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Marriott's Starwood buy pleases large hotel owners, points-plan members alike

By Jake Mooney

Marriott International Inc.'s acquisition of Starwood Hotels & Resorts Worldwide has moved it into a dominant position among U.S. hotel brand companies, drawing accolades from large property owners who say the combined company's strengthened loyalty and booking programs will push a wave of new business their way.

Marriott, like many hotel brand companies, has moved in recent years toward an "asset-light" business model in which it owns few properties. Instead, property owners, including REITs, pay Marriott for the right to use its brand names, booking system and loyalty program. Though the company has work to do in combining with Starwood, observers say the acquisition has helped it gain a competitive edge on its peers, including Hilton Worldwide Holdings Inc., the other traditional hotel-brand leader.

"The balance has tipped a lot," Canaccord Genuity analyst Ryan Meliker said in an interview. As a result of the Starwood deal, Marriott now controls nearly half of the roughly 655,000 full-service hotel rooms in the U.S., compared to roughly one quarter for Hilton, Meliker said. Globally, he said, four of the five largest hotel brands — Ritz-Carlton, St. Regis, W Hotels and JW Marriott — are now part of the Marriott system. The final brand is the Four Seasons, which is independent.

A more powerful Marriott could be worrisome for smaller hotel owners, who eventually may have to pay more, or make more property improvements, to maintain their relationship with the company. But large owners, at least, say the benefits of the deal far outweigh the drawbacks.

"It's a transaction we feel really good about, and really quite frankly, the more we interact with Marriott now post-transaction, the better we feel about the potential for them and for our business," Justin Knight, president and CEO of Apple Hospitality REIT Inc., owner of 116 Marriott-branded hotels, said in an interview. "We're excited to see how it plays out over the next couple of years."

Getting the points

In a move that owners and other observers say is key to the transaction, Marriott in September linked its Marriott Rewards program with Starwood's Preferred Guest program, specifying a mechanism through which members can exchange points between the two and redeem them for stays in either Marriott- or Starwood-branded hotels.

The announcement eased worries among some loyalty program members who had been uneasy about the programs' fate since Marriott won an industrywide bidding war for Starwood. It also opened a path for customers to earn free nights in full-service hotels, including relatively glitzy former Starwood properties, by staying frequently in Marriott's broad network of lower-cost properties. Starwood's program has a devoted following, and Marriott's is among the largest in the industry. Even for more casual travelers, the ability to earn points toward future stays can be a deciding factor in choosing a hotel.

"If you're a business traveler and you're on the road 100 days a year, and you want to take your family away at year-end, you don't want to take them to the Extended Stay America hotel," Meliker said. "You want to stay at the Ritz or the Four Seasons. Or the St. Regis, or at minimum the Westin or the Marriott or the Hilton. Well, Marriott dominates that space now."

US hotel REIT comparison

Company name (ticker)	Market capitalization (\$M)	Premium (discount) to NAV (%)	Number of Starwood/Marriott rooms*	Percentage of total (%)	Number of Hilton rooms*	Percentage of total (%)
Host Hotels & Resorts Inc. (HST)	11,649.5	(12.44)	49,416	80.81	678	1.11
Hospitality Properties Trust (HPT)	4,726.0	(12.04)	17,084	36.85	0	0.00
Apple Hospitality REIT Inc. (APLE)	4,117.4	2.96	15,140	49.97	15,158	50.03
Sunstone Hotel Investors Inc. (SHO)	2,809.0	(8.79)	7,063	51.75	3,451	25.29
LaSalle Hotel Properties (LHO)	2,799.5	(13.24)	2,203	19.23	931	8.13
RLJ Lodging Trust (RLJ)	2,624.5	(17.83)	11,718	56.24	6,268	30.08
Ryman Hospitality Properties Inc. (RHP)	2,488.9	(2.94)	7,987	96.34	0	0.00
Pebblebrook Hotel Trust (PEB)	1,982.3	(9.42)	1,574	17.45	611	6.77
DiamondRock Hospitality Co. (DRH)	1,858.2	(17.92)	8,161	86.26	943	9.97
Xenia Hotels & Resorts Inc. (XHR)	1,661.5	(29.11)	6,576	56.72	1,099	9.48
Chesapeake Lodging Trust (CHSP)	1,358.3	(20.59)	3,545	52.96	388	5.80
Summit Hotel Properties Inc. (INN)	1,130.2	(6.83)	4,434	41.24	2,890	26.88
FelCor Lodging Trust Inc. (FCH)	909.4	NA	1,434	12.47	5,784	50.30
Hersha Hospitality Trust (HT)	784.1	(16.46)	3,355	38.13	2,267	25.76
Chatham Lodging Trust (CLDT)	721.8	(5.57)	12,372	68.07	4,624	25.44
Ashford Hospitality Trust Inc. (AHT)	569.4	(24.97)	15,240	58.40	7,513	28.79
Ashford Hospitality Prime Inc. (AHP)	371.6	(26.30)	2,139	57.78	944	25.50
Sotherly Hotels Inc. (SOHO)	75.5	(59.27)	180	5.98	1,540	51.15
InnSuites Hospitality Trust (IHT)	21.1	NA	0	0.00	0	0.00
Condor Hospitality Trust Inc. (CDOR)	9.1	NA	490	18.69	100	3.81

