

ANY STRONG HOTEL BRAND OUT THERE?



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The true value of a hotel brand can be put to the test not only in a challenging and isolated resort destination, but also in a standard city center location.

We recently came across a search and selection operator scenario where the owner of the building — a globally acclaimed, iconic asset — was complaining about hotel operators not fulfilling her expectations in terms of financial returns. According to the owner, her company had not been able to find the right hotel operator for this asset.

When we looked into the details of the deal, we realized the owner was absolutely right. Major global hotel groups had put forward proposals to manage the asset, but there was always one fundamental flaw in all these commercial offers. According to the numbers projected, in each case, the asset always added more value to the hotel project than the hotel brand brought to this specific asset. It wasn't even a win-win situation. Each respective feasibility team at all of these hotel chains had assessed the returns of the asset based exclusively on its location. Their financial projections had ignored the intrinsic capacity of the asset to drive a superior RevPAR simply based on the marketing value that the asset already had prior to the hotel brand putting its logo on the rooftop.

This made us realize it is indeed true that 99% of the time hotel brands add incremental value to the assets. Every one of us expects this to work that way. Moreover, this is always the tagline of any building conversion project into hotel use. Assets are usually commodities whose values are driven either by location parameters and/or by the brand of their tenant, be it a hotel brand, a retail brand or the brand of a major corporate tenant. Brands are always expected to drive incremental value to the assets.

But what happens when it is the other way around, and the building has a higher recognition level than the hotel brand? Is it then true that hotel brands cannot always bring incremental value in the case of unique real estate assets?

Please, is there any strong hotel brand out there willing to prove me wrong?

COMMENT