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Committed to Your Success.

# Hotel Restructuring, Foreclosure and Bankruptcy



May 12<sup>th</sup>, 2009



# U.S. Lodging Industry Trends Update – Distress in the Lodging Sector

May 2009

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# Agenda

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- ▶ U.S. Lodging Industry Trends
- ▶ Capital Market Trends

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# U.S. Lodging Industry Trends

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# What We Hear In The Boardroom

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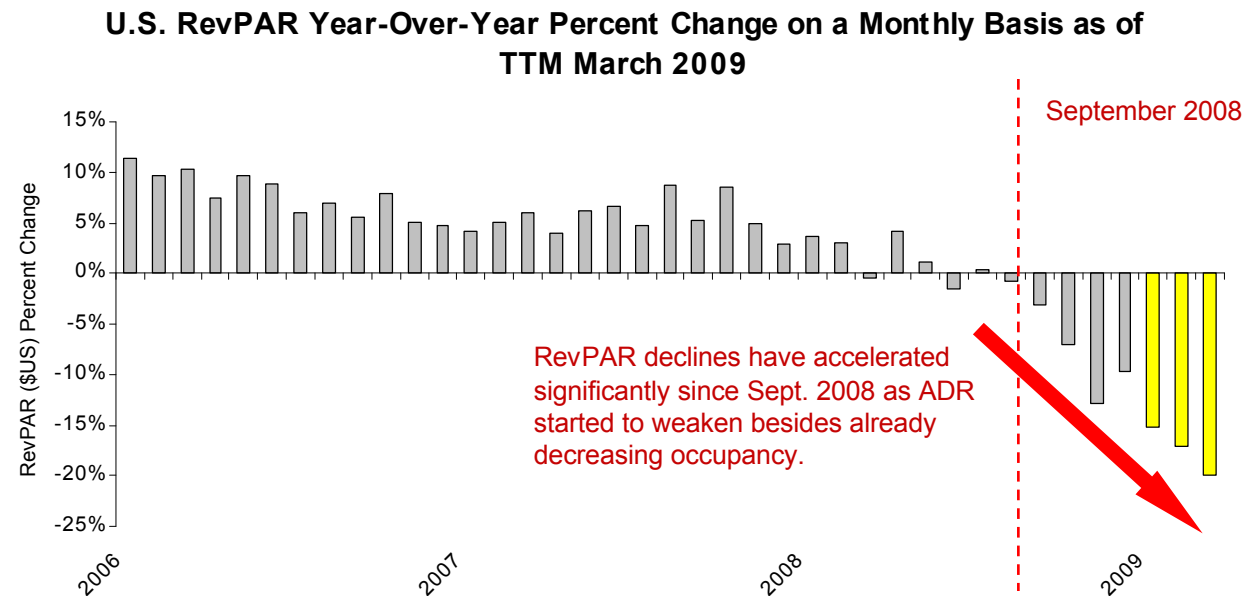
## U.S. Lodging Market Trends

- ▶ **U.S. Lodging Market Top Line Performance –  
Uncertainty Remains**

# U.S. Lodging Market Top Line Performance – Uncertainty Remains

RevPAR performance has become progressively worse as the recession continues

- ▶ Rate integrity will be hard to sustain across all lodging segments as the current economic recession continues
- ▶ As of YTD March 2009, the luxury segment was among the hardest hit, showing a RevPAR decline of approximately 27.3%, in comparison to the same period in the prior year



