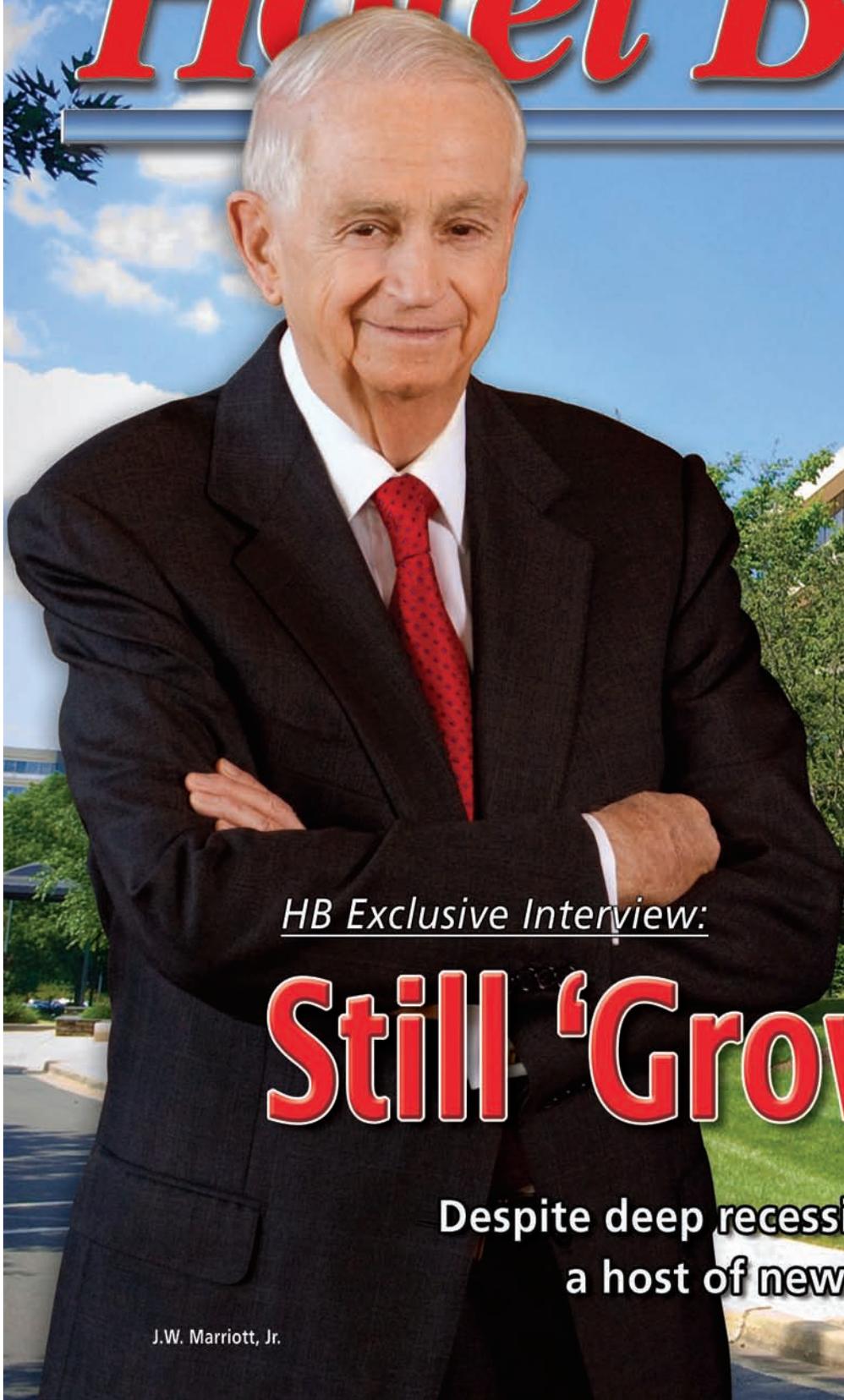


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**Owner/Developer**

**Benjamin Brunt**  
Noble Investment Group

**Advisor**

**Art Adler**  
Jones Lang LaSalle  
Hotels

**Owner**

**John Tsunis**  
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# *tunity* 2010



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CB Richard Ellis  
Hotels

## **Owner/Developer**

**Jeff Cohen**  
Gatehouse Capital Corp.

## **Management Company**

**CA Anderson**  
Interstate Hotels & Resorts

## **Investor**

**Michael Medzigan**  
Watermark Capital Partners

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# HOTEL BUSINESS HB Opportunity 2010 Roundtable series

Getting back to business

## Investors swear opportunity's knocking, but where's the door?

By CHRISTOPHER OSTROWSKI

**T**wo thousand-and-nine was clearly a year where the hotel investment and operational business opportunities were few and far between. Survival was instead the modus operandi for companies as they tried to overcome or steer around countless hazards and obstacles. It was not a year for the weak.

