

Columnist:



Over the past few years, the Middle East has experienced an unprecedented proliferation in hotel activities which has seen the creation of some very successful hotel owning companies. The rapid increase of hotels and resorts provided the final drive in shaping the role of hotel asset management. The increased complexity of the lodging industry's structure in different countries, with its wide ranging products - from budget through mid-scale to boutique and luxury properties - requires a perspective that only asset management, unlike traditional operators, can provide. Although asset management is a fairly new concept in the Middle East, it has proven to be very successful in this fast growing environment and has allowed better alignment of the owner and operator's interests.

The Middle East lodging real estate is becoming more and more concentrated in the hands of institutional owners, real estate investment trusts and investment pools. The core business of these entities is development and acquisition, and the need for property-management expertise has fostered the growth of hotel operating companies.

Sometimes hotel owners have paid dearly for the expertise of the operating companies they helped create. The hotel management contract heavily favoured the operator, often leaving the hotel investor with no return on their investment. Operators will naturally have the tendency to overspend, to create even more lavish hotels offering more services and amenities, thus ensuring the brand's continuing acceptance in the consumer marketplace. This trend is quite tangible in the Middle East and although it helps to develop spectacular properties, the return on investment for the owner is compromised. However, with this realisation, the trend is now changing. Over the past couple of years, most hotel ownerships have acquired asset management to control the operator in order to realise their investment goals.

When the hotel ownership and operational responsibilities are separated, the owner can focus on investment returns, which in turn reduces the margin of error by the operator. As the eyes and ears of the hotel owner, asset management offers an external perspective to the hotel and acts as a bridge between asset owners and operators. The primary objective of an asset manager is to help hotel owners or investors to realise the full potential of their hotel assets through a continuous process of value creation and enhancement. This is achieved through optimising the hotel's operational, financial and capital efficiencies with the ultimate goal of maximising profits and investment returns for the owner and investor.

Asset managers provide a vast array of management oversight, analysis and support services for hotel owners. While the specific range of services provided can vary, in general, most asset managers will offer the following:

Monitoring operational performance

The asset managers regularly visit the hotel to ensure that the management team is effectively managing, marketing, and maintaining the hotel. Asset managers will meet the management team to discuss the progress on pre-established goals and objectives of the management staff. During these meetings, the hotel's monthly financial results are analysed and any significant variances from the budgeted figures and prior years of the management company are reviewed to ensure that an appropriate plan of action is developed. They also closely monitor the implementation of corrective actions. Asset managers also monitor the operating expenses making sure that effective cost-containment practices are in place; that the expenses are in line with those of comparable properties and industry standards; and that property management is maximising cash flow. For owners of more than one property, some asset management firms provide centralised accounting

Asset management vital in the Middle East



Alex Sogno graduated from Ecole Hoteliere de Lausanne Switzerland. Currently, he is VP, Asset Management at Kingdom Hotels Investment and MD of Global Asset Solution

services to the owner, allowing comparison and an overall perspective of the hospitality investment.

Reviewing budget proposals and overseeing capital expenditure

At the end of the calendar year, the asset managers participate in the development and approval of the annual sales and marketing business plan, capital improvement plan and operating budget as permitted by the terms of the management contract. The hotel owners or investors are given advice on the annual business plans proposed by the operator, including recommendations for adjustments to the plan. In addition, the asset managers review the capital expenditure budget put forth by the operator. They also determine appropriate strategies to maintain the good physical condition of the hotel, ensure its legal compliance and most importantly create incremental value.

Align interest of ownership and operator

The asset managers act as the owner's representative to ensure that the operator is in compliance with operating agreements, including full analysis of the operating agreement clauses, such as franchise and management fee payments, reporting requirements and services provided. They will meet with senior executives of the management company to establish a working relationship with corporate-level representatives responsible for the management and operation of the hotel. They also assess the strengths and weaknesses of key management staff on a continuing basis and relay this information to the ownership.

The asset manager will advise the hotel owner of any management issues and will optimise investment strategies for their assets. They will review the industry trends that may affect the hotel and project future increments in market value from holding, renovating, expansion,

or other strategic alternatives. Basically, this service will ensure that the hotel is acquired for a reasonable price; is then operated accurately during the ownership period; and is eventually sold at an appropriate time and price. Frequently, asset managers customise services to better serve the needs of the owner. Such services may include support for renovations, takeover and acquisition bids, supervision of mixed-used development and assistance for fractional ownership like sale of apartments or villas.

There exists no standard, industry-wide set of guidelines that comprehensively describes the services provided by asset managers. Neither does standard or consistent compensation exist to provide these services; even standards specifying the length of asset management contracts have not been agreed upon.

There are three general categories of asset managers: asset managers within ownership entity or affiliate; independent firms unrelated to asset ownership; and individuals that may or may not be related to the ownership entity. Although there is no gold standard in the industry, all three of these options work well as long as your asset manager remains independent and achieves the investment goals of both the owner and the investor. Today the function of asset management is an important component of the hotel industry and can provide ownership with valuable oversight, analysis and strategic planning guidance. Ownership and asset management representatives should work together to define their precise goals and determine how a win-win situation for both parties results in profit and how asset value maximisation can be achieved within the framework of these goals. Asset management is necessary to capitalise on financial performance and therefore increase asset value. The benefits are well in excess of the cost for this type of service. H