

# HOTELS' INVESTMENT OUTLOOK

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On  
the

## pr owl

After improving its balance sheet, Red Lion's new leadership team has given a legacy brand renewed energy and trajectory.

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# Provenance fund aims to fill new void

Portland lifestyle developer-operator's \$525 million fund aims to be a cash flow vehicle for its investors.

Provenance Hotels CEO Gordon Sondland (l) and President Bashar Wali in the lobby of their motion-picture inspired Hotel deluxe, Portland.

When IHG acquired Kimpton hotels, the leadership at Provenance Hotels, Portland, Oregon, recognized what it considered a void – a hand-crafted hotel developer that also wants equity and is still small enough to deal with owners one-on-one.

As a result, 30-year-old Provenance is launching the US\$525 million Provenance Hotel Partners Fund 1 with seven of its own stabilized assets valued at US\$375 million along with US\$75 million in additional investor capital. Provenance Hotels CEO Gordon Sondland and President Bashar Wali exclusively told *HOTELS' Investment Outlook* they expect another US\$75 million to be raised by the end of Q1 2016 to close out the raise.

“We have another year or two of party time and we think the values that have been driving the stratosphere are going to start coming back into reality,” Wali says. “Kimpton going with InterContinental really leaves no single player in that ‘Kimp-

ton space’ – small enough to engage with owners on a one-on-one basis. And we have a track record of doing the hand-crafted, one-off assets like Kimpton used to.”

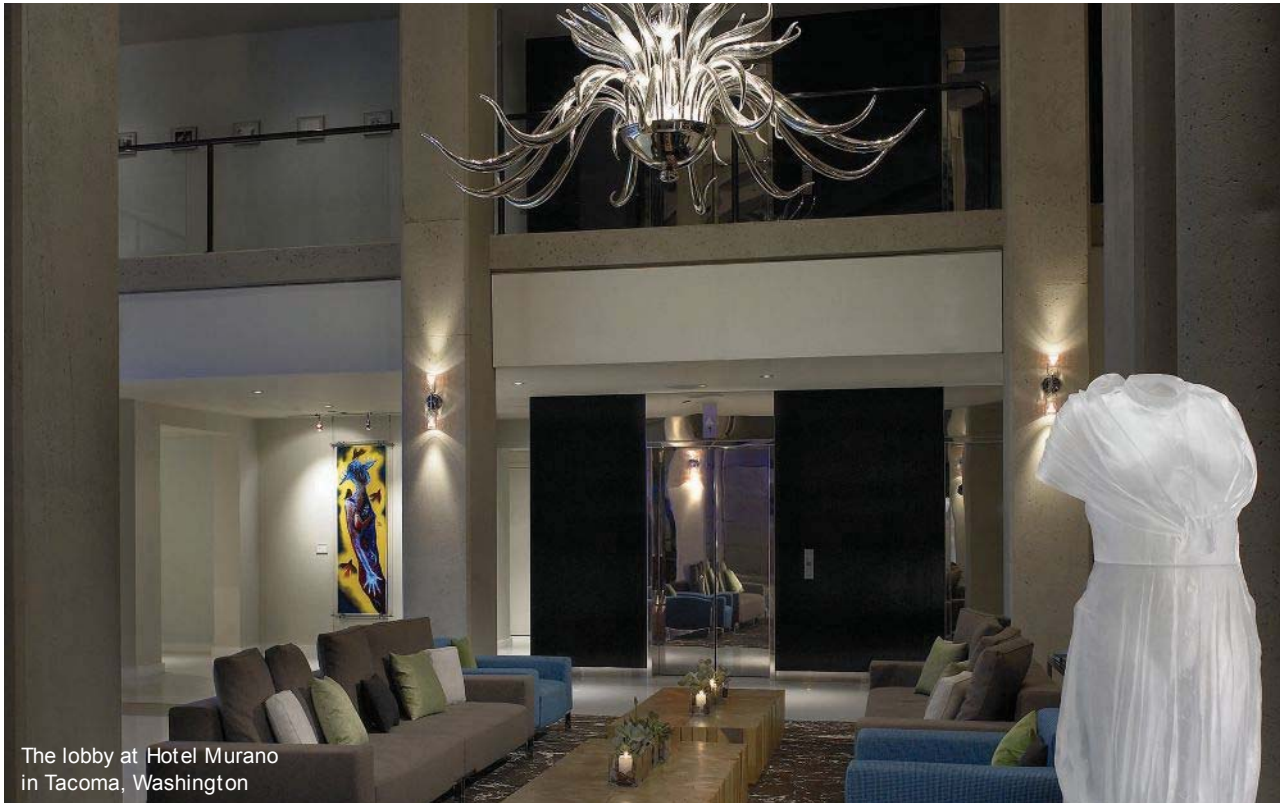
The fund is being positioned as a 10-year-plus hold and will consider 100- to 300-room upper upscale assets in the top 25 markets in the United States, both urban and secondary, to acquire outright, or take significant sliver or preferred equity with about 60% leverage to reposition and take management under its Provenance Hotels vehicle.