Data as of Oct. 10, 2016.

Properties include REIT-owned hotels. Does not include managed or leased hotels.

* Includes only hotels where the number of rooms is reported publicly through filings.

Source: SNL Financial, an offering of S&P Global Market Intelligence

"When those guys used to pull off a highway in one of these secondary markets and there was no Starwood property to serve them, they would just go on Priceline or go on Expedia, or pull out their phone and kind of find the closest place," he said. By contrast, he said now at least some of them will gravitate to Marriott properties, because of the potential to earn points.

Russ Shattan, senior vice president of acquisitions and development at the privately held MCR Development, which owns roughly 90 hotels, more than half of which are under Marriott brands, said Starwood did not traditionally have many properties in secondary markets like Richmond, Va.; Jacksonville, Fla.; or Bozeman, Mont., where the company owns properties. As a result, the 25 million Starwood rewards program members had no particular brand loyalty in those markets.

Knight recalled a business trip on which an executive he was meeting drove 15 minutes out of the way to earn points at a Starwood property, rather than staying at an Apple-owned hotel. After the merger, he said, "We see ourselves in a position to provide traditional Starwood-loyal guests with point-earning opportunities that they didn't have before."

Advantages of scale

While rewards program members felt "quite a bit of anxiety" prior to the merger's close, "Marriott has been tremendously generous from the get-go, which has helped to put consumers at ease," Zach Honig, editor-in-chief of The Points Guy, a news site focusing on loyalty programs, said in an email.

Both business and leisure travelers in the Marriott and Starwood programs now have added incentives to choose one of the company's branded properties over a competitor, he added. Another question is how they will book their rooms, and property owners hope the merger will help Marriott there, too.

In recent years, both Marriott and Hilton have sought to build their own web sites into rivals for independent online travel agencies like Expedia and Orbitz. With 30 brands post-merger, at various price levels, Marriott now stands a better chance of keeping customers on its own web site, rather than on an independent site where they might choose another company's hotel, Knight and Shattan said.

Over the long term, the larger Marriott should be able to run its reservations systems, and other systems, more efficiently, Knight said. And, he added, "we'll work to make sure that a portion of those efficiencies are passed on to us."

Both Knight and Shattan dismissed the notion that a more powerful Marriott would seek to use its scale as leverage against owners. With hundreds of brand choices in the market, and the increasingly attractive option of operating a hotel independently of a brand, property owners now would have many options if Marriott brands were to become a less attractive business proposition, Shattan argued.

"While they're a large player in the space, they're certainly not the only player in the space, and there are others, like Hilton and [Hyatt Hotels Corp.](#) and others in the space that have value to provide and represent alternatives to help keep things in check," Knight added.

While Marriott has recently sought to grow by adding hotel rooms to its portfolio, "I think for them to pursue a different business strategy, one that used their size as leverage in a negative way ... would be short-sighted and inconsistent with the direction that current leadership within the company has pursued," he said.

Winners and losers

Other brand options aside, Meliker said some smaller owners may have reason to fear Marriott's leverage.

"The guy that owns one or two hotels, that may not be as up to date from a capital improvement standpoint, and maybe not in the best location, those are the guys that are really worried," he said.

Still, he said, owners of Marriott properties in good locations will likely get more of travelers' attention, and owners of former Starwood properties will likely see improved operations, since Marriott is generally a more effective operator than Starwood was. Adding in the benefits of cost savings on such mundane but critical items as shampoo, soap and food, most owners are optimistic, Meliker said.

"The big institutional-quality hotel owners that own a bunch of hotels, and they tend to be good institutional assets and are well-maintained, they've very excited about this," he said.