2-9-2012

Analysis of the Real Estate Investment Trust (REIT) Industry

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JOHNSON & WALES UNIVERSITY

Feinstein Graduate School

Analysis of the Real Estate Investment Trust (REIT) Industry

An industry Analysis Submitted in Partial Fulfillment
of the Requirements for the MBA Degree

Course: MGMT 6800
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February 9, 2012

Executive Summary

In 2009, most REITs opted for the recapitalization of their balance sheets in order to respond to the recent global credit crisis, thus reducing their leverage and strengthening their financial statements (REIT, 2011b).

In 2011, the REIT industry represented \$54.3 billion in revenue and a profit of \$7.8 billion. The industry annual growth expectation for the next 5 years (from 2011 to 2016) is 5.1% or \$69.7 billion (IBISWorld, 2011b). The Hotel & Motel industry counted 14 REITs in the lodging/resort sector in the U.S. (REIT, 2011c) and represented 10.5% of the equity REIT Industry (IBISWorld, 2011b). The REIT structure keeps gaining popularity among investors and real estate firms (IBISWorld, 2011b). Expansion, capitalization (balance sheet strategy), and portfolio restructuration and selection are the main objectives in the Lodging REIT industry. As a result of an interest rate to remain low in 2012, investors should still be interested in investing in REITs. However, the uncertainty and volatility in the market are expected to remain in 2012. In addition, quality assets are not easy to find, which makes it difficult for a quick recover.

The position of FelCor Lodging Trust (FelCor) in the market is worse than its competitors as evidenced by the worst net income result (-\$290.48 million) and the lowest operating margin (2.97%). Overall from 2008 to 2010, the reduction of total assets reflects the CEO's, Richard Smith, decision to shrink the company in order to reposition and strengthen it (FelCor Lodging Trust, 2011f). The company show an ongoing effort to shift to a new market strategy, which started in 2005 and which clearly show FelCor's intention to become an oligopolistic firm by dropping hotels in markets with low barriers to entry and by focusing on high barriers market hotels, thus increasing its market force (FelCor Lodging Trust, 2011b).

The balance sheet explicitly demonstrates that FelCor is in a critical financial situation. In 2010, FelCor recorded an accumulated deficit of $2 billion and its total equity dropped of 13.87% or $91.5 million. As a result of FelCor's financial situation, in December 2011, Standard & Poor's (S&P) gave a quality rating (between A+ and D) of C, which is the lowest (D=In Reorganization) (Business & Company Resource Center, 2011a) and TheStreet Ratings rated FelCor's shares in its "sell" section of the rating spectrum (Business & Company Resource Center, 2011b).

One of FelCor's strategies is to shift from suburban to urban markets but this process has not been completed yet and penalized Felcor's market shares value (Benziga, 2011). Not only FelCor's position in the market is worse than its competitors but also the actual housing market is not favorable for expecting high return on assets sale.

In the current situation (shifting strategy) and unfavorable position among competitors, FelCor is not prepared to face new economic challenges; although its strategies may set the company to the right direction. I recommend that the company invest in new markets such as BRIC countries and/or diversify its portfolio in REITs other than merely lodging in order to stabilize its financial situation.

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Industry Analysis

Introduction

The introduction of FelCor to the public market as FCH occurred in 1996 in the New York Stock Exchange. It is only in July 1998 that it became FelCor Lodging Trust Incorporated (FelCor Lodging Trust, 2011b, 2011c, 2011d). FelCor belongs to the industry of Real estate investment trusts (REITs), which provides an opportunity to possess real estate as liquidity of security notes. As result, it is easier for investors to sell and buy real estate (C. A. Cooper, personal communication, fall 2011). REITs receive special tax consideration, as they have to distribute at least 90% of their annual income tax to shareholders (IBISWorld, 2011a). The industry encompasses equity, mortgage, and hybrid REITs (C. A. Cooper, personal communication, fall 2011).

This report aims to provide the reader with a deep analysis of the Hotel & Motel REIT industry, which is an equity REIT, and the position of FelCor within this industry. The analysis consists of two main parts (a) an external analysis and (b) an internal analysis. In addition, this paper investigates and contrasts the three key competitors of FelCor, which are Host Hotels & Resorts, Ashford Hospitality Trust, and Hospitality Properties Trust (LexisNexis, 2011a).

The industry highly relies on the housing market and the tourism/hospitality market. As a result, the current economic situation, and more precisely the last financial crisis, has had a double adverse effect on the Hotel & Motel REITs. Hence, in order to resolve issues, the industry lean on (a) the desire of the public to travel, either for business or for pleasure, which drives the earnings of these companies and (b) the value of their assets, which dropped after the 2008 housing bubble burst–subprime mortgage crisis (IBISWorld, 2011a).

Industry overview

In 1960, the U.S. Congress created Real Estate Investment Trusts (REITs) in order to promote large-scale investments and to provide an opportunity to possess real estate through liquidity of security notes. Prior to this policy, commercial real estate investments were only accessible to institutions and wealthy individuals being able to afford direct real estate investments (REIT, 2011a).

In the early stage of the industry, mortgage REITs, which loan money for mortgages to owners of real estate or invest in (purchase) existing mortgages or mortgage-backed securities, dominated the market. On the contrary, equity REITs, which invest in and own properties such as commercial properties and are responsible for the equity value of their real estate assets, were restricted because ownerships and management of assets were compelled to remain separate. However, in 1986 the Tax Reform Act allowed them to manage and own their properties as virtually integrated companies. This act permitted a secular interest for initial public offerings (IPOs) in the mid-90's. Presently, 83% of the 134 publicly traded U.S. REITs are equity REITs that own and most often manage commercial real estate and obtain most of their revenue and income from rents (REIT, 2011a).

In July 2008, REIT Investment and Diversification Act became law, thus allowing REITs to buy and sell assets more efficiently and increasing the size of taxable REIT subsidiaries. In 2009, most REITs opted for the recapitalization of their balance sheets in order to respond to the recent global credit crisis, thus reducing their leverage and strengthening their financial statements (REIT, 2011b).

The REIT industry celebrated its 50th anniversary in September 14, 2010 (REIT, 2011b). For the last half of a century, REITs have become a large and important segment of the U.S. economy. As a matter of fact, in the last decade only the capitalization of the REITs equity market surged from $90 billion to about $200 billion (REIT, 2011a).

In 2011, the REIT industry represented $54.3 billion in revenue and a profit of $7.8 billion. The annual growth between 2006 and 2011 only averaged 4,4% including a 2.1% jump in 2011. The industry annual growth expectation for the next 5 years (from 2011 to 2016) is 5.1% or $69.7 billion. The latter should be driven by economic recovery and a rebound in the real estate market. The industry encompasses 178 businesses and $2.3 billion in wages (IBISWorld, 2011b).

During the last economic downturn, which was caused by the subprime mortgage crisis, the industry assets lost 26.2% of their value or $90.1 billion. This was the worst financial crisis and property decline since the Great Depression (IBISWorld, 2011b).

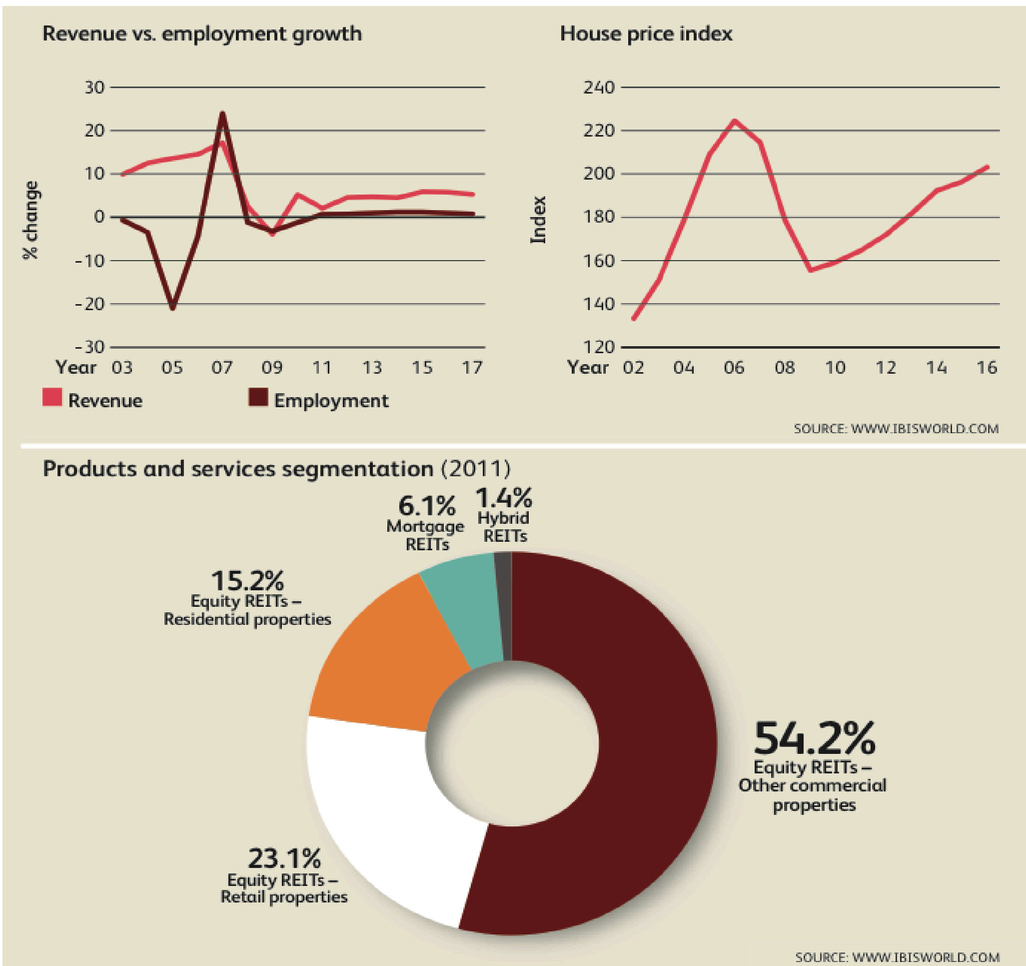

Figure 1. Main Key External Drivers and Segmentation of the REIT Industry. The upper section of this figure shows the main external drivers of the industry and the lower part illustrates the segmentation of the type of REITs (IBISWorld, 2011b).

