

## Bankrupt hotel? Check in with caution

### 5 insider tips for knowing your resort is in foreclosure

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From the outside, the Puerto Rican inn that Pablo Solomon checked into looked like it belonged on the cover of a slick vacation brochure. The landscaping seemed immaculate, the lawn was freshly trimmed, and the pool an inviting shade of blue.

He paid no attention to the “for sale” sign out front. But he should have.

“It was a disaster,” remembers Solomon, an artist who lives in Lampasas, Tex. “The staff knew their days were numbered and just did not care. Nothing worked and everything was dirty. There were bugs. We found out later that the exterior looked nice only because an outside company did the maintenance.”

A record number of hotels are thought to be in foreclosure, meaning that Solomon is in good company. (No one appears to keep reliable records on a nationwide basis.) **One industry-watcher** estimated that as many as 10,000 properties are at risk — that’s roughly 1 in every 5 hotels.

Most resorts don’t advertise their impending shutdown. “Hotels in foreclosure are very secretive about it,” says Aliya Jiwa, a Dubai-based **hotel investment** analyst. “There are absolutely immaculate hotels that are in foreclosure, and no one would know.”

Which brings us to the first — and perhaps the most obvious — tip-off that a hotel is in trouble. “If you see a for sale sign on your hotel,” says Solomon, “run.” Beyond that, how do you make the most of a visit to an almost-bankrupt hotel? Here’s how to spot a property and what to do if you find yourself checking into one:

**1. Is the place falling apart?** Most hotels on the brink have lost their ability to repay their loans, so they can’t cover their operating costs. As a result, rooms and public areas become neglected. “Hotels need to refurbish or renovate every three years or so to maintain a good aesthetic appearance and keep their flag,” says Jiwa, the hotel analyst. (A flag is a hotel’s brand.) “When you see public areas like the lobby in need of some updating or rooms that are dilapidated — stained carpet, chipped tables, cracked bathroom tiles — then this is a sign that a hotel is financial trouble.” It doesn’t always mean the hotel is in foreclosure. Sometimes, it just means it’s a badly-run hotel. Either way, it’s not a good sign, and you should check out as soon as you’re able.

**2. Was the price you paid too good to be true?** Amazing lodging bargains sometimes have a high price. You may be checking into a hotel that’s on its way out, according to Melinda Crump, a spokeswoman for Sageworks, which conducts financial analysis for private companies, including hotels. “For some, it may be a welcome opportunity to conserve cash,” she says. “But for others who are looking for a premier hotel experience, it may be a nightmare.” If a bank is forced to operate a hotel while waiting for a buyer, the hotel will probably be understaffed. That means the rooms won’t get cleaned as often, the hotel operator won’t answer the phone after a few rings (if at all) and room service will take forever. One way to find these troubled hotels is online (just type the name of the property and “review” and you’ll pull up a lot of helpful information). If the resort’s ratings are in the toilet, then the low rate it’s offering may be no bargain. You might want to look elsewhere.

**3. See a lot of new faces?** If there’s a new general manager and none of the staff look familiar to you, it could be a sign that the property has problems. “There can be an abrupt shift in personnel if the lender or creditor seeks to put a property management company in charge of the

property,” says Travis Miller, chief mediation officer with Wisconsin Loss Mitigation, which helps hotels and other commercial properties reorganize their debts. New staff also doesn’t immediately understand the needs of the property and its long-time guests. Learning the ropes takes some time. If you’ve been visiting a hotel year after year and suddenly the staff changes, you might want to take your business elsewhere. At least until the new people find their bearings. Unless, of course, you want to turn your vacation into a learning opportunity for the brand-new staff. Yeah, neither do I.

**4. Is the hotel cutting corners?** Once the owner knows the property will be lost, there’s typically a deliberate effort to not invest any resources in it — and often an attempt to squeeze all possible resources from it, according to Shari Olefson, an attorney with the Fort Lauderdale, Fla., law firm Fowler White Boggs, and who is currently foreclosing on a hotel.

“For example, it is not unusual for owners to remove any furniture or equipment that they can remove without being obvious, or to divert certain orders, like food or linens, for resale,” she says. A careful guest might have known about the hotel’s problem by looking up the property’s legal description in the county’s records. That’s hardly practical. But the extreme cost-cutting, which in Olefson’s hotel included firing most of the cleaning staff “and replacing them with illegals” would have been the tip-off. When you see that, it’s time to move on to another hotel — or go home.

**5. Hey, where’d everyone go?** In a few cases, the hotel can close down suddenly, and without warning. “If the financial issues are extreme or the borrower and lender are really feuding, the hotel could be closed at any time, without much notice to the guest,” warns Suzanne Amaducci-Adams, a partner and hospitality industry expert at the Miami law firm Bilzin Sumberg Baena Price & Axelrod. What’s happening behind the scenes? It would take another column to explain everything, but Amaducci-Adams says there’s so much wrangling between various parties, titles and licenses — almost all of it unseen to the guest — that a lot can get overlooked. If there’s a litmus test for an imminent closure, or foreclosure, it might be the paintings and sculptures. “Personal property like art work could disappear from the lobby,” she says. Perhaps that’s a useful litmus test: If the artwork disappears, maybe you should, too.

The good news? Once a hotel emerges from foreclosure under new ownership, the deals may last — for a while. “In some cases, we saw hotels coming out of their foreclosure position by actually adopting rock-bottom prices,” says Jean Francois Mourier of RevPar Guru, a company that develops revenue management applications for hotels. In other words, there may be some short-term benefits to you even after a foreclosure.

Not all foreclosure hotel visits are negative, though. Some hotels actually do what they’re trained to do, even during tough times: They offer outstanding service at a reasonable price.

That’s what Naresh Vissa found when he stayed at a bankrupt extended-stay hotel in Dallas recently. “I had nothing but a fine service experience there,” he remembers. “I believe they cut down on the number of times per week they cleaned my room and set my bed, but the service was there when I needed it.”

Here’s hoping all of your bankrupt hotel stays are that good.