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The Hotel Group finds positives during downturn

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San Diego—In what was a year of perseverance, The Hotel Group saw a little bit of hope, opening a Crowne Plaza in Anchorage. The company invested more than $30 million in 2009, with refurbishment projects in Kansas City and Cleveland. To top it off, they won the award for Hilton developer of the year.

“We got a lot done last year,” said Douglas Dreher, president and CEO of the Edmonds, Wash.-based management and ownership group. “It was a grind, it was at times, mind-numbing, [but] our mantra was ‘staying power.’”

While THG was down in RevPAR, Dreher was quick to point out that it fared better than the industry averages and that 17 of their 23 properties were actually up in revenue per available room.

“I’m so proud of our team; our team did a fabulous job,” he said. “There were some tough cost cuts.”

Dreher said 2010 has a lot better clarity.

“Yes, there are some regional banks going under, but I think there’s not the trepidation that we’re going to fall off the face of the earth,” he said. “Having said that, there is more than $20 billion in distressed debt for hotels and only [about] $1.6 billion is in the REO mode. So, there’s a lot more distressed properties that have to get filtered through. I feel bad for our broker friends because it has just been brutal, and now they’re looking at 2010 with no real idea when these properties are coming up.”

THG hasn’t been a buyer since September 2007, but its fourth opportunity fund of $75 million is in place and the company is trying to find the right deals.

“It’s been hard,” he said. “We made three offers last year, so there’s still that bid-ask gap. Usually what’s happened is we get selected for the second round and we’ve been the lowest offer. The problem is we’re still in that negative RevPAR environment, so I have to manage that margin of risk. … We have to be able to look our investors in the eye a year from now and say ‘that was a good buy’ and it’s hard when you’re still in this negative RevPAR climate.”

THG typically goes after full-service, underperforming properties throughout the U.S.—Dreher sees these as low-hanging fruit as THG can make operational improvements in order to turn the properties around and add to the bottom line. But the company will make bigger changes when necessary. In Cleveland, THG bought the Holiday Inn Select, changed flags to Doubletree, and the property reopened in 2009 after an extensive renovation.

Dreher says the company—which buys with all cash—is probably casting a little bit of a wider net right now.

“I think our range is $5 million to $15 million, not including the renovation. That’s kind of the ‘Death Valley,’” he said.

Dreher explained, according to brokers he’s spoken with, deals of $20 million and above are getting competitive bidding.

“The really big, big funds and the REITs can go after those and are going after those,” he said. “Under $5 million, you have the owner-operator types, and those are transacting—though not at the pace they were two or three years ago.”

THG, which owns seven properties and manages another 18, is trying to diversify its client base and pursue additional third-party management contracts.

“Today, you have to be a little more flexible,” Dreher said.

Dreher is worried about the government’s current overspending habits. And he doesn’t see it helping the current state of moribund transaction activity. His solution?

“I would probably create some vehicle to help not just the regional banks, but the larger banks—Bank of America and Wells Fargo—in processing some of the distressed debt and really getting it marked down. I think what’s ultimately going to happen is that it’s going to cause a second hiccup at some point,” he said.

Dreher’s goals for a successful 2010 include maintaining budgets, buying two new properties and perhaps two or three new third-party management contracts—all while maintaining “our mojo,” he said.