The U.S. real estate value chain bellow illustrates the stages that establish commercial REITs. This process has the most potential for leverage (Lowe and Gereffi, 2008).

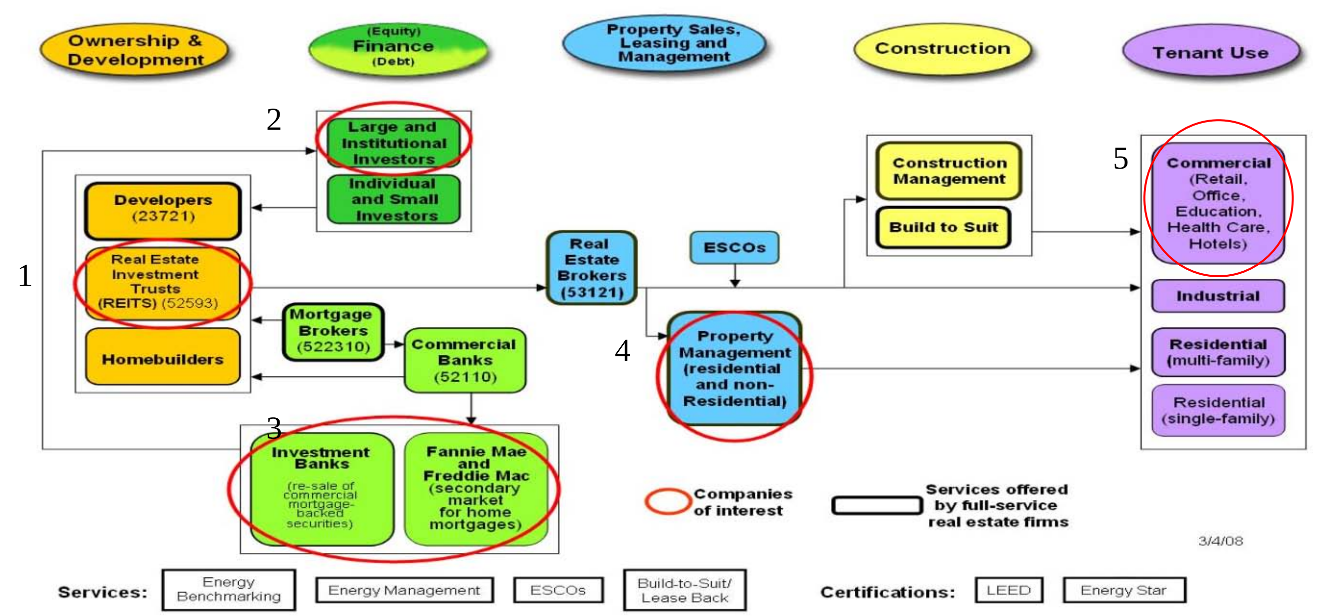

Figure 2. U.S. Real Estate Industry Value Chain
The steps in value chain (1) REITs, (2) Large and Institutional Investors, (3) Secondary Market, and (4) Property Management. Finally, this process initiates the (5) commercial tenant use (Lowe and Gereffi, 2008).

Definition

In order for a company to qualify as a REIT in the U.S., it must comply with certain ground rules specified in the Internal Revenue Code. These include: investing at least 75 percent of total assets in real estate; deriving at least 75 percent of gross income as rents from real property or interest from mortgages on real property; and distributing annually at least 90 percent of taxable income to shareholders in the form of dividends (REIT, 2011a).

Companies

FelCor

History. FelCor is the result of the fusion of co-founders Hervey Feldman (the "Fel") and Tom Corcoran (the "Cor") in 1991 when they bought their first hotel. A year later they purchased their first Embassy Suites Hotel and five other hotels that got converted to the Embassy Suites brand in 1993. The introduction of FelCor to the public market occurred in 1994 with six hotels as REIT under the name of FelCor Suite Hotels, Inc. The company entered the New York Stock Exchange in 1996 as FCH. It is only in July 1998 that it became FelCor Lodging Trust Incorporated (FelCor Lodging Trust, 2011b, 2011b, 2011c). In 2005, FelCor’s portfolio consisted of 130 hotels (FelCor Lodging Trust, 2005). Since 2005, FelCor sold 45 non-strategic hotels located in secondary and tertiary markets and markets with low barriers to entry (FelCor Lodging Trust, 2011b).

In 2006, FelCor initiated a long-term strategic plan with an acute concentration on portfolio management and also started a major overhaul of its hotels, a process that took three years to complete and cost more than $450 millions. Today, its portfolio was composed of 78 upper-upscale hotels and resorts, which represents approximately 22,000 rooms located in 22 states and Canada. These hotels are managed by first-class hotel brands such as Hilton®, Marriott®, Renaissance®, Fairmont®, and Sheraton® (FelCor, 2011a).

Vision and Mission. The mission is not clearly indicated as no mission statement appears on FelCor’s website. However, based on information provided on the website, FelCor's mission may be defined as follows:

> FelCor Lodging Trust is committed to enhancing stockholder value and delivering superior returns on invested capital by assembling a diversified portfolio of high-quality hotels located in

major markets and resort locations that have dynamic demand generators and high barriers to entry (FelCor Lodging Trust, 2011b).

Strategy. The overall goal and leadership strategy of the company show an ongoing effort to shift to a new market strategy, which started in 2005 and which clearly show FelCor's intention to become an oligopolistic firm by dropping hotels in markets with low barriers to entry and by focusing on high barriers market hotels, thus increasing its market force (FelCor Lodging Trust, 2011b). Moreover, FelCor puts pressure on its hotel mangers to best control and to implement best expense and revenue management procedures, thus strongly focusing on its asset management (FelCor Lodging Trust, 2011a).

Competitive advantage. FelCor is in a very interesting phase as it is shifting strategy and market targets. As a result, the company's competitive advantage is in transit. Felcor is going from a differentiation based on the number of location offered to a more geographical selective advantage. The company is now opting for the narrow market niche of luxury and superior service (Thompson, Strickland, & Gamble, 2010) (FelCor Lodging Trust, 2011a).

FelCor's Competitors

Host Hotels & Resorts.

History. Until 2006 Host Hotels & Resorts, Inc. (Host) was known Host Marriott Corporation, which was founded in 1993. Host was born after Marriott Corporation (different from Host Mariott Corporation) was divided into two companies (Host Hotels & Resorts, 2011a) as follows:

- Host Marriott Corporation: Owns full- and limited-service hotels and living communities.
- Host Marriott Operating: Provides services such as food, beverage, and merchandise to airports and toll roads.

The split also created Marriott International, Inc., which was formed to manage and operate various brands of Marriott hotels.

Host is currently the nation´s premier owner of real estate lodging, owning or holding a controlling interest in high quality lodging assets in prime urban, airport, and resort/convention locations mainly throughout America and Europe. The company owns 62,897 rooms in 120 hotel properties; 104 hotels are located in the U.S. and the rest are in Canada, Chile, Mexico, Brazil, New Zealand, and the U.K. (Host Hotels & Resorts, 2011d).

Vision and mission. Host's vision is simple and straightforward "to be the premier lodging real estate company" (Host Hotels & Resorts, 2011b). Its mission, as stated on its website is "to create value through aggressive asset management and disciplined capital allocation to generate superior performance, we endeavor to maximize shareholders´ returns through a combination of dividends, growth in funds from operations, and increasing asset value" (Host Hotels & Resorts, 2011b).

Strategy. To accomplish its mission and reach the position the company is at, Host has steadily and constantly focused on acquiring existing luxury and upper upscale full-service hotels, maximizing the value of its existing portfolio through aggressive asset management, developing new luxury and upper upscale full-service hotels operated by leading management companies, employing transaction structures which mitigate its risk, and recycling capital through opportunistic asset dispositions and selective disposal of non-core assets (Host Hotels & Resorts, 2011c).

Competitive advantage. Host's strategy is creating a differentiation-based advantage keyed to higher quality products and added performance thanks to its aggressive asset management and its focus on luxury properties (Host Hotels & Resorts, 2011c) (Thompson et al., 2010). Furthermore, luxury properties imply focusing on serving the special needs and tastes of its guests (Thompson et al., 2010). Its success in providing great product and service has led the company at the pole position.

Ashford Hospitality Trust.

