

Guam's hotels: a real estate market in transition

Now that we've covered some of the subtleties, nuances and trends associated with the general residential and commercial real estate markets, let's turn our attention to one of the high profile, high risk ownership positions on Guam; hotels. The early history of hotel development on Guam is romantic with prominent local families, the government and major Japanese firms joining forces to grow the industry. Local investors quickly realized that hotels were a high-risk investment vehicle and today, only the Ysrael family remains entrenched (and, in conjunction with Outrigger, quite successful). Boom and bust cycles took their toll but fortunately Japanese investors continued to add new hotels to the inventory and market Guam as a resort destination.

During the past five years, Guam's hotel sector has experienced a previously unimaginable flurry of sales activity. The Hilton Guam Resort & Spa, Pacific Islands Club, Guam Marriott Resort, the former Holiday Inn and Dai-Ichi Hotel, Tropicana Hotel, the Reef Hotel, Hotel Okura, Hotel Nikko Guam, The Palace Hotel, Hotel Santa Fe Guam and other hotels recently traded. And it's not over yet. Hotel ownership is sexy but bottom-line profits have been ugly since the 1999 supply expansion gave rise to cutthroat competition on room rates. How would you like to own real estate where the government, Guam Power Authority and your insurance company make more money than you do? Hotel price declines since the boom years have been awesome. In 1993, for government real property tax assessment purposes, I appraised the Dai-Ichi Hotel at \$55 million. It later sold for \$5.5 million. I appraised the

Reef Hotel at \$82 million. It later sold for \$10 million. The Hilton hotel was priced near \$300 million at the market peak but sold at \$30 million (the "Deal of the Century"?) a decade later. The list goes on and on.

It's been a blood bath — really ugly. Okay, so 8,000 Marines are coming, but what about tourism? We hear less and less about how important the tourism sector is, and we haven't done much to support the owners. Hotel owners provide a major employment and tax revenue base, promote Guam as a destination, accommodate our visitors and military personnel, provide fine dining facilities, water parks, ballrooms for weddings and conferences as well as other forms of entertainment. And what do hotel owners get in return: currency exchange; weather and terrorism risk; insane insurance and utility bills; high fixed costs and increasing expenses; and a financial beating.

Although market conditions are much stronger than during 9/11, SARS and typhoon-impacted downturn, only a handful of prime hotels are generating reasonable profits. The Guam Hotel and Restaurant Association reported occupancy and room rates for 2005 and 2006 are abysmal, even with the impressive rebound in visitor arrivals. When you analyze hotel financial statements, it's no sur-



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prise that properties are trading for pennies on the dollar.

What can we do to support hotel owners? How about tax breaks for renovation projects? How about discounts on power charges (which can reach \$250,000 per month)? Since we can't afford these ideas, how about a proclamation certifying October as "Hotel Owner Appreciation" month? How about a fiesta on Mr. Leo Palace's birthday?

Although we have a tradition of ignoring hotel owners (except for the now defunct QC program), things are about to change. Low entry prices completely alter the financial landscape. New owners (most of them anyway) are strong, smart and confident. Ken Corp. and Hee K. Cho, owner of JMSH LLC, which does business as the Holiday Inn Guam; Alupang Beach Tower; the Garden Villa; the Mai'ana Airport Plaza; and the Tumon Horizon Condominiums have taken the lead and continue to increase their share of available product. Renovation projects will improve the visitor profile and contribute to a long-term recovery in the hotel sector. Tour companies, historically intent on selling cheaper product, may have less control as a result. A reduction in inventory via time-share, fractional condotel ownership or converted use will support gains in room rates and occupancy. Barring unforeseen negative external forces, hotel owners should finally see increasing profits and values. No thanks to us.

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