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Experienced Buyers, Long-Term Fee Contracts, and the Value of Property Transactions in the Hotel Industry

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Abstract

Hotel property sales have often been bundled with contracts, such as franchise agreements and management contracts. In these transactions, the seller/operator and the buyer/owner essentially entered into a long-term relationship. The present study accordingly proposed that such transactions could be viewed as a strategic alliance, rather than a one-time asset disposition. Specifically, it was hypothesized and confirmed that buyers' experience in hotel investments could enhance the value of long-term fee contracts bundled with transactions. In addition to estimating the transaction premiums at the property level, the present study could contribute to the hospitality industry by demonstrating the value of specialist buyers in property sales bundled with contracts. For decision makers, the results suggested that buyer selection could be an important consideration in property sales bundled with contracts.

Keywords

hotel property sales; strategic alliance; franchise and management contracts; experienced buyers

Introduction

Since Marriott split itself into Marriott International and Host Marriott in the 1990s, many hotel companies have followed suit and transformed themselves into brand owners and operators while simultaneously selling properties to lighten the balance sheet. Under this asset-light strategy, such property transactions as spin-offs and sell-offs of properties have become a common practice (Hudson, 2010). As of the end of 2017, Marriott International owned only 19 of the 6,520 properties operating under the Marriott name worldwide.

A number of studies accordingly focused on the sale prices and valuations of hotel properties. Property valuation models such as an average daily rate (ADR) rule of thumb and an automated valuation model (AVM) were examined as estimators of a hotel's market value (O'Neill, 2003, 2004; Rushmore et al., 2012). Lee et al. (2016) further extended AVM and found the moderating effects of economic conditions on the relationship between ADR (and net operating income) and hotel sale price. The extant literature on hotel property transactions also examined drivers of hotel property price, including brands and locations (O'Neill & Xiao, 2006; Valentin & O'Neill, 2019). Compared with these works that estimated the market value of hotel property and the factors affecting the value, the present study aimed to analyze the impact of buyers, or specifically, buyers' experience in hotel investments on firm value within the context of hotel property transactions.

The motives behind divestitures as well as their impacts on firm value have frequently been studied in the strategic management and finance literature (Capron et al., 2001; Hoskisson et al., 1994). While these studies can provide useful insights into understanding property transactions in the hotel industry, there was a need to study property sales in the hotel context for two reasons. First, the value of property transactions was inconclusive in the finance literature. Although numerous studies have found that the stock market reacted positively to transaction announcements (Jain, 1985; Klein, 1986; Lang et al., 1995; Langlais, 2005; Markides, 1992; Rosenfeld, 1984), others have found that such transactions had an insignificant or negative effect on firm value (Masulis & Korwar, 1986; Schill & Zhou, 2001; Wright & Ferris, 1997). These discrepancies were most likely due to the differences in the context among the studies. It was therefore necessary to empirically evaluate the value of property transactions in the hospitality industry.

Second, hotel property transactions differed from those in other industries in that hotel property sales were often bundled with franchise, and/or management contracts, which tied together the sellers' and the buyers' future cash

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flows together (Lee & Jang, 2013; Raleigh & Roginsky, 2006). The relationship designated by these transactions was thus akin to a strategic alliance, rather than a one-off transaction (Lafontaine, 1992; Reuer & Ariño, 2007). Based on the resource-based view, partners in a strategic alliance can benefit from each other's resources and expertise to enhance the value of the relationship (Barney, 1991; Das & Teng, 2000).

Accordingly, the present study aimed to investigate whether buyers' experience in hotel investments could enhance the value of franchise and management contracts for sellers. The results indicated that buyers' experience had a positive moderating effect on the relationship between contracts and sellers' cumulative abnormal returns (CARs). In addition to demonstrating the importance of buyer selection when franchise and/or management contracts were bundled with hotel sales, these findings contributed to the hospitality literature by aiding researchers and professionals in identifying transaction premiums at the property level.

