Hilton Hotels Corp

Travelling right: hotels bed in a new generation

Record demand is spurring a flurry of activity as operators reshape business models

Breaking the mould: traditional hotel operators are launching new concepts and brands © FT montage; Tru by Hilton; Jo&Joe; IHG

Murad Ahmed in Berlin YESTERDAY

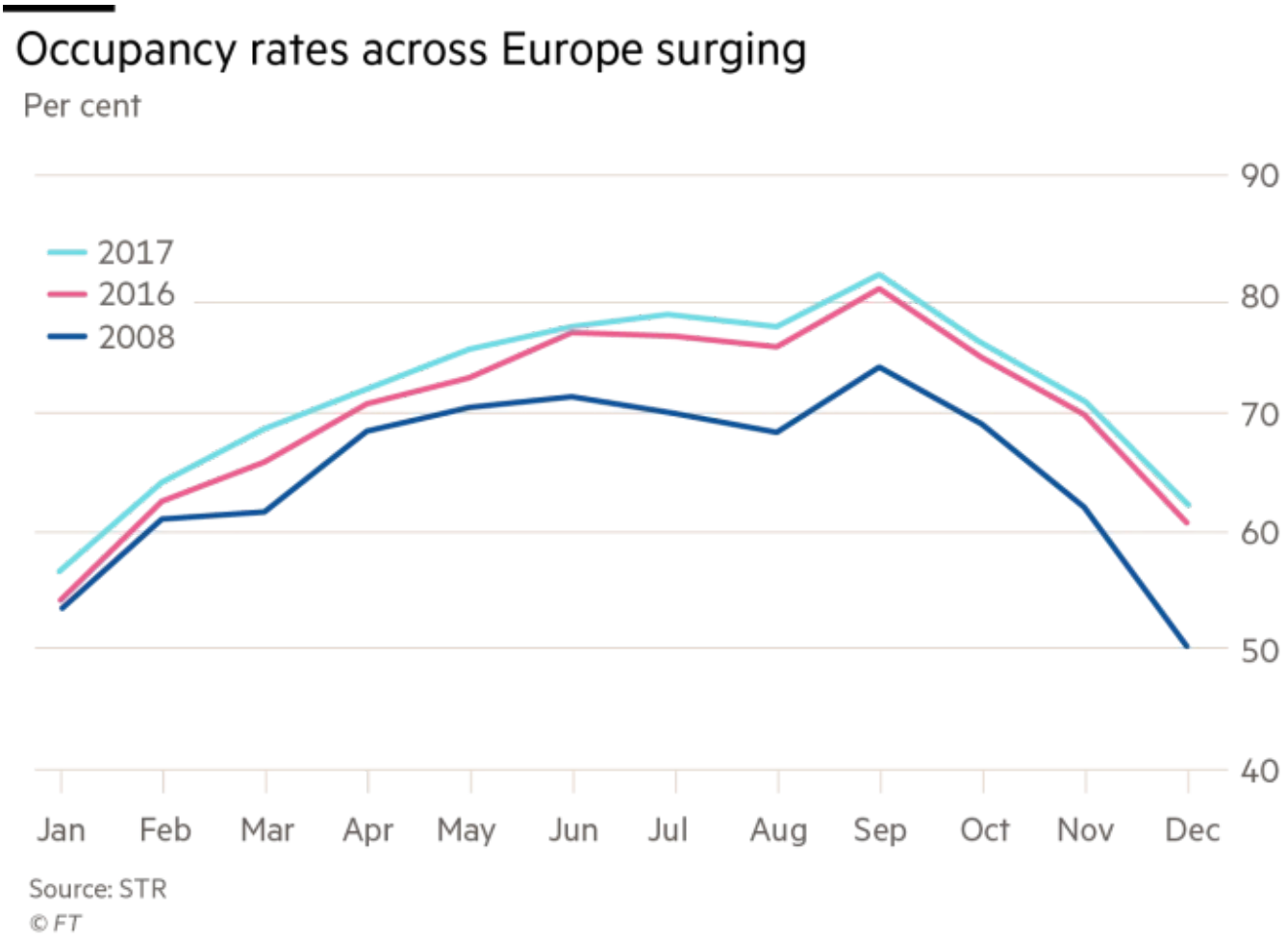
The world's biggest hotel companies are in the midst of rapid expansion as an industry boom has lasted far longer than many had predicted, bolstered by record demand from travellers.

From budget to boutique offerings, Hilton, Accor, InterContinental Hotels Group and Wyndham are among the companies busily launching new brands or making acquisitions to expand their portfolios.

The bullish mood was summed up by Chris Nassetta, chief executive of Hilton, at the International Hotel and Investment Forum in Berlin this month. "We're at higher occupancy levels as an industry, and a company, than we've ever been at in our history," he said. "The pie is just getting bigger."

