

WORDS | Geoff Hadwick

# Being more hospitable

The future of the overseas property industry is going to be more and more closely aligned with the hotel and hospitality sector. Resort developments, residence clubs and fractional villas in the hotel gardens are all here to stay. Buyers like the luxury, the facilities, the returns and the reassurance that professional hotel management can offer. OPP talks to the Hotel Solutions Partnership to find out what the experts think.



If you add up the work experience of the five hotel experts that OPP sat down to chew the fat with last month, it comes to a staggering 100-years-plus of time spent helping to run the global hospitality industry.

If anyone is going to be able to know what is on the menu for this growing overseas property opportunity, it has to be the consultants of The Hotel Solutions Partnership Ltd (THSP) ([www.hotelsolutionspartnership.com](http://www.hotelsolutionspartnership.com))

The group is led by THSP principal Ian Graham and, on the day OPP visited, it included associates Katrina Craig, Miguel Ruano, Doreen Boulding and Duncan MacArthur. It was a rare opportunity to ask a genuine hotels and resorts business "brains trust" what they think is happening out there ... and what is coming next.

**OPP: What are the key components of a successful mixed use hotel and residential property resort?**

**KC:** It very much depends on two things ... one, where the destination is located and two, the scale of the various components. For example, if it is a seaside destination and you are going to need to attract people to come in the winter as well as in the summer, you are going to have to look at something that works in the off-season such as conferencing or a spa. It also depends very much on the target market too. If it is going to be a family-friendly resort you will need to put a lot of emphasis on leisure and entertainment.

**MR:** Yes, there is a lot of interest in these so-called 'integrated' or 'mixed-use' resorts but there can be operational

challenges on site. Some developers and owners do not like having to pay for the services on offer because the hotel is not part of their core business. You have got to get it right ... an all-

inclusive family resort is not going to attract the sort of clients who want to pay for a 5-star luxury service. You need to make sure that you know what you are trying to do ... and where and why from early on in the project. If you plan properly, working with the hotel industry is a land of opportunity as opposed to a challenge. But don't try to work it out as you go along.

**OPP: What would you say to property investors who are worried about getting involved in a development scheme from which the hotel partner later withdraws?**

**DB:** The hotel will be the central focus of the community you have created no matter what happens. The hotel will still be there. Even if it

**Miguel Ruano:**  
"working with the hotel industry is a land of opportunity"



changes brands, you have to make sure that the new brand picks up from the previous one and enhances the situation. The new operator should add value to what was previously being done.

**IG:** Yes, that is true ... and you need to make sure you are fully prepared. Your contract should anticipate a change of ownership with the hotel brand. You might also want to drive change, as markets and brands evolve. For instance, a European resort that used to do well in the 1980s and 1990s might want to refocus on say the Russian or the Indian market in the future because that is where it thinks its next generation of buyers are going to come from.

**MR:** You must not overlook the design of the hotel either. Using a local architect may not necessarily be the best option. You need someone who will say hold on, let's think about how this building will work for different clients, now and in the future. Find out what they know about your target market ... and what they know about local construction requirements before getting started. If you don't, you are likely to be playing blindfolded.

**OPP: What does it mean in practical terms when the hotel brand changes?**

**DB:** Simple. It means that you are going to have to revisit your sales and marketing strategy. Adjust it in line with the future market. So ... if Russia is going to be the target market and you don't have a sales and marketing person who can speak Russian and understand that market, employ one immediately. It is the same for selling into Japan and China as well.

**DM:** Being culturally aware generally, learning the appropriate linguistic skills and taking time to understand how people think is absolutely vital, I believe.

**DB:** Absolutely, and if you are going to bring in that new culture and assimilate it successfully at the resort, you are going to have to revisit your facilities, your food, and the attitude of your employees so that you are accommodating. You are trying to attract a new nationality of customer and make them feel at home.

**IG:** This is where a global hotel brand can be so useful. They will

understand these nuances and they will know how to respond. This is what they do and they are in this sort of business long-term. Building and operating a major new hotel development is a 50-year investment. The returns don't come overnight ... and they don't come without a lot of hard work.

**DM:** Look around our table today and you will see people with a wealth

**Doreen Boulding:  
"adjust your sales  
and marketing in  
line with the future  
market"**



of experience in different cultural environments and different market conditions. What we can bring to the table is that independent view. It can make a huge difference to the success, or otherwise, of a project. Make sure you have got advisors like us around.

