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# SPAIN IS REACHING A TIPPING POINT FOR FRANCHISE FINANCING...

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... and all Spanish brands will miss out on this opportunity.

As opposed to what happens in the U.S., hotel franchising in Mediterranean Europe is still in its infancy. In countries such as Spain, where lease contracts are the norm for banks, financial institutions are starting to understand, within their regional teams, the financial value of hotel franchise contracts.

This situation is rapidly changing because some leading international hotel franchises do not give away their brands for any project, in any location, at any cost. These franchising groups have understood that the value of the brand is very closely correlated with the ubiquity of the project location and with the predictability and consistency of the income streams associated with every project.

The moment hotel franchises take more seriously the evaluation of new hotel sites, banks start to process that franchising income streams can come very close, in risk terms, to lease installments.

When it comes to assessing the granting of debt to a hotel project development, the benefits of a franchise contract can become critical versus a lease contract, since franchises do not erode such a large portion of the bottom line as leases do. In some instances, this additional debt can dictate if a project is viable or not.

The growing interest by Spanish banks in financing franchise projects is a clear sign that we have reached a tipping point where this market will evolve much faster towards the situation we see in more mature markets. Franchise is starting to grow more rapidly.

But not every international franchise is bankable. The short-term approach of hotel groups, focusing on permanent growth, many times disregards whether a project can be financed or not. In this way, for a franchise group, winning a deal in the short term can jeopardize the closing of future projects, if the performance track record is not consistently attractive for banks.

Today it is entirely in the hands of international brands to accelerate their own growth with franchise contracts in Spain, but every single project needs to be bankable. Meanwhile, Spanish brands continue working with a more capital-intensive approach and have decided to completely ignore this market segment.

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