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## HISTORIC TAX CREDIT TOOL BOX 🌿

# The Changing HTC Landscape: What's Next for Hotels?



## An Interview with Joe Long, Co-Founder and Managing Partner of KHP Capital Partners

**JOHN TESS, PRESIDENT HERITAGE CONSULTING GROUP**

**M**My article in the June issue of the Novogradac Journal of Tax Credits looked at one developer's perspective on how the COVID-19 pandemic is affecting the development community.

This month, I interview Joe Long, a longtime veteran in the hotel industry, on how the pandemic is affecting his industry. Joe is a co-founder and managing partner of KHP Capital Partners and was former executive vice president, chief investment officer at Kimpton Hotels & Restaurants from 2003 to January 2015.

KHP Capital Partners was formed in 2015 by Mike Depatie, Joe Long and Ben Rowe to continue the private equity fund management business,

formerly managed by this team while they were senior executives of Kimpton Hotels & Restaurants following the sale of the Kimpton hotel management company to InterContinental Hotel Group.

It is important to note that KHP traces its roots to 2003, when it acted as the real estate arm of the pioneering boutique brand, Kimpton Hotels & Restaurants, founded in 1981 by hospitality icon Bill Kimpton. Over the years, Kimpton became a leader in the renovation of historic properties and

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*Image: Courtesy of Cris Molina*

**The Philadelphia Monaco is a former 1907 office building in Philadelphia that was transformed into a four-star hotel with a neighborhood restaurant and a rooftop bar.**

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is often credited with the creation of the boutique hotel industry in the United States.

As a side note, it is interesting that while in the business of renovating historic properties, Kimpton did not make use of federal tax incentives until 1984, with its venture from San Francisco to Portland, Ore.

Two of the most noted historic properties developed by Kimpton are the Tariff Building in Washington, D.C., a National Historic Landmark that houses the Hotel Monaco; and the Haslett Warehouse, which was transformed into the Argonaut Hotel, in San Francisco. The Monaco project won U.S. General Services

Administration's Heritage Award for Conservation and Restoration.

In 2003, the team of Depatie, Long and Rowe joined Kimpton. During their tenure, they raised capital through a series of KHP funds for expanding the Kimpton brand. Under their leadership, Kimpton Hotels & Restaurants grew to become the largest independent owner and operator of boutique hotels in the United States.

Today, KHP Capital Partners is a real estate private equity firm focused on investments in boutique and

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independent hotels. Headquartered in San Francisco, it invests across the United States and Canada.

According to Long, the vision of the company is a simple one: To be the most trusted and best performing real estate investment firm in the hotel industry. In addition, Long says that with respect to business, it is always integrity first. KHP can always be trusted to do the right thing. Honesty and fairness are critical to long-term success. In doing business with Joe for many years I can attest to his commitment to integrity.

I interviewed Joe by phone the first week of June. At that point, he was—like most of us—working from home. He noted it was “week 12” and things are just different and will be different for a long time. Joe, being in the hotel business, is accustomed to working from home or on the road, but not to this extent. He does not see

reopening of his office anytime soon and anticipates more remote working in the future.

Following are my questions:

**Q: How did the pandemic hit you?**

**A:** Very simple. People stopped traveling on very short notice and we went from full to empty hotels virtually overnight.

**Q: How did you respond?**

**A:** Initially we had to close approximately half of our hotels. The remainder were left open as they continued to limp along with a skeleton staff.

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Image: Courtesy of Cris Molina  
 The rehabilitated Philadelphia Monaco is located across from Independence Hall in Philadelphia.



Image: Courtesy of Laure Joliet

The Gray Hotel in Chicago has 292 rooms in a 14-story building. The building was originally designed by William Jenney, known as the father of the skyscraper.

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**Q: What do you think are the key elements to have the industry begin to turn around?**

**A:** For a real turnaround, we will need a vaccine. Until that time, things will continue at very low occupancies along with low rates and fewer services. A second, but just as important element is to have a revived airline industry.

**Q: You mentioned changed services. Can you describe some of the changes?**

**A:** First, there are the restaurants, people are not going out to eat and social distancing will change how they operate. Room service may be eliminated. Daily housekeeping will likely not occur on a regular basis,

but may be requested after longer stays. There may not be daily vacuuming, bed turndown and other typical services. These are just some of the obvious changes and I am sure there will be more.

**Q: Regarding reopening, how do you think it will evolve?**

**A:** Surprisingly, changes are already happening. Resort areas that are within drivable distances are beginning to see an uptick in occupancy. Hotels in major cities are very slow and will continue to be slow. Group business will probably be the slowest to come back. As I discussed before, a vaccine and air travel will be key to continued increased occupancy. This will be especially important for hotels in major central business districts.

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**Q: With respect to the development market in general, how would you view it?**

**A:** In general and not having a crystal ball, I would say that there will be a slowdown in development as people will be concentrating on reopening. The larger brands will continue to compete with each other. Smaller boutique brands will have more flexibility and be able to respond to the market better. There will be fewer new brands, and that is probably a good thing.

