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The Ecole hôtelière de Lausanne (EHL) is the co-publisher of The Hotel Yearbook. As the oldest Hotel School in the world, EHL provides university education to students with talent and ambition, who are aiming for careers at the forefront of the international hospitality industry. Dedicated to preparing tomorrow's executives to the highest possible level, EHL regularly adapts the contents of its three academic programs to reflect the latest technologies and trends in the marketplace. Since its founding in 1893, the Ecole hôtelière de Lausanne has developed more than 25'000 executives for the hospitality industry, providing it today with an invaluable network of contacts for all the members of the EHL community. Some 1'800 students from over 90 different countries are currently enjoying the unique and enriching environment of the Ecole hôtelière de Lausanne.

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Boutique DESIGN New York, a new hospitality interiors trade fair, will coincide with the 94-year-old International Hotel/Motel & Restaurant Show (IH/M&RS). Designers, architects, purchasers and developers will join the hotel owners/operators already attending IH/M&RS to view the best hospitality design offerings as well as explore a model room, exciting trend pavilion and an uplifting illy® networking café.

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HFTP provides first-class educational opportunities, research and publications to more than 4'800 members around the world. Over the years, HFTP has grown into the global professional association for financial and technology personnel working in hotels, clubs and other hospitality-related businesses.

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Bench Events host premier hotel investment conferences including the International Hotel Investment Forum; the Arabian Hotel Investment Conference and the Russia & CIS Hotel Investment Conference. Bench Event's sister company, JW Bench, is a benchmarking company that has launched the Conference Bench and the Productivity Bench. An industry first, the Conference Bench, measures performance data for conference space in hotels throughout Europe.

Cornell University School of Hotel Administration

Founded in 1922, Cornell University's School of Hotel Administration was the first collegiate program in hospitality management. Today it is regarded as one of the world's leaders in its field. The school's highly talented and motivated students learn from 60 full-time faculty members – all experts in their chosen disciplines, and all dedicated to teaching, research and service. Learning takes place in state-of-the-art classrooms, in the on-campus Statler hotel, and in varied industry settings around the world. The result: a supremely accomplished alumni group-corporate executives and entrepreneurs who advance the industry and share their wisdom and experience with our students and faculty.

Hsyndicate

With an exclusive focus on global hospitality and tourism, Hsyndicate.org (the Hospitality Syndicate) provides electronic news publication, syndication and distribution on behalf of some 750 organizations in the hospitality vertical. Hsyndicate helps its members to reach highly targeted audience-segments in the exploding new-media landscape within hospitality. With the central idea 'ONE Industry, ONE Network', Hsyndicate merges historically fragmented industry intelligence into a single online information and knowledge resource serving the information-needs of targeted audience-groups throughout the hospitality, travel & tourism industries… serving professionals relying on Hsyndicate's specific and context-relevant intelligence delivered to them when they need it and how they need it.

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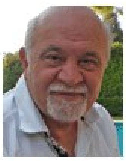

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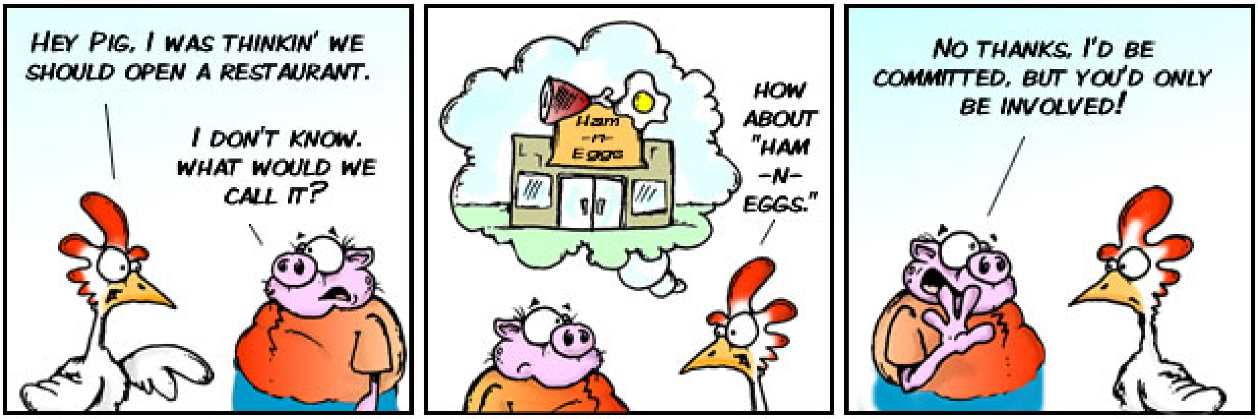
New rules for courting capital

