

Global Hotel Network®

# Chad Crandell - GHN Executive Profile



## *Global Hotel Network® Executive Profile*

A GHN Exclusive Feature



**Chad Crandell**  
President and Co-Founder  
CHM



Global Hospitality Resources®, Inc., asked Chad Crandell, President and Co-Founder, CHM, to comment on the current state of affairs at CHM and to provide an outlook on the firm's growth plans. Here are his comments:

**Global Hospitality Resources®, Inc.:** What goals are at the forefront of your agenda for 2008/09? What are the top issues/concerns with which you will address?

**Chad Crandell:** From a global standpoint, CHM's goal is to continue to deliver value-add hotel asset management services to our clients, meeting investment objectives and optimizing returns.

Specifically for the balance of this year, our efforts are largely focused on achieving budgeted NOI at the properties we oversee. From an operating standpoint, so much has changed from the time the budgets were originally developed, almost a year ago now, to where we are today. We remain very focused on implementing strategies to achieve performance targets in the face of lower to flat RevPAR growth and higher operating expenses. Another major initiative is executing on capital plans currently underway which total somewhere in the



The Westin Diplomat –  
Hollywood, FL

neighborhood of nearly \$100 million in total spend, with some of the larger projects occurring within the Starwood Portfolio in Hawaii, the Westin Diplomat in Hollywood, Florida and the Marriott Detroit Renaissance Center at General Motors World Headquarters in Detroit, Michigan.

Looking ahead to 2009, the basis of our business strategy will be mitigating the economic impact on hotel profitability across our entire portfolio. Clearly, slowing demand resulting from the current business climate is a concern, as well as all of the other areas impacted such as rising fuel costs and shrinking airline capacity. The key for this year will be working collaboratively with our brand/operator partners to be sure we are maximizing the revenues that do come in, preserving market positioning and rate integrity. In addition to our existing hotel portfolio, we are also working very hard on various development projects currently underway. We have been very pleased with the opening of the Hilton Baltimore, the new convention headquarters hotel that opened in August. We oversaw this project during the development phase, alongside the Baltimore Development Corporation and Hilton Hotels and are extremely optimistic as we transition into an on-going operational asset management role. We have two additional properties currently under construction, the W Atlanta Downtown (opening January 2009) and the W Boston (scheduled to open September 2009), so there is a lot of effort dedicated to finalizing operating contracts, such as spas, destination restaurants and lounges, as well as ensuring that these hotels are properly staffed, positioned, priced and promoted to meet first-year operating targets and beyond.

In short, we're busy, but more importantly, we're ready...this is the type of environment and market in which asset managers really get to shine and the value of CHM's services are truly realized.

**Global Hospitality Resources®, Inc.:** What is your outlook for the travel and tourism industry? How do you see the economic picture for the hotel business in North America?

**Chad Crandell:** Although technically we have not yet reached official "recessionary" status according to the economic reports, there is no denying that the US economy is steadily bumping along the bottom. I envision some tough times ahead for hotels as we continue to brace and work to mitigate the impact of declining demand, both from the corporate and leisure travel segments and the resulting downward pressure on pricing. ADR has really served to fuel the positive RevPAR growth and led a lot of the profitability experienced by hotels over the last couple of years. Absent the ability to continue to grow rates, coupled with shrinking demand and increasing expenses, reaching target profits will be a lot more challenging in 2009. There is extreme pressure on the airlines right now resulting from exorbitant fuel prices which in turn creates significantly higher fares and reductions in airlift capacity on average between 10 to 15%, all of which has a negative impact on lodging demand and overall travel budgets. Further compounding economic conditions is the impact of the credit crisis causing a financial grid-lock and struggle within the banking industry. Recent government bail-out actions will begin to loosen things up, but it will be some time before real relief is felt, likely not before the second half of 2009. So, my outlook for 2009 is bleak for the first half with improving fundamentals towards the latter part of the year. Overall, the prognosis is not devastating for the industry or hotel owners - just means we need to work a little harder in 2009.

**Global Hospitality Resources®, Inc.:** CHM is a leading provider of asset management services to owners, developers and investors of hotels and resort collectively valued at more than \$5.0 billion. What are the challenges/opportunities you see in the business today, especially for asset management?