Theoretical Background

Property Transactions With Contracts

It was common for hotel operating models to be characterized by the relationship between hotel brands, owners, and management companies. Hotel operators or hotel brands could own and operate their properties, or they could separate the ownership and the operation by selling the properties and using franchise agreements, management contracts, or leases (Collins & Perret, 2015). Although the degree of control over operations retained varied from case to case, property transactions using these contracts allowed hotel brands to restructure their business portfolios and to focus on less capital-intensive business formats. This aspect was a primary motivator for major hotel brands to divest their properties with these contracts (Bader & Lababedi, 2007). To investigate the implications of these transaction arrangements on sellers' value, the present study focused on the contracts that prescribe long-term cash flows for sellers after the property was sold. Thus, only franchise agreements and management contracts ("contracts" or "long-term contracts" hereafter) were discussed and analyzed in the study, to the exclusion of leases.

Property sales bundled with contracts provided assurance that sellers will continue to receive cash flows from the properties sold (deRoos, 2010). Although franchise or management fees from sold properties were lower than those received from ex-transaction operating incomes, these contracts could nevertheless improve sellers' present value in three ways. First, fees from the franchise and/or management contracts enabled selling firms to generate stable cash flows from sold assets, which reduced earnings volatility (Sohn et al., 2013). Furthermore, in addition to decreasing sellers' debt burdens and financial distress costs, the stable cash flows and proceeds provided by the transactions could potentially increase firm value by decreasing the discount rate of future cash flows (Sohn et al., 2013).

Second, property sales bundled with contracts allowed hotel firms to expand their market presence without making significant capital investments (Collins & Perret, 2015). Thus, the proceeds from property sales and cash flows from the contracts can be regarded as a firm's financial slack, which is defined as the firm's capacity for debt without risk of default and was calculated as the sum of cash on hand and marketable securities (Myers, 1984; Rosenfeld, 1984). Increased financial slack could, in turn, be used to support positive net present value projects. In addition, sellers can lower the market risk associated with the property market by selling their properties to a third party. Therefore, property sales bundled with the contracts can help sellers unlock untapped value in their properties (Hoisington, 2018).

Hilton, for example, sold the Waldorf Astoria New York in 2014 with a 100-year management contract, managing a tropic hotel and ensuring long-term cash inflows from the property (Karmin, 2014). With this sell-off and reinvestment of the proceeds in five new hotels, Hilton added 2,984 rooms to their owned portfolio. The following year, Marriott sold three company-owned Edition hotels in London, Miami, and New York with long-term management contracts to free up cash for further expansion into multiple locations across the world (Eisen, 2014; King, 2014).

Despite these potential benefits, the effect of contracts on property transaction premiums can be negative in certain contexts. First, sellers' future earnings from properties sold were limited to fees received (Collins & Perret, 2015). Second, in contrast to no-contract hotel property transactions in which value consisted of the proceeds obtained, the value of property transactions with contracts equaled the sum of proceeds and the present value of future fees from the contract. The proceeds from property transactions with a contract can therefore be lower than those derived transactions a contract given the uncertainty of future cash flows. Third, the seller/operator usually paid key money or cash incentives to secure the contract (Balyozyan et al., 2017; Manley, 2017). Although contracts incentivized by key money often included favorable contract terms (e.g., higher fees, longer contract terms), cash incentives reduce cash inflow to the seller. Finally, the attached contract may be a burden for buyers when they want to sell the hotel in the future as it can decrease the universe of potential buyers by excluding those with a strong connection to other operators (Evanoff, 2016). In addition, if the management company had the right to veto any sale of the hotel, then the universe may be further narrowed to protect the management company from a potential buyer.

Due to the potential advantages and disadvantages of bundling property transactions with contracts, it was of practical benefit to examine the factors that influence the contract value. Given that future fees from franchise and/or management contracts were determined by the negotiation and relationship between the seller/operator and the buyer/owner, the present study posited that buyers' experience in hotel investments should play a vital role in the value of these contracts.

