AccorInvest: Major investors check into €4.4bn deal

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Deals

Saudi Arabia's sovereign wealth fund teams up with a variety of institutional investors to invest in what has been billed as 'the last major opportunity to buy into a hospitality carve-out.'

By

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AccorHotels is the latest hospitality company to go on a real estate diet, providing an opportunity for investors hungry for the lodging space.

The Paris-based company, which spun off its 891-property real estate portfolio into AccorInvest last summer, agreed to sell a 55 percent stake in its real estate holding company in late February. In the long-anticipated deal, Accor follows its hospitality peers in paring down real estate holdings to focus on the underlying business.

The consortium of AccorInvest investors includes sovereign wealth funds from Saudi Arabia and Singapore, insurer Credit Agricole Assurances, asset manager Amundi and longtime Accor partner, the real estate investment manager Colony NorthStar. The sale of the majority stake, which is expected to close in the second quarter, values the company at €6.25 billion and gives AccorHotels €4.4 billion in cash.

Accor's investors, which included Colony NorthStar's predecessor entity, Colony Capital, pushed the company for years to follow other major hospitality companies in selling off its real estate. Colony's head of European investment, Nadra Moussalem, was on the board of Accor until Colony sold its stock in January 2017 and helped conceive the plan to go asset-light.

PERE understands Accor's founders were reluctant to give up the real estate that they, as developers, had built and pieced together through acquisitions since the company's 1967 founding. Investor pressure and the hospitality industry's move toward investing capital formerly tied up in real estate into business operations tipped the scale.

While the deal was in the works for years, one source says some of the investors decided to participate in the buyers' consortium just weeks before the transaction was agreed. The various partners have largely equal shares in the deal, though after closing, some investors will take more active roles than others.

Varied investors

Some of the AccorInvest investors have a deep familiarity with hospitality. Colony NorthStar, for example, held 167 hotel properties in its portfolio as of December 31, according to its fourth quarter earnings, while Singaporean sovereign wealth fund GIC has invested in the property type for over a decade.

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> – Dan Lesser

Colony, through its predecessor, has a long history with Accor, too. The firm, which declined to comment, first worked with Accor in 1999, when the pair, plus private equity real estate giant Blackstone, bought a 48-property hotel division of Vivendi. In 2005, Colony subscribed to a reserved €1 billion issuance of bonds and mandatory converts, which gave it two seats on the board. These instruments were converted into 10 percent of Accor's shares in 2007, and Colony and partner Eurazeo bought 10 percent of the company each in 2008, owning 30 percent of Accor at the peak. Colony began selling down its shares in 2011, ultimately exiting its remaining 5 percent stake and leaving the Accor board in January 2017.

Other investors in the group are newer to hospitality and even to real estate. Through the deal, Saudi Arabia's Public Investment Fund inked one of its first global real estate investments. The sovereign wealth fund announced an

ambitious plan in October to expand its assets under management to $400 billion by 2020 through investments in real estate, among other asset classes.

AccorInvest's investor roster is betting on a European-centric portfolio largely comprising budget and mid-scale hotels less exposed to the volatility of the luxury hotel segment. The diversity of buyers shows demand for hospitality from multiple investor types, an analyst said.

Asset-light approach

One investor called the deal a win-win for the consortium and Accor in what he predicted was the last major opportunity to buy into a hospitality carve-out. Marriott started the trend in the early 1990s by splitting into a hotel management company and a real estate company. The company continued the push after its 2016 acquisition of Starwood Hotels & Resorts, selling its long-term leasehold interest in the Hawaii's Westin Maui Resort and Spa, a Starwood property, in April 2017 to a joint venture of Oaktree Capital Management and Trinity Investments, among other deals.

Hilton, meanwhile, completed its property spin-off in January 2017, creating a company for its timeshare business and another for its real estate holdings. Hyatt, meanwhile, announced last fall it too would pursue an asset-light strategy, with a goal of selling $1.5 billion of assets over three years.

David Guarino, an analyst at Newport Beach, California-based Green Street Advisors, explains that the now-ubiquitous hospitality brands were built from the ground-up, spending their own capital to create hotels and name recognition. Because of the high costs of hotel operations, brands began to invest less in real estate ownership and more in franchising and management. Brands also need more capital to compete against threats to their businesses that did not exist two decades ago, such as home-sharing platforms, including Airbnb, and the meteoric rise of online travel agencies, such as Expedia.

“The decision for Accor, and other hotel brands, to move to an asset-light strategy makes sense both financially and strategically,” Guarino says. “Rather than putting their own capital at risk to build and maintain a hotel, the hotel brands can now focus on franchising their name to another hotel owner, and instead receive franchise/management fees at much higher profit margins.”

AccorInvest sold its stake during what hospitality consultant Dan Lesser says is the start of a new cycle after the market bottomed out in 2016.

“The markets are flush with debt and equity chasing yield,” Lesser, the founder of New York-based LW Hospitality Advisors, says. “These types of investments, particularly on a risk-adjusted basis, offer superior returns. If you believe that inflation will rise in the near future, investing in lodging is a great hedge against inflation because there’s a continuous repricing of hotel rooms – you have daily leasing and the pricing of those units changes by the nanosecond.”

In a statement to *PERE*, a GIC spokeswoman highlighted AccorInvest’s “resilient cashflows and opportunities for value creation” when detailing why it was an attractive investment.

The investor consortium buying into AccorInvest has the added benefit of valuations that were completed at the end of 2016, when the hospitality market was dampened in the wake of European terrorist attacks and the Brexit vote. Since then, the business has improved significantly, but the deal was priced according to those depressed values, says one investor.

Going forward, AccorInvest plans to continue its real estate optimization plan that began in 2013 for another four or five years. During that time, the platform may also buy or develop assets with other operators in a bid to become the dominant European hotel owner.

Accor plans to reduce its 45 percent stake in its real estate company down to 30 percent, providing opportunities for existing investors to double down or for new investors to check into the consortium. Should that transpire, there will be one more chance to buy into the sector’s supposed last major ‘carve-out.’