

BOYADJIAN & ASSOCIATES

PROJECT FINANCE & MANAGEMENT CONSULTANTS

Note No. 20042 – July 2004

Boyadjian & Associates is a leading consultancy specialized in Project Finance and Management. Committed to excellence, totally independent and focused on client satisfaction, Boyadjian & Associates provides strategic financial advice, project development, management and related consulting services for investors, engineering firms, building contractors and governmental authorities.

This insight aims to encourage dissemination of project finance and management innovations for development and private sector expansion. The views published in these series are those of the authors and should not be attribute to any governmental entity or its affiliated organizations. Nor do any of the conclusions represent official policy of Boyadjian & Associates or of its Executive directors.

Boyadjian & Associates
P.O.Box: 175-293 Beirut Lebanon
Phone/Fax: 961-1-980138
e-mail: info@boyadjiangroup.com

Hospitality

Management

Company Selection

Recent economic swings and uncertainty over local and national recovery periods have caused lodging owners and investors to carefully evaluate their hotel assets. In particular, issues such as increasing revenues and controlling costs to maximize the value of hotel investments are being explored. To this end, hotel owners and investors are more focused on the effectiveness of their hotel management companies and selected brands. Increasingly competitive lodging markets, combined with an overall cost cutting mindset, emphasize the need for strong, innovative, and consistent property management capabilities.

The Lebanese Tourism Sector

Prior to the civil war, the tourism sector was a major contributor to economic growth in Lebanon. Its share of Lebanese GDP rose from 11.7% in 1965 to nearly 20% in 1974, just before the outbreak of the war. The 1996 sectorial composition of GDP shows only a 6% stake for the tourism sector.

The World Tourism Organization (WTO) estimates that tourism in Lebanon generated revenue of \$837 million in 2001, an increase from the \$742 million collected in 2000, and the \$673 million collected in 1999. The sector was once responsible for around 20 percent of GDP. Increased tourist numbers almost certainly brought in higher revenues for 2002 and 2003 although no figures are yet available.

The Lebanese Tourism Sector (continued)

	1999	2000	2001
Tourism Receipts in USD Million	673	742	837
% Change		10.2	12.8

Significant private investment is currently being made in the modernization and expansion of this sector and international hotel companies have returned to Lebanon. According to the Lebanese government, the tourism sector is expected to become the country's largest by year 2010.

The increasing number of tourists in the economy since 1992 reflects the re-born confidence in the country. In 2003, Lebanon's economy was boosted by an influx of around 1,015,000 tourists, a 50% increase over 1999.

	1999	2000	2001	2002	2003
Number of Visitors to Lebanon	673,261	741,648	873,745	956,464	1,015,030

Additionally, in the new economy, real estate investors are also eyeing opportunistic hotel acquisitions and placing greater emphasis on the experience and value created by the Hotel Management Company.

Further, with the current challenges to the bottom line, there is a stronger need to balance risk and reward between owners and the operators through the strategic negotiation of hotel management agreements.

Selecting the "right" Management Company for you can generate significant benefits:

- Access to the right professional company's core infrastructure necessary to facilitate efficient and profitable operations at a property, commonly providing: top level management and staff; established employee training programs; consistent policies and procedures; property management systems; national marketing and reservation systems; and pre-opening and technical expertise services—functional design and layout services which are indispensable to hotel owners/developers under any scenario (i.e., development, acquisition or for ongoing operations).

- Opportunity to leverage the power of a brand name to help position the property in the market place and have a positive impact on market penetration and performance.
- Opportunity to create brand loyalty and to positively influence the overall guest experiences by providing a consistent product and an appropriate level of frequent stay awards.
- Opportunity to create value through operating efficiencies instead of asset sales in the current, tough capital markets environment by renegotiating an existing management company contract or selecting a new one and negotiating less onerous management terms such as a higher percentage of incentive fee versus base fee, subordination of fees, contribution of investment capital either in the form of debt or equity, unencumbered exit provisions, etc.
- By establishing a new operator relationship, create the opportunity to provide new vision and creativity to an existing asset.

Creating Value

The selection of the best, most appropriate management company at the right terms and conditions can be extremely challenging in today's competitive market. Each hotel property presents particular characteristics in a unique marketplace and, as such, requires customized, focused attention and dedication.

It is especially important for owners and developers to select a company that can align their vision for their asset with their return expectations.

Key questions to ask in the process include those often posed by lodging analysts:

- Will this company/brand drive business

into the property at an attractive average daily rate?

- Will this company/brand efficiently manage the property and dedicate the effort required to maximize the value of the property?
- Will this company/brand be around for the life of the contract term?
- Does this company/brand have the financial strength to market the property/brand and develop alternative strategies in the event of an industry decline?

The Lebanese Lodging Sector

According to the Syndicate of Hotel Owners, applications for hotel building permits have steadily increased since 1994. Over the past years some 73 new hotels have been added and an additional 10 are expected to open in the next two years. This would add around 1,700 new rooms. Today, the hospitality sector has more than 15,600 rooms, up from 10,300 in 1995. Around \$1,000 million is currently being invested in building luxury hotels.

	Number of hotels			Number of rooms		
	1995	2003	% change	1995	2003	% change
Beirut	38	71	87	2,772	5,762	107
Mount Lebanon	141	161	14	5,690	7,164	26
North	40	48	20	1,085	1,680	55
South	4	10	150	263	338	28
Bekaa	12	18	50	499	655	31
Total	235	308	31	10,309	15,599	51

Hospitality Management Companies

Independent owners no longer dominate the hospitality industry. Increasingly, large multinational chains are invading the Lebanese market. Hotel owners are finding a comparative advantage – technological leverage, international reservation center, mixed personnel, corporate advertising, and worldwide representation – in joining international chains.

International competition has elevated the quality standard of the country's hospitality industry. Today, survival requires the adoption of globalization and integration, as well as yield management improvement. Also, information technology development (Global Distribution System, Central Reservation System, Internet) has a major impact on the distribution channels, marketing and sales. While most independent owners recognize the value of turning the management of the hotel over to an international chain, not all have opted to follow the trend. Joining an international chain has a price. There's the one-time joining fee for the right to use the chain's name and the yearly royalty fee, comprising of a fixed fee on top of a per room toll.

Worldwide there are around 20 consortiums, which, between them, control 50 percent of international hotel purchasing power. That translates into 65 percent of prime room purchasing power in Lebanon. Bookings through the consortiums may involve a reduction of up to 50 percent in the rack rate.

In effect, most of the first class “A” and “B” hotels located in Beirut, that were either renovated or newly established, have merged with International chains to secure a better operational environment and raise the standards of the lodging sector to international levels. In this perspective, foreign chains have been approached to team up with local hotels. Their aim is to provide the technical know-how and management expertise for a fixed or percentage of turnover management fee.

**This Note is available online:
www.boyadjiangroup.com/downloads.htm**