Alliance Relationship between Sellers and Buyers

Hotel property transactions were often regarded as a negotiation between sellers and buyers, who had conflicting interests. Sellers wanted to maximize the transaction value (e.g., proceeds), whereas the buyers wanted to minimize the payment or payments made to sellers. However, franchise and management contracts attached to transactions may alter this dynamic. The seller–buyer relationship in property transactions using such contracts constituted a strategic alliance. In the strategic management literature, these alliances were defined as an asset pooling or research exchange agreements between firms that established mutual rights and obligations through specified inputs and processes as well as expected outputs (Reuer & Ariño, 2007; Stuart, 1998). Franchise and management contracts can thus be interpreted as alliance contracts because they identified owners' and operators' rights and responsibilities (deRoos, 2010). Under these contracts, owners had the right to plan and budget for renovations and the responsibility to make incentive fee payments, whereas operators had the responsibility to share their experience in operations, meet performance clauses, and, in some cases, invest key money as a commitment.

Moderating Effect of Buyers' Experience

From a resource-based view, partners in a strategic alliance can benefit from each other's resources, thereby enhancing the value of the relationship (Barney, 1991; Das & Teng, 2000). Indeed, partner complementarity was one of the key enhancers of the value in a strategic alliance (Bucklin & Sengupta, 1993; Hitt et al., 2000; Shah & Swaminathan, 2008). Hotel property transactions bundled with contracts allowed the seller/operator to focus on brand development and operating experience as the buyer/owner focused on real estate investment. The buyer–seller relationship through such transactions was equivalent to a complementary strategic alliance. Buyers' experience in hotel investments can thus potentially benefit sellers within the context of such complementary strategic alliances.

According to Guilding (2003), financial resources and operational supervision of owners can serve as drivers of property performance and, by extension, increased the value of franchise and/or management contracts. For example, Blackstone, a private equity firm experienced in hotel investments, used its specialties to generate value by identifying operating inefficiencies as well as renovations requiring financing in its acquired hotels (Corgel, 2008). Through empirical analysis, Xiao et al. (2012) demonstrated that hotel owners' experience in executing advanced corporate strategies (e.g., segment, brand, operator, or location strategies) influences hotels' financial performance. Top performing buyers accordingly selected hotels with appropriate segments, locations, brands, and operators.

Another factor that supported the positive moderating effect of buyers' experience was the potential benefit of focusing on core competencies and strategic outsourcing of noncore activities (Quinn & Hilmer, 1994). Hotel operation and brand management represented the primary competencies of hotel firms. Property owners who had previous experience in hotel investments thus need skilled hotel operators or brand owners with knowledge and experience in these areas to manage hotel operations. Accordingly, the mutual reciprocity of the alliance between skilled sellers and buyers in hotel transactions can be enhanced when both parties were focused on their core competencies. Furthermore, as Eisenhardt and Schoonhoven (1996) proposed, such alliances can improve the position of firms in competitive markets by enabling them to share costs and risks with partners, increasing each party's market power by combining the buying power of both. These strategic alliances can also allow for the implementation of more flexible business strategies. The use of contracts in hotel property transactions can thus amplify benefits associated with buyers' experience by allowing all parties involved to share their core competencies and resources.

Within the context of hotel property transactions, particularly those involving contracts, costs and risks associated with sold properties can be shared between sellers and buyers; additionally, sellers can utilize buyers' experience in hotel property management (Lafontaine, 1992; Reuer & Ariño, 2007). Hence, the following hypothesis was formulated:

> **Hypothesis:** Buyers' experience in hotel investments positively moderates the relationship between contracts and transaction premiums for sellers.

Method

Sample and Data Collection

The present study derived its sample from hotel property transactions in the United States from 1998 to 2017. First, a sample of hotel property transactions and transaction characteristics (e.g., deal announcement date, transaction value, and buyers' identity) was compiled from the Standard & Poor's Capital IQ database. Transactions involving sellers

classified as publicly traded lodging firms in the United States (e.g., Hilton, Hyatt, and Marriott) were included. Transactions not retained for analysis included those for which neither the Center for Research in Security Prices (CRSP) nor Compustat provided valid financial information (e.g., market value, profit margins, sales, total assets, and security prices), those that lacked information regarding transaction value (e.g., value of assets sold), and those that included an earnings announcement within the transaction event window, to avoid any possible compounding effects that could influence the effectiveness of CARs. Using these procedures, a sample consisting of 135 transactions between eight sellers and 98 buyers was obtained.