The fund will cast a bit of a wider net as it feels some of the other lifestyle players cast too narrow of a net – think Ace, Standard or Sixty Hotels. The initial seven properties out of a 15-hotel Provenance portfolio going into the fund include four hotels in Portland, Oregon – the Hotel Lucia, Westin, Sentinel and Hotel deLuxe; the Hotel Murano in Tacoma, Washington; the Hotel Max in Seattle; and the Hotel Preston in Nashville.

Other hotels still ramping up in the Provenance portfolio could join the fund, but only after a separate transaction between the fund and various partnerships that own those properties. “They would not want to give their assets away, and the fund would not want to overpay,” Sondland says. “So there would be an arm’s length negotiation that goes on essentially between insiders to ensure that the fund is getting a fair deal and that the sellers are getting a fair price for the risk they took.”

As the new fund grows, perhaps first to 15 and then another 15 on top of that through additional capital raises, Provenance might be forced to take more of a branded approach as it becomes more challenging to hand craft hotels at that stage.

What also makes Provenance’s fund a bit different is that it includes a small but meaningful percentage of the management company so that its interest would be aligned with the other investors. As a result, anything



The lobby at Hotel Murano in Tacoma, Washington

the management company does that is accretive – not even related to the fund’s assets – benefits the fund’s investors. “For the purpose of alignment of interest and to show that ultimately our goal truly is maximizing the returns for the fund, not pocketing our fees, we decided to do that because it’s a valuable contribution for all the investors,” Wali adds.

Sondland says the other thing that the fund will have the ability to do, which shouldn’t be overlooked, is keep the quality of the assets and the cash flow in the funds strong.

“There are a lot of people who have great assets that either don’t want to sell for cash or can’t sell for cash,” Wali adds. “So we can issue them shares in the fund and have them contribute their properties in a tax efficient way, and they become owners of all of the properties.”

Wali says there is no rush to deploy the fund, but at press time in late November there was already one opportunity presenting itself. “We’ll

move as quickly as the market dictates but, no, the idea is to find the right opportunities to hold long term and will continue to generate more and more cash. This is a cash flow vehicle,” he says. “The traditional private equity companies just aren’t set up to do that and all the time we see they’re flipping things that they shouldn’t be.”

At the same time, Provenance will continue to grow its management business outside the fund and has two deals in the works in Texas, as well as one in Wisconsin. “People call us for management and although I can easily say we don’t do management, we never say no because ultimately the management conversation becomes a small investment conversation, and then a meaningful investment conversation,” Sondland says. “So we found that approach to be a great deal pipeline as opposed to sitting at my desk and waiting for a pretty book to cross it for me to overpay.”

By Jeff Weinstein, editor in chief

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