Source: Smith Travel Research

# U.S. Lodging Market Top Line Performance – Uncertainty Remains

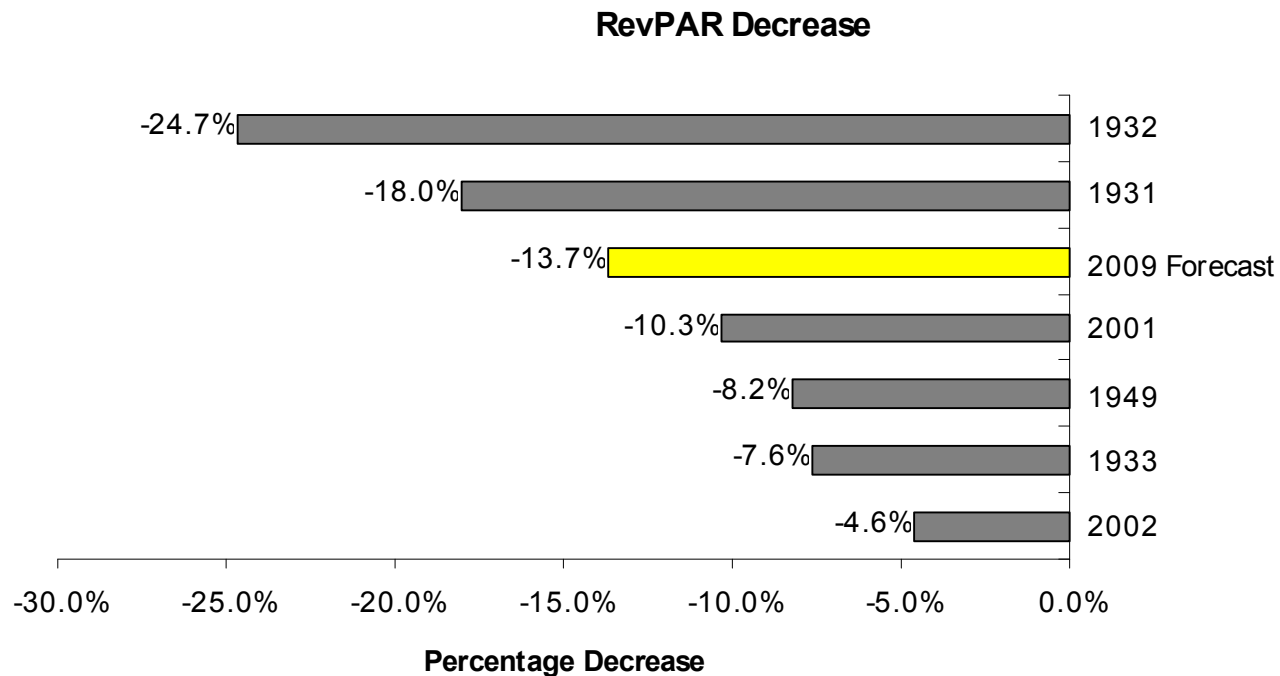
Deteriorating market conditions have resulted in various downward RevPAR revisions for the U.S. in 2009

Industry RevPAR Projections ( YoY %Change)		
	2009	2010
<b>JP Morgan</b>		
Luxury Segment	-8.7%	-
Upper-Upscale Segment	-7.2%	-
Total United States	-5.8%	-
<b>Deutsche Bank</b>		
Luxury Segment	-14.7%	-0.8%
Upper-Upscale Segment	-10.5%	-0.4%
Total United States	-9.6%	0.2%
<b>Smith Travel Research</b>		
Total United States	-9.8%	1.5%
<b>PKF Hospitality</b>		
Total United States	-13.7%	-3.2%
<b>HVS</b>		
Total United States	-12.0%	-3.2%
<b>PricewaterhouseCoopers</b>		
Total United States	-11.2%	-

Source: JP Morgan, Deutsche Bank, PKF, Smith Travel Research, HVS, PricewaterhouseCoopers

# U.S. Lodging Market Top Line Performance – Uncertainty Remains

The current market downturn is anticipated to rank amongst the worst in the past century



Source: PKF Hospitality Research



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# What We Hear In The Boardroom

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## U.S. Lodging Market Trends

- ▶ U.S. Lodging Market Top Line Performance – Uncertainty Remains
- ▶ **As the overall economy continues to suffer, the turnaround time for a recovery continues to be extended further out**

# Turnaround Time for Recovery Continues to be Extended

Current lodging down cycle may last longer than previous cycles

- ▶ Early 1990s: down cycle approximately 15 months, RevPAR negative for 13 of the 15 months
- ▶ 2001: down cycle lasted 27 months, RevPAR negative in 22 of the 27 months
- ▶ Current Cycle: U.S. has experienced eight months of decreases in RevPAR as of 1Q 2009

Total US Lodging Industry Consecutive Quarterly Declines			
Key Indicator	Recessionary Period		
	1990/1991	2001/2003	Current
Room Demand	3	5	5
Occupancy	7	6	6
Average Daily Rate	0	5	2
RevPAR	5	5	3
Room Revenue	2	5	2

Source: Smith Travel Research

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# What We Hear In The Boardroom

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## U.S. Lodging Market Trends

- ▶ U.S. Lodging Market Top Line Performance - Uncertainty Remains
- ▶ As the overall economy continues to suffer, the turnaround time for a recovery continues to be extended further out
- ▶ **“Glimmers of Hope”**

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# Glimmers of Hope

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## Small signs of recent improvement

