Hotel REITs Seek to Conserve Capital to Ride Out Downturn

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Tight Credit Creates Need to Cut Dividends, Halt Investment Plans

Hotel companies, which have been struggling all year with reduced travel demand and tight credit conditions, are now facing a new challenge: how to conserve capital.

Companies are expected to cut dividends, pull back from planned investments and take other bold steps to increase liquidity, all in an effort to ride out the economic downturn.

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Embassy Suites in New Orleans is owned by FelCor Lodging, which cut its dividend 57%.

While stock prices for most real-estate investment trusts are suffering, the stocks of hotel REITs are getting hit hardest. So far this year, the total return for hotel REITs has dropped 42.3%, far outpacing the 14.4% decline in the overall Dow Jones Equity REIT Index.

"I don’t think any [REIT] group is going to suffer from the same pain that we expect in the hotel cycle," said William Crow, a REIT analyst at Raymond James & Associates.

FelCor Lodging Trust, which is based in Irving, Texas, and owns 85 mostly upscale hotels, including many that carry the Embassy Suites flag, last week cut its dividend 57%.

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