

Hotel Receivers Talk Turnaround Strategies

Feb 8, 2011 9:12 AM, By Eric Stoessel, Lodging Hospitality Managing Editor

‘We Make it Less Bad’

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Working as a hotel receiver isn't for the faint of heart. The assignment often comes on short notice, sometimes includes a surprised and hostile borrower and a property whose physical structure, staff and cash flow have deteriorated.

“To some extent, it's almost like a disaster response, and you start out with a triage,” says John Balliett, chairman and CEO of Charter One Hotels & Resorts.

The Sarasota, Fla.-based hotel ownership and management company isn't currently involved as a receiver, but one of the 14 hotels it manages was secured last year after successfully serving as a court-appointed receiver.

Most industry consultants, management companies and asset managers don't seek out receiver assignments because they're typically short-term, challenging and full of surprises.



Steve Van, president and CEO of Prism Hotels & Resorts, speaks at the Americas Lodging Investment Summit during a panel discussion on hotel distress. Photo by Andréa Cimini.

Steve Van is one of the exceptions. His company, Dallas-based Prism Hotels & Resorts, currently manages approximately 50 hotels, 30 through its role as court-appointed receiver.

He expects to add 80 new assignments this year, twice the number from a year ago, with more than half coming from receiverships.

Other companies are beginning to follow suit as lenders continue to become more aggressive in taking back distressed assets. Although revenue per available room climbed 5.6% year-over-year in 2010 in the U.S. hotel market, borrowers have faced mounting financial problems after RevPAR declines of 2.1% in 2008 and a historically worst 16.1% in 2009.

“If a bank or special servicer has to go down that line, it usually means it’s been a very contentious relationship, the hotel is in rough shape and the staff is demoralized,” says Mike Marshall, president and CEO of Marshall Hotels & Resorts. The Salisbury, Md.-based hotel management company was named receiver of three hotels in the Northeast last year.

Challenges and opportunities abound for Van and a growing wave of hotel turnaround specialists, whose job as receiver is to stabilize and then maximize the value of the distressed asset. Unlike other commercial real estate sectors, lodging is management intensive and operating performance is the primary driver of value.

Lenders face a choice

When a loan workout no longer seems viable, lenders often ask the courts for a receiver while a foreclosure is pursued, the deal gets restructured or a sale of the loan or collateral is completed.

Depending on the state, the foreclosure process usually begins in a local court when the plaintiff presents its case for cause and asks the judge to appoint a receiver. Although the decision resides with the court, creditors generally have significant influence on the outcome. The receiver acts as an objective, third-party owner under specific guidance of and for the court while the parties work out their dispute.

Bob Massey, vice president of hospitality asset management for Atlanta-based TriMont Real Estate Advisors, says lenders face a fundamental choice between a receiver who acts as an operator or one who functions more as an asset manager.

Massey, who was part of TriMont’s team involved in the massive \$3.9 billion Extended Stays Hotels workout, says he looks for the receiver with the most experience in the asset class he’s dealing with.

Prism Hotels has acted as receiver approximately 100 times since 2000, including “everything from a W Hotel to a Motel 6,” says Van. In almost every instance, his company has taken over management and he believes the hands-on approach is the best and most economical one for the lender.

In larger properties and more complicated cases like mixed-use resorts, the receiver usually acts as asset manager overseeing the property manager. Major hotel investment advisory firms like Warnick + Co., The Plascencia Group and Capital Hotel Management have become more active in this role during the downturn.

“For all intents and purposes, the receivership role is asset management,” says Joseph Toy, president and CEO of Honolulu-based consulting firm Hospitality Advisors. He’s served as receiver and foreclosure commissioner for over \$1 billion in hotel and golf course assets in the last 15 years.

Although a turnaround is what many specialists in the industry are offering, the reality is that may not be possible for many distressed assets. “The first thing we do is stop the deterioration,” says Van. “If a property is going downhill fast, that might take three to six months. You can’t immediately get up to 100% market share when it’s gone down from 90% to 80% to 70% and is heading to 50%.

“We make it less bad, and that’s good.”

Seizing the day

Tom Morone, principal of Warnick + Co.’s Los Angeles office, says the first step as receiver is to be at the property and in the general manager’s office the morning the court order is signed.

Balliett, of Charter One Hotels & Resorts, recalls a time when he was in court as counsel to an attorney friend and ended up being appointed to take over a property that afternoon. When he and his team arrived at the hotel, the borrower was loading up a truck and had already shut down the front-office system and was removing computers. “You don’t get a lot of planning sometimes,” he says.

