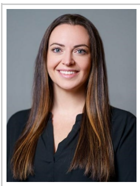
HVS

Mergers & Acquisitions

January 28, 2022 / By Chelsey Leffet



As the economic recovery continues following the depths of the COVID-19 pandemic, the current market is making mergers and acquisitions (M&As) more and more attractive to hotel industry players. While a concentrated movement of merger and acquisition activity has been lacking thus far in the cycle, the large availability of private equity, low interest rates, the return of CMBS, and favorable liquidity in the debt market are enticing. However, compared to past "headlines" and brand-related M&A activity, such as the **Marriott** and Starwood Hotels & Resorts $13-billion deal in 2016, it appears that the effects of the pandemic have spurred more interest from hotel management and ownership-related companies.

While companies may always be investigating the prospect of large-scale M&As, mega-mergers are challenging to achieve in a mutually beneficial manner, regardless of the stage in the cycle. When evaluating a large merger, factors comprise an array of complexities, including revenue-generation strategies, long-term growth plans, and employee culture, as well as potential cost-saving synergies, if available. Often, it seems these considerations are more available in companies that are smaller in scale or in comparable geographic markets. For example, while **Blackstone Group** and **Starwood Capital Group**'s $6-billion, 566-asset deal in June 2021 to acquire **Extended Stay America** was substantial, other instances of recent activity that follow the aforementioned line of thought include **Terrapin Hospitality**'s acquisition of hotel management company **K Partners Hospitality** (undisclosed purchase price in September 2021), Blackstone Real Estate Partners purchase of **Condor Hospitality Trust, Inc.** ($305 million for 15 hotels in Q4 2021), and **Highgate** and **Cerberus Capital Management**'s acquisition of **CorePoint Lodging** ($1.5-billion transaction expected to close in Q1 2022), as well as the announcement that **Pyramid Hotel Group** and **Benchmark Global Hospitality** are merging to become **Benchmark Pyramid** (combined 210 hotels).

An increase in individual- and portfolio-asset acquisitions is represented in the space, as well. For example, take the reports of Peachtree Hotel Group acquiring over $1 billion in assets since mid-year 2020, **Flynn Properties Inc.** and **Värde Partners Inc.** buying 20 hotel assets for $211 million from **REIT Apple Hospitality** mid-year 2021, and **Summit Hotel Properties Inc.** acquiring a 27-hotel portfolio from **NewcrestImage** for $822 million in late 2021. Individual hotel transactions, as well as portfolio transactions and other M&A transfers, are expected to remain robust through the next few quarters, especially as defaults and foreclosures rise in numbers. Lenders, owners, and investors all monitor several metrics closely, particularly interest rates at this point in the cycle.

At the forefront of the current lending environment is the transition from the interest rate index LIBOR (London Inter-Bank Offered Rate) to SOFR (Secured Overnight Finance Rate). As of December 31, 2021, LIBOR, which is reportedly referenced throughout several trillion dollars of corporate loans, floating-rate mortgages, floating rate notes, and securitized products[1], will no longer be part of any new U.S. loans and will cease publication completely by July 2023. SOFR is a fully transaction-based, nearly risk-free reference rate, and while it can be more volatile than term rates on a day-to-day basis, any contracts referencing SOFR are based on an average of SOFR, which has historically been less volatile than LIBOR averages. As new loans are processed, and as existing loans are reconfigured, additional credit spread is anticipated to be added to SOFR to make it comparable to LIBOR rates.

Interest rates continue to be significantly low and appealing to investors. It follows that any increase in interest

Summary

As the economic recovery continues following the depths of the COVID-19 pandemic, the current market is making mergers and acquisitions (M&As) more and more attractive to hotel industry players. This article explores the factors contributing to this trend.

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rates would in turn raise the cost of borrowing and, thus, affect the appeal of M&A deals, where a large portion is financed by loans. However, due to the significant amount of capital in the market currently ready and willing to be deployed, it is likely that an investor could conceivably initiate and close a deal despite the potential of rising interest rates. Regardless, the hotel industry is one that is very appealing to many domestic and international investors given the anticipated growth and potential for returns. Going forward, M&As will continue to be an excellent way to either enter the industry or grow economies of scale, reaping the return that many hotel assets and companies already possess.

This article was originally published in **Hotels Magazine**.

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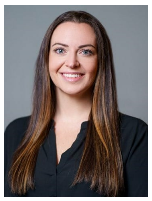
[1] **Alternative Reference Rates Committee, Frequently Asked Questions**. 8/27/2021. Retrieved 1/2022.

About Chelsey Leffet



Chelsey Leffet is the Chief Operating Officer for the HVS Consulting & Valuation Division in the United States. Chelsey has consulted on hundreds of hotels throughout the Mid-Atlantic, including major Beltway markets. Prior to joining HVS, Chelsey worked in guest services, operations, and restaurant roles at ARAMARK Higher Education; Lighthouse Resort Services in Corolla, North Carolina; the Columbus Inn in Wilmington, Delaware; and the Bellmoor Inn and Spa in Rehoboth Beach, Delaware. Chelsey earned her BS in Hospitality Management and her MBA from East Carolina University. Chelsey resides in Washington, D.C and is a certified general appraiser. Contact Chelsey at (202) 434-8793, or .