Contract information for transactions was obtained from various web-based data sources, including LexisNexis, Form 8-K, news articles, and company announcements. Based on this information, two transactions involving lease agreements were excluded from the study because the leases' direction of cash flow was opposite that of franchise and management contracts. Of the final sample of 133 transactions, 115 transactions included some form of contracts (e.g., franchise and/or management contracts) with sales. Among the transactions with contracts, 61 transactions specified that buyers entered into management contracts with the sellers. The remaining 54 transactions were not explicit regarding the involvement of management contracts. Therefore, hotel property transactions were classified into two groups: transactions with contracts and no-contract transactions.

Of the initial sample of 133 transactions, 31 were not retained for use in the regression models. These transactions either lacked sufficient transaction details (e.g., buyer information, transaction value) or were accompanied by earnings announcements made within the event window, which may have influenced the effectiveness of CARs. Individual property performance data (e.g., ADR, occupancy rate, revenue per available rooms) were obtained from Smith Travel Research (STR) to verify the results of an event study used in the analysis. A total of 102 observations were included in the regression model.

Multivariate Analysis and Variables

CARs. To identify the premium for sellers in the hotel property transactions, an event study methodology was employed. The efficient-market hypothesis stated that in an ideal market, security prices should fully reflect all available information related to a firm (Fama, 1991). Furthermore, the adjustment of stock prices should reflect all firm-specific events. By extension, the value of a property transaction should be reflected in the firm's stock price on the date of the deal announcement.

To represent the premium of property transactions for sellers, seller CARs were calculated. The calculation was done using a ±5-day event window before and after the transaction announcement, with Day 0 defined as the announcement date to create a given security (Dittmar & Shivdasani, 2003). An 11-day timeframe was selected given that abnormal returns (ARs) may be generated prior to the announcement of the transaction if the announcement is anticipated, and the dissemination of the announcement may take more than a single day (Brown & Warner, 1985; Kothari & Warner, 2007; Peterson, 1989). Therefore, CARs represented the premium of property transactions for sellers.

As with initial public offering studies (Ritter, 1991), pre-event stock price data were limited due to frequent merger and acquisition transactions occurring during the sample period. A market-adjusted model was thus selected as the best predictor of returns (Henderson, 1990; Mackinlay, 1997; Peterson, 1989). The market index was used to estimate firm CARs, taking into account that market return ARs were estimated in excess of CRSP value-weighted index returns. This approach, which had been used in a number of previous empirical studies (e.g., Dennis & McConnell, 1986; Palmrose et al., 2004), can generate estimations comparable with those based on individual firms' historical stock prices (Brown & Warner, 1980; Henderson, 1990).

For every transaction, AR for each day and CARs were estimated using the Wharton Research Data Services (WRDS) Event Study. The AR for each day in the event window was estimated using the following equation:

$$AR_{i,t} = \gamma_{i,t} - \gamma_{m,t} \quad (1)$$

where $AR_{i,t}$ is the AR for the transaction i at Day t and $\gamma_{m,t}$ is the return on the CRSP value-weighted index for the Day t.

$$CAR_{KL} = \sum_{t=k}^{L} AR_{i,t} \quad (2)$$

where $K = t - 5$ and $K < L \leq t + 5$.

CARs in Equation 2 were the sum of ARs for the 11 days surrounding the announcement date. A t test was also performed using the estimated CARs to examine the significance of the announcement event on value for shareholders.

Contracts. Various web-based data sources were investigated to verify whether franchise agreements and/or management contracts were included with each sale. Transactions with lease agreements were excluded from the sample given that the direction of cash flow following the completion of transactions involving leases ran conversely to that associated with franchise and management contracts. Sellers generally receive fees from buyers with franchise and management contracts, while sellers pay rents to

buyers—new property owners in lease agreements. Second, because not all transactions disclosed management contract details, the present study did not separate management contracts from franchise agreements and classified the transactions into two groups: transactions with contracts (e.g., management contracts, franchise agreements) and no-contract transactions.

