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Q&A

Robert Habeeb: Why select-service hotels in Midwestern markets are so appealing.



What do select-service hotels and the Midwest have in common? According to Robert Habeeb, president and chief operating officer of Chicago-based First Hospitality Group Inc., both are stable, long-term bets. First Hospitality Group's portfolio of more than 35 hotels—20 owned and 15 under management—is concentrated solely in the Midwest and generates more than \$125 million in annual revenues.

The properties are predominantly Hilton and Marriott-affiliated brands, but the group has ownership interests and manages hotels affiliated with InterContinental, Wyndham, and Radisson as well. The firm was founded in 1985 with a single Hampton Inn property—at the time, a new brand. First Hospitality still owns that Hampton 21 years later. Recently NREI spoke to Habeeb about trends in the select-service sector and doing business in America's breadbasket.

NREI: What is it about the preferred brands that attracts you to them?

HABEEB: The brand affinity or loyalty programs. We find that in all of our Hilton hotels, the Hilton Honors or Marriott Rewards represent usually half of our business, and they're great demand generators. Business travelers are very loyal to

their brands. The other aspect of those brands that we really like is that they have become very quality conscious, very consistent, and that's set them apart from the competition.

NREI: Talking about the Midwest for investors, there's a national concern that the region is hurting. Hence, are there more opportunities there because investors are shying away?

HABEEB: I think you can get more for your money in the Midwest, and I would certainly disagree with this perception that the Midwest is depressed. It is true that during the last transition—from recession to recovery—the Midwest lagged both in terms of time and intensity the rest of the country's recovery. I would argue that it didn't dip into that same recession as deeply or as quickly as some other markets. Take Florida, for example. Real estate values in some portions of Florida are up 45% in two years.

NREI: We recently wrote about RLJ Development acquiring White Lodging, netting 90 select-service hotels, for \$1.7 billion. It seems like everybody is jumping on the select-service bandwagon. Is that a sign that it's time to get out?

HABEEB: No. I don't think it's a sign that it's

time to get out. The nice thing about select-service is that it has staying power through economic cycles. What we saw during the last recession is that the luxury segment really took a hit, especially after 9/11 and it filtrated down to select-service. Now that the economy has shown some growth again, luxury and the high-end is doing better and select-service is doing great.

NREI: Because the barriers to entry to select-service are far less than full service, does this mean that we're likely going to see a run in this product?

HABEEB: I think that what you'll see very quickly is the haves and the have-nots. I think we'll see the premium brands have all been saturated in any given market, then you'll start to see developments that don't make sense again, where people are putting a lot of money into brands that don't have good underlying demand.

NREI: Have you stepped up the pace of acquisitions and development at First Hospitality?

HABEEB: We have. We believe these well-positioned good locations, well-positioned brands and good management will survive no matter what. Our history has proven that.
Sibley Fleming