Trick or treat? 20/10/2007 12:37:00

Inside Track by Katherine Doggrell

With Hallowe'en approaching and Rome's confectioners stocking chocolate ghosts and pumpkins, it looked likely that delegates at this year's International Hotel Conference would stick to the seasonal theme and entertain each other with some liquidity crunch-induced ghoulish screams.

In the event, the conference seemed closer to an Easter celebration, with the US delegates in particular frolicing like so many lambs warmed by the first rays of Spring sunshine.

Last year fears were rife that asset values were reaching dangerously unsustainable levels and were provoking a dour atmosphere among the delegates.

This year, however, with the Financial Times and Wall Street Journal both featuring front pages heavy with concern for the likes of Bank of America, attendees were bordering on the carefree. Better the devil you know was the inevitable conclusion.

There was a realisation that deals were likely to slow down, and were expected to include a higher level of equity than has been seen over the past two to three years, but for single assets the future is looking active.

One US investor group was even able to report agreeing a deal as a result of contacts made at the conference.

The consensus amongst attendees was that the next 60 to 100 days would be key to determining the next phase of the M&A market. Core markets and primary assets were expected to be resilient, whereas secondary markets and assets were under greater pressure, with investors likely to withdraw from areas where there was doubt in performance.

Dan Larkin, partner and European Hotels & Leisure team leader for Squire, Sanders & Dempsey, said: "Hotels have become an accepted asset class and unless you see a spinning out of control of the general economy, hotels are still looking good, they can handle some readjustment.

"With asset prices there is some renegotiating with deals and some are falling, we are definitely seeing some readjustments with general real estate assets, but hotel prices are proving stickier as the fundamentals are still good.

"There will be a pause for a while for the really big deals, however. There will be a period of wait-and-see - the last thing anyone wants to do is overpay."

Amongst the UK delegation, talk was of the Chancellor's decision to cut taper relief and its likely impact on the industry. Short term it was expected to provoke a flurry of deals, particularly single assets, bring brought to the market to beat the increase from 10% to 18%.

Long term it is feared that the move will further restrict the entrepreneurial spirit of the UK's hotel sector and discourage investment at a time when investment is already facing restrictions.

For the global industry, however, the outlook remained hopeful.

Nick Pattie, managing director of Cushman & Wakefield Hotels, said: "The operating performance of hotels is fundamentally strong. Revpar is probably at or near its peak in real terms, although that said, it's unlikely that there will be a dramatic drop-off."

Wolfgang Neumann, area president, Hilton International, Europe & Africa, concluded: "We have been in a very positive period and we will probably see it slow, but this industry has become very good at reacting to events. There will be more consolidation and the big brands with good distribution will do well.

"We are an exciting industry and I don't think people should forget that.

"People have more money to spend and they live longer so have more time to spend it. Projects may be scrutinised more closely but the good ones will become better. The industry can look forward with a lot of confidence."

With this sentiment echoed across the conference, the sector looks, for the moment, safe from going bump in the night.

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