For Morone and Warnick + Co., getting there early is important for another reason: “Bankruptcies and receiverships are a bad thing for luxury,” he says. “Everyone assumes the property will close. You’ve got to get there and settle the troops. Have a gigantic Q&A session with the staff to help quiet rumors and gossip in the marketplace.”



Warnick + Co. served as receiver for the InterContinental Montelucia Resort & Spa in Scottsdale, Ariz., and oversaw the completion of the construction project. It now asset manages the property for Eurohypo AG, the original lender and now owner.

Warnick + Co. served as receiver for the InterContinental Montelucia Resort & Spa in Scottsdale, Ariz., while the lender foreclosed on developers who ran out of money during the construction process in 2009. Warnick + Co. directed the completion of the mixed-use project and now serves as asset manager for the lender that owns it.

In more contentious situations, the first step is often securing the cash: Visit the banks, change all accounts, secure credit-card machines and anything that has to do with the flow of money.

Toy, of Hospitality Advisors, says during one assignment he found a bank account supposedly being used to remit fees, but instead the owner was directing the funds into 27 other accounts.

Prism has 25 cross-trained full-time specialists focused on receiverships. Van's on-site team includes someone from human resources, accounting, a part-time building engineer and two or three employees focused on sales and marketing. Depending on the situation, the turnaround team could remain at the property for three to six months.

Operational assessment

Ken Wilson, CEO of Beverly, Mass.-based Capital Hotel Management, says receivers need to look at the "whole operating paradigm" of the asset.

After visiting with the general manager, assessing and comforting the existing staff is the priority. Employees are a hotel's largest expense and greatest asset, and are likely more distressed than the property.

Most receivers plan on retaining the staff pending background checks, interviews and evaluation periods, but the most critical positions like GM, director of sales and controller are often replaced or demoted.



Marshall Hotel & Resorts was appointed receiver of the Holiday Inn Buffalo Amherst Hotel in New York last year.

"You reinvigorate, motivate and give the staff something to live for," says Marshall of Marshall Hotels & Resorts. "You do whatever you can do to change the mindset from a defensive standpoint to a proactive hospitality state of mind."

Once the accounting and human resource issues are under control, the focus shifts to the operation of the hotel.

"If you can cut your cost to operate one room by \$2 to \$3 a night, multiply that by 300 rooms, and 365 days a year and it adds up very quickly," says Lou Plasencia, chairman and CEO of The Plasencia Group. The total, if you do the math at \$2 a room, is a savings of \$219,000.

While trimming expenses, receivers' main objective is to boost revenues. Van says sales and marketing is often the area slashed most by borrowers looking to salvage their management fees. If positions have been cut, Van will immediately look to fill them or provide more training to the current staff.

Even with proper staffing and training, receivers must take a close look at the property's approach to the business it does have. Plasencia recalls a time when his firm terminated a contract with airline crews for reduced rates. "We quickly determined the contract was displacing higher-rate accounts and was costing us more to have that business," he says.

Marshall recently ran into an even more appalling revenue management mistake. A property his company took over in a college town was sold out for graduation weekend, at an average daily rate of \$79, but the market rate was \$159. "They sold every room at the Expedia rate," he says.

If hotel operations have deteriorated, it's a safe bet the building has also been neglected. Oftentimes, improvement plans have been deferred and preventative maintenance has been ignored. Van says checking safety equipment is critical, and it's surprising how often those features need repaired.

Marshall adds that in many cases at least 20% of the rooms are out of service because the borrower has "robbed Peter to pay Paul" and shifted furniture, fixtures and equipment around to maintain as many rooms as possible.

Court orders typically allow the receiver to make minor improvements, but more significant repairs and property improvements often require approval from the lender.

"You need to understand the lender's position and goals," says Balliett. "The lender may want to get the property back and fire sale it, or it may want to take the property back and put money into it."

Van says the lenders he works with are usually willing to invest money into the asset, but he has to prove it will add value.

Growth industry

"This year we'll see a huge increase in velocity as CMBS (commercial mortgage-backed securities) maturities hit," remarked Andy Robins during a panel on hotel distress during January's Americas Lodging Investment Summit in San Diego.

Massey, who works as a special servicer, says the majority of those loans are underwater and the ability to refinance isn't good. It's why Van is adding positions to his company and why he expects to double his receivership assignments this year.

"It's a growth industry," says Morone of Warnick + Co. "You have to go where the fish are."

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