bookings but leisure remains last minute and subject to gas price shocks that siphon disposable income
- Economy and lower mid-scale may be permanently impacted by the loss of middle class jobs and the unlikely return of employment at comparable wage rates, while upper mid-scale and upscale segments see the benefit of pent-up demand by their customers whose portfolio values have recovered
- Banks are lending under highly restrictive covenants and tight springing guarantees for below replacement cost deals to quality sponsors, with strong brand support
- Brand deferrals of product improvement plans and brand standard upgrades are ending quickly, but with higher sensitivity to ROI and owner cash flow needs
- REIT buyers remain committed to gateway cities and trophy resorts while more flexible owners and funds are seeing good returns in suburban and top 25 markets
- CMBS deals are allegedly back at 50 to 65% LTV transactions although completion remains uncertain
- New construction financing is not likely to be available until late 2012 except for SBA loans and USDA loans in rural communities
- Non-traditional equity buyers may enter the market as inflation kicks in to ride the upswing in values from rising REVPAR as commercial real estate rents are committed long term to recently lowered rates, potentially leading to prices per key approaching unsupportable levels
- Rescue equity is available for a transaction that can be refinanced or reworked with existing lenders, original equity holders and new holders riding the rising values, but the owner must start well in advance of the CMBS maturity to accomplish
- Special servicers will hold auctions to sell assets that are not performing but are unlikely to negotiate transactions unless there is no interest in the asset; cash is king and no financing contingencies are acceptable
- Cap rates will hold in the mid-8s, well below the historical 10% level, with some trophy assets commanding lower rates when deferred cap ex has been completed
- Brands will invest in enhancing brand.com and better revenue and inventory management tools for owners and managers to reduce the supply of rooms to and dependence on OTAs, with new Google capability an intriguing prospect for supplanting OTA inventory channels

- "Extend and pretend" may be ending as lenders believe that new owners with new loans, at the written down prices of the assets, can perform and remove non-performing assets from lender balance sheets
- Please let us know if you plan to attend The Lodging Conference 2011, September 20-23, 2011 at the Arizona Biltmore in Phoenix, Arizona, where we will again be a sponsor. (www.lodgingconference.com/) We hope to see you there!

Mr. Buckberg is an attorney in our Nashville office.