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CEOs: Hotels face multiple challenges

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Story Highlights

- Revenue managers lack the confidence to charge guests what their hotel stay is worth, Sunstone's Ken Cruse said.
- Minimizing costs is a must for hotels today, Pillar's Chris Russell said.
- Some hotel buyers are blindly buying distressed hotels just because the properties are distressed, Richfield Hospitality's Gregory Mount said.

From left to right, Marty Collins, Gatehouse Capital; Ken Cruse, Sunstone Hotel Investors; Gregory Mount, Richfield Hospitality; and Chris Russell, Pillar Hotels & Resorts, discussed macro trends facing the hotel industry during a Meet the Money panel Tuesday.

LOS ANGELES—The upswing in this part of the hotel industry's cycle still has a lot of life to it, but there remain plenty of things to be concerned about, speakers said during a CEO panel discussion Tuesday at the Meet the Money conference.

The chief executives taking part in the wide-ranging discussion all agreed the hotel industry is continuing to take steps toward recovery, but there remain issues that threaten the comeback.

Ken Cruse, CEO of real estate investment trust Sunstone Hotel Investors, said company officials find themselves pounding their fists on the table to try to get their hotel operators to take a firmer stance to raising rate.

"I think the hotels themselves are the one party at the table that hasn't been aggressive enough," he said.

Adding to the rate problem, he said, is the fact that many hotels negotiated multiyear rates with companies during the dark days of 2009, said Chris Russell, CEO of Pillar Hotels & Resorts. Still, a lot of the inability by hotels to raise rate comes from the hotel officials themselves.

"A lot of it is the confidence that hotel companies have to charge what they're worth," he said.

Gregory Mount, CEO of Richfield Hospitality, alluded to the rise of online travel agencies as another reason why hotels have a difficult time making significant increases in rate stick.

"There's more transparency out there," he said. "People are able to commoditize your rates to a certain degree."

Macro concerns
Mount pointed to health-care reform as an issue that keeps him up at night. He said that if 95% of his company's 10,000 employees are not offered insurance, his company could be fined $2,000 an employee.

"The current administration is trying to deploy this at such a rapid pace, and they are not ready to do it," he said.

Russell also mentioned health care as a concern.

"We don't really understand what the costs will be," he said.

And minimizing costs is a must today for hotels, he added. It's not just health care that has been the source of rising costs but also municipalities that are trying to pass on cost increases in the form of higher taxes.

"It's already hurt us," Russell said of rising costs, "and it's going to get worse."

Marty Collins, president and CEO of Gatehouse Capital, said it's not rising interest rates or Congressional ineptitude that bothers him—but rather the out-of-left-field event that is a concern.

Cruse took the opposite tact and said he spends no time worrying about events out of his control.

"If an out-of-left-field (event) happened tomorrow, we'll be OK," he said.

Sunstone has taken steps to plan for the end of the upswing, Cruse said. "We're expecting macroeconomic issues to come home to roost at some point," he said.

For one, Sunstone has been busy paying down debt and will continue to do so, he said. This will increase the company's liquidity when things in the industry once again start moving south, as will inevitably occur, he said.

Still, the cycle has a lot left in it, the panelists agreed. Cruse said the industry uptick could likely be prolonged, albeit with less frothy growth. There are few markets overheated with supply, he said.

Collins also said the recovery will continue and supply will remain low for some time because it takes time for developers such as Gatehouse to ramp up. "He has to worry about me in three years if I'm in a hurry," he said, motioning to Cruse.

Deals
The debt markets look better for hotels as well, the panelists said. "It's rapidly evolving on the debt side," Cruse said. "Early on, no one was lending to hotels. That quickly changed as lenders continue to look for more and more yield and got more and more aggressive."

Lenders might be getting too aggressive, he said. There's a proclivity, he said, to force deals when "lenders are regressing to their past bad habits."

The same dynamic is at play on the acquisitions side, Mount said, especially as it relates to buying distressed hotels.

"I think you're seeing people buying distressed because it's distressed," he said.