3. New forms of ownership and operations

This chapter aims to explain the structure of the global hotel industry in regard to policies and practices that have been developed within the sector and the impact of structural changes on human resource management and the employed workforce. [1]

3.1. Introduction

In 2005, important international deals involving changes in hotel ownership and brands reached US$60 billion. [2] The InterContinental Hotels Group (IHG), for instance, currently operates 4,186 hotels worldwide across seven brands. Its strategy consists of reducing its ownership of hotels while management and franchise operations are increasingly prevalent. Among the 4,186 hotels IHG has in its portfolio, it owns just 16; 75 per cent of the rooms are located in franchised hotels. [3] Another example is that 56 per cent of Accor's hotels are operated under management contracts, franchise agreements, or variable rent leases. [4]

Table 4. The five first owning groups at 1 January 2010

Rank	Groups	Rooms
1	Accor	282 477
2	NH Hotels	58 355
3	MGM Mirage	48 268
4	La Quinta	47 149
5	Home Inns	46 410

Source: www.hotel-online.com/News/PR2010_3rd/Jul10_HotelRanking.html.

3.2. Forms of ownership

The different forms of ownership are as follows:

– *Management contracts*, also known as management or operating agreements, are legal agreements by which the owner of a hotel property contracts with another company (operator or hotel management company) to manage the hotel business for a fee.

[1] K. Curran: *The impact of new ownership of accommodation, operations and consumption on types of employment, industrial relations, HRD and qualification needs in the accommodation and hospitality sector*, study commissioned by the ILO, Mar. 2010. Interviews with managers, unions and workers in major hotel chains have been undertaken as background for the study.

[2] IUF: *New financial players in the global hotel industry: Challenges for trade unions*, IUF, Geneva, Sep. 2006.

[3] IUF–ACTRAV: *Hotel Ownership*, IUF–ACTRAV Workshop, Turin, Dec. 2009.

[4] See: www.accor.com/en/group/accor-strategic-vision.html (accessed 28 May 2010).

Table 5. The five first managing groups at 1 January 2010

Rank	Groups	Rooms
1	Marriott International	265 545
2	IHG	154 764
3	Starwood Resorts	153 791
4	Hilton Hotels	153 110
5	Accor	108 219

Source: www.hotel-online.com/News/PR2010_3rd/Jul10_HotelRanking.html.

– *Lease agreements* are arranged between hotel property owners or partners and another company paying rent to the owner. The lease can be limited to different areas of the hotel. The lender receives rent from the lessee, who gains revenue and profit from room sales, sales in food, beverages, banqueting and other areas of operation.

– *Franchise agreements*, also called licensing agreements, lease a "brand" from a franchisor to a franchisee. In addition to the initial franchise fee, the franchisee is generally charged a joining fee upon affiliation with the brand chain. The franchisee is given access to the brand, financing and market strength. Many lenders will not finance hotel acquisition or construction unless the property has a strong brand. [5]

Table 6. The five first franchising groups at 1 January 2010

Rank	Groups	Rooms
1	Wyndham Group	588 893
2	Choice	487 410
3	IHG	483 379
4	Hilton Hotels	404 866
5	Best Western	308 477

Source: www.hotel-online.com/News/PR2010_3rd/Jul10_HotelRanking.html.

– *Real estate investment trusts* (REITs) and *private equity* (PE) funds have led to changes of ownership structure within the hotels and restaurants sector. [6] These investments are able to facilitate development of real estate by improving buildings and surrounding land. In the HCT sector, the separation between ownership and management has increased the rate of mergers and acquisitions. In many countries, REITs enable investment in commercial real estate that is exempt from corporate taxation when properties or mortgages correspond to less than 75 per cent of total real estate assets.

[5] R. Braun: "Hotel franchise agreements: Opportunities and pitfalls", in *Hotel Online*, Sep. 2004; see: www.hotel-online.com/News/PR2004_3rd/Sept04_FranchiseAgreements.html.

[6] It should be noted that similar patterns of ownership are to be found in restaurants and fast food chains, with franchising and private equity being mentioned in ILO: *The impact of global food chains on employment in the food and drink sector* (TMFCE/2007), Geneva, 2007, p. 4.

