PErspective in REAL ESTATE

A FEATURE EXAMINING THE ROLE OF PRIVATE EQUITY IN THE REAL ESTATE SECTOR.

The $7.6 trillion hospitality industry is in the grips of a merger frenzy, with players from hotels to online bookings to car rentals and cruise liners seeking to increase their share of a fragmented, increasingly competitive and globalized market.

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Room rates and occupancy levels are at all-time highs, but the rise of home-sharing platforms like Airbnb is putting pressure on lower-priced and leisure brands. Many firms view scale as the best way to compete, according to MarketWatch.

There have been several major deals in the last six months. Marriot International acquired the much sought-after Starwood Hotels & Resorts Worldwide for 13.6 billion, and the Blackstone Group paid $6 billion for real estate investment trust (REIT) Strategic Hotels and Resorts. Expedia has also gotten into the M&A game, purchasing vacation home rentals company HomeAway for $4 billion.

Most of the major hospitality companies are no longer in the business of hotel ownership, preferring instead to collect fees from management contracts or franchise their brands. This enables them to offer more global exposure and a larger customer base to entice new hotel owners to their brands, according to *MarketWatch*. Strategic buyers have also revised their consolidation strategies to compete with the rise of the sharing economy. For example, Wyndham Worldwide recently invested $7.5 million in home exchange company Love Home Swap, and Enterprise Holdings bought several ride-sharing companies in addition to launching its own.

Ratings agency Fitch expects hospitality M&A activity to remain high in the near term, as firms fight for control of the market in an evolving competitive landscape and navigate the rapid growth in alternative lodging accommodations like Airbnb, reports *Private Equity Wire*. While megadeals grab headlines, mid-size hotel companies are attractive targets for private equity firms that might not be able to swallow such massive deals.

Private equity firms are expected to favor investments in hotel REITs, as they did during the last wave of hotel consolidation a decade ago, betting that real estate holdings are more valuable than the market values of the companies themselves. The last cycle peaked with the privatization of Hilton in 2007, when–in the biggest hotel deal ever–Blackstone paid more than $18 billion plus $7 billion in assumed debt. Some analysts believe this dynamic has returned and could fuel further consolidation and privatization of hotel REITs in the near term, *MarketWatch* reports.

REITs make attractive PE targets because they have better access than corporates to low-cost debt and valuations are generally at a discount compared with net asset values, according to *Private Equity Wire*. With record amounts of capital raised for commercial real estate platforms in recent years, many buyout shops are now looking to put it to work, including through REIT privatizations, *Private Equity Wire* reports.

Sources: Private Equity Wire, MarketWatch, Financial Times, Travel Daily News, Huffington Post, JLL Real Views

PErspective in Real Estate is a feature examining the role of private equity in the real estate industry

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