

Investing in the operator



Whatever your view on where value is to be added in hotel development, the facts are that the role of the operator is paramount.

It seems to us that successful investors will invest in the people that lead and manage the brand and the operator.

A recent piece of published research concluded that investment in hotels can compare favourably with alternative investment vehicles such as pension funds. A sample of 90 hotels owned and operated under a variety of brands and with different ownerships (representing 18,500 rooms located across the U.K.) were surveyed over a period from 1992 to 2005.

Overall income yield was calculated at 13.2% p.a. and capital yield was calculated at 3.1%, making a combined yield of 16.3%. Over the same period, UK pension funds property portfolio growth averaged 12.3%. So a healthy real excess over the property funds managed by pension funds would have been obtained from ownership of these hotels in a period when inflation averaged 2.3%.

What this analysis suggests to us is that asset managers and new investors can now de-risk the hotel element of any portfolio of investments. Savvy investors or asset managers will be focused on the operating cash flows from the business as the likely sources of the majority of long term value add.

Such a focus on operating profits and cash flows may not be fashionable in a business that believes value is gained more from investing in the asset than investing in the operator, but bear with us because perhaps the two go hand-in-hand.

Successful investors will provide the operator with access to the right capital at the right time at the right cost to effect change in the hotel's product, service and, most of all, experience. This enables the brand and operator to sell to the right guest the right offer at the right price and for that guest to both return and recommend the experience

There is an unprecedented amount of money washing around the world and it has to find a home. With loans costing borrowers little more than the rate of inflation, it is hardly surprising that individuals, corporations, hedge funds, etc., should gear themselves up borrowing whatever money they can to invest in whatever asset they can, hotels included.

But, hotel developers who believe assets can be sold to investors without considering the people, branding and operational aspects of the investment are unlikely to find a party to acquire the development even at a time when there is a 'wall of money' looking for a home in the global hotel industry.

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