

## A Healthy Dose Of Hotels

Baby boomers hitting retirement age and needing more and more medical care spark a need for limited- and extended-stay hotels to go up alongside hospital and health care centers. **Kratsa Properties, Christman Co., Granger Group, Suburban Inns** and **Hospitality 3** check the vital signs of developing hotels near hospital and health care facilities. Kratsa sticks two hotels under the tongues of Pittsburgh residents. Christman Co., Granger Group and Suburban Inns capitalize on developing health care markets in Michigan. Hospitality 3 also follows the trend and builds a pair of hotels in New Haven, Conn.

Due to advancements in health care, baby boomers are less skeptical about hospital stays than their parents. Many hospital visits now are shorter so that family members accompanying patients may need only one- and two- night stays in nearby hotels. Add elective surgeries and increased business travel for research and cities see health care dollar signs. Officials in Norwich, Conn., went so far as to ask developers to tweak a hospital project's design to add hotel space, which until that point wasn't considered. In turn, hospital builders such as Novant and Nueterra ask cities to rezone allowing for more commercial space to accommodate hotels.

Kratsa feels the pulse of Pennsylvania and aims to build a pair of hotels in Pittsburgh. The select-service and extended-stay hotels will be positioned between a bevy of health care facilities and hospitals, including a Children's Hospital, and will be located near the Shadyside and East Liberty neighborhoods. General Partner **Billy Kratsa** expects patients to stay at the 154-key extended-stay hotel that will be attached by a walkway to the Hillman Cancer Center. Kratsa also anticipates doctors from the D.C. and New England areas staying at the hotels to do research and studies. Costs for Kratsa run between \$100K/key to \$120K/key. Look for a groundbreaking by the end of the year and an opening within 12 to 18 months.

Kratsa keeps very busy in the Pittsburgh area with six other hotels that will be built in proximity to health care facilities. A 156-room **Hilton Garden Inn** will break ground by Q3. That property will be located on a demolished Jail Annex and will cost \$22M to build. Then a \$25M, 180-room **Residence Inn** near PNC Park, home of baseball's Pittsburgh Pirates, breaks ground in February. A \$22M, 154-key **Courtyard by Marriott** breaks ground in Q4 2008/Q1 2009 in the technology sector of town, and a 124-room and a 98-room Residence Inn to go up in the Pittsburgh area. Finally, the Highland Building will get a \$20M renovation into a 144-room hotel.

Christman Co. develops a 100-room hotel as part of its Michigan St. development on Medical Mile in Grand Rapids, Mich. Like Kratsa, Christman VP **Daniel LaMore** can capitalize on the strength of the medical department of Michigan State University, where researchers in the development's Lemon Holton Cancer Pavilion will usher in patients. The extended-stay property will connect to the hospital and includes amenity packages for patients using Lemon Holton. Christman joins up with the City of Grand Rapids to build 840,000 s.f. spread across four buildings, which could take four to five years to complete. An announcement with further details is expected by Q2.

Granger Group readies work in the Wolverine State with two hotels in the Metro Health Village in Wyoming, Mich. President **Gary Granger** heads up the construction of a 120-room, limited-service property and an extended-stay hotel next door to the health village. Granger can expect a dose of patients, their families and pharmaceutical reps to stay at his properties, located just outside Grand Rapids. Expect the limited-service hotel to break ground by November with a 12-month development cycle. The second deal hasn't closed yet, but could see a Q2 2009 ground breaking. Both hotels will hoist chain flags.

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Suburban Inns also wants to cash in on Michigan's medical market with its \$28M, 250-room **Holiday Inn** in Grand Rapids. President **Brian Beukema** already owns two Holiday Inns and a Hampton Inn in the area. Each enjoys steady occupancy from health care patients and researchers. Down the road is the Spectrum Health-Butterworth and St. Mary's Health Care hospitals, both of which are easily accessible from the hotel's location near Interstate 196. Look for a groundbreaking soon.

