



The recently opened Cambria Suites in Green Bay, WI is the new brand's third property.

What Credit Crunch?

Joe Champ is an experienced developer with a proven track record in the hotel industry. For him and scores (maybe hundreds) of lodging developers, the recent problems in the sub-prime mortgage industry and the overall real estate business haven't had a significant effect on their ability to consummate new lodging deals.

"There is a smaller number of lenders in the marketplace and marginal projects and sponsors may have trouble getting financing, but it hasn't affected us," says Champ, president of Champ Development, which has three select-service aloft hotels under construction with more in the pipeline. "So far, problems in the mortgage industry haven't affected us and, in fact, the situation may be a positive for the hotel industry, as we've been seeing some overbuilding and heating up of the market."

Lodging supply guru Pat Ford, who be-

lieves the change in the market is "a pivot point rather than a volcanic shift," says any slowdown in

new lodging development won't be apparent for a while. "Those properties in the pipeline that plan to open in the next 18 months are pretty well set, which means the development forecast for the rest of this year and 2008 won't change," says Ford, president of Lodging Economics. "We might see a slight fallout in '09, as those developers who don't have financing in hand today will find it a lot more difficult to get money. Rates will be higher, more cash will be required, and lenders will be more selective as to who they give money."

Despite these hiccups in the financial markets, a scan of news reports shows the continued overall vibrancy in hotel development. Many chains report very strong

The Forecast For Hotel Openings

Chain Scale	2008 Hotels	2008 Rooms	2009 Hotels	2009 Rooms
Luxury	15	3,770	19	4,072
Upper upscale	46	14,600	57	16,343
Upscale	249	29,208	311	38,748
Midscale with f&b	90	9,923	103	10,860
Midscale without f&b	536	44,849	572	49,835
Economy	77	5,263	68	4,909
Independents	160	18,831	204	25,326
Casinos	27	10,248	20	9,275
Total	1,200	136,692	1,354	159,36

Source: Lodging Economics



Ford

Financing is still plentiful for the right projects

By Ed Watkins

WHAT CREDIT CRUNCH?

pipelines of openings, much of which involves new construction. Marriott International, for example, says it has 115,000 rooms in its pipeline. InterContinental Hotels Group, Starwood Hotels and Choice Hotels also anticipate strong growth in the next few years.

Much of the new development has been fueled by the new lifestyle products (aloft, Cambria Suites, NYLO, Hyatt Place and others) that were introduced in the past couple of years. Three Cambrias are open and more than 60 are under development. Champ says his firm will open its first aloft (in Plano, TX) next July, followed by two others in the Dallas area later in the year. He has several other alofts in the early stages of development.

Ford and others agree that local lending relationships forged between developers and their bankers will remain strong. "However, while relationships always count for a lot, smaller local banks are still affected by the same reluctance and conservatism that's moving throughout the lending industry," says Ford.

According to Ford, marginal developers are being squeezed from two perspectives: the tightening of financing and the feasibility of the projects. They need to put down more cash and pay higher interest rates, which affect the cost of the projects.

"But also it affects the projections of what is going to happen in terms of hotel demand and the general economy," says Ford. "A developer must ask himself if the project will really be as strong as he originally thought it would be."

As a counterpoint to the uncertainties of the financial markets, some developers look for other opportunities to exploit. Associated Ventures, a Los Angeles-based hotel

investment and development firm, looks to build and buy in secondary markets (Biloxi, MS) or on the fringes of major metro areas (New York, Chicago, Phoenix).

"We think it's smart not to put all of our eggs in one basket," says President Melanie Pennell-Mayer. "We also do a lot of projects overseas because it gives us a hedge against the gyrations of the financial market."

While new hotel development remains robust for the right projects, the strong acquisitions market of the past several years is beginning to cool off. According to Lodging Econometrics, prices for properties of more than 200 rooms peaked in 2006 and slid by about \$4,500 per room (to \$159,656) during the first half of this year. (On the other hand, prices for hotels of less than 200 rooms spiked by nearly \$16,000 per room.)

"Because of the situation in the lending industry and the higher cash requirements by some lenders, there will be less competition for product," says Ford. "Sales volume this year is at the same pace as 2006, but next year I expect volumes to go down, cap rates to go up and sales prices to recede."

Joe Champ agrees that the dynamics of hotel sales will revert to more typical scenarios. "Cap rates in our business are historically around nine percent," he says, "and I think we're headed back in that direction."

One exception, believes Ford, is mergers and acquisitions activity, which could be heavy in the coming year. He reasons that many companies, such as a lot of hotel firms, have a lot of equity on their books that needs to be put to work. Combined with generally rising stock prices, these equity pools will be used to fund additional corporate buyouts. **LH**



Joe Champ (second from left) and partners from Aimbridge Hospitality, Hillwood, Greenway Investment Co., JF Capital Advisors, and Starwood Hotels & Resorts at the groundbreaking of the first aloft hotel in Las Colinas, Texas.