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Breaking News: Hotel deals round-up

Hotels ride out Spring storms 09/05/2008 15:27:00

Inside Track by Katherine Doggrell

The early Easter this year may have been welcomed by children suffering sugar withdrawal after Christmas, but the festival heralding Springtime growth and new beginnings was anything but for the hotel sector.

For the first time since the liquidity crisis, hotels have reported a drop in performance, not just in the US, but now spreading to Europe.

The services sector has seen activity slow to a five-year low, with business confidence in the hotel and restaurant industry the worst affected, according to the Chartered Institute of Purchasing and Supply's purchasing managers index.

Roy Ayliffe, director of professional practice at CIPS, said: "Purchasing managers in the UK services sector really struggled to protect their firms. New orders fell; energy, fuel and food costs soared and pricing power was restricted amid further deteriorating economic conditions.

"These factors led to a depression in business confidence, particularly among hotels and restaurants, as well as financial services companies, who have been most directly affected by the credit crunch."

The hotel deals market has been stagnant for some time, certainly in relation to the larger portfolio transactions, with opinion varied as to how much values have fallen.

For single assets, however, early May has even seen a revival, with Accor's Eu60m (£47.2m) sale and manageback of Sofitel The Grand hotel in Amsterdam showing that the credit crisis is not holding the group back in following its asset-lite strategy.

The revitalised group has even provoked the first proper takeover story of the season, as shareholders Colony Capital and Eurazeo announced they were planning to take their stake to 30%. They're all friends there is the current party line, but observers are not expecting the entente to last too long.

Then there's Robert Tchenguiz's 3% stake in Whitbread.

Deals are also afoot in the still-booming market of Paris, with Starwood Capital reportedly selling the Ambassador and even in the UK, where the Dakota Nottingham has come onto the market, the sale has not been provoked by distress in the hotel's operation. GuestInvest is also reported to be in the market for Somerset House.

Sources close to Hotel Report have talked about a busy time in the sector – not for portfolios, or, indeed, consultancy work - but for single asset deals, where the prices paid are more often than not still those requested by the vendor.

David Harper, director at Leisure Property Services, speaking from a business trip to Grenada (proof of proof be needed) said that there had been a small shift in pricing, but that "things are getting priced properly," in turn keeping the market fluid.

Hotel operators have not been idle since credit hit its limit. Indeed, it has been a case of 'liquidity crisis? What liquidity crisis?' as staff are poached back and forth, brands are re-launched and new concepts developed.

Previously peripheral areas such as the arts and environment remain important to operators, as a point of differentiation and, in the case of green issues, a potential money saver.

Pipelines have never been bigger, as proven by InterContinental Hotels Group, which this month announced that the first quarter has seen it sign over 150 hotels into its development pipeline, which now stands at over 1,700 hotels.

The industry has been cautious about talking itself into a downturn and is right to do so. But it cannot escape the fact that people just plain have less money than they did, and no credit to top it up. This will inevitably affect discretionary spend.

Nick Pattie, managing director, Cushman and Wakefield Hospitality, told Hotel Report: "Don't panic, but it has cooled. If we're slowing down rather than falling off a cliff with the economy, then that's the pattern we'll see in hotel trading. I don't see it being a dramatic fall."

Downturns produce opportunities, not least for the beleaguered domestic market, and although estimates of the time to recovery are getting gradually longer, the sector still seems happy to not merely tread water as it waits, but to attempt business as usual.

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