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Optimizing Value in Hospitality Assets
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Features

- Hotel real estate showing signs of heating up
 - Web site makes hotel buying/selling *virtually* hassel free
 - A review of hotel transactions, outlook for 2003
 - Navigating until the recovery occurs
 - La Quinta participates in British minority business leadership seminar
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Hotel real estate showing signs of heating up

Hotel real estate transactions are showing the first signs of heating up, according to buyers, sellers and brokers across the country. A number of hotel real estate investment trusts have announced plans to divest properties, and several of the major hotel brands are shuffling their portfolios. Many smaller ownership groups also appear to be thinking more about selling, and buyer interest is at the highest level in several years.

“Overall activity has increased since cessation of major hostilities in the war with Iraq,” said Tony DeGeorge, CHB, president of Clearwater-based Greene Canfield DeGeorge Ltd. “There isn’t a torrent of properties, but we are seeing increased interest and movement of properties to the marketplace.”

He cited historically low interest rates and early signs of an economic recovery as key stimulants. “Bankers in our region expect interest rates to be pretty stable over the next one to three years,” he said. “As a result, they no longer are putting floors, or minimum rates, on their loans. We’re now seeing more traditional loans, with interest rates floating 100 to 150 basis points above prime.”

Craig Hoover, broker for Denver-based Hoover Lodging Realty, Inc., said that Small Business Administration Loans were especially attractive for loans up to \$3 million.

At the other end of the spectrum, the current difficult operating environment also is fueling the increase.

“This summer is going to make or break a lot of properties,” he said. “Those who can’t turn their properties around this summer will be forced to sell. While a rebound appears in the offing, a substantial number of owners can’t hold out much longer.”

However, lenders remain reticent to take properties back.

“Orlando, Florida, which will probably take several years to recover, has a number of hotels in default,” DeGeorge said. “Lenders are working with owners there to help

them sell their properties, because the banks don't want to be owners, an area where they have little or no expertise."

Pat Moran, CEO of Patmar Properties, who bought a Hampton Inn in Tampa, Fla., earlier this year, said that he has seen more buyers in the market lately than in some time.

"Buyers with cash are looking for 'steals,' but there aren't that many on the market," he said. "However, there are a lot of attractive properties that can generate solid returns when the economy rebounds. The size of the PIP is a key factor in closing the spread between bid and ask."

Moran said that the market would inevitably pick up. "It's beginning to happen now," he said. "I'm really optimistic about the rest of the year and think that hotel transaction activity will be in full swing by no later than the first quarter of next year."

He added that he also is looking at developing.

Moran said that his hotel broker played a key role in acquiring his property.

"The independent advice he provided made the difference, as well as having someone watching over the details," he said. "That's important to me."

Since he acquired the hotel in March, Moran has increased rate by \$20 a night and achieved a RevPAR penetration of 127 percent.

"Profits are better than last year," he said. "To survive today, you have to operate smarter."

Some experts advise to buy now because many attractive properties already are or soon will be entering the market. But do so with discretion, Hoover warns.

"Make sure you can service debt in this economy and that you have a realistic turnaround plan," he said.

Brokers can be useful tools in these erratic waters. In addition to inventory, they have the advantage of having a better overview of the market. They know what areas are hot and what areas to avoid.

Hoover cautioned sellers not to "test" the market with their properties.

"If you aren't a serious seller with a serious selling price, the hotel will sit on the market," he said. "After several months, it will become 'tired' in the marketplace, and people will wonder what's wrong with the property. That stigma is hard to erase and can seriously damage your pricing power."

Roadside properties remain the hot property category, according to all three. "Airport locations are still being hit by the slowdown in business travel, and urban locations haven't rebounded either," DeGeorge said. "Anything in a drive-to location, particularly those with a strong corporate market with multiple demand generators, is highly desirable in today's market."

If the property has a major franchise affiliation, try to maintain the flag, the three also suggested. "A strong brand will attract more buyers and affects your ability to service debt and, ultimately, the sales price," Hoover said.

While the bid-ask spread remains a little apart, the gap is narrowing.

"The key is to find common ground between trailing 12 months and 2000 results," said DeGeorge, who recently sold a roadside property in a record two weeks. "When the seller is willing to give a little off of the 2000 multiples, deals can get done."

