

# Asset-Managing: A Balancing Act In Tough Times

BY STEFANI C. O'CONNOR

NEW YORK— Asset managers are continuing to work overtime— in every sense of the word— when it comes to reaching, maintaining and exceeding the goals of owners.

“We’re really trying to balance right now to contain costs to maximize profitability, but doing it such that it doesn’t compromise the long-term value of the hotel. It’s a tightrope,” said Chad Crandell, president of Beverly, MA-based Capital Hotel Management LLC. Capital Hotel Management asset-manages a combination of 27

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# Asset Managers' Mantra: Contain Cost, Maximize Profit

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full-service branded properties, including those of Marriott International, Choice Hotels International, Starwood Hotels and Resorts Worldwide, Hyatt Hotels, Best Western International, and Hilton Hotels as well as various independents.

Crandell said the effort to contain costs and reduce services in a difficult economy to match room rates now being charged needs to be weighed against compromising the brand integrity as well as the hotel position, "so when the recovery comes you haven't turned your upscale, luxury hotel into just a midscale property from a market positioning or a performance standpoint."

## Bottom-Line Goals

Crandell— who also serves on the board of directors of the Hospitality Asset Managers Association (HAMA), whose members include representation from individual owners, national pension funds and pension-fund advisors, insurance companies and real estate investment trusts— acknowledged that, regardless of the economic environment, owners demands "are always challenging," with the bottom-line goal remaining that a particular managed asset is outperforming its competitive set.

He noted the top three goals include maximizing NOI, minimizing— to the extent possible— outflow of new capital, and grasping when a recovery will kick in to impact hotels.

After the last down cycle in the early 1990s, Crandell said he's noticed the type of investor has changed— particularly in the arena of full-service hotels, when it comes to being more involved, more "hands on" when it comes to their assets. "You're dealing with investment funds, pension funds and other groups who have the responsibility to report back to their investors what's going on with the performance of their assets," said the executive. "That necessitates a more proactive role dealing with management companies."

In addition, noted Crandell, most major hotel franchisors who manage now are public firms. "So they've got to balance their responsibilities to their shareholders against the responsibility that they have to the owners of the real estate for which they have been asked to manage the property."

While Capital currently doesn't manage limited-service properties, Crandell said an asset manager can play a function; one that's more driven toward the investment side, e.g., what is the insurance coverage for the property, what are the real estate taxes being paid, etc. "It's a reduced scale of services that an asset manager does for limited-service hotels, just because the complexity is much less," he said.

In addition to keeping balance in the sluggish economy, asset managers have also had to become more creative in the wake of 9/11 and the war in Iraq. "It has not been a positive operating environment or investment environment for hotels," understated Crandell.

"Some of the biggest challenges we've tried to work with our investment clients on is trying to work more on exit strategies: 'Where do you exit in this cycle right now?'" Typically, investors are holding the assets anywhere from three - five years, he said, but noted for those who invested in 1999 or 2000, "you don't want to ideally flip at this point unless you have to."

Among the other aspects to enter the investment equation are geopolitical issues and conditions (e.g., terrorist attacks/alerts, heightened security measures) that impact the economy in general and travel and tourism in particular. "We've seen— in actual numbers in the hotels— when the threat level goes from yellow to orange, that has a pretty significant impact on people's willingness to travel and stay in hotels, especially in urban locations like Washington DC or New York City. That didn't exist two years ago," said Crandell.

## Ready To Re-Invest

In addition to planning exit strategies, Capital has been working with owners to re-invest in their hotels so that when the recovery kicks in, the properties are primed to outperform their competitive set. In some cases, where funds are lacking in the reserve account, Crandell said owners need to understand new capital must be utilized.

"It all comes down to return on investment," he said, again noting the need to balance the impact of a revamp against not doing one when it's called for.

Capital Hotel Management asset-manages 27 properties, including the 549-room Ritz-Carlton Kapalua in Maui, HI.



Toward that, Crandell said many of the hotels have gone through a refinance in order to take advantage of current low interest rates. "That, to a large extent, has been the safe haven for hotel owners," he said. "Although we've had a significant drop-off in RevPAR performance and overall profitability, the offset to that has been our fixed cost, specifically debt-service interest rates have gone down tremendously— in many cases, 50% versus



Chad Crandell  
Capital Hotel Management LLC

where they were in 2000."

He added: "Because hotels are being operated more efficiently than they were in 2000, we don't need 2000 RevPARs to generate the same NOI."

Another HAMA veteran,

Ghassan "Gus" Sader, founder of San Diego, CA-based Hospitality Asset Services LLC, recalls the days of the Resolution Trust Corp. (RTC) in the early 1990s when he asset-managed 16 hotels for Great Western Bank. In that light, he said owners still basically want to know "what the management company is doing for me."

"We as asset managers have a fiduciary role of managing the hotel asset over time to accomplish stated financial objectives that the owner is looking for. Once you establish the fiduciary responsibility toward your owner, it binds you; that you, the owner and the management company are one," said Sader, who has wrangled such brands as Clarion, Crowne Plaza, Doubletree, Holiday Inn, Hyatt, Radisson, Ramada and various independents.

As an asset manager, Sader works "very closely" with owners and third-party management companies. "I am a believer in cooperation among all parties for one goal: to meet and exceed, not only the guests' expectations, but the owners' expectations from me. I am really the bridge between the owner and the operator."

Accordingly, it was explained HAS evaluates the overall hotel management for the owner, developing a strategic business plan for the asset, and analyzes the prop-

erty's operating performance with a goal of improving it along with the ROI.

"We also provide guidance and supervision on all capital expenditure and execution," said Sader, adding his organization can also assist in disposition of the property if the owner makes that decision.

For instance, last September, HAS sold to Pacifica Host Hotels two San Diego properties — the 186-room Radisson Suites Hotel and 186-room Holiday Inn Southbay— it had been asset-managing since 1995 for an overseas financial institution.

As to the place for asset managers in the profitability picture, Sader believes there should be a consistent role. "I've witnessed both recessions, and it seems to me when business is hard and owners are not seeing any return on their investment, they start going after asset managers. When things are smooth, and the property is generating [a solid return], somehow they tend not to look at every item in the financial statement.

"I always tell owners it is when the property is doing extremely well that you have to look to maintain that control, so that when the rainy time comes, you're ready for that...."

"It is not difficult to reach 100% of good financial results; it is harder to maintain that 100%," Sader ultimately concluded. 