



## ***GHN Perspectives: Chad Crandell, CHM***



*Chad Crandell  
President and Co-Founder  
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### **Outlook From the 2014 HELP Conference**

On the heels of the 3<sup>rd</sup> annual Hotel Equity & Lender Perspectives (HELP) Conference, GHN caught up with conference co-host and CHM President, Chad Crandell, to learn what was most pressing on the minds of hotel investors after the first quarter of 2014 and what key issues were anticipated to play a role in shaping the balance of the year.

**GlobalHotelNetwork.com:** At the beginning of 2014, forecasted performance for the U.S. lodging industry was generally positive, with RevPAR growth projections in the range of 5-6%. Is this still the prevailing sentiment?

**Chad Crandell:** The timing of conference in early April allowed prognosticators to reaffirm their respective outlooks. While indications suggest earlier forecasts are holding true, there remains a difference in opinion of just how strong RevPAR growth will be in 2014. PKF remains bullish at 6.6% and STR reflects a more conservative projection of 5.3%, representing a slight decrease in growth rate from 2013. If I had to pick a horse in this race in terms of who would be most accurate, I would have to go with PFK based on national performance indicators, as well as what we've witnessed firsthand with our asset managed hotels during Q1 2014... I sure hope they're right.

**GHN:** Was there a consensus on where we are in the lodging cycle?

**Crandell:** There was a fair amount of discussion on where we are in the lodging cycle, there was no general consensus on how long of a runway we're looking at. The more bullish estimates were 4 to 5 years, while others saw the outlook for growth lasting another 2 to 3 years, citing the biggest boogie as the degree to which supply will become a factor. There was



consensus, however, on where we are in the lodging cycle right now which was repeatedly described as “the sweet spot.”

**GHN:** Given that, how would you describe the current market—is it a buyer’s or seller’s market?

**Crandell:** Interestingly, both. It would appear pricing is rising to a point where sellers are ready to sell, while buyers find themselves sitting on a ton of cash and buying power supported by low interest rates. In most cases buyers are still able to acquire at prices lower than replacement cost and view timing as favorable, still allowing enough runway left to realize returns over the next few years. Again, the question here is how long in the runway?

**GHN:** What are some of the key issues facing hotel owners/investors today that are unique at this point in time?

**Crandell:** I would have to say that the unprecedented interest rate environment, namely the federal fund rate of essentially 0% that we have experienced for roughly five years now, has been highly unique to this stage of the cycle. The concern of course is when interest rates do rise, what impact will it have on valuation today, and more importantly future exit cap rates?

Also unique, and unfortunate, has been the slow recovery of ADR (average daily rate), which in uninflated dollars could be interpreted as zero real rate growth over the past decade, or more. Despite the empirical data that lowering room rates does not stimulate demand, the industry as a whole has really struggled in this area and was a topic of much discussion at the HELP Conference. Lack of operator confidence, transparency of pricing, slower recovery of group and countless “disruptors” (i.e. internet start-ups aimed at technologically linking guests to the lowest rate at all times) have been a challenge to conventional revenue management strategies.



**GHN:** In your role as asset managers, how will you address some of these issues?

**Crandell:** Well, we can't do much about prolonging the interest rate environment, but we can ensure that hotel owners and investors are well-positioned to take advantage of the "sweet spot" we're in. Asset managers have always been focused on bottom line results and encouraging operators to closely examine the cost and contribution of guests, ensuring optimal segmentation and pricing strategies are in place. The old revenue management practices and tools are not robust enough to deal with the current environment, so we spend a large percentage of our time analyzing and strategizing around the area of revenue management.

**GHN:** If you could have added a real-time panel, what would the conversation focus on?

**Crandell:** I think the issues raised by so many of the speakers and panel participants really resonated with attendees and generated so much buzz that it would have been great to include a session called... "We know the issues, now what's the solution?" The lodging industry is highly defragmented as compared to other industries (many different owners, shareholders, stakeholders, brands), making it very susceptible to disruptive forces that erode investor profitability. People wanted to continue the discussion to include ways in which the lodging industry could effectively collaborate and tackle issues on a more global basis, regain control and protect the future profit outlook.

**GHN:** What were you most surprised to learn at the HELP Conference this year?

**Crandell:** Several companies that play in the lodging space, yet have nothing to do with the direct investment in hotel real estate, nor the operation of hotels, have a higher market cap than many of the major brands (i.e. TripAdvisor, among others). This was a rude awakening for many in attendance.

**GHN:** What do you foresee as the major issues that will certainly drive the discussion at HELP in 2015?



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**Crandell:**

I hope the discussion will be driven by how far we were able to move the needle on ADR and RevPAR as an industry in 2014. I would guess that the same time next year we will be talking more about the impact of rising interest rates and re-evaluating the supply story. But, for now, I am perfectly content to live in moment and enjoy the “sweet spot.”

*CHM is a long-standing member of GlobalHotelNetwork.com and Mr. Crandell is a member of GHN's [Investment Committee](#).*