What will entice investors to step up the block in 2010 ? According to BYRON CARLOCK, President & CEO of Orlando-based CNL LIFESTYLE COMPANY, LLC, shared risk – « skin in the game » – is one of the keys to brand building in a down market.



By Clark & Vizdos © 2006 implementingscrum.com

This darkly funny fable came to mind as I was trying to think of a way to describe the current disconnect between owners and operators as the hotel industry struggles through one of the toughest business climates in the last 70 years. The owners are committed. Operators are merely involved.

For most of the past decade, operators have benefited from CMBS-driven easy credit and a surplus of equity capital, giving rise to a period of unprecedented expansion. With too many dollars chasing too few quality investments, operators called the shots.

The rules for courting capital have changed for 2010. Faced with the daunting triumvirate of negative cash flows, tight-fisted lenders, and a glut of distressed properties on the market, the industry needs a major capital infusion. And while there is no shortage of so-called « vulture capitalists » hovering around the sick and dying, that can't be of much comfort to those who still have a lot of fight left in them, but find themselves hamstrung by the anti-competitive Hail Mary tactics of their more desperate brethren.

As both an owner and active buyer of resort and lifestyle properties, there are three conditions that will have to be met before I would consider investing at anything even close to a fair-market price.

- Values have to be reset
- Returns must match risk
- Risks and rewards must be shared

Value reset

Most of the economic reports I follow predict that the hotel industry will be back in the black by 2014. Between now and then, however, there is a mountain of debt that is going to have to be reduced or refinanced – $76 billion, according to a September 2009 analysis by the international law firm of Freshfields Bruckhaus Deringer LLP. Jones Lang LaSalle forecasts that the debt burden will peak in 2011-2012, when $55 billion of securitized hotel debt issued in 2006-2007 is scheduled to mature.

In the past, lenders would simply roll that debt over, or extend it. But as I said at the outset, the rules of courtship have changed. Going forward, prudent lenders are looking at a number of factors, including : how the loan is performing, current market conditions, and the borrower's continuing ability to pay. At the very least, borrowers should expect to pay an extension fee and a higher interest rate. But under new lending standards, it is not unreasonable to assume that a lender will also require highly leveraged borrowers to come up with additional equity.

Hospitality consultant HVS says that hotel loan-to-value ratios in the next credit cycle are likely to be in the 50-65 % range, compared with the 70-85 % of recent years – a challenge that is made even greater by the fact that HVS expects market values to be 10-30 % lower than when the current cycle of loans were originally written. And with liquidation values estimated at 20-50 % below market value, downward price pressure is likely to continue at least through 2010.

Risk/return

Industry pundits such as Jim Butler, founder and chairman of Global Hospitality Group, say it could be 2012 before hotel values stabilize. That puts owners and operators in the untenable position of trying to find investors willing to throw money into a hole as it is being dug, and wait three to five years for a return on investment.

I say untenable, because it is not impossible. Nor is it cheap. Efficient markets compensate for uncertainty by jacking up the cost of capital. And right now, hotel investors are looking for yields in excess of 20 %, according to HVS. This expectation could go up or down depending on how soon the economy and debt markets improve.