History. Ashford Hospitality Trust (Ashford) is a fairly young company and is a late mover; it began operations in 2003. Ashford directly owns 94 hotel properties and six other hotels in joint ventures. Its holdings represent 21,734 rooms all of which are located in the U.S. (Ashford Hospitality Trust, 2011a). Mr. Bennett who is also a member of the American Hotel & Lodging Association's Industry Real Estate Finance Advisory Council (IREFAC) founded the company.

Vision and mission. Thanks to its vantage points such as thinking like owners, as collectively the management team is Ashford's largest shareholder, and visualizing brand, customer, and operational changes before its competition, Ashford presents itself as being unique among its lodging REIT peers. As result, Ashford intends to see situations more clearly to apply more proactive strategies with its unique perspective (Ashford Hospitality Trust, 2011b). Its "long-term investment [mission] targets upper-upscale and upscale full-service and select service hotels in primary, secondary and resort markets throughout the United States (Ashford Hospitality Trust, 2011c).

Strategy. Ashford chose to focus on cash flow in order to improve its balance sheet (Ashford Hospitality Trust, 2011a). Furthermore, "Ashford's strategy seeks to capitalize on hotel and capital market opportunities that offer current yield and price appreciation, while simultaneously offering diversification and reduced risk" (Ashford Hospitality Trust, 2011b).

Competitive advantage. Ashford's vision and mission imply that the company wishes to develop expertise and resource strengths. This competitive advantage makes it difficult for rivals to copy or match Ashford business model (Thompson et al., 2010).

Hospitality Properties Trust.

History. Hospitality Properties Trust (HPT) was established in 1995. HPT owns 288 hotels and 185 travel centers located throughout the United States, Ontario, Canada and Puerto Rico (Hospitality Properties Trust, 2012a). HPT is managed by REIT Management & Research LLC (RMR) which is a large real estate management company founded in 1986 to manage public investments in real estate (Hospitality Properties Trust, 2012b). Its hotels are operated by some of the largest and most experienced hotel management companies in the world such as Marriott International, InterContinental Hotels, Hyatt Corporation and Carlson Hotels Worldwide. Its travel centers are operated by TravelCenters of America LLC (Hospitality Properties Trust, 2012c).

Vision and mission. Interestingly, HPT does not have a clear statement that describe either its vision or mission.

***Strategy*.** HPT's strategic initiatives are to ensure steady cash flow streams to HPT with security features throughout lodging cycles, to sell or rebrand 63 hotels, and to identify strategic investment opportunities to grow HPT's hotel business. Furthermore, HPT wants to maintain and strengthen its capital structure (Hospitality Properties Trust, 2011b).

Competitive advantage. HPT emphasizes the fact of belonging to RMR as a competitive advantage because RMR provides a depth of management and experience which may be unequaled in the real estate industry. Resulting form a low cost management services from RMR, HPT has an advantage comparing with its competitors. "HPT's corporate expenses have historically been lower than the average corporate expenses for many other hospitality REITs as measured both as a percentage of gross revenues and as a percentage of gross assets" (Hospitality Properties Trust, 2012b).

Companies' Key Performance Indicators

The Hotel & Motel industry uses indicators such Room Occupancy, ADR, and RevPar to assess and compare from year to year hotel performance and operations.

- Room Occupancy measures facilities utilization: # of room sold ÷ available room
- ADR stands for Average Daily Rate: Total room revenue ÷ # of room sold
- RevPar is the revenue per room available and can be computerized as follows:
    - ✓ Room Occupancy x ADR, or
    - ✓ Total Room Revenue ÷ # of room available

(C. A. Cooper, personal communication, fall 2011)

Table 1
Key Performance Indicators

Year Ended December 31, 2010	Company analysis	Competitors		
	FelCor Lodging Trust Inc	**Host Hotels & Resorts, Inc.**	**Ashford Hospitality Trust, Inc.**	**Hospitality Properties Truts**
Total Rooms	23,336	66,407	21,734	42,880
Rooms Occupancy	70.5 %	70.2 %	70.00 %	69.3%
ADR	$ 121.47	$ 173.17	$ 125.94	$90.36
RevPAR	$ 85.58	$ 120.26	$ 88.12	$62.62

Note. (FelCor Lodging Trust, 2011a) (Host Hotels & Resorts, 2011d) (Ashford Hospitality Trust, 2011a) (Hospitality Properties Trust, 2011a)

External Environment Analysis

General Environment

The general analysis is performed based on forces such as global, economic, environmental, sociocultural, political and legal, technological, and demographic forces. These factors represent the components, in part, of the company's and industry's macroenvironment (G. Gray, personal communication, December 2011). Furthermore, it is important to identify the key external drivers of the REIT industry at large, which are the second part that composed this macroenvironment.

These drivers are:

- House price index

The overall REIT market depends upon the health of the economy; price fluctuation in the housing market not only determines the value of the property but also its rental cost. This driver is expected to increase in 2012, which will lead to the industry growth.

- National unemployment rate

This driver is very important to determine the growth of the U.S. economy. A strong economic growth allows companies to expand. Consequently, demand for commercial space increases. A weak economic growth will trigger the reverse phenomenon. This driver should fall in 2012.

- Par capita disposable income

Disposable income is the personal income less the current personal taxes. As the disposable income reduces, spending per individual declines. For example, the decline in leisure spending decreases the demand for hotel rooms and companies might go out of business. This driver is expected to increase in 2012.

- Yield on 10-year treasury bond

The industry relies on capital markets for financing construction, property purchases, and business acquisitions. As a result, the cost of capital determines the activity of the property market, which depends upon the level of interest rates. The rise of this driver in 2012 is a threat to the industry growth.

- Corporate profits

Rental space for conventions or other type of business-related activities is influenced by business confidence. This driver is expected to rise in 2012.

- Number of businesses

As the number of businesses increases, so will the demand for commercial space. An increase for this driver is expected in 2012.

Table 2
Key external drivers rating

Key External Drivers	2012 Expectations
House price index	Increasing
National employment rate	Decreasing
Par capita disposable income	Increasing
Yield on 10-year treasury bond	Uncertain
Corporate profits	Increasing
Number of Businesses	Increasing

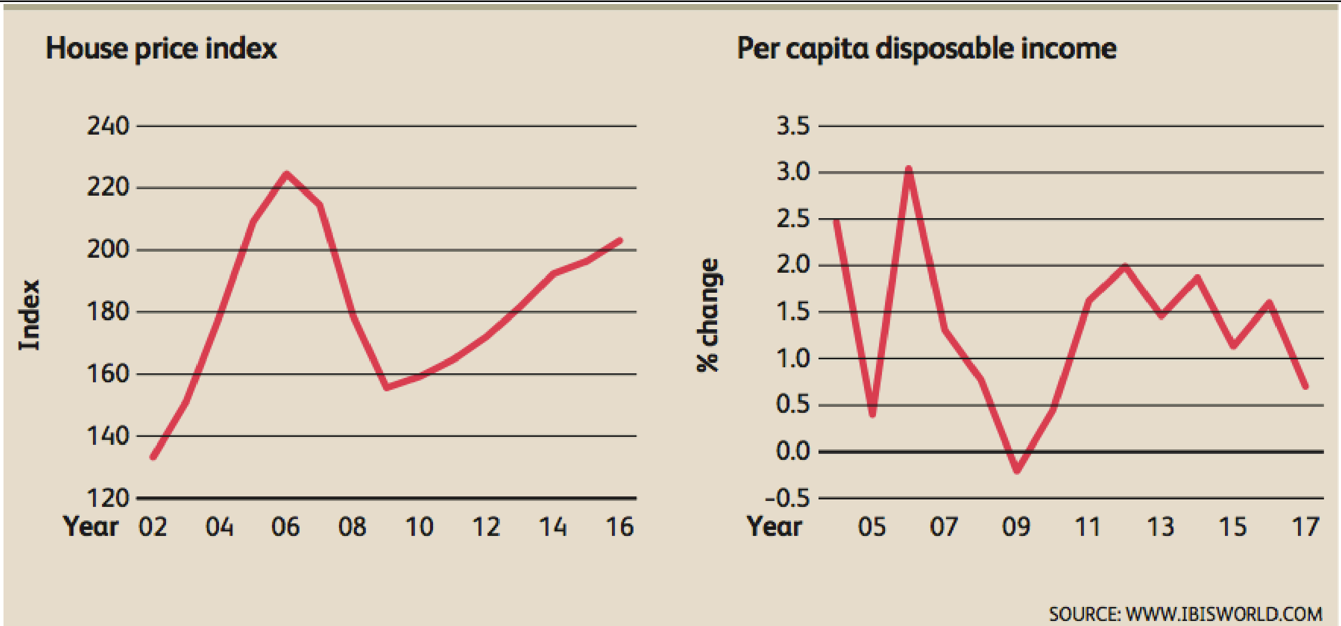

Figure 3. Principal Key External Drivers
Past and projected performance of House price index and per capita disposable income change (IBISWorld, 2011b).

All these components may have adverse or favorable effects on Hotel & Motel REITs indicators such as room occupancy, RevPar, and ADR.

Global Environment. The impact of globalization is a critical factor in the REIT industry. Terrorist organizations such as Al-Qaida threaten the industry and terrorist acts in hotels such as those of Mumbay and Bali had adverse impacts on the worldwide lodging industry (Chatterjee, 2008).

International business agreements or even organization such as the World Trade Organization (WTO) have also an important impact in the Hotel & Motel REIT Industry. On one hand, in developed countries, hotel property companies demand/require international investors and professionals. On the other hand, the U.S. lodging industry wants to continue growing beyond its borders and globalization gives this opportunity of growth. Joint ventures is often required and advised to gain a deep understanding of the local market (Chen and Mills, 2004).