**Chad Crandell:** Our business is cyclical and that's not new...the opportunity for us as asset managers is to continue to learn from these cycles. We have grown increasingly more sophisticated in how we manage through and preserve value during a downturn. The opportunities are re-evaluating strategies and implementing initiatives that save while not compromising future market positioning, rate potential or product condition. Another opportunity for hotel owners who may have gotten in at a lower basis initially is to re-invest and renovate during a time with typically lower volume, thereby minimizing interruption to the operation and improving position when the market rebounds. Challenge, certainly, is the lower volume and working with the brands to set reasonable goals for the upcoming year and achieve performance expectations.

**Global Hospitality Resources®, Inc.:** When, and what, in particular, caused you to decide that the time had come to form CHM? What are your aspirations for the firm?

**Chad Crandell:** The concept of asset management has existed for decades, but most notably began to take form as something more than a bail-out strategy in the early 1990s, primarily as a function of hotel investments made by non-hospitality entities including public companies, REITs and insurance companies. By the late 1990s, we witnessed a significant shift in demand for hotel asset management services within our hospitality consulting practice which was primarily fueled by growing interest of equity funds, pension funds and private investment groups. These owners were seeking third-party specialization and representation, something that could not be replicated in house given the wide-range of expertise required. We recognized that there was an opportunity in the market to be solely dedicated to hotel asset management and investment advisory, rather than offering as one aspect of a menu of consulting services, something no one else was doing. As a result, CHM was formed in September 2000.

Aspirations for the firm include continued, controlled growth. We choose to work with a very select group of long-term clients with assets that represent opportunities where we can truly add value. Additionally, we envision taking a more active investment role and aspire to increase equity participation in future deals.

**Global Hospitality Resources®, Inc.:** CHM's managed investments include urban landmark properties, high-profile destination resorts and convention headquarter hotels, operating in major US markets. Where would you like to grow your portfolio?

**Chad Crandell:** Measuring growth in terms of the number of properties we oversee, we don't necessarily have a target or track our success that way. We value the long-term nature of our client base and the number of hotels in our portfolio at any given time is largely predicated on transaction activity, and the natural ebb and flow of assets based on what makes sense from a client investment standpoint.

Growth through new client relationships is always a focus for us. We are fortunate to

continue to grow and expand our client network, primarily from referrals and word of mouth. This year alone we joined forces with three new investment groups and assumed responsibility for their respective hotels bringing our total asset management portfolio to 20 properties with more than 12,000 rooms, and a combined value of approximately \$5 billion. Finding the right clients and establishing long-term investment advisory relationships is what is important to us and based on that strategy, we would like to continue to grow at a controlled and steady pace.

In terms of expanding our portfolio to include new markets, we recognized a trend and growing interest for asset management services emanating from the public sector, including government agencies, the Department of Defense, among others that own and control leisure-related real estate. We've found that many agencies are increasingly looking to adopt and implement private sector best practices. In response to this, we expanded our practice in 2008 to include a new division, CHM Government Services. We added five professional staff members, formerly working at PwC as part of their Washington Federal Practice to spearhead this growth initiative. We are highly encouraged by the response so far.

**Global Hospitality Resources®, Inc.:** In addition to your operations in Aruba, do you plan to expand your services internationally?

**Chad Crandell:** No, we have no plans at this time to expand our international presence beyond the Caribbean. While our client base is certainly international, with several located overseas in Europe and Asia, we choose to stay within our comfort zone and expertise which is in assets operating throughout the United States, Hawaii and the Caribbean (presently Aruba and past St. Thomas).

**Global Hospitality Resources®, Inc.:** Please comment on the asset management business model. How do you relate to the Management Company and owner in your role? What is the benefit of an asset manager?

**Chad Crandell:** We employ the same business model as Verizon Wireless...a "No Dead Zone" approach. I'm not sure who came up with the concept first, but it works, particularly when it comes to delivering effective asset management. We practice a team approach which includes a designated asset manager as the primary point of contact and liaison between the hotel operating team and the client, supported by an in-house network of specialists including areas such as finance/accounting, sales and marketing, operations, tax/risk management, contract/loan, development, reporting and technology. In our experience, there is no single person that is qualified to provide the level of technical expertise necessary in all of disciplines to deliver comprehensive hotel asset management services. There are no "Dead Zones" in our team approach to asset management...we've got you covered.



W Atlanta Downtown Hotel & Residences – Atlanta, GA

In our role as asset managers, we act as a liaison between ownership and operator, to ensure

that both sides are working towards a common goal. Relating to our owners, we provide hands-on, proactive and real-time advisory so they can make critical decisions with the best information and advice available throughout each stage of the life of the investment. We also shine a light on the possibilities and also limitations which are also critical to optimizing investment returns. In terms of the operator, we work very hard to cultivate an environment which fosters collaborative and strategic thinking, which is the key to effecting positive change. We are often regarded by operators as an additional resource and team of experts that can assist in supporting management to achieve success.