Hospitality 3 prepares a conversion of an 86-room **Colony Inn** into a 125-room boutique property in New Haven, Conn. Principal **Paul McGowan** will draw from his experience at Starwood developing **W Hotels**, to bring along the project. The hotel will be at the heart of Yale University, where the college and its Yale-New Haven Hospital bring the bulk of hotel visitors. McGowan's main competition for hospital visitors will be the 306-room **Omni New Haven Hotel** and a yet-to-be-built 250-key full-service hotel from Centerplan Development, expected to break ground by the end of this year. Only 1,310 rooms exist in the city and demand, mostly coming from the hospital, is estimated at 25% higher than room inventory. Watch for Hospitality 3 to open its hotel by summer.

## High-Energy Hotels

**Pyramid Cos.**, **Vail Resorts Inc.** and **True North Architecture** take self-sufficiency to a new level with hotels attached to larger projects that produce their own energy. Pyramid builds an Emerald City with its **Destiny USA** project and a hotel powered by solar panels in New York. Vail Resorts pulls out a \$1B Colorado project designed to use multiple energy sources to power one plant for a massive resort. True North employs a local university to help its **Edison Landing** development use renewable energy.

The next phase of the environmental development movement rolls forward with ground-up green hotels. Rather than switching out light bulbs, updating plumbing and water systems or asking guests to reuse bath towels and bed sheets in an effort to reduce energy costs, these hotels are developed with renewable energy sources. Pyramid and Vail's hotels come close to being energy self-sufficient with their mix of solar panels and energy-saving design. Both properties will use building materials and construction methods that limit environmental impact. Government grants and funding for these projects are a little easier to come by, due to so many investors getting into the renewable energy market. The projects may stand as examples of how well the methods will work in terms of cost savings, as they haven't been tried at this scale.

There's no yellow brick road, but Pyramid CEO **Bob Congel** is the wizard building his Emerald City with the \$450M, 1,342-room **Emerald Five Shotel** in Syracuse, N.Y. The "green" hotel anchors the 1.5 million-s.f. Destiny USA shopping and entertainment center. The addition of a hotel as part of Destiny's Phase II construction provides a 24-hour component to the project. The hotel's 250,000 s.f. of meeting space will accommodate convention-size meetings.

Several green features of the Emerald Five hotel including side solar panels, use of reclaimed and storm water, a freestanding 23-megawatt, biomass-gasification power plant and proposed use of wind turbines mean far less energy would be pulled from the city. With these components added to the many now-standard practices of conservation in a hotel, the Shotel may be saving hundreds of thousands, if not millions, of dollars more than its conventional hotel counterparts. Pyramid went as far as recycling 95% of its construction debris and used trucks powered by bio-diesel, which has no petroleum. Under a contract with the city, the hotel must break ground by Q2 2009. Look for an 18-month build out after that.

Rivaling Pyramid to build the first massive renewable energy development is Vail's \$1B **Ever Vail** project in Broomfield, Colo., just outside of Denver. The two four- to five-star quality hotels will house approximately 120 rooms apiece, along with 30,000 s.f. of meeting space at the ski resort. Vail CEO **Bob Katz** could have the largest LEED-certified project in the country when the entire project is completed by 2014. The renewable energy comes from a combination of solar panels, hydroelectric generators in Gore Creek, geothermal heat and a central mechanical plant. Buildout costs will total about 15% more than typical projects of this size, but Vail will get some federal government rebates. Look for the first hotel to break ground by 2010 with a 2012 opening, and the second by 2012 with a 2014 opening.

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## Recent Sale

**Property: Days Inn Hotel, Arcata, CA**
**Type of property:** Full service. 78 rooms. Built in 1975.

**Buyer:** Penta Hospitality

**Seller:** Arcata Hospitality Group

**Broker:** None

**Price: \$5M**
**Per Room price:** \$64K

**Cap Rate:** 9%

**Loan:** \$5.1M (90% LTC)

**Lender:** Potomac Realty Capital LLC

**Notes:** The transaction represents the first asset in Northern California for national lending firm Potomac Realty Capital. The lender was able to close the transaction in 16 days. Despite being positioned as the first of six hotels on a retail boulevard known as "Hotel Row," the property lagged behind competitors due to inexperienced ownership and the absence of a flag affiliation. The buyer plans to complete the renovations associated with the recent Days Inn flag conversion. The lender projects an ADR of \$75 and 62% occupancy during the first 12 months of the new ownership, with a stabilized ADR of \$83 and occupancy at 71% by year three.