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New HBI Web site makes hotel buying/selling *virtually* hassle free

A Web site offered by Hotel Brokers International is changing the way representatives of the hotel industry do business.

In October, HBI launched its redesigned Web site, hotelbrokersinternational.com, an online resource committed to taking the hassle out of hotel real estate. The site has become a one-stop-shopping experience for industry brokers and clients alike. Not only does the redesigned site continue to provide dozens of useful industry resources, but it now features an element that is quickly becoming its most popular asset—a database of hotel and motel property listings that are searchable based upon parameters such as location, size and price.

“This site is making it easier for property buyers, sellers and brokers to be connected anytime, anywhere,” said Ron McCord, CHB, HBI president and president of Milmark Hotel/Motel Investments. “By listing their properties with HBI brokers, hotel owners receive immediate, international exposure on the Web site. Likewise, buyers have immediate, easy access to property information and to the brokers who have additional first-hand knowledge of the properties.”

HBI is the nation’s leading hotel brokerage organization. Comprising more than 30 brokerage offices worldwide, HBI’s members represent an international network of industry experts handling hotel properties of all segments and locations. The association offers its members exclusive industry resources, including hotelbrokersinternational.com.

With the advent of the new site, users around the world are able to search effortlessly for hotel properties specific to their wants and needs. In just a few keystrokes the site provides detailed information about each hotel, such as history, location, price, number of rooms, listing broker or agent and much more.

In addition to property listings, the new Web site offers profiles of HBI brokers and extensive directories of industry resources. Users also may subscribe to sales comparable data through TransActions Services by HBI, as well as information on educational opportunities and upcoming industry events.

Steve Ferrarini, CHB, HBI member and vice president of ProCom Lodging Brokers, Inc., said the site provides the state-of-the-art resources that industry experts have come to count on from HBI.

“People are increasingly tech-savvy,” Ferrarini said. “They know what they want, and they know what to look for. This site enables us to deliver information to them in the way they expect and smoothes the flow of information between brokers and buyers.

“There aren’t many organizations that do what we do. The new Web site shows that we work as a network of brokers to serve our clients’ needs. It showcases our strengths and the high level of professionalism to which we all strive.”

Search Property Listings . . . Anytime, Anywhere

www.HotelBrokersInternational.com

A review of hotel transactions and the outlook for 2003

by Toni Viens, MAI

Hotel Value Trends – Five Year Review

The effects of terrorism, war and contagious disease have marred the U.S. economy during these toddler years of the 21st century. But the American people are resilient, and economic indicators seem to point toward a brighter future. In kind, the hotel industry has faced a number of challenges since the turn of the century, but an optimistic outlook indicates that it, too, will overcome its obstacles.

The summer of 2001 was marked with hopeful signs of recovery from an economic slowdown that began the previous year. Then, on Sept. 11, 2001, terrorist attacks devastated the country and struck crippling blows to the travel and leisure industries. October 2001 hotel sales were at their lowest levels in recent history. Incredibly, however, hotel occupancy levels began to stabilize by November and continued to rebound. Despite the terrorist events, the year generated the highest average room price recorded, and many people in the industry predicted an economic recovery just around the corner.

But by March and April of 2002, flanked by the looming prospect of an unpopular war and global concerns about Severe Acute Respiratory Syndrome (SARS), the economy had slowed, and the number of major hotel transactions had dropped. However, despite its appearance, the U.S. economy was performing better than most people realized. With the war in Afghanistan over, other market indicators were ending on a positive note. The job market improved, housing sales were strong, and

Major Hotel Transactions 1998 to 2002			
Year	Number of Properties	Number of Rooms	Average Price per Room
1998	241	78,865	\$136,000
1999	142	39,510	\$139,000
2000	154	39,375	\$116,000
2001	115	28,334	\$147,000
2002	99	28,100	\$117,300

May 20, 2003

consumer spending remained fairly constant. By the end of 2002, the United States reported 99 major hotel transactions, 20 of which occurred in December alone.

First Half of 2003

By May, as the major combat portion of the war came to an end and the SARS epidemic was contained, the economy began to improve. During the past three months, the industry has begun witnessing an increase in major hotel transactions.

