Abu Dhabi Investment Fund buying 3 Editions from Marriott. What does this mean to Marriott and the Edition brand?

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Hotel Lawyer on the reported sale by Marriott of 3 Edition hotels.

Craig Karmin and Alexandra Berzon of the Wall Street Journal broke a big story yesterday evening which appeared in the August 15, 2013 US edition of the paper at page C3. The headline is “Marriott Close to Deal to Sell Three Hotels to Abu Dhabi Fund.”

The story, in which I am quoted, describes reports from people close to the deal, that Marriott International is about to close a sale of 3 Edition hotels in London, New York and Miami Beach. The reported buyer is Abu Dhabi Investment Authority, or ADIA.

Other highlights of the article:

- Marriott has said that it planned to invest up to $800 million in the 3 hotels
- David Loeb of RW Baird estimates that Marriott has already spent about $575 million to buy, convert and upgrade the 3 properties
- Marriott is expected to make a profit on the sale

So what does this transaction mean?

Here is what I think this transaction means:

- ADIA, a major international investor, has cast a big vote of confidence in the fledgling Edition brand and is putting several hundred million dollars behind its vote. The investment is both in the purchase of the 3-hotel portfolio, and in the new Edition being built in Abu Dhabi.
- Although Marriott is an industry giant, the Edition brand has struggled to get going. Its original ambitious plans were crushed by the Great Recession as development partners were unable to get financing, and then by the messy divorce between Marriott and the owner of the first Edition in Waikiki (See M Waikiki’s Edition lawsuit against Marriott and Ian Schrager and related articles). Rumors of a split between Marriott and partner Ian Schrager swirled as some labeled Edition a trouble brand.
- Marriott still has only 1 Edition Hotel open (in Istanbul), and had to commit $800 million of its own capital to boost the launch of the Edition brand. Marriott’s website says that it now has 7 Edition hotels in the pipeline and is on track to have 5 Editions open by 2015 in international centers. This is a nice stabilization, but a far cry from the 5 Editions Marriott said it would have open by the end of 2007 and the 100 it expected to have operating globally by 2017.
- The ADIA transactions show that some real smart money is not worried about the nay-sayers and has confidence in the future. ADIA is the kind of player that might well turn out to be a long-term strategic player with Marriott on building and owning more Editions (and possibly other hotels).
- One has to admire Marriott’s stamina and commitment to the brand to invest up to $800 million of its own capital in
Editions. It looks like that bet is paying off, and this transaction could free up that capital for Marriott to do something again to jump start development in key international locations.

- This is a positive development for Marriott, the Edition brand and investors in the Edition brand. But everyone should remember the painful lesson of how the JW Marriott brand struggled for more than 20 years before it became well-established to command the rates and recognition among travelers that it deserves today. [We represented a major investor in an early JW Marriott going back to the late 1980s, and the results were not good.]

- The lesson? It is essential for the success of the Edition brand that Marriott build the Edition chain to a minimum critical mass as quickly as possible.

Have you ever stayed in a Marriott Edition, had dinner or drinks at one, or asked your assistant to book you into one at a city you are traveling to? Me, neither. But if Marriott stays the course and the river doesn’t rise, that could change.

**Selecting the right brand and operator**

Selecting the right brand and operator for its hotel is one of the most important decisions a hotel owner will make. It is a decision that will affect the profitability and value of the hotel for a very long time. The selection process must be intentional and disciplined and should take into account the owner's needs, the operator’s capabilities and the terms of their agreement.

No matter how strongly a brand may court an owner, or how strongly an owner feels about the “perfect” brand for its property, a disciplined approach to selecting an operator is always the best approach. To assist owners in this process, we have developed the proprietary “Hotel Management Agreement Procedure to Recruit an Operator” or HMA PRO™.

JMBM's HMA PRO™ Checklist is a 50-point, detailed list of all the business and legal issues which an owner needs to resolve prior to or during the earliest stages of negotiating the term sheet or letter of intent (LOI) with the operator. All the other matters are more technical items that can be hashed out in the actual negotiation of the Hotel Management Agreement itself, after the term sheet or LOI is finished.

See also:

- How to get a great hotel operator
- The 5 biggest mistakes owners make in pursuing hotel management agreements (and how to avoid them)

**Hotel Management Agreements — the HMA Handbook**

The Hotel Management Agreement (HMA), which allocates risk between the hotel operator and the hotel owner, is critical to the successful and profitable relationship between the owner and operator. Owners and operators with a well-thought-out and fair agreement can avoid the kind of expensive litigation that surrounds the termination of an operator. We have covered HMA issues extensively in the Hotel Law Blog, and have compiled them into the HMA Handbook. To register for your free copy, go to HMA Handbook.
This is Jim Butler, author of www.HotelLawBlog.com and hotel lawyer, signing off. We’ve done more than $87 billion of hotel transactions and have developed innovative solutions to help investors be successful in bidding for hotel acquisitions, and helping investors and lenders to unlock value from troubled hotel transactions. Who’s your hotel lawyer?

Our Perspective. We represent hotel owners, developers, investors and lenders. We have helped our clients find business and legal solutions for more than $87 billion of hotel transactions, involving more than 3,900 properties all over the world. For more information, please contact Jim Butler at jbutler@jmbm.com or 310.201.3526.

Jim Butler is a founding partner of JMBM, and Chairman of its Global Hospitality Group® and Chinese Investment Group™. Jim is one of the top hospitality attorneys in the world. GOOGLE “hotel lawyer” and you will see why.

Jim and his team are more than “just” great hotel lawyers. They are also hospitality consultants and business advisors. They are deal makers. They can help find the right operator or capital provider. They know who to call and how to reach them.