- ▶ Consumer confidence rose to 39.2 in April up from 26.9 – second consecutive month of improving consumer confidence
- ▶ Pending home sales rose 3.2% in March 2009, for the second consecutive month and are up year-over-year
- ▶ Since reaching the bottom, the S&P 500 Index is up over 25.0% and the DJ Industrial Average Index is up 30.0%
- ▶ March 2009 saw a 0.3% increase in construction spending, beating analyst expectations of -1.5%
- ▶ ISM Non-manufacturing index rose to 43.7 from 40.8 in April, the highest level since October

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# What We Hear In The Boardroom

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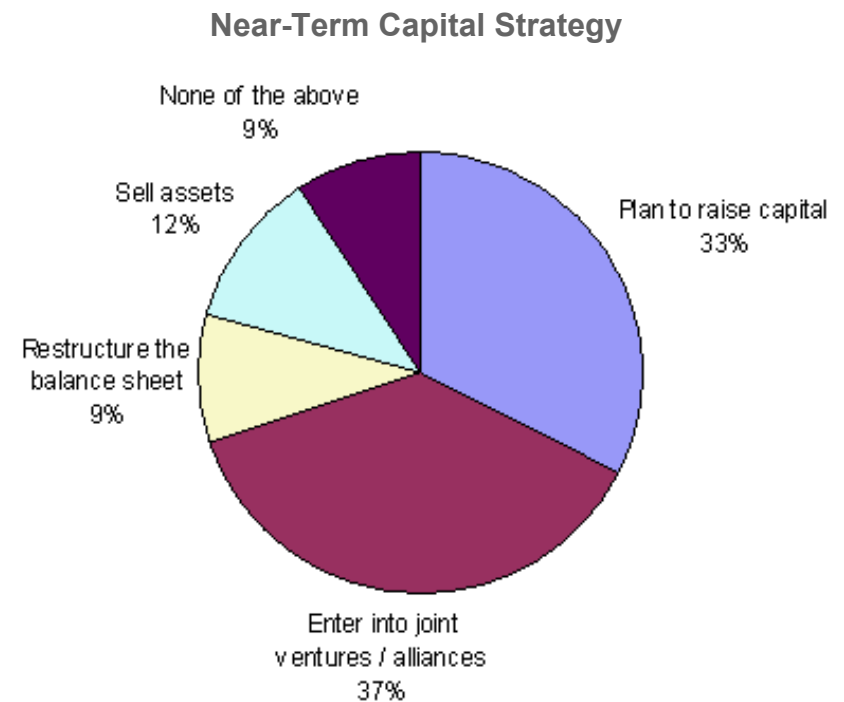
## U.S. Lodging Market Trends

- ▶ U.S. Lodging Market Top Line Performance - Uncertainty Remains
- ▶ As the overall economy continues to suffer, the turnaround time for a recovery continues to be extended further out
- ▶ “Glimmers of Hope”
- ▶ **Additional emphasis on managing risk / monitoring portfolios**

# Additional Emphasis on Managing Risk / Monitoring Portfolios

## Ernst & Young Exceptional Enterprises Survey Results

- ▶ Over a quarter of respondents stated that their company is experiencing some level of distress
- ▶ The three greatest challenges to be faced:
  - ▶ Decreasing Demand / Increasing Attrition
  - ▶ Decreasing ADR
  - ▶ Increasing Transportation Cost / Decreasing Airline Capacity
- ▶ The two most important cost management strategies:
  - ▶ Labor Management
  - ▶ Working Capital Cutbacks



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# Additional Emphasis on Managing Risk / Monitoring Portfolios

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- ▶ Government-related lodging business may continue through the declining economy and in some cases grow
- ▶ Utilize promotions to increase opportunities for additional business
- ▶ Concentrate on increasing Group segment business through new initiatives
- ▶ Focus on occupancy first and ADR second, with the goal of improving RevPAR
- ▶ Implement Corporate Directions for Cost Reductions
- ▶ E-Commerce: Task specific experts to optimize vanity sites, 3<sup>rd</sup> party partners, brand websites and search engines

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# Capital Market Trends



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# What We Hear In The Boardroom

