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# Resilience is the key to investor success! Aggressive mgmt., strong banking and staying power

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On September 11th, 2001 at 7:30 a.m., I was on a non-stop American flight to a hotel investment conference in Phoenix. I had three $14 million offers for a hotel we were marketing and I was going to negotiate with the three bidders to improve the price. The flight was forced to make an emergency landing and was put down in Minneapolis. I watched the World Trade Center towers crumble while on the phone with my wife, who had been told to evacuate the John Hancock tower. I rented the last vehicle Hertz had and drove 28 hours home in a green minivan.

When I got home and contacted the three bidders, two rescinded their offers and the third offered $7 million. I had to recommend to the owners that the best course of action was not to sell. That day began a slump in the hotel industry that lasted for 18 months. Confidence in air travel was shaken and hotel occupancies and rates dropped. However, by the end of 2002, fifteen months later, airlines began experiencing an upturn in travel patterns and the hotel business was on an upward trend that continued for seven years. Those that tightened their belts and worked with their lenders, experienced unprecedented growth in profits and great rates of return until the third quarter of 2008.

The takeover of Lehman Brothers on September 15th, 2008 is largely regarded as the "blackest" day in our country's financial history, post depression. The markets were in a panic. The world financial system threatened to come down like the house of cards we now know it was built on and the politicians that in prior years clamored for easier lending practices and large scale affordable housing, clamored anew for financial regulation and reform. Cash strapped banks called credit lines and the stock market's effect on historically great performing companies with names like GE and GM, Morgan Stanley, Bank of America and Fannie Mae put them in serious jeopardy of collapse. Plant closings, layoffs and foreclosures were daily occurrences. Demand for hotel rooms dropped off the radar screen. A worldwide credit crisis that effected business travel and subsequently leisure travel put hotels all across the country in potential financial ruin.

Twelve months later, we can see the light at the end of the tunnel. It may be faint, but investors understand that one year after the worst financial disaster in our lifetime, we've hit bottom and an upturn is beginning to come our way. Those that have tightened their belts and toughed it out will prosper knowing that the best real estate investment opportunities for the next fifteen to twenty years, are going to be available in the next several months.

The hotel industry will have to experience three recoveries before hotel values begin to solidify and an active transaction market emerges.

First the economy has to recover and the signs of recovery are beginning to take hold. A decrease in the monthly unemployment rate and an upsurge in housing sales and values have begun. We expect the second quarter of 2010 to be the turning point for our economy.

Secondly, a recovery in the demand for hotel rooms will follow an improved economy. As business improves corporate travel increases. When people feel secure with their jobs, they take vacations and leisure travel increases. This positive trend should emerge in the first quarter of 2011. As travel improves, hotel revenues and therefore, profits improve. As this trend increases, lenders will reenter the market and begin to offer debt on acquisitions and new construction on a broad scale. We expect the hotel trends to be established in the second half of 2011 and into 2012. By that time, the transaction markets should be working with investors with upward trend stories, not distressed, foreclosed properties.

Resolving to stay the course until these key fundamental changes take hold is the only way to come out on top at the other side of the present cycle we are experiencing. Aggressive management, strong banking relationships and staying power, mainly, resilience, will win the day.

Invest now. Congratulations to Charles River and the Procaccianti Group for their foresight and shrewd investment moves with the acquisition of the Marriott Hotel, Newton, Mass. last month. Years from now, we will look back at that the timing of that purchase as being at the absolute deepest part of our recession and the worst possible time for hotel performance. And still they acquired a landmark hotel, in the best suburban location in New England, for a "per room price" less that what you could build an Econolodge.

The floodgates will let loose in the winter of 2010 and the beginning of a new, upward cycle will commence. Hopefully the depths of our recession will mirror the heights of our next progression. The success stories of those that were resilient will abound.

O'Connell Hospitality Group, LLC, (OHG) was formed in 2000 and has grown to become one of the nation's top real estate firms specializing in hotel investment transactions. In that time, O'Connell has presided over more than $2 billion of hotel investments ranging from oceanfront resorts, major urban hotel projects and suburban, upscale-limited service hotels.

Previous to OHG, Jim O'Connell was senior managing director for Insignia ESG/Hotel Partners and ran the hospitality practice in the northeastern U.S. region. He is a proud alumnus of RECOLL Management Corp., where he managed hotel dispositions from the failed Bank of New England, an active member of the International Society of Hospitality Consultants, and a REFA sponsor and he is a 1982 graduate of Massachusetts Maritime Academy.