COMPANIES

Big chains aim to book some grand hotel deals

Accor closes in on $3bn purchase of FRHI while Starwood offloads timeshare business and becomes target for Hyatt

MALCOLM MOORE — LONDON
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The do not disturb sign has been taken down. Some of the best-known hotel brands are finally joining the dealmaking boom as they look to boost profits and race to add hotel rooms with analysts pointing towards a peak in the cycle.

The hotels sector has been quiet even as overall dealmaking broke records, with hotel deals totalling $35.5bn for 2015, less than half of the $75.2bn seen in 2007 during the last boom, according to Dealogic.

But in the past fortnight, it has emerged that Accor, the French group, is closing in on a $3bn deal to buy FRHI Hotels & Resorts, which owns luxury hotel brands Fairmont, Raffles and Swissôtel.

Meanwhile Starwood, whose brands include St. Regis, Sheraton and the W chains, sold its timeshare business to Interval Leisure Group for about $1.5bn and then became a target for Hyatt Hotels. And on Friday, shares in Holiday Inn owner InterContinental Hotels rose 6 per cent, following media reports that it was considering a sale of its business or a merger.

The rush to consolidate comes as occupancy and room rates reach record levels, especially in the US. Revenue per available room, the industry metric, is 13 per cent higher in the US than it was in 2007, the last peak in the cycle.

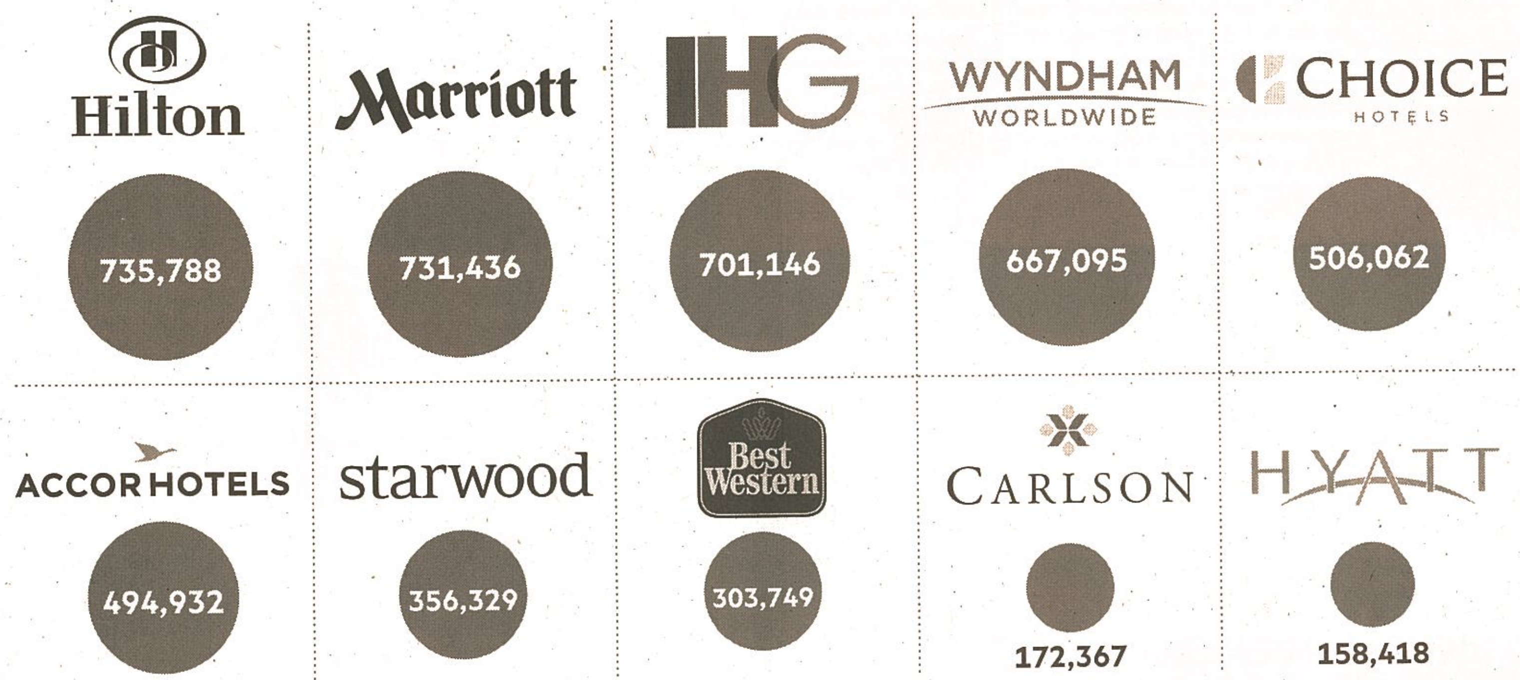
"The cycle is an important factor," says Grant Hearn, chairman of Amaris Hospitality, the 93-strong company owned by Lone Star private equity.