Transactions were assigned to the "transactions with contracts" group when such terms as "continue to operate under a management contract/agreement," "managed by sellers," "operated under sellers," "franchise agreement," or "license agreement" were included in the transaction details. Transactions without transaction details were also assigned to this group if properties involved were operated under the sellers' flags following divestitures. If the buyers intended to terminate the management contract/franchise agreement, or change the flags, such transactions were regarded as no-contract transactions. Hence, the contracts variable was valued at 1 if the transaction had a franchise agreement and/or a management contract; in all other cases, a 0 was assigned.

Buyers' experience. Buyers' industry classification, business descriptions in the S&P Capital IQ, and websites were examined to gain information about whether they had experience in hotel investments. As the hotel industry outlook report from JLL Hotels & Hospitality posited, buyers can be classified into two groups according to their hotel investment knowledge and experience: the specialist and the generalist (Smith et al., 2018). Specialists included hotel brand owners, hotel operators, hotel real estate investment trusts (REITs), and investment companies that had multiple hotel properties in their portfolios. Generalists included investors with portfolios covering multiple asset classes (e.g., private equity, institutional investors). Following JLL's definition, buyers' experience in hotel investments was measured using two criteria. Buyers were defined as specialists if they belonged to hotels (Standard Industrial Classification [SIC] 7011) or REITs (SIC 6798). If a transaction included multiple buyers, all buyers were classified as specialists if at least one belonged to either of those two categories. The second criterion was to include buyers who were not classified as hotels based on SIC code; buyers who did not belong to hotels based on their SIC code but were invested in multiple hotel properties with a separate hotel investment division were also assigned to this category. Examples included hotel-focused investment companies, such as Integrated Capital LLC, Hotel Capital LLC, and Inn Ventures Inc. All other buyers were classified as generalists. Therefore, the buyers' experience variable, Experience (1), was equal to 1 if the buyer was a hotel brand owner, hotel operator, hotel REIT, or firm with a hotel investment division; otherwise, it was classified as a 0.

For robustness testing, two more versions of the experience variable were created. The second variable, Experience (2), was a more restricted version of Experience (1). Experience (2) only included buyers given an SIC code of 7011 or 6798. As some transactions included multiple buyers with experience in hotel operations and investments, an ordered variable, Experience (3), was constructed to test buyers' experience by level. In Experience (3), 2 indicated that buyers were associated with both hotels and REITs based on their SIC code, 1 indicated buyers were associated with only one of the two industries, and 0 indicated all other buyers.

Control variables. Given that hotel characteristics could affect stock price movement (Kim & Canina, 2013), the characteristics of hotel scale, price per room, and relative transaction size were controlled for in the model. The hotel scale variable was based on the definition from STR, ranging from luxury to economy accommodations. STR provided a guideline for hotel scales, categorizing chain hotels into six groups. As the sample did not include economy hotel chains, five groups were used for the classification. A rating of 5 was assigned for transactions that included luxury hotels, 4 for upper-upscale hotels, 3 for upscale hotels and timeshare businesses, 2 for upper-midscale hotels, and 1 for midscale hotels and others. Price per room was defined as transaction value divided by the number of rooms in the sold hotel. Relative size, or the ratio of transaction value to the sellers' market value by equity, was measured at the year of announcement (Klein, 1986). Firm-level variables, such as sellers' profit margins and market value at the year of the announcement, were also included to control for firm-specific performance variations (Capron et al., 2001).

A multivariate regression model was used to assess the interaction effect of fee contracts and buyers' experience on transaction premiums. Given that CAR calculated as the transaction premium was employed as the dependent variable in the regression model, contracts and buyers' experience were implemented as dummy independent variables with the combination of the two serving as an interaction term. This interaction term represented the alliance effect of property transactions.

Given that hotel characteristics can affect stock price movements (Kim & Canina, 2013), hotel scale, price per room, and the relative size of the transactions were controlled for in the model. Firm-level variables (e.g., seller profit margins) were also included to control for firm-specific performance variations (Capron et al., 2001). Robust standard errors, standard errors clustered by sellers, and the year fixed effect were implemented to control for heteroscedasticity and different economic conditions over time, respectively.

Table 1.
AR and CAR.

