

PIPs are calling. Will owners answer?



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ATLANTA—PIPs are knocking on the door, and owners who don't answer might be shown the exit, according to hotel brand executives and owners.

Property improvement plans, or PIPs, was the subject of much discussion Monday during a general session at the Hunter Hotel Investment Conference at the Atlanta Marriott Marquis.

Brands adopted a more flexible approach during the throes of recession, when many owners were struggling just to make debt service. But now that the hotel market has entered the early stages of recovery, brands are throwing the hammer down.

Put succinctly: "PIPs are back," said Liam Brown, COO of select-service and extended-stay hotels in the Americas for Marriott International.

Most owners are biting the bullet and investing back into their assets, said Nancy Johnson, executive VP of business development for Carlson Hotels Worldwide, but there are others putting up a fight.

"It amazes me that an owner of a (US\$)15-, (US\$)25- or (US\$)30-million asset doesn't understand that in order to maintain the value of that asset they need to reinvest and improve the property constantly," she said in disbelief.

For those who don't, Johnson is more than willing to show them "other opportunities."

PIPs and ROI

A sticking point in the debate between brands and owners is return on investment. Yes, the brands have been flexible in recent years, but they can just as easily make mistakes, said Jim O'Shaughnessy, senior VP of acquisitions and development for Cornerstone Real Estate Advisers, which manages an equity portfolio of 37 hotels.

Not every brand directive adds value, he said. Owners are closer to their customers and should make their

voices heard when it comes to brand requirements—something that requires a cool-headed and ongoing conversation.

Naveen Kakarla, president and CEO of Hersha Hospitality Management, agreed. “I don’t think every possible (capital expenditure) idea is a good idea.”

Hersha operates nearly 80 hotels throughout the United States under 20 brands.

Johnson made it clear brands never act “just because.” Their standards are bred out of guest demands. She pointed to flat-panel televisions as an example.

Also at stake is brand integrity, she added. If the brand comes down hard on one property, but is more flexible on the same flag a mile or two down the road, the integrity of that entire brand begins to suffer.

“It is imperative that we make sure the brand is being lifted,” Johnson said.

Maintaining standards is an imperative for the overall success of a brand and the broader hotel industry, Kakarla said.

“It’s something that we have to do,” he said, adding that the crackdown likely will fuel more volume in the transactions market. “... Some of the special servicers and holders of assets that would have gladly not done much ... are being asked to put in capital they just don’t have.”



Cornerstone Real Estate Advisers’ Jim O’Shaughnessy (left) discusses brand standards as Hersha Hospitality Management’s Naveen Kakarla looks on.

The new normal, Obama, and financing

The panelists tackled several other topics during the session, including:

The new normal

The core fundamentals of the hotel industry remain in place, Kakarla said. “Never take your eye off the ball in terms of your guests, your associates, and your hotel.”

But while the foundation might be the same, the landscape on which it is based has changed considerably —“changed” being the operative term.

“What does normal mean? There’s no steady state anymore,” Marriott’s Brown said. “...The new normal is

change at a rapid pace.”

Impressions of Obama

“He is receptive to being educated on the industry,” Johnson said. “I don’t think that he came in knowing what a huge economic boon the travel and tourism industry could mean to America. He misspoke several times and hopefully we trained him not to do that again.”

Challenges do remain, however, and Johnson underscored the importance of working together as an industry to present a united front on Capitol Hill.

Debt financing

Development is still very, very slow, but it’s less slow than it has been, Brown said.

“(Financing) will come back. It’s just the pendulum has swung completely the other way, but it will swing back,” he said.

O’Shaughnessy played the optimist, reminding attendees that less pressure from new supply can only help existing players in the market.

Rate integrity

Kakarla doesn’t blame the online travel agencies for the hotel industry’s inability to maintain rates during the downturn.

“You’re only as strong as your weakest revenue manager,” he said. “... We needed OTAs more than we want to acknowledge sometimes ... but we didn’t set up the structure correctly.”

Fortunately, a year’s worth of industry-wide growth in revenue per available room and occupancy has put the hotel market in perfect position to push rates, he said.