INTRODUCTION TO THIS DOCUMENT

This Skift article talks about how Blackstone, the world's largest alternative asset manager, is using the hotel industry's last downturn as an example for how to weather the COVID-19 pandemic crisis.

OUR TAKE-AWAYS:

<u>This is what we learned from this document:</u>

- **Blackstone, the world's largest alternative asset manager, is using past experience of investment in Hilton just ahead of the 2008 recession as a model for investing in the current downturn. The investment in Hilton is one of the longest and most successful private equity plays in travel and hospitality.**

- **Blackstone's "model" is designed for periods like this and they will be ready to move ahead once there is more certainty in how the economy will reopen.**

- **"The biggest challenge we've faced before is what do we do with all this capital. Now, I think there will be a pretty broad place to deploy that capital."**

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How Blackstone's Earlier Hilton Investment Will Guide Its Hotel Strategy in This Crisis

— *Cameron Sperance*

4-5 minutes

The world's largest alternative asset manager is using the hotel industry's last downturn as an example for how to weather the coronavirus storm.

Blackstone's 11-year investment in Hilton is one of the longest and most successful private equity plays in travel. The firm bought Hilton in 2007 ahead of the Great Recession for $26 billion but later wrote down its investment by roughly 70 percent due to the financial crisis. Blackstone held onto the hotel company and took it public in 2013, eventually shedding shares until checking out entirely in 2018 with a cumulative $14 billion profit.

Blackstone intends to use that Hilton model through the current economic downturn.

"Our experience with Hilton, which we purchased in 2007 ahead of the market crash, is an excellent illustration," Blackstone Chairman and CEO Stephen Schwarzman said Thursday on the firm's first quarter earnings call. "Although the current crisis is much more formidable than the global financial crisis, our firm's operating and financial position is much more formidable today as well."

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Coronavirus still weighed on the company's first quarter. Blackstone reported a $1.1 billion net loss for the first quarter compared to a $481 million profit in the first quarter of 2019. The company also saw "meaningful markdowns" in its hotel and retail assets, which comprise about 15 percent of the firm's global portfolio, Blackstone Chief Financial Officer Michael Chae said.

Blackstone CEO Stephen Schwarzman

But a strong balance sheet, nearly $250 billion in fundraising, as well as an asset-light model has the private equity giant poised for opportunities in the current downturn, multiple Blackstone executives said. The firm has about $152 billion left in "dry powder," or capital, to invest in new opportunities.

Blackstone purchased a roughly 5 percent stake in Extended Stay America in mid-March, the Wall Street Journal reported Wednesday. The economy extended stay sector is the strongest-performing hotel sector in the coronavirus-related downturn in travel, and it is Blackstone's third time investing in Extended Stay America.

While Blackstone executives didn't mention the Extended Stay America deal on Thursday's call, they emphasized they were under no pressure to sell assets in the current crisis and were already looking for investment opportunities.

Blackstone has an investment history across all price points in hospitality. Previously, the private equity firm had a stake in Ramada and owned the Days Inn chain. A Blackstone subsidiary currently owns Motel 6.

Along with the earlier investments in Hilton and Extended Stay America, Blackstone bought the Cosmopolitan casino and resort in 2014 for $1.7 billion. Earlier this year, Blackstone's real estate investment trust division announced a $4.6 billion joint venture with MGM Growth Properties on the MGM Grand and Mandalay Bay resorts in Las Vegas.

"Our model is designed for periods like this. We can focus on doing what we need for our companies or properties without having to worry about being forced sellers," Blackstone President and Chief Operating Officer Jonathan Gray said. "As we've seen again and again through cycles, strong properties and companies flourish given time."

It may take as long as a year for Blackstone to significantly move from defense to offense. It took a year after the recessions in 2001 and 2008 for momentum to pick up with asset trading, Gray said. But Blackstone will be ready to move ahead once there is more certainty in how the economy will reopen.

"That first year after the shock is pretty slow in terms of deployment and then it can change," Gray said. "The biggest challenge we've faced before is what do we do with all this capital. Now, I think there will be a pretty broad place to deploy that capital."

Photo Credit: Blackstone took a roughly 5 percent stake in Extended Stay America in mid-March. Mike Mozart / Flickr