Premium	Day	*M*	*t* Statistics
AR	−5	0.0016*	1.4519
	−4	0.0025**	2.1295
	−3	0.0005	0.4233
	−2	0.0016	1.1290
	−1	0.0018	1.1543
	0	0.0004	0.2738
	1	−0.0017*	−1.3627
	2	−0.0014	−1.2141
	3	0.0018	1.4321
	4	0.0005	0.4389
	5	0.0010	0.8317
CAR		0.0088**	1.9437

Note. AR = abnormal returns; CAR = cumulative abnormal return.
*$p < .10$. **$p < .05$.

Model 1:

$$\begin{aligned} CAR_i = {} & \alpha + \beta_1 Contract_i + \beta_2 Experience(1)_1 + \\ & \beta_3 Contract_i \times Experience(1)_i + \\ & \beta_4 Hotel\ Scales_i + \beta_5 Price\ per\ Room_i + \\ & \beta_6 Relative\ Size_i + \beta_7 Margin_i + \\ & \beta_8 Market\ Value_i + year - fixed\ effect + \varepsilon_i \end{aligned} \quad (3)$$

where i refers to the property transaction.

Results and Discussion

Table 1 presented the AR of each day in the event period (±5) as well as the CAR. As anticipated, the adjustment of stock prices relative to transaction announcements was dispersed throughout the event period. Table 2 provided a summary of variable statistics for the entire sample. The dependent variable (CARs) was found to have a positive and significant mean of 0.88% ($t = 0.0516$, $p < .05$), indicating that the transactions created positive value for sellers. All independent and control variables in the model were significantly different from zero (Table 2). Pairwise correlations and the variance inflation factor (VIF) were also examined to determine multicollinearity (Table 3). As all variables in the model showed a VIF below 10, multicollinearity was not an issue.

Among transactions with contracts, average CARs were positive for transactions made by experienced buyers (Table 4), indicating a positive joint effect of contracts and buyers' experience on the transaction premium. However, no-contract transactions involving generalists had the highest CARs among the four groups (Table 4), but the difference was insignificant at the .05 level when control variables were included (Table 5). Interestingly, the direct effect of buyers' experience was found to have a negative effect on CAR, which can potentially be explained by the nuanced effect of experienced buyers' bargaining power. When buyers had experience in hotel property investment, they may be able to evaluate the target hotel more accurately than buyers without experience in hotel investments; therefore, they can potentially extract more value from transactions and leave less value for sellers (Coff, 1999; Laamanen, 2007). Although the specific implications of this finding were beyond the scope of the present study, it represented a promising avenue for future research.

The results of the multivariate analysis showed that the coefficient of the interaction term between contracts and buyers' experience was positive and statistically significant (Table 5). To verify the experience variable's validity and reliability, robustness tests were conducted. First, both Model 1 (main experience definition) and Model 2 (strict experience definition) showed qualitatively equivalent results. In both models, the interaction terms between contracts and buyers' experience were significant. The results indicated that buyers' experience had a positive and significant moderating effect. Model 3 also showed that the interaction between contracts and buyers' experience had a significant effect on transaction premium ($t = 2.85$, $p = .0191$), confirming the results based on the main experience variable (Table 5). The ordered experience variable showed no significant direct effect on transaction premium as a whole ($F = 3.56$, $p = .0728$), but buyers with either hotel or REIT backgrounds (Experience [3 – 1]) showed a negative effect on transaction premium ($F = 8.13$, $p = .0191$), compared with the base group of buyers with no experience. This finding suggested that the effect of buyers' experience may not be linear.

To show the direct effect of buyers' experience on contracts, an additional stratified test of the Experience (1) variable was performed (Table 6). To answer the research question regarding the moderating effect of buyers' investment experience on contract transaction premium, the effect of contracts involving specialist buyers had to be compared with the effect of those involving generalist buyers. Subgroup 1 included transactions with specialist buyers (Experience [1] = 1), and Subgroup 2 included those with generalist buyers (Experience [1] = 0). The coefficient of the contract clearly showed a difference between the two groups (Table 6). The effect of the contract was positive and significant with specialist buyers (coefficient = 0.0386, $p = .004$) but did not reach significance with generalist buyers.

The results indicated that bundling contracts with transactions was worth more to sellers when buyers had experience in hotel operations or hotel investments. This outcome supported the positive moderating effect of buyers' experience on transaction premiums for sellers.