Investors in hotel REITs seek benefits such as tax holidays, high liquidity, lower risk levels due to the existence of REITs and real estate, higher returns compared to average common stock, and profits paid out to shareholders in the form of high dividends. The hotel business is separate from the real estate property and pays rent to the REIT, enabling the REIT shareholders as well as the hotel company to meet lower tax commitments. Blackstone has more than US$12 billion in real estate funds, accounting for the largest amount of available capital in the industry. [7]

In 2006 Colony Capital, one of the biggest REITs worldwide had invested US$14 billion in real estate. In 2005, it bought the Singapore-based hotel chain, Raffles Holdings Ltd which included 41 hotels and resorts in 35 countries. In 2006, it bought Fairmont Hotels & Resorts Inc., comprised of 87 properties with 34,000 rooms in Canada and the United States. Asia and the Pacific in recent years has seen the creation of REITs in Japan (e.g. Japan Hotel & Resorts), Singapore (e.g. CDL Hospitality Trusts), Republic of Korea, Hong Kong (China) and Australia.

The apparent success of REITs has motivated and accelerated property sales by hotel chains, typically leasing back the property under long-term management agreements. Shareholders receive cash from property sales in the form of share buybacks and dividends to meet the demand for "shareholder value". REITs invest in many different property types, among which health care accounts for 9 per cent and lodging, 6 per cent. [8]

– *Private equity* capital provides funds to private (as well as publicly listed) companies for the purpose of development, in particular. Private equity fund managers manage the capital raised with the purpose of investing directly in private companies. Private equity investors expect higher rates of return from their investments in private equity than from the stock market. They may carry out buyouts by "cashing in" on the investment within three to five years. Although they can be long-term investors, they focus mostly on short-term investments oriented to the development of the company. Private equity funds can also facilitate "buyouts" aimed to acquire existing companies.

In 2007, hotel transactions were valued at US$150 million, which rose to US$18 billion in 2008, and were expected to fall to US$15 billion in 2009. [9] In Europe, around 33 per cent of all transactions regarding hotel properties were the result of private equity fund buyouts and divestments. However, in developing countries and transition economies, 80 per cent of hotels were under non-equity modes of operation, meaning they were under individual ownership, management contracts, franchises or leases. [10]

[7] F. Fresnel, École Hotelière Lausanne: "Quick note on private equity groups" at the General Assembly of the EFFAT Hotel Restaurant Catering Tourism Sector, 24 and 25 March 2009.

[8] ibid.

[9] IUF–ACTRAV: *Hotel Ownership*, IUF–ACTRAV Workshop, Turin, Dec. 2009.

[10] UNCTAD: *FDI in Tourism: The Development Dimension*, UNCTAD Current Studies on FDI and Development No. 4, New York and Geneva, 2007, p. 35.

Blackstone Group is the largest private equity fund and in recent years has purchased a significant amount of hotels (i.e. Extended Stay America, Prime Hospitality, Boca Resorts, Wyndham International, La Quinta Corporation, MeriStar Hospitality Corporation, and Hilton Hotels). The La Quinta acquisition added more than 590 hotels in 39 US states and Canada to Blackstone, while Wyndham gave Blackstone 160 North American and European luxury hotels. Compared to 2004 where Blackstone had 654 properties, in 2006 it controlled 1,430 hotels. [11] With the Hilton buyout in 2007, Blackstone now owns around 4,000 hotels with 620,000 rooms in 80 countries. [12]

Besides the increase of corporate income, capitalization rate compression has contributed to positive changes in hotel property value. Unlike other investment opportunities, hotel companies offer favourable, risk-adjusted dividend returns. Consequently they also become major targets for leveraged private equity buyouts. [13] Table 7 offers a profile of reported transactions involving public companies mainly in the United States that were sold to private equity investors.

Table 7. Selected public-to-private hospitality firm transactions, 2004–07

Date	Public company target	Private company acquirer	Price (in $)
2004	Extended Stay America	Blackstone	2.0 B
2004	Prime Hospitality	Blackstone	790 M
2004	Boca Resorts	Blackstone	1.1 B
2005	Wyndham International	Blackstone	3.2 B
2005	Raffles	Colony Capital	1.0 B
2005	La Quinta Corporation	Blackstone	3.4 B
2006	Fairmont Hostels & Resorts	Kingdom & Colony Capital	3.9 B
2006	MeriStar Hospitality Corporation	Blackstone	2.6 B
2006	Kerzner International	Investor Group	3.8 B
2006	Boykin	Westmont & Caisse de dépôt	416 M
2006	Jameson	JER Partners	371 M
2006	Intravest	Corporation Fortress	2.8 B
2006	Four Seasons Hotels	Kingdom & Cascade & Triple Holdings	3.4 B
2007	CNL Hotels & Resorts	Morgan Stanley Real Estate	6.6 B
2007	Innkeepers	USA Trust Apollo	1.5 B
2007	Highland Hospitality Corp.	JER Partners	2.0 B
2007	Eagle	Apollo	237 M
2007	Crescent Real Estate Equities	Morgan Stanley Real Estate	6.5 B
2007	Harrah’s	Apollo & Texas Pacific	17.1 B
2007	Hilton Hotels	Blackstone	26 B

Source: K. Curran: The impact of new ownership of accommodation, operations and consumption on types of employment, industrial relations, HRD and qualification needs in the accommodation and hospitality sector, study commissioned by the ILO, Mar. 2010.