Economic environment. Undeniably, the subprime mortgage crisis is a great example of how a bad economy can globally affect the REIT industry. Until this recent crisis, firms acquired properties through debt purchases but once the credit markets tarnished and real estate prices declined, REIT companies could not manage their debt level anymore. Consequently, REITs had to find ways such as issuing preferred stocks and issuing equity security notes instead of dividends to hold on to cash and to raise funds (IBISWorld, 2011b).

Due to globalization, economic factors such as currency exchange rate affect new hotel construction costs or new property purchases. For instance, China's currency manipulation makes it more expensive for U.S. firms to invest in the Chinese market. In the same reasoning, oil price increase and/or scarcity of raw construction materials will trigger a price increase in such products that may affect REITs investment and expansion (D. McDonald-Amini, personal communication, December, 2011).

Environmental environment. Global warming, which triggers devastating weather phenomena, earthquakes, tsunamis, may have a large negative effect on the lodging industry. A natural disaster may lead to a financial disaster. Financial cost consequences such as reconstructing, not finding capital to finance the rebuilding, and losing revenue from these properties may take a company out of business (Mayock, 2011). Finally, green consciousness and environmental hotel attractiveness force the Hotel & Motel REIT industry to make structural changes in its properties, such as the use of recycled construction materials (M. Kim, personnal communication, spring 2011).

The consequences on human lives, on the local or global economy, and on the environment are as devastating as these "act of god" phenomena or terrorist attacks. Despite any government efforts to stimulate business after such tragedies, it often takes years to recover (M.Kim, personnal communication, spring 2011).

Sociocultural environment. Many factors play a significant role in terms of sociocultural settings. However, those that should be closely observed are an increasing willingness to travel and a changing holiday habit towards vacation ownership (Landero, 1997) (Stringam, 2008). The challenge for the REIT industry lies on offering amities that respond to new habits, trends, and expectations based upon the wants and needs of the traveling population in order not to see a decline in hotel occupancy (Stringam, 2008). Finally, in my opinion, globalization has also reduced cultural barriers and issues among cultures.

Political and Legal Environment. Since its creation 50 years ago, the REIT industry has seen many changes in governmental policies and regulations. Another relevant and significant part of the political and legal environment is the tax plan. As a matter of fact the REIT industry had six major tax reforms.

1. 1976: Tax Reform Act of 1976: allowed REITs to be established as corporations in addition to business trusts
2. 1986: Tax Reform Act of 1986: prevented taxpayers from using partnerships to shelter earnings from other sources
3. 1996: IRS Ruling Expands REIT Services: expanded the type of services a REIT can offer to its tenants as part of generating qualifying real estate rental income.
4. 1999: Taxable REIT subsidiaries (TRS): enabled REITs to diversify their income streams and generate more income by providing “non-customary” services to tenants
5. 2003: U.S.-U.K. Tax Treaty Ratified: allowed U.K. pension funds to invest in U.S. REITs without any taxes withheld on REIT dividends.
6. 2008: OECD Model Tax Treaty Modified: uniform tax treatment for cross-border REIT investments around the world. (REIT, 2011b)

Technological environment. Technology has a tremendous impact on the Hotel & Motel Industry. The very fast development of social media, online travel agencies (OTAs) such as Expedia, mobile applications, and devices such as the iPad have had enormous repercussions on reservation systems, guest-room innovations, and marketing concepts. Lodging owners must include a technology budget when building new hotel properties. Moreover, the cost involved in upgrading old historical properties to install a Wi-Fi access may be high as the building should not lose its historical charm or be deteriorated. Finally, hotel management companies such as Starwood and Marriott request updated software in order to generate larger profits and to attract technologically savvy consumers (Murray, 2011).

Demographic Environment. Landero (1997) considered aging population–what was the baby boom generation–the main factor that would impact the hospitality industry. In addition to the longer life expectancy and active 60+-year-old people, aging population will redefine amenities a hotel should offer (Stringam, 2008).

Industry Environment

In order to draw the competitive landscape of the Hotel & Motel REIT industry, it is important to position the industry among the identified rivals, potential entrants, buyers, substitutes, and suppliers that interact and interfere with it. To do so, Porter's Five Forces concept is the most used by professionals (Thompson et al., 2010). In addition, the competitor environment is also evaluated through the industry's dominant economic features such as market size and growth rate, number of rivals, and scope of competitive rivalry.

The five-Forces Model of Competition

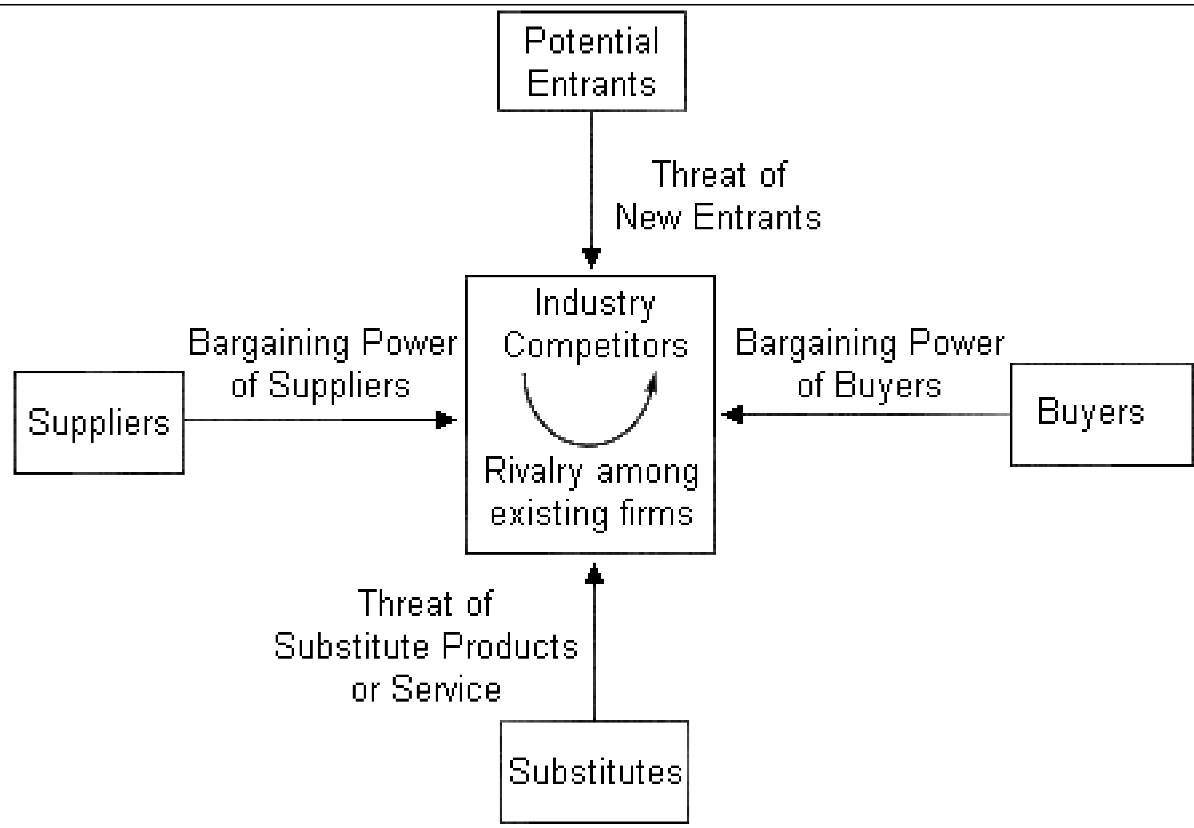

Figure 4. The five-Forces Model of Competition
Porter's competitive five forces model is probably one of the most commonly used business strategy tools and has proven its usefulness in numerous situations (Thompson et al., 2010).

Rivalry. Equity REITs fight for locations in order to improve business performance. As a result, the rivalry in the hotel real estate business is medium and is increasing (IBISWorld, 2011b). In December 2011, Hotel & motel industry counted 14 REITs in the lodging/resort sector in the U.S. (REIT, 2011c). In addition to the location, Hotel REITs such as FelCor, Host, Ashford, and HPT not only expand and therefore require new locations but they also battle for the same market segment. As Dr. Cooper said "Location! Location! Location!" is the most important criterion and makes the rivalry strong for this specific section of equity REITs (HOSP 5600 class, personal communication, Fall 2011).

Threat of new entrants. REITs need to raise funds to acquire properties and run operations. Access to such funds is often restricted; hence barriers to entry the industry are high. Moreover, REITs' assets are subject to a variety of federal, state, and local environmental, health and safety laws. Threat of new competitors is initially judged to be weak, existing competitors fight to produce larger profits in the lodging business (C. A. Cooper, personal communication, fall 2011).

Finally, while the financial ciris has limited the acces to credit and financing, some private hotel real estate companies are considering converting to public lodging REITs, attracted by new capital and REIT benefits (IBISWorld, 2011a). Consequently, the threat of new entrants is medium (IBISWorld, 2011b).