Table 2.
Summary Statistics.

Variable	Observation	*M*	*SD*	Minimum	Maximum
CAR	133	0.0088**	0.0516	−0.2049	0.2134
Contract	133	0.8647***	0.3433	0	1
Experience (1)	133	0.6767***	0.4695	0	1
Hotel scales	133	3.6842***	1.0757	1	5
Price per room (US$M/room)	102	0.2699***	0.2631	0.0132	1.3800
Relative size (US$)	103	0.0229***	0.0756	0.0009	0.7542
Profit margin	133	0.0912***	0.0982	−0.3444	0.3008
Market value (US$B)	133	11.5403***	8.7852	0.0740	48.7406

Note. Number of observations may vary according to data availability. Hotel scale: 5 for luxury, 4 for upper-upscale, 3 for upscale and timeshare, 2 for upper-midscale, and 1 for midscale hotels and others. Price per room: transaction value per room (millions dollars/room). Relative size: the ratio of the transaction value to the sellers' market value of equity. Profit margin: Sellers' profit margin at the year of the transaction. Market value: Sellers' market capitalization at the year of the transaction (billions of dollars). CAR = cumulative abnormal return.
$^{**}p < .05$. $^{***}p < .01$.

Table 3.
Pairwise Correlation Matrix and VIF.

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) CAR	1.0000							
(2) Contract	−.2012**	1.0000						
(3) Experience (1)	−.0888	.1964**	1.0000					
(4) Hotel scale	.0772	.1911**	.1413	1.0000				
(5) Price per room	.0201	.0542	−.0619	.5761***	1.0000			
(6) Relative size	−.0252	−.0567	.0259	.1000	.2082**	1.0000		
(7) Profit margin	−.0087	.1462*	.0166	.1663*	.13468	−.5072***	1.0000	
(8) Market value	−.1613*	.2549***	.00822	.2871***	.2238**	−.2126**	.4875***	1.0000
VIF		3.25	9.59	2.95	2.24	2.40	3.33	2.43

Note. VIF = variance inflation factor; CAR = cumulative abnormal return.
$^{*}p < .10$. $^{**}p < .05$. $^{***}p < .01$.

Table 4.
Mean CAR by Segmentation.

Mean CAR	Contract = 1	Contract = 0
Buyer experience = 1 (Experience [1])	*M* = 0.0063 *SD* = 0.0534 Obs. = 82	*M* = −0.0008 *SD* = 0.0252 Obs. = 8
Buyer experience = 0 (Generalist)	*M* = 0.0008 *SD* = 0.0336 Obs. = 33	*M* = 0.0637 *SD* = 0.0718 Obs. = 10

Note. Total number of observations is 133. Contract: 1 if the transaction had a franchise agreement, and/or a management contract; in all other cases, 0. Experience (1) variable valued at 1 if buyers were in SIC 7011, SIC 6798, or had a hotel investment division; otherwise, 0. CAR = cumulative abnormal return; SIC = Standard Industrial Classification.

Conclusion

The results of the present study provided evidence to substantiate the efficacy of hotel firms divesting their assets. Positive market reactions (i.e., positive CARs) indicated that property transactions created shareholder wealth. In accordance with the proposed hypothesis, the interaction term between contracts and buyers' experience positively affected CARs, suggesting that specialist buyers could increase the value of contracts for sellers.

The theoretical contribution of the results was twofold. First, the measurement of premiums at the property level confirmed that hotel transactions create positive value for sellers. This finding addressed the gap in the existing asset-light literature, which was primarily based on corporate-level aggregated data. Second, the present study proposed and confirmed that hotel property transactions bundled with franchise or management contracts were analogous to a strategic alliance relationship. Buyers' experience positively moderated the relationship between contracts and the transaction premiums for sellers, supporting the alliance effect between sellers and buyers in hotel property transactions involving public hotel companies.

Table 5.
Multivariate Regression Results.