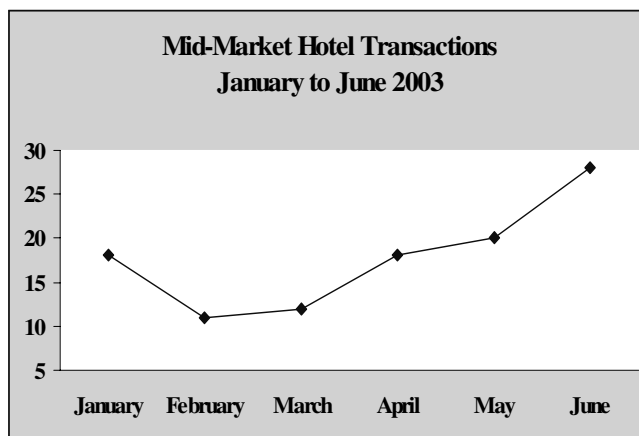
Mid-Market Hotel Sales

The industry is seeing the same pattern in mid-market hotel sales as occurred with major hotel transactions. Sales transferred have continued to increase since the end of the combat portion of the war with Iraq.

Actual dollars transferred in the mid-market category also have increased considerably.

What Lies Ahead

Almost every economic indicator showed that the second quarter of 2003 ended on a far more optimistic note than originally anticipated. Business spending, the key to a sustained recovery, was up \$50 billion from its 2002 nadir. Consumer spending, helped along by



tax rebates, was dominated by increased purchasing of durable goods. Federal defense, not surprisingly, became a major contributor to the improving economy. Retailers now requiring additional inventories were generating demands in the manufacturing sector, which in turn promised to help reduce unemployment for the remainder of the year. Gross Domestic Product (GDP) increased to 3.1 percent in the second quarter of 2003, a sizeable improvement from the GDP of 1.4 percent in the first quarter of 2003.

The economy, however, continues to struggle in two major sectors. The most critical is unemployment, which now stands at 6.2 percent, with the greatest job losses in manufacturing. While manufacturing represents only 10 percent of the U.S. economy, this sector has lost three-fourths of its non-government jobs during the last 2.5 years. The second negative impact on the U.S. economy is the softness of the world economy. While the U.S. economy is anticipated to pull the rest of the world along, the process is sure to be slow and tenuous.

Because the economy and hotel transactions tend to move in tandem, the economy appears positioned for continued improvement. As a result, hotel transactions are anticipated to increase throughout the remainder of 2003 and into 2004.



Toni Viens, MAI, serves as the director of research for HVS International and can be reached at 407.566.1846 or tvien@hvsinternational.com.

Navigating until the recovery occurs

by Reginald Heard

The hospitality industry has endured numerous challenges stemming from the country's recent downward economic cycle. Hotel owner/operators have implemented diligent and methodical strategies in order to preserve profit margins and search for a financing partners. Financial institutions that lend to the hospitality industry must demonstrate a continuous appetite to lend at meaningful levels and have the capacity to support the industry's demand for financing.

The State of the Economy

The hospitality industry is not immune to today's economic recession. In fact, several factors played a significant role in the weakened hospitality industry, including the burst of the stock market bubble, the meltdown in corporate capital spending, the terrorist attacks of September 11, 2001, increasing unemployment levels, threats of anthrax and S.A.R.S., and the recent war with Iraq. These factors led to a drop in business and leisure travel, as well as a reduction in occupancy levels and increased pricing pressures for hotel owner/operators.

Although many hospitality professionals are betting that the industry has finally reached the bottom of its downward cycle, there is no guarantee that a trend reversal will surface in the near future. However, the airline industry's renewed signs of stabilization and the appearance of affordable ticket prices may be the perfect antidote for the malaise that has prevented the return of leisure travelers.

Operating Efficiencies and Profitability Enhancement

The weakened hospitality industry and the prolonged anticipation of an upturn has forced hotel owner/operators to become more proficient in reducing operating costs. With top-line revenues in mind, hotel owner/operators are maximizing profitability and developing a strategy to aggressively market their hotels.

Shailesh Patel, owner/operator of Super 8, Howard Johnson and Comfort Suites hotels throughout New England, believes that the slowdown has placed more emphasis on micro-managing each property

and actively adjusting the system to the current market conditions.

“In today’s low interest rate environment,” he said, “there is lower debt service carry on the properties. Also, the added operating cash capacity provides the flexibility for rate discounting when needed to manage occupancy levels.”

