GF Management makes most of recession

24 March 2011 9:20 AM
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The Sheraton Baltimore North in Towson, Maryland, has 284 guestrooms and 28,000 square feet of meeting space. The property is owned by principals of Philadelphia-based GF Management, which manages it.

ATLANTA—To say GF Management is in growth mode isn't doing it justice. It's more accurate to refer to it as rockin' and rollin.'

The Philadelphia-based management company has worked the recession to its advantage: By working with special servicers and financial institutions, it assumed the management contracts of 73 hotels during 2010 and 20 more during the first 65 days of 2011.

And according to Jeff Kolessar, senior VP of development, GF Management is just hitting its expansion stride as it has reached 117 hotels with more than 18,000 rooms that generate approximately US$420 million in revenue.

The portfolio ranges from limited-service hotels to large, full-service hotels and resort properties. GF has majority ownership in 15 hotels, 15 others are third-party managed and the remaining 87 hotels are managed as part of various distressed-property scenarios. It plans to add at least another 80 hotels to the corporate roster this year, and it has tripled its corporate staff size to accommodate the growth.

Jeff Kolessar
Senior VP of development
GF Management

Kolessar said most of the new management contracts will last between 12 and 18 months. GF treats each the same, and in many cases, like a potential investment. He said the company is doing much more than simply babysitting the hotels.

"If we're dealing with a bank property or a third party, we treat it as if it's our own property," he said during a break at the recent Hunter Hotel Investment Conference in Atlana. "We put together a strategic plan in terms of, 'OK, are we going to hold this property for six months? Are going to hold it for 12 months? Are we going to hold it for three years?'

"From the management perspective, they get the same approach whether they're 60 days or whether they're three years," Kolessar added. "It gets the same intensity and management expertise."

Looking to buy

The company also has added depth to its acquisition team as it gears up for expansion on the ownership front. Kolessar didn't rule out acquiring assets it manages for others. But he said the decision comes to down to fundamentals: Is it a solid opportunity?

"It's about 15 hotels that we have ownership—we anticipate that number to go to 30 or 40," Kolessar said. "… Our goal would be to pick up three to five hotels this year strategically on an acquisition to grow that side of it as part of our master plan."

Kolessar plans to increase GF's exposure across the country. It has properties in 29 states and he'd like to see that increase to 40. He knows working with distressed assets has a cyclical nature, so now is the time to act.

"At some point in time, the workout business is going to slow down and we think there's probably another 24 to maybe 36 months of that business out there," Kolessar said. "So we don't want to be left going from 117 hotels down to 40 hotels again. We want to make sure we stabilize somewhere, probably around 80 hotels is a good-sized company. I'd love to say we can keep it in the 100-plus area, but I think we're realistic in terms of our goals in terms of where we're at."

Kolessar is optimistic about the company's long-term portfolio. GF is forecasting upticks in cash flow at all the properties it has maintained for at least the past year.

"You're starting to see a rebound, even on some of the distressed properties where we've been in there for a while and we've been able to do some things to the property, market it a little bit better, manage it a little bit better, and we're seeing some definite increases in cash flow in some of the properties," he said.

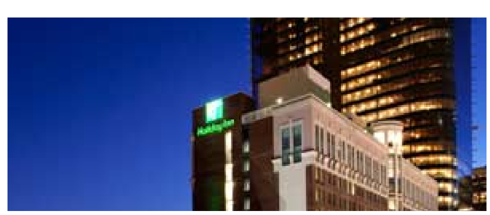
Déjà vu all over again
Like many industry executives, Kolessar makes the rounds to hotel industry conferences. His take on the industry? "I'm a baseball guy, and I would say, 'We're in the second inning.' And unfortunately I've been saying 'We're in the second inning,' for three years now," he said.

The good news is hotels in the top 10 metropolitan statistical areas are attracting strong investors; the bad news is real-estate investment trusts are flush with cash and swooping in to acquire most of the quality assets available, Kolessar said.

"They're buying premiums, they're looking at, 'OK, I can buy this hotel for not 50 cents on the dollar, but maybe 80% of replacement value,' and they've got to put money out there on the streets," he said. "You're reading about all of these transactions that are taking place. Well if you part out some of those larger transactions, there hasn't been a lot of activity that's taken place. But now we're starting to see some of those smaller deals move, but that's still all-cash buyers. … I'd probably have to say you're looking at not those double-digit returns but maybe somewhere around 5(%) or 6(%) if we carve out the larger, top 10 MSAs."

Other opportunities
But it's not just hard assets that the company is dealing with. Hotel notes, the latest darling of investors, are on the docket, too.

"If hotel notes are being sold, we're being contacted by certain groups that may not be a hotel we're working on currently, but investment funds are coming to us and saying, 'Can you help us underwrite



these? We′re interested in buying this hotel loan. We′re not sure about the operations. We′re helping underwrite it. Can you underwrite it for us?′″ Kolessar said. "So they can put the opportunity to acquire that loan, and then with the assumption that we would step in, either as a court-appointed receiver or take over to manage it, if in fact they would foreclose on it as a loan-to-own situation.″

The Holiday Inn Center City in Charlotte, North Carolina, has 296 guestrooms. It is owned and managed by GF Management.

Kolessar said there are 22 securitized groups providing financing—12 or 13 of them provide it to hotels. He expects that number to grow, and then the inevitable will happen.

"We know what will happen: Once it gets competitive again, the juices start flowing, and all of a sudden the 55% (loan-to-value rates) are going to jump to 60(%) and then 70(%) and then people are going to push the envelope a little bit,″ he said. "It's just part of our industry after seeing it for the last three cycles.″