ASSET-HEAVY OR ASSET-LIGHT? FINANCIAL PERFORMANCE IMPLICATIONS IN THE LUXURY HOTEL INDUSTRY

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Abstract:
The goal of this paper is to investigate the financial performance implications of asset-heavy versus asset-light strategies in the luxury hotel segment, focusing on a post-COVID market environment. With luxury hotels traditionally emphasizing physical infrastructure and brand alignment, the choice between owning and leasing assets has become increasingly significant, especially in a turbulent economic environment. Asset-light models, pioneered by global players like Marriott, promote flexibility, faster expansion, and capital efficiency, while asset-heavy models offer greater control and long-term value creation. Based on a dataset of 64 Serbian four- and five-star hotels, this study analyzes financial data from 2022 to 2024 with 192 units of observation. Key financial indicators such as net margin, gross margin, ROA, and ROE were used to assess performance. The results indicate that asset-light hotels tend to show higher average profitability and return on equity, though median values suggest modest returns across both models. The findings support the argument that asset-light models can enhance financial flexibility and efficiency in uncertain economic conditions, but may also come with limitations.

Keywords:
COVID-19, financial indicators, profitability, capital efficiency.

INTRODUCTION

Over the past decade there have been many profound structural changes in the hospitality industry including the COVID-19 pandemic, increased competition, digital transformation, as well as implementation of various capital allocation strategies (Peng, Zhu, Lee, & Zhou, 2024), (Ben Youssef, Redzepagic, & Zeqiri, 2022). For most hotels, fixed assets, or physical infrastructure, are among the main value drivers of the business. In most cases, guest expectations, satisfaction, and the overall experience of staying in a particular hotel will be higher if hotel management pays attention to the building quality, layout, amenities, the infrastructure appearance and quality in general (Mekafiye Foluke, 2024). Luxury hotels are even more expected to deliver high-quality and modern physical infrastructure. However, hotel management must make a strategic choice in this sector regarding whether to adopt an asset-heavy or asset-light model of financing fixed assets or physical infrastructure of the hotel. Namely, asset-heavy model is characterized by the actual ownership of real estate and physical infrastructure by the business entity (or its owners).

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This means that entering this sector is highly capital intensive, particularly when opening a luxury hotel, which is typically located in prime urban areas and often incorporates historical architectural elements. On the other hand, an asset-light model assumes that a hotel primarily operates under lease, management, or franchise agreements with minimal ownership of fixed assets. It can be presumed that luxury hotels would resource to the first strategy, asset-heavy models, however, this is not always the case. Although the idea first emerged in 1980s, Marriott, one of the most well-known hotel chains, pioneered the industry's shift toward asset-light strategies in the early 1990s (Writer, 2018). Soon after, other brands such as Hyatt, Starwood, Wyndham Worldwide, and InterContinental Hotels Group also accepted the asset-light strategy (Nielson, 2014). The dilemma over which strategy is superior intensified during the COVID-19 pandemic, which resulted in lower cash flows in most industries, particularly in the hotel industry, and highlighted the importance of financial flexibility and capital efficiency. Asset-heavy models traditionally allow for greater control over property development, long-term capital appreciation, and operational alignment with brand values. On the other hand, these models require significant initial capital, expose hotels to property market volatility, and can lead to higher financial leverage. The main benefits of asset-light models are rapid expansion, lower capital intensity, and improved return on assets (ROA). Nevertheless, these models lead to revenue sharing, contractual dependencies, and a potential lack of cooperation between owners and operators. The post-pandemic environment is characterized by rising interest rates, inflationary pressures, and evolving tourism demand. Therefore, the strategic choice between these models has become increasingly critical, especially for luxury hotels where both capital requirements and brand standards are high. The main question is: Do hotels that have adopted an asset-light strategy exibit better financial performance than those with an asset-heavy model? This study addresses this question by conducting a comparative analysis of asset-heavy and asset-light luxury hotels, using a dataset of 64 Serbian luxury hotels and their financial statements for the 2024 reporting period. Specifically, it examines how differences in asset structure correlate with key financial performance indicators such as profitability, liquidity, and leverage now that the pandemic has subsided. The paper is organized as follows: the next section provides more insight into existing literature related to the implementation of the asset-light model and performance of the observed hotels, its impact on company value and returns, as well as impact of the COVID pandemic. The second section will explain research methodology used in this research and display main findings. The paper concludes with final remarks and recommendations for future research.

LITERATURE REVIEW

Empirical research indicates that strategic decision-making significantly affects financial outcomes, organizational resilience during times of crisis, and adaptability in post-pandemic market environments. Leading luxury hotel brands such asMarriott illustrate the shift toward asset-light models, highlighting the advantages of reducing property ownership in favor of emphasizing brand management and streamlined operations (Low, Das, & Piffaretti, 2015). It has been proved that hotels that maintain more assets tend to have higher fixed costs, and face greater exposure to economic shocks (Sohn, Tang, & Yang, 2013). Namely, shifting from asset ownershipto leasing or franchising can enhance resilience and flexibility without necessarily sacrificing returns. The notion that investing in assets other than fixed assets can increase firm value has been confirmed by a study analyzing hotels across Asia from 2013 to 2023 (Aslam & Nasir, 2024). Notably, cultural factors also influence asset strategies, with Asian managers often retaining fixed assets, in contrast to European practices, providing insights for markets such as Pakistan.

