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KEYNOTE INTERVIEW

Riding the hotels renaissance

Changing attitudes to life and travel after the pandemic are boosting hotels and investors are beginning to take note, says Pro-invest's Sabine Schaffer

Travel and tourism all over the world was interrupted by the covid pandemic, with lockdowns and travel restrictions damaging the hotels trade in most countries at one time or another between early 2020 and the beginning of this year. Even with Chinese travelers yet to return in numbers, the hotels sector has bounced back sharply.

However, this is not just a cyclical recovery, but the beginning of a structural change in working and travel habits that will benefit the hotels business, says Sabine Schaffer, co-founder and chief executive officer of Pro-invest Group, Europe, a global real estate fund and asset manager specializing in hotels. Real estate investors can take advantage of this change, as well as the inflation hedging and value-add aspects of the hotel sector, she argues.

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Q How has the hospitality landscape changed post-covid? What do customers want from hotels?

During the pandemic, hotels were impacted by lockdowns and travel restrictions; now, the industry has been navigating the inflationary pressures affecting staffing, energy prices, the supply chain and continuing interest rates. However, a number of positives have come out of that upheaval.

Covid fundamentally changed the way people want to do things. People no longer want to commute to the office five days a week, preferring to work from home for one or two days. This means the line between business and leisure is blurred and people now factor work into leisure trips and vice versa, which can mean longer trips – most long-haul travel, for example, is for 10 or more days.

There is also a shift in the way people, especially this next generation, are doing things. They no longer want to spend so much of their money on ownership, placing more value on experiences instead.

The Mastercard Economic Institute stated that in the first quarter of 2023, spending on experiences was up 65 percent compared with 2019, whereas spending on physical items was up only 12 percent. A preference to rent rather than own, whether that is apartments or using Uber instead of owning a car, means higher disposable income for those experiences too.

Our younger generations are the most educated in history and that comes with the desire to travel and see the world – and to do so they are dedicating a growing share of wallet to do so. The rebound in travel is not just 'revenge spending,' it is a shift in behavior, even if that means using credit cards to do so.

In fact, a recent survey conducted by Bankrate shows that 56 percent of Gen Z are willing to go into credit card debt to travel. The super-high average daily room rates we have seen in recent months may not persist but this structural change will drive demand for hotels.

Additionally, the pandemic meant a slowdown in new hotel supply and it is taking time for momentum in growth to recover, which is a positive for hotel investors now.

So, while it has been a difficult few years for hotels, other real estate sectors are now having a more difficult time and hotels can offer a silver lining for those looking to diversify their property portfolio.

Q Is institutional demand for hotels growing?

Not that long ago, hotels were not deemed an attractive asset class, but that is changing. In an inflationary environment, daily changing room rates give hotel owners the opportunity to hedge against inflation. Hotels can swiftly adapt to inflationary pressures by raising their rates, allowing them to maintain profitability and pass on rising costs to consumers.

There is also more opportunity to create alpha than with a flat lease. Additionally, hotels generate a lot of data regarding consumer behavior and demand patterns, which can be used to inform pricing strategies and to manage costs.

Real estate is coming to terms with becoming a more operational business. It is no longer just a matter of signing a 20-year lease and simply collecting the rent. The operational element of hotels is crucial and investors are coming to appreciate the opportunity to add value.

These factors have generated interest as has the scale of opportunity. Also, although this is an alternative real estate sector, it is not a small one. So, compared with other popular niches such as data centers, there is a lot more stock; something like life sciences is tiny in comparison. We looked at $6 billion of deals in the hotels space last year, so there is plenty of opportunity.

At the same time, this is still not an institutionalized real estate sector. There are a lot of single asset owners, family-owned hotels and lots of opportunities to add value. It is not like logistics, for example, where the warehouses traded by the big asset managers are all run by highly experienced and specialized investment professionals, with a very specific investment mandate and with costly consultants making sure that the asset is ticking at its best.

Hotels are bought for a thousand different reasons by different types of buyers, quite often without the necessary background or institutional backup. This also means there are many different motivations for sellers: generational change in a family-owned business, for example.

Q What are the key ways to add value to hotels?

If you are buying as a platform then there are efficiencies that can be driven across the whole portfolio. For example, we have 6,000 keys across our hotels portfolio, which means we can centralize functions such as finance, HR, ESG, sales and marketing.