## High-Energy Hotels...

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True North purchases 24 remaining acres of a 34-acre development from Edison Landing LLC and includes hotels as part of its \$350M development plan in Muskegon, Mich. True North Principal **Dan Henrickson** pulls out a 10-year strategy for the development and will work in conjunction with Grand Valley State University's (GVSU) energy center, which already has a foothold on the land. GVSU and Muskegon want to invite companies building alternative energy devices to the area, and the Edison Landing project could expedite that effort.

Look for the project to become an alternative energy sector incorporating wind turbines and solar panels into the development design. Henrickson will include one hotel that it will parcel out or joint venture on and could add a second, given that a casino may go up down the street from the site. The 10-year project should get underway with a 2009 groundbreaking.

## In With The New Owners

Up-and-coming hoteliers and hotel investment groups find the buy-and-renovate route the way to build their portfolios. **Ace Hotel Group**, **Coastal Hotel Group (CHG)**, **Bricton Group Inc.** and **RM Crowe** roll up their sleeves to buy and refurbish new properties. Ace takes its funky, boutique brand and enters Palm Springs and New York. CHG blazes a trail to Portland, Ore., with its conversion of a **Four Points by Sheraton** into the 140-key **Hotel Fifty** while acquiring a resort in the same state. Bricton forms a JV to acquire Chicago's **Hotel Wacker**. RM Crowe picks its second hotel investment by purchasing the **Marriott Houston West Loop**.

These companies waited in the wings for a long time for an opportunity to grow in major markets. Private investors holding onto these properties are reading the headlines and want to get out before the expected slowdown in development hits the hotel industry. While Ace, Bricton and CHG take the opportunity to grow their established hotel portfolios, Crowe enters new territory. Even if the hotels don't meet expectations, the land values in such highly touted cities will always go up. Renovating the properties gives the new owners a chance to establish a new identity and makes repositioning the hotels that much easier.

Ace Hotel Group heads to the desert with the renovation of a 190-room **Howard Johnson** into its burgeoning **Ace Hotel** brand. The renovation will clean up the aesthetics of each room and bring a bohemian-style hotel experience to Palm Springs. Ace Principal **Alex Calderwood** hopes the panoramic mountain vistas of the hotels and the addition of 4,000 s.f. of meeting space will draw people to the property. Calderwood will also bring his unique hotel concept to Manhattan with the 240-key **Ace Hotel New York Breslin**. The renovation, set to start in early February, will remodel the historic Breslin hotel near Penn Station and the Lincoln Tunnel.

Ace grew slowly starting in the Northeast until it recently fortified its relationship with GFI Development renovating hotels across the country.

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## In With The New Owners...

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Calderwood aims for ADRs near \$150 and leans more toward limited-service hotels, but each property will adjust for its clients. The company works with local investment groups in gateway, class-A cities. An 80-room Milwaukee property is also set to begin upgrades soon.

CHG undertakes a \$7M transformation of the 140-room Hotel Fifty in Portland, while also adding the 160-room **Resort at the Mountain** in Welches, Ore., for \$24M. Hotel Fifty is a former Four Points By Sheraton hotel. CHG garners its first ownership stake with this property, a Portland gateway hotel. Look for CEO and President **Yogi Hutson** to reposition the hotel to better suit Downtown Portland's environment with a business, boutique experience. The renovations will add glass awnings, color, LED lighting and new landscaping to the hotel's exterior, but don't expect much interior work. Renovations should be completed by May. CHG heads outside of the city with the Resort at the Mountain purchase. Look for CHG to announce renovations to the hotel's interiors, two restaurants and 18,000 s.f. of meeting space.

Bricton Group forms a JV with Oxford Capital Group LLC and Gettys Interior Design to purchase the 231-room Hotel Wacker in Chicago for \$24M. The Wacker will undergo another \$25M of work to gut and remodel the entire property located on the Near North Side of Chicago. Bricton SVP **Michael Cohen** will probably bring in an upscale or new select-service brand name. The hotel will close during renovation, which will begin in February. A reopening is planned in Q2 2009.

