

LOS ANGELES BUSINESS JOURNAL

Volume 31, Number 14

April 6 - 12, 2009

\$3.00

Up
Front

Hoteliers Check In to Turnarounds

HOSPITALITY: Companies ready to buy, manage ailing inns.By **MAYA MEINERT** Staff Reporter

Fewer people are traveling due to the recession, and that's bad news for hotels. But it's good news for those with the skill to turn around establishments that are teetering on the brink.

That's where the folks at **Hotel Control Management Group** and **Unique Hotels** come in. HCM specializes in managing properties that are headed toward bankruptcy; Unique wants to buy them up at bargain prices.

HCM is a division of L.A.'s Luxe Hotels & Resorts, and was created late last year by Efreem Harkham, Luxe's owner and chief executive, after he started getting calls from banks and court-appointed attorneys who suddenly found they had hotels on their hands. Luxe is in negotiations to take over management of four Southern California boutique hotels.

Unique is an investment and advisory services company. Managing Director Carlos Lopes, most recently of the Hotel Bel Air, is based in Manhattan Beach and has a history of scooping up deals on the cheap.

Unique has put offers on six hotels, and is in negotiations with three, one of which is in Los Angeles.



Lobbyist: Unique's Lopes at Biltmore Hotel.

Please see **HOTELS** page 40

40 LOS ANGELES BUSINESS JOURNAL

APRIL 6, 2009

Hotels: Opportunities Knock at Distressed Properties

Continued from page 1

"I have never seen values like this before — they're so low," said Lopes, who has been involved in the hotel industry for about 30 years. "You're really buying hotels for less than what they were built for."

Other local companies diving into the distressed hotel business are **Jolie Quest Hotels and Resorts** in Westlake Village and **Ambrose Collection** in Santa Monica. Jolie Quest has already bought two hotels, one in South Lake Tahoe and one in Salt Lake City. Ambrose is in the process of acquiring one hotel on the West Coast and one on the East Coast.

Hotel prices fell 20 percent in 2008, and they are predicted to fall an additional 20 percent to 40 percent this year, according to an Atlas Hospitality Group report.

"Hotels don't have long-term leases, only daily occupancies, so they reflect the economy on a real-time basis," said Wilson Wang, an analyst at Atlas in Irvine. "They feel the pressure right away."

Rick Kirkbride, chair of Paul Hastings Janofsky & Walker LLP's resort practice group, has represented hotel owners and managers, including Lopes, and capital funds in previous downturns. He believes the current cycle is just beginning.

"Everybody — whether you're a buyer, operator or capital source — is gearing up for the onslaught, the avalanche, of a tremendous number of hotel assets that are either going to end up in foreclosure, workout or bankruptcy," said Kirkbride.

Buying spree?

Since November, Unique has evaluated about 30 properties for acquisition. The company used to focus on management, but had moved into consulting.

Unique is now looking for 100- to 200-room boutique hotels in city centers or resort destinations. The company wants to buy at very low prices because many of the sites need costly renovations. But bargains can sometimes be hard to find, even in this economic climate. That's why Lopes said Unique has been turning down most of the properties under consideration.



Stepping In: HCM Group's Efreem Harkham at Luxe Hotel Sunset Boulevard.

"There's a disparity between buyers' and sellers' expectations, and the gap gets wider in times like this," said Atlas' Wang. "The seller mentality is still prior to the decline, and the buyer is anticipating still more of a decline."

Unique is negotiating to buy two foreclosed properties, one hotel in San Francisco and another in South Beach, Fla. Unique is dealing directly with the owner of a third property in Los Angeles. Lopes anticipates the deals to be finalized in the next two or three months.

Unique was founded as a management company in 1987 by Lopes and Eric Prevette; they had worked together at Rosewood Hotels. The Biltmore Hotel in downtown was Unique's first L.A. property, and the company was able to take the hotel from 45 percent occupancy to 76 percent in three years, making it attractive enough for the owner to sell.

Alex Makowski was the Biltmore's asset manager at the time, representing the hotel's owner, **Credit Suisse First Boston**. He credited Lopes and Prevette with its successful turnaround.

"They were such a good team, they just had

a real chemistry," Makowski said. "Carlos is a classic European hotelier type, and Eric is the financial control type. By the time we sold the hotel, it was profitable again."

Unique continued consulting, and subsequently moved into hotel management and acquisition. But in 2002, Prevette and Lopes went their separate ways — Prevette became president of the **Irvine Co.**'s resort division, while Lopes became managing director of the Hotel Bel Air. They reformed Unique late last year with Terry Petty, former executive vice president at Marriott International.

The company gets its money to purchase the hotels from the United Kingdom and through partnerships in California.

Managing partners

In contrast to Unique's focus on acquisition opportunities, HCM Group is in talks to do hotel management. Its focus is on boutique hotels that are having trouble servicing their debt due to the slowdown in business and are about to go into foreclosure or bankruptcy, if they haven't already.

Banks and attorneys handling such cases contacted Luxe; Chief Executive Harkham formed HCM in response. He said his office has received close to 20 inquiries since November.

In some cases, receivers for the properties just want a company to take over management for a specified period of time, usually six to 10 months, while the business is in receivership or bankruptcy reorganization. In other cases, banks that have become hotel owners need an ongoing management team.

The company spends about 10 days evaluating a hotel. HCM executives consider many factors, from the condition of buildings to the profitability of restaurants.

Harkham and his colleagues do a walk-through of the property to look for the good and the bad. A hotel may have an attractive lobby, but its style may not match its geographic location. If HCM got the contract, the company would fix that.

The criteria will vary depending on whether it's a short- or long-term project. HCM would take a short-term contract regardless of whether major upgrades were required. However, in the case of a long-term contract, HCM would not take the job if an owner weren't willing to invest in new fixtures, and recruitment and training of new staff.

"I haven't seen hotels this bad in a very, very long time," said Lesley Carey, vice president of hotel management services at HCM. She has held management positions at the Argyle and Orlando hotels in Los Angeles. "I've been through this three times in terms of the economy being down, and it takes a good team to turn around a hotel and make a profit," Carey said. "There are a lot of boutique hotels in and around Southern California that are in need of assistance. This is a really great opportunity for us to help them."

Though HCM is focusing on only management right now, that doesn't mean Harkham, whose hotels include the Luxe Hotel Sunset Boulevard and Luxe Hotel Rodeo Drive, wouldn't consider purchasing some of these distressed properties in the future.

"It's very tempting, but I'm restraining myself," he said. "There are some incredible opportunities right now, but I don't want to be distracted from what we're doing now."