

INVESTOR PERSPECTIVES / SEPTEMBER 2026

The Case for Alternatives and Where Hotels Fit

A framework for evaluating private assets without confusing complexity with quality.

AL T E R R A E Q U I T I E S

RESEARCH & INSIGHTS

04

THE INVESTMENT QUESTION

What distinct economic exposure does the alternative provide, and is the investor paid enough to accept its constraints?

For investors considering an allocation beyond traditional public stocks and bonds.

Executive perspective

Alternatives are useful when they add a return driver or ownership opportunity the existing portfolio does not already provide efficiently.

The category includes investments with very different economics: private businesses, loans, properties, infrastructure and specialized strategies. “Alternative” does not mean low-risk, uncorrelated or superior. A label cannot substitute for understanding the cash flow, capital structure and decision rights.

Asset class	Core economic exposure	Principal diligence question
Private real estate	Property income, asset value and operational execution.	Is the entry basis and business plan attractive after capital needs and financing?
Private credit	Contractual payments and recovery if a borrower cannot pay.	What collateral, covenants and enforcement rights support repayment?
Private equity / venture	Business growth, margins, financing and exit valuations.	What must improve, and how much new capital is needed before liquidity?
Infrastructure	Long-lived assets with contracted, regulated or volume-sensitive cash flows.	Which prices, counterparties and demand risks are actually protected?
Commodity / specialist strategies	Specific supply, price or trading exposures.	What is the return mechanism and what can cause permanent loss?

Private fund documents can impose long holding periods and complex fees and conflicts. The SEC’s private-equity guidance highlights these features. [1] Investors should establish their capacity to hold before assessing the appeal of a proposed return.

A useful test

If the investment’s expected advantage cannot be explained without the words “exclusive,” “institutional” or “uncorrelated,” the diligence is not complete.

01 / Distinguish diversification from a new label

Two funds may own different assets yet depend on the same economic conditions: cheap refinancing, strong consumer demand, rising exit multiples or plentiful buyers. The portfolio can be less diversified than its product list suggests. Identify the underlying exposures and look through to existing business and property holdings.

Three potential sources of value

Access: Ownership of an asset or contractual position not readily replicated in public markets. Access is valuable only at an attractive price and on acceptable terms.

Execution: The ability to improve operations, governance, physical condition or capital structure. This depends on competence, resources and time; it is not an automatic private-market premium.

Structure: Negotiated rights, alignment and financing that shape outcomes. Priority in a waterfall can help, but it does not create cash where the underlying asset has none.

Common claim	What the investor should verify
"Low volatility"	How often is it valued? Is smoothing masking changing economic value?
"Senior and secured"	Which entity owes the money? What ranks ahead? What is collateral worth under stress?
"Stable distributions"	Are payments earned, financed, drawn from reserves or returned capital?
"Diversified fund"	Asset concentration, correlation of demand, leverage and maturity clustering.
"Institutional quality"	Documented controls, reporting, incentives and actual operating evidence.

A liquidity feature also needs inspection. For example, an interval fund may offer periodic repurchases rather than daily redemption; offers are limited and can be prorated. [2] An investment's wrapper changes access to cash, not the liquidity of the underlying asset overnight.

02 / Why hospitality belongs in the discussion

Hotels combine real estate ownership with a daily operating business. That can create opportunities to improve revenue strategy, brand position, distribution costs, staffing or capital deployment. The investor is accepting operating variability as well as property and financing risk.

Property sector	Potential attraction	Key trade-off
Hotels	Frequent pricing decisions and visible operating levers.	Demand volatility, labor intensity, renovation and franchise obligations.
Multifamily	Recurring residential demand and periodic lease resets.	Local supply, regulation, turnover and expenses.
Industrial	Logistics or production use; leases may support contracted income.	Tenant concentration, rollover and specialized building needs.
Office	Contractual rent and repositioning possibilities.	Tenant demand, leasing capital and space obsolescence.
Retail	Location, tenant mix and consumer access.	Tenant health, sales trends and competitive formats.

This is a qualitative framework, not a ranking of expected returns. Sector labels contain very different assets. A small hotel dependent on one customer and a diversified resort have different operating profiles. A low cap rate or strong brand does not resolve poor basis or unbudgeted capital work.

The hotel-specific diligence chain

Reconcile room revenue to property records. Review demand segments and competition. Price the franchise property improvement plan. Test payroll, taxes, insurance and replacement reserves. Underwrite the operator and the financing maturity together. A renovation that improves revenue after the loan matures may not solve the investor's immediate problem.

Commercial real estate underwriting requires attention to repayment capacity and collateral value; the OCC handbook provides a supervisory reference. [3] Specific lender tests and investor terms vary.

03 / Allocate only capital that can stay committed

Illustrative liquidity screen: A household has \$1 million of accessible investable assets. It reserves \$250,000 for known near-term obligations, \$150,000 for emergencies and \$200,000 for existing capital commitments. Only \$400,000 remains before additional concentration and risk limits. This is arithmetic, not a recommended allocation.

Item	Illustrative amount
Accessible investable assets	\$1,000,000
Known near-term obligations	(\$250,000)
Emergency reserve	(\$150,000)
Existing commitment reserve	(\$200,000)
Remaining before other portfolio limits	\$400,000

Expected salary, projected distributions and a hoped-for property sale should not be treated as equivalent to funded liquidity. Stress the possibility that a capital call arrives when public markets are weak and employment income is less certain.

What a private investment must demonstrate

Require a complete sources-and-uses schedule; an operating case independent of optimistic refinancing; a net investor waterfall; meaningful reporting; documented conflicts; and a realistic loss scenario. Check who can change the business plan or extend the investment, and what happens if additional capital is unavailable.

Alterra perspective

Hospitality can offer a differentiated ownership opportunity when basis, operations, capital spending and financing align. The case belongs at the asset and investor level. Alternatives deserve an allocation only when that case is stronger than the constraints they introduce.

Sources, methodology & important information

Scope: qualitative comparison of selected alternative assets and real estate sectors. No return, yield, volatility or correlation estimates are asserted. Asset descriptions are analytical categories, not product recommendations. The liquidity example is hypothetical and excludes any investor-specific tax, risk or suitability conclusion.

Primary sources

[1] SEC Investor.gov: Private Equity Funds

General private-fund background; liquidity, fees and conflicts.

[2] SEC Investor.gov: Interval Funds

Repurchase structure and liquidity limitations.

[3] OCC: Commercial Real Estate Lending, version 2.0

March 2022 handbook, with noted subsequent revision. Used as background on repayment and collateral analysis, not current market terms.

Use of this paper

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Sources accessed September 11, 2026. Data cutoffs and dated rules are identified where used. Verify later changes and the investor-specific position before a transaction. Analytical frameworks and uncited worked examples are Alterra's original educational analysis; source organizations do not endorse this paper.

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