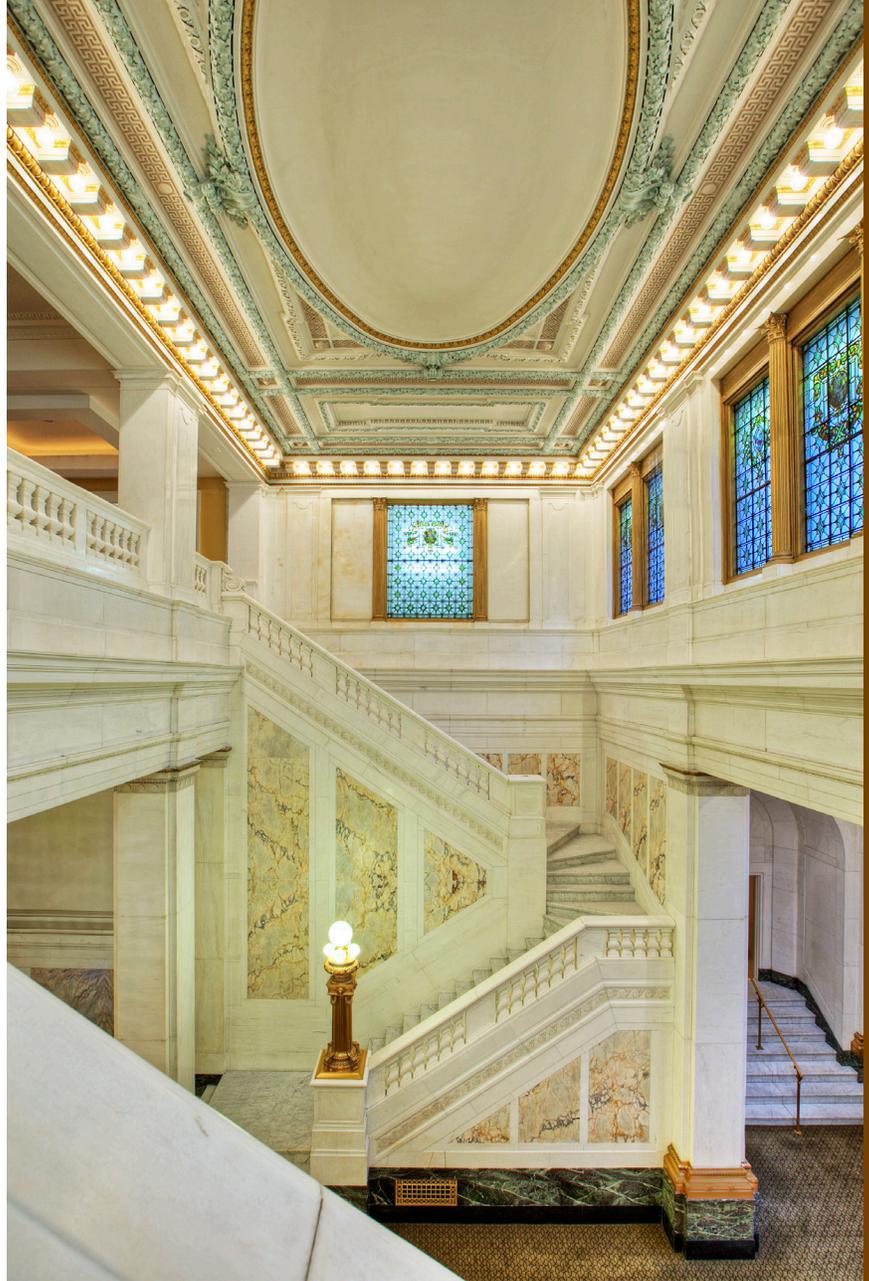
**Q: Do you think there are opportunities out there?**

**A:** Absolutely! There are always opportunities and you have to remember that at some point we will get through this. KHP is always looking for properties and we anticipate that at some point some interesting opportunities should arise. Currently, there are some deals out there, but few things are closing. As time moves on, I am sure that will change.

**Q: What type of properties do you think make good conversions?**

**A:** Of course, older hotels and apartment houses work. Old office buildings are also good candidates for conversion.

**Q: You have been involved with a number of historic buildings. What do you like about renovating historic buildings?**



*Image: Courtesy of David Phelps*

**The Kimpton Hotel Monaco Baltimore Inner Harbor in Baltimore is a 202-room boutique hotel in the historic B&O Railroad Headquarters.**

**A:** Historic buildings have a lot of character. They are not just another glass box. They give you a chance to tell a unique story. We also like the incentives that are available to these projects.

**Q: What are some of the challenges you have to deal with in historic rehabilitation projects?**

**A:** I'd have to say that there are many construction challenges that come with historic properties. You never know what you are going to find behind a wall,

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but that's part of the fun that comes with the projects. Design review of historic properties can also be complicated. Having the right team is critical especially in these projects. We have a great team and group of professional we work with.

**Q: Can you tell us about a couple of your recent historic rehabilitation projects?**

**A:** Two of our recent historic projects include the Gray Hotel in Chicago and the Philadelphia Monaco. The Gray is located on the south side of the Loop. It has 292 rooms in a 14-story building. The building was originally designed by William Jenney, known as the father of the skyscraper. The Monaco Philadelphia is in an A+ location directly across from Independence Hall. You really cannot get any better than that. There we took a long-vacant 1907 office building called "The Lafayette Building" and transformed it into 274-room, four-star hotel with a great neighborhood restaurant and a rooftop bar.

**Q: In closing, how can the historic incentive programs and design review process be enhanced to help bring back the industry?**

**A:** The current local, state and federal incentives are critical to rehabilitation of existing historic buildings. Without these incentives, it would be hard in many instances to take on the projects. These incentives are also one of the most cost-effective ways to stimulate rehabilitation project development, which in turn, creates jobs during the project, as well as hundreds of permanent jobs once the hotel opens. More or increased incentives would be helpful, of course, even if temporary, to jump-start recovery. With respect to design review, quantifiable processes, more consistency and shorter review times are critical.

**Q: Any final thoughts?**

**A:** This thing will be over at some point and the hotel industry will recover. Things may change and be different, but we will survive. As we move forward, rehabilitation of existing buildings and good design in new construction will be critical in rebuilding our cities. Getting back to normal will help with not only stronger economies in larger cities, but will provide new opportunities in secondary markets. We look forward to the challenge. ❖

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