



# COLORADO REAL ESTATE JOURNAL

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## Colorado lodging recession: 2009 filled with challenge

For career hoteliers, we are encountering unprecedented times and swimming in uncharted waters. For year-end 2009 national lodging performance, industry analysts are predicting a rooms revenue per available room decline of 18 percent to 20 percent over 2008. For comparison purposes, this magnitude of this decline has not been seen nationally since the Great Depression and dwarfs the impact on the lodging industry of 9-11.

The Denver metropolitan area has been mirroring these national trends. According to STR statistics, in the first four months of 2009, the average RevPAR of Denver hotels has declined 17 percent versus the same time period in 2008 (the national decline was 18.2 percent).

So what do the leading national hotel owners and operators forecast for the lodging industry over the next 12 months? Since 2003, the members of the hotel industry's pre-eminent think tank, "LIIC - The Lodging Industry Investment Council," are surveyed annually to develop a list of the major hotel investment opportunities and challenges for the coming year. This exhaustive survey results in the LIIC Top Ten - a highly regarded profile of investment sentiment and attitudes for the lodging industry for the forthcoming 12 months.

All together, the members of LIIC represent acquisition and disposition control of billions of dollars in lodging real estate. The hospitality industry's most influential investors, lenders, corporate real estate executives, real estate investment



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trusts, public hotel companies, brokers and significant lodging equity sources are represented on the council. LIIC serves as the leading industry think tank servicing the hospitality business ([www.liic.ws](http://www.liic.ws)).

**■ Lodging real estate investment will get worse before it gets better:** Overall, hospitality investors believe that the recession will last for six to nine more months, hotel values will continue to decline, operating fundamentals will deteriorate further and debt financing will be difficult for the foreseeable future.

**■ Lodging real estate values continue to drop:** Some 81 percent of respondents believe that hotel real estate values will continue to decrease over the next 12 months, with 52 percent predicting a significant decrease of more than 5 percent. In terms of chain scale, upscale hotels are forecasted to have the largest value drop. Anticipated sharp decreases in RevPAR and a lack of available debt financing appear to be the primary drivers for past and future value declines.

**■ Deals gone bad?** Some 96 percent of investors believe their assets purchased in 2007 and 2008 are "underperforming compared to expectations" - a stark contrast when compared with previous years but expect-

ed results given the environment.

**■ Beginning of new investment cycle?** For the first time in five years, 61 percent believe we are in the first inning of a new hotel real estate investment cycle. On the other hand, 39 percent are unsure if we have either reached the bottom of the last cycle or if we have made it through the first inning already (there currently is no game). Some 44 percent of members believe the economic recession will be over within nine months and 56 percent are more pessimistic, predicting the recession will last up to 18 months.

**■ Quality and volume of product to buy?** The quality (desirability) of assets on the market appears to have diminished significantly in 2009 compared with 2007 and 2008. Some 38 percent believe that hotels on the market are average quality but 55 percent believe they are below standards. Compounding the quality issue, 88 percent believe the quantity of available product is "below average" and "low."

**■ How will you invest in hotels today?** Some 41 percent of the group is planning on acquiring assets directly from lenders (REO) with an equal percentage of respondents seeking to acquire notes (loan-to-own and performers). In terms of financing, 44 percent of respondents intend to do all-cash deals, 31 percent will seek traditional mortgage financing or traditional plus mezzanine and 25 percent claim that they are sidelined because they cannot find debt financing. Of particular note, 92 percent of investors indicated that they had not closed a deal in 2009.

**■ Interest rates will increase:**

Some 56 percent of the LIIC think tank believes hotel interest rates will increase over the next 12 months. Interestingly, 15 percent believe interest rates are "going down" and the remainder of the group predict that interest rates will remain "flat." Hand-in-hand, 87 percent of respondents believe loan/value ratios will either "remain level" (66 percent) or "decrease" (21 percent).

**■ Debt availability?** Consistently among responders, the mortgage capital crisis dominated concerns. The lack of availability was first, followed by cost (interest rates), amount (loan/value ratios) and need for recourse by sponsors.

**■ Equity return rates increasing:** Continuing a trend seen for the first time in 2008, a majority (67 percent) of respondents believe that unlevered equity rates will increase over the next 12 months. Respondents generally pointed to increased perceived risk as the driver of increased equity rates of return requirements.

**■ Hotels under construction have peaked:** Some 68 percent of the LIIC think tank believes that new hotel construction (amount of rooms actually under construction) already has peaked. Another 24 percent believe the peak will be reached in 2009.

For owners and operators of Colorado hotels, 2009 is anticipated to go down in the record books as one of the most difficult and challenging times in their careers. We are anticipating that a record number of area hotels will become financially distressed and owner debt defaults will become commonplace.▲