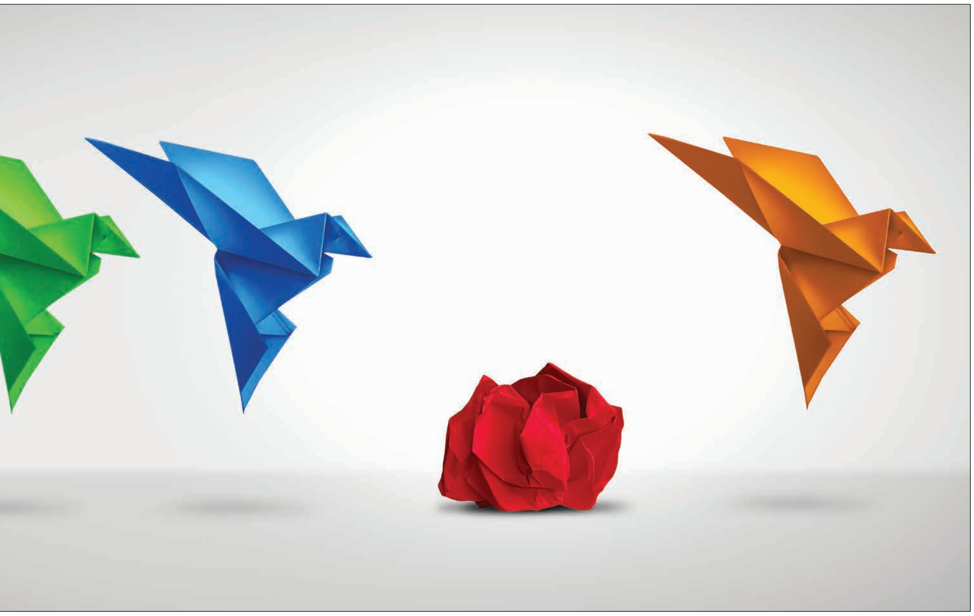
Hotel operations can also be made more efficient through outsourcing, so, for example, it is common for housekeeping or maintenance to be outsourced to a third party and we

Q Does the hotel offer need to change to appeal to customers looking for experiences?

As a general rule, if you can offer more of an experience, I think you will be more attractive to both leisure and corporate travelers looking for a different experience. Design is more important and so you want to be providing inspiring spaces.

There is a focus on lifestyle brands nowadays. Lifestyle brands are not necessarily luxury, they can be midscale, but they give you an experience through design, through the food and beverage offering or the health and wellness facilities. And this applies even to travelers on a smaller budget.

Hotels can also add that experiential factor to a mixed-use development, something that might be lacking if a development is pure office or pure residential. The hotel can be a community focus as well as offering food and beverage services and those other experiences I mentioned. So that is, I think, why hotels lend themselves quite nicely to mixed-use developments and arguably help to de-risk, because they make the whole offering a more attractive one.



have our back of house accounting outsourced to India. Having the efficiencies of a platform also means you can pick up smaller assets and still add value, broadening the opportunity set.

There is also much that can be done with an individual asset to increase revenues, such as revamping the food and beverage offering or the conference facilities. Hotels provide versatile spaces which can cater to a variety of needs, making them increasingly attractive to the modern consumer. Hotel lobbies, for example, are popular places to have meetings but they are also good workspaces, with seating, tables and Wi-Fi. Why can't they be used as flex office space during the day? If hotel owners embrace changing behavior patterns and create memorable experiences, they can boost performance.

ESG is also important for adding value to hotels and for future-proofing them, but it is often something lacking in individually owned hotels. Many hotels, especially in Europe but in markets such as Australia too, have been in operation for 50 years or more and will need renovations to meet future ESG regulations.

ESG, particularly on the environmental side, is also becoming more and more important for guests. In a recent study of Gen Z and millennial travelers, the majority stated they were prepared to pay more for products and experiences from companies that adopt environmentally friendly philosophies and practices.

Q Where do the opportunities lie in the hotels sector?

If you look at Europe or other places, there is a lot of traveler interest in the principal cities and towns. There is also a lot of interest in Southern Europe and resort hotels. The Asian traveler is still returning but when they are in full swing, the main gateway cities in Europe will benefit from that demand.

We also see an opportunity for converting other assets into hotels. For example, we have seen a lot of pain in the office sector, especially those in central business districts, and there will be opportunities to convert some of these into hotels. It is not a trivial exercise because large office floorplates can be tricky to convert to hotel rooms while maintaining natural light, but it is something we have done and hope to do again. ■

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