

# Hotel Business

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## Providence getting hands dirty with distressed hotels

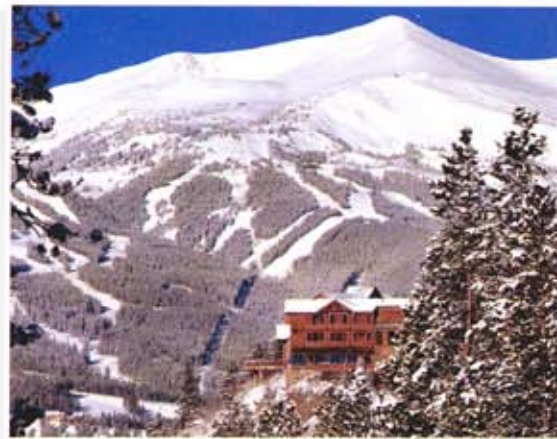
By STEFANI C. O'CONNOR

DENVER—Following the property's possession by a subsidiary of Lehman Brothers Holdings, LLC, Providence Hospitality Partners is now managing The Lodge at Breckenridge here.

According to David Storm, president of PHP, an owner and operator that tackles turnarounds, receiverships and institutional asset assignments, the company will look to maximize the property's value and plans to upgrade all guestrooms and select public areas, launch a "comprehensive" food and beverage program and add a "seasoned" sales team.

"Breckenridge fits the strategic model for us," Storm said, noting a deed in lieu of foreclosure was executed after the undisclosed borrower defaulted on the loan

held by Lehman, whose assets are overseen by Atlanta-based special servicer TriMont Real Estate Advisors. "If they could not have negotiated that, then it probably would



The Lodge at Breckenridge in Denver is noted for its breathtaking views.

have went through and been placed in a receiver and would have done a judicial foreclosure."

Situated in what Storm catego-

rized as a "breathtaking" location with views to the Rocky Mountains and overlooking the ski slopes and town of Breckenridge, the Lodge has 46 king rooms, two queen rooms and suites with forest or mountain views. Adjacent are 1,800-square-foot, three-bedroom log-style homes.

Classifying the property as a previous "development play," Storm indicated approximately eight acres around the asset were slated for development. "[The former owner's] plan was to develop it, [but with] the capital markets you can't finance a free lunch. It's a tough go right now," he said.

Storm noted the hotel has the aspects of a distressed asset and that, over time, the previous owners closed the spa and did the same

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## Providence putting its REO transition module to good use for today's owners

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with the fine-dining restaurant, Top of the World, rather than address possible upgrades or capital improvements. "I think the way they justified it was, at the end of the day, 'it's going to be a development deal, we'll have all this redevelopment and we'll circle back around [to the spa, restaurant].'"

Storm said PHP is coming in with a real estate-owned (REO) transition module along with a team to secure the finances of the property, take inventory, inspect the physical attributes and conditions—structurally, environmentally and operationally—and interview existing staff and to also establish in the first 30 to 45 days of new operations what he termed a "gap" plan to tide over the property until an annual business plan is put in place.

PHP already has established a complimentary breakfast at the hotel to match its competitive set and taken away the negative of not having a food and beverage outlet. "The cost of the breakfast for us is maybe \$3.75 to \$4, but we've raised the rate on the room almost \$9," Storm said.

Storm added PHP is advising Lehman via TriMont that the next step is to secure a liquor license and open up a lounge with an appetizer/sandwich menu and, by the time the ski season kicks in, have

a restaurant serving breakfast and dinner and include catering, particularly to capture wedding business.

"Part of our responsibility is not looking at this hotel as if we're going to be in here operating it for two or three



The rooms and suites at The Lodge at Breckenridge offer rustic décor.

years; we look at a window of probably six months," Storm said. "If we're doing our job, we're positioning the property to get full recovery value for the lender. That's it. Period. So I'm not going to recommend anything to [TriMont] that's going to take a year to 18 months to come to fruition. We're going to say, 'Spend your money here because a new buyer would have to do it anyway.'"

PHP is an approved operator for the major brands, Storm said, but has an af-

finity for independent properties as well. "We have such a history of operating independent hotels that we've created infrastructure for those hotels. We have developed a proprietary set of 'SOPs'—34 standard operating procedure manuals developed for independent hotels. So we can walk into an independent hotel and feel quite at home," he said.

Both Storm and PHP's CEO Charles Stark have depth in handling troubled properties. Operating as Signature Hospitality previously, the

funds right now with existing groups and groups that we worked with in the past and we have monies committed," Storm said. "Either purchasing a discounted note is going to be one of the key strategies or the purchase of select and strategic REO assets."

Storm noted there's a distinct shift in dealing with troubled properties now. "It's as much of a distressed financial structure as it is a distressed asset," he explained. "That's what we're seeing that's different. Before we would go into a distressed asset and it would have all the classic symptoms: all the good people had left, people not capable had been promoted beyond their capabilities, no capital had been infused, marketing was invisible. What we're seeing now is either they're in a technical default of the loan because they're not getting debt coverages or they're in a monetary default of the loan because their servicing doesn't really match the value of the property today."

PHP currently is analyzing five different properties for acquisition, with New York a target for one of its acquisition groups. "We anticipate over the next 24 months to be the purchaser of both REO assets and notes," Storm said, noting, "The Lehman assignment is really sort of the starter's gun."



company did about 50 REOs and receiverships on a national basis.

Now, with a portfolio of 10 hotels, six-year-old PHP has equity in two properties and is looking for other opportunities as well. "We're putting together



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