



FELS HOTEL REPORT

REAL ESTATE
EXPERT WITNESS

BROKERAGE
VALUATION

ASSET MANAGEMENT
DEVELOPMENT

WORKOUTS
FINANCE

2012 Semi-Annual Edition

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SEVERE HOTEL MORTGAGE LOAN DEFAULTS... WILL FORCE WORK OUTS / FORECLOSURES

The delinquency rate on securitized hotel loans, presently in excess of 15% (representing tens of billions of dollars), is the highest among all commercial real estate classes, according to Trepp, a New York-based analytical firm tracking the commercial mortgage-backed securities (CMBS) industry. It is the general consensus of industry experts that this number could more than double in 2012 and 2013, with all the loans originating in 2007 and earlier, coming due now.

Hotel values have dropped considerably in recent years (in some markets down by 30%+), and Louisiana is no exception. Owners lacking replacement capital reserves, will find foreclosures inevitable. Some major hotel franchise companies will no longer extend deadlines for property improvement plans (PIPs) and will "pull the flag" on hotels who cannot upgrade. This further reduces the hotel's value.

2011 HOTEL PERFORMANCE RECAP* (Revised)

	OCC%	ADR \$	RevPAR \$
Nationwide	59.9	101.58	60.81
Louisiana	59.6	95.56	56.91
New Orleans	64.2	122.15	78.38
Shreveport	65.8	74.05	48.71
Baton Rouge	56.8	79.28	45.00
Lafayette	53.0	69.93	37.06

2012 Forecast

Nationwide	60.0	105.29	63.18
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* Source: Smith Travel Research, Inc.
Revenue Per Available Room (RevPAR) performance is the common denominator used to determine the state of hotel economy citywide (for all hotel segments combined), as compared to other Cities, States, Regional, and National averages.

The underlying problems troubled hotels are facing, can be summarized as follows:

1. State of Economy, forcing budgetary restraints, resulting in less corporate meetings & conventions, as well as leisure travel;
2. Market's Supply & Demand Imbalance (overbuilding);
3. Bottom Line Performance (negative cash flow);
4. Property's Age & Physical Conditions (lack of reserves for capital improvements/upgrades);
5. Reduced Property Values;
6. Mortgage Debt Structure (being over-leveraged);
7. Inappropriate Franchise Affiliation / flag and,
8. Ineffective Asset Management.

Maintaining a room rate discounting mentality, in hopes of increasing market share, makes no economic sense, and has consequences. Implementing an effective daily marketing and revenue management system is the key.

2012 Estimated Hotel Value Forecast *

(By Segment, Per Room)

Overall

\$98,765

Luxury

\$325,575

Upper Upscale

\$171,775

Upscale

\$120,500

Upper Mid-Scale

\$87,500

Mid-Scale

\$54,250

Economy

\$22,950

(Annual Percent Change –vs- Previous Year + 10 to 15%)

*Source: Penn State, John W. O'Neill, MAI, CHE, PhD.

Workouts, bankruptcies and foreclosures represent the final phase of economic cycles. Unfortunately this time around, the severity and duration occurring between 2007-2011 has hurt the lodging industry.

Is the "Hotel Bubble" next? Yes it will be, if lenders have to write down hotel asset values and rebuild their balance sheets, particularly in secondary and tertiary markets. This is a major issue which will negatively impact and prolong the recovery for at least another year, or two. Lenders and borrowers must work together now on problem loans, before it's too late. Another "RTC" might be on its way!

If we compare past recessions, in the 90's the Resolution Trust Corporation (RTC) played a significant role in the disposition process for hotel assets, and so did my company, as we were assigned as Special Receiver, Broker & Asset Management Advisor for under-performing and distressed hotels in the RTC's portfolio throughout the New Orleans, Baton Rouge and Lafayette markets.

Taking the duration of past economic cycles into account, then 2016 'should' turn out to be another banner year for the lodging industry. Hotel owners who are not over-leveraged, will enjoy a healthy capital appreciation during the next 3-5 years. Hotel buyers with available capital resources will find abundant investment opportunities.

Challenges will remain for hotel owners, operators, lenders and appraisers. With increased revenues and capital resources put to work, values will rise again, but so will interest rates and costs of doing business. In major hotel markets, stabilization should begin in the second half of 2012.

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J. Jon Fels, CHA President & CEO

FELS HOTEL GROUP

www.felshotelgroup.com

E-mail: felshotelgroup@cox.net

(225) 778-5999

