

'Equation is changing for upscale hotel owners and operators'

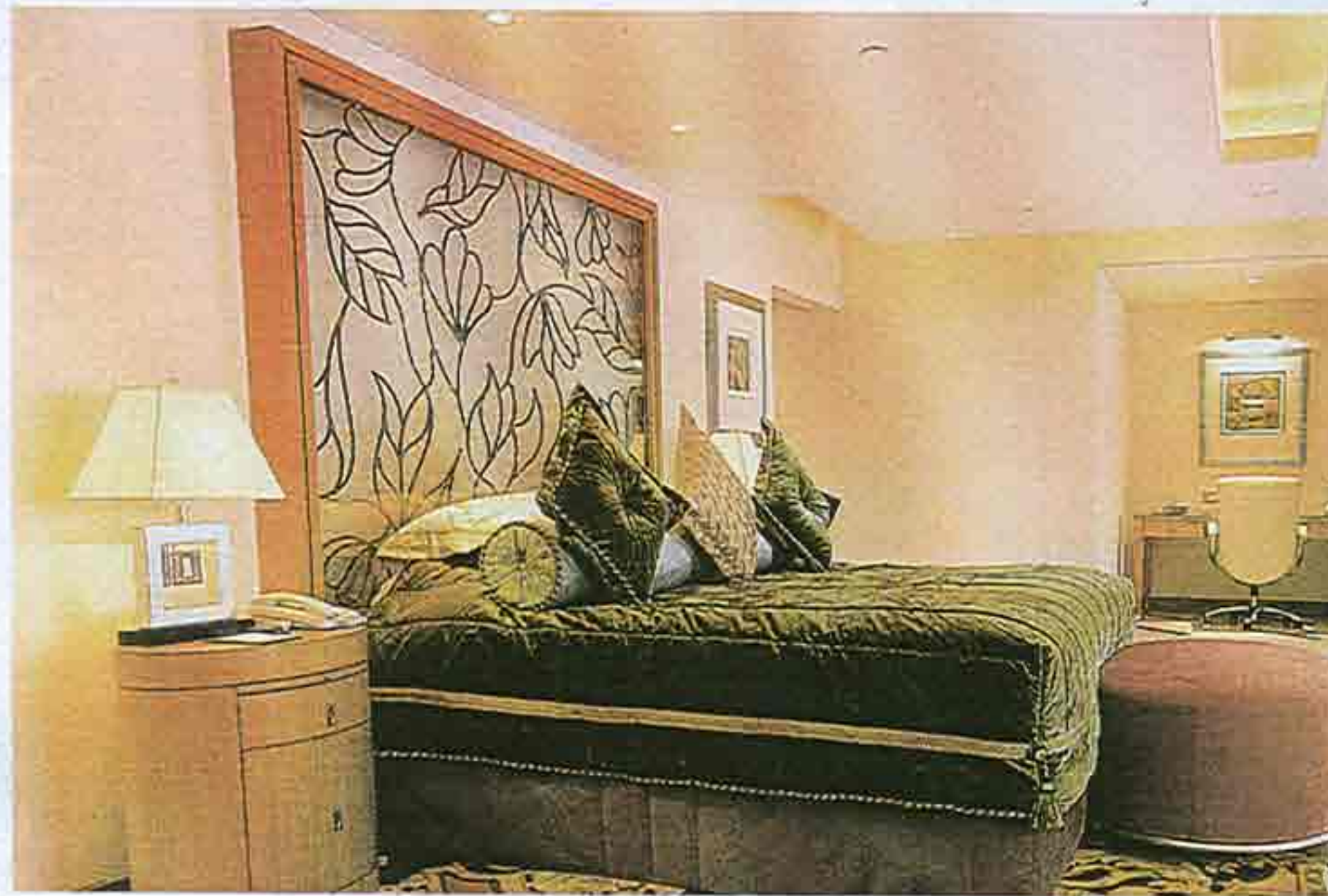
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The unprecedented development of upscale hotel properties in the Gulf combined with a search for quality brand operators is challenging the hotel market in the GCC. Whereas in the 1980s and 1990s, hotel owners and investors in the Middle East enjoyed a position of strength when negotiating management contracts with hotel operating companies, in the coming years securing a good hotel operator or finding the right brand will become increasingly difficult for owners of hotel properties in the GCC.

