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# Whither hotel asset management?

by **Anne-Marie Auriault** 

**Initially unorganized and rudimentary, it was not until the 1960s and 70s that the hospitality industry experienced significant change and growth. The spread of franchising, third-party management contracts, and legislation resulting in the birth of REITs presented a first milestone for asset management and triggered some of the players to redefine their strategies, business models and ownership structures, specializing in core competencies. As a result, the need for hospitality asset managers continues to grow as capital owners try to maximize their ROI and ROA and reduce the industry-specific knowledge gap with operators. Anne-Marie Auriault, head of asset management for Swiss-based Eurofin, shares her perspective on where the discipline is headed.**

Recently, the nature and scope of owner expectations have changed rapidly. Traditionally, asset managers assisted with the flow of cash. Prior to 2008, hotels experienced increasing international demand and continuously growing pipelines. Context during which owners insisted on focusing heavily on cost control management. Since then, the conjunction of the financial crisis and the increasing development of hotel brands and products has accrued competition in capturing revenues. Consequently, in addition to maintaining operational margins, asset managers need to work more closely with operators to improve market share while optimizing, among others, return on marketing investment, improving RevPAR and providing greater value to customers. The recession has shaped the industry, and in their role, key players and capital owners will continue to put pressure on operators for strict cost control, personal service delivery and experience. As such, the role of the asset manager will gain importance but become more challenging.

Secondly, the development stage of a market also influences the role of the asset manager. Whereas mature markets are characterized by having experienced owners, a competitive hotel and asset management arena with limited opportunities for new hotel projects, developing markets benefit from increasing overall interest. In developing markets, owners do not necessarily possess industry-specific skills and know-how. Aware that this asymmetry weakens their negotiating power and positioning vis-à-vis operators, they seek asset managers who can counterbalance the knowledge gap with their expertise, and provide a veil for their interests – a difficult task when there are few convincing options. But the availability of

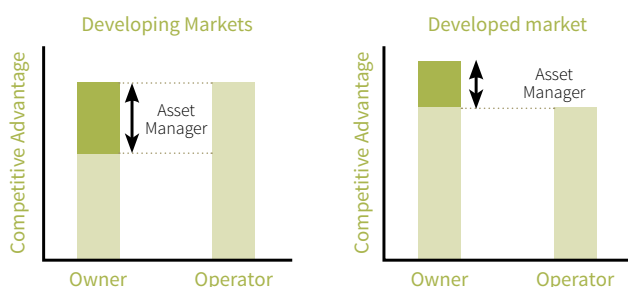
different operator/asset manager alternatives, coupled with few market opportunities, strengthens capital owners' negotiating position. Here, owners have a wider choice and look for asset managers who are able to act as catalysts to maximize the capture of value from the operator. The market characteristics and owner's experience determines the role and profile of the asset manager. In developing markets, this role will undoubtedly continue to spread, bringing confidence to the investment world, whereas in mature markets, capital owners will pressure asset managers to differentiate themselves by adding value.

Lastly, the alignment between owner and operator objectives frameworks the different stakeholders' relationships. On the one hand, asset managers are increasingly involved in daily operations – such as marketing and revenue management – as supervising the operational, financial and strategic aspects are equally important. Similarly, operators are more involved in long-term operational strategy, also influencing the real estate value of the property. On the other hand, whereas operators focus on their brand portfolio and pipeline, capital owners stress the importance of generating cash flows.

During the financial crisis, operators turned to the public marketplace (mainly REITs) to raise capital. Unlike private ownership, the asset collateral of these securities are monitored on a daily to quarterly basis to create value and generate cash return. Thus, operators must provide tangible financial results regularly. Altogether, both asset managers and operators – although they still need to be more cooperative for a more equitable win-win relationship – are becoming increasingly important for capital owners. Due to



their lack of operational expertise, the use of third-party asset management is likely to increase. But consequently, owners will require higher returns and efficiency from both a financial and an operational management perspective.



### The outlook for hotel asset management

Having discussed the recent changes within the hospitality industry and their implications in asset management from an investment perspective, can we make any inferences about what is yet to come?

It is likely that the market will experience a greater fragmentation among actors of the value chain, thereby transferring the risks and responsibilities and enabling better, and stricter, control. Accor's – a publicly listed company – recent strategic split demonstrates how a major hotel group separates its activities into two business units to better allocate resources. As companies in the hotel sector continue to grow, they will further differentiate their investment and operational activities. While – for now – asset management

is inherent for hotel companies, investment firms tend to outsource it to improve liquidity in their assets, and this trend will probably gain momentum.

Finally, the asset management competitive environment will continue to intensify, and this will require firms to differentiate themselves from one another. Already focused in real estate investments and hotel operations, will hospitality companies transform their in-house asset management workforce into a stand-alone business unit, creating a new income source and competing with external firms?

**Anne-Marie Auriault** is Senior Adviser – Head of Asset Management for Eurofin, a seasoned professional with working experience in the hospitality industry, both in strategic advisory services and operational management across Western, Central and Eastern Europe, Russia, Africa and USA. During her career, Anne-Marie acquired in-depth expertise in business development, project management and asset management, building on her already strong skills in financial and performance optimization, operational auditing, due diligence and turnaround solutions.

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