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Private Equity and Lodging Firm Stock Values: Is Beauty in the Eye of the Beholder?

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ABSTRACT

Over the last five years, the hospitality industry has witnessed an exceptional level of transaction activity, changes in hotel ownership, and new management structure. There is a common belief that the combination of low interest rates, depressed stock prices, and rising corporate profits created ideal conditions for private equity firms to flourish. This study argues why publicly traded lodging companies became the targets for private equity firms and also discusses why private equity firms place a higher value on hotel firms that possess strong brands and higher degree of intangible assets. On one hand, some scholars claim that private equity funds invest in hotel real estate as a financial asset and the main reason of investment is to sell the hotel properties for a higher price in the future. Others contend that the market is completely out of touch with economic reality and unlimited funds in the market are seeking a safe home. This article did not offer a conclusion for the hotel valuation argument but rather it shed some light into the current phenomenon of private equity. It seems that at this stage it is not feasible to use inferential statistical analysis to uncover the reasons why hotel companies became targets of private equity buyouts. However, by using some of the extant industry body of knowledge the researchers were able to develop two key propositions that will hopefully spur the research in this area. The authors conclude that more insight is needed to understand the current investment phenomenon brought into the scene by private equity firms over the last five years.