



Deal or No Deal?

The general sentiment in the industry is that hotels are nearing, if not at, the peak of the pricing cycle, not too dissimilar from the climate surrounding the late 1990's. However, a couple of key points of differentiation separating today's market vs. STLC (same time last cycle). For one, by 2001 a slowdown had been projected, but 9/11 and the series of events that followed, literally pushed the industry over a cliff. As we stand today, to quote an industry catch phrase, RevPAR is "increasing at a decreasing rate", whereby growth rates are slowing to a historical norm, but performance is not presently or anticipated to decline anytime in the near future. The industry has not experienced anywhere near the growth in supply witnessed STLC, which has been a primary variable supporting continued positive growth during this cycle, albeit at a slower pace in recent months. Another factor supporting sustained viability of this cycle is that much of the growth experienced over the past five years was related to the recovery from the precipitous RevPAR and profitability decline, suggesting that we have only witnessed the impact of real growth within the last couple of years. So, where does that leave us today – our prediction is several healthy years ahead of positive hotel performance and an ever dynamic investment climate, which, to the savvy and strategic investor, we say **DEAL!**

Who's dealing?

The last five years has witnessed an influx of new money and players, particularly private equity firms. In addition to acquiring hotel real estate, private equity players have also exhibited strong interest in owning brand/management companies, further demonstrating faith in the asset class and a vested interest in the industry as a whole. Although recent negative changes to the credit market have slowed M&A activity for the balance of 2007, we view this as a short-term blip and expect activity to increase going into 2008, albeit at a slower pace than early 2007 levels.

Where's the deal?

Nearing the end of what is projected to be yet another record breaking year of transaction volume, the market is starting to feel the pinch of available product with reasonable pricing. While it may be tough to buy investment grade hotels in major markets at a reasonable price, we believe and continue to come across opportunities to acquire full-service product in secondary and tertiary markets that have excellent economic and investor return potential. We also believe there are very lucrative opportunities in resort markets, particular those with excess land where you can look to create additional development value. Similarly, we see opportunity in urban markets for assets prime for repositioning and especially those with a residential component.

What's the deal?

Single-asset sales, portfolio trades, management company buy-outs – we've seen it all this year. With a diminishing supply of quality assets for sale, the industry has reacted with an accelerated construction pipeline. Whether existing or new construction, the deals are out there, increasing in complexity for sure, but still representing viable opportunities for the right buyer.

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CHM has sourced and advised investor clients on more than 250 hotel deals and is actively seeking hotels for acquisition. Whether you are looking to divest or acquire key assets, we can help. Please call us today at 978.522.7000 or visit our website at www.chmhotel.com to learn more about our investment advisory services and how we can help you **DEAL!**

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What's The Deal On Financing, Derek?

During the height of the hotel transaction frenzy, equity investors were not the only ones chasing deals...debt-ready lenders were ready and willing to compete as well, resulting in highly favorable financing terms. With the recent instability in the secondary debt market, lenders have become more conservative with underwriting standards. Although lender interests in hotels are still strong, borrowers are learning first hand that the playing field has changed. The following are some of the key changes with respect to underwriting today and what lenders are looking for:

- Underwriting perspective has shifted toward historical performance, relying less on future projections. A strong, proven track record is key;
- Without a stable NOI history, lenders are expecting a thorough business plan providing additional assurances of future performance;
- Hotels must be well-positioned within the marketplace or again demonstrate an action plan for re-positioning;
- Lenders are looking for ownership's commitment in the physical asset, including a well-funded capital plan;
- Strong sponsorship and partner credibility is essential, and;
- The inclusion of a national brand and operator and professional asset manager are shifting from an owner option to a lender requirement.



Derek Olsen, Director of Financial Analysis at CHM, brings more than 15 years hospitality experience. He graduated from Cornell University with a degree in Hospitality Management and received a Masters in Real Estate from MIT. Derek is responsible for property/portfolio valuation, cash flow analyses, market and industry research, and special projects focused on increasing portfolio profitability. As an integral member of CHM's transaction team, Derek has personally reviewed more than 250 hotel acquisition deals, many representing complex transactions with significant development and reprogramming potential.
