

UK mid-market hotel sector faces further consolidation

The UK's hotel sector is set to experience further consolidation in the three- and four-star sector as lenders look to move into the next stage of action regarding over-gearred groups.

Several hotel groups have now got a for-sale notice on them, and more are likely to in the near future. The banks are now confident enough in the market to consider a sale likely, and are putting groups on the market that other operators and investors are likely to look at, said Russell Kett, chairman of **HVS London**, the global hotel valuation and consultation business.

The mid-market is a difficult sector to operate in as cash-pressed consumers tend to trade down squeezing the mid-market, particularly those hotels which are not clearly branded, he added.

Principal-Hayley has now been put up for sale, with a price tag of £500 million. The group could be acquired by a private equity company that would use it as a consolidation vehicle.

The De Vere Group is selling off its non-core hotels and revamping its Village Hotels chain with a view to selling off the business two or three years down the line. The group is also investing £4-5m in the Grand Hotel in Brighton, again with a view to selling.

Q Hotels is selling six of its smaller hotels with a view to refinancing in the near future, and the heavily indebted Jury's Inns is about to be sold to a private equity backer.

These companies could provide an interesting opportunity for an investor to gain a foothold in the provincial UK mid-market, but there are additional possibilities for an investor with deeper pockets (possibly an existing hotel investor) to purchase, say, two or more of these groups. It could then carry out some overdue capital expenditure and then apply a more distinctive and recognisable brand to those which 'fit' and dispose of those which don't - and derive additional bottom line earnings and value from the economies of scale and branding benefits, Kett added.

But the investment required to do this is significant and the timescale over which to accomplish this will be longer than most financial buyers will accept, so this might open the door for certain Asian investors whose investment horizons are significantly longer, he concluded.

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