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# Hotels Hint at a Turnaround

By KRIS HUDSON

The long-battered hotel industry is turning the corner as occupancy and revenue in the U.S. finally start to rebound.

But hotel owners can't start partying just yet. Hotel properties remain deeply indebted, with billions of dollars of mortgages coming due in the coming years amid forecasts the industry won't regain its full strength until 2013.

For now, however, hotel owners and operators are focusing on the first good news they have had in two years, which in some cases is coming earlier than industry analysts expected.



Four Seasons Hotels and Resorts

Four Seasons Hotel Chicago, where owners are hoping occupancy rallies.

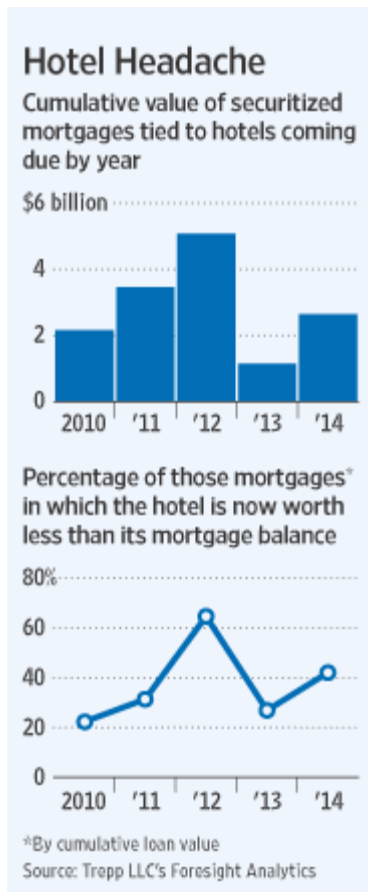
Data from Smith Travel Research released earlier this week shows U.S. hotel occupancy rose more than two percentage points in the first five months of this year from the same period last year, to 54.7%. During the first five months of 2008, before the industry's decline started in earnest, occupancy averaged 59.4%. Average full-year occupancy peaked at 63.2% in 2006.

Revenue per available room, or revpar, in this year's first five months rose 1% to \$52.99, according to Smith Travel. In comparison, it averaged \$64.57 in the first five months of 2008.

Earlier forecasts had the recovery starting in 2011.

"I did not expect it to get this positive this fast," said Monty Bennett, chief executive of [Ashford Hospitality Trust Inc.](#), which owns 102 U.S. hotels.

Returning to the industry's boom-time highs could take several years. PKF Consulting Inc., a hotel-industry analysis company, predicts U.S. average rates and revpar will return to their recent peaks by 2013, but occupancy won't do so until after 2014. As for property values, HVS, the hotel and leisure



research company, forecasts U.S. hotels will regain their 2006 values by 2013.

Many hotels are hoping for a quicker recovery. For example, two luxury hotels in Chicago owned by JMB Realty Co.—the Four Seasons Hotel Chicago and the Ritz-Carlton Chicago—are banking on regaining 10 percentage points of occupancy this year. Those hotels have a lot of ground to make up, though. The 343-room Four Seasons saw its occupancy fall to 59% last year from 71% in 2008, according to Realpoint LLC. The hotel's cash flow fell 91% to \$931,180 last year from \$10.2 million in 2008, putting it well short of covering its \$4 million of annual interest payments on its \$49.7 million mortgage.

At the 435-room Ritz, located in the Water Tower Place complex, occupancy declined to 59% last year from 69% in 2008, according to Realpoint. Its cash flow declined to a loss of \$2.8 million last year from a gain of \$2.3 million in 2008. JMB Realty has covered the shortfalls on both hotels' mortgages to keep them out of default.

Some of the hotels' struggles are because of renovation projects that took some of their rooms out of service at times last year, said Pat Meara, a senior vice president at JMB

Realty. The company foresees occupancies at both hotels returning to nearly 70% this year now that the upgrades are completed. "Starting in March of this year, we've seen a real uptick in demand," Mr. Meara said, adding later that the hotels are averaging 80% occupancy this month.

Still, the hotels aren't out of the woods. "You can have improving results but still have bad balance sheets," said Neil Shah, president and chief operating officer of [Hersha Hospitality Trust](#), which owns 77 U.S. hotels.

Debt is the biggest problem facing hotel owners. There is about \$5.6 billion in securitized mortgages tied to hotels coming due this year and next, and 27.8% cover properties now estimated to be worth less than their mortgage balances, according to research company Trepp LLC's Foresight Analytics. That makes refinancing those "underwater" loans challenging if not impossible without the owner chipping in more capital.

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What's more, hotels carrying more than a quarter of that 2010-11 loan balance aren't generating enough cash to cover the interest costs on their loans, meaning their owners must dig into their own pockets to cover the difference, bring in partners to help them do so or default on the loan. Securitized mortgages, which are chopped up and sold to thousands of investors as bonds, represent about a third of all

lending to hotels. The situation is more dire for hotel loans coming due in 2012, many of which were originated during the real-estate boom, when hotel values were much higher than now. Of the \$5.1 billion in securitized mortgages coming due that year, 64.5% currently are underwater, according to Foresight Analytics. Those not generating enough cash to cover their interest payments represent 42.2% of that balance due in 2012.

One example is the 657-room Renaissance Mayflower hotel, the site of many presidential inaugural balls, in Washington. The hotel's annual cash flow was \$8.8 million last year, down from \$17 million when Rockwood Capital LLC bought the property in 2007. Its latest output isn't enough to cover the \$11.5 million in annual interest payments on its \$201 million mortgage, leading to the hotel going delinquent on payments in April.

An appraisal done in March valued the hotel at \$160 million, amounting to 80% of its mortgage balance, according to Realpoint. A Rockwood representative didn't return calls seeking comment.

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