"People in the US are calling the peak in the cycle, so going into that with all

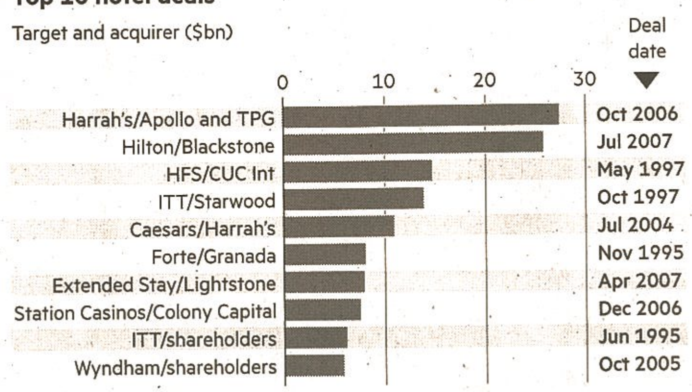
> 'In the end we will have a few very large players. The bigger you are, the more people stay at your hotel'

Room temperature rises

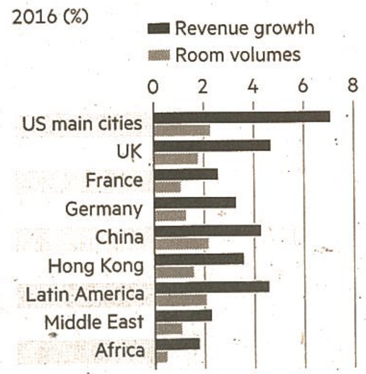
Global hotel room count



Top 10 hotel deals

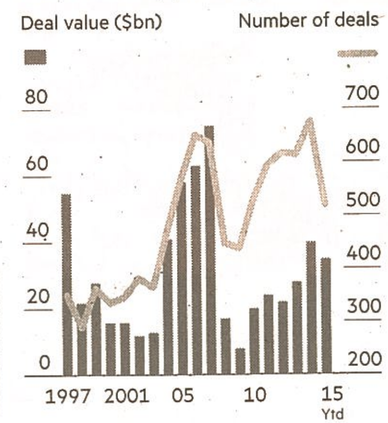


Hotel growth expectations



Based on corporate managers surveyed in mid-Oct

Hotel M&A worldwide



Sources: 2015 STR Global; Dealogic; Morgan Stanley

FRHI owns the property named after Singapore's founder Stamford Raffles

hotel assets this year, establishing themselves for the first time as serious participants in the market for hospitality real estate, according to property consultants JLL.

China's Anbang Insurance Group spearheaded this investment wave last year when it paid Hilton $1.95bn to buy the Waldorf Astoria in New York, setting a record for a single hotel transaction in the US.

A month later, Beijing-based Sunshine Insurance Group acquired the Sheraton on the Park in Sydney for about $400m.

Luckily, there are enough opportunities for potential buyers to choose from. The hotel industry is very fragmented, the top five operators managing or franchising only just over a fifth of hotel rooms, according to analysts at Morgan Stanley.

That number does not account for the spare rooms that have become available through websites such as Airbnb.

Several smaller groups are on the block. In the UK, Goldman Sachs, Avenue Capital and GoldenTree Asset Management are considering a sale of budget hotel group Travelodge, which has more than 500 hotels.

US buyout group Carlyle is looking for buyers for its 80 per cent stake in French budget chain B&B Hotel Group, these companies with these potential synergies is a good place to be."

In the past, expanding a hotel company required large capital investment, but over the past two decades, many hotel groups have expanded by adopting an asset-lite model of managing, rather than owning, properties.

This strategy has allowed companies to focus on the less capital-intensive business of running properties for fees, leaving third parties to pick up other hefty costs.

