One Man's Opinion – IHG and Regent Hotels & Resorts
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I have been struggling with the announced acquisition of Regent Hotels & Resorts by Intercontinental Hotel Group, but not because I did not believe (a) Regent needed a bigger parent (it does) or (b) IHG needed a true luxury brand (it does, and no matter what they say about Intercontinental the "brand," it's not luxury). I am struggling with the broad plans announced with the acquisition announcement.

Per the announcement, there are 6 Regents today with about 2000 rooms (average size: 366 rooms), 3 in the pipeline with 900 rooms (average size: 300 rooms) and the conversion of the Intercon HK back to Regent. Assume that 2 of the 3 pipeline deals materialize, making 8 Regents with 2600 rooms; add the former-and-soon-again-to-be Regent in Hong Kong, giving them another 500 rooms, so they're already at 9 with 3100 rooms. Their goal is 40 with about 10,000 rooms "over the long term."

Where I have difficulty is that IHG also announced that the acquisition and, presumably, growth of this brand "will be funded within IHG's existing capital expenditure guidance of up to $350 million gross and $150 million net (accounting for asset sales??) per annum into the medium term."

A new-build hotel in the luxury sector usually takes 5 to 7 (or more) years from idea and discussion with the selected brand and opening the doors. One costs, these days, no less than $400,000 per key, and most would say that number is closer to $600,000 or more); at 250 rooms, the minimum spend is $100 million and as much as $150 to $200 million. That means each hotel will need some $60 to $80 million of equity in today's 60% leverage environment.

For Regent to compete with the likes of its former affiliate (after the Burns/Zecha/Rafael days), Four Seasons, the other global luxuries (St. Regis, Ritz-Carlton (and its iterations), Bulgari, Mandarin Oriental, Peninsula, Shangri-La, Langham, Park Hyatt, Waldorf Astoria, Baccarat, Montage (mostly US and Mexico) and the regional luxuries (Jumeirah, Rocco Forte, Kempinski, Leela, Oberoi, Taj) and the resort luxuries (Belmond, Six Senses, Banyan Tree), IHG will need to show that it is fully behind Regent's growth. That could take the form of investment, key money (though the luxury guys all hate key money), committed "top-up" guaranties, mezzanine debt, etc., eating into the $350/$150 million annual guidance. It is doubtful that IHG wishes to own 100% of Regent's new hotels. What is left for capex needs on the Regent Hong Kong by itself?

I guess what I am saying is that growth from 9 hotels at 3100 rooms to 40 with 10,000 rooms or more is a long, long-term proposition – and a challenging one, at that – with a brand that, though storied, is virtually unknown now in the USA or Europe (unless there are a lot of "Pretty Woman" fans in the development communities impacting "global gateway city and resort locations").

I wish IHG great success, but even a large, global hotel group like IHG has its work cut out for it here.

And, that's One Man's Opinion.