Hotel News Resource

Hospitality Lawyer with perspectives from the top: Insights and advice from Tom Baltimore, President of RLJ Development - By Jim Butler, author of www.HotelLawBlog.com

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What a difference a year makes! Where we’ve been and where we’re going. Practical advice and observations from Tom Baltimore.

Here’s the way Thomas J. Baltimore, Jr., Vice Chairman of NABHOOD and President of RLJ Development, summed things up.

RLJ Development -- One of the largest African American hotel companies in the U.S.

RLJ Development is one of the many fruits of Robert L. Johnson’s entrepreneurial labors started with only $15,000 dollars borrowed in 1980. Along the way he built Black Entertainment Television into a New York Stock Exchange company which he sold to Viacom in 2000 for $3 billion. With the proceeds, he launched a vast sports and entertainment empire, became the owner of the NBA Charlotte Bobcats and other sports franchises, founded RLJ Hotels and raised 3 lodging funds with several billion of assets.

In February 2006, RLJ announced and then closed on the purchase of 100 hotels from White Lodging for $1.7 billion. And, in February 2008, RLJ announced the sale of 22 full and select service hotels from its first fund, for about $900 million. Co-founded by Thomas J. Baltimore, Jr., RLJ is the largest African American hotel investment company in the U.S. with 114 hotels valued at more than $2 billion.

With this sustained track record of success, most people think Bob Johnson and Tom Baltimore are "smart money." We’d have to agree, and here is the wisdom that Tom Baltimore shared with us last week at the NABHOOD conference in Atlanta.

What a difference a year makes!

The hotel lawyers at JMBM’s Global Hospitality Group(R) couldn’t say it better.

Baltimore recounted that in 2007:

$230 billion of CMBS securities financed commercial real estate in the U.S. at 90-115 basis points (1 bp = 1/100%) over the U.S. 10 year Treasury rate, or around 4.76-5.25%.

More than $45 billion in lodging M&A deals were closed

There were significant IPOs (initial public offerings), including Blackstone’s $4.1 billion offering

Sovereign wealth funds began exploding onto the scene

Cheap oil cost "only" $60-70 per barrel

There was abundant and attractively priced air service

Rising commodity/land prices (steel, cement, labor)

Significant growth in emerging markets and housing

Modest supply growth of hotel rooms- below the 20 year industry average

There was double digit RevPAR growth

In contrast, 2008 is marked by

CMBS market is paralyzed and unable to effectively provide capital for commercial markets -- down 90% with about $10 billion sold in the first 6 months of 2008 (vs. $230 billion for calendar 2007)

CMBS backlog is estimated at $50-$100 billion

Subprime mess and housing bubble

Sinking dollar and consumer confidence plummets to 20 year low

Rising oil prices - over $140 per barrel

Inflationary pressures and threats of stagflation - serious threat

Financial players collapse - Bear Stearns, IndyMac (2nd largest U.S. bank failure in U.S. history after the 1984 failure of Continental Illinois)

Falling demand and RevPAR

U.S. hotel transactions volume down 80%

REITs down 45-65% from 52 week high

Significant number of CEOs fired

Airlines reduce capacity 10-20% and second tier cities abandoned

So, what lies ahead in 2008, 2009 and beyond?

Uncertainty will prevail through 2009

Credit crunch remains and few deals will get done

More bank failures (150-300 over the next 3 years)

New administration and big issues on the Employee Free Choice Act

More financial regulation

Rising commodity prices continue

Underwriting standards remain tough (lower proceeds, historical performance-based debt service coverage ratio analysis)

Rising interest rates and cap rates

Modest hotel room supply growth (below long term average)

Negative to flat RevPAR growth with weakening demand

Baltimore says that the lodging industry is a very cyclical business. Peak to peak (from one cycle to the next) is about 11 years. Peak to trough is about 7 years. But Baltimore says that RLJ believes that every market is on a different cycle. Look at Houston. Baltimore says it is "on fire" and he would not hesitate to invest there.

Baltimore also says that times like this have interesting opportunities.

Over supply of new hotel rooms is one of the chronic afflictions of the hotel business. Just when things start to get good, people build a lot of new hotel rooms and supply overwhelms demand, sending occupancies and rates into a downward spiral. As we have noted here at www.HotelLawBlog.com, supply has been increasing the past few years and it has become troublesome to many experts.

Baltimore shares this concern about over supply. He thinks that supply growth will peak in 2009 and then decelerate in 2010 due to credit markets. He says that of the top 25 markets in the U.S., 20 have more than 3% of existing supply under construction. That is a concern.

But if there is a "silver lining" to the current pain in this downturn, it will be greatly diminished increase in supply, which will foster more profits longer for the industry.

Practical Advice and Insight

And here are some telling observations, Baltimore gave us:

I am bullish on the hospitality sector long term

Volatility can create great opportunities

Brand does matter (what brand you put on your hotels)

The quality of real estate is also critical

Sponsorship (who is behind the project -- knowledge, capital, resources) is key

Baltimore and RLJ particularly like urban and dense suburban markets

International traffic should increase given the weak dollar

Patience and discipline will pay off

Hospitality Lawyer’s take on things.

This current environment continues to provide great opportunity and . . .danger. Fortunes will be made . . . or lost in the coming months.

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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