

HEI Hospitality Sees Significant Growth Opportunities in 2007, Targets \$500 Million to \$1 Billion in Acquisitions and Development

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Combines Management and Ownership Arms Under HEI Hotels and Resorts Name

HEI Hospitality, one of the nation's fastest growing hospitality investment companies, today announced plans to acquire and/or develop between \$500 million and \$1 billion in hotel real estate in 2007. Concurrently, officials said that the company has combined the ownership division with its wholly owned management subsidiary, Merritt Hospitality, under the new name, HEI Hotels and Resorts.

"We have acquired more than \$2 billion in hotel-related real estate in the past four years," said Gary Mendell, HEI chairman and chief executive officer. "We remain committed to investing approximately \$500 million to \$1 billion a year for the foreseeable future."

"There are two primary factors that distinguish HEI from most other companies in our competitive set. The first is our strong belief that a privately held owner/operator model is the superior business structure in all phases of the real estate cycle. The synergy, alignment and efficiency created by the model will continue to pay dividends to our guests, employees, investors and the hotel brands. By combining our acquisition company and operating company under the new HEI Hotels and Resorts name, we will be better able to capitalize on the benefits of the model and achieve our objectives.

"The second factor is that we are long term investors, which is largely a testament to our capital base. The long-term focus allows us to make more strategic decisions about everything, from hotel investment and positioning to how we recruit," he added. "It [a long term investment horizon] also provides stability within our growing portfolio, which we believe will continue to attract and retain the best people in the industry, people who want an opportunity to grow with a dynamic company and who are not worried about either their property being sold in the short term or any shortage of career development opportunities."

Heading up the company's management operations is Chief Operating Officer Ted Darnall, who recently joined the company. "We intend to create a legacy as the leading hospitality company by providing comfort and quality to our guests, fostering growth in our associates, building meaningful relationships and generating long-term value in our real estate," Darnall said.

"Our operating division focuses on five distinct areas which we believe will generate superior returns:

œ Team -- "We have one of the most stable and high-quality portfolios in the industry and have the capital to fuel significant growth," Darnall said. "We have significantly enhanced our senior management bench strength and believe we will continue to attract top talent across all disciplines based on our growth, stability and commitment to our associates."

œ Guest Satisfaction Scores -- "We recognize that achieving our investment objectives is largely dependent upon our guests' experience. In that spirit we are constantly striving for ways to equal or exceed our guests' expectations, including, by developing our associate training programs and ensuring our associates have the tools and resources to perform their jobs."

œ Revenue growth -- "Our initial market analysis is comprehensive and well thought out, which gives us confidence in our underwriting assumptions," he said. "We also take a longer view when it comes to revenue streams. Right now, we focus as much attention on 2008 and 2009 revenue growth as we do on 2007."

œ Cost management -- "We have sophisticated analytical tools that are set in motion during the due diligence process," Darnall said. "We build on that initial in-depth analysis to design our control costs, share best practices and create higher margins."

œ Capital upgrades -- "With tight cost management and sustainable revenue growth from existing operations, we can more analytically determine the best use of capital investment. If it doesn't improve the guest experience and enhance profitability, we won't make the investment."

Darnall said the company wants to further develop its already strong relationships with the major brands. "We want to continue building upon the trust we have established as a partner to the brands," he said. "They know we're in it for the long term, which helps build that trust."

HEI is expanding its acquisitions and development horizons to meet its growth objectives, according to Steve Mendell, executive vice president- acquisitions and development. "Although the company's core acquisition target remains upscale, first-class, full-service hotels, typically ranging in size from 200 to 500 rooms in the top 50 MSAs in the country, we are expanding our development focus beyond select service to include full-service properties and mixed-use, such as the W hotel and residences in Hollywood that we currently have under development in a joint venture," he noted. The company's acquisition targets continue to include hotel brands affiliated with Marriott, Hilton, Starwood, InterContinental and Hyatt. "We also intend to add resorts and independent hotels to our portfolio."

"Although seller expectations have moderated slightly, prices have stabilized at or near historic highs," he said. "Under these conditions we believe that superior management coupled with a long-term ownership strategy will allow us to outperform other properties in the markets in which we compete."

Mendell said that HEI's exhaustive due diligence is the foundation of its ownership strategy. "Our due diligence team thoroughly examines a hotel's past and future potential," Mendell said. "As a result, when we agree to a price, we are ready to close very quickly because we've already done our homework. Moreover, once the hotel is acquired, our due diligence has already laid out the strategic plan for the hotel."

HEI Hotels and Resorts, headquartered in Norwalk, Conn., is a leading hospitality investment firm that acquires, develops, owns and operates first-class, full-service and focused-service hotels throughout the United States under such well-known brand names as Marriott, Sheraton, Westin, W, Embassy Suites, and Hilton.

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