Threat of Suppliers. The Hotel & Motel REIT industry identifies two types of suppliers (a) the construction companies and (b) the Hotel supplier such as food, furniture, and laundry suppliers. Construction companies were highly affected by the financial crisis, as most REITs stopped expanding or renovating during the economic downturn and tended to save cash. The hotel suppliers are generally not a threat to the industry. Moreover, Hotel & Motel REITs have a huge range and choice of suppliers in both sectors construction and hotel suppliers. The threat of suppliers weakly affects the lodging industry (IBISWorld, 2011b).

Threat of Buyers. Buying hotels require a significant amount of funds and three main factors limit buyers in their acquisition (a) the switching cost is high, (b) the seller's brand reputation is important to buyers, and (c) the collaboration with sellers to find a win-win position (Morningstar, 2010). Buyers in the lodging industry carry a high switching cost due to long-dated tenant leases, contractual rent increases or profit sharing agreements (Morningstar, 2010).

Despite these three conditions, the decline in asset values due to the housing market crisis is an opportunity for buyers to purchase hotels. It is also an opportunity for sellers to dispose assets that may not be part of their long-term strategy (Bernstein, 2011). As result, the threat of buyers is weak.

Substitutes. The substitute to the Hotel & Motel industry is the hotel franchise (IRS, 2011). Hotel franchisors own and operate hotels whereas Hotel & Motel REITs only own the property and it is run by hotel brand management groups such as Hilton®, Marriott®, Renaissance®, Fairmont®, and Sheraton®. However, a study conducted by Bader and Lababedi (2007) showed an increased knowledge of owners/franchisees and their understanding of market dynamics. As a result, investors who generate capitals for Hotel & Motel REITs, might reconsider where to invest although the ROI from equity REITs remain higher. Although the ROI will be higher it is expected to reduce as the decline in leveraging will reduce risk, thus reducing the returns (IBISWorld, 2011b). Consequently, the effect of substitutes is medium.

Table 3
Industry's Level of Threat

Forces	**Level of threat**
Rivalry	High
Threat of new entrants	Medium
Threat of suppliers	Weak
Threat of buyers	Weak
Substitutes	Medium

Competitor Environment

The industry environment infers a high competitive battle among Hotel & Motel REITs. The success of one company over another lies on the brand management success; Hotel & Motel REITs' strategy is to pressure hotel management to optimize profit form operations and minimize operational costs (FelCor Lodging Trust, 2011a) (Host Hotels & Resorts, 2011d). In other words, companies' revenue such as FelCor, Host, Ashford, and HPT highly depend on the tourism industry and the effectiveness of marketing concepts such as loyalty programs and customer retention (T. Rossi, personal communication, summer 2011). In 2010, the Obama administration signed into law the "first-ever national travel promotion and communications program to attract more international travelers to the U.S" (U.S. Travel Association, 2010). The Travel Promotion Act came along after the U.S. welcomed fewer 2.4 million overseas visitors between 2000 and 2009 and has cost an estimated $509 billion in total spending. U.S. Oxford Economics estimates that a successful national promotion will yield $4 billion in new spending annually and may create 40,000 new jobs (U.S. Travel Association, 2010). Clearly, policies and legislations can help Hotel & Motel REITs along with hotel brand management companies; they will benefit from and will compete for market shares.

Economic Features

Growth rate. Figure 5 shows how the growth and emergence of hotel REITs, as rewarding investments, had an upward trend since 1993. This trend decreased in 2005 and 2006, when the hotel REIT market capitalization exceeded $28 billion. This peak was followed by a sharp decline as the market corrected itself and weak or low-performing REITs exited the marketplace (Jackson, 2008).

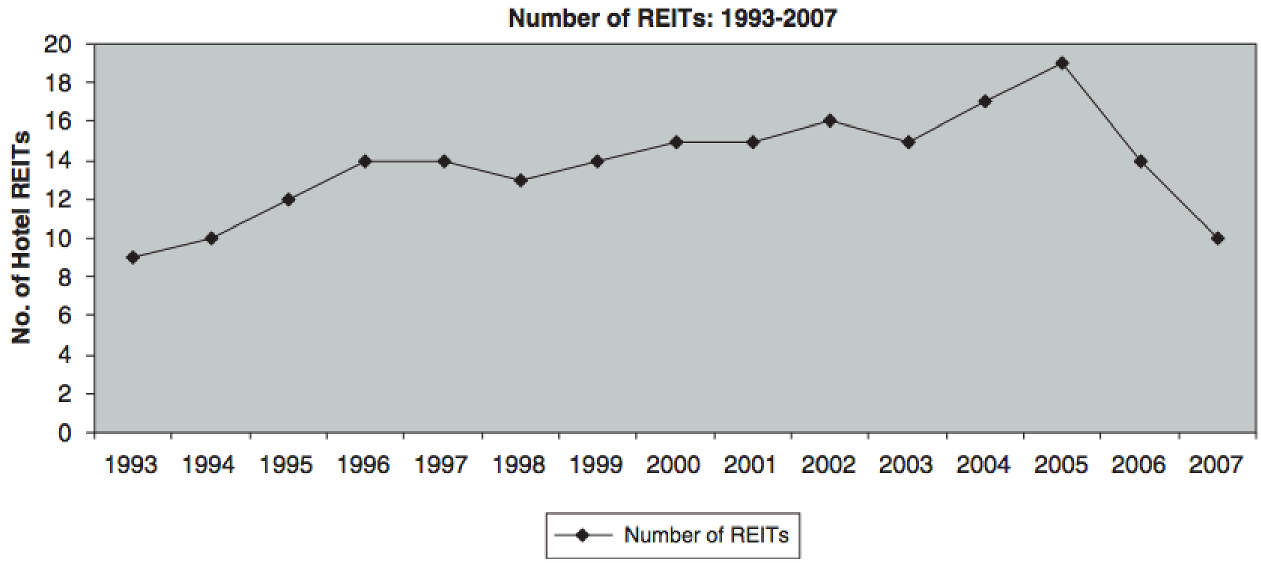

Figure 5. Hotel REITs trend 1993-2007
Source: National Association of Real Estate Investment Trust (NAREIT) (as cited in Jackson, 2008)

After that self-correction and despite the economic downturn that occurred in 2008, the number of Hotel REITs reached 14 in December 2011 (REIT, 2011c). Indeed, in this low interest rate environment real estate is a very attractive investment and those that were “strong enough to take the hit are holding up OK”, said Bernstein (2011). Consequently, the REIT industry as a whole is growing and is expected to grow 3.4% annually until 2016, thus outpacing a forecasted GDP of 2% per year over the same period (IBISWorld, 2011b).

Life Circle Stage. Figure 6 illustrates where the Real Estate Investment Trusts is situated in terms of growth and its life circle stage. The position aligns with the current and expected growth rate.

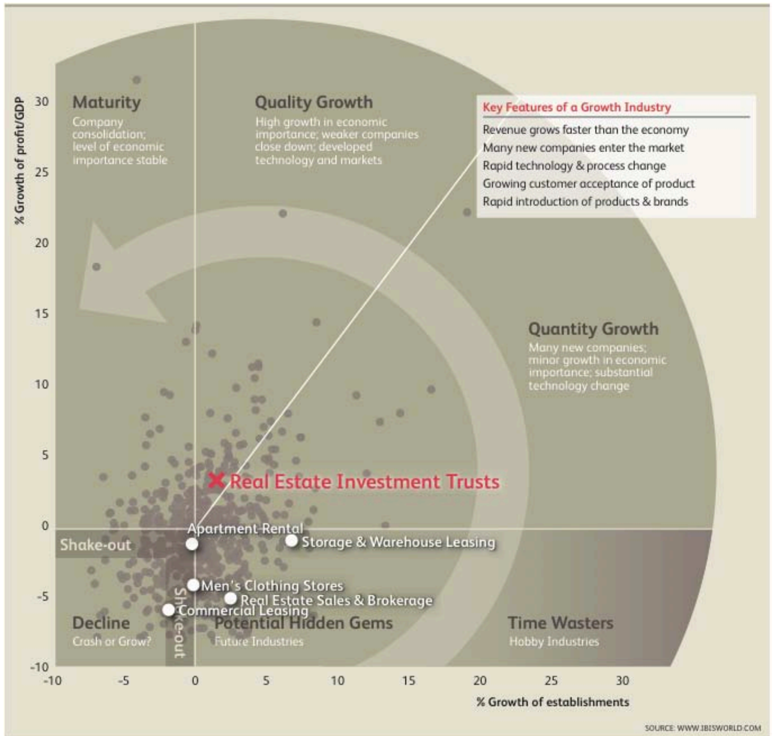

Figure 6. Real Estate Investment Trust Growth
Position of the REIT Industry in terms of growth (IBISWorld, 2011b)

Product and Service. Equity REITs represent the largest industry product line and accounts for nearly 92.5% of the industry revenue (IBISWorld, 2011b). It provides an opportunity to possess real estate as liquidity of security notes. As result, it is easier for investors to sell and buy real estate (C. A. Cooper, personal communication, fall 2011). The Lodging/resort REITs represent 10.5% of the equity REIT Industry. The REIT structure keeps gaining popularity among investors and real estate firms (IBISWorld, 2011b).