Dep. Variable: CAR Buyer Experience Variables	Model 1 Experience (1)	Model 2 Experience (2)	Model 3 Experience (3)
Variables	Coefficient	Coefficient	Coefficient
Contract	−0.0860* (0.044)	−0.0878 (0.048)	−0.0881 (0.048)
Experience (1)	−0.1150** (0.043)		
Experience (2)		−0.1150** (0.043)	
Experience (3 – 1)			−0.1146** (0.043)
Experience (3 – 2)			−0.0015 (0.015)
Contract × Exp (1)	0.1154** (0.037)		
Contract × Exp (2)		0.1187** (0.043)	
Contract × Exp (3 – 1)			0.1222** (0.041)
Hotel scales	0.0058 (0.008)	0.0054 (0.043)	0.0059 (0.008)
Price per room	−0.0008 (0.019)	0.0008 (0.017)	0.0012 (0.017)
Relative size	0.0899 (0.097)	0.0844 (0.096)	0.0697 (0.103)
Profit margin	0.1450 (0.088)	0.1387 (0.089)	0.1355 (0.089)
Market value	−0.0011 (0.001)	−0.0011 (0.007)	−0.0012 (0.001)
Constant	0.0563 (0.042)	0.0571 (0.043)	0.0589 (0.011)
Year fixed effect	Yes	Yes	
Observations	102	102	102
R^2	.3605	.3610	.3632

Note. Robust *SE* is in parenthesis. Experience (1) variable valued at 1 if buyers were in SIC 7011, SIC 6798, or had a hotel investment division: otherwise, 0. Experience (2) variable valued at 1 when buyers were in SIC 7011 or SIC 6798: otherwise, 0. Experience (3 – 2) indicated the buyer teams consisted of both hotels and REITs, and Experience (3 – 1) indicated the buyer teams only in one of the industries. CAR = cumulative abnormal return; REITs = real estate investment trusts; SIC = Standard Industrial Classification.
$^{*}p < .10$. $^{**}p < .05$. $^{***}p < .01$.

These findings also had practical implications, particularly for financial decision makers, as they supported the importance of buyer selection in property transactions using contracts. Specifically, the joint effect of contracts and buyers' experience in hotel property management indicated that buyers' experience in hotel operations or hotel investments affects the value of future cash flows to the seller/operator. Thus, in such contexts, sellers should carefully select buyers as the contract attached to the transaction constituted an alliance relationship between the two parties. Likewise, hotel companies selling their properties to generalist buyers who lack experience in the hotel industry should avoid contracts and focus on maximizing the current sale price of the property.

Although the present study contributed to the hospitality literature both theoretically and practically, there were some limitations. First, the sample was limited to public hotel companies in the United States. The results may thus have to be adjusted for private companies and/or hotels in other countries due to differences in local regulations and industry dynamics. However, the results should not affect the results' validity as the hypothesis was supported by the theoretical framework, and key property value determinants were controlled for in the analysis. The hypothesis was also tested using three versions of the buyers' experience variable with consistent results.

The analysis also revealed potential avenues for future research. The negative effect of the experience variable

Table 6.
Experience Subgroup Regression Results.

Dep. Variable: CAR	Experience (1)	Generalist
Buyer Experience Variables	Coefficient	Coefficient
Contract	0.0386***	−0.0054
	(0.010)	(0.006)
Hotel scales	0.0045	−0.0099
	(0.008)	(0.019)
Price per room	0.0054	0.0237
	(0.023)	(0.039)
Relative size	0.3031***	−1.0196
	(0.063)	(1.012)
Profit margin	0.4159***	−0.1729
	(0.103)	(0.132)
Market value	−0.0002	0.0017
	(0.000)	(0.002)
Constant	−0.0888**	0.2472**
	(0.032)	(0.111)
Year fixed effect	Yes	Yes
Observations	71	31
R^2	.4658	.7908

Note. Robust *SE* is in parenthesis. CAR = cumulative abnormal return; REITs = real estate investment trusts.
*$p < .10$. **$p < .05$. ***$p < .01$.

signaled that specialist buyers might extract value from the sellers in certain contexts. It would therefore be worthwhile to investigate the overall value of the buyer and seller as a unit. The ordered categorical experience variable also hinted that the effect of buyers' experience could be nonlinear. Future investigations on these topics could shed light on the nature of the strategic alliance between buyers and sellers in property transactions bundled with franchise and/or management contracts.

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