

Opinions

Get ahead of game: Prepare now for inevitable downturn

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With the game clock ticking down, hoteliers who act now to put some points on the board will come out of the next downturn winners.



By James Fitzgerald

It is that time of year when we are inundated with “the game” as evidenced by some 41 college football bowl games, not to mention the Super Bowl in the NFL. The winning team will be superbly coached and follow a well-thought out game plan that includes both defensive and offensive plays that are customized for the situation at hand. Similarly, the successful hotel owner should formulate a game plan now for the economic slowdown which is on the horizon and then execute this strategy in 2020.

Where are we now?

While the hotel industry benefits from an abundance of optimistic and exuberant “players,” sometimes a crusty, veteran coach is needed at a time like this to put the “game” in perspective.

The length of the current upcycle is in record territory, but all cycles come to an end. It is best to be prepared in advance.

Hotel owners will be facing a myriad of tough opponents in the next couple of years: new supply, rising labor costs, slowing revenue per available room growth turning negative, a proliferation of new brands, Airbnb, large property improvement plans, eroding margins and debt service maturities, to cite a few. The savvy hotel owner will act now to prepare for what will prove to be a tough economic environment. The key success factor of the well-coached team will be the execution of a well-thought-out game plan.

The game plan

As with a football game, the hotel game is comprised of a variety of moving parts. The winning hotel owner will emerge from the upcoming downturn with the most points. Or put another way, this owner will have generated the most cash flow after paying debt service. The successful game plan will have addressed revenue generation and expense controls, while optimizing the hotel’s capital structure. In this way, cash flows available to ownership will be maximized, or at worse, losses will be minimized.

While there are numerous possible options in our playbook, a good offensive strategy might have these elements:

- SWOT analysis: strengths, weaknesses, opportunities and threats from a hotel and economic perspective (be honest and objective);
- asset management: be on top of the hotel management company with short- and long-term solutions;
- review of fixed costs including real estate tax appeals
- brand review/consideration of other brands; and
- management company evaluation.

Similarly, a sound defensive game plan, may well include the following:

- leasing out the food-and-beverage operation;
- booking more group business at lower rates to assure occupancy when business slows;
- evaluation of outsourcing opportunities (laundry, parking, etc.);
- review of all contracts and agreements; and
- delay of capital expenditure projects that will not generate a financial return.

Capital structure alternatives

As the hotel or “team owner,” there are some significant deal structuring considerations to be addressed as the market slows. While the owner of a football team considers the signing of new players, coaching changes and even a new stadium, the hotel owner should address the following debt and equity questions to protect his or her team franchise:

Should I sell my hotel now while the market is still good?
Maybe I should pull out some equity for a rainy day and refinance?
Would it be wise to bring in a joint venture equity partner to help me weather the storm?
Should I approach my lender now and try to restructure my loan now?
Should I look for a new loan that is cheaper and offers more proceeds?
Would mezzanine debt make sense now?

In conclusion, the time to act is now.

James E. Fitzgerald is the founder of Dauntless Hospitality Advisors, LLC, a Dallas based hotel advisory firm with deep and multifaceted industry expertise. Dauntless, which is synonymous with fearlessness and resolve, is directed by Mr. Fitzgerald, a hotel industry veteran with over 35 years of experience and a graduate of Cornell University. Mr. Fitzgerald has played key roles in hospitality consulting, corporate finance, and development with Principal Real Estate Investors, KPMG, AIG, and Marriott Corporation. He is a member of Cayuga Hospitality Consultants, International Society of Hospitality Consultants (ISHC), the Cornell Hotel Society, and the Waldorf-Astoria Distinguished Alumni.

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