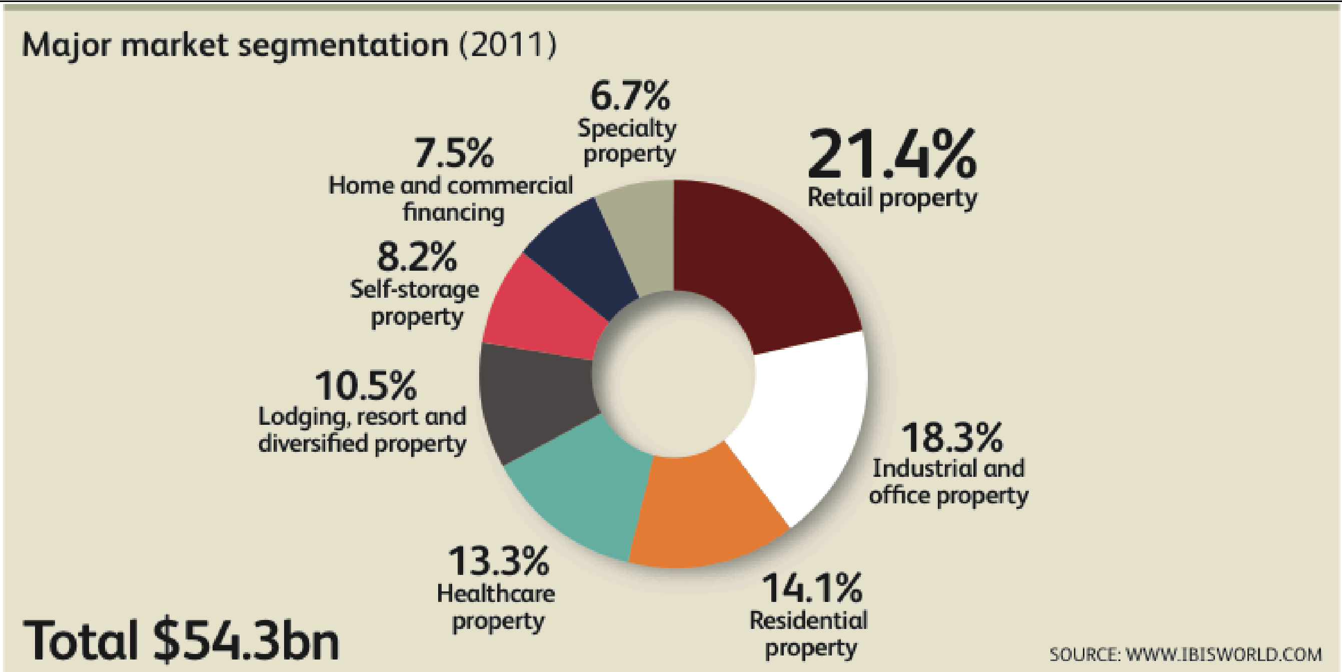

Figure 7. Equity REITs segmentation
Source: IBISWorld (2011b)

International Trade. As mentioned by Van Paasschen, CEO of Starwood, you cannot export or download a hotel. As a result, the hotel industry, as any service industry, cannot be involved in international trade (CNN, 2011).

Diving Forces

The key driving force of the industry is interest rate, which plays a crucial role in REITs popularity. Rising interest rates usually hurt the industry as investments in the industry is less attractive (IBISWorld, 2011b). Hence, low interest rates and high returns allowed by special tax plan advantages may increase demand for REIT securities.

Key Success Factors

IBISWorld (2011b) identifies five most important key success factors in the REIT industry.

- Superior financial management and debt management

Property acquisitions are financed by a significant amount of capital and debt. Hence, REIT firms must properly manage their cash flows, cash reserves and debt levels to grow and manage portfolios.

- Access to investment funding

In order to fund the growth of their businesses, most REITs rely on external financing. Access to funding from debt and equity markets is an important success factor.

- Proximity to key locations

"Location is everything in this industry" (IBISWorld, 2011b). Buildings in densely populated metropolitan areas generate higher rental income, with tenants paying a premium for properties located near business centers, transportation hubs, and entertainment venues.

- Access to highly skilled workforce

The industry has the ability to attract and retain key personnel.

- Densely populated areas

The supply and demand for real estate drive rental income. While demand for real estate in metropolitan areas is high, the supply is often not enough.

Current Strategy and Objective

Most REITs are focusing on improving their balance sheets. Consequently, their credit metrics are the key component, for which they are primarily concerned. REITs' strategy to manage them is to increase earnings and to sell unproductive property assets. In other words, deleveraging is their main goal (FelCor Lodging Trust, 2011a) (REIT, 2011b).

Expansion, capitalization, and portfolio restructuration and selection are the main objectives in the Lodging REIT industry. As a result of an interest rate to remain low in 2012, investors should still be interested in investing in REITs. However, the uncertainty and volatility in the market are expected to remain in 2012. In addition, quality assets are not easy to find, which makes it difficult for a quick recover. While apartments REITs are in very good shape for 2012 with former projects resuming, lodging REITs does not show signs of recovery for at least until the 2012 election (Hentschel, 2012).

Internal Environment Analysis

Tangible Resources

Products/Market Segments/Price. FelCor owns 83 upper scale all-suite hotels and resorts located in 23 states and Canada with a total of 23,336 rooms. FelCor is a partner of branded hotels such as Embassy Suites Hotels®, Doubletree®, Hilton®, Marriott®, Renaissance®, Fairmont®, Sheraton®, Westin®, and Holiday Inn®. The total revenue in 2010 was $928,31 millions, nearly 100% of the revenue was generated by hotel operating revenues, which includes room revenue (78,3%), food and beverage revenue (15,3%), and revenue from other operating departments (6%) such as telephone, parking and business centers. The average daily rate (ADR) per room was $121,47 with revenue per available room (RevPAR) of $85,58. The occupancy rate during 2010 was 70,5%. While the ADR decreased of 1,5% in 2010 compared to 2009, the RevPAR and the occupancy increased of 4,3% and 5,8% respectively from 2009 to 2010. Table 4 shows the geographical locations and the rooms' repartition of FelCor's hotels; 28 of 67 (81 current less 14 for sale) hotels, which represent 42%, are located south east of the U.S. (FelCor, 2011a).

Table 4

FelCor Products' Market Segmentation

Portfolio Locations

	Hotels	Rooms	EBITDA
South Florida	5	1,439	7%
Los Angeles Area	4	899	6%
San Fran Bay Area	6	2,138	6%
Atlanta	5	1,462	6%
Boston	3	915	5%
Dallas	4	1,333	5%
Orlando	4	1,038	4%
Philadelphia	2	729	4%
Minneapolis	3	736	4%
Myrtle Beach	2	640	4%
Central Calif. Coast	2	408	4%
San Antonio	3	874	3%
San Diego	1	600	3%
New Orleans	2	744	3%
Total	**46**	**13,952**	**60%**
Other	37	9,384	40%
Total	**83**	**23,336**	**100%**

Hotel EBITDA from 81 Consolidated Hotels at December 31, 2010 by brand

	Hotels	**Rooms**	**% EBITDA**
Embassy Suites Hotels	45	11,674	58
Holiday Inn	15	5,154	18
Sheraton and Westin	8	2,774	9
Doubletree	7	1,471	7
Renaissance and Marriott	3	1,321	3
Hilton	2	559	3
Fairmont	1	383	2

Note. (FelCor, 2011a)

Financial Analysis.

Balance Sheet.

Table 5
Balance Sheet

Period Ending	Dec 31, 2010	Dec 31, 2009	Dec 31, 2008
Assets			
Current Assets			
Cash And Cash Equivalents	217,674	282,239	63,400
Short Term Investments	-	-	-
Net Receivables	27,851	28,678	35,240
Inventory	-	-	-
Other Current Assets	-	-	-
Total Current Assets	-	-	-
Long Term Investments	75,920	82,040	94,506
Property Plant and Equipment	1,985,779	2,180,394	2,279,026
Goodwill	-	-	-
Intangible Assets	-	-	-
Accumulated Amortization	-	-	-
Other Assets	32,271	32,666	34,541
Deferred Long Term Asset Charges	19,940	19,977	5,556
Total Assets	**2,359,435**	**2,625,994**	**2,512,269**
Liabilities			
Current Liabilities			
Accounts Payable	220,744	168,919	141,149
Short/Current Long Term Debt	-	-	-
Other Current Liabilities	-	-	-
Total Current Liabilities	-	-	-
Long Term Debt	1,548,309	1,773,314	1,551,686
Other Liabilities	-	-	-
Deferred Long Term Liability Charges	-	-	-
Minority Interest	19,795	22,583	25,242
Negative Goodwill	-	-	-
Total Liabilities	**1,788,848**	**1,964,816**	**1,718,077**
Stockholders' Equity			
Misc Stocks Options Warrants	2,004	1,062	-
Redeemable Preferred Stock	-	-	-
Preferred Stock	478,774	478,774	478,774
Common Stock	1,010	694	694
Retained Earnings	(2,054,625)	(1,792,822)	(1,645,947)
Treasury Stock	(73,341)	(71,895)	(99,245)
Capital Surplus	2,190,308	2,021,837	2,044,498
Other Stockholder Equity	26,457	23,528	15,418
Total Stockholder Equity	**568,583**	**660,116**	**794,192**

Note. (Yahoo Finance, 2012a)

Analysis of the balance sheet.

Overall from 2008 to 2010, the reduction of total assets reflects the CEO's, Richard Smith, decision to shrink the company in order to reposition and strengthen it (FelCor Lodging Trust, 2011f). The balance sheet explicitly demonstrates that FelCor is in a critical financial situation. In 2010, FelCor recorded an accumulated deficit of 2 billion (retained earnings). Its total equity dropped of 13.87% or $91.5 million, despite an additional paid-in capital (capital surplus) of $168.5 or 8.33% million in 2010 compare to 2009.