RM Crowe dives further into the hotel business by picking up its second property, the 304-key Marriott Houston West Loop, for \$41M. RM Crowe CEO **R. Maurice Crowe Jr.** plans the \$15M renovation of the hotel, which is estimated to take two years. Upgrades will continue the redesigning of guestrooms and common areas and may include retooling the layout. Crowe steps out of his comfort zone in office space ownership with this purchase. Don't expect Crowe to rebrand the hotel, since RevPAR hits the \$105 mark. Marriott International Inc. will be brought on to manage.

## Smaller Developers Hot For ABVI

**America's Best Value Inn** (ABVI) gains interest from small developers after improving quality standards. Developers look to get a jumpstart from **Vantage Hospitality's** limited-service flag. **OM Enterprises** adds to its Southern portfolio with a property in Byhalia, Miss., while **Desert Skies Inn Inc.** develops its first hotel in Delta, Utah. Count on the brand to add properties in Texas and Southeastern states including the Carolinas and Florida, along with its expansion into Canadian and Chinese markets.

ABVI beefs up its portfolio without compromising quality after another year of hefty growth. After expanding its portfolio by more than 27% and adding 9,600 rooms in 2007, the brand ranks eighth in the number of hotels worldwide. The brand targets the addition of 150 properties/year, and VP of Development **Patrick Mullinix** focuses future growth on quality rather than quantity. ABVI declined 60 property applications in 2007 for not meeting ABVI quality values. Expect rejections to add up as the brand plans to ramp up quality standards.

ABVI attracts small developers looking for strong results, lower costs, flexibility and a flat monthly membership and marketing fee. The fastest-growing hotel chain in the country saw occupancy rise 0.2%, RevPAR increase to \$35.55 and ADR rise 4.5% to \$56.71 in 2007. ABVI development costs are typically lower than competitors because amenities such as pools, meeting rooms, business centers and exercise facilities are all optional. The optional amenities allow brand developers to design their properties to suit the local environment.

OM Enterprises spends \$1.5M including land on its first ABVI property in Byhalia. The rural market location is a welcome addition to COO **Sandip Patel's** 15-property portfolio. The company is willing to entertain thoughts of adding any and all properties with profit potential and hopes the 26-key hotel will be just that. The 14,000-s.f. hotel attracts leisure and business travelers along Highway 78, the highway connecting Memphis and Birmingham, Ala.

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## Smaller Developers Hot For ABVI...

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OM is slowing growth to two properties per year thanks to the credit crunch but looks to expand its Southern portfolio with two Atlanta projects in its pipeline. Watch for the company to emerge in key suburban markets soon with the likely addition of its first **Hilton** brand.

Desert Skies plans to develop a 46-key ABVI in Delta, Utah, and an opening is slated for June. The \$5M hotel is the first for local physical therapist **Howard Quackenbush**. The 28,000-s.f. property becomes the third hotel in Delta and the first with its own wedding reception area. Desert Skies wants to take advantage of the lack of accommodations for business travelers commuting from Salt Lake City. The hotel, scheduled to break ground late this month, will be known as **Delta Skies Inn, ABVI** once completed. If its initial property succeeds, watch for the company to eye additional development opportunities with ABVI due to the brand's lower development costs and smaller monthly fees.

## Hotel Projects Hit College Towns

Developers see hotels near colleges as a great investment. **NANA Development Corporation** proposes a three-story hotel on land owned by Alaska Pacific University. **Abood Properties** chooses hotel development over condos on land near the Michigan State University campus in East Lansing. **Gene Fritzel Construction Co.** hopes for tax breaks on its hotel project near Kansas University in Lawrence. **Metropolitan State College of Denver** searches for a hotel developer on a mixed-use project.

Properties near college campuses generally see higher occupancies due to constant traffic from visitors to the campus and school events. Some hotels attract additional guests through programs giving hands-on business and hospitality experience to university students. However, getting the projects approved can be an issue for developers. Since the land near universities is usually expensive and in short supply, many developments are subject to a series of delays regarding land uses, traffic impacts and other concerns before projects are approved.