Teresa Goebel, a partner at law firm Goodwin Procter, says potential acquirers are attracted to the strong performance of hotels as an asset class.

"It is often quicker and less expensive to acquire a brand or brands, and the hotels that come with the brand, than to build a brand from the ground up."

InterContinental Hotels Group, which owns the Holiday Inn and Crowne Plaza brands, generates ninety-five per cent of its profits through its fee business.

Investors have welcomed the asset-lite approach. But it has locked groups like Accor into a race to secure the largest number of properties under their management.

"The issue is growth," Mr Hearn says. "When you are asset-lite, it is a flag race: how many flags can you get? You have five to six hotels making what you got from one leasehold, so it is a grind."

Lukas Hartwich, analyst at Green Street Advisors, says that the hunt for scale has lured companies to deals, especially for Starwood, which has trailed rivals Hilton and Marriott in adding rooms.

"Really, in the end of all this we will have a few very large players. The bigger you are, the more people know you and will stay at your hotel."

Mergers are also a way for companies to fill in a gap for specific types of hotels.

Starwood and Hyatt have struggled to crack the "select service" segment: minimalist hotels aimed at millennials, an area where Hilton and Marriott have thrived. Reaching scale in select service "will come much faster if we buy it than if we build it", Adam Aron, Starwood's interim chief, said in July.

Analysts say that hotel groups are well-positioned to take part in consolidation. Accor, for instance, ended the first half with €2.8bn in cash and untapped borrowing facilities of €1.8bn, giving it a war chest without having to resort to further financing.

But they will have to compete with the large amount of Asian money looking to find a home in the west.

Chinese investors will snap up $5bn of French budget chain B&B Hotel Group, which runs more than 300 hotels across France, Germany and Italy. Finally, the 48-strong Atlas Hotels portfolio has been put up for sale by Lone Star.

For some groups, acquisitions would help expand their geographical footprint.

Hilton, Marriott and IHG have 83 per cent, 81 per cent and 65 per cent of their rooms in the Americas. A merger between Hyatt and Starwood would create a company with the leading estate, in terms of size, in Asia.

Such a combination would also offer benefits in combining loyalty programmes and marketing operations. The enlarged hotel companies would also have more clout to take on Expedia and Priceline, which control 61 per cent of the travel booking market, and negotiate lower commissions.

"If customers are being lured to online travel agents rather than hotel brands as a first stop, then that puts pressure on the biggest holders of brands," Mr Hearn says.

"The big issue for hotel companies is the model. When an online travel agent can spend 50 per cent of revenue on marketing, this gets the hotels in a sticky place. Obviously the thing is to get bigger to show synergies and profit growth."

Bedding in

Home sharing threat grows

The hotel industry is facing an entirely new competitive threat even as it consolidates. Primed by the success of Airbnb, the home-sharing industry is rapidly evolving and expanding.

Just this week, Expedia, the online travel agency, spent $3.4bn to buy HomeAway with an eye to building it into a direct competitor to Airbnb.

HomeAway, founded in 2005, specialises in vacation rentals of entire homes and used to be primarily an advertising site, where hosts could pay to list their properties. However, it is moving towards an Airbnb-like model where users book and pay directly through its website.

Competition is increasing in the home-sharing market despite regulatory challenges that are still being ironed out.

This week, voters in San Francisco rejected a ballot measure to limit short-term rentals in Airbnb's home town to 75 days a year and make it easier for neighbours to sue the company for violations.

While Airbnb is perhaps the best-known global home-sharing website, other start-ups, such as UK-based Onefinestay, or Rocket Internet-backed Wimdu, are growing too. Big travel companies are participating as well, among them Priceline, which arranges private home rentals through its subsidiary Booking.com.

Airbnb executives say they are not competing directly with the hotel industry, rather providing a different experience. But Expedia's acquisition shows how seriously the incumbent travel industry is responding to the home rental site's success.

"The nature of the competition has changed," says Nate Blecharczyk, Airbnb co-founder, who sees HomeAway as an "adjacent" market rather than a direct threat.

"Our value proposition is about scale," he adds, pointing to the company's 1.75m listings globally and its strong community of travellers and hosts.

With hotel occupancy rates near record highs in many regions, analysts say that hotel owners are not feeling the pinch yet.

But as home-sharing continues to gain traction, the way people travel may never be the same. *Leslie Hook in San Francisco*

airbnb

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