Middle East Strategy Advisors (MESA) recently carried out research on more than 500 existing (branded and non-branded) hotel properties and approximately 140 planned hotel projects throughout the GCC. As a result a range of key factors were identified, which will strongly influence the relationship between hotel operators and owners. Besides market supply and demand, they include: the ownership or investment structure of a property and level of branding in the upscale hotel market.

MESA's research shows a high level of private sector involvement in hotel real estate, low institutional ownership and decreasing direct public sector participation in GCC countries. Institutional and corporate owners outside the GCC often employ hotel experts or experienced asset managers to ensure the performance of their properties, a practice increasingly adopted in the region. As private owners in the region will face tougher conditions and negotiations going forward, they should also support their hotel asset management with industry expertise to maximize performance of the hotel securing a long term relationship between owner and operator.

The hotel owners should also consider the impact of hotel supply growth.



A room at The Fairmont, Dubai.

Some of the most desirable brands are no longer readily available for upscale properties. Firstly, there are only a limited number of top branded hotels and resorts, national and international operators, not present in the GCC market. Secondly, existing hotel operators often have non-compete clauses in their contracts, limiting the opening of further properties within a defined geographic area and hotel classification. In other words, Dubai or Doha can only carry so many Hiltons, Sheratons or Fairmonts.

In cases when several hotel properties with the same brand exist in a city, they compete by targeting more or less similar segments (business travellers; leisure tourists; and meeting, incentive, conference and exhibition [MICE] tourists) and dilute the profitability to their respective owners. Many operators would deny this, pointing out that the properties are exclusively business hotels or leisure resorts.

In our view the same brand strategy in one city is particularly inappropriate for any hotel brand or owner, when supply density grows. Thus, the shortage of branded operators may turn the tables in favour of hotel management companies.

Owners in high supply locations who have contracted a hotel management company should be prepared to find their operator tempted to exit the property when contracts come up for renewal. Better locations or newer hotel properties may seek to attract operators with more favourable terms and conditions.

In coming years, there will be a paradigm shift in the way hotel owners and investors interact with hotel operators. According to MESA, the industry in general and owners of hotel assets in particular need to prepare themselves for:

- Fundamental changes in the terms of management agreements
- More partnerships involving joint ventures and exclusivity agreements

WINDS OF CHANGE

According to MESA, the industry in general and owners of hotel assets in particular need to prepare themselves for:

- **Fundamental changes** in the terms of management agreements
- **More partnerships** involving Joint Ventures and exclusivity agreements
- **Arrival of brands** hitherto with little or no presence in the Middle East
- **Rise of existing brands** from the Middle East into other regions
- **Expansion into three-star, two-star and budget hotel market segments**
- **Increase in franchising** and owner operated models
- **More emphasis on professional assistance** in operator selection and the development of operating models
- **Professional asset managers** representing Middle East hotel owners and investors.

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Faced with these major trend changes in the industry, owners and investors should increasingly develop innovative operating models or identify the most suitable approach for their requirements. Asset management will ensure operating efficiency, optimization of capital performance and protection and enhancement of long-term asset value.

—THE WRITER IS SENIOR CONSULTANT WITH MESA (MIDDLE EAST STRATEGY ADVISORS), A SPECIALISED HOSPITALITY CONSULTANT FIRM

MESA'S RESEARCH FINDINGS ON HOTEL PROPERTIES

1970's to 1980's

Mainly business travel demand. Shortage of brands enabled hotel operators to dictate terms of operating agreements

1980's to 1990's

location growth caused increased competition amongst hotel operators. The table turned to the owner/investor to determine favourable contract terms

2005 and beyond

A shortage of new brands in mature markets will favour operators in negotiating contract terms. Immature markets will develop more rapidly to close the gap. They can learn from developments in mature masses