The benefit of an asset manager are twofold: 1) From a brand/operator standpoint, you are dealing with peers that speak the same language, understand the issues, recognize the impact of decisions and provide the real benefit of an extended team working to ensure your hotel succeeds. From an ownership and investment perspective, you have an advocate who looks beyond the “in-the-year-for-year” operator mentality and rather provides insight that considers and impacts value over the life of the investment.

**Global Hospitality Resources®, Inc.:** Buy, Sell, Hold? What is your view of the current state of the hotel investment market?

**Chad Crandell:** Well, it might be all three, but it really depends on when investors got in and at what price. Chances are, however, if you don't have to sell now you probably shouldn't. Values have taken a double hit this year, impacted by lower NOIs and increased cap rates. Some buy opportunities have presented themselves, but overall current credit terms make it extremely difficult to get deals done right now. Most lenders require at minimum a 70% loan to value ratio and spreads are much higher today making the cost of debt prohibitive. There may be some opportunity to assume credit, or cases in which seller financing may be available which could make certain deals attractive in this market, but these are certainly harder to come by. I think investors will bode well to keep their eyes out for unique opportunistic deals, but more so take advantage of this stage of the cycle and look for repositioning opportunities and renovation of hotels currently within their portfolios, preparing for when market returns, values increase and transaction activity heats back up.

**Global Hospitality Resources®, Inc.:** Your thoughts on hotel development? What segment of the lodging sector are you most bullish about as it relates to new development? In your opinion, is there room for all of the different brands in the industry?

**Chad Crandell:** In general, new construction is counter intuitive right now. Construction costs are high, available credit is limited and barriers to entry into major markets are steep. That being said, for all of these reasons, if you can find a way to make sense of a new deal in today's market and open in the 2011/2012 time frame, it could be a great opportunity.

Although I am bullish on full-service product, new construction deals in recent years, particularly in urban markets, were largely accomplished through mixed-use development, whereby residential sales could be used to off-set development costs and facilitate financing. Unfortunately, this model does not work in a down housing market, as we've witnessed this past year. This, coupled with high financing hurdles makes full-service development a tough sell. I believe there are potentially more opportunities right now in

developing select-service products. There are fewer barriers to entry, and they cost less to construct. Although commodities remain at an all time high, the cost of labor has come down some, which bodes well for continued development in this segment.

In my opinion, there is room in the market for anything that is supported by demand, but I have a hard time believing there is demand enough to support the wide proliferation of product that exists in the market today. If I have difficulty differentiating between each and every brand and offerings, I can't imagine that the guest can. The time has come to expire some of the older, non-relevant brands.

**Global Hospitality Resources®, Inc.:** What are your thoughts about all of the attention “Green” is getting in the travel and tourism industry?

**Chad Crandell:** I think being environmentally responsible is important and always has been. As far as all of the recent attention and the ever present “Green” buzz word being discussed heavily within the industry, it is topical and trendy. From an asset manager standpoint, there is no doubt that an increase in green practices can be adopted into hotels which are historically energy hogs. However, “Green” needs to be cost justified. I think we are just beginning to understand the return on investment that can be expected through various green initiatives. Overall, I do see an opportunity for balancing investment returns and achieving a reduction in utility consumption and the carbon footprints of hotels.

**Global Hospitality Resources®, Inc.:** You are past president of HAMA. What are the top three issues that HAMA is concerned with?

**Chad Crandell:** As an organization, HAMA represents an association of professional individuals who are dedicated to the enhancement of hotel and hospitality asset values. As a group, we are concerned with many of the same issues we've discussed so far. At the forefront, the prospect of flat to negative RevPAR growth in 2009 is a major concern, coupled with the spiraling utility and labor costs. HAMA represents a lot of talent and it is really important to have a forum by which we can discuss and share best practices, as well as bring awareness to the value of hotel asset management.

**Global Hospitality Resources®, Inc.:** On a personal note, what do you enjoy most about being in the hospitality business and what advice would you give to young executives getting into the business today?

**Chad Crandell:** My initial attraction to hospitality was that it was, and still is, a “people industry” with constant interaction adding to the overall complexity and personal enjoyment of the industry. Secondly, hospitality is a growth industry, where the only constant is change. It is fun and challenging work, and relatively stable. Where else can you work where the hard times are 12 to 18 months and the good times in between are 6 to 10 years...that's not too bad.