**OPP: Do you think that aligning with a globally-recognised hotel brand will bring a lot of kudos to the development?**

**DB:** Yes, but it can be a double-edged sword. When the operating company changes, it can take a long time for the marketing, loyalty and distribution process to catch up. For example, when the a well-known hotel group pulled out of a central London hotel, its loyalty programme meant that half of the business went with them. It took the new brand team more or less a full year to get the revenue volumes back to where they had been.

**IG:** That's true, but I would counsel against investing on the basis of kudos. We recently worked on a project where the developer wanted a 5-star Ritz Carlton-type operator involved. We did research and found that it was more of a 3-star target market. The developer wasn't very happy to begin with, but we saved him a lot of money in the

long run. It was more of a Ramada or a Holiday Inn destination in truth.

**DM:** That is precisely why you need to do the independent research and to challenge any pre-conceptions. In the end we helped the developer in question to invest not on the basis of kudos but on the basis of empirical evidence. It's about making sure that you get the best professional team involved right at the beginning.

**MR:** And you also have to know what it is that you are researching, what questions you are asking. Not every example is a useful one. Not every question is relevant.

**DB:** Too many feasibility studies today are simply copied and pasted from Google searches.

**KC:** Our job is to find the gap in the specific market. We then research a concept around that gap irrespective of what the developer's original idea. We then find operators that are appropriate for that concept and that market. It is all about generating a set of criteria and looking at how to set up the distribution system, the sales network, the marketing. We would also look at what sort of mixed use experience will be needed. We then ask operators to bid to run the project.

**Duncan MacArthur:  
"ensure the key  
terms are fair and  
equitable"**



**OPP: Does the hotel industry see the overseas property sector as a useful and productive partner for the future, or do they see it as a sort of necessary evil?**

**KC:** Oh no. Not a necessary evil at all. Some of the really big brands out there have been only too happy to get on the residential bandwagon and have even created sub brands for

managed residential. Some are very good at it. They do recognise the opportunity out there.

**IG:** Yes, almost all of the big brands now call themselves "XYZ Hotels and Resorts" ... they have deliberately created resort brands to position themselves correctly.

**MR:** You must never forget the hospitality companies are selling a service ... not bricks and mortar. The hotel business is people-based and you need to get the right interactive chemistry. That applies to the way in which the hotel relates to the residences as well. Always work hard to get the management team right.

**OPP: What are the key risks from the property industry's point of view?**

**MR:** Complacency. Everyone uses hotels and many people think running a hotel is easy. They think designing a hotel is easy. And it's not. Think about it: everyone uses cars but they don't all think that they can design and make a car, do they? But it is funny with hotels... Katrina and I were recently invited to advice on a newly-opened hotel project in Ireland where and the developers had openly disregarded all of the advice that they had been given before building it... and it was good advice. Today they have a huge white elephant that is losing millions of Euros a year – and they don't know what to do with it. Your biggest risk is not talking or listening to the right people with the right advice.

**DB:** Another big risk is not taking a good look at the hotel's operating budget. And don't take it at face value. This is tricky business and poorly planned hotels rarely make the numbers set out in their opening budget.

**DM:** Get the contract right and ensure the key terms are fair and equitable. Understand exactly what you want to achieve right from the outset. You need to start with the end in mind. Don't go into the negotiations thinking all of the revenue should be yours. The rental programmes and revenue splits need to be totally transparent and clear and – again – be fair and equitable. The Resort Operator or Management Company must understand and appreciate the need to work successfully with unit owners,

maintaining awareness that it has to deal with several owners – the condo purchasers and not just one traditional hotel/resort owner.

Simultaneously the management company must both work with the Property Owners Association (POA) and create a sense of community.

Work hard to make sure that there are no surprises and that everyone involved

### Katrina Craig: “set enough money aside to market and maintain the resort”



knows upfront where the project is going.

**KC:** Another risk is that in an integrated resort of several thousand acres with several different branded hotels (and maybe a branded spa, or a golf club, or a marina) that you have not set enough money aside to market the destination in a global, holistic way – and maintain it.

And by maintain it, I don't just mean the fabric of the buildings, I am also thinking about the gardens, the fittings, the general atmosphere.

There has to be somebody looking after the global positioning and all that goes with it.

**DB:** It is also important to get the right number of people involved, especially during the pre-opening phase in terms of marketing, operations and the technical side.

