

THG prepares for industry's upturn

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The Hotel Group opened the Hilton Garden Inn in Bothell, Washington, as its third-party manager. The hotel is performing well as the industry begins its recovery, according THG president Doug Dreher.

SAN DIEGO—Like many hotel company executives, Doug Dreher looks at 2010 as the beginning of the road to recovery. The president and CEO of The Hotel Group, an Edmonds, Washington-based hotel ownership and management company, sees good things ahead for the entire industry.

"It's going to be a long, U-shaped recovery," Dreher said during a break at last month's Americas Lodging Investment Summit in San Diego. "The risk of a double-dip has been mitigated, which provides some sense of relief. But, it's not going to be an overnight turnaround. We're all in store for a long recovery."



Doug Dreher
president and CEO
The Hotel Group

Dreher pointed to financing regulatory issues as a major reason for the slow recovery in the hotel transaction market. He said US\$30 billion of hotel debt has been processed through the Federal Deposit Insurance Corporation so far and another US\$330 billion is coming.

"The extend-and-pretend formula was a successful strategy," Dreher said, referring to the trend during the past two years in which banks would extend existing loans and pretend there was no distress at properties while waiting for good times to re-emerge before figuring out what to do with the loan long term. "But there's a tipping point, and it might be coming sooner than later. There were a lot of debt issuances five years ago that come due in '11 and '12, and there is now greater regulatory pressure to purge the balance sheet."

That could create problems for some existing owners while presenting opportunity for others.

"With that said, last year was a great year for us," he added. "It wasn't without challenges, but our operating performance was great."

The Hotel Group's overall year-over-year revenue per available room increased 11% during 2010 while its earnings before interest, taxes, depreciation and amortization rose 22.5%, Dreher said.

The company has 27 hotels with approximately 4,200 guestrooms in its portfolio. Six of the properties are owned; the other 21 are managed under third-party agreements. The best part of 2010 for Dreher was that THG was able to get back into the hotel-acquisition arena.

Acquisition hunt

After looking at more than 1,100 properties with various degrees of seriousness since 2007, THG made 10 offers on hotels and eventually bought one—a 130-room Holiday Inn in Santa Fe, New Mexico. Dreher declined to disclose the sales price but said it was funded by the company's fourth opportunity fund. The financing package includes promissory notes and equity.

The hotel is undergoing a multi-million dollar renovation, and once completed, THG will attempt to refinance it.

"I'd imagine if we can get a decent trailing 12 (month cash flow) behind us, there will some debt out there," Dreher said. "Debt is out there, but cash flow is king."

Dreher is on the lookout for other acquisitions in the select-service and full-service sectors, he said.



The Hotel Group acquired this Holiday Inn in Santa Fe, New Mexico, and is putting it through an extensive renovation. It was the first acquisition for THG in about three years.

Management deals

THG in October 2010 opened a 120-room Hilton Garden Inn in Bothell, Washington, as a third-party management deal. It also is overseeing the construction of a property under construction in Springfield, Oregon.

Also on the management front, THG assumed management of a distressed GuestHouse Suites property in Nashville, Tennessee.

In addition, the company opened an operations office in Franklin, Tennessee, which gives it a foothold to expand further east as opportunities arise, he said.

"In 2011, hopefully we'll have some continued growth," he said. "On the cost-containment side, we're not opening the floodgates, but we're starting to wean ourselves back into deferred operational spending. You can't be on a salary freeze in perpetuity.

"At the same time, costs are going up and there is some real pressure on spending," Dreher said.



Executives celebrate the October opening of the Hilton Garden Inn in Bothell, Washington. From left: LeeAnne Brawner, director of sales; Robert Lee, VP of The Hotel Group; Chip Peterson, general manager; Jeff Gouge, THG regional general manager; and Doug Dreher, THG president and CEO.