For young executives looking to get into business today, hospitality offers boundless career opportunities. The industry has really grown into its own niche whereby individuals can get into everything from hotel operations, investment, lending, brokerage, consulting, law, design, construction, and my personal favorite, asset management, all specifically geared

towards hotels. My advice would be to gain as much hands-on experience in your field of specialization, work hard, play hard and be passionate about what you do.

**Global Hospitality Resources®, Inc.:** What business principles guide you? What is the best piece of advice you ever received? Who mentored you?

**Chad Crandell:** My fundamental business principles include honesty, integrity, respect and fairness.

The best piece of advice I ever received was, Duck!! (cash is king you can't duck IRR!)

My mentor was my father. As a WWII Pilot and decorated hero, his business philosophy was modeled by the Great Depression. He lived by a "family first" motto something I strive to incorporate into every day.

**Global Hospitality Resources®, Inc.:** Which company and/or business executive (outside the hospitality & travel industry) do you most admire and why?

**Chad Crandell:** In general I admire and commend people who are truly passionate about what they do and parlay it into a career that they LOVE. That's what being successful and living life is all about! A few people that come to mind include Greg Norman who was not only an incredible golf legend in his prime, but he emerged as a very prominent business executive whose success, including golf apparel, course design, is still rooted in the game he loved. Similarly, another notable figure is Cal Ripken, Jr. I admire his values, longevity, work ethic, passion, dedication... and hairstyle.

**Global Hospitality Resources®, Inc.:** Are there any books that you have recently read that you regard helpful from a leadership, management, or business point of view?

**Chad Crandell:** *Now, Discover Your Strengths*, by Tom Rath, is a book we have implemented as a company tool. The premise of this book is that managers, leaders, employees, spend way too much time trying to improve upon shortcomings when we should be focused on developing our key strengths. CHM employees are required to read this book and complete the signature strength assessment which highlights the fundamental strengths inherent in each of us. Knowledge of peer strengths allows us to better communicate with one another, view each and everyone as an individual, and support employees along the path from good to great, which in turn further increases the effectiveness of our company as a whole.

**Global Hospitality Resources®, Inc.:** Are there any other comments you'd like to share?

**Chad Crandell:** Go Red Sox!

### ***About Chad Crandell***

Chad Crandell is the President and co-founder of Capital Hotel Management (CHM), leading provider of hotel asset management services and customized strategies proven to

maximize hotel value and optimize investment returns. Mr. Crandell is the operations leader of CHM, which was recognized at its inception in 2000 as a “20-Year Old Start-Up” given the vast experience and expertise in the area of lodging asset management. Today, CHM is recognized as the largest independent hotel asset management firm, dedicated to providing unparalleled asset management and investment services, enabled through innovative, out-of-the-box strategic thinking and substantiated with an expertise of lodging and related real estate, to optimize investment returns.



CHM Corporate Offices, Beverly, MA

Crandell actively oversees hotel portfolio and single-asset investments collectively valued at more than \$5.0 billion, representing a wide-range of clients and hotels across the U.S. and in the Caribbean. Managed investments include urban landmark properties, high-profile destination resorts and convention center headquarter hotels for a total of more than 13,000 rooms. CHM is an SEC-registered investment advisor and Qualified Professional Asset Manager (QPAM) and to date, has represented hotel investor interests and evaluated transactions totaling more than \$16 billion. For more than 20 years, Crandell has dedicated his career to the hospitality industry, previously acting as a principal of Hospitality Consulting Inc. and later managing director of Horwath Landauer. Prior, Crandell held numerous positions in operations and development with InterContinental Hotels, Chalet Suisse International and Koala Inns of America.

Crandell is a 1983 graduate of Cornell University, Ithaca, NY, where he earned a bachelor's degree in hotel administration. He serves as an active member and past President of HAMA (Hospitality Asset Managers Association) and is an advocate for hotel ownership, asset management and industry issues. Crandell routinely speaking at major industry conferences and has authored numerous articles, chapters and case studies. Mr. Crandell is a member of the International Society of Hospitality Consultants (ISHC), Cornell Real Estate Council, Editorial Research Board of Industry Leaders and International Association of Corporate Real Estate Executives. Mr. Crandell sits on the Endicott College Board of Trustees and holds a Counselors of Real Estate distinction.

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