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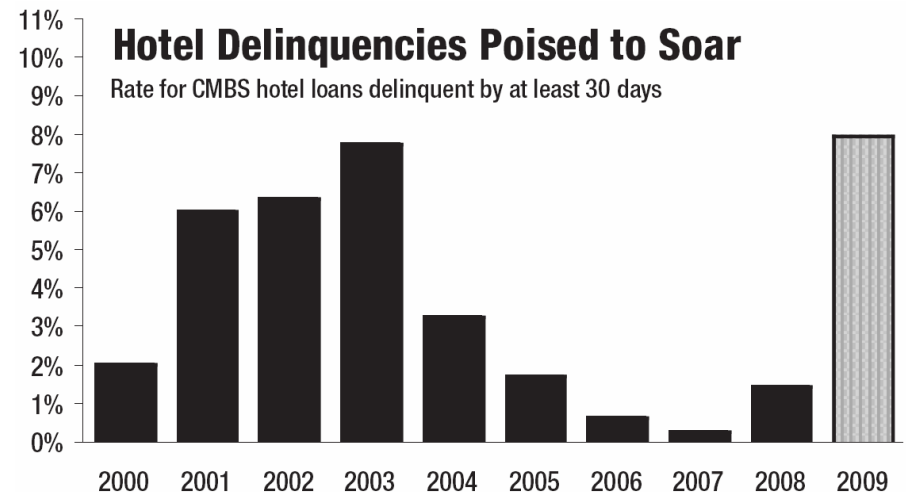
## Capital Markets Trends

- ▶ **Rising delinquencies and near-term debt maturities are a major concern**
  - ▶ **Distress Fund “readiness” – ramping up for opportunities**
  - ▶ **What will be the impact of government programs to assist financial institutions?**

# Rising Delinquencies and Near-Term Debt Maturities are a Major Concern

## Significant increase in hotel delinquencies anticipated

- ▶ According to S&P, the delinquency rate on securitized hotel loans could quadruple in 2009, increasing to 8%
- ▶ This delinquency rate may continue to rise for another two years
- ▶ Approximately 182 loans worth a combined total of \$10.4 billion are currently scheduled to mature in 2011
- ▶ CMBS hotel loans are likely to be impacted disproportionately hard, as around 60% of all loans are backed by hotels in the luxury, upper-upscale, and upscale categories which are anticipated to decline the most in this recession



Source: S&P

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# What We Hear In The Boardroom

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## Capital Markets Trends

- ▶ Assets with near-term debt maturities are a major concern
  - ▶ Distress Fund “readiness” – ramping up for opportunities to come as the market continues to deteriorate – “loan to own”
  - ▶ What will be the impact of government programs to assist financial institutions?
- ▶ **Absence of financing – effect on lodging pipeline / transaction activity**

# Absence of Financing – Effect on Lodging Pipeline

As of 1Q 2009, the U.S. Lodging Pipeline has changed dramatically

Stage	Q2 2008 Pipeline Peak		Q1 2009		% Change Q2 08 to Q1 09	
	Projs	Rms	Projs	Rms	Projs	Rms
Under Construction	1,723	242,229	1,446	192,448	-16%	-21%
Starts Next 12 Mos	2,737	327,920	2,108	232,949	-23%	-29%
Early Planning	1,423	215,398	1,364	194,034	-4%	-10%
<b>Total Pipeline</b>	<b>5,883</b>	<b>785,547</b>	<b>4,918</b>	<b>619,431</b>	<b>-16%</b>	<b>-21%</b>

Source: Lodging Econometrics

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# What We Hear In The Boardroom

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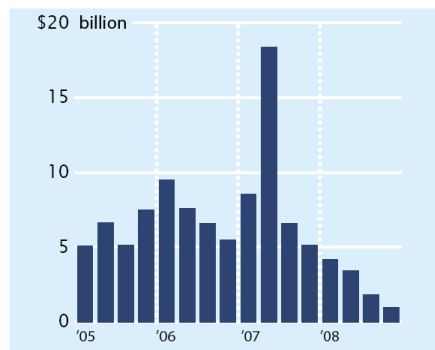
## Capital Markets Trends

- ▶ Assets with near-term debt maturities are a major concern
- ▶ Distress Fund “readiness” – ramping up for opportunities to come as the market continues to deteriorate – “loan to own”
- ▶ What will be the impact of government programs to assist financial institutions?
- ▶ Absence of financing – effect on lodging pipeline / transaction activity
- ▶ **Decreasing values**

