Why the Asset-light Model has Prevailed in Hotels for Most Major Hotel Brands

The asset-light model is built on a simple equation: major hotel brands grant investors the right to operate under their name in return for fees, while investors commit their time, effort, and financial resources to managing hotel operations. In exchange, these investors gain access to the brand's extensive customer base, loyalty programs, and potentially lucrative returns—both from (1) cash flow generated by an operator's business and (2) the increasing value of the real estate.

While the asset-light model has proven highly effective for major hotel brands, it is not without its challenges. Investors and operators must weigh the benefits and potential risks before entering long-term agreements. Nonetheless, it has proven highly successful for leading hotel chains since its inception by Marriott in 1993, and there are no indications of its decline.

Major hotel analysts highlight the clear advantages for hotel brands, emphasizing that this model alleviates capital constraints on expansion. They also note that investors and the stock market prefer companies less reliant on capital for growth.

Advantages of the model

One of the biggest advantages of asset-light expansion is capital efficiency. By divesting real estate holdings, hotel brands free up resources to focus on brand development, guest experience, and operational growth. This strategy has allowed companies like Accor, Marriott, Hilton, and Hyatt to expand rapidly while minimizing financial exposure.

Continuing, these experts state that by embracing this strategy, hotel brands have sold hundreds of millions of dollars in real estate assets while largely avoiding ongoing debt or equity investments. Following their opinions, they maintain substantial control and revenue flow without the risks tied to major capital expenditures. This shift has enabled several companies to become global giants. Imagine how many more brands would have been forced into hardship or bankruptcy just three years ago due to COVID-19.

Additionally, asset-light structures reduce debt obligations and mitigate market volatility risks caused by events such as COVID-19, war—like the conflict in Ukraine—or a recession. With steady revenue from franchise and management fees, hotel brands remain financially resilient even during economic downturns. Investors also benefit from rising property values, with hotel real estate globally has increased approximately 20% to 25% over the past five to six years, according to JLL's Zach Demuth.

Another key advantage is scalability. Without the burden of property ownership, brands can quickly enter new markets, especially in high-demand urban centers and emerging travel destinations. This model also enables greater flexibility in forming strategic partnerships and acquiring management contracts across diverse hotel segments.

Challenges and risks

Despite these benefits, asset-light strategies come with trade-offs. The most notable challenge is control over operations. Since brands do not own the properties they manage, they must rely on third-party owners to uphold service standards. Any failure in operations can directly impact guest satisfaction and brand reputation. There are many stories of brands witnessing service standards being overlooked or entirely neglected in favour of profit. When franchises attempted to enforce their legal rights to retain the flag, in some cases, they faced resistance from operators who prioritised short-term gains over long-term brand integrity.

Additionally, revenue streams are dependent on third-party performance. While brands earn consistent fees, the financial success of a hotel ultimately depends on occupancy rates, market conditions, and the owner's investment in upkeep. Misaligned priorities between owners and brands can create friction, particularly in long-term management agreements that often span 20 to 80 years.

Stakeholder complexity is another factor. The typical U.S. hotel involves multiple parties—real estate owners, operators, asset managers, and franchisees—each with distinct objectives. Balancing these relationships requires careful negotiation and clear contractual terms.

Luxury hotels face unique challenges under asset-light structures. High-end brands like Four Seasons and Ritz Carlton must maintain exclusivity and service excellence, which can be difficult when ownership is decentralized. While the trend is shifting, major hotel groups often retain direct control over their most prestigious properties with a small ownership to preserve brand integrity.

The future of the asset-light model

As global hotel chains continue to embrace asset-light strategies, more investors may follow suit. Increased flexibility in agreements, brand-led support structures, and emerging opportunities in the luxury segment make this model increasingly appealing.

Industry data further reinforces its viability. STR reports an 8.1% increase in revenue per available room (RevPAR) and a 13.6% rise in average daily rates (ADR) in 2022 compared to pre-pandemic levels. Moreover, hotel investments remain competitive within the broader real estate sector, with third-quarter 2023 cap rates averaging 8%, according to CBRE.

Ultimately, each investor must determine whether asset-light partnerships align with their financial goals. For those hesitant to commit directly, an alternative exists: investing in publicly traded hotel chains. A hotel management company must still assess whether this strategy works in every situation, as history has shown that it does not always succeed.

After all, if you can’t beat them, joining them remains a timeless strategy.