The Hotel Yearbook 2023

The Uncertainty New Normal

Will Traditional Hotel Operators Ditch Beds for Data Banks?

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Synopsis
The hotel industry has undergone significant changes in recent years with the growth of franchise models, allowing hotel companies to grow faster, but with lower returns as compared to management fees model. This shift has made the branded sector easier to value and has resulted in higher stock values and returns for hotel companies. However, as they move away from the property, they risk losing their brand standards. The role of asset managers will become critical as the operations of the hotel must happen closer to home. The move to distribution-focused tech platforms will result in a division in the sector between high-volume brands and curated, emotional brands, and the loyalty programs will have to compete more directly with online travel agencies. Hotel companies will need to work on becoming true recognizable consumer brands in the way Airbnb has, drawing on their decades of customer data and heritage.

Transition from Hotel Firm to Tech Platform Likely Would Raise Stock Values and Returns.

The hotel sector, until the past few decades, had been largely unchanged for hundreds, if not thousands of years. But the growth of models that have allowed operations to be split away from ownership has caused a shift in the industry that is still playing out.

In the branded end of the market, if you are one of the massive listed global operators, there is only one message your shareholders are delivering at the moment: growth, growth, growth. And not growth at any cost, growth at the least cost — and effort — possible.

We are currently seeing an evolution towards franchising, spreading out from the U.S. and feeding pipelines with plenty of flags over doors and plenty of profiles for the big brands. For hotel companies, there is less revenue than with a management contract but also less complex involvement. You turn on the neon sign, ensure the brand bible is handed over and then move on to the next property.

The franchise model allows hotel companies to grow faster; however, the returns are not as high as the management fees model. This has a direct impact on the valuation of these companies.

For investors, who have long been confused by hotel companies, this is an easy-to-understand model. The franchise is signed, and the reservations come in. The more franchises, the more fees. There is no involvement with the cyclical and messy world of hotel management, no hidden corporate charges and no need to fret about who is cleaning the sheets.

This sudden clarity has made the branded sector easy to value and, critically, meant that as long as growth continues, valuations grow and the board and the investors are aligned.

But as these hotel companies move away from the business of hotels, are they really hotel companies at all? Or are they just distributors, such as Airbnb or the online travel agencies?

YOU CAN SEE THE APPEAL.

These disruptors command higher valuations than the traditional hotel groups and have far higher numbers of rooms on their platforms. At the time of writing, Booking Holdings' market capitalization was $76.91 billion, Airbnb's $56.28 billion and Marriott's $50.49 billion. To get there, Marriott must sell rooms, just like the other two, but it must do so very much more.

WOULDN'T IT BE SO MUCH MORE APPEALING IF THE FOCUS MOVED ONTO THE DISTRIBUTION AND AWAY FROM THINKING ABOUT THE HOTEL OPERATION?

This vision is supported by the growth in the number of skilled managers who know how to run hotel operations, without needing an international management company. Of course, running a hotel is a complicated beast, much more so than any other asset class. An ever-changing host of guests, demanding food and beverage and, often, recreation at all hours.

Managing a team to meet those needs, all while keeping the asset in good shape and accruing value for the owner, requires specialist knowledge.

The shift away from the property comes with several risks to the brand. If you are trying to add 10% to your portfolio every year, and you have thousands of rooms, how can you maintain brand standards? You deliver your brand book and check in once every six months, but this model will inevitably lead to variances across the estate. When you stay at a hotel that is managed you can tell the difference between one that is franchised and those hotels where operations are a little more hands-on. Hence, the need for expert asset managers continues to rise.

WITHOUT AN ASSET, WHERE IS THE VALUE CENTER FOR THESE FRANCHISE COMPANIES?

When you are a distributor, your strength is supply and delivering guests to sleep in that supply. In recent years, hotels have been working toward this, combining strong brands with a powerful loyalty program. At the start of the pandemic, Marriott and Hilton were able to raise money on the back of their loyalty programs, proving their worth to them, if not to the owners who must pay into them.

Hotel companies already own large audiences through their loyalty programs, through which they convince owners that consumers are unable to escape their ecosystem. More brands are launched to meet evolving consumer demand and hold them in the loyalty universe. It would be natural for these companies to shift their business model and become large digital tech platforms, the change allowing them to reach much higher stock values and higher returns. This is the direction we are traveling in.

But this loyalty is not real loyalty, for these are frequency programs, not loyalty programs. A guest will stay within the brand stable for the points, not because they have a visceral emotional attachment of true loyalty.

We will see a division in the sector between the high-volume brands of the big players and the truly curated and emotional brands. One will be functional, meeting basic needs, the other the inspiration for both guests and those in the sector who aspire to hospitality in its traditional sense. It may be that we will see a split between everyday hotels you use for everyday stays and those hotels you save for memorable experiences.

And what would this shift away from operations and toward distribution mean for owners? For many in the luxury segment, where reputation is attached to a hotel, not a brand, the collection brands have been widely embraced. The chance to pay to slot into someone else's distribution without having to also adopt and pay for their brand standards has proven most appealing. Under this model, the hotel company as a technology group already exists.

What it means elsewhere is that the role of asset manager will be critical. The flag will exist as a line on the balance sheet where the fee goes but little more. All the operations of the hotel, as well as caring for the asset, must happen closer to home.

There will be some hotels that set themselves apart, as there are now. For example, some luxury properties that need only their own name to trade on and where brands have never offered any upside and have risked diluting the product. Here we will see the traditional owner-operator model continue.

But for the rest of the sector, the move to the mainstream will continue, pulled there by brands that have more technology than development expertise. There will be a true test of the loyalty programs, which will have to compete more directly with the online travel agencies, and we will see mergers and acquisitions as they try and achieve scale. They will also need to work to become recognizable consumer brands in the way that Airbnb has.

But think of those decades of customer data. Think of the heritage they can draw on.

Can they do it? The sector's CEOs complain of feeling undervalued. Value may come when they hand back the keys and become true tech companies.

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Mr. Sogno began his career in New York City after graduating with honors at Ecole Hôtelière de Lausanne, Switzerland. He joined HVS International New York, and he established a new venture at the Cushman & Wakefield headquarters in Manhattan. In 2005, Mr. Sogno began working for Kingdom Hotel Investments (KHI), founded by HRH Prince Al-Walid bin Talal bin Abdul Aziz Al Saud member of the Saudi Royal family, and asset managed various hotels including Four Seasons, Fairmont, Raffles, Mövenpick, and Swissotel. He also participated to the Initial Public Offering (IPO) of KHI at the London Stock Exchange as well as the Dubai International Financial Exchange. Mr. Sogno is also the co-writer of the 'Hotel Asset Management' textbook published by the Hospitality Asset Managers Association (HAMA), the American Hotel & Lodging Education Institute, and the University of Denver. He is the Founder of the Hospitality Asset Managers Association Asia Pacific (HAMA AP) and Middle East Africa (HAMA MEA).

Alex Schneider — President, Nikki Beach Hotel Division
Born and raised in Germany, Schneider brings 20+ years of hotel management experience. Schneider has worked with major hotel operators including Emirates Palace Abu Dhabi - UAE, Rixos Properties UAE, Grand Hyatt, Germany and Casa Camper, one of the most successful lifestyle boutique hotels in Berlin. With a track record in pre-opening assignments, as well as providing guidance to companies for their hotel assets, Schneider has a unique ability to work in the space between hotel operations, revenue management, sales and marketing.

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