The total assets of the company decreased 266.6 million or 10.15%; approximately 75% of this drop came from its non-current assets—FelCor's non-current assets represent 87.38% of its total assets, which means that the company's assets are mainly properties—thus reflecting FelCor's current and projected activities of redeveloping its portfolio by selling properties. Consequently, its non-current assets decreased $200 million (8.87%) in 2010 compare to 2009, while the current assets of the company decreased $65.8 million (18.11%) in 2010. The current assets' reduction is mainly caused by the decrease of $62.6 million in cash and cash equivalents. However, FelCor managed to decrease its accounts receivable implying a better collection time or fewer accounts.

Although the financial situation is not favorable, FelCor managed to decrease its total liabilities of $173.2 million (8.92%). On one hand, its long-term liabilities (debt) reduced of $225 million (12,69%) thanks to a new $212 million loan, which proceeds were used to repay $210 million in loans (FelCor, 2010d), but on the other hand, its current liabilities rose $51.8 million (30.68%). The latter is mainly caused by the preferred dividends payable, which doubled in 2010.

The total FelCor's Stockholder equity declined $91.5 million (13.87%). The increase of the additional paid-in capital of $168,5 million was offset by the accumulated deficit, which increased $261.8 or 14.60% from 2009 to 2010 (FelCor, 2010a).

In addition to the balance sheet analysis, data on the annual 10k-report show, from an operations perspective, that the company has maintained its sales breakdown percentages from 2009 to 2010. FelCor presents some first signs of recovery with an increase of RevPAR (4.3%) and occupancy (5.8%) from 2009 to 2010. Furthermore, since 78,3% of its revenue was generated by room revenue, this emphasizes the positive effect of the RevPAR and occupancy increase. Finally, the company has the opportunity to raise again its ADR after a decrease of 1,5% from 2009 to 2010. PKF Hospitality Research, or PKF, (a leading provider of hospitality industry data) projects improvement in demand, hotel occupancy in 2011 should increase 4.2%, compared to 2010 (FelCor, 2010a). This statement gives hope for better results in 2011.

In conclusion, FelCor's liabilities remain far too high in comparison to its equity. In other words, the company is overleveraged, as its liability is 2.19 times higher than its equity; this means that the company is using other people money (C. Cooper, personal communication, fall 2011) instead of using its assets to bring capital in.

Key ratio analysis.

Table 6
Key ratios

Financial Highlights	
Fiscal Year	
Fiscal Year Ends:	Dec 31
Most Recent Quarter (mrq):	Sep 30, 2011
Profitability	
Profit Margin (ttm):	-19.20%
Operating Margin (ttm):	2.97%
Management Effectiveness	
Return on Assets (ttm):	0.75%
Return on Equity (ttm):	-34.72%
Income Statement	
Revenue (ttm):	990.79M
Revenue Per Share (ttm):	9.03
Qtrly Revenue Growth (yoy):	9.60%
Gross Profit (ttm):	551.08M
EBITDA (ttm)6:	168.55M
Net Income Avl to Common (ttm):	-290.48M
Diluted EPS (ttm):	-2.09
Qtrly Earnings Growth (yoy):	N/A
Balance Sheet	
Total Cash (mrq):	117.18M
Total Cash Per Share (mrq):	0.94
Total Debt (mrq):	1.55B
Total Debt/Equity (mrq):	219.40
Current Ratio (mrq):	0.95
Book Value Per Share (mrq):	1.00
Cash Flow Statement	
Operating Cash Flow (ttm):	27.18M
Levered Free Cash Flow (ttm):	-71.19M

Note. (Yahoo Finance, 2012b)

From a profitability point of view, FelCor is in very severe financial situation. First of all, the profit margin industry standard oscillates between 20% and 30% (C. A. Cooper, personal communication, fall 2011), which means that FelCor is not performing well at all, with a not loss of 19.20%. Finally, the other ratios do not indicate, either for owners or for creditors, that the company is profitable. The Return on Equity, which is the ratio of reference for owners, shows not only that there is no return on equity but also that the company lost 34.72 cents for each $1 of equity. The Return on

Assets (0.75%), which is the ratio creditors are interested in, not only indicates that FelCor does not provide financial safety or low risk but also points out that assets are not providing income or cash flow**.**

From a solvency point of view, FelCor shows high uncertainty as how it can meet its long-term obligations. All solvency ratios are not satisfying the lenders' expectations and, therefore, are showing that the company is already too much in debt. In other words the Debt Equity Ratio (2.19), which is one of the most commonly used ratio in solvency analysis, indicates that banks would consider FelCor to have too much debt for the overall amount of equity or ownership.

From a liquidity point of view, FelCor's liquidity situation shows a weak ability to meet its short-term obligations wit a Current Ratio of 0.95, whereas the industry standard is 1.2 (C. A. Cooper, personal communication, fall 2011). Moreover, FelCor's operating cash flow to current liabilities is in a descending phase. FelCor's Net Operating Cash is decreasing, while its current liabilities are increasing. As a result, this situation is not favorable to FelCor.

Cross Section (Benchmarking) Analysis.

Table 7.
Direct Competitor Comparison

Direct Competitor Comparison

	FCH	**AHT**	**HPT**	**HST**	**Industry**
Market Cap:	495.82M	590.52M	3.13B	11.27B	608.89M
Employees:	68	67	N/A	N/A	29.00
Qtrly Rev Growth (yoy):	9.60%	3.10%	13.30%	11.10%	17.00%
Revenue (ttm):	990.79M	877.53M	1.18B	5.00B	680.07M
Gross Margin (ttm):	29.65%	29.53%	52.17%	21.77%	29.65%
EBITDA (ttm):	168.55M	221.66M	576.56M	911.33M	132.61M
Operating Margin (ttm):	2.97%	10.08%	29.32%	6.52%	9.28%
Net Income (ttm):	-290.48M	-127.06M	29.39M	-11.00M	N/A
EPS (ttm):	-2.09	-2.68	0.24	-0.02	N/A
P/E (ttm):	N/A	N/A	106.51	N/A	57.90
PEG (5 yr expected):	1.49	15.50	1.53	0.90	1.98
P/S (ttm):	0.51	0.67	2.64	2.27	1.55

Notes.
AHT = Ashford Hospitality Trust Inc.
HPT = Hospitality Properties Trust
HST = Host Hotels & Resorts Inc.
Industry = REIT - Hotel/Motel
(Yahoo Finance, 2012c)

Table 7 helps to position FelCor among its main competitors. FelCor's position on the market is worse than its competitors as evidenced by the worst net income result (-$290.48 million) and the lowest operating margin (2.97%).

FelCor must resolve issues such as high debt, lack of operating cash, and loss in equity. The company must manage and control its expenses, dispose unproductive assets or non-strategic hotels, and invest in more profitable properties. As a result of FelCor's financial situation, rating agencies such as Standard & Poor's (S&P) and TheStreet Ratings have a very low appreciation. In December 31, 2011, S&P gave a quality rating (between A+ and D) of C, which is the lowest (D=In Reorganization) (Business & Company Resource Center, 2011a). In December 18, 2011, TheStreet Ratings rated FelCor's shares in its "sell" section of the rating spectrum (Business & Company Resource Center, 2011b).

Intangible Resources

Human Resources. FelCor, with its unique corporate culture, is employee-oriented. For instance, FelCor supports three organizations, which are dear to its employees; they are: Autism Speaks, Family Place and the Austin Street Centre. Another example of FelCor's employees-styled culture is its support to U.S. Troops Serving Overseas and Juvenile Diabetes Research Foundation. In addition to community commitments, FelCor has also partnered with its branded lodging management companies, which are devoted to and involved in sustainability programs to reduce, and even repair, environmental damages (FelCor, 2011e). The Employee Benefits are:

- 401(k) retirement savings plan and health insurance benefits, which totaled $1.0 million during 2010.
- Health insurance benefits cost $900,000 during 2010.
- Under the management agreements, FelCor reimburses the management companies for the compensation and benefits related to the employees who work at FelCor's hotels (FelCor Lodging Trust, 2011a).

FelCor is led by Richard A. Smith (CEO) to navigate the current financial climate and to fulfill the company's goals. He has an extensive professional experience in financial and operational departments as chief officer and in 2006, when he was named CEO of FelCor, the company saw its first positive profit margin (5,15%) after at least five years of net loss. In 2007, the profit margin aligned with the performance of 2006 and reached 8,71%. This shows his ability to generate profit in a very short period of time. It is only in 2008 when the global financial crisis began that a decline in profit appeared again as shown in the Table 8.

Table 8
FelCor's Ten-Year Historical Financials
Year ended December 31

	Sales in $mill.	Net Income (Loss) in $mill.	Profit Margin %	Number of Employees
2010	$ 928.31	$ (223,04)	-	68
2009	$ 908.70	$ (108,12)	-	68
2008	$ 1,129.78	$ (119,25)	-	69
2007	$ 1,021.88	$ 89,04	8.71 %	72
2006	$ 991.04	$ 51,04	5.15 %	74
2005	$ 1, 212.18	$ (251,62)	-	76
2004	$ 1,191.58	$ (100,13)	-	70
2003	$ 1,199.86	$ (310,14)	-	66
2002	$ 1,317.96	$ (178,58)	-	65
2001	$ 1,200.97	$ (38.01)	-	61

Note. (Hoovers, 2011a)

Goodwill. As shown in its balance sheet, the company does not benefit from any goodwill (Yahoo Finance, 2012a), this is primarily due to its financial results and its restructuration process. Moreover, its majority of hotel management companies are *not* among the top 10 leaders of the hospitality industry; they are InterContinental Hotels Group, Wyndham Hotel Group, Marriott International, Hilton Hotels Corporation, Accor North America, Choice Hotels International, Best Western International, Starwood Hotels and Resorts, Carlson Hotels Worlwide, and Global Hyatt Corporation. On the contrary, the perception of Host is very favorable (Host Hotels & Resorts, Inc., 2011d).