You have got to be looking at this a year or 18 months out ... and too many investors and operators look at that as a waste of money.

If you don't get it right, it will be a very damaging mistake. It can take years to recover your lost reputation. You have got to make sure that all of the elements work together as a team on a mixed use development.

There might be a number of different

companies on the one site but, if they all work together, they are each going to add value.

If you let them work on their own and in competition with each other, you are really in trouble.

**MR:** The big risk is not stopping to think and to plan. You cannot do this early enough.

Think carefully through everything ... even whether or not you want an option on the land.

### OPP: Is there an ideal blueprint or a dream team structure for all of this?

**KC & MR:** It is best to think of it as a process. First of all start with a consultant who is going to put together some good quality, independent feasibility research and then write a business plan.

Is the idea viable? Will it make money? You will then need an architect and/or designer; a hotel operator, a developer, a builder, and then the right marketing partner.

**MR:** Followed by a good sales agent network. Training is important here and so is incentivising the network.

You will need partners who can pitch your product well all around the world.

The brand you choose has to be delivered to the end-users well too and the property sales agencies need to feel that they are able to work like a precise rifle in finding the customers.

It is no good having a scatter-gun approach.

**DM & KC:** Keep fractional sales simple and clear. Don't over-complicate the sell.

The smaller the fraction, the more difficult it is to sell. And think about the long-term future.

Often, not enough money is put aside at the start to properly maintain the product as it gets older.

Too many developers are too reliant on pre-sales and getting in and out of the project as fast as they can.

### OPP: How should the property sector go about calculating the value that it creates in the project, and what is the best way to think about an exit strategy?

**KC:** Lots of investment funds want to exit in 5 to 7 years, which can be difficult when the majority of hotels take

at least 3 years to reach a stable profit. You have to err on the side of caution when making that end-calculation.

**IG:** Yes, and hotels are valued on a multiple of sustainable EBITDA – so the cashflow element is going to be the core of what you are going to sell. Don't think of what you have created as a building that can be used for other purposes.

A hotel typically does not have any other use and they are hard to change into something new.

The residual value can be zero and there is often no cashflow that can be associated with the land ... so the plot can have no separate value too.

**MR:** Besides, the plots that most hotels are built on have been specifically designated for hotel use.

So, even if you demolish an old building, the planners are probably going to force you to put up another hotel in its place.

**DB:** Not enough time and attention is paid by developers to the general management of the hotel. Is the suggested management team right for that hotel in that location?

### Ian Graham: “cashflow is essential and that comes from good management of revenue”



If they are, they will increase the value of what you have got to sell on exit. If they're not, they could easily smother the baby at birth.

**IG:** Yes, first and foremost remember that cashflow is essential and that comes from good management of revenue ... and whether or not they have the ability to convert that revenue into profit. Can the management leverage the brand properly?

### OPP: Are the banks and funding institutions becoming more user-

### friendly, or is it still very hard to find backing for new hotel and resort projects?

**KC:** I am working on two projects at present and, when it comes to getting funding, it is still like trying to pass a camel through the eye of a needle.

But there are some geographies that are getting support from the development banks.

They are definitely more active, but they look at different criteria to a commercial bank.

If they look at a project that is dependent on pre-sales or on clients getting local mortgages, they get nervous.

Developers now have to pre-qualify potential buyers and find a good local mortgage partner who can make quick and positive decisions. This will reassure the lenders and get funding on board.

**IG:** The days when you could gear up a project at 80% or 90% loan-to-value in the hotel world are gone forever, and we are back in the hotel world to 50/50 deals ... or maybe 60/40 at best, if you are lucky. The banks want to see good loan coverage over 3 to 7 years as well.

**KC:** The banks that I am talking to nowadays will not go further than 7.5 times EBITDA for a hotel. End of subject.

If you think you can value at a higher ratio the bank will say I am only going to loan you a multiple of 7.5 times EBITDA and you will have to raise the rest from the equity markets.

This is mainly true of Europe and North America of course. The banks in Latin America and Asia are still lending.

**MR:** There are some hotel groups that will help their property partners get funding, and there are also private equity investors out there, but your projected figures will have to be believable and your exit strategy attractive.

You will need to be convincing right from the start.

Never forget, in this business you will not be able to negotiate after the event and mistakes in the hotel world tend to be quite costly. 