



Sound bites from NYU Hotel Conference

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Is the worst over for the hotel industry? While there are encouraging signs that hotel fundamentals are bottoming out, a high level of uncertainty continues to swirl around the industry. Because the hospitality sector is inextricably tied to gross domestic product (GDP), it's an understatement to say that these are challenging times. U.S. GDP contracted by 5.7% in the first quarter on an annualized basis.

During a 75-minute breakout session, "Now What Are We Going to Do? Stories from the Trenches", panelists at New York University's hotel investment conference offered a sobering assessment of the marketplace. What follows are some of the highlights.

— **Jerry Earnest, executive vice president of Capmark Finance, headquartered in Horsham, Pa., talking about the financial health of the hotel sector:**

"You really haven't seen big distress yet in financing. CMBS delinquencies have been spiking pretty rapidly in the last few months, but portfolio lenders by and large have only begun to start to look the problem in the eye. It's kind of a slow building train wreck over the next 12 months as you look at appraisal challenges when loan maturities come up, even with extension options. Can lenders get properties to even appraise for the debt that you look for? Broadly speaking, the challenges will continue to build, and they really have barely begun in the financing sector for hospitality."

— **Steven Goldman, president of global real estate and development for Hilton Hotels Corp., headquartered in Beverly Hills, Calif., on the prospects for recovery in the hospitality sector:**

"There seems to be a feeling that the business decline is slowing down, but the reality is nobody really knows right now, in my opinion. We don't have a lot of great visibility. We seem to feel like this quarter could be the toughest, but we just don't know. We don't know when group travel is really going to come back in earnest. We don't know when lenders are going to look at their balance sheets and the loans they hold and write them down to something that's a more reasonable level. We don't really know when assets are going to start trading, so people can start buying again. The short answer in my view is that there just is not a lot of visibility."

— **Michael Medzigian, chairman and managing partner, Watermark Capital Partners LLC, on the investment perspective:**

"I've been doing this almost 30 years and I've never seen anything like it [today's recession and credit crunch]. When I talk with my competitors in other private equity shops, I don't think anybody is ready to invest because we don't think we're there yet. This is no fun. We've got \$1.2 trillion of commercial real estate coming due between now and 2012. Based on today's underwriting, virtually none of it is refinaneable. That's a train wreck that is coming."