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Hotels are are enjoying a surge in business, but loads of d still linger behind the scenes

Premium content from Boston Business Journal - by Keith Regan, Special to the Journal

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Greater Boston's hotel market has enjoyed a relative rebound since late 2010, with rooms increasingly being gobbled up by busine international travelers. It's a recovery that will need to continue if the industry is ever going to escape from beneath the mounds o the recession left behind.

It's the elephant in the room that's giving industry analysts pause as they weigh the local hotel sector's near-term prospects. While revenue is rising, the market's IOUs remain at concerning levels. They also serve as reminders of an era fueled by cheap money a economic expansion, factors that made investing in hotels a seemingly sure bet.

Today, the reverse is true, as the hotel industry's financial performance is far short of what's needed to meet its debt obligations.

"When you come from where we were the two years before, last year was a nice leap forward," said **Timothy Kirwan**, general r at InterContinental Boston, adding that hotels are still working their way back to pre-9/11 revenue-per-room rates. "Food and beve up and occupancy has come back, but nobody is doing the margins they were doing in the past. No one could really be confident t rebound was going to last long-term."

Last month, Fitch Ratings said the InterContinental's owner, Extell Development Co., is expected to default on an $18.5 million loar backing the property. The debt was originated in 2006. Kirwin said the hotel's debt issues have not affected its operations.

Similar situations have taken hold at a number of area hotels including the Hampton Inn & Suites at Boston's Crosstown Center as Boston's Nine Zero Hotel, where brisk traffic has masked significant debt issues.

Still, Boston's gains were among the tops in the country last year, with a revenue per available room jump of 13.3 percent, said **R Woodworth**, a vice president at Colliers PFK Consulting USA in Boston. "What we see in the numbers is that demand came back s strongly that the revenue managers couldn't jack the rates up hard enough to take advantage of that."

"It's natural when coming out of a downturn that everyone is sensitive to raising rates too quickly, but it looks like some could hav them sooner and made even larger revenue gains," he said.

For many Boston hotels, 2010 "was an absolutely incredible year," said **Joshua Bowman**, an attorney in the hospitality practice a & Lodgen LLP. However, he cautioned that a even a string of strong quarters won't be enough to get some hotels out from under debt loads. "Some hotels that had to borrow a lot of money are still in pretty rough shape and may be more focused on filling roor getting maximum revenue," he said.

While many lenders have displayed patience, that could change quickly as the economy improves, said **Cecilia Gordon**, a director Goulston & Storrs' real estate group. "We're already seeing the beginnings of that," she said.

To be sure, some lenders are losing patience. For example, this month the 76-room Best Western in Rockland is scheduled to be s foreclosure auction. Likewise, Boston's W Boston Hotel narrowly avoided foreclosure last year through a bankruptcy filing, while th Crowne Plaza Boston North Shore in Danvers and Courtyard by Marriott Fitchburg were slated for auction last month.

Continued strong performance by hotels could help convince some lenders to continue waiting for the turnaround to take hold, thou even hotel managers remain cautious about their future outlook.

"As an asset class of real estate, hotels are very much a bellwether of the economy and consumer confidence," said Sherin & Lodg Bowman.