

HOTELS' Investment Outlook

The Canny Contrarian

AMC Delancey is banking on the hotel industry's long-term growth potential to maximize investment returns for high net-worth families.

Kenneth Balin brings something new to the U.S. hotel investment arena: patience. Unlike dozens of other investors looking for quick turnarounds and asset flips, Balin's Philadelphia-based **AMC Delancey Group** is using capital invested by high net-worth families to make long-term plays in new-build hotels and properties with repositioning potential. Still in the early stages of hotel portfolio-building, Balin is on the hunt for assets and markets that can deliver over a series of cycles.

Investment targets: For the most part, upper-upscale hotels such as a new-build Westin in an office park near Newark Airport; destinations such as Jacksonville, Florida, that have proven they can rebound quickly—either cyclically or from events such as 9/11—and resort development in areas such as Florida and the Caribbean with space for residential components. “Building a 5-diamond resort without residential units is impossible,” says Balin, who got his early education in real estate investing with Bass Brothers Realty. Limited-service outside the downtown core could be tempting given its resistance to downturns. He likes the demographics supporting growth in the luxury market as well—something he would investigate “with an operating partner who has the execution capability to make the project succeed.”

What makes AMC different: A preference for micro-market shopping. “Real estate is

fundamentally a local business. Put a hotel 20 blocks in one direction and it's a home run; 20 blocks the other way and it's a failure,” Balin says. That is why he does not favor investing by the dots on a map. “Some investors have amnesia about certain markets. You create value not just with the asset but with the asset and the market. That is why you have to be precise. Think rifle, not scatter gun,” he says.

Unlike his competitors, Balin works with local operating partners to identify the best local opportunities and capitalize on long-term upside. This kind of pairing led to the Westin deal, in which the high net-worth owners of an office park opted to seek rezoning to include the hotel. It also leads to better returns. “The market has so much capital. Buying a hotel is like speed dating. They take your money, do the deal and never speak to you again. I won't partner with people like that. We want a relationship with our local operating partner,” he says.

Why AMC is amping up its hotel investment now: “There are value-add opportunities at every point in the cycle,” Balin says. Although he felt more comfortable about hotels a year ago, Balin says the hotel component of the portfolio will grow. “We have a long-term investment approach. Cycles go down, but they come up again.

Fundamentally, hotel real estate is a great business to be in,” he says.

His view of pricing differs from some of his competitors because he is weighing value creation over short-term returns. “I used to believe

that I never met a deal I didn't like except for the terms and the price. Now, my philosophy is that opportunity without strategy is a diversion. Core real estate should be defined as value-add waiting to happen. There is no margin for error if you pay full price and get a low yield. That's how a property goes upside down,” he says.

Whose name will be on the door: For the most part, Balin likes big brand families such as Marriott International, Hilton Hotels Corp. and Starwood Hotels & Resorts. But, he matches projects to opportunities. “We had one opportunity we would have liked to make a Marriott. But there were already Marriotts and Hiltons in that market. We went with Radisson in that case,” Balin says. For Philadelphia's Rittenhouse, he opted to sign on with a soft brand, Leading Hotels of the World. “The Internet has leveled the playing field for independents,” he says.

Would he experiment with a new brand? If it were backed by an established hotel company, Balin says he would take a look—depending on the market.

Why go long term?: Long holds fit with the goals of the high net-worth families who make up his investment base, as well as his own philosophy. “Nearly three decades in the investment business have taught me that real wealth from real estate in the United States, the United Kingdom and Japan is generated over the long term. Lawyers and brokers don't like that idea; they can't wait around for real estate that will be sold once every hundred years. But what good does churning assets do for the investor who has to give everyone a piece of the profits each time the asset is sold?” Balin asks. ■



Kenneth Balin

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