

**W**hat a difference a year makes. While sorting through the depressed 2009 investment numbers to pen last year's edition of the Canadian Hotel Investment Issue, the scene painted by multiple reports and industry insiders was one of sluggish transaction numbers and even worse total values. At the time, hoteliers were looking at a financial world that had just seen transaction volume tumble 61 per cent and average price per room plummet by 44 per cent. They were frightful times indeed, when all prognosticators and consultants could do to bolster anyone's hope was to frequently say, "at least we're not in the U.S."

However, according to analysts at Colliers and CBRE Richard Ellis, 2010 saw a significant evidence of increased liquidity in the market, as transactions were up modestly, and the total value of those transactions rose significantly. According to the Colliers 2011 *Hotel Investment Report*, "Hotel investment activity demonstrated encouraging year-over-year progress in 2010. Nationally, 86 hotels were reported sold, with transaction volume coming in at approximately \$720 million, up 73 per cent from the cyclical lows of 2009. While the number of trades grew modestly (up from 74 in 2009), the average deal size increased to \$8.3 million, up from \$5.6 million the year before. The growing transaction environment supported average per room pricing of \$83,000, an upward move of 27 per cent from the \$65,500 recorded in 2009."

Colliers' Alam Pirani says the increase is a positive step, but is also quick to point out that year-over-year numbers can be easily misinterpreted, particularly coming off of a year as brutal as 2009. "The market bounced back, with a more than 70-per-cent transaction increase since 2009, but



## WHERE CREDIT IS DUE

After years of slim financing options, there is hope on the credit horizon.

BY J.D. NEY

that year wasn't the greatest," he says. "We're seeing real signs of a rebound in the industry though, with improvements in the operating environment and a returning confidence among investors," which, Pirani says, should entice a few of them back into the fold.

Getting some cautious lenders back into the ballpark will be a major part of the strategy over the next 12 months, as properties emerge from recessionary hibernation. Luckily, Bill Stone, executive vice-president, CBRE Richard Ellis, says the timing ought to work well, as potential in-

vestors flush with cash after years on the sidelines, are looking at Canadian properties with a new degree of interest. "From a tenuous operating platform in 2009, evidence of the market's resurgence became clear by the end of Q1 2010," says Stone. "This activity followed the bottoming of the market from the prior fall as sellers who chose to hold — and lenders that cooperated — began to re-evaluate their real-estate strategies.... We saw bottom-feeding investors wait out the typical six- to eight-month lag between the emergence of widespread

distress in U.S. trending and its arrival in Canada. However, the number and scope of truly distressed assets were far lower than expected. By Q3, it was clear the Canadian market was in a much safer place than most global industrial markets," he says.

That vaulted position as an investment-safe economy, or at the very least, the best G8 bet moving forward,

**"INDUSTRY INSIDERS ARE ALSO INCREASINGLY CONFIDENT THE MOST STRINGENT OF RESTRICTIONS WILL BE RELAXED IN SHORT ORDER, ALBEIT AT "NEW NORMAL" DEBT/EQUITY RATIOS IN THE 60 TO 65 PER CENT RANGE"**

has meant a marked increase in the interest in Canadian properties from foreign investors in the U.S., Malaysia, Saudi Arabia, Sweden and Korea.

"Today, we are seeing a noticeable spike in interest by American investors as well as offshore groups, largely from Singapore, Malaysia and China. Groups are looking to spread international investment risk or are moving to Canada for personal quality of life and business reasons due to the growing profile of Canada as a 'safe haven' in an increasingly volatile world," says Stone. "We're seeing buyers attracted to a variety of performance situations, from operations with substantial cash flow to redevelopment, rebranding and repurposing opportunities with little or no current income. This is an exciting turning point for the Canadian hotel investment market," he adds.

In fact, according to CBRE, unlike years past, on the buy side, private investors accounted for more than a third of the volume in 2010, down from about two-thirds in 2009, with re-engaged hotel investment companies and real-estate companies now representing 40 per cent and 21 per cent of volume, respectively. "As we head into 2011, there are clear signs the quantum and variety of potential buyers is morphing monthly," says Stone. "Unlike recent years in which private, domestic buyers clearly dominated the investment landscape,

there has been an extraordinary number of international investors ready to make Canadian hotel acquisitions." Stone notes this reverses a five-year trend, in that non-domestic investors have been virtually absent from the buyer profile since 2006. "Building on market momentum, several portfolios came to market in Q3 that were enthusiastically received by an interna-

tionally diverse group of buyers from several parts of Asia, the U.S., and across Canada," adds Stone.

Despite the rosy international news, Canadian hotel owners in need of financing today may not have the luxury of waiting on angel investors from far-away lands. While the last few years have been remarkably difficult when it comes to access to domestic capital, industry insiders are also increasingly confident the most stringent of restrictions will be relaxed in short order, albeit at "new normal" debt/equity ratios in the 60 to 65 per cent range. Blake Cassidy, managing partner with the Toronto-based Rompen Investment Corporation says his company is actively engaged in the hospitality segment, precisely because the major banks, at the moment, are not. "I wouldn't say hotel deals aren't getting done today, but for a couple of years, 'hotel' has been considered a four-letter word for most lenders," he says. "It will probably be the last real-estate sector to see a return to funding by the traditional lenders."

Cassidy says while companies like his, and other tier-two lenders, are still willing to play in the hospitality sandbox, the nature of the business remains troublesome for larger institutions. "These are business loans, so by their very nature, you can't just go in and extract rent," he says. "Cash flow can be very cyclical, and we saw that in some cases over the past few

years in Alberta, for example, where properties went from 80-to 90-per cent occupancy to 30-per cent occupancy almost overnight. So, from a lender perspective, you have to be heading into these deals with caution. You have to look at, and understand, the history and the fundamentals of a given property and also the track record of the individuals seeking the loan. If the property is simply underperforming, you have to understand why and evaluate the abilities of the new owners to turn that around. Can they reflag, rebrand and create new value? If this is their first building, I'm going to be worried," he says.

In short, it's the kind of close personal relationship based on experience and trust that Vinnie Patel, president of the Toronto-based Northampton Group, says is a prerequisite for successful financing today. Patel, whose company oversees 16 properties under brands such as Holiday Inn, Aloft and Radisson in Ontario and Quebec, notes a willingness to cut costs and a pocketbook thick enough to withstand lean years helps, too. "The panic of the last few years is abating, but we're not out of it yet, and I wouldn't say it's any easier to get financing today," he says. "Lenders are still few and far between, and the criteria is still tougher than prior to 2008 in terms of equity. If you've got an existing relationship with a friendly banker, that's where you can get something done."

Much like Cassidy, Patel says the key is having the ability to demonstrate staying power and believe conditions will improve. "We stay in constant contact with our lenders, and ensure they realize we have the resolve and the ability to stay in this business for the long haul," he says. "You have to be transparent about your business and be frank with your lender regarding the business climate, but make sure you're presenting your best case. You have to realistically walk them through the tough times."

It's not a walk in the park, but it's one many are looking forward to taking with a lending partner, especially after two years of solo strolls. ♦