Conversely, some research finds no significant financial benefits from asset-light models. For instance, authors Marklin &Bianchi (2021) examined U.S. public hotels from1970 to 2018 and found that adopting an asset-light model has no statistically significant effect on returns, risk-adjusted performance (Sharpe ratio), or return volatility. Furthermore, the authors suggest that the lack of impact may be due to agency problems, transaction costs, and the complexity introduced by separating ownership and management, which could offset the advantages of lightening balance sheets. Similar results were obtained in a research that analyzed 16 years of financial data from six major U.S. hotel corporations, finding no significant impact on key financial indicators like share returns, EBITDA, or ROE (Blal & Bianchi, 2019). The authors argue that the model's effectiveness depends on specific strategic and organizational contexts, urging scholars and practitioners to critically examine when and how the asset-light approach should be applied, rather than treating it as a one-size-fits-all solution.

The relationship between the asset-light strategy and capital structure in the hospitality industry has also been a subject of research. The study that analyzed 982 firm-year observations from 2002 to 2016 revealed that the asset-light strategy is widely adopted. While it is positively associated with long-term debt in restaurant firms, this relationship does not hold in the hotel sector, highlighting industry-specific effects on leverage decisions (Li & Singal, 2019). Regarding investors and the stock exchange, it might be expected that asset-light hotels are more favored. However, research conducted by authors Low, Das, & Piffaretti (2015) showed that asset-heavy hotels are preferred over asset-light stocks. In addition, the results indicated that asset-light hotels can be volatile and therefore can bear higher risks for investors.

Finally, bearing in mind that this paper addresses data from the post-COVID period, studies focusing on the pandemic and its effect on financial performance of hotels have been reviewed as well. A study by Poretti & Yoonjoung Heo (2021)confirmed that international hospitality entities following an asset-light strategy with low operating leverage experienced less negative stock market reactions to the World Health Organization's COVID-19 pandemic announcement, as investors initially overestimated risks for asset-heavy firms due to uncertainty. However, this difference in market response disappeared after a few days as investors adjusted their expectations, highlighting the role of cost structure in reducing information uncertainty during crises. Recent research highlights the differentiated impact of COVID-19 on hotel industry performance across regions and business models. A study focusing on major global hotel corporations revealed that asset-light hotels showed greater financial resilience and quicker recovery post-COVID compared to other hotels (Radivojevic, Dimovski, & Mitić, 2023). These results underscore the strategic advances of operational flexibility in crisis management. These findings emphasize the evolving importance of asset structure in navigating unforeseen disruptions and crisis in the hospitality sector.

RESEARCH METHODOLOGY AND RESULTS

In order to provide answers to the question raised in the Introduction, the research was conductedusing a sample of 64 luxury hotels in Serbia, classified as four- and five-star establishments. The observation period covers a three-year period, from 2022 to 2024, considered as the post-pandemic phase, meaning that the financial results of these hotels are no longer directly affected by COVID-19 disruptions. Financial statements were sourced from the Serbian Business Registers Agency (SBRA), with hotels selected according to their official registration numbers to ensure consistency across the examined years. The same hotels were observed through this period. The identification of luxury hotels was supported by listings on Booking.com, a widely used global accommodation platform. Only four- and five-star hotels were considered, since other types of lodging are not legally required to register as business entities and, consequently, do not provide publicly available financial reports. Within the final sample, the majority of hotels are rated four stars, while roughly one-quarter fall into the five-star category.

Based on the collected data the following financial indicators were calculated:

$$Fixed\ Asset\ Ratio = \frac{Net\ Fixed\ Assets}{Total\ Assets}$$

$$Net\ Margin = \frac{Neto\ Income - Net\ Loss}{Total\ Revenue}$$

$$Gross\ Margin = \frac{Operating\ Profit - Operating\ Loss}{Total\ Revenue}$$

$$Return\ on\ Assets\ (ROA) = \frac{Operating\ Profit - Operating\ Loss}{Total\ Assets}$$

$$Return\ on\ Equity\ (ROE) = \frac{Neto\ Income - Net\ Loss}{Total\ Equity}$$

For the purpose of the analysis, hotels were divided into two groups. All hotels with Fixed asset ratio below 0.6 were included in the first group of hotels (0), and remaining hotels were marked as asset-heavy hotels (1). A 60% cutoff for fixed assets relative to total assets can be justified as it reflects a clear dominance of physical assets on the balance sheet, signaling that the business model is genuinely asset-heavy rather than mixed. This conservative threshold minimizes misclassification, ensuring that only hotels with a strong capital-intensive structure are categorized as asset-heavy, while others fall into the asset-light or hybrid group. The table below shows this classification, and it can be observed that in all reporting periods asset-heavy hotels dominated the sample with over 65% share.