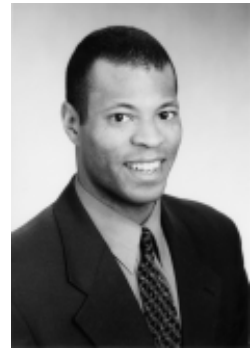
Had Patel opted for fixed-rate financing for his hotels, he would not have been able to take advantage of the reduction of interest rate benchmarks, which have been reduced to 40-year lows. In a downward cycle, a hotel with a greater percentage of variable costs has increased flexibility to adapt to a changing market. Interest rates are one such variable cost.

Specialized Lenders

While most hospitality lenders have maintained a commitment to providing hotel financing during this downward cycle, many of these lenders have had to tighten their credit underwriting standards, such as requiring loans to be structured with lower LTV ratios and higher cash flow coverage ratios. Conversely, many SBA lenders that specialize in hotel lending have been able to continue to underwrite loans for limited-service type properties with more aggressive advance rates and higher LTV ratios, given the nature of a loan guaranty from the U.S. government.

New project development has slowed considerably, but lending activity continues. Low interest rate refinancing and acquisition financing has accounted for the vast majority of hotel financing activities during this downward cycle. Hotel owner/operators who have their properties structured under a variable rate debt structure enjoy the declining interest rate environment that helps them maximize profit margins.

The opinions, statements and information that appear in this article are those of the author and do not necessarily reflect the views or outlook of CIT. CIT does not endorse or certify the accuracy of such opinions, statements and information.



Reginald (Reggie) Heard is currently the national account manager with CIT Small Business Lending Corporation and can be reached at 973.422.6008 or Reginald.Heard@cit.com.

La Quinta participates in British minority business leadership seminar

While their American counterparts were barbecuing hamburgers or enjoying getaways at hotels this past July 4th weekend, more than 300 minority entrepreneurs in Britain were receiving inspiration from America’s 42nd president – and a few handy tips on scoring additional entrepreneurial success from a legendary American hotel franchisor.

Addressed by former U.S. President William Jefferson Clinton and Alan Tallis, executive vice president of La Quinta Corporation (NYSE:LQI), the July 3rd luncheon took place at the Royal Opera House, Covent Garden, London. The event was sponsored by United Kingdom–based minority business support experts ABi Associates Ltd. and supported by U.S. hotel groups, Diplomat Hotel Corporation of Atlanta and Dallas-based La Quinta Corporation.

Clinton challenged U.K.-Asian entrepreneurs to use their successes and clout to make a difference in their local communities as well as on the Indian subcontinent. He indicated that communities could not live in isolation if they hoped to address racial and cultural disparities, adding that the William J. Clinton Foundation, established after he left office, was founded specifically to strengthen the capacity of people to meet the challenges of global interdependence.

Turning to business, Tallis urged British-Asian entrepreneurs to reproduce the successes of their American brethren via hotel franchising.

“There exists,” he said, “a phenomenal opportunity to replicate the business and social success created by the Indian community in America, by tapping the power of the franchise model for the benefit of individuals and society as a whole.”

According to Tallis, the interest generated at the U.K. event should benefit strongly La Quinta’s successful U.S. growth strategy and lay the foundation for future international growth.

La Quinta has close to 80 franchised hotels in the United States, many of which are owned and operated by Indians and other individuals of Asian heritage. It currently has three international properties under construction, two in Canada and one in Mexico.

Mike Patel, president of Diplomat Hotel Corporation, echoed Tallis’s comments, calling franchising a “boon to minority groups everywhere.” He thanked President Clinton and the assembled group of entrepreneurs for “coming together in a spirit of giving back to the community, and building brighter futures for all.”

ABi director, Vijay Amin, announced a new “Helping Hands” initiative under which Asian entrepreneurs would give a preset number of hours each year to help individuals from disadvantaged communities under the rubric of ABi and its partners.

About La Quinta Corporation

Dallas-based La Quinta Corporation (NYSE: LQI), a limited-service lodging company, owns, operates or franchises more than 350 La Quinta Inns and La Quinta Inn & Suites in 33 states. For more information about La Quinta, please visit www.LQ.com or call 1.800.531.5900 for reservations at any La Quinta hotel.

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HBI is a network of independently owned and operated real estate firms. In addition to brokerage services, many HBI offices offer such lodging related services as hotel consulting, interim or long-term management, market studies, opinions of value, appraisals, mortgage brokerage, syndication and development. For additional information on investment opportunities in the hotel industry, contact the HBI member office listed on the front of this publication.

