



TRAVEL, HOSPITALITY & LEISURE

# Hotel Acquisitions: The Death of Consolidation?



The hotel industry has experienced significant changes in recent years in the realm of mergers and acquisitions (M&A) and growth strategies. One thing is clear: the era of big acquisitions and industry consolidation is largely over, with one recent exception, and the focus now is on smaller deals and strategic expansion into new segments and geographies. The balance sheets of major chains—along with the toughest financing environment in decades—don't support large, leveraged purchases. The M&A landscape continues to evolve, and we see several corners of the industry as “in play” over the next 12-18 months.

## Assessing the Current State of Hotel Acquisitions

### Big Acquisitions/Industry Consolidation Largely Done

Major hotel chains engaged in a flurry of high-profile acquisitions, driving major industry consolidation. Brands sought to strengthen their portfolios by merging with or acquiring competitors. Marriott's acquisition of Starwood for \$13 billion and Accor's purchase of Fairmont Raffles Hotels International for \$2.7 billion are prime examples. The industry leaders seeking growth are now shifting their focus to smaller, more targeted deals which can scale. The one outlier which is Choice/Wyndam who are engaged in a hostile bid transaction of nearly \$8 billion.

### Small Deals Targeted

Smaller deals have become more commonplace as hotel companies look to enhance their portfolios and offerings. These smaller transactions allow for greater agility and customization, which can be especially appealing in a rapidly changing market. Specifically, we saw this with Marriott's acquisition of City Express for \$100 million in October of 2022 and Hyatt purchasing Mr. & Mrs. Smith for \$53 million in June 2023. The deal value over the most recent two quarters remains below \$5 billion in aggregate, falling from over \$10 billion per quarter since the start of 2021.

### Focus on Acquiring Leisure

The last three years had a profound impact on the hotel industry, with a significant shift in focus towards leisure travelers and those blending leisure with business. Hoteliers have reevaluated their strategies and are actively seeking properties and brands that cater to leisure-oriented customers. This trend is expected to continue as travelers prioritize experiences and unique destinations. We saw Hyatt acquired Apple Leisure Group for \$2.7 billion in 2021 and InterContinental Hotels Group (IHG) form a strategic partnership with Iberostar's 70+ all-inclusive hotels and resorts.



## **Complex/Challenging Borrowing Environment**

The borrowing environment for hotel acquisitions has become more complex and challenging due to economic uncertainties and changing lending criteria. Hoteliers must navigate this landscape carefully to secure financing for their growth initiatives. There have been a number of high-profile intentional defaults for the Hilton Union Square and Parc 55 San Francisco properties owned by Park Hotels and Resorts as well as PIMCO walking away from 20 properties across markets. Although, according to CoStar, we may have already seen peak hotel defaults with the number decreasing nearly \$6 billion in 2022 to just under \$4 billion in 2023. Despite the improvement, the gross total of defaults is still nearly \$3 billion higher than anything seen post-financial crisis.

## **Forecasting the Future of Hotel Acquisitions**

### **a. More Small Deals to Bolster Portfolio Completeness**

We can anticipate more small-scale acquisitions aimed at bolstering the completeness of hotel portfolios' house of brands. These acquisitions may focus on niche markets or unique offerings to cater to diverse customer preferences. Marriott's recent acquisition of City Express highlights how major brands are diversifying their portfolios, sometimes even across geographies.

**Potential Targets:** Kalahari, Great Wolf Lodge, Rocco Forte Hotels

### **b. Boutiques to Drive Soft Brands Expansion**

Boutique hotels are expected to play a significant role in the hotel industry's growth. Major hotel chains are likely to expand their soft brand collections, allowing boutique properties to maintain their distinctive character while benefiting from the global reach and resources of larger corporations.

**Potential Targets:** Graduate Hotels, Preferred Hotels & Resorts, Soneva Hotels

### **c. Focus Begins to Stray from Just Leisure**

While leisure remains a crucial segment, hotel companies are expected to diversify their strategies by incorporating a broader range of customer segments. This includes a renewed focus on business travelers and meetings and events, which have shown signs of recovery post-pandemic—highlighted by the \$623 million purchase of the Park Lane Hotel in August of 2023.

**Potential Targets:** 1hotels, Proper Hotels, Library Hotels

### **d. Scaling Smaller, Innovative Brands**

Hoteliers will explore opportunities with smaller, innovative brands that have the potential for scalable growth within their existing portfolios and into new geographic markets. This strategy involves identifying thematic components that resonate with evolving traveler preferences. We believe it's likely that some of the other major chains will follow suit across chain scales.

**Potential Targets:** Aman Resorts, Capella Hotel Group, Noble House

# How A&M Can Help Facilitate Hotel Acquisitions

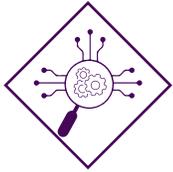
Navigating the evolving M&A landscape and growth of the hotel industry requires careful, strategic planning and execution. A&M can provide valuable assistance in several ways:



**Market Insights and Target Screening:** A&M can offer in-depth market research and analysis to identify emerging trends, opportunities and potential acquisition targets.



**Financial Strategy:** A&M can help hotel companies navigate the complex borrowing environment, optimize capital allocation and devise sustainable financial strategies for growth.



**Technology and Operational Diligence:** A&M can aid hotel companies in assessing the elements beyond financial, across technology and operations, to better understand what complexities and barriers to value capture exist.



**Portfolio Optimization:** A&M can assist in evaluating and optimizing hotel portfolios to align with evolving customer preferences and market dynamics.



**New Market Entry:** For expansion into new geographies, A&M can provide guidance on market entry strategies, risk assessment and local market dynamics.

## Key Contacts:



**SooHo Choi**  
Managing Director & THL Leader

+1 847 501 0526  
sooho.choi@alvarezandmarsal.com



**Andrew Maliszewski**  
Senior Director

+1 551 265 0584  
amaliszewski@alvarezandmarsal.com

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