The ascendancy of digital upstarts such as Airbnb had led to dire predictions of home-sharing decimating hotel revenues. Meanwhile, analysts at Morgan Stanley in 2016 forecast a cyclical downturn in 2018 in the US, the world's biggest hotel market.

Yet travel industry analyst STR says that in key markets, such as London, Airbnb takes just 4 per cent of total accommodation revenue. Revenue per available room (revpar) — the industry's preferred sales metric — rose 3.2 per cent in the US last year, it says, with at least 3 per cent growth predicted for this year.



"We forecast that revpar growth would be nil about a year ago, and we were wrong," says Robin Rossmann, managing director of STR.

STR says revpar rose in almost every part of the world, with Africa and Europe recording the highest growth. Occupancy levels have stayed at record highs in many markets, while demand is outstripping supply in regions such as the US and Europe, it adds.

Analysts say that a burgeoning middle class, particularly in Asia, is driving growth.

Hilton's Tru hotels, such as this one in Murfreesboro, Tennessee include games rooms and bars aimed at younger consumers © Tru by Hilton

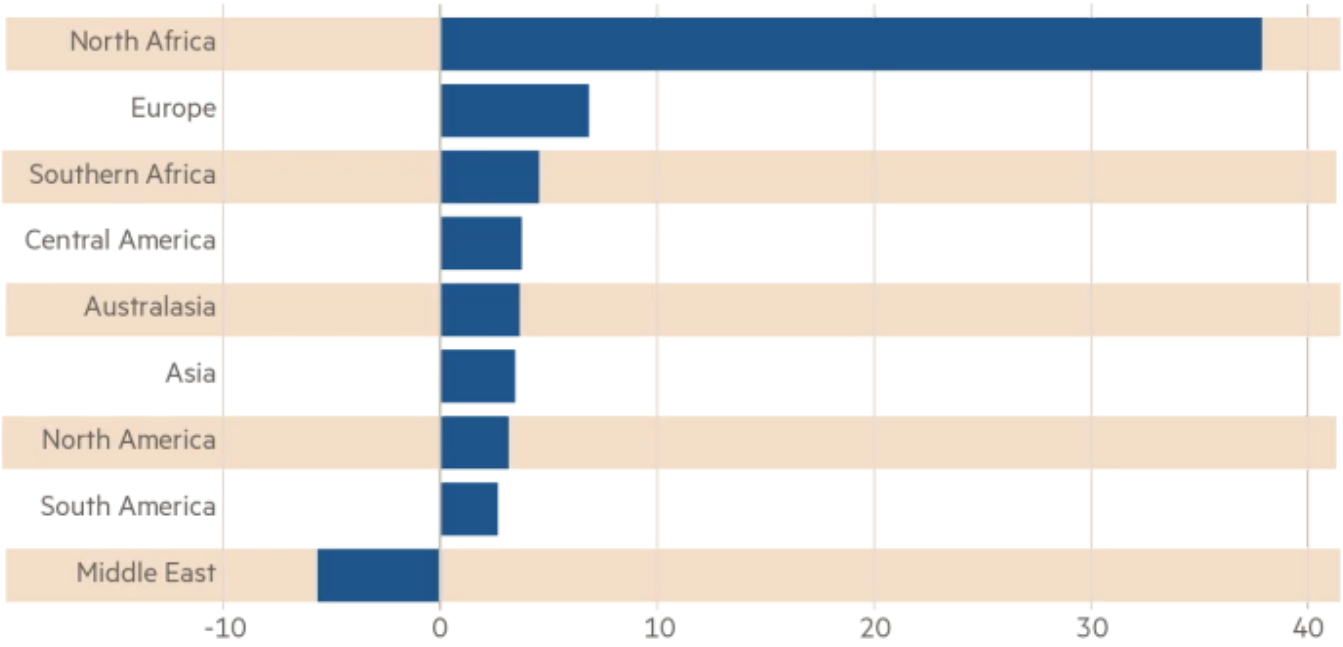
Sébastien Bazin, chief executive of Accor, told delegates in Berlin that contrary to his expectations, there remains a strong desire among many travellers for the assurances in service provided by established hotel companies.

"Four years ago, I was dead wrong, because I thought at the time that [hotel] brands would matter less," he said. "Brands have enormous value, more than I ever believed."

Not all are convinced. Arne Sorenson is chief executive of Marriott International, which became the world's largest hotel company after acquiring Starwood Hotels & Resorts in a $14.6bn deal in 2016 and has more than 6,500 properties and 1.2m rooms.

Hotel groups have made positive gains

Revenue per available room (annual % change)



Source: STR
© FT

He says that his company, which operates the Ritz-Carlton, W Hotels and Sheraton brands, has no plans to launch new brands, though it will open more hotels.