Recent Transactions by HBI

- Ramada Limited, Corpus Christi, TX - 157 units
- Holiday Inn, Laramie, WY - 100 units
- Sleep Inn, Mukwonago, WI - 61 units
- Motel 6, Macon, GA - 103 units
- Days Inn, Orange, CA - 30 units
- Scottish Inn, Pocahontas, AR - 40 units
- Comfort Inn, Coon Rapids, MN - 56 units
- Super 8, Lordsburg, NM - 41 units
- Ramada Inn, Lancaster, PA - 166 units
- Super 8, Hancock, MD - 50 units
- Quality Inn & Suites, Amarillo, TX - 102 units
- Sands Motel, Boscobel, WI - 32 units
- Econo Lodge, Bedford, PA - 32 units
- Lakeview Inn, Brownwood, TX - 38 units
- Days Inn, Worthington, MN - 33 units
- Country Inn & Suites, Annapolis, MD - 100 units
- Rustic Manor Lodge, St. Germain, WI - 38 units
- Travelodge, South Padre Island, TX - 147 units
- Sea Coast Lodge, San Simeon, CA - 57 units
- Inns of America, Sacramento, CA - 102 units
- Howard Johnson, Rockford, IL - 158 units
- Holiday Inn Holidome, Murfreesboro, TN - 179 units
- Select Inn, Minot, ND - 99 units
- Park East Hotel, Milwaukee, WI - 159 units
- Lodi Valley Suites, Lodi, WI - 26 units
- LaQuinta Inn, Houston, TX - 122 units
- Ramada Limited, Homestead, FL - 148 units
- Shilo Apricot, Firebaugh, CA - 74 units
- Turf Motel, Cicero, IL - 38 units
- Sand Pebbles Inn, Cambria, CA - 23 units
- Select Inn, Bismarck, ND - 100 units
- Hampton Inn, Tampa, FL - 86 units

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Optimum Hotel Brokerage is a full service hotel brokerage and hotel capital advisory service firm. Optimum Brokerage provides clients with an array of value added hotel investment services:

- Hotel Asset Sales & Real Estate Brokerage
- Hotel Valuation, Financing and Analysis
- Research, Consulting and Strategic Planning

We are dedicated to representing hotel owners through finance and sale transactions.

The Optimum Advantage. We optimize value through:

- Due diligence, market, and financial analysis
- Developing first-class marketing packages
- Targeted electronic and database marketing
- Managing a competitive bidding process
- Creating a hassle-free closing process

Hotel Brokers International. Optimum Hotel Brokerage is a member of HBI. Hotel Brokers International is the largest and oldest organization of its kind, with a rich heritage of experience and expertise in hotel real estate valuation and transactions. Comprised of some 75 hotel real estate broker specialists, HBI provides the hospitality industry with the most powerful hotel real estate marketing force, creating greater visibility, backed by more advertising and marketing dollars



Optimum Experience. Optimum Hotel Brokerage's principal is Joseph McCann. Joe is a twenty-five year hotel industry veteran who has held senior level management positions with Hilton and Marriott. Prior to launching Optimum Hotel Brokerage, he was Director of Hotel Investment Sales for Jeffrey Wilder, the nationally recognized New York City-based hotel broker. During his career, he has negotiated, listed and closed almost every kind of hotel asset transaction imaginable, including: Limited and Full Service Hotel Asset Sales, Mortgage Placement, Net Leases, Portfolio Sales, Joint Ventures, and Sale Leasebacks. He is proficient in asset valuations, financial and market analysis, and Marketing Package production.



Joe holds a Bachelor of Science Degree in Hotel, Restaurant and Institutional Management from the Pennsylvania State University and a Master of Hospitality Management degree from the Conrad N. Hilton College at the University of Houston. He has also completed advanced Finance, Real Estate Finance, Hotel Valuation, and New Venture Development courses offered by the University of Connecticut, the University of Texas, Cornell University, and the University of Houston's Bauer Graduate School of Business. His industry service experience includes adjunct professor and guest lecturer at major college hospitality management programs, including the Conrad N. Hilton College and New York University. He has earned the Certified Hotel Broker with Distinction with Hotel Brokers International and has been a contributing editor for *Lodging Real Estate* magazine.