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Peachtree Looks To 'Fill a Void' as Hotel Lender, Developer

With Deals Still Difficult, Private Equity Firm Focuses on Hotel Construction

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PHOENIX — Amid a difficult environment for hotel transactions, hotel-focused private equity firm Peachtree Group has decided to focus more on the other two big parts of its business: building and lending.

Speaking with Hotel News Now at the 2022 Lodging Conference, Chief Investment Officer Brian Waldman said large, well-capitalized companies like Peachtree have an opportunity to be a bit contrarian in the market. He said 2022 will be a "record-breaking year for us in terms of development and projects coming out of the ground.“

"It's a time when not a lot of projects are breaking ground and there's not a lot in the pipeline," he said. "We think that those projects will open at a very good point in the next cycle when they're the newest hotel with a great brand in a market that can really use the new supply. These hotels will be really well-positioned.“

Waldman was recently promoted to the chief investment officer position. He has worked with Peachtree since 2015.

This year, Peachtree has opened three select-service hotels — a Homewood Suites by Hilton in Destin, Florida; another Homewood in Louisville, Kentucky; and a Springhill Suites in Baltimore, Maryland. The company also plans to open a Hilton Garden Inn in Florence, Kentucky, by the end of the year.

The company broke ground on 11 more hotels, mostly under select-service brands, across the country with the expectation they will open in 2023 and 2024.
Waldman said the company expects to make similar investments in the future, focusing more on opportunities than specific markets.

"We're geographically agnostic," he said. "It's all about the risk-adjusted return. Obviously, we love higher-growth markets. We like markets with multiple, diverse demand generators, and we primarily invest with the premium brands."

In total, this development activity is expected to add roughly 1,500 rooms to Peachtree's portfolio. The company claims to have $7.8 billion in real estate investments and an addition $2.3 billion in equity under management. Because of its strong balance sheet, the company's lending division Stonehill is seeing similar opportunity, Waldman said.

"As a lender, we've been extremely active," he said. "We're well-capitalized, so we have the money available to put out. With a lot of big banks pulling out of the market and debt markets kind of shutting down, it's just a great opportunity for us to fill a void.“

He said it's hard to tell how long these lending challenges will persist. "We're at an interesting time where leverage is pulling back, spreads are blowing out, and the base rates are blowing out," Waldman said. "It's kind of the perfect storm of trouble for debt. In addition to that, regulators are starting to push pressure on [commercial real estate] exposure with the banks, which is causing a lot of the traditional lenders to pull back. I think that's going to take some time to work through.“

He said the industry is at a "fundamental fork in the road," and hotel developers able to build now will have a long-term advantage.

He added there are some signs that the transactions market could gain steam in the not-too-distant future.

"There's definitely a lot of equity out there, but there's not a lot of product. ... If you don't have to do something today, you're probably waiting for the market to settle down," he said. "But I think there's a lot of groups that are going to be forced to do something. A lot of ownership groups have had a free pass for the last couple of years — well, if you can call it a free pass while you're going through COVID. But your lender was working with you with forbearance, there were government programs, and brands were extremely flexible in terms of brand standards.“

He said that patience has waned, and the added pressure on some owners will play a role in closing the current bid-ask spread for hotel assets.

"We're three years into this now, and a lot of the lenders are looking to clean up their books, so they don't want to keep extending," Waldman said. "There's going to be pressure on the debt side. The brands are saying, 'We gave you this pass, now you need to start reinvesting in your assets.' And I think a lot of investors are tired. They've held on to their investments longer than they needed to or wanted to because of COVID, and now we've kind of gotten to the other side."