

State of the Lodging Industry: Is the party over? Or is this just the intermission? - By Jim Butler, author of [www.HotelLawBlog.com](http://www.HotelLawBlog.com)

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Morris Lasky's Phoenix Lodging Conference is always one of my favorite hotel gatherings each year, and last night the 13th edition of this event got underway with more than 1,400 people registered -- up from 1,200 last year.

There is something about the beautiful setting at the Biltmore, the casual atmosphere (with many in shorts -- or at least chinos -- and short sleeve shirts) in the baking Arizona heat that fosters a comfortable, no-nonsense exchange of thoughts. But I do miss the early days when Morris "capped" attendance at 400, and you actually were able to move around and see all the people you wanted to in a more intimate environment. That is one unique compelling advantage that The Hotel Developers Conference(TM) and Meet the Money(R) still offer! Oh well, enough nostalgia. Here is my first take on mood of the Conference.

**What is everyone focused on?**

Although today will be the first real day of sessions and meetings (who goes to the sessions anyway?) with the grand poolside reception tonight, there is an interesting mood amongst the conference delegates. The number one fixation is on the state of the capital markets and financing. Those given to dramatic exaggeration might be tempted to say that "the party is over" and after the binge, we are about to wake up with a terrible hang over.

Number one issue: What's happening to the debt and equity capital availability for the hospitality industry?

Those more concerned about accuracy would certainly acknowledge that the environment for hotel financing has changed -- even in the past few weeks -- but seem more inclined to say: it is harder to get deals done, pricing is up (up to 100 basis points . . . or more), construction financing is really tough to get done now, but everyone seems to be in more of a "wait and see" mode. The band has taken a break, but the PA system is still playing some CD music, and we will have to see the band comes back from the intermission as they promised to do.

Many think that the turmoil in the debt and equity financing markets for hotels will have to sorted out over the coming months -- perhaps up to 6 months. A few doomsayers are actually using the "R" word (as in recession). Everybody is in rapt attention for an omen or a sign of movement.

Potentially staggering implications of the CMBS markets.

And there are so many circumstances in the mix and factors that could come into play! Will any capital sources welch on their commitments? Will all the CMBS loans coming due be able to get refinanced? What is the impact of the CMBS market confusion? What will happen in tightening capital markets as the \$166 million of CMBS debt which matured in 2006, climbs to \$932 million due in 2007, peaks at \$2.7 billion in 2008 and levels to a little under \$2 billion in 2009?

An issue we identified many months ago on [www.HotelLawBlog.com](http://www.HotelLawBlog.com) was analyzed so well by Steve Van, head of Prism Hotels & Resorts based out of Dallas, Texas. At his annual conference --the best in the country on the concerns of CMBS lenders--Steve gave us some great information which I discussed in an article, appropriately named: CMBS Hotel Loans: Is that a train wreck ahead or just a "pig going through the python"?

Will higher interest rates and equity yield requirements drive higher cap rates and lower valuations justifying lower loan to value calculations that justify inadequate capital to roll over debt coming due? Will new projects be able to get financing at any price or one that works? Will a tightness in the capital markets drive down property values? There are some tremendous complexities, and it looks to be too early to call.

Issue number 2: How do our industry fundamentals look?

The other big focus of attention at the Conference is on the health of the hospitality industry, and the fundamentals still look good there -- perhaps with a little softening, but of course there is such a direct relationship between the performance of our hospitality industry and the economy, that any significant downturn will undoubtedly have an effect on the industry as well.

If you want a refresher on this, take a look at these two postings:

\* As goes the economy, so goes the hospitality industry -- the ineluctable elasticity of demand!

and

\* What's the price of gasoline have to do with the future of the lodging industry?

And of course, ironically, if the slow down in capital markets also slows supply growth of new hotel rooms, that will bode well for long term industry prospects, though it may not be enough to offset a significant downturn in the economy.

Where are we going? What does this all mean?

I will give you more on the pulse of the of the industry from The Lodging Conference soon!

### **About the Author**



Jim Butler is recognized as one of the top hotel lawyers in the world. He devotes 100% of his practice to hospitality, representing hotel owners, developers and lenders. Jim leads JMBM's Global Hospitality Group(R) -- a team of 50 seasoned professionals with more than \$40 billion of hotel transactional experience, involving more than 1,000 properties located around the globe. In the last 5 years alone, they have brought their practical advice to more than 80 "hotel-enhanced mixed-use" projects, a term Jim coined to fill a void in industry lexicon. This term describes one of the hottest developments in real estate-where hotels work together with shopping center, residential, office, retail, spa and sports facility components to mutually enhance the entire project's excitement and success.

Jim and his team are more than "just" great hotel lawyers. They are also hospitality consultants and business advisors. They are deal makers. They can help find the right operator or capital provider. They know who to call and how to reach them. They are a major gateway of hotel finance, facilitating the flow of capital with their legal skill, hospitality industry knowledge and ability to find the right "fit" for all parts of the capital stack. Because they are part of the very fabric of the hotel industry, they are able to help clients identify key business goals, assemble the right team, strategize the approach to optimize value and then get the deal done.

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