Sharing the risk

My third proposed rule of courtship is more of a personal preference, based on my years of experience managing through several up and down cycles. It's easy to make friends when times are good, and everyone's making money. It's in the down times, like these, that you learn what's important and who your friends really are. James M. Seneff, Jr., founder and chairman of our affiliate CNL Financial Group, Inc., would say that's because « relationships transcend transactions. » As a hotel investor, I would much rather do business with an operator who has some skin in the game – an operator that is « committed, » not merely « involved. »

Ideally, for me as an investor, that's going to mean a monetary commitment from the operator. But even if an operator is unwilling, or unable to make a financial commitment, there are other things that can be done to demonstrate good faith – including more equitable fee structures and waiver of expensive brand-specific renovations and no-cut contract provisions.

Like I said, this last is more of a personal preference, so you can imagine that I read with surprise and delight a recent article in Hotels magazine by the former head of acquisition and development for Hyatt Hotels Corp., expressing a similar concern.

Specifically Michael Shindler, now president of his own consulting company Four Corners Advisors, Inc., called out the self-serving no-cut contract provisions, known in the industry as subordination and non-disturbance agreements, or SNDAs, as « misplaced and stubborn, » particularly at a time when owners are already experiencing negative cash flows, and can ill-afford to be locked into a management agreement that could jeopardize new equity or financing.

Conclusion

Looking to 2010, I'm not going to pretend to have all the answers. There comes a time when it's best just to fold the tent and move on. For many, that's what the future holds, and there are plenty of investors waiting to pick those carcasses. I just wanted to say that amid all the threats, there are also opportunities for progressive operators who value relationships over transactions and are willing to step up and be « committed, » and not merely « involved. » ■

> There comes a time when it's best just to fold the tent and move on

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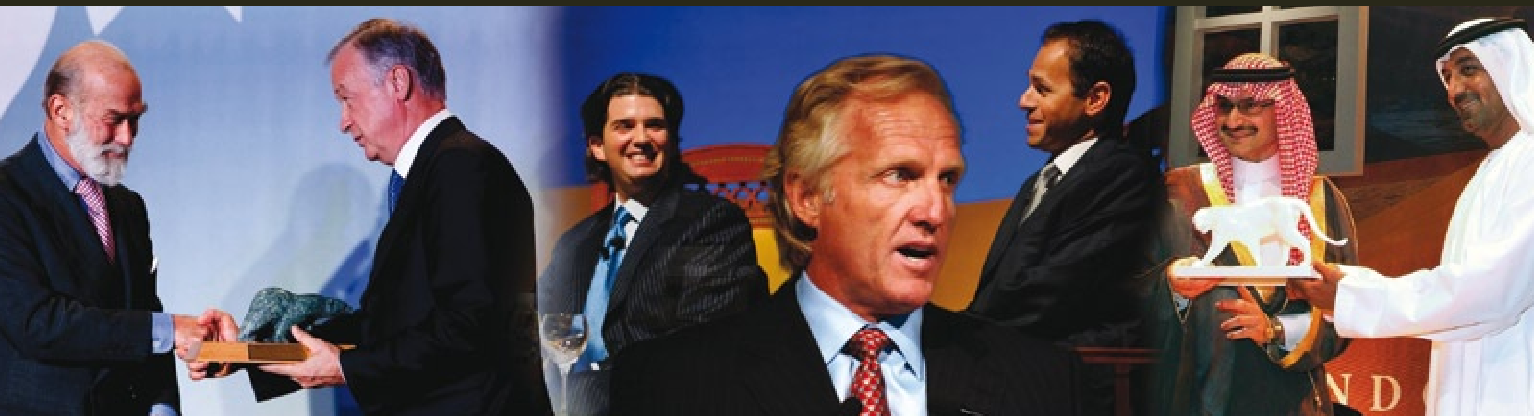

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