

Distressed Asset Manager Says Newer Hotels Facing Turmoil

Sixteen Properties Opened Their Doors Between 2005, 2008

BY CONNIE LEWIS

Bill Hoffman, who heads Trigild, which specializes in distressed property management, mainly for lenders, says hotels are rapidly becoming a bigger part of his business.

Currently, Carmel Valley-based Trigild manages 66 commercial projects, including 10 hotels, with a value of \$300 million.

None is in San Diego, but he expects that to change shortly.

"I expect to see a surge in problems for hotels nationwide," said Hoffman, whose company also serves as a court-appointed receiver in bankruptcy cases. "Many hotels in San Diego are currently in default. It just takes awhile to get them in the process for the lender."

Hoffman says it's a "safe bet" that some properties built or purchased within the last two or three years are having difficulties covering expenses.

"I'd be surprised if they're not in default and I'd say it to the owner's face," Hoffman said. "I just don't see how it's possible that they're not, and if they're not, they will be in the coming year."

The Numbers

Between 2005 and the end of 2008, 16 hotels opened in San Diego with 3,900 guest rooms, according to Atlas Hospitality Group, an Irvine-based brokerage.

The tally includes one mammoth convention center hotel and three luxury boutiques downtown, as well as a luxury resort next to a sprawling golf course in North County.

According to the San Diego Convention & Visitors Bureau, the county had 53,400 rooms at the end of 2005. The bureau estimates that the count will be 57,000 for 2008.

During the same time frame, 282 hotels changed hands for prices ranging from \$2 million for a small inn in Fallbrook to more than \$100 million for a hotel in La Jolla with more than 330 rooms.

In addition, many hotels that sold within the last three years had loans secured by the estimated value of the properties. The purchasers included single investors, real estate investment trusts and pension funds. Those loans were then sold to Wall Street firms that bundled them in pools with other commercial loans and resold them to investors, says Alan Reay, who heads Atlas Hospitality.

Resurgence Started In 2003

The problem, Hoffman says, stems from lenders basing loans for building or buying on five-year forecasts that failed to pan out as expected.

While the industry began a resurgence in 2003 following the economic downturn of 2001, and flourished between 2005 and late 2007, occupancies and room revenue began to slide last year and have plummeted in the last few months.

"So what we're commonly seeing now is you have mortgages in excess of the value of a hotel, or what anyone is willing to pay," Hoffman added.

Trigild also manages distressed restaurant chains and convenience stores, as well as condos and housing developments.

Hoffman says that in the past he might get five or 10 calls a year from lenders interested in having Trigild take over management of a distressed hotel.

"Right now we're getting two or three

calls a week, and this is just the beginning," he said.

Troubled Portfolio

Jeff Kolessar, vice president of GF Management of Philadelphia, which also operates hotels for investors and lenders, says its portfolio of 51 hospitality properties includes 21 that are in receivership or have been foreclosed on and are owned by the lenders. They range from a 300-room Howard Johnson Hotel in Florida at the high end to a 64-room Quality Inn in Indiana at the low end of the spectrum.

"I'd say that this time last year we had about 13 lender-related foreclosures in our portfolio and were looking at another eight to 10. But now our pipeline is about five times what we had in backlog last year at this time. That doesn't include any major

properties, but I expect it will," Kolessar said.

He referred to the lodging industry downturn as "the perfect storm," combining an oversupply of rooms, an economic recession and "no cash to help in the liquidity crisis."

"In all other cycles we have not had that," he said.

Reay agrees. "There's no question in my mind that this is the toughest market for a seller in at least 20 odd years," he said.

Does the hotel downturn create an opportunity for an investor with cash?

Not now, Hoffman says.

"Someone who's got millions to invest should wait six months to a year because this market is not near the bottom yet," he said.



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