# Values Have Decreased

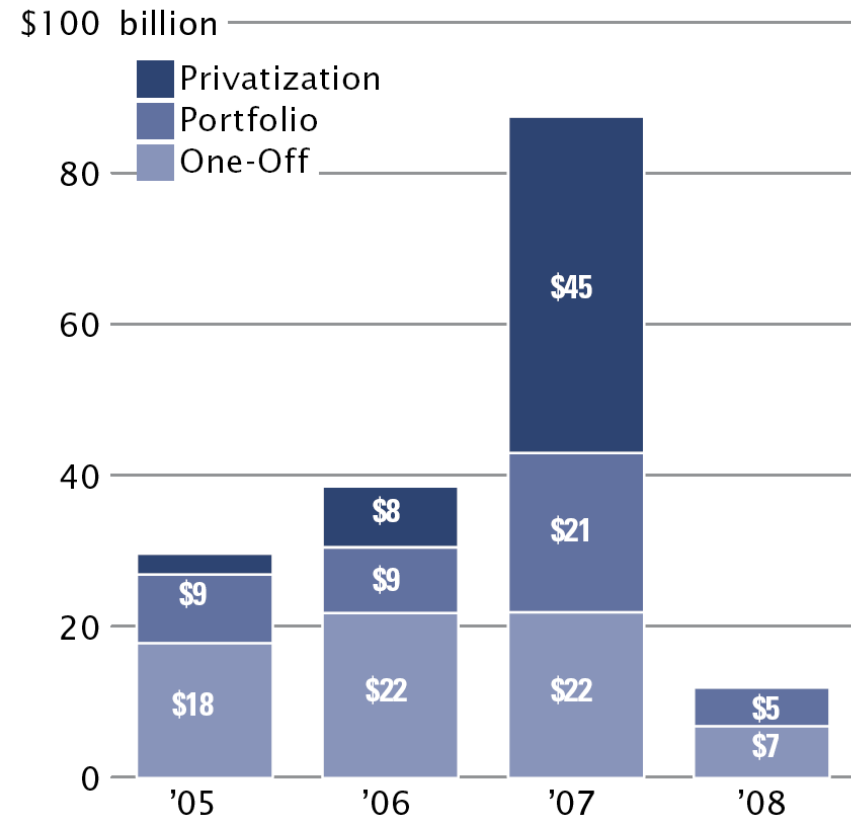
## Hotel real estate sales volume

- ▶ According to Real Capital Analytics, 2008 annual hotel sales dropped 86% from 2007
- ▶ 2008 per room prices also decreased 11% year-over-year
- ▶ According to USRC, average terminal cap rates for full-service hotels increased 100 bps and increased 110 bps for limited-service hotels from Mid-Year 2008 to Winter 2009
- ▶ Each consecutive quarter for 2008 posted lower total sales volume than the previous quarter



Source: Real Capital Analytics

## HOTEL PROPERTY SALES





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May 12, 2009



# *Hotel Loan Restructure*

## *“It’s a new day”.....*

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*Alan Kanders, Principal, Three Wall Capital*

Investor, Owner, Workout Specialist for  
Under-performing Lodging Assets

# *Hotel Loans – then and now.....*

## ■ *Then....*

- Non-amortizing/interest only with balloon
- Term typically 2-3 years
- With 2 extension options
- LIBOR with 250 bps spread
- Interest Rate Cap Agreements
- Deferred financing fees due at maturity – usually 1 point
- 1% percent financing fee up front
- 0.25% to 1.0% for extension fees

# *Hotel Loans – then and now.....*

## ■ *Now....*

### □ Good Assets

- Well located properties in markets that exhibit potential for up-cycle
- Well branded properties with established operating history
- Strong Management
- Well known and highly regarded Sponsors

### □ Bad Assets

- Non-performing Hotels with suspect equity recovery in the near term
- Assets that are over improved for the market
- Manager unable to meet the challenges of declining market condition
- Borrower unwilling to or unable to provide additional capital support

# *Hotel Loans – then and now.....*

## □ Ugly Assets

- Asset value is less than legal balance with very little prospect of recovery
- Operational losses before debt service will require protective advances
- Borrower threatening bankruptcy

# *Repositioning of Hotels*

- Market conditions are volatile
  - ❑ Forecasted continuation of RevPAR decline
  - ❑ Operating costs continuing to increase
  - ❑ Scarcity of capital
  
- First step operational review
  - ❑ Modification of the Hotels offerings
  - ❑ Reduction of labor costs
  - ❑ Change in physical plant

# *Rebranding Opportunities*

- In the last 48 months there has been 42 new brands created.
- As lodging companies re-define some brands within their “family of brands” – clear distinction of brands will emerge
- Brand extensions are most likely eliminated
- Incumbent upon investor to match brand strength with the potential opportunity of the specific property and geographic markets.

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