

# Sectoral Brief

## Hotels, catering and tourism

### **New forms of ownership: Private equity in the hotel industry**

**Two major changes characterize the development of ownership structures in the hotel, catering and tourism business: on the one hand hotel chains concentrate on their core activity, i.e. management of hotels, and therefore get rid of real estate assets. On the other hand private equity funds become significant if not major shareholders in hotel chains and tend to become key decision-makers in the sector. This new ownership structure may have short and long-term consequences on working conditions and industrial relations in the hospitality sector.**

The hotels, catering and tourism industry has not stayed outside of the developments affecting global business: restructuring of ownership in search for short-term investments and quick profits. This trend has touched mainly large, international hotel chains, which have traditionally had significant real estate assets in addition to business management. As the global financial markets have grown less stable, investment in real estate and property has become a way to cope with the uncertainty. This increased financial interest has also raised the value of hotel chains' physical assets and encouraged hotel businesses to engage in agreements to sell the property and retain only the business management operations.

The following types of new relationships between ownership and management have emerged in the hotel industry:

*Management contracts*, also known as management or operating agreements, are legal agreements by which the owner of a hotel property contracts with another company (operator or hotel management company) to manage the hotel business for a fee.

*Lease agreements* are arranged between hotel property owners or partners and another company paying rent to the owner. The lease can be limited to different areas of the hotel. The lender receives rent from the lessee, who gains revenue and profit from room sales, sales in food, beverage, banqueting and other areas of operation.

*Franchise agreements*, also called licensing agreements, lease a "brand" from a franchisor to a franchisee. In addition to the initial franchise fee, the franchisee is generally charged a joining fee upon affiliation with the brand chain. The franchisee is given access to the brand, financing and market strength. Many lenders will not finance hotel acquisition or construction unless the property has a strong brand.

*Real estate investment trusts (REITs)* and *private equity (PE)* funds have led to changes of ownership structure within the Hotels and Restaurants sector. A number of hotel real estate properties have now been sold by hotel chains to Real Estate Investment Funds (REITs) while retaining long-term management contracts. These investments are able to facilitate development of real estate by improving buildings and surrounding land. In the HCT sector, the separation between ownership and management has increased the rate of mergers and acquisitions. In many countries, REITs enable investment in commercial real estate that is exempt from corporate taxation when properties or mortgages correspond to less than 75 per cent of total real estate assets.

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## Selected public-to-private hospitality firm transactions, 2004 to 2007<sup>1</sup>

Date	Public Company Target	Private Company Acquirer	Price
2004	Extended Stay America	Blackstone	2.0 B
2004	Prime Hospitality	Blackstone	790 M
2004	Boca Resorts	Blackstone	1.1 B
2005	Wyndham International	Blackstone	3.2 B
2005	Raffles	Colony Capital	1.0 B
2005	La Quinta Corporation	Blackstone	3.4 B
2006	Fairmont Hostels & Resorts	Kingdom and Colony Capital	3.9 B
2006	MeriStar Hospitality Corporation	Blackstone	2.6 B
2006	Kerzner International	Investor Group	3.8 B
2006	Boykin	Westmont and Caisse de dépôt	416 M
2006	Jameson	JER Partners	371 M
2006	Intravest	Corporation Fortress	2.8 B
2006	Four Seasons Hotels	Kingdom and Cascade and Triple Holdings	3.4 B
2007	CNL Hotels & Resorts	Morgan Stanley Real Estate	6.6 B
2007	Inkeepers	USA Trust Apollo	1.5 B
2007	Highland Hospitality Corp.	JER Partners	2.0 B
2007	Eagle	Apollo	237 M
2007	Crescent Real Estate Equities	Morgan Stanley Real Estate	6.5 B
2007	Harrah's	Apollo and Texas Pacific	17.1 B
2007	Hilton Hotels	Blackstone	26 B

*Private equity* capital provides funds to private (as well as publicly listed) companies for the purpose of development, in particular. Private equity fund managers manage the capital raised with the purpose of investing directly in private companies. Private equity investors expect higher rates of return from their investments in private equity than from the stock market. They may carry out buyouts by “cashing in” on the investment within three to five years. Although they can be long-term investors, they focus mostly on short-term investments oriented to the development of the company. Private equity funds can also facilitate “buyouts” aimed to acquire existing companies.

Implications on employment and human resources management in international hotel chains may contain the following features:

- Employers avoidance of their responsibilities, short-termism and the pursuit of excessive profits in response to
- Pressures to cut wages and expenses and regulate cash-flow management

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<sup>1</sup> Kevin Curran : *The impact of new ownership of accommodation, operations and consumption on types of employment, industrial relations, HRD and qualification needs in the accommodation and hospitality sector*, study commissioned by the ILO, March 2010.

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- Collective bargaining may be affected by less transparent management and ownership structures
- growing employment insecurity, maximization of flexibility, and outsourcing
- Right to be heard on matters relating to changes in ownership may be deteriorated by increased franchise contracts, outsourcing or subcontracting

However, the implications vary from country to country and depend on a range of policies run in parallel with these developments. In response, employers and governments are encouraged to reiterate the importance of social dialogue within the sector, enhance training programmes and skills development, promote sustainability and decent work, improve working conditions, and take measures in favour of SMEs and youth employment.

Read more about new ownership structures in the hotels and restaurants industry in the issues paper for the Global Dialogue Forum on Developments and challenges in the hospitality and tourism sector held in 2010.