

Roundtable
series

Operating in the new world

Managers try to make sense, profit out of distress

By **CHRISTOPHER OSTROWSKI**

The hotel industry and the business world at large seems to have a preference for neat and tidy buzzwords that, in just a few characters, succinctly sum up the current market trend. In the lodging business in recent years remember “condo-hotels” and, later on, “private equity?” The words were a part of every industry discussion for considerable lengths of time. The word of today? Distress, of course.

Distress in the hotel sense has become an umbrella term and double-edged sword all rolled into one, accounting for underperforming, overleveraged or generally cash-strapped properties that are weighing down innumerable hotel owners, operators and the associated lenders on the one hand. By the same token, for those savvy and financially stable enough to step into these

properties from an investment or operational standpoint, they represent growth and cash flow in a time of scarcity. The question is, how are hoteliers managing to finesse this double-edge distress in the marketplace within their own portfolios and now others?

“Finessing Distress” was, therefore, the logically paramount subject matter for this year’s HOTEL BUSINESS® Management Companies Roundtable, which was hosted by Carlson Hotels Worldwide at the Radisson Plaza Hotel Minneapolis and sponsored by American Hotel Register Co., Arthur J. Gallagher and Co., Cintas Corp. and LodgeNet Interactive Corp. Moderated by Stefani C. O’Connor, HOTEL BUSINESS®’ executive news editor and the managing editor of roundtables, the event provided an esteemed roster of participants that shed, for the first time in some cases, light on today’s distressed hotel operations underworld.

Kicking off the roundtable as if it were a confession, the executive participants introduced themselves with many admitting that yes indeed they are taking on and actively seeking out distressed hotel management assignments.

“We are taking on distressed assignments and have several under our man-

agement,” Bob Habib, president and COO of First Hospitality Group, Inc., began, “and we see a lot more of that type of work coming as they go back into the lenders’ hands.”

“We have been in the distressed business as of late,” admitted Greg Champion, COO of Benchmark Hospitality International, “and we’re approached daily about those opportunities.”

“We are a hotel ownership, management and work-out company and [distressed properties are] how we cut our teeth in the business in the early ’90s,” Jeff Kolessar, GF Management, LLC’s senior vp of development, continued. “And we’ve continued with it for about 20 years now, so we have great experience with these types of assets today because of that history.”

“We’ve primarily been a developer and we’re still building hotels, so we’re a contrarian in that way, actually opening 11 last year. Hopefully that will show us to be rather smart by 2011 and over the long-term. But, yes, recently we have looked hard at becoming receivers and operators of distressed assets,” divulged Mark Laport, president and CEO of Concord Hospitality Enterprises.

The trend continued among the rest of the roundtable’s executives, with most at least acknowledging an interest in taking on distressed hotels as a growth opportunity. But an admitted contrarian among the group was Peter Cyrus, managing partner of Montclair Hotel Investors, which has stuck to managing its owned properties during this time and predominantly stayed away from third-party contracts. “We have not yet entered the distressed asset management or receivership category,” Cyrus said. “We’re still focusing on managing our portfolio and acquiring new real estate. We actually have a distressed asset of our own that’s [not commercial mortgage-backed security-related]. But we believe in the asset and it’s long-term viability. But by the same token, it’s hard for me to say that there’s a correct way to even manage distressed properties because you really have to look at each and every property. There’s no standard answer. And to go about the distressed business suddenly and casually as a manager is very difficult for some of us oldtimers who have immersed ourselves in the operations business with a historic owner/operator mentality. I don’t think third parties will have enough or all of the answers.

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Counterclockwise (from top left) Thorsten Kirschke, Carlson Hotels Worldwide; Jeff Kolessar, GF Management, LLC; Mark Laport, Concord Hospitality Enterprises; and Michael George, Crescent Hotels & Resorts.