Competitive Strategies

As previously mentioned, FelCor is in a very interesting phase as it is shifting strategy and market targets. As a result, the company's competitive advantage is in transit. Felcor is going from a differentiation based on the number of location offered to a more geographical selective advantage. The company is now opting for the narrow market niche of luxury and superior service (Thompson, Strickland, & Gamble, 2010) (FelCor Lodging Trust, 2011a). The following table introduces how the company is creating new opportunities.

Table 9
Competitive Strategies

Features	Competitive Strategy: Focused Differentiation
Strategic Targets	The two remaining target markets are New York City and Washington, D.C. (FelCor Lodging Trust, 2011f)
Basis of Competitive Advantage	FelCor will leverage the relationships with brand owners and other sellers to better source potential deals. (FelCor Lodging Trust, 2011f)
Product Line	Assembling a diversified portfolio of high-quality hotels located in major markets and resort locations that have dynamic demand generators and high barriers to entry. (FelCor Lodging Trust, 2011b)
Marketing Emphasis	FelCor's message to Investors: "being accretive to long-term stockholder value, allowing us to purchase at a substantial discount to replace- ment cost, achieve returns that exceed our weighted average cost of capital, and benefit from RevPAR and EBITDA growth rates above the market and our portfolio. We will be very diligent and selective in this process" (FelCor Lodging Trust, 2011f).
Keys to Sustaining the Strategy	In order to align with its strategy and to stay committed to its new business model, in December, 2011 FelCor sold Holiday Inn Toronto-Yorkdale to Easton Hotel Group. (Business & Company Resource Center, 2011c)

SWOT Analysis

Table 10
SWOT Analysis

Strengths	Weaknesses
• CEO • New Strategy: Shifting to an Oligopolistic competition • Restructuring Portfolio • Upper scale properties	• Highly leveraged towards debt • Business Concentration: the U.S. • Weak hotel management results (Operating Margin) • Lack of Goodwill • Weak brand recognition of hotel brands • Low marketing initiatives from hotel brands
Opportunities	**Threats**
• BRIC countries • Growth in the travel and Tourism Industry • New strategy may appeal to new investors	• Business Risk • Operational Risk • Highly Regulated Lodging Industry, which may trigger high cost of compliances • Slow housing market recovery • Increasing competition

Final Report Analysis

Key Result Areas

In order to successfully navigate in the current economy and to attain a new positioning in the market, FelCor must address a thorough strategy to the following points:

- Restructuring its portfolio (Strength)

FelCor's strategy to shrink the company in order to own and manage more profitable assets was, so far, beneficial despite unsatisfying financial results. Furthermore, the company renovation program helped to maintain a decent ADR and RevPar. Consequently, a focus on non-strategic hotels located in secondary and tertiary markets and on markets with low barriers to entry should remain a priority.

- Highly leverage towards debt (weakness)

As most REITs, the recent financial crisis has triggered an interest in capitalization. As a result, FelCor's strategy to refine its balance sheet in order to reduce its debt equity ratio will help the company to keep its competitiveness. However, reducing simultaneously its debt and its equity may jeopardize its strategy.

- Weak hotel management results (weakness)

FelCor shows the lowest operating margin among its competitors, this results from a less aggressive cost control from the company's brand management firms. FelCor must imperatively address this issue and implement a new strategy.

- Low Marketing Initiatives (weakness)

Not only FelCor's main hotel brand management, Embassy Suite Hotels, fails to generate a good operating margin but it also fails to promote the brand.

- BRIC countries (opportunities)

FelCor owns assets in the U.S., however investing in the BRIC countries may provide a higher ROI, as economic growth in these countries is superior to that of the U.S.

- New Investors (opportunities)

FelCor's current strategy may attract neophyte investors. The company offered a good annual report called *evolution* in early 2011. Without a deep analysis and based on this report, some investors may find FelCor as a great investment opportunity in the long run. If its strategy succeeds, Felcor's shares will rise again. However at this stage, investments in the company are risky.

- Increasing Competition (threat)

Among all threats that are relevant to the lodging REIT industry, increasing competition is the most challenging for FelCor. Indeed, location is a key success factor and all competitors are likely to target the same properties. In such a situation, needless to say that professional network is a very important factor in order to be the first on an opportunity. In that matter, FelCor's CEO background is highly beneficial and the company uses this network strategy to address it as its basis of competitive advantage.

Objectives

FelCor intends the redevelopment of its portfolio in order to reduce concentration risk and leverage. In addition, selling non-strategic hotels reduces future capital expenditure requirements and allows focusing on core long-term investments. FelCor plans to renovate six to eight core hotels each year. The activities that FelCor wish to developed are:

- Investing Activities

In 2011, FelCor has started renovating six hotels and will also spend more than $20 million on its recent acquisition, the Fairmont Copley Plaza. The company expects to spend around $45 million in non-discretionary capital and about $40 million in discretionary and redevelopment capital (FelCor Lodging Trust, 2011a).

- Financing Activities

FelCor estimates a $106.7 million expense in financing activities broken down as follow: (a) Principal payment: $12 million, (b) Maturing senior notes: $46 millions, and (c) Preferred dividends: $39 million. Operating cash flow and cash on hand should fund the payments (FelCor Lodging Trust, 2011a). The company expects to reduce outstanding debt significantly through future earnings growth and proceeds from future asset sales. Finally, $64 to $76 million of cash from operating activities is also expected (FelCor Lodging Trust, 2011a).

Balanced Scorecard

The following table illustrates how financial objectives may meet with strategic objectives.

Table 11.
Balanced Scorecard

Financial Objectives	Strategic Objectives
From $64 and to $76 million of cash from operating activities	PKF Hospitality Research, or PKF, (a leading provider of hospitality industry data) projects improvement in demand, hotel occupancy in 2011 should increase 4.2%. As a result, FelCor expects RevPAR to increase between 6% and 8% compare to 2010. (FelCor Lodging Trust, 2011a)
Earnings growth and proceeds	Demand improvement and better hotel management cost control
Reducing leverage	Future asset sales

Conclusion

The overall goal of the company shows an ongoing effort to shift to a new market strategy, which started in 2005 and which clearly shows and is, in my opinion, FelCor's intention to become an oligopolistic firm by dropping hotels in markets with low barriers to entry and by focusing on high barriers market hotels, thus increasing its market force (FelCor Lodging Trust, 2011b). With very low productive activities and an overleveraged, FelCor's strategy to focus on its investment portfolio and operations to meet with profit again is a good decision. Furthermore, the external industry growth implies that FelCor can benefit from such a strategy.

In my opinion, to obtain more founds, FelCor relies on three factors (a) the tendency of the increase of its RevPAR and its occupancy rate to remain the same, (b) the sale of low-barriers-entry hotels, and (c) the contribution of new investors/creditors. Each factor should give enough financial support in order to put up FelCor in a much better financial shape. From my perspective, FelCor's most challenging task is to attract new investors and/or creditors. Indeed, investors and creditors, with three consecutive years of net loss and only a slight sign of recovery, may hold off and closely follow up on market speculations as well as the industry evolution as a whole before investing in FelCor. Moreover, one of FelCor's strategies s is to shift from suburban to urban markets but this process has not been completed yet and penalized Felcor's market shares value (Benziga, 2011).

In conclusion, the financial crisis has affected FelCor as any other company and industry. FelCor's position on the market is worse than its competitors as evidenced by the benchmarking analysis and the actual housing market is not favorable for expecting high return on assets sale.
In the current situation (shifting strategy) and unfavorable position among competitors, FelCor is not prepared to face new economic challenges; although its strategies may set the company to the right direction.

Recommendations

FelCor must resolve issues such as high debt, lack of operating cash, and loss in equity. The company must manage and control its expenses, dispose unproductive assets or non-strategic hotels, and invest in more profitable properties. To do so the company should implement, develop, or stress the following actions and strategies.

- Demanding better operating results from its brand management partners
- Purchasing, developing, or upgrading properties, by meeting the hotel brand property standards, that will allow well-renown hotel brands such as Hilton and Marriott to manage them
- Increasing the number of partnerships with such hotel brands, which have proven better operating results, as per financial results of FelCor's competitors; in other words, rebranding!
- Requiring a more aggressive marketing program from its main partner, Embassy suites Hotels
- Investing in BRIC countries where economic and tourism growth are higher, this may help the company to financially sustain the shifting strategy process in U.S.
- Keeping working on the balance sheet to reduce leverage
- Concentrating future acquisitions in more urban areas
- Watching carefully the lodging REIT industry market speculation to grab the opportunity to rise funds through investors
- Diversifying its portfolio in investing in properties other than hotels. This may reduce the overall risks. For instance, Retail, Office, Government REITs do not entail the same risks and do not depend on the same economic forces and factors.

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