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Vesta Hospitality taps into co-investment fund for growth

BY DENNIS NESSLER

VANCOUVER, WA—Armed with a newly raised co-investment fund and its track record as an experienced operator of major branded hotels, Vesta Hospitality is poised to grow its portfolio exponentially this year.

The owner/operator, based here, entered the year with 12 properties and has already acquired the Homewood Suites in La Quinta, CA, in February and more recently inked a deal to assume management of the Holiday Inn in Shreveport, LA in May. Rick Takach, president and CEO of Vesta Hospitality—which was founded in 1996—maintained the company is looking to add at least four properties to its ownership portfolio in 2014, in addition to third-party management deals.

Takach talked about the importance of the $10 million co-investment fund the company created to partner with institutional equity providers on major asset purchases. "We're prepared financially, it's finding the right transactions," he said, noting that the fund could result in as many as five to 10 hotel deals potentially. "It really depends on the size of the transaction," he added. Takach also stated that when it comes to portfolio deals, the company is "always looking at that" as well.

He explained the decision regarding the amount of money raised. "This is our first fund. We didn't want to go too big. We just wanted to make it right. I want to make sure it's successful; if it's successful then we'll make it even bigger," said Takach.

In addition to looking for acquisitions by more traditional means, Takach said that taking on third-party contracts could eventually help boost the company's owned portfolio, which currently includes nine hotels. "We'll look at third-party for a number of different reasons. What we have found is with a lot of the third-party management contracts we've ended up buying the asset. So it's a good strategy for us because we can get in and get comfortable with the asset. We know all the inns and outs. We take away a little bit of the upside, but it takes away a little bit of the risk also," he said.

Vesta's portfolio includes both full-service and limited-service product, such as the Renaissance Casa de Palmas Hotel in McAllen, TX (above) and the Holiday Inn Express in Glendale, AZ.

As a prime example, Vesta had been managing the aforementioned 129-room Homewood Suites in La Quinta, CA, for four years prior to acquiring it along with San Diego-based Pathfinder Partners. Takach noted the original owner "overdeveloped and ran out of cash."

He elaborated on the advantages of having previously operated this particular hotel. "There is no question that our management experience at the property helped us make this decision. It's one thing to look at a balance sheet, but when you can couple that with the human element—knowing the hotel's culture, clientele and what makes it successful—you can make a truly informed decision," said Takach.

Meanwhile, the 190-room hotel in Shreveport, LA, had lost its Holiday Inn flag but it is in the process of getting it back, said Takach, who noted the property represents a good fit for Vesta. "The hotel has had considerable issues with its product and management and lost its franchise. The owner is making a significant financial investment. Our experience with IHG and our management capabilities will significantly improve the hotel's long-term value," he said.

Vesta Hospitality recently acquired the Homewood Suites in La Quinta, CA, after managing the property for several years.

In addition, the company also previously inked a management contract for an Embassy Suites in Richland, WA. The new-build property was expected to open in fall 2013, but has been delayed due to financing issues. Takach said he was hopeful that the owner would obtain financing in Q1 of this year.

He pointed out that the company gets a lot of referrals, particularly from some of the brands it frequently works with, to manage properties for inexperienced owners. However, he noted that Vesta remains selective about what management deals it takes on. "If ownership has similar values, that helps us. Is this a one-off deal or do they want to do more hotels? Do they believe in reinvesting back into the project or reinvesting in the people in the hotel? Those are two key values. If we're going to manage with somebody that just wants to take every penny out, that doesn't work for us because we don't think we're maximizing value," he said.

Takach further underscored the company's desire to expand and noted it's flexible with the types of projects it is seeking out. "I think that what we're trying to do is find a value-add play through either what we think may be improved management or repositioning or improved product, or any of the three. If we can find a value-add that matches up with our equity sources, we'll go anywhere for anything. It can be select-service or full-service," he said.

In terms of the current portfolio, Takach noted the performance of the properties has been solid. "Obviously there hasn't been a lot of supply added, so if you have existing product you're doing pretty well," he said.

But even with limited supply, Takach acknowledges the need for CapEx investments in many of these hotels. "We believe that having a fresh product gives you the best value, the best return on investment. We continually reinvest as needed; we're not shy about that," he said. HB