Nobody Asked Me, But… No. 44

Hotel Franchise Companies Performance Appraisal Report, and a Down-to-earth Assessment of the Hotel Capital Markets

By Stanley Turkel, MHS, ISHC
September 2008

Nobody Asked Me, But… No. 44

No Passing Grades; Guess Who's Coming to the United States; A Clear-Eyed and Realistic Forecast; Quote of the Month

1. No Passing Grades

My recent ratings of the compliance level of five major hotel franchise companies with AAHOAs 12 Points turned up compliance rates ranging from 30% to 57.6%. Since 65% of all hotels in the United States are franchised (some 35,000 hotels) isn't this big news?

Here's the story: AAHOAs recent Performance Appraisal Report evaluated the compliance level for Accor, Carlson, Choice, La Quinta and Wyndham.

My ratings of the compliance levels revealed the following performance scores:

Accor 57.6%
Wyndham 50.3%
La Quinta 47.3%
Choice 40.9%
Carlson 34.3%

My common sense reaction: When will hotel owners realize that this situation could be quickly improved if hotel owners would sign franchise agreements only with those franchise companies who are in fuller compliance with AAHOAs 12

Points of Fair Franchising?

In a column entitled “Building & Maintaining Loyalty” in Hotels Magazine (August 2008), typical interviews with franchise company executives (Wyndham, Choice, Accor, Red Rood Inn) focus on trivial and unimportant process issues (communication and dialogue) instead of substantive issues.

Not one (except the Vantage Hospitality Group), talks about the major issues facing franchisees: guaranteed areas of protection, termination and liquidated damages, encroachment and impact studies, windows of penalty- free exit opportunities, choice of venue, etc.

In the same Hotels column, an editor’s note states: “Accor NA received high marks on a progress report recently released by the Asian American Hotel Owners Association on fair franchising.” How does a rating of 57.6% get high marks? In my school days this was a failing grade and my children and grandchildren report that it still is.

2. Guess Who’s Coming to the United States

In August 2008, Booking.com, the Amsterdam-based international online hotel reservation service (part of priceline.com), surveyed more than 10,000 U.S. hotel reservations made by international tourists. Based on the results, Booking.com reported that the following countries generated the most U.S. hotel bookings for Summer 2008:

1. France
2. Italy
3. Spain
4. Netherlands
5. United Kingdom
6. Germany
7. Brazil
8. Canada
9. Japan
10. Mexico

3. A Clear-Eyed and Realistic Forecast

Here’s a down-to-earth assessment of the hotel capital markets which says that the credit crisis is worse than most hotel people are willing to admit. It appeared as a letter from Joel

Ross, Citadel Realty Advisors in Hotel Business magazine (8/21/08).

It strikes me that the thing most people in the hotel industry are not paying attention to what is really occurring in the capital markets and why that will severely affect their value and future NOI. Despite what a number of panelists appear to have said over the past year, the credit crisis is worse and not likely to get any better for at least 12 and maybe 18 months, or longer.

Even when things do stabilize, the number of banks and other lenders will be greatly diminished, and the underwriting will be far tougher. There is a real question as to what Commercial Mortgage Backed Securities (CMBS) will look like if and when it ever returns. Wall St. lending as we knew it the past few years is gone forever. Many banks will disappear into consolidation.

Since NOI in '08 and '09 will for certain be materially lower for most hotels, spreads are going to be way up and underwriting criteria much tougher, the proceeds, (if any are available), will be much lower. That means a lot more defaults in '09 on refinancing, very little development or renovation money, and little or no working capital lines for hotels with cash flow problems.

Next year is going to be very ugly for a lot of people and yet there seems to be no real discussion of the reality of what the capital markets crisis really means to hotel owners. The economy cannot improve until lenders are lending again and that may be a year or more away so the outlook for the economy is not good and that means tougher times for hotels.

I only bring all this to your attention because I think there is a lot of lack of understanding of what is really going on among hotel owners and related service providers.

Joel Ross, Citadel Realty Advisors

4. Quote of the Month

"All that is required for evil to triumph is for good men to do nothing."

Edmund Burke

Stanley Turkel, MHS, ISHC operates his hotel consulting office as a sole practitioner specializing in franchising issues, asset management and litigation support services. Turkel's clients are hotel owners and franchisees, investors and lending institutions. Turkel serves on the Board of Advisors and lectures at the NYU Tisch Center for Hospitality, Tourism and Sports Management. He is a member of the prestigious International Society of Hospitality Consultants. His provocative articles on various hotels subjects have been published in the Cornell Quarterly, Lodging Hospitality, Hotel Interactive, Hotel Online, AAHOA Lodging Business, etc. If you need help in negotiating a franchise agreement or with a problem such as encroachment/impact, termination/liquidated damages or litigation support, call Stanley at 917-628-8549 or email stanturkel@aol.com.

.

Contact:

Stanley Turkel, MHS, ISHC
917-628-8549
stanturkel@aol.com