NANA Development hopes to construct a 160-key **Springhill Suites** on land next to University Lake that belongs to Alaska Pacific University. The company hopes to strike a deal with the university to secure the land by the end of January. The budget for the project including land is \$23M, and a groundbreaking is scheduled for spring. Sr. Analyst **Steven Adams** anticipates the project will incorporate a unique, relaxing, park-like, lake atmosphere into the architecture, furnishings and landscape design. Plans are for the hotel to be used as an educational tool for the university. Students earning their bachelor degree in business administration management will have the chance for hands-on experiences in hospitality. NANA targets an opening of Q2 2009.

Abood Properties seeks city approval for an 88-key **Residence Inn** adjacent to the Michigan State campus. President **Jerome Abood** scratched original plans that included a condominium complex due to the sluggish housing market. The new proposal details a five-story building with a lobby, pool and restaurant. The hotel would likely attract professors and parents visiting the Michigan State campus as well as those attending events at one of the university's entertainment facilities. The company anticipates breaking ground in June, with an opening set for fall 2009.

Gene Fritzel Construction plans a 105,000-s.f. hotel project on the edge of Kansas University. **The Oread Inn** will replace longtime campus watering hole, The Crossing, barring city council rejection. Principal **Thomas Fritzel** asks for city approval to charge an additional 1% sales tax at its first-floor restaurant and bar, in addition to setting up a TIF deal designed to fund improvements to the property's infrastructure. Look for the city council to reach a decision on the \$30M development in February.

Metro State prepares for a select-service hotel and a Hotel Learning Center (HLC) to be housed on the Auraria Higher Education Center (AHEC) campus in Downtown Denver. The AHEC campus sits on 125 acres and is the home of the University of Colorado at Denver and the Community College of Denver as well as Metro State.

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## Hotel Projects Hit College Towns...

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The 150- to 200-key mixed-use project will include a restaurant, meeting and banquet space and the HLC. Proposed costs of developing the property total \$35M to \$40M, with the hotel itself making up at least \$25M of the amount.

Initial plans for the hotel were born more than a decade ago but began to gain momentum in 2006 when **Chad Gruhl** created the Metro State HLC Task Force. Metro State hospitality students will have the ability to gain hotel operation experience by working as both employees and interns at the property. A groundbreaking is scheduled for the summer of 2009, with an opening targeted for Q4 2010. Gruhl plans to give the management company Metro State chooses the ability to use the hotel and HLC as its corporate training center. Count on **Hyatt Place** and **Aloft** brands to be in the mix when the RFP is due in April.

## Heard In The Halls

🏠 **FelCor Lodging Trust** chalks up two more **Marriott International Inc.** properties. The REIT adds the **Renaissance Vinoy Resort & Golf Club** in St. Petersburg, Fla., and the **Renaissance Esmeralda Resort & Spa** in Indian Wells, Calif., for \$225M from entities owned by **Walton Street Capital**, **Rockpoint Group** and **SCS Advisors**. The deal expands FelCor's relationship with Marriott, which began in December with the rebranding of the **Crowne Plaza** hotel in San Francisco's Union Square as the **Hotel 480**. The 480 will be a Marriott after renovation. Count on the company to look at growth opportunities with its traditional **Hilton** and **Starwood** brands in the near future as well. FelCor VP **Steve Schafer** plans to improve the quality of the company portfolio by continuing to both buy and sell properties. Don't be surprised if the company targets acquisition of upper upscale properties in major urban markets, with Manhattan, N.Y., Washington, D.C., and Downtown San Francisco at the top of the list.

🏠 Look for **InterContinental Hotels Group (IHG)** to develop a **Candlewood Suites** hotel in Paducah, Ky. IHG plans to break ground in the spring with completion 12 months later. The 50,000-s.f. hotel will cost an estimated \$5M to build and will feature 85 suites, 69 studio suites and 16 one-bedroom suites. Demand generators in the area include offices of the United State Enrichment Corp. and manufacturer Briggs & Stratton as well as tourist attractions such as Kentucky Lake, Lake Barkley and Museum of the American Quilter's Society. The hotel, which will offer a fitness center, a business center and meeting room space, will be located off the Interstate 24, halfway between St. Louis and Nashville, Tenn.