But out of even the darkest of times can often come new opportunities that can embolden an entire industry. So in an attempt to shed light upon such business prospects and their long-term implications, HOTEL BUSINESS® recently convened the Opportunity 2010 Roundtable, which was sponsored and hosted by Starwood Hotels & Resorts Worldwide, Inc. here at the Sheraton New York Hotel & Towers and featured a group of industry-leading investment and management experts who are indeed gearing up for much bigger things this year and beyond.

"Heading into 2009, there was a lack of clarity. Entering 2010 there is much more clarity or, certainly, hope. Everyone, I think, understands the turnaround is coming," led off Benjamin Brunt, a principal and the executive vp of strategic investments at Noble Investment Group, in response to the first question asked by roundtable moderator Stefani C. O'Connor, HOTEL BUSINESS® executive news editor. "Is [the recovery] going to definitely be in 2010? Some may say no. But at least we have an idea that the recovery is coming. We're actually entering 2010 with the same amount of capital as 2009. But it was a year of studying. We were close on one first-quarter deal and we underwrote a lot of deals, but we just found it difficult to make a decision on them without market clarity. But we will deploy significant capital in 2010

and the first half of 2011."

Rob Leven, chief investment officer at the Procaccianti Group, added that his company's 2009 perspective and 2010 outlook are similar to that of Noble's, and Procaccianti's portfolio is still largely the same a year later now. "We've been working with the same issues everyone has, trying to get comfortable with the bottom," he said. "We feel like we're there or at least

we could say now we have a war chest, but it's not the case. When you lose such a significant portion of business and you have to redeploy, that's a significant challenge. So we're now looking at smaller properties, like the Aloft in Jacksonville, FL, we're developing."

Of course, even the business strategies of prodigious brand companies like Starwood were altered by the recession, but now, as Paul Sacco, Starwood's senior vp of North American development, noted, "As an owner, we've tested the waters by bringing some unique assets to market. But we're looking to 2010 to do more of that."

The slow re-emergence of the hotel real estate market and the opportunities that lie within it was further confirmed at the roundtable by Art Adler, the managing director and CEO of the Americas for Jones Lang LaSalle Hotels, who's been closely observing the front lines of this developing recovery of opportunity. He pointed out that within the past two months alone the signs of investment activity have finally resurfaced to the point where even "decent" assets create significant interest at the very least. However, getting that interest to transform into deals

is another story. "Right now, investors don't want to be the highest bidder. They just want to feel the bottom," he said. "They want to bid and see if they can get a call back at least to feel the bottom. So that's why a decent asset gets a lot of attention now."

However, Sacco pointed out, "It really seems every deal will be an individual circumstance. So there will turn out to be more pockets of activity rather than an opening of the flood gates."

Michael Medzigian, chairman and managing partner of Watermark Capital Partners, LLC, is

*continued on page 50*



Art Adler of Jones Lang LaSalle Hotels (far left) addresses fellow HOTEL BUSINESS® Opportunity 2010 Roundtable participants (from left to right) Ron Danko, Jr. of CB Richard Ellis Hotels, John Tsunis of Long Island Hotels, LLC, Benjamin Brunt of Noble Investment Group and Paul Sacco of Starwood Hotels & Resorts Worldwide, Inc.

close. And our activity in 2009 wasn't for a lack of wanting. A lot of people were extending in 2009, so a lot of opportunities didn't present themselves. There wasn't a lot to underwrite."