[11] Joe Lauria: “The Blackstone Group controls 1,430 hotels; Some speculate Blackstone preparing an initial public offering”, Hotel Online, News for the Hospitality Executive, 26 Feb. 2006.

[12] IUF: *Blackstone’s Hilton Woes Will Weigh on Workers*, IUF’s Private Equity buyout Watch*,* Geneva, 5 Jan. 2010.

[13] J.B. Corgel: “Private equity investment in public hotel companies: Recent past, long-term future”, in *Cornell Hospitality Report* (The Center for Hospitality Research, 2008), Vol. 8, No. 10, June, p. 12.

3.3. Impact on HRD, qualification and skills development

The impact of ownership changes in the sector varies from country to country and is linked to diverse corporate structures and business methods. The consequences may differ from little or no impact to important effects on the workplace.

Workers are concerned that changes in ownership and management structure could have a negative impact on their employment and industrial relations. They fear that ownership changes may result in some employers avoidance of their responsibilities, short-termism and the pursuit of excessive profits in response to pressures to cut wages and expenses and regulate cash-flow management. Collective bargaining was affected by increasingly complex and less transparent employment relationships combined with management priorities (e.g. "short-termism" and high cash payouts to shareholders). According to EFFAT members, the sale of certain InterContinental operations based in Amsterdam, Budapest, Frankfurt, Cannes, Madrid, Rome and Vienna to Morgan Stanley Real Estate Fund and the resulting management change led to staff outsourcing and to the loss of the EWC mandate. [14]

The impact of changes in ownership and corporate structures on workers can be seen in Europe where employees of transnational companies have the right to be informed and consulted by central management in their own EWC. [15] As an example, Starwood Hotels & Resorts (Sheraton, Westin, Méridien, Four Points) has hotels in 23 EU Member States. However, EFFAT reports that only seven of the 23 countries are represented in the EWC. Hiltons' renegotiated EWC agreement would further exclude managed and franchised hotels from the scope of the agreement, which would represent a decrease in EWC coverage from 22 to ten countries.

Another workers' concern relates to growing employment insecurity. This can result from frequent and rapid ownership changes mainly focused on short-term performance-driven demands. Maximum flexibility may be required due to rapidly changing ownership, leading to restructuring, outsourcing or casualization to cut costs. This can make it difficult to ensure continuity of employment terms and conditions. Workers also fear that values and mission statements articulated by global chains are often not transferred into practical application in hotel workplaces.

As transnational hotel chains are using more and more "asset light" strategies, a substantial proportion of staff working in international brands are often excluded from information and consultation rights beyond the local level. Among these strategies for example are moving from ownership and leasing of hotels to management and franchise contracts, outsourcing or subcontracting major parts of the enterprise.

In response, employers are encouraged to reiterate the importance of social dialogue within the sector, enhance training programmes and skills development, promote

[14] Personal communication from an EFFAT member to the ILO, 30 June 2010.

[15] See: European Union: Directive 2009/38/EC of the European Parliament and of the Council of 6 May 2009 on the establishment of a European Works Council, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32009L0038:EN:NOT(accessed 25 May 2010).

sustainability and decent work, improve working conditions (including working time and wages), and measures in favour of SMEs and youth employment. [16]

Ownership changes in hotel properties might not automatically lead to changes in the workplace. Continuous recognition of existing collective bargaining agreements and trade union involvement in the restructuring of the workplace can optimize the changes and turn them into positive outcomes, such as maintaining jobs and securing investments in case of bankruptcy.

Key ownership changes in the hotel sector are not wholly mirrored throughout the wider industry. These developments have major implications for work, in terms of the numbers employed, roles that they play and the locations of their workplace. Likewise, the very significant SME sector, while it may have declined slightly in some countries, has largely remained outside of the trend toward centralization and alternative ownership structures. Some operations have instead allied themselves together through marketing consortia such as Leading Hotels of the World and Best Western without compromising their ownership status.

[16] Busquets, op. cit., 2010.