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David Phelps Talks Hospitality Investment with Metro Corp Counsel

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Among the topics Phelps covered in “Hospitality Investors Adjust to Shifting Realities” are:

- **Finding growth in the hospitality market:** “Where we are seeing growth is in the branded and unbranded focus on millennials. Products like Starwood’s Aloft, Moxy by Marriott, Canopy by Hilton and Radisson Red are all examples of brands looking to capture millennial demand. In addition, we’re seeing new nonbranded entries, like Bunkhouse and Basecamp, which are kind of the youth hostel approach to hospitality. Overall, millennials are attracted to lower priced hotels that are cool and communal, or are in cool and different neighborhoods…”
- **Opportunities for real estate PE funds:** “For funds to deliver double-digit yields, they have to focus on properties where significant value can be added. As a result, we’re seeing a lot of apartments, condos and even office spaces, through renovation or ground-up construction, being repositioned for hotel use in urban areas, often in secondary and tertiary markets. We have a particular hotel client, for example, whose main focus is repositioning historic downtown buildings into hotels, and many fund managers whom I have spoken to talk about a similar focus. The lack of product and the need to see higher returns drives this.”
- **Take-private transactions in the hospitality sector:** “There have been obvious and noteworthy taking-private transactions in the lodging sector, most notably Blackstone’s acquisition of Hilton. Less obvious I think is the spinning off of hard assets by the brands over time to private equity buyers, sovereign wealth funds and other private buyers. There has been this separation occurring between ownership and operation of hotels for some time. The end result is the privatization of the hard hotel assets. What we have been seeing and will continue to see is a systematic long-term effort by the brands to sell off their own hotels while maintaining their long-term

> management and franchise and licensing agreements in order to restructure their balance sheets to be more asset light and less capital-intensive."

To read the full interview, please click here.

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