

NEWS Review might slow Chinese investment in U.S.

By Guest Contributor on 9/15/2017

Chinese investments in U.S. hotels have increased by the billions in only a year. Deals have ranged from the sale of individual hotels, like Waramaug LS Hotels' purchase of the SpringHill Suites by Marriot Newark Liberty International Airport hotel, to massive deals, like Anbang Insurance Group's US\$5.5 billion acquisition of Strategic Hotels and Resorts. Even iconic American hotel brand Hilton Worldwide Holdings is now 25% owned by Chinese conglomerate HNA Group.

China is far and beyond the largest source of investments in U.S. hotels; however, this trend may change because of an issue rarely considered by hoteliers – national security concerns. President Trump vowed to get “tough on China” during his campaign, and the Trump administration has made it clear that they are paying closer attention to trade relationships and direct foreign investment in the United States. International commercial real estate investments, especially investments from China, are now under much harsher scrutiny.

This scrutiny comes largely from the Committee on Foreign Investment in the United States (CFIUS), an inter-agency committee that reviews foreign investments and acquisitions to determine if they threaten national security. The committee consists of the secretaries of commerce, defense, energy, homeland security, labor, state and treasury as well as the director of national intelligence.

CFIUS is primarily concerned with the finance, manufacturing, mining and telecommunications industries, but they may concern themselves with the hospitality industry if there is reason to believe that the transaction will impact U.S. national security. Filing with CFIUS is voluntary, but the committee has the right to investigate any acquisition, merger or takeover that could result in a “U.S. business” being “controlled” by a foreign entity. A “U.S. business” can include hotels and other commercial real estate, and “control” is defined as a foreign person's ability to “determine, direct, or decide” matters related to a U.S.-based business. As these definitions are vague, many direct foreign investments in the U.S. face the possibility of investigation.

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Between the massive growth in Chinese investment and the precedent that the young Trump administration has already set, it's likely that CFIUS review of hospitality transactions (and transactions across all industries, for that matter) will expand in the coming years. President Trump has made it clear that national security is high on his agenda. From the Trump administration's point view, the CFIUS review process is not only a way to advance national security but also a way to strengthen economic security, and its use is likely to increase. This could be a potential point of friction with China.

Additionally, CFIUS requirements may become more stringent. Although it isn't yet clear how the CFIUS process may change, don't be surprised if the federal government takes another look at the type of transactions they investigate and the scope, requirements and congressional oversight of the process. CFIUS reviews are somewhat secretive, but we know they take 30 days with the possibility of an additional 45-day assessment. Once a transaction is approved, it is rare that the government can challenge it; however, if a transaction does not undergo an initial CFIUS review, it is subject to later review and can be reversed. If the process changes, entities involved in foreign transactions may be more inclined to voluntarily submit their deals to CFIUS to avoid any issues down the line.

When investigating hospitality transactions, CFIUS considers many factors, ranging from the location of the hotel to the guests that frequent it. Hotels near sensitive locations like military bases and airports as well as hotels that attract high-profile clients are most likely to be investigated by CFIUS. For example, the Waldorf Astoria, came under scrutiny because many of the guests and residents were high-ranking dignitaries and government officials. It was ultimately approved, but CFIUS was reportedly concerned about the cybersecurity of the hotel's guests.

Finally, for all the reasons why the U.S. government may slow down Chinese investment, China itself may have just beat us at our own game: the Chinese government recently announced they are curbing foreign investments across a wide variety of areas, including entertainment, sports and commercial real estate, with a special emphasis on hotels. It's unclear how quickly or how much these massive Chinese conglomerates must scale back their investments, but it will almost certainly put a damper on the upward trend of the last few years.

Between U.S. government review and limitations in China, expect to see more hurdles for Chinese investors seeking opportunities with American hotel companies. The Trump administration has shined a spotlight on China, and CFIUS may become stricter in the coming years. Perhaps Chinese investment in U.S. hospitality has hit its peak.

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