DeBartolo Checks Back Into Hotels

After a seven-year hiatus, the firm returns to the lodging industry with an eye on picking up distressed assets.

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Maria Wood

Patience can pay off.

After exiting the hotel ownership business about seven years ago, DeBartolo Development LLC has checked back in with the acquisition of five properties in Florida, its home base, in recent months.
Why now? Like many other investors, the Tampa-based company hopes to take advantage of the industry's budding recovery.

"We've been waiting patiently for a correction to come [so] we could be an active buyer," said Edward Kobel, president and COO of DeBartolo Development. "Obviously, the financial collapse hurt the hospitality industry. We thought it would be a good time to buy hospitality assets at a discount and for an anticipated recovery. We don't think it will be a quick recovery in the U.S. economy. We think it will be slow, and as the economy slowly recovers we think the operating metrics will improve at these individual hotels we've been buying."

Among its most recent buys is Castillo Real, an Ascend Collection hotel with 60 rooms situated along the beach in St. Augustine. A press release on the deal stated it was purchased in a joint venture with Impact Group and at a 51 percent discount to the outstanding loan balance.

Before that came its acquisition of the 82-room Hampton Inn & Suites in Lady Lake and the 92-key La Quinta Inn & Suites Tampa North at Telecom Park in partnership with Liberty Group.

Last summer, DeBartolo acquired the 73-room Holiday Inn Express in Venice for $3.5 million in a joint venture deal. According to the company, the limited-service hotel was constructed in early 2009 at a cost of $7.5 million. Another buy was the 118-key Quality Inn & Suites in Palatka.

Except for the Holiday Inn Express deal, Kobel declined to release the prices paid for the other properties. But he said they were purchased at discounts of between 30 percent and 70 percent of replacement cost. In some instances, the notes on the hotels were acquired and "we anticipate we will end up owning the assets eventually," he said.

As those steep discounts indicate, these sales were of a distressed nature.

"They have all been owned by financial institutions that have been looking for a way to monetize either notes on hospitality assets or actual REO," Kobel said. "The financial institutions use us as a way to take their assets and turn them into liquidity. We close very quickly, all cash, and it's worked out well for us and the financial institutions."

Although DeBartolo has closed all cash, the company may refinance and put permanent financing on the properties at some point in the future. DeBartolo, Kobel said, is typically not a long-term holder of properties. "We plan on operating them and improving the operating metrics," he stated. "Generally, we are midterm holders, three to five years."

The firm is scouring not just Florida, but the rest of the country for potential acquisitions. Kobel said it's close to closing on a property in Texas.

"We are seeing a lot of activity," he said. "We're looking at $2 billion to $3 billion a month of not just hospitality, but all types of commercial real estate. We have a tremendous amount of deal flow."

But the window may be closing on the fire sale of distressed assets, said Richard Conti, president of Tampa-based the Plasencia Group Inc., a hotel brokerage firm with eight offices around the country. Sure, deals can be made, just not at the bargain-basement prices investors may desire.

During the depth of the recession back in 2008-09, lenders opted to extend and work out troubled loans rather than selling at steep discounts, Conti recalls.

In retrospect, that turned out to a wise choice, Conti said. With RevPAR expected to rise between six percent and seven percent this year, property cash flows and consequently values are on the upswing, allowing lenders and owners to recoup most of their money if they sell now.

Not so two years ago, when a distressed property coming to market may have only gotten 50 cents on the dollar off of its peak value, which probably occurred back in 2007. Today, that same property could receive 80 cents or 90 cents on the dollar, Conti said.

"That means the lender is going to get all of their debt out," he said. "So the waterfall of distress that everyone was expecting in

2009 never came because of these extensions and workouts that in hindsight, were pretty smart."

Even Florida's lodging industry, which took a hit when leisure travel dropped precipitously, is on the mend, Conti said.

"What's going to offset the depressed values will be the desire to own property in Florida," he said. "That is going to help stimulate it a little bit. Pricing is still on sale, but it's going to recover fairly quickly."

From his vantage point, Kobel agreed that banks are more wiling to sell now.

"A lot of the banks are healed up and they can take the discounts," he said. "They have to clean up their balance sheets. It's better for them to take in the liquidity we offer and redeploy their capital into more productive investments."

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Maria Wood
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