Meanwhile, for other firms, like Gatehouse Capital Corp., the last couple of years became a time for the complete retrofitting of an entire business strategy. "No one expected the economic downturn to be as severe as it was, so everyone pulled back and we had to immediately change our business model," said Jeff Cohen, the COO and executive vp at Gatehouse. "We suspended \$800 million worth of work in 2008. I wish

# HB *Opportunity 2010* Roundtable *series*

## Problems still persist, but savvy investors should get deals done in 2010

### Greater underwriting clarity alone will help

*continued from page 6*

among those that believe the hotel real estate market has at least hit bottom, which leaves him with a more optimistic outlook on the sector. And that's an analytical sea change for the admittedly bearish executive. "I've been called a bear for a while, but I now have a more positive perspective because we know where bottom is now and we see more people working on potential transactions," he explained. "But that doesn't mean things are better. It's a great time to buy because assets are less expensive, but a lot of problems have not hit the industry yet. We still have \$3.5 trillion in commercial real estate debt that hasn't hit yet. So we're arguably in worse shape now as an industry than in Q1 2009, but there are less shadows and we're excited for the transaction activity to begin."

From Brunt's perspective, just being able to underwrite more effectively again and seeing the supply chain projections dwindling are enough to make Noble a more comfortable investor in 2010. But Leven is not as bullish as Brunt and Medzigian are on the transaction activity. He pointed out, "You don't just get knocked on your back and begin to do things normally again. There is a time of healing first. That doesn't mean there won't be more transactions in 2010, but there's still a constrained debt environment and the equity on the sidelines has very aggressive return expectations. It's still hard to get to a meaningful enough value where we'll see a big meeting of the bid/ask spread."

#### Reality check

As a hotel developer and investor, John Tsunis, chairman and CEO of Long Island Hotels, LLC, admitted he is now trending more toward the bullish perspective. However, considering he is also chairman of a bank, his view gets a reality check on the way to any potential dealmaking opportunities. "As a hotel developer, I'm crazy with expectations. But as the chairman of the board of a bank, looking at the same things now, I'd say, 'What are you crazy?'"

Along those same words of caution, CA Anderson, the executive vp of development and acquisitions for Interstate Hotels & Resorts—which at press time was slated to be acquired by a joint venture between Thayer Lodging Group and Shanghai Jin Jiang—noted that out of the 10 primary banks that were hotel lenders, two don't even exist any longer. Consequently, he asked, "You think things are coming back now? One special servicer told me that he has more than 300 properties on a workout list and 90% will be coming back to [the special servicers]

soon. And he didn't indicate that they're willing to take a sizeable discount on this portfolio."

But Medzigian reminded everyone that in this freshly barren market, every deal is truly different, no matter how cliché that may sound. "So is everything going to be worth 30 cents on the dollar or are the lenders willing to hold on for something better?" he asked. "What's for sure, though, is six

years from now we won't be sitting here saying [the distressed sell off] didn't happen. It has to. Investors will want their money eventually."

Furthermore, Adler asserted that "underwriting won't be any more conservative than it is right now, so pricing has to come up a bit. Otherwise you won't have sellers."

By that same token, "Cap rates are totally irrelevant



Appearing at the HOTEL BUSINESS® Opportunity 2010 Roundtable were (top row, left to right) CA Anderson of Interstate Hotels & Resorts, Michael Medzigian of Watermark Capital Partners, LLC, John Tsunis of Long Island Hotels, LLC, Ron Danko, Jr. of CB Richard Ellis Hotels, Paul Sacco of Starwood Hotels & Resorts Worldwide, Inc., (bottom row, left to right) Art Adler of Jones Lang LaSalle Hotels, Jeff Cohen of Gatehouse Capital, Rob Leven of the Procaccianti Group and Benjamin Brunt of Noble Investment Group.

right now. The whole motivation is price per key. That's the inducement [for buyers]," added Ron Danko, Jr., the executive vp of investment properties at CB Richard Ellis Hotels.

Of course, several roundtable participants mentioned there are other ways around any continual bid/ask stalemate dance between buyers, sellers and lenders. "Everything comes down to net present value. And I agree that new third-party debt won't come back soon at the same level," Adler mentioned. "So, therefore, most opportunities in 2010 will be for recapitalizations and restructurings, not so much sales. Owners will need capital infusions."

### The white knight

And that's where Medzigan's firm apparently will enter the picture. "That's why I feel more bullish than ever. We just want to be there as a white knight for restructurings where an owner needs equity," he said.