🏠 **RockBridge Capital LLC** loans \$20.5M to **Milestone Capital Corporation** for its acquisition of the **Doubletree Hotel** in Greensboro, N.C., from **BPR Properties LLC**. The 175-key full-service hotel is in like-new condition after undergoing a \$16M renovation in October. President **Sander Mednick** follows the company's typical path by acquiring a recently renovated hotel that he perceives to be under market value. Plans are for the property to be managed by Milestone's operating affiliate, Milestone Hospitality Management LLC, which currently operates 14 hotels nationwide. Rely on the company to use the Doubletree as the southern anchor to its growing Mid-Atlantic portfolio.

🏠 Expect **Destination Hotels & Resorts** to invest another \$4M in cosmetic renovations for the **Driskill Hotel** in Downtown Austin, Texas, as part of its efforts to upgrade the property. Destination will undertake a makeover of the hotel rooms, restaurant space and bar areas after buying the property for \$55M a couple of years ago. The renovation of the 121-year-old building will take place in phases starting from May until August. The 188-room property underwent a \$30M renovation in the 1990s that Destination oversaw for former owner Great American Life Insurance Co.

## A Fixer-Upper? No, Thanks

Opportunistic hotel companies decide to invest in properties that require little investment and have proven cash flow to reduce risk. **Supertel Hospitality Inc.** picks up 10 hotels and shores up its presence in Kentucky. **Dakota Hospitality Co.** sells a prime eight-property portfolio of hotels in four Midwest states. **Apple REIT Eight Inc.** closes on two select-service hotels in Kentucky and Tennessee.

Some companies think the strategy of paying up front to ensure they are acquiring stable and good quality hotels is well worth it in the long run. Supertel CFO **Don Heimes** puts his money in Kentucky hotel operations that don't require too many upgrades or renovations and instead help save money by combining operations. Hotel fixer-uppers also aren't very popular with Apple REIT Eight, considering turnaround properties are far more dicey in terms of time and money needed to bring them up to par.

Supertel, which specializes in the limited-service, economy and midscale segments, buys seven hotels for approximately \$21.8M in Kentucky that include two **Comfort Inns** in Brooks and Glasgow; a **Comfort Suites** and 63-room **Sleep Inn** in Louisville; a **Quality Inn** in Cave City as well as two **Days Inn** properties in Ashland and Glasgow. The REIT will make modest changes at its new properties to squeeze higher returns from ADR and RevPAR. Heimes is excited about expanding Supertel's presence in Glasgow and Louisville, where he sees significant growth potential. The other properties include a couple of Days Inns in Sioux Falls, S.D., and a **Super 8** in Green Bay, Wis. Supertel raised funds for the acquisition from GE Capital Corp. and its credit lines.

Dakota Hospitality makes an opportunistic sale to PGPW LLC and First Call Hotels that comprises an eight-property portfolio with **Holiday Inn**, **Holiday Inn Express (HI X)**, **Holiday Inn Express Hotel & Suites** and **Hilton Garden Inn** hotels in North Dakota, Minnesota, Kansas and Texas. Jones Lang LaSalle Hotels brokered the 986-room deal for Dakota. Word on the street is the acquisition price was roughly \$100M. PGPW and First Call snapped up the portfolio due to the properties' stable cash flow, above-average RevPARs and rising ADRs. The eight properties include a Holiday Inn and HIX in Fargo, N.D.; an HIX in Grapevine, Texas; a Hilton Garden Inn and HIX in Fort Worth, Texas; a third HIX in Minnetonka, Minn.; and two Hilton Garden Inns in Eden Prairie, Minn., and Overland Park, Kan.

Apple REIT grabs an \$18.8M **Hampton Inn** property in Bowling Green, Ky., and an \$8.6M **Homewood Suites** in Chattanooga, Tenn., as part of an eight-hotel deal from seller Newport Hospitality Group, which will continue to manage the hotels. **Apple Hospitality's** Apple REIT Eight bought the portfolio for roughly \$129M. Hotel Assets Group, which specializes in select-service hotel sales of less than \$25M, brokered the deal for Newport Hospitality. Hotel A.G. Principal **Keith Thompson** thinks the hotels' prime locations and established revenue streams were the big draw for Apple.

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