

Hotel owners should think like institutional owners in the post-COVID era

As we all gradually get back to business one of the pertinent questions that is being asked is whether hotels can still be considered a good investment vehicle going forward. We believe the answer to be a big 'yes'. It's true that the demand will be subdued for the near to medium term, but the industry is expected to regain its 2019 glory in the next 2-3 years, and this is perhaps an opportune time to invest in hotels. However, hotel owners need to re-evaluate their investment objectives and don the hat of an institutional investor now more than ever.

Hotel development costs and gestation periods are fairly high compared to other real estate assets and it is therefore imperative to develop the right product with the right positioning for the location by conducting a detailed feasibility study and following it to a tee. Moreover, incorporating the learnings from COVID in the financial and design plans for hotels and building efficiently designed hotels at the right cost and the right leverage is going to become critical going forward. There have been several cases in the past, where hotel projects have been developed without taking into account the demand-supply dynamics of the micro-market, project costs were not estimated correctly and the timelines were not conformed strictly, resulting in overspending and overbuilding, thus, making them unprofitable. During the project development stage, cost and time budgets should continue to remain sacrosanct.

Getting the right partner to operate and manage the property can go a long way in making the project a success. Proper guidance should also be sought for choosing the right operator for the property and then negotiating terms with them as these long-term contracts are often complicated and the terms vary with each property.

Last but not the least, hotel owners should have a reliable Exit strategy with timeframe in place from the beginning, even before it is even needed, as the intrinsic value of the asset can be unlocked by transacting and not holding on to it. Several times owners think of an exit as a last resort during difficult times. However, the best practice is to draw a parallel from the equity markets and formulate a 'stop-loss plan' as part of the project plan from the beginning. The exit strategy should be fluid and modified as per the market conditions.