The Procaccianti Group has been trying to carry out a similar strategy, according to Leven, but he said, "Unless the lender is willing to take a subordinate position to new capital, you usually can't get a high enough return. But these deals will get done when someone comes in on a deal that went sideways. And some will have an idea to restructure and reposition the asset into, say, a Sheraton or a Westin. But that's the key; fresh capital has to come in with a plan. It's not just about replacing the borrower."

Meanwhile, all other owners and lenders willing and able to hold on to assets until the next industry upturn, will probably prevent the all-out opportunity flood investors have been awaiting, Leven added. "A good question to ask is, 'If you were looking to possibly sell, would you? Today?' You wouldn't sell today unless you had to," he said. "And I don't see a lot of people being forced to sell. Where are the sellers?"

Obviously, opportunity is finally knocking. But apparently the door is still hard to find.



(Pictured left to right) Jeff Cohen, Gatehouse Capital Corp.; CA Anderson, Interstate Hotels & Resorts; Rob Leven, the Procaccianti Group; and Michael Medzigan, Watermark Capital Partners, LLC.

## Opportunity could take form of public/private & overseas deals

NEW YORK—Considering opportunity has, for the most part, been absent for some time in the hotel sector because of the recession, overturning every rock again and again may be necessary in order to find potential new business in what may turn out to be an opportunistic reawakening in 2010. Among such fringe business prospects debated during the HOTEL BUSINESS®' recent Opportunity 2010 Roundtable event here were public/private partnerships and the overseas market. However, much like other current ventures, these concepts come paired with obstacles in the eyes of some.

Among those looking positively at public/private development is John Tsunis, the chairman and CEO of Long Island Hotels, LLC, who explained, "I have a municipality chasing me to develop on land I already own in order to create a mixed-use development. [The municipality] has allotted some federal bonding to allow \$19 million for this project that would also be triple-tax exempt."

Similarly, Paul Sacco, the senior vp of North American development for Starwood Hotels & Resorts Worldwide, confirmed, "With our owners, we're seeing public/private opportunities now for select-service properties, especially ones involving [Leadership in Energy and Environmental Design] certification."

Among such owners is Gatehouse Capital Corp., which, according to its COO and executive vp, Jeff Cohen, is exploring public/private development deals. But he also noted, "At the end of the day, you still don't know if you have enough money to get a project done in this economic environment."

Furthermore, according to Art Adler, the managing director and CEO of the Americas for Jones Lang LaSalle Hotels, with government entities having difficulty simply meeting their usual budgets currently and with several major public/private hotel developments in the past having gone belly-up in this recession, it would seem to be quite difficult to get such a development deal done today.

Then there's always the overseas market to discover new deal opportunities, a strategy Starwood has been carrying out heavily, especially in Asia, according to Sacco.

It's also been a successful strategy for Interstate Hotels & Resorts, according to CA Anderson, the firm's executive vp of development and acquisitions. "What we had done in 2009, most of our business had been offshore. There are places in the world where you can still transact business and that are still growing 9% to 10%," he said.

Also like Interstate, Watermark Capital Partners has never been afraid to invest overseas. However, at this economic juncture, Michael Medzigan, the chairman and managing partner of Watermark, pointed out, "It's always easier to stay close to home and easier to deal with one legislative regime. And for the next year, there will be a lot more work to do here. There's no sense competing overseas significantly now, putting people on planes to Bangkok."

—Christopher Ostrowski



HOTEL BUSINESS **HB** Opportunity 2010  
**Roundtable** series



(Above, left to right) Art Adler, Jones Lang LaSalle Hotels; Jay Schultz, HOTEL BUSINESS®; Paul Sacco, Starwood Hotels & Resorts Worldwide, Inc.; and Michael Medzigian, Watermark Capital Partners, LLC. (At right) Ron Danko, Jr., CB Richard Ellis Hotels; and Jennifer Cronin, Starwood Hotels & Resorts.

Benjamin Brunt, Noble Investment Group; and Jeff Cohen, Gatehouse Capital Corp.



The evening before HOTEL BUSINESS®' Opportunity 2010 Roundtable, Starwood Hotels & Resorts Worldwide hosted the participants at a dinner party in the W New York Times Square's Blue Fin restaurant.



(Above) Simon Turner, Starwood Hotels & Resorts Worldwide, Inc.; and Art Adler, Jones Lang LaSalle Hotels. (At left, left to right) Rob Leven, the Procaccianti Group; and Michael Medzigian, Watermark Capital Partners, LLC

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