Tables 1. Asset-Light vs. Asset-Heavy Hotels – Classification and Financial Performance, 2022–2024

Reporting period	Asset-light (0)	Asset heavy (1)	Net margin	Gross margin	ROA	ROE
2022	18 (28%)	46 (72%)	0.10901038	-0.1281714	0.05422354	0.19137932
2023	22 (34%)	42 (66%)	0.68236731	-0.54410493	0.04701429	0.17545421
2024	21 (33%)	43(67%)	0.29141919	-0.18107576	0.03950846	0.06344137

Source: Authors' data

It is interesting to note that net margin recovered in the post-COVID period, while ROA decreased. Namely, in 2022 and early 2023, these hotels may have experienceda rebound in revenues after pandemic restrictions, but by 2024 demand may have normalized while operating costs (energy, wages, inflationary pressures) remainedhigh, reducing net returns relative to assets. The following table presents the descriptive statistics of the observed variables, considering the two groups of hotels.

Tables 2. Comparison of financial indicators and variable Asset-light and Asset-heavy hotels

	Asset-light / Asset-heavy	Net margin	Gross margin	ROA	ROE
Average	0 = asset-light	0.499427	-0.30768	0.073043	0.391816
	1 = asset-heavy	0.296442	-0.27363	0.034749	0.027762
Median	0 = asset-light	-0.02546	0.039435	0.045289	0.087912
	1 = asset-heavy	-0.07414	0.110579	0.039897	0.035199

Source: Authors' data

From the table above it can be noticed that the average net margin is substantially higher for asset-light hotels, compared to asset-heavy hotels. However, the median net margin is negative for both groups, which suggests that the high average is influenced by a few strong performers (outliers). This means that hotels that invest less in fixed assets achieve higher profitability. When it comes to gross margin, the results are counterintuitive: asset-light hotels show a negative average gross margin, and while asset-heavy hotels are also negative, they are slightly less negative in comparison. Median values show the same trend, asset-heavy hotels have a higher positive median gross margin compared to asset-light hotels.

Regarding ROA, both strategies have similar median, but the average is significantly higher for asset-light hotels. This suggests that asset-light hotels utilize their assets more efficiently in generating returns. Furthermore, the results show a large gap in the average values of ROE: asset-light 0.392 vs. asset-heavy 0.028. However, the median values are much closer, similar to the ROA values. A possible explanation for these results is that some asset-light hotels may be heavily leveraged, leading to higher equity returns, but the majority of hotels in both categories achieve modest ROE. In order to provide more insight into relation between the observed variables, Pearson correlation has been applied, the following table shows the results.

Table 3. Results of correlation analysis between Asset heavy/light hotels and remaining indicators

	Asset heavy/light	Net margin	Gross margin	ROA	ROE
Asset heavy/light	1				
Net margin	-0.031396177	1			
Gross margin	0.006473107	-0.971722788	1		
ROA	-0.11348593	-0.128363224	0.162224796	1	
ROE	-0.197342183	-0.06999044	0.046366155	0.273318	1

Source: Authors' data

All correlations in the table appear to be fairly weak, indicating no strong linear relationships between the fixed asset strategy (asset-heavy vs. asset-light) and the financial performance indicators. This is not unexpected, given that hotel profitability is influenced by numerous operational, managerial, and market-driven factors beyond the asset structure alone. Nevertheless, some relationships warrant discussion. Notably, the negative correlations between the asset-heavy/light variable and both ROA and ROE tentatively support the idea that asset-light hotels may be more efficient at generating returns, which aligns with the trends observed in Table 1.

Additionally, a surprising inverse correlation is found between net margin and gross margin, despite conventional expectations that these metrics would move in the same direction. This may suggest that, although many hotels are able to achieve a satisfactory gross margin, their net results are substantially reduced—potentially due to high financial costs (interest expense), or other expenditures unrelated to core business activities.

CONCLUSIONS

This study examined the financial implications of asset-heavy and asset-light models in Serbia's luxury hotel sector during the post-COVID period. Using financial data from 64 four- and five-star hotels between 2022 and 2024, the results suggest that asset-light hotels tend to achieve higher average profitability and returns, particularly in terms of ROE and ROA. However, the median values across both models reveal that most hotels operate with modest outcomes, while only a few strong performers drive the averages. A notable finding is the inconsistent relationship between gross and net margins, which may point to the burden of financial costs and other non-operating expenses in the Serbian hotel sector. This highlights the need for hoteliers and policy-makers to carefully evaluate financing structures when considering expansion or modernization strategies. The key takeaway is that asset-light strategies can offer greater flexibility and efficiency, but their benefits are not uniform. Asset-heavy ownership still provides long-term control over property and brand standards, which may be strategically important in markets like Serbia where reputation and infrastructure play a central role in attracting high-end tourists. This research contributes by providing one of the first empirical post-COVID analyses of asset structures in the Serbian luxury hotel market. Nevertheless, limitations should be acknowledged: the study is based on a relatively small sample, relies on descriptive and correlation analysis, and does not control external factors such as location, size, or chain affiliation. Future research could expand the geographic scope to the wider Central and Eastern European region, apply more advanced statistical techniques, and incorporate qualitative insights from hotel managers.

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