BUSINESS STRATEGY

O’Brien-Staley sees opportunity in “unloved” hospitality credits

Founder Jerry O’Brien talks to *Alt Credit* about where to find compelling investment ideas post-Covid

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$1.8bn private debt manager **O’Brien-Staley Partners** is on the lookout for “unloved” loans in the hospitality industry, founder Jerry O’Brien told *Alt Credit* after the firm held a final close on its latest fund.

The coronavirus pandemic has caused widespread stress in the hospitality sector, with hotel and retail properties hit hard by lockdowns and social distancing policies.

Banks and other major lenders are taking a conservative approach to the sector and many have chosen to offload the loans from their balance sheet at a modest discount to avoid hassle of lengthy restructuring process, according to O’Brien.

That has created a raft of opportunities for Edina, Minnesota-based **O’Brien-Staley**, with hotels and senior housing looking particularly attractive.

“Those ‘unloved’ but performing loans can live out on our balance sheet,” said O’Brien. “We are a natural owner of those assets, but regulated banks’ balance sheets are not. Banks are unhappy with the size of the concentration in these kind of credits on their balance sheet.”

O’Brien-Staley recently held a $550m final close on its third credit fund, *OSP Value Fund III,* a vehicle with a three-year investment period and seven-year life. The fund is dedicated to purchasing commercial and industrial loans, with the typical investment sizes in the range of $5m and $25m. AltCredit data highlighted the Connecticut Retirement Trust as an investor in two share classes of the fundraise. the firm also manages money for the Colorado Fire & Police Pension Association, the University of Michigan, and the corporate scheme for 3M among others.

Over the last four months, the firm has invested roughly $80m for this fund, primarily in loans of hotels and assisted living facilities that traded down due to ripple effects of the pandemic. The borrowers, by and large, have positive earnings but don’t make enough to service their debt under the current market environment.

O’Brien stressed the “unloved” feature of those credits, noting that they have to be performing loans in nature. The firm adopts a method it calls “Camel” – which stands for Capital structure, Assets, Management, Earnings and Liquidity – when scrutinising deals. In particular, the manager likes the following characteristics for an investment: senior secured position in a capital stack, an established management team, positive earnings and alternative liquidity.

“This current credit crisis is expected to stretch out for years, and the companies target have to be able to exist through the end of the crisis,” he said.