The previous upturn in a notoriously cyclical industry was ended by the 2008 financial crisis, leading large hoteliers to adopt an “asset-light” model, concentrating on hotel management and franchising rather than ownership.

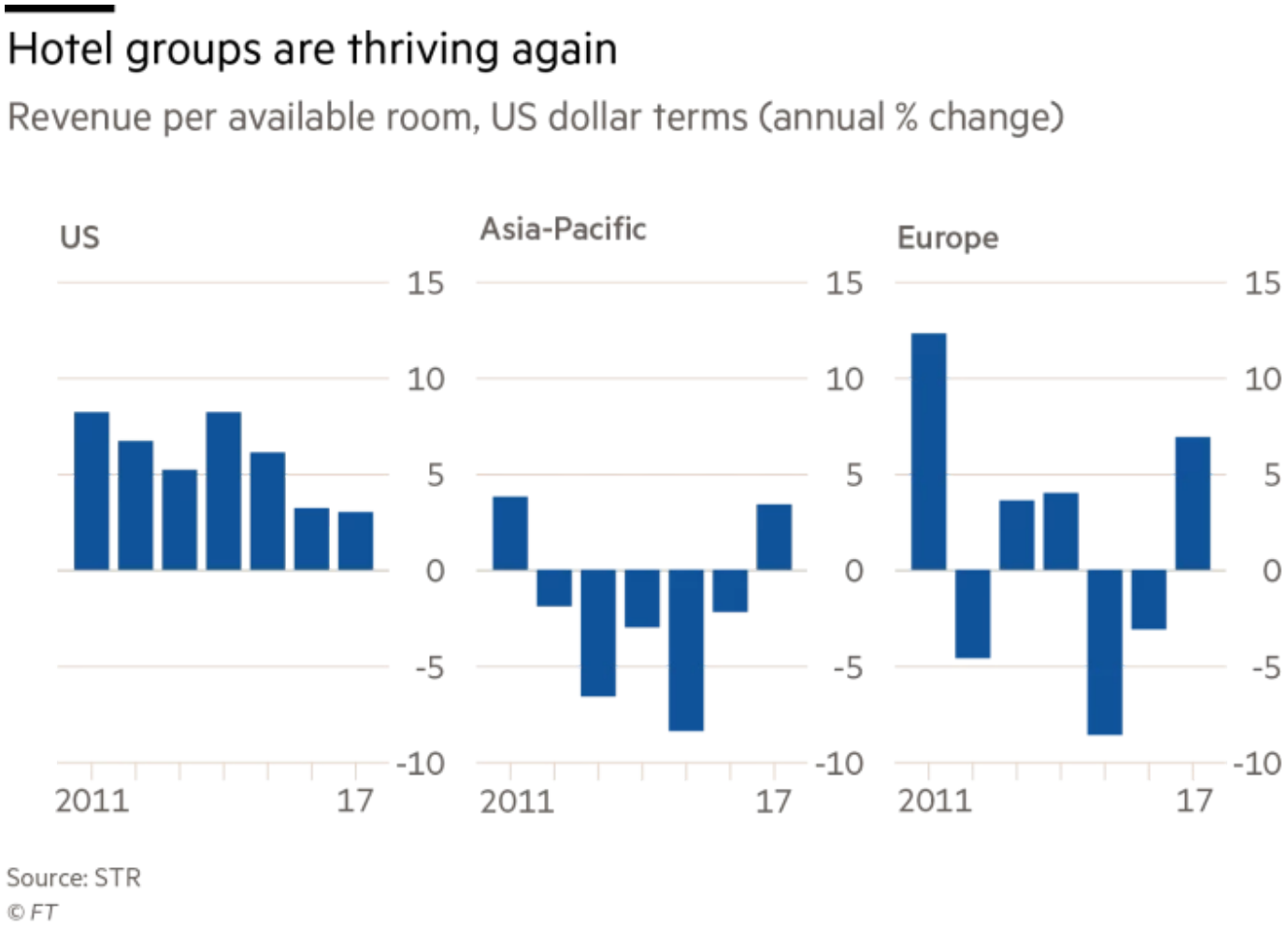
Mr Sorenson says the industry is merely riding a period of global economic growth, and warns that groups which overextend themselves now may be caught out.

“As we all know, we’re in a highly unpredictable world,” he says. “Whether you look at politics or . . . at some of the economic things that are happening, I think it’s right to be still fairly cautious.”

But Marriott’s rivals are busy rolling out new concepts, many targeting millennials, in particular, with younger consumers thought to be least likely to be attracted to more traditional hotels.

Hilton’s Tru is a mid-market brand where rooms, which cost $80 to $95, are smaller than average; instead the lobby is far bigger, offering entertainment areas such as bars serving craft beer and equipped with pool tables.

Launched last year, Tru opened nine hotels in the US, and Mr Nassetta says the ambition is to have 3,000 to 4,000 globally, adding to the more than 5,200 properties it already has.



Alongside this, adds Mr Nassetta, Hilton is devising a separate “urban, affordable” concept, which he dubs a “hostel on steroids” and says will offer even cheaper, shared accommodation to younger travellers.

French group Accor, Europe’s largest hotelier which operates 4,300 properties and 600,000 rooms is attempting a similar move with its Jo&Joe hotels.

These are aimed at cool foreign tourist “tripsters” needing somewhere to stay but also “townsters”, locals living nearby wanting a space to meet friends and socialise or do yoga.

Described as “open houses”, they offer accommodation from private apartments and shared rooms to “out of the ordinary” stays in yurts in some locations.

They look radically different from Accor’s other brands such as Sofitel and Novotel: rooms are fitted with sleek bunk beds, there are huge colourful lobbies and guests are encouraged to cook together in communal kitchens. The company aims to open 50 Jo&Joe venues by 2020.

IHG's Avid Hotels, also launched in the US last year, is another business offering smaller, cheaper rooms.

Keith Barr, IHG chief executive, explains that modern consumers do not want the staples of more established hotels, such as large writing desks.

"Customers are spending half their time working in their bed now, sitting with their laptop on their bed in the guest room, because they are not travelling with as many papers and documents as they used to as everything's digitised," he says. "It's just making smarter use of the overall space."

STR's Mr Rossman adds: "The reason why there aren't more hotels catering to millennials is not because of a lack of demand, but that it has to be supply-driven at first. You can't just break down rooms and remodel them. You can only do that with a significant uptick in performance."

But the expansion is not limited to targeting millennials, with another focus being building luxury brands catering to all ages.

A dormitory in Accor's Jo&Joe hotel in Hossegor, southern France, which opens in June © Jo&Joe

The industry remains highly fragmented, with the vast majority of hotels being small businesses.

Targeting these individual hotels, IHG plans to launch a "conversion" brand, encouraging upscale boutiques to come under a new single umbrella. Wyndham attempted something similar last year with "Trademark Collection", which groups previously independent high-end hotels under one banner.

Acquisition is another form of growth. Over the past two years the top five operators made $2.4bn of acquisitions, according to Dealogic, and this looks to be accelerating.

In January, Wyndham acquired La Quinta, a US group which operates about 900 hotels, in a deal worth $1.95bn. Last week, regulators approved Accor's $1.2bn takeover of Mantra Group, an Australian group with more than 100 properties across Australasia.

Mr Barr, who became IHG's chief in July last year, says the company's plans to acquire a luxury hotels company is "imminent", but provides no further details.

"I want to keep us well-positioned to be one of the global leaders in the industry that lets us then acquire other brands over time," he said. "It lets us control our own destiny. You don't want to be left behind."

China pullback threatens funding crunch

Hilton chief executive Chris Nassetta © Bloomberg

The flow of Chinese investment into western hotel companies is coming to an end, threatening a funding crunch at leading operators, according to the chief executive of Hilton.

Chris Nassetta, who has led the US hotels company for more than a decade, said that investment from Chinese groups had "slowed in a meaningful way", forcing hoteliers to look elsewhere for new sources to finance growth.

His comments come after Chinese conglomerates acquired major stakes in hotel groups or sought to buy landmark properties. According to Dealogic, Chinese investment into hotel groups hit $11.6bn over the past two years.

The China push had suited the "asset-light" model adopted by many of the biggest hotel operators such as Hilton, InterContinental Hotels Group and Marriott International.

Chinese partners pumped in money to fund growth and buy real estate, leaving hotel companies to concentrate on managing and franchising properties.

But this month, China's HNA group revealed plans to sell "some or all of" its 25 per cent stake in Park Hotels & Resorts, accrued from its 25 per cent holding in Hilton which it bought for $6.5bn in October 2016, a signature deal in the Chinese push into western leisure.

Mr Nassetta would not comment on whether the sale signalled HNA's desire to completely unwind its stake in Hilton, but added: "You clearly had a wave of capital that came out of China. It does feel like that wave has . . . slowed."

But HNA is among several Chinese companies to come under the scrutiny of regulators concerned about the rapid build-up of debt associated with their global buying binge.

In February, Beijing seized control of Anbang Insurance, the owner of the Waldorf Astoria hotel in New York, and charged its chairman with financial crimes.

But Mr Nassetta said that its 100-year management deal on the hotel would be unaffected.

"What [the new leaders at Anbang] have told us is that they are definitely selling a bunch of other assets. Those are unrelated largely to us, and their intentions are to carry forward with the renovation of the Waldorf in New York."

This article has been amended to correct the spelling of Arne Sorenson's name and to adjust the date on the chart on occupancy rates